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October 14, 2008

THE REGENTS OF THE UNIVERSITY OF CALIFORNIA

Last week, I conducted a conference call with all of the Chancellors advising them of the real potential for mid-year budget reductions from the State in light of the recent turmoil in the stock market, both nationally and internationally. On Friday, we received word from the State that the Governor was imposing mid-year reductions totalling \$190 million across all State agencies. We have been advised that UC's share of the reduction is \$33.1 million.

Enclosed is a letter I sent to the Chancellors yesterday advising them of this reduction, which is over and above those already scheduled for 2008/09, totaling \$115.7 million. As my letter indicates, it is expected that further reductions in State funding could occur over the next two years and, as such, I have asked that each campus pursue systemic long-term cost cutting measures to ensure that we are in the best possible position to weather the next few years.

Please feel free to get in touch with me or Executive Vice President Katherine Lapp if you wish to discuss this matter further.

With best wishes, I am,

Sincerely yours,

Mark G. Yudof
President

Enclosure

cc: Chancellors

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CHANCELLOR'S OFFICE
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From: Mark G. Yudof

Sent: Monday, October 13, 2008 6:18 PM

To: 'Anne Demarie'; 'Cheryl Dent'; 'Cindy Contreras'; 'Dawn Scherer'; 'Gene Block'; 'George Blumenthal'; 'Henry Yang'; 'J. Michael Bishop'; 'Jessica Darin'; 'Larry Vanderhoef (UC Davis)'; 'Mary Ann Fox'; 'Maurene Catto'; 'Mei-Mel Hong'; 'Michael Drake'; 'Robert Birgeneau'; 'Sharon Carmen'; 'Shirley Quintana'; 'Steve Kang'; 'tim.white@ucr.edu'; Janet Young

Cc: Steven Beckwith; Marie Berggren; Anne Broome; Mary Croughan; Bruce DarlIng; Dan Dooley; 'Bob.Foley@ucop.edu'; Daniel Greenstein; Robert Grey; Diane Griffiths; Alan Hoffman; Katherine Lapp; Patrick Lenz; Charles Robinson; John Sandbrook; Judy Sakaki; John Stobo; Sheryl Vacca; Debora Obley

Subject: Budget Reductions

Importance: High

October 13, 2008

CHANCELLORS

Dear Colleagues:

We discussed last week the potential for mid-year cuts to our State budget and the need to take immediate steps to constrain spending. The attached letter we received Friday from high level staff in the Governor's Office indicates their expectation that, while savings of \$200 million are expected to occur because of actions they have taken to reduce State costs, further reductions are necessary. Further, they expect all State agencies to share in an effort to reduce expenditures by another \$190 million. The Department of Finance has informed us that the University's share of this cut is \$33.1 million.

These cuts are in addition to other actions on the budget that were already anticipated. We will be transmitting final allocations to the campuses in the next couple of weeks, following The Regents' approval of a final 2008-09 budget plan at a special meeting of the Board (still being scheduled); each campus' share of the mid-year reduction will be included in that communication, along with information on the funding shortfalls and/or cuts already planned. It is my intention to allocate the cut proportionally, based on adjusted General Fund budgets. You will have flexibility in determining how to address this cut. I ask, however, that reductions in instructional programs be avoided whenever possible and that we continue to protect the funding for Student Academic Preparation and Education Programs. Below is a list of the kinds of actions you should consider:

- Hiring freeze – where possible, leave unfilled non-faculty positions open and do not create new positions;
- Travel – curtail non-essential travel; use video conferencing, conference calls for essential meetings;
- Leased facilities – reduce amount of space leases;
- Consulting contracts – limit consulting contracts to only those required for essential services;
- Equipment – defer purchasing equipment not critical to academic programs;

- Energy – many efforts are already underway, but more can be done to save energy costs;
- START – encourage employees to take advantage of programs to reduce their compensated time to less than 100%, where feasible;
- Efficiencies – evaluate business practices to eliminate non-essential activities (for example, scanning documents and sending by e-mail rather than by hard copy, reducing the number of University-paid cell phones, etc.)

These measures will obviously be helpful in addressing the \$33.1 million reduction in the short term for the foreseeable future; however, it is evident that the turmoil in the international and national equity, housing, and credit markets will cause continuing erosion in the State's economy. As such, we must view this recent action by the Department of Finance as just the beginning of potential further reductions this year and/or next year. It is essential that we take a systemic, long-range approach that seeks permanent cost cutting measures, thereby placing UC in the best possible position to weather the next several years. Campuses should be looking at all options for deferring costly new programs and for consolidating or eliminating existing programs that are high cost yet undersubscribed.

I am directing Executive Vice President Lapp and Vice President Lenz to work with each campus to develop a plan for addressing its share of the \$33.1 million mid-year reduction and to outline general actions each campus is considering to address the longer, multi-year fiscal constraints with which we are likely to be contending. Plans for the short-term reduction should be developed two weeks following receipt of your final allocation letter; outlines for further actions each campus believes may be anticipated to address the longer term problem should be completed by November 13, 2008. In addition, Executive Vice President Lapp and I plan to have in-depth conversations with each campus over the next several months to understand the budget priorities and trade-offs under consideration as part of this cost-saving effort.

