

# Deans and Chairs Retreat

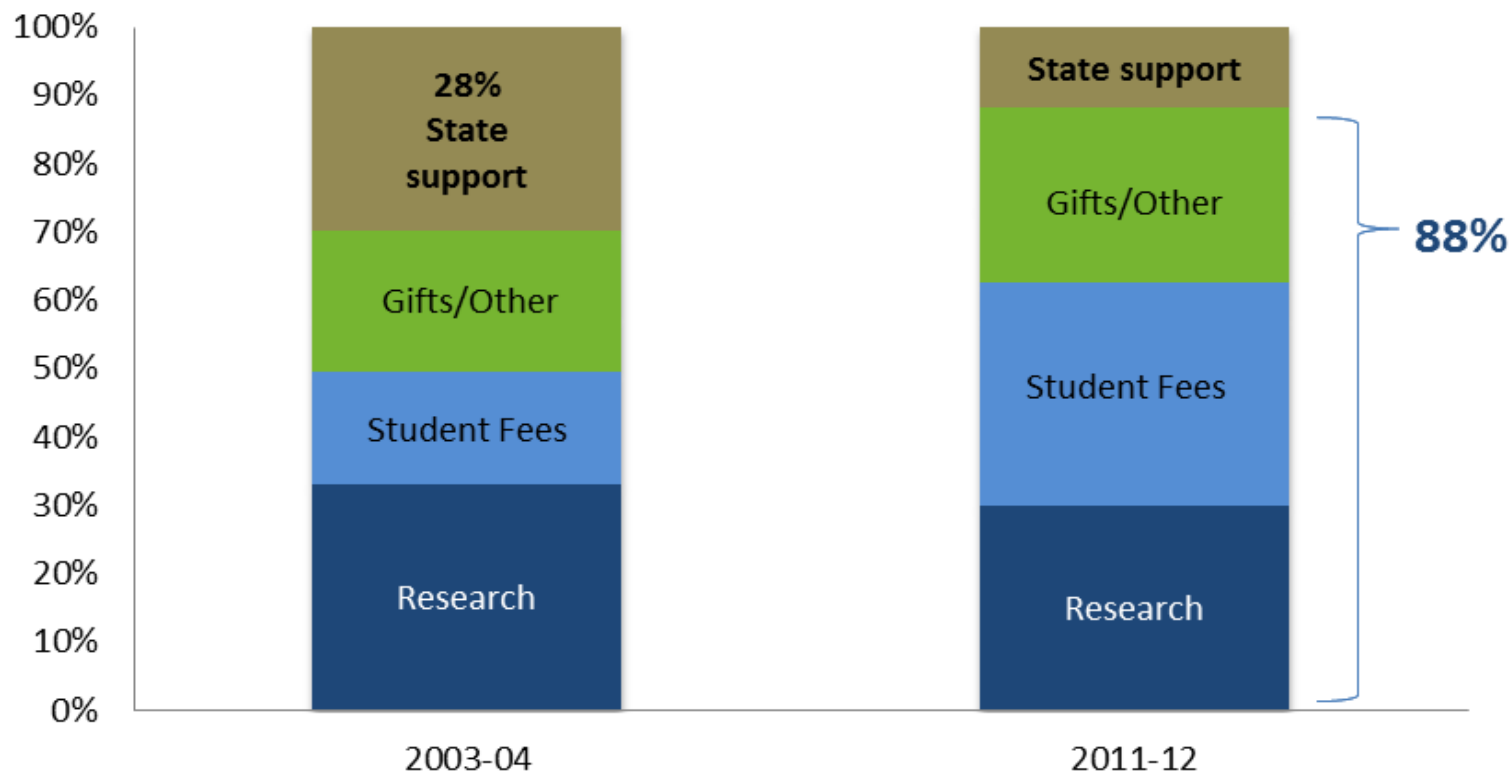
1. Finance Update
2. Rationalizing Our Financial Landscape

Vice Chancellor John Wilton  
February 2013

# Finance Update

# As you all know, the environment has changed

State support declined from 28% in 2004 to 12% in 2012.  
This change has several implications for us...



