June 24, 2011

Deans
Vice Chancellors
Vice Provost Siegel
Acting University Librarian Siverson

Re: 2011-12 Budget Decisions and Update

Dear Colleagues,

We are writing to follow up our May 6, 2011 letter about budget planning for the 2011-12 academic year that begins in one week. The state budget situation continues to portend serious consequences for the University of California. Last week, Governor Brown vetoed a budget bill that would have assigned an additional $150 million in reductions to the UC. The impact of those additional cuts would have been devastating. More troubling is that the May Revision to the budget that Governor Brown presented on May 16 indicates that UC would face an additional $500 million in cuts if the state were forced to adopt an all-cuts budget. Should this action be taken, our students could face an additional fee increase of 32 percent (about $3,000) – on top of the eight percent increase that the UC Board of Regents has already approved to take effect this fall.

We continue to pursue aggressive advocacy efforts to ensure that state leaders are well informed about the severe consequences of such deep budget cuts and stiff fee increases should any additional cuts be approved. Further, we are aggressively pursuing a campus budget plan that seeks to develop new revenue sources and quickly improve efficiencies to mitigate the impacts of the budget crisis on our institution. As we advised you in May, we cannot and will not let this crisis undermine our pursuit of institutional goals aligned with our campus’s “Vision of Excellence.”

We reviewed the information you each provided about the approach you would employ to implement the various revenue, cost efficiency and cost reduction targets. We appreciate the care that you are all taking to balance academic and program excellence in the context of these budget challenges. The choices we are making are indeed difficult. As expected, there will be many challenging consequences, including: fewer staff positions (many through attrition, but also additional layoffs); the elimination of services; longer wait times; and fewer opportunities for scholarly activities like travel to professional meetings or pursuit of subsidized clinical teaching activities.

Based on the information you provided and the information we currently have about likely state funding, we have reached the following budget decisions. Should state funding be reduced beyond the levels currently contemplated, we will need to develop additional actions to address such reductions.
BUDGET DECISIONS AND UPDATE

A. Generate New Revenue

1. **Non-resident tuition.** Thanks in large measure to the efforts of the Undergraduate Admissions Office, UC Davis is on target to meet its goal for growth in non-resident domestic and international undergraduate students. Current admission numbers indicate that UC Davis will enroll about 600 non-resident freshmen and transfer students (an increase of about 250 compared with fall 2010). In total, we anticipate about six percent of the undergraduate population will be non-residents. Therefore, we are on track to generate the additional $7 million in revenue from non-residents previously included in the campus budget for 2011-12.

2. **Summer session revenue.** Although summer enrollment figures are not yet final, we are on target to meet our goal of generating $6 million in net revenue from summer session. This is thanks to the excellent efforts of Associate Vice Provost Gary Ford and the actions of the general campus units to offer courses that our students need and want. This fall, the campus will allocate an incentive fund of $600,000 to academic departments to recognize participation in the summer program.

3. **Consideration of a course materials fee for technology.** Vice Chancellor Fred Wood has been working closely with students and a small team of staff to evaluate the implications and opportunities of a new technology fee. The fee would mitigate further service reductions and enable enhancements of services that students have identified as a high priority. Consultation continues with a goal of having a final decision no later than October. We continue to have a goal of generating $1 million to $2 million annually in technology fee revenue to offset a portion of the budget shortfall.

4. **Increase autonomy for professional schools, generate additional revenue from self-supporting degree or non-degree programs, and redirect faculty salaries to research and other funds.** Most of you reported that you are supportive of these concepts, though you advised that you needed time to fully develop options and consult with faculty. We appreciate the various strategies you identified to meet the targets next year, until you are able to implement the programs and actions needed to generate ongoing sources of new revenue.

5. **Redirect Staff Development and Recognition Program (SDRP) funds.** Vice Chancellor John Meyer and his team consulted with various groups and recommended the following: (a) replace the general fund subsidy for campus Staff Development Program and Learning Management systems with SDRP assessment funds (note: these programs will not be cut); (b) redirect funds previously allocated to deans and vice chancellors to campuswide training programs. In the future, the assessment rate will also be reduced within the context of the new composite benefit rates. We approve his recommendations.

B. Create Efficiencies

1. **Shared Service Center saving targets.** The project is making good progress with work teams that have recently completed the current state assessment for payroll, human resources and accounts payable. Additionally, the successful recruitment of a director is near, and work has started on
what is called the “future state” design, and the budget model is on track for consideration this fall with a goal of saving $10 million to $12 million over three years. More information is available at http://oe.ucdavis.edu.

2. **Reduce energy consumption.** The campus continues to make significant investments in energy conservation. Over the last several years, we have been participating in the systemwide strategic energy program where incentive funds from PG&E support significant improvements to mechanical equipment and lighting systems. More than 160 projects will be undertaken as part of the program. In addition, we recently announced a goal to reduce energy used in lighting by 60 percent within several years – perhaps the most aggressive program of any university. We will also be adjusting building temperature set points across the campus to improve efficiency. Combined, we expect these measures to save $7.25 million in the coming year and, ultimately, $9 million annually.

3. **Streamlining campus organizational models.** We appreciate the efforts that you are all undertaking to increase the number of staff per supervisor as outlined in the May 6 budget letter. Several of you noted that these changes are challenging, but the savings that will stem from your streamlining efforts and other organizational changes are critical to implementing the campus’s “Vision for Excellence.” We will evaluate the staff-to-supervisor ratios in April 2012 to measure the results from your streamlining efforts.

