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

**RE: 2020-21 Budget Status and Allocations**

Dear Colleagues:

I am writing to provide information and decisions about the 2020-21 budget. I am grateful for having the opportunity to review the campus [budget framework](#) and [principles](#), participate in budget decision briefings, meet with the [Budget Framework Advisory Committee](#), and review the materials presented in your unit budget meetings. It is apparent that the campus has a thoughtful, collaborative, and principled process for making resource allocation decisions. I am pleased that investment decisions are aligned with the campus [Strategic Plan](#) and evaluated against the criteria outlined in the framework to support increased net revenue, support long-term savings, or mitigate significant risks to the university. I appreciate how the Academic Senate leadership is engaged in the budget process and that the Academic Senate Committee on Planning and Budget is continuing to meet during the summer to stay engaged. As a result, I am confident in endorsing and communicating the outcome of this annual budget process as one of my first tasks as your Provost and Executive Vice Chancellor.

Of course, even as there are initial decisions to communicate, there have been significant financial consequences as a result of the COVID-19 pandemic. Prior to the pandemic, the campus expected a 5 percent increase in state funds, the Regents were poised to support cohort-based tuition increases, and we anticipated that typical salary programs would continue. Phase 1 of the multi-year framework, evaluated by the Budget Framework Advisory Committee, allocated \$70 million in core fund reductions to be achieved over 5 years (\$14 million in this year). And, the campus planned to bridge the remaining core fund operating deficit estimated to be about \$26 million.

Today, we know that the state budget circumstance is quite different. The State reduction to the University of California budget will decrease funding to our campus by approximately \$46 million. While there is a contingency in the state budget should federal aid be received, it is highly uncertain. In addition, there will not be a tuition increase and many of our auxiliaries and self-supporting activities have experienced significant pandemic-related net revenue losses. As a cost savings measure, the merit program for non-represented staff will not occur. Faculty merits and promotions will continue, however there will not be a faculty range adjustment. Finally, while our preliminary enrollment numbers appear strong, it is

difficult to predict what actual student behavior will be in the Fall. As a result, we are now projecting a budget deficit of over \$60 million on core funds in 2020-21.

Under the leadership of Provost Hexter, the budget framework outlined a process to address a projected deficit of \$80-100 million in state funds and tuition over a five-year period. Considering the unprecedented changes in our operating and financial status that began this Spring, it is fortunate that UC Davis was already in the mindset of identifying efficiencies, increasing net revenue, and strategically reducing expenditures on core funds. Although there is significant uncertainty about the exact magnitude of the budget challenge we will face in the coming years, it is clear that we must continue, and likely accelerate and expand upon, the approach outlined in the budget framework.

We are pursuing strategies to avoid the need for extreme decisions in the short-term in favor of a more measured and strategic approach over several years. Our campus budget and finance teams are working to identify bridging and mitigation strategies such as loans, cash investment returns, expenditure reductions, and additional savings targets. Last week, the UC system successfully borrowed working capital funds to help address some of these challenges, and we expect to receive a portion of those funds to apply to this effort. The use of one-time funds to enable long-term planning will be required at both the central campus and unit levels, and we will continue to work with OP on systemwide options. *You should be identifying and setting aside one-time savings within your budgets to support this bridge-funding need such as travel savings and savings from vacancy management.*

This is a dynamic and rapidly changing environment. We are working on a communication strategy to share information on the campus budget and financial status more broadly in the coming months. However, we do not expect to gain notably more certainty about our financial situation until October, after the Fall enrollment census. We will engage you, the Budget Advisory Committee, the Academic Senate and other constituents more formally in the next round of planning at that time. I will also communicate sooner if there is a substantive change in our situation.

I understand that communicating new investments in the context of overall budget challenges and uncertainty might seem contradictory. However, these investments reflect our priorities and values, and we must continue to move them forward even as we make hard choices about what we can no longer afford. Our top priority is to support our students' academic success and achieve equitable outcomes for all UC Davis students no matter their race, family background, or economic means. We also continue to make investments to support our research mission and address our capital and infrastructure needs which are critical to our long-term health as an institution.

Despite these challenges, there are bright spots, opportunities, and many things to be proud of. Our faculty and staff transitioned to remote teaching and working on very short notice—

with great effort and creativity they are continuing to serve our students, patients, and the public. Enrollment in our online Summer Session is almost thirty percent higher than last year, a suggestion that our students are taking this opportunity to make progress on their degree. The campus received almost \$134 million in federal Coronavirus Aid, Relief, and Economic Security (CARES) Act funding which provided \$17 million in additional financial aid to our students, offset over \$100 million in significant financial impacts for UC Davis Health and provided \$17 million in support to mitigate costs of the pandemic response. Moreover, we ensured that all students who met the award criteria, including those ineligible for the CARES Act financial aid due to federal restrictions, received the appropriate level of support based on need and the available funds.

