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

SUBJECT: 2020-21 Operating Budget Framework

Dear Colleagues,

Last year at this time, I alerted the campus to the fact that the campus faced a potential deficit in state funds and tuition of approximately $20 million, a structural deficit in our core funds operating budget that would, absent decisive intervention, compound over the years and quickly reach unsustainable levels. Our hope that significantly increased investment by the State, under a new governor, would bend the curve did not materialize. We have now undeniably reached the inflection point I described then.

As I wrote last fall, to meet this new fiscal reality, UC Davis must come together and change the way we operate, perhaps even more the way we think about how we operate, so that we can continue to achieve our missions and excel. In this letter I will describe in more detail the scope of the challenge and, more importantly, lay out a structured way to meet the challenge. You should be encouraged when I say that we have faced and resolved larger structural shortfalls before. To get a realistic sense of the scale of the present challenge, from the perspective of the $5.5B operation that is UC Davis we are proposing to rebalance our reliance on core funds, over five years, from approximately 18.5% to 16.5%.

Of course, even that limited rebalancing equates to many dollars, and will require a great deal of work. We have no choice. As I will also describe in more detail below, continuous improvement in the effectiveness of our operations must be our new reality at UC Davis as it is across higher education. And since our emphasis is on rebalancing, we will be emphasizing the ways we can meet our goals that extend beyond pure reductions, above all achieving efficiencies and the generation of new revenue streams. The creativity that will be unleashed in meeting these challenges will be a dividend that itself compounds and helps us evolve into a yet stronger, more resilient, more impactful university. And the need for such strength and resilience is clearer today than ever, when new and incalculable challenges have risen from an unexpected quarter.

THE CHALLENGE

As I have just described, we are beginning a multi-year process to reduce our reliance on state funds and tuition revenue (core funds). Given the conditions under which we operate, some beyond our control, it will be difficult to remain financially sustainable in the years ahead without adjusting our business practices. The primary challenges and drivers are as follows:
• Costs associated with faculty and staff salaries and benefits, including recent increases in retirement costs, make up almost 70% of our total core fund expenditures and are growing at a rate of over $30 million annually, almost two times faster than core fund revenue growth.
• State funding increases do not keep pace with our primary cost drivers and reflect a lower per-student funding level than in the past.
• We achieved the growth projected for the 2020 Initiative, adding almost 1,600 California resident undergraduates and almost 4,200 national and international students since 2011-12. Going forward we anticipate only modest increases in undergraduate enrollment. (Note: while this is 800 more undergraduate students than the 2020 plan foresaw, it is 1,100 more California students and 300 fewer national and international students.)
• Undergraduate enrollment of national and international students is at the eighteen percent cap set by the Board of Regents. We intend to maintain this ratio, which may under some conditions prove challenging in the coming years.
• It is unclear if the Regents will approve even modest tuition rate increases.
• Our capital and facility maintenance needs, far outstrip available resources, even more since the GO Bond on the March 3rd ballot was likely not approved.
• We must continue to invest in strategic goals and priorities.

Last year, we anticipated a core funds shortfall of approximately $20 million. As I mentioned above, we intentionally adopted a wait-and-see approach in the hope that the new Governor and Legislature would increase funding to alleviate this shortfall. Our optimism was not warranted by the outcome.

The 2020-21 Governor's Budget proposal includes some continued increases for UC, but the imbalance between state support and tuition revenue and cost increases continue at a rate of approximately $20 million per year.

**Therefore, we will reduce ongoing reliance on core funds by $80-$100 million, approximately 8-10%, by 2025.** This rebalancing is necessary to sustain a balanced budget, build a responsible central reserve and support investments in strategic priorities.

To achieve this rebalancing, we must evaluate and enhance our practices around resource generation and utilization. We must look for opportunities to grow net revenue from new sources to support our core mission. We must also ensure that our expenditures are aligned with our priorities and leverage all sources to support our mission. This will require taking a hard look at our operations and asking if there are activities we can no longer afford or must do less of. Efforts to achieve operational efficiencies and cost containment are also necessary. In an organization as complex and varied as UC Davis, only a multi-faceted approach will be successful. I will rely on your leadership to thoughtfully consider all opportunities in your purview as we work together on this challenge.

