Early Retirement and Other Benefit Strategies with Approaching Fiscal Challenges Ahead

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Presenters

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Topics to be Covered

Objective - With fiscal challenges fast approaching, discover how early retirement plans and other employee benefit strategies can be used to help your district navigate these potentially difficult times:

- The state's changing fiscal environment and its impact on community college districts
- Strategic approaches to right-sizing the workforce and reducing the budget, specifically:
  - Early retirement or separation incentives
  - Case study from Victor Valley Community College District
- Control ongoing STRS/PERS, retiree healthcare costs

Fiscal Challenges *Fast* Approaching

Presented By: Michelle McKay Underwood,
Vice President

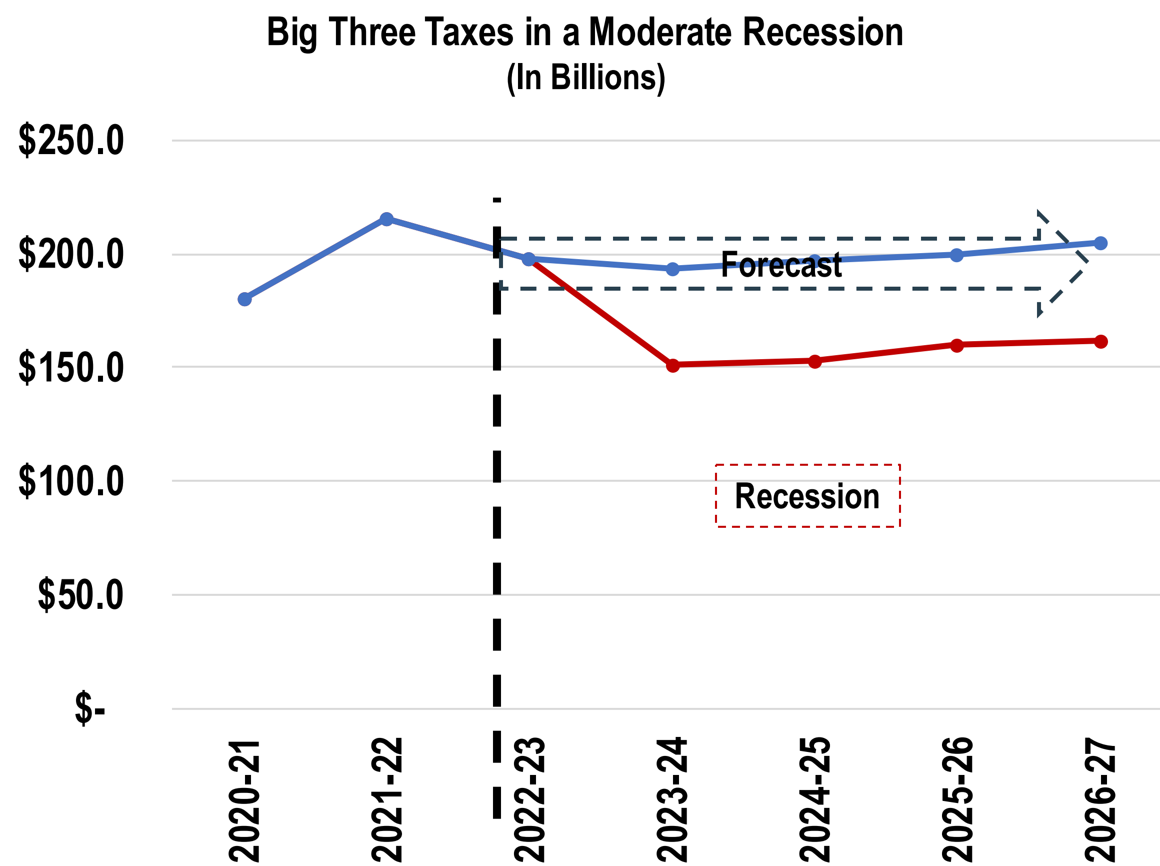
Challenges in the 2023-24 Enacted State Budget

- The 2023-24 Enacted Budget solved a $26.5 billion budget problem, $22 billion of which was caused by revenue declines compared to June 2022 expectations
- Postponement of personal income tax and corporate tax returns until October makes this year's Budget the riskiest in a decade
- Proposition 98 minimum guarantee for 2023-24 remains below 2021-22 levels
  - The education budget prioritizes core and transformative programs for students, but creates an operating deficit for Proposition 98 in 2023-24

