

Long-Range Financial Plan

Lane Community College

Fiscal Years 2008–2012

Section I: History and Long-Term Economic Environment

Lane Community College confronts challenges and opportunities, unique in its history, as it develops a strategic financial plan for the next three years. The economic environment is much more volatile than in 1990 when local property taxes provided 41% (versus 16% for FY08) of our revenue. The passage of Ballot Measures 5 and 50 has reduced the level of local resources so that state funding has become our largest resource. In turn, the State of Oregon's largest revenue source, the income tax, is sensitive to the national and global economic conditions.

When the American economy went into recession after the financial markets' decline in 2001, Lane was immediately, adversely affected by the State's inability to sustain funding levels. To mitigate immediately necessary educational program reductions, Lane increased tuition by 88% since 2002. This substantial tuition increase has resulted in slightly reduced enrollment. Between 1996 and 2002 student FTE rose from 12,007 to 13,265, but has since declined 19% to 11,079 for 2006-2007. Since Lane County's population has grown significantly during the same period, it appears that increased costs have affected accessibility of education.

Lane's increasing reliance on state funding and the world economy has had other consequences. The college's share of state aid is determined by an agreed-upon community college funding formula which must balance the competing needs of large and small community colleges and rapidly growing districts and those with no growth. As the economic characteristics and competing interests of individual community college districts change, Lane has to expect that its share of state funding will change, perhaps unexpectedly and substantially. For example, Lane was confronted with an unanticipated PERS liability in excess of \$69 million when the financial markets rapidly declined in 2001. In long-range financial planning we need to consider strategies to address future contingencies, like the PERS liability, about which we have no present knowledge.

Section II: Budget Assumptions and Projections

A. Revenues

1. State Sources

The projections for FY08 of \$28.9M are based on the Community College Support Fund (CCSF) funding distribution formula.

2. Local Property Taxes

Property tax revenues are projected using statistical trend analysis based on historical data. The annual increase is approximately 3.5%. Property tax increases are capped by the ballot measures mentioned above.

3. Tuition

- a) Tuition revenue estimates are based on enrollment projections developed by Lane's Institutional Research, Assessment & Planning Department. Tuition revenues include tuition generated by Fund IX instructional units.
- b) For FY06 and beyond, inflation adjustments use the average annual percentage increase in the Higher Education Price Index (HEPI) of the previous year. The 2007 HEPI Index is 3.4% .

4. Instructional Fees

Projections for instructional fees use predicted expenditures based on historical trend analysis. All instructional fees are administratively restricted revenue, i.e., fees are tied to specific direct instructional expenditures and are not available for general allocation.

5. Other Sources

Other miscellaneous sources of revenue are projected to add approximately \$6 million, \$4.3 million of which is restricted for specific uses and not available for general allocation.

B. Expenditures

1. Personal Services

- a) Personal Services expenditures for FY08 are based on actual position lists. Budgeted figures are used for part-time compensation projections in FY08. Personal Services expenditures for FY08 and beyond use the salary schedule, contracted step increases plus estimated COLA increases each year.
- b) OPE rate is recalculated every year using projected costs of benefits. The primary variable is increases in health premium costs.

2. Materials & Services

Projections use historical trend analysis to predict M&S expenditures.

3. Contingency

By Board Policy, the Unappropriated Ending Fund Balance (UEFB) is set at 3% of budgeted General Fund expenditures. According to Local Budget Law, the UEFB budgeted for the current year may not be expended except under extraordinary circumstances and therefore will be part of the total Ending Fund Balance, and a resource for the ensuing year (Net Working Capital Unrestricted and part of the Beginning Fund Balance). On projection spreadsheets, the UEFB amount is added back to the projected Ending Fund Balance as "Minimum Fund Balance (not available for appropriation)."

C. Other Financing Sources

Transfers In and Out are projected using historical trend analysis.

