DISTRICT BUDGET COMMITTEE

Minutes of January 30, 2014 Meeting

Present: Robert Brown, Anthony DiSilvestre, Peter Fitzsimmons, Henry Gee, Bruce Geer, Steven Graham, Barbara Hanfling, Dan Hawkins, Carlos Marques, Mark Newton, Doug Smith, John Thompson, Roi Ann Thompson, Jan Tomisaka, David Yancey

Absent: Seher Awan, Mark Gonzales, Fabio Gonzalez, Lauren McKee

Also Present: Lan Bui, Marina Dadayan, Kim Garcia, Tamela Hawley

1) Call to Order – The meeting was called to order at 3:03 p.m.

2) Approval of Agenda – The agenda was approved as submitted. M/S/P; Ayes-15, Opposed-0, Abstentions-0, Absent-4

3) Approval of October 24, 2014 Minutes – The minutes were approved following one change. M/S/P; Ayes-13, Opposed-0, Abstentions-2, Absent-4

One change was requested: page three, paragraph two, last sentence, change the word “track” to the word “maintain.”

4) Enrollment Update

Dr. Hawley provided hand-outs to the Committee related to enrollment. Speaking to the hand-out for Fall 2013, they start tracking at the beginning of the semester and again about six weeks into the semester. Enrollment was down 2% at EVC and 3% at SJCC. The majority of students are not taking a full load. This tends to be the District’s student profile, which needs to be taken into consideration.

Mr. Yancey inquired as to whether the numbers included late-start classes. Dr. Hawley responded that they do not.

It was noted that the target was 14,060. There was discussion about the importance of continuing to stay close to that target.

Dr. Hawley referred to the hand-outs related to Spring 2014 and noted that students were still enrolling. Looking at the same time last year the District is down almost 5%. Seat count at SJCC is down 10% and at EVC 2%. Students are taking fewer courses.

Mr. Yancey stated now that the District is Basic Aid the District needs to rethink previous measurements when determining whether or not to cancel classes in order to keep those students. This would mean re-thinking classroom size and other related items.
Mr. Gee noted that our district is like every other that is also has declining enrollment.

Mr. Newton stated they hear rumors that the region is down and inquired as to whether or not the information is available. Dr. Hawley confirmed that it’s down, but they would need to get the specific numbers. Ms. Thompson noted that they are contacted a lot by other adjunct faculty looking to pick up classes as their classes at other colleges have been canceled.

Mr. Newton asked what it means to the District financially in terms of money coming in and whether or not it’s a large amount. Mr. Smith stated that apportionment is where the large amounts are, but that’s off the table because our district is Basic Aid. He stated that every student the District is short means $126 less in lottery money.

Ms. Garcia stated that she believes there is a way a risk analysis can be done for the District in order to measure what the exposure is. She’d like to see what the gap is if we were not Basic Aid. Mr. Smith stated that the amount is approximately $4M. Ms. Garcia suggested the District manage that risk; monitor the expenditures or increase recruitment.

Mr. Smith noted that if the District goes back to being dependent on the State there will be a huge loss. He stated that many of the districts shown in the article have a substantial fund balance in the event that occurs.

Mr. Fitzsimmons stated that the District may be losing a quarter million dollars in lottery, but he believes it would cost more than a quarter million dollars to serve 1,000 more students.

Ms. Hanfling noted it’s always cheaper to serve less students, but we need to keep in mind what we are here for and what our goals are; offer classes the students need when they need it. She stated students cannot be manufactured, but the District should strive to get as close to cap as possible. Mr. Yancey stated that when we cancel a class we could lose not only that group of students, but all of their attendant classes when they go somewhere else to get the class we canceled. Mr. Newton asked if the District could look at withdrawals to see if more classes were lost as a result. Mr. Yancey stated it might be interesting to see those numbers. Mr. Smith said he would invite Dr. Hawley back to address this again at a later date.

5) FY2012/2013 50% Law Statewide

Mr. Smith referred to the hand-out and noted that these were provided last year. The reports include the same standards for all districts; it should be a fair representation. Mr. Fitzsimmons stated they’re sorted highest to lowest and the Bay 10 are highlighted. 50% must be spent on Faculty salary and benefits and instructional aids. Every October a fairly comprehensive report must be provided to the State. It’s one of the things the auditor looks at for accuracy.

6) FY2012/2013 EFB Law Statewide

Mr. Smith stated the list shows a point in time for everyone. All college districts have had negotiations in one form or another, which have or will impact their ending fund balance.
Mr. Fitzsimmons stated that our district’s numbers vary slightly because Fund 15 is included with Fund 10 on the State’s report.

