We welcome any questions, comments, or ideas regarding the Financial Stability Plan.

Submit

Financial Stability Plan

Updated February 17, 2023

Background

UCI's budget is made up of many components: core funds that are foundational to our teaching, research, and public service missions; auxiliary units such as parking and housing that are designed to be self-sustaining or revenue-positive; and the medical system, which supports UCI Health, the School of Medicine, and parts of the main campus. While all parts of the budget were negatively affected by the pandemic, the current concern arises from the core funds.

"Core funds" include revenue sources such as state appropriations, resident and non-resident tuition, student-services fees, UC general funds (e.g., indirect costs recovery, misc. fees), and various other unrestricted sources (e.g., investment income, ground-lease revenues, assessments to self-supporting activities). It is here that we are facing a projected $90 million structural deficit. That is, revenues from the sources listed above are being outpaced by the growth in our operating expenses. This mismatch is not sustainable.

This website provides information on the steps we have already taken to address the deficit and on what to expect over the next year or so. In addition to closing the funding gap, a goal of the financial stability plan described below is to better position the campus to support the core academic mission and enable further progress towards strategic goals. This will be achieved through business transformation, operational efficiencies, and diversification of revenues.

The following chart details our core funds revenues (Sources) and expenses (Uses). In fiscal year 2021-22 both were approximately $1.1 billion. If we don't make any changes to reduce costs or increase revenues, the deficit is projected to grow to roughly $90 million in the next year as shown in the chart below. For example, between 2019 and 2022, core expenses relating to salaries and benefits increased at an annualized rate of 5.0%, and expenses relating to student aid increased 6.7%. By contrast, new core revenue sources during that same period increased

Resources

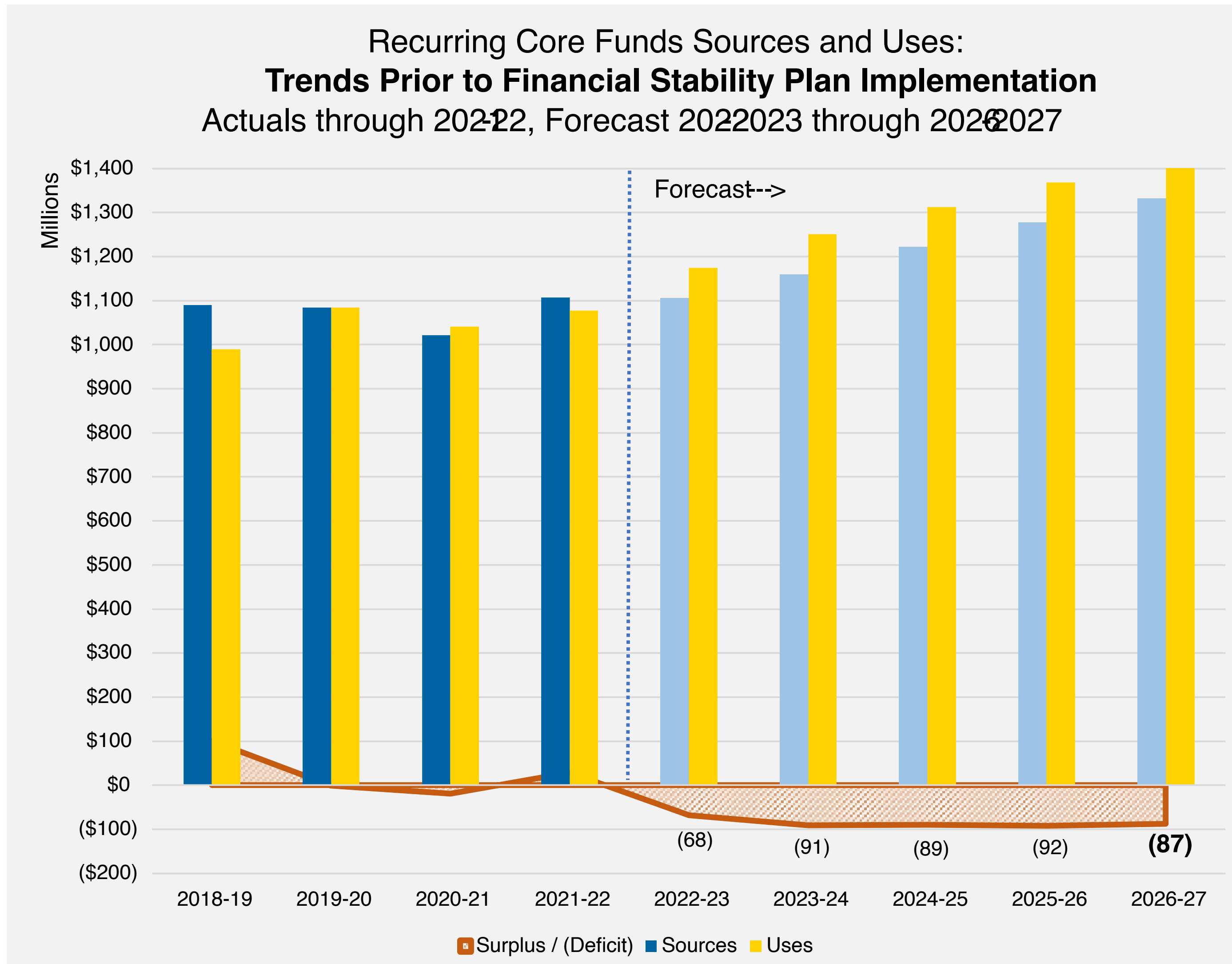
- Campus Budget Workgroup
- Financial Plan
- FAQs

