



Governing Board's Finance and Audit Committee

Friday, February 18, 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, Ken Marcus, Demion Clinco, Maria Garcia, Keri Hill (Recorder)

Not in Attendance:

Kathleen Witt

Guests:

Katherine Edwards-Decker and Rene Carrasco from the Arizona Auditor General; Director David Parker; Chief of Staff Tom Davis; Vice Chancellor Morgan Phillips; Keiran Roche, Tucson Lead, Catholic University

General Matters

1. Call to Order

Chair Odom called the meeting to order at 9:02am, noting a quorum was met.

Action Items

2. Approval of Minutes from December 10, 2021

Chair Odom asked if the Committee had any changes to the minutes. With no changes, a motion was made to approve the minutes.

Motion No. 202202-01: Approve Minutes from December 10, 2021

First: Jesus Manzanedo

Second: Laura Ward

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

Motion Carried.

Reports and Feedback

3. Arizona Auditor General (Katherine Edwards Decker, Rene Carrasco)

Ms. Edwards Decker and Mr. Carrasco joined the meeting to provide an overview of the reports issued by the Arizona Auditor General. Ms. Edwards Decker began with the Annual Comprehensive Financial Report and the opinion issued by the Auditor General.

She continued with the Single Audit, noting that the Information Technology finding from recent years has been closed. There were no findings related to federal programs or internal controls and compliance. This audit also included a review of the federal COVID-19 relief dollars (from the Higher Education Emergency Relief Funds); this is the second year the HEERF funds have been audited.

With no questions from the Committee, Ms. Edwards Decker concluded the report.

4. CFO Update (David Bea)

a. Revenue Bonds

Dr. Bea began with an update on the revenue bonds. Projects are moving forward despite some challenges related to supply chain disruptions.

b. Public Safety Personnel Retirement System (PSPRS)

Ms. Maina stated that the College is continuing to make progress toward the unfunded liability for the Public Safety Personnel Retirement System and is continuing on the plan this Committee reviewed and approved last year. The College is on track to be fully funded to the 75% target within the five-year plan date.

c. Arizona State Retirement System (ASRS)

Dr. Bea stated that the Arizona State Retirement System is concerned about unfunded liability and future retirements as it looks forward. Legislation has been proposed to pay down the unfunded liability in exchange for a credit against future contributions. ASRS will invest the money upfront to pay down the unfunded liability to reduce contribution rates in the future. Participating entities could issue debt to pay off the unfunded liability.

Per the College's financial advisor, Stifel, the net positive difference between the annual debt service and the credit would be approximately \$1.0M per year. There is an expenditure limitation issue related to this, as the College would then issue one payment to ASRS that would count as an operational expense.

Chair Odom asked for additional information about how the College manages the unfunded liability. The College's unfunded liability for PSPRS is based on the number of people currently working for the College. For ASRS, it is a share of the College's liability in the entire system. The College is not required to participate in the proposed program. Chair Odom noted that more analysis would be needed if the College moved in this direction. Dr. Bea stated that the incentive provided by ASRS would pay back both the debt issuance and any applicable interest rates.

d. Fiscal Year 2023 Budget Development

The College is in the process of developing the Fiscal Year 2023 budget, and the Board will be holding a Study Session on February 21, 2022, on this topic. There is likely to be a recommendation to phase in the maximum property tax levy. Moderate tuition increases will be discussed to fund

continuing HEERF initiatives, such as the student device lending program and test proctoring. The classification and compensation study and overall compensation strategies will be prioritized in the budget.

With declining enrollment, staffing and infrastructure are misaligned, and a three-year plan will be developed to right-size the College. Mr. Clinco asked for additional information about the metrics the College is creating. Dr. Bea stated that a realistic ratio of Full Time Student Equivalents (FTSE) to staff is being developed; the preliminary target ratio is 15 FTSE to 1 staff position, which means a reduction in more than 100 staff positions based on current enrollment.

