



UNIVERSITY
OF
CALIFORNIA

Michael V. Drake, MD
President

October 30, 2020

Office of the President
1111 Franklin St.
Oakland, CA 94607

The Honorable Holly J. Mitchell
Chair, Joint Legislative Budget Committee
1020 N Street, Room 553
Sacramento, California 95814

universityofcalifornia.edu

Dear Senator Mitchell:

CAMPUSES

Berkeley
Davis
Irvine
UCLA
Merced
Riverside
San Diego
San Francisco
Santa Barbara
Santa Cruz

Pursuant to Item 6440-001-0001, Provision 15, of the 2020 Budget Act (AB89, Chapter 7, Statutes of 2020), enclosed is the University of California's report to the Legislature on *Budget Actions Associated with Reductions in Ongoing General Fund Support*.

If you have any questions, Associate Vice President David Alcocer would be pleased to speak with you. David can be reached by telephone at (510) 987-9113, or by email at David.Alcocer@ucop.edu.

Sincerely,

Michael V. Drake
President

MEDICAL CENTERS

Davis
Irvine
UCLA
San Diego
San Francisco

Enclosure

NATIONAL LABORATORIES

Lawrence Berkeley
Lawrence Livermore
Los Alamos

cc: Senate Budget and Fiscal Review
The Honorable Richard D. Roth, Chair
Senate Budget and Fiscal Review Subcommittee #1
(Attn: Ms. Anita Lee)
(Attn: Ms. Jean-Marie McKinney)
The Honorable Kevin McCarty, Chair
Assembly Budget Subcommittee #2
(Attn: Mr. Mark Martin)
(Attn: Ms. Carolyn Nealon)

Mr. Hans Hemann, Joint Legislative Budget Committee
Ms. Erika Contreras, Secretary of the Senate
Ms. Amy Leach, Office of the Chief Clerk of the Assembly
Ms. Sue Parker, Office of the Chief Clerk of the Assembly
Mr. Jeff Bell, Department of Finance
Mr. Chris Ferguson, Department of Finance
Ms. Rebecca Kirk, Department of Finance
Mr. Gabriel Petek, Legislative Analyst Office
Ms. Jennifer Pacella, Legislative Analyst Office
Mr. Jason Constantouros, Legislative Analyst Office
Executive Vice President and Chief Financial Officer Nathan Brostorm
Senior Vice President Claire Holmes
Associate Vice President David Alcocer
Associate Vice President and Director Kieran Flaherty

UNIVERSITY OF CALIFORNIA

Budget Actions Associated With Reductions in Ongoing General Fund Support

Provision 15 of Item 6440-001-0001 of the Budget Act of 2020 (as amended by AB 89) calls upon the University to submit a report by November 1, 2020, on budget actions associated with reductions in ongoing General Fund support in the event that no federal legislation is enacted by October 15, 2020, to make available \$14 billion of additional federal funds for the State of California. The report is described as follows:

[B]y November 1, 2020, the Office of the President of the University of California shall submit to the budget committees and the relevant policy committees of both houses of the Legislature, the Legislative Analyst's Office, and the Department of Finance a report on university budget actions associated with reductions in ongoing General Fund support, including the level of reduction by campus. This report shall include a description of the stakeholder consultation process, an explanation of how those actions were decided, and a statement of reasons describing how the university's decisions minimize harm to the enrollment of and services provided to students eligible for Pell Grants, students from underrepresented minority groups, and other disadvantaged students.

The University of California submits this report in response to the above provision.

