

**CONFIDENTIAL DRAFT
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**Mid-Year Budget Update
Administration and Finance Leadership
Group
(AFLG)**

Vice Chancellor John Wilton

February 11, 2015

Meeting Agenda

- Mid-Year Budget Update – Vice Chancellor Wilton
- VCAF Networking

Meeting Theme: Administrative Excellence

1. CSS Update: Priorities & Improvements – Peggy Huston
2. Travel and Entertainment (T&E) Business Improvement Project
– Rosemarie Rae

Budget Priorities

- **Academic Excellence**
 - Remain one of the world's finest research & teaching universities, public or private
- **Affordability and Access**
 - Maintain commitment to educating broadest cross section of students from all backgrounds & income levels
- **Financial Sustainability**
 - Continue to focus on containing costs, generating operational efficiencies, and generating revenue to enable investments that position Berkeley to thrive in the long term



Update on Berkeley's financial position

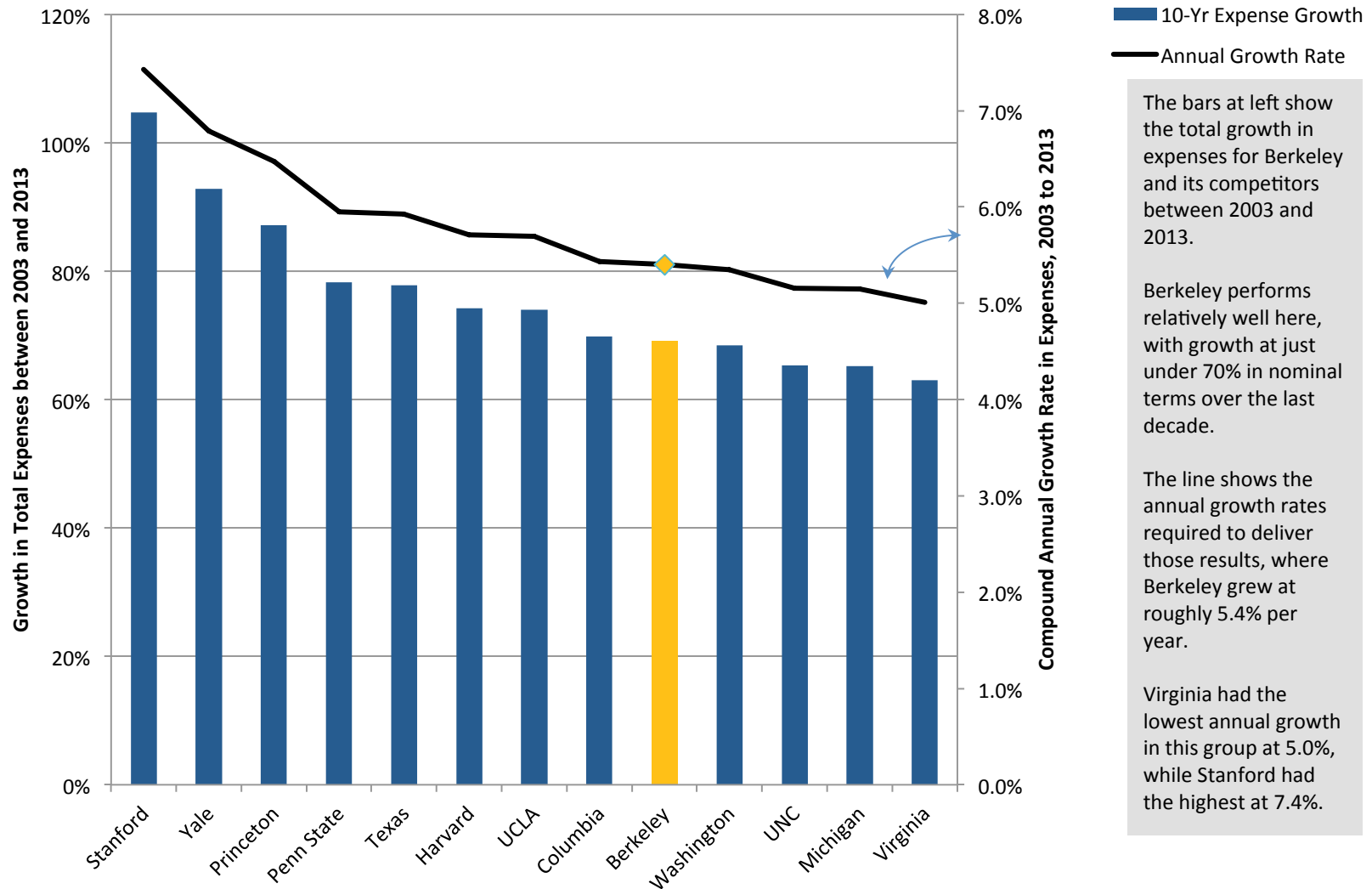
- As previously projected, Berkeley will be running a moderate deficit this year.
- The future size and trajectory are unsustainable. Thus, we are taking proactive steps in FY 2015-16 to adjust and rebalance the budget.
- We won't know what our bottom line will be until state and budget negotiations, and our own budget process, conclude later this summer. This is simply because we do not control some of our major sources of revenue, such as state appropriations or tuition.
 - Because Berkeley is influenced by these external decisions, we are constantly monitoring campus results against financial projections and making adjustments on an ongoing basis to respond to changes in circumstances and opportunities.