- Reliance on one-time revenue to pay for an ongoing cost-of-living adjustment (COLA) increases risk to future budgets
  - One-time grant programs have been reduced in the Enacted Budget as compared to both the Governor's Budget and the May Revision
- Significant COVID -19 one-time dollars are running out

Big Three Taxes Forecast

- The 2023-24 Enacted Budget does not contemplate a recession
- However, at the May Revision, the Department of Finance (DOF) projected what could happen to the Big Three tax revenues if we should experience a moderate recession
  - Revenues could drop by nearly $50 billion in 2023-24
  - Would not fully recover by the end of the forecast period



Source: Data extrapolated from 2023-24 May Revision Budget Summary, DOF

How Are Revenues Faring Since Budget Enactment?

- In July, the Department of Finance (DOF) issued its June 2023 Finance Bulletin to close out the 2022-23 fiscal year
  - Relative to the revised estimates included in the 2023-24 Enacted Budget (including an updated cashflow forecast reflective of delayed tax filings for individuals and corporations), state revenues beat projections by $954 million
- In August, we had our first glimpse into 2023 -24 revenues
  - Preliminary cash receipts were more than $1.2 billion below the 2023-24 Budget Act forecast
    - However, the DOF reports that more than $650 million in higher-than-expected sales tax receipts were shifted into August due to processing delays

How Are Revenues Faring Since Budget Enactment?

- In September, August's Finance Bulletin brought revenues back in line with projections
  - Preliminary General Fund agency cash receipts were $1.344 billion, or 11.1%, above the forecast for August, as receipts from nearly all revenue sources exceeded the forecast
  - Receipts for the first two months of the 2023-24 fiscal year were $75 million, or 0.3%, above the forecast of $21.906 billion
- A look into the bigger picture:
  - The UCLA Anderson School of Business updated its economic forecast at the beginning of October
  - Personal and corporate income tax categories other than withholdings from 2022 were (finally) due October 16

Risks to Local Budgets

- Local budgets confront the same risks as the State Budget
  - An uncertain economy
  - Looming economic headwinds
  - Rising costs
  - Slowing revenues
- But policymakers made several budget decisions that create greater risks for local budgets

The 2023-24 Education Budget

Fully funds 8.22% COLA although the State has the authority to reduce or eliminate it

Enacts new and higher ongoing education spending obligations

Pays for a sizable portion of new, higher costs with one-time Proposition 98 resources

Uses Governor Newsom’s higher state General Fund revenue assumptions and the higher local property tax estimates from the Legislative Analyst’s Office, buoying the 2023-24 minimum guarantee

