

CHANCELLOR'S BUDGET MESSAGE



Greetings! In two weeks we will come to the end of another academic year. This year, unlike any other year, has been filled with anticipation for the worst budget news in recent history! Throughout this year while hoping for economic recovery, we have been very busy with increased advocacy efforts and activities; dealing with major leadership vacuums, faculty meetings on aligning common courses, programs like EOPS, matriculation, bookstores looking for bailouts; discussions on reorganization, launching Vision 2020 master plans and much more. All of these items were done while we worked toward serving our students better than ever. Let me be the first to thank all of you for your hard work this year. You have proven to our students that you can and will do the best for them.

Much has happened in the past months and I have been waiting until the Governor's May Revise budget decisions were unveiled to provide you with another budget update. As you know the May Revise can and will have a major impact upon our budget.

GOVERNOR'S BUDGET PROPOSAL FOR COMMUNITY COLLEGES

The Governor made good on his promise and did not impose any additional cuts on community colleges. Outside of the CalWORKS program being eliminated, all other programs escaped further cuts. Here are some key points from the May Revise:

- \$126 million growth money (2.21%)
- (\$22.9 million) COLA (-.038%)
- (\$26.7 million) CalWORKS

The District has been working to develop solutions to address the budget shortfall and has identified short and long-term solutions for 2010/2011 and beyond.

2009/2010 BUDGET REVIEW – A QUICK REVIEW

Here is a very quick review on how we arrived at our current 2009/2010 year budget. If you recall, this time last year, we were facing \$11.8 million of budget deficit toward this year's budget. It was due to a combination of external funding reduction of \$5.8 million from state allocation, PERS increases, and \$3.2 million of internal increases from our own salaries and benefits.

How did we mitigate the \$11.8 million deficit? We implemented the following measures as a temporary fix to our financial problems:

One-Time Fund from Ending Balance	\$ 5,822,688
Reduction of Campus and District Office Operations (on-going)	2,000,000
Hiring Slowdown District-Wide (on-going)	2,000,000
Reduction in District-Wide Marketing	300,000
Reduction in District-Wide Travel/Conference	200,000
Reduction in Retiree Health Benefit Contributions from 3% to 2%	1,000,000
Available from Ending Balance for Categorical Programs to Protect Contract Employees	<u>500,000</u>
	\$ 11,822,688

Please note that we took \$5.8 million out of our District’s reserve account to save ourselves from facing more cuts this year. Our plan was to find more responsible long-term solutions this year because the District reserve was left at a dangerously low \$13.3 million as a consequence of the 20% reduction in this account.

IN SEARCH OF SOLUTIONS

If red ink was appearing on your family income and expense statements, what would you do? I hope you will agree with me that if your income has little hope of increasing in the next few years, while your expenses continue to rise, you would refrain from spending your reserves further and look for ways to reduce your expenditures and identify potential new revenue streams.

1. Salaries and Benefits Expenditures

Currently 88% of District expenditures are in salaries (\$125 million) and benefits (\$44 million). We reduced our expenditures in this area by cutting down hourly non-instructional staffing, reducing part-time hourly class offerings, and eliminating overtime for full-time staff.

We started the year with a plan by inviting the leadership of our bargaining units as well as CDMA and ACE to the table for negotiations or meet and confer. While unsuccessful, these meetings were intended to identify potential solutions that would have the least impact to salaries and benefits. While CDMA was willing to make additional contributions to benefits, we were not able to engage others in negotiations on these items last fall.

Instead, we turned to alternative solutions such as the external hiring freeze, the reduction of an additional \$1 million of hourly staff, and instituted the ENDS program hoping to gather information in time to garner significant reductions in salaries for the coming years.

We also studied the area related to benefits to identify solutions that could save millions. While



the District first identified some possible benefit plan design changes that could result in significant savings, we were notified by union leadership at the May 5 Board meeting that ANY plan design changes also required negotiation. To avoid spending unnecessary legal cost in disputing this, we will honor the position that the entire benefit package is included in negotiations. Since the classified union contract expires in June 2010, the District is now engaged in negotiations with CFCE.

Management and Confidential Employees have been working through the meet and confer process with the District to achieve savings.

I understand many of you, including retirees have had questions in this area. If you are CFCE, CFE, or CCA members, please direct any questions, concerns, or comments regarding your salaries and benefit to your respective union leadership. The District cannot and will not engage in any discussion, conversation, or information exchange regarding these matters. The District honors the

bargaining agreements and fair labor practices and does not intend to violate them thus increasing our legal costs in labor disputes. I appreciate many of your positive comments, concerns, and direct feedback. I hope you will understand the silence on our end. I can say that we will **not** be doing away with our benefits as is rumored.