In 2019-20, UC Davis' extramural research funding was strong and we are estimating total awards to exceed \$950 million. Research expenditures and Finance and Administration funding also increased by over three percent. Many of our researchers are uniquely poised to contribute to [coronavirus research](#) of great societal significance, a hallmark of the University of California. Over the past several months we have successfully and safely begun to ramp up research and clinical activities.

The campus had another record fundraising year in 2019-20, raising nearly \$253 million, a \$19 million increase over 2018-19. Of note was a record \$2.5 million raised during the fourth annual UC Davis Give Day, which occurred amid the COVID-19 pandemic. Campus development professionals are working hard to meet the 2020-21 goal of raising \$250 million by reimagining their approach to fundraising and engagement in light of the pandemic. Planning for the launch of the public phase of the campaign on October 10, 2020, continues. This will mark the half-way point of the eight year campaign, and the campus has already raised more than half of its \$2 billion campaign goal.

The attachments to this letter provide more context about our financial status, revenue changes, investment decisions, and progress toward meeting savings targets. Each Dean and Vice Chancellor will also receive a separate attachment from BIA detailing the specifics of investment decisions for their unit.

Even though we face significant uncertainties and challenges ahead, I look forward to engaging with you, the Academic Senate, and other constituents in the Fall when we may have more information, to identify solutions and opportunities together. Thank you in advance for your leadership and partnership.

Sincerely,



Mary S. Croughan  
Provost and Executive Vice Chancellor

- c: Chancellor May
- Davis Division Chair Lagattuta
- Vice Chancellor Ratliff
- Sr. Associate Vice Chancellor Frace
- Assistant Vice Chancellor Mangum
- Budget Analysts
- Assistant Deans and Chief Operating Officers

## Attachment 1: Budget Context

### 2020-21 BUDGET CONTEXT

The following information provides more context for the new fiscal year and information on investment decisions.

#### *Estimated Change in Core Funds (State Funds & Tuition) Status*

The following chart provides a summary of the estimated change in the campus core funds status since the Budget Framework was initially announced. This reflects information known to date, assumes that 2020-21 enrollment will occur as planned, and does not account for additional costs due to pandemic response. The campus is monitoring these assumptions and incorporating additional information into our planning as it becomes known.

#### **Change in Estimated State Funds and Tuition Budget Deficit**

*\$ in 000s*

	<b>2020-21 Planning</b>
<b>Anticipated Deficit at Budget Framework (February 2020)</b>	<b>\$ (25,900)</b>
<i>Changes to Sources</i>	
Eliminate State Budget Increase In Governor's Budget	\$ (16,900)
State Budget Reductions without Restoration	\$ (45,000)
<i>Changes in Uses</i>	
Savings from Change in UCRP rate 2.42%-->1.36%	\$ 4,600
Savings from No Non-Rep Merit in FY21	\$ 6,300
Savings from No Faculty Range in FY21	\$ 13,530
<b>Current Estimated Deficit</b>	<b>\$ (63,370)</b>

#### ***Enrollment***

We have set Fall enrollment targets so that overall undergraduate enrollment will increase slightly from the prior year. UC Davis continues to enroll more California resident undergraduates than any other UC campus. Specifically, we expect to enroll 9,545 new freshmen and transfer students this fall, including 7,665 California residents. Although our overall population of national and international students will increase slightly, we expect to be below the 18 percent cap agreed to by the UC Board of Regents. UC Davis will again meet the 2:1 freshmen-to-transfer ratio requirement. We expect to enroll 5,030 California resident freshmen and 2,635 California resident transfer students. While the circumstances for Fall quarter remain fluid, currently, our indicators for new and continuing undergraduate students suggest that students will enroll very close to the targets that we have set.

To date, registration by master's and doctoral students for the Fall quarter is not consistent with prior years. Because of this, it is possible that enrollment in those programs could be five to eight percent below 2019-20 levels, but there is, of course, much uncertainty. We expect enrollment for professional and self-supporting degree programs to be about the same as last year.

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In 2019-20, 19 programs chose to participate in the [Master's Enrollment Incentive](#), and enrollment in these programs is now over 150 students above baseline levels when the programs joined the Master's Enrollment Incentive. In 2020-21, we expect continued growth from these programs, increasing access for students interested in pursuing a master's degree with enrollment incentive funds providing opportunities for increased financial support of participating graduate programs.

