KERN COMMUNITY COLLEGE DISTRICT
BOND OVERSIGHT COMMITTEE

February 1, 2012 – 4:30pm

Minutes of the Meeting

Present: Mr. Bruce Auld; Mr. Ken Byrum; Mr. Ted Ensslin; Mr. Jay Hershey;
Mr. Xenos Lopez; Mr. Brent Rush

Absent: Ms. Jan Bans (Business); Sandra Serrano, Chancellor

District Staff: Mr. Tom Burke, Chief Financial Officer
Mr. Eitan Aharoni (Consulting Dir., Facilities Planning & Construction)
Ms. Jana Durham, Business Services
Ms. Kim Crews, Facilities Planning
Mr. Craig Rouse, Project Manager, Facilities Planning & Construction

Guests: None

Call to Order

Mr. Burke called the meeting to order at 4:30 p.m., in the Kern Conference Room, Kern Community College District Office, 2100 Chester Avenue, Bakersfield, CA 93301.

Introductions

The Oversight Committee members introduced themselves.

Election of Chair and Vice Chair

Mr. Burke opened up discussion of interest of appointment of electors. Mr. Rush indicated his interest in serving as the Chair. Mr. Burked moved that Mr. Rush be appointed as Chair; Mr. Auld seconded the motion; the Committee voted in favor of Mr. Rush’ appointment as Chair.

Mr. Auld opened up discussion of interest of appointment of electors. Mr. Lopes indicated his interest in serving as the Vice Chair. Mr. Auld moved that Mr. Lopes be appointed as Vice Chair; Mr. Byrum seconded the motion; the Committee voted in favor of Mr. Lopes’ appointment as Vice Chair.

Approval of Minutes

Moved by Mr. Rush, and seconded by Mr. Byrum, the Committee carried to approve the Minutes of the Meeting of November 2, 2010.
Review of By-Laws Changes

Mr. Burke reported that Section 6.1 of the By-Laws was modified to omit the actual date for the annual meeting, and the language has been modified to target availability of the full committee participation. Mr. Hershey asked if audit time would be a better time to meet. Mr. Burke suggested that January is probably the best time for a planned annual meeting. Mr. Byrum asked whether it would be set several months in advance so that scheduled commitments may be made. Mr. Burke confirmed. Mr. Xenos moved for approval of the changes in the By-Laws. Mr. Ensslin seconded the motion. The committee voted for recommendation to the Board of Trustees for approval of the change in the By-Laws.

2010-Draft Financial Audit

Mr. Burke reported that the Draft Financial Audit has been recently revised to correct certain journal entries. He noted that last year there were some changes in the performance report portion requirements and advised that the changes are reflected in the independent auditor’s performance report, and added that that portion of the audit has been significantly expanded. Mr. Burke reported that the auditors had no findings for this year in the audit. Mr. Hershey reported that he had never seen a financial statement like what is shown on page 12, 2nd paragraph, last statement, and inquired as to why the report contained the statement: “We do not express an opinion on the effectiveness of the District’s internal control over financial reporting” and asked why an audit is then conducted. Mr. Burke directed Mr. Hershey to page 13 of the performance report and directed him to the performance evaluation. Mr. Burke said that that specific financial expression is unqualified. Mr. Byrum said that he thought that the auditors would have reviewed it, in order to make that statement, and if there were problems, there would have been findings. Mr. Ensslin said that the auditors are following regulations verbatim. Mr. Burke directed them to top of page 14 that reads: “The results of [our] audit tests show that internal control procedures appear to be working to meet the financial compliance objectives” and there was discussion of clarifying what seemed to be ambiguous statements. Mr. Ensslin further reiterated that the auditors had/have to follow the industry standards of regulations and rules. The committee continued to comment on the findings. Mr. Burke reported to Mr. Byrum that Prop 39 requires an internal audit. Measure G is part of the District’s entire Capital Outlay Funds, and Prop 39 requires a separate audit of the fund. This is a full and final audit. Mr. Hershey inquired as to the process of review and recommendation to the board of trustees for their approval. Mr. Rush asked about the more recent construction and the testing that was done. Mr. Burke said that not every site will be tested, and that only selected testing was made. Mr. Ensslin stressed the importance that each area, i.e., Porterville, Bakersfield and Ridgecrest, is fairly and equally treated and that doing this is part of the ethics of [our] job as members of the oversight committee. The Bond needs to be administered in accordance with Prop 39. Mr. Burke said that for next year’s auditors, he will address the appropriateness of enhancing the audit to have test and controls on the financials, and not only on the performance side. The committee agreed to make the recommendation to the Board of Trustees of acceptance of the bond audit report. Mr. Burke introduced Mr. Aharoni to present the Facilities Financial report and materials.
Project Status Reports

Mr. Aharoni discussed the second quarter report of 2011-12, for period ending December 31, 2011. Specifically, Mr. Aharoni summarized the report with respect to SRID expenditures. The original Measure G Budget was $180,000,000. Since then interest has accrued and other funds totaling $21,633,523. Total SRID funds available is $201,633,523. Total SRID funds spent to date is $101,989,381 and one-half of the total. With a total of remaining allocated SRID funds in the amount of $78,010,619. Bond interest income to date is $21,633,523.

