CHANCELLORS
EXECUTIVE VICE PRESIDENT LAPP
SENIOR VICE PRESIDENT DOOLEY

As you know, the State’s ongoing budget crisis has worsened significantly over the last 10 months. The signing of the 2008-09 budget act in September 2008 was quickly followed by projections of significant budget shortfalls for both 2008-09 and 2009-10. After a special session of the Legislature in February, the Governor signed an 18-month budget act covering the remainder of 2008-09 and the 2009-10 fiscal year, and in early April, I wrote to you about the mid-year budget reduction for UC contained in the act for 2008-09. The special session budget was predicated on the success of propositions submitted to the voters on May 19. These initiatives have failed, and the Governor has announced new proposals (the May Revise) that are now before the legislative conference committee. As I communicated to you last week, the new proposals include dramatic reductions in State funding for UC, as well as the elimination of the Cal Grant program. While the Legislature continues its deliberations, we have a better understanding of what is before us and we must begin planning in earnest.

As we continue to engage in wide-ranging discussions of options for addressing the extraordinary shortfall in State funding facing the University, I am now prepared to provide preliminary allocations for 2009-10, based on what we know and the decisions that have been made to date. Please keep in mind these are preliminary numbers for the purpose of campus planning that assume the UC budget will be reduced by $619.3 million in the 2009-10 fiscal year. A portion of this reduction has already been off-set by $125.9 million in new student fee revenue for 2009-10 based on The Regents’ approval of fee increases in May. In addition, I will be bringing a comprehensive set of budget recommendations to the Regents in July that will include $200 million in savings achieved through systemwide actions, i.e., furloughs and salary reductions and additional saving initiatives. These efforts will help address the budget reductions targets for each campus. While we await approval of these efforts by the Regents, I thought it prudent that we provide you with preliminary allocations for planning purposes.
Overview of the 2009-10 Budget

The level of cuts facing the University for 2009-10 has evolved over the last several months, as outlined below:

The Governor's January 2009 Proposal for 2009-10

In building the budget proposal for 2009-10 and in accordance with the Compact, the Governor initially developed a workload budget for UC that included a base budget adjustment of 5 percent to fund compensation and other cost increases and restore funding for core academic support, funding for enrollment growth, expansion of PRIME and nursing programs, increased annuitant health benefit costs, and $95.7 million to re-start contributions to the UC Retirement Plan. However, as he did last year, the Governor's January proposal eliminated the base budget adjustment and the funding for regular enrollment growth, and reduced the amount for re-start of retirement contributions to $20 million. Furthermore, the Governor included a permanent $65.5 million undesignated reduction (starting in 2008-09) that had been proposed as part of the special session budget package in November. The Governor's proposal also assumed a 9.3 percent increase in mandatory student fees, increases in professional degree fees of 5-24 percent, and a 5 percent increase in nonresident tuition for undergraduate students. Other actions included a reduction in one-time funding for UC Merced of $5 million, consistent with the plan to phase out such funding by 2010-11, and a swap of lottery funds for State General funds consistent with the proposed securitization of lottery funds included in Proposition 1C.

The Special Session Budget

During the special session, the Legislature took further action to eliminate the funding for PRIME and nursing program expansion, although funding for these programs was placed on a list of items that could be reconsidered by the Legislature. In addition, the Legislature eliminated the remaining $20 million in funding for re-start of retirement contributions.

As I mentioned, the final budget included a $65.5 million permanent reduction the Governor already had proposed as a mid-year cut for 2008-09, in addition to the $33.1 million one-time mandatory savings reduction to our base budget included with the budget act last fall. These 2008-09 reductions have already been communicated to you.

In his veto message, the Governor included a one-time reduction in State General Funds of $255 million in 2009-10, to be replaced with an equivalent amount of funds from the federal economic recovery package, producing a revenue neutral outcome for UC. The Governor also assigned an additional permanent $50 million undesignated reduction to UC in 2009-10 that was to be rescinded this spring if the state were to receive sufficient funds from the federal economic recovery package.
The Special Session package also included a total of $268.5 million in federal stimulus funding to offset the earlier reductions.

