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

Financial Stability Plan

Updated February 6, 2024

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 and parts of the School of Medicine and main campus.

"Core funds" include revenue sources such as state appropriations, resident and non-resident tuition, student-services fees, UC general funds (e.g., indirect cost recovery, miscellaneous fees), and various unrestricted sources (e.g., investment income, ground-lease revenues, assessments to self-supporting activities). Based on fiscal year 2022-23 financials, core funds are approximately 25% of UCI's total budget. It is here that we are facing a projected structural deficit. That is, annual revenues from the sources listed above are being outpaced by the growth in annual operating expenses. This mismatch is not sustainable.

This website provides information on the action plan to address the core funds structural deficit. 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, diversification of revenues, and improved planning through a revised budget model.

Revenues (Sources) vs. Expenses (Uses)

The following chart details core-funds revenues (Sources) and expenses (Uses), showing actuals (verified financial

Resources

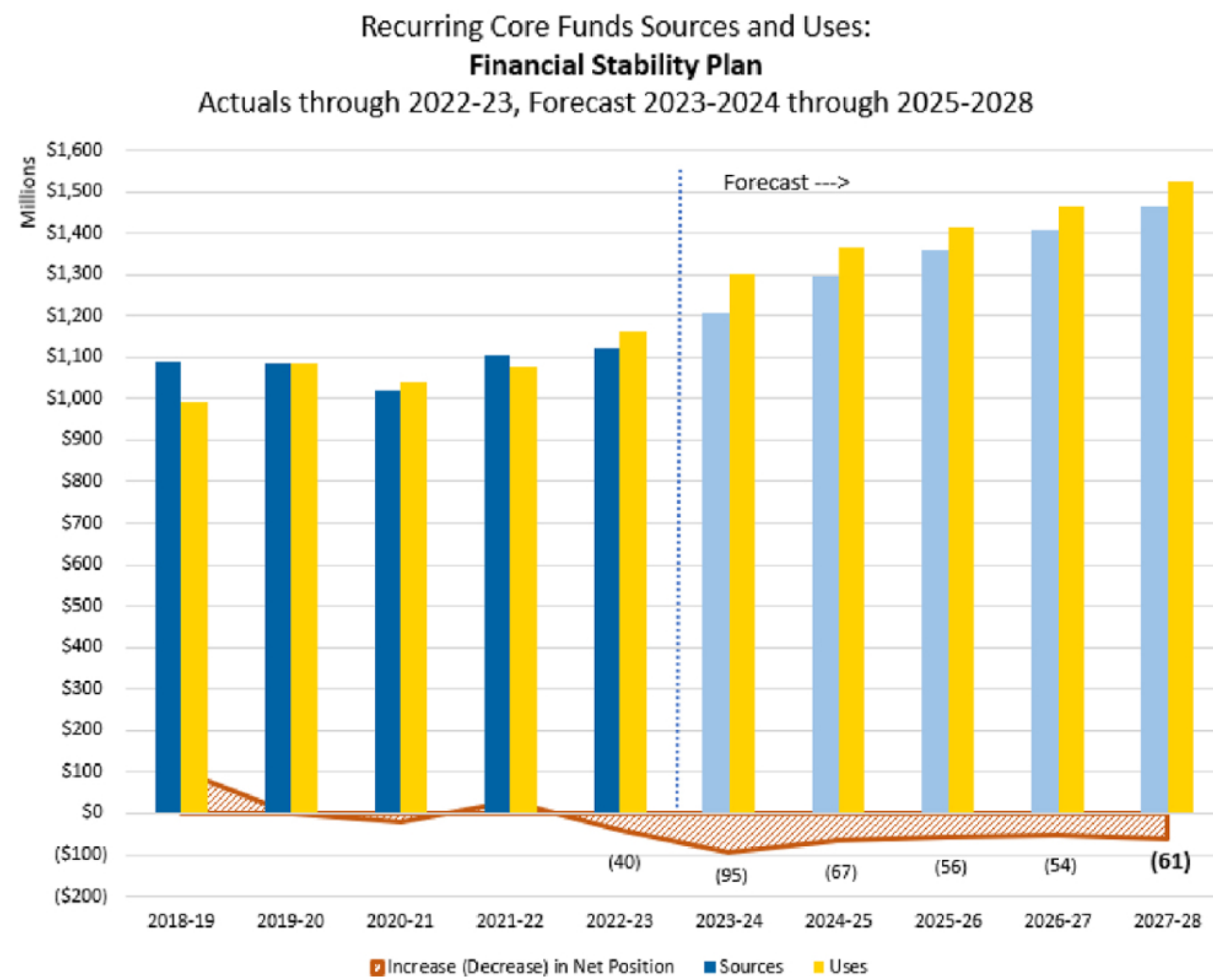
- Budget Model
- Campus Budget Workgroup
- Financial Plan
- FAQs

