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June 13, 2011

The Honorable Mark Leno
Chair, Joint Legislative Budget Committee
1020 N Street, Room 553
Sacramento, California 95814

Dear Senator Leno:

Pursuant to Section 59 of SB70 (Education Trailer Bill adopted in the 2011 Special Session), enclosed is the University of California's report on *Budget Cut Options for 2011-12*.

With best wishes, I am,

Sincerely yours,

for Mark G. Yudof
President

Enclosure

cc: The Honorable Edmund G. Brown, Jr.
Mr. Gregory Schmidt, Secretary of the Senate
Ms. Jody Martin, Joint Legislative Budget Committee
Ms. Tina McGree, Legislative Analyst's Office
Ms. Sara Swan, Department of Finance
Mr. Dotson Wilson, Chief Clerk of the Assembly
Ms. Amy Leach, Office of the Chief Clerk of the Assembly
Ms. Diane Anderson, Legislative Counsel Bureau
Provost and Executive Vice President Lawrence Pitts
Vice Provost Russell Rumberger
Executive Vice President Nathan Brostrom
Vice President Patrick Lenz
Associate Vice President and Director Steve Juarez
Associate Vice President Debora Obley
Executive Director Jenny Kao

Report on Budget Cut Options for 2011-12

June 2011

Legislative Report

An investment in UC pays dividends far beyond what can be measured in dollars. An educated, high-achieving citizenry is priceless.

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Report on Budget Cut Options for 2011-12

Section 59 of SB70 (Education Trailer Bill adopted in the 2011 Special Session) requires the University of California to provide the following report on ***Budget Cut Options for 2011-12***:

> The regents shall submit recommended budget options, based on input from stakeholders, including, but not limited to, input received as of February 18, 2011, with savings estimates for each identified solution, for implementing the budget reductions to the Legislature, the Governor, and stakeholders, including representatives of students and employees, for review and comment by June 1, 2011, prior to adoption of a final plan by the regents.

Introductory Remarks

For the University of California, the legislature approved the $500 million budget reduction to the 2011-12 UC budget proposed by the Governor in January. The Governor and the legislature agreed on provisional language for UC and CSU requesting that, in managing the $500 million budget reduction, "the university shall minimize fee and enrollment impacts on students by targeting actions that lower the costs of instruction and administration." The proposed $500 million budget reduction would bring the State General Fund support for UC to a level equivalent to funding provided in 1998-99. Since that time, enrollment at UC has grown by more than 68,000 students.

This reduction is compounded by increases in mandatory costs, which will add another $365.9 million to UC's budget shortfall in 2011-12. Mandatory cost increases include the costs of unfunded student enrollment, compensation, employee health benefits, post-employment benefits (including the State's share of the employer contribution to the University's retirement program), capital renewal, and other non-salary items.

Partially offsetting the University's budget shortfall is increased revenue from the student tuition and fee increases approved by the Regents in November 2010. At that time, the Regents approved an 8% increase in mandatory tuition and fees, yielding $115.8 million, net of financial aid, to support the University's operating budget.

Due to the extraordinary size of the budget shortfall facing the University and the commitment of the University to uphold the Governor's request to minimize fee and enrollment impacts, UC believes actions need to be considered that include reducing "non-instructional" programs to the 1998-99 funding level or eliminating entirely State-funded "earmarked" programs that do not contribute directly to supporting UC students, including classroom instructional resources and financial aid assistance. The University is seeking maximum flexibility to determine the appropriate level of funding for such programs.

To address UC's overwhelming fiscal challenge in 2011-12, several actions are being undertaken centrally:

- the Office of the President and other specific programs will be reduced by $80 million, leaving the campuses to contend with approximately $420 million of the $500 million reduction already approved for 2011-12;
- balance sheet strategies including generating more revenue by moving short-term investments into longer-term higher yield accounts, assessing overhead charges to existing gifts, implementing assessments on endowments, and other actions will provide short term revenue to help campuses bridge shortfalls until other longer term funding solutions can be implemented;

- the University's "Working Smarter" initiative now underway to achieve administrative efficiencies will change business practices, reduce duplication, and generate cost avoidance measures which are estimated to save $100 million (from all fund sources) per year over the next five years.

Given the constraints associated with no further impact on student fees or enrollment, the remainder of the cut will be distributed to the campuses and managed at the local level. Campuses must absorb not only the remainder of the base budget cut in State funds (after $80 million in reductions are taken centrally), but the unfunded cost increases as well. Campuses have pledged to avoid making across-the-board cuts and place a higher priority on instructional programs. However, given the severity of cuts during recent years, their options are diminishing and it will be impossible to protect any program from some level of reduction.

The remainder of this report is organized as follows:

- A summary of the actions taken to reduce central operations and develop strategies for the system that are designed to generate revenue and avoid costs;
- Information on how cuts are affecting campuses.

Reductions to Budget of the Office of the President and Systemwide Programs
To meet the State funding reductions, the President is committing to significant reductions in core administrative funding and to eliminate many centrally-administered systemwide programs and initiatives. However, realization of this goal remains subject to currently ongoing negotiations with the campuses, program and initiative stakeholders, and legislators.

The President has established an overall budget target not to exceed **$545 million** for FY 2011-12, as the amount needed to fund the core operations of the Office of the President and those academic and public service programs that are operated centrally. This target would represent a **6 percent** reduction from the FY 2010-11 budget of **$577.5 million.**

The President has further directed that budget reductions be focused on <u>unrestricted</u> funds – with a target savings of at least **$50 million,** or roughly **15 percent**. This will reduce the impact of State funding cuts on the campuses.

These cuts come on top of a 20% reduction that has occurred over the last three years as part of a major restructuring effort to redesign and shrink the level of administration and programs that are funded centrally.

Reductions in Designated Campus Programs
In addition to the reductions described above, an additional **$42 million** has been identified for reductions in specific OP and campus programs, including campus-based research initiatives. These reductions are designed to further reduce the overall State-mandated funding reductions that must be absorbed by the campuses.

A summary of proposed changes to the Office of the President and systemwide programs' budgets is attached as Attachment 1.

Undesignated Campus Reductions
Campuses will be assigned undesignated reductions in State General Fund budgets for the remainder of the $500 million cut. As mentioned earlier, in addition to these undesignated cuts, campuses are dealing with significant cost increases, including costs of faculty merit salary increases, cost increases for employee health benefits, and increases in employer contributions to the UC Retirement Plan.

To address cuts, campuses are each pursuing significant reductions in many common areas:
- Layoffs;
- Consolidations and elimination of programs;
- Cuts to academic and administrative units, with an emphasis on cuts to administration;

- Changes to enrollment, including constraints on freshman enrollment, increases to transfer enrollment, and increases to nonresident enrollment;
- Administrative efficiencies and strategic sourcing;
- Participation in the Statewide Energy Partnership;
- Restrictions on non-salary items, such as travel and computer and related equipment purchasing;
- Reductions in library acquisitions and services; and
- Substantial cuts in facilities maintenance operations, including janitorial services and building and grounds maintenance;

Campuses are also pursuing individual strategies. Some examples include:

- Partnering of the Berkeley and San Francisco procurement and other operational activities;
- Implementation of additional course materials fees at Davis, Merced, and Riverside;
- Development of new self-supporting and professional degree supplemental tuition-charging programs at several campuses;
- Reductions of graduate fellowship support at Irvine;
- Aggressive growth of fundraising at Los Angeles;
- Streamlining of academic requirements at Los Angeles to promote timely graduation;
- Encouraging students to take preparatory coursework through Extension or at community colleges at Riverside;
- Expansion of mandatory campus closure days at San Diego;
- Increasing gift tax at Santa Barbara; and

A paper prepared in the spring outlining actions individual campuses have taken and plan to take in 2011-12 is attached as Attachment 2.

Also attached as Attachments 3 and 4 are budget cut options submitted by the Association of Federal, State, and Municipal Employees (AFSCME) as part of the Governor's consultation process with interested stakeholders and the University's response.

