December 16, 2009

UNIVERSITY OF CALIFORNIA, SAN DIEGO
Faculty and Staff

Dear Colleagues:

I am writing to provide you an overview of the budget situation for UC San Diego and the campus’ response to the California Budget Crisis. The fundamental fiscal problem we are faced with is the disinvestment in the University of California by the State of California. Since 1990, the State’s expenditure for the cost of educating each UC student has fallen by more than 50%, adjusted for inflation. Twenty-five percent of the UC’s total State-funded operating budget was lost in the last two years alone. The impact of state funding shortfall on the UC budget is over $1.1 billion, caused by $813 million in budget cuts and approximately $368 million in unfunded mandatory cost increases for faculty merits, health benefits, the restart of contributions to the UC Retirement System, and state utility costs.

Specific to UC San Diego, the state reductions impacted the 2009/10 state budget by more than $84 million. When unfunded mandatory cost increases are added, the funding shortfall climbs to almost $104 million.

A summary of the State budget reductions detail is outlined in following table.

| Remaining 2008/09 State Reductions | 2009/10 | | Fiscal Impact |
|-----------------------------------|---------|-----------------|
| Mid-year February Special Session ([$65.5M]) | $ (7.7) | $ (7.7) |
| May Revision ([$77.5M]) | (9.3) | (9.3) |
| **2009/10 State Reductions** | | | |
| Governor’s Veto - Feb. Special Session ($50M/$255M) | (35.8) | (35.8) |
| Governor’s Revision ([$81.3M]) | (9.6) | (9.6) |
| Governor’s Revision ([$167.5M]) | (19.7) | (19.7) |
| Conference Committee Adjustment ([$17.8M]) | (2.1) | (2.1) |
| **Subtotal** | $ (39.0) | $ (45.1) | $ (84.2) |

*University Response*

President Yudof and his staff at the Office of President have worked hard to minimize the impact to the campuses by first reducing UCOP’s internal infrastructure and costs and then asking campuses to reduce non-essential costs. Other university-wide efficiencies have been realized in debt restructuring, energy savings, and cooperative purchasing. However, the State’s fiscal crisis has been too severe to fully insulate the campuses from the major impact.

Fee increases are the unfortunate but necessary result of the State’s disinvestment in a UC education. In May 2009 The Regents approved student fee increases of 10% in educational fees and 4.2% in registration fees for 2009/10. The Regents also approved a 10% increase in non-resident tuition for undergraduate
students and increases ranging between 0% and 25% in professional school fees. Just last month, The Regents approved a mid-year fee increase of 15% for undergrads and a 2.55% increase for graduate students, as well as approved fee increases of 15% for 2010/11.

The University recognizes that fee increases for students are painful, especially in the current economic climate, and is taking steps to minimize the impact on students and their families to ensure access and affordability for talented students from all social and economic background. Additional financial aid, including grants that do not have to be repaid, is available as well as new tax credits which will reduce the cost substantially for many students.

- Under the just-expanded Blue and Gold Opportunity Plan, California undergraduates with household incomes of $70,000 and lower will have all of their systemwide fees covered by grants if they are eligible for financial aid.

- Many middle-class students will also be protected from increases due to the historic UC Return to Aid Program from fee increases (one-third) and the Obama tax credit. The fact is that 74% of undergraduates with family incomes below $180,000 will see no increase in 2009/10, and roughly half will see no increase in 2010/11.

Staff and faculty across all of UC have made sacrifices this year in the form of furlough/salary reductions. The university has issued over 2,000 layoffs. The hiring of faculty has decreased, and course offerings and campus services have been reduced.

The UCOP staff is committed to its efforts in leading and guiding the University through this challenging financial period. President Yudof has taken the lead in proposing new ideas for the federal government’s potential role in funding higher education operations. Also, the UC Commission on the Future has been created to explore and evaluate, in conjunction with the Academic Senate, innovative ideas.

**UC San Diego Response**

Despite its financial challenges, the campus is forging ahead with a strategic, multi-year approach to address this fiscal crisis while sustaining its academic excellence and stature as a world-class research University. To protect the core mission of accessibility, teaching and research, the plan includes cost savings and elevated efficiencies; increases in non-state revenues; and strong alignment of academic programs with institutional priorities.

