DEANS, VICE CHANCELLORS, CHIEF INFORMATION OFFICER AND UNIVERSITY LIBRARIAN

RE: 2017-18 Budget Framework

Dear Colleagues,

The budget framework for 2017-18 includes a number of actions that will, over several years, stabilize our core funds and reduce deficits that had been carried centrally and that have started to edge upwards. Viewed holistically, these actions reduce budgets by one-to-two percent. By this exercise of fiscal prudence, we can bring any deficits in the central operating budget within fully manageable proportions and thus restore the university to fiscal health. We appreciate your input and that of your assistant deans and others that helped us refine this approach.

We know that there are many other financial challenges that you are working to mitigate. We are thus all the more conscious of the fact that it is never pleasant to undertake this work of rebalancing. We can take some comfort in knowing that we are taking responsibility for the long-term sustainability of UC Davis.

In sum, preparing a budget for 2017-18 will require a difficult balancing act where we will identify programs to scale back or eliminate, even as we simultaneously advance or accelerate other programs. Your leadership and engagement with our faculty and staff is critical and appreciated.

BACKGROUND AND CONTEXT

The total budget for UC Davis, derived from many fund sources, is $4.6 billion and growing. These revenue sources support a wide range of critical programs, but many of the funds are restricted to particular uses, and many funds, particularly federal and health care funds, are at risk.

*Core funds* for university operations – state funds and tuition – total about $920 million or roughly twenty percent of all funds. We are grateful that state funding for the University, as proposed in the 2017-18 Governor’s Budget again provides a modest increase of about $14 million. In January, the Regents approved modest tuition and fee increases for the first time in six years. We estimate that the tuition increase will generate $10.9 million in total including $4 million for financial aid and $6.9 million for the UC Davis operating budget. The combined increases from state and tuition funds – about $21 million – will not, however, be sufficient to
fund costs including salary and benefits and funding for deferred maintenance and capital renewal.

Further, for several years the university has held a $29 million core fund deficit centrally so that schools, colleges and administrative units could recover from the combined impact of budget cuts and growth. This was, in other words, a strategy to mitigate the impact of those budget cuts and the increase in fixed costs that otherwise would have impacted all units across the entire university. In prior fiscal years, the deficit was offset with central reserves available from extraordinary investment gains, but those reserves are now depleted. Moreover, now that we know how modest tuition increases are likely to be in the coming years and can project the continued upward pressure on fixed costs, it is only prudent to undertake moderate rebalancing at this time, lest by waiting we force the university to have to take more drastic reductions at some point in the future.

**BUDGET INVESTMENTS**

Even as we proceed with rebalancing, the provost will continue to invest in critical programs and allocate incremental funds for fixed costs as described in the partial list below.

- Fixed costs for faculty and staff paid with core funds and teaching assistant fee remission ($26.8 million).
- Hiring Incentive Program (HIP) faculty positions approved in 2014 and 2016.
- Continued support for faculty diversity by the Center for the Advancement of Multicultural Perspectives on Science (CAMPOS) Faculty Scholars program expanded with a new Impact Recruitment Incentive to support hiring scholars in either STEM or non-STEM disciplines with a demonstrated professional commitment to engagement with African Diaspora communities through teaching, research and/or service.
- Faculty start-up allocations totaling at least $10 million.
- Deferred maintenance program of $100 million over five-to-six years financed with century bond proceeds and state fund appropriations.
- Classroom renovation and technology upgrade program of $20 million over four-to-five years financed by internal borrowing.
- Graduate student support augmentation for multi-year fellowships and continuation of existing programs for graduate fellowship funds (block grants), buy-down programs for non-resident supplemental tuition and incentive programs for master's degree programs.
- Instructional equipment funds of $2 million over two years to support decisions recently communicated.
- The Hazardous Material Removal and Radiation Use Authorization programs will transition from recharge to centrally funded effective July 1, 2017 (about $1.5 million).
Investments in the campus animal care program including funds to build and maintain a new central cage wash facility (completion late 2017 or early 2018), funding for a new leadership position, and funds to stabilize and mitigate rate increases.

**BUDGET REBALANCING**

We are proceeding with a multi-pronged strategy totaling in 2017-18 about $11 million in one-time funds and about $17.5 million in base (ongoing) funds in 2017-18 increasing to about $20 million by 2019-20 as described below.

1. **Recapture of one-time monies ($9-10 million)** – a three-percent tax will be assessed against general fund and clinical fund balances during the first quarter of 2017-18. In order to minimize the number of individual accounts that are subject to the tax, the first $5,000 of each account is exempt.

The recaptured funds from the tax will be split with two-thirds (2%) being directed to offset a portion of the central deficit and seed a fund-functioning-as-an-endowment (FFE) to advance classroom and other capital investments. One-third (1%) of the funds will be allocated to the deans and vice chancellors to ensure that outstanding obligations are duly met (e.g., full access to start-up funds according to the terms of each agreement), to mitigate local hardships, and to advance strategic priorities. Due to how clinical funds are managed, we will work with the School of Medicine dean’s staff to implement this one-time tax at the divisional level.

