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

RE: 2018-19 Final Budget Allocations

Dear Colleagues:

I am writing to conclude the 2018-19 budget process. As envisioned in the [budget framework](#), the outcomes of this process have preserved a balanced budget for core funds and project a stable financial position for UC Davis. With the engagement of the Chancellor, the decisions set forth in this year's budget will allow the campus to set aside modest reserves centrally while making some critical investments in capital projects and operating programs aligned with the campus strategic plan.

I was pleased with the materials you provided and the discussion we had during the annual budget meetings. It was clear that you took seriously our shared responsibility to ensure the long-term financial sustainability of UC Davis. I appreciate that many of you took steps to advance your highest priorities without new requests for central investment. As always, the involvement of the Academic Senate in our meetings and subsequent feedback from the Committee on Planning and Budget (CPB) added important perspective to our budget deliberations.

In 2018-19, UC Davis will continue to experience enrollment growth in both California and national and international students. We expect to reach the 18 percent cap on nonresident students imposed by the Regents, constraining future revenue growth. The tuition and fees California students pay will decrease, resulting in a relatively modest reduction of tuition revenue (about \$1.8 million), though this is of course good news for our students.

The final state budget provides significant investments in UC; much of the investment, however, is on a one-time basis, leaving the long-term commitment of the state uncertain. Meanwhile, the cost increases the university incurs for enrollment growth, increasing salaries and benefits, and critical capital needs are inherently not one-time. Therefore, it remains imperative that we each manage our resources carefully through limited and strategic investments, build reasonable reserves to buffer future uncertainty, become ever more efficient and effective in our activities, and continue to grow and diversify our revenue sources. This is the approach I take for central campus resources and it is incumbent on you to have the same mindset within your own unit.

Finally, I recognize that in a number of cases you are continuing to fully implement prior year budget rebalancing and address deficits created over a number of years. Both the Chancellor and I ask that you and your departments continue to look for opportunities to re-allocate and re-align existing funds as appropriate – including reserves – so that our resources advance our highest priorities and

most promising programs. Each of us must collectively pursue efficiencies and make hard decisions to stop or reduce activities that are no longer viable or mission-critical.

2018-19 BUDGET CONTEXT

Enrollment Growth, Faculty Growth, and Critical Investments in Capital

As you know, the University of California previously agreed to a three-year plan with the State to increase undergraduate California resident enrollments by 10,000 students by 2018-19. Because of this agreement, we have set enrollment targets that will accommodate our share of this number. UC Davis continues to enroll more California resident undergraduates than any other UC campus. Specifically, we expect to enroll about 9,300 new freshmen and transfer students this fall, including 7,500 California residents. Our overall population of national and international students will also continue to grow and we expect to reach the 18 percent cap that was agreed to by the UC Board of Regents.

For graduate enrollments, we anticipate an increase of up to four percent for Master's students, three percent for students in self-supporting degree programs, and increases of about one percent for doctoral and professional students. In 2017-18, 14 programs chose to participate in the [Master's Enrollment Incentive](#), and enrollment in these programs grew by seven percent. In 2018-19, we expect 18 programs to participate, increasing access to students interested in pursuing a Master's degree and providing an opportunity for increased financial support of graduate programs.

Faculty growth is a critical element of our success. Initial data indicates that over 60 excellent and diverse new ladder-rank faculty will start appointments this year, over 50 in the colleges (with a net growth of five faculty positions) and the balance in the schools. Included in this cohort of new faculty are seven supported from the Hiring Investment Program (which now totals 35 hires).

Since the beginning of the 2020 Initiative in 2012, we have hired over 490 new ladder faculty, including over 130 net new hires above retirements and other separations. Our faculty diversity continues to increase. Over the past two years, about 40 percent of our hires were women and over a third were people of color.

These new faculty hires will extend our scholarship into critical new areas and enable a transformative augmentation to the department, school, or college faculty they join. Over the coming years, net faculty hiring will decline somewhat as enrollment growth slows. Recognizing that many units have significant multi-year commitments for faculty start-up, however, the campus is continuing to invest over \$10 million annually in start-up for new and existing commitments. Start-up investments were previously communicated in the annual [faculty recruitment authorization](#).

Critical investments to improve instructional space and technology continue. The central campus is investing \$5 million annually through 2020-21 to achieve substantial improvements and technology replacement in general assignment classrooms. In the first two years of this program, 32 classrooms, totaling approximately 2,000 classroom seats, received full renovation and an additional 20 classrooms have realized technology improvements. Work is currently underway to deliver full renovation in 12 additional classrooms.

