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Council of Deans and Vice Chancellors

Dear Colleagues,

We are writing to provide information about the campus budget. As you are probably aware, Governor Schwarzenegger has proposed a constitutional amendment and a budget for 2010-11 that emphasize the value and importance of higher education to the state of California. We applaud and support his vision. We encourage the university community – faculty, administration, staff, students, friends and supporters – to join forces to educate the legislature and the voters about the critical need to invest in the University of California. The state's investment is vital if we are to continue to deliver the excellence in instruction, research and service that is expected and demanded of our world-class university.

In the meantime, we must continue to prepare for an uncertain financial future. During the last two years, UC Davis has made tough decisions and difficult choices to resolve shortfalls totaling more than \$150 million, or 25 percent of the general fund budget. In 2010-11, we face an additional shortfall of \$38 million to \$78 million, depending on the outcome of the governor's budget proposal (Attachment 1). How our campus addresses this shortfall is critical to three major challenges: the expected end to the furlough program on August 31, 2010; sufficient funding for the restart of contributions to the UC Retirement System; and covering fixed costs such as increases in employee health benefits.

We will continue to take on the shortfall using a strategic approach that emphasizes our core principles:

- Reduce budgets strategically to maintain focus on the excellence of our academic programs.
- Ensure Californians access to high quality, affordable education.
- Communicate openly, honestly and frequently about the budget process and the reductions. And, consult broadly about reductions to determine the best approaches.
- Aggressively pursue new resources.
- Streamline and improve administrative processes and rebalance risk and accountability to ensure our departments can focus on delivering core programs.

More information about the budget planning framework for 2010-11 is provided below.

BUDGET PLANNING FRAMEWORK

Central administration, academic support and student services. The vice chancellors, vice provosts and the university librarians will continue to take an aggressive approach to restructuring central services and programs. The baseline budget planning scenario calls for more than \$10 million of additional budget reductions in 2010-11. This is the third consecutive year of major budget reductions. In total, more than \$39 million in permanent cuts and assessments have been assigned on a general fund base budget of \$130 million. While the reductions average 30 percent, the actual dollar amounts were assigned strategically so the precise percentage reductions vary by unit.

Budget reduction targets for 2010-11 are detailed in Attachment 2 and reflect the following strategic decisions and priorities:

- A lower reduction target for the University Library by exempting the collections budget;
- Exemptions for units that have a primary focus on revenue generation: Sponsored Programs Office, Office of University Development, Undergraduate Admissions and Graduate Admissions and Academic Services;
- Higher reduction targets for Intercollegiate Athletics (including Physical Education) and the Mondavi Center. Budget reductions will be phased in over three years to enable a reasonable transition for program changes. In addition, we will work closely with our donors, alumni and friends to build additional external support to sustain these excellent programs; and
- Budget reductions that consider the full financial picture for each unit and a broad range of funding sources, with few exceptions. The base for assigning reductions excludes campus fees implemented via student referenda, graduate student support and undergraduate financial aid, purchased utilities and extramural contracts and grants.

We will also permanently allocate funds previously allocated each year for summer administrative support and general liability offset funds. These allocations simplify administrative processes and ensure that administrative and academic support units that directly support the summer instructional program have a modest degree of additional flexibility.

This spring, vice chancellors and vice provosts will each present an overview of their respective budgets and strategies for addressing the budget reductions to the Council of Deans and Vice Chancellors. More information on the presentations will be provided in the coming weeks.

Academic units (Attachment 3). We have been working over the last several months to plan for this third consecutive year of budget reductions. Permanent budget reductions for academic units in the first two years – 2008-09 and 2009-10 – totaled \$23 million and averaged 4 to 5 percent of the total general fund base budget (total general fund budget for all academic units is about \$320 million). Reductions for each school, college and division were assigned differentially based on a comprehensive analysis of factors that were intended to evaluate each unit's capacity or flexibility to address budget reductions.

For the 2010-11 budget year, we have again used a metrics-based approach to assign differential reductions that reflects feedback provided by the deans and the Academic Senate's Committee on Planning and Budget. In brief, budget reduction targets for general campus colleges and divisions are differentiated based on changes in instruction (student-instructor ratio), research (direct and indirect expenses) and graduate education (Ph.D. students mentored) data measured over the last eight years and on absolute data for the same categories during the most recent three years. Reduction targets for the three general campus professional schools (education, law, management) are differentiated by instruction only. Reduction targets for the health sciences and the Agricultural Experiment Station are largely assigned pro-rata based on core fund budgets.

In total, there are \$26 million in permanent reductions for 2010-11 assigned to the academic units, but we expect that it will take two to three years for units to permanently implement these reductions. Therefore, we will provide a separate allocation of one-time transition (bridge) funds so that the net impact to your general fund budget will be in the range of 4 to 5 percent of your total budget for 2010-11 and 2012-13. However, the full amount of the reduction must be implemented by 2012-13.

