

**Minutes of the Study Session of the Board of Trustees  
San Mateo County Community College District  
October 14, 2015, San Mateo, CA**

**The meeting was called to order at 6:00 p.m.**

**Board Members Present:** President Patricia Miljanich, Vice President Dave Mandelkern, Trustees Richard Holober, Tom Mohr and Karen Schwarz, Student Trustee Rupinder Bajwa

**Others Present:** Executive Vice Chancellor Kathy Blackwood, College of San Mateo President Michael Claire, District Academic Senate President Diana Bennett

**Pledge of Allegiance**

**DISCUSSION OF THE ORDER OF THE AGENDA**

None

President Miljanich distributed copies of a letter to the editor regarding campus security at the District Colleges which appeared in the San Mateo Daily Journal. She also distributed copies of the District's response to the letter. President Miljanich said the letter writer seemed to suggest that the District has taken overt action to decrease security and she believes it is important to make members of the public aware that this is not the case.

**MINUTES**

It was moved by Trustee Holober and seconded by Trustee Mohr to approve the minutes of the Board meeting of September 30, 2015. Vice President Mandelkern asked that the minutes be amended to state that he suggested that the Strategic Plan (rather than the SWOT Analysis) address the remediation of anticipated retirement of a number of key employees and the competitive dynamic with for-profit colleges. The motion to approve the minutes as amended carried, all members voting Aye.

**STATEMENTS FROM THE PUBLIC ON NON-AGENDA ITEMS**

None

**NEW BUSINESS**

**APPROVAL OF PERSONNEL ITEMS: CHANGES IN ASSIGNMENT, COMPENSATION, PLACEMENT, LEAVES, STAFF ALLOCATIONS AND CLASSIFICATION OF ACADEMIC AND CLASSIFIED PERSONNEL (15-10-1A)**

It was moved by Trustee Holober and seconded by Vice President Mandelkern to approve the actions in Board Report No. 15-10-1A. The motion carried, all members voting Aye.

**STUDY SESSION**

**MEDICAL AND OTHER DISCRETIONARY EMPLOYEE BENEFITS (15-10-1C)**

Eugene Whitlock, Vice Chancellor of Human Resources and Employee Relations, introduced David Feune, Interim Director of Human Resources and Anahi Aguilar, Human Resources Representative, who will help present the report. Vice Chancellor Whitlock discussed eligibility requirements for benefits for faculty (including part-time faculty), classified employees, administrators, and retirees. He described benefits offered by the District, which include ten different medical plans offered through CalPERS; dental, vision, life and disability insurance and an employee assistance program; a flexible spending account; and commuter benefits. Vice Chancellor Whitlock said information on benefits is provided to employees through the Employee Benefit Handbook and the annual Open Enrollment Fair.

Ms. Aguilar said medical, dental, vision, 403(b) and 457, and CalSTRS/CalPERS representatives were present at the recent Open Enrollment Fair, along with representatives from a credit union and the San Mateo Athletic Club. More than 150 employees and retirees attended. Ms. Aguilar said the District is focusing on wellness.

Vice Chancellor Whitlock discussed the various medical plans available, along with the premiums for each plan. He said the District does not have a say in the cost for premiums but is involved in determining how much the District contributes toward the premiums. The cost to the District has accelerated more rapidly than the growth in the number of employees. The average out-of-pocket costs to employees has remained relatively constant because the District has covered most of the premium increases. The number of retirees and the benefit costs for retirees have both remained relatively flat.

Vice Chancellor Whitlock discussed basic life insurance, supplemental life insurance and disability insurance benefits, as well as flexible spending accounts. He said that only 9.4% of employees participate in flexible spending accounts, by which employees can set aside pre-tax dollars for many health care expenses as well as child care or elder care.

Vice Chancellor Whitlock said the Claremont Employee Assistance Program offers full-time employees many services free-of-charge, including counseling sessions and assistance with financial and legal issues. He said the District actively promotes the Employee Assistance Program and encourages managers to refer employees to the program.

Mr. Feune discussed the Affordable Care Act (ACA) compliance. He said the ACA requires employers with more than 50 employees to offer affordable health insurance to their full-time employees and children up to age 26. Employees who work at least 30 hours per week are considered full-time employees and can include part-time faculty, short-term temps and student assistants. The District is tracking hours to identify all full-time employees.

Mr. Feune said there are two penalties to avoid in 2016 and beyond:

1. Minimum Essential Coverage (MEC) must be offered to 70% of full-time employees in 2016 and to 95% of full-time employees after 2016. The penalty for not offering MEC is \$2,000 for each full-time employee (reduced by 30 employees). Currently, the District offers coverage to at least 95% of full-time employees.
2. Affordable coverage – the employee cost for the least expensive single coverage plan must not exceed 9.5% of household income. The penalty for not offering affordable coverage is \$3,000 for each full-time employee who purchases coverage through Health Exchange coverage and receives a subsidy.

