

Office of the President

TO MEMBERS OF THE COMMITTEES ON FINANCE AND COMPENSATION:

ACTION ITEM

For Meeting of July 15, 2009

RECOMMENDATION FOR DECLARATION OF FINANCIAL EMERGENCY AND APPROVAL OF BUDGET REDUCTION ACTIONS

RECOMMENDATION

The President recommends that the Committees on Finance and Compensation recommend to the Regents 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:

- Issue a Declaration of Extreme Financial Emergency, effective September 1, 2009 to August 31, 2010, in the form attached hereto as Attachment A, based on the findings set forth therein;
- Approve a Furlough/Salary Reduction Plan (“Plan”) developed by the President to address the emergency, as set forth in Attachment B;
- 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;
- 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.

BACKGROUND

Introduction

The University is facing a financial crisis unprecedented in at least the past quarter century. The Governor and Legislature have proposed a cut to the University's State appropriation by \$813.2 million for FY 2008-09 and FY 2009-10. For FY 2009-10, the cut represents a 20 percent reduction from FY 2007-08 levels. Unless immediate action is taken, the University will be unable to fulfill its tripartite mission in a manner consistent with past practices. Following extensive consultation with the University community, the President has developed a Plan to assist in addressing a portion of the shortfall and to assure that the University will continue to fulfill its mission, albeit at a reduced level of service. The Plan is predicated on the proposed newly amended Standing Order 100.4 (qq), Duties of the President, which, among other things, authorizes a request to the Board of Regents for a Declaration of Extreme Financial Emergency, based on findings of sufficient cause. (Item J1) Based on the Standing Order framework and for reasons further discussed below, the President hereby requests an emergency declaration and approval of the Plan.

This Item is organized as follows:

- Section I. Summarizes the procedural and substantive requirements for a Declaration of Extreme Financial Emergency, the requirements of which are described more fully in Item J1;
- Section II. Describes the emergent financial circumstances underlying the President's request for a Declaration of Extreme Financial Emergency and provides the factual basis for the set of findings that are contained in the Declaration, attached as Attachment A;
- Section III. Describes the Plan the President proposes to implement following approval by the Regents. The Plan is set forth in Attachment B;
- Section IV. Summarizes the process undertaken to develop the request for the Declaration of Extreme Financial Emergency and the Plan;
- Section V. Sets forth the President's request that the Regents protect employee UCRP retirement benefits that would otherwise be adversely impacted by the Plan.

SECTION I : *Requirements for Emergency Declaration and Plan Approval*

The amended Standing Order 100.4 and the President's Furlough/Salary Reduction Guidelines set forth a comprehensive framework for the President to request issuance of a Declaration of Extreme Financial Emergency and approval of a furlough/salary reduction plan to implement furloughs and/or salary reductions. Though the framework is only now being brought to the Regents for approval, the President believed it prudent that the requirements specified therein be applied to the current request, such that any actions ultimately undertaken would be widely

viewed to be the product of a full and fair process—this objective is particularly important given the scale and scope of the proposed actions, believed to be unprecedented in the history of the University.

Briefly summarized (further details are available in Item J1), these requirements dictate that the following information be presented to the Regents in support of an emergency declaration request:

- A description of the emergency conditions, the impact of those conditions on University operations, the expected duration of the conditions;
- A summary of a plan for furloughs/salary reductions and a description of the expected outcome of the plan;
- A showing that the conditions meet the definition of extreme financial emergency in the Standing Order;
- A showing that notice requirements to various University officials has been met.

The framework further dictates that the following information be addressed in any plan:

- Importance and appropriateness of the plan relative to the emergency conditions;
- Its fairness and consistency;
- Operational considerations;
- Other measures taken to reduce costs;
- Guidance from the President to facilitate fairness.