How is the deficit being financed?

- Central reserves are declining at an unsustainable rate, therefore we are taking proactive steps to adjust and rebalance Berkeley's budget

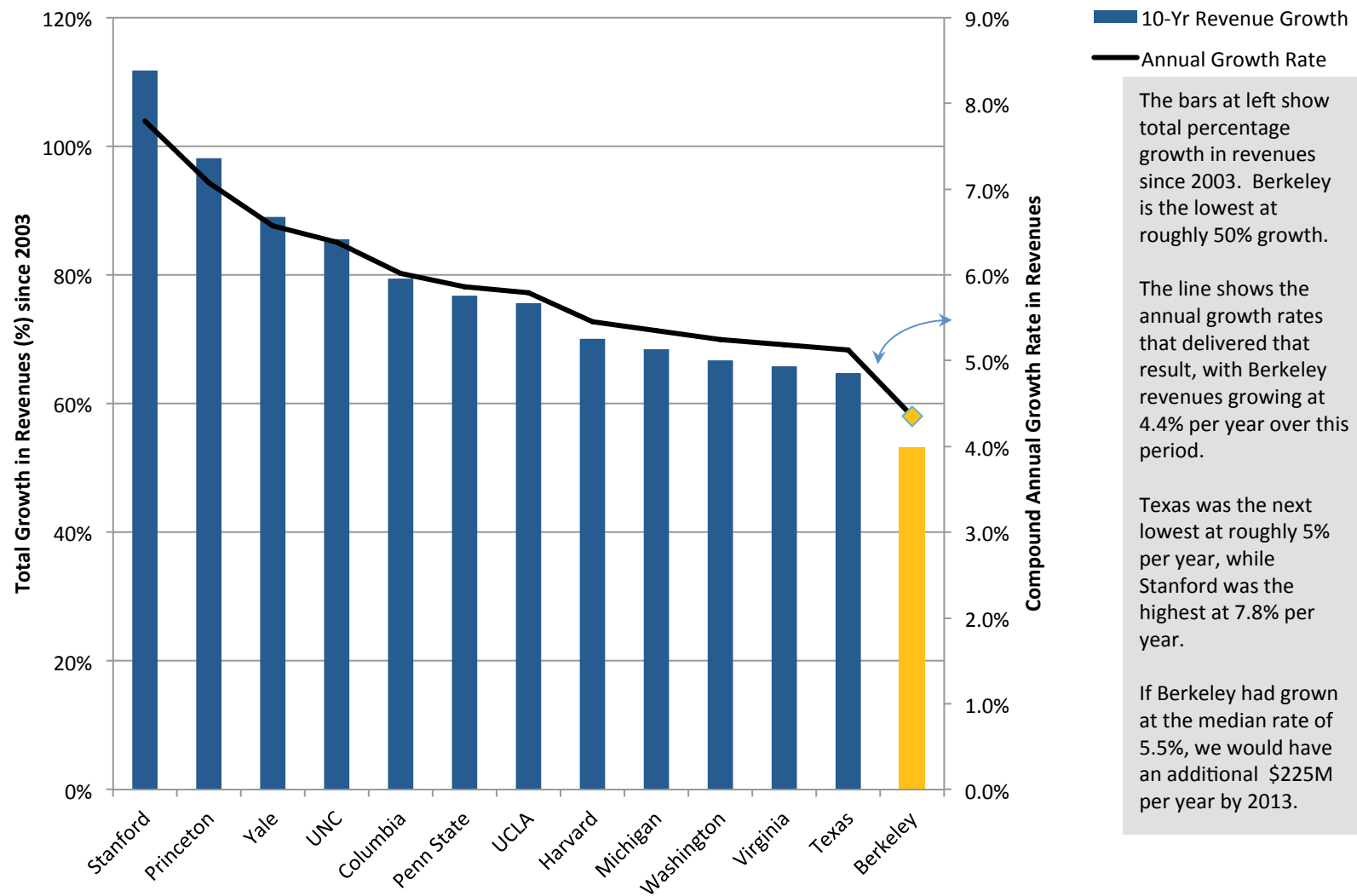
Berkeley's expense growth has been relatively low and is in line with our peers (and at low end compared to UC campuses)