Mr. Burke discussed state funding. He reported that the Capital Outlay process is competitive with other districts who are trying to qualify for same bonds. There has not been a state bond approved since 2006. The District has stretched those dollars. The freeze on the funds from the State has resulted in projects slowing down, or put on hold indefinitely, pending future funding availability. So, again there is no bond on the ballot for 2012, so we need to rethink our strategy of leveraging by doing as many projects as is feasible with what we have. New Educational and Master Plans are being prepared and we will evaluate again once they are completed. Mr. Byrum asked if the cost of the delay in construction project is quantified. Mr. Burke confirmed that there are costs associated with delaying projects, but at the same time, there has been a decline in actual construction costs. Mr. Auld inquired as to whether the $78,010,619 was in the form of cash. Mr. Burke explained about the process of liquidating and transferring these funds, emphasizing that strict regulations are attached to the qualification of these funds, and how they are used.

Mr. Aharoni went on to say that the Educational Plans underway at this time use demographics and plans looking back over the last 5-10 years, and the findings may indicate a level of optimism then that is not present with the current status of State bonds, meaning, we need to tighten our belts. We are not able to save a lot on the Scheduled Maintenance Projects. He reported that the Bakersfield College Performing Arts Building went out to bid and the bids came in high – so the project was delayed and is now being re-evaluated. Mr. Burke reported that between 2004 and 2007, the bidding activity was much less than it is now partly because there was so much work. Now there is not as much work so bidders are very competitive and actively bidding. Mr. Aharoni said that part of the $78,010,619 is a reserve for future long term projects, but we are waiting to see what happens with the State bonding status. We are doing Scheduled Maintenance Projects out of that money, as well. The Board may decide that that money be moved to adjust for the current needs. The overall amount of $101,989,381 is distributed to each campus and the District Office. Funding is distributed by initial allocations by size and leveraging.

Mr. Burke directed them to a detailed expenditure spreadsheet on what has been spent only, and what has been audited as of today. Mr. Byrum asked for a future reflection on the report of percentage of completion to better enable the committee to appropriately evaluate. Mr. Hershey agreed. Mr. Burke responded that he will review and discuss having the percentage of completion reflected in future reporting by the Facilities Department. Mr. Hershey stated that he just wants to know what normal construction managers would want to know, i.e., percentage of change, percentage of completion, etc. Mr. Aharoni reported that Facilities will incorporate having a real time update including change orders, and cumulative information for each project. Mr. Byrum said he wants to see this information before the next meeting of the committee.
Mr. Aharoni went on to discuss the Facilities Report by site. Mr. Burke said that the Bakersfield College-Delano campus is a recent build-out, i.e., expanded by relocatable classrooms. Accordingly, there are not a lot of projects at that site.

Mr. Aharoni shared photographs of the projects. Mr. Aharoni then opened the forum up for questions and answers. Mr. Bynum asked about the solar project activity and development. Mr. Aharoni responded that at Porterville College there is already a site designated for the next solar site, and that there is some adjacent land available to do so. This development is being evaluated and weighed against the prospective planned growth of the campus site, but this development does not qualify for bond funding. Mr. Rush asked about PPAs and the construction process and Mr. Burke responded that for this we do not do PPAs. Bond funds can be used for solar projects at Cerro Coso Community College, but not for Bakersfield College or Porterville College – so we have to find other financing for those things. Mr. Aharoni added that we are on the verge of hiring energy consultants to do more research about further solar project development.

Next Meeting

Mr. Burke proposed that the Committee’s next meeting occur in late summer or early fall. Mr. Burke asked the committee turn to “Codes” in the report for a last review. He explained that a coding system had been devised to determine funding eligibility on proposed projects. He added that some of the original documents that guide us are the Resolution that was Adopted by the Board of Trustees for the _____. He added that The Robert Maas Company helped to manage the bond listing and plan back in 2003. Those two documents developed then still guide us significantly in ensuring the projects are (or are not) qualifying for the bond money. Mr. Ensslin asked about the level of public communication. Mr. Burke described that in 2005 we sent out a packet to the community. The Chancellor’s Office will be working now on keeping the community up to date. The Chancellor will attend the next meeting. The next meeting will be at Bakersfield College – and we will take a tour.

Adjournment

The meeting was adjourned at 5:58 p.m.