Faculty, Staff and Students  
School of Veterinary Medicine

I am writing to provide an annual update on the state of the School of Veterinary Medicine’s (SVM) 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 the Governor and legislature to public higher education; the campus budget model and investments in the SVM; and our strengths and investment priorities shaped by our strategic plan.

The State Budget and the Governor’s Commitment
We are pleased that the Governor and President Napolitano’s negotiations resulted in a 4% increase in the base budget for the UC system for the next four fiscal years through 2018-19. This agreement is predicated on the commitment that undergraduate and graduate resident tuition remain flat for the next two years. Undergraduate non-resident tuition will increase by 8% for 2015-16. In addition, the UC system will receive almost $500 million to buy-down a portion of our pension liability and to invest in critical deferred maintenance projects.

In fiscal year 2017-18, tuition will increase at the rate of inflation to permit steady increases in student support and to lower the student-faculty ratio even as enrollment expands. Our professional fees for the DVM and MPVM programs will increase by 2.5% this Fall due to the increasing cost of professional education (i.e., laboratory and technology support costs). This is the first professional fee increase in four years; the funds will be reinvested into academic programming for both programs. This 2.5% increase is less than the rate of inflation over the four year period (which would total approximately 8%). Even with the increase provided to the UC budget, our campus expects to end this fiscal year 2015-16 with a $20+ million structural shortfall. Growth in undergraduate and graduate student numbers, the key to the Chancellor’s 2020 initiative, will help resolve this shortfall incrementally as the campus implements the 2020 Initiative.

The New Campus Budget Model
Earlier this past year, the campus implemented the last component of the new incentive-based budget model that affects the SVM’s graduate tuition allocation component. Campus academic units would receive 33% of the annual growth in graduate tuition revenue. For the 2015-16 fiscal year, the campus will allocate $369,000 to the schools and colleges. Of this, the SVM will receive a sum of $7,300. This is certainly of benefit to the SVM and appreciated, however our four graduate groups plan for modest growth in the future based on the ability to secure grant funding to support any new students. As a result, we don’t see a potential for significant future revenue growth resulting from the graduate tuition component of the new budget model.

Another feature of the graduate tuition component is that the campus has allocated $2.5 million in funds to support pre-candidacy second and third year international Ph.D. students’ non-resident supplemental tuition (NRST). The aim is to remove the disincentive for faculty members to employ international students as graduate student researchers because of the expensive non-resident tuition ($15,102 per student per year).

To recap, the incentive-based budget model has had the following impacts on the SVM:
(1) the undergraduate tuition allocation component resulted in a $5,000 annual increase in the school’s budget. The schools and colleges receive $82/student credit hour for new undergraduate student credit hours taught above the baseline set in 2011-12.
(2) the indirect cost return component (ICR) resulted in a $2 million increase in funding for the SVM given the campus now allocates 37% of the ICR generated in the prior year to the SVM. This is in contrast to the 10-12% return prior to the new budget model. This component benefits the school the most.

(3) the professional fee and professional tuition component of the model permits the SVM to retain all professional fees and tuition for our professional students. With our fairly steady enrollment we don’t see large increases in our budget derived from this component. For 2015-16 we did, however, expand the DVM class size by two students and the additional funds will support the development and management of the new clinical skills laboratory.

Notably, any significant increases in our school’s budget have been largely offset by the UC Office of the President’s Funding Streams Initiative which levies a 1.55% tax on all expenditures for all campus units in exchange for allocating tuition revenue to each UC campus. This tax coupled with the campus’ redirection of our short-term interest payments (STIP) on our cash balances back to central campus (resulting in a reduction of about $230,000 per year) yields a financially neutral impact of the new budget model. Nonetheless we are pleased with the opportunity to earn increased indirect cost return, and in the future expect that the increase in ICR will outpace the impact of the tax and the loss in STIP.

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. Our $200+ million budget at the SVM is comprised of contract and grant revenues, state funds and tuition, professional degree fees, sales and service revenues, clinical and laboratory income, gifts and endowment earnings, and indirect cost return. The new budget model allows us to continue to diversify our revenue sources and earn returns on our investments. Our investments in both physical and human capital have permitted us to earn the top ranking among our peers in veterinary medicine from both the US News and World Report and QS World University rankings.

In 2014-15, we have made significant investments in the school which we believe will pay dividends in years to come including:

1) Allocated $1.137 million in a STED microscopy core research facility.
2) Committed $3 million in gift funds for the new Veterinary Medicine Student Services and Administration Center to be completed in 2016.
3) Hired eight I&R faculty members.
4) Provided a 2% equity increase funded by endowment earnings for faculty members in the Associate and Full Professor ranks without off-scale salaries who were meeting professional advancement expectations.
5) Allocated $500,000 in gift funds to develop the Detailed Project Program (DPP) for the new Veterinary Medicine Center (VMC).

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

1) Fundraise for student scholarships and other special projects. Our development team has raised more than $40 million this past year.
2) Continue our recruitment efforts for eight replacement faculty positions. I am pleased to report that the campus has allocated $1 million this 2015-16 for SVM faculty start-up packages (up from $600,000 for 2014-15). In our annual budget meeting with the Provost we had requested this increase due to the increasing costs to recruit top faculty members. Our average recruitment package for 2014-15 was $500,000, and I am committed to supplementing the campus allocation with school funds.
3) Launch phase one of the Veterinary Medicine Center (VMC) campaign. This $200 million effort will be led by our new Assistant Dean for Advancement Trish Bloemker Sowers.
4) Continue working with our strategy champions to implement the strategic plan.
5) Launch the Veterinary Medical and Administration Computer System (VMACS) replacement project, the new Veterinary Healthcare Information System (VHIS).
6) Invest in our Tupper Hall laboratory upgrading project, plan for future faculty office space in the current Scrubs dining facility, and plan for interim space re-alignments within the VMTH as we set the stage for the first phase of the VMC.
7) Continue to focus on faculty compensation.
I would like to continue to emphasize faculty compensation this coming year, and update you on the status of two initiatives launched this past year and our next steps for 2015-16. The first is to remove the requirement that non-patient care consulting fees be returned to our Strict Full-Time (SFT) salary pool. The point of the proposal is to permit faculty members to retain these fees to promote relationships with industry and ultimately develop more extramurally funded industry contracts for our faculty. The second initiative involves exploring ways to fund an increase to our base faculty salary scale. We believe a meaningful increase of 20% in our base scale would involve a cost of $1.4 million per year. This would put us in line with our peer school salaries when adjusted for the cost of living in California. It would also help address the faculty salary compression problem where senior faculty members are paid on an outdated salary scale, and newer faculty members are often recruited with an off-scale component to their salary.

This past year we sent both proposals to the UC Office of the President’s Provost for Academic Affairs. In response we have been asked to obtain feedback on our proposals from the campus Academic Senate, identify resources for funding our increased salary scale, and provide a timeline for implementation. As Benjamin Franklin aptly stated, “Energy and persistence conquer all things.” This coming year we will persist in moving both initiatives forward to invest in the individuals who guide the future of our school.

I wish you a productive and rewarding 2015-16 year, and look forward to working together.

Sincerely,

Michael D. Lairmore
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