### ***Faculty***

Net faculty hiring is slowing as enrollment growth slows and our financial situation requires careful consideration of all new hires. Ongoing hiring continues to be an opportunity to renew and diversify our faculty across many dimensions and we will continue to hire.

Initial data indicate that 49 new ladder-rank faculty will start appointments this year, including over 35 in the colleges and the balance in the schools. Recognizing that many units have significant multi-year commitments for faculty start-up, the campus is continuing to invest approximately \$10 million annually for new and existing commitments. Start-up investments were previously communicated in the annual [faculty recruitment authorization](#).

### ***Capital and Space***

The campus continues to make capital and facility investments to catch up with the demands of growth from previous years as well as maintain the quality of our buildings, and prepare for future opportunities and needs. We are renovating existing spaces and proceeding with construction of several new facilities. Our capital program is focused on delivering inventory of key spaces to meet current demand (i.e., classrooms, research, and housing) and taking care of aging facilities and infrastructure through renovations, addressing deferred maintenance, and responding to regulatory demands to ensure safety for the campus community (i.e., seismic retrofits).

### ***Instructional Space***

Investments in technology replacement and refurbishment of general assignment classrooms have increased in recent years as a result investing \$5 million annually. The initial five-year program will conclude in 2021, having fully renovated approximately eighty general assignment classrooms and completed technology-only upgrades in an additional ten spaces. Projects also improved restrooms, common areas, and other heavily trafficked spaces associated with classrooms. Renovation work is currently underway in Wellman and Young Halls totaling more than 1100 seats. Conversion of spaces in Storer Hall and Carlson library for instructional uses is also in progress. Moving forward, we are working to identify a financial strategy to sustain this important program and seek to increase its reach to address additional aging instructional spaces, including teaching labs.

In recent years, the campus has opened new instructional spaces including Pitzer Center and California Hall as well as converted a number spaces in existing buildings for instruction. We have facilitated classroom "borrowing" as construction catches up with demand, which is anticipated to be met over the next few years. In Spring 2021,

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the campus will open classrooms in the newly renovated Walker Hall and Cruess Hall and the Teaching and Learning Complex is also under construction, adding about 2,000 additional seats starting in 2023.

### *Research Space*

In addition, capital projects to support critical research initiatives are in planning and underway. Projects currently under construction in the Chemistry and Chemistry Annex buildings and Briggs Hall will correct seismic and life safety issues, address building infrastructure deficiencies, increase laboratory capacity and modernize research space. Addressing the shortage of new research space is a high priority and the campus has begun to set aside F&A indirect cost recovery funds that will support the creation of new research space. A formal planning process for a new “Grand Challenges” research building will take shape in 2020-21.

### *Housing and Dining*

We are also engaged in delivering the most aggressive student housing plan in our campus’ history. The new Latitudes Dining Hall opened in the Tercero district this past spring, and the Cuarto district expanded last Fall with the opening of Yosemite Hall. The final Cuarto district project is underway with the redevelopment and expansion of Emerson Hall. Construction is also underway on The Green at West Village, which will add about 3,300 student beds by Fall 2021. The first 1,000 will be complete in Fall 2020. In addition, the campus is actively planning housing for graduate students and student families at the former site of the Orchard Park apartments. The new apartment-style housing, which will be delivered by a developer-partner, will feature approximately 1,549-beds/613-units and feature open spaces and community amenities.

### *Infrastructure Maintenance and Safety Improvements*

The campus continues to face critical infrastructure and facility needs, particularly in the areas of deferred maintenance and seismic retrofits. We expanded efforts to complete seismic evaluations of existing buildings and the portfolio of buildings slated for seismic retrofit continues to expand. State funding via the AB94 process is anticipated in the current fiscal year, supporting seismic retrofits on central campus facilities with the most critical need. We are continuing a multi-year program to address deferred maintenance in buildings and infrastructure to address some of our most critical needs. In addition, construction has commenced to replace the aged campus steam distribution system with a new energy-efficient hot water system in the core campus.

## **CHANGES IN CORE FUND APPROPRIATIONS AND REVENUE**

### *State Budget Appropriation and Tuition Revenue*

The total State unrestricted ongoing appropriation will be approximately \$391 million, a decrease of approximately \$46 million. Total tuition and supplemental tuition paid by national and international students, including summer sessions, is estimated to increase from approximately \$604 million to \$624 million, a significant amount of this increase

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is due to the increased enrollment in summer sessions. Of this amount, the campus sets aside \$139 million to support financial aid as required by the Regents. As noted earlier, this element of the budget is being carefully monitored.