D. Fund IX – Administratively Restricted

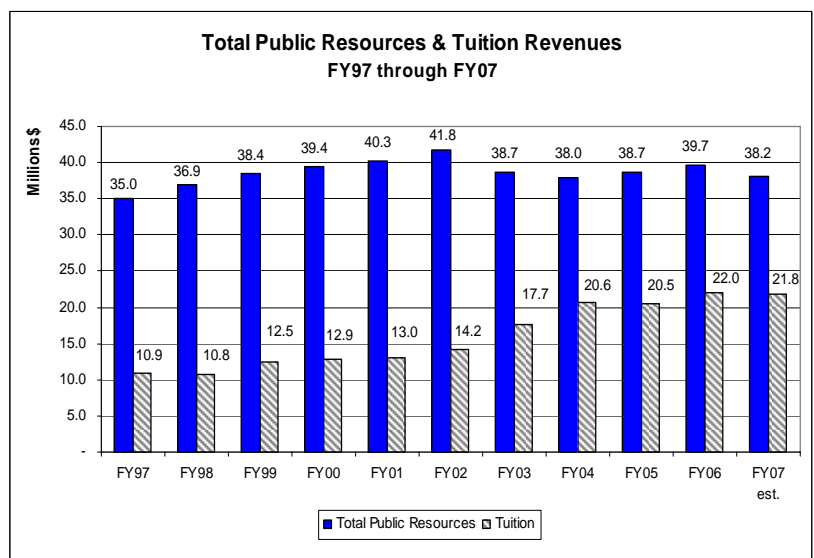
Fund IX was created in the FY03 budget to separate from the General Fund those units that rely entirely or primarily on resources other than state revenues, local property taxes and other general use revenues. For the purposes of maintaining historical trends and in order to properly monitor these units, Fund IX revenues and expenditures are included in budget projections.

Section III: Issues

State Revenues

Lane has become increasingly dependent upon state payments over the preceding 14 years. In 1990 the State provided Lane with \$8.8 million, which was 24% of Lane's total revenue. For FY 08, the State is providing \$28.9 million, which is 40% of Lane's general fund revenue. While state aid has become our largest resource, it has remained relatively flat since 1997.

Additionally, Lane has no assurance that state aid will increase as much as inflation in the foreseeable future. The State revenue for years after FY09 is uncertain and if the trend of past years continue, it will not rise as quickly as expenses. Therefore, Lane should not rely on substantial increases in state revenue to meet the needs of future budgets.

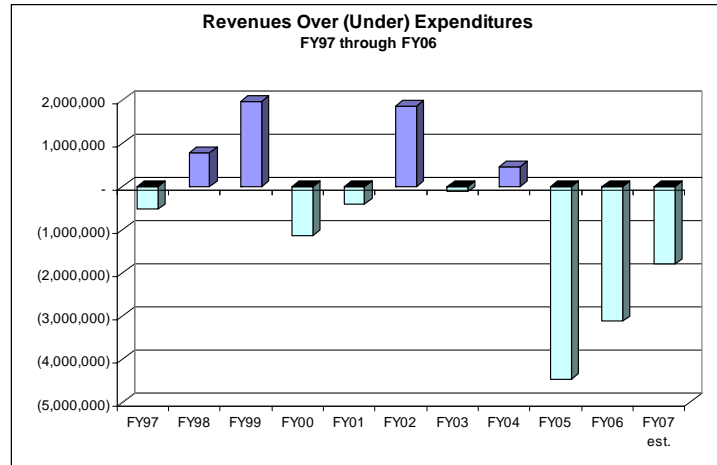


Tuition Rates – High Student Demand and Increasing Reliance on Tuition and Fees

The college's highest priority is to enable our students to have successful learning experiences. The failure of state aid since 2000 to increase sufficiently to cover Lane's increasing operating costs has negatively impacted Lane's students with rising tuition costs. In 2002 tuition was \$38 per credit, but by 2008 this had nearly doubled to \$73 per credit. In past years Lane's Board has heard from students that maintaining current service levels is their highest priority, and has acted accordingly by raising tuition. However, increases in tuition directly impact accessibility of education which is also a core value of the institution. On the other hand, long class "waiting lists," the State "de-funding" of self-improvement classes, and the inherently high costs of professional/technical programs, all indicate that higher tuition rates may be warranted in the future. Lane's board has expressed an intention to hold tuition increases to the rise in inflation and has tied the increases in recent years to the Higher Education Price Index (HEPI) provided by the Common Fund foundation.

Spending Down Ending Fund Balances

Long term institutional viability requires that expenditures not exceed revenues. To accomplish this end, Board Policy E.030 requires that the college maintain an unrestricted General Fund Ending Fund Balance of approximately 5% of budgeted expenditures and Board Policy E.020 specifies that 3% of general fund expenditures be budgeted as an unappropriated ending fund balance. Since FY00, Lane's expenditures have exceeded its revenue reducing ending fund balances and cash reserves. This was intentional during some years to cushion the sharp reduction in state support but it is not sustainable and the FY07 and projected FY 08 ending fund balances are not sufficient to comply with college policy.



