

**FINANCE SUB-COMMITTEE MEETING
OF THE BOARD OF TRUSTEES
HOUSTON COMMUNITY COLLEGE**

August 5, 2014

Minutes

The Board of Trustees of Houston Community College held a Finance Sub-committee Meeting on Tuesday, August 5, 2014, at the HCC Administration Building, 2nd Floor, 3100 Main in Seminar Room B, Houston, Texas.

MEMBERS PRESENT

Neeta Sane, *Chair*
Adriana Tamez, *Committee Member*
Robert Glaser, *Alternate Committee Member*
Zeph Capo
Eva Loredo
Sandie Mullins
Carroll G. Robinson
David B. Wilson

ADMINISTRATION

Cesar Maldonado, Chancellor
E. Ashley Smith, Acting General Counsel
Shantay Grays, Chief of Staff
William Carter, Vice Chancellor, Information Technology
Thomas Estes, Vice Chancellor, Special Projects and Bond Program
Zachary Hodges, Acting Vice Chancellor, Academic Affairs
Diana Pino, Vice Chancellor, Student Services
Teri Zamora, Vice Chancellor, Finance and Planning
Fred Zeidman, Vice Chancellor, Institutional Advancement
William Hurd for Margaret Ford Fisher, President, Northeast College
Julian Fisher for Fena Garza, President, Southwest College
Cheryl Peters for William Harmon, President, Central College
Butch Herod, Acting President, Northwest College
Irene Porcarello, President, Southeast College
Betty Young, President, Coleman College
Janet May, Chief Human Resources Officer

OTHERS PRESENT

Derrick Mitchell, Board Counsel, Bracewell & Giuliani
Michelle Novak, President, Faculty Senate
Ava Cosey, President, COPA
Jorge Rodriguez, Financial Advisor, Coastal Securities
Other administrators, citizens and representatives from the news media

CALL TO ORDER

Dr. Adriana Tamez, Chair, called the meeting to order at 11:03 a.m. and declared the Board convened to consider matters pertaining to Houston Community College as listed on the duly posted Meeting Notice.

(The following Trustees were present: Capo, Glaser, Robinson, Tamez and Wilson)

BUDGET WORKSHOP REGARDING PROPOSED BUDGETS (UNRESTRICTED AND RESTRICTED FUNDS) FOR FISCAL YEAR 2014-2015

Dr. Cesar Maldonado noted that the presentation will review the new budget recommended for approval. He informed that there will be a transition regarding the budget process. He apprised that time did not allow for the transition this budget cycle.

Dr. Maldonado introduced Mrs. Teri Zamora to provide an overview of the budget.

Mrs. Zamora provided an overview to include the following:

- Enrollment Growth (3% sustainable)

(Ms. Loredo arrived at 11:11 a.m.)

Mr. Robinson requested a list of academic and workforce programs where sections are maxed out to determine which courses are the performance programs. Dr. Maldonado noted that with the historical process course scheduling followed the budget process and informed that moving forward the process will change. He apprised that the requested information could be provided; however, it will require time to compile.

Mr. Robinson noted that he has questions regarding the faculty and informed that he would presume that there is a formula in place for opening sections. He apprised that stating that sections will be opened is not sufficient.

(Ms. Mullins arrived at 11:13 a.m.)

Ms. Loredo inquired of the number of students allowed to register after the section is full. Dr. Maldonado noted that he is not aware of a hard number and informed that the decision is up to the colleges. He apprised that an analysis could be provided.

Mrs. Zamora continued with the overview to include:

- External Influences on the Budget
- Budget Assumptions
- FY 2014-2015 Revenue and Budget Surplus History (Current Unrestricted)

Mr. Wilson noted that the purchase order (PO) rollover was \$6.7 million and requested to review the amount by line item. Dr. Maldonado apprised that the rollover POs are funds allocated by the colleges and include open purchase orders that were secured this fiscal year.

Mrs. Zamora informed that often rollovers may be due to holding off on the purchase to make certain the funds would be available.

