

# **BUDGET ADVISORY COMMITTEE (BAC) REPORT ON CURRENT FINANCIAL CHALLENGES**

November 5, 2020.

## **Background**

As an advisory body to the Chancellor and Provost, the Budget Advisory Committee (BAC) provides this document as a summary of overall impressions and general recommendations for addressing UCR's current financial challenges. Since May 2020, the BAC has reviewed campus budget scenarios and projected shortfalls on a regular basis, and has sought widespread campus input throughout this process. It should be noted that the details of each school, college, or unit's financial situation are complex; and it is not assumed that the BAC could fully understand every campus unit's specific details or challenges.

The BAC sought broad campus input, and the recommendations are based upon a wide range of consultative sessions and lengthy deliberations. These included ten campus town-hall style meetings (two of which were open public fora), survey responses, email input, and a number of focused BAC discussions; in addition to a total of twenty budget hearings with campus units, each scheduled for a minimum of one hour (and a few larger ones at 1.5 hours).

More information about the role and membership of the BAC is available at this [website](#).

The following sections are included in this document:

1. University's Budget Status
2. Rationale for Major Campus-Level Reductions and Other Budgetary Actions
3. Timeline and Process (Present through July 1, 2022)
4. Summary of BAC Perspectives Following Budget Hearings
5. Follow-up Items Following BAC Discussions
6. Other Items for Consideration

---

## **1. University's Budget Status**

COVID-19 has created a set of financial challenges that essentially impact the entire UCR enterprise, including both core and non-core activities.

In more typical economic downturns, the "core" budget of the campus would be most impacted, but Auxiliary and Self-Supporting programs would be more or less unaffected (i.e., non-core activities, such as Housing, Dining & Hospitality Services, Transportation and Parking Services, and University Extension). Unfortunately, in the current context, Auxiliary and Self-Support programs expect deficits as large as \$90M for FY21, which represents about 70% of their normal operations. The campus is working to recover these non-core deficits over a future time period, as the pandemic subsides and normal campus operations resume (note: the campus is prohibited from using state funds or student fees to subsidize non-core operations).

The campus "core" budget is broadly defined as those activities, programs, and functions supported primarily from state funding, student tuition income, and non-resident student

tuition. UCR's core operations represent approximately 60% of the total campus budget. The combination of a 10.4% cut in FY21 state funding, mandatory fixed cost increases (which are mostly negotiated salary increases and additional costs for retirement and health care programs), reductions in non-resident student tuition income, and other smaller budget adjustments due to COVID-19, has led to an estimated \$42M shortfall in our FY21 budget.

The financial impacts of COVID-19 will not be limited to FY21. The UC Office of the President and State Legislature suggest planning for another significant cut in state funding in FY22 (perhaps at the 10% level, but that is not yet known). By comparison, during the Great Recession, UC campuses sustained at least two years of double-digit state budget reductions, which was roughly equivalent to one-third of state funding ([Public Policy Institute of California, 2020](#)). During FY10, this was mitigated by significant campus-level budget reductions; a comprehensive 32% tuition increase, which is highly unlikely during the COVID pandemic; and a substantial [furlough program](#), which is not currently being considered by the UC Board of Regents or Office of the President. Note, the UC's last tuition increase occurred in 2017, with only two increases in the past eight years ([EdSource, 2020](#)).

In the present context, there remain contractual obligations for ongoing fixed cost increases for salary and benefits over the next several years; and it is unlikely that non-resident student tuition income will bounce back in FY22, nor will there be across-the-board tuition increase during the pandemic. To this end, each organization unit was asked to prepare 10-15% permanent budget cut scenarios over a two-year period for discussion with the BAC.

Depending on what assumptions are made (e.g. additional state budget cuts; California and non-resident student enrollments; fixed cost increases for mostly salary and benefits), and projecting through July 1, 2022 (FY23), the campus estimates a cumulative core budget shortfall in the \$77M - \$97M range.

