October 21, 2022

Holly Doremus, Chair, Committee on Academic Planning and Resource Allocation (CAPRA)
Lisa García Bedolla, Vice Provost for Graduate Studies
Rosemarie Rae, Vice Chancellor of Finance and CFO
Chris Stanich, Associate Vice Chancellor, Financial Planning & Analysis
Katherine A. Yelick, Vice Chancellor for Research

Re: Financial Sustainability Initiative Steering Committee Appointment and Charge

Dear Colleagues,

I write to invite you to serve on the Financial Sustainability Initiative (FSI) Steering Committee, which will organize and oversee the work of the initiative for its duration. I will be leading this committee working with Vice Chancellor Rosemarie Rae.

Background
As you are likely aware, campus leaders have, for many years, contemplated various versions of finance reform. Two years ago, we were finally ready to begin implementing some of the changes that had been recommended in our previous finance reform initiative. The financial uncertainty created by the COVID-19 pandemic, however, made it inopportune to implement those changes at that time. Two years later, we are ready to renew our efforts. The largest impacts of the pandemic on campus life appear to be behind us. Our budget, though it has many structural challenges, is generally stable for the time being, meaning that now is a time in which we can implement change.

Unfortunately, the changes we need to make cannot, in most cases, be smoothed over via augmentation to campus budgets. Most new resources, such as increased state funding and cohort tuition, are essentially already spent, principally to cover salary and benefits increases. Instead, financial change is about devising new ways to allocate the resources we already have to their highest and best uses. This will necessarily entail reallocation of resources among units and making difficult choices about continuing, consolidating, or eliminating programs and services to fit into a new budget reality. This new initiative will require building on the strong analytic framework of prior finance reform initiatives, while remaining attentive to the concerns that have been raised in the years since our last attempt, as well as to our campus’s new financial reality.

The Financial Sustainability Initiative Workstreams
In preliminary work conducted in conjunction with the central Office of Financial Planning & Analysis (FP&A), we have identified four key work streams that we expect to be addressed as part of the FSI. The following discussion of these workstreams should be considered a starting point for our initial conversations regarding the scope and organization of our work. However, before describing those workstreams, it is critical to note, arguably unlike efforts of a few years ago, we recognize that we must take a holistic approach to our budget. People should not assume that the amount in any “bucket,” either in dollars or as a percentage of total funds, is fixed—the FSI is not simply about how to better allocate within buckets, but also about thinking about the links between and among buckets.

Workstream 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.

**Key goal(s):** Develop a plan to (1) replenish and maintain central ledger reserves at an appropriate level and (2) establish a new allocation model for how funds flowing into the central ledger will be applied to support campus needs (operational, capital, and strategic) and cover costs historically borne at the center (e.g., UCOP assessments, faculty and staff salary increases, etc.).

**Workstream 2: Academic Funding Model**
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.

**Key goal(s):** Adopt an academic funding model that builds upon the model developed three years ago and that responds to methodological questions raised about the previously adopted version, with changes made as needed.

**Workstream 3: Allocation Model 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. While we may need to revisit many of the assumptions about this work, we hope to build on it as we develop a new system of assessments.

**Key goal(s):** Develop (1) a model for funding centrally-provided academic support and administrative services, through which the costs of services are distributed among consumers based on relative activity levels and (2) a process through which rates for services will be established, periodically assessed, and revised as appropriate to meet the needs of the campus community.

**Workstream 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 – the colleges and schools – that will be paying for these services.

**Key goal(s):** Conduct in-depth operational and financial analyses of key administrative and academic support services (e.g., purchased utilities, facilities services, human resources, research administration, IT, student services, and so forth) as a means of ensuring that they are delivered as efficiently and effectively as possible and enjoy the confidence of the broader campus community.

**Conducting the Work of the FSI**

The Financial Sustainability Initiative is a major undertaking. To be successful, it will require a great deal of analysis, planning, and—critically—consultation. While the Steering Committee will manage and provide guidance for this work, we will charge subject-matter experts from the campus (i.e., Chief Administrative Officers and Divisional Finance Leaders), the central administration (i.e., Financial Planning and Analysis, including the Office of Planning and Analysis), and external consultants to conduct the analysis related to the FSI workstreams and provide recommendations for moving forward. In addition, given how important the deans are to the success of the FSI, we will establish 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), which will provide regular feedback and counsel on the work as it progresses. And finally, we will establish a plan for communication to, and the solicitation of input from, the broader campus community, particularly leadership groups such as the Cabinet, Council of Deans, and the Academic Senate, most notably CAPRA.

**Next Steps**

There are several key tasks for the Steering Committee to accomplish once convened, including the finalization of the scope of work, timeline, organizational structure, and plan for communication and consultation. To that end we hope to schedule the first Steering Committee meeting in early November and will plan to meet, initially, on a biweekly basis.

I want to thank you for agreeing to help lead such an important initiative. While the work ahead of us is considerable, we are fortunate to have years of prior effort supporting it. I am confident, therefore, that we will succeed in building a financial framework that will ensure UC Berkeley’s extraordinary excellence into the future.

Sincerely,

Benjamin E. Hermalin
Executive Vice Chancellor & Provost

cc: Carol T. Christ, Chancellor
    Andrea Lambert-Tan, AEVC and Chief of Staff, Office of the Executive Vice Chancellor & Provost