Berkeley
UNIVERSITY OF CALIFORNIA

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Vice Chancellors
Vice Provosts
University Librarian
Academic Senate Chair
Intercollegiate 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,

As we look ahead to FY 2020–21, I am writing to give you a better sense of how to place our recent financial performance in the context of our overall institutional health and to offer you a qualitative sense of the approach we will take to this year's budget cycle, as well as our thinking about the next couple of years.

Financial Overview

As I shared with you in December, UC Berkeley concluded last year, FY 2018–19, with a modest net surplus and we forecast doing so again in FY 2019–20. It is a testament to the creativity and resourcefulness of our community that we find ourselves on more solid financial ground today. This is in no small part due to well-conceived new academic programs and philanthropy that have generated more revenue for the campus in recent years. At the same time, the development of new revenue streams has not completely shielded us from flat state and tuition income, requiring some reductions in services and staffing levels in many areas. This has been difficult for our community, and while we have been able to deliver extraordinary academic programs throughout this time, our staff, students, and faculty all feel the consequences. It is therefore important to understand what the financial picture will look like over the next few years.

A combination of revenue-generation and cost-reduction strategies have been central to eliminating our structural deficit. So too, however, has funding received on a one-time basis that may not be repeatable in future years, such as an unusually high level of bequests in FY18 and a special $25 million appropriation from the state last year to reduce our deficit. As this suggests and as you are aware, we remain in a financially fragile position, now and for the foreseeable future. In particular, reserves in the central ledger are less than $150 million — approximately half of what they should be. The central ledger acts as a shock absorber for the campus, shielding us from short-term fluctuations and facilitating a more stable financial environment to protect against future economic downturns. We must, therefore, begin to rebuild central reserves in the coming years.

With respect to forecasts for tuition and state support next year, there is some cause for optimism regarding the former. As early as next fall, the Regents are considering implementation of a cohort tuition model, through which incoming cohorts of new undergraduate students would pay a higher tuition rate that would remain constant over the course of a normative time to degree (6 years has been proposed). If adopted and maintained, this approach would produce a steady stream of new revenue in the coming years. As for additional state funding, however, no serious discussion of state re-investment in the University is occurring at this time. While we have received some additional funding in recent years, as indicated above, these dollars have been appropriated largely for one-time purposes rather than for general operations.

Our goal for next year is to continue investing our limited funds in key priorities, while remaining conservative elsewhere in order to maintain a stable financial position. As always, support for faculty and students will remain a top priority. Additionally, we will begin to address some serious areas of underfunding in certain academic areas that have come to light as part of the analysis behind finance reform — doing so is essential to ensuring a more equitable educational experience for all students, as well as building a simpler, more transparent and more predictable resource allocation model.

Strategic use of ending balances will also be emphasized next year. Prior to last year, we were extremely conservative in approving the use of these balances due to the uncertainty of our financial performance. At the time, we were not yet certain to emerge from our campus-wide operating deficit at the conclusion of FY 2017-18. In contrast, last year we approved over 90% of requests to use ending balances that were submitted as part of the budget process. We will maintain this approach for the current cycle. Given how extraordinarily limited our central resources will be next year, we encourage you to submit plans for the prudent use of your ending balances, as it will be the primary way in which we can move the institution forward. The same restrictions will apply; ending balances must be used to support revenue generating activities, capital investments, or other strategic priorities requiring one-time or short-term investments. Within these parameters, however, we have the capacity to lay the groundwork for our future long-term success.

Budget Process

The budget process will proceed this year as it has in the past with a few notable changes. First, we are moving the process forward this year so that budget allocation letters can be released by the start of the new fiscal year on July 1. To that end, we will hold the budget hearings and decision meetings earlier than last year. Also, we have decided not to repeat the group strategy meetings we held last February, in which all deans and vice chancellors participated. Instead, I will hold individual meetings with certain deans and vice chancellors during this time period, including those who are new to the process or are facing a particular financial challenge that warrants more in-depth discussion (e.g., how to plan for reduced funding due to finance reform, etc.). Finally, we have decided not to broadly solicit requests to fund divisional priorities from central resources next year (i.e., Form B requests). As indicated above, we will look to you to fund your new initiatives through ending balances. We may, however, ask a small number of you to develop a funding plan in a few targeted areas of central investment (e.g., to address finance reform inequity). Guidance for the preparation of these plans will be communicated separately.

