February 11, 2013

DEANS, VICE CHANCELLORS, UNIVERSITY LIBRARIAN

RE: Budget Update

Dear Colleagues,

We talk often about the strategic importance of stabilizing our finances and diversifying our sources of funding. The state cuts we have sustained over the last five years have necessarily caused us to view the state as an unreliable partner. Indeed, even with the passage of Proposition 30 and the modest re-investments that Governor Brown proposed in his January budget, we continue to face challenges in our core state and tuition funds. Further, it is yet unclear what consequences we might face should federal sequestration proceed. And, the impact of federal and state health care reform creates substantial uncertainty. Indeed, the list of challenges is long. However, I remain optimistic. The conversations and planning around the 2020 Initiative are revealing some unifying themes that can immediately help guide resource decisions even before we report on the outcome of the consultation process later this month. The progress and achievements of our faculty, staff and students is an ever present reminder of the success and impact of our great university.

As we begin the annual budget process, we will again consider a mix of actions that reduce our reliance on state funds and simultaneously make selected investments to further our Vision of Excellence with an emphasis on student success.

Information about final budget decisions for this year and the initial framework for the 2013-14 budget process is provided below.

Re-balancing expenditures – Mid-year Budget Adjustments for 2012-13

Over the past several years, the efforts each of you has made to ensure efficient use of all funds and generate new revenues have been critical to the campus's continuing success. As well, you have each made difficult decisions over the last several years to ensure scarce resources are directed to meet the highest priorities to advance the university. I began the planning process for 2012-13 expressing the hope that we would not have to implement any new base budget adjustments. However, as we have discussed throughout this year, the state and tuition portions of our budget have a structural deficit of approximately $40 million. Therefore, we must assign base budget adjustments now to ensure that we end the year with a balanced budget and make progress towards closing the structural gap.

Base budget adjustments to your provost allocation totaling $10 million, shown in Attachment 1, are effective immediately. You should identify on-going opportunities to fund a portion of senior executive salaries, travel and entertainment and other operating costs using an all-funds approach – that is, you should look for opportunities to shift a proportional share of these expenses from state and tuition dollars to other appropriate funds. The state and tuition funds freed up by this shift will then be used to partially offset the structural gap in the campus budget.

Even as we continue to move towards an all-funds approach, certain categories of expense that reflect strategic priorities are excluded from this process: financial aid including graduate student support and fee remission; general library expenses; expenses on student referenda fees and
course material fees; and restricted funds such as extramural research and restricted gifts and endowments.

I have asked Associate Vice Chancellor Ratliff to work with your staff to implement these adjustments by the close of February. I recognize the challenges associated with a mid-year implementation; therefore, you may use one-time funds as part of a transitional strategy this year.

Initiating the 2013-14 Budget Process

The annual budget process continues to evolve and improve. Information about the initial components of the budget process is provided below.

- **Annual budget meetings.** As we discovered last year, annual budget meetings provide a great opportunity for us to share information about your resource plans. The goals are similar to what we established last year, though in order to facilitate a more productive discussion, Budget & Institutional Analysis (BIA) will conduct pre-meetings with each unit, share detailed planning assumptions and prepare common resource overviews as background materials. A more consistent approach to the data and metrics should allow us to focus the meeting time on discussing how you are using and leveraging resources to advance your strategic goals.

  We will again ask the Chair of the Faculty Executive Committee to participate in each of the school, college and division meetings. And, new this year, the Chancellor and I will invite Senate Chair Nachtergaele to participate in the meetings for major administrative and academic support units. My office will soon schedule budget meetings with each of you in mid-to-late April.

- **Framing investments for student success.** We are setting aside a pool of approximately $3-4 million for investments we must make to advance priorities, improve quality and address critical gaps even as we continue to face constraints elsewhere in our budgets. For 2013-14, I seek proposals for operating budget investments largely in schools, colleges and divisions, as described below. My final decisions will consider the program goals you articulate, the degree to which my investments leverage and advance local priorities and the ability to measure success.

  - **Graduate student support.** Last year, we implemented the Provost's Fellowships in the Arts, Humanities and Social Sciences program. This program will be continued this year. In addition, there are important needs to add teaching assistant positions. The TA positions provide an important training and support opportunity for our graduate students and serve as part of the foundation for our undergraduate instructional programs. I am interested in hearing from deans about strategic opportunities to add TA positions to meet both of these objectives.
o **Student advising.** I appreciate the feedback I have heard from you and your associate deans about the improvements you are implementing as a result of the $0.5 million we invested this year. Of course, I am aware of the need to invest further to ensure student success and progress towards timely graduation. I seek recommendations from you, in collaboration with Interim Vice Provost de la Peña, for additional investments that improve advising within and across colleges and divisions.

o **Services for international students.** We have heard from many students and faculty about the importance of ensuring that we expand and improve services for our international students. Interim Vice Provost de la Peña is also leading an effort with Interim Vice Chancellor de la Torre, faculty and staff to identify the most immediate investment needs to ensure that our current and future international students receive the support they need to succeed at UC Davis.