**The Governor’s May Revise Proposals**

Before the special election on May 19, the Governor released his revised budget proposals as two plans, one in the event that the initiatives were approved by the voters and one in the event the initiatives failed. Furthermore, the Governor made additional revisions on May 26. As I described in my May 27 letter to you, for UC, the proposals include a series of budget reductions in both 2008-09 and 2009-10, some one-time and some permanent, and an offsetting one-time allocation of federal economic stimulus funding (ARRA) during 2008-09. For 2008-09, the proposal results in an $816.1 million reduction in State funding from the level approved in the budget act signed last September. This reduction is offset by $640 million in ARRA funds (including the $268.5 million already approved in the Special Session budget). For 2009-10, the proposal yields a $619.3 million reduction from the September 2008 budget act. No additional ARRA funds for 2009-10 are proposed at this time.

Regarding capital outlay, the $449 million in lease revenue bond financing proposed by the Governor in his January budget was not included in the special session budget adopted in February. However, this funding was included in the list of issues to be reconsidered without prejudice by the Legislature during spring budget hearings.

During hearings this spring, we have been appealing to the Legislature for restoration of funding for UC’s critical needs. Highest on our list of concerns is funding for the re-start of contributions to the UC Retirement Plan, which is scheduled to begin in April 2010. In addition, we have highlighted the critical importance of State funding for enrollment and have requested the restoration of funding for PRIME and nursing program expansion, as well as lease revenue funding for capital outlay, consistent with the Legislature’s agreement to reconsider these issues. These and other issues were discussed in detail in our letter to the conference committee earlier this month.

Before moving on to decisions that have been made, I want to mention that I am aware of the concerns many of you have raised about the principles and methodologies behind fund allocations. Staff at the Office of the President has been engaged in a comprehensive review of these methodologies. This is an ongoing activity and I expect to have further conversations with you about this subject in the coming months. No changes in policy or practices are expected to occur for 2009-10. Instead, any changes resulting from forthcoming proposals would be effective for 2010-11.
Block Allocation and Undesignated Reductions

In a normal year, we would provide a single inflation adjustment for salary, benefit, and non-salary cost increases based on new State funding included in the 2009-10 Governor's Budget, as well as projected new UC General Funds and revenue from student fee increases. This year, funding available for the block adjustment includes only the $11.3 million in annuitant health benefit funding from the State and $77.4 million in funds generated during fall/winter/spring terms from increases in the Educational Fee, less funding set aside for return-to-aid.

With respect to State funding reductions, the $65.5 million permanent reduction included for 2008-09 in the Special Session budget was already distributed to campuses in April. The remaining net shortfall resulting from the May Revise proposals for 2008-09, which amounts to an additional one-time reduction of $77.5 million if all of the proposed stimulus funding is ultimately received, will be addressed in a separate communication. This one-time reduction could rise to $449.0 million if additional stimulus funding is not forthcoming.

With this letter, we are distributing each of the 2009-10 reductions proposed by the Governor as undesignated reductions. Consistent with the campus budget discussions we had earlier this year, I expect campuses to manage the new funding and offsetting reductions with broad flexibility to meet their most pressing needs. As I have mentioned in the past, I encourage you to avoid making across-the-board cuts and instead to make strategic decisions that reflect academic planning priorities and administrative efficiencies. While campuses are being given broad discretion to reduce budgets and redirect funding, student academic preparation, the science and math teacher initiative, and student mental health programs should be spared disproportional cuts. The University Student Aid Program and graduate diversity fellowships should be protected from reductions.

Federal Overhead

Consistent with past practice, Off-the-Top and Opportunity Funds derived from federal overhead will be allocated at a later date, with 94 percent of the funds returned to the campuses from which they were generated. The General Fund portion of federal overhead will continue to be allocated in accordance with our revised policy in effect since 2000-01. All of these allocations will be adjusted when actual receipts are known.