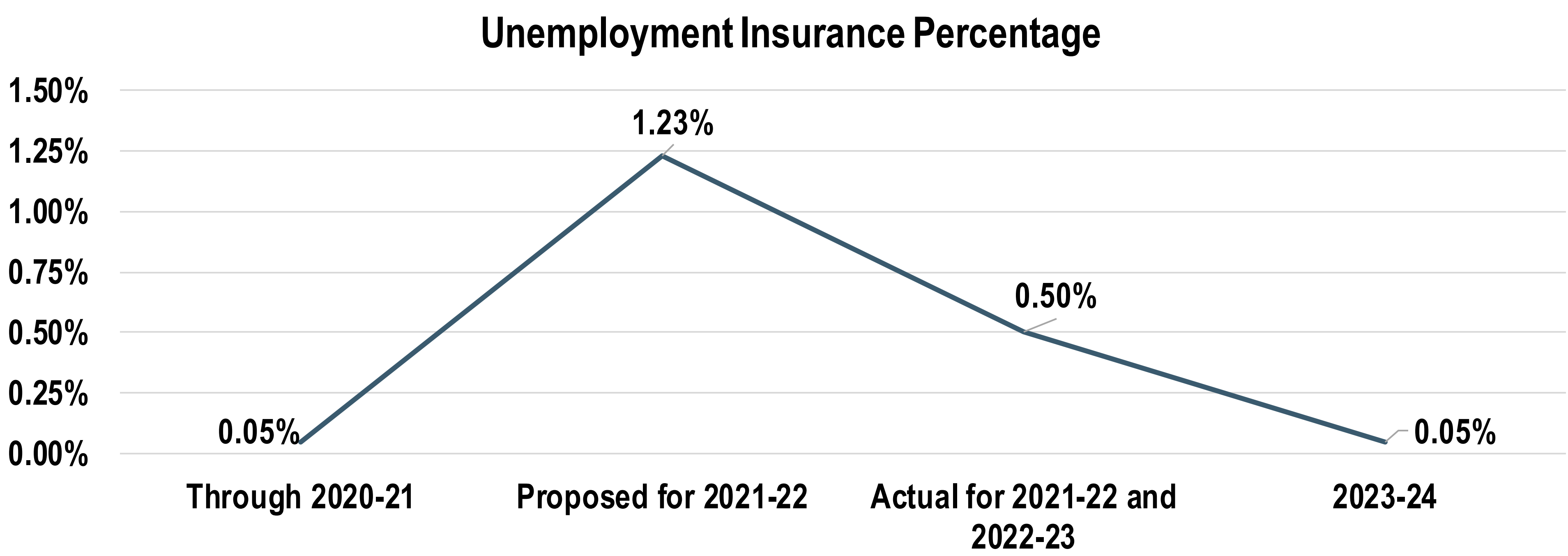
SSC Financial Projection Dartboard

Planning Factors					
	2022-23	2023-24	2024-25	2025-26	2026-27
DOF Planning COLA	6.56%	8.22%	3.94%	3.29%	3.19%
California CPI[1]	5.69%	3.55%	3.03%	2.64%	2.90%
CalSTRS[2] Employer Rate	19.10%	19.10%	19.10%	19.10%	19.10%
CalPERS[3] Employer Rate	25.37%	26.68%	27.70%	28.30%	28.70%
Unemployment Insurance	0.50%	0.05%	0.05%	0.05%	0.05%

[1]Consumer Price Index (CPI), [2]California State Teachers' Retirement System, [3]California Public Employees' Retirement System

Unemployment Insurance

- Unemployment Insurance rates are returning to pre-pandemic levels
  - Threatened increase of 2,400% in 2021-22 was mitigated by relief in the 2021-22 Enacted Budget
  - Rates are established annually by April 1 for the subsequent fiscal year



Minimum Wage—Future Forecast

- SSC projects that the minimum wage will increase to $16.00 on January 2024 and by about 40¢ to 50¢ each January thereafter
- Employers should review city or county ordinances to determine if any local minimum wage standards apply

Minimum Wage[1]	Effective Date: > 25 Employees	Effective Date: ≤ 25 Employees	Exempt Minimum Salary (Weekly)	Exempt Minimum Salary (Monthly)	Exempt Minimum Salary (Annually)
$15.50/hour	January 1, 2023		$1,240	$5,373	$64,480
$16.00/hour	January 1, 2024		$1,280	$5,547	$66,560
$16.50/hour	January 1, 2025		$1,320	$5,720	$68,640
$16.90/hour	January 1, 2026		$1,352	$5,859	$70,304
$17.30/hour	January 1, 2027		$1,384	$5,997	$71,968
$17.80/hour	January 1, 2028		$1,424	$6,171	$74,048
$18.30/hour	January 1, 2029		$1,464	$6,344	$76,128

[1]Minimum wage is tied to the U.S. CPI for Urban Wage Earners and Clerical Workers, but is rounded and capped at 50¢ per year

Revised Hold Harmless on the Horizon

- The 2021-22 Enacted Budget extended the Student Centered Funding Formula's (SCFF) hold harmless provision through 2024-25, under which districts will earn at least their 2017-18 total computational revenue (adjusted by COLA each year)
  - The 2022-23 Enacted Budget extended the revenue protections in a modified form beginning in 2025-26, with a district's 2024-25 funding will represent its new "floor"
- Starting in 2025-26, districts will be funded at their SCFF generated amount that year or their "floor" (2024-25 funding amount), whichever is higher
  - This revised hold harmless provision will <u>no longer</u> include adjustments to reflect cumulative COLAs over time, so a district's hold harmless amount would not grow

Key 2023 Community College Legislation

- The Governor had until Saturday, October 14, 2023, to sign or veto legislation sent to him at the end of the legislative year
  - Governor Newsom once again signaled that he would veto any bill that adds cost to the state that are not accounted for in the State Budget
    - However, the following bills are not as likely to add cost to the *state's* budget, but likely to negatively affect *your* district's budget

Potential Costly Legislation

Classified Job Vacancies Assembly Bill (AB) 1699 (McCarty)

- Vacancies must be posted internally for at least ten business days and internal candidates have first right of refusal
- Employee choice to add new position to existing position or assume new position
- Provisions do not apply to an employer with a contravening collective bargaining agreement in effect on January 1, 2024, until the expiration renewal of that agreement