The Prospect of Additional State Funding Reductions

Quite literally, the University is doing all it can to address the cuts that have already happened. There are no additional "magic solutions" to managing further cuts, should an all-cuts budget become a reality at the State level. Campuses have stated they cannot absorb additional cuts without beginning to dismantle major programs and thus forever altering the quality of the University of California. Thus, if additional cuts are approved for UC, further increases in student fees must be considered. One proposal under consideration is to commit that any further reductions in State General Funds are accommodated with fee increases needed to raise an equivalent amount of revenue, net of financial aid. For example, an additional $500 million budget reduction would require an additional 32 percent increase in student fees beginning in the fall of 2011. This has the unfortunate result of generating the needed revenue over a smaller "tax base" than extending the temporary statewide taxes would have accomplished. However, the campuses have stated quite emphatically that they have literally exhausted all options for addressing budget shortfalls without embarking on a path of irreversible decline. Therefore, the option of additional student fee increases to address and future cuts must be seriously considered.

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OFFICE OF THE PRESIDENT FY 2011-12 PROPOSED BUDGET
Summary of Proposed Changes

HIGHLIGHTS

- The proposed Office of the President budget for FY 2011-12, based on preliminary estimates, totals roughly **$544 million.**

- The unrestricted portion of the proposed budget is **$301 million** – a **$49.4 million**, or **14%,** reduction from an unrestricted funds base of $351 million.

  Note: These numbers could change, depending on continued corrections and reconciliation of ledgers, and identifying possible additional OP revenue source from restricted funds (*see discussion below).*

- The cuts are spread broadly across general administration ($6.6 million), central services and programs ($3.2 million), and systemwide programs and initiatives ($43 million – *see details below)*

- These reductions are on top of $55 million in previous cuts, net of program transfers, achieved since FY 2007-08, bringing total OP reductions in four years to $108 million.

- An additional **$42 million** in reductions are recommended for programs and initiatives not previously budgeted in the OP budget, but if cut centrally, will help reduce the overall cut to the campuses. (*See details below*). These are targeted to provide campuses greater flexibility in budget reductions, and to lessen the impact on direct student and research services. However, since some of these reductions will impact campus programs, we are recommending that some programs should be eligible for temporary "glide path" funding to allow campuses maximum flexibility to make longer-term funding decisions.

- These reductions, if realized, will bring the overall $500 million State reduction down to **$408 million** that will be passed on to the campuses.

DETAILS – *General Administration and Central Services/Programs*

- The general administration and central services/programs target cuts average 10% and 9%, respectively, across the Office of the President.
  - **Academic Affairs** was assigned a **$2.8 million** reduction, to be assigned to departments at the Provost's discretion. While this amounts to only a 3% overall cut, consideration was given to the disproportionate impact of program and initiatives cuts to Academic Affairs, as well as to its many fixed costs (i.e. admissions systems).

  - **Business Operations,** the **Chief Financial Officer** and **External Relations** were all assigned 8% cuts. For these divisions, the amounts total **$2.6 million** for Business Operations, **$351,641** for the Chief Financial Officer, and **$696,000** for External Relations.

  - Slightly lower reductions were assigned to **Health Services** (1%)**, Policy and Analysis** (4%) **and the President's Executive Office** (4%), due to their relatively low non-salary budgets.

  - **The Academic Senate** (central office) was assigned an 8% reduction (**$162,680**).

  - The **Regents Direct Reports** were assigned an overall average of a 20% reduction **($2.6 million),** but nearly $1.8 million of that reduction had already been proposed by General Counsel as part of its new funding model. **Ethics & Compliance** was targeted at 8% and the **Secretary/Chief of Staff** at 7.4%.

DETAILS – *Systemwide Programs and Initiatives (see Table 1 for individual program details)*

- Reduce funding for centrally-funded systemwide infrastructure programs, including the California Digital Library and UC Press, by 10%, producing $1.7 million in savings.

- Eliminate funding for HIV/AIDS Research by $10 million, in light of significantly higher research spending in this area by the campuses. The original funding was provided to incentivize greater campus research efforts, and this has been accomplished.

- Reduce funding for student academic preparation and educational partnership programs by 16.4%, for a savings of $1.67 million, consistent with budget language adopted in the 2011 Special Session.

- Return funding for Agriculture & Natural Resources (ANR) to FY 1997-98 levels ($57.3 million). Combined with a portion of their 2010-11 allocation, this represents a cut of $6.2 million, or 10% of their budget.

- Eliminate funding for scholarships already provided for under return-to-aid programs (savings: $613,000).

- Reduce UCOP research funding by 24% ($16 million), which includes elimination of the Discovery Grants program.

- Reduce other Academic Affairs programs by 36%, for a savings of $3.25 million.

- Reduce legacy programs provided by the Office of the President on behalf of campuses by 64% ($7.5 million), including $6.8 million for campus development programs.

- Eliminate funding for other systemwide initiatives and give host campuses decision rights as to future funding levels. These include the following:

Program	Campus	Budget
Center for Earthquake Engineering Research	Berkeley	$384,000
MIND Institute	Davis	$3,117,000
Spinal Cord Injury	Irvine	$1,246,000
Lupus Research Center	San Francisco	$624,000
Substance Abuse Research	San Francisco	$13,770,000
Preuss School	San Diego	$1,000,000
UC College Prep	Santa Cruz	$3,059,000
Area Health Education Consortium	San Francisco	$285,000
California Policy on Access to Care (CPAC)	Berkeley	$1,000,000
Health Initiatives of the Americas	Berkeley	$425,000
David Hayes-Bautista Project	Los Angeles	$595,000
		$25,505,000

- Funding for these programs will not be given out on a program-by-program basis. Rather, we are using the collective savings to reduce the amount of cuts distributed to the campuses as a result of the $500 million State funding reduction. An analysis of various funding distribution models – at 100%, 50% or zero – show that all campuses except Santa Cruz and San Francisco benefit most from a scenario where the cuts are taken and counted at the center. For those two campuses, which do not benefit from the aggregate cut approach, we have developed a “glide path” of temporary resources to aid in absorbing these cuts.

Table 1 – Systemwide Programs and Initiatives*

PROGRAM	TOTAL BUDGET	PROPOSED CUT
Academic Geriatric Research Program	982,336	$ 982,336
California Digital Library	16,921,447	$ 1,576,060
COSMOS	203,300	$ $33,341
Ctr-Study of Higher Ed	60,000	$ $60,000
Discovery Grants	13,465,074	$ 13,465,074
Drew Matching Funds	500,000	$ 82,000
Education Abroad Program	15,611,968	$ 800,000
Gov.Teacher Scholar/Prin Leadership Inst.	972,000	$ 202,000
HIV/AIDS Research	10,075,176	$ 10,075,176
Labor Institutes	2,000,000	$ 2,000,000
Librarians Assn of the Univ of California	27,000	$ 2,700
Pres Postdoc Fellows Program	1,619,688	$ 404,922
SAPEP - MESA	4,678,147	$ 516,880
SAPEP - Other	989,532	$ 270,000
SAPEP - Puente	1,378,603	$ 286,860
SAPEP - Regional Acad. Initiatives	319,904	$ 319,904
SAPEP - University-Comm Engagement	268,961	$ 268,961
Science Math Initiative	661,880	$ 64,268
UC Grants	16,607,823	$ 2,500,000
UC Mexico Initiative	2,848,742	$ 500,000
UC Press	27,996,165	$ 144,670
UC Washington Center	1,200,945	$ 500,000
UCTV	1,279,915	$ 1,279,915
University Professors	20,000	$ 20,000
Wilkie-Soc Security/Double Taxation	200,000	$ 200,000

* Table 1 represents our original proposal, but many of those items are likely to change in the final budget.

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ACTIONS TO ADDRESS BUDGET SHORTFALLS

Although the University has taken many systemwide actions to address the current budget crisis (fee increases, one-year furlough for many employees, administrative efficiencies, and restructuring debt, among others), UC campuses have been left with significant budget shortfalls. In fact, while the majority of the actions taken to address cuts in the prior two years have emanated from central solutions, the reverse will be true for the shortfalls campuses will address in 2011-12. All campuses understand the budget issues facing the University are multi-year in nature. All are interested in maintaining quality as much as possible and in maximizing flexibility to address budget cuts.