Context

The University's 2020-21 General Fund appropriation is detailed in the Budget Act of 2020, which was enacted by Senate Bill 74 (SB 74) and amended by Assembly Bill 89 (AB 89). As enacted, SB 74 provided the University with a base budget increase of \$170.8 million in addition to new funding for the UC Riverside School of Medicine, support for the UCSF School of Medicine Fresno branch campus, and other one-time appropriations. AB 89 amended the Act and replaced the base budget increase of \$170.8 million with a base budget reduction of \$300.8 million in ongoing General Fund support from 2019-20 levels. (AB 89 did not reduce the new funding provided for the UC Riverside School of Medicine or the UCSF School of Medicine Fresno branch campus.) The reduction would have been wholly reversed and the base budget increase of \$170.8 million restored if, by October 15, federal legislation had been enacted to provide \$14 billion of additional federal funds to the State, and partly reversed if the State had received at least \$2 billion in additional federal funds. This did not occur.

As a result, the University must absorb a reduction of \$300.8 million in General Fund support in 2020-21. As shown in Display 1, \$257.6 million is reduced from the University's primary appropriation (Item 6440-001-0001) and \$43.2 million is reduced from the direct appropriation to the University of California Office of the President (UCOP), the Division of Agricultural and Natural Resources (ANR), and UCPath (Item 6440-005-001).

Display 1: 2020-21 Reductions to Ongoing UC General Fund Appropriations

<i>Item</i>	<i>Description</i>	<i>Reduction</i>
6440-001-0001	Primary University appropriation	\$257.6 million
6440-005-0001	Direct Appropriation for UCOP, ANR, and UCPath	\$43.2 million
Total	Combined UC Appropriation	\$300.8 million

In July 2020, UC President Janet Napolitano issued preliminary allocations of State General Funds for 2020-21 under the scenario in which additional federal stimulus support for California did not materialize by October 15. In

addition to the reduction in State support described above, the allocations also reflected the following adjustments:

- An additional \$15 million of the University’s State General Fund appropriation was set aside for projected increases in debt service associated with State-approved capital projects financed through the AB 94 process. With this addition, a total of \$88.9 million of the University’s 2020-21 appropriation will be used for AB 94 capital projects.
- \$7.3 million was set aside to be allocated to campuses separately to support campuses that assume budgetary responsibility for certain systemwide programs. (This did not reduce the total funding allocated to campuses; it modified its distribution across campuses.)
- \$1.3 million was set aside and allocated separately to expand the Faculty Hiring Incentive Program (FHIP), which provides \$85,000 per year for five years to campuses that hire current or former President’s or Chancellors’ Fellows into ladder-rank faculty positions. FHIP is an integral part of the University’s efforts to recruit exceptionally talented scholars who also contribute to the diversity of its ladder-rank faculty. (This did not reduce the total funding allocated to campuses; it modified its distribution across campuses.)

Altogether, the above adjustments totaled \$324.4 million (\$300.8 million budget reduction, \$15 million set aside for AB 94 debt service, \$7.3 million reallocation for program support, and \$1.3 million reallocation for FHIP).

Campus allocations were determined by first allocating the University’s combined General Fund appropriation (as described below) and then adjusting those figures to reflect the direct State appropriation to UCOP (Item 6440-005-001). Display 2, below, shows (a) the corresponding portion of this adjustment at each campus, (b) the portion of the adjustment attributable to the \$300.8 million reduction in General Fund Support, and (c) the net impact of the reduction in State support on campuses and programs funded from Item 6440-001-0001 after taking into account the reduction in State funds redirected to support the Office of the President (Item 6440-005-0001).

