



Palo Verde College

Office of the Superintendent/President

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Blythe, California 92225
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December 14, 2011

Dr. Barbara Beno, President
The Accrediting Commission for Community and Junior Colleges
10 Commercial Boulevard, Suite 204
Novato, CA 94949

Dear Dr. Beno:

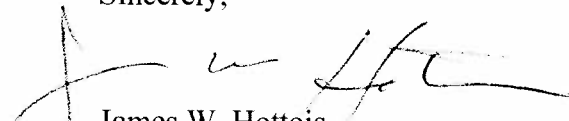
I am enclosing Palo Verde College's Special Report to the Commission as requested by your letter of November 15, 2011. As you indicated in our telephone conversations, we have tried to keep our responses as brief as possible while fully responding to the questions.

As you suggested, we did not treat the special report as a shared governance document. However, a copy of your letter was forwarded to the leaders of each of our constituent groups shortly after I received it. A complete first draft of the report was distributed to our College Council and discussed at its meeting on December 6. The College Council includes leadership from each of the college's constituent groups. The final draft of the report was again reviewed by the College Council on December 13. The College Council then "recommended the report to the Board of Trustees."

The Board of Trustees reviewed and approved the special report in open session at its meeting on December 13.

I am sure you will let me or Interim-Superintendent/President Elect Denise Whittaker know if Palo Verde College needs to provide the Commission with additional information.

Sincerely,



James W. Hottois
Superintendent/President

Cc: Board of Trustees
Denise Whittaker
College Council Members

SPECIAL REPORT

SUBMITTED BY

PALO VERDE COMMUNITY COLLEGE

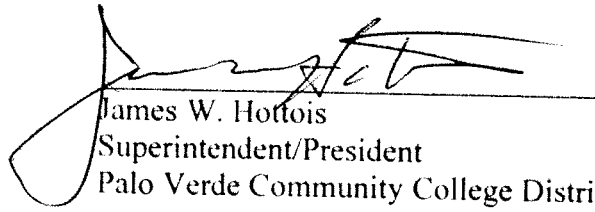
One College Drive
Blythe, CA 92225

This report represents the response
by
Palo Verde Community College
to the
Accrediting Commission for Community and Junior Colleges
of the
Western Association of Schools and Colleges
Letter dated November 15, 2011

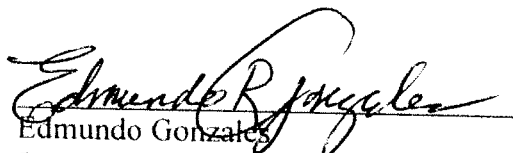
James W. Hottois
Superintendent/President
Palo Verde College

December 14, 2011

The report is submitted on behalf of the Administration and the Board of Trustees of the Palo Verde Community College District.


James W. Huttois
Superintendent/President
Palo Verde Community College District

Date: December 13, 2011


Edmundo Gonzales
President, Board of Trustees
Palo Verde Community College District

Date: 12/12/2011

Response to Eligibility Requirements and Accreditation Standards

1. An analysis of the previous three year's enrollments, revenues and expenditures.

	<u>2008-09</u>	<u>2009-2010</u>	<u>2010-11</u>
Total FTE District Wide	1917.32	1916.11	1793.87
ISA's FTE	426.70	373.73	436.24
Face to Face FTE	840.54	887.01	695.58
Correspondence Ed	650.08	655.37	662.05

	2010-11		2009-2010		2008-09	
	Unrestricted	Restricted	Unrestricted	Restricted	Unrestricted	Restricted
Income						
Federal	-	447,859	33,004	587,144	51,625	314,937
State	11,084,770	1,325,653	10,976,185	1,291,186	11,244,295	1,915,508
Local	1,429,417	159,466	2,389,428	-	1,837,005	-
Total Income	12,514,187	1,932,978	13,398,617	1,878,330	13,132,925	2,230,445
Expenses						
Certificated Salaries	4,811,863	517,006	5,114,197	397,374	5,314,646	518,506
Classified Salaries	2,860,727	507,739	2,733,958	485,614	2,695,212	432,278
Employee Benefits	2,741,960	349,382	2,680,134	322,740	2,525,548	293,788
Supplies & Materials	93,968	143,751	118,906	186,953	192,875	176,477
Other Operating Expenses & Services	2,625,576	407,474	2,486,770	333,545	3,029,027	250,629
Capital Outlay	170,415	43,013	161,491	110,761	46,573	318,719
Other Outgo	71,713	109,992	76,396	133,930	167,960	130,657
Total Expenses	13,376,222	2,078,357	13,371,852	1,970,917	13,971,841	2,121,054
Change in Fund Balance	(862,035)	(145,379)	26,765	(92,587)	(838,916)	109,391
Beginning Balance	1,170,424	183,885	1,082,874	276,472	1,876,722	127,189
Prior Year Adjustments	33,894	40,364	60,785	-	45,068	39,892
Adjusted beginning Balance	1,204,318	224,249	1,143,659	276,472	1,921,790	167,081
Ending Balance	342,283	78,870	1,170,424	183,885	1,082,874	276,472

