

University Of California, Davis
Operating Budget Process



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I. BACKGROUND AND PERSPECTIVE

A. The Need for a New Campus Operating Budget Process

The operating budget for any organization is the primary instrument for aligning resources available for ongoing annual operation with goals and objectives. For many years, the UC Davis process for allocating resources to deans and vice chancellors considered annual augmentations to a unit's "permanent" base. That base consisted primarily of funds from the State.

This approach was brought to a halt by the severe recession that gripped California in the early 1990s. The resulting major reduction in the State's appropriation to the University forced the campus to be far more thoughtful in setting priorities at every organizational level. It also caused the campus to be more resourceful in finding funds to supplement or substitute for State resources in support of its highest priorities. For a period of several years, through 1997-98, campus resource management decisions were taken primarily in the context of the "Phase III" process, in which units' operating budgets were reduced to accommodate reductions in University appropriations to the campus.

The campus began to emerge from this difficult period in 1998-99, when permanent State funds once again became available to fund budget increases related to inflation and enrollment growth. With the new resources, however, came the realization that the State and the University of California had made major changes in their allocation practices since the growth years of the late 1980s. For example, the State would fund the University on the basis of inflation plus the computed "marginal cost" of enrollment growth. Enrollment growth funding, on a per student basis, would be approximately half of the current actual per student cost of University operations. The University would pass enrollment growth funding on to the campuses through block grants intended to address all aspects of campus operations related to growth: new faculty positions, support for academic units, and support for administrative, academic support, and student services units.¹

As the campus emerged into this period of enrollment growth with very limited State funding, it became apparent that there was no generally accepted process to guide the distribution of campus resources that was consistent with the new State and University practices. The campus needed a budget process that allocated the limited State growth funds to its highest priorities, used non-State funds to their greatest strategic advantage, and provided strategically important programs with sufficient resources to ensure success. The Target Budget Method (a workload-based budget model) used prior to the early 1990s was not consistent with the new financial reality of enrollment growth with limited funds. It did not explicitly consider performance measures (such as research productivity, student credit hours of instruction, and extramural funding). Moreover, it was based on

¹ Academic support units include the Shields Library, Graduate Studies, Office of Research, Teaching Resources Center, Education Abroad Program, etc. For purposes of clarity, the administrative and academic support units will be hereafter referred to as the "administrative units" to avoid confusion with the term "academic support" that refers to support budgets for academic units.

assumptions about workload that had not been systematically reevaluated for more than 15 years or simply could not be reconstructed from the historical record.

In response, the campus initiated a two-year project, January 1997 through January 1999, to develop a new budget process.

B. Development and Design of a New Budget Process

The Budget Process Steering Committee, appointed by Provost and Executive Vice Chancellor Robert D. Grey, managed the budget process design project during the 1997-98 and 1998-99 fiscal years. The members of the Steering Committee are listed below:

Richard Meisinger, Jr., Associate Vice Chancellor—Planning and Budget; Chair
Robert Blake, Professor and Chair, Spanish and Classics
Robert Franks, Associate Vice Chancellor—Student Affairs
Dorothy Gietzen, Professor, Anatomy/Physiology/Cell Biology
Janet Hamilton, Vice Chancellor—Office of Administration
Harvey Himelfarb, Vice Provost—Academic Planning and Personnel
Thomas Kaiser, Assistant Dean—Administration, College of Agricultural and Environmental Sciences
Clarice Martin, MSO, Medicine and Epidemiology
R. Bryan Miller, Professor, Chemistry; Chair, Academic Senate
Robert Powell, Professor, Chemical Engineering and Materials Science; Faculty Assistant to the Provost
Melvin Ramey, Professor, Civil and Environmental Engineering
Peter Rock, Dean, Division of Mathematics and Physical Sciences
Robert Smiley, Dean, Graduate School of Management
Wesley Wallender, Professor, Land, Air, and Water Resources; Chair, Committee on Academic Planning and Budget Review (CAPBR)

The Steering Committee and its three subcommittees (Academic Units, Administrative Units, Student Services Units) met frequently over those two years for the express purpose of developing a fair and rational process for allocating permanent operating funds to deans and vice chancellors.

The campus pursued a provisional annual budget process between 1996 and 1999 while the new budget process was being developed. Annual budget hearings for each dean and vice chancellor were held in Spring 1996 and Spring 1997 with Provost and Executive Vice Chancellor Grey and a Budget Advisory Committee (consisting of vice provosts and representatives from the Academic Senate and the Offices of Research, Graduate Studies, and Planning and Budget). These hearings reviewed unit priorities and challenges, but did not result in resource allocations. In Spring 1998, substantial one-time funds were awarded to deans and vice chancellors on a competitive basis for program enhancements and for major new initiatives. Price increase (inflation adjustment) funds were allocated in proportion to units' permanent funding bases from general funds and student fees.

However, the allocation of any substantial permanent resources awaited the completion of the Steering Committee's work.