Enrollment-Related Workload and Fees

For the second year in a row, the State budget includes no new funding for enrollment growth. In 2008-09, the University already enrolls more than 11,000 State-supportable students for whom we receive no State funding. In keeping with direction from the Regents to curtail enrollment growth and my earlier decision to reduce freshman enrollment for 2009-10, it is my hope that enrollment growth will
indeed be slowed or halted during 2009-10. Based on outcomes of the 2009-10 admissions cycle, we will discuss further enrollment actions this summer in advance of the next cycle. In the meantime, campuses will once again need to absorb the costs of unfunded enrollments during 2009-10.

However, given its small size, it is again necessary to make special accommodations for the rapid enrollment growth occurring at UC Merced. For 2008-09, we assigned one-time budget reductions, totaling $6.3 million, to other campuses based on budgeted general campus and health sciences enrollments in order to provide funding for planned enrollment growth of 700 students at UC Merced. I am grateful for your support of Merced and once again ask for a one-time contribution to support the continuing enrollment of these students. In 2009-10, the Merced campus is expected to grow by another 675 students. Instead of increasing the contribution from other campuses, permanent funding for this additional growth will come from savings derived from the restructuring of UCOP.

Also in 2008-09, campuses contributed $1.7 million on a one-time basis to continue the ongoing expansion of the Programs In Medical Education (PRIME). This contribution for the 2008-09 entering cohort is being continued in 2009-10. Since again no new funding is currently provided in the State budget for the next (2009-10) cohort of PRIME students, campuses should address this issue by reducing enrollments in the regular MD program in order to fund planned new PRIME enrollments. It is a systemwide priority that the planned expansion of this program continues, even if it means that no medical school enrollment growth occurs.

Fee revenue generated from enrollment above 2007-08 budget targets is being allocated as General Funds in lieu of Educational Fee on a one-time basis. The amount allocated is based on 2009-10 fee levels, less funding for financial aid. These amounts will be adjusted to reflect actual revenue at mid-year and again at year-end to reflect actual enrollments.

**Faculty Recruitment**

Once again, a temporary allocation is being provided to help recruit and retain faculty. The allocation for each campus for 2009-10 is based upon two factors: 1) the number of new ladder-rank faculty hired in recent years to replace those who left; and 2) the number of ladder-rank faculty needed to accommodate enrollment growth. Temporary allocations of faculty recruitment and retention funds, which have been provided to help address significant enrollment growth over this decade, will be eliminated after 2009-10.

**Faculty Hiring Incentive Program**

In 2002, President Atkinson made a commitment to provide a five-year advance on faculty FTE (salary and benefits) to campuses that hired current or former
President's Postdoctoral Fellows into ladder-rank faculty positions. There is no limit to the number of hires per campus eligible to receive the incentive. Each year the incentive funds are held back from regular allocations to the campuses for faculty FTE. In the past seven years, this initiative has been extremely successful, with 72 hires to date and 10 additional hires pending for 2009 start dates. This program is being continued in 2009-10.

Research

California Institutes of Science and Innovation
In 2008-09, we provided $10 million in one-time funding to support the California Institutes for Science and Innovation and committed to identifying permanent funding for the future. An effort is underway, under the leadership of Vice President Beckwith, to identify funds within the research function that can be redirected for this purpose. However, in light of the extraordinary budget shortfalls we are facing, discussions related to funding for the Institutes will continue this summer, with a decision to be made in time for the final allocations.

Reductions in Legislative Earmark Research Programs
The 2008-09 State budget provided flexibility to the University by reducing the amount of State support dedicated to specific earmarked programs in the budget bill by 10 percent. These changes yielded $3.4 million in savings, which were redirected on a one-time basis to support the California Institutes for Science and Innovation. In 2009-10, these initial reductions will be made permanent and another 10 percent reduction will be allocated, also on a permanent basis. The use of the savings resulting from these reductions, totaling $4.9 million, will be determined before final allocations later this year.