Mr. Clinco also asked for a refresh on comparisons to other institutions. It is unlikely that community colleges will recover the enrollments they once had, and the College is seeking to demonstrate good stewardship realistically. Dr. Bea stated that the majority of the Arizona community colleges will soon be facing expenditure limitation challenges if enrollment does not bounce back.

e. Fiscal Year 2022 Capital Project Plan Update

The second quarterly report on this year's capital project plan was provided as information.

f. Fitch Ratings

Fitch Ratings reaffirmed the College's bond ratings. This is significant because the revenue bonds rating is directly tied to tuition revenues driven by enrollment. Fitch noted a future risk related to tuition and enrollment as a lack of tuition increases might contribute to a future downgrade in the bond rating.

Mr. Tuchi commended the College on maintaining the rating despite the current challenges; Chair Odom concurred.

g. Strategy, Analytics, and Research

Additional dashboards from STAR are available as the department continues to release robust reporting tools.

5. Enterprise Risk Management (ERM) Report (David Parker)

Ms. Garcia joined the meeting progress.

Mr. Parker stated that the ERM Workgroup is engaged in training with North Carolina State University. The workgroup meets once a month, and model tools are being provided to the team.

Mr. Parker continued with an update on operations and College insurance policies, focusing on cybersecurity and The Arizona School Risk Retention Trust conversations. The College is implementing multi-factor authentication, and Dr. Bea noted that there might be pushback as this will change current processes and create additional steps that are not popular but necessary. Chair

Odom inquired about the College's cyber coverage policies and review of comparable institutions. Mr. Parker stated the College has \$6.0M of coverage across two policies, and an insurance broker and various professional organizations assist the College with determining the coverage limits.

The cost of new construction and lifecycle replacements is impacting the projected renewal rates for College insurance.

The College's Compliance Program is in the framework research phase, and best practices and professional groups are being utilized for this development. Chair Odom thanked Mr. Parker for his report.

6. Partnership with Catholic University (Tom Davis, Morgan Phillips, Keiran Roche)

Mr. Davis introduced himself, Dr. Phillips, and Mr. Roche and provided a background of the development of the partnership with the Catholic University of America, which began before the onset of the COVID-19 pandemic.

Mr. Roche began with the program's purpose, which is to provide affordable undergraduate business degree programs for Tucson students. The model utilizes hybrid learning, with a mix of online and in-person, and there are plans to expand to additional program areas. Mr. Roche continued with a review of Catholic University's Tucson team and described community engagement. Current enrollment, tuition, and curriculum were discussed.

Dr. Phillips discussed the benefits to students, as Catholic University is leasing space at the Downtown Campus.

Chair Odom inquired about the tuition revenue structures. Dr. Phillips stated that the College receives the same tuition as students not enrolled in the program. With no other questions from the Committee, Chair Odom thanked them for the report.

Information Items

7. Future Agenda Items

- a. Workforce Update
- b. Marketing
- c. Adult Education
- d. Office of Dispute Resolution
- e. Space Usage
- f. Fiscal Year 2023 Proposed Budget & Three-Year Budget Plans (April)

Adjournment

Mr. Manzanedo mentioned a recent news article about the Association of Community College Trustees (ACCT) awards to Mr. Clinco and faculty member Dr. Mays Imad.

Mr. Manzanedo also asked about the potential return to onsite meetings. Dr. Bea said this would be additional discussion as COVID restrictions are lifted, and there are potential opportunities for hybrid meetings to utilize new technology.

Related to membership, Mr. Vatne has concluded his term on the Committee. Names of potential nominees can be sent to Dr. Bea's office.

Mr. Clinco asked this Committee to provide their insight to the Board on the three-year scenarios. This topic will be a focus at the April meeting of this Committee.

The meeting adjourned at 10:28am.

Next Meeting:

April 15, 2022

Virtual Meeting - Zoom Webinar