It is important to put this range into context, and the information below is an attempt to do that:

- \$77M-\$97M represents 13%-17% of the total annual core budget.
- \$77M-\$97M represents 16%-20% of the total annual core budget, when student financial aid expenditures are eliminated (which cannot be reduced).
- \$77M-\$97M represents closer to 20%-24% of the total annual core budget for salary and benefits, when student financial aid expenditures are eliminated.

Given these dire projections, UCR is actively developing budget plans for the near term. Though we will likely need to take immediate action, we must continually evaluate our situation based on new information and make adjustments, as needed. Even if the campus initiates permanent budget reduction actions in the \$70M+ range – a very large and extremely impactful level for a campus that is already very lean, it is very important to understand that such reductions could end up being at the low end of financial impacts.

Hence, it is important to recognize that the campus may need to take additional steps toward permanent budget reductions in the near future; though, balanced against the need to protect critical operations and potential risks. Said another way, it is unlikely that actions taken in fall

2020 will be the last set of actions needed to address the collective budget challenges of COVID-19.

## **2. Rationale for Major Campus-Level Reductions and Other Budgetary Actions**

Given the importance of protecting the university's core research and teaching operations, the BAC discussed several major areas for significant reductions.

Following a consultative process with units and stakeholders across campus, the BAC engaged in prolonged discussion about the significant hardship associated with major budget reductions – especially given UCR's history of being underfunded (prior to COVID-19) and already lean staffing (approximately 750 staff below the average for a UC campus of our size). Without identifying specific areas for major campus-level budget reductions, an alternative approach of across-the-board budget reductions would likely cause significant harm to the university's research and teaching enterprise. Among schools and colleges, in particular, there must be greater strategic focus and targeted reductions.

Hence, in order to protect critical campus functions, some areas will require significant budget scrutiny within units and a closer examination of return on investment, both at the campus and unit levels – even though those areas recommended for larger reductions provide very important programs and services. Specifically, our assumption is that in order to better protect critical campus functions, some other areas would require larger reductions, even though these areas have and do provide very important service and support for UCR. If some specific areas do not have major reductions, it does require larger cuts must come from some other areas that we had hoped to better protect. The BAC recognizes that these are potentially contentious opinions and recommendations, which may not be shared by the entire campus community.

## **3. Timeline and Process (Present through July 1, 2022)**

As previously noted, the campus will need to implement immediate budget reductions during FY21, due to an estimated shortfall of at least \$42M. We are assuming that some significant decisions will be finalized before the end of the fall quarter, although others may be subject to further review, evaluation, and planning.

Between now and the start of FY22, the campus will learn much more about issues that impact the UCR budget, to include the following:

- Whether the Federal Government will provide additional financial relief for COVID and whether any of those funds will come to UCR. These would be one-time funds, but would potentially help alleviate the timeframe for permanent budget reductions and could provide some units more time to increase revenues.
- The Governor will announce the proposed FY22 budget plan in January 2021, which represents nearly half of UCR's core budget revenue; planning for a cut in the 10% range would be prudent, based on input from the UC Office of the President.
- The UC Board of Regents could adopt actions that would impact the UC and campus finances. However, it is highly unlikely that they will adopt a comprehensive tuition increase, but there may be personnel-related actions that could provide some one-time

savings in personnel costs, such as furloughs, leaves without pay, or salary reductions. At present, the UC Office of the President has only initiated consultation on a proposed curtailment program.

- Additional information regarding the end of the COVID-19 pandemic will assist our campus projections for financial recovery, both for the core and non-core budgets.

We understand that some adjustments to these recommendations may be needed in order to respond to new information, as the response to these financial challenges will be part of an overall process and not just one action. Some incremental steps will need to be undertaken immediately, along with longer-term budget planning, as soon as possible. While we hope for positive news in regard to both the state budget and pandemic recovery, it would not be prudent to rely upon a best case scenario to determine our campus's future.

#### **4. Summary of BAC Perspectives Following Budget Hearings**

Listed below are high-level summaries from the BAC discussions, following the 20 individual presentations from campus organizational units regarding their proposed 10-15% budget cuts. The discussions revealed both consensus and disagreement among BAC members on various issues, and the summaries attempt to capture these nuances. It is also important to note that each unit had its own approach to their budget presentation, and some were more direct and precise with their information than others, and this could have impacted the perception of BAC members. An overall high-level summary of these perceptions follows:

1. It seems important for schools, colleges, and central campus to make decisions about overall priorities and to identify potential areas for major budget reductions. UCR enters these challenges without being well-funded, and it is not clear that these conditions will materially change in the near future.