Communications

- Campus Financial Update – Winter 2023 (02/17/2023)
- Campus Financial Update – Fall 2022 (09/26/2022)
- Campus Financial Update (07/08/2022)

only 0.5%. These increases are especially challenging because salaries, benefits, and financial aid account for over 90% of all expenses on the core budget. Additionally, our pandemic response resulted in new debt obligations averaging $14 million per year.

UCI Core Campus Support Five-Year Forecast as of January 2023



Review larger image

About the financial graphic:

- This graphic reveals a structural deficit over the next few years of $90 million (with some variation). The multi-year financial stability plan strives to achieve $90 million in annual savings or new recurring revenues to get us back to a sustainable funding plan for our core academic work.
- Current cash reserves allow us to achieve this goal over a few years rather than impose disruptive changes immediately, but we must take steps this year and next year to get us to a sustainable financial path.

- Assumptions:
  - State funding continues to grow by 5% per year per the multi-year compact agreement with the state.
  - Undergraduate enrollment increases only a small amount, consistent with our existing long range development plan. Graduate enrollment is expected to increase with growth in self-supporting degree programs.
  - Increases to tuition and non-resident tuition revenues from undergraduates will be achieved through implementation of the Tuition Stability Plan beginning with the fall 2022 entering class. Full implementation will be achieved in 2025-26.
  - Salary costs increase on average by 3.5-5% per year; benefits by approximately 5% per year.
  - The possible financial impact of recent bargaining agreements is not yet reflected.

Financial Stability Plan

Resolving the structural deficit will be a challenge. It also presents an opportunity to develop innovative solutions that emphasize efficiencies, identify new revenues, re-evaluate space and associated workforce needs, transform teaching, enable student success, and facilitate continued growth in research activities.

Convened in July 2022, the campus budget workgroup is charged to review areas of the budget and make recommendations to close the funding gap.

