RIVERSIDE COMMUNITY COLLEGE DISTRICT

District Budget Advisory Council Meeting

January 23, 2015

RCC – DL 409

1:00 p.m. - 3:00 p.m.

MEETING MINUTES

PRESENT

Aaron Brown, Vice Chancellor, Business and Financial Services (District)
Norm Godin, Vice President Business Services (Moreno Valley)
Beth Gomez, Vice President, Business Services (Norco)
Mazie L. Brewington, Vice President, Business Services (Riverside City College)
Nate Finney, Classified Representative (Moreno Valley)
Mary Legner, Professor, Mathematics (Riverside)
Diann Thursby, Classified Representative (Norco)
Jennifer Lawson, Classified Representative (Riverside)
Tim Ragusa, Classified Representative (District)
Rachelle Arispe, Executive Administrative Assistant to the Vice Chancellor (Recorder)

GUEST

David Torres, Dean of Institutional Research and Strategic Planning (District)

ABSENT

Michael McQuead, Associate Professor, CIS (Moreno Valley)
Tom Wagner, Associate Professor, Business Administration (Norco)
Mark Sellick, Associate Professor, Politics (Riverside)
Arturo Quiroz, Student Representative (Riverside)

I. MEETING WAS CALLED TO ORDER

A. By Aaron Brown

II. MINUTES

A. Once a quorum was achieved, Legner moved, and Thursby seconded, approval of the minutes for November 26, 2014. Motion approved. Lawson abstained since she did not have time to review.

III. BAM/DBAC SURVEY UPDATE

A. Survey Discussion - David Torres (Dean of Institutional Research and Strategic Planning), attended the meeting to provide suggestions for the next survey. Torres thought the past survey (Spring 2013) was good and he suggested the questions stay the same, however, there could be some minor changes to the wording and a scale could be added. The Vice Presidents Business Services (VPBS) will update the distribution list and forward to Brown. The VPBS's will request that the College Presidents send reminder emails to staff on the distribution list to increase participation in the survey. The survey will be emailed the week of March 16th.

IV. OTHER ITEMS

A. Indirect Cost Recovery Update – The College VPBS verbally presented a proposal to utilize Indirect Cost Reimbursements by establishing base expenditure budgets for the colleges and district to use. Indirect costs have never been allocated in the base expenditure budget. Only revenues have been allocated. Indirect costs are a reimbursement of costs that have already incurred. Currently, district and college administration handle the administration of grants. The VPBS would like for indirect cost reimbursements to be distributed to the colleges, less a district portion, to support new grants or concurrent grants. Brown does not disagree with the VPBS concept of "sharing" with the District. He believes the percentage is too low. The District's current overhead is 37%. Whatever is decided, there will be a hit to the base expenditure budget. The VPBS proposal is to give a "not to exceed" amount of 17% of an 8% indirect rate to the District. Example: 17% x 8% = 1.36% of a total indirect amount of $4,000 equals $272 to be allocated to the District.

1. Motion – 5-Approved (Gomez, Brewington, Finney, Godin & Thursby), 2-Not Approved (Brown & Ragusa), 2-Abstained (Lawson & Legner)

2. Godin will email Brown a written document of the Indirect Cost Recovery proposal so that it can be forwarded to DSPC for approval.

B. GASB 45 – OPEB Liability Funding Plan – Brown provided a proposal (handout) for a plan to fund the GASB 45, other post-employment benefits (OPEB) liability for retiree health care costs. The District is required to pay for retirement health costs for those that qualify (employees who have 10 years of service, age 55 up to 65, and one dependent). The proposal is to: 1) establish a new, restricted resource to set aside funds to pay for retiree health costs; 2) establish a rate to apply to every dollar of payroll; and 3) put the funds into the new resource. Although not required by GASB 45, the accreditation recommendation requires the District to develop a plan to fund the OPEB liability. Currently, the District pays for current retiree health costs every year (pay-as-you-go), however the District must also put funds aside for "future" retiree's health costs per the accreditation recommendation. To fund the OPEB liability, the rate would cover the current costs, plus a minimum of $250K annually to start funding the future retiree health costs. The District would also consider setting aside additional amounts based on an annual determination, with a caveat that it does not drive the District below the 5% reserve level. Brown indicated that by restricting the funds, the District would have the flexibility to use the funds for cash flow purposes. Example: During the economic downturn, the state deferred apportionment. If the District had a source of funds available, we would not have had to borrow funds to manage our cash flow. We could have borrowed internally and saved on financing costs.

