1. **Introduction**

Welcome back to the UC Office of the President (UCOP) FY20-21 budget season. As presented last December, this year’s budget process continues to leverage actual expenditures and forecasts to align UCOP resources. Thanks to everyone for all the effort to develop the FY19-20 Q2 Forecast in the new Planning & Budgeting System (“PBS”) system.

As many know, the State of California released the Governor’s Budget on January 10th. This budget continues the past practice of funding part of the UCOP budget through direct state appropriations, which include the following:

- Holding UCOP funding flat and continuing to disallow the use of any campus assessment(s)
- Continuing the ANR appropriation plus a 5% increase in line with the general UC appropriation; and
- Holding UCPath’s appropriation flat; however UCPath may continue to augment its total budget with a specific UCPath fee-for-service assessment upon DOF review and approval.

Our December budget call presumed a return to a campus assessment funding model in FY20-21. Given flat State funding, FY20-21 presents challenges that necessitates additional budget guidance.

The FY20-21 budget development timeline is unchanged from the December call letter, and the proposed FY20-21 budget will be submitted to the UC Regents for their approval in May. The PBS system will be open between **January 27th and February 14th for budget entry and submission.**

We’d like to thank everyone in advance for your adherence to the budget guidelines and timeline and commitment to successfully completing the UCOP FY20-21 budget.

2. **Impact of State General Funds.** The FY20-21 Governor’s Budget provides a $216M line item appropriation for UCOP (separate from line items for the UCPath Center and ANR). This amount makes up the largest portion of the $283M total unrestricted funding included in the approved FY19-20 budget. In FY19-20 the budget was balanced using $40M from one-time fund balances and other measures. Most of those funds sources have been fully expended and are not available for the FY20-21 budget.

In addition, we will have upward pressure from annual cost increases such as merits, benefits and contracts with escalations. The net result is that we are considering multiple strategies to close what will be an approximate $50M structural budget gap in the FY20-21 budget, which represents 15% of the total unrestricted funds.
3. **Addressing the FY20-21 budget gap.** To address the unrestricted structural funding gap, we will review both budget sources and uses, and implement a process to:

- **Identify One-time Revenues**
  BFD will work with division to conduct a thorough review and forecast of our year-end fund balances and will also evaluate strategies such as accessing the Central Operating Reserve. Note that this strategy does not resolve our underlying structural deficit.

- **Reclassify Revenues**
  Revenue reclassification will include analyzing activities that could potentially be converted from unrestricted fund sources to fee-for-service. BFD will reach out to those divisions directly where this strategy might make sense. These could include OGC, ECAS, Title IX, ITS, and CDL. Other suggestions in this regard are welcome.

- **Reduce Expenses**
  Lastly, we must consider reducing our expenses on unrestricted funds. These reductions require that we target a 5% reduction from FY19-20 Budgets for all unrestricted funds. BFD will work with the appropriate divisions during the week of January 27th to confirm the specific target for each division. Reduced funding for the Strategic Priorities Fund will also be considered.

4. **Key Planning Assumptions:**
   a. All budget increases will be carefully scrutinized. Please no “wish lists” as only critical and/or unavoidable cost increases will be considered.
   b. Activities funded on restricted or designated funds should plan for **modest budget increases** primarily due to merits, benefits and other mandated cost increases (see h. below); otherwise division budgets should be held flat. BFD is communicating known exceptions to the divisions.
   c. Any unavoidable non-salary cost increases that cannot be absorbed must be requested in PBS through Decision Package functionality and will be reviewed.
   d. Divisions and departments should consider workforce plans and any new or redeployed FTEs should be consistent with priorities identified through workforce planning.
   e. Headcount is expected to remain flat to current budget. New position requests, if any, should be funded from existing headcount and budget. Any new activities that require incremental salary funding and headcount that cannot be offset by savings in other areas must be requested in PBS through Decision Package. **Note: these requests will undergo rigorous review and there is a high likelihood the division will be asked to absorb the additional headcount.**
   f. New hires should be entered by the month the position is expected to be filled.
   g. Salary and benefits planning:
      i. **Vacancy factor:** The FY20-21 vacancy factor will be calculated by BFD based on an analysis of open positions across the organization and updated in PBS in January.
      ii. **Merit:** A merit of 3%, contingent on approval of the University’s budget by the Regents, will be included for all eligible employees.
      iii. **Equities and Promotions:** These costs will be calculated and budgeted centrally by BFD.
      iv. **Salary savings:** Should not be relied on to cover other expenditures; they will be swept.
v. **Benefits costs:** Rate increases associated with benefits will be communicated when completed and budgeted by BFD.

5. **Requesting Strategic Priorities Funding (SPF):**

The SPF will be budgeted by BFD and will include all known commitments. Departmental savings targets (5%) may not include items in the SPF. SPF funding for new requests will be very limited. Preliminary requests for SPF funds must be submitted in a decision package but will still require an MPI or decision memo for approval.

6. As a reminder, many of the previous guiding principles have not changed.

   a. **Budget Entry:** Budget Liaisons will enter directly into PBS between 1/27/20 – 2/14/20. Budgets are due in PBS at the end of day **February 14, 2020.**

   b. **Q2 Forecasts:** The Q2 Forecast will populate data for the FY20-21 Budget instance and will serve as a starting point for developing budgets that will need to be adjusted for annual totals.

   c. **Budgets Planned by Month:** Expenses must be entered by month and as necessary should reflect accurate timing of payroll and non-payroll expenditures.

   d. **Revenue Budgets:** New PBS functionality allows revenue budgeting. Divisions and Departments will be required to enter their own, self-generated Restricted and Designated revenues. BFD will budget centrally managed funds. UCOP’s final budget may not reflect a deficit.

   e. **Funds will be categorized:** (1) Unrestricted, (2) Designated, and (3) Restricted.

   f. **Budget all salary and headcount:** Departments will again budget all headcount and salaries including part-time and limited appointments such as interns, students, rehired retirees, etc. All positions must have a budgeted headcount (full or partial), Position ID, and salary.

   g. **Known Cost Increases:** Requests for unavoidable or known expense increases such as contract escalations must be submitted. This does not include discretionary items.

   h. **Decision Packages:** New PBS functionality provides an integrated approach to budget augmentations. All incremental requests for funding or FTEs must be entered into a Decision Package, and the entire portfolio of requests will be evaluated and approved through the UCOP process, including review by the EBC, Chancellors, President and other key stakeholders.

   i. **Budget Narrative:** Each division will use the same budget narrative template used last year to articulate priorities, trade-offs and value propositions for the FY20-21 budget. Division narratives and FY20-21 PBS budget entries will be reviewed by BFD with each division leader.

7. **Budget Development and Submission Timeline:**

   a. **PBS opens January 27th.** All budget updates are due in **PBS end-of-day February 14th.**

   b. **Budget Narratives are due February 14th:** Submit to BFD at: **OBUD-OPBUDGET-SA@ucop.edu**

This year’s budget development will continue to be supported by office hours, workshops and training. We value the ongoing collaboration with our Budget Community of Practice and look forward to working together. Please contact your **Budget and Finance Budget Coordinator, Dave Baltaxe, or Eva Goode** with further questions.