
AUDIT AND BUDGET COMMITTEE MEETING MINUTES

**Coast Community College District
Special Meeting of the Audit and Budget Committee**

Date: August 17, 2012 at 10:00 a.m.

Board of Trustees' Conference Room

1370 Adams Avenue, Costa Mesa, CA 92626

1. **Call to Order** – Trustee Jim Moreno called the meeting to order at 10:15 a.m.

2. **Roll Call**

Trustees Present: Jim Moreno and Mary Hornbuckle
Trustees Absent: None

In Attendance – Chancellor, Dr. Andrew Jones; Vice Chancellor of Finance and Administrative Services, W. Andrew Dunn; Orange Coast College President, Dr. Dennis Harkins; Payroll Systems Supervisor, Daniela Thompson; Coastline College Director of Fiscal Services, Richard Kudlik, and Orange Coast College Vice President of Administrative Services, Dr. Richard Pagel.

3. **Opportunity for Public Comment**

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

4. **Approval of Minutes**

It was moved by Trustee Hornbuckle and seconded by Trustee Moreno to approve the minutes of the Special Meeting of June 19, 2012.

Motion carried with the following vote:

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

5. **Update on State Controller's Audit on Mandated Enrollment Fees**

Ms. Thompson provided an update to the Audit and Budget Committee on the State Controller's Audit on mandated enrollment fees.

Ms. Thompson informed the Committee that the District has reached a settlement with the State Controller's Office and will no longer be conducting the scheduled audit on mandated enrollment fees. She told the Committee members that the settlement was mutually beneficial to both parties, saving both the State and District time and money.

She further shared that the District's consultants advised that Coast take the settlement, given the widespread refusal of claims. According to Ms. Thompson, if the District were to go forward with the audit, there would be a potential for about \$180,000, however the funds are not guaranteed and require a month of auditing; the District received \$133,000. The majority of Districts submitting claims and conducting audits have had their claims denied by 20% to 98%, according to the handout provided by Ms. Thompson. This hand out is available at the Board Office upon request.

Ms. Thompson further shared that there is a new ruling that is being applied to claims filed years prior to its passage, including the claim filed by the District.

Trustee Hornbuckle informed the Committee about a current article regarding the state's desire to reduce fees. Trustee Moreno commented on the prevalence and popularity of audits.

Mr. Dunn shared that there are more options that could be explored in the future, in lieu of filing claims. The state will allow Districts to take \$28 per FTES, which in the District's financial team's opinion, is, the most cost efficient route.

Trustee Hornbuckle asked how they came up with the figure of \$133,000. Mr. Dunn explained that the new method was not used as it was a prior claim, but going forward the District will have the opportunity to employ this method. Trustee Moreno clarified that this option described a Block Grant.

Ms. Thompson informed the Committee that the District could get \$1,000,000 for 12-13 but anything prior to 12-13 would require a claim. Trustee Moreno asked what the District is currently averaging. Ms. Thompson explained that, the District is currently averaging about 11, with the state level being closer to 12-16. Trustee Moreno also asked about compliance and Mr. Dunn answered that we are in compliance. Trustee Hornbuckle and Trustee Moreno commented on the benefits of electing the Block Grant on a yearly basis and agreed that it is a good option. Ms. Thompson and Mr. Dunn shared that this is a favorable situation for both the state and the District.

Ms. Thompson explained to the members of the committee that the California State Controller's Office needs to be notified by September 30th of every year. Trustee Moreno requested that we agendaize this item, per Trustee Hornbuckle's request. Mr. Dunn agreed to place this on a future Board of Trustees Agenda in September. Trustee Hornbuckle and Trustee Moreno discussed the importance of staying current with ACCJC and understanding financial and budget information, and make reference to their yearly training.

6. Presentation 2012-2013 Draft Final Budget

Mr. Dunn informed the Audit and Budget Committee members that there was no current change to report and would focus his presentation on a few key slides to take a more prospective look at the Budget. This presentation is available at the Board Office upon request.

Cash Flow:

Trustee Hornbuckle expressed her concern over the cash flow issue and asked Mr. Dunn to address this item.

Mr. Dunn explained that the State has been deferring a portion of revenue inter year and intra year; close to a billion dollars of community college funding is being deferred from one year to the next. Mr. Dunn further shared that in the last few years CCCD has been able to manage without pulling triggers to short term borrowing and added that the Board has approved a temporary transfer with the County of Orange.

Mr. Dunn informed the Committee that the budget bill was structured such that, some of the community college appropriations are held in trailer bills. He further shared that, around July 1st the State Chancellor approved the advanced apportionment and moved the funding out to the Districts as with the Budget Act, stating only 40% will be disbursed.

Mr. Dunn shared that the tentative Budget was balanced with respect to revenue and expense and is an issue of cash flow. He further informed the Committee that, during the first six months of the year the District will have to draw about \$18,500 thousand from the County.

