March 8, 2016

Deans, Vice Chancellors, Chief Information Officer and University Librarian

RE: 2016-17 Budget Framework

Dear Colleagues,

The success of our core mission depends heavily on our ongoing efforts to chart a financially sustainable path for UC Davis—one that enables us to invest adequately in faculty, research, classrooms and laboratories, academic programs, staff and infrastructure. In close partnership with Chancellor Katehi, we are advancing a multi-year, all-funds financial planning framework that enables achievement of our mission-driven priorities. As our campus prepares, in the context of President Napolitano’s systemwide initiative, to enroll a substantial number of new students, the imperative for comprehensive planning is stronger than ever. Within this broad context, this letter provides information to frame our 2016-17 budget process.

Planning for 2016-17 starts from a place of greater financial certainty than we had at this time last year, and there are several reasons to approach our planning with optimism. The total budget for UC Davis, derived from many fund sources, is $4.3 billion and growing. State funding for the University of California, as proposed in the 2016-17 Governor’s Budget, is consistent with the framework developed by the University and the state, including a modest increase in state funding, agreement that there will be no tuition increases for California resident undergraduate and graduate academic students, and an 8 percent increase in undergraduate nonresident supplemental tuition. The Office of the President, moreover, is poised to provide the second and final installment of funding for our over enrollment of California resident undergraduate students. Sponsored research funding continues to increase toward Chancellor Katehi’s goal of $1 billion annually in awards and our fundraising results remain strong.

In our recent Annual Financial Report, the campus reported an increase Net Financial Position of $49 million. This result is an important indicator of financial health for UC Davis and we have developed an economic model to forecast and plan from a multi-year, all-funds perspective. The economic model projects continuing positive results underpinned by revenue growth across many sources, strategic investments in our highest priorities and ever more efficient approaches. Our ability to invest over $2 billion in the next 10 years to advance the Capital Improvement Master Plan is predicated on solid financial results.

For 2016-17, we will continue our efforts to attract and successfully recruit many highly qualified and diverse candidates for faculty, academic and staff positions. The campus budget plan will again address funding for compensation increases that are critical to keeping us competitive. We will continue working together to ensure that we provide our students with the greatest possible opportunity for success.
Of course, even as we consider these successes and opportunities, there are also constraints that we must address. After several years of underfunding, we continue to have a structural shortfall within our core state and tuition funds that we must address. In 2016-17, our plan is to reduce the deficit from $26 million to $20 million and resolve it fully over the next 3-to-4 years. Structural financial deficiencies also exist within some of your units—and these, too, we must return to financial health in short order. The impact of health care reform continues to create uncertainty for the UC Davis Health System. Therefore, we must continue to be ever-more efficient and strategic in targeting investments to our highest priorities, and vigilant in finding opportunities to reduce our cost of operations.

Working together, we will continue to address these challenges in the context of the campus’s Financial Sustainability Action Plan (FSAP—please read more at http://fsap.ucdavis.edu/). The intent of this plan is to identify and implement opportunities beyond the current budget model—new revenues and savings—to enable investments in the academic mission. This year will see an important step forward with implementation of a first round of initiatives in the area of strategic sourcing. These initiatives will, over time, return recurring annual funds to your departments and the campus for reinvestment. Additional projects will follow. Your input and collaboration will be critical to achieving success with the FSAP.

**BUDGET MODEL REVENUE ALLOCATIONS**

**Undergraduate Tuition**

As you have heard, the University will enroll more California resident undergraduate students in academic year 2016-17 to demonstrate to the State that enrollments exceed 2014-15 levels. Based on the share of this enrollment growth assigned to UC Davis, we will confront the challenges and opportunities of a substantially larger entering fall 2016 class of approximately 9,500 undergraduates (about 1,100 more new than we enrolled in fall 2015). Total enrollment will increase by a similar number, from about 27,000 to about 28,000, and the proportion of national and international students will increase to about 15 percent.

For 2016-17, Budget and Institutional Analysis (BIA) projects $306.9 million of undergraduate tuition revenue and $108.7 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 $239.0 million, or $16.0 million more than the tuition and NRST distributed through the model in 2015-16. We will also allocate approximately $1 million in state enrollment growth funding through the undergraduate tuition budget model.

In total, an increase of approximately $11.9 million will be allocated to Deans through the budget model in 2016-17. These funds must be invested to create new faculty positions and to support teaching assistants, advising, or other aspects of instruction and research directly impacted by growth.

**Research Activity and Indirect Cost Recovery (ICR) Funds**

For 2016-17, the amount of indirect cost recovery for allocation is projected to increase modestly from $120 million to $123.5 million. The campus will continue to allocate 37 percent of the ICR funds net of set-asides (e.g., Garamendi-financed facilities) to the administrative home of the research, at the Dean/Vice Chancellor level. In addition, we are working with Vice Chancellor Lewin to evaluate the impact of the budget model on interdisciplinary research in an ORU or a major center. Through consultation with you and the Academic Senate, we will look to ensure that our allocation
practices – those of the central campus and those you administer locally – demonstrate support of interdisciplinary research.

