

# Governor's Proposed Budget for FY 2022-2023



**Iris Ingram, Vice Chancellor, Business Services**  
**Board of Trustees Meeting**  
**January 10, 2022**

# Summary of Key Messages

- Balanced Budget of \$286.4B
- General Fund = \$213.B
  - 1.5% increase over FY21-22
- Budgeted Reserves
  - Rainy Day fund = \$20.9 B
  - School Stabilization fund = \$9.7B
  - Operating Reserve = \$3.1B
  - Safety Net = \$900M
- Paydown of unfunded Retirement Liability = \$3.9B in FY22-23
  - \$12.7B supplemental payments over last 4 years
  - \$8.4M estimated over next 3 years
- Estimated Surplus = \$45.7B

# Key Messages

- Proposed Surplus allocations
  - Prop 98 =\$16.1B
  - Prop 2 set aside =\$ 3.9B
  - Other set asides = \$5.2B
- One time investments = 86%
- Capital Gains revenue totaled \$25B
- May Revise will change most proposals

# California Blueprint (FY2022-23) Investments

- Top 5 Priorities
  - Fighting Covid-19 with Science
    - \$2.7B devoted for vaccines, boosters testing and increase medical personnel
  - Combating the Climate Crisis
    - \$1.2B for fighting wildfires, tackling the drought, & forging an oil-free future
  - Confronting Homelessness
    - \$2.0B for mental health housing & services, clearing encampments, new housing units
  - Tackling the Cost of Living
    - Universal access to healthcare, cost of childcare & education, \$2.0B to building more housing, growing small businesses, deferral of gas tax for one year
  - Keeping Our Streets Safe
    - Bolster law enforcement & local response, more prosecutors to hold perpetrators accountable, and getting more guns off our streets

# Higher Education Proposals\*

- New Multiyear framework for UC, CSU & Community Colleges
  - Detailed plan to be announced
  - COLA of 5.33%
  - \$1.6B to Community Colleges
  - \$388M for Deferred Maintenance
  - \$200M for PT Faculty health insurance
  - \$750M for Student Housing
  - \$515M for middle-class scholarships
    - 170,000 more Cal Grants to be awarded
  - Zero-textbook Cost initiative to be ramped up

\* More details to follow

# Higher Education Funding Comparisons

## Higher Education Expenditures (Dollars in Millions)

	2020-21 <sup>3/</sup>	2021-22 <sup>3/</sup>	2022-23	Change from 2021-22	
				Dollars	Percent
<b>University of California</b>					
Ongoing General Fund	3,465.3	4,011.0	4,318.5	\$307.5	7.7%
One-Time General Fund	8.7	741.8	295.0	-	-
<b>Total Funds<sup>1/</sup></b>	<b>\$9,247.8</b>	<b>\$11,328.3</b>	<b>\$10,437.8</b>	<b>-\$890.5</b>	<b>-7.9%</b>
<b>California State University</b>					
Ongoing General Fund	4,025.6	4,597.4	4,983.2	\$385.8	8.4%
One-Time General Fund	15.2	981.4	234.4	-	-
<b>Total Funds<sup>1/</sup></b>	<b>\$8,291.5</b>	<b>\$10,471.8</b>	<b>\$8,453.6</b>	<b>-\$2,018.3</b>	<b>-19.3%</b>
<b>California Community Colleges</b>					
General Fund & Property Taxes	11,897.9	12,158.4	12,718.3	\$559.9	4.6%
<b>Total Funds</b>	<b>\$18,068.3</b>	<b>\$19,091.0</b>	<b>\$16,789.1</b>	<b>-\$2,301.8</b>	<b>-12.1%</b>
<b>California Student Aid Commission</b>					
General Fund <sup>2/</sup>	2,000.0	2,689.4	3,457.3	\$767.9	28.6%
<b>Total Funds</b>	<b>\$2,427.7</b>	<b>\$3,595.6</b>	<b>\$3,877.8</b>	<b>\$282.1</b>	<b>7.8%</b>
<b>General Fund</b>	<b>\$21,412.7</b>	<b>\$25,179.4</b>	<b>\$26,006.7</b>	<b>\$827.3</b>	<b>3.3%</b>
<b>Total Funds</b>	<b>\$38,035.3</b>	<b>\$44,486.7</b>	<b>\$39,558.2</b>	<b>-\$4,928.5</b>	<b>-11.1%</b>

<sup>1/</sup> These totals include tuition and fee revenues and other funds the universities report as discretionary.

