UC Berkeley
Office of the Provost

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Vice Chancellors
Vice Provosts
University Librarian
Academic Senate Chair
Athletics Co-Directors
Cal Performances Director
BAMPFA Director
Associate Chancellors
Assistant Executive Vice Chancellor

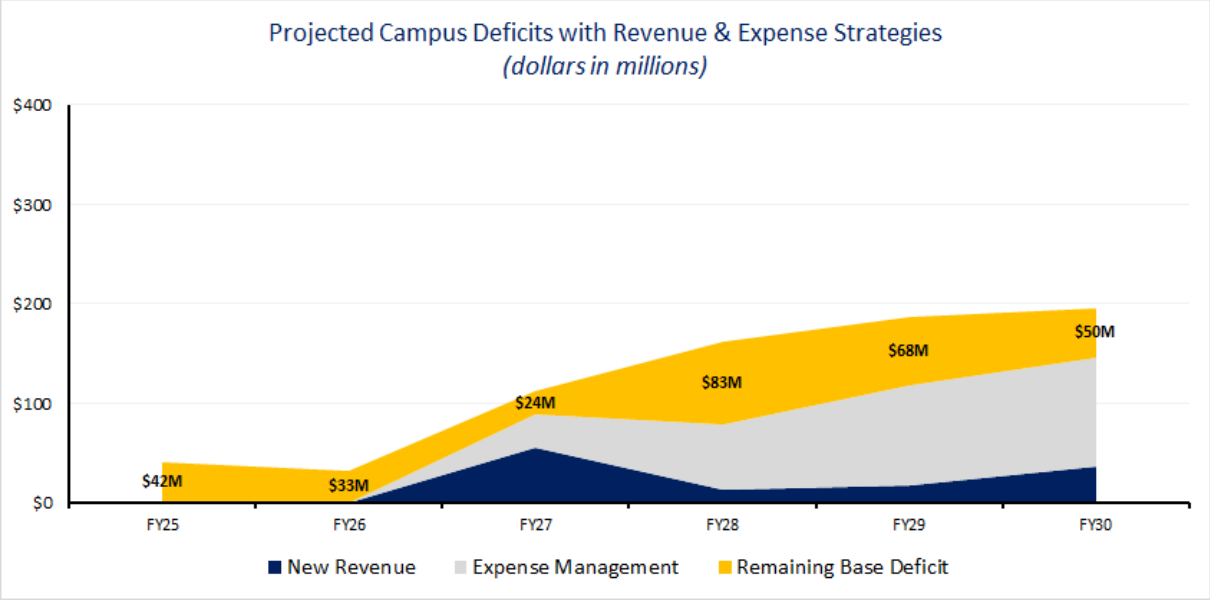
RE: Fiscal Year 2026–27 (FY27) Budget Call Letter

Financial Overview and Assumptions

At the time we were preparing for the budget process last year, UC Berkeley was facing a deficit for fiscal year 2025–26 (FY26) in excess of $150 million. Through the adoption of our new **Expense Growth Model (EGM)** and our new investment income strategy on distributed capital balances (DCBs), we were able to reduce the projected (budgeted) deficit to a more manageable $52 million. As of today, we are projecting to end FY26 with a $33 million deficit, which is better than originally budgeted. While the EGM and investment income strategy contributed to this lower deficit, so too did an unanticipated $37 million increase in state funding, as well as a $17 million one-time increase for FY26 that was included in the Governor's budget for FY27.

Despite that good news, we cannot take our foot off the pedal in terms of managing our expenses, as we continue to struggle with growing costs and because we simply cannot rely on being as fortunate next year (i.e., FY27) when it comes to unplanned revenue.

Over the next several years, if we are not diligent about limiting our expense growth, it will outpace growth in revenue, resulting in large and unsustainable deficits. Hence, we must build into our multi-year financial model expense growth consistent with the current EGM (3.6% annually), continue our DCB investment strategy, and identify other revenue streams and cost-saving measures. Our doing so will reduce campus deficits to manageable levels over the next several years, as illustrated in this graph:



As we look to FY27 specifically, our financial outlook is currently more positive than it was for the current fiscal year. The Board of Regents has extended the Tuition Stability Plan for another six years, through which we will receive cohort-based tuition increases tied to inflation, plus an additional one percentage point increase for allocation by the Chancellor for strategic purposes (an increase of 4.3% in total). We have decided to allocate this $4M increase for strategic purposes to support campus renewal, one of Berkeley's highest priorities. Additionally, there is a 7% increase in state general funding for the University of California in the Governor's proposed budget, which, if enacted, will begin to make up for the deferral of funding that had been committed through UC's Compact with the Governor. Finally, the Office of the President has approved Berkeley's plan to increase undergraduate non-resident enrollment next year from 19.6% to 20.7%, which we project will yield an additional $13.8 million in non-resident supplemental tuition (NRST). Under these circumstances, and combined with a campus-wide EGM of 3.6%, we project reducing our deficit next year to $24 million, which is less than 1.0% of the total campus budget.

