April 12, 2012

DEANS
VICE CHANCELLORS
CIO SIEGEL
INTERIM UNIVERSITY LIBRARIAN SIVERSON

RE: 2012-13 Budget Call Letter

Dear Colleagues,

We are writing to outline the budget process and planning framework for 2012-13. The overall budget context continues to be challenging, but the multi-year budget plan we put in place this year provides a stable framework that we can build upon for 2012-13. As such, we do not anticipate the need to assign new base (permanent) reductions beyond the multi-year elements of the 2011-12 budget. Instead, we will focus on building reserves to ensure we can respond quickly to changing circumstances.

More information about the expected budget for next year and a description of a new annual budget process is provided below.

BACKGROUND AND CONTEXT

UC Davis operating revenues from all sources are estimated at $3.5 billion in 2011-12 including $649.7 million in core funds from unrestricted state support and tuition. The major budget assumptions for 2012-13 are described below.

State funding shortfalls will continue. The budget proposed by Governor Brown in early January includes a combination of cuts and augmentations that in aggregate would increase spending power for the university. We are grateful that his proposed budget investments in higher education, and we are doing all we can to advocate for the adoption of his proposal. However, the proposed augmentation does not keep pace with fixed cost increases so the university still faces a net shortfall with respect to state support.

This proposal is contingent upon voter approval of several tax initiatives on the November 2012 ballot. In his January budget proposal, the governor describes cuts in support for UC of $200 million should his revenue plan not be approved in November (an approximately $30 million reduction for UC Davis). The Regents discussed a possible multi-year agreement with Governor Brown at their March meeting that could include a tuition buy-out for 2012-13.
Tuition decisions are pending. In November, the Regents adopted an expense plan for the University but deferred decisions about tuition to a later date. The timing for action by the Regents remains uncertain so local campus planning is proceeding with a working assumption of a modest tuition increase or state buy-out generating about $15-16 million in revenue for the operating budget.

Campus will proceed with the first phase on an incentive based budget model. As described in the March 2, 2012 update, the budget model for 2012-13 will focus on unrestricted state funds (approximately $320 million), undergraduate tuition net of financial aid ($207 million) and indirect cost recovery funds ($130 million). The Attachment provides a summary of the principles and current planning parameters.

Fixed cost increases are a high priority and must be addressed. The University is continuing to implement a multi-year strategy to stabilize the UC Retirement Program (UCRP). This year, the total campus liability for the employer share of UCRP contributions is estimated at $103 million including $26 million from state funds and tuition. Effective July 1, 2012, the employer contribution rate will increase from 7.7% to 10.7%, raising total costs for all funds to over $140 million including $36 million from state funds and tuition.

In addition, the university budget is placing a high priority on continuing to provide modest salary increases for faculty and staff. The faculty merit and promotion process continues consistent with the normal process. Vice Provost Stanton will provide information about other compensation increases for eligible faculty and other academic appointments, if these are implemented, when the campus receives additional information from the Office of the President. Final numbers cannot be fixed, but will likely be in the range of 3% total.

Staff covered by the collective bargaining process will receive increases consistent with the negotiated contracts. In addition, it is our expectation that there will again be a merit program for unrepresented staff that meet eligibility criteria defined by the Office of the President. Final decisions are pending, but our expectation is that staff performing at or above expectations will generally be eligible for modest (1-2%) percent increase. In addition, funds will be available to recognize meritorious contributions for our highest performing staff. The annual performance review process is a critical component of the salary program, and Human Resources offices for the campus and the health system will provide detailed information in the annual merit review call in May.

ADDRESSING THE 2012-13 SHORTFALL

As described above, the campus continues to face a shortfall in state support in spite of the additional support proposed by the Governor in his January budget. The strategy to address the shortfall is to continue with implementation of the three-part strategy put in place this year to increase revenue, increase efficiencies and reduce costs. Additional information about each aspect follows.