The campus has also approved a multi-year program to fund deferred maintenance across campus buildings and infrastructure systems. In addition to deferred maintenance investments, construction is underway on an additional electrical substation that will serve the entire campus and electrical improvements to serve the Health Sciences district in Davis are currently in planning. We are also

planning for the replacement of the aged campus steam distribution with a new energy-efficient hot water system to provide building heat on the core campus.

Capital projects continue to promote student success as well as support critical research initiatives. Over the next two years, classroom projects currently under construction will add over 1,300 seats, including the 600-seat California Hall anticipated to be completed in the fall and host classes as of winter quarter. There are also new classrooms under construction in Walker and Cruess Halls. The Teaching and Learning Complex, currently in planning, will add about 2,000 additional seats. Projects underway in the Chemistry and Chemistry Annex buildings will correct seismic and life safety issues and increase laboratory capacity. There are projects in Briggs Hall to modernize research, increase capacity, and address building issues, and the Controlled Environment Facility will open Summer 2019 in support of plant research. The new Cage Wash facility in support of animal research will begin operating in the fall. Addressing the shortage of faculty offices is a high priority and planning is underway to deliver new offices on the core campus.

Finally, construction has commenced on a new dining hall in the Tercero district, and a new residence hall to densify and replace Webster Hall will open in Fall 2019 with replacement of Emerson Hall to follow. The Regents recently approved a project in West Village that will add 3,265 student beds starting in Fall 2020.

CHANGES IN CORE FUND APPROPRIATIONS AND REVENUE

State Budget Appropriation and Tuition Revenue

The total State unrestricted ongoing appropriation will be approximately \$423 million, an increase of almost \$11.5 million. In addition, UC Davis will receive \$27.1 million in one-time funds from the State and the UC Office of the President (UCOP). Although one-time, some of these funds are in lieu of a tuition increase and must be used to support ongoing fixed cost increases. Total tuition and supplemental tuition paid by national and international students will increase from approximately \$569 million to \$589 million. Of this amount, the campus uses over \$109 million to support undergraduate need-based financial aid. The increase in tuition revenue is due to growth in enrollment of California, national and international students, and an increase in the University's nonresident tuition. The tuition rate that students pay is decreasing slightly (\$60/year) due to the expiration of a surcharge previously included in the tuition rate.

Student Services Fees and Campus Based Fees

The total estimated revenue from Student Service Fees is \$39.8 million, an increase of \$569,000. In addition, we will receive \$1.3 million in one-time State funds in lieu of a fee increase. Consistent with past years, 50 percent of the increase net of aid will be dedicated to student mental health. In the case of mental health, we will provide a base allocation to ensure that hiring and other ongoing programmatic investments can proceed. The Council on Student Affairs and Fees (COSAF) provided thoughtful input about annual inflation adjustments and review of several base budgets for programs supported by Student Services Fees and Campus Based Fees.

Finance & Administration (F&A) Cost Recovery on Extramural Grants (also called Indirect Cost Recovery Funds)

The total estimated revenue from F&A Cost Recovery is \$139 million, an increase of almost \$8.7 million or 6.6 percent over the prior year. 2018-19 is the second year of a three-year plan to realign the split of funds between the Deans and the Provost. This year, the Provost share will increase from 66 percent to 68 percent, and next year it will increase to 70 percent. This change enables several critical investments, most notably a new set-aside of \$1.5 million to start a capital investment fund for research.

One-time Lottery Funds Allocated by UC Office of the President

The UC Office of the President recently allocated one-time State Lottery Funds to campuses. UC Davis will receive just over \$7 million to be spent over several years, subject to UCOP approval of a spending plan. Expenditure of these funds is generally restricted to instructional purposes and some other criteria established by UCOP. In making funding decisions in this year's budget process, I considered the applicability of these funds where possible in order to maximize investments across the campus and from all available fund sources.

2018-19 INCREMENTAL BUDGET ALLOCATIONS AND DECISIONS

Table 1. 2018-19 Allocations for Core and other Centrally Managed Funds
\$ in 000s

	Base	One-time
Campuswide Priorities	\$ 17,621	\$ 8,805
<i>Allocations for Salary & Benefit Fixed Costs</i>	\$ 13,235	
<i>Decisions: Capital Investments & Classroom Renovations*</i>	\$ 3,500	\$ 5,000
<i>Decisions: Other*</i>	\$ 886	\$ 3,805
Colleges, Schools, and Deans	\$ 30,623	\$ 25,593
<i>Budget Model Formula Allocations</i>	\$ 6,744	
<i>Allocations for Faculty Merits & Ranges</i>	\$ 17,200	
<i>Allocations for TA Fee Remission</i>	\$ 2,000	
<i>Start-up, Retention, Other Faculty Commitments</i>		\$ 13,882
<i>CAMPOS, IRI, POP Allocations</i>		\$ 4,939
<i>HIP Allocations</i>	\$ 915	\$ 2,205
<i>Decisions*</i>	\$ 3,764	\$ 4,567
Academic Support and Administration	\$ 5,741	\$ 11,442
<i>Budget Model Formula Allocations</i>	\$ 215	
<i>Decisions*</i>	\$ 5,526	\$ 11,442
Total Allocations, All Central Funds	\$ 53,985	\$ 45,840

* Decision details listed in Attachment 1.

