



July 25, 2013

Sent via e-mail AClark@csea.com

Allan Clark, CSEA President
CSEA Board Members
2045 Lundy Ave
San Jose CA 95131

Re: AEU/CSEA Negotiations Status Update/Budget Questions and Concerns

Dear President Clark and Members of the CSEA Board:

On Saturday July 13th 2013 at the CSEA General Membership meeting in San Jose, all of you, as CSEA Board members, approved the 2013-14 budget (Item 12) on the agenda. This approval, as I understand it, was for submission to the CSEA membership at the CSEA conference next week. During the budget presentation Executive Director Dave Low (ED Low) and Chief Financial Officer, Jeff Kumataka (CFO Kumataka) stated that CSEA spent (\$104,000.00) more than was received in revenue for the 2012-13 year and costs continue to increase including defined pension costs.

When I heard that statement on deficit spending and increased defined pension costs, I was quite surprised. As a Labor Relations Representative who spends considerable time, energy and effort at the negotiations table on behalf of the classified membership and as the AEU President and co-chair on the AEU negotiations committee I am aware of the fact that CSEA's defined pension costs for the 2012-13 year went down dramatically from a projected 12.5 million to an actual \$7,175,000.00 (See the attached, October 15, 2012 letter from ED Low to myself) as a result of new legislation known as MAP 21 and concessions negotiated by CSEA and AEU two years ago. In fact, that figure was even lower as reported by Milliman in its Funding Actuarial Valuation report as \$6,885,829. That payment is a significant decrease of more than 5,000,000.00 regardless of what figure is used. As you know, one of the many job duties LRR's perform is our duty to review school districts budgets. In response to ED Low and CFO Kumataka's claim I found it necessary to confirm what we are all being told through review of the budget documents you approved for submission to the CSEA membership.

Suffice it to say that I am unable to understand how CSEA can claim they spent \$104,000.00 more than they received and how they can claim pension costs have increased. A review of the CSEA auditors report dated July 10, 2013, attached to the

budget document, (see pages 339 and 340 of item 12) shows that CSEA financial position went up 23.48% from \$21,910,442, on May 31 2012 to \$ 26,485,552, as of May 31, 2013. That is an increase of \$4,575,110.00. How can you spend more than you take in and have your financial position increase by 23.48%?

In addition, when I added all the defined pension retirement “actual” expenses from each department and field offices, the total being credited to the 2012-13 budget as being paid came to \$11,482,692.00. (See the below calculation sheet). This calculation lists the department/field office, the page # and the amount “actually” paid or at least what is being “claimed” was actually paid under the 2350 heading Defined Benefit Pension Plan (Retirement).

Why would CSEA claim they spent \$11,482,670.00 to you and the CSEA membership according to this budget document, yet advise the AEU in October 2012 that they spent \$7,175,000.00?

Why would CSEA have paid the bargaining unit employees a 2% credit under a partial restoration agreement negotiated two years ago (See Article 23 Retirement Benefits 23.1.6 below) when ED Low and CFO Kumataka claimed on Saturday July 13, 2013 in the budget presented to you that they contributed nearly 11.5 million dollars to the defined pension? These numbers and actions just do not add up.

ARTICLE 23 Retirement Benefits

23.1.6 *“During the term of this agreement, if at June 1, 2011 or June 1, 2012, CSEA’s minimum required contribution due to the Defined Benefit Retirement Plan is less than \$8,000,000, the bargaining unit shall receive a 2.0% credit to be applied to either a defined benefit restoration, salary, or 401(k) Plan at the discretion of the Union. The Union shall notify CSEA within 30 days of notice by CSEA how they want to apply the 2.0% credit.”*

On another matter relating to the 2012-13 so called “actual” expenditures, why did CSEA contribute over 3.8 million into the VEBA (Retiree Health and Welfare Plan) in a year that ED Low and CFO Kumataka claimed they had to deficit spend. The VEBA is not mandatory under any funding requirements. According to the reports, this expenditure of nearly 4 million dollars is almost double the amount CSEA has ever contributed to this plan. Why double the contribution, if CSEA had to deficit spend as claimed by ED Low and CFO Kumataka?