Mr. Feune said the “Cadillac Tax” is a tax on high cost plans and will come into force in 2018. He said the tax is a 40% nondeductible tax charged on the excess plan cost over threshold amounts set by the government, currently \$10,200 for single coverage and \$27,500 for two-party and family coverage. The tax is based on the total cost of medical plan coverage (employer plus employee). It applies to medical plans and flexible spending accounts. President Miljanich asked if the District will be responsible for paying the tax. Mr. Feune said the excess tax for a high cost medical plan will be charged to the insurer, such as Kaiser. He said the CalPERS plans will most likely be subject to the tax if they do not change by 2018. Mr. Feune said the excess tax for a flexible spending account will be charged to the plan administrator which is the District. He said it is not clear how the tax on the excess amount will be calculated, i.e. whether the IRS will consider flexible spending accounts first and then health insurance or whether it will be the other around.

Vice Chancellor Whitlock said future considerations include:

- Examining alternatives to CalPERS if the Cadillac Tax burden is passed on to the District
- Offering cash in lieu of medical benefits
- Transitioning part-time faculty to an enrollment based plan instead of the current reimbursement model
- Making available voluntary benefits (offered by a third party) such as pet insurance, critical illness insurance, long-term care and prepaid legal

President Miljanich asked if it is problematic when employees decline to participate in plans that are offered. Mr. Feune said the District’s only obligation is to offer affordable health insurance to full-time employees and there are no penalties if employees do not opt to participate. Trustee Mohr asked if employers are required to pay some cost for the plans that are offered. Mr. Feune said the District must make coverage available to employees but is not required to share in the cost. He said the coverage offered must be affordable as defined above (the employee cost for the least expensive single coverage plan must not exceed 9.5% of household income for an employee who purchases coverage through Health Exchange coverage and receives a subsidy). If the State determines that the coverage offered to an employee who meets the definition was not affordable, the penalty would be \$3,000 for that individual only. Executive Vice Chancellor Blackwood said this issue could apply to part-time faculty. She said it is difficult to determine household income because the District has no way of knowing what they earn through other employment or whether there is income through other household members. She said staff anticipates very little, if any, penalty because an employee would have to have a very low income in order

to qualify for a subsidy. Vice Chancellor Whitlock added that coverage must be offered only to full-time employees, i.e. those who work 30 or more hours per week over the course of the entire year.

Vice President Mandelkern asked if consideration is being given to offering a high deductible plan with a flexible spending account. Vice Chancellor Whitlock said that as long as the District is with CalPERS, it is not allowed to offer any plans on its own. He said CalPERS has long indicated that they are considering offering this type of plan and may finally be forced to do so because of concerns about the Cadillac Tax.

Vice President Mandelkern, noting that all full-time employees must be reported to the IRS by March 31, 2016, asked if staff is successfully collecting data from Payroll and the health providers. Mr. Feune said staff is working with ITS to update screens in Banner to capture the information.

Student Trustee Bajwa asked how student employees fit into the requirements. Vice Chancellor Whitlock said student assistants would become eligible for affordable coverage if they worked 30 or more hours per week over the course of a year. However, Board policy stipulates that student assistants generally may work up to a maximum of twenty (20) hours per week while classes or finals are in session.

### **A DISCUSSION OF LIABILITIES (15-10-2C)**

Executive Vice Chancellor Blackwood said actuarial studies for Workers Compensation, for which the District is self-insured, and post-retirement medical benefits were included in the written board report. Regarding PERS and STRS pensions, she said the rates for both are projected to increase significantly over the next several years and she anticipates that these increases will cost the District at least \$9 million annually by 2021. In addition, GASB 68 now requires the District to record its share of the Statewide total liabilities for CalPERS and CalSTRS benefits. The District's share is approximately \$60 million for CalSTRS and \$40 million for CalPERS; therefore, the 2014/15 financial statements will show \$100 million in liability that was not recorded in the previous year. Executive Vice Chancellor Blackwood said the bond rating agencies understand that this is simply a book entry and have said they will not downgrade the District's rating.

