SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

Cañada College • College of San Mateo • Skyline College

District Committee on Budget & Finance
November 16, 2021

Board Room / Zoom, 1:30 – 3:30 p.m.

Attendees: Eloisa Briones, Diana Castro, Daryan Chan, Mary Chries Concha Thia, Jia Chung, Tania Farjat, Judy Hutchinson, Steven Lehigh, Vincent Li, Micaela Ochoa, Ludmila Prisecar, Bernata Slater, Richard Storti, and Max Wong

Absent: Tony Burolla and Nick Kapp

Guests: Nancy Argarin, Arlene Calibo, Paul Cassidy, Peter Fitzsimmons, Joe Morello, and Chantal Sosa

Called to order at 1:35 p.m.

1. Actuarial Study Update

Slater reminded the committee that annually the District commissions an actuarial study are required. There are two types of studies: full and roll-forward. The two types toggle back and forth every other year as of June 30. The study as of June 30, 2021 was the full study because the prior year's study was the roll-forward, which updates the prior full study with revised net position and costs; however, does not delve into demographics like the full study. Slater reviewed the full study as of June 30, 2021. The Board of Trustees received information related to the study earlier in the year during the budget presentation. The OPEB (other post-employment benefits) actuarial liability = $116,931,609 with assets = $157,188,015. At the point in time (June 30, 2021), the liability was "over-funded" by $40,256,406. Slater emphasized that this is as of a point in time and that actuarial studies use a variety of assumptions (e.g., rate of return on investments, employee demographics, mortality rates, medical cost escalations, etc.) The District plans to begin drawing from the irrevocable trust in FY2022-23 to pay retiree benefits, which is what the trust was the intent of the trust once funded. Slater reviewed the sensitivity analysis as noted below acknowledging that a simple 1% variation from assumptions has a large impact on the funding status:

52.e: <u>NOL using alternative trend assumptions</u> The following table shows the Net OPEB Liability with a healthcare cost trend rate 1% higher and 1% lower than assumed in the valuation.

	Trend 1% Lower	Valuation Trend	Trend 1% Higher
Net OPEB Liability	($53,194,140)	($40,256,406)	($24,404,453)

53.g: The following table shows the Net OPEB liability with a discount rate 1% higher and 1% lower than assumed in the valuation.

	Discount Rate 1% Lower	Valuation Discount Rate	Discount Rate 1% Higher
Net OPEB Liability	($26,657,085)	($40,256,406)	($51,602,017)

Storti agreed that the trust is subject to market sensitivity, health costs, and employee demographics and reinforced that the favorable funding status buttresses against these sensitivities. He asked for the cost of the annual cost of retiree benefits to which Slater responded that the costs are between $7m and $8m. Slater reminded the committee that the District still charges itself 3% of payroll to cover active employees who are eligible for future benefits. Storti asked about the impact to the trust during the onset of the pandemic given market fluctuations at that time to which Slater responded that the latest actuarial liability at the time was $117m and assets in March 2020, prior to the market correction brought on by the pandemic were $135m ($18 million "over-funded"). At the time of the correction, the liability was barely funded.

Concha Thia asked if the District has withdrawn assets from the trust last year to pay retiree benefits. Slater responded that no assets have been withdrawn and reiterated that the plan is to begin using the resources in the trust to pay the retiree benefits effective FY2022-23. Fitzsimmons shared San Jose Evergreen Community Colleges' experience whereby the interest and gains were enough to pay the retiree liability, which preserved the principal in the trust. Storti opined that this is a common strategy: once fully funded, the trust should pay for the retiree benefits with the desire for the return-on-investments to pay the benefit costs; and that the District is in a great position to meet the long-term obligation cautioning against market volatility and future medical costs.

Lehigh asked if the fund balance in Fund 8 (internal fund) is included in the actuarial calculation to which Slater responded that it is not and that the fund balance is not large and is currently paying for the retiree costs. She also advised that there have not been transfers from Fund 8 into the trust for some time now.

2. FY 2020-21 Audit Update

Slater provided a brief update on the status of the annual audit. The District engaged new auditors this year. The new auditors selected through the RFP process are CWDL, who superseded Crowe LLP who provided the audits for the prior five years. It is a good business practice to have "fresh eyes" on the District's financials and programs. CWDL has completed their fieldwork and are preparing the financial statements. At this point, there is one finding – 50% Law Compliance, which is a continued finding from prior years. Slater reminded the committee that there is not a penalty for non-compliance given the District's basic-aid status. Administration is hoping to bring the audit reports to the Board of Trustees in December 2021.