1. Overview of the Budget Process Steering Committee's Work

The Steering Committee identified multiple objectives for the new process: fairness, openness, clarity, understandability, stability, focus on performance and priorities, and a sensible balance between centralization and decentralization of responsibility and authority. It considered a host of major issues, including incorporation of performance measures into campus resource allocation processes (in order to appropriately recognize and reward the success of campus units); development of resource allocation models that foster a strong sense of community, institutional values, and collaborative effort; and design of a new allocation process to provide support for academic units.

The Steering Committee also examined the budget processes of other major research Universities to see what could be learned from the experiences of similar institutions. The lessons learned are recorded in detail below because they fundamentally shaped the recommendations of the Committee.

The Steering Committee drafted its recommendations and provided them to Provost and Executive Vice Chancellor Grey on November 11, 1998. These recommendations were circulated to the deans and vice chancellors for review, and iterative consultations continued through 1999. The deans and vice chancellors were generally supportive of the Steering Committee recommendations. However, they also provided many valuable suggestions for clarifying and improving the process, principally including:

- Better definition of the factors that guide the Provost & EVC's decisions about the distribution of enrollment growth funds among the three major types of campus operating units (academic, administrative, and student services).
- Additional description of the process as it applies to administrative and student services units—in particular, additional detail about the processes and principles that guide annual block grants to the vice chancellors and Dean of Graduate Studies and the relationship of the budget process to the Administrative Unit Review process.
- Better delineation of budget processes that occur every year (annual budget allocations), every other year (biennial budget allocations), and every five to six years (major program reviews).
- Clearer definition of the academic support allocation process, in particular:
 - Rationale for selection of formula elements and measures of faculty activities.
 - Articulation of the principles that will guide the Provost & EVC in allocating funds set aside for non-formula (discretionary) allocation.

Provost and Executive Vice Chancellor Grey accepted the budget process for partial implementation beginning in fiscal year 1999-2000.

2. Alternative Processes Considered by the Steering Committee and Rationale for the Selected Process

The Steering Committee sought to take advantage of the considerable effort invested by several major research universities in revising their budget processes. Accordingly, the Steering Committee focused its review on the budget processes of the University of Illinois, Urbana-Champaign (UIUC); the University of California, Los Angeles (UCLA); and the University of California, San Diego (UCSD). These three universities were selected because they provide a wide range of options for balancing centralization and decentralization of budget authority.

UIUC and UCLA, moreover, have considered budget processes based upon a model called Responsibility Centered Management (RCM) that has received national attention. The Steering Committee carefully considered the RCM model because it promotes the philosophy of decentralized responsibility, a philosophy that Davis campus leaders sought to include in a new budget process. RCM is a system of financial management that in its purest form attributes all income and costs directly to the activities of academic units. In particular, RCM:

- Assigns to each academic unit all costs and income (including student fees) that are reasonably attributable to it. It provides academic units with the ability to generate income to cover costs—for example, by enrolling more students in their classes.
- Provides incentives for each academic unit to increase income and reduce costs to further a clear set of academic priorities.
- Allocates to academic units the cost of all administrative and student services units. In its purest form, RCM treats academic units as “customers” of administrative services units. It attempts to create a sort of “marketplace” in which administrative and student services units receive all of their support from academic units through an assessment for services rendered. Thus, administrative and student services units are theoretically held accountable to academic units for cost control and customer service.

Of the three campuses reviewed, UCLA has considered an approach that is closest to a “pure” RCM model. Specifically, UCLA has completed an extensive and costly modeling process that essentially constructed a shadow budget for the campus that was based on RCM principles. The process relies on comprehensive personnel, budget, and student data. UCLA, however, has decided not to implement a budget process that is based on this model.

UIUC's budget model is based on UCLA's experience and on the RCM principles of decentralized decision-making and treatment of academic units as customers of administrative units. UIUC allocates resources to academic units, which in turn are subject to assessments that support administrative and student services provided by service units, termed “responsibility centers.” However, UIUC noted that planning for and implementing a complicated budget model like RCM could go on indefinitely and chose instead to build a simpler accounting and data collection model than was developed at UCLA. The UIUC

model also incorporates strategic planning and performance measures to facilitate institutional goals and provide for balance among academic programs.

The UCSD model does not explicitly rely on RCM principles; however, it is also a very decentralized model. At UCSD, most State resources (both increases and decreases) are allocated to vice chancellors for academic and administrative programs based on incremental formulae that account for a limited number of factors (such as units' permanent budgets and indirect cost recovery on contracts and grants). The vice chancellors then use their own allocation processes to distribute funds to units.

The Steering Committee came to the following conclusions:

RCM as a philosophy is worthy of serious consideration. The Steering Committee found that RCM is consistent with some desirable outcomes such as promoting decision-making at the organizational level closest to program activities and encouraging self-sufficiency. It is reasonable to place responsibility for resource management and program outcomes as close to the program leadership as possible.