Faculty hiring has slowed in recent years, but we have continued to support some modest hiring as part of a selective investment strategy. This strategy will continue. In the short-term, we cannot continue to grow at the same rate as we have in recent years. By campus policy, instruction and research FTEs vacated by retirement in the colleges and divisions revert to the Provost Reserve and count toward your budget reduction target. This policy will not change in the near term. The professional schools, health sciences and the Agricultural Experiment Station FTEs are not subject to this policy. In the future, we will work closely with the deans to identify strategies to use non-state funds to restore some positions.

Finally, as part of an overall strategy to ensure that the deans have direct control over as many resources as possible, we will permanently allocate (decentralize) several funding sources that had been allocated on an annual basis. The allocations include supplemental instructional funding (lecturer and TA funds), summer instructional support and general liability offset funds. These allocations are also detailed on Attachment 3.

The impact of these reductions will be significant. The planning that you are already doing for your school, college and division is critical. In fall 2010, we will ask you to provide a revision to your academic plan that identifies your strategies for implementing these reductions. Please continue to work closely with faculty and ensure that your Academic Senate executive committees have a formal opportunity to review your plans. Vice Provost Patricia Turner also will request information from each of you to understand the curricular and other instructional impacts.

OTHER INFORMATION

Administrative Efficiencies. We recently announced the Administrative Process Redesign Initiative (APRI) to streamline administrative process, re-balance compliance and risk in our processes, and ensure that our central administrative units provide a high standard of service to our academic departments. Administrative unit reviews will soon start for: the Offices of the Chancellor and Provost, the Office of Research, and Information and Educational Technology.

In addition, a shared service center is being developed to improve and streamline human resources and accounting functions on a very short timeframe (our goal is to implement this fall). The central administrative organizations will be expected to fully participate in these efforts to ensure that we maximize efficiency and budgetary savings from the service center efforts. Moreover, later this academic year we will announce additional plans to strategically re-align the campus's administrative infrastructure to directly support our faculty.

Budget Advisory Committees. The budget subcommittee reports submitted last summer included a wide range of suggestions that provide both short- and long-term opportunities to rethink how we conduct our business. Last August, we reported progress on several recommendations and work has continued. A few examples of work in progress are provided below and a full status report will be available on the budget Web site next week [<http://budget.ucdavis.edu/budget-planning/2009-10>].

- Gifts for Research (I&R subcommittee). In early January, Provost and Executive Vice Chancellor Enrique Lavernia asked the Council of Deans and Vice Chancellors and Academic Senate Chair Bob Powell to provide comments about a recommendation to increase the overhead charge for gifts provided for research. Comments are due February 19, 2010.
- Remedial courses (I&R subcommittee). Dean Ron Mangun is working with faculty and staff to consider the recommendation regarding the campus approach for English as a Second Language. A final decision will be based on the outcome of this review.
- Improve transparency of service units funded by recharge (Self-Supporting sub-committee). Associate Vice Chancellor Kelly Ratliff is consulting with campus constituents about major revisions to the rate process aimed at increasing efficiency and re-balancing staff efforts to focus on the areas of highest risk.
- Administrative reviews (Administration subcommittee). As noted above, reviews of three units – Office of Research, Offices of the Chancellor and Provost, and Information and Educational Technology – will begin soon and will be completed in fall 2010. Reviews are also planned for the Office of Graduate Studies and for University Outreach and International Programs starting later in 2010 and completing in 2011.

Capital Budget. While the governor's 2010-11 budget emphasizes the importance of higher education, unfortunately the state budget includes no funding for critical capital projects. The state budget includes language indicating that the Schwarzenegger administration intends to propose a funding strategy for higher education capital needs. However, the nature and amount of such funding remains unclear. We will continue to carefully evaluate capital needs with an eye toward strategic investments that leverage campus objectives such as lowering utility costs, displacing off-campus leases and meeting critical programmatic needs.

Re-investment strategy. As we have discussed previously, we must continue to seek opportunities to selectively invest in excellence and advance our highest priorities. We are developing a funding strategy for some modest re-investment in the near future. Later this spring and summer, we will work with the campus community to revisit the campus budget process and incorporate a process and goals for some selected investments.

CONCLUSION

These are difficult times. But, we remain optimistic that the strategic actions that you are taking will allow us to emerge from these challenges with a stable foundation. The feedback that we are receiving about our campus's vision reinforces our collective view about our continued pursuit of excellence for UC Davis and allows us to further identify the priorities that we must address moving forward.