Uncertainty remains, however. The budget ultimately passed by the state may be less favorable to the UC, particularly if there is a downturn in the economy. Likewise, an economic downturn that has a negative impact on the stock market will reduce our investment income, which we have become much more reliant on in recent years. We also still don't know what mandated compensation increases will be next year. The Regents will not make a decision for unrepresented employees until later this spring, and contract negotiations for many represented employees are ongoing. Finally, there remains a great deal of uncertainty with respect to federal research funding, including indirect cost recovery, and the extent to which other funding sources may be needed to mitigate funding losses in the short term. Therefore, we must remain cautious as we consider our budget for next year.

Budget Process Preliminary Decisions

The budget process for fiscal year 2026–27 (FY27) has been established within this context. We will continue to increase central resources for activities core to our mission, but at the same time, we must remain disciplined in terms of managing our costs. To that end, the divisions are being provided their EGM targets this week (see Attachment 1). Below are some central funding decisions made in advance of the budget process that the divisions will wish to take into account in preparing their budgets:

- The center will cover the full salary and benefits increases for state-funded Senate faculty (once determined), consistent with prior years.

- The divisions will cover the full salary and benefits increase for non-represented staff (once determined), as well as contractually mandated increases for represented staff.

- The center will provide one-time funding to campus divisions sufficient to cover a 4.0% salary and benefits increase for represented and non-represented staff who are paid on core funds. The divisions will have discretion as to whether these funds — versus other divisional funding sources — are used to pay for the mandated staff salary and benefits increase.

- The formula-based allocation for EVCP TAS funding will be increased from $84.9 million to $89.6 million (a 6% increase), including funds for Reading & Composition courses, to assist academic units in covering their instructional budgets.

- A $5 million Critical Priorities Fund will be established for the allocation of one-time resources during the budget process to address compelling needs for which there is no other funding source.

- $5 million will be allocated to launch the First Things First Initiative, the goal of which is to reduce bureaucracy and improve faculty support services (e.g., research administration, promotion & tenure process).

The decision to centrally cover 4.0% of the staff salary increase, which is higher than previous years, reflects the fact that compensation is the largest component of our budget and that increases in recent years have been difficult for the

divisions to manage, leading several units into or nearing a structural deficit. It is our hope that providing this increased funding next year will help divisions stabilize their budgets. While staff salary support next year will be provided on a one-time basis, we are working toward a potential realignment of the central ledger that will allow us to provide ongoing funding for these increases in the future.

Budget Process Timeline and Templates
Thanks to our early planning, we expect to complete the budget process and make/communicate decisions in early July. Below are the key dates for submitting, discussing, and communicating decisions about your FY 2026–27 budgets:

Dates	Activities
Week of March 2	Financial Planning & Analysis (FP&A) releases EGM targets (see Attachment 1) and budget process guidelines, assumptions and templates to the divisions
March 9 – May 1	Divisions complete budget templates and submit their budgets via Cal Planning
May 20 – June 22	Chancellor and EVCP hold budget meetings with vice chancellors, vice provosts, deans, and other select direct reports
June 17– July 2	Chancellor and EVCP review budgets and hold decision meetings
Week of July 13	FY27 budget decision letters distributed to divisions

Rather than focus narrowly on your finances during the budget meetings, we will use the meetings as an opportunity to engage in high-level discussions about your overall strategy, your priorities for the next few years, and your financial plan for moving forward on them within the context of our financially constrained environment. We recognize that for some divisions, the top priority will be to address structural financial challenges. Therefore, we will also use these meetings as a forum to discuss and plan for these challenges.