Increase Revenue from other sources

1. Increase enrollment of national and international undergraduate students ($10 million over two years). The two-year goal – 2011-12 and 2012-13 – is to generate net-new non-resident supplemental tuition totaling $10 million to offset budget shortfalls. Approximately $6.5 million was generated in 2011-12 leaving a target for 2012-13 of increasing non-resident supplemental tuition by an additional $3.5 million. Additional increases in revenue are being invested in the Undergraduate Admissions Office to support marketing and recruitment efforts. Any additional funds beyond the $10 million target will be allocated as part of the new
budget process (i.e., it will be considered as part of the blended rate calculation for undergraduate tuition).

2. **Increase summer session enrollment ($7.5 million over two-to-three years).** The multi-year goal is to generate net-new summer session revenue totaling $7.5 million to offset budget shortfalls. Approximately $4.4 million was generated in 2011-12 leaving a target of increasing summer session revenue by an additional $3.1 million by 2013-14. We will consider a methodology to include summer session tuition in the new budget model as part of the next phase.

Increase Efficiencies

1. **Implement central Shared Service Center ($3-5 million over two-to-three years).** In February, the first phase of the Shared Service Center opened, providing payroll, human resource and finance transaction-processing services for the central administrative units. The operating budget for the SSC is estimated to be $3.14 million in 2011-12 and $5.7 million in 2012-13. Each participating Vice Chancellor unit was assigned its share of the cost based on metrics associated with the various SSC services. In addition, budget reduction targets totaling $4 million were assigned as a mechanism to capture the efficiency gains anticipated by this effort. In order to enable a reasonable transition and ensure long-term success, the budget reduction targets will be phased in over three years, instead of two years as previously indicated in my letter of January 12, 2012. Specifically, $1.25 million is assessed in 2011-12 on a current-year basis, $3.5 million in 2012-13 on a current-year basis, and $4 million in 2013-14 and annually thereafter. Associate Vice Chancellor Ratliff will write to the Vice Chancellors shortly to provide the revised unit-by-unit budget reduction targets for 2011-12 and 2012-13 and establish the process for collecting the 2011-12 budget reduction from units.

2. **Reduce energy consumption ($7.5 million over two-to-three years).** The campus continues to make excellent progress with improvements designed to lower energy usage across campus. To date, we have completed over 100 projects and leveraged more than $3.9 million in investor-owned utility payments through the University’s Strategic Energy Partnership program. Through 2011-12, $6 million in savings has been captured and we expect to generate another $1.5 million in savings in 2012-13. A portion of the savings is also being held in reserve to mitigate unforeseen circumstances related to energy pricing or other externally driven factors.

3. **Streamline organizations ($5.5 million).** Base budget reductions were assigned in 2011-12 totaling $5.5 million. The general goal is that units would achieve savings through various reorganizations, re-alignment of staffing models and clarification of job descriptions and classifications to increase the staff-to-supervisor ratios. Progress towards this goal will be evaluated starting with April 2012 data, but additional base reductions are not anticipated.

Reduce Costs

A number of programs and activities were assigned base budget reductions in 2011-12. Those programs and activities are making the necessary changes to accommodate the budget reductions. In a few cases, budget reductions were considered, but subsequent analysis revealed consequences that were deemed to be too severe. Therefore, the following program-specific reductions identified in the May 11, 2011 letter are not being implemented: Academic
BUDGET PROCESS

This year we will implement an annual budget process – a dialogue – aimed at sharing information about how you are deploying resources to advance the Vision of Excellence in your unit. The process will be anchored with an annual meeting where you will present information about your unit and provide an overview of your budget.

There is, of course, much uncertainty this year and the timeline is short. An important goal for the budget process this year is to jointly develop an approach and a set of information that is mutually beneficial. I am most interested in understanding the budget as you use it within your school, college, division or unit. I appreciate the efforts you are taking to ensure a consultative process that involves our partners on the faculty and its representative bodies. The deans will continue to be expected to consult with the FEC for their school as I’ll be reviewing the overall campus budget with the Senate.