Leaves of Absence AB 472 (Wicks)

- Requires K-14 districts to pay a classified employee upon returning to service for the district for the period of an involuntary leave of absence after the proceedings of a charge of a criminal offense, criminal investigation, or job-related administrative determination are found in favor of the employee

Classified Employee Discipline Senate Bill 433 (Cortese)

- Removes authority of school or community college district board to subject classified employee to discipline for due cause
- Authority delegated to a third-party hearing officer mutually selected by both parties
- Applies to permanent classified employees in non-merit districts

Mitigation Strategies for a Risky Budget

SSC Advice

- Fine tune your multiyear projections
  - Run multiple scenarios for planning purposes assuming the out-year COLAs are not funded
- Monitor what is left from the significant COVID-19 one-time dollars to ensure that funded positions have a landing spot with ongoing funding or have a plan to eliminate them
- Prepare for staffing adjustments in the fall, maintain accurate position control records, update seniority list data, and watch enrollment closely
- Ensure that position control system is up to date and reconciled between business and human resources
- Educate education partners on the risks and unknowns of the current state budget

Looking Ahead in 2024

- The forecast for 2024 is hazy
  - If the Enacted Budget's revenue assumptions are too high, we can expect some significant proposals in Governor Newsom's initial budget in January
    - State and Proposition 98 reserve withdrawals
    - Pullbacks from planned investments
    - Deferrals
  - Economic uncertainty directly impacts Proposition 98's forecast
  - Deficits and promised spending will mitigate potential growth, including $290 million for colleges (current-year COLA paid through one-time funds)

Victor Valley Community College District Case Study

Presented By: Monica Martinez,
Vice President of Human Resources

Background for the Supplementary Retirement Plan (SRP)

- **What was the situation at Victor Valley?**
  - Budget deficit
  - New Superintendent/President
  - High salaries
  - Last SRP offered was in 2015

- **What were our goals?**
  - Savings of 5.2 million over five years
  - No replacement of full-time faculty for one year
  - Implementation of hiring freeze for all non faculty positions

Timeline - 6/30/2020 and 12/31/2020

Timeframe	Actions
March 10, 2020	Board of Trustees adopted resolution to offer SRP plan
March 13, 2020	District and PARS distributed SRP information to eligible employees
March through April 2020	PARS provided video orientation & call-in center to eligible employees
May 1, 2020	SRP enrollment window closed
May 12, 2020	Board of Trustees approved SRP based on actual SRP enrollment and fiscal impact analysis
By June 30, 2020 or August 15, 2020 or December 31, 2020	Employees resign from District employment
August 1, 2020 or February 1, 2021	SRP benefits commence

SRP Design

Incentive Benefit Level

One time spend amount of **85% of final base salary** in various tax deferred distribution options to fit employees' needs

