Union and Budget History, A Story of 2006 to 2012
Where are we? How did we get here? Where are we headed?

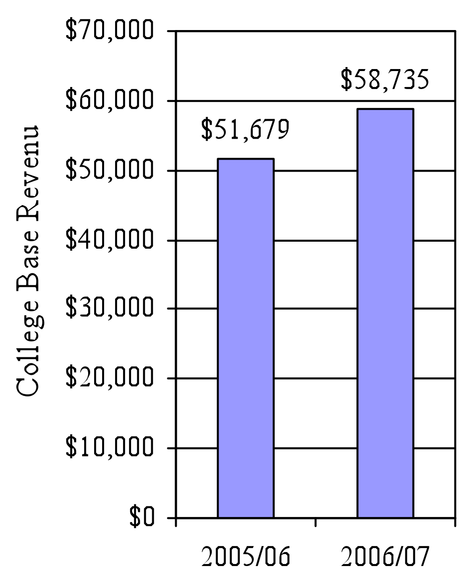
I write this with two thoughts. First, at two Cabrillo Governing board meetings, earnest suggestions were made for the unions to get together and chart a path free of lay-offs. The point was that the lay-offs were a reaction to two forces: the revenue constraints from Sacramento and the cost constraints negotiated by the unions. Therefore, the unions have leverage to alter the necessity of lay-offs that the budgets set in Sacramento created. Since the Board, and others, believes the unions need to take action, it is time for CCFT to make clear its thinking. Second, this paper was prompted and encouraged by Brian's All College Day speech in fall 2011 on the stories we tell. The stories we tell, even the untrue ones, can live with us for a long time. CCFT needs to tell its story.

The stories I'm going to tell are a combination of my memory and some numbers I researched (in most cases, numbers I have been tracking for the last several years). I trust the numbers; I don't trust my memory. Fortunately, the important parts of the story are in the numbers. Also, while my memory may not fail in places, my understanding might still. Some of what I'll offer is my understanding when it was explained to me, and things can get lost in translation (the translation that happens between the ears). With those qualifications, let's start by backing up about six years.

When Times Were Good

2006 was a state gubernatorial election year, and budget-wise, it was a very good year for programs and organizations, like Cabrillo College, who are dependent upon state funding. The state offered both a large COLA (cost of living adjustment) and growth funding. The college naturally budgeted to spend the COLA (and the union would bargain for its share of it); however, the college was not growing – instead, it was shrinking so Cabrillo did not budget for any growth money. The number of equivalent full time students (FTES) fell by 3.8% from 2003/04 to 2006/07. Somewhere in that 2006/07 school year, Pegi and Victoria did two things. First, because state reports came in alerting the college that the growth money was not being claimed by many schools, Pegi and Victoria maneuvered summer school FTES to boost that year's enrollment and claim the growth money. By moving summer students from the later year to the earlier year, which you can do if a class spans both school years (crosses over June/July), the college showed an increase in students, growth. That growth money was worth a little over $2 million. Growth money the college doesn't claim in a particular year can't be claimed later. It's a lost opportunity if not claimed. Yet, if it is claimed, it can provided additional funding each year into the future.

By the Numbers:
In 2006, Revenue rises by 13.7%
(revenue in thousands of dollars)



Funding to college (unrestricted general fund) went from $51.7 million to $58.7 million, an increase of over 13% (this was on top of the previous two years that saw an average revenue increase of about 4%). I don't have the breakdown or accounting of all the factors that led to that increase. COLA and growth were two factors, but there were others. There was equalization money and a change in funding – based on FTES and number of colleges or "centers" only. In some ways that hurt Cabrillo because under the old funding rules, new buildings could capture growth and generate new revenue which would pay for the expenses of the buildings, and we had new building coming online. Under the new formula, it would be FTES alone. It may have contributed to the college being left with out spending plans on the new buildings. Still, it's difficult to complain when funding rises by almost 14%.

After claiming the growth money, the second thing Pegi and Victoria did was to bring in the unions and talk about the unplanned increase in revenues resulting from the claimed growth money. The business office's point was simple. By shifting students, we pushed up our enrollment for 2006/2007 (which included summer enrollments from both 2006 and 2007) but left ourselves vulnerable to an unsustainable higher funding level. Enrollments had been down, not up, but the school was now positioning itself to claim growth. Falling below our funding level for a single year isn't an issue because the state would allow us one year of "stabilization". If we didn't have enough students, we would go into stabilization the following year which means the state would give us the money even if we didn't have the students. After stabilization, we would get only the immediate next year to re-establish ourselves at our old higher level. Failing to re-establish ourselves would lead to a permanent loss in funding. Administration's plan was to take the growth money and increase the number of classes (allocate more TU's) to reach the level of enrollment that would provide a sustainable funding level. Here was the big obstacle for the union. Since the growth money had not been earned by the college (thus faculty), might not be sustainable (having been captured through FTES shifting), and much of it would be spent the following year on additional TU's to capture the students, it was impossible to negotiate the allocation of the money to salaries. The $2 million in growth money of the 2006/2007 year would be set aside to fund future classes and other efforts to capture enrollment. This is the creation of the "FTES reserve".

History fueled caution with both the district and union. Just a couple of years before grabbing this growth money, the college had lost almost $1 million of revenue because of a permanent decline in students. That loss in FTES wiped out half of COLA that year.

The District created an FTES reserve of $2 million, arguing that we couldn't push to spend that money on salary increases since we could not sustain that level of funding without significant expenditures on additional classes. Programs were encouraged to be innovative in their offerings to attract the additional students to maintain the higher funding level. Various strategies were funded, for example, the late starting "cyber-session" which gave opportunities to students to enroll in new classes mid-semester and the innovative and creative summer arts institute.

There was another important reason to capture the growth funding in 2006/07. Though enrollment had fallen in previous years, Cabrillo's new research director, Craig Hayward, predicted a coming rush of new college students. Looking at high school enrollments in the county, he recognized a demographic bubble rising through the K-12 system. As mentioned above, not capturing growth when offered is a permanently lost opportunity. By capturing the growth that year, Cabrillo was better positioned to serve a flood of students if such a flood were to occur.

A historical note, it seemed like good times during the 2006/07 school year. We had survived the budget problems following the dot-com bubble burst (beginning about 2002), and now funding looked very good. In fact, by this time, the real estate market had already busted in a variety of locations in California, such as the Stockton area. Real estate prices around the world would start sliding, and the US would enter a recession in late 2007.

