UC Berkeley
Office of the Provost

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Vice Chancellors
Vice Provosts
University Librarian
Academic Senate Chair
Athletics Director
Cal Performances Director
BAM/PFA Director
Associate Chancellors
Assistant Executive Vice Chancellor

RE: Fiscal Year 2025–26 (FY 26) Budget Call Letter

Financial Overview and Deficit Mitigation Strategies

Beginning in FY 2022–23, the Tuition Stability Plan approved by the Board of Regents and the Compact with the Governor approved by Governor Newsom and the California Legislature provided, respectively, for five years of increased tuition and state general funding through FY 2026–27. To date, these resources have been essential in helping our campus meet the needs of a growing student population and fulfill our mission more broadly. While the Tuition Stability Plan remains in place, challenges in the state budget have resulted in both state funding reductions and deferral of the Compact commitments, both this year (i.e., FY 25) and next year (i.e., FY 26): For this year, the planned 5.0% increase in state funding was effectively reduced to 2.2%. For next year, the Governor's state budget introduced in January would result in a $37 million *reduction* in state funding, consistent with legislative intent language announced last summer. Meanwhile, costs continue to rise at a rate faster than revenues, even had the Compact with the Governor held.

In light of these circumstances, UC Berkeley will once again rely on its resilience and resourcefulness in preparing its budget for next year. When we learned of the planned reduction in state funding last summer, we began a six-month consultative process with campus leadership to evaluate and develop strategies to address the anticipated loss in state funding, as well as overall costs that are growing faster than all sources of revenue combined. As a first step, we developed a set of principles, consistent with our values, to guide budgetary decisions:

Principles to Guide Budgetary Decisions
Strategic: Focus on priorities that advance Berkeley's societal and scientific impact through research, teaching and public service.
Long-Term: Position the campus favorably for the future by investing in activities that reinforce Berkeley's global pre-eminence in fundamental research, affordable access to education at scale, and will have a positive impact on revenue generation.
Unity: Adopt a "One Berkeley" mindset — we collaborate and succeed together.
Adaptability & Innovation: Be open to new ways of working, including our roles, responsibilities and how we organize work.
Community: Provide opportunities for our workforce to remain here, learn here, and develop their careers here as the organization responds to emerging needs and priorities.
Equity and Dignity: Uphold Berkeley's seven [Principles of Community], and approach planning

equitably, inclusively, transparently, and with recognition of our vulnerable communities.
Lead by Example: Model what we value through our actions, behaviors, attitudes, and by how we hold ourselves accountable.

Since adoption, these principles have steered our work in preparing for this year's budget process and will continue to guide us in making financial decisions during the process itself. Subsequent to their establishment, we developed a set of deficit mitigation strategies that will have a positive impact on our budget next year — two strategies that increase revenue and two that control costs:

Budget Deficit Mitigation Strategies	Projected FY26 Impact
Revenue Growth Strategies:	
Long-Term Investment Strategy: Increase investment income produced by $2.5 billion in distributed capital balances (DCBs)	$112M
Non-Resident Enrollment: Pause planned reduction in non-resident enrollment and capitalize on 9.9% increase in non-resident supplemental tuition rate (NRST)	$12M
Cost Control Strategies:	
Expense Growth Model (EGM): Limit growth in expenses next year to 3.6% campus-wide	$71M
Central Ledger Strategic Allocations: Reduce projected growth in strategic allocations (e.g., staff salary support, capital projects, budget process decisions) made from the central ledger	$24M

The cost control strategies are necessary because the revenue strategies alone do not sufficiently reduce our projected deficits next year. Combined, however, they will reduce the overall campus deficit to $52 million (1.2% of total expenses) and the central ledger deficit to $3 million. As a result, efforts to reduce the rate of growth below 3.6% will help the campus further reduce next year's projected campuswide deficit.

It is important to recognize that the reduction in state funding is not the primary contributor to our deficits next year. Rather, since the conclusion of the COVID-19 pandemic, growth in expenses has outpaced growth in revenues to such an extent that we have balanced our budget recently only through the realization of investment gains.

As a result, two of the strategies identified above will be utilized beyond the financial challenges we face next year. Through the Long-Term Investment Strategy, we will take advantage of Berkeley's balance sheet to optimize the income and payout we generate from invested cash holdings, similar to how we manage and derive income from an endowment. And through the Expense Growth Model (EGM), we will set weighted spending targets that reflect our values and priorities (e.g., with greater weighting for people/compensation, less for other expenses such as travel and entertainment) to help us manage our costs more effectively. Notwithstanding these weights and consistent with Berkeley's decentralized budget model, divisional leaders have flexibility to manage their costs across expense categories, up to their respective spending targets.