7) Property Tax vs. CPI Article

Mr. Smith stated that normally the tax increase goes up 2% per year, but the anomaly is that the CPI is lower than the 2%. As noted in the article, the vast majority of homeowners will see less than 1.5%. The quarterly report will show a 3% escalator. County tax officials can increase taxes by 2% or by the inflation rate, whichever is lower. For the 8th time in 35 years the inflation rate is lower. The article speaks to why it’s happening, mentioning lower price of gas; property tax growth will be one of the lowest since Prop 39 was passed. The article also discusses Basic Aid districts, stating they’re “not flying as high as they thought they would be”. The District won’t change the assumptions, but they’ll go to the meetings and listen. Mr. Smith noted that he cannot predict what will happen, but his job is to be a shade to the conservative. This is not a good indicator. Schools affected most are Basic Aid districts. He'll do an update to the Board on February 25th. He will address it when they have more substantive information than an article. The District needs to look at having an appropriate reserve in the event property taxes fall short of expectations.

Ms. Hanfling noted that the reserve is above 15.2%. Mr. Smith stated that amount did not yet include negotiations. Some of that will be noted in the second quarter report, but some will not yet be available; the 15% is true, but a lot has changed.

Mr. Newton stated that he is aware Mr. Smith is conservative, but according to this data our district is essentially in the middle. He believes none of the groups are in as good as shape as our district in regards to providing for retiree benefits. Mr. Smith conceded that one could argue that our fund balance doesn’t have to keep the retiree benefits in mind, whereas other district’s fund balance does.

Mr. Fitzsimmons noted that RDA will also be thrown into property taxes; something we need to keep our eye on. Ms. Hanfling asked if the 5.28% will change. Mr. Smith and Mr. Fitzsimmons replied that 5.28% is fairly solid; however this may change.

Mr. Yancey said it’s an important piece of information, but this is the first part of the process, which should be noted when Mr. Smith speaks with the Board. Mr. Smith concurred.

Mr. Smith noted that there are other items to keep in mind such as the STRS rate problem, which could be a new burden on the District and/or the employee and/or the State. There also is the Affordable Care Act to consider, as well as the Milpitas operations. These will require money. Mr. Smith noted that these all together tell a story, along with other considerations, rather than him telling the Board to pick a percent. He stated that ultimately it’s the Chancellor’s recommendation and the Board’s decision.

Ms. Hanfling referred to the STRS rate problem Mr. Smith mentioned and noted he didn’t mention PERS, which over the years has been predicted to go up. Mr. Smith stated that PERS simply changes the rates and informs the locals. STRS is stagnant and based on legislation. He referred to the article where the Governor expressed concerns about the State’s long-term unfunded liability. The Governor plans to retire this obligation over the next 30 years, to be phased in over time so that it won’t be an obligation to the State.
8) **Governor’s FY2014/2015 Budget Update**

Mr. Smith reviewed the Governor’s budget update. He stated that the District would receive approximately $1.2M for each of the $100M mentioned for Student Success. However, this amount will likely be based on FTES and will be less if FTES declines. He noted that and there will be approximately a million dollars for deferred maintenance, and approximately another million for instructional equipment. Mr. Smith stated that the Governor is basically saying they have funds to pay off all the “credit cards,” but he’s not confident that will actually occur. COLA for apportionment does not come into play for Basic Aid districts. The District received just under $475K this year for energy efficiency projects, which was split between the two campuses; they’re taking care of projects as prioritized.

Mr. Smith noted that the Governor does not propose to raise student fees and the extra hurdles for the BOG waiver have been placed on hold.

The Governor is proposing a Constitutional amendment, which will address a rainy day fund. Among the goals is to smooth out the sharp ups and downs. Mr. Smith stated that is what he endeavors to do so as not to give it away nor let it pile up. Should there be a downturn, this would provide the ability to scoop from reserves to buy time for the economy to come back.

Prop 30 is temporary and will begin phasing out in 2017. Mr. Smith stated that it’s his experience to not get too upset about that as there is always another solution around the corner. It does sunset, but he doesn’t believe they’ll allow the system to collapse as a result of this. The District will receive EPA monies of approximately $1.3M.

9) **FY2014/2015 Budget Calendar**

The item was noted; there was no discussion.

10) **Apportionment Worksheet**

Mr. Smith stated the worksheet was an apportionment simulation. Mr. Fitzsimmons noted it’s not ready for prime-time, but will be ready for the second quarter report.

Mr. Newton inquired about the RDA money. Mr. Fitzsimmons stated that as the RDA winds down, our property taxes increase, but it all depend upon debt. San Jose believes that in 2018 they will finally break even and will no longer need to borrow money. Mr. Yancey stated that those numbers will increase. Mr. Fitzsimmons stated that depends on the loans as there may be a balloon payment due.

The meeting was adjourned at 5:00 p.m.