COAST COMMUNITY COLLEGE DISTRICT
District Budget Advisory Committee Meeting Summary
District Board of Trustees' Room

August 16, 2012

CALL TO ORDER

Chancellor Andrew Jones called the meeting to order at 3:09 p.m. in the District Board Room and invited introductions, as several new members have joined the Committee for fiscal year 2012-2013.

Committee Members Present:

1. Paula Brady, Confidentials Representative, DIST
2. Andrew Dunn, Vice Chancellor, Finance & Administrative Services, District
3. Ann French, Classified Representative, CCC
4. Pedro Gutierrez, Academic Senate Representative, CCC
5. Dennis Harkins, President, OCC
6. Ann Holliday, representing Dean Mancina, CFE
7. Andrew Jones, Chancellor, District
8. Judi Lagerlof, Classified Representative, OCC
9. Christine Nguyen, Vice President, Administrative Services, CCC
10. Ann Nicholson, CFCE Designee Representative, OCC
11. Richard Pagel, Vice President, Administrative Services, OCC
12. Joe Poshek, CDMA Representative, OCC
13. Paul Wisner, representing Janet Houlihan, Vice President, Administrative Services, GWC

Committee Members Absent:

1. Lori Adrian, President, CCC
2. Wes Bryan, President, Golden West College, GWC
3. Gregg Carr, Academic Senate Representative, GWC
4. Susana Castellanos-Gaona, Classified Representative, GWC
5. John Dunham, Coast CCA Representative
6. Janet Houlihan, Vice President, Administrative Services, GWC, represented by Paul Wisner
7. Minesh Lakhani, Classified Representative, District
8. Dean Mancina, CFE, represented by Ann Holliday
9. Vesna Marcina, Academic Senate Representative, OCC
10. Robin O'Connor, Faculty Representative, OCC
11. Cameron Smith, Student Representative, GWC
12. Cheryl Stewart, Faculty Representative, CCC
13. Josh Stone, Student Representative, OCC
14. Ronald Watters, Student Representative, CCC
15. Linda York, Faculty Representative, GWC

Guests

1. Bob Fey, CFE
2. Helen Rothgeb, OCC

Final 2012-2013 Budget Presentation
Discussion:

- **Vice Chancellor Andy Dunn** provided highlights of the 2012-13 budget presentation, which was given at the August 15 Board of Trustees' meeting, and will also be presented at the Board's Audit and Budget Committee meeting on August 17. Prior to asking the Board to adopt the 2012-13 final budget at the September 5 Board meeting, the goal is to offer the presentation to as many constituent groups as possible. A copy of the presentation will be made available on the District's website.
- *How the Budget Picture Has Evolved*: Since the Governor's January budget proposal, the state deficit has grown from $9.2 billion to $15.7 billion.
    - If the Governor's tax proposal passes on the November 6 ballot, there could be $50 million in restoration available statewide. This is not an allocation but, rather, growth that must be earned. Coast's earned share would be approximately $1.5 million.
    - If the Governor's tax proposal fails in November, workload reduction would increase from 5.56% in January (an impact of 1,799 FTES to Coast) to 7.30% (an impact of 2,361 FTES to Coast).

  The deficit factor reduced from $5.4 million in January to $3.1 million, leaving Coast with a greater fund balance than previously anticipated. The redevelopment agency fund risk, previously expected to be $10.8 million for 2012-2013 at the time of the May Revise, is no longer a risk factor for this year.
- *Revenue and Expense* Trends: Coast's revenue and expenses are currently trending in line with each other. For 2012-13, $4 million of one-time solutions were used to solve the $5.5 million deficit, and those deficits will re-emerge in the coming years.
- *Multi-year Projections*: Two different scenarios were provided based on the outcome of the Governor's tax proposal on the November ballot.
    - If the Governor's tax proposal passes and based on the following assumptions*, projected net changes to the District's operating budget would be a deficit of $5.3 million in 2012-13; a deficit of $444,000 in 2013-14; $809,000 (positive) in 2014-15; and $4 million (positive) in 2015-16.