Mr. Wilson noted that the effort would transfer \$14 million to cover the costs. Mrs. Zamora apprised that the \$14 million was the proposed amount and noted that the actual amount will be approximately \$3 million. Mrs. Zamora apprised that there was sufficient underspending in other areas of the budget that decreased the need of the reserve funds.

Mr. Capo requested a review of projects that were funded and a status of the ones not completed.

Mr. Robinson noted that the county has made an official challenge to the appraisal district regarding under valuation of commercial properties. He inquired if there has been a review of the amount of commercial property that is within HCC's taxing district. He recommended reviewing revenue generation if the valuation is increased regarding those properties.

Mr. Robinson inquired if the \$6 million that is being rolled over would have been expended, if the dip into the fund balance was deeper. Mrs. Zamora noted that at the end of last year there was \$6.7 million dollars in POs that were not anticipated by August 31, 2014. She informed that if they carry over into the next year then the fund balance will need to be carried over to cover the expenses as they will not be covered in revenues.

Mr. Robinson apprised that ultimately \$6 million will be paid out of the fund balance. Mrs. Zamora noted that most of the POs will be completed by August 31st and should not be carried as a rollover.

Mr. Robinson inquired if there was not sufficient cash in the current budget for all items. Dr. Maldonado apprised that the presumption under the scenario referenced was that the items were not budgeted; however, they were. Mrs. Zamora noted that there will not be any carryovers in the future.

(Mrs. Sane arrived at 11:32 a.m.)

Dr. Maldonado informed that the practice to carry forward will be stopped.

(Mrs. Sane stepped out at 11:33 a.m. and returned at 11:34 a.m.)

Dr. Maldonado apprised that the budget presented is based on the valuation, so as the valuation goes up the tax rate goes down.

Mrs. Zamora continued with the presentation:

- FY 2014-15 Revenue Recommendations
- Sources of Unrestricted Revenue

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Mr. Robinson inquired as to where on the chart are grants overhead and unrestricted funds for Fund 3 located. Mrs. Zamora noted that grants are part of other and that Fund 3 is not included in the budget presentation.

Mr. Robinson inquired if a review of the unrestricted Fund 3 could be provided. Dr. Maldonado informed that the information would be provided.

Mrs. Zamora continued with the presentation:

- Sources of Unrestricted Revenue
- Comparative Average Cost of Attendance
- Ad Valorem Tax Rate as Compared to HCC Peers

Mrs. Zamora apprised that the combined tax rate recommended in the budget would be 0.114540, which represents an increase of \$12 for Maintenance & Operations (M&O) and \$27 for debt tax rate on a house valued at \$250,000.

Mrs. Zamora noted that the possible increase provided to the community during the bond education engagement was up to 2.7 cents; however, the proposed would be less at 1.2 cent.

Mr. Robinson informed that reviewing the commercial evaluation is imperative so that there could be a discussion of the need for an increase.

Mr. Capo apprised that there is a way to increase the rate and offset by allowing a homeowner exemption. He noted that future consideration should be given to the effort. Dr. Maldonado informed that the college is limited by the rollback. He apprised that there has not been a determination made on the valuation. Dr. Maldonado noted that the tax rates will be adjusted accordingly for the next year and will be included as a part of the budget process.

Mr. Wilson inquired if the debt service rate is from Fund 7. Mrs. Zamora noted that the debt service portion is in Fund 7 and informed that the M&O recommended was \$12, which comes from the operating budget.

Ms. Mullins apprised that it is disturbing that the only answer to resolving the shortage being presented is increasing the ad valorem taxes.

Ms. Loreda expressed concern in consideration of comparative average cost of attendance; other institutions could be more attractive to those students having trouble navigating through the system.

Mrs. Zamora continued with the budget presentation:

- Estimated Impact of Proposed Tax Increase to Homeowner
- Area Homestead Exemption Amounts
- FY 2014-14 Proposed Budget Summary/Detailed Expense (Current Unrestricted)

Mrs. Zamora noted that the salary increase would include a faculty salary increase and a 2% increase for full-time employees.

Mr. Capo inquired if consideration was given to working with partners such as Project Grad to bring on additional advisors. Dr. Diana Pino informed that the discussion was held prior to Project Grad receiving funding.