It is important for schools, colleges, and central campus to focus on our priorities: (1) graduate training, (2) research, and (3) undergraduate student success, with continuing efforts to serve our diverse student population.

2. Overall, the schools and colleges should undertake smaller budget cuts compared to the rest of the campus, although there are reasons to consider differential cuts between the schools and colleges. This recommendation is in spite of the major staffing shortfalls at UCR, including those within the schools and colleges that directly impact support for our faculty. There is a strong sense that the past central campus subsidy of the School of Medicine, which was critical to develop the new school, needs to be appropriately addressed.
3. There is consensus that the entire campus community must identify what we can no longer continue to do, and assure we adjust to an already lean staffing model; though, balanced against risk and possible unintended consequences. This is critically important given that our lean administrative infrastructure will be faced with additional stresses and unreasonable challenges. Simply put, the campus cannot continue to expect the same level of staff support for campus operations, with fewer personnel. Additionally, there needs to be campus-wide

and organizationally-specific communication to explain the impacts of these budget reductions to help with overall expectations for campus workflow.

Outlined below are more specific insights and assumptions based on the budget hearings, and some of the key areas previously identified by BAC.

### Schools and Colleges

There is general agreement that the schools and colleges should receive smaller proportional cuts because they are core to the mission of the university. Several members felt that the smaller schools would be able to absorb proportionally larger cuts than the larger colleges without causing significant damage. However, doing so does not significantly help the campus achieve the aggregate budget reduction target, because the schools have relatively smaller budgets. Some members also expressed that, to the extent healthier financial positions are the result of good management, units should not be penalized with larger cuts (e.g. School of Business). A few members felt that moving the School of Public Policy (SPP) to a department under CHASS or merging with the Graduate School of Education would realize additional savings, but other members felt the savings would not justify such a move. Overall, a slightly higher reduction level reduction was considered for SPP (compared to other Schools and Colleges), but it was not significant.

### School of Medicine (SOM)

The UCR SOM was established in FY13 with insufficient external funding to be successful (\$15M in state funding per year); therefore, the central campus had to provide a significant subsidy in order for it to move forward. There is a recollection, in some areas of the campus, of a financial “fire wall” that would be placed between UCR and the SOM budget; but this was clearly not feasible, given the SOM’s limited financial support from the state. The campus has subsidized the SOM at a level of about \$10.5M per year.

The state’s final FY21 budget bill included language that did not allow any budget reductions to be taken against the original \$15M that started the SOM (which has never been adjusted for inflation by the state or UC Office of the President) or the additional \$25M base funding allocated for FY21. UCOP assessed the state budget reduction on this \$40M, however, and assigned that reduction in state funding to the UCR campus, which means there is an additional \$4.166M in reductions that UCR will have to identify to balance our core budget (this number is already included in the \$42M projected shortfall for FY21).

There is general agreement that there is a need to address the campus subsidy level for the SOM that is fair and reasonable for both the SOM and the university. Additionally, the BAC noted that SOM appears to have significant administrative costs related to multiple faculty-administrator positions and related overhead costs within the school’s current structure that should be carefully scrutinized.

### Palm Desert

There was some agreement that this program should be significantly reduced, or potentially eliminated, balanced against some viewing this program as holding long-term strategic value to the campus and having the possibility to raise additional revenue to reduce the size of its campus

subsidy. There was some interest in considering major changes to the program and perhaps a new partnership with the adjacent CSU campus.

#### Athletics

There was significant support for major changes to the status quo operation of Intercollegiate Athletics, ranging from complete elimination to transitioning out of NCAA Division 1-level competition. In addition, there was some concern that the current competition level would require additional financial investments from the central campus in the future. There was some further concern about the quality of their financial data and an early proposal for a partnership with the Student Recreation Center, which did not include information about potential budget savings. Some suggested that athletics would benefit from an outside review.

