February 13, 2009

EXECUTIVE VICE CHANCELLOR AND PROVOST A. EUGENE WASHINGTON
DEAN KATHLEEN DRACUP
DEAN JOHN FEATHERSTONE
INTERIM DEAN SAM HAWGOOD
DEAN MARY ANNE KODA-KIMBLE
SENIOR VICE CHANCELLOR STEVE BARCLAY
SENIOR VICE CHANCELLOR BRUCE SPAULDING
INTERIM VICE CHANCELLOR RANDY LOPEZ
EXECUTIVE DIRECTOR HAILE DEBAS
EXECUTIVE DIRECTOR REGIS KELLY
CHIEF EXECUTIVE OFFICER MARK LARET
ASSISTANT CHANCELLOR DEBORAH BRENNAN

Subject: Planning for FY 2009-10 Budget

I write in follow-up to my letter dated December 16, 2008, to the Executive Budget Committee (EBC) in which I requested that this group convene in a special session to advise me on strategies the campus should follow to best address the serious budget crisis that confronts us. You are all aware of the EBC’s charge, and I am pleased that the Committee’s work is underway.

Work groups also have been convened to focus on revenue generation and innovation; administrative and business efficiencies; and academic and clinical program review. These work groups have begun their work to identify targeted opportunities across control point boundaries to reduce costs, improve efficiencies, and/or increase revenue and reimbursements using the principles and guidelines that we developed. The work groups’ efforts will help us address:

- The reductions to our State General Fund support
- The increased costs associated with the restart of UCRP contributions
- The significant cost increases in specific areas such as health benefits

It may not be possible to implement some of the recommendations of the work groups at the start of FY 2009-10, but may require a longer lead time and/or phasing in over multiple fiscal years.

Given the current uncertainty of the State budget, we are estimating the required State General Fund budget reduction for FY 2009-10 will be within a 3% to 11% range on a cash basis, and within a 3% to 14% range on a permanent annualized basis. (Please refer to the enclosed table.) According to the principles we have established to guide us in this process, which include determining ways to cushion the impact of these cuts to preserve our mission-critical teaching, research, and clinical functions, my hope is that we will arrive at
solutions that avoid making uniform across-the-board budget cuts. However, in the worst case event that we are unable to achieve our goal of cushioning the academic enterprise, I ask that you prepare a plan for how your organization will take reductions within the ranges stated in FY 2009-10.

As you have done in the past, I request that you provide me with your FY 2009-10 all-funds resource plan. This plan should provide a current overview of your organization, priorities, detail on how you are planning to meet the proposed reductions, effects these reductions will have, etc. Please also provide relevant financial projections, FY 2008-09, FY 2009-10 (the planning year), and estimates for the next two fiscal years, FY 2010-11 and 2011-12. These financial reports should contain the standard sources and uses (income and expense) information, as well as overall fund balances (balance sheet data).

I cannot be receptive to new requests for funding from Chancellor's discretionary funds for FY 2009-10. If your plan includes new initiatives or expansion of existing ones, they must be funded from resources internal to your organization. There is a small amount of Chancellor's discretionary resources available, but I am holding these in reserve for initiatives that arise from the work group efforts.

Your completed resource plan is due to the Budget and Resource Management department by May 1, 2009. I have asked for a final report from the EBC work groups by April 17, 2009, and I will use those recommendations to set final reduction targets (see enclosed schedule). As in the past, the Academic Senate may advise me independently of the EBC. With recommendations from these multiple planning processes, I am confident we will be able to effectively and thoughtfully address the budgetary challenges that we are ultimately to confront in FY 2009-10.

If you have questions about this process, please contact either Associate Vice Chancellor Vermillion at 476-1224 or Executive Director Hawkins at 502-4457.

Mike

J. Michael Bishop, M.D.
Chancellor
Arthur and Toni Rembe Rock Distinguished Professor
University Professor

Enclosures

cc: Academic Senate Chair Gardner
    Associate Vice Chancellor Vermillion
    Executive Director Hawkins
### CASH

**FY 2009-10 Potential 19900 Funds Budget Reduction Scenario Range**

<table>
<thead>
<tr>
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<th>Low</th>
<th>High</th>
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<tbody>
<tr>
<td>Faculty Merits and Health/Benefit Cost Increases</td>
<td>1.3% ($2.5M)</td>
<td>2.7% ($5.0M)</td>
</tr>
<tr>
<td>Represented Staff COLA Increases</td>
<td></td>
<td></td>
</tr>
<tr>
<td>General State Budget Reduction</td>
<td>2.1% ($4.0M)</td>
<td>7.9% ($14.7M)</td>
</tr>
<tr>
<td>UCRP Restart</td>
<td>0% ($0M)</td>
<td>0.7% ($1.3M)</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>3.4% ($6.5M)</strong></td>
<td><strong>11.3% ($21.0M)</strong></td>
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Range Rounded 3% 11%

### ANNUALIZED

**19900 Funds Budget Reduction Scenario Range**

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<tr>
<td><strong>TOTAL</strong></td>
<td><strong>3.4% ($6.5M)</strong></td>
<td><strong>14.0% ($26.1M)</strong></td>
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Range Rounded 3% 14%
by February 13, 2009  
Chancellor's letter to Campus Control Points  
(requesting plans separate from Executive Budget Committee [EBC] planning process)

April 17, 2009  
Deadline for EBC work group recommendations to Chancellor  
for FY 2009-10 specific issues

May 1, 2009  
Deadline for Control Point Plans to Chancellor and Budget &  
Resource Management

May 1 – May 22, 2009  
Chancellor and EBC review Control Point Plans and EBC work  
group recommendations. EBC Develops Overall  
Recommendations; Final decisions made

by May 26, 2009  
Control Points Notified of Decisions

June 1, 2009  
Any needed lay-off Notices Sent Out with an Effective Date of  
August 1, 2009

July 1, 2009  
Fiscal Year Begins, FY 2009-10 Reduction Plans Implemented