Eligibility

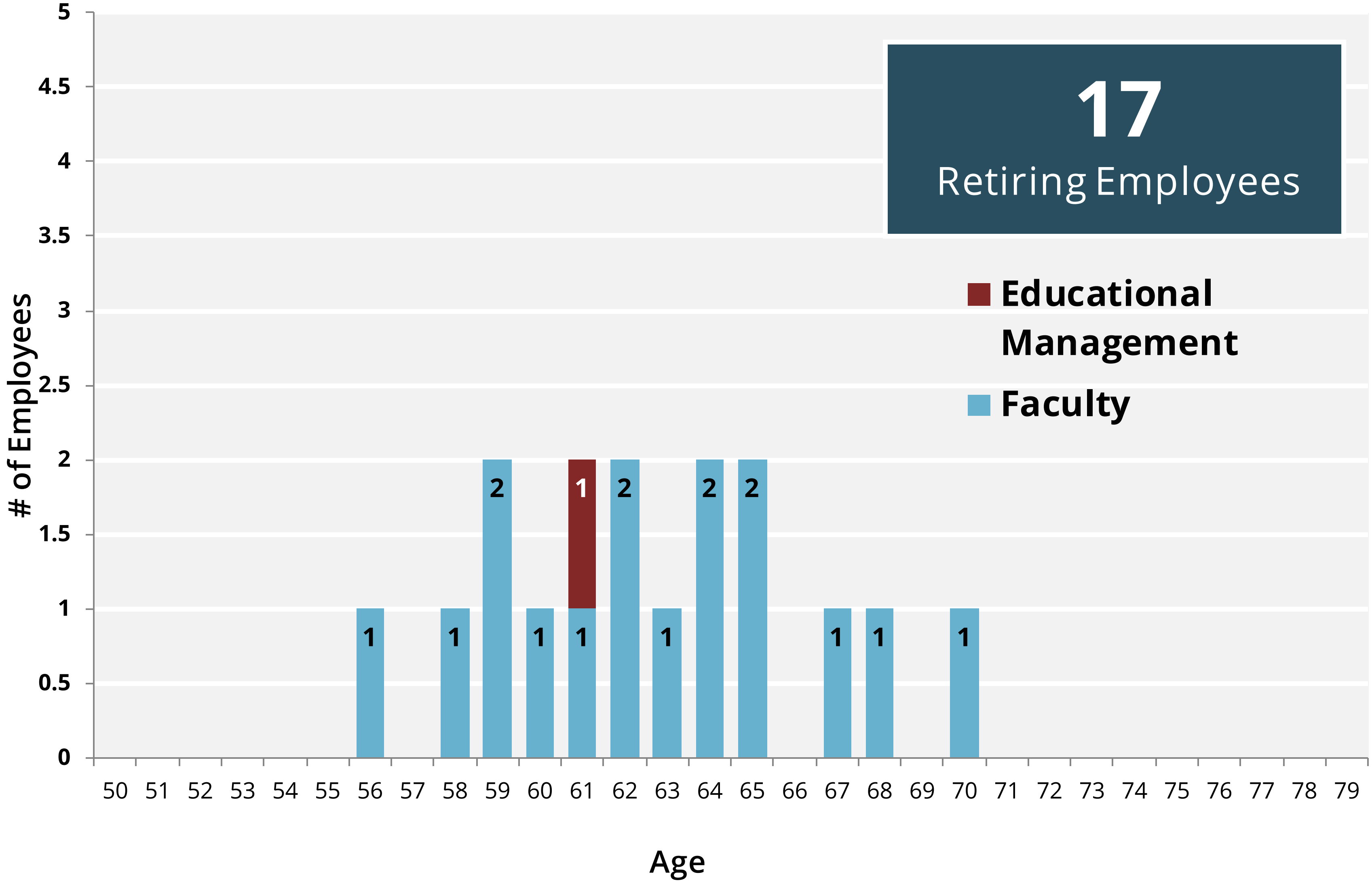
Faculty, Educational Administrators, Classified Non-Management, Classified Management who are:

- Employed in paid status by the District as of March 10
- CalSTRS or CalPERS retirement eligible
- Resign from District service at the end of academic year to June 30, 2020 (all groups), or August 15, 2020 (faculty only), or by December 31, 2020 (all groups but faculty)