#### Advancement:

There should be a specific review regarding the organization's return on investment (ROI), based upon its current level of funding; but, there was general understanding that this area could be a future revenue generator. There was some significant interest in major budget reductions due to the completion of the \$300M comprehensive campaign, and some perceived the organization as having a top-heavy administrative structure.

#### Other Options for Larger Reductions

Based on the presentations, some believed the following organizations could support relatively larger cuts: Undergraduate Education, Enrollment Services, and Student Affairs. Among these units, there was a perception they had more resources compared with other units, including student fee income. Some also thought the Senate could sustain larger cuts. There was one specific comment that University Honors seems highly staffed (with approximately eight staff for ~800 students), relative to other units; and there appears to be some overlap with Undergraduate Education. There was limited input about larger cuts to International Affairs, Provost/EVC, and Planning, Budget & Administration.

#### Some Areas for Protection:

Several additional units were identified, in general, for some level of protection from major budget reductions due to their significant role in supporting campus priorities for graduate education, research, and undergraduate student success. These included Research and Economic Development activities, with a particular focus on grant/contract support and infrastructure, (along with research grant support from individual schools, colleges, and Business and Financial Services); Information Technology Solutions; and Graduate Division.

There were mixed levels of support for protecting the budgets for the University Libraries, Student Affairs, and University Honors. There was some interest in supporting International Affairs, at least for visa processing and a source of revenue generation through the recruitment of more international students.

### **5. Follow-up Items Following BAC Discussions**

1. The following are areas for potential budget model adjustments:

- FTE weighting. UCR should move ahead with Senate consultations on the implementation of the committee recommendations, with a need for more communication to the campus – especially among faculty; these should be considered during the budget reduction process and perhaps transitioned over time. The implementation process will need to be carefully managed.
  - Graduate Finances Working Group. UCR needs to work with the existing committee on how to refine and improve policies relevant to the financial aspects of support for graduate programs, including optimizing incentives for the development of state-supported masters and professional degree programs; development of appropriate policies to govern the development of self-supporting degree programs; and developing a process to be part of the annual budget cycle to address potential investments in the number of PhD students.
  - University Honors. The Provost will work to assure the program has a sustainable financial base that allows it to continue. Central investment to create a new Honors College (similar to other UCR Schools and Colleges) is not feasible in the near term.
  - Undergraduate Education and Graduate Division. Both organizations advocate for their shares of the growth in tuition revenue streams. The Graduate Division currently receives graduate application fees. This could be an issue for future consideration, along with other potential tweaks to the budget model.
2. There should be discussion regarding central campus resources, including greater transparency and data reporting. The current model will be updated and reviewed with the CFAOs, Academic Senate Committee on Planning and Budget, and any other interested stakeholder groups. The central campus resources had challenges before COVID, and it is important to widely share the facts, details, and assumptions to address any questions or concerns.

## **6. Other Items for Consideration:**

1. Efficiency/Process improvements, including activities we can/should eliminate (focus on transaction steps and other possible efficiencies). We cannot assume we can do the same with even less staff/resources. We need to define and communicate impacts across the campus in a reasonable way to help with overall expectations. BAC members suggested looking at opportunities across the campus to reduce red tape. This issue also directly relates to the fact that UCR has been very lean on staff, even before COVID-19, and that lean level has been the focus of many discussions.
2. Implementation of approved budget cuts. We will need to pull back permanent funding in FY21 and FY22. The current FY21 core budget shortfall is \$42M. A proposal is for 40% of the total approved budget cut to each unit to be pulled back in FY21 with the remainder (60%) in FY22. The assumption is that units would have an assessed budget reduction and they would manage their own cash flow to fully implement the permanent cuts in a reasonable timeframe. We will learn more in the second half of FY21, which will help us with the implementation of the remainder of the budget cuts in FY22.