A full RCM model is not appropriate for UC Davis. The Steering Committee concluded that a new budget model should include features that create and encourage a sense of accountability among administrative and student services units. However, the Steering Committee found that RCM did not meet UC Davis needs for several reasons. In particular, the Committee found that adopters of RCM did not view the attribution of revenues and costs as sufficient to ensure a sense of accountability. Although these institutions had invested a great deal of effort and expense in creating the mechanisms of revenue attribution and assessment for services, they were still seeking ways for academic units and service units to reach an effective agreement on quality and cost of service. The Steering Committee also found that RCM in its purest form might encourage competition among units to an extent that would not be healthy for the campus as a whole. RCM, for example, would not effectively guide the use of campus resources to achieve campuswide goals and balance among programs, or encourage recognition that the fate of individual units is bound to the success of the campus as a whole.

The Steering Committee concluded that the practically attainable benefits of an RCM approach would not offset the high costs of developing and tracking the data necessary to support such an approach. A full RCM approach would not be economical and could be destabilizing.

The Steering Committee noted, however, that the campus could get the benefits associated with an RCM approach to budgeting without the costs of fully implementing RCM methods. For example, decentralization of programmatic and budget responsibilities can be achieved without complex accounting models. Moreover, accountability of administrative and student support services to academic units can be achieved through periodic program reviews and use of a limited array of performance measures.

The budget process must preserve the Provost & EVC's flexibility to direct resources to emerging institutional priorities and program opportunities. The

Steering Committee recommended that the budget process allow the Provost & EVC to retain sufficient academic and fiscal leverage to: (1) maintain the appropriate balance among programs in the light of shifting institutional priorities, and (2) respond to emerging program opportunities. In practice, this means that the campus annually must set aside some significant share of enrollment growth and other campus funds for allocation at the Provost & EVC's discretion, rather than allocate all funds on a formula basis.

Formula-driven budget allocations to academic units should primarily recognize instructional workload and research productivity. The Steering Committee agreed that formula-driven allocations to academic units should be linked primarily to the activities of faculty (instructional and research activity as measured by agreed-upon performance indicators), rather than to the simple presence of faculty (number of faculty FTE). Therefore, allocation of academic support funds to general campus colleges and divisions should be based primarily on student credit hours of instruction and level of extramurally funded research activity. To a lesser extent, academic support allocations should be based on the number of faculty FTE and majors.

The budget process should be incremental in nature and it should accept a unit's prior-year budget as the base. The Steering Committee debated extensively the merits of zero-based budgeting and similar alternatives as opposed to strict incrementalism. Zero-based budgeting and similar alternatives, generally speaking, would require deans and vice chancellors to rejustify their budgets annually from the ground up. To some limited extent, funds in the prior-year base of one dean or vice chancellor could be redirected to another, based on campus priorities and the relative strength of their budget proposals. Proponents of these alternatives—a strong minority voice in the Steering Committee—argued that the limited growth funds available to the campus would not be sufficient to ensure the success of campus efforts to innovate and meet the challenges of the future. Consequently, they advocated that the Provost & EVC should have the ability to redirect “base” budget funds from one dean or vice chancellor to another.

In the end, the Steering Committee concluded that zero-based budgeting and similar approaches would not allow units sufficient stability in their resource base to bring plans and initiatives to fruition. Noting that academic initiatives in particular may take several years to mature, the Committee recommended that base budgets should be left intact on an annual basis. However, the Committee supported the examination and possible changing of base budgets in the context of major program reviews that should occur every five to six years.

Innovation requires financial partnership. The Steering Committee also noted that the success of innovation in this incremental approach would require a financial partnership among deans and vice chancellors on the one hand, and between the deans/vice chancellors and the Provost & EVC on the other. Specifically, the Committee recognized that the campus could not innovate successfully if it depended solely on growth funding, which would be limited in the best years and might not be available at all in some years. Rather, the Committee noted that the success of the campus would depend fundamentally on the ability of the deans and vice chancellors to redirect their existing (“base”) resources, over time, from lower priority to higher priority programs.

II. PRINCIPLES THAT GUIDE THE PROCESS

The budget process is based on key principles that emerged from the deliberations of the Budget Process Steering Committee: fairness, openness, clarity, stability, consideration of performance, focus on priorities, and balance between centralization and decentralization of responsibility and authority. The process is also designed to fit within unique and important characteristics and values of the Davis campus, including interdisciplinary collaboration and collegiality. Finally, the process recognizes that the campus's success will depend greatly on the ability of deans and vice chancellors to leverage their existing resources to foster innovation. The specific principles and the aspects of the process that are derived from these priorities are listed below:

A. Processes and procedures should be open, understandable, and fair.

Requisite Characteristics of the Process

- Criteria for decisions are clear and well understood.
- Data and formulae used are accurate and understandable.
- Analytical evaluations of budget proposals are objective, balanced, and available to all participants.

B. The process should provide incentives for improving quality, productivity, and enterprise.

Requisite Characteristics of the Process

- Resource allocation is linked to agreed-upon performance measures and outputs, not inputs.
- Responsibility for achieving programmatic outcomes is aligned with decision-making authority regarding programmatic inputs.
- Incentives are clear, automatic, and reasonably stable.
- Self-sufficiency and initiative are fostered, consistent with academic goals.