With finances, like with the rest of life, hindsight is perfect. It seems like a no-brainer that if the college's revenue rose by over 13%, then there should be big pay raises. However, none of this was knowable in 2006 or even in spring of 2007 when negotiations took place. What the union knew was that there was a moderate (5% range) COLA. That COLA went to a small pay raise and to cover increases in the benefits package. The increases in the medical insurance were running at 17%. Later, at the end of the year, a year after negotiations, there was the above described growth funding on students the college didn't have.

COLA, which was known in advance, and growth funding, not known until later but then spent on more classes, were only two pieces of the change in funding. In total, those two pieces explain about an 8% increase. The rest of the revenue rise was not seen until the following school year. Reasons for the increase, something I never fully investigated, might have been due to back-filling funding of previous years and under-funding during the dot-com meltdown, but I don't know. Negotiations typically took place in the spring semester to apply for the following year. The final budget numbers become available in September and October of the following school year. It's about a year and half between the negotiations and the numbers. By the time the union had received and understood the numbers, conditions had changed. Expenses were rising quickly to capture students. Then the economy went into recession, and the state entered crisis mode. Some of the increases in expenses came from additional faculty, both adjunct and fulltime. Some went to staff and care for the new buildings. There was the perennial large increase in medical costs. The union went into negotiations seeing the increased revenues but also confronting large increases in expenditure.

An Aside on Hiring

Somewhere around this time, I think a year later, faculty at CPC (Central Planning Council, Cabrillo's top planning committee which makes recommendations to the President) pushed for an increase in the hiring of fulltime faculty. With the additional classes and money being spent on them, faculty argued we should move beyond the required FON (Faculty Obligation Number – the state required number of fulltime faculty) hiring. Administration's position was that there was a financial storm on the horizon. The final decision was a compromise where we would hire a few extra instructors with the understanding if the budget turned bad, a hiring freeze coupled with normal attrition from retirement could take care of an excess of new hires. That's exactly what happened. Cabrillo hired more than necessary required by the FON covered with the growth money. The next year the financial storm hit, and the hiring of fulltime faculty was suspended. Retirements returned the district to the minimal level of FON. To me, the decision and process was a success, but I've heard people describe it otherwise. I've heard some say that we were foolish for hiring more than we needed. That's not correct because we're not carrying anyone extra today. There was no long term cost harm. We're at the FON, not way above it. I have also heard faculty complain when the college did not hire fulltime instructors the next year. This belief, like the "we hired too many" view, fails to understand the agreement to hire additional faculty that earlier year. The half stories, hiring too many or too few, hide the success of the compromise forged at CPC.

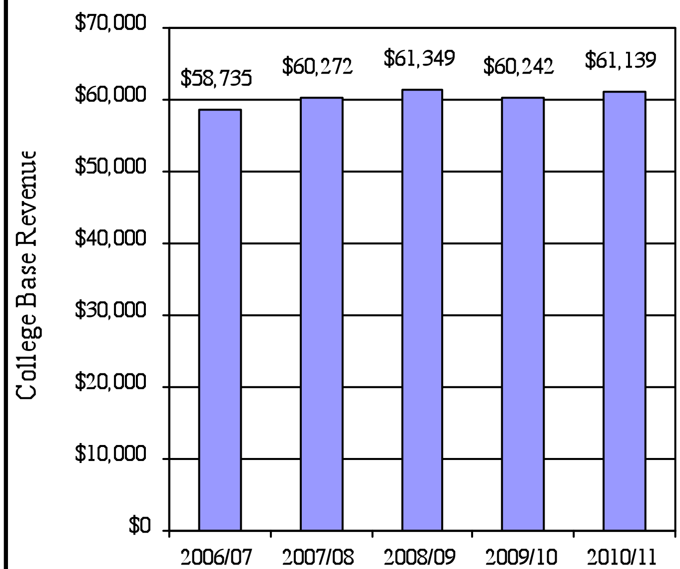
Flood of Students

The onset of the recession with the accompanying budget problems was one of two things that changed the course of Cabrillo in the late 2000's. The other was, most strongly driven by demographics, an influx of students. We moved quickly from not meeting enrollment goals to being flooded with students. Prior to this time, one issue at negotiations was the inefficiency of classes at Cabrillo. It was getting very expensive to attract students. Classes were running with less than 20 students. The union's analysis presented to the district was that the inefficiency was not due to contractual restrictions. The contract didn't mandate small classes. Classes were filled with only 20 students not because the contract did not allow 21 students but because there was a lack of students. It wasn't the contract. The union argued that if students started coming to Cabrillo, the efficiency number would change commensurately. And did they!

Students came. Classes filled. We were now over our enrollment cap, and the union asked instructors not over-enroll their classes. Efficiency went above any reasonable target the district might set. Students per instructor would rise something like 20% in just a few years. What happened to all those innovations to capture FTES? The cyber-session and community outreach were stopped. The summer arts institute was moved to community education. In terms of classes, faculty and TU's, the college shrank.

With a sustainable high enrollment, the growth money had now been "earned" by faculty, and the union pushed for pay increases. Two things worked against the union. First, there were large increases in the cost of health coverage. This sucked up money. Second, our understanding of the budget wasn't good enough. It's a moment that would change the priorities within the union.

By the Numbers:
Small increases in revenue after 2006
(revenue in thousands of dollars)



After the large funding increase in 2006/07, revenues would barely grow in the following two years. We would see increases of 2.6% and 1.8% in 2007/08 and 2008/09 respectively. The 2008/09 year would be the peak in revenue at $61.3 million. Again, much of the COLA in those years would be needed to pay for the increases in medical benefits.

Looking back, I believe we could have done a better job negotiating at the time, though I'm still not sure how. Information was badly lagging. College was spending much more with increased sections, more fulltime faculty, and large increases in benefit costs. Finally, the state was entering another recession. It could also be true that we might be lucky that we didn't do a better job. That we could have done a better job then is one the stories we are living with today – and I think it's an accurate story. It's why many feel justified in the union not moving quickly with concessions now. Not securing a significant pay raise in 2007 or 2008 resulted in the large slippage in the relative standing of faculty salaries in the state.

We know of the slippage because of the CCFT salary study. The salary study showed that, by one measure, we went from 15th in the state to 54th in six years. One of the problems in comparing salaries is that not all faculty are paid the same. One solution, put forth by Santa Rosa community college union, is to look at one particular place on the salary schedule, something of a central point. Using the data they collected, for the year 2003, Cabrillo was ranked 15th highest salary out of about 70 community college districts. By 2009, Cabrillo had fallen to 54th out of about 70 districts. Looking back, the reason for the slippage was that faculty in other districts saw much larger pay increases than Cabrillo faculty in the years preceding 2009

"Looking back" has become a key part of negotiations and the union's strategy. It has only been in hindsight that the union understands what's happened to salary and college revenue. The union began pushing for a total compensation discussion that was formula based. That is, total compensation to faculty would be based on funding from the state. If funding increased, as it did in 2006/07, then compensation would rise commensurately. There is potentially a large lag in formula based negotiations. We negotiate for the coming year, but dependable budget information won't be available until after the year is over. For example, the union negotiates in spring of 2012 for the school year 2012/2013, but the finances of 2012/2013 are not well understood until fall of 2013, after the fiscal year is over. Furthermore, there can be changes to revenue all the way into spring 2014. In some ways, the union is still negotiating over the financial changes that took place in 2006/07.