Mr. Robinson apprised that he would be requesting a listing of all the cuts identified in preparing the proposed budget. He informed that he would like to see the results of the reorganization regarding advising and counseling. Mr. Robinson apprised that the efforts would be to review the opportunity to collaborate with other organizations such as Project Grad to move students through the process. He noted that it appears that the \$3 million allocated in marketing was used to fund athletic contracts.

Ms. Mullins informed that there were presentations regarding marketing and inquired if it is possible to pull all the marketing into one line item. Mrs. Zamora apprised that the information included in the budget includes campus and system funding for marketing.

Dr. Maldonado noted that going forward the effort would be not to utilize Fund 3 for marketing items and informed that the process will be to move the funds accurately and with approval.

Ms. Mullins apprised that there is no need to continue expending on marketing without a solid review of the results. Mr. Capo noted that he would like to see how it is parceled out to include the funding for consultants, system-wide initiatives and colleges. He informed that matrices should be tied to the funding that needs to go to the colleges for marketing.

Mr. Robinson noted that it was interesting to see information in the budget presentation denoting that the vice chancellors received vast funds for marketing and apprised that he would think that more funding would have been allocated to the vice chancellor for academic affairs. Mr. Robinson informed that if the efforts would be to continue with the decentralized process, the presidents would need to make certain there is a presence regarding the marketing in the community and schools.

Mrs. Sane inquired of the marketing costs and noted that she is curious how there could be a measurement regarding the return on investment. She inquired how to measure each expense (salaries, benefits, student services, etc.) as it translates to student outcomes.

(Mr. Capo stepped out at 12:06 p.m.)

Mr. Wilson reference the \$2 million decrease in contracted services and \$1 million decrease in utilities and noted that he would like to see what those consists of. He inquired of the status of the audit of the energy contract.

Ms. Mullins inquired of the percentage allocated by other community colleges regarding marketing funds. Mrs. Sane informed that the percentage should be in comparison to institutions aligned similar to HCC structure.

(Mr. Capo returned at 12:09 p.m.)

Mr. Robinson inquired as to the number of people that visit the college's website and how many apply online. He apprised that there could be a question on the application asking how students hear about HCC. Mr. Robinson noted that other effort could be to cut the marketing budget to zero and see if there is a change regarding enrollment.

Mrs. Zamora continued with the presentation to include:

- Recommended FY 2015 Budget: Strategic Increase Items Funded by Current Operating Budget
 - 2% salary increase for full-time employees
 - 5.5% average increase for adjunct faculty
 - 22 new full time faculty positions
 - Opportunity Fund for additional course sections
 - Benefit increase from TRS regulations changes (mandatory)
- Comparative Adjunct rates
- FY 2014-15 Proposed Budget Summary/Detailed Expense: Current Unrestricted by Operating Unit

Ms. Loreda inquired if there is a typo regarding the instructional & other material for Southeast College on page 22. Mrs. Zamora informed that she would review the number.

Mrs. Zamora apprised that the efforts are to move to a zero based budget. Dr. Maldonado noted that there are methodologies used regarding the allocation and referenced the marketing as an example.

Mr. Wilson inquired of the increase for the vice chancellor positions and inquired if the increase was the result of actions taken by previous administration. Dr. Maldonado informed that a review would be taken regarding vice chancellors expense allocations and apprised that reorganization would be implemented to better align the operations to the institution.

Mr. Robinson noted that there was a discussion held regarding possible accreditation for Coleman College. He informed that there has not been a discussion with the Board regarding how to fund the colleges based on revenue. Mr. Robinson apprised that system administration is a cost center and noted that there needs to be a review of the current budget model.

Mr. Robinson noted that the majority of marketing is allocated to the chancellor. He informed that process currently utilized is not reflective of what is done. He apprised that

if the presidents are going to be held more accountable then they would need to be given the autonomy to market. Mr. Robinson noted that he would like to see all six colleges as cost/profit centers. He informed that Workforce needs to be at the table as a separate enterprise. He apprised that the opportunity fund is a big adjunct faculty pool and noted that if additional adjuncts are needed, then just place the funds in adjunct.

Mrs. Sane informed that the business model needs to be reviewed.