C. The process should strike a sensible balance between centralization and decentralization of responsibility and authority.

Requisite Characteristics of the Process

- Most program decisions are made at the organizational level closest to the program activity.
- Sufficient academic, administrative, and fiscal leverage is retained centrally to facilitate broad campus goals, maintain institutional balance among programs, and respond to opportunities.
- Systems and procedures are designed to recognize that the fate of individual units is bound to the success of the Davis campus as a whole.
- Campus priorities and objectives are clearly articulated and broadly understood.

D. The process should consider all funds, regardless of source.

Requisite Characteristics of the Process

- In determining resources available to a unit to support incremental changes in its workload or programs, the campus will take into account changes or potential changes in the levels of all resources available to a unit under current policy.
- The campus will use State enrollment growth funds, to the extent possible and appropriate, to leverage increases in non-State funding sources.

E. The process should leverage available resources to foster innovation.

Requisite Characteristics of the Process

- Innovation is primarily the responsibility of the deans and vice chancellors, through reallocation of their existing resources from lower to higher priority uses, or where possible, through generation of extramural funding.
- Preference in the allocation of growth funding will be given to innovations that advance campus priorities and (1) are supported in part by a redirection of a dean's or vice chancellor's existing resources, or (2) hold reasonable promise of attracting sufficient extramural funding to become largely self-supporting.

III. MAJOR FEATURES OF THE PROCESS

This section describes the fundamental characteristics of the process, the three components of the process (annual, biennial, major program review), and the types of resource allocations that make up each component. Section IV provides a more detailed description of the process as it applies to academic units. Section V provides a more detailed description of the process as it applies to administrative and student services units.

A. Fundamental Characteristics of the Process

The fundamental characteristics of the budget process are determined by the principles and objectives discussed in Section II.

1. The process applies only to allocations from the Provost & EVC to deans and vice chancellors.

The process does not constrain the discretion of the deans or vice chancellors to establish processes for allocation of their discretionary resources to their departments or programs.

2. The process is primarily incremental in nature.

The process accepts a unit's prior-year budget as the base to which incremental funding is added for general support or specific purposes. Larger changes (increases or decreases) in a unit's base budget, however, may occur as a result of major programmatic reviews, scheduled every five to six years, or as a result of major externally imposed financial constraints (such as a reduction in State support for the University resulting from a State budget crisis or implementation of extraordinarily costly new Federal, State, or Office of the President requirements).

Many questions raised during consultation on the Steering Committee's recommendations addressed the issue of an acceptable starting point for an incremental process. Specifically, deans and vice chancellors asked what was being done to ensure that units would begin from an equitable resource position before embarking on an incremental budget process.

In the case of the general campus academic units (not including the professional schools), the Provost & EVC equilibrated support budgets for academic units in 1998-99, in recognition that support funding was generally insufficient and somewhat imbalanced. The level of increase for each college and division was determined following: (1) discussions with deans; (2) consideration of a study on support costs for academic units that was reviewed by the Academic Support Cost Study Workgroup (composed of assistant deans, departmental budget managers, and Planning and Budget Office staff); and (3) analysis of various workload information. While these allocations were constrained by available resources, they achieved reasonable parity in academic support funding for the general

campus academic units. Equilibration of academic support allocations for the general campus professional schools will be considered at a later time.

Given the many programs and activities within the administrative and student services units, the Steering Committee recognized that equilibration for these units would require major program and budget reviews to evaluate the appropriateness of base budgets. The Steering Committee also understood that these reviews could not be completed prior to implementation of a campus budget process. Therefore, the Provost & EVC will proceed in the following ways to address base budget concerns of administrative and student services units:

- Use the budget process to elicit annually from each vice chancellor and the Dean of Graduate Studies a few critical measures of workload and performance change. These measures will guide annual incremental allocations to assist these units in addressing the increased demands for service and support imposed by growth in academic programs. Information from ongoing Administrative Unit Reviews will also guide decisions about resource allocations to these units.
- Partner with the vice chancellors and the Dean of Graduate Studies to complete a strategic planning process for administrative and student services units. The resulting strategic plan should provide the framework for longer-term decisions about base budget-related changes in the structure and function of administrative and student services units.

3. The process assumes that reallocation of existing funds within units is necessary to achieve success.

This outlook reflects the realities associated with an incremental budget process and the limited availability of growth funds to the campus. The latter limitation is related to the State's practice of funding enrollment growth at marginal costs and the possibility of future downturns in the State economy. As a consequence, successful innovation will rely to a significant extent on financial partnerships among deans and vice chancellors on the one hand, and between the deans/vice chancellors and the Provost & EVC on the other. Thus, allocation of growth funding through this process will favor support of innovations that advance campus priorities and are supported by deans and vice chancellors through a redirection of their existing base budget resources.

