



Governing Board's Finance and Audit Committee

Friday, April 15, 2022

9:00am

Virtual Meeting - Zoom Webinar

### Meeting Minutes

#### In Attendance:

Scott Odom (Chair), David Bea (Ex-Officio), Ben Tuchi, Daniel Soza (Ex-Officio), Agnes Maina (Ex-Officio), Laura Ward, Jesus Manzanedo, Kathleen Witt, Ken Marcus, Demion Clinco, Maria Garcia, Keri Hill (Recorder)

#### Guests:

John Utter, RBC Global Asset Management; Jose Saldamando, Internal Auditor; David Parker, Director of Enterprise Risk Management

#### General Matters

##### 1. Call to Order

Chair Odom called the meeting to order at 9:01am, noting a quorum was met.

#### Action Items

##### 2. Approval of Minutes from February 18, 2022

Chair Odom asked if the Committee had any changes to the minutes. With one change to update the attendance, a motion was made to approve the minutes.

*Motion No. 202204-01: Approve Minutes from February 18, 2022*

First: Laura Ward

Second: Ben Tuchi

Vote: Motion passed unanimously (Odom, Tuchi, Ward, Witt, Marcus voting in favor)

Motion Carried.

#### Reports and Feedback

##### 3. Investment Report (John Utter)

Mr. Utter began his presentation with an overview of current world events and their impact on the bond market. He continued with the summary of portfolio characteristics and the distribution before reviewing the 1-3 year portfolio. Rates are still drifting higher, but parts of the bond market are starting to moderate.

Mr. Manzanedo joined the meeting in progress.

The yield, performance, and distribution of the ultra-short portfolio were discussed. Mr. Tuchi asked about the portfolio's position, and Mr. Utter described the philosophy. Chair Odom inquired about the College's portfolio management, and Ms. Maina explained how it is balanced.

Mr. Clinco joined the meeting in progress.

Mr. Utter discussed the U.S. economic backdrop related to COVID-19, consumer resilience, employment recovery, and inflation. The rebound of the U.S. economy takes into consideration unemployment rates, economic activity, and job growth. Mr. Marcus inquired about the effect of the number of people leaving the job market, as it is challenging to fill positions. Mr. Utter stated that many are starting businesses or seeking early retirement. Supply chain and climate change are also increasing pressure.

Dr. Bea provided perspective on the College, as the Great Resignation is not impacting the stability of its workforce. Some are choosing retirement, but overall there are pockets of difficult hiring consistent with personnel patterns pre-COVID-19.

Mr. Utter concluded with the outlook. The supply chain and the challenge of combating inflation will lead to slower growth. Geopolitical issues, the U.S. GDP, and anticipated actions by the Federal Reserve were discussed.

Chair Odom asked if there were any additional questions from the Committee. With no further questions, Mr. Utter concluded his report.

#### **4. Internal Audit Report (Jose Saldamando)**

Mr. Saldamando introduced the Office of the Internal Auditor Executive Summary Quarterly Report for April 2022, beginning with a general update of current activities. The Construction Projects and Information Technology (IT) audits are co-sourced with HeinfeldMeech, and Mr. Saldamando discussed the status of these items. The Safety and Security Audit is paused, as the College has contracted with True North Consulting Group to perform a Security Master Plan Points of Interest report. Internal Audit will continue the audit once the report is completed.

Internal Audit is developing a newsletter, and any ideas for this communication can be shared with the Office of the EVC for Finance and Administration for conveyance to Mr. Saldamando.

Mr. Saldamando is developing the Internal Audit Risk Assessment Survey, which will be sent to Director-level and above employees later this month. Updates on the Security Access Workgroup and the Grants Audit were discussed, as well as reporting tools in development with the College's Strategy, Analytics and Research department.

A summary of the current audits and the status of open findings was reviewed. The open audits include Automotive, 2020 Center for International Education and Global Engagement, IT, Key

Controls Review, Clery Act Compliance, and Procurement and Contracts. As discussed at the February meeting of this Committee, there were no findings by the Arizona Auditor General during the most recent audit cycle.

