UNIVERSITY OF CALIFORNIA

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November 18, 2008

CHANCELLORS
EXECUTIVE VICE PRESIDENT LAPP
VICE PRESIDENT DOOLEY

Dear Colleagues:

As you know, in late September, Governor Schwarzenegger signed a 2008-09 State budget that essentially maintained State support for the University of California at 2007-08 levels. Following the signing of the budget, the Governor notified the University of an additional $33.1 million in mandatory savings from our base budget that was agreed to as part of the final negotiations on the budget. In total, the University's base budget was reduced by $48.7 million. However, it also means that no new funding was provided for enrollment growth, compensation increases, or mandatory cost increases such as health benefits premium increases or rising costs of purchased utilities. While the University is generating approximately $160 million in new revenue from student fees, our needs exceed that amount. We estimate that campuses will incur more than $100 million in new costs that are essentially unfunded in the current year. To address the budget cuts and additional cost increases, campuses will need to identify funds that can be redirected from other areas through cost reductions. Because of the significance of the budget shortfall, the University will not provide range adjustments to employee salaries or merit increases for non-academic staff this year.

Before proceeding to final budget allocations, I reiterate my concerns about the current fiscal crisis being faced by the nation and the State of California. The present economic climate can only be described as chaotic, and the State is already facing revenue shortfalls for the current year. It is highly likely that mid-year budget reductions will be forthcoming for State agencies and that the State budget for 2009-10 will again fail to meet our needs. As I mentioned in my earlier letter, I encourage you to be conservative with your budgets and avoid significant new commitments.

Preliminary allocations to campuses were provided in June. Following the adoption of the budget and approval of the revised budget plan by The Regents at a special meeting held on October 21, I am now prepared to make final allocations for 2008-09. Aside from the changes to preliminary allocations described below, the budget augmentations in your June preliminary allocation letter are now confirmed. These included:

- allocation of new student fee revenue to be used to help address mandatory cost increases such as continuation costs for compensation increases provided October 1, 2007, merit-based salary increases for academic employees, and increases in health benefit premium cost increases;

- one-time funding for enrollment growth at UC Merced and in medical education programs;
- one-time allocations of fee revenue associated with enrollment growth;
- funding for student financial aid programs;
- permanent funding for maintenance of new space;
- one-time funding for faculty recruitment and retention; and
- permanent lottery funds allocations.

In addition, I am making adjustments as follows.

Faculty Hiring Incentive Program

In 2002, President Atkinson made a commitment to provide a five-year advance on faculty FTE (salary and benefits) to campuses that hired current or former President's Postdoctoral Fellows into ladder-rank faculty positions. There is no limit to the number of hires per campus eligible to receive the incentive. Each year the incentive funds are held back from regular allocations to the campuses for faculty FTE. In the past six years, this initiative has been extremely successful, with 57 hires through 2007-08. This program is being continued in 2008-09, and at this time we are allocating funding for 12 new faculty members hired under the program this year.

Labor Research

The Governor's veto message included a line-item veto of $5.4 million for the University's labor research and education programs. Because of the tremendous value of these programs, we are providing temporary support from University funds to continue this work under the assumption that State funding will be restored to these budgets in 2009-10. Based on a review of program budgets and needs for continued funding, we are allocating $2 million each to the Berkeley and Los Angeles campuses on a one-time basis. The systemwide research grant program associated with this research will be deferred until State funds are restored.

Reductions in Legislative Earmark Programs

The State budget provided flexibility to the University by reducing the amount of State support dedicated to specific earmarked programs in the budget bill by 10 percent. These changes will create $3.4 million in savings, which will be redirected on a one-time basis to support the California Institutes for Science and Innovation, as described below. The one-time reductions for affected programs are shown on the enclosed schedules.

California Institutes for Science and Innovation

In 2007-08, we provided $20 million in one-time funding to support the California Institutes for Science and Innovation and committed to identifying permanent funding for the future. An effort is underway, under the leadership of Vice President Beckwith, to identify funds within the research function that can be redirected on a permanent basis for this purpose. For 2008-09, we are again providing one-time funding in the amount of $10 million, funded from a one-time increase in investment income and redirection of earmark funding as described above.

Undesignated Reduction

The $33.1 million mandatory savings announced by the Governor is being distributed on the basis of General Funds budgets. Student Academic Preparation and Educational Partnership Programs (SAPEP) and the Merced campus are being protected from the reduction. The reduction is being allocated on a one-time basis at this time, but campuses should be prepared to make this cut permanent.

Health Benefits Cost Increase Impact Mitigation

To help mitigate the impact of the medical plan rate increases on employees, locations are being asked to fund an additional one time amount of $5.2 million towards the 2009 contribution. A total of $920,000 is provided on a one-time basis to help fund the Generals Funds and student fee portion of this cost for the period of January-June 2009. Additional funds will be provided in the 2009-10 allocations for the second half of the calendar year.

Graduate Student Support

The issue of graduate student support increases for 2008-09 is still under discussion. Information on this issue will be transmitted separately.

Enclosed Schedules

Enclosed are the final allocations for your campus by category with an explanation of the changes. If you have any questions about these matters, please get in touch with Vice President Patrick Lenz or his staff.

Sincerely,

Mark G. Yudof
President

Enclosures

cc: Interim Provost Grey
Vice President Lenz
Executive Vice Chancellors
Vice Chancellors for Planning and Budget
Associate Vice President Obley
Associate Vice President Reese