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March 7, 2018

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

SUBJECT: 2018-19 Operating Budget Framework

Dear Colleagues,

We continue to see strong financial trends for the campus including research, philanthropy and our health enterprise, though it is undeniable that we continue to face risks and experience challenges addressing our most pressing needs. The budget framework for 2018-19 is intended to sustain a stable financial position for UC Davis. Our near-term goal is to preserve the balanced budget that we achieved for core funds through implementation of the 2017-18 budget framework. The outcome of pending actions by the state and the Regents might necessitate us revisiting this plan 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.

Looking ahead to the fall, we plan to enroll 9,100 new undergraduate students (5,900 freshmen and 3,200 transfers). As you know, the UC Board of Regents issued new guidance last year that limits our national/international enrollment to 18 percent of the total undergraduate population. We intend to reach the 18 percent threshold in 2018-19. Because of this cap, we anticipate holding the overall undergraduate population relatively flat for the next few years.

With respect to graduate enrollment, we will continue efforts aimed at modest growth. The revenue sharing model for master program enrollment is in its 2nd year and Dean and Vice Provost Mohapatra is continuing his efforts to increase multi-year fellowships. As well, we continue to invest in buy-down, block grant and fee remission programs. Our professional schools are executing on multi-year enrollment plans that ensure financial sustainability, excellence and diversity.

Faculty recruitment has been very strong in recent years. Since 2012, the start of the 2020 initiative, we have hired about 490 new ladder faculty including about 130 net new hires above retirements and other separations. We are, of course, in a very active time of hiring right now and the deans are beginning to think ahead about their plans for the next several years as part of the annual faculty hiring call.

The strength of our staff also deserves mention. UC Davis routinely attracts top talent and we are ever focused on improving diversity and ensuring that we are an employer of choice throughout the region.

However, in spite of all of our success, we will again face substantial financial pressure. The Governor's January budget proposal only includes a three percent increase for the university instead of the four percent that was previously promised. The impact of this reduction for UC Davis is about \$4-5 million. Also in January, the Regents deferred action on a modest tuition and student services fee increase. The campus strongly supports a proposal to the state to buy-out the tuition and student services fee increase, but if the state does not invest, UC Davis faces an approximate \$9.3 million gap in operating funds.

Financial uncertainty and budget pressures are, unfortunately, not new to the university. In spite of the uncertainty, we must proceed with budget planning. The context, framework and assumptions that should guide your own planning follow.

BACKGROUND AND CONTEXT

The total budget for UC Davis, derived from many fund sources, is \$4.9 billion and growing. These revenue sources support a wide range of critical programs, but many of the funds are restricted to particular 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 at http://budget.ucdavis.edu/factsheet/2017-18_budget_overview.pdf.

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. We have prepared a balanced budget plan for 2018-19 that depends on additional state investment or a modest tuition increase. However, as noted above, if the necessary funding is not provided, we will work with you on a transition strategy to mitigate the shortfall for the near-term.

BUDGET MODEL

In fall 2017, in partnership with the Academic Senate, we engaged EY Consultants to review the campus budget model. We anticipate receiving their final report soon and we will share it with you, the Academic Senate and other stakeholders. The draft reports I have reviewed offer some important observations about the decision-making process and may recommend modest changes in our approach to resource allocation. We will use the spring and summer for analysis and develop an action plan for consultation, deliberation and implementation of specific changes in fall 2018. I look forward to the opportunity to review and possibly modify some elements of the budget model at a moment when we can see the financial challenges of the coming years more clearly.

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

Undergraduate tuition. We anticipate an allocation of approximately \$3.3 million in net-new tuition revenue to the deans using the existing parameters. BIA has provided preliminary allocation information and will share updates as new data becomes available.

Facility and Administration Cost Recovery Funds (Indirect cost recovery funds). Year-to-date there is an increase of about four percent in facility and administration (F&A) cost recovery funds. If this trend holds, we anticipate total funds of about \$135 million, an increase of about \$4 million over last year. 2018-19 is the second year of a three year transition and the Provost share will be 68% and the dean share will be 32%. BIA provides quarterly reports of F&A cost recovery to assist with your planning and projections.

Student service and campus based fees. In 2018-19, these funds will be managed as part of the central campus budget process. The Chancellor's Advisory Committee, the Council on Student Affairs and Fees (COSAF) will continue to provide a central advisory role in the decision process about the fees. Chancellor May and I are deeply appreciative of the engagement by COSAF, ensuring active and engaged participation by students. For 2018-19, we intend to increase the voting membership to include additional student and staff members consistent with the recent internal audit recommendations.

Fixed costs for compensation cost increases (Provost Allocation). The campus will provide allocations to cover fixed compensation cost increases for faculty and staff and teaching assistant fee remission for all core funds (estimated \$29 million).

Mandated budget reduction (approximately \$1 million). The university, as part of compliance with Assembly Bill 97, agreed to reallocate existing funds to partially fund undergraduate enrollment growth. One parameter of the systemwide plan is that UC Davis will only receive fifty percent of the funding needed for fixed cost increases for Agriculture Experiment Station (AES) and the MIND Institute. As a result, we will assign base budget reductions to the school, college and the MIND Institute to reflect this decision.

Budget and Institutional Analysis (BIA) will provide additional planning parameters and estimates throughout the budget process.

BUDGET INVESTMENTS

Given the uncertainty with state funds, tuition and student service fees, and the flattening trajectory for enrollment growth, we will not entertain any new investment requests. Rather, you are asked to utilize existing or planned resources to meet your highest priorities. I understand that in some cases this will require reallocation and multi-year funding strategies. Please ensure that you are taking steps to address any misalignments that may exist between ongoing sources and uses within your unit using realistic assumptions about cost drivers, savings and efficiencies and opportunities for new revenue generation.

And, while there will not be support for new investments in 2018-19, the provost will continue to invest in critical programs and allocate incremental funds as described below.

- Continued support for faculty diversity and recruitment efforts such as the Faculty Scholars programs and Partner Opportunity Program.
- Faculty start-up allocations totaling at least \$10 million.
- Deferred maintenance program of \$100 million over five-to-six years financed with century bond proceeds and 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), buy-down programs for non-resident supplemental tuition and incentive programs for master's degree programs.
- Continuation of multi-year commitments from prior years.

ANNUAL BUDGET PROCESS

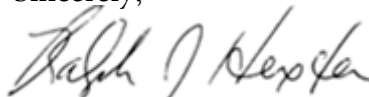
As in years past, we will have meetings with you, the Academic Senate (the FEC Chair for school/college meeting and the Division Chair or Vice Chair for other units). In the meetings, we will review your financial status and metrics, discuss goals, share approaches that you will use to rebalance the budget and manage other financial risks, and review the processes you are using for consultation and communication.

The meetings are clustered this year so that we might consolidate information from the meetings and add a step for consultation before final decisions are made and announced.

Finally, I want to acknowledge the efforts by BIA and your assistant deans and chief operating officers to develop and implement the new Aggie Budget system. The effort to implement is substantial, but the outcome will be much improved budgeting and reporting across our university. Assistant Vice Chancellor Mangum is providing excellent leadership and she, along with the BIA team, are working closely with your offices to ensure success.

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

Sincerely,



Ralph Hexter

Provost and Executive Vice Chancellor

- c: Chancellor May
Davis Division Chair Goodhue
Academic Senate Committee on Planning and Budget Chair Powell
Vice Chancellor Ratliff
Chief Financial Officer Maurice
Assistant Vice Chancellor Mangum
Assistant Deans and Chief Operating Officers