Labor Research
In 2008-09, the Governor vetoed $5.4 million for the University's labor research and education programs. Because of the tremendous value of these programs, we provided $4 million of temporary support from University funds to continue this work under the assumption that State funding would be restored to these budgets in 2009-10. While it is not finally determined, it is unlikely the State will provide this funding in 2009-10. The Berkeley and Los Angeles campuses should develop plans for ramping down these programs unless another source of support can be identified.

Public Service
The University's Student Academic Preparation and Educational Partnership (SAPEP) programs are important both to the students they serve and to the preparation of the state's workforce. In recent years, these programs have been targeted for significant reductions. While in most of these instances the University was successful in getting funds restored, the instability created by repeated
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Attempts to reduce the budget for SAPEP programs has been significant. At the same time, an extensive accountability framework has been implemented that allows us to measure quantifiable outcomes for each program, contributing to our ability to demonstrate their effectiveness. For the last several years, the State budget has provided $19.3 million in State funds and required $12 million in University funds for SAPEP programs.

As one of the reductions included in his May Revise proposals, the Governor has proposed eliminating the entire $31.3 million budget for SAPEP programs. Should reductions of this magnitude proposed be necessary, we have asked the Legislature to make this reduction undesignated; these preliminary allocations assume the cut is ultimately made as an undesignated reduction. At this time, we do not know whether the budget act will include a required minimum level of funding for SAPEP programs. Unlike last year, we are not preventing cuts to these programs in 2009-10. However, given the importance of continuing the good work of these programs and the role they play in helping to improve the diversity of the University's student population, as a matter of policy, these programs should not be cut disproportionately. Once the new budget act is signed, staff in the UCOP Budget and Capital Resources office will work with campus budget staff to ensure that program funding levels do not fall below those mandated by the State.

Similar to earmarked research programs, the 2008-09 state budget provided flexibility to the University by reducing by 10 percent the systemwide amount of State support dedicated to the California State Summer School for Science and Mathematics (COSMOS). In 2008-09, this reduction was distributed on a one-time basis, with the central office taking a disproportionate cut. In 2009-10, this reduction is being made permanent and the use of this funding will be determined in the coming months.

Maintenance of New Space
Between 2005-06 and 2007-08, marginal cost funding for enrollment growth from the State included a component to fund maintenance of new space, which was allocated to support basic maintenance of new space placed in service for core instruction and research and for the California Institutes for Science and Innovation. In 2008-09, with no new enrollment growth funding from the State, approximately $10 million in savings generated from the restructuring of the Office of the President was redirected to support maintenance of new space. Given the lack of new enrollment growth funding in 2009-10, the extraordinary budget shortfall, and the unlikelihood of new funding in the next several years, we are reviewing our policy and plans for future allocations for maintenance of new space. Discussions will continue this summer and a decision will be in place for final allocations.
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Fees and Financial Aid

**Mandatory Systemwide Fees**
At their May meeting, The Regents approved an increase in the Educational Fee of 10 percent for 2009-10 for all students. Revenue generated from this increase on fall/winter/spring enrollments, net of financial aid, is being allocated as part of the block allocation I have described.

The Regents also approved an increase in the Registration Fee of 4.2 percent ($36) for 2009-10 for all students. Because campuses retain income from the Registration Fee, no allocations related to this increase will be made. New revenue should be used to fund mandatory cost increases, and, if possible, to maintain critical student services programs, including student mental health services.

**Professional School Fees & Financial Aid**
Increases in fees for professional degree programs to cover cost increases and new initiatives were also approved by the Regents in May. Consistent with earlier actions, an amount equivalent to at least 33 percent of the additional revenue generated by these increases in professional school fees is to be used for financial aid.

**Temporary Educational Fee Increase and Financial Aid**
Consistent with regental action, an extension of the $60 surcharge will remain in place until all costs associated with both the Kashmire lawsuit injunction and judgment has been fully covered. As was the case in 2008-09, the amount set aside for financial aid will be 33 percent for undergraduates and professional degree students and 50 percent for graduate academic students.

