Berkeley
UNIVERSITY OF CALIFORNIA

Nicholas B. Dirks
Chancellor
Professor of History
Professor of Anthropology

200 California Hall #1500
Berkeley, CA 94720-1500
510 642-7464
510 643-5499 fax
chancellor@berkeley.edu

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RE: Fiscal Year 2016-17 Budget Call Letter

Introduction

This memo provides the context and instructions needed to start developing divisional FY 2016-17 budgets. The Campus Budget Office will distribute supporting materials and division-specific financial targets electronically within the next week.

Fiscal Context

As we stated in last year's budget call letter, public higher education is experiencing a fundamental shift in its financial model. While we have managed UC Berkeley's administrative costs effectively over the years, the costs of delivering world-class education and research have continued to escalate as we compete with peer private universities to attract and retain the best faculty, provide our students with better classes and services, comply with federal and state regulations, and upgrade an aging infrastructure.

To address both the opportunities and challenges in a changed higher education landscape, we have been hard at work on a comprehensive strategy development process. As you know, the campus' senior academic and administrative leadership have been exploring and developing a vision for UC Berkeley in the 21st century. More specific information regarding the new Strategic Framework will be available in the days ahead. In the interim, we are asking campus to take the following actions in this year's budget development process.

Strategic Budget Adjustments

Our primary objectives with the FY 2016-17 budget adjustments include securing a financially sustainable future for UC Berkeley, while maintaining our capacity to provide students with affordable access to an excellent education. Our collective charge is to make a determined effort to direct the allocation of our resources toward our highest priorities, while confronting the difficult trade-offs that will be required. To support campus in this endeavor, we are striving to create predictability to allow for multi-year financial planning. Since the state's UC budget agreement in June 2015 clarified the tuition and state support investment we can expect for the foreseeable future, wherever possible, we will provide longer-term budgetary instructions and recommendations.

1. Balanced Budgets In-Year

It is important that our budget adjustment strategies lead to concrete and measurable progress as soon as possible. Therefore, effective with the FY 2016-17 budget cycle, we ask that each campus division submits a balanced budget (i.e., zero or positive change in total net assets) with their annual submission. This will become a standard requirement in the years ahead.

In the current budget climate, we will be increasing scrutiny on the use of reserves. Please use this budget cycle to address structural imbalances by reducing expenses or growing revenue. Further, where possible, please delay large investments to a future fiscal year. Contact the Campus Budget Office as soon as possible if you find that your division will not be able to achieve this goal for FY 2016-17.

2. Mandatory Reduction in Campus Compensation Costs

We are requiring divisions to reduce staff compensation costs over the course of FY 2016-17. Exceptions include academic personnel and staff funded on contracts and grants (as strictly defined). Each division will receive a specific savings target, and campus will reduce unrestricted funding in the identified amount.

Please be advised we will not be offering voluntary separation or retirement incentive programs in FY 2016-17.

We ask that you work to find ways to minimize the impact this activity will have on our core mission and purpose. All campus units, including central administration, will need to look for ways to deprioritize activities and reduce the scope of what we are doing – and what we are asking of each other – not simply trying to continue to do more with less.

3. Staff Merit and Benefit Adjustments

Making the practice we began last year permanent, we are no longer distributing central funding to divisions to cover staff merit and benefit adjustment costs, should there be such increases next year. Divisions must absorb these costs from within their existing budgets. Merit and benefit cost assumptions will be pre-populated in CalPlanning for FY 2016-17, and divisions must adjust their budgets accordingly. Salary and benefit adjustments for ladder-ranked faculty are exempt from this measure, as their funding continues to be met from central resources.

4. Leveraging Gift and Endowment Payout Funds

Philanthropy is the most promising funding source for UC Berkeley in the years ahead, and we must employ proper stewardship of these funds to support the core budget of the university. Significant savings can be achieved if units use a percentage of incoming gifts and endowment payout for budget relieving uses and pull back unrestricted funds accordingly.

As a small step in this direction, in FY 2016-17 we are requiring divisions to find ways to redirect an additional 2% of restricted gift and endowment balances toward budget relieving activities. Campus will reduce unrestricted funding to divisions by a matching amount, and divisions are expected to use their gift funds to make up the difference in their operating budget. The Campus Budget Office and University Development and Alumni Relations will reach out to impacted staff to offer training and tools on this new endeavor.

5. Travel Prioritization
In your budget, we are asking you to prioritize essential travel and consider limiting non-essential administrative travel wherever possible. Exceptions include travel related to contracts and grants, research, faculty travel obligations and professional activities, Intercollegiate Athletics, student recruitment, and instances where a staff member is speaking at a conference.

6. Overhead Return
In FY 2016-17 we are ending the pilot program currently in place to return 6% of Indirect Cost Recovery (ICR) expenses to units. This was a pilot project designed to support research on campus. Its financial model was predicated on the assumption that higher ICR rates would increase revenues to central campus; however, the higher revenues have not materialized, leaving campus with no funding source for this program.

This instruction does not impact the Berkeley Excellence Accounts for Research (BEAR) Program. The BEAR Program will continue to support UC Berkeley's ladder faculty as they advance their research, scholarship, and creative accomplishment.

7. Off-Cycle Funding Commitments Review
We will be undertaking a comprehensive review of the Chancellor's and Executive Vice Chancellor and Provost's current funding commitments no longer aligned with the most essential strategic campus priorities. Divisions will be notified in due course if support for specific commitments in their area will be changing.

Conclusion
We look forward to partnering with you during the FY 2016-17 budget process to help ensure the success and sustainability of our university for the 21st century and beyond.

Sincerely,

Nicholas B. Dirks
Chancellor

Claude M. Steele
Executive Vice Chancellor and Provost