Dr. Tamez apprised that she views the opportunity fund differently and noted that the chancellor needs to be given the chance to reorganize and be allowed to make revisions as needed to grow the college.

(Mr. Robinson stepped out at 12:28 p.m.)

Mr. Capo informed that he would like a balance by increasing full-time faculty to ensure the Southern Association of Colleges and Schools' (SACS) requirements are met. He apprised that faculty and staff should be viewed as system employees and the schedules should be built accordingly. Mr. Capo noted that the opportunity fund could be viewed as a fund balance for staff and course scheduling. Dr. Maldonado informed that the analysis provided is accurate. He apprised that the opportunity fund is allocated to allow for additional sections so that students are not turned away when classes are full. He noted that the fund is developed to allow the opportunity to hold sessions as needed at the discretion of the vice chancellor of academic affairs.

(Mr. Robinson returned at 12:31 p.m.)

Ms. Loreda informed that she is concerned with library hours as it relates to closure on weekends. She apprised that this was one of the concerns expressed by students. She noted that the city closes its branch libraries on Sundays as well. Ms. Loreda informed that the remaining money in the opportunity fund could be used to open libraries at the campuses on the weekend but not on every campus, open libraries could be strategically located. She inquired if student activity funds could be for the libraries.

Dr. Maldonado apprised that the faculty senate report at the Regular Meeting a couple months ago was inaccurate. He noted that a report will be provided to the Board in the monthly administrative report regarding proposed summer library hours. He informed that the location and hours would best be determined by the presidents.

Mr. Robinson requested that childcare is also reviewed. He apprised that if there is a system in place to track students from enrollment then the schedule should be based on the courses the students need as opposed to being faculty driven. Mr. Robinson noted that his effort is to keep students on an academic path to allow them to move through the system.

Mrs. Zamora informed that the total number of current unduplicated students is 86,320; she apprised that certificate students are included; however, workforce is not included.

- FY 2014-15 Related Statistics: Current Unrestricted by Operating Unit

(Mrs. Sane stepped out at 12:46 p.m.)

Mr. Robinson inquired who would be the person to track students' information.

(Mrs. Sane returned at 12:47 p.m.)

Dr. Maldonado noted that the query could be done for one to two students but for a mass number of students, it is difficult to complete. He informed that the college is working on the efforts.

Mrs. Zamora continued with the presentation:

- Unrestricted Expenditures by Comptroller
- Debt Service: Payment Schedule Trend FY 2004-2018
- Debt Retirement Schedule by Source of Funds: Bonds, Notes, and Leases
- Schedule of Debt Payments: Life of Existing Debt Instruments
- THECB FY 2013 Report of Fundable Operating Expenditures: Results from HCC Largest and Selected Instructional Disciplines
- Unrestricted Fund Balance
- Detailed Expenses

Mr. Robinson referenced page 33 and inquired how did the college adopt to the changes made by the state regarding reimbursement for developmental education. He inquired if the change drives down operational cost and how does it affect the revenue stream. Dr. Maldonado apprised that many externalities influence the number. He noted the efforts are to partner with the school districts to keep the number down.

Mr. Robinson inquired of the historical number regarding developmental education. Dr. Diana Pino informed that the number is not available. She apprised that level one certificates and continuing education are being pushed.

Mrs. Sane recessed the meeting at 1:01 p.m. and reconvened at 1:35 p.m.

(Trustees Present: Capo, Glaser, Loreda, Mullins, Robinson, Sane, Tamez, and Wilson)

Dr. Maldonado informed that administration is finished with the presentation and noted that questions would be entertained regarding the budget.

Mr. Capo referenced page 37 regarding detailed expenses. He apprised that he had concerns regarding the “other” category. Mrs. Zamora noted that she had the same concerns and informed that the information has been updated and will be provided to the Board.

Mr. Robinson inquired of the amount in the contingency accounts. Mrs. Zamora referenced page 39 and apprised that contingencies are allocated under the opportunity fund. She noted that the presidents are allocated \$50,000 and informed that a bulk of the contingencies include positions funded by not filled.

Mr. Capo inquired of efforts to identify and target grants for student services and completion. He apprised that there have been previous discussions that there were some grants that are not strategically linked to anything.