3-Year Financial Analysis

- Income - The District participates in two Federal grants. In 2009-10 the District received the majority of its cuts from the state, which range from 32% to 51%. The District has also received local grants to conduct specialized classes needed for the area.
- Expenses –SERP packages have been offered over the last few years which accounts for the reduction in salaries for the District. The District has also been working to reduce costs in as many areas as possible, such as utilities, travel and consultants.
- Ending Balance – The ending balances have been carried forward and used to balance the future budgets. This practice is no longer used.

2. *A projection of the 2011-12 full-time equivalent student enrollments (FTES) and associated revenue amounts.*

	<u>2011-12 Projection</u>
Total FTE District Wide	1486.28
ISA's FTE	325.00
Face to Face FTE	559.48
Correspondence Ed	601.80

	2011-12	
	Unrestricted	Restricted
Income		
Federal	-	619,982
State	11,039,562	1,136,733
Local	1,364,564	-
Total Income	12,404,126	1,756,715
Expenses		
Certificated Salaries	4,011,235	706,427
Classified Salaries	2,370,109	657,878
Employee Benefits	2,898,247	337,668
Supplies & Materials	203,850	132,029
Other Operating Expenses & Services	2,798,637	56,993
Capital Outlay	112,010	-
Other Outgo	3,741	95,919
Total Expenses	12,397,829	1,986,914
Change in Fund Balance	6,297	(230,199)
Beginning Balance	342,282	78,870
Prior Year Adjustments	-	-
Adjusted beginning Balance	342,282	78,870
Ending Balance	348,579	(151,329)

Palo Verde College expects its revenue for the 2012-13 year to be the same as its revenue for the 2011-12 fiscal year based on the California Community College System's policy which stabilizes funding for one year if enrollment dips in a year. Thus, Palo Verde College will rely on stabilization for the 2012-13 year.

3. *A copy of the District's response, if any, to the last external audit.*

PALO VERDE COMMUNITY COLLEGE MANAGEMENT'S DISCUSSION AND ANALYSIS FROM THE 2009-2010 INDEPENDENT AUDIT

District's Fiduciary Responsibility

The District is the trustee, or fiduciary, for certain amounts held on behalf of students, clubs and donors for student scholarships. The District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets. These activities are excluded from the District's other financial statements because we cannot use these assets to finance operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Capital Assets

As of June 30, 2010, the District had over \$63.6 million invested in net capital assets. Total capital assets of approximately \$70.4 million consist of land, building, site improvements, equipment and vehicles; these assets have an accumulated depreciation of approximately \$6.8 million.

Economic Factors that May Affect the Future

The economic position of Palo Verde Community College is closely tied to that of the State of California. As the economy continues to decline, historically, community colleges tend to experience an increase in enrollment. Palo Verde College was no exception, as the college did see some growth in enrollment this past year.

The District receives funding through state apportionments and from local property taxes. These two sources, with enrollment fees essentially make up the District's general apportionment, are the main support for the community college.

Due the continual deferrals of apportionment dollars from the State, the District received a Mid-Year Tax and Revenue Anticipation Note (TRANS) in the amount of \$1,141,175. In July 2010 the District entered into a second TRANS debt in the amount of \$1,827,503. These amounts will be paid by the end of the 2010/2011 fiscal year. However, the District will continue to request approval of TRANS notes in the upcoming years to ensure the District has adequate funding in case there is another stalemate at the State level and more deferrals.

