Planning and Budget Committee Report to the Academic Senate, 2022

UCR's finances and governance have changed significantly over the past ten years.[1]

- The structure of UCR's revenue changed in the wake of the financial crisis of 2008. **Tuition revenue has become the most significant driver of UCR's revenues**. Tuition now makes up half of the core instructional budget; state general funds make up the other half. What this means is that UCR's financial health depends significantly on enrollment growth (if costs - primarily salary and benefits - go up 3 or 4%, enrollment has to keep pace just to break even).
- The increase in tuition revenue came almost entirely from enrolling more students (not from tuition increases). **Total enrollment increased 28% from 2012 to 2021**.
- When state and tuition funding were trending upward, in 2015-2016, campus administration rolled out a cluster hiring initiative. About half of the projected 300 hires were completed. **Cluster hiring engaged most if not all of the central funds available for strategic initiatives over many years** (since start-up commitments can take years to honor). Increased numbers of faculty served to raise UCR's research profile and served the expanding student enrollment but were not sufficiently balanced by staff hiring and facilities construction. Cluster hires also were not designed to respond to the instructional needs of academic departments. As a result, when funding streams slowed, very few funds are now available for strategic investments.
- In this context, UCR adopted a "hybrid RCM (Responsibility Center Management)" budget model in 2016-17.

The Budget Model is, at its core, a change in university governance. We recommend that the Senate respond by building up Senate oversight of financial matters in the departments, schools and colleges.

In 2021-2022, the Committee on Planning and Budget met with the Deans of the schools and colleges, the Graduate Dean, VPDUE and VCRED. The committee circulated a budget primer and survey to Senate faculty in May 2022, followed by an open faculty forum. On the basis of these conversations, the committee makes the following recommendations to the Academic Senate for 2022-2023:

1. **Bolster Faculty Executive Committees' engagement and oversight** of budgetary decisions in the schools and colleges.
    a. In an informal survey of FEC Chairs, most FECs traditionally do not have formal or informal involvement in budget decisions.

[1] Please see the Planning & Budget Faculty Forum presentation (May 2022) for illustrations and examples of the issues discussed here. See also the Budget Primer on the Planning & Budget committee website.

    b. Invite FEC Chairs to attend the yearly Deans' meetings with Planning & Budget, at which the Deans present an overview of their budgets.
    c. Call upon Deans to provide FEC Chairs a seat at the table when budgetary decisions are made. This may be as a member of a resource allocation committee, or as an attendee at financial meetings with Associate Deans and CFAOs. This measure would be in line with the Provost's initiative to create more dialogue and transparency on budgetary matters.
    d. Hold a yearly or quarterly meeting of the Planning & Budget Chair and FEC Chairs.
2. Increase **Senate oversight of department budgets** and encourage departmental transparency.
    a. Work with the Committee on Educational Policy and Graduate Council so that Undergraduate and Graduate program reviews include a public report on department financial information. (Our understanding is that this information is collected during program reviews but is not made publicly available.)
3. Insist on a **graduate funding model** that makes strategic investments in PhD students, not simply an incremental yearly increase in the Graduate Division budget.
    a. Such a model should incentivize schools and colleges to support both PhD and Masters students.
    b. The Provost set a goal of offering 5-year packages to most PhD students and raising the GSR rate to 4 or above. Follow up to ensure implementation.
4. Senate needs to be closely involved with oversight of the **rollout of the Impact23 Financial System** (to be implemented in 2022-2023), to avoid the catastrophic breakdowns experienced by other UC campuses and to ensure that the system improves financial transparency.
    a. Name a Senate representative to the Impact23 steering committee. The Senate may need to provide one or more course releases for the large time commitment involved; this investment would be extremely worthwhile. The potential for catastrophe is high, and conversely there is potential for improved budgetary transparency and predictability.
    b. Insist that Impact23 result in transparent and standardized financial reports that are easily readable to the non-expert and accessible online to all faculty and staff.
    c. Impact23 should allow faculty and the Senate to track the cost of instruction of UCR undergraduates (including formal instruction, academic and other support services), in relation to revenue (tuition and state funding) per student.
    d. Impact 23 should produce reports that can help articulate between undergraduate enrollment, projected TA needs and first-year graduate funding.
5. Senate Planning & Budget and Executive Council should remain engaged in the conversation around **undergraduate and Masters enrollment growth** and how it tracks with the cost of instruction, TA funding and first-year PhD funding.
6. Maintain Chair of Planning & Budget and Academic Senate Chair membership in the **Campus Finance Committee**.

