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March 4, 2009

CHAIR, ACADEMIC SENATE
PRINCIPAL OFFICERS

Dear Colleagues:

Re: 2009-10 Preliminary Budget Reduction Assignments

The purpose of this document is to detail the principles, assumptions, and approach I have taken in developing budget reduction targets for 2009-10. Attachment I assigns divisional targets so that principal officers will have time to plan and implement the necessary actions that will allow the campus to achieve budgetary savings effective July 1, 2009.

The State of California faces extraordinary and unprecedented budgetary challenges, compounded by the faltering national and international economy. While there are many reasons for what has happened on local, state, national, and global levels, the result is that they have combined to have a profound, and potentially long-term, effect on our institution.

We have been preparing for a number of months to meet the expected budget shortfalls. While the actual amount of the permanent budget reduction to UCSC in 2009-10 will remain uncertain for some time, it is clear that we cannot take a 'wait and see' approach to meeting the shortfall.

PRELIMINARY PLANNING ASSUMPTIONS

Based on what is known to date, I project that we will need to permanently reduce our budget by \$13M in 2009-10. *(If the actual reduction to UCSC is greater than our initial projections, additional budget cuts will be determined, vetted and allocated; the reverse will be true if the budget reductions are less than anticipated.)* This planning assumption is based on the state budget bill signed by the Governor on February 20, 2009, and takes into account *current* information regarding expected increases in revenue (due to increases in mandatory systemwide fees), estimated costs of collective bargaining, and other known mandatory increases, such as academic merits and utilities. The \$13M will be captured by distributing reductions over three broad categories as shown in the table below. The detail on the distribution by division is provided as an attachment to this document.

TOTAL	<i>\$13M</i>
Administrative Divisions (core funds)	<i>\$6.5M</i>
Administrative Divisions (non-core funds)	<i>\$2.0M</i>
Academic Divisions	<i>\$4.5M</i>

I ask that principal officers proceed now to plan for budget reductions on the basis of the assigned targets. Principal officers are delegated the authority to implement the cuts within

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some broad parameters, communicated below for academic divisions and in Attachment II for academic support units.

I also ask for your feedback on this approach and the preliminary budget reduction targets by March 20, 2009. I will review the feedback received during this consultation period before finalizing divisional targets.

In making these determinations, I was guided by the following principles:

- Strive to minimize impact on the delivery of instruction and research; and
- Implement reductions differentially to ensure the university will be successful with fewer state resources yet well positioned to resume growth when economic recovery occurs.

In order to achieve this, principal officers must be provided a framework to guide the operational decisions they will need to make to achieve the required budgetary savings. Although efficiencies in all areas must continue to be sought, I have taken the following as high priorities:

- Services/activities that directly affect instruction and research;
- Required safety and compliance functions; and
- Activities that will yield new revenue or increased revenue.

For academic divisions I ask that the Deans bear in mind the following as they move forward to implement reductions:

- Maintain and, where possible, enhance the quality of instruction and research while making the modes of delivering instruction and supporting research more intentional and efficient;
- Maintain or enhance the quality and productivity of graduate programs rather than pursue growth in graduate student enrollments; and
- Establish as a priority academic programs that demonstrate clear evidence of being highly ranked over programs that have not shown such evidence.

RATIONALE

My approach in implementing the permanent reductions for next fiscal year is shaped by the fact that I believe that our current situation is not one from which we will recover quickly. The harsh reality is that we may see additional reductions beyond what is currently anticipated. Despite this, UCSC must continue to invest in essential areas of opportunity and development. Therefore we must plan to reduce divisional budgets differentially, acknowledging that some areas within the university will endure larger cuts so that we can meet strategic goals and respond to current and future needs.

Few would argue against the fact that the university must always strive to have excellent students and the best faculty in order to make significant and positive impacts on society. To attract and keep the best students we must have effective means to admit them, enroll them in appropriate classes, meet their needs for housing, safety, health care, co-curricular activities, etc. Similarly,

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to hire and keep the best faculty we need to provide adequate support services. This means we must have systems to hire them and deliver their pay, have purchasing programs to supply them with materials they need to do their jobs, provide them with adequate facilities in which to work, and support many other services that are critical for effective delivery of instruction and research. Even beyond that, the university exists in a society that has imposed strict regulations on how we must perform our work. Thus, we need effective compliance monitoring and auditing of our activities to ensure that we are operating within the legal and ethical rules we are mandated to follow. The staff that provides these services must also be supported to do their jobs effectively.