The plan has two phases:

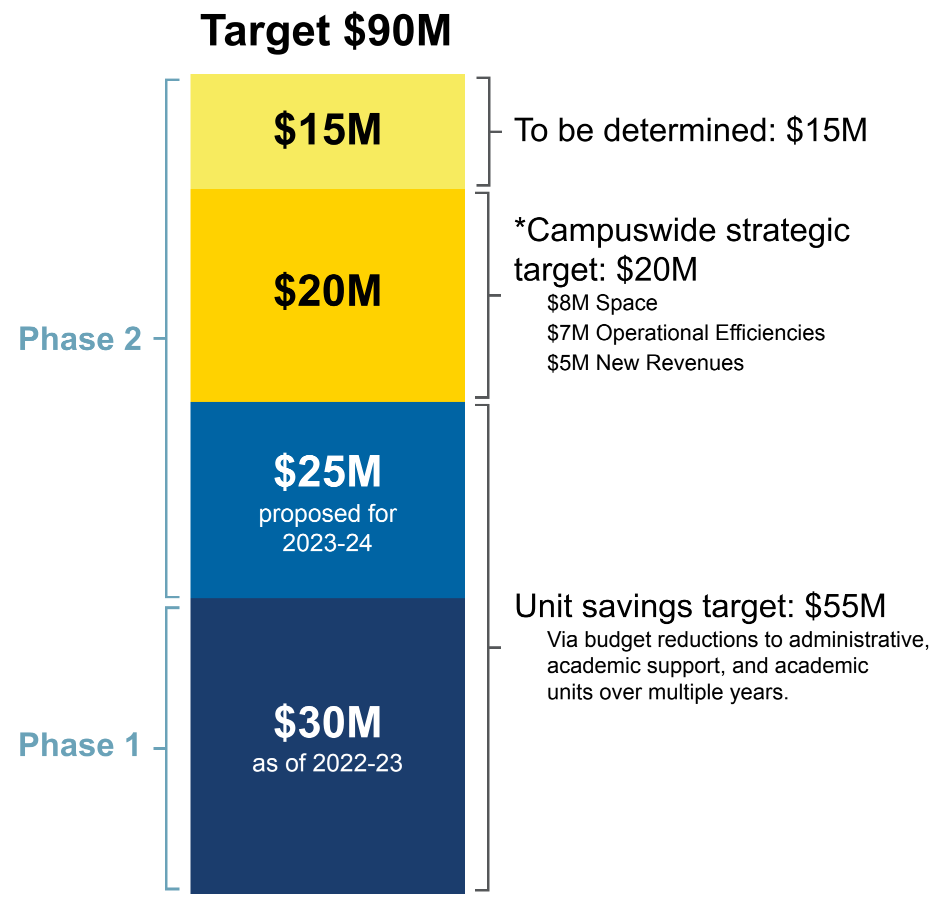
Phase 1 (Implemented)

- $30 million in budget reductions applied to all units (schools, academic support, and institutional support) over fiscal year 2021-22 and 2022-23.
  - 2% budget decrease in 2021-22; faculty salaries were excluded from school calculations to help support academic activities.
  - 3% across-the-board budget reduction to all units in 2022-23.

Phase 2 (About to be launched)

- **Phase 2A:** $25 million of additional budget reductions for fiscal year 2023-24.
  - Reductions to schools may range from 0-3.5% whereas reductions to academic support and institutional support units may range from 4-5%. On average, the impact to academic units will be half that of administrative units.
- **Phase 2B*:** $20 million in campuswide strategic savings or revenue targets have been identified which include reducing space costs (e.g., reducing off-campus lease costs), achieving operational efficiencies (e.g., business transformations that reduce or eliminate redundancies, redefine priorities to focus on core objectives, revise service levels), and developing new revenues (e.g., increasing gifts and sponsorships, leveraging self-supporting programs).
- **Phase 2C:** $15 million to be determined after we have assessed the above impacts.

Some of these action items are quick to implement and some may take time before we realize savings. In the meantime, strategic use of campus and unit reserves within recommended ranges will help support the continuation of campus operations. To ensure that reserves remain at appropriate levels, the planning timeframe to achieve most savings and revenue targets is over the next year or two (2023-24 and 2024-25).