2. Other Expenditure Reductions

The remaining 12% expenditures outside of salaries and benefits include utilities, supplies, equipment, technology hardware and software and facilities needs. Reductions to these expenditures have been implemented, including non-emergency purchasing, reprogramming lighting and building temperature controls. By tightening our belts even further this year, it is hoped that we can garner additional savings in the ending balance to soften the blow in 2010/2011.

WHERE ARE WE NOW?

The District Budget Advisory Committee has been meeting all year to discuss our future budget needs. They have received information from state updates and local changes to our budget deficit projections. Since this body is made up of leadership from employee union groups (CFE/AFT, CFCE, CCA, CDMA, ACE), campus budget and planning committees, academic senates, classified representatives, chief business officers, student leadership representative, and presidents, I expect and hope that they have provided you with regular updates and explanations of how we progressed and what we are facing financially.

ENDS Program and Vacant Positions Update

- We have confirmed a total 77 District employees notified us of their retirement or departure decisions effective by June 30, 2010. Of those, 66 employees would actually affect the General Fund while 11 are in the ancillary funding resulting in little positive consequence for our General Fund budget. Combined with current vacancies and those resulted from the ENDS program under the General Fund, we can garner savings of \$10 million. However, we must backfill all of the class offerings from our full time faculty retirements. Hence the net total savings would be **\$7.791 million**.
- When we started the 2009/2010 academic year, we were facing an annual budget deficit of \$10.7 million for 2010/2011, \$13.1 million for 2011/2012 and \$15.6 million for 2012/2013. However, you have received some updated increases in my past budget messages this year. In my last budget message, I reported \$11.35 budget deficit partly as a result of increases from classified staff's "me too," negative COLA, Public Employee Retirement System and UIC (unemployment insurance) increases. Unfortunately, those numbers have increased.



DEFICIT INCREASES TO \$14.5 MILLION!

- **Board of Trustee election costs - \$550,000**

There will be an election in November 2010 for two of our Trustees. Unless both incumbent trustee candidates are not contested, this is a one-time cost for 2010/2011.

- **Increased PERS contribution - \$215,000 (Total of \$430,000)**

The original estimate was for a rate increase of .5% and is now going to be an increase of 1%.

- **Increased Benefits costs - \$3,000,000**

Significantly increased health care and pharmaceuticals costs created a \$1.4 million overage in the budgeted amount for healthcare benefits. In three years, health benefit costs have risen from \$12,010 per employee to \$13,563 per employee. We have calculated a 5.43% increase for next year's budget which is reflected in the new projected budget deficit. Currently \$29.5 million of our \$193 million total budget is spent on employee benefits. I know each and every benefit eligible employee is appreciative of the excellent benefit we receive.

Budget Shortfall Forecast for Future Years as of 5/7/10

	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>
A) 2009-10 Budget Reduction (covered by one-time funds)	\$ 5,822,688	\$ 5,822,688	\$ 5,822,688
Negative State COLA (.38%)	\$ 648,363	\$ 648,363	\$ 648,363
Board Election	\$ 550,000	\$ -	\$ 550,000
Estimated Mandatory Increase			
STRS (0%, 1%, 2%)	\$ -	\$ 535,000	\$ 1,070,000
PERS (1.0%, 2.4%, 4.5%)	\$ 430,000	\$ 1,032,000	\$ 1,936,000
UIC (.42%)	\$ 515,000	\$ 515,000	\$ 515,000
	<u>\$ 7,966,051</u>	<u>\$ 8,553,051</u>	<u>\$ 10,542,051</u>
B) To Protect Categorical Contract Employees	<u>\$ 1,500,000</u>	<u>\$ 1,500,000</u>	<u>\$ 1,500,000</u>
C) Negotiable Items			
Salary Increase			
CFE (10/11 increase .75%)	\$ 400,000	\$ 400,000	\$ 400,000
CFCE/Classified (unfunded 09/10)	\$ 450,000	\$ 450,000	\$ 450,000
CCA	unknown	unknown	unknown
CDMA/Other	unknown	unknown	unknown
Health Benefits	\$ 3,000,000	\$ 4,000,000	\$ 5,000,000
Step & Column	\$ 1,200,000	\$ 2,400,000	\$ 3,600,000
	<u>\$ 5,050,000</u>	<u>\$ 7,250,000</u>	<u>\$ 9,450,000</u>
TOTAL SHORTFALL	<u>\$14,516,051</u>	<u>\$17,303,051</u>	<u>\$21,492,051</u>
CUMULATIVE SHORTFALL	<u>\$14,516,051</u>	<u>\$31,819,102</u>	<u>\$53,311,153</u>

Assumptions

- There will be a negative COLA for 2010/11 and zero the following 2 years
- Statewide Growth Funds of 2.2% available for 2010/11 only. District share is unknown.
- Faculty contract will expire June 30, 2011.
- CFE/Classified and CCA Contract will expire June 30, 2010.
- District will backfill categorical contract employees up to \$1.5 million to protect contract employees' jobs.

