

October 24, 2008

## **COUNCIL OF DEANS AND VICE CHANCELLORS**

### **RE: 2008-09 Budget Update**

Dear Colleagues:

As we begin the second quarter of the fiscal year, I write to continue dialogue about the very serious financial challenges that are impacting global financial markets, the State, the University, and the campus. As you know, last week, President Yudof sent a letter indicating that additional budget reductions are likely over the next two years and advising us to pursue systemic long-term cost cutting measures. This advice is consistent with discussions we have already begun at UC Davis regarding budget process changes.

Soon I will announce final decisions about a new budget oversight process including the establishment of a Budget Advisory Committee and several subcommittees. This process will provide advice to the Chancellor and Provost/EVC about long-term systemic changes that we must make to successfully navigate the severe challenges that UC is facing. The process will include consideration of the school and college academic plans as well as new approaches to our administrative practices.

We must also develop short-term plans and approaches. Therefore, work will continue with the School, College, and Division Deans; the Council of Vice Chancellors; and the Academic Senate to identify actions that we might take to address any additional cuts assigned this year or those that will undoubtedly occur in 2009-10.

President Yudof's letter advised us that the University of California will be assigned an additional budget reduction of \$33.1 million for 2008-09 (reference October 17, 2008, email from Chancellor Vanderhoef to the Council of Deans and Vice Chancellors). This reduction represents unfinished business from the final State Budget Act approved by the Governor on September 23, 2008. The State Budget Act assumed additional savings would be identified during the implementation of the budget. Accordingly, the University of California budget was reduced by \$33.1 million, and the Davis campus share is expected to be about \$5 million. This reduction does not address the additional state revenue shortfalls that have been revealed since the approval of the state budget. Therefore, as noted above, we must proceed very carefully for the rest of the year so that we are prepared to address additional reductions.

A recap of the 2008-09 budget is attached and a plan to address the new reduction is provided below.

### **Use of Self-Supporting Assessment to Address Mid-Year Cuts**

In a May 14, 2008, letter about self-supporting activities, Vice Chancellor Meyer indicated that it might be necessary to implement a three percent assessment on campus recharge and income activities. I appreciate the information that many of you provided about the consequences that this assessment could have for your operations. It is clear that an assessment will add to the challenges you are already addressing in the current year. However, now that we have been assigned an additional general fund reduction and anticipate even more cuts in the future, I believe that it makes sense for the self-supporting units to share in the resolution of the budget shortfall.

Therefore, effective July 1, 2008, I will implement an assessment on self-supporting activities as follows:

- The assessment will be three percent of all external (non-university) income received and three percent of any recharge revenue in administrative units. This is a new cost (tax) to the units, and it will require the units to reduce expenses and change services to maintain a balanced budget.
- Recharge revenue generated in schools, colleges, and divisions is exempt because much of this activity is charged to federal funds.
- Self-supporting income or recharge in administrative units that is charged primarily to federal funds (15 percent or more) is exempt.
- Certain pass-through costs that are included in the approved rate model and exceed 20 percent of the total annual revenue for the activity are exempt.
- A rate freeze is in effect for internal recharge rates so this assessment must be absorbed by the unit in addition to other fixed cost increases (e.g., salary continuation costs, benefits costs, utility costs).

I have asked Associate Vice Chancellor Ratliff to work with you and your staff to implement this assessment.

### **Expenditure reductions and other cost savings**

The implementation of a self-supporting assessment provides a viable strategy to address this new \$5 million reduction. However, we must continue to take steps to reduce spending so that we are better prepared to address additional financial challenges that we will no doubt face in the coming months. President Yudof suggests a number of strategies that bear repeating. I ask that you each pursue these strategies to the fullest extent possible and hold the savings in reserve as a mitigation strategy for future reductions.

- **Hiring.** You should be extremely cautious about any hiring decisions as salaries and benefits are by far the largest expense in our budget. For staff, many of you are already using the START time reduction program. This strategy should be expanded where possible.
- **Travel.** In each of the last two years, the campus spent about \$6 million of general funds on travel. I am requesting that such travel be reduced or eliminated to the extent possible for the remainder of the fiscal year.
- **Equipment.** Defer any major purchases that are not critical to academic programs.
- **Energy.** We must do all we can to conserve energy. The campus has already invested in infrastructure changes that should increase energy efficiencies and the ability to centrally regulate temperatures of some buildings. In anticipation of the colder weather, I have asked Vice Chancellor Meyer to suggest additional actions that we might take to reduce our utility usage. Further information will be provided in the next few weeks.

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- **Administrative Efficiencies.** This spring we used a SmartSite to gather ideas from staff and faculty. Work on identifying an initial set of ideas that we will pursue immediately is nearly complete. I will ask each of you to help make these suggested changes. In addition, we must continue to do all we can to improve and streamline all processes. This is critical for both cost savings and staff workload reductions.

Although these are very difficult times, they provide us with an opportunity to closely examine how we operate and to make changes that will not only help us meet the current challenges but also better position us for the future. I appreciate all of your efforts on behalf of the campus.

Best regards,

A handwritten signature in cursive script that reads "Barbara Horwitz".

Barbara A. Horwitz  
Interim Provost and Executive Vice Chancellor

/mbm

c: Chancellor Vanderhoef  
Associate Vice Chancellor Ratliff