Finally, the framework requires that the President pursue the following process before presenting a request to the Regents:

- Appointment of a Planning Committee or Task Force;
- Development of working drafts;
- Analysis and review by designated experts (e.g. HR, finance, legal);
- Consultation with Chancellors, the Academic Senate, Non-Senate Faculty, and Represented and Non-represented staff.

As discussed below, with minor exceptions, the requests submitted herein meet all of the foregoing requirements.

SECTION II: *Emergency Declaration Request*

Description of Emergency Conditions/Impact/Duration

The State budget cuts for the University by the Governor and the Legislature for FY 2008-09 and FY 2009-10 are unprecedented both in size and in the limited time in which they must be absorbed. In May 2009, following the defeat of the ballot measures intended to provide budget relief to the State, the Governor proposed a revised budget for the balance of FY 2008-09 and for FY 2009-10 which imposes significant new State funding reductions for UC.

For FY 2008-09, the Governor's revised budget proposed a combination of one-time and permanent State funding reductions totaling \$816.1 million, \$640 million of which is offset by the allocation of federal economic stimulus monies (American Recovery and Reinvestment Act [ARRA]), resulting in a net funding shortfall of State funds in FY2008-09 of \$176.1 million.

For FY 2009-10, the Governor's revised budget proposed a State funding reduction of \$619.3 million. Following review of the Governor's revised budget, the Legislature's Conference Committee proposed an additional reduction of \$17.8 million, increasing the FY 2009-10 reduction to \$637.1 million.

The State funding shortfalls for FY2008-09 and FY 2009-10 total \$813.2 million. In all, these reductions represent a 20 percent decline in State funding for the University in FY 2009-10 as compared to FY 2007-08 levels.

This level of funding cuts over this short period of time is unprecedented in at least the past quarter century. The reductions in the early 1990s that led to salary reductions at the University were \$341 million, or 16 percent over three years (1991-92 to 1993-94). The reductions in the early 2000s were \$624 million, or 19 percent, again over three years (2002-03 to 2004-05).

Student fee increases approved by the Regents for FY 2008-09 and FY 2009-10 will generate an estimated \$211 million, providing relief for only one-fourth of the State budget reduction. The balance of the reduction will be addressed by a variety of actions, including the proposed Furlough/Salary Reduction Plan, further reductions at the Office of the President, savings generated by restructuring of a portion of the University's debt, and significant additional budget actions at the campuses.

It is significant to note that pending final action on the State budget, the State's fiscal situation continues to worsen. On July 1, 2009, Governor Schwarzenegger declared that a fiscal emergency exists in the State of California and that the nature of the fiscal emergency is the "projected budget imbalance and insufficient cash reserves for Fiscal Year 2009-10 and the projected insufficient cash reserves and potential budgetary deficit in Fiscal Year 2010-11 which are anticipated to result from the dramatically lower than estimated General Fund revenues in Fiscal Years 2008-09 and 2009-10."

While the ultimate scope and duration of these reductions for the University is unknown, given current economic forecasts, the cuts are expected to last at least through the end of the requested Declaration period (August 31, 2010).

Without immediate action, the University's ability to operate and meet its academic mission is at risk. Student fees have already been increased by 9.3 percent for FY 2009-10 by the Regents at their meeting in May 2009. Enrollment for the upcoming year has already been reduced by 2,300 first-time freshman. Significant other budget actions, including salary freezes, reduced hiring, lay-offs, program closures/consolidations and similar measures have and are being taken simultaneously. Enrollment reductions, which could diminish the University's ability to meet its historic Master Plan commitment to admitting from the top one-eighth of the state's high school graduates, will only alleviate the University's budget shortfall when expenses are lowered in response to fewer students. Since expenses are predominantly for salaries, reducing the number of faculty and staff and/or lowering their salaries will be required, and this likely will translate to fewer and narrower course offerings, larger class sizes, and longer time-to-degree for students unable to enroll in courses needed for graduation. Reducing faculty numbers will also adversely affect the University's research enterprise, leading to unrealized federal and private funding, fewer jobs for professional researchers and graduate students, and reduced research productivity, discovery, and innovation, which in turn will have negative impacts on the state and its economy.

