Peralta Community College District

333 East Eighth Street • Oakland, California 94606 • (510) 466-7200

Office of Finance and Administration

Memorandum

To: Dr. Wise Allen, Chancellor

Cc: Cy Gulassa, Board President
Dr. William Riley, Board Vice President
Bill Withrow, Trustee
Marcie Hodge, Trustee
Linda Handy, Trustee
Nicky González Yuen, Trustee
Abel Guillén, Trustee

From: Ronald Gerhard, Vice Chancellor

Date: January 24, 2012

Subject: **Redirection of Financial Resources**

At the November 15, 2011 the Board of Trustees' meeting the Board approved Resolution 11/12-22 in Support of Socially Responsible and Local Investment of Peralta Community College District Student Fees, Community Tax Dollars and other Financial Resources. Direction was given to the Chancellor to provide a recommendation of how to best bring about a timely, efficient and responsible redirection of financial resources maintained, influenced or controlled by the District and its subsidiary organizations. This memorandum has been prepared in direct response to this resolution. At its February 28, 2012 meeting the Board of Trustees will receive the next Retirement Board quarterly report that will provide a summary of actions taken to integrate socially responsible investment parameters and polices within the investment structure.

Regulatory environment

As an instrumentality of the State of California there are regulations and guidelines that govern the permissibility of a community college to deposit funds outside of the county treasury having jurisdiction over the community college district. The State's Budget and Accounting Manual (BAAM) states the following, "... the governing board of any community college district may, for the purpose of expediting business service transactions and in accordance with sound business practices, establish separate bank accounts for functions or revenue-producing activities or operations not directly associated with, but complementary to, the regular instructional and noninstructional functions of the district and colleges." Permissible activities include:

- Cafeteria
- Bookstore

- Student financial aid
- Scholarship and loan activities
- Trust accounts
- Associated Student Body accounts

Further, the BAAM states that all funds on deposit by the district should be in financial institutions whose accounts are federally insured (FDIC). Any amounts in excess of the FDIC limits should be collateralized by agreement with the financial institution.

Current Environment

The District currently has approximately 98 separate and distinct bank accounts held with 12 different financial institutions. The 98 accounts support everything from the General Fund to Associated Students and are held with institutions ranging from the County of Alameda to Wells Fargo Bank. As of the previous fiscal year end, the District had in deposits approximately $375 million. Of which, $362 million is invested, as is required under the parameters previously discussed, within the Alameda County Treasurer's Office. The remaining $13 million is available to be redirected in accordance with the desires of the Board. The institutions in which these funds are currently held are Bank of America, Bank of Alameda, US Bank, and Wells Fargo.

Recommendation

In an effort to bring about a timely, efficient and responsible redirection of financial resources, I am recommending that the District go through a competitive and transparent process. Through the release of a request for information (RFI), the District would be able to select community partners whose goals, mission, values and community presence align with those of the District. If approved by the Chancellor and Board of Trustees, the RFI would be released in February and close no later than April. The successful list of financial institutions would then go before the Board during a regularly scheduled meeting held in May and, if approved, the redirection would occur shortly thereafter.

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To: Dr. Wise Allen, Chancellor

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Subject: **Budget Update**

Contained within the budget updates provided during the Fall much of the focus was on California revenues. More specifically, projections conducted by the Department of Finance and the LAO measured state revenues compared to the budget. Based upon these comparisons, they projected the magnitude of any shortfall. On Tuesday, December 13, 2011 the Department of Finance released its revised revenue forecasts that estimated a $2.2 billion shortfall. Therefore, in accordance with statute, midyear cuts to community colleges of $102 million were enacted. Peralta's proportional share of these cuts is $1.7 million. In addition to the midyear cuts, beginning Summer 2012 student fees will increase by $10 per unit. Thankfully, in building this fiscal year's budget steps were taken and assumptions were made that incorporated this midyear cut. As a result, no budget changes are necessary at this time.

More recently, the Governor has released his 2012-13 initial budget. Within this budget the Governor recognized an estimated budget deficit of $9.2 billion. Of this amount, $4.1 billion is a carry-over from the previous fiscal year and $5.1 billion is identified as related to fiscal year 2012-13. Albeit, $9.2 billion is much less than previous years' identified deficits of $20+ billion; any solution that calls for additional cuts alone will be catastrophic. Recognizing this and similar to his approach in last fiscal year's budget, he is calling for a combination of increased revenues and further spending cuts. At the foundation of his revenue proposal is a tax measure that if approved by the voters in a November 2012 election would raise the income tax rate on higher income earners and increase the sales tax by one-half cent through 2016. It is estimated that these temporary taxes will provide $4.4 billion in additional revenue for K-12 and community colleges. Specific to community colleges, the Governor's budget proposes:

- Apportionments—The Governor proposes to buy down $218.3 million in deferrals if the Governor's November 2012 tax initiative is passed. The Governor's Proposal notes that this deferral reduction is proportional to the restoration of funding in K-12 education. No cost-of-living adjustment is provided.

- Categorical Program Consolidation and Flexibility—The Governor's Proposal includes an outline to consolidate "nearly all" categorical programs and provide flexibility for any categorical program purpose. The Student Success Task Force report was recognized by the Administration and will be explored for other ways to expand flexibility for inclusion in his May Revision.
- Cal Grants—GPA requirements will be increased, which will save the state $131.2 million in 2012-13: the GPA requirement for CCC transfers increases from 2.4 to 2.75; Cal Grant A and Cal Grant B requirements are also increased from 3.0 to 3.25 and from 2.0 to 2.75, respectively. Estimating that California Student Aid Commission's recently relaxed uninterrupted enrollment requirement for Transfer Entitlement Awards would cost $70 million, the Administration proposes to maintain the uninterrupted enrollment requirement to avoid these new costs.
- Higher Education Funding Increases—If the Governor's tax initiative is approved, the Governor plans to increase its General Fund contribution to each of the higher education segments by a minimum of 4% per year from 2013-14 through 2015-16.

Should the tax measure fail, the Governor is again proposing midyear trigger reductions. These reductions would be effective January 2013 and include additional cuts to community college of approximately $265 million. Peralta's projected share of these cuts is $5 million.