Budget Process Preliminary Decisions

The budget process for FY 2025–26 has been established within this context. The divisions have been provided with their EGM spending targets; plans have been set to increase revenue through the Long-Term Investment Strategy and non-resident enrollment strategy; and a budget has been set for central ledger strategic allocations next year. Still unknown at this point is the mandated compensation increase for faculty and non-represented staff, which is usually set by the Board of Regents at its November meeting. Without this information, we have established a planning amount of 3.7% for salary increases to be used during the budget process. In addition, the following decisions related to divisional budgets have been made:

- The center will cover the full salary and benefits increases for state-funded Senate faculty (once determined), consistent with prior years.

- The divisions will cover the full salary and benefits increase for non-represented staff (once determined), as well as contractually mandated increases for represented staff.

- The center will provide one-time funding to campus divisions sufficient to cover a 2.5% 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 formula-based allocation for EVCP TAS funding will be increased from $79.7 million to $84.9 million (6%) 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.

Budget Process Timeline and Templates

Thanks to our early planning, the budget process will proceed on schedule and will not be delayed, as in past years, due to unanticipated financial challenges. We therefore expect to complete the process and make budget decisions in June, prior to the start of FY 2025–26 in July. Below are the key dates for submitting, discussing, and communicating decisions about your FY 2025–26 budgets:

Dates	Activities
Week of March 3	Financial Planning & Analysis (FP&A) releases budget guidelines, assumptions and templates to the divisions
March 10 – May 2	Divisions complete budget templates and submit their budgets via Cal Planning
May 19 – June 11	Chancellor and EVCP hold budget meetings with vice chancellors, vice provosts, deans, and other select direct reports
June 5–23	Chancellor and EVCP review budgets and hold decision meetings
June 30	FY26 budget decision letters 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, and 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.

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 2025-26 – FY2027-28 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). Included on this form will be your Expense Growth Model (EGM) target and the calculated amount that the budget you submit is either under or over this target. For budgets that exceed the target, the division must submit a request for an exception (see below).

- *FY 2025-26 Request to Spend Beyond the Expense Growth Model (EGM) Target:* Recognizing that some divisions may have a compelling need to spend beyond their targets, this template should be completed if you wish to request an exception, which will be considered for the following reasons: (1) undue hardship/critical need, or (2) growth in a specific revenue source to fund additional expenses, thereby not increasing a deficit. Note additional expenditures associated with new Senate faculty (i.e., those starting in FY 26), do not count against the growth-in-expenditure target. In addition, any allocation of new central resources approved through the budget process will not be subject to the target. Divisions will be expected to make a strong business case, based on priorities and need, to secure an exception. Further information has been provided in *Attachment 1: FY26 Budget Process Expense Growth Methodology*.

- *FY 2025-26 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. If approved, funding allocated from the Critical Priorities Fund will not be subject to the EGM target.

- *FY 2025-26 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.

Final Thoughts

As noted earlier, preparation for this budget process has taken longer than usual and we appreciate the feedback, tough questions, and wise counsel you have provided along the way. The process is better as a result, and the strategies we have adopted for increasing revenues and managing costs in the short term will serve as a bridge to a future where we are thriving financially. To achieve this ultimate outcome, we must continue over the next several years to bend down the cost curve through operational efficiency and make the investments in our operations and infrastructure that are needed to attract and retain the best faculty and fulfill our instructional and research missions. We must also expand our innovation and entrepreneurship ecosystem, which in the long run will yield significant new revenue streams that will make us less vulnerable to the downward shifts in core funding that we are experiencing right now.

As we launch this budget process, we recognize that our need to manage costs will require difficult decisions on your part that may have downstream effects on other divisions or raise questions in the broader campus community that we need to address at the campus level. We therefore encourage you to update us on any such issues that might emerge in your planning, so that we can create a forum for discussion as needed at the Cabinet or Council of Deans. Also present right now is the high degree of uncertainty resulting from ongoing actions by the federal government. It is our hope that these actions will not disrupt our budget planning for next year. Nevertheless, we are monitoring federal activity carefully and will keep you updated as to any needed adjustments.

In Partnership,

Richard K. Lyons
Chancellor

Benjamin E. Hermalin
Executive Vice Chancellor and Provost

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