College Budget Committee Meeting
November 8, 2007

MEETING MINUTES

Members: Co-Chairs Eloisa Briones and Carla Campillo, Members: Lori Adrian, Anyta Archer, Jeff Diamond, Rick Escalambre, Mike Fitzgerald, Cathy Hasson, Melody Hisatake, Rick Hough, Fermin Irigoyen, Barbara Lamson, Margery Meadows, Vicki Morrow, Dino Nomicos, Felix Perez, Briant Phan, Ekaterina Semonchuk, Regina Stanback-Stroud, Rick Wallace, Jeff Westfall, Linda Whitten, George Wright and Soodi Zamani. Guests: Kathy Blackwood and Maria Escobar. Recorder: Linda Ghio

Absent: Lori Adrian, Anyta Archer, Carla Campillo, Jeff Diamond, Rick Escalambre, Cathy Hasson, Melody Hisatake, Barbara Lamson, Vicki Morrow, Dino Nomicos, Briant Phan, Linda Whitten, George Wright and Soodi Zamani.

Review and approval of October 25, 2007 minutes
The minutes were approved as written.

GASB 45 and Other Post-Employment Benefits (OPEB)
Kathy Blackwood did a Powerpoint on the implementation of GASB 45 (Governmental Accounting Standards Board) as it relates to Other Post-Employment Benefits (OPEB). GASB 45 requires that financial statements reflect the district's liability for future payments to current and future retirees. The district has had it all along but simply never put it on the books. The district's liability is around $150 million and the liability can be amortized and payments can be made on it every year for over 30 years. This year's amount is about $9 million and it is known as the annual required contribution (ARC). It is not required, but the district has to recognize it.

The ARC consists of the benefits that current employees are earning every day they work plus benefits that current employees have already earned, plus benefits for retired employees. The federal rules say that the district can only charge the benefits for current employees that they are earning as they work to federal grants and the district can only charge to federal grants if it charges it the same way across the district. Kathy's proposal is to only charge the current cost across the board.

If this is done, the district's benefit rates only cover 4% so for anything above that, the district would need to project it, and it would then have to be phased in. Currently, it is all being charged to Fund 1. To even it out, it will need to come from one of the other as federal grants, categoricals, childcare, parking and the health center funds. The savings that this generates will be given back to the college and the college will decide how to distribute these. Kathy stressed that this method will show the true cost of running grants and recognize these benefits as a cost of doing business. In the long run, colleges will build this cost in when applying for new funding.

The district needs to establish the policy of charging the 4% out to start with and that is how the federal and local grants can be charged. It is hoped that categorical funds over time would revise their budgets to cover these costs.

Kathy said the district has $30 million toward the $150 million needed. The district is ahead of the game, but does need to have a plan to fund the ARC every year and put the money away irrevocably. The district has never touched that fund, borrowed from it or used it for Fund 1 expenditures, but the rating agency and the accrediting commission would look at it. She would like to take some of that $30 million and put it in CalPERS, which is an irrevocable trust.

<u>Pros and cons</u>
Regina is expressed concern that categorical programs and grants currently do not keep up with changes in COLA. The result would be that some categorical programs would essentially be consumed to the point of not being able to carry out the goals of the program. In response to questions about which employees are affected, Kathy clarified that the charge of 4% would apply only to regular employees. In doing so, SMCCD would qualify for additional federal funds.

After doing a rough calculation, Maria Escobar raised concern that Kathy's proposal would have a big impact on the EOP&S program. Kathy clarified that it is an expense that the college currently has already. She said the question is whether Fund 1 should continue to subsidize it or should it be charged to the grant. She feels that the college needs to build it in and be up front about the fact that these are real costs, and then have Fund 1 to subsidize it. Regina said there are categorical programs throughout the college and Fund 1 absorbs them as a liability, whereas if it gets absorbed out of the categorical fund it would have to compete with other priorities. Kathy wants the college to decide what is important and this proposal would allow that.

Margery asked if 100% of the retiree benefits are paid out of Fund 1, what percentage would be charged out to categorical and other grants, but Kathy was not certain.

