

Fiscal Resources Committee

Executive Conference Room – District Office
1:30 p.m. – 3:00 p.m.

Meeting Minutes for January 22, 2020

FRC Members Present: Peter Hardash, Adam O'Connor, Morrie Barembaum, Noemi Guzman, Bart Hoffman, Thao Nguyen, William Nguyen, Arleen Satele, and Roy Shahbazian

FRC Members Absent: Cristina Morones, Steven Deeley, Michael Taylor, and Vanessa Urbina

Alternates/Guests Present: James Kennedy, Mark Reynoso, Jose Vargas and George Walters (CWP)

1. Welcome: Mr. Hardash called the meeting to order at 1:33 p.m. and noted Chancellor Martinez planned to join the meeting but would be late due to another off-site meeting.
2. State/District Budget Update
 - 2020-21 Proposed State Budget report
 - 2020-21 Governor's Budget for CCC's Joint Memo
 - CCCCCO/ACCCA/ACBO/CCLC Memo and PowerPoint
 - LAO 2020-21 Overview of Governor's Budget
 - School Services of California –
 - Ask SSC ...What's up with the down COLA?
 - CalPERS Issues Revised Employer Contribution Rate Estimates
 - Legislative Analyst Issues Positive But Cautious Outlook
 - Proposition 98 Reserve Projected to Grow
 - Department of Finance Updates Out Year COLA Estimates
 - Initial Impressions from Governor Newsom's 2020-21 State Budget Proposal
 - Governor's Proposal for the 2020-21 Proposed State Budget
 - Proposed Budget Presentation to Board of Trustees January 13, 2020

Mr. Hardash provided brief report on Governor's Budget Proposal, noting that Prop 98 is tightening up, reduced COLA is at 2.29%, and referenced various write-ups and agency reviews of the proposed budget for 2020-21. Growth dollars and the need to restore was discussed. Apprenticeship dollars could be earned by SCC only for the expansion of their programs. Various one-time dollar options are being proposed with Governor Newsom focusing on his signature programs for homeless and mental health. Pending trailer bill language for a number of categorical funds is unknown. How such will be administered, earned and the related requirements for both one-time and ongoing funds is not yet known. Once the language is released it will be posted to the Department of Finance (DOF) website. There is some deferred maintenance money, but that is very little for RSCCD. This is only a starting point or the beginning of the conversation for the State's budget. The next step is the May Revise, following multiple hearings, meetings, engaged discussions and also updated income and property tax collections. It is hoped the numbers will be better in May but the economy is slowing and the next recession is projected for one year out. The State budget must be approved by June 15 (or the legislators don't get paid) and submitted to the Governor by July 1.

Specifically for RSCCD challenges include dramatic increases to PERS and STRS, health benefit increases, step and column increases and 4% salary increases over the next three years. The gap between COLA and 4% will need to be made up. Mr. Hardash referenced the presentation to the Board of Trustees that is posted on the FRC webpage. He also

confirmed discussions are occurring within College Cabinet meetings related to budget adjustment plan.

Dr. Hoffman inquired about additional information related to administrative oversight of student equity, foster youth and strong workforce programs collectively. Mr. Hardash explained no additional information is available pending trailer bills. Nothing more than what was shared at the Budget Workshop, of which Dr. Hoffman was in attendance, is available. Mr. Hardash explained there is a perception at the State level that the Workforce Grants are not being spent wisely; an appearance or accusation of wasteful spending. The Chancellor's Office may administer those programs and may include additional programs that are not named at this time.

Roy Shabazian requested information from the SCFF Oversight Committee regarding first generation and hold harmless clauses and recommendations that have been made. Mr. Hardash referenced the Oversight Committee website specifically 2021-22 for the first generation information. He further discussed being an advocate for a forever hold harmless, but there isn't enough money to support that action. Districts similar to RSCCD artificially shifted FTES to receive hold harmless at higher level. The controversy is that if everyone is to be held harmless, there is a need to back out the artificial summer shift that boosted the numbers. That might be the compromise. A lengthy discussion ensued. Another controversial element is Cost of Living (not to be confused with Cost of Living Allowance-COLA). It is specific to high cost areas for students to attend college. RSCCD is a wash with SAC and SCC being a low-cost and high cost of living areas respectively.

