DEANS, CHIEF INFORMATION OFFICER AND UNIVERSITY LIBRARIAN

RE: 2015-16 Budget Framework

Dear Colleagues,

The success of our core mission is heavily dependent on an economic model that is financially sustainable—one which enables the university to invest adequately in faculty, research, classrooms and laboratories, academic programs, staff and infrastructure. Our budget and economic models must increasingly reflect a multi-year time horizon and an all funds approach that involves a close partnership with Vice Chancellor and Chief Financial Officer (VC-CFO) Dave Lawlor. This letter provides information to frame the 2015-16 budget process.

The total budget for UC Davis is almost $4.0 billion derived from many fund sources, and there are reasons to feel some optimism. VC-CFO Lawlor is developing a macro-planning tool – an economic model – that ensures a balanced budget view for all resources. The model accounts for our ongoing progress with the 2020 initiative that is attracting record numbers of highly qualified and diverse undergraduate, graduate and professional students from across the state, nation and world and generating additional revenue. The foundation and university are also experiencing good returns on investments with increasing payouts and some opportunities to harvest net appreciation of assets. Research and fundraising results are exceeding expectations with year-to-date results tracking higher than last year. The positive trajectory for many revenue sources is critical as we are attracting and successfully recruiting many highly qualified and diverse candidates for faculty, academic and staff positions. As well, the campus budget plan will again include funding for compensation increases that are critical to keeping us competitive. And, we are identifying the fund sources necessary to advance important capital and space priorities.

Of course, even as we consider these successes, there are also constraints and challenges that we must address. The negotiations with the University and the Governor over State funding and tuition are uncertain. After several years of underfunding, we have a structural deficit of about $22 million in our general funds that we must address over the next 1-2 years. Research indirect cost recovery has been flat or declining in recent years (a trend we anticipate will reverse as research awards recover). And, the impact of health care reform remains uncertain. We must do what we can to bracket the uncertainty, and continue to be ever-more efficient and strategic in targeting investments to our highest priorities.

BUDGET MODEL REVENUE ALLOCATIONS

Undergraduate Tuition

Tuition from enrollment growth. For fall 2015, we are planning for a slightly smaller entering class of 8,380 undergraduates (5,370 freshmen and 3,010 transfers). This is about 200 fewer students than
this fall, but total enrollment will increase from about 26,275 to 26,600 as prior year cohorts progress. The proportion of national and international students is anticipated to increase to about 11-12 percent of total undergraduate enrollment.

For 2015-16, Budget and Institutional Analysis (BIA) projects $290 million of undergraduate tuition revenue and $74.8 million in supplemental tuition paid by national and international students. Net funding allocated through the budget model after accounting for financial aid and funds held centrally is estimated at $222 million, or $7.3 million more than 2014-15 allocations. Preliminary allocations were shared with your office. Enrollment growth funds must be invested for faculty positions and other areas directly impacted by growth.

*Tuition from rate increases.* In November, the Regents delegated authority to President Napolitano to implement a tuition increase of up to 5 percent. As an alternate to tuition increases, UC proposed an additional state allocation of $98 million or $14-15 million for UC Davis. Funds from the tuition increase (or buyout) will be allocated separately for fixed cost increases.

Research Activity and Indirect Cost Recovery (ICR) funds

Research expenditures have been flat and declining for the last two years in large part reflecting the challenges of federal sequestration. The good news is that research awards have improved with year-to-date activity up by millions over the campuses most productive year. As we have been discussing, I look to the deans to collaborate with me and Vice Chancellor Lewin on a multi-year plan for your college, division and school to grow campus research funding. As you prepare for the annual budget meeting this spring, please include a discussion of research goals that might achieve an annual increase of 6-8% in research activity over the next several years.

For 2015-16, the amount of indirect cost recovery is projected to be about $5 million less than prior years. Though, we anticipate a turn-around in the next one or two years based on the increased level of research awards we are seeing this year. In the meantime, many units will receive less funding than they have in prior years. I will continue to allocate 37% of the ICR funds net of set-asides (e.g., Garamendi-financed facilities) to the administrative home for the research. BIA has shared year-to-date activity to assist you in projecting funds for next year.

Graduate Tuition

BIA provided preliminary allocation information for your unit (i.e., net-new funding to deans of $370 thousand). Vice Provost and Dean Gibeling provided additional information about allocations to graduate programs and groups. These funds, along with base budgeted funds, must be used for graduate student support or graduate instructional costs.