<sup>2/</sup> General Fund expenditures for the Cal Grant program are offset by reimbursements, including approximately \$400 million in federal Temporary Assistance for Needy Families (TANF) funds received through an agreement with the Department of Social Services.

<sup>3/</sup> 2020-21 Total Funds include federal Coronavirus Response and Relief Supplemental Appropriations Act funding provided directly to colleges and universities, and 2021-22 Total Funds include federal American Rescue Plan Act of 2021 funding provided directly to colleges and universities.



# Retiree Health Benefits Liability (Other Post Employment Benefits - OPEB)

Update for Trustee Yarbrough

January 10, 2022

Iris I. Ingram, Vice Chancellor, Business Services and

Adam M. O'Connor, Assistant Vice Chancellor, Fiscal Services



# Background Information

- RSCCD provides full-time employees with two forms of Retiree Health Benefits at retirement with at least 15 years of service:
  - Lifetime – F/T employees hired prior to 1986/87
  - To age 70 – F/T employees hired after 1986/87
- Related OPEB Liability grew to \$167.3 Million as of June 2018
- District established an Irrevocable Trust (Fund 78) in June 2019 with \$40 million in accumulated funds in the Retiree Benefits Fund (Fund 63)
  - Board Fiscal Audit Committee recommended to establish the trust and Joint Benefits Committee recommended Vanguard Balanced Fund for the investment
  - Irrevocable Trust is managed by PARS and invested in Vanguard
  - Vice Chancellor, Business Services serves as the Plan Administrator
- This reduced our overall liability as well as our net liability
- Contribute full ADC (Actuarially Determined Contribution) over pay-as-you-go to Irrevocable Trust yearly



# Schedule of Changes to Net OPEB Liability

OPEB Liability	FY 2020/21	FY 2019/20	FY 2018/19
<b>Total OPEB Liability</b>			
Total OPEB Liability - beginning of year	\$ 149,205,110	\$ 138,984,339	\$ 167,278,154
Service cost	2,985,039	7,981,036	7,767,432
Interest	9,610,437	8,993,120	10,522,057
Change of benefit terms	0	0	0
Changes in assumptions	0	13,284,002	(38,293,105)
Differences between expected and actual experience	661,597	(11,602,517)	0
Benefit payments	(8,813,301)	(8,434,870)	(8,290,199)
Net change in total OPEB liability	\$ 4,443,772	\$ 10,220,771	\$ (28,293,815)
Total OPEB Liability - end of year	\$ 153,648,882	\$ 149,205,110	\$ 138,984,339
<b>Plan Fiduciary Net Position</b>			
Plan fiduciary net position - beginning of year	\$ 40,119,075	\$ 0	\$ 0
Contributions - employer	8,813,301	48,434,870	8,290,199
Contributions - active employees	0	0	0
Net investment income	2,105,695	119,075	0
Benefit payments	(8,813,301)	(8,434,870)	(8,290,199)
Trust administrative expenses	(73,632)	0	0
Net change in plan fiduciary net position	\$ 2,032,063	\$ 40,119,075	\$ 0
Plan fiduciary net position - end of year	\$ 42,151,138	\$ 40,119,075	\$ 0
<b>Net OPEB Liability - end of year</b>	<b>\$ 111,497,744</b>	<b>\$ 109,086,035</b>	<b>\$ 138,984,339</b>

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OPEB Liability	FY 2020/21
Total OPEB Liability 6/30/21	\$153,648,882
Net OPEB Liability 6/30/21	\$111,497,744
Plan Assets (Fund 78) (Based on measurement date 6/30/20)	\$42,151,138
Plan assets as of 6/30/21 which will be used for current actuarial study being completed shortly	\$56,882,719
Retiree Health Benefits Fund (Fund 63) as of 6/30/21 held at OC Treasurer	<u>\$41,723,492</u>
Total	\$98,606,211
Plan assets as of 11/30/21	\$59,393,172
Retiree Health Benefits Fund (Fund 63) as of 11/30/21 held at OC Treasurer	<u>\$41,768,932</u>
Total	\$101,162,104

# VANGUARD INVESTMENT OPTIONS

As of September 30, 2021

## Custom-Designed Investment Options

All investment strategies have been designed specifically by Vanguard for PARS Section 115 Trust Programs.

