Dear Colleagues,

We are writing to provide an update about the campus budget. The need for additional state support for the University was reaffirmed in a recent study by the Public Policy Institute of California that found 74 percent of Californians believe that the state does not provide enough support for higher education. However, the State faces another significant shortfall – recently estimated at $25.4 billion over the next 18 months – so we must plan for another year of inadequate state funding.

Over three years (2008-09, 2009-10 and 2010-11), the campus faced core fund shortfalls totaling $222 million; a reduction of 38%! The choices have been difficult – student fee increases, furloughs, staff layoffs, elimination of faculty and staff positions, program closures and consolidations and service reductions. Savings are being pursued through restructuring and reorganizing administrative functions in the schools and colleges. And, we are aggressively pursuing additional administrative savings and business process improvements through our Organizational Excellence initiative. We are generating additional revenue by modestly increasing non-resident enrollment and we are leveraging a broad range of fund sources to mitigate the state funding shortfalls through assessments and targeted budget reductions. In short, the campus is using a variety of innovative and strategic approaches to reduce expenses and generate revenue.

A brief summary of the budget for 2010-11 and an early planning framework for 2011-12 follows.

**Budget Framework**

*The 2010-11 budget plan is being implemented.* The plan articulated in the February 5, 2010 letter is final and we appreciate the efforts that you are taking to implement the budget reductions. Academic units are expected to fully implement the budget reductions including elimination of approximately 100-120 state-supported faculty positions over two-to-three years using the one-time fund allocations to enable the transition.

Administrative units will fully implement budget reductions this year. With the exception of Intercollegiate Athletics, administrative units did not receive transition funds. Budget reductions
totaling $1.6 million were restored for the Office of Research to ensure that critical services for faculty are not compromised as we continue to grow excellent research programs.

In mid-October, the Governor signed the State Budget Act providing $300 million in funding for UC. The UC Davis share of this funding will be about $30 million in on-going funds and $15 million in one-time funds. This positive circumstance should position the campus well for the 2011-12 budget year.

The initial plan for 2011-12 is cautious. The Regents recently adopted a budget for 2011-12 that seeks additional funding from the State totaling $596.1 million to preserve the quality of UC programs. Of course, the likelihood of the university receiving the additional funds is very uncertain owing to the state’s fiscal crisis and leadership transition. The major elements of the Regents budget for 2011-12 with implications for the Davis campus are summarized below. For initial planning purposes, we will assume that state funding will remain flat (i.e., no new allocations and no new cuts).

Restoration of state budget cuts (UC $273.5 million; UC Davis $38 million). As noted above, the campus had budget shortfalls totaling over $222 million in the last three years. The 2010-11 State Budget Act provided some restoration, but restoration of the balance is critical to maintain quality.

Post-employment benefit (PEB) contributions (UC $171.8 million; UC Davis $24 million). The employer cost already totals $14.4 million for state funds and the annual cost is more than $45 million for all funds for the first 4% contribution. That cost will increase to $24 million for state funds and $85 million for all funds in 2011-12 when the employer contribution increases to 7%. The cost will approach $300 million a year if the employer share contribution reaches 20% as discussed at the November Regents meeting. The Regents are expected to take action on several PEB issues at a special December meeting.

Student fee and tuition increases. The Regents approved an 8% mandatory increase in the Student Services Fee and Tuition (formerly Educational Fee) for the 2011-12 academic year. These increases will generate about $180 million annually and the university will set-aside about $64 million for financial aid leaving a balance of about $116 million to support the university’s instructional program. We anticipate that the Davis campus will receive $13 to $15 million net of financial aid. In 2011-12, tuition and fees for UC Davis undergraduate and graduate students will exceed $14,000.

Financial aid. The Regents improved the Blue and Gold Opportunity Plan ensuring that eligible students with family incomes under $80,000 have their systemwide tuition and fees fully covered. Over 9,600 UC Davis undergraduates are eligible for this program. Another 500 financially needy undergraduates at UC Davis with family incomes between $80,000 and $120,000 will have the 8% increase covered for one year.

