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# AUDIT AND BUDGET COMMITTEE MINUTES

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**Coast Community College District**  
**Special Meeting of the Audit and Budget Committee**  
**May 24, 2022**  
**Zoom Conference Meeting**

**1. Call to Order**

The meeting was called to order at 2:01 p.m.

**2. Roll Call**

Trustees Present: Trustee Jim Moreno and Trustee Mary Hornbuckle  
Trustees Absent: None

**In Attendance** – Dr. John Weispfenning, Chancellor; Dr. Andrew Dunn, Vice Chancellor of Finance and Administrative Services; Dr. Andreea Serban, Vice Chancellor of Educational Services and Technology; Dr. Marco Baeza, Vice Chancellor, Human Resources; Tim McGrath, President GWC; Rachel Snell, District Director of Internal Audit; Paul Wisner, GWC Director of Business Services; Daniela Thompson, Executive Director Fiscal Affairs; Tanya Tran, District Budget Manager; Rachel Kubik, OCC Director of Business Services; Erik Fallis, District Director, Public Affairs & Marketing; Janet Houlihan, Vice President, Administrative Services, GWC; Derek Bui, Director Business Services, Coastline; Julie Clevenger, Director Chancellor's Office Operations and Projects; Crystal Crane, Executive Director, HR & Employee/Employer Relations; Dr. Rich Pagel, OCC Vice President Administrative Services; Rick Garcia, OCC Director of Maintenance & Operations; Dana Swart, District Controller; Jeffrey Jensen, Partner, Crowe LLP; Roy Sahachaisere, Student Trustee; Casey Elliott, Vice President, Townsend Public Affairs; Mary Grady Administrative Assistant, Board of Trustees; Jane Burton, Manager/Board Secretary

**3. Opportunity for Public Comment**

There were no requests to address the Audit and Budget Committee during Public Comment.

**4. Authorization under Brown Act, Government Code § 54953(e), for Conducting Meetings Remotely Due to the COVID-19 Emergency Because Meeting in Person Would Present Imminent Risks to the Health or Safety of Attendees**

On a motion by Trustee Hornbuckle, seconded by Trustee Moreno, the Committee voted to approve the continuance of conducting Committee meetings telephonically.

Motion carried with the following vote:

Aye: Trustee Hornbuckle and Trustee Moreno  
No: None  
Absent: None

#### **5. Approval of Minutes: Meeting of February 22, 2022**

On a motion by Trustee Hornbuckle, seconded by Trustee Moreno, the Committee voted to approve the minutes of the Special Meeting of February 22, 2022.

Motion carried with the following vote:

Aye: Trustee Hornbuckle and Trustee Moreno  
No: None  
Absent: None

#### **6. Review, Discuss, and Possible Action Regarding External Audit Report**

Jeff Jensen, Partner, Crowe LLP, provided the External Audit Report update. The audit process had already begun for fiscal year ending June 30, 2022.

A presentation outlining the audit procedures, approach, and timeline was presented. Mr. Jensen noted that Crowe would be working with Coast's management team to finalize their report in October and would bring the completed report to the Audit and Budget Committee and the full Board of Trustees in November 2022.

Focus areas and areas of potential risk for the FY 2022 audit included the following:

- Covid-19 impact on revenue, expenses, grants, deferrals, etc.
- CARES federal funding compliance – HEERF funding and Block grants
- State compliance procedures
- Internal controls over significant financial cycles
- Foundation specific areas
- Management and auditor responsibilities related to fraud

Mr. Jensen explained there was a significant GASB on the horizon, GASB 87 for leases, applicable for year ending June 30, 2022. He indicated that Coast was working to identify the impact of this standard, and clarified that land lease agreements, such as with the car dealership, would apply to this standard.

Mr. Jensen explained that one element of the audit was to perform a federal audit, part of which would assess which specific programs needed to be audited. Prior to HEERF student financial aid was always selected. For FY 2022 Mr. Jensen indicated he felt there would only be a need to test HEERF and he would expect student financial aid would need to be tested FY 2023.

## **7. Review, Discuss, and Possible Action Regarding Internal Audit Quarterly Update**

Rachell Snell, District Director of Internal Audit, provided the Internal Audit Quarterly Update.

The Districtwide M&O audit was completed. The final report would be presented at the June 2022 Board of Trustees meeting.

- OCC was the leader in regard to having an automated system for tracking work orders. The footprint system should move forward smoothly for GWC and Coastline.
- The audit had resulted in the campuses communicating more with each other about methods that were or were not working
- Staffing levels vs. service levels were of concern, partly due to the recent retirement incentive, Covid-19, etc. Service delivery continued to be hampered especially at OCC also due in part to the nepotism issue. Dr. Rich Pagel OCC Vice President, Administrative Services, was joined by Rick Garcia, OCC Maintenance and Operations Director, who explained recent campus service level changes. The OCC maintenance team had recently taken on oversight of the District Office and was already under-staffed. Mr. Garcia provided detail regarding the square footage increase from approx. 730,000 sq. ft. three years ago and continuing growth that had taken place over the years, and would soon reach 1.1 million sq. ft. He emphasized the need for additional staff. Improvements were in process with new equipment purchases and cooperative purchase agreements with the other campuses, providing important cost saving measures and standardizing some of the approaches that would help to make advancements and keep all the campuses on a pathway to better communications and better service.