### ***Student Services Fee and Campus Based Fees***

The total estimated revenue from Student Service Fees is \$42.1 million, an increase of \$580,000. The total estimated revenue from Campus-Based Fees is \$73.3 million, an increase of \$3.1 million. The Council on Student Affairs and Fees (COSAF) provided thoughtful input about annual inflation adjustments and review of programs supported by Student Services Fee and Campus-Based Fees. Ultimately, 2020-21 Student Services Fee and Campus-Based Fees are projected to remain flat except for increases to the ASUCD and Unitrans Fees previously approved by student referenda.

### ***Finance & Administration (F&A) Cost Recovery on Extramural Grants***

Expenditures on extramural grants continued to grow in 2019-20, from \$626 million to \$649 million, an increase of almost 3.5 percent. The total estimated revenue from F&A Cost Recovery is \$152 million, an increase of almost \$5.6 million or 3.8 percent over the prior year. This will be the second year of creating dedicated capital set-asides for a new Grand Challenges research facility and a second set-aside to partially offset rent costs for new research space in Aggie Square.

## **2020-21 INCREMENTAL BUDGET ALLOCATIONS AND DECISIONS**

Decisions contained in this letter were informed by budget meetings with each Dean and Vice Chancellor unit, analysis from Budget and Institutional Analysis (BIA), feedback from the Senate Committee on Planning and Budget, and reviewed with former Provost and Executive Vice Chancellor Hexter and Chancellor May. Input from COSAF was also part of the overall process for student fee funds. 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. Decisions carefully considered adherence to the criteria in the framework, alignment with our strategic priorities, and the specific set-asides indicated in the framework for student success, capital, and faculty hiring are maintained.



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### 2020-21—New Allocations and Increased Set-Asides by Strategic Plan Goal \$ in 000s, All Funds

Strategic Plan Goal	Base	One-time
Goal 1: Educational Experience <sup>1</sup>	\$ 4,724	\$ 5,524
Goal 2: Research <sup>2</sup>	\$ 1,528	\$ 2,055
Goal 3: Diversity, Equity, Inclusion	\$ 550	\$ 89
Goal 4: Visibility and Impact		\$ 826
Goal 5: Innovation and Entrepreneurship		\$ 299
Infrastructure and Other <sup>3</sup>	\$ 9,377	\$ 434
<b>Total Incremental Investment Decisions</b>	<b>\$ 16,179</b>	<b>\$ 9,227</b>

<sup>1</sup> Includes \$4.7 million in base set-asides for student success initiatives.

<sup>2</sup> Includes \$1 million in base set-aside for new faculty hiring.

<sup>3</sup> Includes \$7.3 million in base set-asides for capital and system infrastructure investments.

#### *Allocations for Campuswide Priorities*

Some centrally managed funds are directed by campus leadership to support critical investments that align with the strategic plan and meet the framework criteria. The following are highlights of investments that have a campuswide impact:

- *Student Success*—As part of a multi-year strategy to improve student outcomes and ensure equitable outcomes for all students, the campus will make an additional investment of \$1.7 million in base funding as well as \$3 million from the undergraduate tuition budget model, providing a pool of over \$6 million in ongoing funds. Of this amount, \$1.2 million will support the continuation of projects funded in 2019-20 on a one-time or multi-year basis to enable formal evaluation of effectiveness. Some initiatives may receive ongoing support and/or be expanded, while others may be modified or discontinued and yet others added. An additional \$700,000 will be allocated for student success-related needs identified through the budget process and \$500,000 is being held for future investments in writing support. BIA estimates that there is over \$4 million available as a set aside for future investments. The allocation process for these funds is under development and will be communicated at a later date.
- *Faculty Hiring*—As indicated in the framework, \$1 million is set aside to support new faculty positions. A process and criteria for allocating these positions is yet to be determined.
- *Capital*—As part of a multi-year strategy, we continue to set aside ongoing funds to support investments in capital and facility needs. These funds are available to support debt service, deferred maintenance needs, ongoing maintenance for new space, and support for leased space at Aggie Square. In 2020-21, we plan to increase this amount by \$5 million, \$2 million on State Funds and Tuition and \$3 million on

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F&A funds. The F&A funds are earmarked to support debt service for the Grand Challenges Interdisciplinary Research building currently being planned, Aggie Square leased research space, and ongoing maintenance needs for new research space. Finally, we will set aside up to \$1.3 million from investment earnings to support the overall capital plan.

