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DEANS, VICE CHANCELLORS, UNIVERSITY LIBRARIAN, ATHLETIC DIRECTOR AND CHIEF INFORMATION OFFICER

Re: 2019-20 Operating Budget Framework

Dear Colleagues,

The budget planning process for 2019-20 marks a point of inflection for our financial and enrollment planning. We have achieved the growth projected for the 2020 Initiative, adding almost 1,300 California resident undergraduates and more than 4,300 national and international students since 2011-12. Our undergraduate enrollment of national and international students is now equal to the eighteen percent cap set by the Board of Regents. We anticipate holding the overall undergraduate population relatively flat, and, as you might expect, this will have a significant impact on net-new incremental revenue. For example, in recent years we experienced non-resident supplemental tuition revenue increases of $25-$35 million annually as we increased the proportion of national and international undergraduates (cumulative total is over $150 million). Beginning in 2019-20, we estimate annual increases from this source will slow to $10 million or less.

We are optimistic about Governor Newsom's initial budget proposal and note signs of support for higher education including funds for activities related to degree attainment. However, his currently proposed budget falls short of meeting the University's needs. For example, the one-time funds provided this year in lieu of tuition increases were not made permanent, creating a gap of about $8.3 million for UC Davis on an on-going basis. Moreover, annual increases in costs for faculty and staff salaries and benefits continue at a rate of approximately 3-4 percent to ensure we can attract and retain excellent faculty and staff. The increased cost of salaries and benefits for state funds and tuition is estimated to be over $32 million, exceeding available funds by approximately $10 million. State support rarely includes sufficient resources to cover these annual, and annually increasing, costs.

We continue to see strong financial trends for the campus in research, philanthropy and our health enterprise. It is critical that we continue to support efforts at revenue growth in these areas and diligently look for other opportunities to achieve net revenue growth that is not dependent on additional undergraduate enrollment. We must also be vigilant in identifying opportunities to improve campus graduation rates, take steps to ensure that students from all backgrounds achieve equivalent outcomes on all measures of student success, strategically reduce the rate of expenditure growth, and ensure that investments advance the campus Strategic Plan.

The following information provides context, principles, and assumptions you should use as you develop your budget and prepare for our annual budget meetings. Over the coming months, the Regents, campus leaders, students, alumni and partners will be working diligently to advocate for increased state funding.

The outcome of pending actions by the state and the Regents might necessitate us revisiting our budget framework later this spring. Should this be necessary, we would consult with you, the Academic Senate, and others on the principles and priorities that would guide any material changes to the framework.

BACKGROUND AND CONTEXT

The total budget for UC Davis, derived from many fund sources, is $5.2 billion and growing. These revenue sources support a wide range of critical programs, but many of the funds are restricted to specific uses, and many funds, particularly federal and health care funds, are at risk. A two-page overview of the UC Davis budget is available online.

The budget framework in this letter focuses on the subset of core funds for university operations including state funds and tuition, student fees, facility and administration cost recovery funds, and interest earnings. These funds total $1.2 billion, or about twenty-five percent of all funds. A balanced budget for 2019-20 would require us to close a gap of up to $20 million in our operating budget. Strategies include additional state investment and/or a modest tuition increase along with significant progress increasing other revenue sources to support core operations, and changing our expenditure trajectory. In the short-term, we will look to bridging and transition strategies to close the gap. However, the challenges we face likely represent a new normal for the foreseeable future and will compound over multiple years if not addressed proactively. Relief might come, however, if the President's and Regents' negotiations with Sacramento resulted in a commitment to increased state funding for the University beginning by 2020 and continuing into future years.

BUDGET MODEL

For planning purposes, you should assume the parameters described below.

Undergraduate tuition. We anticipate an allocation of approximately $2.9 million in net-new tuition revenue to the deans using the existing budget model metrics (60 percent based on student credit hours, 30 percent based on majors, 10 percent based on degrees awarded). Budget and Institutional Analysis (BIA) has provided preliminary allocation information and will share updates as new data becomes available.

Facility and Administration Cost Recovery Funds (F&A, also known as indirect cost recovery funds). Year-to-date there has been an increase of about four percent. If this trend holds, we anticipate total funds of about $145 million, an increase of about $5 million over last year. 2019-20 is the final year of a three-year transition, and the campus share will be 70 percent and the dean share will be 30 percent. BIA provides quarterly reports of F&A cost recovery to assist with your planning and projections.

Student service and campus based fees. The Council on Student Affairs and Fees (COSAF) provides oversight and advice about the use and management of most student fee funds along with advice about annual inflation adjustments for certain campus-based fees. Flattening enrollment growth will slow growth of these funds. For Student Services Fee funded activities, we anticipate providing allocations for fixed costs for compensation, but new programmatic investments are not expected.

Fixed costs for compensation cost increases. For planning purposes, you can assume that the campus will provide allocations to cover compensation cost increases for faculty and staff and teaching assistant fee remission for all core funds, currently estimated at $32 million. This includes a commitment to fund, as we always do, any increases associated with faculty merits and changes in the faculty salary scales determined by the President.

BIA will provide additional planning parameters and estimates throughout the budget process.

