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Lisa Alvarez-Cohen, Vice Provost, Academic Planning
Henry Brady, Dean, Goldman School of Public Policy
Douglas Clark, Dean, College of Chemistry
Marc Fisher, Vice Chancellor, Administration
Benjamin Hermalin, Vice Provost of the Faculty
Carla Hesse, Executive Dean, College of Letters and Science; Dean, Division of Social Sciences
Jennifer Johnson-Hanks, Chair, Committee on Academic Planning and Resource Allocation, Academic Senate
Randy Katz, Vice Chancellor, Research
Jeffrey MacKie-Mason, University Librarian

Re: Appointment to Finance Reform Leadership Committee and Charge to the Committee

Dear Colleagues,

Thanks to all of you for taking the time this summer to discuss strategic issues and priorities related to the finance reform initiative. Through this memorandum I am writing to formally invite you to serve on the Finance Reform Leadership Committee, which will manage this initiative over the course of the next year, and to communicate the scope of work to be undertaken. (A separate document has also been attached that provides additional information about the scope of work and outcomes to be achieved.)

Scope of Work

Allocation of Central Revenue

UC Berkeley allocates approximately $1.2 billion in central revenue annually to deliver instruction, provide support for students and faculty, and pay for common goods services and administration. For the most part, these allocations are historically-based or reflect point-in-time commitments. They are not, generally speaking, aligned to workload, cost, productivity or goals – measures that would form the basis of a rational method for allocating resources. Consequently, as Berkeley's resources have become more scarce, valid concerns have arisen about equity and transparency in the university's budget. To address these concerns, our finance reform work this year will focus on developing recommendations for the following:

1. A metrics-informed model for allocating resources to academic units
2. A metrics-informed model for allocating resources for common good and central administrative services

3. Ensuring adequate resources are available to fund university-wide priorities

In developing new resource allocation models, much work has been done both nationally and at Berkeley from which we can draw. Other universities, for example, have begun allocating resources to academic units on the basis of student credit hours, enrollment, degrees awarded, etc., while funding for administrative units and common goods services is now frequently indexed to the number of constituents served (e.g., students, faculty, staff) or based on an assessment of unit revenues or expenses. We should consider all of these approaches in crafting a budget model that meets our particular needs. Also, recent recommendations at Berkeley by the Working Group on Incentives and the Working Group on Common Goods Funding will place us a step ahead as we begin our work this fall.

In changing the way we allocate resources to the divisions, we must also ensure that we maintain adequate resources at the center to fund new programs, improve our infrastructure, and strengthen our financial and operational sustainability. Due to our structural deficit, for example, central reserves have been greatly reduced and must be replenished. Otherwise, we will remain vulnerable in the event of financial hardship or crisis. In addition, shifts in funding that result from new resource allocation models may require subventions from the center to preserve the quality of our programs and services. We will need resources at the center to address these and other priorities.

Revenue Sharing Agreements

Apart from central resources, the UC Berkeley divisions generate $869 million in revenue annually, of which $55 million returns to the center through a wide array of revenue sharing agreements. Increased revenue generation, particularly for academic units, has been essential to closing the university's structural deficit and must remain a central part of our financial strategy moving forward. Revenue sharing agreements, therefore, must be structured in ways that adequately incentivize revenue generation. At the same time, programs generating revenue for the divisions rely on central services, funding for which is needed for the full functioning of the central administration.

The extent to which existing revenue sharing agreement strike the proper balance between incentivizing revenue generation and covering central costs is uncertain. These agreements currently include a wide range of revenue splits (the basis for which isn't always clear) and are, in some cases, applied inconsistently across programs (e.g., SSGPDP and PDST agreements). We will, therefore, add the following charge to our scope of work:

4. Examine and recommend changes as needed to revenue sharing agreements in order to properly incentivize mission-aligned revenue generation while providing funding to the center to cover overhead costs and fund strategic priorities

It is important to note that our reconsideration of revenue sharing agreements is closely tied to the broader questions of common goods/administrative funding and funding for university-wide priorities as described above. We may, therefore, want to address these topics together.

Implementation Plan

A principle by which finance reform must proceed is to preserve the quality of the exceptional programs and services available at UC Berkeley. The recommendations we propose will likely have a significant long-term financial impact on our programs and services. Consequently, I am supportive of a plan that implements our recommendations across multiple years. For example, we may decide that a new model for allocating resources to academic units will be applied only to a certain percentage of the total allocation during the early years of implementation. This approach will give units adequate time to plan and prepare for long-term changes. I will also consider subventions to address changes in the short term. These provisions should be articulated in an implementation plan accompanying our recommendations.

Work Plan and Organizational Structure

The finance reform initiative will require a significant amount of effort on our part over the next year. In light of this, we have developed a work plan that includes the activities to be undertaken, the roles and responsibilities of those involved, a plan for consultation with leadership and the broader university community, and a timeline for accomplishing our work. We have also developed an organizational structure for moving forward. Our leadership committee will report to the Chancellor, consult regularly with campus leadership (e.g., Cabinet, Council of Deans, Academic Senate), and be supported by the Office of Financial Planning & Analysis. We also anticipate the need to establish working groups to focus on specific topics within our scope of work.

Both the work plan and organizational structure are attached for your review. In short, our recommendations need to be complete, vetted, and approved by next summer. This will give us time to begin implementing the recommendations in FY 2021 (July 2020).

Expected Outcomes

Launching the finance reform initiative is a major endeavor, expectations for which will be high with respect to the outcomes it will produce for the university. Though we have discussed this many times, it bears repeating that our recommendations should yield a campus budget model that is greater in terms of its simplicity, predictability, transparency, and alignment of funding to workload, cost, productivity and goals. We must keep this in our sights throughout the next year.

Sincerely,

Paul

A. Paul Alivisatos
Executive Vice Chancellor and Provost

cc: Carol Christ, Chancellor
Rosemarie Rae, CFO and Vice Chancellor of Finance
Phyllis Hoffman, Associate Executive Vice Chancellor and Chief of Staff
Chris Stanich, Associate Vice Chancellor, Financial Planning & Analysis
Jon Bain-Chekal, Executive Director, Financial Planning & Analysis