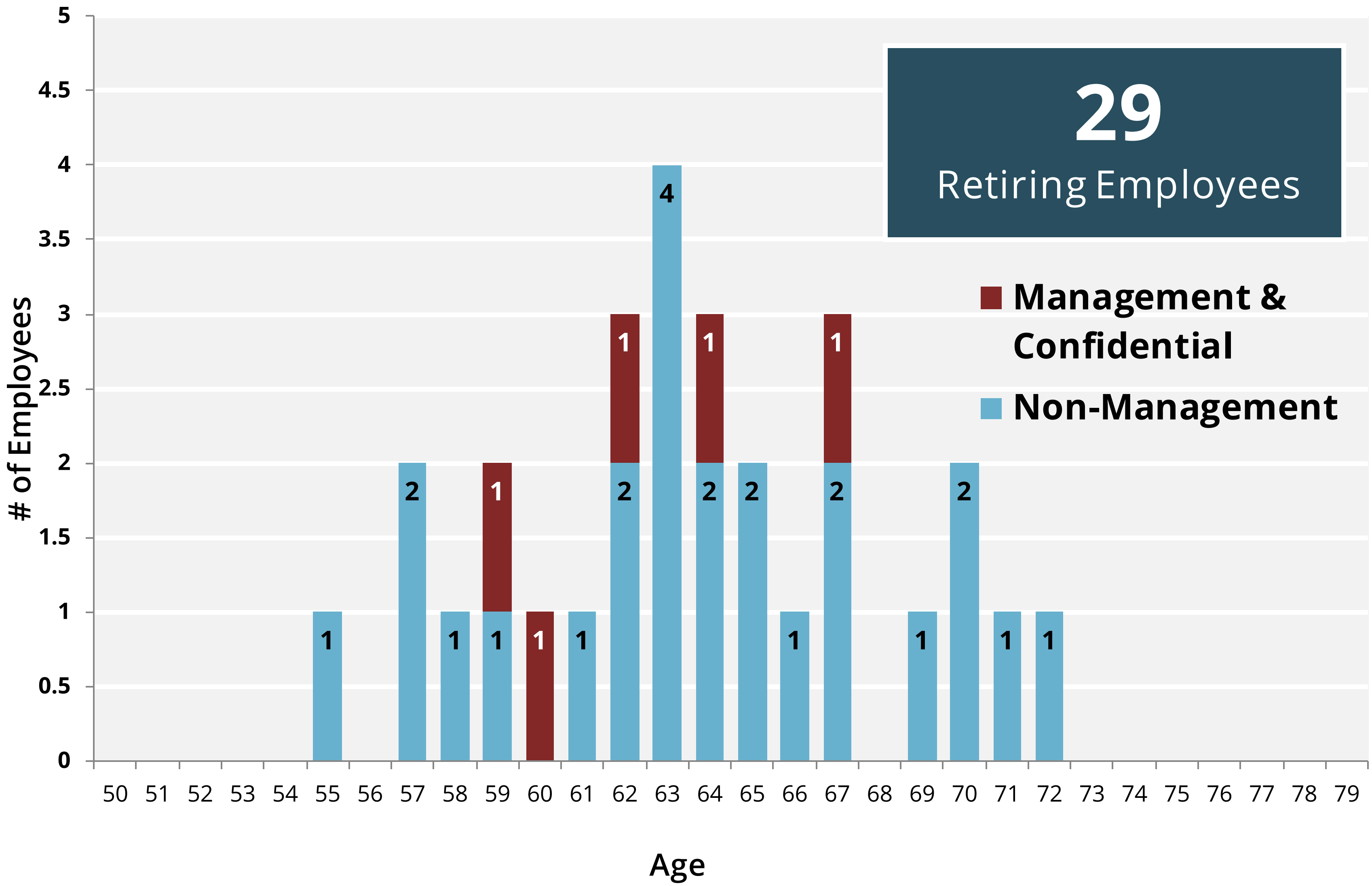
Opt Out

At end of enrollment window, the District will have the ability to retract the offer if the District's ***fiscal and operational objectives*** are not met

Plan Participation - Academic



Plan Participation - Classified



Retirements – 85% of final pay

Employee Group	# of Eligible Employees	Actual Retirements June 2020	Actual Retirements Dec. 2020	Total Retirements with PARS SRP	% Retirements
Faculty	56	16*	0	**16**	28.57%
Educational Mgmt.	2	0	1	**1**	50.00%
Classified Non-Mgmt.	83	4	20	**24**	28.92%
Classified Mgmt. & Confidential	13	4	1	**5**	38.46%
Totals	**154**	**24**	**22**	**46**	**29.87%**

**Included 5 Faculty members retiring in August 2020.*

Projected Fiscal Impact – 85% of Final Pay

Employee Group	Non-Replace PARS	Projected Savings in Year 1 (2020-21)	Projected Savings over 3 Years (2022-23)	Projected Savings over 5 Years (2024-25)
Full-time Faculty*	0.00	$837,608	$1,636,199	$2,466,579
Educational Mgmt.	0.00	($21,598)	($64,985)	($132,877)
Classified Non-Mgmt.	8.00	$142,577	$1,118,565	$2,109,614
Classified Mgmt. & Confidential	2.00	$169,454	$532,257	$855,035
TOTAL	**10.00**	**$1,128,041**	**$3,222,036**	**$5,298,351**

**Assumes 16 Adjunct Faculty replacement in Year 1 (2020-21). 8 full-time Faculty replacements and 8 Adjunct Faculty replacements beginning Year 2 (2021-22) and thereafter.*

Post SRP Results

- Savings to the District exceeded PARS projections
- In Year 2, savings exceeded the 5-year savings projection of 5.2 million dollars
- Total actual savings by Year 2 were 6.4 million dollars
- Impact of COVID on resignations
- New full-time faculty hires are more diverse and reflective of the student population and surrounding community

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Public Agency Retirement Services

Presented By: Eric O'Leary,
Executive Vice President

Why do Districts Offer Incentives?

