CFC 7/11/24

THE STATE BUDGET OUTLOOK

The FY25 state budget allocates $134.8M in new ongoing funding to the University of California, composed of:

- 5% increase to the base state budget
- $125M cut to the base state budget
- $31M to replace nonresident undergrads with CA undergrads, available only to Berkeley, Los Angeles, and San Diego.
- Funding for UC Merced Medical School building and adjustments to graduate medical education funding.

The amount that will be allocated to UCR depends on our CA undergraduate enrollment for FY25, which was down in FY24 (26,426) as compared to FY23 (26,809) and may be down even further for FY25. Thanks to concerted efforts to increase student credit loads, we have been able to mitigate the effect of decreased headcount, but we need both (more students, more credits/student) to ensure that our share of the state budget allocation is not decreased.

The CA state legislature has proposed the following plans for funding UC over the next several years, but the current legislature cannot mandate spending in future years, so these plans may not stand the test of time. The status of the state economy next spring, and our campus undergraduate enrollment for Fall 2025, will significantly impact near term state funding for UCR.

FY26:

- restoration of the $125M reduced in FY25
- 7.9% cut (estimated at $376M)

FY27:

- 5% increase to the base budget
- $31M to replace nonresident undergrads with CA undergrads, available only to Berkeley, Los Angeles, and San Diego.
- a one-time repayment for the skipped year (FY26)

FY28:

- 5% increase to the base budget
- $31M to replace nonresident undergrads with CA undergrads, available only to Berkeley, Los Angeles, and San Diego.
- another one-time repayment for the skipped year (FY26)

Here is a table representation for FY25-FY27:

State Funding Proposal	Final Budget Act of 2024			
	Actual 2024-25	Projected 2025-26	Projected 2026-27	Total
General Operations				
2024-25 Compact	$227.8			$227.8
2025-26 Compact *		deferred	$240.8	$240.8
2026-27 Compact **			$253.0	$253.0
Nonresident Swap	$31.0	deferred	$31.0	$62.0
Base Budget Cut/Restoration	-$125.0	$125.0		$0.0
7.9% Cut to Base State Budget		-$376.8		-$376.8
Subtotal General Operations	$133.8	-$251.8	$524.8	$406.8
Program Specific				
UCM Medical Education Bldg.	$14.5			$14.5
Proposition 56 True-up	-$13.5			-$13.5
Subtotal Program Specific	$1.0			$1.0
Total overall state funding	$134.8	-$251.8	$524.8	$407.8
Total Ongoing Funding (perm)	$134.8	-$251.8	$284.0	$167.0

*Legislative proposal is to provide this FY26 deferred funding as 1-time in FY27 and FY28
**Estimated figure for 5% increase

Note: "Compact" refers to the agreement between the Governor and UC to support resident enrollment growth in exchange for increased state funding

BUDGET PLANNING AT UCR

While the outlook for FY25 is not as dire as predicted in March, the outlook for the following year is very concerning. Therefore, we are planning **now** to be able to weather the significant cut likely to come in FY26.

It turns out that units save money every year on salaries and benefits through open positions that result from retirements, separations, and delayed hiring. **These savings have contributed to a more than doubling of core carryforward on campus in the past four years** (from $114.4M in FY21 to $256.8M in FY24). We propose that CFC recommend to the Chancellor that we use the mechanism of “salary savings” to meet our fixed cost increases for FY25 and FY26. “Salary savings” refers to a budget cut only to the salary component of a unit’s core budget. For the schools and colleges, the salary savings cut will be 4.5%; for all other units, the salary savings cut will be 6%. Since the cuts are applied only to the salary component, the effective total budget cut ranges from 2.56-3.41% for academic units and 2.0-4.1% for support units. Unit heads are encouraged to share the specifics for their organization with their staff and faculty.

Given the large, and growing, carryforward accounts in every organization, unit heads are encouraged to use these carryforward funds to fill the gaps in their budgets. There will be no freeze on hiring; all hiring plans can proceed as planned.

The revenue from salary savings amounts to about $16M. Combined with our portion of the new state revenue (we have not yet been told the exact amount) and other smaller sources of revenue (e.g., investment income, returns from the composite benefit rate pool, new nonresident tuition), we will be able to meet our fixed cost increases of $31M for FY25. When we know these final amounts, we will detail them in our annual fall budget letter to the campus community. We also believe this action will best position us to be able to address FY26 and FY27 core budgets without additional reductions, depending, of course, on the outlook for the economy of the state of California next spring. While the state suggests it will support the UC budget going forward, that support ultimately depends on the state's economic recovery. We are encouraged by the legislative proposal to provide one-time funding in FY27 and FY28 to cover the deferred 5% increase from FY26.

FINAL THOUGHT: THE IMPORTANCE OF ENROLLMENT

As noted above, our state allocation depends on enrollment, specifically, CA undergraduate enrollment. The "compact" with the Governor that provides for annual budget increases is focused on growing that enrollment. To ensure that we do not receive a disproportionately large cut in FY26, we must endeavor to increase enrollment of new students in fall 2025 to meet the targets set by the associate deans in the colleges and schools. Other opportunities for us to increase our revenues include enrolling more non-resident undergraduates and more master's students. These fund sources help to mitigate the effects of state budget reductions and allow us to continue our operations as planned.