It is important to reiterate that on top of the actual cut in State funding described above, the University faces an additional gap of \$335 million over the two-year period for increasing costs that have not been funded by the State, including previous years' increases in overall student enrollments, health benefit costs and utility costs. All of these costs are also being absorbed by the University along with the State appropriation reduction of \$813.2 million. In addition, the State has not fulfilled its obligation to fund an employer contribution to UCRP for FY 2009-10.

The proposed Plan is expected to generate an estimated \$184.1 million in General Funds (\$515.5 million in total from all fund sources) to assist in absorbing the State budget reduction. Without the Plan, the reductions in campus operations and at the Office of the President would become draconian.

These Conditions Constitute "Extreme Financial Emergency"

The foregoing circumstances meet the definition of an "Extreme Financial Emergency" within the Standing Order warranting the requested Regental Declaration. The proposed State budget cuts clearly constitute an event creating an imminent and substantial deficiency in funding -- a drop in the state budget appropriation is specifically cited in the Standing Order as such an event. **The proposed State funding reflects a roughly 20 percent reduction in the University's General Fund budget which must be absorbed in one fiscal year.** As indicated above, the approved student fee increases for FY 2008-09 (7 percent) and FY 2009-10 (9.3 percent) will assist in offsetting approximately a quarter of the reduction. The balance of the funding shortfall must be addressed through substantial reductions in campus operations, staffing and services.

Written Notice to Designated Officials

Pursuant to the Standing Order, on July 10, 2009, the President caused a copy of this document—which presents all of the requisite information -- to be delivered to all officials identified in the Standing Order.

SECTION III: *Furlough/Salary Reduction Plan*

Plan Summary

Faculty and staff covered by this Plan will have their salaries reduced by the proposed graduated percentages for their respective pay bands and will be provided a specified number of furlough days over the term of the Plan commensurate with their salary reduction to be taken throughout the Plan term. Senior Management Group employees will have their furlough day allocation capped at 10 days regardless of their respective salary reduction. In order to reprogram University payroll systems, the Plan term will commence on September 1, 2009, and will run for 12 consecutive months thereafter.

Campuses and University locations will be provided flexibility to determine at the Plan's onset whether all or some of the furlough days will be designated closure days. Reductions in time worked 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. This Plan feature was added based on feedback received during the consultation process. At the conclusion of the Plan term, unless extended by the Regents, all Included Employees' compensation will revert to its prior level.

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.

The Plan incorporates a graduated increase in salary reductions across pay bands (4 percent to 10 percent) such that the higher the 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 academic year faculty and fiscal year faculty respectively.

**TABLE 1*
Staff**

Salary Band	Annual 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 10 furlough days regardless of their respective salary reduction level.

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

Salary Band	Annual Compensation	Furlough -- Days Off	Total Equivalent Salary Reduction (Approximate)
1	<= \$40,000	7	4%
2	\$40,001-\$46,000	9	5%
3	\$46,001-\$60,000	10	6%

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	Annual 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%

The overall goal of the Plan is to achieve an estimated \$184.1 million in payroll savings from General Funds over the Plan term. Total savings from all fund sources is projected to be \$515.5 million. While some projected savings under the Plan comes from a time reduction in

funded research projects or grants, those savings remain within the grant or contract. Some other non-state-funded salary savings, such as in summer instructional efforts and income from auxiliary enterprises, can be used to supplement campus general budgets. However, as referenced above, all of these University fund sources are also required to absorb cost increases related to utility expenses and benefits costs. Also significantly, pursuant to Regental directive, employer contributions to UCRP will commence on April 15, 2010.