- **Achieve** budget, fiscal, or cash flow savings
- **Reduce** the number of top-of-the-salary-schedule employees
- **Mitigate** potential future layoffs or other cost cutting measures
- **Manage** declining enrollment issues
- **Revitalize** workforce for future (i.e., promotional opportunities)
- **Address** diversity goals, workforce reflects students of future
- **Fulfill** technology goals, workforce reflects skills set of future
- **Reorganize** departments or programs
- **Pay** for new collectively bargained salary or benefits
- **Meet** administration and labor mutual needs

When Should You Offer/Not Offer Incentive?

Do offer if:

- No incentive has been offered in last 3-5 years
- District is facing budgetary/fiscal problems or declining enrollment
- Strong trust/relationship between management and labor
- Large number of employees clustered at the top of salary scale
- Low retirement attrition in recent years

Don’t offer if:

- There are concerns about enrollment demands/increases
- Replacing employees will be difficult
- Analysis doesn’t show long term savings
- Unions are not “on board”
- Legal/regulatory issues haven’t been considered

Comprehensive Analysis Model

Total Compensation Differential between Retiring Employee and Replacement Employee

− Retirement Incentive Cost

− Current Natural Attrition

− Future Loss in Natural Attrition

− Retirement Healthcare Cost

\+ Savings due to Non-Replacements

= **Net Savings (Cost)**

Analysis Of Layoffs with Incentives

Options include:

- Complete incentive first to create savings to reduce or eliminate need for future layoffs
- Layoffs/furloughs can be done quicker depending on state laws/regulations
- Do layoffs/furloughs first and then analyze further cuts to higher paid, more senior staff via incentive later
- Analyze options at the same time

Timing of Incentives

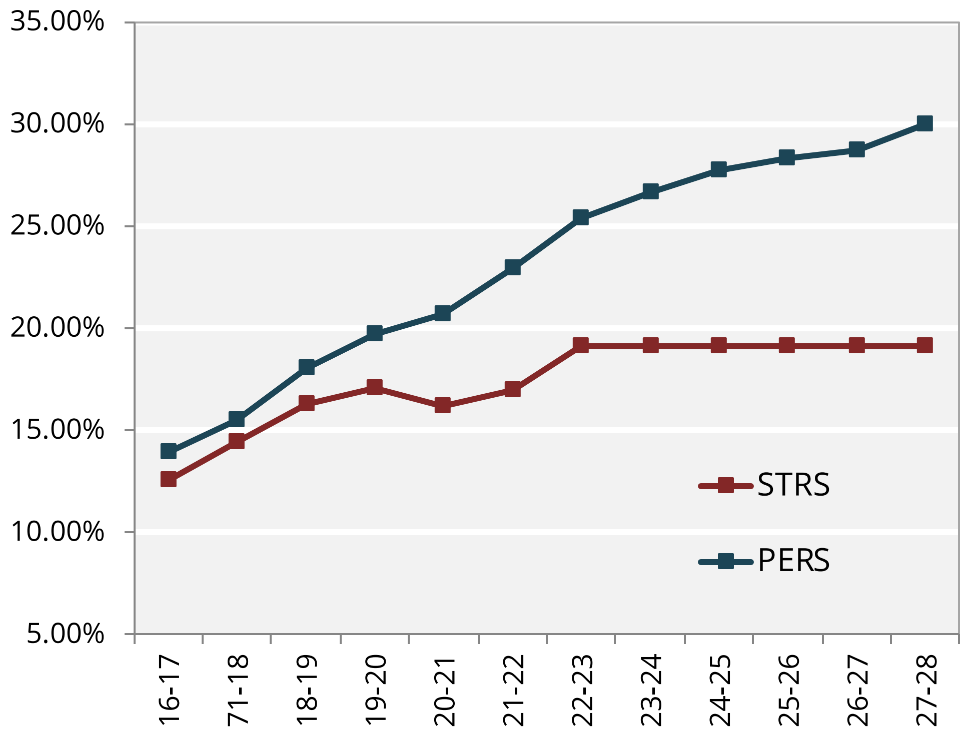
- June 30 or end of academic year
- December 31 or end of fall term “Mid-year”
- Non faculty groups – can leave anytime during year

What are Unique Factors for CCDs?

