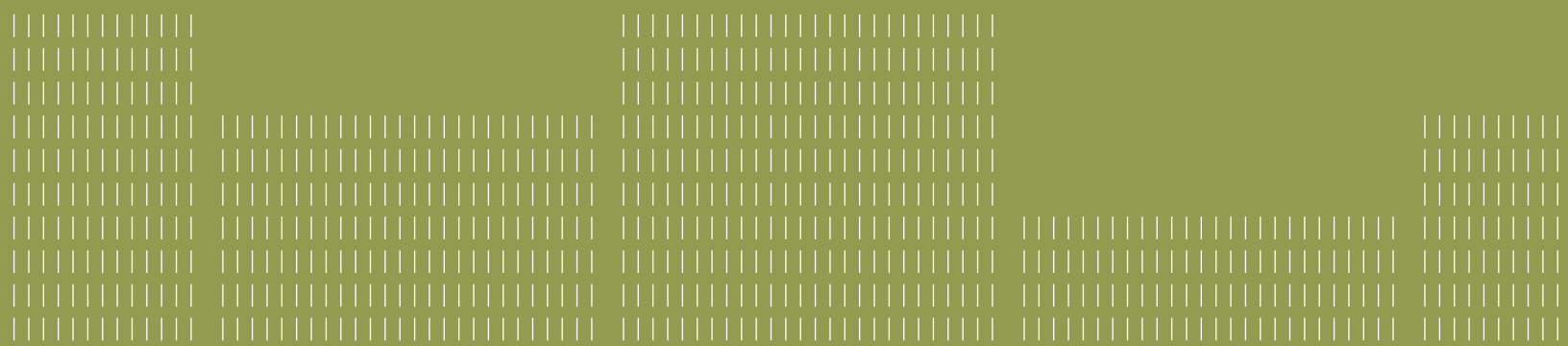


The 2008-2009 Budget Year Update

An Updated Budget Overview
Fiscal Year 2008-2009

Steve Barclay
Senior Vice Chancellor
November 2008



The 2008-2009 Budget Year Update

On September 23, 2008, Governor Arnold Schwarzenegger finalized the 2008-2009 state budget, which left the University of California with the same level of state funding as in the 2007-2008 budget year. Shortly after the signing, an unthinkable crash of the credit marketplace triggered an international economic crisis, which is still playing out. The volatility this has created for California state revenues has the governor convening the Legislature on an emergency basis to look at further state budget cuts.

To understand the impact of this “flat funding,” one needs to understand that it provides no additional state funds for the increased expenses generated by student enrollment growth, inflation-based cost increases for salary and non-salary budgets, or improvements in financial support for graduate students. If UC wants to fund these programs, it means that the existing budget will need to be reduced and reallocated to these programs.

This situation is compounded by the fact that there are several priorities requiring mandatory funding increases. These items are:

- Merit program pay for faculty members.
- Fiscal Year (FY) 2007-2008 salary increase continuation costs.
- Health care benefits cost increases.

The estimated cost of these combined increases at UCSF in FY 2008-2009 is \$5.8 million in state funds.

At the beginning of this budget cycle in spring 2008, the chancellor requested budget reduction plans from each of the UCSF control points of between 3 percent and 7 percent. When the state budget was initially enacted in late September, UCSF would have needed to cut its state funds by \$5.8 million, or 3 percent, in order to meet the above three obligations.

We were informed in late October, however, of a last-minute budget deal between the governor and the Legislature that cuts another \$33 million from the overall UC budget. This cut was made because revenue projections for the state of California in the current fiscal year continue to decline. As a result, UCSF must cut another 1 percent of the state funds for this fiscal year. A separate communication has been sent to the campus control points detailing this action.

Additionally, we were informed on November 6 that yet another budget reduction will be required midyear because of a significant decline in state revenues. This midyear cut may be as high as an additional 2 percent, bringing the total annualized reduction to 6 percent for UCSF. We have asked the UCSF control points to be ready to implement the full 7 percent cut we originally projected as the upper limit of cuts for FY 2008-2009.

In addition to this, a number of other UC activities receiving state funding that are unique in the standard allocation process received specific cuts. Several of these are the following:

- Special state-funded research programs were cut by 10 percent across the UC system, which will impact UCSF's substance abuse research program.
- UC-wide, all campus budgets were reduced to help fund new students in Programs in Medical Education (PRIME) as well as increases in undergraduate enrollment.
- Support for the California Institutes for Science and Innovation (including QB3 at UCSF) was reduced from \$20 million to \$10 million.

Absent from the list of mandatory increases and mandatory reductions were general salary increases for faculty and staff members. Consequently, general salary increases for faculty and staff will not happen in FY 2008-2009. This specific subject is discussed in more detail below.

