Berkeley
UNIVERSITY OF CALIFORNIA

Catherine P. Koshland
Interim Executive Vice
Chancellor & Provost

200 California Hall #1500
Berkeley, CA 94720
510 642-1961 phone
ckoshland@berkeley.edu
evcp.berkeley.edu

April 15, 2022

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 2022-23 Budget Call Letter

Financial Overview and Assumptions

As we look ahead to FY 2022–23 (FY23), the Berkeley campus will be on stronger financial footing than it has been for the past two years. First, the worst of the COVID-19 pandemic appears to be behind us. Enrollment has recovered and the campus has returned to the delivery of classroom instruction. And though we can't say for certain what lies ahead with respect to COVID-19, we know that we will be prepared to address it, given the resourcefulness and resilience demonstrated by our campus community during the crisis.

Second, state general funding has been restored to pre-pandemic levels with the expectation that the UC System will receive 5% annual increases over the next several years as a result of our compact with Governor Newsom. While this is a very positive development, it must be tempered by the fact that the UC campuses must cover "off the top" their share of UCOP assessments, which for Berkeley was $34 million in FY22 and expected to grow. In addition, discussions are underway to adjust the enrollment-based formula next year through which UCOP distributes state funding to the campuses. Commonly referred to as "rebenching," such adjustments, when made in the past, have not been advantageous to Berkeley, as they have favored campuses for which undergraduate students are a higher percentages of overall enrollment than at Berkeley. Depending on the outcome of rebenching, state general funding next year is projected to increase between $11 to $19 million.

Third, for the first time in many years, the UC Board of Regents has approved annual tuition and fee increases through FY 2026–27. Because these increases will be implemented incrementally on a cohort basis,[1] their full impact won't be felt for four years. Nevertheless, the increases strike an important balance between maintaining affordability and predictability for students and the need to provide adequate funding for instruction and support services. That being said, policy decisions

[1] At the undergraduate level, increases will apply only to new cohorts of incoming freshmen and transfer students. At the graduate level, all students will pay the increases. Annual increases are based on inflation and apply to tuition, non-resident tuition, and the Student Services Fee.

made by the Regents and the Legislature will limit the tuition and fee revenue Berkeley ultimately receives to support campus operations. The Regents' decision to increase return-to-aid from 33% to 45% on incremental dollars generated through cohort tuition will limit our ability to cover cost increases. At the same time, the Legislature's mandate to reduce undergraduate non-resident enrollment from 24.4% to 18% over the next five years will cause a dramatic reduction in non-resident supplemental tuition (NRST) unless reimbursed, as promised, by the state. Depending on whether Berkeley is ultimately reimbursed for lost NRST, tuition and fee revenue next year is projected to increase by between $2 to $10 million.[2]

While projected increases in state support and tuition and fees are welcome news for the campus, they must be weighed against significant cost increases projected for next year and beyond. Notably, for FY23, President Drake has mandated a 4.0% increase in faculty range adjustments and a 1.5% equity increase, the projected cost of which ($13 million) will be paid by the center. With respect to staff, a 4.5% merit increase has been mandated for non-represented employees, while the campus must also cover contractually mandated increases for represented staff. The projected cost of staff increases next year ($32 million) will be covered by the divisions with support from the center (as described below). These costs alone exceed the increased revenue projected from state support and tuition and fees next year.

In addition, there are other costs next year that the campus must be prepared to cover. The COVID-19 pandemic will remain an unknown variable, and to the extent that costs continue (*e.g.*, testing, cleaning, remote operations), they will be borne by the campus alone, since there will be no more federal relief funding to rely on. Also, funding for the campus's IT infrastructure has not kept pace with the demand for services. As shared with you this week, in order to make critical improvements to the campus network, we expect to approve an annual assessment to be paid by the divisions, since there is no other source of funding to meet these needs. The assessment will be in addition to the center's annual network investment of $8.6 million, representing a new partnership where the central administration and campus units share responsibility for funding an essential service from which we all benefit.

Given these circumstances, we are able to implement a budget process for FY 2022–23 that reflects our improved financial circumstances from the previous two years, while recognizing that as cost increases continue to outpace growth in core funding (i.e., state funding, tuition and fees), we must remain conservative in our allocation of central resources. To that end, the following parameters have been established for the budget process:

- The center will discontinue the $65 million cost recovery assessment implemented over the past two years.
- The center will pay for faculty salary and benefits increases, consistent with prior years.
- The divisions will cover the 4.5% salary and benefits increase for non-represented staff, as well as contractually mandated increases for represented staff.
- The center will increase the permanent general allocation to campus divisions sufficient to cover a 3% salary and benefits increase for represented and non-represented staff 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.