<u>Crisis</u>

In 2009, it was clear in Sacramento, and almost everywhere else to anyone paying attention, that the state was in financial trouble. They would cut the college's funding by 2% for the 2009/10 school year. The college responded appropriately with extreme fiscal conservatism. Spending and hiring freezes were put into place, and the district pressured the unions to forgo the built-in cost increases (rising benefits costs and step/column pay increases).

Somewhere during this time, Brian had a meeting at his home with the two union presidents and the Faculty Senate president. The message was simple. The college was headed for a financial crisis. Lay-offs could be expected; Cabrillo would be a smaller place. Once again, the union's understanding of the budget was insufficient. Understanding the budget had to be priority number one. In looking at that budget, the first most obvious thing was that the college had not suffered a significant decrease in funding. The next thing observed was a growing net ending balance (NEB).

The script between union and the district for several years during this time went something like this:

> **Administration**: we're in a financial crisis!
> **Union**: no we're not. Look at our revenue. It's still very high.
> **Administration**: you're in denial! The economy has melted down. We're going to be hit with cuts. They could come at any time (mid-year).
> **Union**: that may be true, but we're not in a financial crisis ***yet.*** Because of large net ending balance, we can wait to react instead of preempting in advance.

Looking back, both the union and the administration were correct. The crisis finally did affect revenue, but it took years for it to happen. In the meantime, the union had learned about the growing Net Ending Balance (NEB) – a buffer that would allow the district to move more slowly in response to the crisis.

A feature of the above timeline is worth noting. Real estate prices peaked around 2006 (though in some locales they were already in decline). The economy entered a recession in late 2007. The main events of the financial crisis start occurring in 2008. Yet, it's not until the 2009/2010 school year that the state begins cutting the community college budgets, and it's not until 2011/2012 that they're cut significantly (more than a couple percent). It might be partially due to the then-governor's love of community colleges, but this time of reaction lag for government is typical. Furthermore, it's not just on the down side; the lag also occurs on the up side. That is, when the economy begins to rise, it can take a year or two before the state government will feel the impact and gain the revenue from that increase in economic activity. This suggests that if the economy, particularly California's economy, is still sluggish in summer of 2012 that state budget conditions will not significantly improve by school year 2013/2014.

Net Ending Balance, History

Looking at the NEB was not new. Every California community college union understands that the state Chancellor's Office insists on a 3% NEB and strongly prefers 5% (or something like that). The NEB is the total accumulation from the past of all unspent revenue. To be imprecise, it's the accumulation of money we haven't spent yet. It might be thought of as a bank balance, though not the entire NEB is in the bank. It can include receivables – money owed to the college that should be received soon.

By the Numbers:
History of the Cabrillo's annual surplus (revenue over expenses) from 1990/91 to 2004/2005

Average Surplus	$ 787,000
Maximum Surplus:	$2,285,000
Minimum Surplus:	$-122,000

Making this worse, the NEB at different schools could represent very different things. There are qualifiers like "encumbered" or "allocated". Some of the funds in a NEB might not be controlled by the district, such as our conference funds which are "owned" by the faculty member. Contractually, the district cannot spend them without contractual changes.

The NEB can have funds that are encumbered, meaning, more or less, we've spent the money but haven't cut the check yet. It can also be allocated, meaning the college has determined how it should be spent even though it hasn't been spent yet. Unspent allocated funds can be reallocated or repurposed to something else. Those terms are not always used consistently.

Another inconsistency is the use of the term NEB itself. Some people refer to the NEB as "reserves". Properly used, reserves and NEB are not the same. Reserves are funds that have been specifically allocated not to be spent (yet). The college points to a specific amount of money and says, "we won't spend that; it's in reserve." Reserves are a subset of the NEB.

Another point of confusion is that accreditation (ACCJC) likes colleges to have a policy about reserves though I don't know if I could find it written anywhere. In the last accreditation, one of the recommendations for Cabrillo was to increase our reserves from 3% to 5%. Now it appears one criticism of City College of San Francisco by ACCJC is their reserve policy. The Chancellor's Office has a policy about NEB, not reserves. People often confuse those two policies, but they are about different, but related, things.

The union's current investigation into the NEB dates back to the 1990's and was done by John Horner and Alex Taurke. The union's concern was that the district pretty consistently ended the year with a surplus. A surplus is the additional revenue over spending for a specific year. The NEB is the accumulation of all past surpluses. Union's thinking was simple: if there's a surplus, the college can afford to pay faculty more.

Here's the language from the last accreditation self study:

> It's is not clear how concerned the college should be about a systemic unexpected surplus. It has not resulted in a growing reserve, and its existence is predictable (11 out of 13 years) and publicly known. Still, diligence should be maintained by faculty and staff organizations to ensure that these surpluses are the result of reasonable fiscal conservatism and not indicative of any pattern of the college misconstruing budget information

In 2006, I formed two conclusions about Cabrillo's surpluses. The conclusions were based on examination of more than a decade of data on the budget surpluses and the college's NEB, data built upon Alex's early studies. First, those surpluses were not large in percentage terms, usually not much more than 1% of the college's funding. Second, and more importantly, as mentioned in the quotation above, the surpluses were not accumulating. Accumulation would be seen as a rising NEB. This meant the surpluses were being spent.

