

**Minutes of the Study Session of the Board of Trustees
San Mateo County Community College District
July 8, 2009
San Mateo, CA**

The meeting was called to order at 6:05 p.m.

Board Members Present: President Karen Schwarz, Vice President-Clerk Patricia Miljanich, Trustees Helen Hausman, Richard Holober and Dave Mandelkern, and Student Trustee Virginia Medrano Rosales

Others Present: Chancellor Ron Galatolo, Executive Vice Chancellor Jim Keller, Skyline College President Victoria Morrow, College of San Mateo President Michael Claire, and Cañada College President Tom Mohr

Pledge of Allegiance

DISCUSSION OF THE ORDER OF THE AGENDA

President Schwarz said there was a request to remove item 09-7-100B, Update and Recommendation on Cañada Vista Construction and Subcontractors, from the agenda; this item will be brought to the Board at a future meeting.

President Mohr introduced two new Vice Presidents at Cañada College: Peter Barbatis, Vice President, Student Services and Sarah Perkins, Vice President, Instruction.

MINUTES

It was moved by Vice President Miljanich and seconded by Trustee Hausman to approve the minutes of the June 24, 2009 meeting of the Board. The motion carried, all members voting "Aye."

STATEMENTS FROM THE PUBLIC ON NON-AGENDA ITEMS

None

NEW BUSINESS

APPROVAL OF PERSONNEL ACTIONS: CHANGES IN ASSIGNMENT, COMPENSATION, PLACEMENT, LEAVES, STAFF ALLOCATIONS AND CLASSIFICATION OF ACADEMIC AND CLASSIFIED PERSONNEL (09-7-1A)

It was moved by Trustee Hausman and seconded by Vice President Miljanich to approve the actions in Board Report No. 09-7-1A. The motion carried, all members voting "Aye."

APPROVAL OF REVISION TO MISCELLANEOUS PAY RATES SALARY SCHEDULE (09-7-2A)

It was moved by Trustee Holober and seconded by Vice President Miljanich to approve the revised pay schedule as detailed in the report. Trustee Mandelkern noted that lifeguard positions are listed but there are no pools open. Vice Chancellor Harry Joel said that positions may be listed even if they are not filled. After this discussion, the motion carried, all members voting "Aye."

STUDY SESSION

UPDATE ON BUDGET (09-7-1C)

Chief Financial Officer Kathy Blackwood distributed copies of her presentation; a copy is attached to the official minutes of record. Discussion points included the status of the State and District budgets, FTES, basic aid status, cash flow, and expectations for 2010-2011 and beyond.

2008-09: CFO Blackwood said there is a 1.5% deficit factor in the State budget due to shortfalls in property taxes and fee and base allocations; the District's share is \$1,626,633. In addition, the District must cover the approximately \$4 million loss in the general fund from the collapse of Lehman Brothers. Because the District anticipated the deficit, the anticipated revenues are close to the budgeted amount, with a revenue shortfall of just \$338,000. The District's actual expenses, including carryovers, were \$1,566,000 less than the budgeted expenses, resulting in a net savings of \$1,228,000 after subtracting the revenue shortfall. This amount will be carried forward to help with the 2009-10 budget. CFO Blackwood emphasized that the 2008-09 numbers are not final because the District has not closed the books and the State may still make adjustments.

Trustee Holober asked why there is a net savings when expenses were greater than revenue. CFO Blackwood said it is because the money in the reserves which was set aside for carryovers was over and above the amount of the actual carryover expenses. Trustee Mandelkern asked the status of the 5% which must remain in the reserves. CFO Blackwood said the total amount in the reserves will be slightly higher next year. Trustee Mandelkern asked about the "rainy day fund" discussed by the Board at an earlier meeting; CFO Blackwood said it has not yet been possible to start the fund.