# Campus Financial Projections – *Where we Are Now*

	Base Case - January 2013	
	Year -1	Year 0
	2012A	2013F
<b>Revenues</b>		
Student Tuition and Fees, net	\$623,967	\$651,990 *
State educational appropriations	268,991	283,000 *
Federal Pell grants	39,789	40,784
Federal Grants and Contracts, net	408,202	397,997 *
Other Grants and Contracts, net	255,024	256,299
Educational Activities, and Aux	242,016	248,066
Private gifts, net	180,488	190,415
Investment income	115,009	118,389
Other revenues, net	64,704	72,063
<b>Revenues supporting core activities</b>	<b>\$2,198,190</b>	<b>\$2,259,003</b>
<b>Expenses</b>		
Salaries and Wages	\$995,852	\$1,025,728
Benefits	316,179	353,566
UCOP	27,000	27,675
Scholarships and Fellow ships	139,683	139,683 *
Utilities	35,903	36,801
Supplies and Materials	156,565	160,479
Depreciation of Capital Assets	68,502	72,750
Debt Service	97,734	112,386
Other Operating Expenses	327,308	304,664 *
<b>Expenses associated with core activities</b>	<b>\$2,164,726</b>	<b>\$2,233,730</b>
<b>Income (loss) from core activities</b>	<b>\$33,464</b>	<b>\$25,273</b>
<b>Income (loss) as % of revenues</b>	<b>1.5%</b>	<b>1.1%</b>



# Preliminary Analysis of Governor's Budget Proposal

The governor's budget is at turns both problematic and encouraging... The system has lost \$1B of state funding in recent years. How should we think about 5% growth on the new reduced base that accounts for Only 12% of our revenue?



\$125M Fee Buyout for 2013

+\$125M for 2014

Debt Restructuring



No Tuition Growth?

No Capital / Seismic Budget

Unrealistic Savings Mandates?

# Initial Outlook for 2013-14

## MD&A - Operating performance (Base Case)

(dollars in thousands unless noted)

	Year -1 2012A	Year 0 2013F	Year 1 2014F
<b>Revenues</b>			
Student Tuition and Fees, net	\$623,967	\$651,990	\$651,990
State educational appropriations	268,991	283,000	315,500
Federal Pell grants	39,789	40,784	41,803
Federal Grants and Contracts, net	408,202	397,997	380,087
Other Grants and Contracts, net	255,024	256,299	249,892
Educational Activities, and Aux	242,016	248,066	254,268
Private gifts, net	180,488	190,415	197,079
Investment income	115,009	118,389	116,725
Other revenues, net	64,704	72,063	74,452
<b>Revenues supporting core activities</b>	<b>\$2,198,190</b>	<b>\$2,259,003</b>	<b>\$2,281,797</b>
<b>Expenses</b>			
Salaries and Wages	\$995,852	\$1,025,728	\$1,056,499
Benefits	316,179	353,566	377,631
UCOP	27,000	27,675	28,367
Scholarships and Fellow ships	139,683	139,683	143,175
Utilities	35,903	36,801	37,721
Supplies and Materials	156,565	160,479	164,491
Depreciation of Capital Assets	68,502	72,750	77,104
Debt Service	97,734	112,386	131,956
Other Operating Expenses	327,308	304,664	287,588
<b>Expenses associated with core activities</b>	<b>\$2,164,726</b>	<b>\$2,233,730</b>	<b>\$2,304,532</b>
<b>Income (loss) from core activities</b>	<b>\$33,464</b>	<b>\$25,273</b>	<b>(\$22,736)</b>
<b>Income (loss) as % of revenues</b>	<b>1.5%</b>	<b>1.1%</b>	<b>(1.0%)</b>

### UC Berkeley's Key FY14 Assumptions for Base Case

- 13% of (\$125M State fee buyout + additional \$125M per Governor's budget) = \$32.5M
- Tuition growth frozen for 2013-14
- Salaries grow @ 3%
- OE savings continue to grow by \$15 - 25M in 2013-14

### Additional FY14 Assumptions for Base Case

- Federal Grants (nominal) growth @ - 4.5%
- % of Non-residents undergraduate @ 20%
- Private gifts growth @ 3.5%

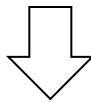
NOTE: Projections and assumptions are always subject to revisions. The point of this slide is to show possible changes over the short term given specific assumptions.

# Constraints on key revenue streams create intense pressure on those that remain on the table

## Failing to Recognize Cost Increases is Bad Fiscal Policy

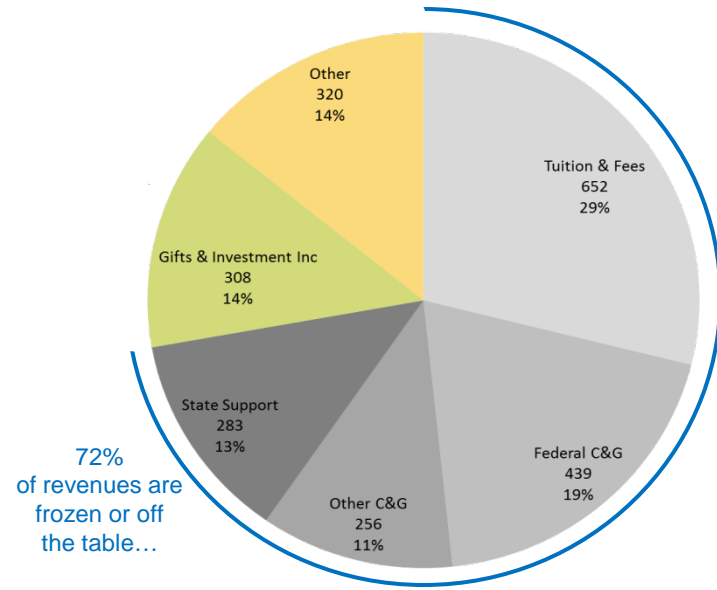
Berkeley Operating Expenses (less Depreciation & Amortization )	\$2Billion
2% unavoidable Cost Increases	-\$40M
Additional Contrib. from Rev. sources	+\$16M
-State funding	+\$16M
-Tuition & Fees	+\$0M
-Contracts & Grants	+\$0M
-Cal & Pell Grants	+\$0M
Estimated funding gap	-\$24M