UNIVERSITYWIDE ACTIONS (2008-09 THROUGH 2010-11)

The following has occurred across the system as a result of the fiscal crisis during the period 2008-09 to 2010-11:

Layoffs. More than 3,350 staff (revised) have been laid off and another 3,570 positions (revised) have been eliminated or unfilled, while workload has continued to increase due to higher levels of student enrollment, added regulations/oversight, etc.

Consolidated/Eliminated Programs. Many programs have been eliminated or consolidated with others for an estimated savings of $155 million.

No Staff Salary Increases. Due to budget constraints, the University has not provided regular merit increases or range adjustments to a significant portion of its staff since 2007-08. For example, the University has not had a staff merit program in four of the last seven years, going back to 2003-04. This has affected positions from the highest to lowest levels.

Limited Faculty Salary Increases. Although faculty have continued to receive merit increases through a rigorous review process (with most faculty eligible only once every three years) requiring redirection of resources within existing budgets to fund these increases, they have not had a cost-of-living adjustment since 2007-08. UC faculty salaries now lag peer institutions by 12 percent.

Cuts to Academic and Administrative Units. Campus academic and administrative units were assigned cuts generally ranging from 6 percent to 35 percent, determined through a series of consultative processes.

Enrollment. No campuses want to embark on major plans to decrease funded enrollment of California students. Some of this is occurring naturally as larger classes from earlier years graduate and make room for smaller classes being enrolled now. Eventually, total enrollment will approach funded levels. All campuses are planning to increase nonresident enrollment.

Administrative Efficiencies. The University has established Working Smarter, an ongoing administrative efficiency initiative that seeks to capture $500 million of positive fiscal impact over the next five years, mostly through savings and cost avoidance measures, including systemwide efficiencies such as shared information technology (IT) services, strategic sourcing and other improved business practices, helping to spare the academic and research missions from further budget pressures. Because most of the positive fiscal impact will be achieved over the longer term, success in achieving efficiencies will result in reducing the pressure of future mandatory cost increases rather than providing cash in hand to address the short-term crisis.

Strategic Sourcing. The Strategic Sourcing Initiative, designed to build and improve the internal infrastructure that supports the core procurement functions, has achieved $207 million in cumulative cost savings since its inception in 2004-05 through 2008-09, and is expected to save another $52.8 million in 2009-10.

Statewide Energy Partnership Program. Through an incentive program developed by UC and the investor-owned utilities and subsequently approved by the California Public Utilities Commission, the University is pursuing $263 million in energy conservation projects that are expected to generate more than $36 million in annual energy savings at the end of three years (December 2012), or about $18 million after debt service is accounted for. Some of the energy projects will also help address the University's growing capital renewal and deferred maintenance needs.

Restrictions on Non-Salary Items. Significant restrictions have been placed on travel and other purchasing. As an example, travel expenditures at the Office of the President were down more than 60 percent as a result of the travel constraints.

INDIVIDUAL CAMPUS ACTIONS

No campus is applying across-the-board cuts, but rather each is using a consultative, deliberative process to determine how cuts should be allocated. All campuses report disproportionate cuts to administrative programs in order to reduce the impact on academic programs. Most campuses report increased class sizes, elimination of class sections, significantly reduced faculty recruitments, and unfilled positions. Campuses are using one-time actions to varying degrees, such as tapping temporary funds and reserves or the deferral of equipment purchases, to address shortfalls in the short term while more permanent cuts can be implemented over the next year or two. These actions are helpful, but many are not sustainable over the long run.

Below are highlights of each campus' actions to address budget shortfalls between 2008-09 and 2010-11, followed by a description of budget actions being contemplated for 2011-12. Reported 2011-12 shortfalls for each campus include its share of the $500 million cut proposed by the Governor and adopted by the legislative conference committee, as well as the estimate of unfunded mandatory cost increases the campus must address (before student fee revenue is accounted for).

Berkeley

- The dollar impact of cuts assigned in 2009-10 was financially equivalent to the support of 13 academic departments.
- The campus intends to increase the total number nonresident students.
- Cuts to the academic program have reached nearly $40 million, or 17 percent, since 2008-09 when the most recent fiscal crisis began.
- Plans are to achieve a faculty size of 1,400 FTE, including General Campus, Health Science, and non-state-funded positions, which is about 100 FTE below 2008-09 pre-cut levels.
- Berkeley is faced with at least 70 faculty retention cases in any given year, which puts significant pressures on the faculty budget.
- Berkeley has invested some of its incremental $9.3 million in nonresident tuition revenue in maintaining courses needed for timely graduation – $2.5 million was invested in 2010-11 alone.
- Operational Excellence is an initiative designed to achieve efficiencies and cost avoidance. Berkeley hopes to realize $75 million in permanent cost savings across all fund sources over five years.
- Cuts to administrative programs since 2008-09 have totaled $45.7 million.
- The campus is reducing the number of management positions; when the initiative is completed, the number of managers will decrease from 1,450 to 1,210; 22 percent of those eliminated are or were

being paid $100,000 a year or more. The unit restructuring effort will result in $20 million in savings by the end of the 2010-11 fiscal year.

- Berkeley expects to eliminate 280 total staff positions, most by June 30, 2011, bringing the total fiscal crisis-related staff position elimination to nearly 500.
- As part of Operational Excellence, the campus is partnering with UC San Francisco on a number of procurement and other operational activities.
- Operational Excellence-related energy projects underway will result in $3.5 million in savings through 2010-11.

For 2011-12:

- Total budget shortfall from both cuts and unfunded mandatory costs for 2011-12 is projected to be $117 million.
- The campus will implement a multi-year strategy to address its shortfall. In the short-term, Berkeley will implement a bridging strategy that will generate roughly $60 million in temporary funding in 2011-12 from one-time expense reductions, prior year balances and budgeted reserves.
- The State's disinvestment in higher education essentially results in State funds paying for faculty salaries and benefits and nothing else.
- Berkeley will increase campus revenue by $29.6 million, including $14.1 million in new nonresident tuition revenue and $1 million in energy savings.
- During this year Berkeley plans to achieve approximately $10 million in recurring cost savings through Operational Excellence initiatives.
- Berkeley intends to address much of its 2011-12 funding shortfall through permanent actions; thus, the campus will still have a structural budget gap of $40 million going into 2012-13.
- In 2011-12, Berkeley anticipates investing $3.3 million of its incremental $9.3 million in nonresident tuition revenue in maintaining courses needed for timely graduation.
- Campus will be overenrolled by 900 unfunded students.

Davis

- Budget principles include setting priorities consistent with Vision of Excellence, minimizing impact to student learning, and investing in activities that generate revenue.
- High priority placed on protecting faculty positions and graduate student support.
- Creating more service centers (by consolidating administrative tasks); campus expects to realize a decrease of 120-170 FTE for savings of $25 million over the next five years, $10 million in ongoing savings thereafter.
- Voluntary separation program will yield a decrease of more than 100 FTE, thereby avoiding additional layoffs.
- Also cutting more to create a contingency fund for re-investing in high priorities, including selective investment in faculty and disciplines.
- Cuts to the academic enterprise total $47.5 million, representing a 16 percent cumulative reduction.
- Academic units are increasing the workload for existing faculty, exploring alternative ways to provide instruction, and reducing elective courses and sections.
- Undergraduate enrollment has increased 7.7 percent in last five years. Number of sections offered has been held relatively constant. However, class sizes have increased by about 9 percent.
- All academic units are reorganizing staff and sharing equipment to reduce costs of providing academic support to faculty and students.
- Cuts to administration total $33.1 million, representing a 27 percent cumulative reduction.
- Consolidated the portfolio of two vice chancellor units into one, eliminating one vice chancellor and one associate vice chancellor.

- Academic and administrative units with access to alternate fund sources, such as gifts and grants, are relying more heavily on these sources.
- Instituted a 3 percent assessment on self-supporting units totaling $5 million, beginning in 2009-10.
- Launched a $1 billion fundraising campaign.
- Many academic units are focusing more effort on obtaining grants and research funds. Academic units are also exploring partnerships with industry and corporations to increase extramural funding.
- Aggressively pursuing new revenue sources (for example, an agreement with US Bank that generates more than $100,000 annually in revenues and the Activity and Recreation Center expanded membership generating about $120,000 annually).
- Four sports were eliminated as part of an overall plan for Athletics to accommodate a $1.7 million reduction.
- Academic units are closely reviewing the cost of course materials and adjusting or adding new course material fees to cover these costs.