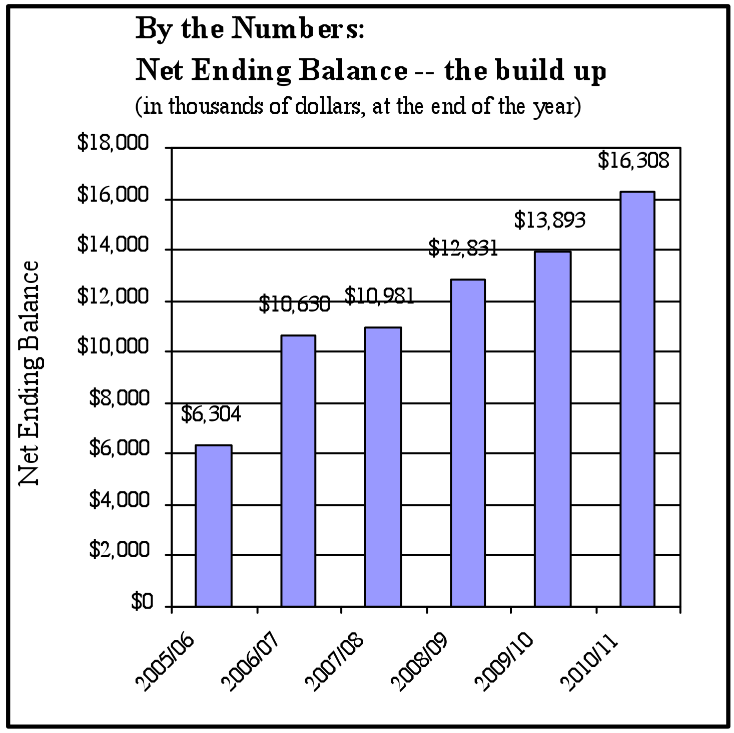
That last sentence sounds contradictory. If it's a surplus, doesn't that mean it wasn't spent? The surplus means it was not spent that year. That it didn't accumulate meant is spent in the following year (or perhaps even later). How were the surpluses being spent? Some of the spending was according to the original approved allocation but happened later with the funds moving though carry-over accounts. Second, if the money wasn't already allocated, allocation of the spending followed a process that included review at CPC where faculty and staff could share input. These one-time funds were often used to fund necessary but unplanned or unexpected expenses, such as maintenance. Some schools add many projected expenses into their budgets which are never realized (projects that are never undertaken), and this results in slush funds for administration. At Cabrillo, a different practice had been followed. Maintenance budgets were kept small and the needed funds would get tapped at the end of the year from one-time surpluses. The college knew at the end of the year there would be some surplus money available, and they use that money for the unexpected expenses that always occur.

Years ago, long before the current financial crisis, the union had several times attempted to get the college to raise pay based on the observation that the college almost always ran a surplus. The union was unsuccessful getting raises, though in the more distant past, the union had successfully gotten surpluses, parts of an NEB, allocated to meet union's needs. These were "one-time" funds that met specific one-time needs. They did not create an ongoing district commitment. An important distinction needs to be recognized, that there is a big difference in perspective over the surpluses. To the union, this was an argument over unspent money. To the district, there was adherence to an important principle – that the base budget, a statement of the long run sustainability of the district – should not show a deficit. This was a very important issue for the district and the board. It was a commitment to long term sustainability and financial responsibility. It also needs to be remembered that this was a time of relatively small surpluses, averaging less than $800,000. In 2006/2007, the surplus story changes.

Net Ending Balance, A Change

At the same time the union was getting a firmer grasp on the budget, a change took place. Each year, the district feared further and larger cuts in revenue – cuts that might come long after the budget had been passed by the state legislature and the college was well into the school year, "mid-year cuts". Administration acted upon their fears by doing spending freezes and managed hirings (managed hirings meaning open positions would not automatically be filled, but only filled after review and prioritization within management). This kept expenses down while the revenue cuts did not materialize. Without the feared concurrent drop in revenue, low expenses lead to large surpluses. Prior to 2006/2007, the average surplus was less than $800,000 and that surplus did not accumulate. Beginning in 2006/2007, the average surplus rose to $3,600,000 and accumulated.

The spending freeze and managed hiring also lead to confusing and frustrating budgets and predictions of doom from the administration. From 1990 to 2005, actual spending averaged only $580,000 less than budgeted spending. That is, the college spent all but $580,000 of what was planned in the budget. That number then ballooned. Since 2005/2006 year, the college has spent on average $2,800,000 less than what was budgeted. Their budgeted expenses were almost $3 million more than they would actually spend. Having budgeted-expenses exceed actual-expenses by that much leads to distrust of administration and the budgeting process.



The budget is largely built upon the predicted expense of jobs approved by the Governing Board. When the college does not fill a position, the budget still must reflect the expenses of that position even if it is unfilled. The budget must reflect the Board's allocation. That "must" in the last sentence is a legal must. Only if the Board votes to eliminate a position does it come out of budget expenses. This created what became known as "ghost positions". In the budget was the allocation of jobs that would go unfilled. This created a large variance between "budgeted" expenses and "actual" expenses and helped to lead to historic NEB's. Ghost positions are one reason why actual expenses fell below budgeted; grants were another. The college secured a number of them. If a permanent employee was getting paid by a grant, their salary was still in the base budget because the base budget reflects the long run commitment to the employee, but for that year, actual expenses won't be charged to the budget. The salary expenses are charged to the grant, and that generates variance between the budgeted and the actual expenses.

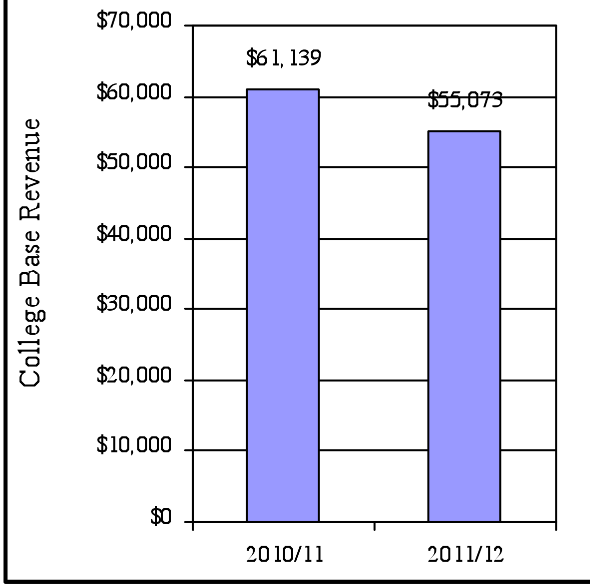
As the district feared additional revenue cuts and its budget showed deficits, the union's response was that we would wait until the state legislature actually cut funding before we acted. We could afford to wait because of the large increases in the net ending balance (NEB). The NEB became a focus of many at the college, and the subject of a new board policy about spending it down.

At the end of the 2004/2005 school year, our NEB was $5,300,000 which was 10.8% of expenses. The Chancellor's Office recommends a 5% NEB. Cabrillo was double the recommended amount. However, from a comparative perspective, Cabrillo was below average. The state average was almost 12%. and Cabrillo was ranked 46th out of 72 colleges. We were below average in our NEB.