- **Adjunct Replacement**
- **Faculty Obligation Number (FON)**
  - Including the ability to replace Full-time Faculty with Adjunct Faculty for up to one year without impacting the FON if resignations/retirements come within the last 45 “Duty Days”
- **50% Law**
- **Categorical Programs**

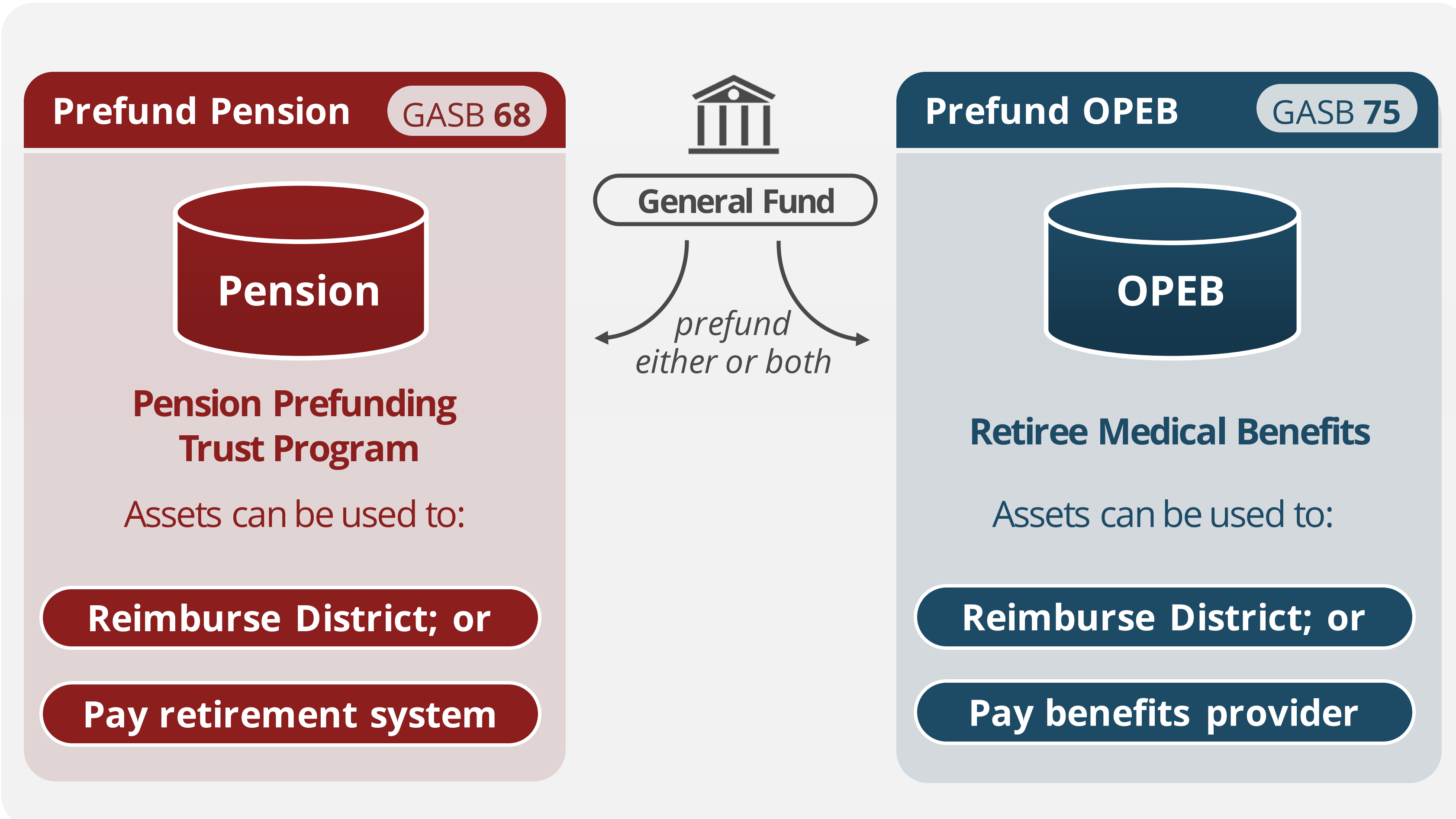
STRS/PERS Contribution Rates

STRS/PERS rate increases through 2027-28:



Fiscal Year	STRS	PERS
2016-17	12.58%	13.89%
2017-18	14.43%	15.53%
2018-19	16.28%	18.06%
2019-20	17.10%	19.72%
2020-21	16.15%	20.70%
2021-22	16.92%	22.91%
2022-23	19.10%	25.37%
2023-24	19.10%	26.68%
2024-25	19.10%	27.70%
2025-26	19.10%	28.30%
2026-27	19.10%	28.70%
2027-28	19.10%	30.00%

STRS/PERS and OPEB Prefunding



Questions?

Thank you for attending!

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