The savings generated by the medical centers will allow them to address the need to fund the recent collective bargaining agreements, which are not paid for by the State and must be paid for from operating income. In addition, the savings will assist the medical centers in preparing to fund their share of the contributions to the UC Retirement Plan commencing in April, 2010. For the medical centers alone, this expense will be well over \$200 million per year, is not state funded, and must be paid from medical center revenue, and would completely erase the current year's projected margin. In addition to these cost pressures, the University's medical centers will be facing potential revenue shortfalls due to the economy and changes in the state and federal budget landscapes. Notably, the Medical Centers are concerned about adverse impacts from the suggested changes in the Medi-Cal program being discussed by the State (\$20 million was cut in FY 2008-09 alone) and the proposed health care reform efforts being discussed at the national level.

As described in Attachment B, a proposed element of The Plan is to protect employee UCRP retirement benefits by preserving 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. The Plan proposes to maintain members' pre-furlough/salary reduction rate of covered compensation, so that an employee's Highest Average Plan Compensation (HAPC) and Final Salary, used to calculate UCRP benefits, are not negatively impacted. In addition, for those members who would be negatively impacted from the loss of service credit, The Plan proposes to preserve members' service credit accrual rate at the pre-furlough/salary reduction level.

For fairness and equity, the Plan applies to as many University faculty and staff as is legally permissible and operationally feasible. As described in detail below, certain categories of staff and faculty will be exempted from the Plan.

With respect to furlough days, flexibility is built into the Plan to minimize disruption of essential services and work on campuses and at the Office of the President.

Rationale

The budget gap cannot be closed without action to reduce payroll – over 70 percent of the University's operating budget consists of payroll costs. The Plan is designed to generate \$184.1 million in General Funds (\$515.5 million total from all funds) — accordingly, the Plan bears a rational relationship to the cause of the emergency. The Plan is designed to be temporary and can be readily reversed at the conclusion of the Declaration period or emergency. In addition, while the Plan is necessarily disruptive for employees, other actions such as the level of layoffs needed to generate a similar savings would result in greater disruption.

The Plan also provides University leadership sufficient time to determine how the entirety of the State funding shortfall can be addressed through more permanent actions once the Plan expires. Thus, as described in further detail below, while other cost reduction actions have been taken and are being taken at the Office of the President and the campuses, those actions alone cannot close the gap in less than 12 months. Notably, the General Funds savings projected to result from this Plan will not resolve the totality of the University's State funding shortfall; rather, as with the student fee increases, it will help address roughly 25 percent of the reduction. As such, the balance of the State shortfall will require significant additional budgetary actions at the Office of the President and the campuses.

While the Plan meets the budgetary challenges, it also potentially diminishes the University's competitiveness with respect to retention of its critical faculty and staff. While other private and public higher education institutions are similarly suffering financially, California's budget circumstance is more acute than in other states such that competitors may recover more quickly than the University. As such, the President recognizes that for the University's future, permanent solutions other than those presented in the Plan must be developed.

To that end, longer term structural planning is also underway. At the July 2009 Meeting, incoming Chairman Russell Gould will announce the creation of a Regental Task Force to review some of the fundamental questions facing the University, including the educational delivery model, the University's student fee and financial aid policies and the expectations of the Master Plan.

Fairness and Consistency

The Plan is designed to be implemented on a system-wide basis covering, to the extent possible, and subject to collective bargaining obligations, most academics and staff members. During the consultative process with the University community and other stakeholders, it was determined, however, that the following groups of University employees should be 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.)

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- 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 gains 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 to their pay band.)

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

Operational Considerations

Operational considerations have been carefully addressed:

- The Plan affords campuses latitude to manage schedules of public safety employees (police, fire and security), clinical care workers (human and animal) at the medical centers and hospitals, and employees engaged in laboratories;
- An earlier plan for fixed furlough days during existing holidays was rejected in favor of “floating” furlough days as requested during the Plan review process, offering greater flexibility to meet operational demands.

Other Actions Taken

Substantial other actions already have been taken and are continuing both system-wide and on the campuses to reduce costs in anticipation of the state budget shortfall.