As you know, I recently established a [Budget Framework Advisory Committee](#) to advise and assist me in developing an approach to achieving our goal. Our consultations led us to articulate several overarching principles to guide our efforts, three of which I cite here.
The good of the university as a whole drives the discussion of resource allocation adjustments. We are asking the whole campus community to adopt this mindset. As leaders, it is particularly important that you reflect this principle in how you approach and communicate the effort required of us all.

Administration and faculty have shared responsibility and accountability to support responsible financial management. Core funds are critical to all aspects of university operations and solutions of this scale will require changes from every part of the university.

Our commitment to students’ success and experience will not be compromised. The first goal of our strategic plan calls on us to provide an educational experience that prepares all of our students to address the needs and challenges of a diverse and changing world. In particular, we must maintain our commitment to improving graduation rates, reducing average time-to-degree, and achieving equitable outcomes along those parameters for all groups of students.

IMPLEMENTATION STRATEGY

The scale and type of changes required will take time and must draw on the talents and ideas of all our employees. We must show leadership and empower our staff to identify and lead changes within their areas of influence.

We will use several high-level strategies as we implement our new financial reality.

Campus Level Decisions
Campus leadership will identify and implement changes in campus operations or programs that account for $15-$25 million of the five-year goal at a pace of $4-$5 million annually. These will emerge in the coming months and years, but I offer here two we are currently actively exploring:

Expansion of the Research Core Facility Program (RCFP) and Establishment of an Equipment Management Program
The RCFP enables research via expertise and state-of-the-art instrumentation in a shared environment. We plan to more aggressively utilize and expand the program, which has achieved increased revenue and administrative savings for participating facilities. This effort will involve establishing a formal equipment management program, streamlining the existing business contracting process, as well as broadly implementing new software in core facilities. We anticipate these changes will achieve efficiencies and lower faculty start-up costs, reduce distributed equipment purchases and maintenance expenses, and improve services creating the potential for increased revenue. I have asked Vice Chancellor Mohapatra to lead these efforts.

Transition of the Physical Education (PE) Academic Program. The PE program provides students with academic credit for activity-based courses taught by faculty. Programs of this type are no longer common at universities. It is also notable that enrollment in the PE courses has declined while participation in Campus Recreation programs has increased. I will appoint a workgroup to consider a transition to a lower-cost model that maintains access to quality athletic and physical wellness opportunities while reducing or eliminating reliance on core funds.
Unit Budget Savings Targets
Beginning in fiscal year 2020-21, and phased-in over the five year period, each Dean, Vice Chancellor, or equivalent level leader, will be assigned a rebalancing target to achieve ongoing core fund savings across their organization. This rebalancing can be achieved through net revenue generation, realigning costs to other appropriate fund sources, targeted program reductions, streamlining and efficiencies. In addition, the campus is developing programs that will provide units with opportunities to reduce their target by taking certain actions that will reduce campuswide operating costs. For example, units who take actions to more efficiently utilize space or save energy will be given “credit” against their target. Details of these programs will be available later this spring.

Units will develop plans to meet their assigned rebalancing targets. One-time bridging and limited term cost containment strategies will likely be necessary; however, savings ultimately need to be ongoing and cumulative. Your plans will be evaluated by me with input from the Budget Framework Advisory Committee and support by Budget and Institutional Analysis (BIA). We will assess alignment with principles and budget plans will be approved and monitored as part of the annual budget process. The process will be iterative to reflect changing circumstances and emerging opportunities.

Core fund rebalancing or savings targets will be assigned in two phases. Phase I begins in 2020 and will assign $9 million to units in 2020-21 growing to approximately $45 million by 2024-25. Currently, academic units are supported by approximately 72 percent of funds and administrative units have 28 percent. In recognition of the primacy of our teaching and research missions and strategic priorities, Phase I unit targets are disproportionately allocated to administrative activities, with academic units asked to achieve 58 percent of the total and administrative units 42 percent. As I will do in the Office of the Provost, I expect unit leaders to evaluate their activities strategically for efficiency and efficacy, keeping in mind potential service impacts to clients. I also ask that units with recharge activities strive to maintain recharge rates at current levels through efficiencies in the manner services are provided. Only in critical cases should rates be increased and I will rely on the rigorous review of the existing campus Service Activities Advisory Group (recharge committee) to evaluate this.

