

## Office of the President

### TO MEMBERS OF THE COMMITTEE ON FINANCE:

#### DISCUSSION ITEM

*For Meeting of March 19, 2009*

### REPORT ON CAMPUS BUDGET REDUCTION STRATEGIES

The State is in the midst of a fiscal crisis – the second in a decade – that is unprecedented in magnitude and is likely to continue beyond this fiscal year. In October, when The Regents adopted a revised budget plan for the current year following deliberations on the latest State budget in history, the University’s budget for 2008-09 was \$48.7 million less than the State General Fund budget for the previous year and included a post-budget act cut of \$33.1 million to the University’s budget. At that time, it was noted that with mandatory cost increases included, the University would need to redirect a total of \$148.7 million from existing resources to address the budgetary shortfall.

Since that time, the Governor called a Special Session of the Legislature to deal with the worsening effects of the global economic downturn and its impact on the State’s ability to meet basic cash flow needs. In the Special Session, the University received an additional budget reduction of \$65.1 million in the current year. For 2009-10, the University received a restoration of the \$33.1 million reduction, but, the \$65.1 million reduction was continued into 2009-10 from the prior fiscal year, along with an additional reduction of \$50 million. The result is a total reduction of \$115 million for the coming year. In all, given these base budget cuts and unfunded mandatory cost increases, the University is contending with a \$450 million shortfall over a two-year period. Notably, the approved State budget reflected student fee increases for 2009-10 of 9.3 percent.

In an effort to address the budgetary constraints imposed by these reductions, the President and the Regents have taken tangible steps to reduce expenditures from a systemwide perspective. These measures include curtailing first-time undergraduate enrollment by 2,300 students; freezing salaries for members of the University’s Senior Management Group (SMG); and, cancelling bonuses programs for all SMG and non-SMG individuals earning more than \$100,000. At the same time, in an effort to maintain access to the University, the President proposed and The Regents approved the Blue and Gold Opportunity Plan to ensure that financially needy students from families of an annual income of \$60,000 or less will receive full financial assistance for all University systemwide fees. The enrollment target for community college transfer students for 2009-10 was also increased by 500 students.

As these steps were being taken at a systemwide level, the campuses have been taking actions to reduce expenditures to address budget shortfalls and unfunded mandatory cost increases totaling

\$228 million. This item is intended to provide the Board with information on the strategies being employed by the campuses to address budget shortfalls both now and in the near term.

### **Campus Budget Meetings**

As the State budget negotiations were proceeding, President Yudof conducted discussions during the month of January with the leadership on each campus to obtain a better understanding of the approaches the campuses were using to absorb these budget reductions. For these meetings, the President requested each campus to set forth its short and long term strategies to address the budget shortfalls in the current and next fiscal year. The President expressed his desire to avoid across-the-board reductions, preferring that each campus take a strategic approach to ensure that the reductions were imposed on an appropriate differential basis that reflected campus priorities. The President further requested, to the greatest extent possible, that the campuses preserve the core academic programs and student services in targeting budget reductions.

During these sessions, certain themes arose. While each campus is distinct in its character as well as its fiscal situation, all campuses are approaching the issues with thorough consultation and deliberation. Most campuses are taking temporary measures in the current fiscal year through the use of some reserves, vacancy control measures, and other steps, while they plan for permanent cuts through a more deliberative process. Every campus expressed a firm commitment to protecting quality, access, and as much as possible the academic and student service programs. Further, each campus is setting priorities that over the next several years will advance those initiatives that continue to be important to the development of the institution while eliminating or curtailing programs that no longer serve the identified priorities of the campus. While using different approaches, campuses have embraced a process for identifying and eliminating redundancy and for avoiding across-the-board solutions to budget shortfalls.

Campuses have provided brief outlines of actions being undertaken to address budget shortfalls, which are attached to this item. While not necessarily exhaustive, these outlines and the summary information below provide a solid demonstration of the thoughtful approaches being undertaken and the kinds of actions either underway or being developed to aid the campus through this financial crisis.

### **Campus Actions to Address Budget Shortfalls**

Below is a brief list summarizing the various categories of actions campuses have taken or are planning for the coming months.

