



MARY S. CROUGHAN
Provost and Executive Vice Chancellor

OFFICE OF THE PROVOST AND EXECUTIVE VICE CHANCELLOR
ONE SHIELDS AVENUE
DAVIS, CALIFORNIA 95616-8558
TELEPHONE: (530) 752-4964

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COUNCIL OF DEANS AND VICE CHANCELLORS

SUBJECT: 2021-22 Operating Budget Framework

Dear Colleagues,

The budget challenges UC Davis began to address this year with the multi-year effort to rebalance core funds by \$80-\$100 million have not abated. In November, I [shared](#) that the pandemic-induced state budget reduction, flat tuition rates and lower than expected enrollment put significant additional pressure on our core fund structural deficit. We are pleased that the State is fully restoring the \$45 million 2020-21 budget reduction; however, significant challenges remain because of inadequate investment by the state, continued delay of modest tuition increases, our temporary dip in national and international enrollment, and the strong reliance on these funds for employee compensation. Without action or additional investment, we project a multi-year cumulative deficit on the scale of at least \$200 million.

I am confident we can address the challenges in the short-term with our strategy of multi-year actions, shared sacrifice and use of bridging strategies to mitigate the most severe consequences. Even with the relatively good news from the State though, we must think differently about how to support our mission and fully leverage all of our fund sources, identifying opportunities to grow revenue, advancing our highest and most strategic goals, and operating as efficiently as possible. We must continue to move forward with rebalancing and reductions to achieve ongoing savings to address our projected [core funds deficit](#).

Unit Savings Targets

In Phase I of the multi-year framework, campus units were asked to achieve \$45 million in ongoing [savings](#) by fiscal year 2024-25. These savings targets must be implemented through cuts and realignments and should be accelerated now to the greatest extent possible.

As we have discussed often, significant uncertainty about our long-term financial position remains. In the short-term, I want to carefully watch the outcome of the State budget process and understand more fully what actions the Regents and President Drake will take in the coming months. Further, I want to engage more fully with the campus community and leadership to learn more about the strategic trade-offs that will be required to address our budget challenges.

For planning purposes, you should assume that we will implement a Phase II with additional savings targets likely including base and one-time funds in the range of \$25 to \$40 million. I strongly expect that we will proceed with Phase II in the next six to nine months.

Central Campus Actions

It is important that we demonstrate our commitment to addressing these challenging budget issues by taking central campus actions. As part of the Phase I budget reductions assigned during 2020-21, central campus agreed to identify \$25 million in savings, bringing the total framework plan, including the \$45 million in unit savings targets, to \$70 million. In response, we will be taking the actions described below:

- **Capital Investments:** Over the next four years we will reduce the planned core fund investment in our capital program debt service by up to \$5 million, equivalent to up to \$80 million in capital spending. This will delay much needed capital investments. We are evaluating alternative funding models, including internal borrowing, to mitigate the gap.
- **Faculty Resources:** Over the next few years, we will redirect up to \$4 million in base resources collected centrally from faculty returns to support faculty merits and promotions. I will be meeting individually with each Dean to review their faculty hiring plans, with additional information about faculty hiring communicated in a separate letter later this month.
- **Evaluation of Academic Programming:** Evaluations are underway to determine the most effective programming for student success and achievement of equitable student outcomes. Over the next few years, we will consolidate our most effective programs and offer them on a large scale to achieve savings and improved outcomes for all students.
- **Reduce Centrally Funded Leased Space:** Over the next seven years, we will reduce our use of leased administrative space in Davis, resulting in up to \$4 million in ongoing savings. We will launch an [incentive program](#) for units that release space to central campus.
- **Realign Funding for the Cost of Utilities:** Currently the majority of costs associated with utilities are paid centrally with core funds. Beginning this year, we will realign at least \$5 million over the next five years from core funds to central campus Finance & Administration (indirect cost) funds.
- **[Expansion of the Research Core Facility Program \(RCFP\)](#) and Establishment of an **Equipment Management Program:** Last year we began an effort to expand the RCFP and establish an equipment management program with the goal of greater efficiencies, cost savings, and potential new revenue. This effort is moving forward, although results are delayed due to the pandemic.**

Revenue Generation Task Force

I will be appointing a workgroup of internal experts to look holistically at opportunities for UC Davis to increase net revenue that can be reinvested in our teaching and research mission, replacing a share of the declining core funds over the long-term. This group will be asked to survey opportunities and provide advice on how to support the development of revenue generation efforts on our campus and consider how those revenues might replace core funds.