Mr. Hardash explained that funding for 2018-19, 2019-20 and 2020-21 are all unknown. Though promises were made to provide districts with information in January, such has not occurred. P1 won't be available until March and it is likely to be wrong. The formula is still being gerrymandered; it is a zero sum game. With the higher data counts, funding is being lowered.

Mr. Hardash distributed and reviewed RSCCD's P1 320 submittal (two different versions with and without borrowing) explained the decline in enrollment and WSCH (weekly student contact hours) referred to as the "bread and butter". Spring numbers are estimates. The Chancellor wanted to discuss enrollment management, spring and summer projections, positive attendance and other factors at today's meeting. It was noted that while there is a downturn in WSCH, there is an increase in distance education. The problem is money is getting tighter and 70% of the formula is FTES. These numbers (which are a data dump) are supplied by the campuses and it is the campuses' responsibility to validate the numbers. Mr. Hardash also noted the FTES split which is generally 70/30 but as of 2019-20 estimates it is 69.72% for SAC and 30.28% for SCC.

Mr. Hardash referred to the budget presentation to the Board, whereby one slide was specific to new revenues and new expenditures. Based on information as of this moment (today), he distributed and reviewed the Unrestricted General Fund Summary DRAFT 2020-21 Tentative Budget Assumptions (dated January 22, 2020). All costs are included in a simple spreadsheet format; it's not scientific, but a crude calculation of new unrestricted dollars in Governor's budget proposal and new RSCCD costs. No new unrestricted money is expected beyond the 2.29% (\$4 million) in COLA. RSCCD costs for collective bargaining is \$5.7 million in salary increases for the budget year. That's only general fund unrestricted costs. This assumes all categorical and standalone programs will pick up increased costs for raises and associated costs for STRS/PERS. If these programs can't absorb the increased costs, there will be a further encroachment on general funds which could mean \$5.7 million cost may increase. There is no new unrestricted revenue added to the new SCFF. No growth, no State augmentation, no lottery increase, no increase to block grants, etc. STRS/PERS needs more relief or financial assistance from the State. Adjunct faculty

budgets, which are employee contractual obligations, are under budgeted by \$6.5 million in the current fiscal year. The campuses need to responsibly fund these accounts. The Chancellor wanted to discuss these matters with FRC upon his attendance of this meeting. The good news – the unfunded health benefit of \$40 million that was moved to irrevocable trust earned interest. The unfunded liability has been reduced. The Nyhart report will be posted on the FRC webpage for your review and is well written.

Mr. Hardash distributed and discussed 2020-21 budget assumptions and additional district operations costs requiring \$1.13 million. Specifically the addition of a Data Integrity Specialist, Safety costs due to decreased revenue, Ellucian increased contract costs, operational costs of DMC, and additional travel for Trustees and Chancellor. Roy Shabazian verified the colleges are being asked to cut costs as a result of reduced FTES, but the District is requesting an increase to the budget. With the estimated deficit fluctuating between \$8-\$12 million, the Chancellor asked for a budget adjustment plan which was discussed in Chancellor's Cabinet two weeks ago. Discussion ensued with Mr. Hardash providing an explanation for the increase costs to safety when the revenue is reduced. The costs shift to general fund if the revenue doesn't cover the costs for safety personnel.

The Retiree Health Benefits Actuarial Valuation Comparison was distributed and reviewed by Adam O'Connor. The new report and new actuaries, offers good news of accrued OPEB Liability at \$149 million and net unfunded OPEB liability at \$109 million and savings of \$2,473,545. This is the result of the irrevocable trust that was created last year. That should continue to trend down the liability as the \$40 million continues to gain interest over the years and assures retirees that benefits will be paid.