Information for UC Employees About FY 2008-2009 Systemwide Salary Increases

As discussed on page 2, Governor Schwarzenegger and the Legislature recently adopted a final state budget for FY 2008-2009 that did not provide increased funding for core costs, including increased student enrollments or inflationary increases in fixed costs such as utilities and health benefits.

By keeping the University's state funding flat relative to last year, and needing to cover the unfunded burdens of salary and benefit continuation costs, as outlined on page 2, the University will not be able to offer systemwide salary increases to faculty and staff. This means that UC will need to defer progress on changes to the faculty salary scales for 2008-2009. (Wages for union-represented employees are subject to collective bargaining, and obligatory merit increases for faculty will follow UC policy.)

Competitive pay and benefits for employees are one of the University's top priorities, as they are fundamental to rewarding UC's hardworking employees for their many contributions and are critical to UC's ability to attract and retain quality personnel. Throughout the budget process, UC continually stressed to the Legislature and the governor the importance of competitive salaries and benefits, and we are very disappointed that this year's final budget does not provide funding for salary increases.

Fortunately, medical and retirement benefits for UC employees remain among the best in the country. As was just announced, the University has taken extra steps regarding 2009 employee medical insurance rates to help shield employees from escalating health care costs. Not only is UC continuing to pay the vast majority of next year's premium increases, but UC is applying a special, onetime subsidy to defray employees' share of premium increases.

UC is also continuing its salary-based approach to rates, so that lower-paid employees pay lower monthly premiums. The net result will be that many employees will see either decreases or only modest increases in their monthly premiums for the exact same benefits as last year – no benefits are being cut. (Health insurance rates for union-represented employees are subject to collective bargaining.)

The University values deeply the many contributions of its faculty and staff and their ongoing dedication to the University, especially during these difficult economic times, and UC will continue to impress upon state officials the critical importance of competitive salaries and benefits for all employees.

UCSF Information Technology Network and Infrastructure

Enhanced technologies are needed for our administrative, academic and clinical operations, and significant increases have been made in our annual financial commitments. We have also invested in intersite networking through our Next Generation Metropolitan Area Network initiative; however, we still have an outdated and fully depreciated core network infrastructure that needs immediate attention. Addressing this challenge is a priority of our strategic plan.

After evaluating the issue, our Data and Voice Services Advisory Committee (DVSAC) recommended a capitated funding model to strengthen our core network. The premise of a capitated funding model is that users generally share costs equally. So far, a business case for the funding model has been presented to the Executive Budget Committee, the Academic Planning and Budget Subcommittee, and the School of Medicine department chairs, with other presentations planned.

This funding model proposes that the cost of upgrading the core network be paid for by a monthly user fee implemented over a five-year, phased-in period. Questions that remain to be fully evaluated and vetted include: Who will be covered by the proposed charge? What should the initial monthly charge be, and by how much does it need to escalate over five years?

A Data Network Recharge Committee has been established to address these questions. The committee is to submit its recommendation to the Executive Committee by spring 2009.

The tables on pages 5 and 6 list the membership of the initial DVSAC and of the Data Network Recharge Committee.

Data and Voice Services Advisory Committee

Name	Title/Role	Organization
Ronald Arenson, Co-Chair	Professor and Chair	Department of Radiology
Robert Duca, Co-Chair	Associate Dean	School of Pharmacy
Opinder Bawa	Director, Information Services Unit	School of Medicine
Karen Butter	University Librarian and Assistant Vice Chancellor	Library
Marie Caffey	Director, Administration	Department of Psychiatry and Langley Porter Psychiatric Institute Administration
Steven Cheung	Associate Professor	Department of Otolaryngology–Head and Neck Surgery
Maye Chrisman	Associate Chair, Finance and Administration	Department of Medicine
Glenna Dowling	Professor and Chair	Department of Physiological Nursing
Thomas Ferrin	Professor	School of Pharmacy; Computer Graphics Lab
Lynda Jacobsen	Director of Administration	Comprehensive Cancer Center
Clay Johnston	Professor	Department of Neurology
Ken Jones	Chief Financial Officer	Medical Center Administration
James Joves	Assistant Manager	School of Pharmacy Dean's Office
Wendy Max	Professor in Residence, Co-Director	Institute for Health & Aging
Christine Miaskowski	Professor	Department of Physiological Nursing
Alexis Purcell	Interim Executive Director, Finance and Administration	Development Office
David Rein	Director and Acting Vice Dean, Finance and Administration	School of Medicine
John Roberts	Professor	Department of Surgery
James Tran	Programmer/Analyst	School of Nursing Dean's Office

