District Committee on Budget & Finance
February 29, 2019
District Board Room, 2 – 4 p.m.

Attendees: Bernata Slater, John Burright, Mary Chries Concha Thia, Judy Hutchison, Nick Kapp, Steven Lehigh, Vincent Li, Graciano Mendoza, Martin Partlan, Ludmila Prisecar, Tamarik Rabb, and Jan Roecks

Absent: Eloisa Briones, Tony Burrola, and Pearl Ibeanusi

Guests: Ron Galatolo, Peter Fitzsimmons, and Barbara Lamson

Called to order at 2:04 p.m.

1. 2018-19 Mid-Year Budget Report

Slater introduced the report that was previously emailed to the committee members. The Board of Trustees will receive the report at their next meeting. The report reflects data through December 31, 2018. Slater thanked Mitch Bailey who assisted with finalizing the report and others who contributed to the completion of the report. Slater reminded the committee that the committee reviewed the State News at their last meeting; however, the report highlights this information. The report contains information regarding the community-funded (basic aid) status of the district and projections with regards to assessed valuation. On a daily basis administration is looking at the roll-tracker from the county to monitor assessed valuation. Currently the assessed valuation is at 5.29%. Administration is hopeful that the assessed valuation will increase over the next four months. This fiscal year the district has seen the assessed valuation go up and down, which is unusual. The reason is thought to be perhaps related to appeals. Slater spoke to the regional economy, which is contained within the report. Currently the district is projecting lower property taxes as a result of the lower assessed valuation growth over the prior year. The enrollment trend comparative chart was reviewed. It was noted that enrollment has declined over the past few years - roughly 20% since the district became community–funded in FY2011-12. Work is underway to determine any increased costs for FY2019-20. Slater highlighted the summary of Fund 1 revenues and expenditures. The organization is tracking where it should be six months into the fiscal year (52% revenues and 42% expenditures). Slater talked about the budget transfers to be approved by the Board of Trustees at their next meeting. Slater also talked briefly about the narratives associated with each of the district's funds including Measure H Projects. Of note, there are three projects that are under appeal with the State since the State reversed its approval and subsequently did not fund in the State's proposed FY2019-20 budget. Also included in the report is information pertaining to the auxiliary operations. Kapp asked about the bookstore negative sales year-over-year. Slater confirmed that sales are decreasing and explained this is primarily due to inclusive access and enrollment declines. Kapp asked if someone is assisting the bookstores with this. Slater stated that there are discussions underway to ensure the fiscal solvency of the bookstores. Galatolo interjected by stating that students are using Amazon and inclusive access to lower their costs. Galatolo opined that the bookstores of the future need to be more service-oriented than the bookstores of today. Kapp asked if this is being considered through the Education/Facilities Master Planning processes. Galatolo responded in the affirmative and stated that the bookstore facilities will need to be repurposed as the bookstores continue to move more towards a service-oriented operation. The district may have consider third-party sources as the current model isn't sustainable. The district's other enterprise operations are doing well (e.g., SMAC and CCE). Additionally our online courses and international student program are doing well. Galatolo went on to state that the bookstores will need to retool from a structural perspective. Lehigh inquired if inclusive access was really detrimental as the student is purchasing from the bookstore instead of the publisher. Galatolo responded that inclusive access does impact the bottom line as the margin is much less than the traditional textbook purchase. The Board of Trustees does feel strongly to maintain the bookstore operation in-house; however, the traditional bookstore model is a thing of the past. Slater went on to highlight Fund 8 and spoke to the OPEB liability being fully funded. Slater also spoke briefly about the ASB data. Slater highlighted a summary of the adopted budget and the actuals per fund through December 31, 2018 and advised that Fund 1 is illustrated at the site level. Lastly Slater advised that the appendices of the report contain the CCFS-311 Q2 and the FTES Analysis. Kapp stated that the narratives are really good. Lehigh inquired if the 5.29% property tax assumption is current to which Slater responded in the affirmative and stated that the out years are projected conservatively given this decline from prior years. Slater reminded the committee that assessed valuation does not equal property tax; however, there is a correlation.

2. 2019-20 Preliminary Budget Assumptions

Slater introduced the assumptions to the committee. The assumptions are used for the resource allocation model. The current assumptions are preliminary and will be updated as additional information becomes known. The Resident FTES is based upon the CCFS-320 P1 Report and is projecting a decline in enrollment. Resident FTES informs EPA, Lottery, and some Categorical revenues. Although the district is community-funded, enrollment is still important. Slater noted that out-of-state non-resident FTES is separated from international non-resident FTES. There has been no change assumed for out-of-state non-resident or apprenticeship FTES. Most apprenticeship dollars (approximately $380k) go to CSM. Slater noted that International FTES is projected to decline and that a significant recruitment effort is underway. Slater stated that many institutions are seeing a decline in international students due to geo-political reasons. The cost of living is high in the district so this too is a challenge in recruiting international students. The colleges are preparing their projections which are due this week. Slater reminded the committee that the State COLA is currently 3.46% and that the State's growth assumption is .55%. As a community-funded district, these two assumptions (State COLA and growth) don't really apply. The California CPI is applied to operational expenses until more solid numbers are known. The COLA (Total Compensation) Assumption currently represents the average COLA for all groups driven by the 5.29% Property Tax Assumption after STRS, PERS, and Step/Column assumptions are taken into consideration – in essence what would be left is roughly 2% for COLA across the organization. Slater noted that ultimately COLA for 2019-20 is driven by negotiations. The assumption for lottery is provided by School Services of CA. The assumption for the Mandated Cost Block Grant is provided by the State. The Non-Resident Tuition Rate was adopted by Board of Trustees at their last meeting and the State has not changed the resident tuition rate from prior year. Slater restated that FTES projections and property taxes will be key to monitor and will be updated as more information is known.

