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July 10, 2009

UNIVERSITY OF CALIFORNIA COMMUNITY

Dear Colleagues:

Along with my video message, I write to share with you the furlough proposal I'll be taking to The Regents next week. As you know, this proposal is one of several measures necessitated by the extraordinary reduction in funding to UC proposed by the Governor and the Legislature, which comes on the back of previous funding shortfalls by the State.

First, though, I want to thank you for your suggestions on how to address the severe fiscal challenge we are facing. My recent communications seeking your feedback on several options for systemwide furloughs and/or salary reductions drew thousands of thoughtful responses. Your concerns – for the future of the University, the wellbeing of the campus community, and for our strong public service mission – were evident in the ideas and suggestions put forth.

There were some consistent themes that came from your comments.

People felt strongly that there should be additional time off with any reduction in salary. You also requested a graduated approach to pay cuts, with those who earn more absorbing a larger cut in pay, and that salary reductions be spread throughout the year in order to avoid large salary reductions in a given month.

Protecting pensions was also a big concern. As was giving faculty, staff, and locations flexibility in how reductions were implemented. Many of you also asked me to be sensitive to the unique nature of certain groups, such as student employees and personnel whose salaries are drawn entirely from federal grants.

Your concerns were at the heart of my proposal, and I tried to incorporate as many as possible. Admittedly, given the difficult circumstances, no plan is perfect and any solution includes difficult choices.

Taking into account your comments and the University's needs, I am proposing a modified furlough plan. Here are the key aspects of the proposal:

- Time off: Provides additional time off for salary reductions.
- Pension benefits: Proposes pre-furlough salaries be used to calculate pension benefits.
- Flexibility: Provides flexibility as to when time is taken.
- Smoothed financial impact: Spreads pay reductions evenly over the year.
- Special circumstances: Provides consideration for unique employee groups.
- Graduated approach: Seven tiers with higher earners having higher pay cuts:

Tier	Salary	Furlough Days	Equivalent Salary Reduction
1	\$0 – 40,000	11	4%
2	40,001 - 46,000	13	5%
3	46,001 – 60,000	16	6%
4	60,001 – 90,000	18	7%
5	90,001 – 180,000	21	8%
6	180,001 – 240,000	24	9%
7	Over \$240,000	26	10%

The net effect for you is you will be given furlough days using a sliding scale, and your salary will be adjusted downward by a matching percentage. You will be able to take the furlough days at a time of your choosing, in consultation with your manager and/or if your location designates certain closure days throughout the twelve month period. This gives the University flexibility to help manage operations and gives employees flexibility to manage personal time off.

The plan is somewhat different than a traditional furlough plan because UC is an incredibly complex organization with many different operations and many different needs. Our medical centers, for instance, need around the clock staffing. Teaching and lab research also require greater scheduling flexibility than a traditional furlough offers. And so forth. I believe this approach gives us the flexibility that our complex organization requires while also yielding the necessary savings. It also lessens the impacts on employees and responds to several key community concerns.

My hope is that it also reduces the need for additional layoffs.

There are a few notable differences for certain groups.

- Senior Management Group members will receive a maximum of 10 furlough days, even though their pay cut percentage may be higher.
- Faculty furlough days will vary depending on academic or 12-month year.

- Lawrence Berkeley Lab employees are not included because of our contract with the U.S. Department of Energy.
- Some student employees, such as graduate students, are also exempted, except where covered by collective bargaining agreement, as well as personnel whose funding comes entirely from contracts and grants.
- Employees working reduced hours under the START program may also be exempt, if their reduced pay under START is already equal to the proposed cuts.
- Implementation of the plan for represented employees will be subject to collective bargaining agreements and all applicable laws.

Again, while there are no perfect choices for how to achieve the needed cost-savings, I believe this plan reflects an appropriate balance centered on fairness and shared sacrifice.

It also is not unlike actions that other employers, including both the State of California and the CSU system, have already implemented.

You can find full details in the proposal submitted to The Regents, which should be now available online at: www.universityofcalifornia.edu/regents/regmeet/jul09/joint.pdf.

As I have said previously, the principle of shared sacrifice is central to how we will deal with our budget challenges. Given the depth of the funding shortfall, every member of the UC community is being called on to shoulder some of the burden.

Systemwide furloughs will produce \$515 million from all fund sources, including \$184 million in General Fund savings which equals roughly one-quarter of our State funding deficit. Student fee increases will bring \$200 million in savings, and cover another quarter of the shortfall. Additional savings will come from restructuring UC debt. Cuts in campus spending will yield an additional estimated \$300 million.

But make no mistake, these fee increases and systemwide spending cuts carry serious implications for UC, and we need to look at how we are going to maintain UC's quality and continue to fulfill our promise to the people of California in light of this new reality.

The Regents are expected to consider my proposal Wednesday, and act on it Thursday. We'll send you another update about The Regents' final decision.

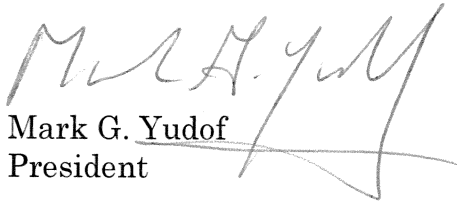
I know this is a tough time for all of us, but we will get through it. We are a great institution and a strong community. The University of California makes vital contributions in nearly every facet of life in California and beyond. Your dedication to UC and to the people of California is what makes this a world-class institution.

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Thank you again for your input and for engaging in such a thoughtful way about the best course of action for UC. I appreciate your ongoing partnership.

With best wishes, I am,

Sincerely yours,

A handwritten signature in dark ink, appearing to read 'M. G. Yudof', with a stylized flourish extending from the end of the signature.

Mark G. Yudof
President