

TO: Delta College Community

April 18, 2011

FROM: Matt Wetstein and Michael Hill

SUBJECT: Update on 2011-2012 Budget

What is the current status of the state budget?

In an effort to keep you informed the executive cabinet asked that we write to the entire college community and provide an update on where things stand on several topics related to the 2011-2012 budget. As we stated at the forums back in February this is a fluid situation and there is even less clarity now.

The Governor's budget plan fell apart as he could not garner the needed legislative support for the tax measure. There is still some hope that it can be resurrected but even if it is, a vote won't happen until November at the earliest. That means we will be almost half way through the 11/12 fiscal year before we would know the outcome of an election. With such uncertainty about this element of the plan we will very likely see a budget based on the worst case scenario which means further funding reductions to the system.

The district at the beginning of March decided to assume a middle case scenario and developed budget reduction targets accordingly. Now that the situation has worsened it is the strong feeling that we have to move to the worst case scenario. The Planning and Budget Committee recently endorsed this change and we expect to formally recommend to the Board of Trustees that we plan for the worst case.

Please remember that the district is looking at resolving this over 3 years. In the budget scenarios we modeled each of the scenarios showed a lesser level of budget cuts in year 1. This strategy allows all of us greater time for planning for years 2 and 3 when reaching the targeted cuts is almost certainly to be more difficult. By moving to the worst case plan now, the level of cuts needed for year 1 increase from \$1.8 million to about \$2.75 million, but the really heavy lifting will occur in years 2 and 3 when we will need to make reductions of \$5 and \$4.4 million respectively. If there is some relief via the tax ballot measure, it will serve to mitigate the year 2 and 3 targets. Since the possibility of tax relief is becoming more remote we have to assume a more aggressive posture in dealing with our circumstances. Later in this update we will share with you the results of the recent survey and possible reductions for the 11/12 year which is now only 70+ days away. However, work on the year 2 targets should begin as soon as there is agreement on the 11/12 list. Sitting back and waiting until January to start addressing year two is not going to serve the district well given the year two reduction target of \$5 million.

This three year plan will consume most of the strong fund balance the district has been able to establish. If all goes as planned the district will, after three years, have a relatively balanced budget with a reserve a little below the recommended level of 5%.

Even as we plan for the worst case there are factors which may yet add to the problem. The biggest factor is the severe underfunding of the State Teachers Retirement System (STRS). It may be that in another year or so the required contribution by employers such as Delta will be increased substantially

to address this funding shortfall. No action on STRS has been taken yet but this is a situation we will have to monitor closely. The other thing to keep in mind is that the third year of the three year plan does not account for step and column salary increases to employees and does not account for possible increases in health benefit costs. Additionally, none of the planning to date assumes additional cuts from the state. Given the uncharted budget waters facing the state right now, it is possible that the second and third year plan may require us to plan for even deeper budget reductions than currently envisioned.

What should we be doing even now?

As the 2010-2011 year draws to a close we are working hard to determine exactly what the fund balance will be and where we might be able to make operational reductions which will have the least impact on the college. To the degree that we can limit our spending between now and the end of the year it will only help as we prepare for what is ahead. While it may appear calm now, the gathering clouds will result in a fiscal storm never seen in California. Please understand that whatever we are able to save now will only help sustain the college, faculty, staff, students and the community we serve through this very challenging time.

Some possible actions now and going forward include:

- Limits on travel
- Increased scrutiny on filling vacancies
- Limits on supplies and equipment purchases
- Limits on outside services (contracts and consultants)
- Limits on use of classified hourly
- Review of preventive maintenance agreements (more affordable options)
- No carry-over of funds from year to year (except in grant funded budgets)

This is not an all inclusive list but represents the types of things we need to consider anew.

What did we learn from the budget reduction survey recently completed?

The budget survey served as a useful tool for identifying consensus on some possible plans for the coming fiscal year. While the survey had its drawbacks and critics, more than 500 individuals filled out the survey over a two-and-a-half week period, and more than half the responses came from students. In many ways, the results demonstrated the concepts in the book the *Wisdom of Crowds*, and the remarkable consensus on top rated items provides clear direction on solutions that will win widespread support. The results indicated that:

- The campus community supports the termination of the existing contract with eCollege for online course delivery and the non-renewal of the Pershing lease so that Business Services can move back on campus
- The campus community is poised to make cuts to operating budgets of roughly \$1.5 million – this is one of the highest rated solutions across all constituent groups in the survey

- A retirement incentive plan is popular with all groups, including students
- There is widespread sentiment that the College can reduce its number of high level administrators
- Furloughs were ranked in the top five ideas for budget savings, but this item would require negotiation with union representatives in order to realize these savings.

A collection of tables summarizing the survey results is being presented to shared governance groups and will be shared with the Board of Trustees on April 19, 2011. The results will be posted on a college web page after that presentation.

What will be the process as we move toward action on the budget?

The district must adopt a tentative budget in June. This provides the first deadline in terms of specific actions. We have until September to approve a final budget for the 2011-2012 year. Within this framework the district will be incorporating the following process:

April – May: The Executive Cabinet will use the survey results as one input for discussion, while also reviewing existing budgets, operating account balances, spending histories, the mission of the College and the Educational Master Plan. These inputs will be used by the Executive Cabinet to finalize a set of budget recommendations to share with Planning and Budget Committee in early May. Included in those May budget recommendations will be targeted cuts for the 2011/12 year for the Superintendent/President and each Vice President to identify in their broad operational areas. The goal of these targets is to identify specific savings that result in an estimated \$1.5 million in on-going savings. Each Cabinet member is working with appropriate managers to identify those cuts at this time. Each manager will be given an opportunity to realign their base budget of unrestricted general funds for the 2011-12 year.

The budget recommendations brought forward to the shared governance groups will also offer other solutions to ensure a minimum of \$2.75 million in budget savings for the coming year. The Planning and Budget Committee will be asked to endorse these proposals as well. The Committee has already endorsed detailed study of several proposals that were included in the budget survey.

Mid May: An agenda item will be brought to the Board of Trustees in mid-May based on the Executive Cabinet and Planning and Budget Committee recommendations. Once the Board approves the planned reductions, the Business Services Office will begin building a 2011/12 tentative budget based on the plan.

Summer: During the summer, the executive team will monitor events in Sacramento and materials from the Community College League of California to ensure the tentative budget is aligned with any political or economic changes taking place. Beginning in August, the College will have to engage in a planning process that begins to address the second year target of \$5 million in savings. Negotiations with collective bargaining groups will likely be initiated to address some of the elements that can generate salary and benefit savings. A process for reviewing programs and services will be initiated to ensure that

instructional and non-instructional areas are operating as efficiently as possible. Based on that process, some inefficient programs may have to be consolidated with others or eliminated.

Early September: The 2011/12 budget will be presented to the Board in the form of an adopted budget for the fiscal year.

Fall Semester: State budget developments will continue to be monitored throughout the fall semester to ensure that year 2 targets for budget cuts are appropriate. We will provide periodic updates to the campus community as circumstances change.

We hope that we have outlined our situation and our course of action clearly. We continue to welcome your ideas. You can express these through the official shared governance process or by sending your ideas to us or to your vice president. Thanks for taking the time to read and understand this information. It is extremely important that everyone at the College understand our situation and participate actively in solving the budget crisis at Delta.