
AUDIT AND BUDGET COMMITTEE MINUTES

Coast Community College District

Special Meeting of the Audit and Budget Committee

August 22, 2019

Board Conference Room

1370 Adams Avenue, Costa Mesa, CA 92626

1. Call to Order

The meeting was called to order at 2:00 p.m.

2. Roll Call

Trustees Present: Trustee Jim Moreno and Trustee Mary Hornbuckle

Trustees Absent: None

In Attendance – Dr. John Weispfenning, Chancellor; Dr. Andrew Dunn, Vice Chancellor of Finance and Administrative Services; Dr. Marco Baeza, Vice Chancellor of Human Resources; Dr. Rich Pagel, OCC Vice President of Administrative Services; Christine Nguyen, CCC Vice President of Administrative Services; Janet Houlihan, GWC Vice President of Administrative Services; Daniela Thompson, Executive Director, Fiscal Services; Rachel Kubik, OCC Director of Business Services; Dwayne Thompson, District Director of Institutional Research & Planning; Rachel Snell, District Director of Internal Audit; Paul Wisner, GWC Director of Business Services, and Jane Burton, Manager/Board Secretary

3. Opportunity for Public Comment

There were no requests to address the Audit and Budget Committee during Public Comment.

4. Approval of Minutes: Meetings of April 4, 2019 and July 31, 2019

On a motion by Trustee Moreno, seconded by Trustee Hornbuckle, the Committee voted to approve the minutes of the Special Meetings of April 4, 2019 and July 31, 2019.

Motion carried with the following vote:

Aye: Trustee Moreno and Trustee Hornbuckle

No: None

Absent: None

5. Committee Discussion regarding External Auditor Applications and Interviews

In continuation of the previous discussions from the last Special Meeting, the general consensus by the Audit and Budget Committee is that Crowe LLP is the preferred firm. Dr. Dunn reported all fees have been confirmed for a three-year commitment, and all reference checks were positive.

6. Recommendation of Applicant(s) for Consideration by Full Board of Trustees

On a motion by Trustee Hornbuckle, seconded by Trustee Moreno, the Audit and Budget Committee voted to make a recommendation to the full Board of Trustees for Coast Community College District to contract with Crowe LLP for external auditing services for the next three years.

Motion carried with the following vote:

Aye: Trustee Moreno and Trustee Hornbuckle
No: None
Absent: None

Dr. Dunn will make all contractor notifications and manage the final contract details.

7. Review, Discuss, and Possible Action regarding Final Budget

Dr. Dunn provided the following information:

- Student Center Funding Formula: The 70/20/10 split among enrollment supplemental and success factors has been corrected. Earlier iterations of the SCFF were 10/20/20 and 50/25/25.
- The Hold Harmless has been extended through the 2021-2022 year, with a growing number of districts falling into that Hold Harmless category and their revenue being calculated by the old funding model. Last year the budget was based on \$200 million total computational revenue level, now down to \$196 million at the outset of this year. Future years are unclear.
- The reserve is consistent with the Board’s policy. COLA is at 3.26%. The budget is based on 30,542 FTES. We are borrowing 1604. Total computational revenue is \$196 million. Deficit factors are about half a point, but with potentially a greater deficit in the offing. The Principle Apportionment report in February 2020 will shed more light in these areas. Transition is at four years, the hold-harmless window. These are the major factors driving the construct of the budget that will be presented to the Board on September 4, 2019.
- Three-year Revenue Estimate: total computational revenue is about \$196M. The Hold Harmless funding is above last year. There are very modest revenue increases