4. The process takes an "all funds" approach to resource allocation.

In assessing the resource needs of units/programs, the Provost & EVC will take into account all resources available to a unit/program for the accomplishment of its missions and goals. Major changes in the source of funds for a unit/program, such as moving a major activity from self-supporting to State-funded status or vice versa, would normally be considered within the context of a major program review.

B. Description Of Process Components

The budget process has annual, biennial, and major program/budget review components that apply to all deans and vice chancellors

1. Annual Component

This component consists of faculty FTE, block grant, academic support, and various other allocations that occur every year, as resources permit. Each year, all units will receive base budget adjustments for salary range and merit increases funded by the State and UC systemwide student fees. These increases will occur just as they have in the past, through established merit evaluation and payroll processes. Resources permitting, the Provost & EVC may allocate to the deans faculty FTE positions (with corresponding faculty salary funding) and resources for academic support (Section IV provides a detailed explanation). Resources permitting, the Provost & EVC may provide vice chancellors and the Dean of Graduate Studies incremental allocations of a block grant nature to recognize the increased demands for service and support imposed by growth in academic programs (Section V provides a detailed explanation). Other specific examples of annual budget allocations that may occur as funds are available include: instructional technology funds, instructional equipment replacement funds, campus support for high-cost faculty start-up packages, operation and maintenance of plant and deferred maintenance funds (to the Vice Chancellor—Administration), and indirect cost return allocations.

2. Biennial Component

Every other year, as resources permit, each dean and vice chancellor may propose modest, program-specific budget augmentations for program enhancements. These proposals are evaluated by the Provost & EVC in consultation with the Council of Deans and a Budget Advisory Committee, and funded based on merit.

This biennial approach means that budget workload will peak every other year both for budget preparers and budget reviewers. However, this approach should result in an overall workload reduction when compared with the annual program enhancement review process that was in effect until recently. The Steering Committee proposed a staggered biennial approach as a means of mitigating this workload. It suggested that half of all campus units make biennial proposals in one fiscal year, and the other half in the next fiscal year. This approach was rejected after the deans and vice chancellors voiced concerns about the equity of a process that would evaluate proposals of relatively equal merit in different fiscal circumstances, i.e., different fiscal years.

The campus will endeavor to support through the annual budget process the costs of ordinary program growth and development associated directly or indirectly with the growth of the faculty and its instruction, research, and public service activities.

The Provost & EVC will review the biennial program enhancement proposals and, resources permitting, provide modest budget increases to units based on proposal quality, consistency with campus priorities, consistency with program directions established in the

most recent major review, and increases in productivity and workload. Thus, program enhancements must be extraordinary in nature. For example, they might:

- Stem from a major new initiative that advances campuswide priorities and goals; or
- Involve a major non-incremental change in administrative infrastructure or the nature of work (for example, development and operation of a new administrative computing system or support of a new campus academic initiative) that will increase the efficiency or effectiveness with which the campus advances its teaching, research, and public service activities; or
- Provide extraordinary programmatic and efficiency benefits for multiple campus units (for example, the restructuring of campuswide development activities and financing).

Moreover, the unit proposing a program enhancement must show that it has made all appropriate efforts to fund the enhancement through the combination of resources allocated by the Provost & EVC in the annual budget process and redirection of its own core resources.

The overall campus budget commitment for development and operation of new administrative computing systems will normally be reviewed every other year as an element of the biennial budget process. All budget augmentation requests for administrative computing projects will require prior review by the campus's Administrative Computing Coordinating Council (AdC3) and incorporation into the campus administrative computing plan. The campus process for planning, implementing, and funding administrative computing systems is described in UCD Policy and Procedure Manual Section 200-45. This section will soon be updated to clarify its link to the biennial budget process.

Given the compelling equity and workload reasons for limiting program enhancement proposals to the biennial year, extraordinary funding needs or resource allocation issues that occur "off-cycle" will be addressed on a case-by-case basis from one-time funds until a permanent funding source is identified in the next biennium.

3. Major Program Review Component

Every five to six years, deans and vice chancellors will conduct major programmatic and budget reviews of their major departments or divisions. Upon completion of these reviews, deans and vice chancellors will consult with the Provost & EVC concerning strategies for improvement of the units reviewed, including the resource implications of these strategies. For vice chancellors, this approach builds upon the already established Administrative Unit Review process described in UCD Policy and Procedure Manual Section 200-30. This section will soon be updated to clarify its link to the budget process. For deans, a program review process will be developed, as discussed in Section IV.

Where appropriate, a dean or vice chancellor may wish to review cognate clusters of units in alternate years. The major program review should include an assessment of

performance and quality. Based on this review, the Provost & EVC and the appropriate dean or vice chancellor will determine the steps necessary to maintain or improve the unit's performance over the next five years, potentially including base budget adjustments for the unit.

