President Mark G. Yudof  
University of California  
Office of the President  
1111 Franklin Street, 12th Floor  
Oakland, CA 94607  

SUBJECT: 2011-12 Budget Plan for UC Davis  

Dear Mark,  

We are writing to provide additional information about the approach the Davis campus will take to address a fourth year of major budget shortfalls. The information provided in this letter builds from the productive discussion we had with you and your leadership team on February 10, 2011.  

Moving forward, it is critical that we continue to work closely to align internal and external messages. Your efforts to advocate with The Regents, Governor Brown and the legislature are crucial. Equally important is our ability to make progress towards the UC Davis Vision of Excellence. To this end, we must maintain a positive message with our faculty, staff and students, even as we seek to communicate the negative consequences that will result from the major cuts that the State will likely implement. This is a difficult balance to be sure. We are committed to a strong advocacy program with the state. But, we remain absolute in our view that UC Davis can and will make progress towards the Vision of Excellence and will ensure that our local communication efforts remain focused on a positive and productive future.  

A brief overview of the challenge and our proposed strategy to address the challenge follows.  

**Framing the immediate challenge**  

Our current planning is focused on addressing an estimated $107 million shortfall comprised of the following:  

- $73 million state budget reduction (the initial planning estimate provided by VP Lenz)
$26 million in fixed cost increases (UCRS, health care, collective bargaining agreements)

$8 million placeholder for potential salary or compensation increases to mitigate the most significant compensation challenges for faculty and staff.

Adding to this budget shortfall, UC Davis serves 1,400 to 1,500 students (FTE) that are not supported by the State. As we have discussed on many occasions, the absence of state funds combined with this significant budget shortfall poses a triple threat to quality, access and affordability. Further, we cannot ignore the impact to our medical centers of the proposed reductions to state and federal funding, nor can we ignore the significant impact that our students could face if Cal Grant or Pell Grant funding is reduced.

Understanding our planning assumptions is critical. In this “Plan A” scenario of a $107 million shortfall, we assume that the restoration provided in the 2010-11 State Budget Act ($199 million) is on-going. Please note that we assume that the ARRA funds ($106 million total and $19 million for UC Davis) are one-time. This ARRA fund assumption is not consistent with Governor Brown’s January budget, but we view this as a more prudent planning approach given the uncertainty of the tax extensions that are fundamental to his proposed budget. We have not prepared a full “Plan B” scenario involving cuts to the university of $1 billion or more in the event that the Governor’s proposed tax extensions fail.

Our planning efforts in the coming weeks and months will more fully develop a plan that will include difficult choices and will lead to severe impacts on access, quality, and affordability. In the meantime, we fully agree with the recent Legislative Analyst’s Office suggestion that if the university’s budget is cut beyond the levels proposed by the Governor, the university consider an additional fee increase and changes to the university’s return-to-aid program. Of course, even those changes will not be adequate.

For now, the assumption noted above about the ARRA funds and the placeholder we’ve built in for additional salary increases represents a campus contingency of up to $27 million in ongoing (permanent) funds that could be directed to offset additional cuts. In addition, we re-established a contingency of over $42 million in one-time funds and are prepared to accelerate or expand the strategies provided in Attachment 1 if needed.

**Addressing the immediate challenge**

Our initial approach to the budget shortfall is a multi-part strategy. The first part of the solution is the UC Davis share of University-wide solutions such as the 2010-11 restoration funds, 2011-12 student tuition increases and some share of the reductions that you will implement centrally. We estimate that these actions will provide about $39 million of the projected shortfall.
The remaining shortfall, estimated at $68 million, will be addressed with a balanced approach including new revenue, efficiency improvements, and cost reductions (see Figure 1 and Attachment 1).

We are committed to making decisions that provide permanent solutions, but in some cases we will rely on transition or bridging strategies (see Figure 2). Our expectation is that all the majority of the savings will be achieved immediately in 2011-12 (year 1) and all actions will be implemented permanently by the start of the third year (i.e., July 2013).