**Graduate Tuition**

We have had many good discussions about graduate enrollment and the steps we can take to add academic graduate students. We will soon provide information about an improved incentive model for Masters students and as part of this effort I will look to you, the graduate dean and the graduate chairs to accelerate efforts to increase Masters enrollments as part of an overall enrollment plan for all of graduate education.

**Summer Tuition**

For summer 2016, budget model funding will be at least $94 per student credit hour. Should our efforts to increase summer enrollment be successful, this amount will be higher. I am pleased that you are working with Vice Provost and Dean Thomas and others toward a robust set of course offerings that will enable us to meet the ambitious summer sessions goals. In support of this effort, campus resources are being pledged as backstop to mitigate the financial risk of offering specific courses—identified in collaboration with the Associate Deans and departments—that might otherwise be deemed too “expensive” to offer in summer sessions, but are critical to the progress of students. We are also implementing a package of student-focused financial aid incentives to encourage use of summer instruction to shorten time to degree and meet other academic goals.

**Faculty Resources**

We appreciate the efforts you are undertaking in your colleges, divisions and schools to update your multi-year vision for faculty hiring. Moreover, we gratefully acknowledge the work you have done to prepare faculty hiring requests by February 29, 2016.

Faculty Assistant Burtis, Vice Provost Stanton and Provost Hexter will review the requests to inform the next round of faculty hiring decisions. We also know you are each quite busy interviewing faculty candidates and are 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 Provost Hexter or Vice Provost Stanton to partner with you to ensure success.

We know that many of your faculty have submitted proposals for the second round of the Faculty Hiring Investment Program (HIP). As you know, this program provides resources to support additional senate faculty positions. We look forward to reviewing these innovative proposals.

We anticipate providing decisions to you about faculty recruitment by mid-April, with HIP decisions following shortly after.

**FINANCIAL SUSTAINABILITY ACTION PLAN**

We continue to advance the Chancellor’s Financial Sustainability Action Plan (FSAP) to support investments over the next several years. FSAP extends beyond the baseline budget to identify new sources of funds. During the 2016-17 budget process, the incremental investments we will make to advance campus priorities and fund fixed costs are described below.
2016-17 Priority Investments – Operations

Allocations for Investment. As part of the annual budget process, we will identify a modest number of investments in high priority services and programs that have broad benefit for the campus community. We expect the schools, colleges, and divisions to employ resources flowing to them through the budget model to address your highest local priorities.

Salary and Benefit Fixed Cost Increases. The University continues to face significant fixed cost increases that impact all funding sources. Information about staff salary programs 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 all units will receive augmentations to their provost allocation to fully-fund fixed cost increases for faculty and staff.

Faculty Salary Equity Program. UC Davis faculty salaries continue to be among the lowest in the University of California system. Vice Provost Stanton and Provost Hexter are working with you to address this issue in multiple ways. In 2015-16, the campus took the first step toward addressing a particularly vexing aspect of the problem by making an initial allocation of $1.9 million to advance faculty salary equity. We intend to make another investment of a similar amount to continue our progress in 2016-17.

2016-17 Priority Investments—Capital

Capital Investment Master Plan. Classrooms and faculty office and laboratory space continue to be critical priorities. In 2016-17, we will again invest from enrollment growth funds to address these needs in the context of the campus’s newly developed Capital Investment Master Plan. This continues a series of annual allocations to ensure that we will be able to fund the portion of the plan associated with enrollment growth.

The plan again includes $1.25 million for classroom improvements guided by the Instructional Facilities Master Plan Project Advisory Committee, in consultation with the Classroom Needs Group and Senate Instructional Space Advisory Group. This is part of a multi-year plan 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 and must be addressed. We are moving forward with a multi-year plan to invest $90 million over 5-to-6 years to address urgent needs in building systems, infrastructure and information technology. These investments, along with projects identified in the 10-year CIMP and a new approach to ensuring that all new capital investments carry an appropriate ongoing budget for maintenance, will enable meaningful progress to address our DM challenge.

FOCUS ON FINANCIAL HEALTH

Finally, we will use the 2016-17 budget process as an opportunity to focus on returning all of our units to financial health. We are committed to concluding the 2016-17 budget process by June 30, 2016, with all allocation decisions in place and a balanced 2016-17 budget determined for each unit at the Dean and Vice Chancellor level. Assessment of your unit’s estimated operating results for 2015-16 and projected results for 2016-17 will be a high priority during our budget meetings. In particular, we expect that you will propose a budget that demonstrates financial health such that recurring
expenses are supported by recurring revenues. Planned use of carryforward (reserve) balances for strategic, one-time investments should be proposed and discussed during your unit’s budget meeting.

Budget meetings have been scheduled for April and early May. They will again include Faculty Executive Committee (FEC) Chairs and staff from your offices. BIA will provide baseline data, preliminary allocations, metrics and templates and is scheduling pre-meetings to provide additional information to your staff and to preview your financial plans for 2016-17.

Sincerely,

Ralph J. Hexter
Provost and Executive Vice Chancellor

Dave Lawlor
Vice Chancellor and CFO

/vws

c: 
Chancellor Katehi
Academic Senate Chair Knoesen
CPB Chair Neimeier
Sr. Associate Vice Chancellor Ratliff
Director Loessberg-Zahl
Director Mangum
Director Nachman
Assistant Deans
Chief Operating Officers