

COMMITTEE ON FINANCE  
COMMITTEE ON COMPENSATION  
July 16, 2009

TO THE REGENTS OF THE UNIVERSITY OF CALIFORNIA

**1. AMENDMENT OF STANDING ORDER 100.4 – DUTIES OF THE PRESIDENT**

The Committees on Finance and Compensation recommend that:

- A. Pursuant to Bylaw 7.3, the requirements of Standing Order 130.1 be suspended for purposes of this item.
- B. Standing Order 100.4 be amended as shown in Attachment 1.

**2. RECOMMENDATION FOR DECLARATION OF FINANCIAL EMERGENCY AND APPROVAL OF BUDGET REDUCTION ACTIONS**

The Committees on Finance and Compensation recommend that the Regents of the University of California take the following actions to address the emergent financial crisis facing the University as a result of proposed drastic reductions in the level of State funding due the University:

- A. Issue a Declaration of Extreme Financial Emergency, effective September 1, 2009 to August 31, 2010, in the form attached hereto as Attachment 2, based on the findings set forth therein;
- B. Approve a Furlough/Salary Reduction Plan (“Plan”) developed by the President to address the emergency, as set forth in Attachment 3;
- C. Authorize the University of California Retirement Plan (“UCRP”) to be amended to preserve UCRP members’ calculation of covered compensation and the rate of accrual of service credit at their pre-furlough/salary reduction level for the duration of the Plan, and that the Plan Administrator of the UCRP be authorized to implement such amendment;
- D. Authorize the President to make Plan modifications and changes consistent with the Plan principles, as may be required for its implementation, during the Plan period.

3. **RESOLUTION REGARDING EFFORTS TO INCREASE FUNDING FOR HIGHER EDUCATION**

Recognizing the extraordinary harm the proposed State budget will have on the University of California, the Regents instruct the President to:

- A. Immediately engage in discussions with legislators, leadership of the California State University and the Community College system, representatives of employees of the University, faculty, and alumni for the purpose of developing a specific law to raise revenue to support the higher education system.
- B. As the first step in this effort to increase funding for the higher education system, the Regents instruct the President to engage the leadership and members of the Legislature to identify means and/or specific legislation to increase and stabilize funding for higher education and bring to the attention of the Regents for their review and potential support any specific means.
- C. The Regents instruct the President to pursue any other opportunity to increase revenue for the University that might become available, such as initiatives, legislative proposals, direct federal funding, philanthropy, and alumni support.
- D. Should additional funding beyond that made available from the 2009-2010 State budget become available, the Regents instruct the President to report to the Board regarding potential restoration of the emergency furloughs and expenditure reductions set forth by the Regents during their July meeting.

**Additions shown by underscoring; deletions shown by strikethrough**

## 100.4 Duties of the President

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100.4(qq)

- (1) “Extreme Financial Emergency” for purposes of this Standing Order shall mean any event(s) or occurrence(s) creating an imminent and substantial deficiency in available University financial resources which could reasonably be expected to jeopardize the ability of the University, campus, or multiple campuses, to sustain its current or future operations in a manner which would allow it to fulfill its tripartite mission consistent with past practices. The deficiency in available financial resources may result from significant reductions in any of the following: legislative appropriation; state revenues which make appropriated funds unavailable; income from other sources including auxiliary enterprises and services, contracts, grants, gifts, tuition and fees.
- (2) The President of the University shall have authority, consistent with legal requirements, to implement furloughs and/or salary reductions, on terms that the President deems necessary, for some or all categories of University employees, upon Declaration of Extreme Financial Emergency, as specified below. The President further shall have the authority, during the pendency of the Declaration and consistent with applicable legal requirements, to suspend the operation of any existing Regental or University policies otherwise applicable to furloughs and/or salary reductions that are contrary to or inconsistent with the terms the President deems necessary to the proposed implementation. The authority provided herein may be exercised with regard to the University as a whole or with regard to a campus or multiple campuses. For purposes of this section, Furlough means temporary unpaid time off of work where use of accrued vacation leave, compensatory time off, or any other paid leave or compensation may not be used.
- (3) Extreme Financial Emergency may be declared only by the Regents on the President’s recommendation. Any request by the President for approval of such a Declaration shall be made in writing directed to the Chair and Vice Chair of the Board and to the Chair of the systemwide Academic Senate, with copies directed to the Principal Officers of The Regents and appropriate University Officers. Such writing must generally describe the emergency conditions underlying the Declaration, the current or future effects of such conditions on campus or University operations, the expected duration of the Declaration if known (which in no event may extend beyond one year), a summary of the plan for implementing the

proposed furloughs and/or salary reductions, and the expected outcome of the proposed plan.