Budget Model Allocations for Undergraduate Tuition (\$6.7 million new). The incremental increase in the pool of funds allocated includes \$4.2 million in net undergraduate Tuition revenue and \$2.6 million in Nonresident Supplemental Tuition. Seventy percent of this pool is allocated to Deans. Allocations reflect data from 2016-17 and 2017-18 for student credit hours of instruction and undergraduate majors, and data from 2015-16 and 2016-17 for degrees awarded.

Allocations for salary and benefit cost increases paid with core funds (\$30.4 million net new). As described in the budget planning letter, all units will receive funds to cover salary and benefit fixed cost increases for employees paid on core funds. Of this amount, \$17.2 million is estimated for faculty salary increases (approximately \$6.4 million for merits and \$10.8 million for ranges), \$13.2 million is for staff merits and ranges, and approximately \$2 million is for increases in teaching assistant benefits and fee remission.

Allocations for common goods and high priorities (Attachment 1). Beyond formulaic budget model allocations, Provost Allocations support critical investments for infrastructure and programs and services that align with the strategic plan. Many of these allocations are continuing previous

commitments. Decisions were informed by budget meetings with each Dean and Vice Chancellor unit, analysis from Budget and Intuition Analysis (BIA), feedback from the Senate Committee on Planning and Budget, and input from the Chancellor. Each Dean and Vice Chancellor will receive a separate attachment from BIA detailing the specifics of investment decisions for their unit.

Summer sessions (allocations pending). As in prior years, we are committed to allocating a minimum of \$94 per student credit hour for summer sessions instruction. Additional campus commitments were made to support investments in financial aid and backstopping certain critical courses. Final data and allocations for summer 2018 are anticipated in late fall.

Graduate Tuition and Nonresident Supplemental Tuition (\$5 million net new). Final allocations for the various components of the graduate budget model will reflect graduate enrollment growth in 2017-18. Graduate programs and deans offices have already received allocations totaling \$557,000 through the first year of the Master's Enrollment Incentive Program. Final allocations will also include additional funds for the Graduate Program Fellowship Allocations and NRST support for 2nd and 3rd year PhD students. As planned, \$1.1 million will be invested for the Dean's Distinguished Graduate Fellowship Program to provide multi-year fellowships for outstanding graduate students.

FINANCIAL SUSTAINABILITY

At the end of fiscal year 2018-19, we anticipate a central operating reserve of approximately \$3.4 million on State funds and tuition (base) and a one-time reserve of approximately \$4.3 million. Of course, for an institution as large as UC Davis, this level of reserve is exceedingly modest, representing less than 1 percent of estimated annual operating expenditures on these fund types. As such, the campus will continue to manage mid-year funding needs and requests carefully to stay in balance and maintain reasonable reserves for future uncertainty.

For F&A Cost Recovery funds, projections indicate a modest operating deficit of about \$300,000. A multi-year plan is in place to resolve this deficit, in part through the change in the budget model allocations included in the rebalancing efforts and in part due to anticipated modest growth in this fund source.

I appreciate the careful work you do in your offices and with your departments to manage reserves for multi-year commitments and to ensure you can mitigate financial uncertainty.

BUDGET MODEL REVIEW

The review of our budget model by Ernst and Young was completed in the spring. BIA has initiated some analyses focused on graduate education and service courses. We have just this week received the formal review by the Senate and both will inform our discussions about the ongoing evolution of the budget model and budget process.

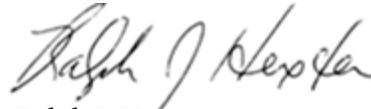
DECISION PROCESS

The decisions contained in this letter reflect input provided throughout the process. As noted above, CPB and COSAF are important contributors to the overall process. As well, Chancellor May and I used analyses provided by BIA to inform our decisions. As you might expect, the resource needs and requests exceed available resources; thus, in some cases requests were funded with one-time funds and many were not funded or funded only partially. Overall, there is substantial investment being made across many programs and activities the Chancellor and I believe will broaden and deepen both our quality and impact and thus extend and accelerate the upward trajectory of our great university.