Phase I targets, while not strictly formulaic, take into account multiple factors, including core fund base budgets, all fund expenditures, space utilization, unit net operating margin trends, and metrics such as staff and student to faculty ratios. To arrive at the final rebalancing target, I reviewed the various measures and then applied a measure of judgement. In addition, the targets reflect a change in the campus approach to funding staff salary and benefit increases on core funds. In recent years, the campus has provided 100 percent of the salary and benefit cost increases for staff paid on core funds based on university salary programs and negotiated agreements. For the next 5 years, the campus will only allocate approximately half of these cost increases for units to manage centrally.

Please note: this action will in no way impact any individual employee’s compensation level. Furthermore, this action will not impact allocations for faculty merits, ranges, and associated benefit increases; and it is important to keep in mind that administrative units will bear a larger share of this component of the overall target. Unit leaders will be expected to strategically allocate the limited increases provided and ensure that critical services are maintained. Finally, it is not expected that this component of the target only be met through staff reductions nor that the
change be allocated across-the-board within a unit. The target should be taken as a whole and all aspects of operations evaluated holistically. It is our hope that reductions in staff will primarily be achieved through attrition; as a standard practice, each vacancy should be regarded as an opportunity to consider whether there are solutions other than replacement. Core fund savings achieved through reallocating staff salaries to other sources where appropriate, reducing non-salary expenses, implementing operational efficiencies, and other cost containment measures can mitigate the need to reduce staffing. Please review the guidelines for implementation of this change.

Attachment I shows a summary of actions, some identified and some to be determined, that will result in achieving the goal of $100 million in core fund savings over the next 5 years. Attachment II provides the unit level Phase I targets. Later this year, the Budget Framework Advisory Committee will propose a methodology for Phase II targets. Of course it will be my successor who will be guiding the effort when the campus enters Phase II, bringing new ideas and perspective to the process.

Supporting this Effort
As you embark on identifying core fund savings within your unit, we will support you, your staff and faculty with the following resources:

- **Lean Six Sigma Green Belt Program and Scholarships.** We believe that individuals performing work within the units often have the best ideas for sustainable change, so we are investing in our staff members so they have the skills and support to actualize these ideas and improve our operations. Lean Six Sigma is used by many organizations to drive process improvements and eliminate waste. Modeled after a successful program at UC San Diego, we established a program to apply the principles of Lean Six Sigma at UC Davis. Each staff member trained as a Green Belt will complete a project that saves at least $40,000. Campus will provide scholarships for one person in each Dean and Vice Chancellor office for Green Belt training each year for the next 3 years.

- **Revenue Generation Support.** We are developing ways that the campus can support efforts to increase net revenue generation. More information will be provided in coming months.

- **Internal Consulting Support.** I have asked BIA to provide objective information about metrics and benchmarks unique to your unit that you can consider in your local process. Additional campus expertise may also be available to support your local process. Please bring forward needs you identify.

- **Best Practices and Expectations for Budget Management.** I am asking you, as unit leaders accountable for the finances of all sub-units reporting to your organization, to ensure that you have strong budget management and cost containment measures in place. These will be critical as we move forward to ensure that the savings needed can be achieved. Over the next year, central campus will also implement stricter budget and financial monitoring to identify areas of concern earlier than in the past.

Additional ways the campus may support this process are under consideration and development. We will share these opportunities with you as they become available.

**BUDGET INVESTMENT**

Investment for critical needs and strategic priorities is necessary and will continue even as our ability to provide central core fund investments is more limited than recent years. 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 criteria:

- An investment that is required to achieve increased net revenue.
- An investment required to change operations and achieve long-term savings.
- Funding for critical needs to mitigate significant risks to the university.

The Provost will also allocate funds as described below in support of campus strategic priorities and critical needs.

- $1.7 million base funds for student success initiatives as part of a multi-year plan.
- $1 million base funds to enable the hiring of 4-5 additional faculty positions to support interdisciplinary research centers.
- Faculty start-up block grant allocations totaling up to $5 million. Hiring authorizations will be provided to deans in a separate communication.
- $3.5 million base funds for 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.
- $1 million base funds for at least the next three years to grow a business system infrastructure replacement fund.
- Graduate student support toward a goal of more competitive offers for prospective students.
- Continuation of multi-year funding commitments from prior years with demonstrated progress and continued success.

ANNUAL BUDGET PROCESS

We will again meet with you and Academic Senate representatives this spring. In the meetings we will review your financial status and metrics, goals and priorities, and how you plan to approach the savings targets and other financial risks. BIA will provide more detailed information and materials for these meetings.