Below are some key deadlines to keep in mind:

Milestone	Timing
One-Page Strategic Plan submitted	February 3
FY21 budget submitted in CalPlanning	March 13
Budget templates submitted (e.g., Narrative, Multi-Year, Reserve Investments, Revenue Generation)	March 23
Budget hearings	May 1-19
Decision meetings	May 22 - June 4
FY21 allocation letters distributed	June 30

Divisional Budget Improvement Targets

In establishing targets for next year, our focus will be to sustain and build upon our recent positive financial performance. Recognizing that we have achieved two years of modest campus-wide net operating surpluses – and with an eye toward their continuation in future years – we are not increasing the targets for FY 2020-21. The Net Operating Surplus/Deficit goal can be achieved by reducing expenses, growing net revenue, or both. Your goals are the starting point for budget decisions but, as was the case last year, final decisions will vary depending on an assessment of relative needs and the impact of these decisions on our mission. The specifics as to how we will measure each division's goal are included in the *FY 2020-21 Budget Guidelines* that the Office of Vice Chancellor of Finance will post on their website and distribute to the Divisional Financial Leaders (DFLs) under separate cover next week. We will check in throughout the fiscal year to monitor progress and work with you to address any challenges where necessary.

Strategic Use of Ending Balances

As indicated above, use of ending balances will serve as a major focus for investment in FY 2020-21, particularly for the implementation of revenue generating activities. Over the past ten years, growth in alternative revenue (e.g., self-supporting graduate professional degree programs, concurrent enrollment, etc.) has more than doubled, from $118 million to $301 million, and has been a significant contributor to our financial recovery. Expansion of these revenue sources – plus philanthropy – must constitute the new normal for Berkeley, as we must increasingly look beyond state funding and tuition revenue to move the institution forward. In this regard, we will once again ask units to submit revenue generation templates as part of the budget process. Also for FY 2020-21, in addition to revenue generating activities, we will include capital investments and one-time/short term investments in strategic priorities among the permitted uses for ending balances. All projects using ending balances must be approved as part of the budget process. The specifics on how to submit these requests will be included in the *FY 2020-21 Budget Guidelines*.

Temporary Academic Support (TAS)

Despite these challenging financial times, instruction remains a central priority that we will continue to support. To that end, we will expand the university's investment in TAS funding for next year. The methodology employed to allocate TAS continues the approach taken for the current academic year. Ben Hermalin, Vice Provost for the Faculty, will distribute allocation letters to the divisions in the next week or so.

Salary and Benefit Adjustments

UC Berkeley is committed to offering equitable pay. Therefore, a 3% merit/equity increase pool for non-represented staff will be implemented next year. As has been the practice for several years, schools, colleges, other academic units, research field stations, and museums will receive a one-time increase in their proportioned central funding to offset non-represented staff salaries and benefits. $5 million has been earmarked for this purpose in FY 2020-21. In addition we will seek to make $5 million available to support staff salary and benefit increases in campus support units (as we did this year for the first time). Our ability to do so will depend in part upon our financial outlook in terms of state funding and tuition. Approval of cohort tuition, for example, would provide us with greater flexibility to make such an investment next year. Consequently, our decision to move forward will be deferred until the Regents decide whether to approve a cohort tuition model later this month. Salary and benefit adjustments for ladder-rank faculty supported by central funds will also receive central resources. The Office of the Vice Chancellor of Finance will enter funding plans directly into CalPlanning.

Voluntary Separations/Retirement Incentive Program

We will not be offering voluntary separation or retirement incentive programs in FY 2020–21. For those units considering either voluntary or involuntary separations (e.g., layoffs, dismissals, retirements, ending employment contracts) please contact your Berkeley Regional Services HR Partner as soon as possible to coordinate your activities. Our goal is to ensure that units make the right decisions — ensuring the dignity of staff, minimizing disruption of operations, and being in compliance with all laws and policies.

BEAR Grants

Based on input from the Council of Deans, we will maintain the allocation for the Berkeley Excellence Accounts for Research (BEAR) Program as we established in FY 2017–18.

I look forward to continuing our partnership with you during the FY 2020–21 budget process to help ensure the success and sustainability of our university.

A. Paul Alivisatos
Executive Vice Chancellor and Provost

cc: Carol T. Christ, Chancellor
Rosemarie Rae, Vice Chancellor, Finance & Chief Financial Officer

Andrea Lambert, Chief of Staff to the EVCP
Chris Stanich, Associate Vice Chancellor-Financial Planning and Analysis
Jon Bain-Chekal, Executive Director-Financial Planning and Analysis
Cabinet Chiefs of Staff
Chief Administrative Officers
Divisional Finance Leaders