- *Business System Infrastructure Replacement Fund*—Similar to our capital infrastructure, our enterprise business systems need significant investment. Many systems are reaching the end of their life, are not using current technology platforms, and are not providing us with the type of data, efficiency, and integration that is necessary for an organization of our size and complexity. To address this need, we will set aside a total of \$4 million over the next 4 years to enable up to \$60 million in investments amortized over 15 years. 2020-21 will be the second year of this investment and planning is underway for a new financial system.
- *Investments to Support Campuswide Efforts to Achieve Cost Savings and Revenue Generation*—As indicated in the budget framework, funding is allocated for positions in the Core Facilities Program and the Office of Business Transformation. These positions are a resource to the campus to improve efficiency and increase net revenue in core facilities and engage staff campuswide to identify and implement more efficient business practices. A key outcome is an increase in overall staff expertise with Lean Six Sigma techniques.
- *Comprehensive Campaign and Fundraising*—Consistent with our multi-year plan, we will continue to increase investments in fundraising infrastructure to support the campaign formally launching October 10, 2020. In 2020-21 we will provide \$560,000 in one-time funding. This continued investment is critical to our long-term sustainability, as a greater share of our funding must come from new sources, including gifts, to address the budget challenges ahead.

Attachment 2 lists all new investments including additional investments with campuswide impact as well as those made in specific campus units. Each Dean and Vice Chancellor will receive a separate attachment from BIA detailing the specifics of investment decisions for their unit.

The following are summaries of formulaic allocations or funding adjustments to campus units.

***Allocations for Undergraduate Tuition.*** As [communicated](#) earlier this year, effective in 2020-21, incremental increases in Undergraduate Tuition will be directed centrally for improvements in student success. Base funding will be redistributed using the workload metrics that have been in use since 2012-13. For 2020-21, workload metrics use data from 2018-19 and 2019-20 for student credit hours of instruction and undergraduate majors, and data from 2017-18 and 2018-19 for degrees awarded.

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***Allocations for F&A Campus Return Program.*** Units who generate F&A will receive allocations totaling approximately \$37.6 million, a 3.8 percent increase over the prior year.

***Summer Sessions Tuition.*** Budget model allocations for summer sessions instruction are based on student credit hours taught. Additional campus investments in financial aid of about \$1.4 million are needed due to significant enrollment increases in Summer 2020. Final data and allocations for summer 2020 are anticipated in late fall.

***Graduate Tuition, Nonresident Supplemental Tuition, and Graduate Student Support.*** Final allocations for the various components of the graduate budget model will reflect graduate enrollment growth in 2019-20. Final allocations will include additional funds for graduate student support programs such as the Graduate Program Fellowship Allocations and funding from the Graduate Tuition Revenue and Master's Enrollment Incentive Program budget models. The campus is providing additional financial aid funding for international graduate students who did not Advance to Candidacy in Spring 2020 due to the pandemic. This one-time extension in support is estimated to cost up to \$600,000, final data will be available in Fall 2020.

### ***Central Funds for Salary and Benefit Cost Increases***

Funding will be provided for faculty merits consistent with past practices. Beginning in 2020-21, the campus will provide block grants equal to a 1.5 percent increase in salaries and benefits for employee groups eligible for wage increases paid on [eligible funds](#). Funding will be provided at the Dean or Vice Chancellor's level. Campus will no longer provide staff salary and benefit increases at the employee level. In 2020-21, only represented employees are expected to be eligible for pay increases per bargaining agreements. More information on this change can be found [here](#).

## Attachment 1: Budget Context

### BUDGET SAVINGS PLANS

As part of the budget framework, each unit was assigned a [Phase 1 budget savings target](#) to be achieved over the next five years. In April, as the impact of the pandemic began to be felt, former Provost Hexter asked units to consider accelerating their targets to achieve more savings in the coming year. Units submitted plans indicating how they intend to meet at least the first year of this target. These plans were discussed in the unit budget meetings and were subsequently reviewed by the [Budget Framework Advisory Committee](#).

For 2020-21, units were asked to identify at least \$9 million in savings, which could be a combination of ongoing actions and one-time bridging. Units identified a total of \$12.8 million in savings, \$7.6 million ongoing and \$5.2 million one-time. The Budget Framework Advisory Committee generally agreed that the items identified were consistent with the [framework principles](#). However, they advised that units that only or primarily identified one-time savings should be encouraged to begin to identify some ongoing savings within the 2020-21 fiscal year. A number of units indicated that they will be engaging in a planning process this Fall to further detail the actions that will result in savings. All units are urged to work toward achieving some or greater ongoing savings within this fiscal year where feasible and to limit the use of carryforward funds to meet savings targets. This will be an iterative process and units will be asked to update their templates later in the year to reflect changes, new information, and plans to meet out-year targets.