2009-10: CFO Blackwood reviewed current assumptions for the District which include a State apportionment cut of \$4,164,000; categorical cuts of \$5,000,000 with a potential, one-time backfill of \$1,300,000 from federal stimulus funds; and the likelihood of unallocated budget cuts of \$1,606,500. Programs that will be affected include Career/Technical Education, Instructional Equipment and Library Materials which will be cut 100%. There will also be cuts to Economic Development, EOPS, CARE, and Apprenticeship Programs, among others. Trustee Mandelkern said he has read that while the State is cutting funding for categoricals, it is also allowing flexibility to reallocate funds locally. CFO Blackwood said there is a proposal for some flexibility but the reallocation would have to be between like programs such as EOPS, CARE and Basic Skills. Chancellor Galatolo said that current language also provides for shifting between categoricals. Trustee Holober asked if funds from the unrestricted general fund are used to augment categoricals. CFO Blackwood said most programs have a specified match which is required by statute. If the funding decreases, the amount of the match also decreases.

Chancellor Galatolo said he will talk at length with President Claire about the apprenticeship programs, which the District no longer has the luxury to subsidize. He also said the District might be forced to use bond money for instructional equipment and for scheduled and deferred maintenance and repairs. Chancellor Galatolo noted that part-time faculty compensation, health insurance and office hours have been negotiated on the salary schedule; categorical funding for these items is now being cut but the expense is still on the schedule. He said that the District has to consider how to negotiate in the future because it cannot rely on the State to fulfill its obligations to local agencies.

FTES: CFO Blackwood said legislation provides that if a District knows in advance that it will have a deficit, it can continue to receive its current amount of funding per student, but it must lower its cap. The District will have to reduce its workload by 4.3%. For 2008-09, the District is borrowing 88 FTES from next year in order to get to the anticipated maximum number for which funding will be provided. The 4.3% workload reduction, along with optimal enrollment management, results in 431 unfunded FTES for 2009-10. Trustee Holober asked if putting those students into larger classes would eliminate the added cost of the unfunded FTES; CFO Blackwood said it would. Chancellor Galatolo pointed out that if student fees are increased, there will likely be a drop in enrollments which could eliminate the unfunded FTES. CFO Blackwood said the assumption is that there will be funding for 1% growth in 2010-11 and there would be no unfunded FTES.

Basic Aid Status: CFO Blackwood reviewed how basic aid vs. revenue limit status is determined and said the District is once again close to becoming a basic aid district. Calculations for 2009-10 show approximate apportionment revenue of \$101,931,000 and local funding of \$101,495,000, leaving the District \$436,000 above basic aid. CFO Blackwood described the factors which will influence whether the District is more or less likely to become a basic aid district. The first property tax reports are due at the end of December and the first period State revenue information is sent at the end of February; it will be at this time that the District's status can be

determined. Chancellor Galatolo said one of the most important factors that would prevent basic aid status is if the State takes away local property tax revenue. He said that AB 551, which would have allowed the State to take away 25% of local property taxes, is dead but could be resurrected. Trustee Miljanich asked if a District can go in and out of basic aid status. CFO Blackwood said it can and new calculations are done every year.

Trustee Mandelkern asked what would change in terms of budgeting and operations if the District becomes basic aid. CFO Blackwood said there are cash flow issues and differences in the way enrollment is managed. In the past, enrollment was managed to maximize revenue whereas in a basic aid district it would be managed for other reasons, one of which is to minimize expenses. Chancellor Galatolo said the District would look at other ways of generating marginal revenue outside of traditional means, such as increasing international students and community and contract education. For example, increasing FTES by 2,000 through international education would generate marginal revenue; increasing FTES by 2,000 on a revenue limit basis would generate marginal revenue only to the extent it is funded by growth and, if the District is at cap, no revenue would be received. Chancellor Galatolo said the risk is that the State could change its way of funding and the District would be left with a model that no longer works. Therefore, if a district is only a few percentage points above basic aid, it should operate as if it is a revenue limit district in case the State makes adjustments. Trustees Holober and Mandelkern agreed that even if the District achieves basic aid status, it would be smart to budget as if it were revenue limit until it is comfortably above the limit. Chancellor Galatolo said that, overall, becoming basic aid is favorable because historically the funding from the State is below what the current local assessed valuation is.