Sincerely,



Linda P.B. Katehi
Chancellor



Enrique J. Lavernia
Provost and Executive Vice Chancellor

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Attachments

UC Davis Core Fund Budget: Base, Shortfall, and Unit Reductions – Revised January 28, 2010
2008-09 to 2010-11

\$ in millions

		<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	
<i>Campus Budget Shortfall</i>		Final	Year-to-date	Baseline Planning	
1	State GF Support Cuts	\$ 24.52 ¹	\$ 82.50	\$ -	
2	Increased Costs/Prior Year Shortfall ³	\$ 18.96	\$ 30.95	\$ 77.70	
3	Budget Shortfall	\$ 43.48	\$ 113.45	\$ 77.70	
4	Shortfall as % GF Base	7.4%	20.0%	16.0%	
5					
6	Shortfall \$ Addressed with student fees	\$ 6.81	\$ 23.08	\$ 24.00	
7	Shortfall \$ Addressed Centrally	\$ 9.74	\$ 59.91	\$ 17.70	
8	Shortfall \$ Passed on to Campus Units	\$ 26.93	\$ 30.46	\$ 36.00	Permanent
9					<u>Change</u> ⁵
10	<i>Campus Units [amounts below are totals and averages. Reductions assigned differentially]</i>				08-09 to 10-11
11	<i>Academic Units</i>				
12	Budget Reductions and assessments	\$ 11.97 ⁴	\$ 14.61	\$ 26.00	\$ 49.10
13	Reduction as % of GF Base	3.7%	4.7%	8.3%	15.4%
14	<i>Central Administration, Academic Support and Student Services</i>				
15	Budget Reductions and assessments	\$ 14.96 ⁶	\$ 15.85	\$ 10.00	\$ 39.11
16	Reduction as % of GF Base	11.5%	11.9%	8.7%	30.0%

NOTES:

¹ For 2008-09, reflects \$4.71M in permanent reductions, \$9.31M in one-time mid-year reductions and \$10.5M end of year cut.

² For 2010-11, assumed state support is flat. A second scenario will be added to reflect the Governor's January 2010 budget proposal.

³ Due to 1) the use of one-time measures to cover prior year's shortfall and 2) increased expenses for benefits, salary increases, and faculty merits.

⁴ Reflects \$7.19M in permanent, \$3.48M in one-time reductions and \$1.3M in on-going campus assessments.

⁵ Reflects permanent reductions and on-going assessments only. Employee benefit savings associated with reductions shown as central savings.

UC Davis Central Administrative and Academic Support Units and Student Affairs
2010 Budget Actions and Context
\$ in 000s

	7/1/08 199XX Base Budget	2008-09 All Funds Expenditures	Prior Years'			2010-11 Budget Actions			
			Perm Budget Reductions			2010-11 Perm Budget Reduction	Appropriations		
			2008-09	2009-10	3% Assessment		One-Time Transition Funding	On-Going	
						Summer	GAEL	Offset	
Administrative and Resource Management	\$ 61,655	\$ 192,700	\$ (4,317)	\$ (6,570)	\$ (1,530)	\$ (3,760)	\$ 110	\$ 400	
Graduate Studies	\$ 2,883	\$ 2,000	\$ (176)	\$ (260)	< \$(5)	\$ (60)	\$ -	\$ 5	
Information and Educational Technology	\$ 14,080	\$ 36,600	\$ (1,129)	\$ (1,705)	\$ (380)	\$ (730)	\$ 50	\$ 20	
Library	\$ 16,750	\$ 11,900	\$ (500)	\$ (845)	\$ (10)	\$ (320)	\$ 20	\$ 30	
Offices of the Chancellor and Provost	\$ 13,514	\$ 26,600	\$ (868)	\$ (1,630)	\$ (80)	\$ (580)	\$ 30	\$ 30	
Mondavi Center	\$ 300	\$ 8,900	Reductions Included Above			\$ (300)	\$ 200	\$ -	\$ -
Office of Research	\$ 12,186	\$ 46,800	\$ (884)	\$ (1,635)	\$ (180)	\$ (840)	\$ 10	\$ 30	
Student Affairs	\$ 11,555	\$ 135,800	\$ (1,294)	\$ (2,500)	\$ (1,610)	\$ (1,500)	\$ 390	\$ 40	
Intercollegiate Athletics/Physical Education	\$ 1,790	\$ 20,300	Reductions Included Above			\$ (1,790)	\$ 1,300	\$ -	\$ -
University Relations	\$ 4,122	\$ 10,400	\$ (290)	\$ (690)	< \$(5)	\$ (210)	\$ -	\$ 10	
TOTALS	\$ 138,835	\$ 492,000	\$ (9,458)	\$ (15,835)	\$ (3,790)	\$ (10,090)	\$ 1,500	\$ 610	\$ 565

NOTE 1: For purposes of calculating budget reductions, the strategic decision was made to exclude the following: purchased utilities, undergraduate financial aid and graduate student support, undergraduate and graduate admissions, the library's collections budget, the Sponsored Programs Office, UR's Development Office and UCD Foundation, revenues from referendum-driven student fees, and direct extramural expenditures.

