

All Staff Budget Meeting

January 24, 2006

Thank you all for coming. I hope you received my e-mail dated January 11, 2006, regarding the budget. I am going to take it from there and talk about where we are. First, I'll address a bit about the process and then some of the things that I think we need to do.

I am not prepared today to give you a number. We will run a new projection, but I am personally reviewing the current year's budget and the elements that make up the projections. When I have done that, we will be in a position to run a new projection. In addition, just last week and this week, we received new information from PERS about rates, and we are working with the Oregon Community College Association to figure out what it means. We are receiving updated information about our state funding which, of course, is influenced by enrollment, and all of that needs to be fully understood before we develop a new projection.

So let's go back to the last couple of years when we were preparing the budget. What we have been dealing with, and what I have written to you in various communications, is a number of "unknowns" that we have had to address as we put together projections and develop the budget. The board, on my recommendation, has approved what I will call a "bridging" strategy. What I mean by that is a strategy that tried to avoid cuts while attempting to grow revenue and basically only looks from year to year so that we do not make reductions until we absolutely must. So while those of you who have not been in the boardroom or that connected with budget stuff may wonder where this is coming from, I want to be clear that these conversations have been going on with the board about the fact that we were not out of the woods, but that we didn't want to knee jerk into budget reductions too soon. Discussions with the board last year and in November were around a bridging strategy: let's see what we can do on the revenue side first; make one-time reductions; and don't cut until we have to. Since the major budget reductions in 01-02, and some reductions in 03, we have had three years of relative peace to focus on serving students and trying to develop new revenue sources, such as the Center for Meeting and Learning, increasing Foundation dollars, and rebuilding Continuing Education that was so negatively impacted by the withdrawal of funding. These efforts are beginning to pay off, but unfortunately not fast enough.

In November, I sent you a memo that said: "Briefly, it appears that we will be facing a deficit of approximately \$1.6 million for 2006-07. This figure is still subject to change because our auditors have not finalized last year's ending fund balance. This should be completed in December. Further, we are projecting a deficit of approximately \$5 million for 2007-08." In discussions with College Council and the board, we were well aware of the risk of putting out projections prior to completion of the audit but understood that projections are just that: a prediction or estimate of something in the future. I was the one pushing for the projections, because I wanted to get the process started so that it could move through the College Council in an orderly and timely way. So despite Marie's page and a half of variables that she shared with the board, we published the

projection. The fact that the preliminary projection was off doesn't change the situation or the fact that we need to deal with it.

When we received the auditor's final figures, it was clear that projections needed more work. We have been going through the position list with managers, and we are getting very close to having an accurate position list. By the way, as we have been doing this work some things are evident:

- We seem to have many more special appointments
- Faculty overload has increased – this is not just due to governance
- There have been many reclassifications in the classified group, resulting in higher salary for a higher level of responsibility

This is all added to the fact that we failed to meet the 4% enrollment target. If there is any good news, it is that for fall term, at least, we appear to have stopped declining. In fact, enrollment appears to be up 2.4%. Again, this is a pre-final figure. We have stopped the enrollment decline, and I am grateful for that. However, we are examining now whether this increase has come from enrollment that actually brings tuition dollars with it, as that is what the projection was based on. Missing the target of 4% tuition-creating enrollment causes a problem in terms of tuition revenue and in terms of the funding we get from the state. Now, we knew that there was a risk in basing the budget on a 4% increase, but it certainly seemed better to try to increase revenue first, before we started down a path of cutting.

Then there is PERS, health care costs, impacts of the funding formula, etc. Many variables still exist.

I don't have a definite figure yet, but I will share it as soon as I can. Suffice to say that the deficit will be significantly more than preliminary figures suggested.

We have known this day was coming unless we were able to increase enrollment and get more public funding. Our strategy has been to do some incremental things to bridge from year to year in hopes that positive things would happen before we needed to make reductions. I don't think we would have done anything differently, especially coming out of major budget cuts in '01-02, but unfortunately, positive outcomes have not happened fast enough. I had hoped, and the board approved, that we would take this year to make decisions about the recurring budget for '08, but it is clear now that we have to make decisions this year for the '07 budget.

So what to do?

Even before I knew about the vacant positions issue, I had been doing a lot of thinking about long-term sustainability of the college. All of my reading points to a national problem with the funding of higher education. I went on the web and Googled "public disinvestment in higher education," and 131,000 articles came up. The problem is not just at Lane.

