

WARNING: PERALTA IS IN FISCAL TROUBLE.... AGAIN

As a result of District overspending and writing off so-called bad debt, PCCD's financial reserve lost almost \$13 million last year. This leaves the 2017-18 reserves at less than \$8 million, which is about 5% of the General Fund, the absolute bare minimum the state requires.

Unfortunately, Peralta has been here before. The PFT is worried that Peralta is entering the first stages of another downward spiral, where the first casualties are inevitably the students and part-time faculty. The spirals always begin with fiscal mismanagement (poor budgeting, overspending, lack of transparency, misapplication of funds) and loss of enrollment (down 3500 students since 2015). The first tangible sign of trouble is reduction of part-time faculty and a hiring freeze for full-time faculty. The second sign of fiscal trouble is a salary freeze. The third is a request for salary and contract rollbacks. The fourth is a request for benefit rollbacks. The fifth is layoffs of full-time faculty, and the sixth is a takeover by the State, which has happened twice in Peralta's history. Since the District has not explained the cause of the shortfalls, the PFT has done its own research so that faculty can be fully informed.

What Happened—The District's Story

Since the shortfall was revealed in October, the District has provided a developing set of explanations for the \$13 million loss: overspending on part-time faculty; increases in PERS/STRS contributions; uncollected student fees; increases in benefit costs. Some of these arguments are undoubtedly true (uncollected student fees reached \$8.7 million in 2016), but others are false (overspending on part-time faculty) and collectively they fail to present the full story.

They make no mention of:

- Increased administrative costs, including an unheard of and unprecedented increase in District office management staff;
- Unprecedented increases in Trustee and Chancellor travel and other expense account expenditures;
- Huge no-bid contracts (especially in IT) that did not deliver what they were supposed to deliver;
- Large expenditures for the Peralta Foundation, contract ed., workforce development, and foreign student recruitment that have not delivered what was promised and do not pay for themselves as promised.

PFT and the Peralta Community have serious questions about the District's story and wonder why it continues to change.

What Happened—PFT’s Story

Here is what we know happened: overspending, a lack of budget management, and a failure in financial oversight. The story doesn’t appear complicated:

1. **Overspending:** The District overspent its 2016-2017 revenues by a reported \$7 million. Yet, none of this overspending went to academics, as the District spent about \$3 million **LESS** on academic salaries than in 2015-2016. In fact, the District spent only \$450,000 more than the **MINIMUM** legally allowable by the 50/50 law (at least 50% of general fund expenditures **MUST** go to classroom expenditures). Where spending did increase was on administrators and classified staff (\$3.2 million more than 2015-2016).

2. **Lack of budget management:** Benefit costs did increase last year by about \$9 million more than was budgeted. We have yet to receive a full explanation for how this happened, but poor budgeting appears to be at the root of it. We know academic retirement benefits were about \$100,000 more than forecast, but that’s a long way from \$9 million.

PERS/STRS increases have also been blamed for this crisis. However, employer contributions to our retirement program are simply percentages of salaries. These percentages are clearly defined and increases were announced in advance and should have been accounted for.

Overall spending only increased by about \$4 million over the original budget (had spending on administration not increased substantially that would have been even less). A drop in PCCD revenues caused the district to fall about \$4 million short of expectations and should have led to midyear budgets adjustments. They didn’t. Instead, the District continued to spend and overspent its revenues by \$7 million. This, coupled with a massive \$5.6 million write off from the reserve due to outstanding student receivables, blew a hole in our reserve.

3. **Failure in financial oversight:** The 2009 Financial Report identified \$3.3 million in outstanding student receivables and identified this as a “serious deficiency.” The 2010 Financial Report, again, identified this as a “serious deficiency” and reported outstanding student receivables at \$5.8 million. In 2011 the District reported that this problem was “fixed.”

“Fixed” in this case meant that by 2016, after the first year of Chancellor Laguerre’s leadership, the Financial Report identified almost \$8.7 million in uncollected fees that now have to be “written off” of our reserves. That was a year ago; seven years after being warned. To claim that this is a surprise or an unexpected emergency is ludicrous.

So Here We Are Again: In Trouble

For details and to get involved, email us at PCCDoversight@gmail.com.