*Campuswide Strategic Target: $20 million

Phase 2B focuses on campuswide strategic targets. With help from the Campus Budget Workgroup, we will examine transformative business opportunities to achieve our target of $20 million. Currently, the group is evaluating cost saving and new funding opportunities in the following categories:

- **Space Management – target $8 million**
  The campus spends millions of dollars leasing off-campus space (e.g., UCI Research Park). Under our Work Reimagined program, we are conducting a thorough review of space utilization to identify cost savings associated with leased space and to avoid costs associated with unnecessary new construction. To date, approximately $1.5 million in lease savings have been realized.
- **Operational Efficiencies – target $7 million**
  Several administrative functions are under assessment to reduce or eliminate redundancies, modify services, increase effectiveness, reduce risk, and leverage synergies. This process will require transforming business practices to allow us to support business needs without hiring additional personnel.
- **New Revenues – target $5 million**
  Growth in fundraising, developing new sponsorships, optimizing strategic sourcing opportunities, and expansion of self-supporting master's degree programs continue to be an emphasis. Other ideas under consideration are implementing a gift tax after the Brilliant Future Campaign concludes and ensuring services for external entities and auxiliaries appropriately recover both direct and indirect costs to the extent possible.

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Frequently Asked Questions

During the pandemic, we heard financials were in good shape. What changed? −

The COVID pandemic brought upon short-term challenges which we were able to manage through reserves, a working capital loan, and Federal Higher Education Emergency Relief Fund (HEERF) resources. However, we have also moved toward a structural deficit in core funds due to unanticipated cost increases (including higher-than-anticipated salary plans, bargaining agreement commitments, and supply chain dynamics), new regulatory requirements, and limited revenue growth.

What are "Core Campus Support" funds? −

“Core” campus support funds are recurring financial resources that are fundamental to academic operations. The definition of core funds has evolved over time. The primary sources are the state appropriation, tuition, non-resident tuition, and student services fee. The current expanded definition includes summer session, professional degree supplemental tuition, lottery funds, and various other unrestricted sources such as indirect cost recovery, investment income, ground lease revenues, and assessments to self-supporting activities. Core funds make up approximately 25% of the total university sources that fund UCI’s expenditures.

What is a structural deficit? −

A structural deficit exists when current year recurring revenues are surpassed by current year recurring expenses. In other words, we must move funds from our reserves to balance the budget. If we do not establish new resources to replenish funds, the net result is a reduction to reserves which is not sustainable.

What are the drivers behind the structural deficit? −

Impacts to core funds revenue and expenses have contributed to the structural deficit. Between 2019 and 2023, recurring expenses are growing at an average annual rate of 4.5%, while sources of recurring revenue are growing 0.5% annually. Expenses are expected to continue to outpace recurring revenue growth.

Factors impacting revenue:

- **Tuition and Enrollment Plateau:** Tuition revenues were a consistent source of additional resources through most of UCI's history as a relatively young and growing campus. Now that UCI has reached our long-range undergraduate enrollment target, tuition revenues have also plateaued. Additionally, only one tuition rate increase was approved by the Regents in the 10 years from 2012 through 2022, putting pressures on other core funding sources. Looking ahead, the Tuition Stability Plan will help our long-term financial health by providing a mechanism to reasonably increase rates for each annual undergraduate cohort, while providing predictability and consistency for our student population. In the short-term, it will take a full four years (through 2025-26) to fully implement and achieve the benefits of the Tuition Stability Plan.

  An additional tuition-related factor contributing to the current structural deficit is that previous projections treated tuition revenue growth as a permanent base of support versus temporary: in fall of 2016 and 2017, undergraduate enrollment was unexpectedly high. As the large classes matriculated through, total enrollment in 2020 and 2021 exceeded levels projected in the campus long range development plan. Enrollments for new entering cohorts were adjusted down to align with long range goals. However, the smaller incoming classes were not correctly captured in financial modeling, which instead assumed that historical growth levels and revenue trends would continue. Financial modeling assumptions are now closely aligned with approved enrollment plans.

- **Non-Residential Student Tuition (NRST) Cap:** As of 2017-18 enrollment of non-resident students was capped at 18.5% of total undergraduate enrollment. Growth in this source is limited to rate changes.

