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December 14, 2018

Director Keely Bosler
Department of Finance
915 L Street
Sacramento, California 95814

The Honorable Holly J. Mitchell Chair,
Joint Legislative Budget Committee
1020 N Street, Room 553
Sacramento, California 95814

Dear Director Bosler and Senator Mitchell:

Pursuant to Item 6440-001-0001, Provision 2.7(a) of the 2018-19 Budget Act, enclosed is the University of California's report to the Department of Finance and the Joint Legislative Budget Committee on the *Sustainability Plan to Eliminate the Operating Deficit at UC Berkeley*.

If you have any questions regarding this report, Associate Vice President David Alcocer would be pleased to speak with you. David can be reached by telephone at (510) 987-9113, or by e-mail at David.Alcocer@ucop.edu.

Sincerely,

Nathan Brostrom
Executive Vice President-Chief Financial Officer

Enclosure

cc: Senate Budget and Fiscal Review
The Honorable Anthony J. Portantino, Chair
Senate Budget and Fiscal Review Subcommittee #1
(Attn: Ms. Anita Lee)
(Attn: Ms. Cheryl Black)
The Honorable Kevin McCarty, Chair
Assembly Budget Subcommittee #2
(Attn: Mr. Mark Martin)
(Attn: Mrs. Katie Sperla)
Ms. Jennifer Troia, Joint Legislative Budget Committee
Mr. Danny Alvarez, Secretary of the Senate

Ms. Tina McGee, Legislative Analyst's Office
Ms. Amy Leach, Office of the Chief Clerk of the Assembly
Mr. E. Dotson Wilson, Chief Clerk of the Assembly
Mr. Jeff Bell, Department of Finance
Mr. Chris Ferguson, Department of Finance
Mr. Jack Zwald, Department of Finance
Ms. Tina McGee, Legislative Analyst's Office
Mr. Mac Taylor, Legislative Analyst's Office
Mr. Jason Constantouros, Legislative Analyst's Office
Rosemarie Rae, Vice Chancellor-Chief Financial Officer, UCB
Executive Vice President and Chief Financial Officer Nathan Brostrom
Senior Vice President Claire Holmes
Vice President Associate Vice President David Alcocer
Associate Vice President and Director Kieran Flaherty
Chief of Staff to the Chief Financial Officer Oren Gabriel
Chief of Staff Governmental Relations Bob Hartnagel
Manager Jennifer Brice

UNIVERSITY OF CALIFORNIA

Sustainability Plan to Eliminate the Operating Deficit at the University of California, Berkeley

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Introduction

UC Berkeley is a place of remarkable discovery, creativity, and social mobility. By investing $25 million in the university beyond its annual appropriation, the State of California has affirmed its commitment to maintaining Berkeley's distinction as a beacon of excellence and accessibility. These funds represent an opportunity for the campus to continue its progress from cutting costs to growing revenue, moving from financial risk to sustainability, and imagining a brighter future for the institution.

Moreover, this investment will pay dividends for the state. With the $25 million, we can revitalize our curriculum to better educate the dynamic thinkers needed to solve California's most pressing issues. We can provide the support—academic, financial, and professional—our students need to graduate on time and join the California workforce. And we can cultivate passionate alumni who value public service in their communities across the state. For every $1.00 invested in higher education, the state reaps a net return of $4.50—and that figure jumps to $4.80 for students who graduate,[1] a true example of the mutual benefit an investment like this provides to campus and California alike.

Berkeley's Financial Challenges

Unfortunately, for a number of reasons both internal and external, UC Berkeley has faced a substantial structural deficit over the past several years. Beginning at $43 million in FY 2012-13 and growing to roughly $150 million by FY 2015-16, the deficit at its peak represented 6% of the campus' total operating budget. A number of factors have contributed to this deficit. Some are general to the UC System and include:

- Gradual increases in state support that have not fully offset the decline in state funding following the last recession
- No increase in systemwide tuition from 2012-13 to 2016-17 (five years)
- Restart of pension contributions in 2010 (adding $125 million in costs)
- Sunset of capital projects and directed operating support for existing and new facilities

Other factors are specific to Berkeley, including:

- Substantial growth of long-term debt (from $33 million to over $100 million)
- Redistribution of State General Funds across the UC campuses under the system-wide "rebenching" initiative
- Growth in staff related to implementation of a shared service delivery model on campus
- As the oldest UC, facilities that require greater deferred maintenance, renovation and replacement than at sister institutions

Because Berkeley's deficit does not reflect a short-term fluctuation in funding but a "new normal," responding to it has required that we take a long-term view and make structural changes to our financial model. As a university, we are focusing not only on the immediate challenge of closing the budget gap,

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[1] "California's Economic Payoff," Stiles, et al., Campaign for College Opportunity, April 2012

but also on the deeper task of enhancing our institution's continued sustainability and self-reliance, so that we may continue to provide a world-class educational environment for our students and faculty.