Cash Flow: CFO Blackwood said the State continues to use deferrals, thereby using schools as a bank. For 2009-10, the District is borrowing \$30 million in Tax and Revenue Anticipation Notes, the largest amount ever, in order deal with the cash flow problem. Basic aid status affects cash flow; if a district is not basic aid, the County deducts the full amount of the triple flip deficit from the December payment which resulted in a December payment to the District of only \$1.6 million. If the District were to notify the County that it will be a basic aid district, it would receive half of its \$91 million in December and receive an apportionment. If basic aid status is not achieved, the District would have to pay back the apportionment but it would help with the cash flow problem. Trustee Mandelkern asked if there is speculation on whether the District will receive vouchers from the State rather than cash. CFO Blackwood said at this point K-12 schools and community colleges are supposed to be the first priority to receive funds but that certainty cannot be guaranteed. Executive Vice Chancellor Keller said that if it were to happen, the District has the ability to issue its own registered warrants.

K-12 districts are also affected by basic aid status. Non-basic aid districts receive apportionments assuming that they will also receive property taxes. The State will get notice in December that these districts are not eligible for property taxes and in February the State will acknowledge that it owes the districts money. The State will spread the payments from February through June, creating a cash flow problem for the districts. The districts may be able to jointly issue a Tax and Revenue Anticipation Note or borrow from the County's comingled fund.

Chancellor Galatolo asked CFO Blackwood to explain the effect of Proposition 98 on the budget. CFO Blackwood said that when State revenue falls, the Proposition 98 funding guarantee generally falls as well. In a year like 2008-09, when revenues fall substantially below projections, the budgeted Proposition 98 funds do not fall accordingly. Proposition 1B on the May 19 ballot would have reduced Proposition 98 funding for 2008-09 by \$3.2 billion in order to close the gap, but that bill failed. Because Proposition 98 stipulates that the amount of funding for the current year must be guaranteed for the following year (maintenance of effort), the guarantee for 2009-10 will still not be reduced and will have an impact on the 2009-10 budget and beyond. In addition, rules for federal stimulus money also require maintenance of funding levels for education. Chancellor Galatolo said that the federal administration is looking at states which are high-performing and are generally not impressed with California. He also said that federal stimulus dollars would provide one-time money which would do nothing solve the long-term, structural problems of California's budget.

Trustee Mandelkern asked if Proposition 98 might be suspended. Chancellor Galatolo said it has been in the past and very likely will be again. Trustee Holober noted that this would likely end up in court.

2010-11 and Beyond: CFO Blackwood said the District may go in and out of basic aid status in the coming years. She said mid-year cuts in 2009-10 and further cuts in 2010-11 are expected and the District will need to continue to trim its budget. The Colleges, District Office and Facilities have made cuts of 10% for 2009-10 but this will not be enough. The District will use some of its reserves to balance the budget and the Colleges are using carryover funds, but these are one-time monies. CFO Blackwood said the best scenario is for another 5% in cuts and the worst scenario is for an additional 15% in cuts. Additional rounds of managed hiring may be required. Trustee Mandelkern said that most of the District's expenses are people-related, such as salaries and benefits, and asked if cuts will have to be centered on these areas. Chancellor Galatolo said this is correct.

Chancellor Galatolo asked the Board for patience as the District continues to weave its way through statutes and regulations which are constantly changing. Trustee Hausman said the District is fortunate to have a competent financial staff. Trustee Mandelkern agreed and said that, speaking as an individual Board member, he applauds the use of flexibility and creativity in looking out for the good of the District. Trustee Holober said there is a bill moving quickly through the legislature which would allow vendors who receive IOU's from the State to also make any payments they owe to the State with those IOU's. Trustee Holober suggested asking lawmakers to provide the same opportunity to the education sector in the case of funds being withheld by the State.

Trustee Holober said it is clear there will be no non-cut outcomes and that it is time to inform faculty, staff, students and the general community that the District is not immune and to move into a more public discussion as other districts in the County have done. Trustee Mandelkern said some districts have not managed the process as well and have had to make announcements about items such as March 15 notices and layoffs. He said the District has become somewhat complacent because it has managed the process better, but we are now at a point not experienced before and with no clear solution.