- (4) The President shall engage in consultation with campus Chancellors, representatives of the systemwide Academic Senate and the appropriate representatives of systemwide staff and academics concerning the matters to be included in the request for approval of a Declaration of Extreme Financial Emergency prior to submitting the request to The Board of Regents. If the request for approval of a Declaration of Extreme Financial Emergency is submitted by a Chancellor to the President, the Chancellor shall engage in consultation with representatives of the divisional Academic Senate and the appropriate representatives of campus staff and academic representatives concerning the matters to be included in the request for approval of a Declaration of Extreme Financial Emergency prior to submitting the request to the President.
- (5) The authority provided under this Standing Order is in addition to any authority otherwise provided University officials under other Regental or University policies and, except as provided herein, nothing in this Standing Order shall limit such other authority.

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## Attachment 2

# Declaration of Extreme Financial Emergency July 16, 2009

### The Regents Find as Follows:

- 1) In the last two months, the Governor and the Legislature have proposed an \$813.2 million reduction in the University's State appropriation for FY 2008-09 and FY 2009-10, representing a 20 percent reduction from FY 2007-08 levels.
- 2) The level of the proposed reduction in State funding is unprecedented for the University over a twelve month period of time.
- 3) Left unaddressed, the reductions would substantially affect the University's ability to deliver on its mission.
- 4) The fiscal challenges presented by the proposed reduction in State funding for the University are likely to persist at least through August 31, 2010.
- 5) In order to assist the University in addressing this funding reduction in the coming 12 months, the President has developed a Furlough/Salary Reduction Plan, effective September 1, 2009, to generate savings of an estimated \$515.5 million of which \$184.1 million in General Funds savings can be utilized to offset the \$813.2 million State funding reduction.
- 6) The Plan, together with the Regentally approved student fee increases for FY 2008-09 (7 percent) and FY 2009-10 (9.3 percent) will partially provide the University with the ability to address the emergent fiscal conditions described above with the least impact possible to University operations.
- 7) The savings generated by the Plan combined with the student fee increases will not be sufficient to entirely address the State funding shortfall and further budgetary measures will still be required.
- 8) Steps have been taken and are being taken by the President and the Chancellors to reduce expenditures further, including continued reductions in the Office of the President, restructuring UC debt to achieve debt service savings in the next two fiscal years, severely curtailing faculty and staff hiring, eliminating positions and implementing lay-offs, closing and/or consolidating programs, reducing services on campus, and significantly restricting travel and purchasing.
- 9) In addition to the State appropriation reduction, the University is also facing an additional \$335 million budget gap over the next two year period due to increasing costs not funded

by the State, including previous years' increases in student enrollment, health benefit and utility cost increases; the gap is exacerbated by the fact that State has not fulfilled its obligation to fund its share of the employer contribution to URCP for FY 2009-10.

- 10) In recognition of the severity of the current State budget reduction and the fiscal constraints the State continues to confront, University leadership is taking immediate steps to convene a Task Force to focus on long term structural planning so as to determine more permanent solutions to the reduction in State appropriations for the University.
- 11) The proposed furlough/salary reduction Plan was developed through an extensive consultation process consistent with the requirements of Standing Order 100.4(qq).
- 12) The Plan adequately incorporates the principles of balance, fairness and consistency.

**WHEREFORE THE REGENTS DECLARE:**

Based on the above findings, and on the information provided in the written materials and oral presentations submitted at the meeting of the Regents on July 15, 2009, the Regents hereby Declare an Extreme Financial Emergency for the period September 1, 2009 through August 31, 2010, and authorize the President to implement the provisions of Standing Order 100.4(qq).