A great deal of discussion took place regarding the choices for a funding vehicle for OPEB with recommendations that it move forward to DSPC. Gomez has concerns with establishing a restricted fund. She indicated that if the resources are not there, then the retiree would not have their health costs paid for. She prefers an irrevocable trust. Brewington indicated that this item should go through the college's shared governance process for consideration first. She expressed concern that minutes to meetings and agendas were not distributed with enough time to adequately consider items and suggested that they be distributed in a more timely manner. Brown expressed that he prefers the flexibility of a restricted fund over an irrevocable trust.

1. Because of the time sensitive nature to respond to the accreditation recommendation Gomez proposed to: 1) delete number six; 2) merge number seven and number eight; 3) add wording to include consideration for the establishment of an irrevocable trust; 4) and accept the proposal as a "draft". The VPBS will take the information through their college shared governance process first to discuss and then return to DBAC on February 27th to finalize the language. Brown will take the "draft" to DSPC to inform them.

2. <u>Motion</u> – 8-Approved (Gomez, Finney, Godin, Thursby, Lawson, Legner, Ragusa & Brown), 1-Abstained (Brewington)

C. <u>FY 2015-16 State Budget Update</u> – Governor released the FY 2015-16 Budget Proposal on January 9th. Overall, it is much better than previous year's based on the passage of Prop 30, the improved economy, and the positive impact on Prop 98. There is about $4.8 billion more than last year for K-14 education (detail described in handout).

1. The new growth formula could be deferred since some districts do not like the results and have requested that the State Chancellor's Office re-look at

the formula. For our district, using the new growth formula would give us about $1 million more in apportionment funds. Brown indicated that by using the current growth formula for estimating funded FTES and growth apportionment and using a mid-point for growth under the new growth formula (4.5% unfunded target) the growth FTES would be 664 FTES and the unfunded FTES would be 1,225 FTES. District wide we would need to produce approximately 600 more FTES than what Bajaj projects our FTES will be (P1) at the end of FY 14/15.

i. Brown reported that from Raj Bajaj (Dean, Educational Services), at P1, the latest projection is 27,851 FTES compared to the target of 27,545 FTES. Bajaj's report shows MVC is over target by 239 FTES, NC over by 3 FTES, and RCC over by 64 FTES.

2. Instructional Equipment and Scheduled Maintenance funds are not included in the Governor's Budget Proposal. Presumably, the District would use the one-time, State Mandate Cost Reimbursement funds for this purpose, if necessary.

3. Discussion occurred surrounding the 50% Law impact for our spending decisions. A breakdown of the 50% Law by college will be provided to the Presidents by Brown, then brought to DBAC for discussion. The District Office/District Support Services piece needs to be factored in. If the District is excluded, there is a false sense of where we are at with compliance by college.

4. We are having preliminary discussions about a potential local bond in 2016.

V. <u>BAM REVISION – CONTINUATION</u>

A. <u>Student Technology Fee Update</u> – A legal opinion by the state was received (handout) and the information has been given to ITSC for follow up.

B. <u>Entity Budget Alignment</u> – Entity Budget Alignment information (handout) was provided to the members to review. The Chancellor directed Brown to develop a proposal realigning the Budget Allocation Model (BAM). Brown took an approach of developing ratios associated with each college's actual expenditure history. The ratios were then applied against the rate per FTES that is calculated in the BAM. Using ratios does not equal 100% so there is a remaining amount that will have to be reallocated on some basis. Brown requested the members review the concept and framework, then return to the next DBAC meeting to discuss the pros, cons, adjustments, changes, etc.

VI. NEXT MEETING

A. Next meeting scheduled for Friday, February 27, 2015 at 1:00 p.m. in DL 409.

Response to the Accrediting Commission's Recommendations

District Recommendation 1

In order to meet Standards, implement a plan to fund contributions to the District's other post-employment benefits (OPEB) obligation. (Standard III.D.3.c)

Descriptive Summary

Governmental Accounting Standards Board (GASB) Statement 45 is an accounting and financial reporting provision requiring governmental employers to measure and report the liabilities associated with other (than pension) post-employment benefits (OPEB), both funded and unfunded. Reported OPEBs may include medical, pharmacy, dental, vision, life, long-term disability and long-term care benefits. There are two considerations when determining this liability. The annual required contribution (ARC) consisting of the normal cost plus an amortization component and the long term liability which is the cumulative difference between the amounts expensed and the amounts contributed to a plan.

The District's plan is a single-employer defined benefit healthcare plan which is administered by the District. The plan provides medical and dental insurance benefits to eligible retired academic, classified, confidential and management employees and one dependent until age 65 (BP/AP 7380). Eligibility is available to all retirees who have a minimum of 10 years of service with the District and who have reached the age of 55.

