October 17, 2024

To: Cindy Larive, Chancellor
Lori Kletzer, Executive Vice Chancellor/Campus Provost

From: Budget Advisory Committee

Re: Multiyear Core Funds Budget Balancing Framework Recommendation

In February, you charged a standing Budget Advisory Committee (BAC) to provide advice and recommendations on various campus budget issues. Of the specific elements of the charge, the BAC has provided recommendations on initial FY25 expenditure reductions and on carryforward approach. This letter addresses the next specific element of the charge: development of a multiyear framework in support of bringing the core funds budget into balance.

The BAC had discussed principles to guide its work from the start, and made reference to them generally in previous transmittals. In advance of developing its multiyear recommendation, the committee took the time to develop a set of refined principles, which follow, to guide this aspect of the charge and subsequent BAC work.

All Budget Advisory Committee Recommendations should:

- Advance or preserve campus goals and strategic plan themes
- Preserve and minimize impacts to the tripartite mission of teaching, research, and public service
- Maintain status as an R1, HSI, AANAPISI, and AAU institution
- Take a people-centered, equity-oriented approach
- Prioritize reductions that will yield ongoing savings
- Prioritize realistic and timely revenue-generating positions/functions/activities
- Take into account total costs (e.g., total employee compensation including benefits, startup, etc.)
- Reduce workload expectations where personnel resources are being reduced, and avoid propagating the attitude that “we now need to do more with less” or even “continue the same work with fewer people”
- Where applicable, support modest one-time investments that will yield ongoing revenue gains and/or expenditure reductions
- Support long-term financial sustainability
- Encourage transparency in decision-making processes through clear, consistent communications, campuswide and at the divisional level.

With those principles in mind, the BAC evaluated the multiyear outlook for the core funds revenue and expenditure projections and developed a framework for closing a roughly projected $150 million structural gap (see Framework Spreadsheet for projected revenue and expenditure changes).

There were two major dimensions the committee established for its framework: timeline (in fiscal years) and expenditure categories. In terms of timeline, the committee discussed the relative merits and challenges with different durations for the framework and settled on three years. The balancing considerations behind this decision were, on the one hand, acknowledging the reality of the core funds reserve status, which argues for a shorter duration, and on the other hand, recognizing the time needed for strategic, structural change.

With respect to the second dimension, the committee identified four major categories of expenditure within which to organize and allocate expenditure reductions (or revenue enhancements):

- **Central** - This category includes actions that could be directed centrally, such as increasing non-resident enrollment, increasing the transfer of non-core funds to core funds (e.g., via auxiliary assessment), reductions of centrally controlled expenditures (e.g., central commitments), and other revenue enhancements such as those that may be recommended by the Revenue Augmentation Committee.
- **Instructional** - This category represents the academic instructional resources that are controlled by the CP/EVC, including faculty lines, instructional support, and teaching assistants.
- **Strategic** - This category would include to-be-determined strategic initiatives and organizational changes such as those that may be recommended by the Strategic Organizational Committee in areas such as consolidations, centralizations, changes (including cessation) of functions, and process improvements.
- **Divisional** - This category represents the expenditure budgets managed by the academic and administrative divisions.

Divisional expenditure reductions are already taking place in FY25. The committee thus sought to explore what levels of reductions could be reasonably assumed in the first three categories above, understanding that the balance will need to be addressed through additional divisional cuts. For each category, the committee explored and discussed how proposed levels of reductions could be achieved.

From those analyses, the committee recommends the following primary framework. The logic underlying how targets are allocated across the three years was based on rough estimates of which could happen faster (e.g., Central) vs which would take more time to generate net savings (e.g., Strategic).

Savings Targets ($ millions)	FY2025-26	FY2026-27	FY2027-28	Total
Central	23	13	14	**50**
Instructional	7	9	9	**25**
Strategic	5	10	5	**20**
Divisional	16	18	11	**45**
subtotal	51	50	39	**140**
Additional FY25 cuts	13	0	0	**13**
Total	**64**	**50**	**39**	**153**

The committee further considered how to allocate divisional reductions (which was also part of the BAC charge). Using a similar grouping as was used for FY25 targets, the committee discussed a range of possible scenarios, from an across-the-board reduction to a strongly differential scenario that prioritized protection of the academic disciplinary divisions. The particular option that you choose should depend on how you decide to balance our campus mission, our strategic goals, our operational continuity, and our plans and priorities once we move into a better budget environment. .