Display 2: 2020-21 Reductions in Ongoing General Fund Support by Location

<i>Campus</i>	<i>Prior to Redirection to UCOP, ANR, and UCPath</i>		<i>Reduction to UCOP, ANR, and UCPath</i>	<i>Net Adjustments</i>
	<i>Total Allocated Adjustments</i>	<i>Adjustments From Reduced State Support</i>	<i>(Offsets Campus Adjustments)</i>	<i>From Reduced State Support</i>
Berkeley	(\$42.4)	(\$39.3)	\$3.8	(\$35.5)
Davis	(\$45.0)	(\$41.7)	\$6.4	(\$35.3)
Irvine	(\$34.2)	(\$31.7)	\$4.6	(\$27.1)
Los Angeles	(\$54.6)	(\$50.7)	\$9.3	(\$41.3)
Merced	(\$5.4)	(\$5.0)	\$0.8	(\$4.2)
Riverside	(\$31.3)	(\$29.0)	\$2.2	(\$26.9)
San Diego	(\$39.5)	(\$36.6)	\$6.6	(\$30.0)
San Francisco	(\$23.7)	(\$22.0)	\$5.4	(\$16.6)
Santa Barbara	(\$24.0)	(\$22.3)	\$2.3	(\$20.0)
Santa Cruz	(\$20.0)	(\$18.6)	\$1.8	(\$16.8)
Systemwide Programs	(\$4.1)	(\$3.8)		(\$3.8)
Off-Campus Programs	(\$0.0)	(\$0.0)		(\$0.0)
Total	(\$324.4)	(\$300.8)	\$43.2	(\$257.6)
UCOP, ANR, and UCPath (6440-005-0001)			(\$43.2)	(\$43.2)
<p>(a) Innovation Learning Technology Initiative, AIDS research, etc. (b) Education Abroad Program and UC Sacramento</p>				

The allocated adjustments shown above generally reflect a uniform 10.4 percent reduction from what would otherwise be the campus's 2020-21 base General Fund appropriation (excluding financial aid). The percentage cut for Merced (3.6 percent) is smaller in recognition of its projected growth and its high reliance on State General Funds relative to other core funds (e.g., Professional Degree Supplemental Tuition or Nonresident Supplemental Tuition) and non-core funds (philanthropy, self-supporting programs, etc.). The percentage cut is substantially higher at the Office of the President (12.7 percent), consistent with the UCOP direct appropriation in the Budget Act.

In communicating 2020-21 allocations to Chancellors, President Napolitano provided guidance as to how campuses should implement budget reductions. Chancellors were directed to take the following considerations into account:

- **Limiting the potential impact on vulnerable student populations.** The Budget Act expresses the intent of the Legislature that budget cuts should “not have a disproportionate impact on low-income students, students from underrepresented minority groups, and other disadvantaged students” and that the University “shall not implement associated budget adjustments in a manner that disproportionately impacts the enrollment of, and services provided to, those students.” That intent is consistent with the University’s own values and with its outstanding track record as an engine of socioeconomic mobility and opportunity for generations of students. Chancellors were directed to implement any budget adjustments in a manner that preserves that record of accomplishment.
- **Minimum funding levels specified in the Budget Act.** The Budget Act of 2020 includes designated appropriations for certain programs and purposes which campuses could not reduce as they developed their budget reduction strategies. Among those were several appropriations that directly benefit at-risk students, including funding for student basic needs programs, rapid rehousing efforts, student mental health services, and summer-term financial aid.
- **Impact on faculty, staff, and students.** Noting that the University of California is fundamentally a people-driven institution, the President asked campuses to employ budget reduction strategies to help mitigate the impact of budget cuts on faculty, students, and staff. For example, in cases where required budget cuts are likely to be short-term in nature, Chancellors were asked to consider approaches such as the strategic use of campus reserves, reducing or eliminating other expenses (e.g., nonessential travel), or voluntary furloughs or salary reductions. In cases where larger or longer-term reductions are needed, strategies such as a hiring freeze and voluntary separation programs are preferable alternatives to involuntary layoffs. In cases where involuntary layoffs cannot be avoided, Chancellors were asked to make every effort to provide training and alternative employment opportunities for affected employees.

Allocations to campuses for 2020-21 continued to include \$52 million of State General Funds for undergraduate student financial aid—the same amount provided in past years—notwithstanding the overall reduction in State support. These funds supplement over \$700 million in tuition and fee revenue that campuses use to provide need-based grants to California resident undergraduate students.