C. General Criteria for Distribution of Available Campus Funds Among Major Resource Pools

The Provost & EVC, following appropriate consultation, will determine each year how incremental resources available to the campus will be allocated: (1) among academic, administrative, and student services priorities, and (2) between annual and biennial process components. Three criteria will guide this distribution:

- General campuswide priorities and goals as expressed through academic and strategic planning processes (for example, the major academic planning effort being completed in 1999-2000, the proposed strategic plan for administrative and student services units, and the UC Davis Staff Workload Issues Task Force Study completed in 1998-99).
- Specific goals and parameters for growth and improvement established by units in their most recent academic plans and major program reviews.
- Specific information about performance and workload reported annually. For deans, the information should include the components described in Section IV and the salaries and benefits funding necessary to support new faculty FTE. For vice chancellors and the Dean of Graduate Studies, the information should include the elements described in Section V: changes in key measures of workload as specified by the vice chancellor or dean and changes in performance related to key indicators or benchmarks as specified by the vice chancellor or dean.

IV. DETAILS OF THE BUDGET PROCESS FOR COLLEGES, SCHOOLS, AND DIVISIONS

This section provides further information on how the annual, biennial, and major program review components apply to colleges, schools, and divisions.

A. Annual Process

1. Faculty FTE Allocation

The Provost & EVC may make incremental changes in a college's/school's/division's number of faculty FTE and corresponding changes in a college's/school's/division's budgeted faculty salaries and benefits. Incremental changes for general campus colleges/schools/divisions will be guided by the availability of resources and a target number of faculty FTE positions as expressed in the academic plan that has been approved for the college, school, or division. The policy requiring the return of retired faculty positions to the campus in accord with UCD directive 97-101 will remain in place. The number of faculty FTE for health sciences schools will continue to be determined by enrollment targets established through a separate UC systemwide budget process. All deans will have flexibility to allocate growth and replacement positions among departments consistent with their approved academic plan. As has been the case historically, a specific recruitment plan for each vacant faculty position will continue to be filed with and approved by the Vice Provost—Academic Personnel. A new post-audit review by the Provost & EVC, with the advice of the FTE Allocation Workgroup,² will periodically assess the outcomes of recent recruitments. It will include an evaluation of contributions by new faculty members to the research and instructional workload goals in units' approved academic plans.

2. Academic Support—General Campus Formula Allocation (70 percent of academic support funds)

Generally, "academic support" means all expenses of academic units other than faculty and teaching assistant salaries and benefits. The Steering Committee recommended an academic support allocation methodology for the six general campus colleges and divisions. It made no recommendation concerning the general campus professional schools (the School of Law, the Graduate School of Management, the Division of Education), but suggested that methodologies for these units be developed at a later time. The Steering Committee did not address academic support for the School of Medicine and the School of Veterinary Medicine, because academic support for the health sciences is fixed on a faculty FTE basis according to formulae established by the Office of the President.

² In addition to senior academic administrators, the Chair of the Davis Division of the Academic Senate and the Chair of CAPBR are members of this Workgroup.

The Provost & EVC will distribute 70 percent of funds available for academic support to the deans of general campus colleges and divisions through a formula that recognizes growth in faculty FTE positions, student credit hours of instruction, extramural expenditures for research, and undergraduate majors. The Steering Committee intended these formula elements both to recognize the costs of growth in faculty activity and to provide an incentive to increase instruction and research activities.

During consultation with the deans and vice chancellors, concerns were raised that many specific activities conducted by academic units are not explicitly represented in this formula (for example, outreach, fundraising, advising of students undecided on a major, graduate student support, and high-cost courses). The Steering Committee spent considerable time reviewing these and other issues, and ultimately concluded that the additional activities do not easily lend themselves to formulaic solutions; it is virtually impossible to construct a formula that covers every activity in some meaningful way; and there is considerable value in limiting the number of items considered in the formula to a manageable few. Although not explicitly represented in the formula, these activities may be considered through annual discretionary allocations of academic support and during the biennial and major program review processes.

A detailed description of the academic support allocation formula for general campus units (excluding professional schools) follows:

Step 1. Divide the total amount to be allocated by formula for permanent augmentation of academic support budgets into four pools.

- Fifteen percent to recognize growth in faculty FTE (to address growth in academic unit administrative activities).
- Twenty percent to recognize growth in extramural expenditures for research (to recognize growth in extramural activity³). In consultation with the deans, it was noted that it would be desirable to credit all expenditures for a particular principal investigator back to his or her home department, regardless of where the actual expenditure is recorded (in an Organized Research Unit, for example, or in another department in the case of a grant with multiple investigators). This is currently not possible due to limitations of campus information systems. The Steering Committee noted, moreover, that academic support dollars ought to be directed to the unit that is bearing the costs of grant administration, whether or not it is the principal investigator's home unit. The campus will modify its information systems to address this issue as resources to do so become available.

³ "Extramural expenditures for research" include direct expenditures and indirect overhead from Federal, State, local, and private contracts, grants, gifts, and endowments (Campus Financial Schedule 2-C, "Current Funds Expenditures by Department," restricted expenditures for research).

- Thirty percent to recognize growth in student credit hours (to recognize growth in instructional activity). Growth will be credited to the home college, or division of the faculty member who teaches the course.
- Five percent to recognize growth in undergraduate majors.