Consolidation/Elimination of Programs – All campuses have advised that they are looking for opportunities to consolidate units and reduce duplication. For example, most campuses report consolidation efforts around Institutional Technology (IT) improvements. Berkeley estimates potential savings of \$6 - 7 million from such an effort. Some campuses reported elimination of programs where it is clear the program is undersubscribed or no longer serving a campus priority. For example, the Irvine campus reported closing two programs, Environmental Health Sciences, and Policy and Environmental Medicine. The Santa Cruz campus reported closing its Institute on Science for Global Policy. The Berkeley campus reported that it withdrew central

funding from one of its research centers and is in the process of evaluating the elimination of a deanship. The San Diego campus has begun consolidations of the Medical Group Financial Reporting office with the Controller's unit, a merger of Communications with Marketing units, and consolidation of its Health Sciences Planning unit with the Capital Planning and Space Management unit. The Santa Barbara campus intends to combine shops that serve a variety of departments where to date each department has had its own shop.

Differential Budget Cuts – Each campus has a consultative process to determine cuts to programs, but each has a slightly different way of determining the level of cut to individual departments. All campuses have treated academic programs more favorably than administrative programs. Some campuses assign a targeted cut to all departments and then increase that reduction disproportionately for some units in order to protect others. Other campuses have asked departments to provide scenarios for cuts at various levels and then a central review process is used to determine which level is to be implemented. For example, all campuses reported they had made graduate student support a priority. Some campuses, however, reported reducing the number of TA positions and elimination of other optional campus positions generally filled by students.

Slowing Down or Halting Initiatives – Several campuses are in the midst of major initiatives or were poised to launch new programs. For example, the Irvine campus is making more cuts elsewhere in its budget in order to continue development of its law school. At the same time, it is slowing its development of nursing, pharmaceutical sciences, and public health programs. Riverside is looking at alternatives to State support for start-up funding for its Medical School and has halted its external search for a Dean of Public Policy, instead choosing to look internally and to slow down the planning for this new program. The Merced campus notes that it has curtailed leasing of administrative space in Merced and instead is re-organizing existing space on the campus and at its Fresno facility to house staff. San Francisco reports it is deferring initiatives related to IT, a research data base, a web portal, child care expansion, renovations, etc.

Layoffs – Most, but not all, campuses reported they have instituted layoffs or will do so in the near term. All campuses expressed a priority in achieving savings primarily through retirement and natural attrition. During campus discussions, President Yudof encouraged campuses to think strategically about which programs/activities need to be retained and which are not performing as well and thus should be curtailed or eliminated. In such a process, some layoffs are inevitable.

Hiring Freezes (staff) – All campuses have some form of hiring freeze in place, although some are more strictly controlled at the central level (generally the smaller campuses) while others are determined at the departmental or college level (generally the larger campuses). In some instances, the unfilled position is “swept” centrally and thus lost permanently. In other instances, the position may simply remain in the department with no authority to recruit. For example, Davis reports eliminating 6 senior management positions and downgrading several mid-level manager positions to staff positions. During these discussions, President Yudof expressed the strong preference that some form of central control over decisions to fill vacancies was preferable in order to ensure consistency of approach and to better reflect campus needs and priorities.

Faculty Recruitment – All campuses have cut back on the number of faculty recruitments, in many cases by 50 percent or more. This is true despite the fact that several campuses have continued to enroll growing numbers of students. Campuses have different ways of determining which recruitments move forward. For example, at Berkeley, academic units would normally be conducting 85 searches, but it is limiting the number to 25 in the current year. A committee reviews requests and only those departments with the largest gaps and the most convincing need for new or replacement faculty are being permitted to recruit. As with staff hiring, the President expressed the preference for some form of central control and coordination of faculty recruitment decisions to ensure consistency of approach and vision.

Furloughs – Some campuses raised the possibility of furloughs of staff and faculty; however, as discussed further below, it was determined that systemwide policies needed to be reviewed to determine what options were available in this area.

Assessments against auxiliaries and other non-state funded budgets – All campuses impose upon auxiliaries some level of assessment to help defray the overall campus infrastructure. Many campuses are reviewing this assessment to ensure auxiliaries are paying their fair share, and most are considering increasing this assessment to some degree.