Enrollment funding. The University is requesting $115.7 million from the state for 11,570 full-time equivalent students that the state is not supporting including about 1,400 student FTE at UC Davis. In any case, the campus will set-aside some funds – up to $2 million – for investments in the instructional program to meet the highest priority needs.
Funding for salary and benefit cost increases. The University continues to grapple with significant market lags for faculty and staff and rapidly increasing costs for health care benefits. These cost increases impact all funds. The State is not providing funding for this purpose, but costs are estimated at $13.5 million; therefore, we must identify other strategies to cover these costs.

In early January, Governor-elect Brown will propose a state budget that will no doubt include difficult choices. As noted above, the initial budget plan for the campus assumes state funds stay flat. If the Governor’s budget calls for additional cuts we will have to revise our plans. Further, we are committed to making progress towards our Vision for Excellence; therefore, strategic choices will be made to ensure our resources are deployed to maximize our progress and success. Additional information will be provided in January.

Planning for the future

The planning efforts that each of you are leading are fundamental to ensuring our ability to make progress towards our Vision of Excellence. In late November, the Davis Division of the Academic Senate submitted a report from the Task Force on the Future of UC Davis. This report, along with the academic and strategic implementation plans that you are developing will serve as critical inputs to our long-range planning process and the near-term budget process.

A brief description of the major planning efforts follows.

**Academic plans.** Please continue working with your departments and executive committees to update your school, college or division academic plans to reflect the current fiscal realities and the near-term reduction of faculty positions. We ask that you submit your revised academic plans to Provost and Executive Vice Chancellor Hexter by June 30, 2011.

Provost and Executive Vice Chancellor Hexter will begin work with the deans and the Senate later this year to review and update the faculty FTE allocation processes from the Provost Reserve. This effort will consider innovative strategies to restore funding for the FTE shells and opportunities to fill a greater proportion of our existing faculty positions in the schools and colleges.

In the meantime, I&R faculty positions vacated by retirement (or death) from the colleges and divisions will continue to revert to the Provost as FTE “shells” until budget reduction targets are met. After the budget reduction targets are met, positions vacated by retirement will be split with 70% being retained by the dean and 30% returning to the Provost Reserve. The return of positions will be capped each year up to a maximum of five percent of the July 1 budgeted FTE. This return policy does not apply to I&R positions in the professional schools and health sciences.

**Strategic implementation (or business) plans.** At the CODVC fall retreat, we discussed the need for each school, college, division and central academic support and administrative unit to develop a multi-year resource plan that articulates what is needed to achieve our Vision for Excellence. Provost and Executive Vice Chancellor Hexter will work with you to develop a template. The first draft of the plan is due June 1, 2011 and should include the following:
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- a brief analysis of the strengths, opportunities, threats and weaknesses for your unit;  
- a statement of local goals and objectives to achieve the campus vision;  
- key assumptions, timelines and principles;  
- identification of the metrics that you will use to measure progress; and  
- quantifiable investment needs with specific strategies about to generate, redeploy or match resources.

**Campus budget process.** In January 2011, the campus will begin a major three-year effort (from design to implementation) to re-frame the budget process. The goal is to have an incentive-based budget model that maximizes resource flexibility in concert with strong accountability. The Office of the President (OP) is also in the process of revising the systemwide budget model, so the campus budget model will need to be revised accordingly. OP is targeting July 1, 2011 to implement the model; however, the campus will defer implementation until July 1, 2012 to ensure full consideration of local policy and fiscal issues.

As noted above, additional information about the near-term budget process for 2011-12 will be provided in January. In that letter, we will outline a revised budget process that seeks information about your current financial circumstance and asks you to articulate your highest priority needs for 2011-12.

We appreciate your leadership and all that you are doing to move UC Davis forward.

Best regards,

Enrique J. Lavernia
Provost and Executive Vice Chancellor

Ralph J. Hexter
Provost and Executive Vice Chancellor Designate

/cc

c: Chancellor Katehi
Academic Senate Chair Powell
CODVC members
Budget Task Force
Senior Advisors