May 14, 2008

DEANS, VICE CHANCELLORS, VICE PROVOSTS, UNIVERSITY LIBRARIAN

RE: Self-Supporting Activities – Assessment, Rate Increases, and Budget Plans for 2008-09

Dear Colleagues:

As you know, the 2008-09 budget outlook for the campus is very challenging. The budget planning task force has been developing a broad range of strategies to address the challenge, recognizing that the budget reduction targets in the February 26, 2008, planning letter will be insufficient to fully absorb the cuts that the Office of the President will eventually assign. The campus is now turning to a series of one-time strategies to fill the gap in 2008-09.

One such strategy is an assessment on recharge and income revenue generated by self-supporting activities. The assessment provides a mechanism for self-supporting activities, as part of the campus community, to participate in addressing the campus budget challenges. The assessment will provide approximately 10%-15% of the sources needed to cover the expected budget gap. Another strategy, intended to buffer core-funded departments, is a freeze on most recharge rates. Information on a proposed assessment and a rate freeze for 2008-09 is provided below.

Consideration of policies for future years will be evaluated over the coming months and will likely include a self-supporting assessment. However, the principles and parameters for a long-term assessment require more analysis, evaluation and consultation. In the meantime, we need to consider an immediate assessment for 2008-09 as described below. A request for information is also provided below to ensure that the consequences of this approach can be evaluated before a final decision is made.

**2008-09 Assessment**

- For 2008-09, the assessment will be 3.0% of income and recharge revenue from each self-supporting fund.
- Certain pass-through costs that exceed 20% of revenues and are consistent with existing rate approvals will be exempt from the assessment. Our office will work with units to provide further guidance on this issue as needed
- Self-supporting activities charged primarily to federal contracts and grants are exempt from the assessment (i.e., exemption applies if more than 15 percent of a self-supporting activity’s revenue is from federal sources).
- ORMP is developing an assessment implementation plan and will work closely with your chief financial officers.
2008-09 Rate Proposals and Rate Freeze

- The delegation of authority to deans and vice chancellors for rate increases that do not exceed campus planning guidelines (PPM 340-25, section IV.A.1.b) is suspended until further notice.
- Self-supporting activities charged primarily to federal contracts and grant funds or non-university customers may propose rate increases to ensure full cost recovery.
- All other self-supporting activities are not allowed to raise rates in response to this assessment or other fixed cost increases. The freeze on rates became effective February 26, 2008, in accordance with the budget reduction planning letter. The Rate Group may approve exceptions for self-supporting activities that are facing an extraordinary circumstance.
- For planning purposes, self-supporting activities should not assume salary increases unless increases have been specifically negotiated as part of the University's collective bargaining process. Benefits cost increases for health and dental are expected to increase similar to the increases we experienced this year.

Summary Table: 2008-09 Assessment & Rate Increases for Self-Supporting Activities

<table>
<thead>
<tr>
<th>Revenue Type</th>
<th>% of Revenue from Federal Sources</th>
<th>Assessment</th>
<th>Rate Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income</td>
<td>Not applicable</td>
<td>3.0%</td>
<td>May submit proposal if costs can not be absorbed</td>
</tr>
<tr>
<td>Recharge (primarily federal)</td>
<td>More than 15%</td>
<td>None</td>
<td>May submit proposal to ensure full cost recovery</td>
</tr>
<tr>
<td>Recharge (primarily intra-campus)</td>
<td>15% or less</td>
<td>3.0%</td>
<td>Not Allowed</td>
</tr>
</tbody>
</table>

Budget Plans for Self-Supporting Activities in 2008-09

It is important to understand the consequences of this proposed assessment. Therefore, on behalf of Provost Horwitz, I am requesting that each dean/vice chancellor/vice provost office submits a single report that includes a generalized 2008-09 budget plan for self-supporting activities that would be subject to the proposed assessment or incur other cost increases, if the annual revenue generated by the activity exceeds $200,000 or if you believe that there are significant negative consequences. A preliminary list of self-supporting activities from 2006-07 is attached to guide your planning including information about the level of federal recharge activity.
Each plan should describe how expenses will be reduced or revenues will be increased to cover cost increases, including the assessment, without creating or increasing operating deficits. Attached is a template to facilitate your report. Plans are due from the dean/vice chancellor/vice provost offices to ORMP by June 6, 2008.

Please contact Associate Vice Chancellor Ratliff if you have any questions. Thank you for your leadership and contributions to the campus community.

Sincerely,

John A. Meyer, Vice Chancellor
Resource Management and Planning

Attachments

c: Chancellor Vanderhoef
   Interim Provost and Executive Vice Chancellor Horwitz
   Senate Chair Bisson
   Senate Vice Chair Powell
   Senate Planning and Budget Chair Orel
   Associate Vice Chancellor Ratliff
   Assistant Deans and Chief Financial Officers
2008-09 Budget Plan for Self-Supporting Activities

Dean/VC Office: ________________________________

<table>
<thead>
<tr>
<th>OP Fund Number</th>
<th>Description of Activity</th>
<th>Projected 08-09 Revenue ($)</th>
<th>Plan for Absorbing Cost Increases</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Income</td>
<td>Recharge</td>
</tr>
</tbody>
</table>

1 For funds generating $200,000 or more in annual revenues
2 Describe impacts of cost reductions, operational changes, rate increases, etc.