Mr. Saldamando concluded with a summary of the detailed audit plan and compliance and guidance items.

Mr. Clinco asked for additional details about the Facilities audit. The audit is assessing the controls related to construction, and it is a component of both the Internal Audit Plan and the Chancellor's Goals. The security audit, as discussed above, is the second part of the Facilities audit.

Ms. Ward noted the thoroughness of the analytics, as well as the low number of findings still open and the data analytics that will be gained as a result of these reports. Mr. Odom thanked Mr. Saldamando for his report.

#### **5. Enterprise Risk Management (David Parker)**

Mr. Parker reported on the status of Enterprise Risk Management (ERM), including training and policy development. A risk register and strategy will be developed and included as a component of future reports to this Committee.

Regarding operational and insurance risk, rate increases from The Arizona School Risk Retention Trust were provided. Additional coverage for providing builder's risk (course of construction) for new construction and major renovation projects will be added, starting with the Center of Excellence for Health Professions. The policy changes will lead to overall cost savings for the College.

Cyber insurance remains the most significant challenge, as discussed with this Committee at the February meeting.

Ms. Ward congratulated Mr. Parker on completing certification from the *Society of Corporate Compliance and Ethics'* Compliance and Ethics Academy. Mr. Parker concluded his report.

Ms. Garcia joined the meeting in progress.

#### **6. CFO Update (David Bea)**

##### **a. Revenue Bonds**

An update on the revenue bonds was provided to this Committee.

#### **Action Items (Continued)**

##### **7. Committee Feedback on Fiscal Year 2023 Proposed Budget & Three-Year Budget Plan**

Dr. Bea stated that this topic was included as an Action Item on the agenda to provide the Committee with the option to provide feedback on the proposed budget.

A short presentation on the College's budget was sent with the meeting materials; if there is interest in more formal training, Committee members may contact the Office of the EVC for Finance and Administration.

The proposed Fiscal Year (FY) 2023 budget will prioritize employee compensation, emphasizing the classification and compensation study, salary adjustments, and adjunct faculty pay. Additional priorities include institutionalizing initiatives funded by the Higher Education Emergency Relief Funds (HEERF) and other grants, completing capital construction and deferred maintenance, reallocating resources to support growth areas, enhancing marketing, and increasing student scholarships.

Dr. Bea updated the Committee on the FY 2023 revenue summary, including an approved tuition increase, a proposed property tax levy increase of 4%, Prop 207 funds, and state appropriations for STEM. The Board has already indicated support for the property tax increase.

Regarding employee compensation, the College has provided minimal increases over recent years while trying to hold employees harmless during economic challenges. There have been very few layoffs as the focus has been to reduce the number of jobs via attrition. The classification and compensation (class/comp) study will bring employees to market to retain and attract talent. The current staff structure has compression challenges, as many of these employees are clustered at Step 1 of their salary scales.

There are steering committees for faculty and staff, and the project team includes the College's contracted vendor, Segal. The intention is to implement the new salary scales during FY 2023.

Mr. Clinco inquired about the possibility of a performance-based model, as the Board has expressed interest. Dr. Bea stated that the first phase of implementation includes discussion about an employee not being eligible for a step-type increase if the individual is on a performance improvement plan. There is a lot of nuance with additional performance-based metrics, and the new compensation structure will allow for the future implementation of a more enhanced performance-based model.

Current estimates are approximately \$10M in compensation changes due to the class/comp study. The College is seeking to identify appropriate revenues for implementation and has committed to no employee making less money. Given the pressures of inflation, the College is striving to provide a minimum adjustment for all regular employees.

A tiered system for adjunct faculty is being explored to retain senior adjunct faculty.

The proposed 4% property tax levy will make significant progress toward employee compensation. Mr. Clinco asked if the community members of this Committee had any feedback on the proposed property tax increase.