Implementation of Budget Reductions

Stakeholder Consultation and Decision-Making

The campus allocations of budget adjustments shown in Display 2 were developed over the course of multiple discussions among President Napolitano and the Chancellors in the spring and early summer of 2020. A broad consensus emerged that the adjustments should generally be the same at each campus when expressed as a percentage of the campus's permanent State General Fund budget and that Chancellors should have flexibility in how they implement those adjustments, subject to guidance provided by the Office of the President. There was also a broad consensus that the percentage budget reduction for the Merced campus should be much smaller than the reduction at other campuses, as described above. The allocations and guidance issued by President Napolitano reflected that consensus.

At the campus level, the budget reduction strategies adopted by each Chancellor also reflected extensive consultation with affected stakeholders. Examples include, but are not limited to, the following:

- Extensive meetings between staff in campus budget offices with financial and administrative officers in campus divisions, deans, vice chancellors, and members of the Academic Senate
- Budget workgroups or advisory committees, which typically include administrators, faculty, and staff representatives
- Campus forums, town halls, or other outreach meetings for faculty, staff, and/or students
- Budget presentations and discussions with campus Student Fee Advisory Committees (which are composed primarily of students)
- Vetting of campus-wide financial decisions with the Chancellor’s cabinet or executive team, the Council of Deans, Academic Senate leadership, and relevant Academic Senate committees

Minimizing the Impact of Budget Reductions on Disadvantaged Students

As noted above, the University took several steps at the systemwide level to reduce the impact of budget reductions on disadvantaged, at-risk students.

- President Napolitano directed Chancellors to prioritize protecting vulnerable student populations in implementing any budget cuts in the guidance that was issued along with campus General Fund allocations.
- The percent reduction in State support provided to the Merced campus—which enrolls the highest percentage of first-generation college students, students from underrepresented minority groups, and Pell Grant recipients of any campus—was significantly less than at any other campus (3.6 percent compared to 10.4 percent elsewhere).
- State General Funds allocated to campuses for student financial aid were excluded when calculating a campus’s share of the overall reduction in State General Fund support. These funds were protected from any budget reduction in order to preserve access for students with financial need.

At the campus level, budget reduction strategies also reflect a concerted impact to minimize the impact of budget shortfalls on lower-income students, students from underrepresented minority groups, and other disadvantaged students.

- Campuses are using reserves and other one-time fund sources to limit the impact of budget reductions in the current fiscal year while longer-term cost savings can be identified.
- Some campuses are assessing a lower percentage of reduction over a broader set of functions—including some that are not typically supported by State General Funds—in order to reduce the impact on core academic functions and student services, which are critical to student success and, in particular, to the successful enrollment, retention, and graduation of students from disadvantaged backgrounds.
- Where budget reductions are necessary, campuses are prioritizing the preservation of core operations—particularly instruction, support for remote learning, student services, financial aid, student basic needs, diversity recruitment efforts, and other student-facing activities—through larger cost reductions in certain non-essential expenditures (e.g., travel) as well as reductions in units that, while important to campus operations, are less closely related to direct mission-based activities. Examples include finance, human resources, real estate services, development and alumni relations, and police.

In developing and implementing budget reduction strategies that preserve access and critical resources for disadvantaged students, UC campuses have demonstrated the same overarching concern for student success and

the ability to respond to rapidly changing circumstances as they did when they rapidly transitioned to remote instruction in spring 2020.

It should be noted, however, that some of the strategies adopted by campuses will be difficult if not impossible to sustain indefinitely. Unrestricted campus financial reserves are limited and are needed to address many pandemic-related budget challenges in addition the reduction in State support for 2020-21. Workforce strategies such relying on faculty and staff attrition, coupled with hiring restrictions, can generate short-term savings but can, over time, negatively affect a campus's ability to fulfill its core mission activities.

The measures described above will allow the University to minimize the impact of reduced State resources on its most disadvantaged students in 2020-21 but are not a permanent substitute for sustained public investment in the University and its students.

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