Mr. Hardash distributed the Budget Adjustment Plan approved by the Chancellor's Cabinet for the 2020-21 tentative budget explaining that it is a measured approach. This is a three-phase adjustment plan to address a targeted \$8 million issue. Phase 1 due by February 28 includes \$3 million reduction to include verbal updates on progress and detailed spreadsheets with account numbers and amounts to adjust. Phase 2 is due March 2 with another \$3 million reduction if needed based on P1 calculations. RSCCD should be a winner district for 2018-19 recalculation of \$3-4 million in one-time funds. The formula for 2019-20 is different calculation. By Phase 2 there should be more information available about final adjustments. These numbers are going to change, but not to the \$8-9 million better. Targeted adjustments are due April 24. Phase 3 will be different because of May revise. It is hoped the COLA and numbers will be better. More unrestricted dollars are needed to support costs. Phase 3 is packaging one-time dollars and if Phase 1 and Phase 2 have been accomplished, then Phase 3 can be implemented or may not be necessary. However, if the can is kicked down the road, RSCCD will have a \$20 million problem within a year's time. A general discussion followed about the necessity for the campuses to have 1% reserves, adjustment of adjunct faculty accounts, and shares of reductions. The District is also making cuts as part of the \$3 million, the District share of unrestricted funds is 18.42% \$552,600. It was agreed that what remains is split 70/30 (or as determined between College Presidents) between the campuses but within the current budget model. The colleges still need to have a balanced budget. This needs to be accomplished or the Board will enact it themselves. It is the responsibility of the administration to handle this problem. There are no bailouts. Board Members have said that others will collapse before Rancho, so they are not worried, but the District needs to ensure that payroll is met. A lot of districts and K-12 in Orange County are struggling with these same issues. Mr. Hardash restated that Phase 2 will depend on recalc adjustments in February. It is unknown at this time. It is important that a measured approach is initiated. Actual accounts need to be identified to reduce even in Phase 1.

The Chancellor is going to inform the Board fiscal audit committee in the adjustment plan. So that the Board is aware that a measured plan is implemented.

3. Continued Discussion of SCFF and Review of BAM – Cambridge West Partnership Consultants
 - Section 1 – Introduction
 - Section 6 – Definition of Terms.
 - Section 3 – College and District Responsibilities
A motion was made by Jose Vargas, seconded by Arlene Satele to approve sections 1, 6 and 3 as presented. The motion passed unanimously.
 - Section 4 – Revenue Modifications
Section 4 draft was presented for initial review and all comments, suggestions, or edits are to be submitted to Adam O'Connor so that such can be presented at the February 19 FRC Meeting.
4. Mid-Year Updates
 - Unrestricted General Fund Expenditure Update
 - FTES Update as of January 15, 2020 at (P1)
5. RSCCD 2018-19 Audit Reports link: <https://rsccd.edu/Departments/Fiscal-Services>
6. Standing Report from District Council - Shahbazian
No report.
7. Informational Handouts
 - Districtwide expenditures report link: <https://intranet.rsccd.edu>
 - Vacant Funded Position List as of December 31, 2019
 - Measure "Q" Project Cost Summary as of December 31, 2019
 - Monthly Cash Flow Summary as of December 31, 2019
 - SAC Planning and Budget Committee Agendas and Minutes
 - SCC Budget Committee Agendas and Minutes
8. Additional Handouts
 - Unrestricted General Fund Summary – Draft 2020-21 Tentative Budget Assumptions
 - 2020-21 Budget Assumptions Other Additional DS/Institutional Costs
 - Retiree Health Benefits Actuarial Valuation Comparison
 - Budget Adjustment Plan 2020-21 Tentative Budget
9. Approval of FRC Minutes – November 20, 2019
A motion was made by Arleen Satele, seconded by Jose Vargas to approve the minutes of November 20, 2019 as presented. With no questions, comments or corrections the motion passed unanimously.
10. Other
Next meeting reminder: Wednesday, February 19, 2020, 1:30 – 3:00 in the Executive Conference Room #114, District Office

This meeting adjourned at 2:57 p.m.