**Benjamin E. Hermalin** Executive Vice Chancellor & Provost

200 California Hall #1500

Berkeley, CA 94720 hermalin@berkeley.edu evcp.berkeley.edu

March 1, 2024 Deans

Vice Chancellors Vice Provosts University Librarian

Academic Senate Chair Athletics Director

Cal Performances Director BAM/PFA Director Associate Chancellor

Assistant Executive Vice Chancellor

RE: Fiscal Year 2024-25 Budget Call Letter

Financial Overview and Assumptions

Over the past two years, the UC Board of Regents, the California Legislature and Governor Newsom have taken steps to increase financial support to the University of California. For the first time in many years, the adoption of the Tuition Stability Plan provided for annual, cohort-based increases in tuition across multiple years that both the campuses and students could rely on in their planning. Likewise, the UC Compact with the Governor commits to annual 5% increases in general state support tied to enrollment growth and other measures of student success. Both programs are slated to continue through FY 2026-27.

At the same time, the post-COVID-19 inflation spike has reduced the purchasing power of that additional funding, as well as having a direct adverse effect on our faculty and staff. In response, the Board of Regents has mandated faculty and staff salary increases: 4.6% in the current fiscal year and 4.2% for the coming year.

Unfortunately, the annual increases in tuition and state support are substantially less than the cost of these compensation increases and other increased expenses due to inflation, enrollment growth, and other factors. As a consequence, we must identify other funding sources, reallocate funds from other priorities, and/or use reserves to pay for these expenses. Moreover, this imbalance is making it more difficult each year to balance our budget.

*Initial Assumptions.* Prior to the announcement of the Governor’s budget last month, UC Berkeley was projecting an increase in state funding and tuition next year of approximately $57 million, set against an increase in faculty and staff salaries and benefits of $114 million. Tuition and state support are the largest components of central ledger resources. Since the center must fulfill its obligation to fully fund salary and benefits increases for Senate faculty and strives to provide partial support for staff increases, the resulting gap of $57 million would have most directly affected the central ledger. Indeed, prior to the release of the Governor’s budget, the projected central ledger deficit for next year was $44 million.

For many years, as the campus is aware, the central ledger has been running a structural deficit, which has significantly depleted campus reserves held by the center. At the beginning of FY 2018–19, the central ledger held a balance of $179 million. Five years later, the central ledger began this fiscal year 2023–24 with a balance of $79 million, which was equal to 4.5% of forecast expenditures. It is important to note that the campus harvested one-time gains of $80 million in FY

2022–23 from its investments to help fund the central ledger. Without that action, the central ledger would have been depleted at the start of the current fiscal year.

*Impact of the Governor’s Proposed Budget.* On January 10, 2024, Governor Newsom released his proposed $208.7 billion spending plan for the State General Fund in FY 2024–25. Within this proposal, the 5% base budget increase that the University had expected to receive as part of the UC Compact was deferred for one year (the “State Deferral”), and the Governor promised to include these amounts in the following year’s budget for FY 2025–26 in the following ways:

* The 5% base budget increase for FY 2024-25 consistent with the Compact would be included as part of the University’s base budget beginning in FY 2025-26.
* The 5% base budget increase for FY 2025-26 consistent with the Compact would also be included as part of the University’s base budget in FY 2025-26, bringing the base budget operating funding increase to 10%; and
* A one-time allocation equal to the amount of funding that would have been received in FY 2024-25. These funds would make the University’s operating budget whole.

As a result of the State Deferral, the projected central ledger deficit for next year has grown from $44 million to $79 million, which, if not mitigated, would exhaust central reserves by the end of next year. There is, of course, the hope and expectation that the Governor will fulfill his commitment to allocate the deferred FY 2024-25 funding in FY 2025-

26. Nevertheless, the prudent course is to plan as conservatively as possible. At this time, we cannot accurately predict the health of the state budget in FY 2025-26 and its impact on the Governor’s ability to provide this funding. In fact, the Legislative Analyst’s Office has already raised concerns about the state’s ability to do so. If we count on the funding and it doesn’t materialize, the financial consequences could be severe. By contrast, if we plan for the reduction, we will be in a much stronger financial position if the funding is allocated and one that is far less vulnerable if it is not.