For 2011-12:

- Total budget shortfall for 2011-12 is projected to be $107 million.
- The campus will achieve the majority of $68 million in savings in 2011-12 (the remainder of Davis' deficit after systemwide actions), with some additional savings starting as late as July 2013:

  37 percent through new revenue (estimate $12-16 million in 2011-12 and $25 million by 2013-14):
  - Increased nonresident enrollment;
  - Increase summer session enrollment;
  - Implement course material fee for technology support;
  - Expand non-degree education programs; explore self-supporting degree programs and additional professional degree fees;
  - Eliminate voluntary cost sharing; and
  - Redirect payroll assessment for staff development.

  34 percent through additional efficiencies (estimate $9-13 million in 2011-12 and $20-24 million by 2013-14):

  - Expand and accelerate shared service centers, translating to a loss of 5 percent of general fund supported staff positions;
  - Reduce energy consumption through Strategic Energy Partnership, Strategic Lighting Initiative that will reduce energy use for lighting 60 percent by 2015 and other strategies such as a refrigerator/freezer buy-back program;
  - Reduce middle management, flatten organizations, consolidate leadership at a loss of 40-60 full-time positions; and
  - Consolidate, close, or outsource some services.

  29 percent through cost reductions (estimate $10 million in 2011-12 and $20+ million in 2013-14):

  - Reduce expenses, eliminate subsidies, reduce service levels by closing programs and a loss of 4-8 percent of full-time general fund supported staff positions ($9-10 million in 2011-12 and $20 million in 2013-14); and
  - Expand strategic sourcing and similar strategies to reduce costs.

- Campus expects to enroll 1,400-1,500 unfunded students.

Irvine

- The campus has implemented enrollment growth actions to get back to its 2007-08 budgeted level by 2011-12.
- Working with the medical center to develop cost sharing solutions, resulting in savings for both the general campus and the medical center.
- Assess auxiliaries 7.35 percent.
- Hiring of faculty is down – 60 next year, while usually hire 70-90; annual turnover is about 45-50 faculty.
- Total faculty declined for the first time in 2009-10.
- Planning for increases in nonresident students of 2 percent annually.
- Hired 130 fewer faculty FTE over the last two years.
- Over 530 of 1,614 FTE faculty positions are unfilled, 37 of which have been permanently defunded.
- Budget cuts to academic units have totaled $17.5 million, ranging from 0 percent to 6.5 percent.
- Budget cuts to administrative units have totaled $23.1 million, ranging from 3.7 percent to 20 percent.
- Highest priority has been to protect graduate student support from cuts ($53 million).
- Lecturer FTEs have decreased by 25 percent (from 200 to 150) from Fall 2007 to Fall 2010.
- The administrative structure of the College of Health Sciences was deactivated and the position of Vice Chancellor—Health Affairs was eliminated for an estimated savings of $580,000.
- Men's and Women's Swimming and Diving, Men's and Women's Rowing, and Co-Ed Sailing intercollegiate athletic programs were discontinued for a savings of $1 million.
- Major consolidation of IT services is underway.
- Heated water is not provided in many non-research buildings and custodial and grounds services have been reduced, for an estimated savings of $800,000.
- Streamlining the academic review process for normal merits.
- The campus continues to explore:
  - Streamlining requirements for general education;
  - Streamlining requirements for majors and degrees;
  - Increased use of summer session for selected courses and to shorten time-to-degree;
  - Expanded programs in the summer and through concurrent enrollment in Extension for students who need special course work before and after they matriculate;
  - Expanded use of University Extension to prepare pre-matriculants for advanced standing matriculation;
  - Expanded use of on-line instruction; and
  - Greater efficiencies in using the teaching power of current instructional resources.
- The campus is pursuing development of new master's programs and at least 5 new self-supporting master's programs.
- The campus is implementing over 100 projects in more than 30 campus buildings as part of the multi-year Strategic Energy Partnership Program.
- Reducing off-campus space leases, for a savings of $2.5 million in 2010-11.

For 2011-12:

- Total budget shortfall for 2011-12 is projected to be nearly $90 million when factoring in both reductions in state funding as well as mandatory cost increases
- The campus seeks to achieve $25 million in permanent savings through:
  - $8 million each in academic instructional and administrative reductions:
    - Academic reductions will be based on a review of productivity and quality measures now underway. Will likely lead to a reduction in courses of 6 percent and some program consolidations resulting in fewer options for students.

    - Administrative reductions will focus on efficiencies and identification of functions that are no longer affordable. Consolidation of units and increased centralization of services will lead to personnel savings.
  - $7 million in program curtailments:
    - $2.5 million in graduate fellowship support reductions;
    - $2 million in foregone lease expenditures and fewer repairs and renovations.
    - Proportional reductions to special interest programs;
    - Redirect student service fee revenue to support programs currently being supported by core funds that are appropriate for student service fee support.
  - $10 million in revenue enhancements:
    - Maximize investment opportunities with increased risk and lower liquidity;
    - Moderate increases in nonresident students;
    - Increase taxes on non-instructional self-supporting entities, such as the bookstore, parking, and residence halls;
    - Development of new self-supporting instructional programs.
- Irvine will enroll students consistent with available financial resources.

Los Angeles

- Core value is to protect students first.
- Trends are up on all graduation rates – 4-year rate is more than 70 percent, 6-year rate is more than 90 percent.
- Has aggressively managed permanent cuts during fiscal crisis, and did not budget restored funds in 2010-11, which will help in 2011-12, but will still have $55 million permanent shortfall going into 2012-13.
- Campus used to hire 70-75 faculty per year. Last year hired 20. Now preparing three-year hiring plans.
- Has frozen 47 faculty FTE for a savings of $6.8 million and laid off 8 lecturers, saving $560,000. Decrease in searches has not been across-the-board.
- 173 staff employees have been laid off, saving $10.4 million, and there are 524 staff positions currently unfilled for a savings of $68 million.
- *Challenge 45* is an initiative designed to reduce the number of units undergraduates must take to graduate while still maintaining quality; initiative has been adopted by 40 majors.
- Restructuring the graduate division to downsize, make it more customer oriented, and eliminate duplication in the admissions process.
- Reviewing the possibility of transforming the Anderson School of Management into a self-supporting entity.
- Consolidating seven language departments as well as the Department of Linguistics.
- Consolidate Center for Digital Humanities and Center for Social Sciences Computing.
- Restructuring the writing program.
- Consolidating International Institute undergraduate majors.
- Ending campus support for UCLA Live, a very successful public service program.
- Reviewing ways to maximize royalty/licensing income from UCLA intellectual property.
- Streamlining the labor-intensive academic personnel process.
- Planning to increase nonresident enrollment over time, while still maintaining California resident enrollment.
- Expanding self-supporting degree and certificate programs.
- Centralizing many institutional research and information technology functions.

- Restructuring contract and grant functions in order to maximize cost recovery, although it could be several years before savings are realized from this activity.
- Reviewing the possibility of increasing assessments on auxiliaries and other programs.

For 2011-12:

- Total budget shortfall for 2011-12 is projected to be $268 million.
- Carrying forward funds restored in 2010-11 budget to assist on a one-time basis.
- No additional lay-offs are planned except those associated with restructuring units; staff will shrink by keeping positions vacant.

