January 24, 2023

David Ackerly, Dean, Rausser College of Natural Resources
Erwin Chemerisnky, Dean, School of Law
Sara Guyer, Dean, College of Letters and Science, Division of Arts and Humanities
Jennifer Johnson-Hanks, Executive Dean, College of Letters and Science
Tsu-Jae King Liu, Dean, College of Engineering

Re: Appointment to Financial Sustainability Initiative (FSI) Deans Advisory Group

Dear Colleagues,

I write to invite you to serve on the Financial Sustainability Initiative (FSI) Deans Advisory Group. 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.

The Deans Advisory Group will play a number of roles, including:

1. Helping ensure that the FSI Steering Committee and others working on FSI do so in a way that is consistent with our academic values, as well as other campus values and priorities.

2. Offering high-level guidance as we set out the principles that will guide the work, as well as providing input on the scope of the work.

3. Providing guidance to the FSI Steering Committee so that it understands the potential implications of various changes on the academic enterprise.

4. Providing a sounding board to help judge the feasibility of proposed solutions, as well as to help identify shortcomings and possible unintended consequences.

5. Advising on how a process that will be ongoing and that will need to adapt is best managed in the long term.

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 revenues1. Moreover, most new resources, such as

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1 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.
increased state funding and cohort tuition, have already been committed, principally to cover salary and benefits
gains. 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, 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, which we have asked you to join. As respected leaders from each decanal subgroup, you 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 composed of financial and administrative leaders within our academic and administrative units who possess the subject matter expertise in finance and other disciplines essential to the success of the FSI. They 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, the Steering Committee or a subset of it, will meet with you to discuss that work and secure your input before they are finalized. 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 and Provost

cc: Carol T. Christ, Chancellor
    Rosemarie Rae, Vice Chancellor of Finance and Chief Financial Officer
    Chris Stanich, Associate Vice Chancellor of Financial Planning and Analysis