

July 28, 2008

COUNCIL OF DEANS AND VICE CHANCELLORS

Re: Preliminary 2008-09 Operating Budget Decisions

Dear Colleagues,

I am writing to finalize allocations for 2008-09 based on the plans you submitted this spring and the preliminary allocations that the campus received from the Office of the President. Last week, the Regents received a report about the budget based on the May Revise and some recent legislative committee actions. The information presented to the Regents is very consistent with the information that Associate Vice Chancellor Ratliff and I presented to you and the department chairs during May and June.

Although substantial uncertainty remains until the State Budget Act is finalized, I am moving forward with several preliminary decisions now because the new fiscal year has already begun. I will continue to share additional information as it becomes available.

Current Strategy to Address Estimated Budget Shortfall

As we discussed this spring, the operating budget for the University of California proposed by the Governor in his May Revise is essentially flat. However, even with this flat budget, the campus must cut budgets to provide funding to support prior-year and cost increases. We estimate a MINIMUM campus base budget shortfall for core funds (state general funds and mandatory student fees) of \$28.2 million due to:

Fixed cost increases for salary and benefits (estimated)	\$14.0 million
Purchased Utility shortfall (estimated)	\$10.0 million
Graduate Student Support investments (actual)	\$1.1 million
Contingency (actual)	\$2.0 million
Estimated base budget shortfall	\$27.1 million
One-time reductions for UC Merced and medical school enrollment growth	\$1.1 million
MINIMUM SHORTFALL (base and one-time)	\$28.2 million

As noted above, there is still considerable uncertainty about additional state cuts, and the financial picture for the campus may worsen. One risk relates to the \$98.5 million restored by the Governor in his May budget revision. If these funds are not included in the final State Budget Act the campus will face an additional reduction of \$14 to \$15 million. Also, budget estimates assume that faculty and staff salaries will not increase in 2008-09 except for faculty merits/promotion and agreements previously negotiated through the collective bargaining process. The campus will face additional budget reductions if any other salary increases are approved.

To address the estimated budget shortfall in 2008-09, the campus will use a combination of permanent and one-time fund sources and strategies. These are described below along with a summary of the funds the campus has received from the Office of the President.

UC Block grant allocation – \$6.8 million base and \$2.4 million one-time. The preliminary allocation from the Office of the President provides \$6.8 million in base budget resources from increased educational fee income to partially offset rising benefit costs, continuation of salary increases provided October 1, 2007, and academic merit increases effective July 1, 2008.

This is good news. The amount of the preliminary allocation is higher than that estimated this spring (\$6.8 million vs. \$6.5 million), and the funds will be allocated permanently. In addition, the Office of the President estimates that the campus will receive \$2.4 million in one-time resources as a result of additional educational fee revenue associated with enrollment growth. Growth funds are one-time because the University has taken the position that over-enrollment cannot be sustained without future funding from the State.

Base Budget Reductions – \$16.8 million. In February, I asked you to provide plans to address a base reduction of 7% in state general fund and registration fee fund budget reductions excluding ladder faculty, teaching assistants, graduate student support, benefits and purchased utilities. The proposed reductions totaled \$17.7 million – \$7.5 million from academic units and \$10.2 million from administrative and academic support units. I approve the plans that you submitted this spring and ask that you proceed with implementation, with the following exceptions.

- **Library.** The reduction assigned to the general library will be reduced to 3% or \$500,000 instead of the \$1.162 million that was initially assigned as a 7% reduction. This decision exempts the collections budget and provides very modest relief to the rest of the library budget.
- **Academic Preparation.** The Office of the President directed the campuses to exempt \$2.65 million of academic preparation funds. Final budget reduction targets for campus units with these funds have been reduced by \$186,000 to reflect this OP decision.

Self-supporting assessment. Most of you provided feedback to the Office of Resource Management and Planning (ORMP) regarding a proposed 3% assessment on non-federal self-supporting activities. ORMP needs additional time to review the information and suggestions so I will defer a final decision about an assessment until after the final State Budget Act is approved.

Faculty positions and faculty hiring. I notified the deans individually about recruitment authority for 2008-09. In total, the budget authority for central campus start-up funds totals about \$5.5 million leaving approximately \$4.5 million available to offset general fund budget reductions on a one-time basis (note that these savings will be available in 2009-10).

I will use salary and benefit savings of \$2 million from the 2007-08 general campus enrollment growth positions (24.5 FTE) to offset general fund budget reductions on a one-time basis in 2008-09.

Enrollment growth planned for 2008-09 is not expected to be funded by the State; therefore we do not have authority to create new faculty FTE (general campus or health sciences). However, one time funds were provided to the campus for Programs in Medical Education (PRIME). These funds will be allocated to the School of Medicine in 2008-09 to cover the actual increase in costs associated with the enrollment growth of PRIME students.

Non-Resident Tuition Revenue (NRT). The University recently decentralized non-resident tuition revenue to the campuses and set a base target for our campus of \$23.95 million. Under the new decentralized policy, the campus retains any NRT revenue that exceeds this base amount.