CONCLUSION

UC Davis continues to advance as a world-class institution for teaching and learning, research, clinical care, and public service and engagement, and your leadership is critical to that success. Financial pressures remain, but I am confident that our collective efforts to ensure a level of financial resiliency will serve us well in the years ahead.

Sincerely,

A handwritten signature in black ink, appearing to read "Ralph J. Hexter". The signature is written in a cursive style with a large initial "R".

Ralph J. Hexter

Provost and Executive Vice Chancellor

c: Chancellor May
 Academic Senate Chair Goodhue
 Vice Chancellor Ratliff
 Chief Finance and Budget Officer Designate Frace
 Budget Director Mangum

2018-19 Provost Investments

	General Funds & Tuition*		Other Funds**	
	Base	One-time	Base	One-time
Section 1: Campuswide Priorities				
Animal Program: Per Diem Rate Subsidy (partial year extension)			\$	400,000
Capital Debt Repayment Pool: Multi-year Investment for Critical Projects and Infrastructure (Year 6)	\$	2,000,000		
Capital Debt Repayment Pool: Multi-Year Investment for Research Capital Projects (Year 1)			\$	1,500,000
Cesium Irradiation Replacement			\$	700,000
Classrooms: Renovations and Upgrades (year 2 of 4)			\$	5,000,000
Data Science Initiative Evolution (DSx)			\$	350,000
Exempt Subcontract Contract & Grant Expense >\$25k from OP Tax Expenditure Basis			\$	1,200,000
First Year Seminars	\$	139,000		
Instructional Needs: Change Distribution Methodology (offsetting investment in L&S)			\$	(700,000)
Instructional Needs: Eliminate Deficit (Year 1 of 6)		\$	100,000	
Partner Opportunity Program: Shift Funds to Capital Resource Network (offsetting investment in Academic Affairs)			\$	(125,000)
SAPEP: Backfill State Reduction to Student Academic Preparation Programs	\$	22,000		
Faculty Diversity: Course Buyout for STEAD Workshops		\$	140,000	
Summer Session Financial Aid (final funding will be based on actual need)		\$	665,000	
Testing Services: Maintain Current Activities and Provide Software and Process Change Startup Costs		\$	450,000	
University Writing Program/English as a Second Language		\$	1,000,000	
Subtotal, Campuswide Priorities	\$	2,161,000	\$	2,355,000
			\$	2,225,000
			\$	6,450,000
Section 2: Colleges, Schools and Deans				
College of Agriculture and Environmental Sciences: World Food Center (Year 2 of 2)		\$	400,000	
College of Biological Sciences: Coastal and Marine Sciences Institute			\$	250,000
College of Biological Sciences: Faculty Hiring Assistance and Faculty Equity - offset costs voluntarily provided by the unit in prior years (Year 3 of 3)	\$	77,000		\$
College of Biological Sciences: Student Advising		\$	200,000	
College of Engineering: Faculty Hiring Assistance (Year 1 of 3)				\$
College of Letters & Science: Change Instructional Needs Distribution Methodology (see related item in Campuswide Priorities)			\$	700,000
College of Letters & Science: Continue Funding for Physical Education Program		\$	700,000	
College of Letters & Science: Cost-sharing for the Center for Mind & Brain's Operating Budget (Year 3 of 3)				\$
College of Letters & Science: Extend Development Officer Funding (Year 1 of 3)				\$
College of Letters & Science: Faculty Equity - offset costs voluntarily provided by the unit in prior years (Year 3 of 3)	\$	120,000		
College of Letters & Science: Faculty Hiring Assistance (Year 1 of 3)				\$
College of Letters & Science: Support for Strategic Planning Priorities (Year 2 of 3)	\$	750,000		
School of Education: Communications Support (Year 2 of 3)				\$
School of Law: Increased Institutional Support for Financial Aid and Enrollment (Year 2 of 10)	\$	360,000		