Ex Officio

Name	Title/Role	Organization
Randy Lopez	Interim Vice Chancellor	Financial and Administrative Services
Larry Lotenero	CIO	Medical Center Administration
Shahla Raissi	Director, Business and Resource Management	Office of Academic and Administrative Information Systems
Jonathan Showstack	Assistant Vice Chancellor and Co-CIO	Office of Academic and Administrative Information Systems
Eric Vermillion	Associate Vice Chancellor	Finance

Data Network Recharge Committee

Name	Title/Role	Organization
Thomas Ferrin, Co-Chair	Professor	School of Pharmacy; Computer Graphics Lab
Patricia Perry, Co-Chair	Department Manager	Department of Urology
Ronald Arenson	Professor and Chair	Department of Radiology
Opinder Bawa	Director, Information Services Unit	School of Medicine
Karen Butter	University Librarian and Assistant Vice Chancellor	Library
Steven Cheung	Associate Professor	Department of Otolaryngology– Head and Neck Surgery; Academic Senate
Maye Chrisman	Associate Chair, Finance and Administration	Department of Medicine
Robert Duca	Associate Dean	School of Pharmacy
David Erle	Professor	Department of Medicine, SFGH
Alan Frankel	Professor	Department of Biochemistry and Biophysics
Michael Hindery	Vice Dean	School of Medicine
Wendy Max	Professor in Residence and Co-Director	Institute for Health & Aging
Susan B. Moore	Director of Finance	Medical Center
Zina Mirsky	Associate Dean and Lecturer	School of Nursing Dean's Office
Rob Slaughter	Director	School of Nursing Office of Research
Cathryn Thurow	Director	School of Medicine Associate Dean's Office, SFGH
Lana Tomitch	Finance Manager	School of Dentistry Dean's Office

Ex Officio

Name	Title/Role	Organization
Jeff Fritz	Director, Enterprise Network Services	Office of Academic and Administrative Information Systems
Shahla Raissi	Director, Business and Resource Management	Office of Academic and Administrative Information Systems
Jonathan Showstack	Assistant Vice Chancellor and CIO	Office of Academic and Administrative Information Systems

While the implementation of this recharge aligns with benchmarking from other peer institutions and allows UCSF to take advantage of a clear best practice to align revenues with their associated costs, the current economic climate may dictate a look at some suboptimal alternatives to the current proposal. Control points and other major organizations desiring to learn more about this should contact Assistant Vice Chancellor Jonathan Showstack.

Management Information Reporting System

On July 7, 2009, UCSF's Resource Management, Planning and Allocation Steering Committee (see table below) recommended an accelerated software selection for a new management information reporting and budgeting system. Work commenced almost immediately on developing the high-level system requirements, and a Request for Information (RFI) was subsequently sent to Cognos, a company that makes business intelligence software. This focus on Cognos affords us the ability to leverage the current institutional knowledge stemming from our use of Cognos ReportNet and to take advantage of preferred pricing offered through a systemwide contract.

Resource Management, Planning and Allocation Steering Committee

Name	Title/Role	Organization
Steve Barclay	Senior Vice Chancellor	Resource Management and Capital Programs
Deborah Brennan	Assistant Chancellor	Chancellor's Office
Patricia Calarco	Dean	Graduate Division
Barbara French	Associate Vice Chancellor	University Relations
David Gardner	Chair	UCSF Academic Senate
Angela Hawkins	Executive Director	Budget and Resource Management
Michael Hindery	Vice Dean	School of Medicine
Ken Jones	Chief Financial Officer	Medical Center
Randy Lopez	Interim Vice Chancellor	Financial and Administrative Services
Eric Vermillion	Associate Vice Chancellor	Finance
Eugene Washington	Executive Vice Chancellor and Provost	Office of the Executive Vice Chancellor
Kathleen Wesner	Director and Resource Coordinator	Finance

With the RFI distributed, the Management Information Reporting Working Group was formed, and the members are working to guide the process of the system selection through participation in system demonstrations and design meetings. The working group membership is listed on the next page.

Management Information Reporting Working Group

Name	Title/Role	Organization
Maye Chrisman	Associate Chair, Finance and Administration	Department of Medicine
Lydia Derugin	Director, Administration and Finance	University Advancement and Planning
Rob Duca	Associate Dean	School of Pharmacy
Wanda Ellison	Assistant Provost and Executive Director	Executive Vice Chancellor and Provost's Office
Mara Fellouris	Executive Director	Program Management Office
Cecilia Hamilton	Controller and Assistant Vice Chancellor	Controller's Office
Angela Hawkins	Executive Director	Budget and Resource Management
Michael Hindery	Vice Dean	School of Medicine
Karen Mah-Hing	Director	School of Nursing Dean's Office
Jocelyn Nakashige	Director, Finance and Administration	Office of the Senior Vice Chancellor, Financial and Administrative Services
Anja Paardekooper	Budget Director	School of Medicine
Vic Ricciuti	Budget Analyst	School of Nursing Dean's Office
Matt Suelzle	Coordinator	Budget and Resource Management
Charles Taylor	Director	Budget and Resource Management
Lana Tomitch	Finance Manager	School of Dentistry Dean's Office
Michael Villanueva	Director, Operating Budget	Budget and Resource Management
Andrew Wissmiller	Director, Information Technology Services	Office of Academic and Administrative Information Systems
Jane Wong	Interim COO	Office of Academic and Administrative Information Systems

