



1111 Franklin Street
Oakland, California 94607-5200
Phone: (510) 987-9074
Fax: (510) 987-9086
<http://www.ucop.edu>

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UNIVERSITY OF CALIFORNIA COMMUNITY

Dear Colleagues:

I am writing to update you about several options under review for systemwide furloughs and/or salary reductions. Although this is a difficult subject to confront, like other employers this is something we must look at given the severity of the fiscal challenges we face and I want all faculty and staff to be aware of the options under consideration and the decision-making process we are following. I recognize this is difficult news to receive – it is difficult to deliver. But you are a member of the University community and an integral part of this institution and you deserve to know what is being considered, and why.

These are unprecedented times, and we are facing unprecedented challenges. The combination of actual and proposed cuts by the State to UC's budget for the current and upcoming fiscal years results in a funding shortfall totaling nearly **\$800 million**. The University has never faced a funding deficit of this magnitude and responding to it will require sacrifice from every member of the University community:

- Student fee increases already approved, which total **\$211 million**, cover about one quarter of the shortfall.
- Systemwide pay reductions and/or furloughs would produce an estimated **\$195 million** – another one-fourth of the solution.
- The remainder of the projected cuts will fall to the campuses, and likely will affect course availability, class size, student services, and other aspects of the educational program.

Enclosed is a summary of the furlough/salary reduction options being considered. No decisions have been made thus far – a specific option is expected to be submitted for approval to The Regents at their July meeting. In previous communications I

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made clear that implementation of any furloughs and/or salary reductions must be done in the most equitable manner possible, and requires broad consultation with the UC community. This consultation process includes giving faculty and staff the opportunity to comment on the proposed options, and you will receive information about how to do that separately. Also, please be assured that we will keep you informed as we move through this process.

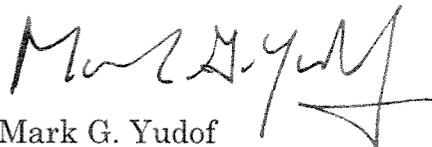
Much has been done to deal with these very difficult budget challenges, and I appreciate the sacrifices people have made already. UC already has cut the Office of the President, frozen and reduced senior-level salaries, curtailed hiring and faculty recruitment, certain bonus and incentive programs were cancelled or deferred, the staff merit pool for FY 2008-09 was eliminated, and significant restrictions were placed on travel, equipment and other purchases. Campuses have already begun eliminating positions, imposing severe restrictions on faculty hiring and eliminating or modifying programs. And, the President, Executive and Senior Vice Presidents, Chancellors, and Executive Vice Chancellors reduced their salaries.

Additional efforts are underway at the Office of the President to generate further cost savings through restructuring UC debt, and possible savings through information technology initiatives.

In closing I want to thank you, very much, for your hard work and loyalty to the University, day-in and day-out. I appreciate deeply all that you do to support UC and to uphold its service and promise to the people of California.

With best wishes, I am,

Sincerely yours,

A handwritten signature in black ink, appearing to read "Mark G. Yudof". The signature is fluid and cursive, with a large, sweeping flourish at the end.

Mark G. Yudof
President

Furlough/Salary Reduction Plan Options

Declaration of Financial Emergency: 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 the current fiscal year, the Governor's revised budget proposes a combination of one-time and permanent State funding reductions totaling \$816.6 million, \$640 million of which is offset by the allocation of federal economic stimulus monies (American Recovery and Reinvestment Act [ARRA]). The remaining shortfall in FY 2008-09 of \$176.1 million is partially offset by the 7% student fee increase in that year, leaving a net reduction for FY 2008-09 of \$77.4 million.

For FY 2009-10, the Governor's budget proposes a State funding reduction of \$619.3 million – representing a 19% decline in State funding from the FY 2007-08 levels. The previous adopted State budget for FY 2009-10 proposed a \$115.5 million reduction for UC. While the recently approved 9.3% student fee increase for FY 2009-10 will generate, net of financial aid, \$125.9 million in revenues to offset the \$619.3 million reduction, the net State funding shortfall of \$493.4 million for FY 2009-10 coupled with the \$77.4 million shortfall in FY 2008-09 requires immediate system wide and campus actions.

As has been previously reported, the University already is taking multiple cost-cutting measures in response to the earlier approved reduction in State funding in FY 2009-10 totaling \$115.5 million. The Office of the President has already been reduced by \$67 million over FY 2007-08 levels. System wide salary freezes on 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, significant restrictions were placed on travel, equipment and other purchases. Campuses have already begun eliminating positions, imposing severe restrictions on faculty hiring and eliminating or modifying programs. And, the President, all of the Chancellors, the Executive Vice Chancellors as well as all Executive and Senior Vice Presidents in the Office of the President agreed to reduce their salaries by 5% for FY 2009-10.

The proposed additional reductions in State funding for the University totaling nearly a 20 percent decline, coupled with the need to act expeditiously to address these reductions, requires more dramatic actions. Following an extensive analysis of the options available to the University to absorb these reductions in the coming year, and following extensive discussions at a June 3, 2009 meeting with the Chancellors and Executive Vice Chancellors, the President has determined that a system wide salary reduction/furlough plan is required inasmuch as over 70 percent of the University's budget is related to salaries and benefits for faculty and staff. In order to ensure equity across the University, each of the Plans set forth below would apply to all faculty and staff, except student employees, including those funded

by contracts and grants, clinical income and other auxiliary activity, and general funds. It is recognized that implementation of each option described is subject to the University's HEERA obligations.