We will also pay special attention during this year's budget process to compensation increases and staff hiring planned for next year. As we have shared previously, growth in compensation this year is 5.8%, which is higher than the 4.0% growth targeted in our budget. If maintained, this rate of growth would add over $200 million to our budget by FY30, which is not sustainable. To exercise tighter control over compensation next year, the divisions will be asked to submit a Strategic Hiring Plan for Staff Positions and also required to submit an EGM exception request for compensation growth that exceeds 4.0%. Both are described below.

Note: For divisions that submit budgets achieving their EGM targets and that don't make requests for EGM exceptions or central resources, we will consider approving your budgets without a meeting.

The following templates will be completed as part of the budget process:

- *Organizational Strategy & Strategic Priorities Template*: This template will serve as the basis for your budget strategy meeting later this spring. In it you are asked to describe your overall strategy, the key priorities you will pursue over the next one to three years, as well as your financial plan to achieve them. This template should also be used to describe any major financial challenges you face as a division. Information provided in this template should build off of the strategic planning information you have been asked to provide this spring.

- *FY 2026–27 — FY2028–29 Budget Planning Template*: Set in the form of a SRECNA (Statement of Revenues, Expenses, and Changes in Net Assets), 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 for funding critical priorities and managing other impacts to your budget (e.g., staff salary and benefits increases). Included on this form will be your Expense Growth Model (EGM) target and the calculated amount that the budget you submit is either under or over

this target. For budgets that exceed the target, the division must submit a request for an exception (see below).

- *FY2026–27 Strategic Hiring Plan for Staff Positions*: As noted above, compensation continues to grow at levels that are unsustainable in the long-term. Therefore, as part of the budget process, we are asking divisions to provide additional information on their planned staff hiring for next year (not including academic appointments). In the Strategic Hiring Plan for Staff Positions, you are asked to describe your planned "to be hired" positions for next year at an aggregate level, including how they support your strategic priorities and the sources of funding you will use to pay for them.

- *FY 2026–27 Request to Spend Beyond the Expense Growth Model (EGM) Target*: Recognizing that some divisions may have a compelling need to spend beyond their targets, this template should be completed if you wish to request an exception, which will be considered for the following reasons: (1) undue hardship/critical need; (2) growth in a specific revenue source to fund additional expenses, thereby not increasing a deficit; (3) spending on faculty gift funds; and (4) spending on compensation in excess of 4.0%. Note: additional expenditures associated with new Senate faculty (i.e., those starting in FY27) will not count against the growth-in-expenditure target. Divisions will be expected to make a strong business case, based on priorities and need, to secure an exception. Further information has been provided in Attachment 1: FY27 Budget Process Expense Growth Methodology.

- *FY 2026–27 Request for Central Resources*: As referenced above, a $5 million Critical Priorities Fund has been established to make resource allocations during the budget process. This template should be used to make requests from this fund. This is obviously a very small amount of funding, so only the most compelling investments will be considered; in this regard, investments that have long-term payoffs in terms of process simplification and automation, projects that may generate a measurable net impact to the bottom line, or efforts to address pressing and critical compliance/legal matters will have priority. We will consider how these investments improve the productivity of our teaching and research enterprise. We will also carefully examine divisional reserves to assess the need for central funds relative to a division's capacity to cover all or part of the expenses. If approved, funding allocated from the Critical Priorities Fund will not be subject to the EGM target.

- *FY 2026-27 Planned Use of Reserves*: This template will be used to summarize the ways in which you will use reserves to invest in strategic initiatives (e.g., capital projects, revenue-generating activities) or meet other demands in your budget.

The templates, detailed guidelines and planning assumptions will be provided to your Divisional Finance Leaders (DFLs) this week.

Thank You

As we launch the budget process this year, we want to acknowledge the important role that you and your staff play in making this process successful, through the thoughtful questions and valuable advice you provide in advance of the process, and also through the resourcefulness and creativity that you demonstrate in preparing your budgets. We recognize the complexity and the trade-offs in the decisions you make, and we appreciate your leadership in ensuring that UC Berkeley remains a world-class university. Like all universities, UC Berkeley faces some challenges, but the long-term future of our campus is extraordinarily bright. You continue to be outstanding partners in moving us toward this future.

Fiat Lux.

Benjamin E. Hermalin
Executive Vice Chancellor and Provost

Richard K. Lyons
Chancellor

cc: Chris Stanich, Associate Vice Chancellor, Financial Planning and Analysis
Rita d'Escoto, Executive Director, Budget and Financial Operations
Associate Cabinet
Chief Administrative Officers
Divisional Finance Leaders