3. It will be important to track the impacts on filled positions being eliminated and the balance of management vs transactional staff. There is a general sense that staffing levels are particularly lean at the transactional level and less so at the management level (specific input on some perception of top heavy in administration).
4. Teaching load policies affect both short and long-term budgets in the academic units. Some BAC members expressed support for benchmarking UCR's policies against peer institutions. This is not likely an issue that will impact the current budget reduction activities but has the potential for long-term follow-up by the appropriate academic office.
5. It would be advisable to plan for/prioritize some areas for future financial recovery when circumstances improve. These areas should be linked to the new strategic plan, and responsive to staffing and other needs.
6. Implementation of the new campus financial system. This is an item where some action is required, but the BAC did not have detailed presentations on this project. The campus should evaluate this need through a standard process and seek a recommendation from the ITEG group. A decision on this is needed in the near future, as the campus must react to a firm 7/1/2023 deadline for major changes that impact the automated financial system and subsystems that operate off it.
7. Desire for UCR to advocate with Regents, Legislators, UCOP, etc. for adjusting ("rebenching") and/or increasing allocations to UC campuses. An equitable funding model should be the priority, particularly in the midst of a social justice movement.



## **APPENDIX**

### **Budget Advisory Committee Background Information**

**Previous Information Provided by Budget Advisory Committee:** *Note:* These are overall guidelines/principles for campus budget decisions that the BAC developed in May/June, and we used these to guide our efforts to develop the recommendations. It should be noted that the focus for these budget reduction recommendations are on the Core budget. Each auxiliary/self-supporting budget would need to adjust appropriately to their specific circumstance. We assume our discussions on how to handle the budget challenges will evolve over time as needed to support the overall best interests of the university, and as additional information is received.

### **Background:**

Our basic assumption is that UCOP will provide guidance on labor/staffing/employee salary and benefit issues (e.g. FY21/FY22 planned salary increases; general salary reductions; furloughs; layoffs; curtailment, etc.) to reduce expenses, but that there is a need above and beyond that to balance the UCR FY21 budget with “permanent” base budget reductions. There is also the option that the federal government will provide additional COVID-19 related funding, and if these funds come to the state or directly to universities these one-time funds also could help with the cash flow timing for moving to permanent budget reductions. The assumption is that any one-time savings/funding would be allocated to campus units (e.g. furlough savings) for their use in cash flowing permanent budget reductions. This BAC document represents our collective recommendations to the Provost and Chancellor as to how to manage a budget reduction process for the campus, and there will be collaboration with Deans and Vice Chancellors (and other important constituency groups) throughout. We also assume that a close working relationship with the Senate Planning and Budget Committee would be important as we move through these economic challenges.

### **Principles and Values to Drive Budget Challenges:**

UCR is a highly diverse world-class teaching and research institution and has programs and activities that will need to be protected through this financial downturn. Reductions should be strategic and focused on preserving what makes UCR special and different from other Higher Education institutions, specifically those in California, and in alignment to the values of the campus’s strategic plan. Additionally, the focus needs to include undergraduate student success, world-class research, graduate training, and the integration of research in the delivery of instruction to graduate and undergraduate students through peer teaching, research opportunities and our success in promoting upward social mobility for all our students. It is important that the strategy of the budget cuts should be one where UCR emerges with our research mission as intact as possible.

1. It is assumed that the campus would not have uniform across-the-board core budget reductions. However, there will need to be shared sacrifices across the campus.
2. It will be important to understand all the budget adjustment proposals in context, as there are important interrelationships between adjustments in one unit that may have significant impacts in other units. For example, service providers eliminating activities/moving them to recharge, academic units limiting service courses, reductions in TA budgets may increase faculty workload in courses/course sizes, etc. The BAC

assumes some level of presentation of the core budget reduction plan would be provided to them so as to understand the impacts of the proposals on other units and overall campus operations.

3. Focus on efficiencies that would reduce campus or unit costs, including eliminating, merging and sharing activities across the campus. Each unit should work to identify such opportunities.
4. Consider sun-setting initiatives that are not self-sufficient and have not lived up to their initial promise. While there are many important programs and services offered on campus, not all can be at the same high a priority level when compared other campus programs and services. Campus wide and unit specific processes will need to be developed to identify these reductions and obtain input before making hard decisions.
5. This will be the first time the campus will implement budget reductions under the new campus budget model. We will need to look closely at what is incentivized in the current budget system and whether this will help us meet our campus strategic goals. Data shows that staffing levels are already very low at UCR (on average, and this does not apply to each program/unit), compared to other institutions. Balancing the budget through administrative cuts alone could produce an untenable outcome with too few people left to perform necessary functions in some areas. It will be important to consider these staffing facts when developing our plans and recommendations.

