May 16, 2017

**Gary May**
Chancellor-designate, UC Davis

**Ralph Hexter**
Interim Chancellor, UC Davis

**RE:** 2017-18 Budget Framework Letter

Dear Gary and Ralph:

The purpose of this letter is two-fold: to relay a memo sent to me on May 3 by the Committee on Planning and Budget (CPB), and to share with you the topics discussed on May 8 at the Davis Division's spring luncheon for department chairs, which was also attended by college and school Faculty Executive Committee chairs and CPB members. CPB's memo focuses on the 2017-18 Budget Framework Letter, as did the department chair luncheon.

Overall, CPB and department chairs have a broad set of concerns about the 2017-18 budget framework. It may be the case that some concerns can be alleviated immediately through greater communication and transparency regarding 2017-18 budget decisions, and I hope this letter begins that dialogue between the Academic Senate and the administration. Some concerns, however, may necessitate fundamental changes in budget decision making and consultation in future years, and I hope this letter begins that dialogue as well. I firmly believe that the fiscal and administrative health of our university depends on it.

In the attached memo, CPB expresses its concerns in detail. Here, I would like to relay the main concerns and themes raised at the department chair luncheon, which, in large part, mirror CPB's concerns. Namely:

- The need to return to, or to make more accessible to the Senate, an all-funds approach when discussing the university's budget. Is there a deficit from an all-funds perspective?
- The changes to ICR and to the share of salaries returned to college deans upon faculty retirements (to hire new faculty) are notable adjustments to the budget model. Faculty see a lack of transparency regarding the process by which the decisions were reached to institute these budget model adjustments. There is no evidence of strategic planning underlying these changes. Department chairs expressed concern about the implications for hiring and startup packages.
- The tax on 19900 fund balances violates the stated principle of the budget model that deans are held accountable for financial decisions. Central administration has said repeatedly that regardless of how funds flow to the deans, the deans choose how to allocate those funds and do not need to replicate the flows from the center. If deans are truly accountable for the funds in their units, then why were they not instructed to evaluate the use of 19900 funds in their units, rather than central administration reaching directly into individual accounts?
- Where is the central administration taking its own cuts, apart from the 2% base cut?

Much of the budget concern rests with the budget model itself and with the uncertainty among faculty about where the university is headed in terms of financial management. The speed of the implementation process and the lack of transparency has intensified these concerns.

To provide a fresh perspective on the current state of the budget model and the university's finances more broadly, I propose that an independent third party undertake a comprehensive review and provide recommendations regarding the continuation, modification, or replacement of the budget model. The department chairs agreed with this proposal. The review and its recommendations could be discussed with the Academic Senate through formal consultation with CPB and perhaps through a joint working group.

These steps, undertaken with sufficient transparency and communication, could help reboot the faculty-administration relationship regarding financial issues. I hope that we will be able to work effectively together and utilize the official consultation process to cultivate that relationship.

Sincerely,

Rachael E. Goodhue
Chair, Davis Division of the Academic Senate
Professor and Chair, Agricultural and Resource Economics

Enclosed: CPB Memo

c: Ken Burtis, Interim Provost and Executive Vice Chancellor
Robert Powell, Chair, Committee on Planning and Budget

May 3, 2017

**RACHAEL GOODHUE, CHAIR**
**DAVIS DIVISION ACADEMIC SENATE**

Dear Rachael:

This memo provides the position of the Committee on Planning and Budget (CPB) regarding the proposed 2017-18 budget letter. We will go into some detail as to our substantive critique of several aspects of this proposal, but want to begin with a more general concern about the process. Without doubt – and as evidenced by the document itself – the budget letter proposes substantial changes, some of which have been proposed before and have long been controversial. Thus the process in which the budget was to be considered should have been one in which extraordinary efforts were taken to consult with the Academic Senate. That the process has instead been subpar is an understatement. To be fair, we understand that this is an unusual year because we are in between permanent administrations. Yet, and as we have repeatedly noted to the Administration, the fact that this is a transitional year is an excellent reason not to engage in substantive and controversial changes. If we were facing a fiscal emergency, as indeed was the case not many years ago, then that would also be another matter. Yet there has been no such showing of fiscal emergency.