Following the working group kickoff meeting, Cognos presented a demonstration of their planning and business intelligence software. This software is a potential solution to many of our needs for transparency, common terminology and stronger financial management. Based on this presentation and the work of the working group, Huron Consulting Group is developing a business case to provide us with the documentation and foundational knowledge necessary to decide whether Cognos can meet our requirements or whether we will need to include additional vendors in the process.

This new system will provide many benefits, including:

- Provide a data warehouse repository of the major campus systems data elements (financial, employee, space, payroll, etc.) that can be easily accessed, with the data organized to provide meaningful management information reports to ALL campus user levels.
- Provide familiar information retrieval and orchestration tools to involve a wider range of people with different skill levels in the management reporting process.
- Create budgets based on clear, logical drivers and simplify the work flow of budget submission and approval.
- Allow for integrated reporting across the institution, based on the same data and the same definitions.

Once a decision is finalized, a series of user groups from all campus levels will be organized to begin developing functional requirements, so that the reporting needs – from the most basic to the most complex – are identified. Once this information is complete, to make a case for securing funding priority, a business case analysis will be performed to determine opportunities, costs and returns on investment for such a tool.

Performance Metrics

Accountability within the UC system – and at UCSF – is a much discussed topic, and on September 21, 2008, UC President Mark G. Yudof presented a draft UC accountability framework to the Board of Regents. One of the first steps in the accountability framework is the establishment of a repeatable, comprehensive assessment of progress toward all missions on all campuses.

In alignment with this initiative, we are developing institutional and control point performance metrics that will meet the UC Office of the President's needs and enhance our efforts to provide more transparency, communication and accountability. In addition to increasing understanding of the University's financial profile, consistent performance metrics will establish acceptable operating parameters across the institution.

The initial focus of this effort will be on developing budgeting-related, operational performance metrics. Additional metrics will be considered for the academic, research and clinical enterprises. The primary focus of these metrics will be incorporated into a robust, but simple, report that can be used by each control point. It is expected that this effort will eventually evolve into a full-fledged "numbers day" in which departments, control points and senior administrators will regularly explore quantitative performance.

The immediate and current focus is on developing:

- Financial and operational metrics to highlight items such as resources used for current operations and reserved for future operations; budget allocation employed for strategic initiatives; and revenue generation and expense distribution.
- Academic metrics to focus on faculty turnover, recruitment (active, complete, closed) and retirement; research proposals, awards, expenditures, backlog and funding; and enrollments by department and program.
- Other metrics that will likely change from year to year, based on control point priorities, including cost reduction initiatives, staffing changes and budget trend analysis.

Once the appropriate metrics are determined by working with each of the control points and select departments, the previously mentioned report will be created. Creating this report, which will provide UCSF with a powerful tool for financial communication, is another example of how we are committed to establishing the most solid financial future possible.

Looking to the Future

Albert Einstein once said, “Intellectuals solve problems; geniuses prevent them.” As we look to the future, we can see several looming issues that will require both our intellect and our ingenuity to solve, including:

- The University of California Retirement Plan (UCRP) will reinstate employer and employee contribution requirements in July 2009, which will have a direct impact on UCSF’s payroll costs and our extant funding sources, which are in already difficult times.
- A decision must be made on how to continue a salary increase plan for faculty and staff.
- Fiscal year 2010 is likely to bring another state budget cut.
- Capital funding erosion in both the state and the financial marketplaces requires a renewed look at our approach to UCSF’s capital spending for both new facilities and existing ones.

To be certain, we are in a very dangerous economic time, with financial challenges and constraints facing us as never before. These daunting challenges need to be assertively and successfully addressed; otherwise, they will threaten the pursuit of UCSF’s mission and the core of UCSF’s tradition of excellence.

To assist in facing these challenges – the root causes of which are the continued serious erosion in state support, flat and declining federal research funding, huge cost pressure on the clinical enterprise on top of rising compliance and operating costs, paralysis in the national and international credit markets, and major declines in the value of our investments – UCSF needs to build a structure around which we can develop successful responses to these challenges.

Now, more than ever, we will need to identify ways, and provide people with the tools, to drive the success of the institution. The next planned communication will report on action planning steps that the campus intends to take to address these challenges.