The University of California is a great university that has endured many difficult times in the past. We will do so again. I urge you to consider these actions as a way of preserving the quality of this institution for future generations.

Sincerely yours,

Mark G. Yudof
President

Attachment

cc: President's Cabinet
Associate Vice President Obley



OFFICE OF THE GOVERNOR

TO: Agency Secretaries, Agency Undersecretaries

FROM: Dan Dunmoyer, Cabinet Secretary, Office of the Governor
Victoria Bradshaw, Secretary of Labor and Workforce
Development Agency
Mike Genest, Director, Department of Finance

SUBJECT: Continuation of Spending Constraints Under
Executive Order S-09-08

DATE: October 9, 2008

Although the enacted 2008-09 state budget is balanced and has a modest reserve, the state's persistent structural deficit and significant uncertainties in the economy require us to work together to contain spending to the maximum extent possible.

General Fund Savings

The Governor has directed that Executive Order S-09-08—freezing personnel and personal services expenses—be continued through the 2008-09 fiscal year. The statewide General Fund (GF) savings that will be attained, as a result, total \$340 million. Control Section 4.07 of the Budget Act requires that state entities achieve a GF savings of \$50 million statewide. Taken together, the EO and budget provision necessitate that entities of state government funded from the GF reduce expenditures by \$390 million from their 2008-09 appropriations.

We anticipate that \$200 million in this GF savings will be achieved in the course of business—lower-than-anticipated costs or delays in planned expenditures, for example. However, agencies must achieve \$190 million in GF savings through reductions in state operations budgets. Every agency that receives GF dollars will be responsible for a proportionate reduction. The proportionate shares as computed by the Department of Finance will be provided to agency Secretaries, Undersecretaries and Cabinet-level Department directors by close of business October 10, 2008.

These reductions will implement the just-signed 2008-09 budget. However, our current revenue shortfalls present additional challenges, and it is possible that additional savings will need to be achieved in the future. These additional savings will be achieved, if needed, through specific program changes and other savings proposals—not through additional unallocated reductions.

Executive Order Compliance

While Executive Order S-09-08, in combination with the delay in enacting the budget, has produced significant budgetary and cash savings, it imposes administrative challenges. In an effort to provide you with increased administrative flexibility and to focus on achieving GF budgetary savings, an alternative means of complying with the EO is authorized.

Alternative Compliance for General Fund Agencies: All agencies that receive GF dollars can be in compliance with the EO by providing a letter to Cabinet and Finance stating (1) a statement of need that continuation of the specific actions outlined in the EO will impair mission critical functions and (2) that the Agency is committed and able to attain its proportionate share of \$190 million of GF state operations savings noted above. These should be submitted to Cabinet and Finance no later than Tuesday, October 14.

Alternative Compliance for Non-General Fund Agencies: Agencies that receive no GF dollars, and thus do not have a proportionate savings share, can be in compliance with the EO by providing a letter to Cabinet and Finance certifying that no GF dollars are utilized and thus no savings share is required. This letter should be submitted to Cabinet and Finance no later than Tuesday, October 14.

No agency is required to seek an exemption from the Executive Order.

Reporting Requirements

Agencies and non-agency departments that have a proportionate share of \$190 million of GF state operations savings noted above must provide a monthly report of the cumulative savings using forms that will be provided by Finance. These forms are due to Cabinet and Finance on the last day of each calendar month.

As you pursue efforts to reduce current year costs, it is prudent to focus on reductions that could become permanent if possible. It is expected that the identified savings level will be achieved by targeting non-mission-critical GF activities, including but not limited to the following actions, to the extent practical without impairing mission-critical services and functions:

- Freezing hiring.
- Reducing or eliminating overtime.
- Reducing, cancelling, disencumbering or postponing contracts or agreements to lease or purchase equipment.
- Reducing, cancelling, disencumbering or postponing other contracts or agreements for including those for personal and consulting services.
- Reducing travel costs by cancelling or postponing discretionary travel for seminars, conferences or training; restricting the size of agency, department, division and unit meetings that require travel to essential participants only; using video conferencing and teleconferencing; and scheduling meetings at locations at or near headquarters offices.

No Growth Policy for 2009-10 Budget

Finance previously issued Budget Letter 08-23 articulating the policy for preparing the 2009-10 Governor's Budget. The central feature of this policy is that total statewide GF expenditures will not increase in 2009-10 over 2008-09. Some cost increases, however, cannot be contained and will need to be paid (e.g., debt service). This means that some other costs will have to be reduced to maintain the policy of no increase in total GF expenditures year over year.

We appreciate the challenges you face in providing public services during these difficult financial times, and we thank you for your ongoing efforts to serve the Governor and the people of California.