Financial Sustainability Plan

To address UC Berkeley's financial challenges, we established a five-year plan to eliminate the deficit. The table below provides the deficit reduction targets established five years ago, as well as the impact the $25 million investment will have in reducing our projected deficit in FY 2018-19:

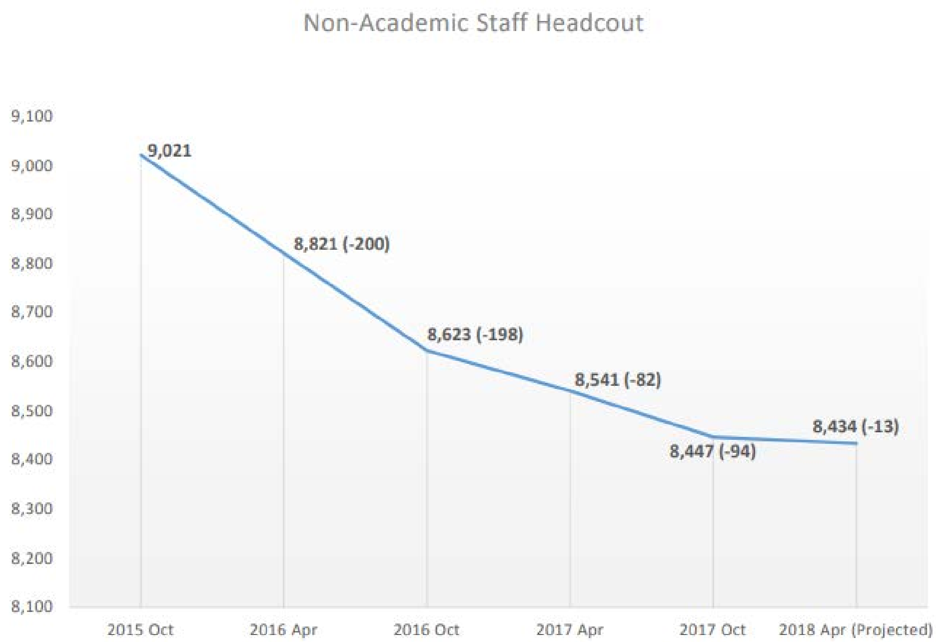
$ in thousands	**2015-16**	**2016-17**	**2017-18**	**2018-19**	**2019-20**
Target Surplus/Deficit	($149,000)	($110,000)	($57,000)	($20,000)	$8,000
			Projected Deficit	($41,814)	$0
			Deficit with $25M	($16,814)	

The university's projected 2018-19 net deficit is now $16.8 million (down from $41.8 million) thanks to the $25 million of additional state support, which means we are on track to eliminate the deficit by the end of 2019-20. We have also established sufficient discipline to enable a sound financial future. It is important to note that had we not implemented the five-year plan, our structural deficit would have grown to an estimated $267 million by 2019-20.

Even without the structural deficit, the pursuit of our mission would have required renewed dedication to our institutional well-being through improved financial planning and management. Therefore, we have employed the following strategies to both eliminate the deficit and promote financial sustainability:

- Established annual budget improvement targets for each division that could be met either through cost reductions, revenue generation, or both
- Increased focus on fundraising as a critical source of operating revenue
- Developed alternative revenue sources, particularly through academic programming (e.g., self-supporting graduate programs, professional master's programs, concurrent enrollment, university extension)
- Established a robust culture of rigorous financial planning and management, including annual strategic plans, performance measures, and budget hearings for each dean and vice chancellor
- Currently redesigning financial practices to increase simplicity, transparency, trust and accountability (e.g., metrics-informed resource allocation methodologies)
- Better leveraging resources such as intellectual property and real estate