Communications

- Budget Town Hall (02/06/2024)
- Campus Financial Update (01/09/2024)
- Campus Financial Update – Winter 2023 (02/17/2023)
- Campus Financial Update – Fall 2022 (09/26/2022)
- Campus Financial Update (07/08/2022)

performance) through fiscal year 2022-23 and a five-year forecast based on fiscal trends and informed assumptions. In fiscal year 2022-23 core sources were approximately $1.1 billion and expenses where higher by $40 milion. If no changes are made to reduce costs or increase revenues beyond our existing plans, the graphic shows increases in the projected deficit. Growth in sources over 2022-23 and 2023-24 is expected to average 4%, whereas the growth in uses is projected to be 10%. The disparity is expected to decrease by fiscal year 2025-2026 with full implementation of the UC tuition stability plan and an assumption that the current decline in inflation rates will continue. For additional information on the financial situation, see the FAQ section.

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



Review larger image

About the financial graphic:

- This graphic reveals a structural deficit over the next few years of $60 million annually (with some variation) if no further actions are taken. The multi-year financial stability plan strives to achieve annual savings or new recurring revenues to get us back to a sustainable funding plan for our core academic

Archive Webpage

Financial Stability Plan Webpage (02/17/2023)

work and bring the budget into balance.
- 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 made in developing the forecast:
  - State funding continues to grow by 5% per year per the [redacted] 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 the continuing growth in self-supporting degree programs by 5-10% per year. PhD enrollment is projected to decrease.
  - Increases to resident and non-resident tuition revenues from undergraduates will be achieved through implementation of the [redacted] that began with the fall 2022 entering class. Full implementation will be achieved in 2025-26.
  - Salary costs increase on average by 4-6% per year; benefits increase by approximately 1-3% per year.

Financial Stability Plan

Resolving the structural deficit will be a challenge. UCI has faced difficult fiscal situations in the past, but the scale and longevity of this one is notable. Most of the UC system is experiencing similar funding challenges, so we are not alone in this. A similar dynamic is occurring at many public higher education institutions across the nation as well. As we work to resolve the funding gap, the challenge also presents opportunities 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.

Some actions can be implemented quickly and some may take more time before we realize savings. The campus budget workgroup (BWG) is charged with reviewing areas of the budget and making recommendations to address the structural deficit and develop a new budget model. Below is an update on our progress to date.

Progress

$55 Million via Budget Reductions and Unit Defined Stability Plans

- 2% budget decrease in 2021-22; faculty salaries were excluded.
- 3% across-the-board budget reduction to all units in 2022-23.
- Variable budget reduction for 2023-24. Reductions to schools ranged from 0-3.5%, whereas reductions to academic support and institutional support units ranged from 4-5%.