## **ATTACHMENT 3**

### **Furlough/Salary Reduction Plan July 16, 2009**

#### **I. Introduction**

This Furlough/Salary Reduction Plan (Plan) is submitted to the Regents pursuant to Standing Order 100.4(qq), to be added by amendment at the July 2009, Regents meeting. The Plan has been prepared under the procedures set forth in the Furlough/Salary Reduction Guidelines, a Presidential Policy to be implemented by the President following adoption of the Standing Order amendment. While the current Plan was prepared before the Guidelines had been formally adopted as policy, the University followed the draft Guidelines -- which are in substance the same as the Guidelines that have now been adopted -- as closely as possible under the circumstances in formulating the Plan.

#### **II. Plan Goals and Principles**

- The overall goal is to achieve payroll savings from General Funds of approximately \$184.1 million over the Plan period. (Total savings from all fund sources is projected to be \$515.5 million.)
- The Plan incorporates graduated furlough/salary reduction levels ranging from 4 percent to 10 percent so that higher compensated employees bear a relatively larger percentage of a reduction.
- The Plan protects employee retirement benefits (i.e., UCRP service credit and covered compensation) similar to the voluntary Staff and Academic Reduction in Time (START) Program (a voluntary reduction in time program).
- The Plan applies to as many UC employees as is legally permissible and operationally feasible.
- Flexibility on the use of furloughs is incorporated into the Plan to minimize disruption of essential services and work on campuses, the medical centers and the Office of the President.

#### **III. Applicable Term**

The Plan term is one year (12 consecutive months) for each Included Employees (defined below). In order to reprogram University payroll systems, the general Plan term will commence on September 1, 2009, and will run for 12 consecutive months thereafter. However, for equity and fairness as it is expected that every Included Employee will participate in the Plan for 12 consecutive months commencing from the first month the Plan is implemented as to that employee, some Included Employees will continue to participate whether or not the Emergency

Declaration period has been extended. By way of example, if, for reasons of collective bargaining or otherwise, an employee does not commence participation until November of 2009, the Plan would remain in effect for that employee for 12 consecutive months, through October of 2010, whether or not the Regents has renewed the Declaration of Extreme Financial Emergency.

#### **IV. Included/Excluded Employees**

The following employees are exempted from the Plan:

- Employees at the Lawrence Berkeley National Laboratory (LBNL) to the extent their compensation is funded pursuant to a contract with the U.S. Department of Energy, including Work for Others authorized by the Department of Energy, as the Department of Energy declined to approve an amendment to the Contract;
- Academic and staff employees whose Included Compensation as defined in the Plan is 100 percent funded from federal, state, other government or private contracts, grants or cooperative agreements, because salary savings from these employees must remain within the contract, grant or cooperative agreement, and thus cannot contribute to increasing campus general fund resources. (Academic and staff employees whose salaries are partially funded from federal, state, other government or private contracts, grants or cooperative agreements are included. However, the campuses, working with the Office of the President, will determine by October 15, 2009, whether the University's payroll systems and processes required to support the Plan can be modified such that, as to those employees, contract/grant funded salary can be prospectively excluded.)
- Student Employees, including postdoctoral, graduate and undergraduate employees, health sciences trainees and postdoctoral fellows, except where covered by collective bargaining agreement in recognition that their salaries help support their education and training;
- Foreign national employees working pursuant to H-type Visas in recognition that operational and administrative issues outweigh the small salary reduction savings for this group;
- Employees currently enrolled in the Staff and Academic Reduction in Time (START) Program (a voluntary reduction in time program) to the extent their voluntary reduction is maintained at a level equaling or exceeding the percent reduction for their respective pay band as set forth in Table 1;
- Employees whose participation is precluded by law. (Employees with contracts that cannot be changed unilaterally by the University will be asked for a voluntary salary reduction appropriate for their pay band.)