Phase IV (Fine and Performing Arts Complex) – Bids were accepted and awarded. Construction began early summer of fiscal year 2009/10. The total estimated cost of the complex is \$23M of which \$21.8M will be state funded and the remaining balance from Certificates of Participation which were refinanced to offset the additional cost and to add a chiller plant (air conditioning/heating) for the facility.

As mentioned above, on July 16, 2008, the District converted its current Certificates of Participation to finance the conversion of the Original Certificates from an Auction Mode to a Long Term Rate as set forth in the Trust Agreement and to cover the additional construction cost of Phase IV. Such interest will be payable on January 1 and July 1 of each year, commencing January 1, 2009. The total amount of the conversion is \$34,286,130, which includes all fees and expenses.

Renovation of the Claypool building in Needles was completed late March 2009. Classes began in the new facility Fall semester of 2009/10. A general obligation bond measure was approved in June, 2005 by the voters of San Bernardino County in the amount of \$6 million for the renovation.

In March, 2008, the District entered into a power purchase agreement with BP Solar whereby BP will sell electricity to the college. It is anticipated that this will reduce our electricity costs significantly over the terms of the agreement. The District converted to full solar September, 2009. The District will closely monitor the project for cost savings.

All industries including community colleges continue to experience increased costs for services and especially costs for employee benefits, insurance and utilities. During 2002-2003 the District began making contributions to PERS for its employees and retirees. The PERS rate for classified employees for the year ending June 30, 2010 was 9.709%.

As noted in prior year's discussion, training continues with the conversion to the Datatel system to fully integrate and automate instruction, student services and a portion of business services.

The State continues to experience budget problems which will affect the community college system as well with deferrals of apportionment dollars and categorical program funding being drastically reduced.

Management will maintain a close watch over resources to react to any internal and external issues if and when they arise.

As of this writing, the District is not aware of any other currently known facts, decisions or conditions that are expected to have any other significant effect on the financial position or results of operations during this fiscal year beyond those unknown variations having a global effect on virtually all types of business operations especially within the State of California.

4. *A report on the institution's ability to comply with the California Community College's 50% rule and any financial liability that has resulted if the institution has not complied with this rule.*

The District has included a copy of the entire application for an exemption of the 50% law. Please see attachment 4.A.

5. *An analysis of the liabilities incurred through the misreporting of COP funds as revenues, and the institution's plans to adjust its budget as a result.*

The amounts reflected below were reported as revenue in the general fund. As of the closing of the 2010-2011 books, we no longer continue this practice. The District has no intention of using COP funds as revenue to balance future budgets.

Year 2007-2008

- \$786,051.38

Year 2008-2009

- \$418,960.08

Year 2009-2010

- \$750,000.00

6. *A description of any new site that has been unable to be opened due to the costs of operation or equipping the site.*

- Palo Verde College has no new “site” that it has not opened.
- On December 3, 2011 the College officially dedicated its **site in Needles**—the Claypool & Company Building. The building has been in use for sometime and the College has no plans to shutter the facility. That facility was paid for with a combination of local bond funds, funds which the college obtained through the issuance of Certificates of Participation, federal appropriation through the United States Department of Education, and State of California school facilities bond funds. The state and federal monies were used for equipment for the building.
- The College decided to not hold classes in its **PE Building** during the Spring, 2012 semester. The College has not closed its PE center and the gymnasium is available for special events on the same basis as it has been used in the past. The Physical Education Center accounts for about 12% of the College’s annual energy bill. The College hopes that by reducing its energy bill, it will be able to add to its reserves thus creating a larger reserve for future years.
- The College recently completed constructing a **Fine and Performing Arts Center** using state school facilities bond and COP funds. Because of the bankruptcy of one of the prime contractors, the completion of the building was considerably delayed. The College could not be sure that the building would be available for classes in the Spring Semester of 2012. Thus the College decided that it would not hold classes in the studios in the Center and that it will not use offices in the Center during the Spring Semester of 2012. As with the PE building, that will permit savings in energy costs for the current year which will add to reserves for future years.

The Center has a 400 seat theatre which is available for use on the same basis as it would have been used before the decision was made to not offer classes in the facility.

- For a number of reasons, at the end of the Spring 2011 semester, the District repurposed its **Spring Street Non-Credit Center** into the **Spring Street Economic Development Center** bringing together almost all of the community’s economic development-focused organizations under a single roof.
- Palo Verde College intends to continue to **review the use of all of its facilities** with an eye to increasing the efficiencies of its physical plant.