NOTE 2: Budget reduction targets do not include employee benefits. Benefit savings will be applied to the budget shortfall through the centralized benefits pool.

NOTE 3: OR summer funding for Bodega Marine Lab

NOTE 4: 3% assessment amounts reflect actuals for 08-09; totals will vary from year to year.

NOTE 5: Mondavi Center base funding includes General Funds plus other core, central campus funding

ADMINISTRATIVE CUTS RECAP: Permanent Reductions for 2008-09 to 2010-11 total \$39.2M Cumulative reductions as % of 7/1/08 General Fund = 30%

**UC Davis Academic Units
2010-11 Budget Actions and Context
\$ in 000s**

	7/1/2008 199XX Base Budget	2008-09 All Funds Expenditures ¹	Prior Years' Perm Budget Reductions			2010-11 Budget Actions				
			2008-09	2009-10	3% Assessment ²	2010-11 Perm Budget Reduction	Appropriations			
							One-Time Transition Funding	Supplemental Instruction	On-Going Summer	Gael Offset
College of Agricultural and Environmental Sciences	\$ 64,947	\$ 120,400	\$ (1,723)	\$ (3,330)	\$ (170)	\$ (5,120)	\$ 2,970	\$ 1,700	\$ 150	\$ 220
College of Biological Sciences	\$ 23,845	\$ 55,600	\$ (573)	\$ (770)	\$ (10)	\$ (2,370)	\$ 1,390	\$ 1,500 ³	\$ 120	\$ 80
College of Engineering	\$ 32,606	\$ 59,300	\$ (662)	\$ (1,670)	\$ (5)	\$ (2,450)	\$ 2,000	\$ 175	\$ 50	\$ 110
Humanities, Arts and Cultural Studies	\$ 28,007	\$ 47,800	\$ (513)	\$ (770)	\$ (30)	\$ (3,170)	\$ 2,825	\$ 7,600	\$ 230	\$ 120
Math and Physical Sciences	\$ 27,599	\$ 49,300	\$ (499)	\$ (748)	\$ (10)	\$ (1,960)	\$ 1,740	\$ 2,900	\$ 200	\$ 110
Social Sciences	\$ 32,234	\$ 48,400	\$ (403)	\$ (830)	< \$ (5)	\$ (3,570)	\$ 2,735	\$ 4,000	\$ 340 ⁴	\$ 120
School of Education	\$ 5,788	\$ 9,700	\$ (238)	\$ (290)	\$ (10)	\$ (480)	\$ 235	\$ 650	\$ -	\$ 20
School of Law	\$ 6,908	\$ 19,800	\$ (84)	\$ (700)	< \$ (5)	\$ (800)	\$ 135	\$ -	\$ -	\$ 30
Graduate School of Management	\$ 4,480	\$ 16,400	\$ (20)	\$ (560)	< \$ (5)	\$ (430)	\$ 320	\$ 140	\$ 5	\$ 20
School of Medicine	\$ 35,549	\$ 399,300	\$ (1,250)	\$ (3,530)	\$ (80)	\$ (2,990)	\$ 2,000	\$ -	\$ -	\$ 90
School of Veterinary Medicine	\$ 33,706	\$ 149,700	\$ (1,225)	\$ (1,400)	\$ (430)	\$ (2,380)	\$ 1,525	\$ -	\$ -	\$ 170
School of Nursing	No core Funds: Not subject to budget actions									
University Extension	\$ -	\$ 18,400	\$ -	\$ (240)	\$ (530)	Pending	\$ -	\$ -	\$ -	\$ -
TOTAL	\$ 295,669	\$ 994,100	\$ (7,190)	\$ (14,838)	\$ (1,275)	\$ (25,720)	\$ 17,875	\$ 18,665	\$ 1,095	\$ 1,090

¹ Excludes direct extramural (research) expenditures

² Actuals for 08-09; totals will vary from year to year

³ Allocation includes funds for undergraduate health science courses

⁴ Allocation includes \$149,000 for Letters and Science Advising

NOTE: Budget reduction targets do not include employee benefits. Benefit savings will be applied to the budget shortfall through the centralized benefits pool.

ACADEMIC CUTS RECAP: Permanent Reductions for 2008-09 to 2010-11 total \$49M Cumulative reductions as % of 7/1/08 General Fund = 15.4%