      *Assumptions:
        - Four percent new funds (growth) begin to flow in 2013-14
        - $4 million in one-time solutions for 2012-2013 carries forward to 2013-2014
        - "Unfrozen Faculty Obligation Number (FON) base" is restored in 2014-2015 (there will be an expense to hire 30-40 new faculty)
        - Four percent addition to FON base each year 2013-2014 through 2015-2016
    - If the Governor's tax proposal fails in November and based on the following assumptions*, projected net changes to the District's operating budget would be a deficit of $5.3 million in 2012-13; a deficit of $16.2 million in 2013-14; a deficit of $1.5 million in 2014-15; and a deficit of $1.5 million in 2015-16.

      *Assumptions:
        - The "Rainy Day Fund" will delay the impact of the tax failure to 2013-14
        - Use of one-time solutions for 2012-13 carries forward to 2013-14
        - Revenues remain flat through projection period
- *District Health Benefit Program*:
    - There is good news on cost containment resulting from movement to a new Network Contract Payment platform, which expedites payments to health care facilitates within the PPO plan that provides on-going savings, and the renewal of the United Health Care HMO at a very competitive rate. The District's proposed health benefit renewal rate increase for 2012-13 will be .39%, or $155,000, which is considerably less than the 2.4%, or $1 million, anticipated at the time of the tentative budget. The renewal rate increase does not cover the administrative cost of running the program or retiree health benefit liability payments. The actual health benefit cost per employee per year for

    2011-12 was $14,360; for 2012-13, the adopted budget allocation is $14,500 per employee.
  - Cost pressures mounting, however, can be found in the continuing efforts between management and collective bargaining units to agree upon structural health plan changes, a significantly higher loss ratio of 98% with United Health Care (industry standard is mid-70%), industry-trend increases of 10-11% for PPO plans, and historic volatility in Kaiser renewal rates.
- *Multi-year FTES Trend*: Two different scenarios were provided based on the outcome of the Governor's tax proposal on the November ballot.
  - If the Governor's tax measure passes, the District's decision to go into budget stabilization for 2012-13 will result in 30,559 FTES (5.56% workload reduction); then based on four percent growth, base FTES is projected at 33,652 for 2013-14; 34,999 for 2014-15; and 36,398 for 2015-16.
  - If the Governor's tax measure fails, 2012-13 FTES is projected at 29,996 (7.3% workload reduction), which would be the first time the District has fallen below 30,000 in a very long time, and would continue to remain flat for years.
- *50% Law Trend*: The District has been within ½ point of compliance for the last few years and monitors this target very carefully. For 2010-11, we were at 50.62%; for 2011-12, 50.14%.
- *District Cash Flow Projections for 2012-13*:
  - Assuming passage of the Governor's tax measure, the District's cash will go negative in September 2012 and we will draw cash from the County. In December 2012, the District will receive $52 million cash from property taxes and can retire the first draw from the County. Cash flow will go negative again in February 2013, resulting in another draw from the County, with the second property tax disbursement to arrive at the District in April 2013, permitting payment of the second draw to the County at the end of the 2012-13 fiscal year. The adjusted ending balance is projected to be $14.8 million in June 2013.
  - If the Governor's tax measure fails, the District's adjusted ending balance is projected to be $4 million in June 2013, and we would have to borrow funds.
- *Salaries and Benefits Percentage of Total Expenditures*: Since 2009-10, the percentage of total expenditures spent on salary and benefits has been decreasing, in large part due to fewer staff, both instructional and non-instructional, resulting from the voluntary separation programs. At a peak of 89.5% in 2009-10, 84.4% has been allocated for 2012-13.
- *Comparison of Fund Balances*: The District's beginning fund balance was $19.1 million in 2006-07; $28.7 million in 2007-08; $23.6 million in 2008-09; $21 million in 2009-10; $19.6 million in 2010-11; and $23.4 million in 2011-12.
- *District's Rainy Day Fund*: As of August 2012, there is a balance of $5.9 million in the Rainy Day fund. Additional one-time funds are needed in the amount of $11.9 million (contractual carry-overs, Education Services grant development, separation program payouts; since there are no opponents running against District Trustees this year, there will be no Trustee election costs). This will leave a deficit in the Rainy Day fund of $6 million. To make up the deficit, $3.8 million will be garnered by redirecting retiree benefits and current year health benefit savings, leaving $2.2 million to be contributed by the colleges, in the following percentages: OCC – 52.11%; GWC – 30.51%; CCC – 17.38%.
- *Important Calendar Dates*: The 2012-13 final budget will be presented to the Board of Trustees for adoption on September 5. The Governor's tax measure will be voted upon on Election Day, November 6. Trigger reductions will be implemented on January 1, 2013, if revenue targets are not met. California State Controller **John Chiang** has indicated that tax collections are $475 million below target.
- *Looming Risks*:
  - Tax Measure – are voters willing to pass? Will it be the Governor's measure, or the competing Munger tax measure? One could cancel the other.
  - Revenues are highly variable, with or without tax measure