- year-over-year. It is worth noting that the earlier iterations suggested we would have gone from \$200M last year to nearly \$220M this year, although that will not happen.
- 50% Law: We are still on the right side. It is a pretty narrow margin.
 - Fund Balance: Last year closed with a funding balance of \$35M, which is this year's beginning fund balance. That is about 15%. We were at 16% last year, 18% the year prior, and 21% the year before that. We are trending downward. Dr. Dunn called attention to the reserve for contingencies and the ancillary reserve. The two Board-specified reserves are 5% each, but for deficit factor, we do not have any money set aside. If, in fact, the state was to impose a deficit estimated at \$6.9M, we would draw from the ancillary reserve. We expect to learn if the state is moving in that direction in February 2020. At that point, we would be 8 months into the fiscal year so there really would not be any room to change our spending plan, but we would draw down this reserve and then if necessary implement a plan to close the gap. Typically, we would not make a drawdown from a reserve unless there was a plan to refill it. What the reserve does is buy us time and allows us to make some thoughtful changes in the spending plan to better align our spending with what the state is going to be providing. Trustee Moreno asked what kind of budget categories would be considered to make up for that difference as the plan is developed. Dr. Dunn responded that it would be largely personnel-based. Last year, almost 91% of the budget, more than .90 cents of every dollar, was on personnel – salaries and benefits.
 - FTES Trend Analysis: The 2019-20 Fiscal Year Final Budget reports were explained to the Committee. It was also reported that enrollment trends are about 2.5% below last fall.
 - Health Benefit Renewal Data: Renewal data shows an increase just under 1% or about \$379,000. This does not reflect the changes that Dr. Baeza is negotiating at this time.
 - The Pension Report: The Governor approved a three-year "Pension Relief Plan" for local K-12s and community colleges. The STRS is down about a point. On the PERS side, the reduction is far more modest, down about 1/10 of a point. These are not net reductions. It is simply that the increase has been lessened. Pensions are still going up. They are just not going up as sharply as we thought they would. The Governor's "Pension Relief Plan" reduced our obligation on the STRS side by about a percentage point. Last year, for STRS, we were at 16.28% so instead of going up almost 2 points, we are going up just about 1 point from 16.28% of payroll to 17.10%. PERS was not affected equally. PERS is 1/10 of 1 percentage point. We were at 10.8% at tentative, we are at 20.7% with final budget.
 - New Estimated Revenues and Expenses: 2019-20 projections, COLA is estimated at \$6.4M. No growth for Base Augmentation. The enrollment decline represents enrollments absent stabilization. Revenues associated with enrollments are now a function of a three-year rolling average. We are approximately \$1.8M below our historic base. The deficit factor/funding constraint is estimated at about 5.1M. In essence, new revenue is actually about negative \$500,000 at this point. We pass COLA on to our employees on salary schedule. That is about \$5.8M of that estimated \$6.4M. The PERS and STRS upticks reflect the modified numbers from the Governor's relief program. The net effect of step/column, is believed to be the last year of our class comp study cost associated with it, we still have a couple of holdovers with the plus one with respect to our employee units, for CDMA and CCA.

In a year where revenues could be as much as a negative \$500,000 it is approximately \$10M in new expenses. That is consistent with the last few years when we consider all the expense obligations that we are incurring. The net effect is we are carrying forward a structural imbalance of about \$1.2M and added to \$10.5M is a budgetary deficit of about \$11.7M. We will be monitoring this throughout the course of the year and will know in about six months the extent to which the deficit factor or funding constraint is imposed upon us.

- As we study the new Student Centered Funding Formula and all the factors surrounding the operations of our District, the only real revenue we see coming to the District this year and next year is COLA. Our employees benefit significantly from having COLA rolled onto their salary schedule, but the institution has a lot of other expenses. Even in the best of times, under that construct, we are going to struggle. Managing these new expenses is one of the dilemmas we have going forward. The state did not accurately estimate the resources required to fully fund the Student Centered Funding Formula. The state has also reduced the values associated with the success factor. There are 6 or 8 points where the success factor has been peeled back in an effort to manage the state's cost. Of the 72 districts there are half a dozen or so that are basic aid districts. There are a growing number of districts that are Hold Harmless, meaning, when we do a revenue calculation we look at Cost revenue under the SCFF and under the old SB 361 model. Today we are still receiving more money under the SCFF. Legislation must be advocated to impart change for fair funding, for all districts.
- Unrestricted general fund revenue has continued to come down. We receive no unrestricted funding from the Federal Government. Property taxes continue to grow, improving local revenue. Expenses were reviewed, including salaries for staff and other operating expenses such as supplies, consulting, utilities, etc.
- As revenues have flattened or declined, and expenses have continued to grow as enrollments have declined, the percentage of our budget dedicated to personnel has risen. We were at 89% at the 2017-2018 year and we are now at 90.6% as we close out the 2018-2019 year as of June 30. This change is contributed to rising expenses largely focused on personnel, flatter declining revenues and declining enrollments.
- The EPA: We are required to measure and report separately funds under the EPA, and this year that is approximately \$29.5 million.
- As we look ahead, we have talked about the budgetary indicators with fallen enrollment, declining fund balance and the degree in which salary benefits are beginning to overwhelm our operating budget. Continued uncertainty around the FCFF and the turnover in the State Chancellor's Office. Additionally, Federal level tariffs, trade wars and now an inverted yield curve. The inverted yield curve historically has suggested change, although it does not foretell when change will come. Cabinet is engaging in discussions at a very preliminary level to balance these challenges, and does plan to engage the entire district community in the process. This presentation will be given to the full Board of Trustees on October 4, 2019.