CONCLUSION

I know that announcements of cost-cutting and even cost-shifting measures are inevitably met with dismay. I fully understand the desire that we all be “left alone” to continue our work and the further belief that we should be adequately supported to accomplish it. While I often have such reactions myself, a realistic assessment of higher education today leads me to conclude that there will never be a time when we can count on the state providing us sufficient funds to maintain the status quo much less add programming to increase our impact. What we can count on is the need for ongoing adaptation and innovation, even reinvention, of how we accomplish our missions.

The good news is that we have a great deal going for us. I need hardly emphasize how highly regarded UC Davis is nationally and internationally. Clearly, our reputation is a tremendous asset, one we under no circumstance want to see diminished. For that reason, we will continue to attract new non-core resources and leverage across all fund sources. What we have immediate control
over are our business processes, which we have significant opportunities to evolve. We recently joined a national higher-education benchmarking consortium that will help us to analyze the relative cost-effectiveness of our administrative services, and we will be making increasing use of those data and other analytics. Appropriate investment in updated technology may also bring long-term savings. And, to be frank, we have resources to deploy. True, they are not always in the most convenient form or places, thus, we will need to be creative, open to entrepreneurial ideas, flexible, and keep our eyes on the big picture.

As I step back to the faculty, I have every confidence that the university will rise to the occasion and discern and then demonstrate the unique UC Davis way of balancing demands and constraints, external and internal, with our values and deep dedication to our missions of teaching, research and public service, congruent with our land-grant heritage and our commitment to excellence, access, and affordability, for California and for the world.

Sincerely,

Ralph Hexter
Provost & Executive Vice Chancellor

c: Chancellor May
Davis Division Chair Lagattuta
Academic Senate Committee on Planning and Budget Chair Palazoglu
Vice Chancellor Ratliff
Chief Finance and Budget Officer Frace
Assistant Vice Chancellor Mangum
Assistant Deans and Chief Operating Officers
Core Funds Savings Targets, 2020-25
Cumulative Base $ in 000s
Campus Summary

### Context

- **January 1, 2020 Base Budget (19900) Dollars**: $606,000
- **January 1, 2020 Base Budget (19900) % of Total**: 72%
- **All Fund Expenditures, Excluding Medical Center, Dollars**: $1,662,000
- **All Fund Expenditures, Excluding Medical Center, % of Total**: 72%
- **Unit Targets Dollars (Phase I)**: $26,000
- **5-year Target as % of Total Unit Targets (Phase I)**: 58%

### Centrally Identified Actions

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<td>Expand Core Facilities Program</td>
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<td><strong>Subtotal, Base Savings</strong></td>
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### Unit Savings Targets

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<tr>
<th>Phase</th>
<th>2020-21</th>
<th>2021-22</th>
<th>2022-23</th>
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<tr>
<td>Phase I</td>
<td>$9,000</td>
<td>$18,000</td>
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<td>Academic Units</td>
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<td>Administrative Units</td>
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<td>Phase II: TBD</td>
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<td>$22,500</td>
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<td><strong>Subtotal, Base Savings</strong></td>
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<td>$25,500</td>
<td>$42,000</td>
<td>$58,500</td>
<td>$75,000</td>
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### Total Base Savings

- **Incremental New Savings From Prior Year**: $9,600
- **Total Base Savings From Prior Year**: $9,600
- **Total Base Savings**: $9,600

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1. Excludes Return to Aid Funds/University Student Aid Program
2. Based on UCOP Tax Basis using 17-18 Expenditures. This methodology excludes certain expenditures, including: Financial Aid, Campus-based Student Fees, Subgrants over $25k. For more details see: https://ucdavis.app.box.com/s/q6l25ul14ivud99dwli1paaxss54nmmap
3. Amounts are based on estimated savings from specific actions. Phasing is preliminary and actual amounts achieved from each action may vary. Impact of actions will be tracked against the overall goal of $25 million, with additional actions identified as needed to meet that goal.
## Core Funds Savings Targets, 2020-25

**Cumulative Base $ in 000s**

**Phase I Unit Savings Targets**

<table>
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<tr>
<th>Unit</th>
<th>5-Year Target</th>
<th>Annual</th>
<th>% of Total</th>
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<tbody>
<tr>
<td><strong>Colleges, Schools, and Deans</strong></td>
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<td>College of Agriculture and Environmental Sciences</td>
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<td><strong>Grand Total</strong></td>
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*Fully self-supporting unit.*