System-wide actions already implemented include a salary freeze for Senior Management Group members, senior executive pay cuts, cancellation and/or deferrals of certain bonus plans and incentive awards and cancellation of staff merit awards for FY 2008-09 and FY 2009-10.

At the Office of the President, which has already reduced its budget by \$67 million since FY 2007-08 through program transfers, layoffs, restructuring, and budget cuts, it is anticipated that up to an additional \$15 million in savings will be achieved in the coming fiscal year. In addition, Chief Financial Officer Taylor is preparing plans to restructure a portion of the University's debt service on its bonds that mature in FY 2010 and FY 2011 to free up approximately \$75 million in both FY 2009-10 and FY 2010-11.

At each of the campuses, the Chancellors are implementing plans involving organizational restructuring, program closures and consolidations, deferred faculty hiring, elimination of positions, lay-offs, increases in class sizes and other measures to achieve the balance of the State funding shortfall not addressed through student fee increases, the savings anticipated by this Plan, and the actions taken at the Office of the President. A brief listing of these campus actions is set forth in Attachment C. At the Regent's meeting, each of the Chancellors will provide summaries of the reductions being taken at their campus.

In short, the Plan presented is designed to balance the sacrifices being asked of our employees against other substantial efficiency initiatives and service level reductions.

Presidential Guidance

Pursuant to the requirements of the framework described in Item J1, the President has provided steady and consistent guidance to campuses during development of the Plan and implementation of other cost saving measures. Pursuant to the framework, such guidance is designed to promote consistency and fairness. The President commenced communications with Chancellors, individually and collectively, well before the May Regents meeting regarding cost reduction activities and has maintained contact regularly since then, approximately bi-weekly. At the outset, the principle was established that all would participate in the Plan to the extent possible, and the President has since consistently resisted efforts at exempting select classes of employees, resulting in very few exemptions.

Additional guidance was communicated through the consultation process described below.

SECTION IV: *Process Requirements*

Appointment of Task Force

The final Plan, which has been in development for well over two months, is the product of a wide and diverse group of contributors, numbering in the dozens and representing a variety of disciplines. The President directed Interim Provost and Executive Vice President Pitts and Executive Vice President Lapp to develop the proposed Plan. They have consulted with members of the Office of the President as well as the Chancellors and Executive Vice Chancellors and the Chair and Vice Chair of the Academic Senate and, through the communication channels described below, to the entire University employee community.

The President also directed that a Task Force with the following membership meet to discuss the proposed Plan: Interim Provost and Executive Vice President Pitts, Executive Vice President Business Operations Lapp; Senior Vice President Health Sciences Stobo, Vice President Human Resources Duckett, Vice President Budget Lenz, Chair system-wide Academic Senate Croughan (represented by Vice Chair Powell); Chair system-wide faculty welfare committee Henry, Chair system-wide academic personnel committee Plaxe, Chair system-wide planning and budget committee Conrad, General Counsel Robinson; Deputy General Counsel Blair; Interim Executive Director, Academic Personnel, Price; Assistant Vice President Finance, Plotts. During its meeting, various concerns and issues were raised by members of the Task Force group and to the greatest extent possible have been included in the Plan.

Working Drafts/Financial and Personnel Assessments

Under the leadership of Interim Provost and Executive Vice President Pitts and Executive Vice President Lapp, multiple working drafts of the Plan have been produced for circulation and consultation among key groups based on a variety of scenarios. Key to development of the Plan was the work of financial analysts, research compliance and human resources experts who were called upon to provide estimates of numbers of employees effected by the literally dozens of scenarios under consideration, and to provide estimates of costs saved through the various scenarios. It was through the work of these analysts that the President determined an appropriate balance of salary reductions/furloughs, student fee increases, efficiency actions and service level reductions to close the budget gap. Legal counsel provided advice on the Higher Education Employer-Employee Relations Act, the Fair Labor Standards Act, employees working under Visas, contracts and grants and other requirements to assure that the Plan is legally compliant.