**Undergraduate Financial Aid**
In recent years, funding for the undergraduate University Student Aid Program (USAP) has included an amount equivalent to 33 percent of the increase in student fee income associated with fee increases as well as budgeted undergraduate enrollment growth during the academic year. For 2009-10, the amount set aside from fee increase revenue is being augmented by an additional $3 million to fund the Blue and Gold Opportunity Plan, which the Regents approved in February. A portion of new undergraduate fee revenue should be used to provide grant assistance for needy middle-income students with family incomes of less than $100,000 to help cover about half of the student fee increases. Undergraduate USAP funds are to be awarded according to the principles of the Educational Finance Model (EFM).

**Graduate Financial Aid**
Funding for graduate academic need-based aid (graduate USAP) includes 50 percent of the increase in student fee income associated with fee increases as well as
budgeted graduate enrollment growth during the academic year. The University intends to use a portion of new graduate academic fee revenue to implement the fourth installment of a five-year, phased program to restore $5.4 million in undergraduate fee revenue that was temporarily budgeted for graduate student support in 2003-04. Thus, the net return-to-aid for graduate academic students will be 48 percent in 2009-10. Of the original loan amount, $4.2 million has been restored to the undergraduate program and $1.2 million will continue to be loaned to the graduate program during 2009-10. In addition to need-based aid, campuses may use designated portions of the graduate USAP allocation for TA fee remissions, RA fee remissions, and non-need-based fellowships.

The University's initial budget plan for 2009-10 included $10 million in additional funding for graduate student support. Given the budget reductions for UC included in the special session budget and recent proposals from the Governor, no additional augmentation for graduate student support is included.

**Summer Fees and Financial Aid**
Once again, campuses are to charge a per-unit fee that is equivalent to mandatory systemwide fee levels that are charged during the academic year. However, campuses may implement fee structures that serve as an incentive to encourage students to enroll in the summer. As in the past, summer student fee revenue will be retained by the campuses. At least 28.4 percent of the total of summer fee revenue from undergraduate students must be used for financial aid for those students. This level of funding is equivalent to the average return-to-aid for academic year enrollment. At least 45.4 percent of total summer fee revenue from graduate students must be used for financial aid for those students. All campuses were fully State-supported beginning in summer 2006, and all campuses are now participating in Intercampus Summer Enrollment activities, designed to support students who enroll in the summer at any campus. As a result, for summer 2009, campuses must continue to provide financial aid for their students whether the students are enrolled at their home campus or another UC campus.

**Nonresident Tuition**
As of 2007-08, campuses budget nonresident tuition under a specific General Fund fund number and retain all revenue. At their May meeting, The Regents approved a 10 percent increase in nonresident tuition for undergraduate students.

**Education Abroad Program**
As will be communicated separately, the budget for the University's Education Abroad Program (EAP) is being changed significantly for 2009-10. In the past, EAP has been funded from a combination of revenue sources including a share of State marginal cost funding for enrollment growth. For 2009-10, the EAP budget will be based primarily on the amount of fee revenue generated from students participating
in the program, plus a modest subsidy for services to campuses provided by EAP. As a result of these changes, a total of $4.84 million in General Funds is being returned to campuses on a permanent basis, based on recent levels of funding for campus EAP offices and enrollment in the program. Campuses should determine appropriate levels of support for campus efforts to support study abroad and may use this redirected funding to address campus priorities.

**California State Lottery Funds**

While the Special Session budget included a swap of lottery funds for State General funds, Proposition 1C, which would have allowed the State to securitize lottery funds, was defeated on May 19. As a result, no funding swap is expected to occur.

**Enclosed Schedules**

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

With best wishes, I am,

Sincerely yours,

Mark G. Yudof
President

Enclosures

cc: Interim Provost Lawrence H. Pitts
    Executive Vice President Peter Taylor
    Senior Vice President John Stobo
    Vice President Patrick J. Lenz
    Vice Provost Daniel Greenstein
    Vice President Steven Beckwith
    Vice President Judy Sakaki
    Associate Vice President Debora Obley
    Executive Vice Chancellors
    Vice Chancellors for Planning and Budget
    Campus Budget Directors