It is important to note that the campus is not presently taking actions to reduce permanently the central ledger deficit by the amount of the State Deferral. As the University remains committed to upholding our multi-year Compact with the State during the deferral period, we similarly anticipate that the State will restore promised funding.

*Campus FY2024-25 Budget Assumptions.* To that end, we will implement a budget process for FY 2024-25 that begins to address the broader reality that cost increases continue to outpace growth in core funding. Among the implications of that reality are that the divisions themselves must bear a large share of these increased expenses. In addition, we must address the narrower and hopefully temporary concern that $35 million in state funding has been deferred. Given these circumstances, the following decisions related to the budget process have been made:

* The center will cover the 4.2% salary and benefits increases for state-funded Senate faculty, consistent with prior years.
* The divisions will cover the 4.2% salary and benefits increase for non-represented staff, as well as contractually mandated increases for represented staff.
* The center will provide one-time funding to campus divisions sufficient to cover a 2% 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.
* The allocation for EVCP TAS funding will be increased from $72.5 million to $81.5 million 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.

To address the central ledger deficit, the budget for centrally-funded strategic allocations and capital projects next year is lower for next year than it was for the current fiscal year. In addition, the campus will consider a modest amount of long-term borrowing through UCOP for capital projects, including deferred maintenance.

To address the State Deferral, we will also consider short-term borrowing options through UCOP for the purpose of maintaining adequate reserves in the central ledger. In January 2025, when the Governor releases his budget for FY 2025-26, we will have a strong indication of whether the $35 million for FY 2024-25 will be restored. Without a full restoration of funds, the campus would then need to address the reduction in state funding. If the news is positive, we may have the capacity to plan more robustly for FY 2025-26 than we currently do for FY 2024-25.

Budget Process

For the first time in several years, the budget process will not be delayed due to an unanticipated financial crisis. We therefore expect to complete the process and make budget decisions in June, prior to the start of FY 2024-25 in July. Below are the key dates for submitting, discussing, and communicating decisions about your FY 2024-25 budgets:

|  |  |
| --- | --- |
| Dates | Activities |
| March 4 | Financial Planning & Analysis (FP&A) releases budget guidelines, assumptions and templates to the divisions |
| March 4 - April 26 | Divisions complete budget templates and submit their budgets via Cal Planning |
| May 13 - June 7 | Chancellor and EVCP hold budget meetings with vice chancellors, vice provosts, deans, and other select direct reports |
| June 5-18 | Finance Committee reviews budget submissions and holds decision meetings |
| Week of June 24 | Final budget allocation packets 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 strategy, your priorities for the next few years, as well as 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.

Budget Templates

The following 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 later this spring. In it you are asked to describe your 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.
* *FY 2024-25 – FY2026-27 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).
* *FY 2024-25 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.
* *FY 2024-25 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 which represents 0.3% of the central ledger budget. 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.

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

Financial Sustainability Initiative

Preparing for and participating in the budget process each year highlights the deeper, long-term challenges that we must address as part of the Financial Sustainability Initiative (FSI) — in particular, how to deal with the growing gap between core revenue and expenses and the persistent issue of the central ledger. We are making progress this year, having begun examining the costs and challenges pertaining to some of our most critical services, rebalancing investments to produce more investment income, planning for a line-of-credit/reimbursement model for faculty start- up and retention, and launching a nascent working capital loan program to make critical investments that might otherwise require central funding. Looking ahead, we must take a hard look at divisional reserves and endowment accumulation — resources that in the future must be used to fund strategic priorities since funding from the center will become increasingly scarce.

We look forward to your continued partnership and leadership in this work, both during the budget process and as part of the larger FSI. To that end, we want to express our gratitude to the Cabinet, the Council of Deans, the Academic Senate, the Chief Administrative Officers, and the Divisional Finance Leaders for your unwavering efforts to maintain the world-class quality of our university.

Sincerely



Benjamin E. Hermalin Carol T. Christ

Executive Vice Chancellor and Provost Chancellor

cc: Chris Stanich, Associate Vice Chancellor, Financial Planning and Analysis Rita d’Escoto, Executive Director, Budget and Financial Operations Cabinet Chiefs of Staff

Chief Administrative Officers Divisional Finance Leaders