When we began implementing these strategies, cost reductions represented the primary way in which Berkeley was addressing its deficit reduction goals. As an organization whose largest operating expenditures are in faculty and staff, this has meant significant reductions in force. Since 2015, UC Berkeley has reduced non-academic staff headcount by over 500:



As we have matured in our sustainability planning, revenue generation has played a much more important role in reducing our structural deficit. University-wide, more than half of our annual budget improvement target is now met through revenue generation as opposed to cost reductions. In particular, philanthropy and alternative revenue have been important in moving us toward financial sustainability. Since FY 2010-11, total gifts and pledges have increased from $316 million to $569 million (+80%), while over the past decade, growth in alternative revenue (e.g., from self-supporting and professional master's programs, etc.) has more than doubled, from $103 million to $274 million. For FY 2018-19, a combination of cost reductions and revenue generation will once again enable Berkeley to reduce its deficit, with the $25 million allowing us to reduce it further. Looking to the future, with limited increases in state funding and tuition anticipated, philanthropy and alternative revenue will become a much more significant part of Berkeley's financial strategy.

Future Investments in Berkeley's Success

The success with which UC Berkeley has reduced its structural deficit must be understood in light of the impact that doing so has had on the campus. Eliminating the deficit has required both deep cuts to core services and activities, as well as a limitation on the university's ability to make investments in programs and initiatives that are essential to fulfilling its mission. The student experience, academic excellence, access, research, and diversity are all key elements of Berkeley's new strategic plan. Due to the budget relieving impact of the state's $25 million investment in FY 2018-19, we are positioned to move faster in the coming years to rebuild and enhance these priorities on campus. On the following page is a set of initiatives on which we will focus:

Priority	**Targeted Investments**
Student Success and Diversity	• As Berkeley has had to reduce its budget over the past five years, enrollment has grown by 5,200 majors and is now the highest in the university's history. At the same time, the need for student services has proliferated, with areas in need of investment including advising and tutoring, career navigation, residential academic support, and support for at-risk students (e.g., disabled, LGBTQ, gender equity) among others. • Berkeley also trails other UC campuses in student diversity. In response, we have established the Undergraduate Diversity Project, the goals of which are to provide services

	and programming that improve the recruitment and retention of underrepresented minority (URM) and other at-risk students. • Finally, financial support for graduate students is critical if Berkeley is to remain competitive with the best universities in the nation. This is particularly challenging with respect to our private peer institutions (e.g., Harvard, Stanford, Princeton), which have much deeper pockets and haven't suffered the financial challenges Berkeley has sustained over the past several years.
Faculty Hiring, Retention and Diversity	• As the number of students on campus has increased over the past five years, the number of ladder faculty has actually decreased by 1%. As a result, class sizes are now larger and the university utilizes more temporary faculty to deliver instruction. Under these circumstances, it is also difficult to grow the research enterprise and we become subject to faculty poaching by other institutions. To address these issues, Berkeley plans to hire 100 new ladder faculty over the next ten years and will also make the financial investments needed to retain its most productive faculty members. • To improve faculty diversity on campus, Berkeley has established the Office of Faculty Equity and Welfare (which focuses on recruitment) and the Faculty and Departmental Diversity Initiatives office (which focuses on creating an accepting, inclusive campus environment). Investments in both areas have not been as robust as possible due to the university's financial challenges.
Academic Curricula and Programs	• Berkeley's strategic plan identifies the need to develop the "curricula for the future," which envisions the creation of flexible academic paths that draw on the university's comprehensive excellence. Examples include new interdisciplinary programs, "3+2" and "4+1" programs that enable students to earn undergraduate and a master's degree in less time, "discovery" experiences that provide real-world learning opportunities outside the classroom, and online and technologically enhanced courses. Expected outcomes from these ventures include improved student learning, faster time to degree, and better preparation for the workforce. As is the case for other areas of strategic opportunity, the university has been limited in its ability to invest in much needed curricular and programmatic improvements over the past several years.
Philanthropy	• As indicated earlier in this plan, increased private support is critical to Berkeley's financial future and must serve as a primary source of funding for operations (as is the case at private universities). As of November 2018, the university has raised $2.2 billion with the capacity (based on assessments from our campaign consultants, Marts & Lundy) to raise $5.5 to $6.1 billion. Doing so, however, will require significant investments in development operations (e.g., fundraisers, marketing, communications, technology). The anticipated but not confirmed campaign launch will be in 2020.