M. Dunn informed the Committee that property taxes come in two waves: one in December, over 50 million in cash allowing the District to meet cash obligations for the month and to retire the transfer from the county and are expecting two transfer requests to the county. The second disbursement is contingent on the tax measure's approval.

Trustee Moreno asked what the budget takes into account and Mr. Dunn explained that for Budget purposes, they plan with a full 100% disbursement. Trustee Hornbuckle asked if CCCD has a plan in the event that the tax measure fails. Mr. Dunn answered that, since the base cut is 10.7 million dollars, the District is expecting to end the year with a 14.8 million dollar cash balance and if the measure fails CCCD will end the year with 4.1 million dollars. Mr. Dunn explained that this is a cash flow issue and not a budgetary issue. Trustee Hornbuckle elaborated on the importance of having adequate cash flow in the District.

FTES:

Mr. Dunn shared that in year 11-12 the District was funded about 33,000 FTES, with a trigger cut midyear, leading to a base cut in 12-13 and a 1.5 point drop. The challenge, he shared, is that the entire savings are achieved in a decrease in instruction cost. Mr. Dunn added that this year it will be more challenging to meet the 50% law, because if taxes fail CCCD will go into less than 30,000 FTES.

Trustee Moreno asked what the time frame is for the current stabilization plan and Mr. Dunn explained that the stabilization plan is for the length of one year. Trustee Hornbuckle clarified that since fall there has been a reduction of 5.56% and that there will be an additional 2% drop this year if the tax measure fails.

Mr. Dunn shared that, if the taxes pass, there will be some level of restoration funding made available around January 1st, and should see increased funding in the three successive years. If the tax measure fails, the District will not experience a midyear cut because of the rainy day fund set up. Mr. Dunn advised the Committee that if the District has to further reduce, with the failure of the taxes, there is a directive to preserve transfer, vocational education and basic skills courses.

Trustee Moreno asked how the audience responded to the budget presentation at the DBAC meeting. Chancellor Jones shared that some people requested a more simplified version of the more complex budget presentations prepared for executives. Chancellor Jones explained that DBAC will work with constituents to help them understand what the District's financial situation is. Trustee Moreno explained that the purpose of DBAC is to make sure that the public is informed about the District's finances from the District's Financial Officers. Trustee Moreno further explained that there is a need to receive continuous training on financial matters and that the Audit and Budget Committee serves as a source for continuous training and information. He also shared that there is a strong effort at Coast for people to understand financial matters. Dr. Pagel added that the colleges also have budget committees to inform their sites. The District's fund balance has been shrinking to buffer the effects of several bad budget years, asking colleges to assist this dedicated reserve. Mr. Dunn advised that the District should have a rainy

day fund on an ongoing basis. Trustee Hornbuckle shared her concern with having a small reserve.

Budget:

Mr. Dunn walked the Audit and Budget Committee through the different Budget years. Mr. Dunn pointed out that most savings have been coming from the instructional side of the fifty percent law and added that the District will have to look at other ways of reducing costs on the non-instructional side of the fifty percent law. Trustee Moreno asked if the District has to follow contracts in the face of questionable financial trends and asked if there can be a parachute clause, to amend the contract as needed by the budget. Mr. Dunn advised that the District develop contracts where the District shares both rewards and risk. President Moreno suggested that there be a review of the language so that when Coast starts to see fiscal trends that are going to be detrimental to the operation of the District, that there be at least a review and report.

The Committee discussed Prop 13 and State Lottery. Trustee Hornbuckle asked what a healthy amount would be for instructional costs and the fifty percent law. Mr. Dunn replied that instructional costs of 80% to 85% would be ideal. Trustee Hornbuckle asked if it would be helpful to have the Trustees set this up as a goal. Chancellor Jones answered that it would be a great aspirational goal but also cautioned that states that have collective bargaining are usually over 85% as opposed to the right to work states, which are closer to 80%. Trustee Moreno asked how we can accomplish such an aspirational goal. Mr. Dunn answered that the reorganization is very helpful.

Mr. Dunn shared that Dr. Serban is providing meaningful information about the instructional side of the fifty percent law. He advised that this is a multiyear process and should also consider how benefits are offered. Mr. Dunn shared that a healthy number for the fifty percent law would be larger than the 50.14%, which is where the District is currently at. Trustee Moreno asked for a column that shows a benchmark for the fifty percent law using the Districts that Coast uses to measure comparisons. The Trustees also asked for comparison on benefits. Trustee Hornbuckle asked that the fifty percent law and f.o.n. come back to the committee in a future meeting.

7. Set Future Meeting Dates

The next meeting of the Audit and Budget Committee will take place on October 30, 2012 at 8:30 a.m. By the next meeting, the District should know more about more about the polling and be able to receive a report from the external auditors.

8. Adjourn

There being no further business, it was moved by Trustee Hornbuckle and seconded by Trustee Moreno that the meeting be adjourned. Trustee Moreno thanked the Committee for the reports provided.

Motion carried with the following vote:

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

Chair Moreno adjourned the meeting 11:17 a.m.

Secretary of the Board of Trustees