C. **Cost Reductions**

Consistent with prior years, we do not think it prudent to delay campus budget decisions in light of the uncertainty that remains with the state budget. Therefore, the targets that we provided in the May 6 letter stand, with limited exceptions as described below:

1. **The Academic and Staff Assistance Program (ASAP) is exempt from budget reductions.** The initial intent was to replace $200,000 in state funds with private insurance funds. Vice Chancellor Meyer and his team demonstrated that this approach was not feasible and further demonstrated that the availability of private services within a reasonable geographic area was very limited. Many of you shared information about the value of these services. Indeed, caseloads have grown. We will continue to pursue opportunities to streamline so as to maximize the availability of these critical services for faculty and staff.

2. **Child care subsidies will be maintained for at least one more year.** The campus operates or manages three child care centers that serve approximately 285 children of faculty, staff, students and community members. The financial models vary among the various centers, guided by multiple contracts. We have asked the program to conduct a detailed study and present alternative financial and program models, including options that eliminate or reduce campus subsidies over one or two years. A final decision is deferred until spring 2012.

3. **Student Academic Preparation Program (SAPEP) reductions.** Consultation on this part of the budget strategy was delayed until recently. We plan to make decisions by September 1, 2011. Budget reductions totaling approximately $400,000 will be effective no sooner than October 1, 2011.

4. **Expansion of strategic sourcing agreements and review of campus stores.** The campus recently implemented the UC Equipment Maintenance Insurance Program to provide a lower cost
alternative for preventive and corrective maintenance for scientific equipment. This program is successfully implemented at UCSF and we encourage campus departments to proceed with use of this service to the fullest extent possible. Additional budget reduction targets totaling approximately $500,000 will be effective no sooner than Oct. 1, 2011.

INVESTMENTS

A. Investments to Ease Transitions

1. MIND Institute. The Office of the President advised our nationally renowned MIND Institute that it is likely to lose all of its state support (more than $2.8 million annually). In response to that announcement, the campus will allocate one-time transition funds totaling $2 million over three years to mitigate the most severe impacts, but the Institute has had to mobilize quickly to respond to this news.

2. One-time funds. A number of you indicated that you will utilize one-time funds initially to provide time to fully develop strategies, consult with faculty and successfully implement revenue generating programs, new enrollment strategies and various cost reductions. We recognize that planning and consultation are critical to your ultimate success, but we urge you to avoid any prolonged use of one-time funds since the budget challenge is permanent. We will request that you provide a detailed list of the one-time funds you are using towards these efforts and the expected outcomes from this funding.

B. Strategic Investments

As we have discussed on many occasions, it is critical that we continue to selectively invest even while we are making the very difficult choices that are needed to balance the budget. In May, the deans were advised that an incentive pool of $600,000 will be allocated to academic departments in October, based on contributions to the overall summer session program and progress toward generating net revenue. In addition, Provost Ralph Hexter and Vice Provost Pat Turner are working with the deans and associate deans to invest $2 million for instructional activities aimed at improving time-to-degree, student advising and laboratory instruction. Faculty hiring will also continue, including more than 50 continuing and new recruitments for the general campus and more than 40 continuing and new recruitments in the health sciences.

As we mentioned in previous communications to you, the campus has identified strategic areas of focus in order to improve intellectual excellence and establish financial stability through diversification of resources. There are two areas the campus will invest in even during these difficult times:

1. Research. As we have discussed previously, two blue-ribbon committees identified a number of deficiencies that need to be addressed within the Office of Research (reference: http://chancellor.ucdavis.edu/initiatives/blue_ribbon-research/). Further assessment of the office by the Huron Consulting group indicates that Sponsored Programs, Intellectual Property and Technology Transfer and Extramural Accounting are areas that need to be strengthened to allow our faculty, staff and students to excel individually and collectively in research and scholarly activities. For this reason, the Office of Research has largely been protected from budget reductions and will receive modest investments to help us address the most critical and urgent needs.
2. Development. As you know, we are in the middle of our first comprehensive fundraising campaign to raise $1 billion from 100,000 donors. To date, The Campaign for UC Davis has raised more than $685 million from 80,000 donors. Our development efforts have been successful, but to achieve our ambitious goals during a time of great economic uncertainty we need to support and further strengthen our efforts in this area. To be able to address the critical needs, development will not be assigned budget reductions and will receive a modest investment to address some of the critical needs.

As we near the end of the 2010-11 fiscal year, we ask that you reflect on the many accomplishments that the campus has achieved this year. Financial times are tough, but UC Davis is experiencing success on so many fronts, thanks to the dedication and perseverance of each of you and the entire UC Davis community.

While we are making substantial efforts to address the financial challenges this year, we are investing equally substantial time in developing a five-year financial plan to guide our campus moving forward. This five-year plan has the potential to help our campus address the short-term challenges and create the conditions for an exciting future of academic excellence and social relevance while remaining deeply rooted in the land-grant mission of the university. In September, we plan to present a framework and a planning process to engage the UC Davis community and partners in this major planning effort. The first version of this plan will be presented to the academic community for discussion and further definition in September 2011.

Sincerely,

Linda P.B. Katehi
Chancellor

Ralph Hexter
Provost and Executive Vice Chancellor

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c: Davis Division Chair Powell
    Davis Division Chair-Designate Bisson
    Associate Vice Chancellor Ratliff