7. The **School of Medicine** is likely to be the site of intense financial negotiations in the coming years, as it is pressured by UCOP to become self-supporting and to establish a revenue-positive clinical partnership with a hospital (or establish its own). We recommend that the Senate be aware of this issue and keep a close watch.
8. Senate should be actively involved in oversight of **strategic planning** (currently scheduled to happen in the schools and colleges in Fall 2022).
    a. Planning & Budget endorsees the Provost's Strategic planning matrix, and the bottom-up planning design. However, that process must escalate towards a clear message from Central Administration about investments in campus strategic priorities.
    b. Strategic planning must be realistic. However, planning should not be constrained by the limits of the hybrid RCM budget model, which by design discourages thinking at large scales and across units.

Background for these recommendations

Prior to 2016, the Provost/EVC controlled most of the core instructional budget. Decisions about faculty lines, TAships, faculty start-up and retention packages, etc. were mostly made by the Provost. The Senate Planning and Budget Committee participated in this central budgetary governance by making recommendations to the Provost about where to invest.

The new budget model decentralizes budgetary responsibility and decision making to the Deans of the schools and colleges. There are no more staff or faculty "lines" at the university. Deans allocate their own schools and colleges' budgets to hire and retain faculty, staff and TAs.

The budget model is "hybrid" because Deans do not have to cover every cost associated with running their schools and colleges. Central administration remains responsible for campus infrastructure, administration and research support, and currently covers salary and benefits increases, including for merits and promotions. Graduate first-year stipends and other graduate supplemental funding are covered centrally by Graduate Division.

Each school or college receives a share of tuition revenue based on its enrollment, a share of its faculty's contracts and grant revenue, and a share of state general funds ("subvention.")
The share of tuition revenue is set by formula (75% workload and 25% major headcount).[2]
The share of state general funds (subvention) is not allocated by a formula. Subventions were set up to provide continuity when the new budget model began. When the budget model was rolled out, the 2015-2016 fiscal year served as a baseline reference. Schools and colleges' share of tuition revenue (plus their share of F&A on contracts and grants and any other revenue) would not have been enough to match existing funding levels in 2015-2016. State

[2] Starting in 2022-23, all new enrollment above the 2021-22 level will be subject to credit hour weighting, which supplements tuition funding for schools/colleges deemed to have higher cost of instruction. When allocating tuition by workload and headcount, additional (new) enrollment in BCOE will be weighted at 1.5, CNAS at 1.3 and all other schools and colleges at 1.

general funds were used to fill the gap; this extra funding was given the name 'subvention'. Subventions have remained relatively constant since the new budget model was instituted; they increase as Central Administration adds funds to cover schools' and colleges' increases in salaries and benefits, merits, and promotions.

Under the hybrid RCM budget model, schools and colleges grow revenue by increasing undergraduate enrollment (share of tuition allocation), contracts and grants and/or other revenue sources such as self-supporting professional degree programs. Deans are responsible for running their schools and colleges with the funds they have and are responsible for funding strategic initiatives. But currently there is very little extra funding for strategic investments.

Schools and colleges with room to grow undergraduate and professional/ self-supporting program enrollment have been best positioned to increase their share of tuition revenue. However, we should keep this advantage in perspective: between 2017-2021, the amount of money that has been gained by increasing enrollment represents about 2% of the total core instructional budget.

In other words, most schools and colleges are still more or less in the same financial position they were in 2015-2016 (with modest yearly increases). There has not been a wholesale redistribution of funding from some colleges to others. There has not been much expansion in the revenues coming into any of the schools or colleges. In fact, there are fewer funds available for strategic investments, even as Deans are charged with growing undergraduate and Masters enrollments. In this sense, the change to the new budget model was less a monetary change than a change in governance: budgetary decision making, and responsibility, have shifted from the Provost to the Deans.