- **Enrollment Plateau**: The campus has reached the undergraduate total enrollment goal outlined in our long range development plan. This limits revenue growth potential from expansion of the student population. We are in the process of evaluating whether an update to the long range development plan is warranted.

- **State Funding**: The multi-year compact agreement between the state and UC covers fiscal and academic years 2022-23 through 2026-27 and establishes a goal of funding 5% annual increases (contingent on available state revenues and meeting shared goal metrics) to the UC budget. The increase of state funding advances shared progress toward improving access, equity, affordability, and growth targets. The challenge is that 5% from the state is only about 1.5% increase to total core funds.

Factors impacting expenses:

- **Cost Increases:** Pervasive growth in expenses is a factor impacting all university activities. Mandatory costs such as salary and benefits costs, targeted growth in faculty FTE to accomplish strategic goals, new regulatory requirements, contractual obligations, and overall inflationary factors impacting supplies, utilities, services, construction, etc. all contribute to increased expenses which are currently outpacing revenues. In addition, student aid expenses have grown consistent with Ph.D./MFA growth goals and targeted aid plans intended to increase diversity, access, and inclusion.

- **COVID-19 Pandemic:** The pandemic brought forth unplanned expenses and contributed to revenue losses. UCI continues to support prevention measures and has additional debt obligations averaging $14 million per year.

In July 2022, the campus was notified about a 3% across-the-board reduction to Core funds budgets for the 2022-23 fiscal year. How much is 3% of Core funds in dollars? –

Core funds consisted of $1.02 billion in fiscal year 2021-2022. 3% of Core funds is estimated at $30 million.

Do the across-the-board budget reductions apply to all units? –

The 3% across-the-board reductions apply to core campus support budgets in all administrative, support, and academic units. The following exclusions were applied: undergraduate and graduate University Scholarship Aid Program-USAP funds (this includes the Ph.D./MFA Block), indirect cost recovery distribution, Professional Degree Supplemental Tuition, Summer Session funds, and the Medical Center state allocation. These represent Core funds that are either distributed by formula or are restricted to a particular purpose.

Will my salary be impacted by the 2022-23 budget reduction? –

No, the campus is not planning any actions that impact existing salary rates. Furloughs are not under consideration. Annual salary actions such as range increases are determined at the systemwide level. We expect that ranges and merits will proceed according to the salary plan for policy covered employees approved by the UC President (expected in late spring 2023 for 2023-24). Salary increases for represented employees will proceed in accordance with respective contract terms. The range salary increases announced in 2022 for policy covered employees were implemented on July 1, 2022 for staff and October 1, 2022 for faculty. The budget reductions in 2022-23 and 2023-24 are being implemented with no intention of reducing individual compensation levels.

Will the 3% reduction in 2022-23 resolve the structural deficit? If not, what additional action steps are needed to address the remaining deficit? –

As mentioned in the September 2022 financial update, the campus is engaging in a multi-year financial stability planning exercise beginning in fall 2022 to identify necessary actions and define innovative mitigation measures. Some solutions are expected to take more than one year to implement.

The 3% across-the-board reduction in fiscal year 2022-2023 equates to $30 million. $25 million in budget reductions are anticipated for 2023-24. In parallel, centrally coordinated steps are being taken to reduce space costs, realize operational efficiencies, and develop new revenues roughly totaling $20 million. See the Financial Stability Plan section for more details.

What are the anticipated impacts of the new contracts with the International Union, United Automobile, Aerospace and Agricultural Implement Workers of America (UAW)? –

The University of California and UAW recently reached agreement on four contracts impacting Academic Researchers, Academic Student Employees, Graduate Student Researchers, and Postdoctoral Scholars. Some details are still pending (like the fully executed contracts with article numbers). Costing impacts and funding options are still being evaluated.

UCI Budget Office

Division of Finance and Administration
435 Aldrich Hall
Irvine, CA 92697-3025

949-824-9832
budgetoffice@uci.edu
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