- Workload reduction of 7.3% will be decided in November
- Mid-year trigger unfolds January 1, 2013
- Cash flow – only 40% of apportionment revenue is available through November
- Student fee shortfall – there will be an increase in Board of Governors' waivers as fees rise to $46/unit
- Enrollment decline possible in some districts, particularly rural colleges with a proposal to triple neighboring state student fees to $138/unit

Our Iceberg Is Melting, Prologue
Discussion:

- **Chancellor Jones** reported that the Chancellor's Cabinet held a 1 ½-day retreat in the Board Room recently, and used the book <u>Our Iceberg Is Melting: Changing and Succeeding Under Any Conditions</u>, which is a fable written by **John Kotter**, Harvard Business School, as a means to introduce the message of acknowledging the need for change, the fear of change, and how to motivate action in response to needed change. **Dr. Jones** recommended everyone read the book, which is an enjoyable, quick read containing lifelong lessons.
- **Dr. Jones** delivered a presentation containing the eight-step process for leading change, as outlined by **Professor Kotter**:
  - Step 1: Establish a Sense of Urgency
  - Step 2: Create the Guiding Coalition
  - Step 3: Develop a Change Vision
  - Step 4: Communicate the Vision for Buy-in
  - Step 5: Empower Broad-based Action
  - Step 6: Generate Short-term Wins
  - Step 7: Never Let Up
  - Step 8: Incorporate Changes into the Culture
- As part of the Chancellor's Cabinet retreat, facilitator **Andrea Saveri**, education strategist and futurist from the Institute for the Study of Knowledge Management in Education, introduced a four-step Action Collab Process:
  - Step 1: Identify the Opportunity (Gather ideas) – What are the research insights?
  - Step 2: Design (Imagine) – What could it be?
  - Step 3: Prototype (Model) – How could it work?
  - Step 4: Scale & Spread (Plan) – How is it realized?

  Utilizing the Action Collab Process, **Ms. Saveri** led the group in an exercise that focused on student retention and completion, duplication elimination, and a visible, integrative, student-driven plan.
- **Dr. Jones** advised that the Action Collab Process will be shared with other constituent groups and asked that all constituents share this process with additional colleagues. If the Governor's tax measure does not pass in November, this process will be used to talk about what we need to do. It will also be shared as part of the Chancellor's Listening Tours in the fall.
- **Dr. Jones** closed by thanking members for what they have done, what they are doing, and what they are going to do.

Mark Your Calendar – September 11, 2012, 3:30 p.m., District Board Room

- **Andy Dunn** informed that there will be a joint meeting of the members of the District Budget Advisory Committee and District Health Benefits Committee on September 11 at 3:30 p.m. in the District Board Room to present updated information from the recent actuarial study of the retiree health benefit fund, which is required every two years. **Geoff Kischuk**, actuary, will lead the meeting, which is open for all staff to attend.

Other

- **Richard Pagel** noted that accreditation standards for finance changed recently and addresses the relationship between the colleges and the District. He suggested using DBAC as a vehicle for information to flow from the colleges to the District, strengthening the link between strategic planning and resource allocation. **Andrew Jones** suggested developing a template for consistency among the colleges, and **Dr. Pagel** offered to provide a document used at Orange Coast College.

2012-2013 Meeting Dates

November 8, 2012
November 29, 2012
January 17, 2013 (Governor's Budget Proposal)
March 14, 2013
May 16, 2013 (May Revise)
June 13, 2013 (Tentative Budget)
August 15, 2013 (Final Budget)

NEXT MEETING DATE:

The next meeting will be held November 8, 2012, at 3:00 p.m. in the District Board Room.

The meeting adjourned at 4:10 p.m.

Recorded by Nancy Sprague