Central Campus Investments

I ask that you continue to address your most critical needs through internal reallocation and bridging strategies. There will be *very limited* central investment for critical needs and strategic priorities that explicitly align with our [Strategic Plan](#), and meet at least one of the following criteria:

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

You should not expect new central investments this year. However, consistent with prior years, I will continue to allocate funds as described below in support of campus strategic priorities and critical needs:

- Faculty start-up block grant allocations totaling up to \$5 million one-time. As noted above, I will provide faculty hiring guidance to deans in a separate communication. You should expect hiring authorizations to be limited to critical positions while you focus on rebalancing faculty positions across disciplines and fund sources within your college or school as vacancies occur.
- Full funding for the increased costs of salary and benefits associated with faculty merits and promotions and represented academic salary programs on core funds.
- Consistent with the [change](#) implemented in 2020-21, units will receive a base block grant equal to 1.5 percent of the salary and benefit expense associated with [core-funded](#) career staff eligible to receive a salary increase through any systemwide salary programs or negotiated agreements. The cost of salary increases above this amount must be self-funded and can be counted as part of a unit's Phase I Savings Target.
- \$2.7 million base for debt service, leased costs, and operation and maintenance of physical plant for critical research and infrastructure, including Aggie Square on the Sacramento campus and a set-aside for the Grand Challenges Building on the Davis campus. This is \$2 million lower than past year investments.
- Maintain graduate student support programs and ensure that graduate students adversely impacted by the pandemic or funding shortages are able to complete their degree as planned.
- Continuation of multi-year funding commitments from prior years with demonstrated progress and continued success.

Budget Meetings

I look forward to meeting with you and Academic Senate representatives to discuss your unit finances during our annual budget meetings. In these meetings, we will review your financial status, your plan to meet the Phase I savings targets and the impact of the targets on your operations and strategic goals. **In order to prepare for Phase II savings targets during fiscal year 2021-22, I ask that we have a conversation about strategic opportunities to reduce your unit's reliance on core funds within the next 2-5 years.** Please be ready to have a frank discussion about activities we may no longer be able to afford or must do more efficiently and the impact these changes will have on our campus strategic priorities. This conversation will help me gain more knowledge as I prepare to make difficult decisions about the application of additional savings targets. Budget and Institutional Analysis (BIA) will provide a range indicating the level of the Phase II target you should come prepared to discuss, as well as more detailed information on the materials and expectations for these meetings.

COVID-19 Mitigation

We continue to monitor and address the short-term financial impacts of the COVID-19 pandemic and are implementing the mitigation strategies announced in the fall. Pandemic-driven lost revenue and increased costs are expected to exceed \$210 million for the campus and the medical center experienced a financial impact of over \$120 million. The campus and our students are benefitting from federal relief funds now totaling almost \$85 million (with more recently approved by President Biden). Of this amount, almost \$34 million is allocated to student financial aid. Separately, the medical center receives aid designated for health care providers and has made great progress to restore operations. Federal funds received are applied where they most benefit the campus as a whole and are aligned with the federal funding guidelines. I appreciate that each of you has identified savings within your unit and are applying those savings to mitigate needs that cannot be met through relief funds or other campus mitigation programs. More information on the status of the COVID-19 [Financial Mitigation Strategies](#) is available on the BIA website.

Conclusion

It has been a year since the COVID-19 pandemic fundamentally changed our world, UC Davis, and so many aspects of our lives, both personal and professional. With the growing availability of vaccines and all we have learned about the virus and how to operate through a public health emergency, I now look forward with hope to a fall where we can be more physically together and focused on our mission and strategic goals. I also look back with a strong sense of pride and gratitude. We have proven that together we are able to adapt in challenging times and find the opportunities in difficult circumstances. I have no doubt that we can continue to work together in this spirit to address the continuing budget challenges.

All the best,



Mary S. Croughan

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Provost and Executive Vice Chancellor

- c: Chancellor May
 - Davis Division Academic Senate Chair Tucker
 - Academic Senate Committee on Planning and Budget Chair Nachtergaele
 - Assistant Vice Chancellor Mangum
 - Assistant Deans and Chief Operating Officers