Consultation Processes

The Process of consultation culminating in the Plan has been extensive and has involved all University constituencies. While cost reduction discussions had commenced during fall 2008, discussions intensified in May 2009, when it became clear that salary reductions/furloughs were unavoidable. Early drafts of the Standing Order amendment and Furlough/Salary Reduction Guidelines framework were circulated among Academic Senate, campus and employee representatives in May 2009.

Throughout the planning process, Senior Vice President for Health Sciences Stobo was in close communication with the Chief Executive Officers of the medical centers and with the Medical School Deans regarding the plan options and possible appropriate savings alternatives for the medical centers.

The President and other members of staff have convened more than a dozen meetings with representatives of the Academic Senate, with Chancellors and Executive Vice Chancellors, and represented and non-represented employee groups. The President personally consulted Interim Director of the Lawrence Berkeley National Laboratory (LBNL), Paul Alivisatos. A partial listing of these meetings is attached as Appendix D.

Three options for salary reductions and/or furloughs were formally presented to the Academic Senate on June 16, 2009, for comment, with a response date of July 9, 2009. While the comment period was less than the 30 days called for in the Guidelines, given the severity of the crisis, the Senate agreed to accelerate its process. Formal presentation of these options had been preceded by extensive discussion of possible salary reductions to address significant funding shortfalls for months. On July 9, 2009, the Academic Senate presented its formal review to the President through the Chair of the Academic Council, Mary Croughan. Thoughtful comments were received from the Academic Senate divisions and system-wide committees. The Academic Senate offered suggestions consistent with other University employees (described below) and which have been incorporated into the Plan.

Concurrently, the three-options document was presented to the rest of the University community, including the Regents. The President's June 17, 2009, letter regarding the options provided notice to employee groups under HEERA, and this Item is further notice of the final Plan to be implemented more than 30 days after this notice.

The University provided notice to its bargaining units and of the Plan proposals on June 18, 2009. In addition, Vice President for Human Resources Duckett, and Vice President, Budget and Capital Resources Lenz met with the system-wide union leadership to discuss the budget situation in June of 2009.

In addition the Staff Advisors to the Regents served as an additional resource and communication point for non-represented staff. The Staff Advisors communicated with staff through its listserv, soliciting and summarizing over 500 responses. In addition, the Council of University of California Staff Assemblies (CUCSA) forwarded to the Staff Advisors the collective comments and perspectives of its delegates.

In all, the President received thousands of letters, e-mails and comments from University faculty and staff as well interested stakeholders.

Finally, UCOP and the campuses provided electronic means for employees to comment on the options. Additionally, most campuses convened town hall meetings to discuss the options. All comments have been reviewed and considered in the development of the Plan. Many of the comments are incorporated into the final Plan.

In short, the scale and scope of consultation on the Plan, like the emergency circumstances confronting the University, has been very extensive.

Comments Received/Management Response

Faculty and staff fully availed themselves of the multiple opportunities to comment on the options. In the end, the comments were largely consistent and focused on the following issues:

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- Furloughs versus across the board salary reductions—both faculty and staff preferred the option of a program involving furloughs by a substantial margin. Accordingly, the Plan incorporates that feature;
- Flexibility—many faculty and staff preferred “floating” furlough days as opposed to days fixed during existing holidays. The Plan adopts this approach;
- Progressivity—the three-option document proposed only two grades of salary reductions, with a line drawn at a base salary of \$46,000. Most comments recommended that the Plan include additional grades with greater progressivity. Accordingly, the Plan presented here contains reductions ranging from 4 to 10 percent.
- Exempt Academic and Staff employees whose salaries are funded from research contracts and grants —many faculty and staff requested that employees funded from these sources be exempted from the Plan because salary savings from these employees must remain within the grant or contract, and thus cannot contribute to increasing campus general fund resources. The proposed Plan exempts employees funded entirely from these sources. 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 partially funded from research contracts/grants, that portion of their salary can be prospectively excluded.
- Preservation of UCRP Retirement Benefits — an overwhelming number of the comments received requested that the Plan not adversely affect employee retirement benefits. As such, the President is recommending that employee retirement benefits be preserved.