Growth in Gifts & Investment Income is uncertain.  
This requires us to grow "Other" revenues...



**7.5% increase in "Other" revenues +\$24M**

Berkeley Revenue Sources



We imagine this plays out as follows in the system budget as well...

Increase in State General Funds	+\$125M
Increase in tuition	+\$0M
Debt Restructuring	+\$80M
UCRP Increases	-\$77M
2.0% General Cost Increase*	-\$440M
Combined impact	<b>(-\$517 + \$205) = -\$312M</b>

\*Estimated based on 2012 Financial Statements (taking OpEx less depreciation, amortization, & UCRP expenses)

# In the medium term, we have a persistent structural deficit...

## MD&A - Operating performance (Base Case)

(dollars in thousands unless noted)

	Year -1	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
	2012A	2013F	2014F	2015F	2016F	2017F	2018F
<b>Revenues</b>							
Student Tuition and Fees, net	\$623,967	\$651,990	\$651,990	\$659,663	\$667,490	\$675,474	\$683,617
State educational appropriations	268,991	283,000	315,500	328,904	342,877	357,443	372,629
Federal Pell grants	39,789	40,784	41,803	42,639	43,492	44,362	45,249
Federal Grants and Contracts, net	408,202	397,997	380,087	368,684	376,058	383,579	391,251
Other Grants and Contracts, net	255,024	256,299	249,892	254,889	259,987	265,187	270,491
Educational Activities, and Aux	242,016	248,066	254,268	259,353	264,540	269,831	275,228
Private gifts, net	180,488	190,415	197,079	202,992	209,081	215,354	221,815
Investment income	115,009	118,389	116,725	119,310	121,251	122,889	124,487
Other revenues, net	64,704	72,063	74,452	76,881	77,624	78,382	79,156
<b>Revenues supporting core activities</b>	<b>\$2,198,190</b>	<b>\$2,259,003</b>	<b>\$2,281,797</b>	<b>\$2,313,316</b>	<b>\$2,362,401</b>	<b>\$2,412,502</b>	<b>\$2,463,921</b>
<b>Expenses</b>							
Salaries and Wages	\$995,852	\$1,025,728	\$1,056,499	\$1,088,194	\$1,120,840	\$1,154,465	\$1,189,099
Benefits	316,179	353,566	377,631	425,972	450,218	491,956	512,286
UCOP	27,000	27,675	28,367	28,934	29,513	30,103	30,705
Scholarships and Fellow ships	139,683	139,683	143,175	146,039	148,959	151,939	154,977
Utilities	35,903	36,801	37,721	38,475	39,245	40,029	40,830
Supplies and Materials	156,565	160,479	164,491	167,781	171,137	174,559	178,050
Depreciation of Capital Assets	68,502	72,750	77,104	80,674	84,316	88,031	91,820
Debt Service	97,734	112,386	131,956	136,050	159,934	162,881	165,120
Other Operating Expenses	327,308	304,664	287,588	280,759	268,956	272,178	275,426
<b>Expenses associated with core activities</b>	<b>\$2,164,726</b>	<b>\$2,233,730</b>	<b>\$2,304,532</b>	<b>\$2,392,878</b>	<b>\$2,473,118</b>	<b>\$2,566,142</b>	<b>\$2,638,315</b>
<b>Income (loss) from core activities</b>	<b>\$33,464</b>	<b>\$25,273</b>	<b>(\$22,736)</b>	<b>(\$79,562)</b>	<b>(\$110,716)</b>	<b>(\$153,640)</b>	<b>(\$174,393)</b>

NOTE: Projections will change as we learn more and our assumptions change. The point of this slide is to show a "base case" outcome absent additional reforms.