Ms. Snell reported that the swap meet survey was completed. The District Research Office helped compile the survey materials and results. The final report would be available for the June 2022 Board of Trustees meeting, together with an audit plan.

In response to a question from Trustee Hornbuckle regarding the workplan for 2022-23 and the extent of the audit planned for the Enterprise Corporation, Ms. Snell explained that the audit would include a new risk assessment, a review of AP3600 compliance documents, organization, structure, board, swap meet operations and plans for growth, and focus on higher-risk areas that might come to the forefront as a result of the audit.

The PCI compliance project was in progress and moving forward with training and corrective action where needed, to remain in compliance with PCI standards.

## **8. Review, Discuss and Possible Action Regarding State Legislature Budget Issues**

Casey Elliott, Vice President, Townsend Public Affairs provided the Committee a brief update on current state legislative budget issues.

The May Governor's revised budget was released by Governor Newsom. The May revise contained just over \$300 billion in total expenditures for the upcoming budget year. \$227 billion of that was general funds providing an approximate 5% increase over what was proposed in the January budget.

The budget surplus was projected at \$97 billion. Half of that, \$49.2 billion, was the amount the state would consider discretionary surplus. Non-discretionary funds would include the portion for Prop 98, rainy day funds, and other reserves.

The May revise proposed to fully fund all of the state's reserves, representing over \$37 billion. The primary two components were \$23 billion in the state's rainy-day fund and \$9.5 billion in the school stabilization reserves. The reserves would be available in the event of an economic downturn.

The community college proposals contained within the May revise supplemented what was already in the January budget:

- COLA up to 6.56% from 5.33% in January
- Two proposed allocation increases for the funding formula
  - \$250 million for the base allocation
  - \$125 million for the basic allocation
- 6.56% COLA applied to some categorial programs
- \$25 million for student equity and achievement

One-time proposals included:

- \$750 million discretionary Block grant funds to address pandemic-related issues and reduce long-term obligations. Funding to address long-term pension obligations was not included in the May Revise, however, there could be flexibility within the \$750M Block Grant to help ease the burden.
- An additional \$1 billion proposed for deferred maintenance in the revised budget bringing the total up to \$1.523 billion. The current trailer bill language would allow those funds to be available for expenditure through the end of FY 26-27.
- Two additional projects proposed with capital outlay funding from Prop 51 bond funds to bring total amount up to \$403 million. Currently, that would not include the GWC fine arts renovation, but conversations were still taking place.

It was anticipated that the Assembly and Senate were likely to work together to agree on a Legislative Budget Proposal, with a main budget bill expected to be approved by the Legislature by June 15, the constitutional deadline. Budget trailer bills could still be passed after that deadline.

Other items discussed included community college items to be considered:

- The inflationary relief package had several proposals
- Record revenues had come into the state, reflective of the previous year
- The housing market and stock market were cooling down
- Warnings from the Legislative Analyst's office about the budget
- A focus on one-time funding, and not ongoing programs

Trustee Moreno asked about the Wise Budget Proposal and the Student-Centered Funding Formula and Hold Harmless drop-dead date. Dr. Dunn shared he had seen one summary, referred to as the Wise Proposal, which would move the Hold Harmless start point from FY2017-18 forward to FY 2020-2021. Mr. Elliott added that the May Revise did not contain the Wise proposal, although it did propose to rebench the Hold Harmless to 2024-25FY and it would not be subject to COLA. There would still be an incentive for districts to grow out of Hold Harmless.

Trustee Hornbuckle asked about the \$750 million for free public transit for three months, noting that our student governments already pay for transit passes for students. Mr. Elliott described it as part of the overall inflation package the Administration had put forward. It would provide funding to public transportation providers, with the condition of receiving funds that they would need to provide free public transit for a time period. The proposal would extend beyond students.

## **9. Review, Discuss and Possible Action Regarding Tentative Budget FY2022-2023**

Chancellor Weispfenning provided some comments for the Committee explaining that the planning for the Tentative Budget began months before the start of the fiscal year. Most of the assumptions built into the Tentative Budget were based on what we thought would happen and once the Governor's Budget was released, assumptions were subject to change. The Chancellor shared good news that, although there were challenges, the next year should be a very good year for Coast.

Dr. Dunn provided a presentation for the Committee to discuss the Tentative Budget for FY2022-2023, noting the Board of Trustees would be asked to adopt a Tentative Budget in June 2022.