Lastly, all of these discussions must be viewed through the lens of UCR's mission:

**Mission.** The University of California, Riverside will transform the lives of the diverse people of California, the nation, and the world through the discovery, communication, translation, application, and preservation of knowledge – thereby enriching the state's economic, social, cultural, and environmental future.

### **Additional Background Information – Budget Advisory Committee (BAC)**

The Budget Advisory Committee (BAC) was first established by the campus in 2015-16 as a representative body for all organizational constituencies to increase transparency into the university's budget and allocation process. The new budget model was designed based on input from across the campus and to meet needs and requests raised at that time. It is also important to understand that the budget model was created with the assumption that it would work best during years of growth and state allocations. The model was not designed for budget downturns. The BAC purpose was to review unit budgets and provide recommendations to the Chancellor (through the Provost and VC P&B) on the annual budget requests from the major campus units (mostly focused on core resources), specifically any recommendations on new incremental allocations of available funding, and to approve rates for Auxiliary and Self-Supporting units. The BAC members serve 3-year rotating terms to ensure continuity and experience. During the current budget-challenges, the BAC has focused on recommendations for potential reductions of the core budget, vs the more normal recommendation of incremental resource allocation. Given the BAC had experience understanding and reviewing the campus budget, and the need to move ahead quickly to develop response plans for this COVID-19 induced financial challenge, the assumption was they would be able to bring forward a more informed perspective on overall challenges and opportunities for the campus in this difficult budget time. While the BAC does provide recommendations, these have, in the past, been only one source of input to the Chancellor as he reviews budget allocations and actions. The Chancellor has routinely sought wide input across the campus, to include the Dean's, the Academic Senate Committee on Planning and Budget, and other key campus constituents. Listed below is the charge for the Budget Advisory Committee

**Budget Advisory Committee Charge:**

Established as an advisory committee to the Provost and Vice Chancellor for Planning and Budget, the Budget Advisory Committee is composed of representatives of Schools/Colleges, the Senate Planning and Budget Committee, Auxiliaries and Service Providers. It's important to note that the majority of representatives are from academic units in alignment with the university's core mission. It is also important to understand that the budget model was created with the assumption that it would work best during years of growth and state allocations.

#### Budget Advisory Committee Charter.

Represent campus units during Budget Advisory Committee meetings. While each member brings specialized focus and experience, the Budget Advisory Committee maintains a campus-wide charge. As such, it is the expectation that members will reach out to the units they represent in order to provide effective representation and clearly communicate concerns of the broader campus. Budget Advisory Committee membership will include the following:

Provost (Co-Chair)	2 Deans
Vice Chancellor for Planning and Budget (Co-Chair)	1 Academic CFAO
Associate Provost	1 Administrative CFAO
Chair of the Academic Senate Committee on Planning and Budget.	Aux. Organizational Head -1
Non-Academic Organizational Head – 1	

BAC Functions:

1. Perform review of campus units to ensure that unit goals/objectives and financial management are in alignment with the overall strategic plan of UCR. The Budget Advisory Committee will review campus units in the budget process as follows:

**Service Providers**

- Ensure that service provision, quality of services and costs are in alignment with the overall strategic objectives of UCR and the needs of the customer units.
- Review each Service Provider's actual performance as defined by Key Performance Indicators
- Review service levels and funding requirements for the upcoming fiscal year.
- Review the financial position of each unit to ensure that the unit's resources are managed effectively.

**Academic Units**

- Ensure that a unit's strategic goals are in alignment with campus priorities and planning.
- Review each unit's performance as defined by specific Key Performance Indicators.

**Auxiliary/Recharge Units**

- Review recommendations provided by the Rate Committee regarding rates for these units.
2. Make recommendations to the Provost and VCPB regarding campus rates and allocations to campus units.