Revenue estimates will not be available until after the third week census in fall quarter is completed. If the campus has additional NRT funds in 2008-09, I will use those funds to offset budget shortfalls.

Indirect Cost Recovery. At this time, I consider reductions to annual indirect cost recovery allocations to be a last resort action, with the possibility of such reductions being considered only if campus budget reductions increase significantly during the final State and UC budget negotiations.

Other funds. I will continue to look for opportunities to reduce costs for activities managed by the central campus and apply the savings to offset current or future budget challenges. I believe it is critical that we re-establish a reserve fund that can be used to address significant and unforeseen financial challenges as we go forward.

Other Budget Decisions for 2008-09

Purchased utility core fund operating budget. The core fund base budget for purchased utilities (operating costs) will be augmented to correct the deficits that the campus has experienced in recent years. The base budget for purchased utilities will be managed in two parts as follows:

1. The base budget for utility operations (the central plant and other internally managed operations) is \$3,196,890 effective July 1, 2008. This reflects a 7% reduction from July 1, 2007, consistent with reductions assigned to other general fund administrative units.
2. The base budget for utility commodity costs (gas, electricity, water, and wastewater) is \$32.5 million effective July 1, 2008. This includes an augmentation of approximately \$10 million funded by general-fund campus budget cuts, new state funds of \$620,000 for new facilities opening during 2008-09 (more below), and \$45,000 from Registration Fees in accordance with a ten-year plan to fund student fee-supported facilities. This portion of the purchased utility budget will be managed centrally; any savings will be held as a reserve to offset future year costs or meet other campus priorities and any shortfalls will be funded by the central campus on a one-time basis.

Operation and Maintenance of Plant – \$1.658 million base augmentation. The Office of the President is providing a base budget increase of \$1.588 million to fund the operation and maintenance costs for new state supportable facilities, primarily the Robert Mondavi Institute. In addition, the campus will allocate \$70,000 in Registration Fee funds to operate and maintain student fee-supported facilities in accordance with a ten-year plan that concludes in 2008-09. The campus will split these funds as describe as follows:

- \$620,000 of the new state funds will be allocated to the purchased utility commodity budget to recognize increased energy costs for new facilities as described above.
- \$108,000 or 6% will be allocated to Vice Chancellor Nosek for the provision of public safety for new state supported facilities and student fee facilities in the ten-year plan.
- The remaining \$930,000 will be allocated to Vice Chancellor Meyer to recognize increased costs for Facilities Management associated with new state-supportable facilities. However, on a one-time basis the campus will retain \$330,000 because one of the major new facilities (the Robert Mondavi Institute) will not incur full year operating costs.

Student Mental Health. The Regents approved an increase in the Registration Fee of 10% (\$78) for 2008-09 and designated that about half of the increase (\$39) be used to continue a multi-year plan to enhance campus mental health services (this is the second year of program enhancement funding). Budget authority for these funds resides with Vice Chancellor Wood, and ORMP will initiate budget transfers later this summer.

Capital Budget. The Governor's January budget proposal and May revision both include \$345 million of funding for University capital projects funded through a general obligation bond measure planned for the November general election ballot. But, as you may know, both the Assembly and Senate budget subcommittees have recommended no new capital funding for the University (or California State University) in 2008-2009. For the campus, the November 2008 bond proposal included funding for the Veterinary Medicine Building 3B, Music Building, and a major steam and chilled water infrastructure project.

With this funding in significant jeopardy, President Yudof and California State University Chancellor Reed recently sent a joint letter to the Governor reiterating the critical need for continued funding of higher education capital needs and seeking the Governor's assistance to reinstate this funding in the state budget. The outcome of this issue is unlikely to resolve prior to the larger state budget challenges. As a result, we are evaluating various strategies to address what may be a significant reduction in state support for the campus's capital needs, including potential shifts in timing, scope or funding source for core campus capital projects.

Conclusion

As we have emphasized throughout the process, campus budget planning continues to face a great deal of uncertainty. This letter frames what we believe to be the best case scenario for 2008-09. We are closely tracking the State budget process and will address additional challenges or shortfalls as needed using one-time funds. I will send a final allocation letter as soon as possible after the 2008-09 State Budget Act is enacted and we receive final allocations from the Office of the President.

The primary focus for campus budget planning will quickly turn to a strategic planning process that we can use in 2009-10 and beyond. The submission of academic plans from the deans in late August will be very beneficial to this process. In addition, there are over 300 suggestions on SmartSite that are being evaluated to create an action plan that I will share in early fall.

I appreciate all of the input that has been provided throughout the process. A collective approach involving the entire campus is important as we deal with these challenges and move into the next 100 years with a strong foundation for continued success.

Sincerely,



Barbara A. Horwitz
Interim Provost and Executive Vice Chancellor

/mbm

c: Chancellor Vanderhoef
Associate Vice Chancellor Ratliff
Academic Senate Chair Bisson
Academic Senate Vice Chair Powell
Academic Senate Planning and Budget Committee Chair Orel
Assistant Deans and Chief Budget Officers