Four planning pillars:

- New revenue
    - Maintain enrollment of resident undergraduates;
    - Expand enrollment of nonresident undergraduates;
    - Expand use of differential fees by select graduate professional programs: reviewing viability of requesting fees in six new programs;
    - Expand self-supporting degree and certificate programs: establish new programs and expand enrollment of existing ones; expand University Extension program offerings
    - Continue to promote use of summer sessions;
    - Restructure intellectual licensing program;
    - Increase fundraising from $400 million a year to $500 million a year by 2019;
    - Sale of unused property;
    - Improve cash management (TRIP and STIP);
    - Use funding streams to reallocate General Funds to academic programs; and
    - Expand course materials fees.
- Academic program restructuring
    - Develop alternative funding plans for select professional schools (e.g., move Anderson business school to be more self-supporting);
    - Eliminate/restructure Organized Research Units and centers according to their continuing level of priority relative to other campus needs;
    - Reduce undergraduate majors unit requirements, with the goal of limiting major requirements to a total of 45 units where feasible;
    - Consolidate departments/computing centers;
    - Strategic reductions in faculty, strategically filling positions toward high workload and priority areas. Increase faculty reaching workloads; and
    - Strategic reductions in graduate student support, reallocating resources as necessary to keep UCLA competitive in its efforts to attract the best students to their best programs.
- Administrative restructuring
    - Expand strategic sourcing;
    - Continue energy conservation initiatives, estimated to save $4.5 million annually;
    - Consolidate, streamline, and/or restructure IT services, the Graduate Division, regional business centers, contracts and grant administration, and payroll and financial processes;
    - Reduce transaction costs for student payments through Automated Clearinghouse and e-check technologies; and
    - Implement an electronic dossier system for faculty advancement procedures.
- Build systemwide partnerships.
- The campus will enroll ~250 unfunded students in 2011-12.

Merced

Because Merced is a developing campus, base budget cuts have not been allocated to the campus and, therefore, the campus report does not cover actions taken to address cuts. However, because funding provided is insufficient to meet all the needs of a growing campus, Merced is utilizing a variety of strategies to contain and avoid costs in order to maximize funding to meeting enrollment growth priorities.

- The campus is continuing to grow as planned, but mindful of the need to stretch existing dollars efficiently. The emphasis is primarily on cost avoidance as growth progresses.
- More than 4,300 students currently enrolled, 358 overenrolled (not funded); expect to be above 5,000 next year.
- Accreditation process on track – final site visit occurred in early March, with anticipated accreditation decision in June.
- Research awards have nearly tripled since 2005-06, rising from $7.6 million to $21.9 million over that same time period.
- Completion of the Social Sciences building will help change the mix of students to lower-cost disciplines and provide more choices for students.
- Strengthening the Management Program to evolve ultimately into a School of Management, responding to student interests and needs.
- Biggest issue is not enough space, especially classrooms, class labs and research space, so funding for proposed classroom building and Science and Engineering 2 is critical.
- Seeing a large increase in summer enrollment, which reduces need for some course sections in fall and spring and enables more efficient use of space.

For 2011-12:

Merced has implemented a series of resource management measures in order to direct funding to the highest priorities of the campus:

- Sweep balances to be used to offset shortages elsewhere.
- Will not hire full complement of faculty, and will use funds from open faculty provisions to hire temporary academic staff for classroom teaching. Delay staff recruitments as long as possible and only fill essential positions.
- Departments instructed to request only the most essential needs in their area.
- Reduced level of service in some campus services areas.
- Encourage units to share staff positions.
- Continued aggressive pursuit of energy efficiency and energy cost savings; pursuing additional Strategic Energy Partnership opportunities.
- Increase revenue through course fees, support faculty actively pursuing extramural funding opportunities, and support fundraising efforts.
- The campus will be the referral pool campus for 2011-12 for the system (through a modified process).

Riverside

- Guiding principles are based on UCR’s new strategic plan: academic excellence, access, diversity, and engagement.
- To the extent possible, the student experience will be protected.

- For 2009-10, academic units were given lesser budget reductions of 3-4 percent, compared to 10-25 percent cuts for administrative units.
- Academic units were not allowed to take their reductions from academic FTE (filled or unfilled), nor from teaching assistant (TA) FTE.
- Campus administration was reduced by one vice chancellor, with the portfolio distributed among other vice chancellors. This resulted in $500,000 in ongoing savings.
- Administrative services centers were created in the area of Finance and Business Administration, centralizing financial management, purchasing, reimbursement, personnel, and payroll processing.
- Technology innovations were implemented to increase efficiency and accountability in the following areas: staff reclassification, equity review, job requisitioning, and other hiring functions; approval and management of capital projects; purchasing transactions; time reporting; and principal investigator reports for contracts and grants.
- Faculty searches decreased from 46 in 2008-09 to 12 in 2009-10 and 34 in 2010-11.
- Staff searches dropped from an average of 200 openings at any given time to 50 currently.
- From 2008-09 to present, 152 staff positions on the state general fund have been eliminated.
- Approximately 100 staff layoffs are projected for 2010-11.
- The size of the average undergraduate lecture class has been increased by 10 percent when comparing Fall 2009 to Fall 2010.
- UCR’s Palm Desert Graduate Center has been dramatically downscaled, thus reducing service and outreach to this underserved area.
- Library hours were reduced by 57 hours per week. Approximately 3,000 journals and hundreds of monographic standing orders have been canceled.
- Student services staff have been reduced in the areas of financial aid, campus health, student life, and career services, resulting in longer waits and reduced levels of services for students.

For 2011-12:

- The total budget shortfall for 2011-12 is projected to be $50 million. Of this, $37.8 million is UCR’s share of the state budget reduction; $12.2 million results from additional obligatory costs.
- $50 million is the equivalent of 392 faculty FTE or 793 staff FTE.
- $50 million is equivalent to the combined general fund budgets of the Vice Chancellors for Student Affairs and Finance and Business Operations (less operation and maintenance of the plant), Computing and Communications, and University Advancement.
- UCR will seek to increase revenues through:
    - Student fees (the 8 percent increase already approved for Fall 2011);
    - Increased philanthropy;
    - Increased contract and grant activity;
    - Further entrepreneurial support of academic programs;
    - Additional technical and professional school fees;
    - Increased international student enrollment, particularly at the undergraduate level; and
    - Establishing ground tax for auxiliary and self-supporting entities.
- In addition, the campus will decrease costs to the state general fund through:
    - Separations, including attrition and layoffs;
    - Reducing campus activities and services, such as limited library hours, reductions in course offerings, and increased course size, thus impacting time to degree;
    - Creating a moratorium on fellowship support for weaker graduate programs. Restrict fellowship support to Ph.D. students and to Master’s degree students in programs in which the Master’s is the terminal degree; and
    - Moving salaries from general funds to other fund sources, e.g., requiring the Summer Session Office to become fully self-supporting.

- Administrative and academic efficiencies will be created through:
  - Downsizing, eliminating, or consolidating programs, including both administrative and academic programs, consistent with the strategic plan;
  - Creating administrative clusters;
  - Participating in systemwide efficiency programs; and
  - Continuing the hiring chill by limiting recruitment to mission critical positions.
- Other options under consideration are:
  - Removing preparatory education courses from the general fund, and asking students to take such coursework through University Extension or community colleges;
  - Restricting use of 19900 funds for faculty summer salaries to assistant professors and a small portion for department chairs;
  - Instituting campus-wide technology fees; and
  - Downsizing the Palm Desert Graduate Center, and making it self-supporting.
- At the same time, UCR will continue to invest in its future:
  - School of Public Policy;
  - New, inter- and multi-disciplinary research programs;
  - School of Medicine; and
  - Career development for assistant professors.
- The campus expects to enroll a little under 1,900 unfunded students in 2011-12.

San Diego

- Campus financial challenges include achieving competitive salary and retention packages, funding increased mandatory costs, managing the effects of unfunded enrollments and the growing backlog of unfunded deferred maintenance needs, and addressing ability to provide services while experiencing workforce reductions.
- Campus gives highest priority to Core Academic Programs by deeper mitigation and continued investment in core programs; past budget reductions allocated to the academic units as a percentage of their state general fund base averaged 4.0%, compared to 8.4% for the non-academic units.
- UCSD is a lean campus with only 25 departments, unlike other major research universities that have 45-55.
- In 2009-10, froze 125 faculty FTE recruitments. For 2010-11, about 40 faculty searches have been authorized. Approximately one-third of new hires will be supported from new funding sources such as nonresident tuition.
- Faculty retentions numbered 28 last year; this year the campus has already had 28 in five months. The average retention related salary has grown 26% in the past four years to $33,800.
- Filled ladder rank faculty positions compared to budgeted positions has declined from 82 percent to 62 percent now and projected to decline to 58 percent. This results in a loss of research revenue associated with those faculty lines.
- Plan to at least double nonresident enrollment over the next five years.
- Classrooms that seat over 200 students are always booked. Classrooms that seat 101-200 students had a 91 percent utilization rate in 2009-10.
- Implemented a pilot project to allow simulcast instruction in 3 classrooms which will enable them to accommodate more students for large courses, helping keep students on track to graduate and lowering capital costs.
- Campus spends approximately $150 million for IT expenditures; hope to reduce this by 10 percent.