In recent weeks, we have received substantial input about the rationale for holding funds to mitigate risk and enable strategic investments. We are committed to developing strategies and mechanisms to mitigate financial uncertainty and risk. In partnership with the Academic Senate, we will appoint a joint task force to study the issue during the fall and provide recommendations early in 2018.

2. **Base (ongoing) budget reductions ($15.8 million)** – a two-percent base budget reduction of core general funds for colleges, schools, administrative and academic support units will be effective July 1, 2017. The medical center will be subject to an assessment calculated as an additional 0.1% of the OP tax base. Central research bridge funds, financial aid, purchased utilities, and library collections are exempt.

3. **Budget model changes** – we will adjust the budget model to mitigate the structural gap and ensure sustainable funding going forward. The adjustments are as follows:

   a. **Indirect cost recovery (ICR) funds** (about $1.5 million net in 2017-18) – increase Provost share from 63% to 66% in 2017-18, to 68% in 2018-19, and to 70% in 2019-20. However, the Hazardous Material Removal and Radiation Use Authorization programs, currently funded through recharge, will be centrally funded, effective July 1, 2017.

   Also, effective 2017-18, administrative and academic support units that have ICR base budgets will be assigned a base reduction of two percent (about $0.5 million).
b. Faculty resources (about $0.5 million) – based on analysis of recent data, we will increase the Provost share of retirement returns for colleges from 30% to 35%. There will be no change to the Provost share for schools, which remains at 20%.

4. Recalibrate two central programs:
   a. Hiring incentive program (HIP) – the third cycle of HIP scheduled for 2018 will be deferred, likely for one year (about $1.5 million one-time). This is in part to support the long-term strategy and expansion for the CAMPOS program described above and to provide us an opportunity to complete hiring for the first two cycles of HIP (i.e., positions approved in 2014 and 2016 are not affected).

   b. Accelerated faculty salary parity program – the campus added additional funds in 2015-16 and 2016-17 (about $4 million base over two years) to accelerate faculty equity and parity increases above the systemwide program. In 2017-18, the campus will invest to match the systemwide program.

ANNUAL BUDGET PROCESS

As in years past, we will have meetings with you, the Academic Senate (the FEC Chair for school/college meeting and the Division Chair or Vice Chair for other units). In the meetings, we will review your financial status and metrics, discuss goals, share approaches that you will use to rebalance the budget and manage other financial risks, and review the processes you are using for consultation and communication.

Budget & Institutional Analysis (BIA) will provide a schedule to each unit with information about 2017-18 budget actions. Please refer to the BIA web page for metrics and planning information (http://budget.ucdavis.edu/budget-planning/current-planning.html). Once again, we deeply appreciate your leadership and engagement in the budget process and look forward to hearing about your plans during the annual budget meetings in late spring and early summer.

Sincerely,

Ralph Hexter
Interim Chancellor

Kenneth C. Burtis
Interim Provost & Executive Vice Chancellor

Attachment

C: Davis Division Chair Goodhue
   Chancellor Designate May
   Budget Directors Mangum and Nachman
   Interim Lead Ratliff
   Assistant Deans and Chief Operating Officers
Attachment A – Overview of Annual Budget Allocations for 2017-18

Revenue

• Undergraduate Tuition from enrollment growth (net of financial aid). We estimate an increase of $3.6 million in base tuition and $16.6 million in supplemental tuition paid by national and international students. BIA will share preliminary allocations using the campus budget model that total about $5 million (70% of base tuition and 15% of supplemental tuition) using our standard metrics of student-credit hours, majors and degrees awarded.

• Tuition increase from higher fees for undergraduate and graduate students (net of financial aid). We estimate an increase of $12.8 million from the 2.5% increase to base tuition and the 5% increase to undergraduate supplemental tuition for national and international students. These funds will be used for fixed cost increases.

• State funding increases of about $14 million will be used for fixed cost increases.

• Indirect costs and faculty resources will be modified as described above.

• The process for allocating the following revenue sources will remain unchanged: summer and professional tuition associated with enrollment changes and patent funds. Graduate tuition will be adjusted consistent with the new Masters Enrollment Incentive Program.

Expenses

• Salary and benefit fixed cost increases for faculty and staff and fee remission for teaching assistants. The central campus will allocate funds to cover fixed cost increases on core funds, consistent with recent practices. The estimated incremental cost for state and tuition funds is $24.2 million (base).

• Set-asides for deferred maintenance and capital renewal will be increased by $2 million (base).

• The OP assessment will be increased as part of a multi-year plan to pay the campus share of costs for the UC Path project. The rate for the medical center will increase from 1.46% to 1.61% (0.05% for UC Path and 0.1% as described above). The rate for all other units will increase from 1.55 to 1.61% (0.05% for UC Path).

• Common goods assessment (CGA). Effective July 1, 2017, the campus will no longer use the payroll assessment to collect CGA funds, and will instead collect funds through an annual billing process, similar to the OP assessment. Details on these changes will be forthcoming.

• Financing the campaign. We are finalizing an investment plan to finance the next comprehensive campaign. The plan will require contributions of one-time funds from deans and vice chancellor over the next 3 years starting in 2018-19. The methodology and timing of these contributions will be finalized in the coming months.