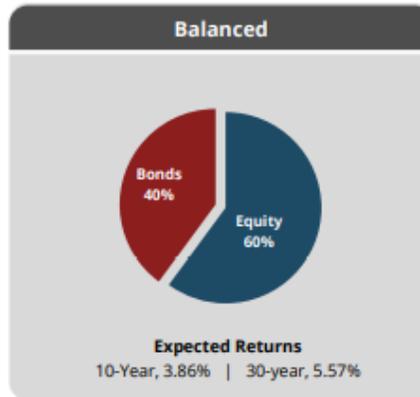
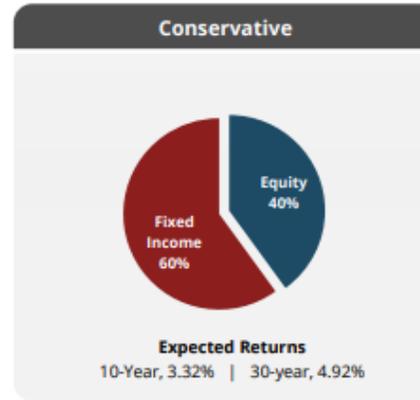
## Economies-of-Scale

All plan assets are combined for economies of scale, but there is no cross sharing of earnings or liabilities.

## Low Expense Ratios

Strategies are comprised of index-based mutual funds with low expense ratios.

*Expected Returns from Vanguard's Capital Markets Model (VCMM) as of June 30, 2021*



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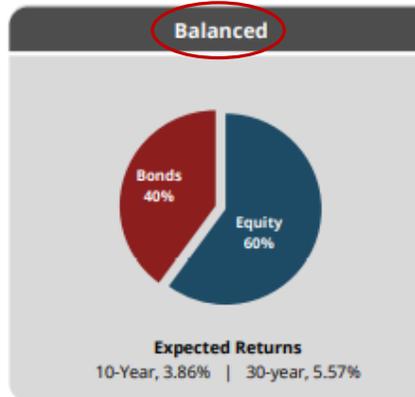
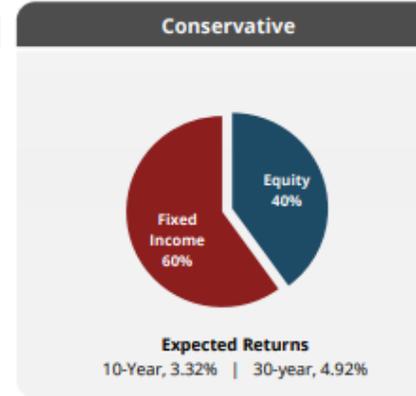
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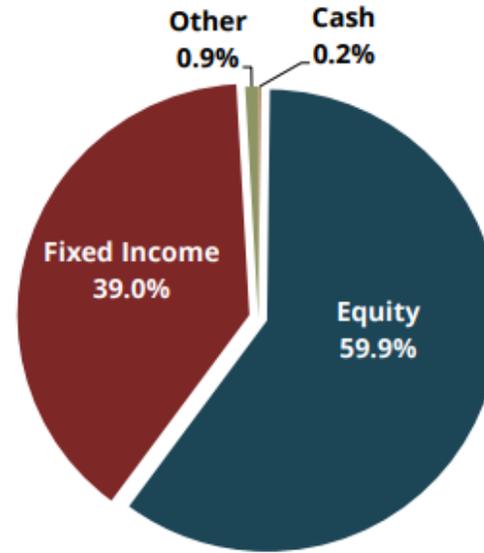
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# VANGUARD ASSET ALLOCATION

As of September 30, 2021

Asset Class	Allocation (%)
U.S. Equity	38.9%
Non U.S. Equity	21.1%
U.S. Bond	25.7%
Non-U.S. Bond	13.3%
Cash	0.2%
Other	0.9%
<b>TOTAL</b>	<b>100.0%</b>

