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Re: Appointment to Financial Sustainability Initiative (FSI) Analytical Team

Dear Colleagues,

I write to invite you to serve on the Financial Sustainability Initiative (FSI) Analytical Team. As you are aware, UC Berkeley has, for many years, contemplated various ways to improve our financial operations. These efforts have sought to respond to the multiple challenges we have faced as a campus, including the depletion of centrally held reserves, historical inequities in funding across academic divisions, concerns about the adequacy of administrative and academic support services, and a financial system that often created incentives at odds with our goals, strategies, and values.

Two years ago, we were ready to begin implementing some changes to our budget process based on the recommendations of a previous finance-reform initiative. Unfortunately, the financial uncertainty created by the COVID-19 pandemic made it inopportune to implement those changes at that time. Two years or so later, we are ready to renew our efforts. Our financial situation, though it has many structural challenges, is reasonably stable for the time being, meaning that now is a time in which we can begin to implement change.

While the intention is that the FSI will improve the efficiency of our operations, thus allowing us to better utilize the resources we have, the FSI cannot generate more revenues<sup>1</sup>. Moreover, most new resources, such as increased state funding and cohort tuition, have already been committed, principally to cover salary and benefits increases. Hence, the principal goal of FSI is to devise new ways to allocate the resources we do have to ensure their highest and best uses. That reality means,

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<sup>1</sup> At least not directly: it can be hoped that the incentives the FSI will create could lead to more revenue generation than currently exists on the campus.

among other things, that hard decisions are almost surely necessary; decisions that likely cannot be smoothed over via augmentation to units' budgets.

As work progresses, four foci are likely to emerge:

1. *The Central Ledger*

The central ledger supports many activities that are core to maintaining our status as the preeminent public institution for teaching, research, and public service. These include the funding of faculty salaries, startup and retention packages, and academic support via temporary academic support (TAS), utilities, debt service, capital expenditures, and student support services. However, revenues that flow into the central ledger are inadequate to pay for all these activities, which has led to the rapid depletion of centrally held reserves in recent years. Unless we correct this issue through the FSI, once reserves are depleted, we will have to begin reducing the general allocation to campus units and severely curtailing in-year commitments in order to balance the central budget.

2. *Academic Funding*

An academic funding model was developed during the previous finance reform initiative; its objective was to rationalize the distribution of limited resources to the colleges and schools using both qualitative and quantitative criteria. On the qualitative side, planning and funding for faculty (i.e., FTE, salaries, start-up, retention) were to remain under the auspices of the departments, colleges, schools, the Senate's Committee on Budget & Interdepartmental Relations (the Budget Committee), the Vice Provost for the Faculty, and the Executive Vice Chancellor and Provost, to ensure that the academic goals and excellence of Berkeley are maintained. On the quantitative side, funding, largely for staff and operations support, was to be allocated based on instructional and research activity levels. As noted, the onset of the COVID-19 pandemic delayed the implementation of this funding model, the basic components of which we believe remain important to achieving fair and equitable funding among the colleges and schools. That noted, we've also had two years to reflect on issues that might warrant rethinking certain aspects of that funding model.

3. *Funding for Academic and Administrative Support Units*

During the last finance reform initiative, a great deal of analytical work was conducted to understand the breadth of our academic and administrative campus support, as well as the costs associated with that support. In addition, discussions continued as to how we might develop an allocation model that would financially assess colleges and schools in order to fund these critical support services. It is understood that it would be impossible to impose certain assessments on colleges and schools without first increasing the resources available to them; in a way, certain funds may simply be passing through the colleges and schools, but in a way that creates incentives that lead to greater efficiencies. While we will need to revisit many of the assumptions behind previous analyses, we hope to build on them as we develop a new system of assessments.

#### 4. *Comparative Utilization and Efficiency Studies*

As we move toward an allocation model where the costs of essential administrative and student support services are distributed across the campus, we need to have confidence both that they are adequately funded to meet campus needs and that those services are delivered as efficiently as possible. We also need to be certain that the services provided represent core needs, because our financial reality means we anticipate making difficult decisions about the services we provide versus those we can consolidate or eliminate. Given this, we plan to conduct a series of comparative utilization and efficiency studies for key academic support and administrative services to provide the analysis essential to the accountability and transparency needed to secure the support of the units — largely the colleges and schools — that will be paying for these services.

#### **Organizing the Work of the FSI**

The Financial Sustainability Initiative is a major undertaking, which, to be successful, will require a great deal of analysis, planning, and consultation. To that end, we have appointed a Steering Committee, led by me and Vice Chancellor Rosemarie Rae, to manage and provide guidance across the FSI's multiple workstreams. The Steering Committee will also establish a plan for communication to, and the solicitation of input from, the broader campus community, particularly leadership groups such as the Cabinet, the Council of Deans, the Academic Senate, and the Chief Administrative Officers and Divisional Finance Leaders.

Given how important the deans are to the success of the FSI, we are also establishing a *Deans Advisory Group*, composed of representatives from each decanal subgroup (Council of College Deans; Council of Science & Engineering Deans; Council of Arts, Humanities, and Social Science Deans; and Professional School Deans). This group will represent the interests of the schools and colleges to the FSI Steering Committee, and liaise regularly with both the Steering Committee and the Council of Deans to provide updates, feedback, and counsel on the work as it progresses.

Finally, to conduct the planning and analysis for each workstream, as well as develop recommendations for how we move forward, we will rely on an Analytical Team, which we are asking you to join. As financial and administrative leaders within our academic and administrative units, you possess the subject matter expertise in finance and other disciplines essential to the success of the FSI. You will serve in an advisory capacity and play an important role in the planning and analysis required to develop new resource allocation models.

#### **Next Steps**

As a next step we are drafting a statement of purpose and scope document, as well as a timeline, for the project as a whole. In the near future I, along with Vice Chancellor Rae and AVC Stanich, will meet with you to discuss that work. I recognize that you have ongoing responsibilities that demand much of your time and attention, and I want to thank you for agreeing to support this important initiative. While the work ahead of us is considerable, we are fortunate to have your expertise and

leadership to assist us. I am confident, therefore, that we will succeed in building a financial framework that will ensure UC Berkeley's extraordinary excellence well into the future.

Sincerely,



Benjamin E. Hermalin  
Executive Vice Chancellor & Provost  
Schneider Distinguished Professor of Finance and Distinguished Professor of Economics

cc: Rosemarie Rae, Vice Chancellor of Finance  
Chris Stanich, Associate Vice Chancellor of Financial Planning and Analysis  
Andrea Lambert-Tan, Assistant Executive Vice Chancellor and Chief of Staff  
Members of the FSI Steering Committee and Project Core Team  
Members of the FSI Deans Advisory Group