Trustee Mohr said the board report indicates that, with the balances in the OPEB Trust and Post Retirement Reserve, the District has funded 73% of its anticipated liabilities. He asked what the goal is in terms of funding the liabilities. Executive Vice Chancellor Blackwood said the District started setting aside funds for other post-employment benefits (OPEB) in 1991. The District has been placing some of the funds each year into an irrevocable trust since it was established in 2009. In addition, the District is charging itself a percentage of salaries, placing the money into the District reserves, and transferring it to the trust. Executive Vice Chancellor Blackwood said the money in the trust earns more than it would in the County Pool. She said that in any year in which there is a problem, the District could choose not to put money into the trust or could use the money in the trust to pay that year's retirement premium rather than paying it from the general fund. She said that at some point the District might choose to routinely pay part or all of the retiree premium from the trust while continuing to charge a percentage of salaries to place in the trust. Executive Vice Chancellor Blackwood said she is not sure when the time will be right to start paying premiums from the trust but said it is not the time to do so presently. Trustee Holober said he hopes restraint will be shown about using any funds from the trust until such time that there is enough money in the trust to routinely use the funds for premium payment.

Vice President Mandelkern said that, while the theoretical goal is to fund 100% of liability, it is unlikely that the District will actually have 100% liability because not all employees spend their entire careers with District; for example, some will leave before they vest retirement benefits. He said the key question is at what percentage – between the current 73% and the theoretical 100% – would the District feel comfortable that it has covered the actual liability. Executive Vice Chancellor Blackwood said she would want to consult with the actuary to examine data and get a sense of trends for the District. She said the number of retirees is remaining relatively stable; however, there is a fairly large number of employees who are eligible for retirement. Vice President Mandelkern said the other important question is whether the 5% of payroll that the District is charging is a sufficient amount to cover future costs for current employees. Executive Vice Chancellor Blackwood said the percentage is adjusted every two years based on the actuarial study.

Trustee Mohr said the actuarial report for Workers Compensation states that the funding margin should be sufficient to bring the funding to a 75% to 85% confidence level; he asked if the District meets this recommendation. Executive Vice Chancellor Blackwood said it does. Trustee Mohr said Workers Compensation claims have leveled off in recent years and asked if a reason is known. Executive Vice Chancellor Blackwood said a major reason is that staff, particularly in the Facilities Department, work very hard on safety. She also said that in years where morale is low, there are typically more

claims filed; therefore, she believes that the good relations the District maintains with employees plays a role, as well as the District's success in not laying off or terminating employees.

Trustee Holober asked if a study has been done on self-insurance vs. the Workers Compensation fund. Executive Vice Chancellor Blackwood said a separate analysis has not been completed since the decision to become self-insured was made but she believes it is advantageous for the District to continue to be self-insured.

**OTHER PENSION EMPLOYEE BENEFITS (OPEB) TRUST (15-10-3C)**

Executive Vice Chancellor Blackwood introduced Cary Allison of Morgan Stanley, who is the financial advisor for the District's OPEB Trust. Mr. Allison said the Board requested information on the Retirement Board of Authority (RBOA) investment policy, structure and processes used to manage the OPEB Trust funds to ensure fiscal stewardship. He said Keenan Financial Services was approved by the Board to be the Program Coordinator. The Board, as the Plan Sponsor, adopted a resolution creating the RBOA in 2009. The RBOA uses Benefit Trust Company as a Discretionary Trustee. Morgan Stanley is contracted independently by Benefit Trust Company to provide investment services to them. The RBOA, which meets quarterly, provides ongoing governance of the OPEB Trust. It approves the Investment Policy Statement; reviews portfolio performance and approves disbursements; reviews actuarial reports; and manages/administers compliance milestones and the substantive plan.

Mr. Allison said that Keenan Financial Services, as the Program Coordinator, assisted with the establishment of the OPEB Trust; recommended Benefit Trust Company to be the Discretionary Trustee; maintains the substantive plan and other documents; and provides administrative support to the RBOA. Benefit Trust Company manages the OPEB Trust funds; provides safekeeping of securities; approves portfolio recommendations per the Investment Policy Statement; maintains accurate records of financial transactions; and provides monthly and annual reports to the RBOA. Morgan Stanley, appointed by Benefit Trust Company, performs risk tolerance exercises with the RBOA; recommends asset allocation based on the Investment Policy Statement; screens and recommends investment choices for the portfolio; provides performance reports to the RBOA; and educates the RBOA on market conditions and trends.

Mr. Allison said the investment policy sets investment objectives in accordance with California Government Code. It sets restrictions on equity and fixed income investments. The net target rate of return is 7%. Risk tolerance is a balance between risk attitude and risk capacity. The investment policy conservatively balances the target return objective with the least amount of risk.