Of course, as you know, the campus will continue to face structural fiscal challenges irrespective of the State budget. The fiscal challenge that the campus must address is intensified by the recent decisions to: (1) fund the employer share of the retirement system, (2) provide negotiated compensation increases for many academic and staff employees represented by labor unions, and (3) address rising health care costs. In addition, the University must continue to ensure competitive compensation for our faculty and staff and address other major challenges such as deferred maintenance and capital renewal. As such, we will continue to pursue the actions described in Attachment 1 beyond what is needed to address the 2011-12 shortfall and we will pursue other strategies to increase revenue, improve efficiency and reduce costs. This planning will continue as part of a multi-year strategic and financial planning process.

**Impact to the university**

Over 70% of campus expenses are for personnel costs (the percentage is even higher for general fund and tuition funds). Budget reductions of this order of magnitude will inevitably lead to a smaller workforce. The plan in Attachment 1 would result in cutting up to 15% of the campus’ General Fund and Tuition supported positions (450-500 staff positions). Further reductions, whether driven by additional state cuts or our structural deficit, will no doubt lead to additional positions being eliminated. While we will rely on attrition and re-deployment of employees to other fund-sources on campus to the extent that we can, these cuts will be particularly painful.

We appreciate the flexibility you have assured us to increase the number of nonresident students as this represents a key component in addressing our current budget reductions, as well as our longer term structural budgetary imbalances. In addition, slowed replacement hiring of faculty combined with unfunded students here already, an increase in non-resident students, and continued deterioration of department budgets will cause students to have more frequent difficulties in getting into the courses they need and want. We will continue to optimize our deployment of teaching...
resources and develop other responses (e.g., use of technologies to improve experience of very large courses, hybrid courses). Nonetheless, this will undeniably impact our students.

**Communication, consultation and advocacy**

The campus will continue to actively engage the community in the budget process. Where possible, presentations include campus budget materials, a discussion of the ideas that we are pursuing and information from State Government Relations staff about the various advocacy programs. Of course, there is no single best way to communicate so we will continue to rely on a wide variety of approaches. Several examples follow.

**Budget News website (http://budgetnews.ucdavis.edu/).** The campus routinely publishes and posts budget information in a variety of formats. The campus newspaper – Dateline – publishes an electronic update each Friday. In addition, there is a new feature called “Ask Katehi” in the student newspaper, *The California Aggie*. The first column was budget related and there will be additional stories this spring.

**Budget task force.** A new task force was appointed that includes faculty (Senate and faculty leaders from the health system), students (ASUCD Chair, GSA Chair and Aggie Editor) and staff (Staff Assembly Chair, ADMAN Chair and staff-at-large).

**Student Dialogues, Open Forums, and regular presentations.** The budget is presented in as many contexts as possible including special meetings or open forums, Senate meetings (CPB, Executive Committee, and Senate Chairs), campus leadership and faculty, staff and student meetings.

**Budget ideas** are being collected using budget@ucdavis.edu. Each suggestion or inquiry receives a personal response. Ideas were published online starting January 31, 2011 and are periodically updated.

These are difficult times, but UC Davis has a well-deserved reputation for coming together and collaborating on creative, innovative and lasting solutions to tough challenges. We appreciate your partnership in these efforts.

Sincerely,

Linda P.B. Katehi
Chancellor

Ralph J. Hexter
Provost and Executive Vice Chancellor

c: Provost and Executive Vice President Pitts
Executive Vice President Brostrom
Vice President Lenz
Interim Chief of Staff Kelman
ATTACHMENT 1

UC Davis 2011-12 Budget Plan – Addressing an Estimated Net Shortfall of up to $68 million
Selected strategies shown in priority order to address shortfall that remains after accounting for systemwide actions.

Additional strategies also being pursued (see ideas list on [http://budgetnews.ucdavis.edu/](http://budgetnews.ucdavis.edu/)).