What is happening now is not sustainable over time. To bring it to its most simplistic, if you recognize that our property taxes can only increase 3% each year, our tuition increases about 4%, and our state funds have been either minus or more or less flat; and then you think about the fact that our labor costs have gone up at least 5% each year, you can know that this is not sustainable. Would we have done anything differently regarding labor costs? I don't think so. I know that right now, we are still trying to finalize a bargain with the faculty, and we will not walk away from that. The board has tried to not take the state's budget problems out on our employees and have remained committed to COLA's and steps and a reasonable benefits package even when we had pronouncements from the Governor not to increase salaries and benefits and legislative budget notes that similarly directed us.

But back to the sustainability issue, in its simplest terms, revenues are not keeping up with expenses. Unless we do something differently, we can't make it work over time, and the time is now to do something about it. We have no choice.

We will not give up on working on the revenue side. The Governor (if re-elected) has a plan to build his budget on 61% of the general fund for K-20. That will not solve the problem, but it will help.

I have asked the board to consider going out for a local option levy. Again, this will help, but it won't solve the problem.

When faced with this challenge, most of higher education, including Lane, has made incremental changes to make it through from year to year – things like cutting back on facilities; hiring more part-time people (although until now we have resisted that as evidenced by the fact that we have been filling contracted faculty and classified positions in the last two years); increasing class size; cutting services, etc. Colleges and universities have been working on the revenue side also, just as we have - CML, enrollment increases, and Foundation dollars. But what all the writing on this nationally is saying is that we can do all of this, but over time it is not sustainable and will not completely close the gap. Further, these incremental kinds of changes impact the quality of work life, for faculty and staff, with no end in sight.

It seems to me that we will need to do some of this incremental work to get us through the next year or two but we need a bolder, more systemic change if we are going to sustain ourselves.

So I have been thinking about the following:

1. We need to look at our work processes - those related to technology and those not - and cut out some of the steps. We are not going to have as many people doing the work, so somehow we must streamline so that we are not simply cutting back staff and doing the same work in the same way.

2. Then, we need to put Banner and related technologies to work for us in the service of learning. We need to use the technology to cut down on manual processes and streamline the way we do our work. We must make progress on this in the next six months.
3. Bigger yet, and I want your feedback on this, we should embark on a fundamental redesign that asks the question: If we were to build Lane now, what would we build? I am not just talking about operations here, but also the way we organize our classes, how faculty use their time, and so on.

I don't have a prescription for what that design might look like. There are models and best practices out there, but it's clear to me that if we go down this path, and I think we must, that we must create it ourselves and for instruction. Faculty and staff must step up and be fully engaged in the design.

We will have to do this while we are trying to reach that figure of 11,500-11,600 student FTE that we really need to help steer us out of this problem.

For this year, we will have to curb expenditures as of now. We will need to look at savings this year that don't impact contracted staff; we will need to look at carryover, and so on. All of those discussions are beginning.

Let me end by sharing with you the budget process. Regarding what I have called the incremental process, to get us through the next year or two, it is not that different from what I sent out to the college on November 16 as approved by the board. However, I am proposing that we cannot wait until the '08 budget to make recurring changes to the budget and that those decisions be made in the spring. So instead of working through spring term to develop proposals for decision in the fall as previously intended, we would move that timeline up to spring term. We will spend this term engaging with each other on what needs to be done for next year's budget and developing proposals that will go to College Council in April. The process includes a significant role for you and your departments and divisions. We do not plan to sit in a room and make decisions, but to engage you over the next few weeks in working with us to identify what can be done. College Council will review proposals and those will be moved forward to the budget committee and ultimately the board.

For work processes, we will build on the work of the Less with Less committee, workload conversations we have had with classified staff, and other work that has been going on, and bring together the right people to focus on this work. We have scheduled Banner Post Implementation reviews and will be working to achieve optimal functionality and cut down on manual processes. In terms of the broader redesign issues, I would like to have a conversation with the new SLI Leadership Team and Learning Council about how to proceed.

I know I have thrown a lot at you. If you take anything away from this meeting, here is what I hope to communicate:

1. We knew this day would arrive sooner or later if state funding did not keep up with inflation and if we could not create additional revenue through revenue centers and enrollment growth efforts. It arrived earlier than we had hoped. It doesn't change the situation or the fact that we need to deal with it. We know that dealing with it entails some tough decisions and changes. That's budget reality in education in Oregon and across the country.
2. Faculty and staff will have an opportunity to engage in this process.
3. We need to change the way we work if we are going to sustain ourselves over time, and whatever that looks like we need to build together.
4. Our top priority is to serve students well as we go through this process and as we organize ourselves for the future. They deserve no less.

As soon as we finalize a projection, we will share it. We will update the budget process and everything will be posted on the web. I will be providing regular communication as we go through this process so that you will know where we are.

Now I would like to take a few questions and comments.