When deliberating the assignment of budget reductions at the university we have often said that it is most critical to protect our core functions. Core functions are most often defined as direct instruction, research, and public service. In implementing past budget cuts, it was tempting to focus on reducing “administrative” functions in order to protect direct instruction and research “until the funding returns”. However, it is clear that carrying out our core mission requires substantial institutional support and we cannot continue to pursue our past approach without careful consideration of overall impact.

An assessment of the net effects of the previous rounds of budget cuts shows that it is unrealistic to assume that these reductions in core funding are temporary and will be replaced by real increases in state funding. This is particularly true since we do not foresee substantial growth in undergraduate enrollment. In light of the magnitude of the cuts we now face, we must acknowledge the necessity of making substantial reductions in all areas. In addition to further reductions in the academic support areas, we now have to reduce funding in our core academic areas, IT, and student life operations. We must also look to our auxiliary services for additional contributions. How we choose to implement these reductions will affect campus operations and environment for some time. Therefore we need to look carefully at the impact of cuts in every unit to be sure that they can continue to carry out their role in supporting our core instruction and research functions.

To help inform decisions on how to allocate the necessary reductions, I asked each Principal Officer to provide me with a brief summary of how s/he might implement a 10 percent reduction to their operating budget. I convened a small, informal advisory group to help me consider the impact of the proposed actions.

The assignment of targeted reductions to the institutional support units is based on review of the proposed actions that would be taken to reduce the budget and the resulting impacts. This was done to determine how to best preserve the essential functions that are needed to support instruction and research. The target reductions range from 2.38 percent up to almost 10 percent. This was done with the realization that there have been serious effects of several years of explicit budget reductions at the same time there were substantial increases in enrollment, personnel, and physical plant without proportionate increases in funding. Further, it must be acknowledged that responses to external mandates and escalating expectations in IT and other service areas have imposed additional constraints on the flexibility of all units to be able to respond to permanent

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budget reductions. These factors cannot be fully resolved or balanced by this process. I have, however, taken them into consideration in developing these reductions.

For the academic divisions a similar review was undertaken, with some additional parameters:

- It is not my intent to modify, at this time, our academic plan. The proposed distribution of faculty FTE was strategic in that it provided an approach to fulfill our mission and to do so within the financial resources anticipated. This current crisis will require adjustment to the pace and sequencing of FTE allocations.
- In considering the distribution of reductions across divisions, three factors were foremost in my thinking regarding short-term actions: 1) Reductions must be responsive to current enrollment trends to ensure timely student progress to degree; 2) We must consider opportunities to leverage the national investments expected in the areas of health and energy independence; and 3) We must support areas or programs that have potential to make significant impacts in their field and/or have a strong potential to attract private funding.
- Like academic support divisions, the Deans considered a 10 percent reduction of their state-funded budget. Predictably a reduction of this magnitude would result in significant impacts to the undergraduate and graduate instructional programs and a substantial decline in graduate student support. The proposed reductions to research support will inevitably result in moving the campus farther away from our long-term academic goals, but will allow modest progress to be continued.

The assigned reductions to academic divisions range from 3.8 to 5.3 percent. Smaller differential cuts were made to the Jack Baskin School of Engineering (JBSOE) and the Division of Physical and Biological Sciences (PBSci) for two reasons. First, enrollments have historically shifted toward science (predominantly) and engineering (to a lesser extent) during difficult economic times, so we might anticipate increased enrollments in these areas in the near term future (trends we have seen already in recent years). Second, the federal government has made it clear that high priorities for investment in the coming years will be in the areas of health and energy independence. JBSOE and PBSci have strong programs in these areas and are in good positions to make important contributions to these areas of study and to compete effectively for the increased federal funding that will be available to support their work in these areas. The reasons for smaller cuts to Arts are, first, that new programs in the arts have strong potential to make significant impacts their fields and, second, that there is a strong potential for private funding for the arts that should enable these programs to excel.

Going forward, we must assume that these reductions truly represent a permanent reduction in state support to the UC system. Although we can be optimistic about receiving some relief from the federal stimulus package, and we may look for some restoration of state support in the distant future, the trend over the past several decades leads me to believe that we must plan for a university on a significantly smaller state budget. As eloquently stated by one of our Deans, "Our challenge, then, is to imagine and plan for a strong, stable institution with a smaller state budget, and then to make the decisions necessary to move us towards that goal... We must think

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hard about what aspects of our programs are truly distinctive and are critical for us to preserve, and what we are willing to give up in order to protect the things we value. We must always focus on achieving excellence in those things that we choose to do, and we must be prepared to compete successfully for the non-state resources we need to build and sustain this excellence.”

I look forward to receiving your feedback by March 20 and welcome any questions you have.

Sincerely,



David S. Kliger
Campus Provost and
Executive Vice Chancellor

Attachments