Mr. Allison discussed asset allocation, which includes fixed income funds, domestic equity funds and international equity funds. He said investment returns since inception are 5.98% as of September 30, 2015 and the balance of funds is close to \$72 million. At each quarterly meeting, the RBOA is provided information on how the portfolio is performing on an actual basis and on a risk-adjusted basis. Mr. Allison distributed copies of "The GIC Weekly." He said the Global Investment Committee (GIC) was set up by Morgan Stanley as a separate consulting group to provide unbiased advice to fiduciaries. He discussed information in the report, including forecasts for growth, bond yield and inflation in the United States and global markets.

Vice President Mandelkern asked if Benefit Trust Company selected Morgan Stanley as the investment advisor independently, without advice from Keenan, the Board of Trustees or the RBOA. Executive Vice Chancellor Blackwood said the District issued a RFP initially and Morgan Stanley, Benefit Trust and Keenan submitted a joint proposal which was selected. Vice President Mandelkern asked who would make a decision to change investment advisors if Benefit Trust believed that Morgan Stanley's advice was not producing the proper return. Mr. Allison said Benefit Trust has the authority to replace Morgan Stanley.

Vice President Mandelkern said he would be interested in seeing details of the investment policy, particularly given that the target rate is 7% and the actual return is under 6% which he said represents a significant underperformance. He said he would be interested in looking at permitted investments and the flexibility that is allowed, as well as how the balance between fixed income vs. equities was determined and how it changes. It was agreed that Executive Vice Chancellor Blackwood will send the investment policy to Board members individually and they can send comments to her or Chief Financial Officer Raymond Chow. She will also include a link to the portfolio statement. Executive Vice Chancellor Blackwood said the Investment Policy is approved by the RBOA and they will listen to any suggestions for changes.

Vice Chancellor Whitlock, who is a member of the RBOA, said there is not a large appetite for risk on the RBOA and, therefore, he believes the 7% target rate of return is too high. Vice President Mandelkern said it is important to determine

whether the target needs to be adjusted or whether poor investment advice is causing underperformance; he said this can affect decisions on how much money is put into the Trust each year.

Trustee Holober asked for information on the fees for investment advice. Mr. Allison said program fees for Morgan Stanley, Benefit Trust and Keenan are contractual and are approximately 35 basis points.

Trustee Mohr asked how the risk tolerance balance between attitude and capacity would be affected if the rate of return was increased to the target of 7%. Mr. Allison said there are diminishing returns, i.e. there is proportionately more risk to get an extra percent of return.

Vice President Mandelkern asked what responsibility the Board has with regard to the OPEB Trust. Executive Vice Chancellor Blackwood said the Board has the responsibility of determining how much money gets put into the Trust.

#### **STATEMENTS FROM BOARD MEMBERS**

Trustee Schwarz complimented Cañada College for hosting a Town Hall Meeting on Education with State Senator Jerry Hill, State Superintendent of Public Instruction Tom Torlakson and the San Mateo County and San Clara County Superintendents of Schools. She noted that Vice President Mandelkern made introductions. Vice President Mandelkern said the meeting was informative. He complimented Gregory Anderson, Vice President of Instruction at Cañada College, stating that he represented the College very well.

Trustee Mohr said he will attend the Association of Community College Trustees Leadership Congress in San Diego. He said Dr. Janet Napolitano, President of the University of California, will be a keynote speaker. Trustee Mohr said the Housing Leadership Council of San Mateo County will host a Housing Leadership Day on October 23. Topics will include the use of public land to help solve the housing crisis in the County. Barbara Christensen, Director of Community/Government Relations, will serve on a panel. Vice President Mandelkern said the District's housing projects – Cañada Vista and College Vista – have been cited with high regard by the San Mateo Union High School District, the City of South San Francisco and the South San Francisco School Board, and Congresswoman Jackie Speier. Vice President Mandelkern complimented Ms. Christensen on a job well done. Ms. Christensen said she has also been contacted by the City of Menlo Park and the Menlo Park School District, and the Pacifica and Jefferson School Districts.

#### **RECESS TO CLOSED SESSION**

President Miljanich said that during Closed Session, the Board will discuss the personnel item listed on the printed agenda. The Board will also hold a conference with District labor negotiator Eugene Whitlock; the employee organizations are AFT, CSEA and AFSCME.

The Board recessed to Closed Session at 7:50 p.m. and reconvened to Open Session at 9:15 p.m.

#### **CLOSED SESSION ACTIONS TAKEN**

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

#### **ADJOURNMENT**

It was moved by Trustee Mohr and seconded by Vice President Mandelkern to adjourn the meeting. The motion carried, all members voting Aye. The meeting was adjourned at 9:16 p.m.

Submitted by

Ron Galatolo  
Secretary

Approved and entered into the proceedings of the October 28, 2015 meeting.

Dave Mandelkern  
Vice President-Clerk