The committee provides several possibilities for cut scenarios to the divisions, including across the board, one that protects academic disciplines to a moderate degree, and one that protects the academic disciplines more strongly. Each addresses one or more of the principles identified earlier, but the committee concurs that the degree to which disciplines are cut requires direction from the Chancellor and EVC/Provost as this will impact the trajectory of the campus, not only on a division by division campus, but as a whole. The Framework Spreadsheet is available for you to adjust these three-year reduction percentages or other aspects of the dimensions

Option 1 (across the board)

Divisional Reduction Breakdown by Year	**FY25 Budget w Benefits ***	**FY26**	**FY27**	**FY28**	**3 Year Reduction**	**3 Year Reduction**	**FY26**	**FY27**	**FY28**
Academic Disciplinary	75.0	-2.1	-4.3	-4.3	-10.7	14.3%	20%	40%	40%
Academic Support	25.8	-1.5	-1.5	-0.7	-3.7	14.3%	40%	40%	20%
Student Services	83.9	-4.8	-4.8	-2.4	-12.0	14.3%	40%	40%	20%
Administrative	129.1	-7.4	-7.4	-3.7	-18.5	14.3%	40%	40%	20%
Total	313.8	-15.8	-17.9	-11.1	**-44.9**				

Principles: even levels of reduction
Implications: Not an equity-centered approach since cuts are more difficult to absorb in small divisions, where efficiencies are less possible, and not all divisions are at the same starting point.

Option 2 (moderate spread)

Divisional Reduction Breakdown by Year ($ millions)	FY25 Budget w Benefits	FY26	FY27	FY28	3 Year Reduction	3 Year Reduction	FY26	FY27	FY28
Academic Disciplinary	75.0	-1.7	-3.3	-3.3	-8.3	11%	20%	40%	40%
Academic Support	25.8	-1.3	-1.3	-0.7	-3.4	13%	40%	40%	20%
Student Services	83.9	-5.0	-5.0	-2.5	-12.6	15%	40%	40%	20%
Administrative	129.1	-8.3	-8.3	-4.1	-20.7	16%	40%	40%	20%
Total	313.8	-16.3	-17.9	-10.6	**-44.8**				

Principles: protect academic mission more than student services or administration
Implications: services that are important and indirectly serve the mission see more significant cuts that may impact other divisions.

Option 3 (highly differential)

Divisional Reduction Breakdown by Year ($ millions)	FY25 Budget w Benefits	FY26	FY27	FY28	3 Year Reduction	3 Year Reduction	FY26	FY27	FY28
Academic Disciplinary	75.0	-0.9	-1.8	-1.8	-4.5	6%	20%	40%	40%
Academic Support	25.8	-1.3	-1.3	-0.7	-3.4	13%	40%	40%	20%
Student Services	83.9	-5.0	-5.0	-2.5	-12.6	15%	40%	40%	20%
Administrative	129.1	-9.8	-9.8	-4.9	-24.5	19%	40%	40%	20%
Total	313.8	-17.1	-18.0	-9.9	**-45.0**				

Principles: Preserve and minimize impacts to the tripartite mission of teaching, research, and public service by protecting academic disciplinary divisions, which serve each of the tripartite missions; require divisions more removed from directly supporting the mission to take on more significant cuts
Implications: academic disciplinary divisions' budgets reduced by a significant but not overwhelming amount, while other divisions must identify efficiencies or implement cuts to allow the academic divisions to remain relatively intact. Services that are important, indirectly serve the mission of the university, and/or in many cases impact the academic disciplinary divisions are reduced.

The committee understands that should the net savings/revenue in the first three categories not be achieved, deeper divisional cuts may be needed, at the risk of fundamentally reducing UCSC's functioning and impact in teaching, research, service, and community outreach. The campus should closely monitor progress towards the framework targets and be ready to adjust as needed each year, including revisiting the framework if the proposed cuts/revenues are not meeting the deficit reduction goal while also supporting our principals. The committee notes also that the to-be-defined strategic initiatives won't happen unless they have a clear leadership mandate; the relevant decisions, communication, consultation, and commencement of implementations are both begun timely; moderate amounts of one-time spending or temporary staffing are available for these implementations if needed, and that a high-level sponsor (i.e., Vice Provost, Vice Chancellor, or Dean) is assigned to each and is empowered to lead and will be held accountable for implementation.

With the foregoing context in mind, the committee respectfully submits options for your review of a multiyear framework, and remains ready to engage in advising on any relevant budget matters going forward.

Sincerely,

Herbie Lee, Co-Chair
Ed Reiskin, Co-Chair
Amber Blakeslee
Bryan Gaensler
Kamala Green
Raphe Kudela
John MacMillan
Elisabeth Willoughby