7. *Analysis of implementation and viability of the Datatel Information Technology system.*

In 2007, the College formed the Enterprise Resource Planning (ERP) committee to select a new ERP system via a Request for Proposal process. The ERP committee then selected Datatel as the new Management Information System. The College was aided throughout this process by Strata Information Group. The Implementation began in October 2007 and the College was successful bringing online Registration via WebAdvisor, online applications via CCCApply, and Financial Aid awarding live in August 2009. During this first term live, the College was able to submit MIS Reporting and the 320 report. Currently, everything in the implementation schedule is live with the exception of the Portal and Colleague Advancement (Alumni/Foundation) module which are now on hold.

The Datatel implementation activities are coordinated through an ERP Core Team with membership representation from each functional area. The Core Team's primary concerns for viability of the Datatel project are on-going reporting needs and managing maintenance costs. The plan for addressing these concerns is to (a) engage in more robust training for reporting technologies and (b) research all products requiring maintenance for future years and determine what the College can carry and what needs to be trimmed.

In addition, the College is looking into opportunities to partner with other institutions. There has been some effort to establish a consortium of small colleges using Datatel and Banner ERP systems. We intend to join the resulting organization for the purposes of gaining access to technical expertise and training at affordable expense as well as pursue grant opportunities. With the parent company of Datatel purchasing the competing product Banner from SunGard HE, there is also concern about the future cost structure. Hopefully a small college consortium will provide an improved ability to negotiate vendor terms.

The term of the initial Datatel maintenance contract runs through the end of June 2012. We have requested a renewal quote from Datatel and are currently awaiting a response. This upcoming renewal, combined with the new budget conditions at the College, has prompted a review of all of the Datatel components, projects and related systems. We will be seeking to minimize our cost of ownership via the following strategies: vendor negotiation, reviewing available support options, not renewing maintenance support on any ERP components that are determined to no longer be needed.

Module/Project	Status
General Ledger	Live
HR Module	Live
Assignment Contracts	Live
Core Module (Facilities, Person Records, Business Records)	Live
Assessment Score entry	Live
Degree Audit	Live
State Reporting (MIS, 320, Assessments, EOPS, DSPS, Matriculation, CalWORKs)	Live
Registration Module	Live
Curriculum Module (Schedule of Courses, Course Catalog)	Live
Communications Management	Live
Online application via CCCApply	Live
WebAdvisor (online registration, online unofficial transcript, online official transcript request, online enrollment verification, online payments/refunds, self-service educational planning tool, section search, online class rosters)	Live
Financial Aid functions	Live
Financial Aid Satisfactory Progress Subroutine	Live
Student Receivables (eCommerce)	Live
1098-T processing	Live
National Student Clearing House Report	Live
Gainful Employment Report	Live
Business Objects WebI Reporting Tool	Live
Customized Subroutine for Transcript	Live
Academic Progress/Probation	Live
Dean's & President's Lists	Live
ImageNow document archival for Admissions & Records	Live
Section and enrollment data export to Sakai LMS (The Bridge)	Live
Shared login credentials for web registration and online Sakai course system	Live
Portal	On hold
Colleague Advancement	On hold
e-Advising	On hold
automated import of assessment data from Accuplacer	On hold
PowerFAIDs conversion	On hold
College assigned student email accounts	On hold
Colleague Studio	On hold
SARS import/export	On hold
Schedule25/Resource25	Cancelled
ActiveApply	Cancelled
Workflow Module	Cancelled
OCR portion of ImageNow	Cancelled

8. *A description, and evidence, of the institution's budget planning process and final adopted budget for the 2011-2012 fiscal year.*

In July 2011 Palo Verde College found that the District's tentative budget, which was adopted in June, included borrowed funds and did not accurately reflect actual expenses. The District immediately took steps to develop a balanced budget and correct the inaccuracies. In late August, Palo Verde College administration met and agreed on reducing expenditures by \$1,050,000. These cuts established a balanced budget. In early September, the cuts were discussed with all constituent groups prior to being submitted to the Board of Trustees for approval. Included as evidence is the 2011/2012 tentative and final adopted budgets and all attachments.

Palo Verde Community College District Tentative Budget 2011-2012 (attachment 8.A).