- Renegotiating fixed costs leases for several million dollars in savings over time.
- Lack of deferred maintenance funding is becoming very obvious all around campus.
- Have achieved $2.1 million in permanent savings from energy efficiencies since 2008-09.
- Declining State support has greatly affected state-funded research programs, notably life safety issues at the Marine Facilities Pier and Scripps.
- Organizational changes have resulted in the following:
    - Eliminated Business and External Relations Central Receiving/Material distribution unit, replaced with new procurement process offered by Marketplace;
    - Centralized and/or reorganized various administrative staffs to decrease administrative costs and to increase efficiency, to include merging of administration in the Social Sciences division;
    - Continued consolidation of numerous IT units and servers across the campus to maximize space utilization and energy savings, including consolidation of Academic Computing and Media Services, within the Jacobs School of Engineering;
    - Eliminated Blink/TritonLink Portal Services team resulting in the decentralization of content management to content providers;
    - Eliminated small special lab courses which include lecturers, staff and supplies in the Biological Sciences;
    - Deferred development of online applications such as job description development and position classification intended to streamline business processes;
    - Deferred enhancement of existing IT systems;
    - Reduced funding in Operations and Maintenance of Plant for deferred maintenance backlog;
    - Reduced student recruitment activities.
- Reductions in services have also occurred:
    - Public service hours in the Registrar's Office, Student Financial Aid, Student Health Services, and Career Services Center;
    - Reduced college awareness and recruitment programs; and
    - Reduced Library services and cancelled print subscriptions to journals.

For 2011-12:

- Total budget shortfall for 2011-12 is projected to be $79.6 million ($52 million from State cuts and $27.6 million from unfunded mandatory cost increases). The campus will expand revenue through options such as:
    - Optimize enrollment levels – to include growth of nonresident enrollment;
    - Identify and pursue MAS, PDFs for new or existing programs;
    - Improve overhead cost recovery from self-supporting, auxiliary, and research programs;
    - Expand extended studies program;
    - Expand public-private partnerships, international presence, alliances;
    - Increase philanthropy; and
    - Evaluate property use options.
- Explore cost-saving measures such as:
    - Consolidate departments and centralize functional responsibilities;
    - Mandate use of electronic systems and strategic sourcing contracts;
    - Scale back number of library locations;
    - Evaluate benefits of a semester system;
    - Continue debt restructuring programs to temporarily relieve cash pressures.
- Improve Programs/Services delivery and invest in areas of strength such as:
    - Expand use of electronic research administrative platforms;
    - Enhanced course delivery – IT based: distance learning, on-line education;

- Continue to invest in energy efficiency initiatives;
- Rebalance effort and salary cost, shift more salary to grants, endowments;
- Change mix of instructional faculty among Ladder-Rank, Lecturers, LSOEs;
- Reduce time-to-degree by reducing and better coordinating major/college G.E.s;
- Develop more sustainable funding models for Calit2 and San Diego Supercomputer.

- The campus expects to enroll about 1,350 unfunded students in 2011-12.

San Francisco

- Cuts to academic units have totaled $19 million, or 18 percent.
- Cuts to the administrative units have totaled $27.8 million, or 29 percent.
- Cuts to the Medical Center's Clinical Teaching Support have totaled $5 million, or 53 percent.
- Reductions focused on administration rather than academic programs.
- Have protected smaller schools with smaller resource bases.
- Medical Center administrative redesign Phase 2 is underway.
- Trying to reduce the number of off-campus sites through lease consolidations.
- UCSF has lost graduate academic students and is losing the ability to attract the best junior and magnet faculty and quality senior managers.
- Reductions to date have already resulted in faculty and staff recruitment and retention challenges across the campus.
- UCSF faces increased compliance risk as critical support functions are cut.
- Initiating efforts to increase return from indirect cost recovery via stricter waiver review.
- The Operational Excellence (OE) initiative has a goal of saving at least $50 million by the end of 2012-13 by integrating and improving administrative and technology functions across the campus. Four workgroups formed to implement strategies: Information Technology Services, Research Administration, Human Resources/Academic Affairs, and Finance. The program is on track to achieve ongoing savings of over $25 million by the end of 2010-11.
- Research administration service centers are being planned and established across the campus.
- Redesign of Human Resources programs is nearly complete and will be implemented by fall.
- Consolidations in financial management alone have saved $1.5 million so far, and could grow to $8-10 million per year.
- IT integration will save $10 million per year by 2013-14, mostly by blending services for the campus and the medical center.
- Strategic sourcing has saved $5.8 million in 2010-11.
- Exploring strategic sourcing initiatives with the Berkeley campus for e-procurement, common business practices, etc.

For 2011-12:

- Total budget shortfall for 2011-12 is projected to be $59.7 million.
- UCSF will continue with its Operational Excellence (OE) initiatives in 2011-12. Specific goals and activities include:
  - Research administration goal to reduce redundancies, consolidating pre-award administration into a Shared Service Center (savings goal of $1.5 million annually);
  - Developing and deploying formal training/certification programs and creating new/standardized job families;
  - Once HR Shared Service Centers and associated systems are fully deployed campuswide, cost savings in the range of $8-10 million annually (graduated through 2013-14);
  - Once all the various OE initiatives affecting finance administration are fully implemented, cost savings in the range of $7-9 million annually (graduated through 2013-14);

- Once all the IT-related OE initiatives are implemented, cost savings in the range of $10-13 million (graduated through 2013-14);
- Energy efficiency projects estimated to generate cumulative savings of $2.6 million by 2011-12;
- Restructure of purchasing agreements; and
- Strategic Sourcing estimated to generate $8.9 million in savings in 2011-12.

Santa Barbara

- Combined budget reduction and unfunded expense increases over the last ten years total approximately $116 million.
- Given that over 80 percent of expenses is employee-related, any significant cost reductions can only be accomplished through further reduction in employees.
- Between December 2007 and December 2010, the employee FTE funded with core funds has decreased by 378, or 10.4 percent. The annual savings from salary and benefits is $29 million. These reductions cut across all employee groups (academic, represented, and non-represented).
- Over the last few years, departments have downsized, merged functions, leveraged economies of scale, and sought to improve efficiency through restructuring, collaboration, and strategic investments in technology. The reductions, despite best efforts, have resulted in a downturn in the "quality of life" experienced by faculty, staff, and students.
- Since winter 2008, the average undergraduate class size is up 7.8 percent, with 4.2 percent fewer classes being offered.
- Cuts to administration have included 33 percent cuts to supplies and materials budgets (totaling $3.3 million per year), a 20 percent reduction in land lines, and reductions ranging from 20-35 percent of travel and other purchases.
- UCSB is investing $18.6 million between 2008-09 and 2011-12 in the Strategic Energy Partnership. After debt payments, nearly $1 million per year in energy cost savings will be available.
- Reductions in leased space total $1.1 million.
- Use of START time restrictions, saving ~$1-2 million per year.
- Travel and other purchases have been reduced from 20-35 percent.
- Organizational efficiencies already underway are expected to achieve additional permanent savings of $10 – 15 million per year. Targeted areas include IT and communications, shop services, conferences, event planning, ticketing, procurement, and travel.