Thus, as it stands, it appears that the current interim Administration is determined to push through controversial reforms. We know that the administrators in question are very able and are acting in good faith and thus we are genuinely puzzled.

The Budget Letter proposes the following:

1. Impose a 2% across the board cut.
2. Impose a 3% tax on all carryforward 19xxx funds.
3. Withdraw a larger portion of Indirect Cost Recovery (ICR) funds from the academic units and assign it to the Provost: (63% in 2017-18; 68% in 2018-19; 70% in 2019-20).
4. Change faculty retirement resources are allocated: increases the Provost share from 30 to 35% money returned from retirements. Maintains the return at 20% for schools.
5. Impose a 3% tax on clinical funds.
6. Pause additional investment from the campus for faculty salary parity plan.
7. Change to budget model increases provost share.
8. Introduce unknown assessments:
    a. Common Goods Assessment (CGA) in the past has been 1% but is left unspecified. This likely appears in many units as a 1% budget cut?
    b. Unspecified assessment for financing the next fundraising campaign.

**CPB concerns:**
As policy, the reservations of CPB stretch from the specifics to the underlying assumptions about the campus. The specific concerns include:

1. The administrative leadership has admitted that the budget letter constitutes a change in the campus budget model. This has occurred without consultation.

2. There is a complete lack of strategic planning. In the third paragraph, the budget letter states that programs will be identified to “scale back or eliminate”. The scale of this activity is not discussed. What is the role of the Senate? What savings are expected?
3. The increase in return of faculty retirement salaries to the provost hurts exactly the units that are impacted by the increase in undergraduate enrollments: colleges.
4. CPB is very concerned about the implications of the tax on clinical income.
5. The 3% assessment on 19xxx funds has been a goal of the central campus administration for many years. CPB has opposed this.

Each of these items is elaborated below.

**Consultation**
As we explained at the outset, the process used to reach these significant decisions was not adequate. The plan was presented at a CODVC meeting on March 28. A presentation at a CODVC meeting does not constitute Academic Senate Consultation. Under Regents Standing Order 105.2.d,

> *“The Academic Senate is authorized to select a committee or committees to advise a Chancellor concerning a campus budget and to select a committee or committees to advise the President concerning the University budget.”*

Our advice cannot be given without the full slate of information that is available. Indeed, this year, CPB has two economists as members and one as an *ex officio* member. Clearly this committee has the ability to deal with data and make independent assessments that will inform the Senate and provide the background for the formal consultation.

Even more significantly, the proposed 2017-18 budget has been characterized as “changing the budget model”. This means that the campus is embarking on a significant departure, including a major change in the amount of indirect costs returned to the units where the activity occurs, from a budget model that was thoroughly discussed and which had detailed Senate input. Stepping away from that calls into question the trust that process created. There is no indication that any analysis of the net implications was conducted at the college/school level and clearly not at the academic program level. The proposed taxes target mainly faculty who are productive in terms of research funding, clinical work or are at an early stage of their careers.

**Strategic Planning**
The third paragraph of the budget framework letter states:

*In sum, preparing a budget for 2017-18 will require a difficult balancing act where we will identify programs to scale back or eliminate, even as we simultaneously advance or accelerate other programs.*

This strongly suggests some strategic planning has either been ongoing or is about to occur. To our knowledge, neither CPB nor any other body of the Academic Senate has been apprised of such an exercise. We have no idea as to the resources that would be freed by scaling back or eliminating a program or what advancing or accelerating a program would cost. This further suggests that there is no strategic justification for the proposed change in the budget model.

**Faculty Hiring**
CPB is very concerned that the campus can hire at the rate necessary for the teaching mission. The recently published campus metrics (http://budget.ucdavis.edu/data-reports/campus-

metrics/faculty-hiring-separations.html) do not allay these concerns. In these metrics, the campus administrative leadership limits the scope of its data to 2011-2017 and shows that the increase in the number of ladder rank faculty is 44. If we extend the time series back to 2008, the beginning of the economic crisis, the net increase is 37. In either case, with an increase of about 4000 undergraduates, the pace of hiring has been completely inadequate. There is even an indication in the metrics that net increase in the size of the faculty is less in the 2016-17 academic year than in 2015-16.

