Berkeley
UNIVERSITY OF CALIFORNIA

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University Librarian
Academic Senate Chair
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Associate Executive Vice Chancellor

RE: Fiscal Year 2019-20 Budget Call Letter

**Financial Overview**

As the Chancellor announced a few months ago, we are on course to eliminate our structural deficit of $150M at the conclusion of FY 2018-19, one year earlier than we had originally planned. I am writing today to give you a better sense of how to place this in the context of our overall financial 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.

It is a testament to the creativity and resourcefulness of our community that this budget shortfall has been closed not only one year early, but also in significant measure from well-conceived new academic programs and philanthropy. While the growth of new revenues has been faster than we initially projected, it has not been enough to balance the books, and we have also had to reduce services and staffing levels in many areas. This has been very 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.

While we are now in a position to renew investments selectively, we will also remain in a fiscally vulnerable position for some time to come. In order to address our budget deficit, we have had to dig into central reserves. In FY 2011-12, central ending balances were 21% of annual expenditures; by last year they had fallen to 6%. This makes us vulnerable to unexpected events, whether a natural disaster, an unanticipated change in policy at the State or Federal level, a pronounced economic downturn, or even unanticipated consequences of a prolonged federal shutdown. To provide reasonable protection, our central reserves need to be 15% to 25% of annual spend, with unrestricted, unobligated reserves constituting 10% of the ending balance (thus representing a true reserve). Given the uncertainties, we will now act to replenish these central reserves.

It is important to note that one-time revenue we received both last year and this year have helped us to temporarily withstand this depletion of reserves. Unfortunately, we cannot count on this in the future. We especially want to acknowledge the generous State-funded one-time appropriations of $7 million (from Lottery Funds) and $25 million (for deficit reduction), as well as unexpected gifts, bequests, and some other special endowment withdrawals that have helped us manage but are likely not repeatable in future years.

Our challenge heading into next year is to invest the limited funds we can to seed future growth, while continuing to be conservative elsewhere in order to stabilize our financial position and rebuild our balance sheet. This year we will concentrate our investment in the key areas of our strategic plan, such as faculty growth, student support, diversity initiatives, plus the philanthropic infrastructure to enable us to meet those ambitious goals. Philanthropy that honors our donor community interests while supporting our core activities is vital to this. As an example, donor support for faculty in STEM is allowing us to hire eight additional positions, and not just holding steady despite increased enrollments, as we have been obliged to in the last few years. We will also redirect internal resources to further increase the faculty size by another 12, thus increasing the size of our faculty by a total of 20 this year.

**Budget Process**

This year's budget deliberations should be ones that the campus community is well-prepared for, as we instituted a multi-year budgeting cycle last year, and we will be staying closely in line with what we projected last year. Every academic and central unit on campus already knows its projected budget target for next year. Once again, targets for budgets can be met with new revenues, and this is very much encouraged. Two years ago, only about 10 percent of our targets were met through bringing in new monies, as opposed to cost reductions. This current fiscal year, more than half are met through revenue, and we certainly hope that the fraction will be even larger next year.

As was the case last year, the budget process for FY 2019-20 will be iterative in nature, with group strategic discussions in February followed by individual budget discussions in May and final decisions in June. The uncertainty of State funding until the conclusion of the legislative session will weigh on both our discussions and decisions once again.

Your one-page strategic plans are due to my office by January 31st. Your budget is due in CalPlanning by March 22, and your division's narrative, multi-year budget, and revenue generation plans are due to Financial Planning and Analysis by April 3. As noted, we will carefully consider our academic and administrative priorities as we make the final budget decisions.

**Divisional Budget Improvement Targets**

Each division should submit a budget that achieves its established budget improvement target for FY 2019-20 (i.e., improvement in the Net Operating Surplus/Deficit by the target amount) either by reducing expenses, growing net revenue, or both. Your targets are the starting point for budget decisions but, as was the case last year, final budget 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 target will be included in the FY 2019-20 Budget Guidelines that the Office of Vice Chancellor of Finance will distribute to the Divisional Financial Leaders (DFLs) under separate cover. We will check in throughout the fiscal year to monitor progress and work with you to take corrective or alternative action where necessary.

### Ending Balances for Revenue Generation and Capital Projects

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 $103 million to $274 million. 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 Berkeley forward. Therefore, divisions are encouraged to use ending balances to fund new net-revenue-generating opportunities. In that regard, we will once again ask units to submit revenue generation templates as part of the budget process. Additionally, in FY 2019-20 we will include the capitalization of assets on the list of permitted uses for ending balances. Like last year, all projects using ending balances must be approved by the Vice Chancellor of Finance. The specifics on how to submit these requests will be included in the FY 2019-20 Budget Guidelines that will be distributed to the DFLs.

### 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 salary increases. $5 million has been earmarked for this purpose in FY 2019-20. In addition, for the first time next year, we will make $5 million available to support staff salary increases in campus support units. Salary and benefit adjustments for ladder-ranked 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.

Once again this year, the Central Human Resources (HR) Compensation Team will provide average salary data by job title to the DFLs in mid-February, so divisions can plan and budget for their compensation costs most effectively. Although divisions must allocate a 3% salary pool for salary increases, we know that across campus our average compensation is below market between 6% and 8% for non-represented staff jobs. Central HR is hoping that by providing these data in advance of setting budgets, divisions will have a better ability to allocate funds in order to bring key staff closer to market. Please note that the objective of providing this information is not to mandate additional salary increases, but to assist units in addressing existing equity gaps. Central HR understands that for many divisions this means making hard decisions across priorities.

**Non-Academic Unit Service and Compensation Reductions**

I have convened the leaders of non-academic divisions to identify service impacts that they foresee in order to meet their budget targets. Where possible, actions should focus on reduction of non-essential services, standardization, or extension of service turnaround times. We are asking non-academic divisions to try to minimize the consequences of these reductions on our core mission and purpose. We will continue to monitor how service reductions are affecting our core educational and research missions and make necessary adjustments whenever possible.

Additionally, we will not be offering voluntary separation or retirement incentive programs in FY 2019-20. For those non-academic units considering either voluntary or involuntary separations (e.g., layoffs, dismissals, retirements, ending employment contracts) please contact your CSS 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 2019-20 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
Cabinet Chiefs of Staff
Chief Administrative Officers
Divisional Finance Leaders