November 15th, 2022

Dear UCR Colleagues,

We are writing to give you an update on the final outcome of the fiscal year 2021-22 UC Riverside operating budget. Apologies in advance for the length of this email, but we have a lot of information to share!

THE FINANCIAL SITUATION WAS BETTER THAN ANTICIPATED, BUT CHALLENGES REMAIN

A year ago, in the midst of the pandemic, the financial outlook for FY22 looked very concerning, with state funding reductions of over 10%, major losses in our self-supporting/auxiliary revenues, and continuing increases in salaries and benefits, among other fixed costs. However, the state economy outperformed all expectations. The Governor and legislative leadership made a special update to the FY22 budget request in February that included full restoration of the state cuts as well as a 5% increase. Additionally, the federal government provided three allocations of Higher Education Emergency Relief Funds (HEERF, see detail below), which helped to address one-time needs and revenue shortfalls and will supplement funding we expect to recover from FEMA.

The total financial impact to the campus due to the pandemic through the end of fiscal year 2020-21 (FY21) was estimated to be around $150M in both pandemic-related costs and lost revenues. This figure includes $62M in housing and dining revenue (net of expenditure savings), $31M in state funds, and $18M in student fees. Some of these losses were mitigated by one-time federal emergency funds (see HEERF below). Although the state replaced all previous cuts and provided an additional 5% increment, the campus still experienced an overall budget shortfall, mostly due to fixed cost increases (such as salary and benefits increases) that accumulated over two full years. The new $25M permanent state funding increment for the School of Medicine did help to reduce pressure on central campus resources to support those operations.

To help balance the campus budget, units receiving core funds (state and tuition dollars) for their operations initially received an average permanent core fund reduction of around 11%, with strategically smaller reductions for the academic units and larger reductions for the administrative units. With the improved FY22 budget outlook, these permanent reductions were revised and reduced to an average of 7%. Actual FY22 budgets reflect the permanent 7% reduction, offset by increases for enrollment growth and increases for salaries and benefits that become part of units' permanent budgets. Units that do not receive core funds for their operations, such as Auxiliary Services and University Extension, experienced significant budget reductions due to revenue losses, but they received some one-time support from the HEERF funds. For more detail on the budget, please see Attachment A.

CAMPUS ENROLLMENT

Campus enrollment overall was at an all-time high in FY21. In Fall 2020, UCR reached a total headcount of 26,434, an increase of 3.5% from the previous fall, and student FTE grew even faster, at 4.7%. For Fall 2021, the third week census indicates that headcount again achieved a new high of 26,847. However, average units taken by undergraduates have declined considerably in Fall 2021, leaving the preliminary estimate of FTE nearly 300 below the level in Fall 2020. Nonresident tuition-paying (NRT) undergraduate enrollment also declined during FY21 and FY22. After an initial high in Fall 2020, driven by strong continuation rates of existing students, lower numbers of newly admitted nonresident students and the combination of completions and attrition over the 2020—21 academic year led to an annualized decline of approximately 21 NRT-paying students versus the prior academic year. As of Fall 2021, enrollment of new first-time in college (FTIC) NRT students recovered to pre-pandemic levels, but new NRT transfer declined even further from the Fall 2020 headcount and the number of continuing NRT students has continued to edge downward. Early indications are that total undergraduate NRT-paying enrollment in FY22 could fall to the level last seen in FY19.

Enrollment growth is key to increasing revenue when there is no tuition increase to offset fixed cost increases. Tuition has increased only once in the last 8 years (only $222 or just under 2%) due to a legislative requirement to allow the UC system to keep receiving state funding. The core budget comprises about two-thirds of UCR's total budget with 44% coming from state funds, 51% coming from resident tuition, and 5% coming from non- resident tuition. In past years, the state has provided an increase of about 3%. This year's 5% increase translates to a 2.2% increase on core funds, because the state funds make up only 44% of the core budget. At the same time the salary and benefits increases generally run about 3.5%. Enrollment growth helps to fill the 1.3% gap in funding between the state increase and the fixed cost increases, and the new cohort tuition increases starting in Fall 2022 will help offset this gap as well (more information on this program below).

REVENUES

Higher Education Emergency Relief Fund (HEERF) provides one-time funds. Like other campuses across the country, UCR benefited from the federal Higher Education Emergency Relief Fund (HEERF), which provided multiple allocations of one-time funding totaling $93.9M for campus needs and $71.6M for student financial aid. Please see Attachment B for a summary of the uses of these HEERF funds.