(Note: The remaining 30 percent will be allocated at the discretion of the Provost & EVC.)

Step 2. Determine the amount of growth in each factor for each college/division.

The growth in four factors (faculty FTE, extramural expenditures, student credit hours, and undergraduate majors) is calculated for each college/division. In order to dampen the effect of large changes in any given year, “growth” is defined as average annual growth over the immediately previous three-year period.

Step 3. Determine each college's/division's share of total general campus growth for each factor.

Next, each college's/division's share of total general campus growth in each factor (faculty FTE, student credit hours, extramural expenditures, and undergraduate majors) is calculated. These calculations provide the basis for the formula-based academic support allocations. For example, if a college or division accounts for 15 percent of total general campus growth in student credit hours, it will receive 15 percent of the amount allocated in Step 1 to recognize growth in student credit hours. If a college/division shows a decline in a factor, it will not receive a share of the amount allocated for growth in that factor.

Step 4. Determine each college's/division's total formula-based academic support allocation.

The total amount of formula-based funding allocated to each college/division will be the sum of the amounts allocated to it for growth in faculty FTE, student credit hours, extramural expenditures, and undergraduate majors.

Special circumstances

- **Example 1.** In cases where a program moves from one college or division to another, adjustments will be made to ensure that the growth calculations are fair to both.
- **Example 2.** The formula will be adjusted as necessary to ensure consistency from year to year. For instance, if there is a period when most units have no growth in student credit hours, but one or two have modest growth, the amount allocated to recognize growth in student credit hours may be reduced temporarily so that the amount provided for modest growth is in line with the amount provided for modest growth in prior years. If, as a result, the full amount designated for allocation on the basis of student credit hours is not permanently allocated, then the remainder will be allocated at the Provost & EVC's discretion either in the current or the following year.

It is recognized that changes in the specific weightings in the allocations may need to be made as the campus gains experience with the model.

3. Academic Support—General Campus Discretionary Allocations (30 Percent of Academic Support Funds)

The Provost and EVC will distribute 30 percent of funds available for academic support to the deans of general campus colleges and divisions to address the high cost of instruction in certain disciplines, other exceptional needs, or exceptional performance. The Budget Process Steering Committee's review of other universities indicated that those with too few discretionary resources for academic support found they had insufficient flexibility to respond to emergent opportunities or to buffer short-term funding downturns. In order to avoid a similar circumstance at UC Davis, the Steering Committee recommended that a discretionary component be built into the academic support funding process.

4. Academic Support—Allocations for General Campus Professional Schools and the Health Sciences

Academic support allocation methodologies for the School of Law, the Graduate School of Management, and the Division of Education will be developed at a later time. Academic support for the School of Medicine and the School of Veterinary Medicine is fixed on a faculty FTE basis according to formulae established by the Office of the President.

5. Other Annual Allocations

Other annual allocations to colleges, schools, and divisions will include, as resources permit:

- Salary and benefit adjustments consistent with University policy.
- Temporary instructional resources. (The methodology for these allocations is being reexamined. A new methodology will be proposed in consultation with the deans.)
- Funds for high-cost faculty start-ups, such as facilities renovations and major laboratory equipment, as determined by the existing cost-sharing formula.
- Various allocations for special purposes. (For example, in the past, the State has provided the University with special allocations for instructional technology, instructional equipment, and teacher education.)

B. Biennial Process

Each dean may propose program enhancements every other year to address new opportunities or significant changes in the nature of work. In consultation with a Budget Advisory Committee, the Provost & EVC will review the proposals on the basis of proposal quality, consistency with campus priorities, and consistency with program directions established in the unit's academic plan and most recent major review. A successful program enhancement proposal will:

- Address high campuswide priorities as well as college/school/division priorities.
- Support a new program that is an integral and specific part of the unit's academic plan or augment an existing program as necessary to ensure the success of the plan.
- Match the requested campus allocation with: (1) a commitment of the unit's existing core funds (including allocations from the annual budget process), (2) commitment of future resources that can reasonably be expected on the basis of growth, and/or (3) extramural funding.

Program enhancement proposals should not request funds for costs of ordinary program growth and development associated directly or indirectly with the growth of the faculty and its activities. The campus will endeavor to support such growth through the annual budget process. Given the limited nature of growth funding available from the State, the campus must continue to count in large part on units' responsible and innovative stewardship of their existing budgets to meet the demands of growth.

C. Major Program Review Process

Every five to six years, deans will conduct major programmatic and budget reviews of the major divisions and/or departments within their respective organizations. Where appropriate, deans may wish to review cognate clusters of their units in alternate years. The Provost & EVC will work with the deans and the Academic Senate to define the nature of these major programmatic and budget reviews and, whenever possible, to coordinate them with the existing program review processes of the Senate. It is envisioned that these reviews will take a holistic approach to academic departments and programs, i.e., assessment of the department's/program's performance in research, education (undergraduate and graduate), service, and outreach. Based on the review for each academic unit, the Provost & EVC and the dean will determine the steps necessary to maintain or improve the unit's performance over the next five years, potentially including base budget adjustments.