Palo Verde Community College District Adopted Budget 2011-2012 (attachment 8.B).

9. *A description of the governing board's discussion of the institution's fiscal challenges, including the discovery that COP's have apparently been improperly accounted as revenues, and the discussions of plans to reduce expenditures during the current academic/fiscal year.*

Background

Palo Verde Community College District (PVCCD) issued a \$18.6 million COP in Jan 2007 to mitigate the problems with the cash flow for the PE building and some capital projects. PVCCD rolled this \$18.6 million into newly issued COPs for \$31,995,000 in June of 2008. Both issues have built in capitalized interest. As of today, no general fund money has been provided to make any payments since the initial issuance of the COPs.

COPs were issued to mitigate the problems with the cash flow situation to build the P.E. and Performing Arts buildings. Both buildings have been approved by the State as campus completion projects. The State has already reimbursed the District for both projects. As invoices for construction became due, the District paid them with COP funds. PVCCD then asked for State reimbursement. The State provided the funds to PVCCD in a timely manner. PVCCD deposited the funds from the State in its own name with a Local Agency Investment Fund (LAIF) in Sacramento. Currently, the District has approximately \$16 million available in LAIF, District capital outlay funds, and claim reimbursement from the State.

Situation

There are no funds available in the capital interest account to make any further debt service payments. The next debt service payment is due on Jan. 1, 2012 in the amount of \$832,175.00. The available \$16 million will be used to make this payment.

Starting in the fiscal year 2012-2013, the yearly debt service for the COPs will be approximately \$2.35 million per year until 2037. This represents almost 20% of the District's general fund budget.

Possible Solutions

The PVCCD is looking into opportunities for using the \$16 million to reduce debt and debt service payments for future years. The District is informally seeking professional advice on dealing with this transaction. The firms that are assisting the District include RBC Capital Markets (for financial consulting) and Fulbright and Jaworski (for Legal Counsel).

After making the Jan. 1, 2012 payment, the District Board may formally retain services of RBC Capital Markets and Fulbright and Jaworski.

Available Options for the District are:

- District will make Jan. 1, 2012 payment of \$832,175 from available cash.
- District will keep enough cash to make principal and interest payments for 3 years from 2012-13 to 2014-15 of approximately \$2,346,550.
- District will use remaining cash of \$13 million to retire existing COPs for the years 2024-25 to 2036-37.

- The original yearly debt service of \$2.35 million will reduce to \$855,900 for 2012-13, 2013-14, 2014-15 and 2015-16.
- The debt service payment for 2016-17 to 2023-24 will remain at approximately \$1.6 million.
- The debt service payment will be reduced from 2024-25 onwards to approximately \$915,000.

What is the plan for the Debt Service to be paid by the General Fund?

1. During 2010-2011, the District was offered the Supplemental Employee Retirement Program (SERP). Eight employees will be retiring December 30, 2011. Currently, their partial year salary and benefits, which amount to \$212,583 is already budgeted. With the departure of these employees, \$90,000 of the funds that were previously budgeted for Health Savings Accounts will be available for the 2012-13 fiscal year. This money can be used to service the District debt. The total available funds for debt service in the 2012-13 fiscal year will be \$302,582.89.
2. An additional six employees, including the Superintendent/President, are also retiring under SERP on or before June 30, 2012. Benefits and salaries for five of these employees (not including the president) will save the District \$550,927.78 for the 2012-13 fiscal year.

These two items (mentioned above) will be sufficient for the District to make additional debt service payments for 2012-13, 2013-14, 2014-15 and 2015-16.

Currently, the District is obligated to make SERP payments for the next five years including 2011-12 to 2015-16 for \$400,100 including fees. These funds will be available starting 2016-17 to increase debt service payments from \$855,900 to \$1.6 million on a yearly basis. This will add an additional burden on the general fund of \$744,100.00. The District will have \$400,100 available and must work to have additional funds of \$344,000 to make full payments on the debt service. The District will have ample time to work towards reducing ongoing costs and means for increasing revenue in future years.

This plan will provide the District with the opportunity to pay its own debt, keep classrooms open, and be available to service the community for years to come.

10. A description of how the institution is managing its financial operations, including the role and responsibility of the firm CW/P Cambridge West Partnership, LLC.

• Retirement of the Vice President for Administrative Services and management of fiscal operations.