That changed dramatically. By the end of school year 2010/2011, our NEB would rise to $16,308,000 which is 27.8% of expenses. Cabrillo was not alone in the build-up of NEB. The state average rose to almost 19%, but Cabrillo had gone from below average to above average. We had been 46th in the state. Now, Cabrillo was ranked 10th in the state for NEB.

To make matters worse for many trying to follow the budget, the 2010/2011 surplus was particularly confusing. Pre-election promises had increases in funding with "restoration" money to partly recoup the cuts in the 2009/2010 year. It was also clear the state didn't have the funds to do it. Cabrillo budgeted upon the assumption the money wouldn't be provided. The money was provided, and it wasn't – a confusing statement that reflects current financial times in this state. What the state did was fund the growth money to the colleges but defer payment to the following year. So the state provided the growth money as an IOU, with a promise to pay it the following year. Then, the following year, the state cut funding to the colleges so the money went away. Schools who weren't following these twist and turns found themselves in trouble in 2011/2012.

By the Numbers:
9.9% Decrease in Funding in 2011/12
(revenue in thousands of dollars)



<u>Year 2011/2012 The Sky Did Fall, and "Decimate" was the appropriate word.</u>

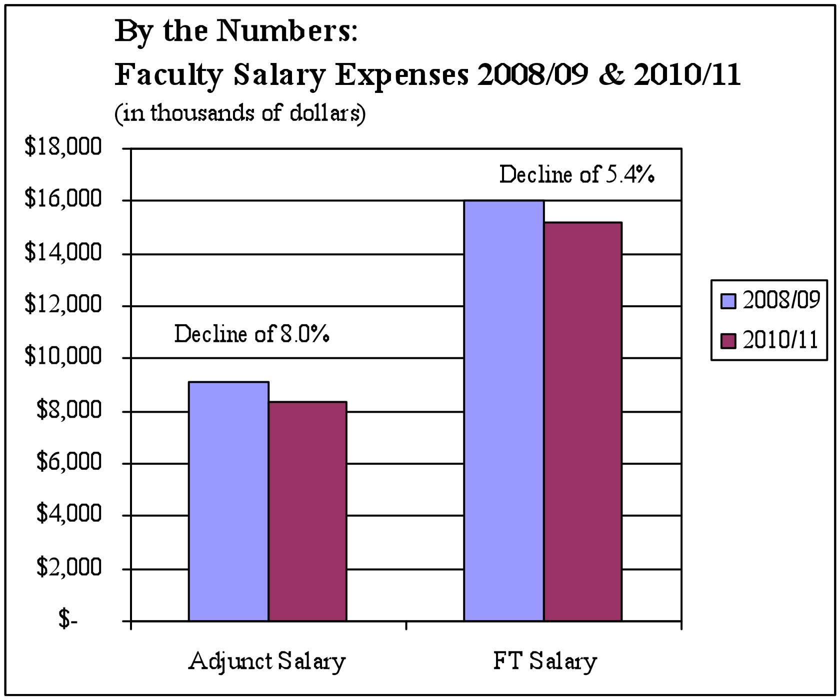
In 2010/2011, the state promised and spent money it didn't have. The new governor wanted a more realistic budget, so Sacramento created the 2011/12's budget with contingencies, "tiered cuts" and trigger language. If certain events didn't occur, such as increases in revenue, this would trigger mid-year budget reductions. Schools who didn't recognize the mid-year risk found themselves in trouble halfway through the school year. 2011/12's original budget called for a cut of about 4% to college revenue. Eventually, those cuts rose to about 10%. The additional cuts were the result of the triggers and also reductions beyond those planned. The new reductions were announced in a report in February (the fiscal year starts in July, so this more than 7 months into the fiscal year) and became known as the "February surprise".

With the cuts in 2011/12 revenue, Cabrillo began to draw down its NEB. My early guesses have put the draw down at around $4 million. Actual drawdown might be in the $5 million range. The college survived 2011/12 partly on its unspent NEB but also prepared for the following year by continuing with budget reductions. Budget cuts in previous years included the elimination of the "ghost positions" and things like supplies. These were the easy cuts. They're long gone, so Cabrillo is now confronted with the reduction of personnel. Even with the new cuts, we would likely continue to draw down the NEB. Obviously, it's not sustainable. The college will, with or without the help of faculty or staff, bring expenses into alignment with revenues. The Faculty Senate has done its part by providing a framework to select which programs are to be eliminated if that needs to happen. This left CCFT taking on faculty's response to the budget crisis.

<u>2012/2013, Before Prop 30</u>

With an approximate 10% decline in revenues compared to the previous year, could the union expect *not* to give concessions in 2012/13? It will depend largely on whether Proposition 30 passes. Let's start with a pleasant assumption that Proposition 30 passes. Proposition 30 increases income taxes on individuals making more than $250,000 and sales tax by ¼%. The money would be used to maintain the budgets of community colleges (along with K-12 education and some public safety). In the final budget, the legislature even put a little money into growth. This means in 2012/13, we could see an increase over the 2011/12 decimated revenue. Though, even with the growth money, Cabrillo's revenue will be down by about 8% or more. Doesn't an 8% decline necessitate an 8% decline in salary?

CCFT's conclusion is that salary concessions are *unnecessary* if revenues are flat or increases from the 2011/12 amounts. The reason is two fold. First, when revenues were at their peak, 2007/08 through 2010/11, the college was running large surpluses. One reason for those surpluses is because the union had failed to secure pay increases during the rise in revenue in the early part of the last decade. It's why Cabrillo's salaries fell in ranking compared to other schools (something that is well documented in my salary study). Faculty salaries were set when the college was receiving revenue in the mid-$50 millions. Now that we're back to revenues being in that range, our salaries shouldn't be too far out of line (though, benefit cost might be a complicating problem).



Beyond not getting pay increases (beyond the normal steps) for half-dozen years, spending on faculty has been declining over the last four years. I hope that everyone knows and understands the decline in spending on adjuncts (which includes overload for fulltime faculty). Decline in adjunct spending is the result of reduction in TU's (teaching units). Cabrillo had been chasing students to reach our cap and earn our growth. Our dearth of students changed rapidly, and we found ourselves flooded with students and thus did not need all of the courses we had put into place. Courses used to capture FTES (students) were no longer needed. And when the state did cut our revenue, it did it by reducing our "cap" – the maximum number of students for which the college would be compensated. The college was way over "cap" and started canceling sections. The result was, from 2008/09 to 2010/11, spending on adjunct salaries declined by 8%. A rough estimate is that this is an elimination of the equivalent of 15 fulltime employees. The college went from having 436 adjunct faculty in fall 2008 to 367 in fall 2010.