Labor-Intensive Services

The delivery of high quality learning services is, by its very nature labor-intensive. For FY 08 Lane projects spending \$53 million, out of a total general fund budget of \$72.1 million, on personal services and related fringe benefits. Because nearly three fourths of the college's financial resources are devoted to employee compensation, compensation levels must be considered a primary "driver" of rising costs. Future changes to compensation will have the largest impact on college expenditures and must be evaluated carefully to insure that they do not outpace revenue increases.

Costs of Health Care Insurance for Employees

The Consumer Price Index indicates that medical costs have increased dramatically in recent years, nearly double the rate of increase for all goods and services. Lane has been successful in restraining increases in health insurance from FY05 to FY 08. The college has taken steps to reduce its future rate increases: having all employees covered by the same insurance plan, requiring employees to share in the payment of the insurance premiums, establishing a Section 125 plan, instituting the LIFE employee wellness program; and implementing an on-site employee medical clinic. These actions have slowed insurance increases to below national trends but medical insurance costs will continue to present a challenge. The college may be forced to limit the contribution to medical care or reduce benefit levels in order to balance future budgets.

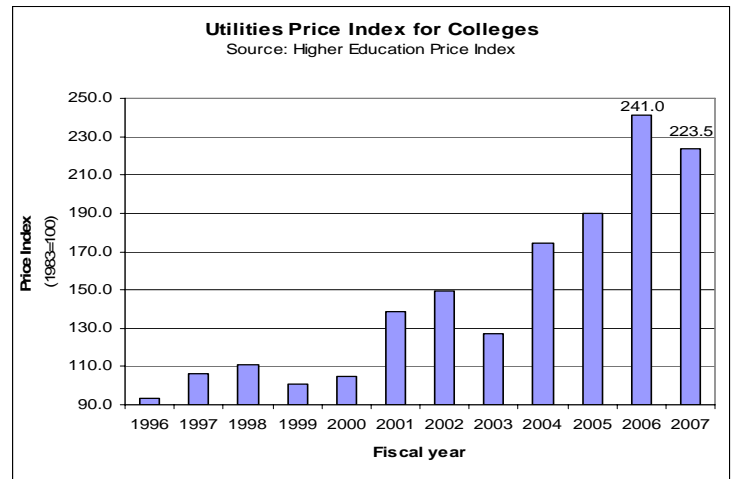
PERS Unfunded Liability-Uncertainties around Recent Laws

Historically high investment losses since 2000 and the unique benefit structure ("money match" provisions for Tier One employees) have combined to result in a substantial increase in PERS' Unfunded Actuarial Liability (UAL). In December 2003 Lane was informed by PERS that our share of the UAL exceeded \$69 million - - more than the college's entire General Fund annual operating budget. This amount must be paid (in addition to current employer contributions) to PERS at an 8% interest rate over 26 years. To minimize this annual obligation, Lane issued taxable pension bonds during April 2003 at an average interest rate of 5.8%. To the extent that PERS investment earnings average more than 8% through 2028, the college will have preserved

financial resources for use in the General Fund. The payments on these pension bonds must be funded annually by an increase in the college's fringe benefit (OPE) rates; an additional "overhead" cost of 5.8%. The positive arbitrage on the bonds issued and favorable market conditions have reduced the remaining (UAL) but further contributions may still be required in the future.

Rising Energy Costs

Rising energy costs have been a major factor in the increasing costs of operations. The college has reduced its demand for electricity and natural gas through energy conservation controls and investment which has mitigated cost increases, and the price increases abated in 2007. Utility costs likely will present a continuing challenge and need for investment in energy reduction initiatives.



Aging Physical Plant and Increasing Deferred Maintenance Requirements

As Lane celebrates its 44th anniversary in 2008, the physical condition of many of our facilities is slowly deteriorating. For a variety of reasons (e.g., no tradition of funding deferred maintenance,

concentrating attention and available capital outlay money on recent bond-funded construction, emergency environmental ameliorations, and devoting available resources to direct instruction since 2000), the college has not adequately funded the necessary major maintenance to its physical plant that will preserve a welcoming and safe learning environment for the next generation. The Board has recognized the need to properly maintain our facilities and responded appropriately by adopting Policy E.050, Capital Reserve Funds, which requires that Lane now reserve funds to adequately maintain and repair college facilities. Recent budgets have not been able to fully fund this policy. The college has an opportunity to reissue construction bonds as the current bond issue final payment occurs in June 09. The college intends to go to the voters in the November 08 election for approval to issue \$80 million in bonds that would provide funds for facility renewal and improvements. The level of taxation would not exceed currently levels of taxation from the last bond issue.

