

Developing and maintaining a “pay-as-you-go” funding strategy.

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Abstract

Since 1998 Tarrant County College has saved many millions of dollars by avoiding interest payments on its \$94 million in major capital outlay projects. Indeed, much more will be saved in \$200 million of planned construction identified in the current five-year plan. How? By paying cash instead of relying on the traditional method of general obligation bonds. Using the traditional method, the College, by 1997, had accumulated the highest bonded indebtedness of Texas' 50 public community college districts. In 1998, however, the Board of Trustees, on the recommendation of the newly appointed chancellor, approved a new "pay-as-you-go" approach, funding yearly construction projects and equipment purchases through maintenance and operations tax rather than debt service tax revenues. The additional M&O tax revenues recur and grow each year, enabling the College to fund its capital outlay projects, including a new state-of-the-art fire training facility to be opened in October 2002, other multi-million construction projects on the other three campuses, and a fifth comprehensive campus to open in 2006. The "pay-as-you-go" approach requires a well-informed and courageous Board of Trustees, and a healthy tax base. The cash payment method does result in a higher short-term tax rate, but it saves the College District millions of dollars in the long term, ensuring that maximum use is made of the taxpayers' money.

Introduction of the Organization

The Tarrant County College District (TCCD) is a two-year, comprehensive community college providing degree programs toward an Associate in Arts and an Associate in Applied Science. In addition, the College offers certificate of completion programs designed to meet specific needs of the community.

The Tarrant County College District is a direct result of people's interest in education. In the early 1960s, citizens seriously began considering the formation of a junior college district in northeast Tarrant County. On July 31, 1965, the voters of Tarrant County approved the sale of \$18,144,000 in bonds for construction, elected a seven-member Board of Trustees, and approved taxes for debt service and operations. These actions resulted in the creation of the Tarrant County Junior College District. The word "junior" remained until the Board of Trustees voted in February 1999 to change the name to Tarrant County College.

The College has made tremendous progress since its inception in 1965. Today, the College consists of four campuses and a district administrative office. In fall 2000, Tarrant County College was ranked the 7th largest community college or university in Texas. Based on overall enrollment—credit and non-credit—of 74,889 during calendar year 2001, approximately one in every 19 Tarrant County residents attends a class at TCCD each year. At this writing, the 2002 fall semester credit enrollment totals 31,169 students, which continues the trend for the past year of setting a new all-time enrollment record.

In summer 2002, the Board of Trustees approved an operating budget exceeding \$173.5 million, an increase of \$100 million in just five years. The College employs

approximately 2,800 people, over 1,200 of whom are full- and part-time faculty.

Through the years, three individuals have served as chancellor of the Tarrant County College District. The first individual named by the Board of Trustees was Dr. Joe B. Rushing. On September 15, 1988, the Board of Trustees named Executive Vice Chancellor C.A. Roberson to be TCCD's second chancellor. In August 1996, Roberson retired, and on January 25, 1997, the Board of Trustees named Dr. Leonardo de la Garza as the College's third, and current, chancellor.

Statement (restatement) of the Problem/Initiative

Following common practice, Tarrant County College District historically had funded major purchases of equipment and all capital outlay expenditures for new construction or the repairs and renovations to college facilities, through the issuance of general obligation bonds authorized by Tarrant County voters. Following this practice, the College, by 1997, had accumulated the highest debt structure for tax-supported bonded indebtedness of the fifty Texas public community college districts and had depleted the funding made available through the last, prior bond issue. Analysis of the troubling financial situation prompted the new chancellor to seek creative and more viable strategies for funding capital outlay and major equipment expenditures. The result—fashioned over 18 months of intense work with the Board of Trustees—resulted in the chancellor’s recommendation of a new “pay-as-you-go” funding strategy, i.e., paying in cash, to ensure the College’s future growth and success.

Design

The methodology used to develop the “pay-as-you-go” funding approach was based on a strategy of research, assessment, consultation (chancellor and Board), and planning.