It wasn't only adjunct salaries that saw a decline in spending. Total fulltime salary expenditures declined too. From 2008/09 to 2010/11, fulltime salary expenditure fell by 5.4% – mostly due to attrition. The number of budgeted fulltime contract faculty went from 228 in 2008 to 213.5 in 2011. That's the "budgeted" number. The official state number is a little under that, and the discussion at CPC suggests the number of fulltime faculty that satisfy our FON may be under 200 in Fall 2012.

If the college lost 9% to 10% of its revenue while combined adjunct and fulltime faculty salaries have declined by 6.3%, doesn't that mean we've still got a 3% problem, even more than 3% if we realize that medical benefits cost has risen quite a bit in the last ten years? There would be a problem if we had been spending all that revenue in our peak years. But we weren't. We were spending less than our revenue and running large, $3,600,000 on average, surpluses. That's about 6% of the revenue. That means we needed to reduce faculty salary expenditure by about 4%. Since the actual was over 6%, it looks like faculty salaries are where they need to be compared to where things were in 2008 (again, excluding the complicating problem of the rise of benefit cost).

Too many numbers? This thing is going down by 9%. That thing is going up by 6%. Something else is falling by 5%. That's the whole point of careful budget analysis. It's not enough to feel that faculty deserve more. There has to be room in the budget to support the proposition. Our revenue is one of the absolutes you can't avoid. The sky is not our limit. Our ceiling, our constraint, is our revenue. Being sloppy about the budget means missing opportunities, or giving away too much.

The Benefit Problem

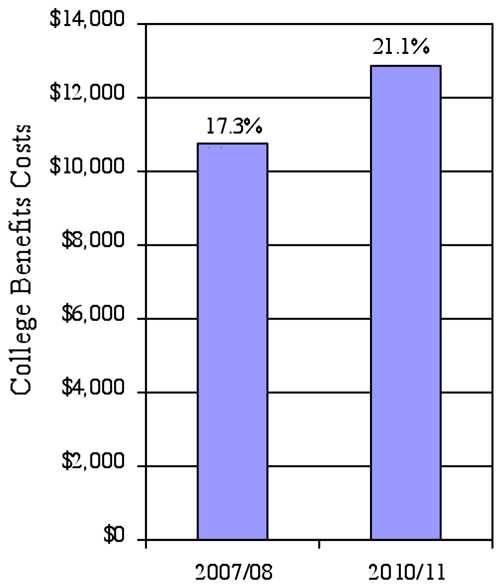
Benefit costs played a significant role in both budget discussions and negotiations over the last six or seven years, and they will most likely continue to play a high profile role. When the college was getting COLA's, large increases in medical insurance cost ate away at the new revenue. Lately, the increases in medical insurance cost have been much smaller. However, it's been in a time of falling revenue, so benefits still attract attention.

Benefit cost are tracked both by the state and the district in its base budget, so information is readily available. If you say benefits, most think of the four insurance purchases in the employee's benefits package, medical, dental, life, and disability. In the budget reports, benefits are more than those four insurance purchases. The benefits in the budget context also include legally mandated benefits, such as retirement contributions or unemployment insurance.

When I did the salary study several years ago, some suggested that benefit cost was a reason for Cabrillo's lagging pay increases. At that time I showed that Cabrillo spent less on benefits than most community college districts. Specifically, Cabrillo was ranked 57th out of about 70 districts in spending on benefits. Fifty-six community college districts spent more than Cabrillo did as a fraction of revenue received. Things have changed. Benefit costs have risen about 20% in the last four years, and Cabrillo is now ranked 37th in the state – pretty close to average.

In 2007/08, the benefits made up 17.3% of college expenditures. Three years later, benefits had risen to 21.1% of expenditure.

By the Numbers:
Increases in the cost of benefits
(in thousands of dollars)



There's an unintended consequence of putting more dollars into non-legally mandated benefits, such as health insurance. Benefits are not used in the calculation of retirement. All salary, even if that salary must be reduced by district deductions to pay for benefits, is part of the retirement calculation. This is a major reason why almost every community college and every school district union has agreed to cost sharing. Cabrillo was one of the last hold-outs.

Benefits in 2010/2011 were 21.1% of expenditures. I suspect that number will have gone up again in 2011/2012. 21.1% seems like a lot but it's not far from some previous highs in the district. In the early 2000's, benefit cost rose eventually to 20% of expenditures. At the time, the medical plan was adjusted to reduce the premium (put higher co-pays into the Low HMO plan). That the medical plan was adjusted is why faculty point out that the Tentative Agreement is not the first concession put before membership for approval, and with Cabrillo being one of the hold-outs for full coverage, it's a concession most unions have been making over the years.

The Failure of Proposition 30 and Concessions

CCFT's conclusion is, if funding is flat in 2012/2013, then faculty salaries are not excessive and not putting the college at risk. Therefore, there is no need for a salary concession. The big "if" in that sentence is Prop 30 passing. What if it doesn't pass?

According to the state budget passed in Sacramento, if Prop 30 fails, then Cabrillo will see a reduction in funding for the year 2012/2013 (which began on July 1, 2012) of about 7.3% of revenue, a loss of about $3.5 million. CCFT believes if funding is flat, the college is financially set. However, if it loses another 7+% funding, there's almost a 7% problem.

Administration's planning is always mid-case. Admin's best case scenario is that Prop 30 passes. Their worst case is it fails. The mid-case, which is what the college builds plans upon, is between those two. The mid-case is odd because it's almost sure not to happen. Historically, the mid-case scenario was also seen as that which is most likely to happen. This mid-case almost can't happen, but it does keep the college closer to either outcome: Proposition 30 passing and Proposition failing. It's not a conservative, safe position. It's a position that will require the college to adjust after November 6's election. Either the college may have to make additional cuts if Prop 30 fails. Or, the college may have to chase FTES by installing more sections (the summer will play an important role of managing enrollment and FTES) if Prop 30 passes. Part of reacting to the failure of Prop 30 (if it comes to pass) is concessions made by the union. There is little choice. Costs will need to be reduced, so the union negotiated a tentative agreement with district concerning concessions.

NEB, can it continue to shield us?

If the college still has significant NEB, why make any concessions yet?

There are two problems with the NEB. First, the NEB was drawn down significantly in 2011/2012. The final numbers aren't in yet, but it's looking like over $4 million of the NEB out of about $16 million was drawn down in 2011/2012. Probably more than one-fourth, and possibly closer to one-third, of the NEB was used up. That still leaves a NEB of significant size. However, we can't continue to draw down the NEB as fast as we did in 2011/12. The draw-down must be slowed. Also, if Prop 30 fails, the lost in revenue rises by over $3 million. That accelerates the usage of the NEB. To be sustainable, reliance upon the NEB needs to be well thought out and paced, ramped down, over a several years.

