



Mt. San Antonio College

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To: Bill Scroggins, President & CEO, and President's Cabinet Members

From: The Budget Committee:
Michael Gregoryk (Chair), Richard McGowan(Co-Chair), Irene Malmgren, Audrey Yamagata-Noji, Rosa Royce, Juan Jauregui, Lance Heard, Lisa Romo, Mark Fernandez, Martin Ramey, Michael Sanetrick, Gary Nellesen, Fernando Aguayo (Student), Gary Nellesen, Gisela Carrillo Lopez (Student),

Date: May 6, 2015

Subject: Budget Committee Recommendation – Funding Plan of Other Post-employment Benefits Other Than Pension (OPEB) and Change of the Financial Presentation

On March 19, 2014, the Budget Committee formally recommended to discontinue the College's current practices of one; making no annual contributions to the OPEB Trust, and two; paying the retirees' health premiums from the interest earned on the OPEB Trust. As a result, the College implemented a plan for the 2014-15 fiscal year, which consisted of funding a \$2,500,000 payment towards the annual contribution to the OPEB Trust from the Unrestricted General Fund on a one-time basis and continue paying the health premiums from the interest earned on the OPEB Trust.

Effective with the 2015-16 fiscal year, the Budget Committee members would like to formally recommend:

- The College continue the funding of \$2,500,000 towards the annual contribution to the OPEB Trust on an ongoing basis from the Unrestricted General Fund;
- paying the retirees' health premiums from the interest earned on the OPEB Trust;
- if the interest earned from the OPEB Trust does not cover the annual cost of the health premiums in any given fiscal year, the difference will be covered by the Unrestricted General Fund; and
- change the financial presentation of the OPEB annual contribution and health premiums to reflect the \$2,500,000 as an ongoing expenditure budget, and the difference as a one-time expenditure budget with the corresponding one-time budget savings.

The following are some very important reasons to consider this recommendation:

- To decrease the accumulating OPEB liability, which is estimated to be \$24,378,207 as of June 30, 2016;

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- increased liabilities in the audited financial statements may have an adverse effect on bond ratings as they reduce the net assets of the College;
- GASB 45 standards which require public agencies to account for retiree health benefits like pensions. These standards apply to accrual basis financial statements;
- accreditation reviews now include making sure there is an “institutional plan for funding the liability,” and
- accurately reflect the structural ongoing deficit of the College. A large portion of the structural deficit is the cost of the OPEB annual contribution and the retirees’ health premiums. Including these budget expenditures as ongoing and subtracting them as one-time savings distorts the ongoing structural deficit. Only the portion actually committed for payment will be shown in the ongoing section of the College financial reports.

The Budget Committee would like to hear your ideas on the above plan, which will allow the College to continue to recover from the devastating State budget reductions of \$12.7 million in the 2011-12 fiscal year. Committee members would like to see a final plan and begin implementation effective with the 2015-16 fiscal year.

Thank you for your consideration.

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