o **Classrooms.** We recently initiated a formal planning process to evaluate and determine classroom facility priorities. I will begin setting aside funds this year, $0.5 million, as part of a multi-year funding plan to improve student access to classrooms. We are also continuing to identify strategies and opportunities to improve existing classrooms, leverage space, and improve facilities and scheduling where possible, to help alleviate the constraints.

o **Student employment.** Our students have long provided an important part of the general administration of the campus. Unfortunately, budget challenges over the last five years have resulted in reductions of some student positions. I seek proposals to add student assistant employment opportunities in core academic and administrative support units.

o **Online education.** I am working closely with Senate Chair Nachtergaele to identify opportunities to invest in infrastructure and provide incentives to faculty to expand and enhance online education, particularly with hybrid courses. I will set aside funds that can be used to advance the initial priorities and opportunities that emerge.

o **Support for emerging instructional needs.** As in previous years, I will continue to provide Interim Vice Provost de la Peña with $1.9 million for one-time allocations to colleges and divisions to ensure that students have access to courses critical to timely degree completion. In allocating these funds, consideration will be given to the needs identified, overarching instructional goals and with consideration of funds flow as part of the overall campus budget model.

- **Faculty recruitment.** We have maintained a commitment to faculty hiring throughout these many years of budget challenges. There have been cutbacks and relatively modest
hiring, but this university never implemented a faculty hiring freeze. Moving forward, the budget reduction targets from 2010-11 have been met and we will soon describe a 2020 vision that will involve some level of growth. For 2013-14, I ask that you propose faculty hiring mindful of your current academic plans, but also with consideration of the initial priorities you would advance as part of a growth plan. Planning for faculty hiring should take into account the full range of ongoing funding sources that may be available to support faculty positions consistent with the effort to rebalance expenditures across all fund sources when possible. Examples of ongoing fund sources that might be leveraged to support faculty include endowments, professional degree supplemental tuition, self-supporting degree program fees, and clinical revenue. Further, keep in mind that we have opportunities to accelerate some hires as part of the ADVANCE/CAMPOS initiative.

The ability to fund start-up costs will no doubt continue to present a difficult challenge. I will again provide supplemental provost allocations totaling $6-8 million to offset a portion of the costs. I ask that you carefully consider options to direct department and school, college and division resources along with new sources such as philanthropy or corporate partnerships to meet this critical need.

I am working with the Senate Committee on Planning and Budget to articulate metrics that we can use to guide decisions and measure success in faculty recruitment. In the meantime, please be prepared to address the teaching (graduate and undergraduate), scholarship and diversity goals for each position that you propose using the instructions provided in Attachment 1. I am requesting faculty recruitment proposals be submitted no later than March 26, 2013.

- **Other planning parameters.** The campus and the Office of the President still need to make important decisions about the 2013-14 budget. I recognize that delays of this sort present a difficult challenge as many of you are fully immersed in your local budget planning process. Additional planning information, though incomplete, is provided below to help inform your budget planning and we are committed to sharing additional information as soon as possible.

  - **Enrollment.** I appreciate and will carefully consider the good advice that the college and division deans and associate deans provided in recent meetings about fall 2013 enrollment targets. As well, I will carefully consider feedback from the 2020 consultation process and advice from IVP de la Peña and UA Director Robinson in my decision making process that will conclude by the end of February.

  - **Indirect Cost Recovery (ICR).** This year we again allocated a greater proportion of ICR funds to deans using the new budget model. There were additional expectations regarding the use of those funds. In general, we are making progress on a goal of shifting a greater proportion of the resources to the units. For 2013-
14, I will increase the allocation to the deans from 34% to 37%. I remain committed to the goal of increasing the dean share of the allocation to 40%, but there are, as yet, many unresolved challenges so it is necessary to defer that goal. Each dean will again be asked to report on how ICR funds are being used in their school, college and division.

- **Other planning parameters.** BIA will soon publish a number of planning guidelines such as estimated tuition and fees, fixed costs, composite benefit rates and other parameters that you need to develop your budgets ([http://budget.ucdavis.edu/](http://budget.ucdavis.edu/)). We are still waiting for decisions about the salary program for unrepresented staff and there will be a lot of activity in the coming months with union contract negotiations. We will share information as it becomes available.

- **Budget model.** We recently shared version 1 of the Faculty Resources white paper. In addition, a white paper providing analysis and guidelines for Carryforwards and Reserves will be published this month and I anticipate that we will have a white paper about Graduate Tuition ready in early-to-mid March. I look forward to the discussions we will have about these important topics in the coming weeks and months.

Thank you in advance for your participation in the budget process. There are clearly a multitude of challenges and opportunities. I enjoy working with each of you to identify and implement creative and sustainable solutions.

Sincerely,

Ralph J. Hexter
Provost and Executive Vice Chancellor

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Attachments

c: Chancellor Katehi
Academic Senate Chair Nachtergaele
Vice Provost Academic Affairs Stanton
Faculty Advisor to Chancellor and Provost Burtis
Assistant Executive Vice Chancellor Mohr
Associate Vice Chancellor Ratliff
Assistant Deans
BIA Budget Staff