BUDGET MITIGATION PROPOSALS

Given the magnitude of our budget deficit and the lack of any signs of restoring revenues from the state, we must drastically reduce our ongoing costs by nearly \$15 million. This is a dauntingly painful task – especially when there is shortage of measures the District can take without further reductions in class offerings, severely impacting programs or entering into labor negotiations. At the end of the last DBAC meeting, the following solutions were presented:

1. ENDS and Hiring Freeze of all vacant positions - \$7.8 million

This is a necessary but devastating solution. It means we will use every single penny of the savings from the ENDS program AND ALL current vacancies to garner \$7.8 million of savings in salaries. Each site from colleges to district office will identify critical positions and make the necessary position shifts, transfers and/or reorganizations necessary to survive the reductions resulting from their share of the \$7.8 million permanent reductions in their respective budgets. Each college site will have autonomy within their own budget and governance structures to implement these changes. While classes previously taught by FT faculty members will not be reduced, services, programs and other operations will be greatly impacted by this reduction in staffing.

2. Summer reduction – \$2.0 million

While we remain committed to providing classes for our students, the summer class offerings were reduced by \$2.0 million due to the reduction in our base funding and will continue at the same level for 2010/2011.

3. Elimination of additional hourly non-instructional staff – \$1.0 million

While District-wide we have already reduced non-instructional hourly staff over the past two years, it is necessary that we continue to reduce the salary portion of the budget by continuing to reduce hourly staff.

4. Redirect KOCE note payment – \$500,000

KOCE's annual payment to the District is \$500,000 on their note totaling \$17.5 million. The Board had previously approved the note payment to go toward our unfunded retiree benefit obligations. Due to our current financial needs, it is recommended that we redirect the note payment to general operation funds rather than toward retiree health benefit obligations.

5. Additional reductions to travels and membership – \$500,000

We had reduced this year's travel and membership by \$200,000. It is recommended that, without affecting any contractual obligations, the travel and membership budget categories sustain an additional \$500,000 reduction during 2010/2011.

With all of the above proposed \$11.8 million reductions, we are still facing a **\$3.2 million gap** toward our targeted total reductions of \$15 million.

I fully understand that you may be asking how we can live with such reductions and that certain positions are impossible to live without. Each college and the District office will continue to evaluate the positions that must be maintained to provide critical leadership, administrative, operational support, minimum services and instructional and programmatic integrity. **All of which will be done and managed within the budget reductions allocated to each site. Therefore, you may see certain positions filled with many others left vacant.** While this is a crisis, we are using the situation as an opportunity to reevaluate our administrative, operational, and support functions and organizations. We will also be forced to reexamine our priorities and plan our budget accordingly.

WE WILL NOT BE HERE AGAIN!

Yes, at this point, we are still short \$3.2 million. We will have to be more aggressive in identifying more savings by looking deeper into operational costs, negotiations, meet and confer, and other additional sources of revenues.

The above proposed solutions are largely different from last year's. If we commit ourselves to solving the District's financial shortfalls with these solutions, we will NOT be faced with the same deficit next year at this time, (unless the state hands us additional cuts). Will we have to work double or triple hard in the coming years? Absolutely, when nearly 10% of the faculty and staff are gone and won't be replaced (a reduction of nearly \$8 million in human resources)! We all will feel the weight upon our shoulders.

Our workload will be affected. For those of us who remain here with full time jobs and benefits, we will be doing more than our share and will be tested during this time. I again ask for your resolve, your commitment, your sacrifice and your unified spirit as we work to overcome our challenges ahead. Compared to many other districts or other public agencies, I believe the Coast District has taken the most respectful, the least controversial, and the least conflict-driven approaches to solve this issue. Though we are not quite there in reaching our goal, I have faith that we will arrive there together somehow.

I want to thank so many of you who submitted constructive and very insightful suggestions, criticisms, as well as consolation and support. Every time you provide feedback, positive or negative to me, it is appreciated. I would rather know what you think than to act blindly. Thank you.

Your DBAC representatives are to be commended for their participation and valuable input. Thank you.

I am proud of the fact that the Coast District has achieved all of the difficult budget discussions without many conflicts, turmoil or fragmentation. I am proud to report that we have valued and respected each other during the process and, when differences occurred were able to meet and engage in meaningful

discussions. I am grateful to all of the participants for remaining true to these principles.

Even though the state's final budget will not come until much later in the fall, Coast District will have a tentative budget to start the year on July 1. Our Board will review and provide input into the tentative budget proposals at their May 26 meeting. The college and District fiscal offices will prepare the actual tentative 2010/2011 budget for Board approval on June 23.

Please stay engaged, informed and positive! The students and our community will need you more than ever in the coming year!

Sincerely,