EY REPORT RESPONSE

As you will recall, in fall 2017, in partnership with the Academic Senate, we engaged EY Consultants to review the campus budget model and process. We received their final report in spring 2018 and the Committee on Planning and Budget's (CPB) evaluation of the report recommendations in winter 2018. As a result, we are implementing some changes in the budget process, evaluating adjustments to aspects of the budget model, and developing a multi-year approach to the overarching structural challenge of flattening revenues and continued cost increases, as described above. We are working closely with CPB and Senate leadership on these efforts. We are committed to providing sufficient opportunity for the campus community to engage and provide advice as we move forward. Following are some examples of the activities underway or planned in the coming months:

- ***Implementing the AggieBudget system.*** When fully implemented, this system will support improved accountability, transparency, and communication about budget planning and financial health at all levels of the University.

- ***Clarifying and reframing the "Provost Allocation" component of the budget model.*** The EY Report identified that there is significant confusion about the history, components, and level of annual change that occurs in the budget component called "Provost Allocation" in the budget model. Beginning with this year's budget process we will identify the distinct component parts currently collectively referred to as the Provost Allocation: specifically, historic state funds and tuition, fixed cost increases, and incremental campus investments.

- ***Incorporating a metric for graduate teaching effort into the budget model.*** The EY report and communications from the Senate have identified a desire to ensure that metrics used to allocate resources reflect the effort associated with teaching graduate students. BIA, in collaboration with the Office of Graduate Studies, is currently evaluating several options to achieve this goal and identify challenges, pros, cons, and implications of implementing these options. We received helpful input and perspective about these possible approaches at the recent CPB retreat and expect to begin having broader conversations with the campus community, including appropriate Senate committees (e.g., CPB and Graduate Council), on this topic during Spring quarter. Any resulting changes in distribution will most likely to occur in the 2020-21 fiscal year.

- ***Adjusting the proportion of the undergraduate tuition revenue pool reallocated annually.*** As the amount of net new undergraduate tuition revenue declines annually, the impact of annually redistributing this pool of funding is likely to create less funding certainty for academic units because the redistribution effect from aligning base budgets with current year metrics will not be offset by revenue growth, as it has in recent years. BIA is evaluating ways that the undergraduate tuition revenue allocation methodology could be adjusted to lessen the impact of this change going forward. This type of change would not occur before 2020-21, but it is important to begin evaluating it now given our multi-year outlook of continued low revenue growth.

This is not an exhaustive list of work underway in this area. Over the coming months we will share more information and analyses on a variety of potential budget model changes with the campus community.

BUDGET INVESTMENTS

Given the new reality of lower core fund revenue and continued expense growth, our ability to provide central core fund investments in 2019-20 will be limited. In general, you are asked to utilize existing or planned resources to meet your highest priorities, invest in opportunities to increase net revenue that can support the core mission, and invest in changes (including partnerships) that would slow expenditure growth over time. Any requests for central investments should indicate a shared resource approach, be explicitly aligned with the university Strategic Plan, and meet at least one of the following further criteria:

- Support programs, activities, or changes in the way we operate that will improve student success outcomes, such as time-to-degree, retention, and ensuring that all students achieve equivalent outcomes, and graduation rates.

- An investment that is required to achieve increased net revenue that can support the core campus mission.

- An investment or bridge funding required to make a change in operations that will achieve long-term savings in core funds.

In addition, the Provost will invest and allocate incremental funds as described below.

- Set aside $1 million to support faculty proposals for the development and implementation of online or hybrid courses for our matriculated undergraduate students. In the coming weeks, more information will be provided on the criteria and selection process for distributing these funds.

- Continued support for faculty diversity and recruitment efforts such as the Faculty Scholars programs and Partner Opportunity Program.

- Faculty start-up block grant allocations, beyond existing commitments, totaling up to $5 million. Information about the hiring authorization process for 2019-20 is provided to deans in a separate communication.

- Continue to grow a pool of funds to support debt service and operation and maintenance of physical plant for critical capital projects such as classrooms, research, life safety and seismic projects, and infrastructure improvements. The multi-year plan assumes base increases of $3.5 million annually.

- Deferred maintenance program of $100 million over five to six years financed with century bond proceeds and some state fund appropriations.

- Multi-year classroom renovation and technology upgrade program of $20 to 25 million over 5 to 6 years.

- Graduate student support augmentation for multi-year fellowships and continuation of existing programs for graduate fellowship funds (block grants), and buy-down programs for non-resident supplemental tuition.

- Continuation of multi-year funding commitments to units from prior years with demonstrated progress and success in light of original goals.

ANNUAL BUDGET PROCESS

As in years past, we will have meetings with you, the Academic Senate (the Faculty Executive Committee 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 and priorities, approaches that you are using to begin to address the long-term financial challenges in your units and manage other financial risks, and review the processes you are using for consultation and communication. This year, I will also ask all units to address the ways in which their priorities align with the campus Strategic Plan and for colleges to present information on programs or changes they are making, or plan to make, to improve student success.

Thanks, as always, for the leadership you provide to your unit and the campus.

Sincerely,

Ralph J Hexter

Ralph Hexter
Provost and Executive Vice Chancellor

c: Chancellor May
Davis Division Chair Lagattuta
Academic Senate Committee on Planning and Budget Chair Palazoglu
Vice Chancellor Ratliff
CFBO Frace
Assistant Vice Chancellor Mangum
Assistant Deans and Chief Operating Officers