8. Review, Discuss, and Possible Action regarding Internal Audit Quarterly Update

District Director of Internal Audit, Rachel Snell, provided an update: The cosmetology report was presented in closed session in July. Currently, the Criminal

Justice Training Center draft report is in progress. Also, the PCI compliance work external audit firm has been here for the last three months conducting work at our campuses and at the District office. No issues to report.

Personnel Update: An internal candidate has been provided and will be interviewed.

An Internal Audit Report will be provided for the full Board of Trustees in October 2019.

9. Review, Discuss and Possible Action regarding steps being taken to prevent temporary employees exceeding hours

Dr. Baeza provided a summary for the Committee regarding steps being taken to prevent temporary employees from exceeding hours. There are three types of employees a community college can hire (1) academic (2) classified (3) temporary, providing multiple buckets for types of temporary employees. Short term, professional experts, substitutes, student assistants, annuitants. Each of those buckets have their own restrictions and limitations which include how many hours and days they can work per year, and what kind of assignments they can work. The allotted hours for each category is tracked by Human Resources, and reports are generated monthly.

- Annuitants are not to work more than 960 hours per year.
- Short-term employees and substitutes by law cannot work more than 75% of a calendar year. In specific days, that is equated to 195 days a year. That 195 days is inclusive of vacation, and all holidays that regular classified employees get.
- Coast has negotiated 160 days with CFCE and that is all work days except for the holidays and vacation days that our classified employees get. Our short term employees and substitutes are not allowed to work more than 160 days a year.

Internally, in the last year, a big transition was made to hire temporary employees through a centralized process. Through our new centralized temporary employment services process, Human Resources is responsible for tracking each of the individual buckets for temporary employees, and making sure they are working within their limitations and restrictions. There are specific reports for tracking those individuals. When it comes to our short term employees and our substitutes, a monthly report is pulled to make sure nobody has exceeded 160 days. As we get closer to the end of the year, they are tracked on a weekly basis. This year, a change was made to centralize the process of notification and release of temporary employees. Human Resources is now responsible for making notification to the temporary employee directly, informing them when they are released. Human Resources will notify the line manager and the supervisors, and then provide the release of that employee.

Dr. Baeza has discussed the new process with each of the Academic Senate Presidents, and they have each indicated they are pleased with the new tracking method. From a fiscal perspective, this new system will help make sure we are sustaining ourselves. They are also pleased with the expansion of the student workers program, which will help students build their work experience and resume.

The new system has been a huge transition for the organization. There will continue to be support and training for employees.

Updates will be provided to the Audit and Budget Committee at future meetings.

10. Future Meeting Dates:

November 14, 2019 at 2:00 p.m.

11. Future Agenda Items

The Committee added the following future agenda items:

- (a) Temporary Employees Exceeding Hours Reports and Updates
- (b) External Audit Update
- (c) Internal Audit Quarterly Report
- (d) Actuarial Report

12. Adjourn

On the motion by Trustee Moreno, seconded by Trustee Hornbuckle, the Committee voted to adjourn the meeting at 3:12 p.m.

Motion carried with the following vote:

Aye:	Trustee Moreno and Trustee Hornbuckle
No:	None
Absent:	None



Jane Burton
Secretary of the Board

**The Committee may take action on any item listed on this agenda. Under the Brown Act, the Public has the right to receive copies of any non-exempt public documents relating to an agenda item that are distributed to the committee members. Please contact the Office of the Board of Trustees at 714-438-4848 prior to the meeting to facilitate the distribution of these documents.*