Systemwide "rebenching" results in more funding for UCR. UCOP distributes most state funding to campuses based on weighted enrollment, where health science students and PhD students are weighted more heavily than undergraduate and other graduate students. This means that each campus receives the same amount of state funding per weighted student but not per enrolled student. One outcome of this approach has been that campuses like UCR that serve large numbers of undergraduates, many of whom are under- represented, low-income, and/or first-generation students, receive less state funding per enrolled student, especially compared to other UC campuses that enroll more health science students. UCR senior leaders initiated discussions with UCOP and other campuses to update this funding distribution model (referred to as "rebenching"), and these efforts were successful. In FY22, UCOP is beginning a process to bring UCR (and other UC campuses in similar circumstances) up to at least 95% of the unweighted average student funding level of the entire UC system. This change will be implemented over three years, and has already increased UCR's permanent state funding by $6.7 million for FY22. The Campus Finance Committee took this opportunity to approve an additional $8M in permanent funding to Information Technology Solutions (ITS) to address critical staffing, security, and infrastructure needs. We expect similar strategic increases from this rebenching commitment in each of the next two years to focus on addressing other campus-wide needs.

Tuition stability plan is approved by Regents. In July 2021, the UC Board of Regents approved a cohort-based tuition for new undergraduates starting in Fall 2022. This will guarantee each entering student a fixed level of tuition for up to 6 years while pursuing their degree, with each subsequent cohort paying slightly more than the cohort before it. Annual adjustments between cohorts will be tied to inflation. Graduate student tuition will remain uniform (no cohorts) but also will be tied to inflation. This approach is intended to reduce the financial uncertainty faced by both students and campuses when planning over multiple years. Starting November 2021, Financial Planning & Analysis will produce initial estimates of the policy's impact on tuition revenue for the first five years of the plan and will reexamine these estimates annually.

State-funded enrollment growth. UCR currently enrolls over 1,000 more undergraduate California resident students than we receive funding for from the state. The FY22 state budget includes intent language for funding more than 6,000 additional California residents throughout the UC system beginning in FY23. UCR is eligible to receive some of this funding to cover these "over-enrollments" and possibly additional in-state students, as well.

EXPENSES

Operating budget allocations. As usual, salary and benefits increases were the major expe core budget. UCR provided a 3% overall salary increase for all faculty, to include scale, off-scale, and above scale. We also provided the 3% "merit" increase, but based on UCOP direction this was allocated at a flat rate of 3% to all qualified individuals, and budgeted for an "equity" adjustment pool for our policy covered staff, as we cancelled this program last year due to the pandemic. UCR also covered all represented staff salary increases, and we covered significant increases for retirement and health care for all employees. Please see Attachment C for a summary of the FY21 and FY22 Budget Allocations.

While the pandemic had significant negative financial impact on most of our auxiliary and self-supporting programs, we are hopeful that a return to normal operations will allow all these programs to financially recover over the next few years. Our campus housing program welcomed over 8,000 students living in campus housing this fall. This is the largest number of students living on campus ever, thanks to the recent increases in housing beds (820 from Dundee residence hall and 1,506 from the North District apartments).

LOOKING AHEAD TO FY23

The Campus Finance Committee will be undertaking an in-depth review of two central facets of the UCR budget model that determines allocations to the schools and colleges: 1) the original subvention determined in 2016 that forms the base of the allocation, and 2) the methodology for allocating tuition funds. This review will take into account growth since 2016 and relative costs of educating students in different disciplines.

Once adjustments have been made to these budgets, requests for funding within the schools and colleges should be made to the respective dean.

The CFC will oversee allocation of resources to units that serve the entire campus. Funding requests in these areas should be made to the appropriate vice chancellor, who will then take those requests to the CFC for consideration in the spring.

Finally, we wish to express our gratitude to all of you for weathering the budgetary storm precipitated by the pandemic. We continue to advocate vociferously at the UCOP and state levels for increased financial resources for UCR. In addition, the Campus Finance Committee and the Chancellor's leadership team have been discussing additional ways to raise our own revenues at the campus level (such as increasing summer session offerings and enrollment, growing master's programs, and recruiting out-of-state students) to provide additional resources for the vital work that you do in support of our mission.

Sincerely,

Elizabeth Watkins, Ph.D.
Provost and Executive Vice Chancellor

Gerry Bomotti
Vice Chancellor and CFO