For 2011-12:

- Total budget shortfall for 2011-12 is projected to be $66.3 million.
- Santa Barbara will use a three-pronged approach to solving its budget gap in 2011-12:
  - Existing revenues (70 percent of the solution, or ~$46 million): primarily associated with student fee increases; and
  - Revenue enhancements (12 percent of the solution, or ~$8 million), such as:
    - Increase nonresident enrollment (6 percent of the solution, or ~$4 million);
    - Potential increase in gift tax assessment;
    - Potential increase in administrative support assessment;
    - Fallout from the funding streams model.
  - Other actions/strategies (18 percent of the solution, or $12 million), including:
    - Implementation of operational efficiency strategies;
    - Salary savings associated with retirements, attritions, and/or layoffs;
    - Targeted program reductions.
- Investment in technology will be necessary to help achieve longer term savings.

- The campus expects to enroll ~150 unfunded students in 2011-12 and continue strategies to reach budgeted enrollment levels by 2012-13.

Santa Cruz

- Through prudent resource management and targeted use of one-time funds, UCSC has preserved its most critical core instruction elements over the past three years of budget reductions, but in doing so, has masked how tenuous its resource situation is.
- Cuts will compromise educational quality and access, endanger UCSC's upward trajectory as a research university striving for top-tier recognition, and jeopardize its ability to meet basic fiduciary, compliance, and safety responsibilities.
- In the past three years, UCSC has:
    - Reduced lecture, discussion, and lab offerings;
    - Hollowed out 80 faculty positions;
    - Reduced lecturer appointments;
    - Hollowed out the funds behind 110 teaching assistant positions;
    - Reduced graduate student support;
    - Dramatically reduced faculty hiring from 30+ per year to fewer than 10 new appointments per year;
    - Delayed investments in equipment, facilities, and maintenance;
    - Suspended admissions to some degree programs and delayed the start of others;
    - Consolidated academic departments and proposed disestablishment of others;
    - Reduced library hours, cancelled journal subscriptions, and cut back acquisitions; and
    - Eliminated programs.

For 2011-12:

- Total budget shortfall for 2011-12 is projected to be $49.7 million.
- Actions under consideration include:
    - Further elimination of funding associated with unfilled faculty positions;
    - Further reduction in the number of teaching assistant appointments and funding dedicated to temporary academic staffing used for lecturers and adjunct faculty, tutors, and readers;
    - Reduction in the number of State-funded technical support staff directly assisting with instruction and research and in library collections and services;
    - Additional layoffs, partial-year appointments, and reduced services in the summer for student services;
    - Cuts in business services and information technology equivalent to another 100 FTE;
    - Reductions in university relations and development activities;
    - Considerable reduction in programs that support diversity and inclusion; and
    - Reductions of public outreach programs.

The impacts of these cuts will be significant:

- Impacts to instruction and research programs:
    - Reduce lecturers, teaching assistants, readers, tutors, and curtail hiring of new faculty;
    - Fewer studio classes, laboratory sections, teaching assistants;
    - Faculty must devote more time to performing functions previously handled by teaching assistants, laboratory assistants, and staff;
    - Funding for staff in Organized Research Units and other research programs will be significantly reduced or eliminated; and
    - Campus research partnerships in Silicon Valley will be impacted.

- Impacts to academic support and student services:

- Graduate programs designed to increase student diversity, recruitment, and retention will be significantly impacted;
- Reductions in college advising;
- Student degree progress and monitoring of compliance with Senate and University academic policies will be severely impaired;
- Efforts to improve retention and graduation rates will be negatively impacted;
- Implementation of an Honors Program will be delayed or never developed;
- The Center for Teaching and Learning may be abolished;
- Support for students wishing to study abroad will be limited;
- Further cuts to the library;
- Students services will be dramatically scaled back in the summer; and
- Residential life programs in the colleges will be downsized and streamlined.

- Impacts to Institutional Support:
  - Business and administrative service functions must be prioritized into three critical areas: fiduciary responsibility, public safety, and compliance;
  - Many programs have already reached the point where additional cuts will result in unacceptable levels of risk and an inability to meet university obligations in these areas;
  - The campus expects to see a decline in IT staff equal to roughly 25 percent of its July 2008 staffing levels;
  - Funding for equipment replacement has been eliminated;
  - Self-service web systems cannot be undertaken; and
  - Loss of funding to support development has placed the campus' first capital campaign in jeopardy.

- The campus expects to enroll 500-600 unfunded students in 2011-12.

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EXECUTIVE VICE PRESIDENT—
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February 4, 2011

Ali Cooper, Political Director, AFSCME Local 3299
UC Employees
2201 Broadway Avenue, Suite 315
Oakland, CA. 94612

Dear Mr. Cooper:

I want to thank you for sharing your memo of January 19, 2010 to Governor Brown regarding AFSCME's recommended budget solutions. My staff and I have had the opportunity to review your recommendations and attached an analysis of each budget solution identified by AFSCME.

After careful review, we have concerns regarding the ability to "score" some of these budget recommendations against the Governor's proposed state General Fund reduction of $500 million to the UC budget. For instance, eliminating athletic subsidies (for an estimated $12 million in savings) and eliminating the 415 (m) Restoration Plan (for an estimated $20 million in savings) will not mitigate any portion of the $500 million state General Fund reduction as UC currently does not receive any state General Fund dollars for these items. UC welcomes your suggestion to eliminate "Management Inefficiencies," as this goal has been the focus of a concerted effort by the Office of the President and numerous UC campuses for the last two years. However, management positions are funded with numerous funding sources and on average only 28 percent of the savings come from state General Funds. UC is making a concerted effort to "renegotiate indirect costs recoveries"; however, this is a reimbursement process for monies already spent, addresses numerous funding sources, and is predicated on the willingness of the federal government or other outside agencies to renegotiate these rates.

The attached analysis is more complete and should be helpful in better understanding the budget recommendations proposed by AFSCME. If you have any questions please don't hesitate to contact me at (510) 987-9101.

Sincerely,

Patrick J. Lenz

Patrick J. Lenz
Vice President for Budget and Capital Resources

Attachment

Cc: Governor Jerry Brown
The Honorable Darrell Steinberg, Senate President pro Tempore
The Honorable Bob Dutton, Senate Minority Floor Leader
The Honorable John A. Pérez, Speaker
The Honorable Connie Conway, Minority Floor Leader
The Honorable Bob Blumenfield, Chair, Assembly Budget
The Honorable Mark Leno, Chair, Senate Budget and Fiscal Review
The Honorable Carol Liu, Chair, Subcommittee No. 1 on Education
The Honorable Bob Huff, Subcommittee No. 1 on Education
The Honorable Roderick Wright, Subcommittee No. 1 on Education
The Honorable Susan Bonilla, Chair, Subcommittee No. 2 on Education Finance
The Honorable Bill Berryhill, Subcommittee No. 2 on Education Finance
The Honorable Julia Brownley, Subcommittee No. 2 on Education Finance
The Honorable Brian Nestande, Subcommittee No. 2 on Education Finance
The Honorable Sandré Swanson, Subcommittee No. 2 on Education Finance
Ms. Ana J. Matosantos, Director of Finance
Ms. Jeannie Oropeza, Department of Finance
President Mark G. Yudof
Executive Vice President Nathan Brostrom
Vice President Dwaine Duckett

UNIVERSITY OF CALIFORNIA – OFFICE OF THE PRESIDENT
BUDGET & CAPITAL RESOURCES DEPARTMENT

Responses to AFSCME's Recommendations on Long-Term Budget Solutions for the University of California
February, 2011

AFSCME Recommendation: Adjust Assessment for UC's Auxiliary Enterprises

Auxiliary enterprises are primarily self-supporting services that are provided mainly to students, faculty, and staff. Student and faculty housing, dining services, and campus bookstores are the largest auxiliaries, with intercollegiate athletics (on two campuses) and parking also major components. No State funds are provided for auxiliary enterprises; therefore, revenues are derived from fees directly related to the costs of goods and services provided to cover all of their direct and indirect operating costs. Rates may also be set to allow for the accumulation of reserves required to cover working capital needs (such as equipment, capital improvements, and deferred maintenance). Auxiliary enterprises are not intended to be profit centers. Auxiliary enterprises publish rate schedules which are reviewed and approved by each campus as part of its annual budget process.