The Plan includes all other full and part-time University of California employees, including, but not limited to:

1. Non-Represented Staff;
2. Represented Staff (subject to obligations under the Higher Education Employer-Employee Relations Act);
3. Academic Senate Faculty;
4. Non-Senate Faculty;
5. Non-Senate Academics;
6. Members of the Health Sciences Compensation Plan Faculty;

With respect to represented staff, existing rights under law or contract will be used to implement the Plan. Where bargaining is required, the University will bargain in good faith so as to avoid implementing layoffs of employees to the greatest extent possible.

#### **V. Included Compensation Under the Plan**

Included Compensation subject to the Plan includes base pay, similar forms of regular pay and stipends, except as otherwise exempted, whether that income is derived from state funds, student fees, contracts, grants, cooperative agreements, auxiliary enterprises or other fund sources.

For Health Science Compensation Plan Faculty, their UCRP covered compensation -- X and X prime, but not the negotiated Y and Z -- will be reduced by the amount specified in Table 2(B), below.

#### **VI. Plan Features**

Included Employees will have their work time reduced by a specified number of furlough days to be taken throughout the Plan term as discretionary days off and/or during closure days, if any, as determined by their campus or location. The reductions will be calculated at the commencement of the Plan term and taken as a percent of salary such that Included Employees' pay will be reduced by the same percentage for each pay period during the Plan term.

In order to reprogram University payroll systems, the general Plan term will commence on September 1, 2009, and will run for 12 consecutive months thereafter. At the conclusion of the Plan term, all Included Employees' compensation will revert to its prior level.

The Plan is graduated such that the higher the Included Compensation of the employee, the greater the percentage of participation. Table 1 shows the participation level and effective salary reduction for all Included Employees except faculty. Tables 2(A) and 2(B) show the participation level and effective salary reduction for faculty.

**TABLE 1\***  
**Staff**

Salary Band	Compensation	Furlough -- Days Off	Total Equivalent Salary Reduction (Approximate)
1	<= \$40,000	11	4%
2	\$40,001-\$46,000	13	5%
3	\$46,001-\$60,000	16	6%
4	\$60,001-\$90,000	18	7%
5	\$90,001-\$180,000	21	8%
6	\$180,001-\$240,00	24	9%
7	>\$240,000	26	10%

\*All Senior Management Group (SMG) members will be provided only ten 10 furlough days regardless of their respective salary reduction level.

**TABLE 2(A)**  
**Academic Year Faculty**

Salary Band	Compensation	Furlough -- Days Off	Total Equivalent Salary Reduction (Approximate)
1	< =\$40,000	7	4%
2	\$40,001-\$46,000	9	5%
3	\$46,001-	10	6%

	\$60,000		
4	\$60,001- \$90,000	12	7%
5	\$90,001- \$180,000	14	8%
6	\$180,001- \$240,00	15	9%
7	>\$240,000	17	10%

**TABLE 2(B)**  
**Fiscal Year Faculty**

Salary Band	Compensation	Furlough -- Days Off	Total Equivalent Salary Reduction (Approximate)
1	<= \$40,000	10	4%
2	\$40,001- \$46,000	12	5%
3	\$46,001- \$60,000	14	6%
4	\$60,001- \$90,000	16	7%
5	\$90,001- \$180,000	19	8%
6	\$180,001- \$240,00	22	9%
7	>\$240,000	24	10%

**VII. Plan Implementation**

The Plan is created to achieve the greatest possible payroll savings while allowing necessary flexibility for the work force to minimize disruption of essential services and work throughout the Plan term. This is achieved through calculating the reduction at the commencement of the

Plan term, effectively as a percent pay reduction thus allowing Included Employees to be paid evenly through their pay periods throughout the Plan term. Included Employee pay will be reduced for the covered 12 month period per column 4 of Tables 1, 2(A) and 2(B).

The corresponding reduction in time (furlough days) will be reflected as time off days (column 3 of Tables 1, 2(A) and 2(B)). Some of the furlough days may be taken under a formal closure of a campus or Office of the President. Other days may be taken as floating days, subject to the individual's work schedule and supervisor's approval.