CPB is very concerned as to how these cuts would impact schools/colleges and departments' ability to hire sufficient new faculty to offset retirements and meet the needs of the growing student population. CPB has repeatedly noted that there simply are not enough start-up funds to actually hire faculty in the majors most impacted. By selectively withdrawing more funds from the colleges where this impact is felt and where any difference between actual salary at hire and the salary at retirement can be used for start up costs, the discrepancy between need and ability to hire will be more out of balance.

**Clinical Income**

The proposed budget redefines SOM's financial relationship with the general campus in the absence of a permanent Vice Chancellor/dean, or even a named interim dean. The justification for the taxation of clinical funds is non-existent. The SOM and other units are already "taxed" in the sense that the central administration accrues the returns on their STIP funds. The central campus also derives benefits from payouts from TRIP funds, which, along with STIP funds, exist principally as a result of activity in the academic and clinical units. CPB notes that clinical funds are generated by a business activity. If the UCD Hospital was an ordinary hospital, it could put these funds in a bank and receive a return for them. CPB's concern is heightened by the uncertainty over health care financing in general. Further, many of the arguments made below for the tax on 19xxx funds apply to this tax.

**Tax on 19xxx funds**

The 3% tax has been discussed with CPB for a number of years. CPB has asked the Office of the Provost to specifically show the use of funds and discuss the strategic implications of this policy. At Burtis' meeting with the Executive Council on April 27, he said these funds would be used to buy down debt. This is the extent to which members of CPB know of the use of this one time source of funds.

In the past, it was maintained that the bulk of funds to be impacted by this tax were in languishing start-up accounts (for example, older than 4 years), other times it was maintained that the funds were being stockpiled for poor funding years, and in other instances it was maintained the funds were in deans' offices. In any event, as Provost, Hexter maintained that the deans are the central point for college budget accountability. If this is the case and there is a perception that 19xxx funds are not being used as expected by whatever measures, CPB believes that the deans should be asked to review 19xxx accounts. CPB does not accept the current paradoxical formulation: the deans are supposedly the first step in accountability but at the same time a tax targeted at individuals and departments is imposed *centrally* based on little information about what is actually being taxed, at least with the information thus far provided.

CPB also believes that some, and perhaps many of the accounts potentially being taxed are funds that have been collected by individual faculty members who use grant funds for academic year salary and receive some return from the department or dean's office in 19xxx funds. Many faculty use these funds to support, for example, costs associated with a research program. Thus, without further information as to the use of the tax, it would appear that the tax uses research funds to partly pay for the teaching mission.

**Concluding Remarks**
In the past, the administrative leadership has argued that the combination of state support and student tuition should pay for the full costs of the teaching mission whereas, in fact, there is a deficit if faculty salaries and benefits are balanced against state/tuition revenues. CPB has noted that this does not use all the available revenue that the university receives. Such an "all funds" approach can redefine the way we think about a deficit. Not using such an approach opens that broader question as to what proceeds, for example, derived from STIP and TRIP are used to fund, as well as income from other sources.

CPB is aware of at least two deans who have said that they would offset effect of the tax on start up funds. For CPB this begs the question as to why impose the tax at all. The off-stated view from the Office of the Provost is that that Office deals directly with the deans. The current letter reaches into individual academic programs and, indeed, to individual faculty, whereas the usually articulated approach would be to tax deans.

The postponement of the HIP and concern about FTE-related items implies CPB should once again scrutinize the budget closely. CPB is especially concerned about the impact on individual academic programs.

To help crystallize its thoughts, CPB consulted with the previous chair, Prof. Debbie Niemeier. She recalled a CPB meeting when then-Provost Hexter agreed with most of the points made relative to a tax on 19xxx funds. He, then CFO Dave Lawlor and now Interim Lead Ratliff assured CPB that additional discussions, with full transparency, would occur before any next steps would be taken. She urges CPB and Executive Council to stand firm on the need for consultation and transparency. As you can see, our current CPB fully echoes this view regarding all aspects of the draft budget letter.

CPB would like to offer recommendations at this time. We hope to engage in a productive conversation.

Sincerely,

R.G. Powell

Robert Powell, Chair
Committee on Planning and Budget

Cc: Edwin Arevalo, Executive Director, Davis Division of the Academic Senate