Recognizing campus strategic objectives and the need to leverage flexibility afforded by anticipated savings from the systemwide furlough, the campus response to the State budget reductions includes:

- Using almost $25 million in one-time savings expected from the one-year furlough;
- Proceeding with a one-time internal loan of approximately $43 million, to be repaid with future interest earnings in unit cash balances; and
- Allocating a $20 million base reduction on Vice Chancellor unit budgets.
These reductions are significant and painful. Thus, it is important that we use temporary savings and operating balances to help mitigate short term impacts, while allowing necessary time for expanded efficiencies to reduce ongoing costs in existing programs and business processes. Other strategic options like adjustment of service levels and restructuring or consolidating systems and processes should be employed where feasible.

Campus constituents are making great sacrifices to address the State budget reductions this year. Students are paying larger fees. As of September 2009, faculty and staff began participating in a 12-month furlough. Department budgets have been reduced. Recruitments for faculty and staff have been reduced to only “high priority” searches. The campus has cancelled and deferred numerous programs and projects, among other efforts currently under way.

To decrease the impact of fee increases on students, in addition to the increases in financial aid set aside from fee increased revenues and tax credits listed above, UC San Diego has launched a student support campaign to raise $50 million to fund scholarships and fellowships. This effort, in collaboration with other University efforts, recognizes the need to focus fundraising efforts more sharply on student support. For more information on Financial Aid please go to the web site: http://www.ucsd.edu/current-students/finances/financial-aid/applying/index.html.

2010/11 Planning
In planning for next year, at least $20 million in permanent base reductions from the 2009/10 year will need to be addressed in 2010/11, an amount that could grow by another $36 million depending on the State’s economy. When this is combined with additional mandatory cost increases in benefits, faculty merits, negotiated salary increases, and funding for the UC Retirement Program, the financial need next year could approximate $80 million. These amounts do not include any offsets from student fee increases in 2010/11 which are expected to generate over $35 million for the campus.

It is expected that the work of several tiger teams appointed this past year to review multi-year cost impacts on the UC San Diego campus will help substantially. These teams worked on the following:

- **Auxiliary and Self-Supporting Activities**: evaluated the effectiveness of campus cost recovery to ensure such activities are fully “self-supporting”. It was determined that the campus is not fully recovering overhead costs, as required by costing and pricing policies. Consequently, adequate recovery from these activities will be pursued appropriately for reimbursement to the campus for millions of dollars annually.

- **Non-Resident Enrollment & Tuition**: evaluated the option of increasing nonresident enrollments for the purpose of generating additional revenues to help sustain quality and access to California residents. This is among other alternatives being considered, at a time of severe state budget reductions. Current percent of nonresident undergraduate enrollment is at 4%, which is low relative to comparable research institutions across the country. Enrollment increases being considered are modest and planned over a multi-year period. Over time, this source could generate millions of additional dollars annually.
Campus Information Technology Services: evaluated potential cost savings and other prospective Information Technology efficiencies. Recommended further enhanced focus of efforts in the provision of information to campus units, reviews of IT staffing levels and deployment of personnel, more cost effective options and controls for IT-related purchases, and reduction of energy consumption. With estimated costs of $150 million annually, even small changes within Information Technology could save the campus millions of dollars annually.

Over the next few months, these and prospective teams will continue to review campus costs and revenue sources. In addition, a recently appointed Joint Senate-Administration Task Force on Budget will provide recommendations to the Chancellor and Senior Vice Chancellor for sustaining UC San Diego’s academic excellence and stature as a world-class research university. This group will seek solutions to reduce our reliance on state funds permanently, rather than temporarily, through cost savings and increased efficiency, increased non-state revenues, and strong alignment of academic programs with institutional priorities, while protecting our core mission of accessibility, teaching, and research.

These are very trying times, and your continued support is greatly appreciated. We value and need entire campus to assist in developing solutions to the fiscal crisis. We must work together as a united force to deliver the message to elected officials that investing in higher education is essential for California’s future. All suggestions for addressing budget reductions are sincerely appreciated and I encourage you to continue to send your new and creative solutions for maintaining quality and accessibility in the new fiscal environment to your department chairs, college deans, and other unit leaders, as well as posting on Budget Line “Cost Saving Suggestions.” All comments will be read and considered as valuable input for the difficult budget decisions that lie ahead.

Again, I appreciate all of your efforts towards building a more efficient campus without compromising our quality. I will keep you informed about any further developments as they occur.

Sincerely,

Gary C. Matthews
Vice Chancellor