3. FY 2020-21 Fund 1 Actuals by Site

Fitzsimmons reviewed the FY 2020-21 Fund 1 Actuals by Site. He reminded the committee that the document emailed prior to the meeting was at the request of Steve Lehigh and is breaking down the FY 2020-21 Revised Budget and FY 2020-21 Actuals found on Page 49 of the FY 2021-22 Adopted Budget by college, central services, and the district office / facilities.

Slater stated that the reason this level of detail is not readily available via the Adopted Budget Document is due to timing. There is very little time to compile the adopted budget and the budget document between year-end close and statutory deadline. Compiling the budget and the budget document is a time-consuming exercise, which is why this level of detail is provided later. She stated that the business offices have the ability to run the details as well. Slater went on to remind the committee that central services records most of the revenues and that expenses include resources contained within the resource allocation model and prior-year carryovers. She noted that carryover amounts vary and that several years ago the receipt of one-time mandated cost claims was allocated with direction to spend overtime. The pandemic also had an impact on expenses (e.g., utilities, conferences, office supplies, etc.) and that $6.75m of carryover from FY 2020-21 was dedicated to the free college initiative in FY 2021-22.

4. FY 2020-21 Inter-Fund Transfers

Fitzsimmons reviewed the FY 2020-21 Inter-Fund Transfer document that he emailed to the committee prior to the meeting. He explained how to read the document and provided an example for illustrative purposes.

Storti advised that with the bond funds winding down and with no future bond on the horizon that the organization will have to rely on the Capital Outlay Fund (Fund 4) to meet facility needs. Fitzsimmons concurred and added that setting aside one-time funds at the end of the year for one-time facility expenses is a sound business practice. Briones stated that Skyline College has several renovation projects underway and is relying on this one-time resource that have accumulated overtime to meet the financial needs of these projects. Lehigh inquired about the variance between the adopted budget and actuals to which Fitzsimmons explained that there are certain known transfers at the time of the adopted budget to balance other funds (e.g., insurance and parking); however, salary savings and other one-time savings are unknown at the time of budget adoption. As these savings materialize throughout the year, transfers are made and the budget is adjusted accordingly. Farjat inquired if the Parking Fund was for CSM or for all colleges to which Slater responded that the Parking Fund is in relation to the entire District.

5. Public Comments / Future Agenda Items

Storti introduced the topic of a review of the resource allocation model, which from a best business practice perspective be reviewed regularly so that the model maintains its effectiveness. He understood that this has been a topic for some time and that a review process typically takes significant time in order to for the process to receive input from stakeholders and sharing proposed revisions with the community. He recommended establishing a workgroup comprised of stakeholders to begin working towards a draft revision, which upon completion, will be advanced to the entire committee for consideration. He suggested that this work begin in 2022. Lehigh asked if the interest is to start with existing model and build upon the model or to build a new model from scratch. Storti opined that the existing model has many strengths and to build upon based upon stakeholder input is desirable. Fitzsimmons shared his experience with revising allocation models and that the workgroup focus on what does not work within the existing model. Briones stated that she was remembers when the current model was developed and that the workgroup should begin by identifying goals or desired outcomes that the revised model is trying to achieve (e.g., equity focused). She also volunteered sharing her files with Storti from when the existing resource allocation model was developed. Ochoa mentioned that it would be great to establish guiding principles (e.g., equity) and to build the model around these principles. Lehigh suggested that the new model should incorporate larger long-term strategies into the model instead of just annual spending plans. For example, Fund 4 transfers (pulling resources from Fund 1) may not always make sense so he would like the revised model to put this into context. Storti welcomed the input and suggested that the workgroup review investments in technology and the need to fund refreshing technology and to continue to provide state-of-the-art technology and infrastructure across the organization in support of Lehigh's suggestion to incorporate larger long-term strategies. Storti requested that anyone interested in participating in the workgroup to send him an email expressing his or her interest.

Fitzsimmons introduced a potential scheduling conflict for the January 2022 meeting. The Governor is set to provide his proposed budget on or before January 10, 2022. The State Chancellor's Office has scheduled a workshop for community colleges on January 18, 2022, which is the same day as the committee meeting. Fitzsimmons will place this item on the December committee meeting agenda for discussion.

Concha inquired about the future agenda items and requested an update regarding Facilities and Technology. Fitzsimmons will add these agenda items to the parking lot.

6. **Next Meeting:** December 21, 2021.

Meeting adjourned at 2:35 p.m.