Additionally, according to the auditors report, under Net Assets, the CSEA has \$18,086,083, in a “Special Designated Fund”. What is interesting about this account, beside the fact that it is a very large amount of money, is the fact that there is no

explanation anywhere in the audit or budget reports about what this account is for or how that money was/is allocated. It appears on its face that this “cash” account is similar to a school districts reserve account. In comparing to a school district, this account alone equates to a reserve of over 30% in relation to CSEA’ yearly budget (see page 13 of item 12 Gilbert and Associates Audit Report).

I bring these issues to your attention and hope that as labor activists you understand and can explain why there is such disparity with the numbers and why there are claims of deficit spending. The CSEA management representatives at the negotiations table, on your behalf, have proposed that the AEU staff cap their health and welfare levels, cap their retiree medical and pay into the defined pension plan claiming that CSEA does not have the money. Well I say on behalf of the AEU membership and CSEA staff retirees that something does not add up. “Restoration” has and is the rallying cries for the CSEA membership, it is also the AEU’s. We all fought for the passage of Proposition 30 to restore school funding, classified jobs, hours, wages and benefits. As we all should recall we were successful, however it appears that CSEA is taking a page out of the corporate hand book and is attempting to deceive the AEU membership and in turn the CSEA Board and the CSEA membership that CSEA is broke despite the fact that things are looking up for the future.

We are all familiar, over the last several years, with school districts making the same claim of being “broke”. We have heard this tune to often and when we do we say prove it! Now I hope you better understand why AEU members chant CSEA (management) Act Union. Transparency begins at home accountability is the cornerstone of a healthy CSEA and a health AEU/CSEA management, staff and CSEA member relationship.

As you are all aware, I will be a guest at your conference next week, if any of you have any questions or answers it would be my privilege to discuss them with you. Please join us at our AEU “Happy Hour” on Sunday the 28th of July from 5:00 pm to 7:00 pm on the 26th floor of the Bally’s Hotel. This Happy Hour is open to all CSEA leaders and delegates. Come meet the many dedicated AEU members/CSEA staff. Hope to see you Sunday.

In Unity

**Scott Hendries
AEU President**

**c AEU and CSEA Leadership & Membership
Post on AEU Bulletin Boards**

CALCULATION SHEET
“Claimed” Defined Pension cost 2012-13

ADMINISTRATIVE/SUPPORT SERVICES

Department/Field Office	Budget Page #	2012-13 Defined Benefit Pension Claimed Actual Cost
Executive	page 137	\$378,227.00
Member Benefits	page 155	\$492,749.00
Legal Services	page 161	\$724,814.00
Governmental Relations	page 165	\$386,629.00
Finance Accounting	page 169	\$709,878.00
Information Services	page 175	\$627,023.00
HR & Training	page 179	\$346,247.00
Office Services	page 183	\$364,310.00
Communications	page 189	\$524,745.00
Field Operations HQ	page 197	\$333,380.00
Organizing	page 205	\$108,279.00
		TOTAL \$4,996,281.00

FIELD SERVICES

South Bay Field Office	page 211	\$594,375.00
North Bay FO	page 219	\$548,507.00
Fresno FO	page 227	\$701,528.00
Sacramento FO	page 235	\$666,348.00
River Delta FO	page 245	\$530,453.00

Costa y Valles FO	page 253	\$546,371.00
Santa Fe FO	page 261	\$706,969.00
Rancho Cucamonga	page 271	\$823,677.00
Orange FO	page 279	\$676,883.00
San Diego FO	page 287	\$687,298.00
TOTAL		\$6,482,409.00

ADMINISTRATIVE/SUPPORT SERVICES	\$4,996,281.00
FIELD SERVICES	+ \$6,482,409.00
2012-13 CLAIMED "ACTUAL" COST TOTAL	\$11,478,690.00

ED Low October 15, 2012 Letter to the AEU stating that the amount CSEA would pay for all employees for their Defined Pension for the 2012-13 year would be **\$7,175,000.00** (See attached letter).

CSEA management claims in the budget documents submitted to the CSEA Board and CSEA membership that they spent **\$4,303,690.00** more on pension costs than they actually told the AEU.

Why do these discrepancies exist?