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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 2021-22 Budget Call Letter

Financial Overview and Assumptions

A year after we released our first projections of how COVID-19 would impact the Berkeley campus financially, we are clearly through the worst part of the crisis and there is cause for guarded optimism. Yet major challenges remain and will continue to reverberate through the campus in the years to come.

While we have weathered financial crises in the past, this one has been unprecedented given the way it has affected multiple revenue streams simultaneously (e.g., tuition & fees, state funding, auxiliaries), created new costs (e.g., cleaning, testing, remote learning), and generated a great deal of operational and financial uncertainty. As we look ahead to FY 2021-22, we are projecting that the impact of COVID-19 will begin to subside. Students, faculty and staff will return to campus, as we resume a more traditional approach to instruction, research and operations. This return to normalcy will mark the beginning of financial recovery for the campus.

Fortunately, the financial impact of the pandemic – while still very harmful – has been less severe than originally projected. Due to generous federal relief funding, increased private giving, and disciplined control of expenses (e.g., salaries and wages, travel, etc.) among other factors, the year-end operating deficit for FY21 is projected to be much lower than the $200M deficit projected a year ago[1]. We are grateful for the way the entire campus rose to the occasion and has contributed to our better-than-expected financial performance this year.

[1] The $200M deficit was based on an overall $340M impact of COVID-19 as projected in spring 2020.

Looking ahead, we are cautiously optimistic with respect to possible actions now under consideration by the Legislature and Board of Regents. We expect state general funding to be restored to FY20 levels next year along with a hoped-for 5% increase, and the Regents are seriously considering cohort tuition for fall 2022, both of which would put us on a path to greater financial health and stability. However, final decisions have yet to be made and so we must continue to exercise great fiscal restraint as we approach the budget process for FY22. As we have shared previously, financial recovery from the pandemic will be a multi-year endeavor: COVID-related costs (testing and vaccinations, cleaning, remote instruction) must continue for the time being; campus auxiliaries, while greatly improving next year, will once again suffer losses ($55M down from $180M); and we anticipate no additional federal relief funding in FY22 to mitigate these challenges. In addition, enrollment levels, particularly of international students, remain uncertain, and that means we could be confronted with dramatically reduced tuition and fee revenue if these students do not enroll in the fall. It is also a distinct possibility that the Legislature will require UC Berkeley to begin reducing non-resident enrollment from 24.4% to 18% over the next five years. Doing so will have grave financial consequences if the state does not compensate the campus for the lost non-resident supplemental tuition (NRST).

The bottom line: The campus-wide impact of COVID-19 and other financial factors support our projection that we will still have an operating deficit at the conclusion of FY22. As a result, we must, as a campus, continue to confront difficult challenges and choices in order to preserve and protect the excellence of our academic core.

The impact of COVID-19 will be felt acutely in the central ledger, where roughly $47M of campus-wide costs related to the pandemic will be incurred. In addition, central investments and expenditures, which were postponed this year due to COVID-19, will return in FY22. These include 3% range adjustments for faculty, one-time funding to off-set salary increases for staff, increased costs for faculty start-up and retention, and increases in debt service and other capital commitments to improve our facilities and infrastructure. As a result of both COVID- and non-COVID related obligations, ending balances in the central ledger are projected to be over $30M in deficit by the conclusion of next year.

While the $65M cost recovery assessment/budget reduction has provided much needed support to meet these obligations, it is still insufficient to cover both COVID-related costs and other operational and capital needs that the center must pay for each year. Hence, the assessment will need to be continued for a second year. Similarly, the restrictions on hiring, equity adjustments, and travel will continue in FY22, as well, all of which have mitigated financial losses this year and will be needed to do so again next year.

Budget Process

As was the case last year, the budget process this year will be streamlined in terms of the activities, timeline and materials submitted. Our focus will once again be to discuss the impact the pandemic and other factors are having on your operations and the ways in which you are moving forward on your priorities in light of the challenges and opportunities you face. In addition, recognizing that the cost recovery assessment poses its own challenges, we want to discuss your plans for meeting this reduction in central funding next year. Below is the timeline for submitting, discussing, and communicating decisions about your FY22 budgets:

Week of	Activities
June 21	Financial Planning & Analysis (FP&A) releases budget guidelines, assumptions and templates to the divisions
August 16	Divisions complete budget templates and submit their budgets via CalPlanning
September 13 & 20	EVCP holds budget meetings with deans and vice chancellors
October 11	Finance Committee holds decision meetings
October 25	Budget decisions communicated to divisions via email
November 8	Final budget allocation packets distributed to divisions

Specific topics we wish to address during the budget process include the following:

1. **Impact of COVID-19 and other factors on division revenue and expenses**

   Last year at this time, predicting the financial impact of COVID-19 on divisional revenues and expenses was fraught with uncertainty. With over a year's experience behind us now, it is important to understand the impact the pandemic is having on divisional revenue sources such as 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 expenses we have incurred for cleaning, testing, remote instruction, etc., it is important to know how the pandemic has affected divisional costs – both negatively and positively. For example, increased costs for COVID-related expenses may have been mitigated by ancillary reductions in travel, salaries & wages, etc. 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 and academic priorities.

2. **Plans to address reductions in central funding**
   As described above, the cost recovery assessment will need to be continued in FY22 (see attached) to account for the continuation of COVID-related expenses and the recurrence of costs the center must pay for on an annual basis (e.g., faculty range adjustments, one-time support for staff salary increases, faculty start-up and retention, debt service and capital investments). 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. We ask that you provide specific information about your plans for absorbing these reductions in FY22.

3. **Strategic Use of Reserves**
   In the coming years we will continue to face a great deal of uncertainty with respect to state funding, particularly as it relates to non-resident enrollment and NRST, as well as tuition, depending on the regents' support for a cohort model for rate increases. These circumstances reiterate the risk of relying on these funding sources and the need to develop other sources of revenue. Although we realize that you will need to use reserves to mitigate financial losses, we don't want to discourage their use for strategic purposes, as well – particularly for revenue generating activities. They will, in fact, be the primary source of funding we have this year to fund strategic priorities. 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**
   Upon announcing the continuation of the $65M cost recovery assessment in FY22, we appointed a working group to make recommendations about the methodology used for distributing the assessment across campus divisions. Among its recommendations, the working group included a proposal to increase the size of the Extraordinary Relief Pool from $1.5M to $15M to better mitigate the negative consequences the assessment held for campus divisions next year. Over the summer, the working group will work in consultation with campus leadership to determine the final amount of the extraordinary relief pool and the means through which it will be funded. As part of the budget process, the divisions are invited to make requests for this funding, though allocations will only be made in cases where extraordinary relief is justified based on the impact of the cost recovery assessment to your division. 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.

Budget Templates

Four templates, attached and described below, will be completed as part of the budget process:

- *FY22-FY24 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.

- *FY22 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.

- *FY22 Planned Use of Reserves:* This template will be used to summarize the ways in which you will 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 Extraordinary Relief Pool.

Detailed guidelines and planning assumptions will be provided to your Divisional Finance Leaders (DFLs) to support the completion of these templates.

Thank You

Needless to say, we once again find ourselves in difficult circumstances as we begin our second budget cycle during the COVID-19 pandemic. Looking back on the past year, however, the campus has done an extraordinary job in preserving the quality of our programs and services while making the very hard decisions needed to sustain ourselves financially. To that end, we 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 and leadership provided over the past year, which has resulted in better financial performance than we had reason to expect when the pandemic began.

Carol T. Christ
Chancellor

Catherine Koshland
Interim Executive Vice Chancellor and Provost designate

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