Comparing Growth in Expenses from 2003 to 2013



Unfortunately, Berkeley's revenue growth places us last relative to our peers (and within the UC system)

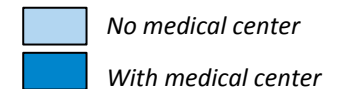
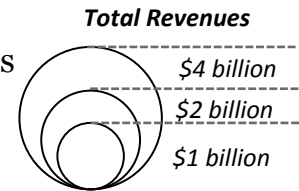
Comparing Growth in Revenues from 2003 to 2013



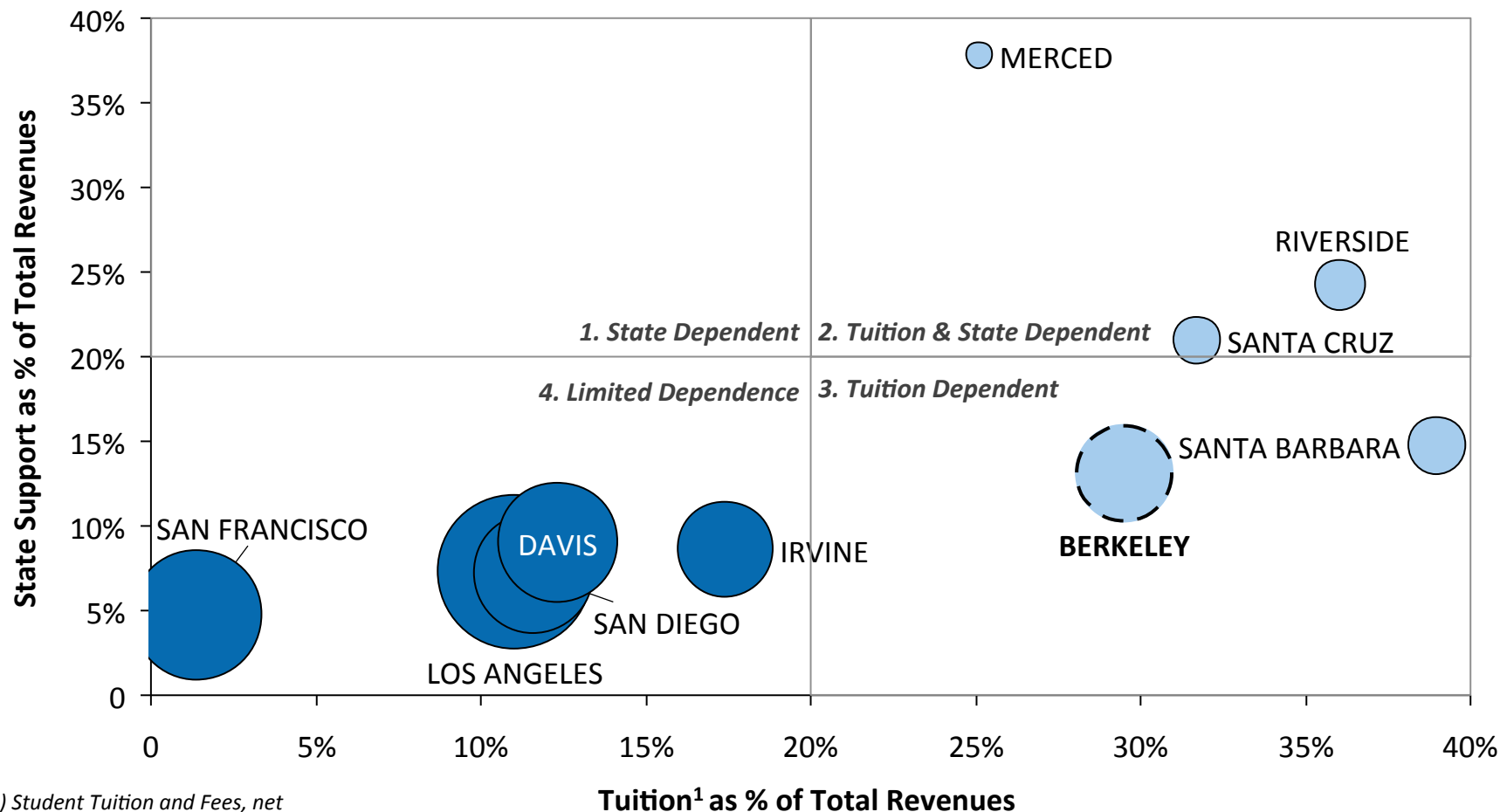
Note: Expenses for UCB & UCLA exclude accruals for Pension and Retiree Health