Utilities – Five of the campuses have been experiencing chronic shortfalls in budgets for purchased utilities and are contending with years of cumulative deficits at the same time as they are dealing with the major shortfalls all are experiencing. These deficits make the fiscal challenges on these campuses much harder. Some campuses have more favorable arrangements with their service providers and so are not struggling as seriously as those with unfavorable arrangements. All campuses find this to be a challenge and are taking steps to reduce energy costs. For example, at Davis, the administration replaced all the refrigerators in their science labs with more energy efficient models; it projects that the new refrigerators will pay for themselves in savings within 3 years. Los Angeles is replacing its HVAC systems at an estimated savings of \$4 - 6 million per year, with payback for this initiative estimated within 4 years. San Francisco made a number of building HVAC and de-ionized water systems equipment changes to two of the new science buildings at Mission Bay to reduce its annual utilities costs by over \$400,000 per year. Each campus has several projects slated for implementation through the systemwide Energy Partnership Program.

Travel – All campuses reported severe cutbacks in travel.

### **Issues Raised During Campus Discussion that Should be Considered for Systemwide Direction**

Several suggestions for saving money or avoiding future cost increases arose from the budget discussions with the campuses. Below is a list of those that are receiving active attention in the Office of the President and on the campuses.

**Graduate student support** – Increasing support for graduate students has been a high priority for The Regents for many years. UC has made progress recently, adding \$30 million in new

funding from within Compact funds and at least \$10 million in matching funds from the campuses over the last three years. However, during this time of fiscal crisis, it may not be possible to continue to increase the amount of funding for this purpose. Further progress on this vital issue may need to be deferred.

**Merced** – Merced, which opened its doors as a full-fledged campus in 2004-05, has planned to grow by 650 students per year, with an expectation of reaching “critical mass” of 5,000 students in 2013-14. In this period of inadequate funding from the State, it is critical that Merced stay on a path to maintain its momentum and increase its funding to match its ongoing development of its academic program. In 2008-09, keeping the campus on track required that funds be redistributed from the other 8 general campuses to support enrollment of the new cohort of students. The President has determined that the savings scheduled in the Office of the President for 2009-10 will provide a funding source for Merced’s needs in the next fiscal year.

**Restructure the retirement system** – Much of the budgetary pressures campuses will face in the coming years is associated with funding needed to restart employer contributions to the retirement system. While the Special Session budget recently enacted for 2009-10 did not include the State’s share of the employer contribution as proposed in the Governor’s budget, the University will continue to urge the State to recognize its obligation to the University on this matter. Many of the campuses underscored the fact that a wide variety of other campus fund sources that support University operations, such as research grants, auxiliaries, and teaching hospitals, will also need to bear this cost in the coming years, imposing significant burdens on those operations.

**Retiree health benefits** – The rising costs associated with retiree health benefits also are having a significant impact on campus budgets. Several campuses suggested that options for restructuring these benefits to avoid dramatic increases in future years must be examined and they were encouraged by the President’s establishment of a Task Force to examine all post-employment benefits, including retiree health benefits.

**Furloughs** – As noted earlier, some discussion was held about the advantages and disadvantages of furloughs, should some form of pay reductions become necessary. While there are strong points to be made on both sides of the issue, the majority of campuses felt that if such a strategy were to be pursued, it would require a clear systemwide policy for each campus to follow. The President has directed Executive Vice President Lapp and General Counsel Robinson to review and, if necessary, propose revisions of relevant standing orders and/or policies governing the use of furloughs in the event such an action is required. Drafts of the revised policies will be shared with the appropriate faculty and employee groups. Needless to say, thorough consultation will take place before implementing such a strategy.

**IT fee** – Because of the enormous need on the campuses to support the upgrade and expansion of information technology infrastructure, many campuses have suggested consideration of a new IT fee that all students would pay at the time of registration.

**Build more regional and/or systemwide administrative systems** – There are several “shared services” options under review to save considerable dollars by consolidating data centers or

computing system needs either regionally or systemwide. Campuses expressed support for the initiative approved by President Yudof and being facilitated by Associate Vice President Ernst to create a data center at San Diego to support both administrative and research computing needs of other campuses, thereby reducing costs and reducing space demands on those campuses.

### **Conclusion**

It is clear from the budget discussions that the campuses are struggling with significant fiscal challenges that all agree are multi-year in nature and will require innovative planning and a strategic implementation process. Difficult choices will need to be made. Every campus is being thoughtful, consultative, and as transparent as possible during this process. It is also evident from these meetings that UC is a strong system comprised of campuses with a deep sense of common values and a strong commitment to service for the people of California.

(Attachments)