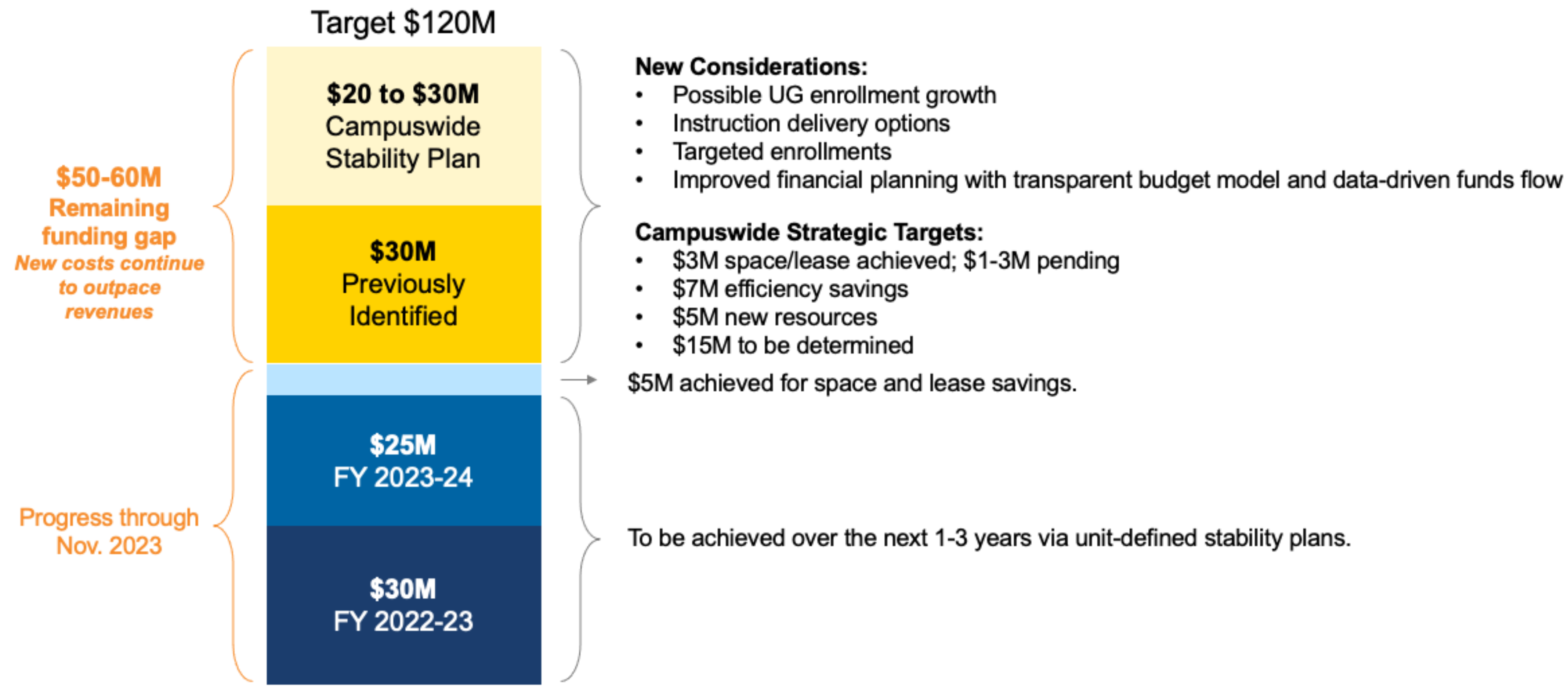
$5 Million via Lease Savings

- This initiative has saved $5 million, marking a noteworthy step toward our broader objective of optimizing space utilization.

Remaining Funding Gap - $50 Million to $60 Million

- **Campuswide Strategic Targets**
  $15 million in campuswide strategic savings or revenue targets were previously identified, including reducing space costs (e.g., off-campus leases), 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). Some additional details:
  - **Space Management – remaining target $1-3 million**
    We continue to explore potential opportunities for lease savings and other space efficiencies.
  - **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 graduate professional degree programs (SSGPDPs) continue to be areas of emphasis. Another ideas is to ensure that services for external entities and auxiliaries appropriately recover both direct and indirect costs to the fullest extent possible.

The above leaves $35-$45 million dollars for which additional revenue or savings are required. This represents an increase from our initial planning due to expense growth outpacing revenue growth.



+ Show All − Close All

Frequently Asked Questions

1. 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 (both resident and non-resident), and the student-services fee. The current expanded definition also includes summer-session revenue, professional degree supplemental tuition, lottery funds, and various other unrestricted sources such as indirect cost recovery (ICR), 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. (The other 75% of the university budget tracked as non-core funds is comprised of auxiliary funds, gifts, grants, and funding specific to UCI Health.)

2. What is a structural deficit? –

A structural deficit exists when current-year recurring revenues are surpassed by current-year recurring expenses. In other words, cost is greater than revenue and thus 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 unsustainable over the long run. As an example, imagine you earn $50,000 per year, but have $55,000 in expenses per year. You would have to dip into your savings account to cover the $5,000 difference. If you do not address the underlying gap between your income and expenses, over time you would deplete your savings account.

3. What are the drivers behind the structural deficit?

−

Several types of impacts to core-funds revenue and expenses have contributed to the structural deficit (these are described below). In total, between 2019 and 2023, recurring expenses grew at an average annual rate of 4.5%, while sources of recurring revenue grew 0.5% annually. Expenses are expected to continue to outpace recurring revenue growth.