Berkeley is Highly Dependent on Tuition & State Support

- **Tuition Dependent** - Berkeley gets more total revenue from tuition than other campuses
- **State Declining** - Berkeley's share of state funds has declined through "rebenching"
- **No Med Center** - Berkeley is the only large campus without a med center

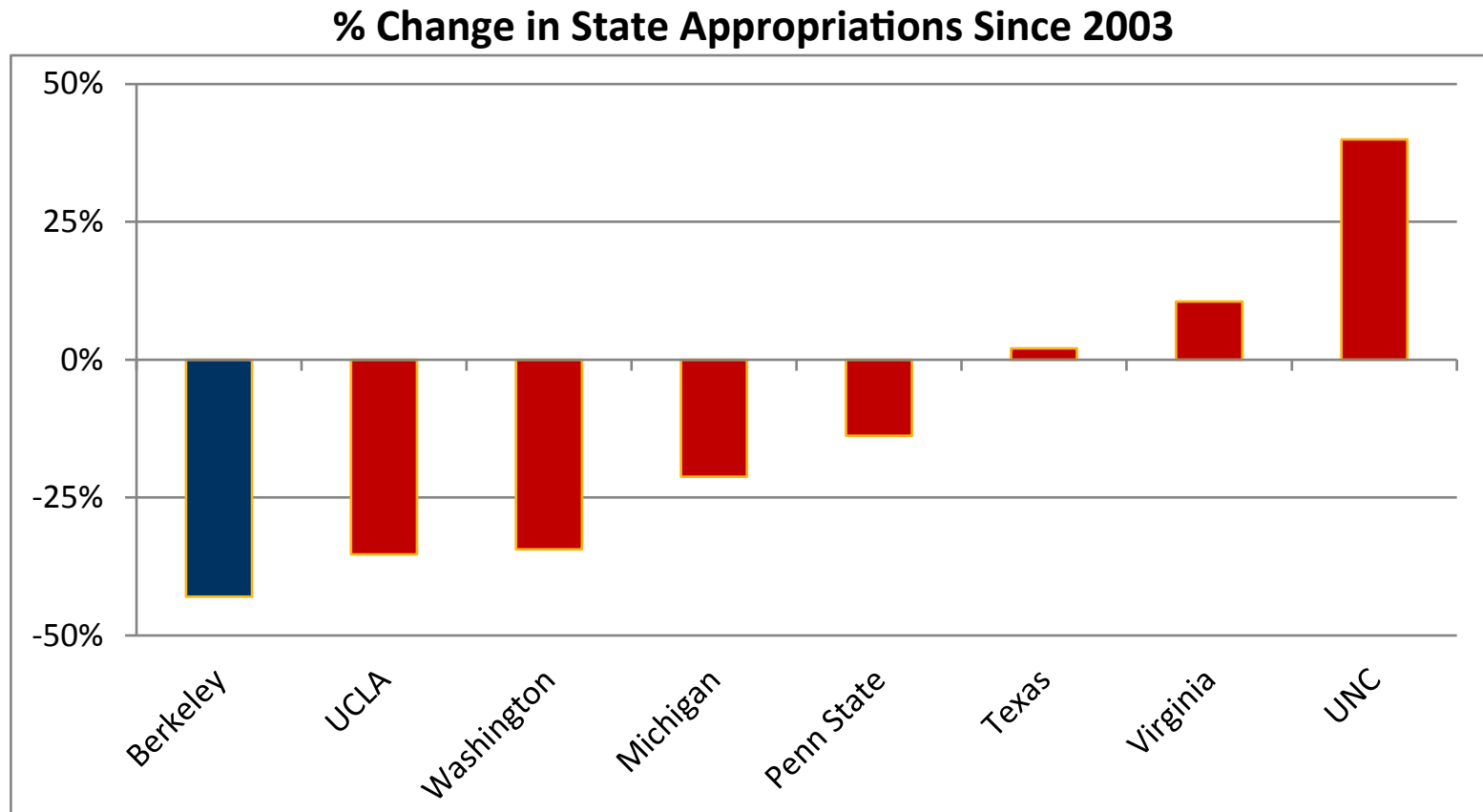


Dependence on State and Tuition¹ Revenues
2012-13 – In %



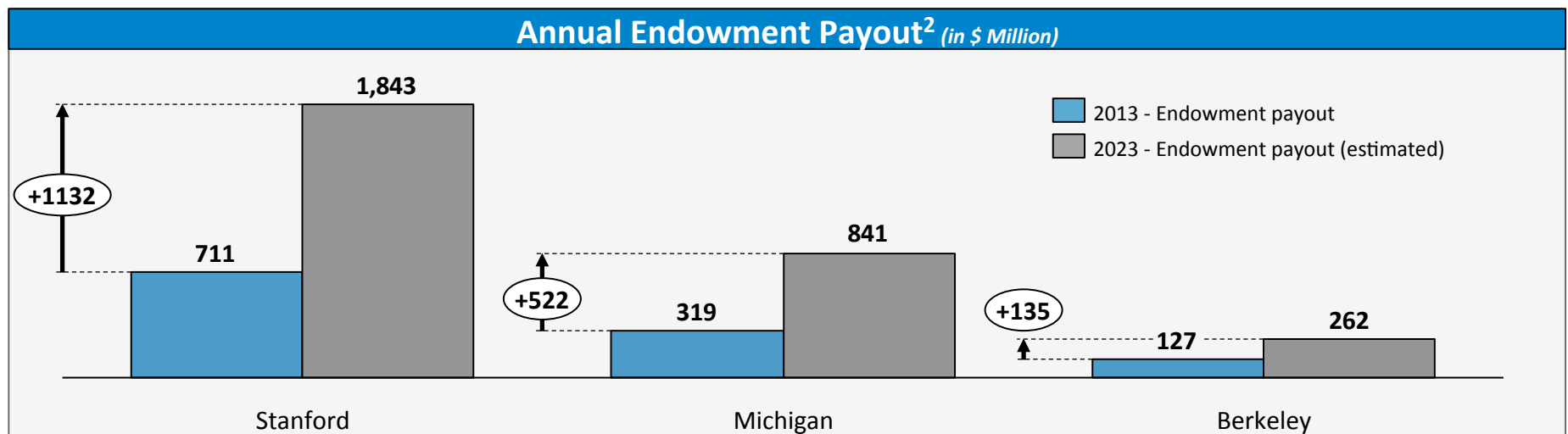
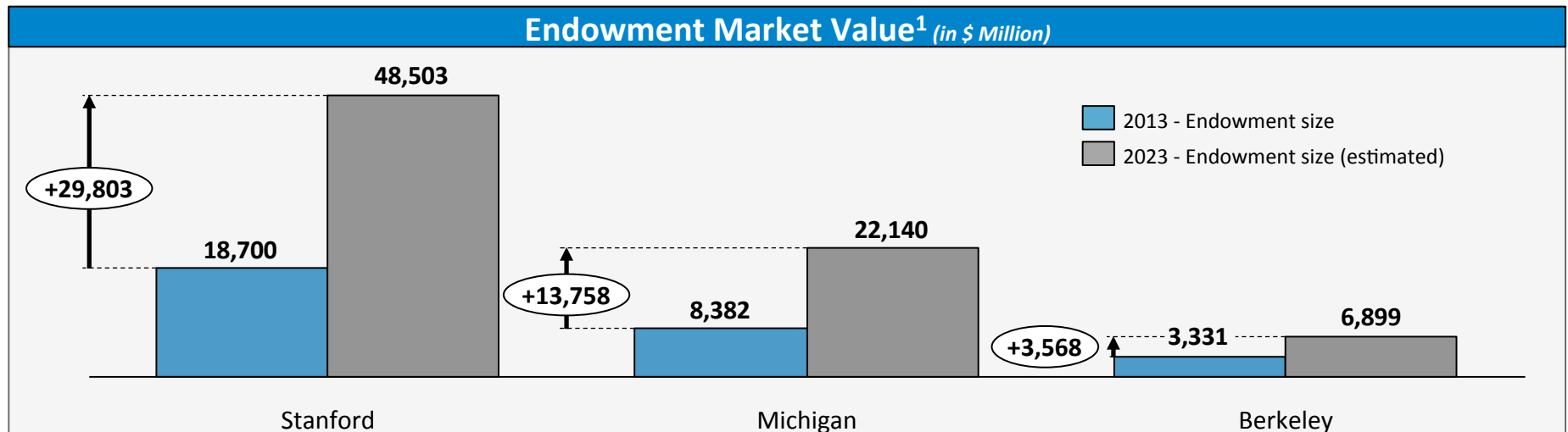
1) Student Tuition and Fees, net
Source: UCOP Campus financial schedules