SECTION V: *Plan for Preservation of UCRP Retirement Benefits*

Pursuant to the letter and spirit of the Standing Order, the actions proposed under the Plan are expected and intended to be temporary measures so as to allow the University to address the proposed State funding shortfall in this fiscal year. To the extent possible, for equity and fairness, employees should be protected against potential short and long-term consequences of the Plan, including impacts on retirement. Employees should not be required to carry the sacrifice and burden of the current financial crisis in perpetuity. Accordingly, the President has proposed that the UCRP be amended to ensure that the Plan will have no effect on retirement benefits calculations. A broader description of this issue is included in Section VII of the Plan (Attachment B).

(Attachments)

Attachment A

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 104(qq).

ATTACHMENT B

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.

V. 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.

VII. 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.

VIII. 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 B(II)), as may be required for its implementation, during the Plan period.

ATTACHMENT C

SUMMARY OF COST SAVINGS MEASURES IMPLEMENTED BY THE UNIVERSITY

As has been previously reported to the Board, the University already has taken multiple cost-cutting measures in response to proposed reductions in State funding in FY 2008-09 and FY 2009-10 as follows:

- The Office of the President has already been reduced by \$67 million over FY 2007-08 levels through a combination of program transfer and permanent reductions.
- System-wide salary freezes for Senior Management Group members have been imposed.
- Certain bonus and incentive programs were cancelled or deferred.
- The staff merit pool for FY 2008-09 was eliminated and will not be implemented in FY 2009-10.
- Plans are underway to restructure a portion of the University's debt service on its bonds that mature in FY 2010 and FY 2011 so to generate savings of approximately \$75 million during FY 2009-10 and FY 2010-11.
- Significant restrictions have been placed on travel and other purchasing.
- The President, all of the Chancellors, the Executive Vice Chancellors as well as the General Counsel and all Executive and Senior Vice Presidents in the Office of the President agreed to reduce their salaries by five percent for FY 2009-10.
- The campuses have already taken or are in the process of implementing additional measures:
 - Most campuses expect between 10 – 15 percent reductions in faculty FTE and similar reductions in staff positions.
 - Campuses have laid off 724 staff so far and most anticipate more layoffs in the coming year.
 - Most campuses are deferring planned faculty hires by at least 50 percent; some are entirely freezing faculty recruitment, despite the fact that enrollment is continuing to grow for FY 2009-10.
 - Most campuses report that class sizes are expected to increase by varying degrees up to a reported high of 25 percent.
 - All campuses are implementing budget cuts to academic and administrative programs, although academic program reductions are proportionally less than

administrative reductions. No campus is implementing cuts across the board, but rather priorities are being established and determinations are being made through a variety of consultative processes.

- All campuses are reviewing programs and services to determine which can be consolidated or eliminated entirely to produce savings. 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. 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.

- All campuses have severely curtailed travel.

ATTACHMENT D

CONSULTATION PROCESS—PARTIAL LIST OF MEETINGS/ TELECONFERENCES AND COMMUNICATIONS

The Chancellors were closely consulted regarding this recommended Declaration of Extreme Financial Emergency and the proposed Furlough/Salary Reduction Plans. The President has consulted closely with Chancellors throughout the planning and development of this recommended Declaration and in the formulation of the Plan Summary including no less than three in-person meetings and phone conferences, including a near day-long meeting with Chancellors and Executive Vice Chancellors on June 3, 2009. The Chancellors and campus senior administrators have been partners with the President throughout this planning and development process. The Chancellors uniformly support the recommended Declaration of Extreme Financial Emergency and the proposed Furlough/Salary Reduction Plans.

