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Deans
Vice Chancellors
Vice Provosts
University Librarian
Academic Senate Chair
Athletics Director
Cal Performances Director
BAM/PFA Director
Associate Chancellor
Chief of Staff to the EVCP

RE: Fiscal Year 2020-21 Budget Call Letter

Dear Colleagues,

I am writing to share with you information about this year's budget process, including assumptions, timeline, and deliverables.

Financial Overview and Assumptions

As we near the beginning of the fall semester, COVID-19 continues to cause enormous uncertainty with respect to Berkeley's operations and its financial position. Enrollment, tuition, state funding, auxiliary operations, and access to campus for instruction and research are all in play and will remain so depending on the course of the virus and its implications for public health and the economy. Consequently, as we look to establish a budget for the current year, we must do so with a great deal of flexibility, recognizing that our circumstances can change quickly – either positively or negatively – in the weeks and months ahead.

Despite this uncertainty, several months of in-depth operational planning and financial analysis have produced a set of assumptions that will guide us in the development of our budget. These assumptions were shared with the Cabinet, Council of Deans, Academic Senate, Chief Administrative Officers, and Divisional Finance Leaders over the course of the summer.

1. The projected $340M campus-wide impact of COVID-19 in FY21 will first be reduced by $125M in already-approved mitigation strategies, including a hiring freeze, a pause on staff merit increases/faculty range adjustments, and federal funding from sources such as the CARES Act and FEMA.

2. The remaining $215M gap will be closed through additional actions, determined through the budget process, including the use of cash reserves, expense reductions, and loans.

3. COVID-19 will impose $65M in common good expenses, including expanded facilities cleaning, remote instruction, and virus testing, that must be borne by the campus as a whole.

4. The financial impact on auxiliaries will be addressed separately from the rest of campus in order to protect the academic enterprise to the greatest extent possible. Loans will be used in addition to expense reductions and reserves to address the severe financial losses experienced by the auxiliaries.

Even taking these steps, Berkeley is projected to run a $200M deficit in FY21 that will require an estimated three years to eliminate, assuming the campus returns to normal operations in the spring semester. The virus will have both short- and long-term financial consequences. For example, the significant lost revenue experienced by auxiliaries should recover quickly once the threat of the virus has passed. On the other hand, lost state funding due to a COVID-related economic downturn may take years to recover. Of note, Berkeley has yet to recover from the state funding reduction that occurred a decade ago during the Great Recession.

Of particular concern are reserves in the central ledger, which have steadily declined over the past decade due to several factors, including: the need to recover from Berkeley's $150M structural deficit; increased costs resulting from growing enrollment and the need to remain competitive in terms of faculty and staff salaries; and, as indicated above, state funding reductions and no tuition increases in seven of the last eight years. Prior to COVID-19, reserves in the central ledger were projected to be $39M at the conclusion of FY21. Sound financial practice dictates that reserves in the central ledger should be ~$300M (25% of the $1.2B central ledger). As a result of COVID-19, the central ledger will fall into a deficit this year that is forecast to grow to more than $100M by FY24 unless steps are taken to correct the problem. In concert with the budget process this year, a task force will be appointed to develop a plan for returning central ledger reserves to responsible levels over the next three to five years, beginning in FY22.

Budget Process

Given our current circumstances, the budget process this year will be abbreviated in terms of the activities, timeline, and materials submitted. Our usual six-month process will be compressed into approximately two months and focused on the steps you will take to address your reduced central funding and other financial challenges you may be facing as a result of COVID-19 or other factors. To support budgetary discussions and decisions, you are being asked to submit a small number of financial templates that we anticipate can be prepared relatively quickly in order to serve the shorter timeframe and scope of the process:

Week/Date	Activities
Week of August 10	Budget process launched with release of call letter, timeline, guidelines, templates and FAQ
Week of August 17	FP&A holds office hours for completion of budget templates
Friday, September 4	**Budget templates due to FP&A for submission to EVCP**
Weeks of September 14 & 21	EVCP holds budget meetings with deans and vice chancellors

Week of September 28	Finance Committee holds decision meetings
Week of October 5	Budget decisions communicated to campus
Friday, October 23	**Budgets due in CalPlan**

Key issues we wish to address during the budget process – and that the templates have been designed to facilitate – include the following:

1. **Plans to address reductions in central funding**
   As we have shared with you in recent weeks, central funding in each division next year is being reduced based on FY20 adjusted expenses. These adjustments represent the exclusion of major categories of academic expense (e.g., faculty salaries and wages, student fees, scholarships and fellowships) from the calculated reduction in order to provide some relief to the colleges, schools, and administrative units with significant student support responsibilities. Recognizing the severity of these reductions, we want to provide you with the greatest amount of flexibility in how they are addressed, including the use of reserves, expense reductions, and loans (in the case of highly-impacted auxiliaries). We are asking you to provide specific information about your plans for FY21, but also to share with us more broadly and strategically how you might absorb these reductions should they continue in FY22 and FY23. We want to be particularly prudent about the use of reserves. There will be the temptation to rely heavily on reserves in FY21 to avoid painful reductions for what may be a short-term financial crisis. Doing so, however, only reduces your flexibility in FY22 and FY23 should the crisis continue. We must all weigh our options carefully.