Decreased state appropriations have impacted Berkeley more than all public competitors



- Over the last decade Berkeley has had much larger reductions in state support than competitive institutions requiring a much higher burden to be placed on students through tuition and fee increases

A challenge: We've done well in philanthropy, but we need to invest to ramp up



1) Using historical annualized returns to project future market values. Stanford=10%, Michigan=10.2% and Berkeley=7.6% (weighted average of endowment and foundation). Annualized return is assumed to be net of contributions and payout

2) Assuming 3.8% annual net payout. Actuals for UC Berkeley in 2013. Other payouts are estimated based on a 3.8% annual net payout rate.
UC Berkeley Budget office analysis

FY 2015-16 Steps to Adjust and Rebalance the Budget

Unit leaders are empowered to consider their strategic priorities as we partner to:

1. Contain costs, making difficult decisions required to reduce expense growth
2. Rebalance the internal economy between central campus, academic units, and administrative units
3. Make critical investments that position Berkeley to thrive in the long term
 - Special focus on fundraising & revenue generation

2015-16 actions and tools designed to adjust and rebalance the budget

Actions	Tools
No central funding of staff salary & benefits transfers	PDST tax rate reduction
Administrative Full Costing (AFC) assessment rate increase	Budget process toolkit
Faculty hiring capped at replacement	Voluntary Separation Program
Temporary Academic Support (TAS) budget	Work w/ UREL to develop comprehensive campaign financing plan
Selective administrative and academic unit budget reductions	

Where Does That Put Berkeley?

Draft Projected Results

- If the UCOP tuition plan is adopted and we implement internal adjustments, Berkeley's budget will trend towards sustainability.
- However, we have to acknowledge that uncertainties exist and we will revisit the overall budget when state budget negotiations and our own budget process conclude later this summer.

What Does That Mean to VCAF?

VCAF Goals

1. Financial Strength
2. Administrative Excellence
3. Infrastructure & Campus Environment

VCAF Vision Statement

To be recognized as the leader among all financial, administrative, and service organizations in higher education by providing innovative, high-quality, cost-effective services, products and infrastructure to support Berkeley's mission.





The VCAF senior leadership team is working together to:

- Develop multi-year strategic plans
- Prioritize projects
- Streamline operations
- Find new revenue opportunities
- Establish metrics
- Identify opportunities for collaboration across units

Conclusion & Next Steps ...

1. 2015-16 budget corrections are necessary, but are not sufficient by themselves to ensure long-term financial sustainability
2. There remain significant uncertainties and secondary impacts we can not model. Our plans will have to adapt to changing circumstances.
3. We will need to partner to craft long-term solutions. These are likely to require significant structural changes in how we run Berkeley.



“

When I observe the men who surround me in Washington – when I reflect that The Secretary of State, the Secretary of Defense, the Chairman of the Atomic Energy Commission, the Director of the CIA and the Ambassador to India are all graduates or former students of this great university ...

I am forced to confront an uncomfortable truth and so are you,

.. that the New Frontier may well owe more to Berkeley than Harvard.”

- President John F. Kennedy, 1962

“

... We citizens of California, fathers, mothers, alumni, must have a vision for our University and a **determination that it shall always be second to none.**”

- Chief Justice Earl Warren, 1954