The Academic Senate has been closely consulted. The leadership of the Academic Senate has been closely consulted in these matters and its views and comments have been incorporated into the recommended Declaration as well as into the Plan. Under the Furlough/Salary Reduction Guidelines, the President consults with the Academic Senate through the Chair of the Academic Senate. The Chair is responsible for communicating with the appropriate divisional and committee chairs. This process was followed. In addition, while not prescribed under the Guidelines, the President personally met with the Academic Council three times over the past several months to discuss the proposed Financial Emergency policy and once to discuss the Declaration recommendation and Plan Summary to receive Academic Council feedback and comment. The Chair of the Academic Senate has been an integral partner in the drafting of essential documents and ensuring that the Academic Senate views have been incorporated or addressed.

Medical Center Chief Executive Officers and Medical School Deans were closely consulted. Throughout the planning process, Medical Center Chief Executive Officers and Medical School Deans were closely consulted through Senior Vice President for Health Sciences Stobo.

LBNL. The President personally consulted Interim Director of the Lawrence Berkeley National Laboratory (LBNL), Paul Alivisatos.

Staff Representatives have been consulted. University Staff were provided the opportunity to comment on the draft Standing Order amendment, the Guidelines and also the Plan options through a series of formal communications initiated by the Office of the President and supplemented by campus efforts. The President has incorporated comments received through this process into the Plan. Many locations have engaged in large town hall type meetings with broad cross-sections of staff to inform and answer questions. Staff Advisors to the Regents served as an additional resource and communication point for non-represented staff. The Staff Advisors communicated with staff through its listserv, soliciting and summarizing over 500

responses. In addition, the Council of University of California Staff Assemblies (CUCSA) also forwarded to the Staff Advisors the collective comments and perspectives of its delegates.

Represented Staff Were Provided Notice under the Higher Education Employer-Employee Relations Act. Represented staff were provided the opportunity to comment through their unions. In addition, Vice President for Human Resources, Dwaine Duckett, and Vice President, Budget and Capital Resources, Patrick Lenz met with the systemwide union leadership to discuss the budget situation.

The President communicated broadly and openly with all University employees well in advance of this recommendation. In addition to the above consultations, the President also communicated openly with all University employees and solicited feedback which has been incorporated into this recommendation.

- Prior to the May 2009 Regents meeting The President sent the draft Regents item (J1) and the draft Guidelines to all employees;
- On June 17, 2009, the President sent a letter to faculty and staff explaining the unprecedented nature of the financial challenges confronting the University and outlining the proposed furloughs/salary reductions being considered and the process by which a decision would be made;
- On June 26, the President issued a video message to faculty and staff about the proposed furloughs/salary reductions. The video message reiterated the seriousness of the University's budget situation, addressed several of the key issues that had surfaced following the issuance of his initial communication, and solicited faculty and staff input on the proposals.

Strategic Planning Committee. In addition to the substantial planning and consultation process, a Strategic Planning Committee was convened on July 1, 2009, consisting of the following University personnel: Interim Provost and Executive Vice President Pitts, Executive Vice President Business Operations Lapp; Senior Vice President Health Sciences Stobo, Vice President Human Resources Duckett, Vice President Budget Lenz, Chair systemwide Academic Senate Croughan (represented by Vice Chair Powell), Chair systemwide faculty welfare committee Henry, Chair systemwide academic personnel committee Plaxe, Chair systemwide planning and budget committee Conrad, General Counsel Robinson, Deputy General Counsel Blair, Executive Director Academic Personnel Price, Assistant Vice President Finance Plotts.

The Committee reviewed the status of the Plan, verified that appropriate consultations had taken place, discussed whether operational issues had been addressed in the Plan, and discussed outstanding issues that should be addressed in a final Plan. In addition, Academic Senate membership on the Committee summarized the views of the Academic Senate and reiterated the goals and principles under which the final Plan should be implemented. The comments of the Strategic Planning Committee have been incorporated in the final Plan.