On July 1, 2014, an actuarial valuation was performed to determine the District's liability for its post-employment benefits. Currently, the District utilizes the pay-as-you-go method to finance its OPEB contributions.

The net OPEB obligations for each of the fiscal years 2010 through 2014, ending June 30, are as follows:

Year	Annual OPEB Cost	Actual Contributions	Percentage Contributed	Net OPEB Obligation
2010	$1,462,715	$ 766,350	52%	$1,653,090
2011	$2,262,462	$ 577,224	26%	$3,338,328
2012	$2,242,316	$1,199,115	53%	$4,381,529
2013	$2,872,832	$1,209,729	42%	$6,044,632
2014	$2,960,168	$1,159,902	39%	$7,844,898

To date, the District has partially allocated resources to support future liabilities related to post-employment benefits, leave time, and other related obligations. Leave balances are paid when used through existing resources, and the District finances its current post-employment benefit obligations annually. The District's annual required contribution is $3,041,672 and annual OPEB cost is $2,960,168 based on the FY 2013-14 Annual Audit. (III.D.3.c, III.D.3).

Self-Evaluation

All audits of the institution have been unqualified. The District plans for and allocates appropriate resources for the payment of liabilities and future obligations, including other post-employment benefits (OPEB), compensated absences, and other employee related obligations as disclosed in all annual audits**.**

Actionable Improvement Plan

In addressing the Commission's district recommendation, a number of options were considered to address the OPEB liability. These included the formation of an irrevocable trust, the establishment of a restricted fund, the issuance of OPEB bonds, or the initiation of a self-assessment. The District has historically maintained a "pay-as-you-go" methodology and, since the inception of GASB 45, has not funded the future cost of the Annual Required Contribution (ARC). Annual "pay-as-you-go" costs of the ARC approximate $1.2 million. The most recent actuarial valuation puts the annual funding of the future cost of the ARC at approximately $1.2 million. Therefore, to fully fund the GASB 45 liability an additional annual contributions of between $.80 million and $1.0 million (the remaining portion would presumably be from investment earnings) would be necessary. At this point, that is cost prohibitive for the District. However, to address the recommendation and to begin providing some level of funding, a funding plan proposal has been developed to respond to the accreditation recommendation. The plan consists of the following:

1. Effective July 1, 2015, establish a new, restricted Resource to pay current retiree health costs and to accumulate funds for future costs to offset the OPEB liability;

2. Develop a rate to apply to every dollar of payroll, in all Resources that have payroll, to cover the annual current cost ("pay-as-you-go") plus a minimum of $250,000 annually to begin providing for future retiree health costs;

3. Investment earnings over time will contribute to the reduction of the outstanding OPEB liability so the total amount of funds set-aside by the District and accumulated to pay for future retiree health costs will be limited to a maximum of 50% of the outstanding OPEB liability.

4. Transfer all funds provided by the retiree healthcare rate to the new, restricted Resource;

5. Pay all retiree healthcare costs out of the new, restricted Resource;

6. Annually, consider transferring additional amounts for future retiree healthcare costs, if available (from any allowable source), unless such transfer will result in a reserve balance in the Unrestricted General Fund that is below 5%;

7. Periodically assess the feasibility of transferring accumulated funds in the new, restricted Resource to an Irrevocable Retiree Healthcare Trust Account;

8. Restrict use of the funds in the new, restricted Resource to payment of retiree healthcare costs, with the exception that accumulated funds may be used for cash flow or other purposes, if necessary, but only with the express approval of the Board of Trustees.

This proposal was discussed with and affirmed by the District Budget Advisory Council (DBAC) on January 23, 2015. District Strategic Planning Committee reviewed the proposal and recommended its adoption on January 30, 2015. Additionally, the Chancellor's Cabinet consisting of the three college presidents, the chancellor's chief of staff and the vice chancellors discussed the final proposal and recommended forwarding it to the Board of Trustees. The proposal was presented and discussed at the March 3, 2015 Resource Committee meeting. The Board approved the proposal at their March 17, 2015 meeting.

Evidence
BP/AP 7380   Retiree Health Benefits
Audit Reports, 2010, 2011, 2012, 2013, 2014
Actuarial Study 2014

- DBAC minutes of January 23, 2015
- DSPC minutes of January 30, 2015
- Chancellor's Cabinet notes of February 17, 2015
- Resources Committee minutes of March 3, 2015
- Board of Trustees minutes of March 17, 2015