[2] Projections include only centrally-collected tuition, NRST and Student Service Fee revenue. They do not include campus-based fees or program-specific fees such as PDST, self-supporting fees, etc.

- The allocation for EVCP TAS funding will be increased from $53 to $60 million, with no unit receiving less than a 3% increase next year.
- No requests for central resources (*i.e.*, Form B requests) will be accepted during the budget process.
- The hiring and travel freezes will be lifted, effective July 1, 2022.

In establishing these parameters, the most important consideration was the desire to eliminate the cost recovery assessment and provide permanent funding for staff salary increases for the first time in many years. Doing so, however, comes with the expectation that divisional resources will be used to fund all other priorities, as the center will lack the capacity to do so next year.

The health of the central ledger continues to decline. In order to make the financial commitments outlined above and maintain a positive balance in the central ledger next year will require a cash infusion currently estimated to be $100 million, the sources of which will include a surplus in the Composite Benefits Rates (CBR) pool, the realization of investment gains, and the use of loans provided by UCOP. While necessary, this strategy has its costs, including debt service paid on the loans and loss of future investment gains and income. This funding is also one-time, meaning that central ledger deficits will return in FY24 unless a permanent solution is adopted through the Financial Sustainability Initiative.

Budget Process

Despite our best efforts to return to a normal budget cycle this year, the recent enrollment crisis has delayed the process once again. As was the case last year, the process will be streamlined in terms of the activities, timeline and materials submitted. Unlike last year, however, our goal is to complete the process as close to the beginning of the FY23 fiscal year as possible, the result of which is a process that has been further streamlined to accommodate a shorter timeline. Below are the key dates for submitting, discussing, and communicating decisions about your FY23 budgets:

Dates	Activities
April 18	Financial Planning & Analysis (FP&A) releases budget guidelines, assumptions and Strategic Priorities Template to the divisions
May 27	Divisions complete and submit Strategic Priorities Template in advance of budget meetings with the EVCP
June 2-17	EVCP holds budget meetings with deans and vice chancellors
June 10	Divisions complete other budget templates and submit their budgets via CalPlanning
June 14-21	Finance Committee reviews budget submissions and holds decision meetings
July 13	Final budget allocation packets distributed to divisions

In order to complete the process at the beginning of the FY23 fiscal year, the budget meetings have been scheduled to begin before most of the budget materials are due. Rather than focus narrowly on your budget submissions during these meetings, we will use them as an opportunity to engage in more high-level discussions about your priorities for the next few years, your financial strategies for moving forward on them, and any obstacles you may face in achieving them. We recognize that for some divisions, the top priority will be to address profound, structural financial challenges. Therefore, we will also use these meetings as a forum to discuss and plan for these challenges. Afterwards, once all of the budget materials have been submitted, we will review them and address any outstanding questions with you before making final decisions about your budgets.

Budget Templates

Three templates will be completed as part of the budget process:

- *Strategic Priorities Template:* This template will serve as the basis for your budget strategy meeting in early June. In it you are asked to describe the key priorities you will pursue over the next one to three years, as well as your financial strategies to achieve them. This template should also be used to describe any major financial challenges you face as a division.

- *FY23–FY25 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 for funding critical priorities and managing other impacts to your budget (e.g., staff salary and benefits increases).

- *FY23 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) to support the completion of these templates.

Thank You

Needless to say, there has been no shortage of challenges to overcome this year. The COVID-19 pandemic, which we had thought was on the decline last year, reasserted itself through the omicron variant and once again required the diversion of resources that would have otherwise been spent on our core mission. Then, of course, the recent enrollment crisis posed grave threats to both our finances and our ability to provide a world-class education to many accomplished and deserving students. To that end, we again want to thank the Cabinet, the Council of Deans, the Academic Senate, the Chief Administrative Officers, and the Divisional Finance Leaders for the leadership, creativity, and perseverance you have shown over the past year. Berkeley will be stronger in the long run as a result of your efforts.

Carol T. Christ	Catherine Koshland
Chancellor	Interim Executive Vice Chancellor and Provost

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