There's another problem. The NEB is now almost completely comprised of a receivable (an IOU) from the state. One of the budget gimmicks the state used to get through the last several years was to push back payments to schools. These deferrals to Cabrillo amount to about $10 million. That means of the $11 to $12 million unrestricted NEB we may have, only $1 to $2 million is in cash. That won't cover two weeks of expenses for the district, maybe not even one week.

The district is participating in some borrowing programs, but those are greatly limited. The school can't do what a business does — open a line of credit with a bank, creating a loan when it needs it. Instead, the school participates in a state "TRANs" program (Tax Revenue Anticipation Note, the program is run by the state). The TRAN only funds a fraction of the money the state owes Cabrillo. Escalating the problem, the state continues to pile it on. This year the deferral issue worsened. Not only because it grew, but because the state used to only defer from the end of one year into the beginning of the next year. In 2012/2013, the state will start a year-round policy of deferrals. This is because the state has its own cash problems and is out of money and can't borrow. The cost of the borrowing for 2012/13 for Cabrillo might run somewhere around $100,000.

On top of the deferral problem is the RDA issue (Regional Development Agency – an agency funded by property tax money to fund all kinds of development projects. Across the state, examples of funded projects run from street signs to professional football stadiums). Governor Brown shut down RDA's and repurposed the money into schools. That's good in theory, but the practice has been muddy. Who gets the money, how much do they get, when do they get it – none of that is clear. Some predictions say that for some RDA's, it may be 30 years before all the issues are sorted out. Fortunately, Santa Cruz County looks to be cleaner (but not clean). Cabrillo's RDA money did arrive and only a few months late. I don't believe the RDA issue is a big risk for Cabrillo (but there still are plenty of opportunities for surprises on this), but it may be enormous for other schools.

It turns out the story is even more complicated than that. The reason the money finally arrived is not because the RDA's mailed the check but because the state had promised to backfill any short-fall in repurposed RDA funds. The state sends only a fraction of the money colleges are promised, expecting other agencies' revenues, such as local property tax revenues, will make up the difference. In the current case, one of the other sources of funds was repurposed RDA money. Originally, the state planned on about \$300 million of RDA money being sent to the colleges. In the final budget, that number was revised to a little more than \$100 million. How much actual RDA money actually made its way to colleges? About \$11 million. No one really knew how much money was available from the RDA's. It turned out a lot less, \$11 million, than they thought, over \$100 million revised down from \$300 million. Fortunately, there was agreement in Sacramento to have the state "backfill" any shortage of RDA. Backfilling does not always happen for community colleges (it does always happen with K-12). If the backfill agreement wasn't reached, the community college system would have been short about \$100 million of funding. That's \$100 million less than the state planned, passed in legislation, and promised.

Don't know what RDA is? It's not important. What is important is to understand that the level of uncertainty facing the college's finance has risen radically, unimaginably. There has always been uncertainty about budgets. Would there be a COLA? How much would there be? Would there be growth funding? How much would benefit costs rise? What would happen with enrollment? And, the uncertainty was layered. The state might fund a certain percentage growth, say 2%, but that doesn't mean Cabrillo gets 2% more funding. The money is allocated at different levels to different schools depending upon demographic measures. The colleges may claim more or less than their allocated amount. If too much money is claimed, schools might end up with less. Finally, Cabrillo would still have to increase the number of students to earn the money. That 2% growth could turn into near nothing awfully quickly.

By the Numbers:
Dependence upon State Funding, 2010/2011

Cabrillo	57%
San Jose-Evergreen	8%
West Valley-Mission	15%
De Anza – Foothill	37%
Marin	5%
State Average	53%

Although there was uncertainty in the past, it came in a predictable cycle. The Governor proposed a budget in January. A revision came in May. The legislature enacted the budget….at some point. Once passed, you could largely count on it. Now, with the state short of cash, failing to find expected savings, failing to receive sufficient increases in tax revenue, getting judgments of court mandated expenditures on specific programs, and seeing unexpected declines in property taxes which the state backfills to K-12 schools (but not community colleges), state finances are managed on a month to month basis. An example of a symptom of this financial management on the fly is the legislative passing of the budget. In the past, the budget would be enacted through a *single* bill. For 2012-13, beyond the main budget bill were four more additional bills, riders or amendments, each one modifying the budget of community colleges. Changed can continue after the bills have all been passed. What the state passes in July may be vary different from what a college realizes more than a year later, and the next surprise the state hands the community college system could be something we're not even thinking about now.

The college has to keep its mind open to changes that no one has even imagined. Saying, "that's never happened before" is no longer justification for complete denial that something *could* happen.

To make matters more confusing, the impact of the state cash and finance problems are not visited on community colleges equally around the state. Schools vary in their dependence upon state financing. Originally, community colleges were funded completely with local property taxes. After Proposition 13, the state stepped in to provide adequate funding. If local districts couldn't collect enough taxes via property assessments, the state could raise the money through income taxes. With this state assistance, property taxes didn't end; they were supplemented.

Zoom forward 30 plus years after Prop 13. In locales where real estate development greatly out-paced the state average, such as Silicon Valley or Orange County, property tax revenue grew fast enough to fund most of a community college's needs. Not a lot of state supplementation is needed. In a county like Santa Cruz, where real estate development was below the state average, more state money is needed.

Colleges that don't depend heavily upon state funding haven't been harmed by deferrals because there isn't much state money to defer. In extreme cases, schools become "Basic Aid", meaning the school is no longer getting supplemented by state funding. Local property taxes provide apportionment. If a college is Basic Aid, it may also not be subjected to funding cuts in the form of workload reductions. If local property taxes are sufficient, those community colleges won't have to follow the state funding restrictions.

The NEB is still an important topic for the union, and I believe it will continue to play an important role in the college financial planning as we move forward. One tricky aspect of using the NEB is the timeline. The NEB isn't known until months after the close of the fiscal year. To be useful in budget planning, decisions have to be made around the close of fiscal year.

Answering the question of how to optimally use the NEB is not simple. Two identified extremes are obviously not optimal: use of the entire NEB in one year or no use of the NEB at all. The NEB should be used to cushion budget cuts, but it needs to be spread out. A variety of draw-down plans that could be followed (I like the metaphor of a plane's "glide-path" that leads to a soft landing). That's not too difficult to plan but difficult to execute because you never finish exactly where you plan to. Adjustments need to be ongoing as actual deviates from budgets. Landing a plane is easy in theory, but reality has turbulence, cross-winds, and wind shears. In 2011/2012, plans looked to draw down the NEB about $3 million. That rose to $4 million with unexpected changes in funding mid-year. The final number, unknown at this writing, may be closer to or above $5 million.