The Budget Process Steering Committee spent many meetings considering what performance indicators ought to be considered by the campus in its review of academic units. In the end, the Steering Committee concluded that there was no single set of indicators that could be used to measure the quality of the campus's disparate academic units. Indeed, the deans and faculty members with seats on the Committee strongly felt that the work of identifying appropriate performance indicators for academic units should be undertaken by the faculty itself in the context of the Academic Senate, and should probably be pursued on a unit-by-unit basis.

V. DETAILS OF THE BUDGET PROCESS FOR ADMINISTRATIVE, ACADEMIC SUPPORT, AND STUDENT SERVICES UNITS

This section provides further information about application of the annual, biennial, and major program review components to administrative and student services units. For the purposes of the budget process, these include the following units (at the vice chancellor or dean level): Office of Administration, Offices of the Chancellor/Provost (including Information Technology and the Library), Graduate Studies, Office of Research, Student Affairs, and University Relations.

As noted in Section I, the Budget Process Steering Committee found, given the variety of activities and programs encompassed by these units, that there is no single formulaic approach to resource allocation that will guide either an assessment of the adequacy of existing budgets or incremental budget changes. Therefore, as recommended by the Steering Committee, the annual budget process seeks from each vice chancellor and the Dean of Graduate Studies a few reliable measures of workload and performance that can be presented year after year to guide the Provost & EVC's decisions about incremental allocations to address workload changes. It is recognized that these measures will evolve over time and will not be fully available during the first two or three annual budget cycles.

Moreover, resource allocations for these units are guided by a strategic plan. Ideally, such a plan would outline the size and structure of campus administration necessary to allow the campus to be successful in its missions, given anticipated enrollment growth through 2010-11. To that end, the Provost & EVC has initiated discussions with the vice chancellors and Dean of Graduate Studies with the aim of defining a strategic planning process for the administrative and student services units.

A. Annual Process

Resources permitting, the Provost & EVC will provide incremental block grant allocations to vice chancellors and the Dean of Graduate Studies to recognize the increased demands for service and support imposed on administrative and student services units by growth in academic programs. The Provost & EVC will determine the amount to be allocated for these purposes by considering specific information about changes in performance and workload reported annually. The specific measures to be reported will likely vary by unit. For core-funded units, the Provost & EVC will also consider the effects of cost increases related to occupancy of space that is not State-supported and other extraordinary increases in non-salary costs of operation that exceed the rate of inflation.

Special designated or restricted allocations from the UC Office of the President. In the past, the UC Office of the President has made special allocations for specific purposes, such as development administration, deferred maintenance, library support, operation and maintenance of plant, and student outreach. The campus will continue to distribute any available designated or restricted allocations to the appropriate units.

B. Biennial Process

Each vice chancellor/unit head of an administrative or student services unit may propose modest program enhancements every other year (effective fiscal year 2000-01) to address new opportunities or significant changes in the nature of work. The Provost & EVC will review the proposals and evaluate them with advice from the Council of Deans. For biennial proposals regarding student services, the Vice Chancellor—Student Affairs and the Dean of Graduate Studies may establish a student consultation process.

The campus will endeavor to support through the annual budget process the costs of ordinary program growth and development associated directly or indirectly with the growth of the faculty and its activities. Thus, program enhancements proposed in the biennial process must be extraordinary in nature. For vice chancellors and the Dean of Graduate Studies this means that a successful proposal will:

- Address high campuswide priorities as well as the vice chancellor's or dean's highest priorities, as expressed in the proposing unit's most recent major program reviews.
- Support either: (1) an initiative that directly advances the teaching, research, or public service activities of the campus through the initiation of new programs that have a campuswide focus; (2) a program change that increases the efficiency or effectiveness of the infrastructure that indirectly supports the campus's teaching, research, and public service activities; or (3) a program change or new program to ensure that the campus will successfully meet major new regulatory mandates. (For example, a proposal might suggest a program that can leverage existing resources to expand the campus resource base or decrease campus costs, provide extraordinary programmatic and efficiency benefits for multiple campus units, or enhance the ability of the campus to compete for extramural sources of support.)
- Require an infusion of resources that cannot be achieved through a combination of: (1) allocations from the annual budget process, (2) redirection of existing core funds, and (3) extramural funding.

C. Major Program Review Process

On a five- to six-year cycle, the vice chancellors and the Dean of Graduate Studies will conduct a major programmatic and budget review of each major division and/or department within their respective organizations. Where appropriate, vice chancellors/unit heads may wish to review cognate clusters of units in alternate years. It is envisioned that these reviews will use the existing Administrative Unit Review framework, described in the UC Davis Policy and Procedure Manual Section 200-30. Based on the Administrative Unit Review for the administrative or student services unit, the Provost & EVC and the vice chancellor or the Dean of Graduate Studies will determine the steps necessary to maintain or improve the unit's performance over the next five years, potentially including base budget adjustments.