Planning and Budget identified the following issues resulting from these changes.
Planning & Budget distributed a survey to Senate faculty in May 2022 in preparation for an open faculty forum. Quotes below are taken from faculty responses to that survey.

1. **Graduate funding has been squeezed.**
    a. As mentioned above, graduate funding was not included in the hybrid RCM budget model, which allocates tuition revenue and state funding based on undergraduate enrollment. First-year PhD student stipends are funded centrally, through Graduate Division. Central allocations to Graduate Division for PhD funding since 2016-2017 have been incremental, adding roughly 3% each year. We recommend an increased and more strategic annual investment.
    b. Planning & Budget heard from graduate students and faculty about the terrible living conditions experienced by students, especially international students, trying to live on shockingly inadequate graduate stipends. Although we are committed to increasing the number of PhD students on campus, we have concluded that graduate enrollment cannot be increased until the campus adequately supports the already existing enrollment. We endorse a performance-based incentive model that ties graduate funding to research success and degree completion.

c. “My main concern with the budget model is that it doesn't provide any source of funding for graduate students, which seems a critical oversight for an R1 institution.”
d. “TA resources are diminishing. UG admissions are going up. Funding for Ph.D. students is not keeping up with increase in cost of living.”
e. “Our [PhD] students have the most abysmal funding and it hurts us continuously.”

2. **While responsibility for faculty, staff, TAs and strategic initiatives has shifted to the schools and colleges, enrollment funding is not adequate to meet this responsibility.**
    a. “The colleges/schools are given the full power to manage their budget and make decisions around their budget.”
    b. “[The budget model] has made the funding allocation to colleges more in line with enrollment numbers.”
    c. “Central Administration… has been passing off more and more duties to colleges without any funds also flowing to be able to manage these tasks.”
    d. “If the budget model is decentralized, how are campus-level strategic decisions implemented?”
    e. “It is hard to maintain morale and to build anything with this budget model that also telegraphs to units that there's no central buy-in to the mission and purpose of our university.”

3. **The hybrid RCM model creates an atmosphere of competition between the schools and colleges and impedes interdisciplinary collaboration.**
    a. “The budget is highly inequitable.”
    b. “Creates a hunger games situation where each unit is fighting every other unit desperately for scraps.”
    c. “[The budget model] leads the campus to under-invest in common goods such as Grad Division, the library etc.”
    d. “Diversity initiatives and interdisciplinary graduate programs …are two areas that would directly benefit the university but that I have seen fall apart because of the lack of centralized funding to support [them] across units.”
    e. “This budget model is a hindrance to interdepartmental and especially inter-college efforts, particularly for new efforts in sustainability.”

4. **UCR, like many UCs, is stuck in a growth trap: enrollment must increase to cover the rising cost of salary and benefits. But increased enrollment requires increased investment in facilities, faculty and especially staff.**
    a. Although there is currently no clear accounting of this issue, several administrators on campus have suggested that the cost of instruction and services per undergraduate student is higher than the tuition and state revenues per student. The cost of education appears higher for laboratory science and engineering students, and students requiring significant academic support (from the Academic Resource Center).

b. “There is now more emphasis on undergraduate enrollment and masters programs because they generate the highest revenue.”
c. “The cost of educating our current enrollment of undergraduates is not being adequately covered by central campus.”
d. “How does the university plan to address the growth trap? Since only a small part of the college budget is tied to enrollment, expanding students within the college puts a squeeze on funding per student.”
e. “[In] recent faculty recruitments, …strong research areas are passed over for other areas that will increase undergrad enrollment.”

5. UCR requires a strong cultural change around budget transparency at every level.

a. “I am not aware of any efforts to provide transparency and accountability in the way units have used their budget allocations.”
b. “[The budget model] represents misguided efforts to mechanize good decisions through manipulation of incentives, which is very likely to turn bad.”

Faculty respondents to the P&B survey (n=114) who know where to find information about:

Graduate funding	36%
Department budget	35%
School/college budget	20%
University budget	13%