April 1, 2015

VICE CHANCELLORS

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 reflect a multi-year time horizon and an all funds approach that involves close partnerships between our divisions to support and advance the academic mission of the university.

The total budget for UC Davis is almost $4.0 billion derived from many fund sources, and there are reasons to feel some optimism. As we have discussed, we are 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.

Information about undergraduate tuition, graduate tuition, summer tuition and faculty resources were communicated to the deans in a separate letter from Provost and Executive Vice Chancellor Hexter. Information about allocations specific to vice chancellors is provided below.
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 the Chancellor, Provost, and others 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 faculty, research, academic programs and support (including staff and infrastructure). Your input and collaboration, along with the Chancellor and others, will be critical to achieving success with the FSAP. As this evolution continues, more specific information about the 2015-16 budget process is provided below.

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. The deans are collaborating with Provost, Vice Chancellor Lewin and me on a multi-year plan for to grow campus research funding.

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 as the campus continues to allocate 37% of the ICR funds net of set-asides (e.g., Garamendi-financed facilities) to the administrative home for the research (i.e., college, division, school or ORU). BIA provided detailed information to inform estimates.

As you know, the remaining 63% of ICR net of set-asides is held as the central Provost share. The central funds are used for research support services in the Office of Research and the Office of Finance, Operations, and Administration. Given the substantially reduced levels of ICR funding, administrative units will not receive allocations for fixed cost increases. For 2015-16, you may use one-time funds to bridge this gap.

2015-16 Priority Investments – Operating and Capital

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

Capital is a very high priority and we will soon complete a multi-year, all funds capital plan to guide investments. Success is of course dependent on achieving our financial goals for all sources of funds. For the central campus investments in 2015-16, we will continue to set-aside funds for the Large Lecture Hall facility on California Avenue and a multi-year deferred maintenance program.

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 paid with general funds. 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, registration fee funds and similar funds allocated as part of the central campus budget process. As noted above, fixed cost allocations will not be provided for ICR funds.

ANNUAL BUDGET PROCESS

Budget meetings are scheduled for May, June and early July and will again include the Chair or Co-Chair of the Davis Division of the Academic Senate. BIA is providing baseline data, metrics and templates and will host pre-meetings to provide additional information to your staff. Budget planning information and interim decisions will be communicated by June 30th and we anticipate sharing final budget decisions in July.

Best regards,

Dave Lawlor
Vice Chancellor and Chief Financial Officer

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cc: Chancellor Katehi
    Provost and Executive Vice Chancellor Hexter
    Davis Division Chair Knoesen
    CPB Chair Niemeier
    Senior Associate Vice Chancellor Ratliff
    Directors Mangum
    Director Nachman
    Vice Chancellor Office Leads for Budget and Finance