<table>
<thead>
<tr>
<th>Description</th>
<th>Estimated contribution towards shortfall</th>
<th>Consequences</th>
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<tbody>
<tr>
<td><strong>REVENUE GENERATION</strong></td>
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<td>(estimate $12 to $16 million in 2011-12 and $25 million by year 3 – 2013-14)</td>
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<tr>
<td>1 Increase enrollment of non-resident undergraduates (domestic and international)</td>
<td>2011-12 = $4 million 2013-14 = $10 million</td>
<td>We hope to hold resident enrollments for freshmen and transfers flat. However applications are increasing so we are admitting fewer qualified students. The freshman admit rate declined from 67.8% to 44.9% in the last four years. We anticipate a further decline for fall 2011. Note: Plan assumes an increase of at least 375 non-residents by 2013. Total non-residents will more than double in this decade.</td>
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<tr>
<td>2 Increase summer session enrollment</td>
<td>2011-12 = $4 million 2013-14 = $5-6 million</td>
<td>Students need to use summer to ensure timely progress because of some limited availability of courses during fall-winter-spring.</td>
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<tr>
<td>3 Implement course material fee for technology support</td>
<td>2011-12 = $1-2 million 2013-14 = $3 million</td>
<td>Higher costs for students to maintain current service levels and allow for modest improvements.</td>
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<td>4 Expand and leverage non-degree education programs; explore self-supporting degree programs and additional professional degree fees</td>
<td>2011-12 = $1-2 million 2013-14 = $3 million</td>
<td>Higher costs for students; new workload for faculty and staff. Need to ensure quality to appropriately recruit and retain students.</td>
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<tr>
<td>5 Eliminate voluntary cost sharing</td>
<td>2011-12 = $1-2 million 2013-14 = $3-4 million</td>
<td>Activities currently funded by research grants such as graduate student support could be displaced by charging faculty salaries to grants.</td>
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<tr>
<td>Description</td>
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<tr>
<td>6 Redirect payroll assessment for staff development</td>
<td>2011-12 = $1-2 million 2013-14 = similar</td>
<td>Eliminate annual allocations for staff development and training programs; redirect funds to cover staff training for new shared service center activities.</td>
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**EFFICIENCY IMPROVEMENTS**  
(estimate $9 to $13 million in 2011-12 and $20-$24 million by year 3 – 2013-14)

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<tr>
<td>1 Expand and accelerate shared service centers</td>
<td>2011-12 = $2-3 million 2013-14 = $10-12 million</td>
<td>Loss of 5 percent of general fund-supported staff positions (rely on attrition to the extent possible). Different service delivery methods; significant cultural change for faculty and staff. Numbers of staff positions impacted will increase if other strategies fall short.</td>
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<tr>
<td>2 Reduce energy consumption</td>
<td>2011-12 = $3-4 million 2013-14 = $5-6 million</td>
<td>Opportunity cost of investments and debt payments; colder/warmer internal building temperatures.</td>
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<td>3 Reduce middle management, flatten organizations, consolidate leadership.</td>
<td>2011-12 = $4-5 million 2013-14 = $5-6 million</td>
<td>Loss of 40 to 60 full time positions. Fewer promotional opportunities for staff.</td>
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<tr>
<td>4 Consolidate, close or outsource services that are not mandated or are not unique or core to UC Davis.</td>
<td>Analysis in progress.</td>
<td>Loss of staff positions. Less ability to customize services to meet specialized needs of higher education.</td>
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**COST REDUCTIONS**  
(estimate $10 million in 2011-12 and $20 million or more by year 3 – 2013-14)

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<tr>
<td>1 Reduce expenses; eliminate subsidies; reduce service levels.</td>
<td>2011-12 = $9-10 million 2013-14 = $20 million</td>
<td>Program closures; loss of an additional 4 to 8 percent of full-time, general fund-supported staff positions.</td>
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<tr>
<td>2 Reduce SAPEP 10-20%</td>
<td>2011-12 = $0.5 to $1.0 million</td>
<td>Fewer services and programs to prepare students to succeed at UC.</td>
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<tr>
<td>3 Expand strategic sourcing</td>
<td>Analysis in progress</td>
<td>Leverage campus and systemwide purchasing contracts to ensure lowest cost and to maximize incentive payments.</td>
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Note: Amounts shown above reflect estimates of net amount that can be contributed to the shortfall. In some cases, a portion of the gross revenue or savings will be re-invested in the activity (see Figure 2).
Figure 2. Immediate (2011-12) and Near-Term (2013-14) Actions to Address $107M Shortfall (amounts in millions)