Palo Verde College's long-time Vice President for Administrative Services retired on June 30, 2011. At that time, the California Community College's were all faced with a good deal of budget uncertainty. For that reason the Board of Trustees decided there should be a hiring freeze and that NO positions be filled. The result was that the Superintendent/President undertook an interim reorganization of the functions under the supervision of the Vice President for Administrative Services and the position was left vacant.

As part of that interim reorganization, the Dean of Career, Technical and Continuing Education was given additional duties as Interim Director of Fiscal Services and Human Resources. The existing Fiscal Services Manager and Human Resources Manager and associated staff report to him. To assist with the transition, the Superintendent/President determined that a consultant should be employed to provide support in three areas:

- (1) Budget Process: The consultant would provide guidance to the College in ways to improve and make more transparent its budget processes.
- (2) Preparing of Financial Statement: The College had been having its auditors prepare its yearend financial statements. That is not appropriate and had been a finding in the last two audits. The consultant would assist the College to prepare its financial statement for the end of the 2010-2011 Fiscal Year and would train College staff to prepare future financial statements.
- (3) General Guidance: The consultant would be available to advise the Fiscal Services staff on an as-needed basis.

• Role and Responsibility of C.M. Brahmhatt (Cambridge West Partnership) LLC

In seeking a respected retired CBO as a consultant, the District originally contacted Ms. Cheryl Miller who had previously provided advice to the District. Ms. Miller was not available at that time. The District then sought a recommendation from the California Community Colleges Chancellor's Office and was given the name of C.M. Brahmhatt. The District entered into a contract with Cambridge West Partnership for the services of C.M. Brahmhatt. The expectation was that Mr. Brahmhatt would spend some time in July 2011 helping with the financial statements and in August or September 2011 working with College staff on the budget development and management processes. The College's original contract with Cambridge West Partnership envisioned a relatively small amount of work. A copy of that contract (attachment 10.A) along with a recent amendment (attachment 10.B) is attached.

During the preparation of the Financial Statements it was found that what had been a budget surplus at the end of the 2010-11 Fiscal Year (attachment 8.A, 2011-12 Tentative

Budget) was in fact a budget deficit. At the same time, the looming payments for COPs were also found. Shortly thereafter, the District found that it was in violation of California's "Fifty-Percent Law." The result was that Mr. Brahmbhatt's expertise in fiscal management became much more important to the District than originally anticipated.

Mr. Brahmbhatt is retained by the district as its fiscal consultant. He does not provide day-to-day management of the district's fiscal services. Instead, he brings a level of experience in fiscal issues facing Palo Verde College that the District could not have expected to find in any other way.

11. Any plans developed for fiscal recovery.

Palo Verde Community College District is currently operating with a balanced budget for 2011/2012. The District is taking steps to end the academic year with a 5% reserve. The District is currently working with the Budget/Enrollment Management Committee and the College Council/Strategic Planning Steering Committee to develop a budget for fiscal year 2012-2013. As the 2012-2013 budget is developed, long range fiscal recovery plans will be adopted.

12. *Plans to replace key leadership positions at the institution.*

- **Superintendent/President**

In early October the Superintendent/President announced that he planned to retire effective December 31, 2011. The Board of Trustees moved quickly and deliberately to hire an Interim Superintendent/President and on November 15, 2011, after interviewing two retired and highly experienced CEOs, announced that Ms. Denise Whittaker would be appointed to the position to begin on January 1, 2012. The Board intends to move deliberately to search for and to hire a permanent Superintendent/President. Three of the seven seats on the Board of Trustees are up for election in November of 2012. The Board of Trustees expects to time a search so that if there are new members on the Board, they will have a say in the final selection of the permanent Superintendent/President.

- **Vice President of Administrative Services**

As noted above, the position of Vice President of Administrative Services has not been filled. The current reporting arrangements may continue through the next twelve months (see question #10).

- **Vice President of Instructional Services**

The Vice President of Instructional Services will retire on June 30, 2012. The Interim Superintendent/President will have time to plan for that retirement.

The Board of Trustees have determined that no permanent administrative appointments should be made until after a permanent Superintendent/President is hired and that any interim appointments should be at a lower rank whenever possible.

The hiring freeze which began in the Spring of 2011 remains in effect and is expected to remain in effect for at least the next twelve months.