3. Two-Year Fund 1 Expenditure History w/ IFT Detail

Slater reviewed the spreadsheet with the committee and advised on how to read the spreadsheet. Slater highlighted the transfer into Fund 4 as that was the primary interest in the requested data. Central Services transferred $0 in 2016-17 and the $6m in FY2017-18 was for CRM. Lehigh confirmed that this is earmarked for CRM to which Slater responded in the affirmative that these funds are set aside in Fund 4 for the CRM with the advisement that salaries would be paid from Fund 1 and technology could be either Fund 1 or Fund 4 depending on capitalization rules. Lehigh asked if there is a fund within Fund 4 that captures set-asides. Slater responded that there are many funds within Fund 4. The District Office transferred $1.3m in FY2016-17 and another $2.5m in FY2017-18 from salary savings associated with staff currently assigned to Measure H. They are currently charged to the bond for work associated with the bond. While they are charged to the bond, the District Office is still receiving its site allocation per the resource allocation model formula. The District Office is setting those excess funds aside for when these staff persons begin coming back to Fund 1 as the bond sunsets on a phased approach which is beginning in FY2019-20. Lehigh asked if these funds will transfer back to Fund 1 from Fund 4. Slater responded in the affirmative. Lehigh then asked why the District Office doesn't just keep the funds in Fund 1 instead of the transfers in and out. Slater acknowledged that that was a good question and the practice is worth investigating. It has been the organization's practice that one-time funds move out of Fund 1 and moved back into Fund 1 as needed. With regards to the transfers at Skyline College, Hutchinson stated that they were done with the intent of setting aside funds for small capital projects that Facilities cannot provide funding as well as for instructional equipment. Lehigh asked as to the location of the campus contingency. Hutchins responded that the college has different funds including set - asides in Fund 1. Slater interjected that all colleges and the district have contingencies and that this is a sound business practice and provide an example (e.g., the State not funding three capital projects, which are currently under appeal). The district has a $1b in capital needs with a $300m bond so there are great needs across the organization. There is a constant need for one-time funds which these transfers are intended to assist meeting these needs. Lehigh asked if there is a number on the escalation costs associated with the capital projects. Slater stated that we can work with Facilities to bring the information back to the committee. Mendoza stated that Canada College transferred $800k from their ending fund balance for contingencies and $700k from additional revenue for instructional equipment needs in 2016-17. In 2017-18 the college did the same in the amounts of $800k and $300K, respectively. Roecks stated that the spreadsheet is for two-years and if one was to go back several years CSM was in a negative situation. As the International Student Program grew the college had a positive ending balance allowing the transfers to Fund 4. $3m included innovation funds and CSM will likely be using these funds for the promise, spark point, and other programs that are coming to fruition. Additionally these funds will be used for instructional equipment for the next four to five years. Roecks also mentioned that the college will be paying for new furniture in the BayView Dining Hall. The college may also use some of these funds to support categorical programs when costs exceed the revenues provided by the State. Prisecar stated that the purpose of the transfers is also about smoothing funding needs and noted that these are one-time funds. Slater spoke to the volatility surrounding international enrollments and associated revenues which CSM is particularly dependent upon. Lehigh asked it the district was taking instructional equipment funds away from the colleges. Slater responded that the State funds instructional equipment; however, the level of funding ebbs and flows each year and can be also be used for scheduled maintenance. These dollars have a timeline to be spent. Lehigh asked if the district has extra funds, why the district isn’t backfilling the State shortfall for instructional equipment. Slater responded that funding priorities are made organizationally and cannot fund every need. For example, CRM was an organizational priority and the organization is currently in the process of identifying funding for this initiative. Lehigh stated that millions have been transferred to Fund 4 and opined that the district could redirect $2 million of the $8m from the OPEB Fund to the colleges to meet their needs. Prisecar reminded the committee that there are multiple funds from multiple sources with differing expiration dates. These expiration dates oftentimes cause the swapping of funds to ensure that the funds are spent before the expiration date (e.g., who can spend the fastest). She agreed that it is a district-wide conversation. Lehigh opined that the colleges have needs and it seems that the district isn't adding to the college allocations to meet these needs. Roecks stated that large capital projects are typically funded with district resources that benefit the colleges. Slater reminded the committee that there is only so much resource to meet many competing needs, which isn’t always easy to manage. The district and the colleges are in constant communication about needs and resource availability. Lehigh asked for an estimate of the contingencies at each college.

4. Seven-Year FTE Data

Slater introduced the data and explained to the committee how to read the data and some of the reasons for increases (e.g., public safety, square footage, categorical/grant resources, etc.). Roecks inquired if this information was available at the site/college level. Slater stated that this may be difficult to attain. Concha Thia stated that she was able to go back only three years. Slater stated that the district will attempt to break the information down to the site level and will forward the source document for 2018-19 to which Roecks replied would be helpful. Slater confirmed that the FTE are budgeted FTE including vacancies at the time of budget adoption.

5. Future Agenda Items

None requested other than those noted above.

6. Public Comment

Slater welcomed the opportunity to meet with any member individually to discuss any of their questions in-depth.

7. Next Meeting: March 19, 2019

Meeting adjourned at 3:29 p.m.