Staff are working to schedule as many meetings as possible in May and June, though it may be necessary to defer some meetings until later in the summer. The basic elements that I would like to review and discuss when we meet include:

1. Background and context – the three-to-five primary goals you are advancing through the budget (deans should describe efforts to advance and improve graduate education, research and undergraduate student success).
2. Process and Metrics – a description of the process you use to develop and manage budgets; and an overview of the metrics used to inform resource allocations.
3. Sources and uses of funds – a high-level overview of the funding plan for your unit for this year (2011-12) and the budget year (2012-13) including a discussion of your strategies for managing ongoing operating funds and one-time reserves.
4. Budget reductions – brief recap of the impact and consequences of budget reductions over the last four years.
5. Other priorities and investments – an overview of additional investments you anticipate.

FACULTY RECRUITMENT AUTHORIZATION

Recruitment of faculty continues to be a high priority for the campus. I anticipate that proposals will again reflect a modest approach as several of you complete the return faculty FTE to meet the base reductions assigned in 2010-11. Of course, we are also mindful of the need to replace as many vacant positions, and where possible, identify a select number of opportunities to pursue that add to our collective advancement of the Vision of Excellence.

In order to ensure that we can reach agreement about faculty recruitment activity for 2012-13, I will again ask that you provide a written proposal by Tuesday, May 8, 2012.
The faculty recruitment proposal should include:

- a status report of the 2011-12 recruitments in-progress or completed; and
- a summary of the new and continuing positions that you propose to recruit in 2012-13. Please include a brief rationale for each position, the source of the FTE and information about the anticipated start-up costs.

As we proceed with planning for 2012-13, the Budget and Institutional Analysis (BIA) staff will continue to provide additional information, updates to the planning parameters and modeling tools to facilitate the budgeting process. Information is available at http://budget.ucdavis.edu.

Thank you, as always, for your leadership and your careful stewardship of resources during these challenging times.

Sincerely,

Ralph J. Hexten
Provost and Executive Vice Chancellor

/cc
Attachment

c: Chancellor Katehi
Davis Division Academic Senate Chair Bisson
Associate Vice Chancellor Ratliff
Chief Operating Officers
Assistant Deans
## 2012-13 Planning Parameters Related to Implementation of the New Budget Model

<table>
<thead>
<tr>
<th>Revenue Type</th>
<th>Description</th>
<th>Other Information</th>
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<tbody>
<tr>
<td><strong>Revenue: Unrestricted State Support</strong></td>
<td>Campus budget plan based on Governor’s Budget Proposal. Incremental adjustments implemented through the Provost Allocation.</td>
<td>Strategies to mitigate uncertainty associated with proposed trigger reduction to be addressed as part of budget reserve strategy.</td>
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</tbody>
</table>
| **Revenue: Undergraduate Tuition** | Tuition, blended to include non-resident supplemental tuition, net of return to financial aid and waivers as follows:  
70% distributed to colleges and divisions based on amounts generated by student credit hours (60%), degree majors (20%), degrees awarded (10%).  
30% allocated by the Provost. | Full description in Undergraduate Tuition Allocation white paper (version 3).  
$10 million of non-resident supplemental tuition plus funds to support recruitment and retention allocated to offset 2011-12 budget shortfalls (ref: 5/6/11 letter). |
| **Revenue: Graduate and Professional Tuition** | Tuition from graduate academic students included with the Provost Allocation.  
Tuition from professional degree students in management, law, medicine and veterinary medicine will be allocated directly to the schools consistent with the 2011-12 budget process strategy to increase autonomy. | Discussion of graduate tuition allocation approaches will be considered in fall 2012 for implementation in 2013-14.  
Tuition for professional degree students in nursing and education will be allocated based on the individual agreements with those schools. |
| **Revenue: Academic Masters tuition** | Revenue sharing for agreed-upon increases in academic masters enrollments with allocation of tuition and non-resident supplemental tuition 50/50 between the dean and the Provost. | Full description in Academic Masters Tuition Pilot Program white paper (version 2). |
| **Revenue: Summer Session Unit Fee (in lieu of tuition)** | 2012 Summer Session Incentive Program per Provost’s March 7, 2012 letter to Council of Deans. Very similar to the Summer 2011 program. | Discussion of Summer Session unit fee allocation approach more in keeping with the new budget model will be considered in fall 2012 for implementation for Summer 2013. |
| **Revenue: Indirect Cost Recovery** | Indirect cost recovery, net of designated funds, will be distributed as follows:  
40% directly to units, with 34% to deans and the vice chancellor-research and 6% transition allocation to SOM and SVM deans to mitigate the impact of OP funding streams tax  
60% allocated by the Provost. | Full description in Indirect Cost Recovery Allocation white paper (note: version 2 forthcoming).  
Deans and VC-R responsible for benefits, fixed cost increases and the OP assessment. Balance of funds to support departments and strategic investments. |
<table>
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<tr>
<th>Revenue: Provost Allocation</th>
<th>2012-13 Planning Parameter</th>
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<tr>
<td></td>
<td>Schools, colleges and divisions will receive a Provost Allocation to fill the gap between undergraduate tuition revenue and what a unit currently receives from general funds base budget and associated benefits from the central pool. Administrative and academic support units will receive a Provost Allocation to replicate what is currently provided from general funds base budget and associated benefits from the central pool.</td>
<td>The Provost Allocation will be subject to incremental adjustments. For 2012-13, units can anticipate adjustments to the Provost Allocation to ensure that certain fixed cost increases are covered. Full description in Provost Allocation white paper (version 1) -- pending.</td>
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**FIXED COSTS – applies to faculty, other academic and staff paid with general funds (“19900”)**

