Faculty, Staff and Students
School of Veterinary Medicine

I am writing to provide an annual update on the state of the School’s finances. There are three key areas that frame the SVM financial picture:

- the status of the State of California’s budget and the commitment of our Governor to public higher education;
- the introduction of key components of the UC Davis incentive-based budget model initiated last year;
- and our strengths and investment priorities shaped by our strategic plan.

The State Budget and the Governor’s Commitment

We were pleased that the California voters passed Proposition 30 which instituted a tax increase to prevent further reductions to the budgets of the University of California, California State University, and Community College systems. Nonetheless, the UC Davis campus began this fiscal year with a $40 million operating deficit to resolve. In February, the campus assigned a $10 million permanent budget reduction to campus units to leave the operating deficit at $30 million. The SVM received a $780,000 permanent reduction as part of this process. The Governor continues to remain committed to a multi-year stable funding plan for the University which includes steady increases if undergraduate and graduate tuition levels remain flat for four years (2013-14 through 2016-17). This budget plan combined with a projected increase in UC Davis student enrollment has resulted in a projected increase of $53.3 million for UC Davis for 2013-14. The campus expects to use these new revenues to fund merit increases, address instructional needs, and reduce the operating deficit to $8.3 million by the end of 2013-14. The budget picture appears to be brightening, but there is a bit of mixed news for the school. We will not receive additional monies to fund our benefit cost increases ($1,033,000) in 2013-14. It is uncertain whether our proposed professional fee increases of 2.5% will be approved by the Regents in July given the climate in support of no tuition increases (therefore possibly no professional fee increases). While this may be seen as a reprieve for our students, we believe a 2.5% increase is prudent and necessary to continue our high quality academic programming.

The New Campus Budget Model

As my team and I have touched on throughout the year, the campus is implementing an incentive-based budget model and has introduced various components of the model which will shape the way we manage our school finances and respond to incentives to generate revenue. There is good news for the SVM. With this new model, the indirect cost return (ICR) and faculty resource components of the model are both fair and create incentives to seek extramural funding for our research and to hire the best faculty. The new ICR component provides 37% of all indirect cost returns back to the SVM; an increase from last year’s 34% allocation. Our faculty members are highly effective in securing extramural research funds, therefore the increased allocation to 37% plays to our strength. Additionally, the faculty resources component of the model permits the SVM to retain 80% of a retiring faculty member’s salary and benefits to reinvest in a new faculty hire. Originally it was proposed as 70% and we like to think that due to our strong advocacy for an 80% return that we prevailed. We typically hire at an average of 77% of a retiring faculty member’s salary, so it’s important to remain financially sound as we recruit new faculty in the future.

Two components of the budget model that remain in draft form to be finalized this next fiscal year include the graduate tuition allocation and the carryforward policy of core funds. Core funds include state funds, student tuition and professional fees, unrestricted gift funds, and indirect cost return from extramural research grants and contracts. The campus budget office has issued draft concept papers for both components and the SVM administration and faculty leadership have been actively engaged in the review and has been particularly active in responding to the campus proposal constraining our carryforward of core funds to 15% or less of the prior year’s expenditures. Of particular concern, is the limit on carryforward of funds from one year to the next of indirect cost return and unrestricted gift funds. The faculty, my fiscal team, and I believe this 15% limit is unnecessarily restrictive. I will keep you apprised of the progress on this front.

Separate from the campus budget model, but of significant importance to the school is the UC Funding Streams Initiative developed by UC’s Office of the President (UCOP) last year. This initiative involves allocating all tuition earned by each campus and then taxing each campus a fixed percentage to fund initiatives and services offered centrally at the UC-wide level, e.g., UC’s Office of General Counsel. This is in contrast to the historical model of UCOP assigning their budget first and then allocating the remaining funds out to the ten campuses. The concept of allocating funding in relationship to how it is earned is similar to the new UC Davis incentive-based budget model, except that it imposes a tax based on all expenditures. The new UCOP tax was initiated this year at 1.52% on all expenditures and is expected to increase to 1.6% in 2013-14. The largest and most detrimental impact of this tax is on our teaching hospital and our California Health and Food Safety Laboratory (CAHFS). We continue to make the Provost aware that our teaching hospital is subsidized by the state and is not a net income generator, in contrast to human health systems in the UC system, and that our diagnostic lab prices its services as close to their marginal cost as possible to ensure their customers have an incentive to test their animals to prevent the spread of disease. We believe the tax poses an undue and unintended hardship on these entities and continue to advocate for a reprieve.

Our Strategic Priorities and Investments

Overall, the state budget situation and the new budget model bode well for the SVM and I am looking forward to the next year. The School’s $187 million budget is comprised of contract and grant revenues, state funds and tuition, professional degree fees, sales and service revenues, gifts and endowment earnings, and indirect cost return. The new budget model will allow us to continue to diversify our revenue sources and reap the returns on our investments.

I strongly believe we can build upon our strengths and invest in the future of our school. Our priorities for the coming year are to:

- Continue working with our strategy champions to implement the School’s Strategic Plan.
- Successfully implement the third year of the new curriculum.
- Advocate for and analyze methods to improve compensation for our faculty members.
- Continue our recruitment efforts for six faculty positions. Obtain approval for seven more including one new faculty position.
- Continue to fundraise for student scholarships and other special projects. Our development team has raised more than $33 million this year.
- Actively engage with the Provost aware that our teaching hospital is subsidized by the state and is not a net income generator, in contrast to human health systems in the UC system, and that our diagnostic lab prices its services as close to their marginal cost as possible to ensure their customers have an incentive to test their animals to prevent the spread of disease.
- Reinvest in a new faculty hire. Originally it was proposed as 70% and we like to think that due to our strong advocacy for an 80% return that we prevailed. We typically hire at an average of 77% of a retiring faculty member’s salary, so it’s important to remain financially sound as we recruit new faculty in the future.

I wish you happiness and continued success as we move into 2013-14.

Franklin D. Roosevelt once said, “Happiness lies in the thrill of creative effort...”
In closing, we must acknowledge that we will continue to have fiscal challenges as the economy recovers and our campus closes its operating deficit, but I have faith in the innovative, inquisitive and persistent nature of all of you. As Franklin D. Roosevelt once said, “Happiness lies in the thrill of creative effort.” I wish you happiness and continued success as we move into 2013-14.

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