2018-19 Provost Investments

	General Funds & Tuition*		Other Funds**	
	Base	One-time	Base	One-time
Section 2: Colleges, Schools and Deans (Continued)				
School of Veterinary Medicine: Faculty Equity - offset costs voluntarily provided by the unit in prior years (Year 3 of 3)	\$	17,000		
Office of Graduate Studies: Dean's Distinguished Graduate Fellowship Program (Year 1 of 2 for total of \$1.4m)	\$	1,100,000		
Office of Graduate Studies: Envision Program		\$	50,000	
Office of Graduate Studies: IT Support	\$	230,000	\$	100,000
Office of Graduate Studies: Postdoc Position Management Tool		\$	50,000	
Office of Graduate Studies: Professional Development Institute Match		\$	200,000	
Office of Graduate Studies: Staffing	\$	130,000	\$	97,000
Office of the Provost: Undergraduate Education: Center for Educational Effectiveness	\$	30,000		
Office of the Provost: Undergraduate Education: Center for Leadership Learning		\$	250,000	
Office of the Provost: Undergraduate Education: University Honors Program		\$	90,000	
Office of the Provost: Undergraduate Education: Undergraduate Research Center		\$	130,000	
Subtotal, Colleges, Schools and Deans	\$	2,814,000	\$	2,267,000
			\$	950,000
				\$
				2,300,000
Section 3: Academic Support and Administration				
Finance, Operations and Administration: Police Sergeant Pay Equity and New Captain Position	\$	315,000		
Information and Educational Technology: Campus Learning Management System Support		\$	100,000	
Information and Educational Technology: E-mail and IS3 Security Initiatives (Year 1 of 3)				\$
Information and Educational Technology: Emergency Radio System Start-Up Fee (Year 1 of 3)		\$	290,000	
Information and Educational Technology: Multifactor Authentication Implementation				\$
Information and Educational Technology: Proctoring Services for Online Courses		\$	200,000	
Information and Educational Technology: UCD Net3 (Year 2 of 3)	\$	200,000	\$	200,000
Intercollegiate Athletics: Extend Development Officer Funding (Year 1 of 3)				\$
Intercollegiate Athletics: Mitigate Grant-in-Aid Increases	\$	345,000		
Intercollegiate Athletics: New Women's Teams to Meet Title IX Requirements	\$	775,000		
Intercollegiate Athletics: Operating Support		\$	600,000	
Office of Research: Animal Care				\$
Office of Research: Bodega Marine Lab			\$	70,000
Office of Research: Feminist Research Institute				\$
Office of Research: Innovation Institute for Food and Health (Year 2 of 3)				\$
Office of Research: McClellan Nuclear Research Center				\$
Office of Research: Primate Center			\$	207,000
Office of Research: Principal Investigator Bridge Program			\$	480,000
Office of Research: Program in International & Community Nutrition				\$
Office of Research: Strategic Investment Funds			\$	500,000

2018-19 Provost Investments

	General Funds & Tuition*		Other Funds**	
	Base	One-time	Base	One-time
Section 3: Academic Support and Administration (Continued)				
Office of the Chancellor: Diversity, Equity, and Inclusion	\$ 230,000	\$ 434,000		
Office of the Chancellor: Office of Strategic Communications	\$ 396,000	\$ 600,000		
Office of the Provost: Academic Affairs - Capital Resource Network (see related item in Campuswide Priorities)			\$ 125,000	
Office of the Provost: Academic Affairs	\$ 62,000	\$ 60,000		
Office of the Provost: Center for Advocacy, Resources, and Education	\$ 90,000			
Office of the Provost: Compliance and Policy	\$ 150,000		\$ 56,000	
Office of the Provost: Dialogue and Deliberations		\$ 218,000		
Office of the Provost: Engaged Scholarship & Learning	\$ 270,000			
Office of the Provost: Enrollment Management	\$ 483,000	\$ 387,000		
Office of the Provost: Global Affairs	\$ 120,000	\$ 415,000		
Office of the Provost: Imagining America (Year 2 of 5)				\$ 200,000
Office of the Provost: NAGPRA		\$ 330,000		
Office of the Provost: STEM Strategies		\$ 490,000		
Student Affairs: Mental Health Fee Increase in Lieu of State One-Time Buyout			\$ 666,000	
Student Affairs: Student Disability Center Accommodations	\$ 400,000	\$ 400,000		
Student Affairs: Student Services Fee for Programs Currently Funded by One-Time Funds			\$ 532,000	
Student Affairs: Student Services Fee Reduction Target			\$ (410,000)	
Subtotal, Academic Support and Administration	\$ 3,836,000	\$ 4,724,000	\$ 2,626,000	\$ 3,513,000
Section 4: Development				
Development and Alumni Relations: Campaign Resources for Units (Year 1 of 3)				\$ 760,000
Development and Alumni Relations: Campaign Central Development			\$ 1,211,000	\$ 38,000
Development and Alumni Relations: Campaign Communications				\$ 440,000
Subtotal, Development	\$ -	\$ -	\$ 1,211,000	\$ 1,238,000
Total, Provost Investments	\$ 8,811,000	\$ 9,346,000	\$ 7,012,000	\$ 13,501,000

* Includes one-time Lottery Funds

**Includes AFP, ICR, Other