<p>| Fixed Cost: Employee Benefits | The central benefits pool will be decentralized for all units to more accurately depict spending authority and treat general funds similar to other funds. Units will receive sufficient funding for the full year cost of pool-funded benefits at the 2012-13 composite benefit rates based on 2011-12 staffing levels. More information at <a href="http://accounting.ucdavis.edu/">http://accounting.ucdavis.edu/</a>. | Fee remission costs will continue to be funded through the central benefits pool for TAs and GSRs paid with general funds. Alternative approaches will be considered with Graduate Tuition discussions. Full description in Benefit Decentralization white paper (version 2). |
| Fixed Cost: Staff Salary Increases | Units will receive sufficient funding from undergraduate tuition and the Provost Allocation to cover costs including:  - Cost increases specified in centrally negotiated labor contracts; and  - Cost increases for a merit program for unrepresented staff. | Units are responsible for re-allocating funds internally for all other salary actions (e.g., equity, promotion, reclassification). Salary programs will be subject to terms set by the Office of the President. |
| Fixed Cost: Faculty and continuing lecturer merits | The Provost Allocation will be increased to cover faculty and continuing lecturer merits approved through the normal review process for positions paid with general (“19900”) funds. | |
| Fixed Cost: Faculty and Other Academic Appointee Salary Increases | Units will receive sufficient funding from undergraduate tuition and the Provost Allocation to cover costs for faculty and academic staff paid with general (“19900”) funds including:  - Cost increases specified in centrally negotiated labor contracts.  - Cost increases for any general salary increase approved by the Regents/President. | Salary programs will be subject to terms set by the Office of the President. |</p>
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<th>Institutional Overhead</th>
<th>2012-13 Planning Parameter</th>
<th>Other Information</th>
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<td>UC Funding Streams Assessment</td>
<td>OP instituted a tax for systemwide programs and its own operations in 2011-12. The tax has not been passed onto campus units in 2011-12.</td>
<td>Full description in Funding Streams white paper (version 1; version 2 pending). The Schools of Medicine and Veterinary Medicine and the Student Affairs Division will receive one-time transition funds in 2012-13 to partially mitigate the impact of the new assessment.</td>
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<td>In 2012-13, units will be assigned a tax of 1.52% of 2010-11 expenditures. Units will receive net-new allocations of general funds, tuition and indirect costs to offset the tax liability. Units will be responsible for covering the tax for all other fund sources.</td>
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<td>Campus assessment and Non-University Differential</td>
<td>The 3% assessment for self-supporting activities for income and recharge activities and the Non-University Differential policies continue. BIA will evaluate options to streamline the implementation of campus and systemwide assessments.</td>
<td>Detailed methodology available at <a href="http://budget.ucdavis.edu/rates">http://budget.ucdavis.edu/rates</a>.</td>
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2012-13 Budget Planning Letter: Attachment