DISTRICT BUDGET COMMITTEE

February 18, 2015 Meeting Minutes

Present: Robert Brown, Jorge Escobar, Peter Fitzsimmons, Henry Gee, Bruce Geer, Mark Gonzales, Barbara Hanfling, Dan Hawkins, Carlos Marques, Mark Newton, Doug Smith, David Yancey

Absent: Fabio Gonzalez, Sandra Gonzalez, Steven Graham, Lauren McKee, John Thompson

Also Present: Elaine Burns, Jesus Covarrubias, Bruce Geer, Abdul Idris, Carlos Watkins

This meeting has one item for discussion. Mr. Smith will review the Budget Study Session, which will introduce the District Board Stabilization Fund to the Board of Trustees on February 24, 2015.

Reference Document: Board of Trustees Budget Study Session 2.24.15.pdf

Mr. Yancey requested more background on Dr. Schniepp.

(Presentation was edited to expand upon Dr. Schniepp’s biography.) Dr. Schniepp prepares economic analysis and county level forecasts for Cal Trans, Kaiser Permanente, the California Associate of Realtors, and the Southern California Association of Governments. He was the keynote speaker at the Associate of California Community College Administrators’ Governor’s Proposed Budget Workshop in January 2015.

Mr. Smith noted that the graph exempling the “Boom & Bust” pattern would be removed from the presentation.

Ms. Hanfling noted that the worst recession in 40 years was the most recent one around 2010. Mr. Smith commented that he will address the Board with the group’s comments in mind. He wants to be able to characterize the voice of the constituents to the Board.

Mr. Yancey suggests elimination of the 4th bullet “Recession probability looms...” on the “California Budget” slide. (Presentation edited to reflect this change.)

Ms. Hanfling noted that Prop 30 provides the District with $1.3M. (Presentation was edited to note this amount.)
The chart showing District Assessed Value was changed from a line graph using percentages to a bar graph using dollar amounts.

Ms. Hanfling noted that property tax increases were below 3% in only 5 out of 15 years, and that property tax percentages increased an average of 4.5% each year.

Mr. Covarrubias suggested that each college receive a $1M stabilization fund, rather than all money going to the District Office. The dollars should be going where it matters most – to the students. Strategies should be made to expand on those areas. Mr. Smith is aware that establishing this fund is a choice, but it is his responsibility to analyze what the State is doing and make a recommendation to the Board of Trustees.

Mr. Geer asked if this fund would be in addition to the reserves we have. Mr. Smith confirmed that it is.

Ms. Hanfling noted that the graph titled “Simulation: Based on 2015 – 2016 Recommendation” is projecting 6.95%, which is below the mandated reserve of 7%. The State does not have a 7% mandated reserve amount.

Mr. Newton asked whether this new stabilization fund plays into the 50% Law. Mr. Fitzsimmons clarified that any fund balance does not play into the 50% law. Money that is saved does not factor in. When that money is spent, it gets factored in.

Mr. Hawkins asked whether the Bay 10 average shown is duplicative in that it includes the SJECCD average as well. Mr. Smith acknowledged that yes, it is.

Mr. Smith plans to approach the creation of this fund as an action item. If the Board is not comfortable with taking action immediately, he will withdraw it as an action item and let the Board members confer with constituents, etc. before making a decision.

Mr. Covarrubias asked for clarity between the regular required reserve and this new fund. When would one fund be accessed versus the other?

Mr. Hawkins questioned why not raise the percentage of the current 7% reserve fund rather than creating a new fund.

Ms. Hanfling suggested waiting until the May revise comes out; there will be a better sense of what will happen with the budget.

Mr. Brown commented that by indicating the fund would be replenished in healthy fiscal times, it now becomes a recurring item, not a one-time item.
Mr. Fitzsimmons commented that even if another fund was created, when SJECCD reports to the State, the new fund, Fund 15, and Fund 10 will be considered by the State to be unrestricted general funds.

Mr. Smith mentioned that reserves are necessary for economic uncertainty, technology refreshment, opening of Milpitas Joint-Use campus, unforeseen circumstances, etc. This particular fund is for the economy’s inevitable downturn.

Ms. Hanfling commented that if the 5 smaller reserves were included, (Redesign, High Impact, Student Success, Milpitas, Cadillac Fund), the ending reserve would be 7-8% higher.

Mr. Covarrubias re-stated his request to see a list clarifying the use of the two reserve funds; which fund would be accessed in what situations?

Mr. Yancey feels that the new fund “sells” better with a new name rather than adding to the current reserves so that the SJECCD can show that there are not enough funds to replenish things like salaries. Mr. Smith reiterated that he just wants to protect the organization from the inevitable.