The programs that mitigate the impact of the non-resident supplemental tuition (NRST) will continue. The various programs total over $7.6 million and include the direct buy downs for contracts and grants (25 percent for the first year and 100 percent for the second and third years), allocations to graduate programs for second- and third-year international Ph.D. and M.F.A. students and the Post-candidacy NRST Fellowship Program. Fee remission for teaching assistants will continue to be funded centrally at an estimated annual cost of $25 million. And, funding for Graduate Program Fellowships, Provost Fellowships in the Arts, Humanities and Social Sciences, training grant matches and other restricted fellowships totaling about $20.4 million will continue to be allocated by Vice Provost and Dean Gibeling.
Summer Tuition

This will be the second year of allocating summer tuition revenue using the campus budget model. The original estimate for per SCH funding was $87.50, but results for summer 2014 were better than expected and allocations were based on $92.10 per SCH. For 2015, you should assume that funding will be at least $94 per SCH. I am pleased that you, your departments chairs, FEC representatives are meeting with Undergraduate Education to ensure that the goals and the principles for the summer session are well articulated and evident in the portfolio of courses and programs offered by your college or division.

Faculty Resources

I appreciate the efforts you led in your colleges, divisions and schools to prepare multi-year vision for faculty hiring. And, I appreciate the work you are doing to prepare faculty hiring requests by April 1, 2015. Faculty Assistant Burtis, Vice Provost Stanton and I will review the requests in April to inform the next round of faculty hiring decisions. In the meantime, I know that you are each quite busy interviewing faculty candidates and I am heartened by the feedback you are sharing about the high quality and diverse individuals that you are working to recruit. Please do not hesitate to contact me or Vice Provost Stanton to help you think through strategies and tactics that you might use to ensure successful outcomes.

FINANCIAL SUSTAINABILITY ACTION PLAN – PLANNING FOR INVESTMENTS

In her State of the Campus, Chancellor Katehi described a high-level financial framework, a financial sustainability action plan (FSAP), to guide investments over the next 5-to-7 years. The framework extends beyond the baseline budget and I am working with VC-CFO Lawlor to identify sources of additional funds. The intent is to use incentives beyond the current budget model – new revenues and savings – to enable investments in the academic mission. Your input and collaboration, along with the Chancellor and others, will be critical to achieving success with the FSAP.

For the 2015-16 budget process, we will use the Provost allocation for incremental investments to advance campus priorities, ensure availability common goods and to fund fixed costs as described below.

2015-16 Priority Investments – Operating and Capital

As part of the annual budget process, I will partner with VC-CFO Dave Lawlor to identify a modest number of investments in high priority services and programs that have broad benefit for the campus community.

Classrooms are a critical priority. In 2015-16, we will again invest $0.5 million to create a cumulative base budget of $1.5 million for the debt service and operating costs for the new large lecture hall that will open in 2017-18. In addition, the campus will invest an additional $500,000 in one-time funds, for a total investment of $1.25 million, for improvements in our existing classrooms. Finally, I have asked the Instructional Facilities Master Plan Project Advisory Committee, in consultation with the Classroom Needs Group and Senate Instructional Space Advisory Group, to develop a multi-year budget for maintenance and renovations of existing classrooms to ensure high quality teaching spaces in all general assignment classrooms.

As you well know, the deferred maintenance (DM) needs for the campus are substantial. Funds are being set aside over several years to project an ongoing repayment source for a DM program totaling
about $45 million. I will invest another $0.75 million in 2015-16 resulting in a cumulative base budget of $2 million.

Finally, the Studio, Laboratory and Office Advisory Committee (SLOAC) together with the recommendations of the Core Research Facility and Laboratories for Chemistry-Based Disciplines Committee is developing renewal and new investment scenarios to address faculty office, research and laboratory growth associated with the 2020 Initiative.

Salary and Benefit Fixed Cost Increases

The University continues to face significant fixed cost increases that impact all funding sources. Final decisions about salary programs are pending and will be communicated as soon as information is available. Benefit costs will increase only slightly this year because the employer contribution to the UC Retirement System (UCRS) will remain at 14 percent. For planning purposes, you may assume that schools, colleges, divisions and the university library will receive augmentations to the provost allocation to fully fund fixed cost increases for faculty and staff. For academic support and administrative units, allocations will be provided to cover 80 percent of the salary and benefit fixed costs for staff paid with general funds.

BUDGET MODEL AND BUDGET PROCESS

We will continue to work together to address the concerns that are being voiced about the budget model and the importance of managing our scarce resources to advance multiple goals across the diverse portfolio in your college, division and school. I have asked Vice Provost and Dean Thomas to collaborate with college and division associate deans and faculty assistants for undergraduate education along with your assistant dean and BIA staff about strategies and options to improve resource management within the budget model.

Budget meetings are scheduled for May and will again include Faculty Executive Committee (FEC) Chairs and staff from your offices. BIA is providing baseline data, metrics and templates and will host pre-meetings to provide additional information to your staff. I anticipate providing decisions to you about faculty recruitment by May 15, 2015 and other budget decisions are expected to be final by July 10, 2015.

Sincerely,

Ralph J. Hexter
Provost and Executive Vice Chancellor

c: Chancellor Katehi
   Academic Senate Chair Knoesen
   CPB Chair Neimeier
   Vice Chancellor and CFO Lawlor
   Sr. Associate Vice Chancellor Ratliff
   BIA Director Mangum
   BIA Director Nachman
   Assistant Deans, Associate University Librarian Henry and IET CFO Baker