The NEB will continue to be important, but seeing the impact in negotiations comes with a significant lag.

The Future

What does the future hold?

A lot more hard work.

Whether Proposition 30 passes or fails, the college will continue to face serious budget challenges and complications. Obviously, if Proposition 30 passes, it'll be much easier. But if 30 fails, Cabrillo will only have months to position itself for 2013/2014. With more than a 7% decrease in funding falling on top of a 10% loss (which comes a couple of years after a 2% cut), the college will be looking at program elimination. I can not image a scenario that does not have the college playing it safe and beginning the process of program closure.

The union will be back at negotiations. The 2012/2013 tentative salary agreement is only for 2012/2013. Either with or without Prop 30's passage, the union is back negotiating compensation. Technically, the district and CCFT have had on-going compensation negotiations since the last contract. However, with the budgets we've seen, talk about compensation had been in stasis. That changed with the budget for 2012/2013 which has triggers of added funding restrictions if Prop 30 fails.

Can salary concessions prevent program elimination if Prop 30 fails? Probably not if we're looking at such a large funding reduction (current estimate is $3.5 million, 7.3% of our revenue). If Prop 30 fails, the union will need to seriously consider ways to offset program elimination, but how much savings will be needed depends on many factors: the number of retirements and in which departments, how close the college is to the funding cap, the size of the NEB, the increases in medical insurance cost and other expenses, new student enrollment, and other. There's a significant cost if the union incorrectly estimates numbers. It puts its members at risk of greater concessions. Yet, even if we could obtain that number, and it's an accurate number, the union membership would need to approve the concession. I don't know what that process would look like, and obviously willingness to make a concession is heavily dependent upon the size of the concession. Finally, if we've made it that far in the process, we're still not done. The union has to negotiate the trade-off with the district.

It is only recently I've come to accept it will be very difficult for the union to take *the lead* in saving programs through concessions. This isn't to say programs can't be saved, but the union doesn't have the information or authority to do it. At one time, I envisioned putting an option before faculty: lose these programs or take an X% salary cut. Now, I see it would be impossible for the union to put such a choice before faculty. Under these conditions, what often occurs is the faculty and the union are presented with a single option, an ultimatum, made by the district, as was seen at Monterey Peninsula College.

This doesn't eliminate the role of the union in this process. The role of the union will be to push the district to provide alternative scenarios and to challenge the district's numbers. The cost of making errors in budgeting are not distributed symmetrically. The district faces greater losses, both financial and non-financial, from under-estimating costs than over estimating them. That is, there's a natural bias to be cautious or conservative in cost estimates, making the estimates larger and a situation seem more desperate. An important role of a union could be to counterbalance that bias. The union can help to clarify the size of the challenge facing the school and the true trade-offs that exist.

That's the more immediate future, school year 2012/13. The long run question for the union, one that could happen much sooner if 30 passes, is when can we get back to increases in compensation instead of concessions? Part of the 2012/2013 tentative agreement is recognition of the erosion of faculty salaries, both in terms of what faculty are paid elsewhere but also in comparison to the college's entire budget. Currently, revenue is the biggest obstacle. When the state starts getting more money, the college should get more money, and faculty should get more money. That's the plan.

Revenue can be tricky. Hopefully, it won't be too tricky in the future. In the past, especially during the flush times, Sacramento presented revenue in a variety of ways. Some were so restricted and relatively small, it didn't really matter, but others have been significant. Even if money starts to return to the state, community college COLAs or funding increases might be well down on the state's priority list (though, Prop 98 will help to prevent that). Many needs have gone unmet or partially met over the last several years. There is a lengthening line in Sacramento begging for funds.

It isn't only revenue that makes the future budget tricky. A need to hire fulltime faculty would impact the budget. For example, what if the FON is unfrozen and Cabrillo is economically forced to hire many fulltime faculty? A need to hire adjuncts to maintain enrollment would also impact the budget. If the college starts falling below the funding cap, TU's will be allocated to chase FTES with additional sections. Like with Sacramento, if revenue to the college rises, no doubt there will be many needs identified. It will be a challenge to the union to hold the district and administration accountable. Budget and NEB analysis will continue to be an important tool in the union bag.

Last Words

I believe there are number of things to be learned from the story of the union and the budget from 2006 to 2012. Certainly, one is that it's almost impossible to know too much about the budget and that it's costly to know too little. And if you believe the above is complex, much of this analysis was at a high level. Drilling down into budget, looking at all the categories of expenditures, makes the picture even more complicated.

Analyzing the budget reveals the missteps the union might have taken over the last six years. It is information I'm not entirely comfortable revealing, but I believe seeing more clearly what has happened in the past provides a path forward. It should also provide lessons for the union in the future.

Another common thread in this discussion has been the problem of timing. Budget realities evolve over time. Things become known. The information changes. Reaction to the information leads to further changes. The truth does not stand still. Faculty need to understand the rhythm of the budget and how it extends over several fiscal years. Implementing some changes can take years. Changes in programs or faculty cannot happen instantly. The board and administration needs to be mindful that it has to be thinking forward while looking backward. CCFT will continue to look backward. It's a slow evolving process, and missed opportunities for faculty can't be forgotten.

I believe the biggest lesson is that the success (and so far, I would argue it has been successful) Cabrillo has had in managing the financial crisis is a result of the (occasionally uncomfortable) collaboration between the board, administration, and faculty. There were times where it was said that faculty were in denial. Hopefully, the above shows that clearly wasn't and isn't the case. At times, faculty were not as well informed as we should have been, but we were never in denial.

I try to think how things would have gone if the administration's wishes had been followed a few years ago when great alarms were raised about the large deficits the district was about to suffer. Levels of distrust would now prevent faculty from acting constructively as revenues finally did decline.

I also try to think how things would have turned out if administration had not been overly worried (some might say paranoid) about a coming financial crisis. The levels of pain we now decry would seem superficial if the College hadn't built up reserves and hadn't managed hiring over the last three years.

My point, administration and the board benefited greatly from the input of faculty.

And faculty have been well served by the board's and administration's concern about revenue cuts.

This leaves a big question for me: the (negotiated) promise that needs to be kept, the concession of health benefits for a movement to a more appropriate and fair share of revenue. Will we be able to maintain similar collaborations when a more normal economy returns and the college is seeing increases in funding?

Paul Harvell

PS: This was written before the College's 2012-13 Final Budget was released. When the 311 financial reports are made available, I'll try to update this – though I don't expect any particular narrative to change.