Underfunding of Equipment Replacement

Another result of the stagnation in public resources has been that instructional and support services equipment has not been replaced at the end of its economic life. We have been "making do" with outdated equipment in our efforts to commit the maximum financial resources to direct instruction. The result is that equipment needs continue to grow as replacement needs outstrip available funding. This shortfall has been mitigated in part by Federal funded Carl Perkins grants.

Section IV: Long-Range Strategic Directions

Strategic Directions for the next three to five years fall into three major categories (below). Two of the three categories have long-range goals and outcomes defined largely by direction of the Board of Education. Specific long-range goals and outcomes in all categories are being developed through the college's unit and strategic planning processes.

1. Transforming Students' Lives

Goal: Improve student employment opportunities by integrating student positions into college operations.

- *Outcome: Improve financial aid and student retention*

2. Transforming the Learning Environment

Goal: Fully fund facilities renovation, remodeling and major maintenance

- *Outcome: Improve quality of instructional environment.*

Goal: Fully fund equipment replacement

- *Outcome: Increase Capital Outlay allocations to \$1.3 million annually by FY2012.*

3. Transforming the College Organization

Goal: Fundamental redesign of instruction during FY08 to assist in meeting long term budget challenges

Section V: Achieve and Maintain Financial Stability

1. Balance General Fund Budget

- *Outcome: Ongoing (recurring) expenditures & other sources will not exceed revenues*

While the FY03 ending fund balance was relatively healthy, operating expenditures have exceeded annual revenues in each of the last four years. Board Policy E.010 defines a balanced budget as one in which regular operating expenditures do not exceed annual revenues.

However, several areas have been seriously under-funded over the last two to four years including: instructional innovation, major facilities maintenance, class sections to meet student demand, capital and computer equipment replacement, and workforce/continuing education. Complete stabilization will not occur until these problems have been addressed within available resources.

2. Stabilize Tuition Rates

- *Outcome: Tuition rates not to exceed inflationary adjustments through FY11.*

Lane has the highest per credit tuition rate of community colleges in Oregon. Steep increases in tuition rates have jeopardized the affordability of a Lane education for many students. (Board Policy D.110 provides for annual tuition adjustments for inflation.)

3. Build Financial Stabilization Fund

- *Outcome: Build a reserve of \$500,000 to buffer expected revenue shortfalls in the next legislative biennium.*

Board Policy E.040 provides the ability to establish a financial stabilization fund in anticipation of revenue shortfalls.

4. Build Capital and Equipment Reserves

- *Outcome: Build facilities capital reserve fund to \$1.2 million by FY2012*
- *Outcome: Build equipment replacement reserve fund to \$400,000 by FY2012.*

Over the last decade, Lane has depleted its capital reserves (except for construction bond funds committed to specific projects.) The college needs to build capital reserves in order to (a) provide a mechanism for funding facilities projects in years when project costs are higher than average and (b) provide funds for emergency maintenance and repairs.

Likewise, the college has no equipment reserves. For the same reasons, the college should build equipment reserves.

(Board Policy E.050 enables the Board to establish reserve funds for capital projects. Board Policy E.010 specifies that a balanced budget must provide adequate funds for capital needs in any given year. Reserves ensure that funds are available for emergencies and for needs in years where capital expenditures are expected to be higher than average.)

Section VI: Strategies in 2008-2012 Budget for Achieving Long-Range Goals

All projects recommended for funding in the FY08 budget are described in detail in accompanying documents. Following are the strategies followed for the one-year period covered by the budget:

1. Limit new recurring expenditures:
 - Fund new recurring activities through reallocation of current resources.
 - Fund new recurring activities with recurring savings or recurring new revenues created by those activities.
2. Build new revenue streams:
 - Continue differential tuition program and assess ability to expand or maintain the program into FY09.
 - Build capacity in Lane's Foundation to increase fundraising.
 - Develop Long-Range Plan for the college for FY09 and beyond.

Board Policy E.010 specifies that new ongoing expenditures must be supported by recurring revenues. In order to keep Lane's current service level and/or provide additional programs and services, new revenue sources must be identified.

3. Use one-time (non-recurring) funds to invest in Strategic Directions with expected return on investment (in compliance with Board Policy E.060-Budgeting of Non-Recurring Resources):
 - Student retention
 - High-demand classes
 - K-12 connections
 - Sustainability
 - Marketing

Budget Projection Assumptions

General Fund I & Special Revenue Fund IX – Administratively Restricted
Fiscal Year 2008 and Beyond
Updated July 2007

I. REVENUES

A. Total Public Resources

1. Funding for fiscal years FY08 and FY09 was set during the 2007 legislative session. The state funding distribution includes 100% of property tax revenues as a component in the formula; therefore total public resources represents revenue previously reported separately as state resources and property tax resources.
2. Funding for FY08, the first year of the Biennium is set but may vary slightly depending on property tax assessments and policy decisions by the State Board of Education.
3. Total Public Resources for FY09 is projected at a \$1.6M increase over FY08 projected revenues in the state distribution model.