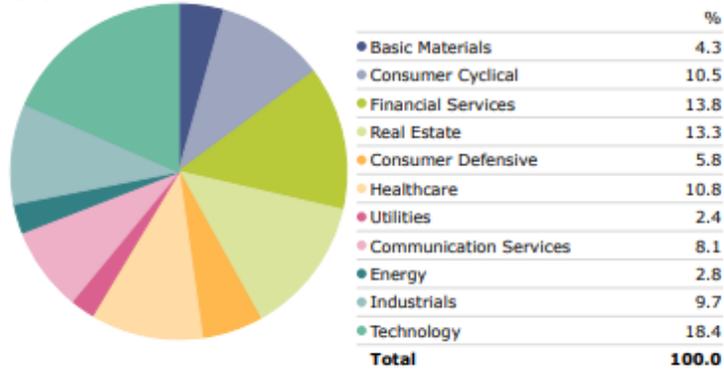


**Balanced Strategy**

PARS Investment Partnership - Balanced Strategy

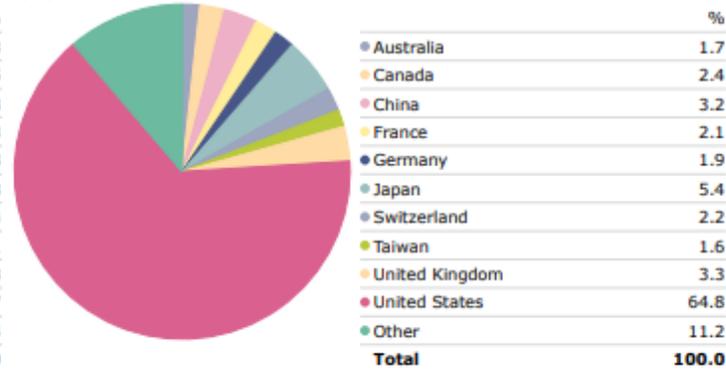
Equity sectors

9/30/2021



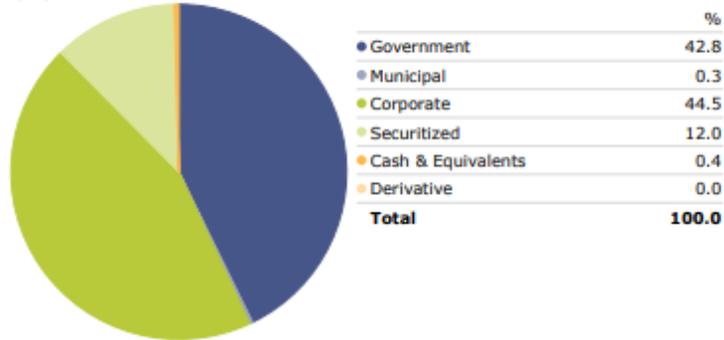
Equity country exposure

9/30/2021



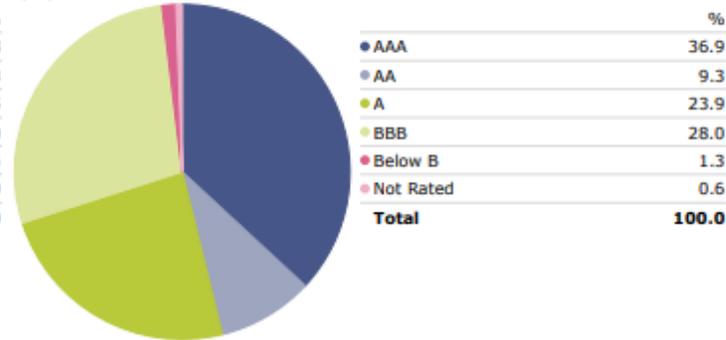
Fixed income sectors

9/30/2021



Fixed income credit quality

9/30/2021



Source: Morningstar Direct

# VANGUARD INVESTMENT RETURNS

As of September 30, 2021

Strategy	Equity (%)	1 Year	3 Years	5 Years	10 Years
Growth	74.90%	21.84%	11.74%	11.34%	11.34%
Balanced	<b>60.00%</b>	<b>17.01%</b>	<b>10.53%</b>	<b>9.57%</b>	<b>9.58%</b>
Conservative	40.00%	11.28%	8.95%	7.47%	7.63%
Fixed Income	0.10%	-0.17%	4.79%	2.93%	3.19%

*Past performance does not guarantee future results; Returns are net of the fund expenses, and gross of advisory fees;  
 PARS is not licensed to provide and does not offer investment advice or recommendations of any kind;  
 All investment decisions in the PARS Section 115 Trust Programs are made at the sole discretion of the Agency,  
 with or without the assistance of the Agency's selected investment advisors and/or managers.*