Mr. Newton requested that the Ending Fund Balance Averages chart gets a line added for FY13-14 showing the totals of the 5 smaller funds Ms. Hanfling mentioned. Mr. Smith indicated that doing so would not be comparable to the other data points provided. Mr. Newton asked for clarity whether the last column shows all of the fund balance, not including the anticipated $5M fund and the 5 reserves Ms. Hanfling listed. Mr. Fitzsimmons replied that 16.2% represents the ending fund balance for FY13/14. The items Mr. Newton inquired about are not reflected in the 16.2% because these will take place in future years. The Milpitas campus will open in FY 16/17. The Cadillac Tax will be included in FY17/18.

Mr. Yancey requested that, at the board presentation, Mr. Smith please mention that all of the “projected” columns will be much higher than they are shown because we are projecting at 3%, but we have not had that low of a percentage in recent years. Mr. Smith acknowledged that SJECCD crossed into Basic Aid in FY12/13. 3% has been assumed each year, but the District often has received much higher than that, and is currently in a strong “up cycle”.

Mr. Covarrubias expressed concern about this being an action item. Mr. Smith reiterated the plan to present this as an action item, and let the Board decide if they are ready to act. It cannot be put it on the agenda as an information item at this point, but Mr. Smith will offer the Board the option to wait. Mr. Hawkins commented that SJECCD tends to be more liberal regarding spending, and conservative regarding income. He would like to see a happy medium between these two. Mr. Smith replied that the budgets always assume spend out, but that is not usually accomplished.
Ms. Hanfling requested to show several bar graphs next to each other: 1) fund balance as shown in 2nd Quarter report, 2) simulation with 5% allocated to all constituent groups, and 3) simulation based on the recommendation for allocation of one-time funds. (*Presentation was edited to accommodate this request.*)

Mr. Gee had two comments: 1) Differentiation needs to be made between the two reserve funds. To distinguish between these, guidelines should be created to indicate when each fund would be accessed and replenished. 2) In looking at the Property Tax Analysis: suggestion to add a bar on top showing what happens when it’s 7 or 8%. Mr. Smith replied that the graph will be updated when a new number is provided by the County.

Mr. Fitzsimmons commented that the organization can forever debate how to spend one-time money. He suspects that the $353M proposed by the Governor will be fought over. This money may not come to the District in the form in which it was proposed. The impetus behind this reserve fund proposal is to avoid repeating the 2008 – 2010 layoffs. If revenues dry up in the future, this fund will buy time for the District when the downturn comes. The 7% reserve is only 2 months of payroll.

Mr. Gee commented that one of the conditions that used to exist was that the District had to keep a 5% reserve at the year’s end because of the bond issuance. Mr. Fitzsimmons replied that we have an agreement between us and the OPEB bond holders that requires a 5% reserve. Ms. Hanfling commented that SJECCD is one of the few districts that has no retiree benefit liability. The OPEB trust pays the liability. Mr. Fitzsimmons clarified that Fund 10 still has to pay $2M for the debt service associated with the bonds that funded the OPEB trust.

Mr. Newton asked if there will be any detail regarding allowable access to the reserve fund. Mr. Smith replied that the only clarifying language added will be “by Board authority”.

Overall, Mr. Smith understands that he should not press this issue to the Board. He plans to present all options, including putting all this money into the classroom. If this concept is agreeable to the Board, then we some specific guidelines will need to be developed regarding access to this fund.

Mr. Newton commented that if this money is earmarked to avoid layoffs, then it should specifically say that somewhere.

Mr. Smith received a suggestion to remove the proposed principal: “Data will be used to drive decision-making”. Mr. Newton pointed out that projections are being used, not data. Mr. Smith acknowledged that data is looking back, and projections are looking forward and are based on assumptions. (*Presentation was edited to accommodate the suggestion.*)
Mr. Yancey commented that the group should be more collaborative in these types of projects, and appreciates Mr. Smith’s willingness to hear and accommodate suggestions.

Mr. Newton commented that he appreciates Mr. Smith’s attitude. Government is the only place that does not assess the need before allocating the dollars. There are other areas of need at the campuses. Mr. Smith replied that in budget allocations over the last 2 years, the college presidents have asked for a block grant with a request to let the colleges prioritize the need. In the new fund proposal, Mr. Smith followed that idea.

Mr. Yancey posed the question: $500k was designated to the campuses, but what happens if they have $600k of needs? First ask what the campuses need, then allocate the funds. Putting money into a savings fund seems fiscally-oriented, but not campus/student-oriented.

Mr. Gonzales requested that Mr. Smith be careful with communicating the constituent’s concerns to the Board, as not all groups are in agreement.

Mr. Covarrubias commented that as we teach on social justice, we should also live by this standard. There are fellow colleagues that have to go from college to college who need to work more. We have the resources to hire full-time faculty who can get benefits and instead we want to put the money away.

Mr. Escobar commented that the colleges could be consulted more in the allocation of funds. $500k is great for SJCC, but it is not sufficient as one-time funds.

Mr. Smith closed the meeting by stating that he will do his best in presenting to the Board of Trustees on Tuesday night.

The meeting was adjourned at 4:51pm.