Dr. Maldonado noted that moving forward; the strategy will be to create synergy between instruction, student services, and grants. He informed that grants would be determined according to which departments they are associated with and will be relevant to operations. Dr. Maldonado apprised that efforts will be to seek grants according to the mission of the institution.

Mr. Robinson inquired as to who will assist faculty regarding grants. Dr. Maldonado noted that the grants are nurtured in technical areas where there is a body of expertise and through connections with governmental agencies and associations where faculty has a better idea of grants specific to programs; however, the larger grants are best managed from a central location and oversight will be according to the college.

Mr. Robinson requested a breakdown of workforce, corporate college and entrepreneurship programs to include enrollment, revenue and staffing.

Mr. Capo inquired of areas that have been identified where dollars can be repurposed within the budget to ensure funds are best utilized and prioritized.

Mr. Robinson informed that there was a discussion regarding allocated funds for police officers and inquired of the number of positions filled. Chief Greg Cunningham apprised that twelve positions are open if speaking of police officers only, if including civilian staff the number is fourteen to fifteen. He noted that there has been a partnership with Human Resources (HR) regarding that the remainder will be filled once the budget is approved.

Mr. Robinson requested that the Board be kept apprised as the certified police hires are completed. Dr. Maldonado noted that an update would be provided.

Mr. Wilson informed that he would recommend reviewing reorganizing the department. He apprised that consideration should be given to a conservative cost savings budget.

Mr. Capo referenced the fund balance and noted that the estimated reserve by August 31, 2014 is \$79 million. Mrs. Zamora noted that the months of May-August have low

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revenue with higher expenses. She referenced page 34 of the budget presentation and noted that the estimation is \$104 million.

Mr. Capo apprised that the reserve balance should be more closely aligned with the policy and noted that there needs to be a conversation at the Board level. He informed that the fund does not need to be growing if it does not support the college.

Dr. Maldonado noted that administration would be bringing forth a policy recommendation regarding the reserve.

Mr. Capo informed that the policy side will be discussed in the Board Governance Committee; however, the number set should be a full Board discussion.

Mr. Robinson apprised that he is in favor of providing scholarships and that he was for a tax increase if 1/8 of a penny would be set aside for scholarships. He apprised that Dr. Estes provided a recommendation that included some usage of surplus funds at the end of the year. Mr. Robinson noted that he would like for a portion of the fund balance to be allocated for a sinking fund for scholarships.

Mr. Robinson informed that a Board conversation should be held prior to administration bringing forth a recommendation.

Mrs. Sane apprised that a discussion of the Board's priorities is in the pipeline.

Mr. Glaser noted that subsidizing education is a winning model. He informed that he would like a model where the Board of Trustees and Foundation Board are aligned. He apprised that the effort should be to move forward in partnership with the Foundation.

Mr. Glaser noted that he is not familiar with moving from the workshop to an approved budget. He informed that he is not in favor of an M&O increase. Mr. Glaser apprised that if the City of Houston does not have to increase its taxes then the college should not need to increase its taxes.

Mrs. Sane noted that the workshop is to discuss and she noted that administration will be bringing forth a recommended budget at the Committee of the Whole meeting scheduled for August 14, 2014.

Mr. Wilson apprised that the college went from zero debt to over a billion dollars in debt, which cost \$76 million annually.

Ms. Mullins requested a review of the athletic fees and inquired if the department is sustaining itself.

(Dr. Tamez left at 2:07 p.m.)

Mr. Capo expressed appreciation to the chancellor for bringing the adjunct faculty salary together; however, he does not understand the recommendation of one pay rate for all

adjunct faculty. He recommended adding differential pay for faculty with masters or doctoral degrees.

Mr. Robinson inquired of the unrestricted revenue that will be generated for Fund 3. He noted that much of the data that he has been requesting was provided in the budget presentation.

ADJOURNMENT

With no further business coming before the Board, the meeting adjourned at 2:10 p.m.

Minutes recorded, transcribed & submitted by:
Sharon Wright, Manager, Board Services

Minutes Approved as Submitted: September 18, 2014