Factors impacting revenue:

- **Tuition and Enrollment Plateau:** Tuition revenues have been limited by relatively flat enrollment with only three rate increases since 2012. 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 students and their families. The plan is underway, but will not be fully implemented and achieve its full benefit until the 2025-26 academic year.
- **Non-Residential Student Tuition (NRST) Cap:** As of 2017-18 enrollment of non-resident students was capped at 18.5% of total undergraduate enrollment. UC Irvine has reached the NRST cap, so growth in this source is limited to rate changes.
- **Enrollment Plateau**: The campus is close to reaching 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 beginning the process of updating the long-range development plan to provide flexibility regarding possible future growth.
- **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 to the UC budget, contingent upon available state revenues and meeting shared goal metrics. The increase of state funding advances shared progress toward improving access, equity, affordability, and growth targets. A 5% increase to the state contribution is excellent news for the campus; it is worth noting however that, because the state is only one of many contributors to our core funds, the overall impact translates to an approximately 1.5% increase in 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:** Pandemic-related operations have been scaled down to minimal levels. UC Irvine continues to support some prevention measures, but our budget is most impacted by additional debt obligations. UC issued working capital bonds that helped to cover COVID costs and prevention measures during the pandemic. Repayment of UCI’s share of the debt averages $14 million per year over the next several years.

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

The University of California and UAW reached agreement on four contracts impacting Academic Researchers, Academic Student Employees, Graduate Student Researchers, and Postdoctoral Scholars. In 2023-24 the campus provided academic units with temporary support of over $7 million to help cover the resulting increases in the costs of academic student-employees and an additional $3 million to offset these cost increases to grants. Longer-term cost impacts and funding options are still being evaluated. A significant part of the funding impact will be on unit instruction budgets and grants/contracts.

5. What is a budget model? −

A budget model is the methodology used to determine the distribution of resources, prioritize how funds are allocated, and support strategic initiatives.

6. Why is the UCI implementing a new budget model? −

Informed by outreach to peer higher education institutions and current budget and planning trends in higher education, UC Irvine will be moving away from incremental budgeting to a new data-informed budget model that is designed to better align resources with strategic priorities. The Budget Office is developing a new model framework in consultation with the campus budget work group, with a draft anticipated by the end of winter quarter 2024 that will be shared with deans, Irvine Divisional Senate representatives, and other stakeholders for feedback and input. The goals of the new model include increased transparency and predictability, improved planning over multiple years, and a clear rationale based on predefined metrics to more accurately distribute resource allocations and help close the funding gap.

7. What is the timeline for implementation? −

The new budget model will be rolled out in phases. The initial focus will be on funds flow to the academic units. Recommendations will be shared in late winter/early spring 2024, and feedback will be sought from the campus and all impacted units throughout the planning process for fiscal year 2024-25. The funding model for support units will be defined the following year to inform planning for fiscal year 2025-26. The transition to the new model will be implemented for all units over two to three years.

8. How is the new budget model related to the structural deficit? −

The funding gap and the new budget model are separate things. The fact that UC Irvine is implementing a new budget model at the same time as it is working to close a $50-60 million core funds structural deficit does connect them. It is important to note that the deficit is not a result of the new budget model and the deficit is not the reason for adopting the new budget model. The new budget model provides a number of advantages outlined in FAQ #6. We will continue efforts to identify campuswide cost efficiencies and new revenues to reduce the deficit. As we work to close the remaining funding gap, the reality of insufficient revenues to cover cost increases will be passed along to units via the new budget model over its implementation period. In our previous incremental budget system, such dynamics have been implemented via budget reductions. In the data-informed strategic budget model that we expect to implement, the shortfall of state, tuition, and other core revenues compared to projected costs will instead be evident in the metrics and assumptions used to determine the unit share of allocations. While the shift from budget reductions to changes in allocations may take some adjustment, a more transparent all-funds budget model supported by multi-year projections will ultimately help units plan more proactively for how they will be impacted.

9. Will there be opportunities for feedback and input from departments during the transition? –

Yes. Regular updates will be provided, and feedback will be solicited at each implementation phase. An initial town hall to discuss the motivation and background for the consideration of a new budget model will be held in winter 2024. A second town hall is expected in spring 2024 to discuss initial recommendations.

10. How will financial planning be improved with the implementation of the new budget model? –

The new budget model will be implemented in the context of an all-funds, multi-year planning approach for the campus. The move to considering all funds in the planning process (instead of the prior focus on core funds) is expected to be holistic and inclusive of considerations related to much more than just financials, such as enrollment, faculty FTE, staff FTE, rate escalations, space, and benchmarking metrics and goals.

UCI Budget Office

435 Aldrich Hall
Irvine, CA 92697-3025

949-824-9832
budgetoffice@uci.edu
Site Feedback