While a salary reduction/furlough plan will assist in addressing the State funding shortfall, it is recognized that further actions will be required in order to address fully the entire reduction in the UC budget. These additional actions will include further cost savings at the Office of the President, savings through restructuring UC debt, possible savings through information technology initiatives, and significant budget actions on each of the campuses ranging from program closures, elimination and/or restriction of services to students and employees, layoffs, as well as eliminations of positions and deferred hiring.

While the Governor's proposed budget awaits final action by the State Legislature, the President believes it prudent that UC act expeditiously to implement measures to address the proposed budget reductions. The latest tax collection figures released by the State Controller's office project an \$827 million shortfall for the fiscal year, putting the State on course to end the fiscal year with a \$24.3 billion deficit. This further exacerbates an already bad cash situation, with revenues for the first 11 months of FY 2008/09 down \$12.9 billion from the same period last year. This deteriorating cash outlook could substantially increase the State's cash deficit to \$25.3 billion by April of next year.

Accordingly, it is proposed that one of the following suggested options for salary reductions and/or furloughs plans (or a modified version of any of these Plans) be submitted for approval by the Regents at their July 2009 meeting. A brief description of each of the options is being provided to facilitate consultation with faculty and staff prior to the submission of a final Plan to the Regents in July. The UC senior personnel who agreed to have their salaries reduced by 5% for FY 2009-10 will have their salaries reduced by a total of at least 8% under these plans.

OPTION I: 8 Percent Salary Reduction Plan

Plan: Salaries for all faculty and staff be reduced by 8%. Salaries for faculty and staff earning less than \$46,000 per year be reduced by 4%.

Duration: August 1, 2009 through July 31, 2010 unless extended by subsequent Regental action. Extension will require submission and review of a plan in a manner similar to the plan currently under review.

Projected UC General Fund Savings: It is anticipated that this Option would generate \$193.5 million in UC General fund savings.

Considerations:

- This Option would not result in an interruption of teaching, research, medical centers operations and essential services.
- This Option would easily be administered in the payroll system.

- This Option would impact employee retirement plan benefits unless addressed through Regental action similar to the provisions of the START program. Measures would need to be implemented to protect benefits and leave accrual levels for faculty and staff.
- Under this Option, faculty and staff would not benefit from a reduction in time worked.
- The Option does not present Fair Labor Standard Act concerns.

OPTION II: 21 Unpaid Days Plan

Plan: Through a combination of certain unpaid holidays and scheduled furlough days totaling 21 days (14 days for academic year faculty and 19 days for fiscal year faculty), staff and faculty salaries would be reduced by 8%. For staff and faculty earning less than \$46,000 per year, the Plan would include 11 unpaid holidays and scheduled furlough days (7 days for academic year faculty and 10 days for fiscal year faculty). Accrued vacation and/or sick leave could not be applied to unpaid days.

Duration: August 1, 2009 through July 31, 2010 unless extended by subsequent Regental action. Extension will require submission and review of a plan in a manner similar to the plan currently under review.

Projected UC General Fund Savings: It is estimated that this Option would generate \$195.4 million in UC General Fund savings.

Considerations:

- This Option would present significant operational challenges to the campuses and, in particular to the UC Medical Centers.
- This Option presents some challenges for implementation in the payroll systems.
- The Option would impact employee service credit for UCRP unless addressed through Regental action similar to the provisions of the START program. Measures would need to be implemented to protect benefits and leave accrual levels for faculty and staff.
- This Option, while reducing the earnings of faculty and staff by 8%, would provide some reduction in time worked.
- This Option presents Fair Labor Standard Act issues that would need to be addressed.

OPTION III. 12 Unpaid Days Plus A 3.4% Salary Reduction Plan

Plan: Through a combination of unpaid holidays and scheduled furlough days totaling 12 days (8 days for academic year faculty and 11 days for fiscal year faculty), and imposing a

3.4% salary reduction resulting in an overall reduction in salaries of 8%. Faculty and staff earning less than \$46,000 per year would have their salaries reduced by 4 percent through a combination of 6 unpaid holiday and scheduled furlough days (4 days for academic year faculty and 5 days for fiscal year faculty) and a 1.7 percent salary reduction. Accrued vacation and/or sick leave could not be applied to unpaid days.

Duration: August 1, 2009 through July 31, 2010 unless extended by subsequent Regental action. Extension will require submission and review of a plan in a manner similar to the plan currently under review.

Projected UC General Fund Savings: It is anticipated that this Option would generate \$194.1 million in UC General Fund savings.

Considerations:

- Under this Option, Campus and Medical Center operations would be affected although less than that anticipated under Option II.
- This Option presents some challenges for implementation in the payroll systems.
- This Option would impact employee UCRP service credit and retirement plan benefits unless addressed by Regental action similar to the provisions of the START program. Measures would need to be implemented to protect benefits and leave accrual levels for faculty and staff.
- Under this Option, faculty and staff earnings reduction is partially mitigated by time away from work.
- This Option presents Fair Labor Standard Act issues that would need to be addressed.