Trustee Holober asked if the District has the ability to announce how many fewer classes will be offered next year and how many fewer students will be served. Chancellor Galatolo said the number is not yet known. He said the District will continue to enroll all students who apply but they might be forced to take fewer units than they would like because the number of offerings and sections will be reduced. President Morrow said students are aware of the problem and that many students report they have been sent to Skyline by San Francisco City College. President Mohr said Cañada's registration is 37% higher than this time last year and the load has jumped dramatically. President Claire said all of the Colleges are ahead of their registration cycles because students are aware of the limited seating. Chancellor Galatolo commended the Colleges for trying to meet demands of students by aligning their schedules with student demand.

Trustee Mandelkern asked how enrollments should be managed to most fairly allocate the scarce resource of classes. Chancellor Galatolo said registration is based on seniority and this might work best in order to keep moving students through, thus opening new slots. Vice Chancellor Jing Luan said there is a list of students who receive priority registration as required by Title 5, although local governing boards have some ability to assign priority for additional groups. Trustee Mandelkern suggested a follow-up report on what the Title 5 requirements are and on the role of governing boards.

President Schwarz suggested that Chancellor Galatolo's remarks on Opening Day be strong and clear about the complicated, serious budget situation. Trustee Mandelkern said it might be helpful to have a speaker at the State level, such as Senator Simitian, who could address the crisis.

President Schwarz said her main concern is to educate District employees. Trustee Miljanich asked the College Presidents for their sense about the awareness by people on the campuses. President Morrow said there has been a barrage of information, including an unusually large number of messages from Chancellor Galatolo, frequent updates from CFO Blackwood, open forums on all of the campuses, College Budget Committees' activities, defunding of classified positions and a job faire. As a result, there is a very high level of awareness that this is a very serious situation and unlike any prior cases. President Mohr said that everything concerning the budget is on Cañada's website. There are weekly messages from his office and notices are automatically sent from the State office. He said there is a high level of awareness and faculty are talking with each other on a continual

basis. President Claire said that in addition to the same functions described by Presidents Morrow and Mohr, CSM has developed a Twitter account which he updates personally each day and which has a growing number of followers. He said there is a high degree of awareness and a certain degree of fear. He said there is a group that may assume they are untouchable and this could present difficulties as cuts must go beyond 10%.

Trustee Miljanich asked for discussion about what might be done to educate the general community. Chancellor Galatolo said the District has been somewhat hesitant to release information because of the uncertainties. He said the District has always been known for delivering credible information and he is reluctant to take away from that trust. Trustee Mandelkern agreed that the District's credibility is very important. He said the uncertainty itself is the story. Without damaging its credibility, the District can deliver the message that it is very difficult to manage the institution in a state of such uncertainty. Chancellor Galatolo agreed and said it could be announced, without giving specific numbers, that the District will be able to serve fewer students and that there will not be enough slots in classes for all students who want to take them.

Trustee Miljanich agreed that the focus should be on the uncertainty and the challenges faced by the District. She suggested that the Board wait until the next meeting to make a decision on the public release of information. Chancellor Galatolo said staff will work on developing a draft and bring it to the Board.

RECESS TO CLOSED SESSION

President Schwarz said that during Closed Session, the Board will hold a conference with the labor negotiator as shown on the printed agenda.

The Board recessed to Closed Session at 8:30 p.m.
The Board reconvened to Open Session at 10:25 p.m.

CLOSED SESSION ACTIONS TAKEN

President Schwarz reported that no actions were taken at the Closed Session just concluded.

ADJOURNMENT

It was moved by Trustee Holoher and seconded by Trustee Hausman to adjourn the meeting. The motion carried, all members voting "Aye."

Submitted by

Ron Galatolo
Secretary

Approved and entered into the proceedings of the July 22, 2009 meeting.



Patricia Miljanich
Vice President-Clerk