Chair Odom asked about the tuition increase; Dr. Bea stated that it was approximately a 2% increase and that those revenues would be utilized to operationalize HEERF initiatives. Chair Odom noted that the increase in the property tax levy would shift the burden for generating revenues. Given decreasing enrollment, it is important not to raise taxes to increase operational expenses that cannot be maintained.

Ms. Garcia continues to be concerned with the large number of facilities and physical space at the College, especially given low enrollment and usage. Mr. Manzanedo asked how much the 4% property tax increase would accomplish for employee compensation and if there are impacts on construction projects and the future deferred maintenance. Dr. Bea stated that the goal is to develop a budget that sustains all operational needs. Capital projects are funded out of fund balance, and future budgets will include operationalizing deferred maintenance expenses. Per Ms. Garcia's concerns, Dr. Bea stated that there is currently no appetite for closing a campus.

Chair Odom inquired about the volume of capital projects and the discussions on the ability to maintain them. Dr. Bea stated that this year's capital discussions considered funding available, realistic enrollment projections, and the capacity of employees and the supply chain.

Mr. Clinco noted the need to increase physical space to support programs such as Aviation and Nursing since new facilities allow for increased enrollment capacity. There is likely no need for a Center of Excellence in all program areas, and Dr. Bea stated that community colleges nationwide are experiencing a challenge with general education programs.

Ms. Garcia asked about the hotel properties at the Downtown Campus and their purpose. An additional property was discussed. Dr. Bea stated that there is a need to create usable facilities, and the College could lease or sell property later.

Mr. Tuchi asked about a summary of the spaces that are currently unused or underused. Dr. Bea spoke about this issue and the inefficiencies in scheduling, given the number of campuses and the declining enrollment. Mr. Tuchi asked if this responsibility should fall under Dr. Bea's purview, and Dr. Bea indicated that it does in concert with the Academic areas. The proposed scenarios in the three-year budget plans include an Aggressive scenario and the possible suggestion to close a campus.

Chair Odom asked if there is a consensus among the Committee on the components of the FY 2023 budget and the scenarios in the three-year plan. Ms. Garcia is hoping the Committee will recommend a look at utilization, and she asked if leased properties will include full cost-recovery. Dr. Bea stated that is the intention, describing current leases and partnerships.

Ms. Garcia also noted the need to increase efficiencies to reduce expenses and not rely heavily on the tax base. Mr. Manzanedo stated that levy neutral is not the best option, and a 4% increase

seems reasonable. Mr. Tuchi concurred. Mr. Marcus noted that there might be taxpayer pushback, especially given inflation. Ms. Ward supported maintaining talent and utilizing an increase in property taxes to facilitate this initiative.

Mr. Marcus departed the meeting, noting he would support an increase to the property tax levy up to four percent.

Mr. Clinco suggested that this Committee may provide a recommendation not to exceed a 4% increase to the property tax levy, and the Board would consider this recommendation in their decision-making. Dr. Bea described the Truth in Taxation process, including notification and the Public Hearing. A 4% increase on a \$100,000 property would equal approximately \$5.00 per year for the homeowner.

Mr. Manzanedo stated that any increase could provide negative optics based on the number going up. Mr. Clinco noted that the approval by the community for Prop 481 may indicate support for the proposed property tax levy.

A motion was made to provide a statement on the Fiscal Year 2023 Proposed Budget:

*Motion No. 202204-02: Understanding that there are short-term obligations and a need to correct to market compensation, this Committee is supportive of an increase to the property tax levy of up to 4% with an expressed need to redouble efforts to better define underutilized facilities and develop operational efficiencies.*

First: Jesus Manzanedo

Second: Ben Tuchi

Vote: Motion passed unanimously (Odom, Tuchi, Clinco, Ward, Manzanedo, Witt, Garcia voting in favor)

Motion Carried.

## Information Items

### 8. Future Agenda Items

- a. Workforce Update
- b. Marketing
- c. Adult Education
- d. Office of Dispute Resolution
- e. Space Usage

## Adjournment

The meeting adjourned at 11:32am.

**Next Meeting:**

June 17, 2022

Virtual Meeting - Zoom Webinar