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COUNCIL OF DEANS AND VICE CHANCELLORS

RE: Campus Budget Process

Dear Colleagues,

Chancellor Katchi wrote to you last week about a new path we are considering to help define the future of UC Davis. In her July 22 letter, she wrote about our plans to develop a new budget model that would provide incentives for success. I write today to briefly describe that budget model and the steps we are taking to transform our budget process.

A budget model is the basic structure or roadmap that governs how revenues flow on campus. There are many good reasons why now is the right time to transform our approach to budgeting at UC Davis. First, our university has long operated with what is called an incremental budget model that utilizes a myriad of allocation and reduction methodologies. In addition, the significant state budget cuts imposed over the last few years, combined with the growth of other revenue sources, has resulted in a very different financial picture for our campus. And, starting this year, the UC Office of the President is implementing a new funding approach for the entire university that increases campus autonomy and greatly simplifies the allocation of resources to the campus.

In that context, we are now evaluating the budget models that other top universities use, models that are generally referred to as incentive-based or activity-based. For example, this spring we visited the University of Michigan, and we are now in contact with the University of Washington. There are other good examples as well and we expect to learn more about them as we further engage the project.

In general, an incentive-based budget model allocates revenues – such as tuition or indirect cost returns – directly to the units or activities that generate the revenue. This creates incentives for units to generate additional funds from existing revenue sources and to identify new revenue sources, all to ensure the most efficient and effective use of the resources. The model also employs a “tax structure” applied to those revenues. The taxes are used to fund the general infrastructure of the University and common goods and services such as the library or information technology that do not directly generate revenue. This type of budget model is widely viewed as more transparent and accountable, and greatly improves the campus community’s ability to understand the full cost of operations and activities.

This budget model and the financial information that it will yield will support a new budget process – the annual process through which the campus reviews the alignment of its expenditures with its vision and priorities and further determines additional investments to advance that vision and those priorities. The ultimate goal will be to keep the entire campus community more tightly focused on our shared vision of advancing UC Davis into the top tier of public research universities.

During the 2011-12 academic year, I will continue to work closely with you on the new budget process and model that we will begin implementing for the 2012-13 academic year. Over the coming weeks and months, I will share with you background materials, data models, white papers and communication tools that we can use to inform the approach for the initial implementation, transitions and the long-term administration of the budget.

The deans have already provided valuable advice regarding the overall goals and direction for the budget. The immediate project focus is to define the goals and principles that will frame the budget process. We hope that you will reflect on these draft principles and share your impressions and thoughts with me during the next few weeks so that I can consult with the Academic Senate and other constituencies as soon as possible in the fall quarter. Please share your comments with me by September 1. Some of our early thinking follows:

#### Transforming the UC Davis Budget Process – DRAFT Principles

1. Establish a sustainable funding model with incentives that advance the Vision of Excellence (i.e., the budget should promote rather than impede the university's mission and goals).
2. Advance and encourage campus strengths and priorities such as interdisciplinary scholarship and internationalization, as well as boost economic development.
3. Be transparent, linking authority with accountability.
4. Be as simple as possible to understand, administer and implement; rely on common and easily available data sources.
5. Encourage creativity and responsible risk-taking while providing for reasonable reserves and oversight.
6. Balance local autonomy with a strong sense of unity in vision and values.
7. Provide mechanisms for investments for fresh ideas at all levels.
8. Provide for reasonable transitions and bridging strategies.

There are no doubt additional goals, principles and implementation criteria that we will incorporate as this project moves forward. Further, while the basic elements are available from other campuses using activity-based budgeting, there are many decisions for our campus to make as we structure our budget model and process to advance our campus's unique vision and configuration. I have asked Associate Vice Chancellor Kelly Ratliff and her team to proceed as quickly as possible with the data modeling, analysis of policy issues and

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development of project documentation and communication tools to support this effort. She will provide updates to the CODVC at least monthly and share materials starting in early September.

I look forward to continuing to work with you on the implementation of a new budget model for UC Davis that helps us advance our vision and redefine our future.

Best regards,



Ralph J. Hexter

Provost and Executive Vice Chancellor

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c: Chancellor Katehi  
Associate Vice Chancellor Ratliff  
Budget and Institutional Analysis