B. Tuition

1. Tuition revenues are projected based on (a) enrollment targets set for FY08 and (b) enrollment projections developed by Institutional Research, Assessment & Planning for years beyond FY08. Additional enrollment scenarios will be used during the budget development process.
2. Tuition revenue projections are based on total tuition assessed. Tuition waivers and uncollected tuition are reported as expenditures.
3. Tuition revenues include tuition generated by Fund IX instructional units.
4. Projection of FY08 tuition revenue uses rates adjusted for inflation using the Higher Education Price Index (HEPI) for 2006 (per Board Policy D.110).

5. Revenues from differential pricing are increased by the same percentage as tuition increases for FY08 and beyond.
6. For FY 08 and beyond, future inflationary adjustments use the average annual percentage increase in the HEPI since FY97

C. Instructional Fees

1. Projections for instructional fees use predicted expenditures based on historical trend analysis.
2. Projections assume that all fees are collected at 100%. Uncollected fees are reported as expenditures.
3. All instructional fees are administratively restricted revenue. That is, fees are tied to specific expenditures.
4. Technology Fee revenue is a restricted revenue in Fund IX.

D. Investment Income

1. Income estimate is based on current returns available in the Local Government Investment Pool (LGIP). The average amount invested is estimated using historical cash flow trends and changes in the Ending Fund Balance. Estimates will be adjusted as appropriate if there are material changes in market conditions.

E. Sale of Goods and Services, Administrative Recovery, all Other Sources of Revenue

1. These revenues are projected based on analysis of actual results from the most recent two years within each category.

II. EXPENDITURES

A. Personal Services

1. Personal Services expenditures for FY08 are based on actual position lists. Positions expected to be held vacant during FY08 are not included.
2. Part-time compensation projections are based on historical use for classified employees and enrollment planning projections for faculty.
3. Negotiated compensation settlements are used in the projections where applicable. Projection scenarios will vary COLA rates to determine the effects of different possible compensation increases. For years in which an employee group does not have a negotiated compensation agreement no increases will be assumed. However, Personal Services projections using "steps" plus estimated COLA increases will also be provided to determine the cost and feasibility of increases.
4. OPE rate is recalculated every year using projected actual costs of benefits. Calculated rate for FY08 is 55.8% for full-time and 34.5% for part-time employees. The calculated rate for FY08 will vary with different scenarios for PERS rates and health insurance increases. Benefit calculations for FY08 and beyond include an estimated annual increase in health premium costs of 10%.

B. Materials & Services (M&S)

1. Projections use analysis of actual results from the most recent two years to predict M&S expenditures for FY08 and beyond.

C. Capital Outlay

1. Projections use historical trend analysis as the starting point for projections. Projected expenditures for Capital Outlay are then adjusted for budgeted increases for the general-use Capital Outlay fund.
2. Capital Outlay needs are documented by the Capital Assets Replacement Forecast and department/division unit plans.

D. Contingency

1. Unappropriated Ending Fund Balance:
 - By Board Policy, the Unappropriated Ending Fund Balance UEFB is set at 3% of budgeted General Fund expenditures.
 - According to Local Budget Law, the UEFB budgeted for the current year may not be spent except under extraordinary circumstances and therefore will be part of the total Ending Fund Balance and a resource for the ensuing year (Net Working Capital Unrestricted and part of the Beginning Fund Balance).
 - On the projection spreadsheets, the UEFB amount is added back to the projected Ending Fund Balance as "Minimum Fund Balance (not available for appropriation)."
2. Other Contingency:
 - Expenditures of current year Board and Administrative Contingency are included in trend analysis for Personal Services, Materials & Services and Capital Outlay expenditures.

III. OTHER FINANCING SOURCES

- A. Transfers In and Out are projected using historical trend analysis.
 1. Intrafund Transfers are projected each year as a result of rebalancing the M&S portion of the Restricted Ending Fund Balance.

IV. BEGINNING/ENDING FUND BALANCES (Net Working Capital)

- A. For the purposes of projecting future ending fund balances, it is assumed that restricted resources, including Net Working Capital Restricted, are expended according to historical patterns.
- B. Board policies E.020 and E.030 set parameters for the General Fund Ending Fund Balance and require a total unrestricted Ending Fund Balance target of approximately 5% (including the Unappropriated Ending Fund Balance).