In recent years, campuses have established assessments on auxiliary enterprises to ensure that these enterprises are paying their "fair share" of campuswide costs for infrastructure, utilities, central administrative services, and campus security. These assessments add to the costs that must be recovered in the rates established by the enterprises. Any additional assessment placed on these enterprises will ultimately be passed on to those benefiting from (and paying for) the services provided—primarily students, faculty, and staff. With the restart of contributions to the retirement system and the fact that UC has been unable to implement a general salary increase for three years, the University would be concerned about adding another cost increase/pay cut to faculty and staff.

Since 1998-99, the University has grown by 73,000 students. This enrollment growth has been the primary driver of growth of auxiliary enterprises, as the University has added thousands of new residential units and expanded dining halls and restaurants to accommodate the growth in the University community. In addition, campuses have sought to increase the proportion of students living in campus housing and to provide more affordable housing for new faculty and staff. Bookstores have also significantly broadened the array of goods and services they offer students, faculty and staff, particularly to meet the growing demand for computer and related technology.

Although AFSCME has not explained how it made its calculations, it appears that its estimate of so-called "profits" is based on reported reserves of the auxiliary enterprises. It is inaccurate to refer to reserves as profits. Reserves are largely pledged set-asides for future capital improvements and deferred maintenance. In addition, some funds must be set aside in reserve in case projected demand and/or cost estimates are not achieved and to meet the terms of the University's bond indentures. These set-asides are a normal, and in fact prudent, business practice.

AFSCME Recommendation: Recalibrate Indirect Cost Recoveries from Grant-Funded Research

As noted in the final report of the UC Commission on the Future (COTF), UC could increase revenues by recovering a greater share of the indirect costs of research sponsored by outside agencies. Indirect cost reimbursement covers the facilities and administrative expenses attributable to research and shared among many projects. This is a reimbursement for expenditures that UC has to pay upfront and as such should not be regarded as a revenue-generating action, but rather a recovery of funds already spent. At present, UC's Indirect Cost Recovery (ICR) rates on federally-funded research are inadequate to cover the full costs of research. UC is looking at several strategies to recover more of the indirect costs related to research activities and to improve management of waivers for the State, foundations, corporations, and private donors.

This is a complicated and long-term undertaking that will require working with other major research institutions to develop new federal rate structures and working with foundations and other grant-making organizations to increase support for indirect costs. Efforts to recover more indirect costs will also require a great deal of sensitivity to the widely varying grant-making practices in different fields. As the COTF report emphasizes, rigid application of cost-recovery rules could have dire consequences for grants in certain fields, as well as from private donors and most foundations.

Increasing revenues by recovering more of the indirect costs is a high priority of the University, but given the challenges involved, the University views this as a longer-term, rather than near-term solution to the budget crisis.

AFSCME Recommendation: Eliminate Athletic Subsidies

No State General Funds are used for Intercollegiate Athletics and therefore any savings generated from these programs would not have a direct impact on the State General Fund shortfall. Most UC campuses allocate a portion of Student Services Fee revenue to support athletic and recreational activities on the campus. This fee is intended to provide support to services and activities that benefit students and are complementary to the instructional program. It is the University's view that athletics and recreation enhance quality of life for students and the campus community, and funding for such activities is an appropriate use of Student Services Fee funds. Campuses must weigh the needs of their specific communities. Other revenue for these programs is generated through ticket and concession sales, fundraising, and participation fees. In addition, many campuses support intercollegiate athletics with campus-based fees paid by students when they register. It would be inappropriate to attempt to generate funding through these programs that would then be used to support general operating budgets, particularly given the need for these programs to be competitively priced rather than profit-making.

The Berkeley campus has proposed elimination of five major sports programs—including men's baseball, men's rugby, men's and women's gymnastics and women's lacrosse—in an effort to reduce the cost of its intercollegiate athletics programs. Other campuses are reviewing their programs, as well, and will make these decisions as they weigh a host of competing priorities.

UCLA's intercollegiate athletics has always been self-supporting and has never required a campus bailout. The program does **not** have a $3 million deficit. The campus does allocate $2.6 million per year of Student Services Fees to support a variety of Olympic sports. While this fee subsidy has been reduced over the years, it provides significant benefits to the campus' students.

UNIVERSITY OF CALIFORNIA – OFFICE OF THE PRESIDENT
BUDGET & CAPITAL RESOURCES DEPARTMENT

AFSCME Recommendation: Reduce Utilization of External Consultants

The University retains external consultants when there are insufficient in-house resources and when the University lacks needed expertise in a specific area.

The University has **not** paid $3.5 million to Littler Mendelson to represent UC in its labor relations. The law firm has represented UC in two negotiations, for which the firm has been paid $422,600.

The $3.5 million cited by AFSCME may refer to the total amount paid to Littler Mendelson over the last 15 years to handle primarily employment litigation cases.

AFSCME Recommendation: Eliminate Management Inefficiencies

Management and Senior Professional (MSP) personnel are supported by a variety of UC funds, such as federal funds, revenues from hospitals and auxiliary enterprises, endowment income, and local government grants and contracts. State General Funds account for 28 percent of the funds that support MSP personnel. UC management was not paid $1.6 billion in cash compensation, as AFSCME has asserted. Cash compensation for both the MSP category and Senior Management Group personnel totaled about $1 billion in 2008-09 and $993 million in 2009-10. Personnel in the MSP category include not only general managers but also many other professional employees, including computer programmers and analysts, physicians and dentists, administrative, budget and personnel analysts, engineers, pharmacists, and staff in nursing services. While currently comprising over half of the FTE in the MSP category, manager class titles have actually declined slightly from 58% of the total category in 1997-98 to 54% in 2008-09; computer programmer and analyst titles have increased from 13% to 17%.

While the MSP group as a whole (including both managers and senior professionals) has increased between 1997-98 and 2008-09, the MSP category still represents only 5% of all UC FTE employees—up slightly from 3% of all FTE employees (and 4% of non-academic FTE employees).

Growth in the MSP personnel program is due in part to the increasing professionalization of UC's staff. An increasingly complex University system requires a staff that must meet higher technical and competency standards. This transformation of UC's staff is consistent with current national trends. Like the private sector, the University has depended upon technology and a more highly skilled workforce for productivity increases. This has resulted in disproportionate growth of fiscal, management and staff services as the University has hired more information technology professionals and relied upon departmental staff with more advanced skills to manage the new financial and student information systems that have been implemented across the system. Moreover, the University has also experienced increased State and federal reporting, regulatory, and compliance requirements, which have also required an increase in staff positions with specific expertise.

Increasing professionalization is reflected in a decrease in entry-level titles in the Professional and Support Staff (PSS) personnel program and an increase in more advanced PSS titles. There has also been a modest shift in the distribution of employees from the PSS to the MSP category. While MSP titles grew from 3% to 5% of all staff over the 11-year period, PSS titles experienced a corresponding decline of 2% from 70% to 68%.

The number of executive leadership personnel (SMG) titles declined during this period from 315 to 293 FTE, representing well below 1% of total employee FTE.

Many factors besides enrollments have driven the expansion of UC's administrative staff, including the significant growth of research and the medical enterprises, both of which have benefited the public enormously. Fifty-two percent of UC's non-academic staff growth since 1997-98 has been at the teaching hospitals and 8% in research, reflecting the significant growth in the teaching hospitals and UC's research enterprise in recent years. Similarly, 10% of UC's FTE growth over this period has been in auxiliary services, consistent with the significant expansion of campus housing servings.

AFSCME Recommendation: Eliminate Senior Management Supplemental Benefit Program

The University is exploring alternatives to the Supplemental Benefit Program.

AFSCME Recommendation: Eliminate 415(m) Restoration Plan

No State dollars are used to pay for the benefits provided under the Plan. Assessments are made to campuses and the clinical enterprise to cover the cost of the current and expected benefit payments. Approved by the Regents in 1999, and effective in 2000, the 415(m) Restoration Plan is comparable to those offered by many universities and other institutions across the country. CALPERS offers a similar plan.

Particularly at a time when the University's salaries lag significantly behind those of its competitors, the Plan remains an important tool to help the University retain certain valuable employees with long- term service, principally faculty. It is estimated that faculty comprise about 75% of the UC employees who may be potentially impacted when they retire, if their accrued UCRP benefit is limited after a long career of service.