Several years prior to the implementation of this new funding strategy, the College had been facing declining enrollments. As a result, there was a reduction in state funding, which is driven by enrollments, as well as in tuition and fee income. This required that the College access its reserves in order to achieve a balanced budget. And so, the College experienced several years of ever-declining revenues and inability to fund adequately the operating budget, with particular negative impact on salaries and equipment, along with

deferring maintenance. For example, to achieve a balanced budget, the Board allocated \$2,100,000 in designated reserves during FY 1996-97. However, through a rigorous program of cost cutting, imposed by the new chancellor, only \$600,000 of this \$2,100,000 was actually expended.

When the new chancellor arrived in early 1997, he recognized the need to assess the College's financial condition and to develop an action plan to address these challenges. The first step was to determine the College's actual financial needs. This was an important element of the process. The overall intent was to make sure that the College realistically determined its needs in order to maintain student access and educational quality, while simultaneously remaining competitive within the existing market environment. Clearly, there was a need to consider historical information and to generate viable projections of optional paths toward self-sufficiency and excellence for the College District. For example, information on past and projected salary increases was obtained from several comparable Texas multi-campus, urban-based colleges, as well as those located within the College's service area. Internal estimates were projected for technology-related equipment, general equipment, capital improvement projects, staffing needs, and other operational expenditures. To ensure inclusiveness, faculty and staff were asked to prioritize their needs. This survey information obtained from faculty and staff ultimately served as a guide during the institution's budgetary decision-making processes. It is important to note that during this phase, the goal was to determine the College's financial needs. The possibility that funding might or might not materialize was communicated, given the understanding by the chancellor that he would have to

convince the Board of Trustees to take unprecedented and courageous action toward securing the required financial resources.

Implementation

The previously described initial assessment and budget planning efforts provided the College with solid information to use in its implementation phase. One of the most important actions that ensured successful implementation of the “pay-as-you-go” funding strategy was conducting budget workshops with the Board of Trustees. These sessions proved to be invaluable. The chancellor provided detailed information and possible funding options that could be adopted by the Board. For example, during the assessment review, the College’s tax rate was identified as being the lowest in the state, while maintaining the highest bonded indebtedness of Texas’ 50 public community college districts. Thus, the opportunity of increasing the maintenance and operations tax rate became a viable option to consider. This and other information provided to the Board of Trustees at these sessions allowed them to feel comfortable in acknowledging and embracing the “pay-as-you-go” funding concept, thereby ensuring the College’s continued growth and success.

Another important step in the implementation phase was the dissemination of information to the community and the College family. With regard to community communication efforts, the chancellor and members of the Board of Trustees met with the local newspaper’s Editorial Board. As well, the chancellor presented the case for the intended action with community leaders, service organizations and business and industry. The goal was to provide information on the College’s intent and the benefits of

implementing this type of funding strategy. In addition, Tarrant County citizens had the opportunity to express their support or concerns during a public hearing scheduled prior to the Board's review and approval of the funding approach. In regard to College family communication efforts, budget presentations were conducted on each campus and at the district office to ensure full understanding of the actions taken by the Board of Trustees as well as the implications of their actions. These budget presentations continue to be made to the College family.

Benefits

In 1998, on the recommendation of the newly appointed chancellor, the Board of Trustees approved a new "pay-as-you-go" approach to funding yearly multi-million dollar capital outlay construction projects and equipment purchases. This is accomplished through maintenance and operations (M&O) mil-levy revenues, rather than through interest and sinking fund mil-levy revenues. The additional M&O tax revenues will continue to be available and used, among other priorities, for many capital outlay projects of the College District, with projected combined costs approaching \$200 million. Most recently, this included a new state-of-the-art fire training facility, dedicated this fall, which is now fully operational, with no outstanding debt. Another positive element of this new "pay-as-you-go" funding strategy is that the Tarrant County College District will save millions of dollars in interest expense that normally would have been paid through the traditional debt-service method, utilizing general obligation bonds. This funding strategy has also allowed the College to:

- ✓ maintain a competitive position among major employers in the metroplex, regarding salary and benefits for non-faculty employees, including support and administrative staff,
- ✓ employ and retain a cadre of fully qualified and experienced full-time and part-time faculty, and
- ✓ attain and maintain the leadership position among Texas' fifty public community colleges in the compensation for full-time faculty.

Retrospect

Given the opportunity again to face the challenge of solving the College District's serious financial predicament, it is fair to say that it would be difficult—perhaps nearly impossible—to fashion an equally viable or better solution.