Kathy would have no problem pulling this out of the resource allocation model and the goal ultimately will have the programs stand on their own while knowing that some never will be able to. Regina recommended she "re-characterize the issue to ask whether the district and colleges are committed to the categorical programs, many that address issues of equity and social justice, rather than saying they may not be able to stand on their own—language that is loaded with judgment and to some extent ideology." Regina reiterated that the categorical programs are very significant and need to be supported. She is concerned because the college is facing a different budget discussion in a few years.

Regina said she sees some good scenarios around this and one is that it comes out of the categoricals, is given to the college, which goes back to the categoricals. But she said there is a down side if the district was to propose that the replacement fund will be phased out because something will be affected. She recommended that the additional resources this new method affords us be used to maintain the ongoing support for the programs.

Kathy indicated she would vote for not having a guaranteed pass through and let the money come to the college and let the college make the choice.

Review of potential budget balancing strategies for 2006-07 and 2007-08

Eloisa said the college is reviewing cost cutting measures because it anticipates deficits for this and the next 2 years. She presented three new scenarios for comparison. She ran the projections using a load of 570 compared to the ones presented at the October meeting which assumed a load of 550. The projections show slightly lesser deficits even with the 570 load. Last year, Skyline asked for assistance and received $1.5 million and this year. Without similar assistance, Skyline will have a bigger problem in 2008-09.

A question on shifting FTES was raised. Mike and Rick Hough asked if Skyline can expect the district to help the college again and Kathy said there is $1.7 million of one-time funding left unallocated and she does not have a plan to use it. She said she would advocate that some of it be used to help Skyline because she can see that Skyline is working hard to solve its budget problem.

Eloisa asked Kathy to provide an update on the district's student fee collection efforts and its impact on the allowance for bad debts. The collection procedures are now in place which includes student notification every semester that a student is enrolled. Outstanding receivables from dates prior to 2005 were sent to a collection agency and approximately 20% of what was owed was collected. The district has $6 million in student accounts receivable. This will eventually go down as the district gets better about collecting. Consequently, the bad debt allowance is expected to likewise go down. Kathy explained the concept of the allowance and informed the committee that the bad debt is recognized as an expense by the colleges and the allowance for bad debt is reported in the district's financial statement. Maria Escobar requested Kathy that the college be notified before collection letters go out so that staff is made aware of it. Soodi asked about the apportionment from FTES offsetting this cost. Kathy indicated that the state chancellor can withhold apportionment if the district does not collect enrollment fees.

Eloisa briefly went over the list of strategies, highlighting those that have been accomplished and those that are under way. The college will need to decide soon about hiring. To date, no one has come forward to express plans to retire at the end of this year. With the projections showing deficits in the next two years, Eloisa recommends not hiring as some members suggested last year. She reminded the committee that included as a budget-balancing strategy is the implementation of a hiring freeze which can either be hard (where no hires are made) or soft (where hiring is considered on a case by case basis).

Mike recommends that the CBC continue to work on the list of cost cutting measures, refine it, show the growth, compare this year to last, and be ready to present it to the district. Rick Hough is concerned that Skyline may not be able to afford hiring 1 or 2 faculty. Regina said the truth is that over a period of years (since 2001) Skyline is down about 10% in faculty, which is about 12 full-time faculty. She is not sure about that figure for staff.

For every position it would cost the college around $44,000. She asked if the college is going to strive for a 580 load, which is where we are now. Facilities improvements will have a positive effect on load. She said Skyline can consider a soft hiring freeze (which is managed hiring). Mike asked Eloisa what we need to do and should the CBC determine if it is going to put forth a recommendation to hire or not. Eloisa does not see that we can afford to hire. Rick is concerned about the long term effect if the college does not spend money on hiring faculty and staff. Margie expressed concerns for our programs that generate FTES but are in dire need of full-time faculty.

Regina said that a recommendation will have to be made at the next meeting and she suggests the CBC do some work on it and ask Eloisa to prepare different scenarios about hiring some faculty and classified staff. She recommends asking Eloisa to look at the projection if Skyline had a higher load (580), what other cost cutting mechanisms are the CBC is not thinking of, where is the college spending money and should it consider prioritizing in order to fund other things.

Eloisa asked what kinds of scenarios the CBC would want her to develop. After some discussion, Regina summarized the committee's recommendation to be that of showing showing 1 up to 5 faculty hire and include the funds to hire a classified staff member.

<u>Next meeting</u>: November 29, 2007