Some highlights of Dr. Dunn's presentation:

- As of the re-calculation in February 2022, the Deficit Factor was reduced to 0%. This change was noted in the Adjusted Total Computational Review with \$1.5M rolling forward in the form of Fund Balance. For purposes of the Tentative Budget, a 1% deficit factor had been assumed.
- Based on data from the May Revise, the Student-Centered Funding Formula (SCFF) had been updated using the projected 6.56% COLA. In FY 2022-23 we estimated earnings of \$201million based on SCFF coupled with the Hold Harmless allocation of \$17 million, for total projected funding of \$218M.
- Hold Harmless would sunset in FY 2024-25 with our new funding floor projected at \$234 million with no anticipated change moving into FY 2025-26. For the purpose of Tentative Budget projections, no changes in enrollment were assumed, and a 3.62% COLA was calculated into the formula. The increase in SCFF factors would be applied to our earned base, not our Hold Harmless base, which would narrow the gap between what would become our new funding floor in our earned base but would not result in new net revenue. This trend would continue for 3-5 years under what had currently been proposed by the Governor.

- With current data, we modeled the SCFF to the end of FY 2024-25. At that time, the Hold Harmless gap is projected to be \$30+M.
- In response to a question from Trustee Moreno regarding enrollment projections, Dr. Dunn indicated that the most recent data point used was the P2 enrollment number of 23,421 (approx. a 25% enrollment decline from FY 2016-17), however, under Hold Harmless our revenue is independent of enrollment. Dr. Andreea Serban commented that current projections were not realistic as enrollment continued to decline and even though it was hoped enrollment would increase when we hold more on-site classes, it was impossible to provide an accurate enrollment projection at this time.
- COLA was projected at 6.56%. Not all employee groups would receive state COLA (some ongoing categorical funds were proposed to receive COLA, while others would not). However, due to contractual obligations Coast employees do receive COLA despite not being fully state funded.
- Unrestricted General Fund Projection through FY 2025-26 - we project this year and for the next two years that we would not deficit spend and that we are structurally balanced due to an influx of HEERF monies. Ending balance as a function of total expenses was calculated at 18.68%. By FY 2025-26 we estimate deficit spending would be approximately \$6.4 million. This is a function of our current contractual obligation of pass-through COLA.
- Comparison of Unrestricted General Fund Revenues and Expenditures. Audited actuals showed deficit spending in FY 2019-20 of \$8.7 million; currently we show a projected surplus of \$9.5 million in FY 2021-22 and anticipate a surplus of \$2.8 million in FY 2022-23. We foresee this trend of a surplus in the General Fund through FY 2024-25 (the sunset of Hold Harmless).
- Estimated Beginning Fund Balance for FY 2022-23 of \$45.3 million with Entity Balances of \$4.2 million and an unassigned amount of \$1.5 million. Assigned shows \$2 million for enrollment recruitment and retention, \$500K for future bond exploration and a recommended \$1 million contribution to the Pension Stabilization Trust. With BP 6300 we have a 10% reserve policy - a 5% reserve for contingencies and a 5% ancillary reserve. Additionally, there are line items for Board election, Adult Education, Marketing and Outreach and Health Benefits. The total designated committed expenditures are \$36+million.
- Health Benefits were projected at Tentative with a 3% increase, however, it appears the benefits increase would be closer to 4.3% - an additional cost for the Adopted Budget. Recommendation that \$1.7 million be funded (one time) out of Fund Balance.
- Employee Pension Match – There is a \$4 million uptick in meeting pension obligations (CalSTRS and CalPERS) for the year beginning July 1, 2022. Funds from the Discretionary Block Grant could be used to offset pension match obligations.
- Proposed Changes in Prop 98 Funding System-wide - highlights from May Revise included COLA and change in SCFF factors. Under Prop 98 System-wide Funding there was a proposed \$750 million Discretionary Block Grant (of which Coast would receive approximately \$20 million) with five criteria across which we would spend - professional development, campus security infrastructure, technology infrastructure, development of open education resources and zero textbook cost degrees, and support of mental health and wellness needs of students and staff. This would need to be recorded as a restricted activity, but resources could be used for pension costs.

- The Dept of Finance removed the GWC Fine Arts project from the Capital Outlay List. Julie Clevenger commented that Casey Elliott was setting an appointment for Janet Houlihan and Jerry Marchbank to speak to Chris Ferguson at the Dept of Finance to obtain the reason why it was not included, as funding was available. Our goal would be to go to the legislators to continue advocacy.

#### **10. Update on the Proposed Resolution to Reduce Student-based Costs and Improve Enrollment**

Resolution #22-18 A Resolution of the Board of Trustees of Coast Community College District on State Budget Priorities to Meet Student Needs and Return Enrollment was approved by the Board of Trustees on March 16, 2022, and a copy forwarded to the State.

#### **11. Future Meeting Date**

The next meeting was scheduled for Tuesday, August 23, 2022, at 2:00 p.m. Also, previously scheduled was Tuesday, November 8, 2022, at 2:00 p.m.

#### **12. Future Agenda Items**

- (a) Internal Quarterly Audit Update
- (b) State Legislative Budget Update

#### **13. Adjourn**

Trustee Hornbuckle moved to adjourn the Committee meeting; Trustee Moreno seconded the motion.

Motion carried with the following vote:

Aye:	Trustee Hornbuckle and Trustee Moreno
No:	None
Absent:	None

The meeting adjourned at 3:20 p.m.



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Jane Burton  
Secretary of the Board