2. **Impact of COVID-19 and other factors on division revenue and expenses**
   As part of our COVID-19 financial analysis this spring, we focused primarily on campus-wide impacts and those experienced by auxiliaries, realizing that there would be additional, division-specific impacts that would need to be captured, as well. These include lost revenue from self-supporting programs, professional master's programs, executive education, sales and services, recharge, and revenue sharing with UNEX and Summer Sessions among others. On the cost side, similar to the campus-wide common good expenses we are planning for, there are likely additional expenses in the divisions that you will experience, as well. As part of our budget planning, it is critical that these impacts are brought to light, quantified, and discussed within the context of your overall financial performance.

3. **Strategic Use of Reserves**
   As a consequence of COVID-19, the regents postponed their plan to move forward with cohort tuition and we will likely face another long-term reduction in state funding. These circumstances reiterate the risk of relying on these funding sources and the need to develop other sources of revenue. Although I realize that you will need to use reserves to mitigate financial losses, I don't want to discourage their use for strategic purposes, as well – particularly for revenue generating activities – should you have the resources to do so. They will, in fact, be the only source of funding we have this year to fund strategic priorities. The crisis we face has also created some new opportunities for programs, and I urge you to keep

this in mind. As in past years, these requests will require review during the budget process, though as was the case last year, broad authority to move forward will be granted.

4. **Requests for Extraordinary Relief**
   We recognize that the FY21 reductions will be difficult to implement and will pose enormous challenges for the campus. It is for these reasons that we are encouraging the use of reserves and other short-term strategies to get us through the worst of the crisis. It is also why we will reconsider the reductions annually – if not more often – so that they can be adjusted if needed based on changing circumstances. In addition, we have set aside $1.5 million to address inequities and critical needs that must be funded even in times of fiscal adversity. You are invited to request funds from this pool of resources, though allocations will only be made in cases where extraordinary relief is justified. This is not an opportunity for you to request central resources to support a traditional unmet need or to fund a strategic initiative, as would have been the case in previous years. Rather, you must demonstrate that a lack of funding will, for example, result in a significant inequity, an inability to meet an external obligation (e.g., legal, compliance, contractual), or a risk to the health and safety of the campus community.

Budget Templates

Four templates, described below, will be completed as part of the budget process. These templates, along with guidelines and planning assumptions for completing them, will be provided to your Divisional Finance Leaders and posted on the CFO website early this week.

- *FY21-FY23 Budget Planning Template:* Set in the form of a SRECNA, this template will serve as the primary means through which the overall financial performance of your division will be examined in relation to your strategies to address your budget reduction (e.g., expense reductions, use of reserves), fund critical priorities, and manage other COVID and non-COVID-related impacts to your budget.

- *FY21 Expense Reduction Template:* This template will be used to summarize the specific cost reduction strategies you will implement to address your budget reduction this year.

- *FY21-FY23 Planned Use of Reserves:* This template will be used to summarize the ways in which you plan to use reserves either to mitigate the impact of your budget reduction or invest in strategic initiatives (e.g., capital projects, revenue generating activities).

- *Narrative Template:* This template will be used to provide context to your financial schedules. In it you are asked to briefly describe the impact of COVID-19 and other factors on your revenue and expenses, as well as how you plan to address your budget reduction and fund critical priorities. There is also space to make a funding request from the $1.5M Extraordinary Relief Pool.

Thank You

Needless to say, we find ourselves in extraordinary circumstances that have significantly upended the way we operate at Berkeley, including the implementation of this budget process. Though uncertainty has delayed its launch, I believe the end result is a carefully-reasoned process, based on a reasonable financial analysis. Our intent is to provide you with flexibility to address the financial challenges while preserving, to the greatest extent possible, the quality of our programs and services. To that end, I want to thank the Cabinet, the Council of Deans, the Academic Senate, the Chief Administrative Officers, and the Divisional Finance Leaders for the invaluable input provided over the past several months. Your contributions have led to a better, more equitable process that will serve the campus well in these difficult times.

In partnership,

A. Paul Alivisatos
Executive Vice Chancellor and Provost

cc: Carol T. Christ, Chancellor
Chris Stanich, Associate Vice Chancellor, Financial Planning & Analysis
Cabinet Chiefs of Staff
Chief Administrative Officers
Divisional Finance Leaders