By way of example, an Included Employee (staff) is given 18 furlough days reflecting a seven percent salary reduction for the Plan term. Some of these 18 days may be used during formally scheduled furlough days that will be directed by a campus or the Office of the President throughout the year. The remaining days can be used at the employee's discretion as floating days off of work, subject to supervisor approval.

In order to ensure that essential services are not disrupted at the medical centers, the President may consider alternate plans from some or all of the medical centers for achieving the same level of savings. Senior Vice President Stobo will work closely with Medical Center Chief Executive Officers to ensure that the medical centers fully participate either through the Plan terms or through an alternate savings structure that may be determined to be less disruptive to clinical care.

### **VIII. Employees Participating in the START Program**

In May of 2008, to achieve salary savings, the Regents approved a voluntary staff reduction program, known as Staff and Academic Reduction in Time (START) Program, a temporary voluntary time reduction personnel program effective from July 1, 2008, through June 30, 2010. Subject to individual departmental approval to participate, all full-and part-time non-probationary career ("regular status") staff employees and academic appointees, except those in faculty and student academic titles and Postdoctoral Scholars, are eligible to volunteer to reduce their time. Participation in the START Program for represented employees is dependent upon agreement by the applicable union.

Employees who have elected voluntary reductions in time under the START program will only be affected if their percentage of time under START is less than the reduction required for their respective salary bands set forth in Tables 1 and 2(A) and (B). For example, if an employee in START currently has a five percent reduction in time, but is required to take a seven percent reduction under this Plan, the employee will receive an additional two percent reduction under the Plan.

Employees who voluntarily terminate START before the expiration of the Plan term will have their salary reduced under their respective salary band for the remainder of the Plan term following such termination. If START is not extended beyond its current termination date of June 30 2010, START participants will continue to have salaries and time reduced per their relevant pay band from July 1, 2010 through the Plan term.

## **IX. Protection of Employee UCRP Retirement Benefits**

For UCRP members impacted by a reduction in their rate of pay, the covered compensation used to calculate UCRP benefits, HAPC and Final Salary, may be negatively impacted. It is proposed to maintain members' pre-furlough/salary reduction rate of covered compensation so that their UCRP benefits are not negatively impacted by the furlough/salary reduction plan.

To protect a UCRP member's benefits from being negatively impacted from a loss of service credit, it is proposed to preserve the members' service credit accrual rate at the pre-furlough/salary reduction level. The proposed amendment to maintain the UCRP service credit accrual rate is similar to the UCRP amendment approved by the Regents for the voluntary START program. Similarly, for CalPERS members impacted by the State of California furlough program, a member's CalPERS benefit is not reduced by the reduction in time worked and the resulting reduction in pay.

While restoring members' UCRP benefits due to the impact of the Plan does not result in increasing benefits above what would otherwise have been expected, there are actuarial savings that would be foregone. The Regents' Consulting Actuary, The Segal Company (Segal), has evaluated the impact of the Plan on UCRP by estimating the actuarial impact that would occur if member's benefits are not restored. This "actuarial experience gain" is expressed as amount of Present Value of Benefits (PVB), which represents the discounted value as of a given date of the projected benefits expected to be paid over all future years. Segal has determined that if member's UCRP benefits are not restored, then the estimated effect on UCRP of the Plan occurring from September 1, 2009, through August 31, 2010, would be an actuarial experience gain that would reduce UCRP's PVB by an estimated \$100 million (0.2% of UCRP PVB).

Segal also determined that an estimated \$10 million less in UCRP employer and member contributions would be made from April 15, 2010 through August 31, 2010 as a result of the Plan. Those University employees who took a reduction in pay effective July 1, 2009 would be included in the proposal to maintain their rate of covered compensation so that their UCRP benefits are not negatively impacted.

## **X. Delegated Authority to Modify the Plan as Appropriate**

Given the breadth and scope of this Plan and the very short time for its planning and implementation, it is recognized that issues may arise -- legal, operational, or otherwise -- that may require alterations or changes to the Plan during the Plan term. The President proposes that the Regents expressly delegate authority to the President to make Plan alterations and changes, consistent with the Plan principles (Attachment 3(II)), as may be required for its implementation, during the Plan period.