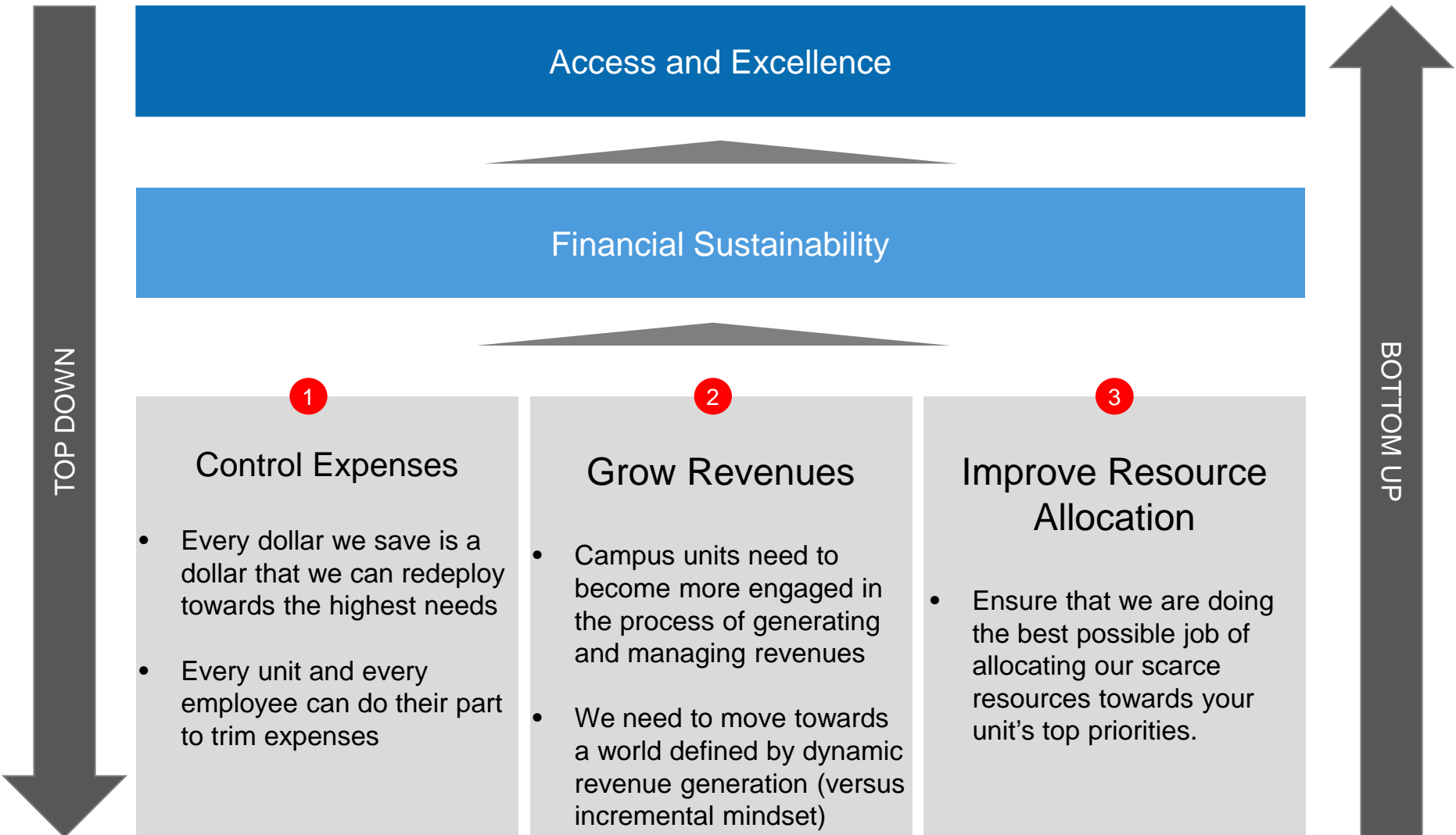


## ...which can not be mitigated easily from the top-down view

	2014F	2015F	2016F	2017F	2018F
<b>Base Case</b>					
- Additional Funding from State in FY14 (\$32.5M) and proportional growth thereafter.					
- Tuition frozen for modeled period.					
- Expense assumptions not changed from spring.					
	(\$22,736)	(\$79,562)	(\$110,716)	(\$153,640)	(\$174,393)
<b>Cost adjustments</b>					
-					
Employer UCRP Contribution capped at 14%	(\$22,736)	(\$79,562)	(\$77,091)	(\$84,372)	(\$103,047)
<b>Revenue adjustments</b>					
-					
Tuition grows at 5 % per year	(\$10,019)	(\$53,492)	(\$70,624)	(\$98,824)	(\$104,116)
Non-resident percentage grows to 25%	(\$22,736)	(\$69,260)	(\$92,337)	(\$126,866)	(\$138,895)
<b>Combination</b>					
UCRP Contribution capped at 14%, <b>and</b> 5% tuition growth per year	(\$10,019)	(\$53,492)	(\$36,999)	(\$29,556)	(\$32,770)
UCRP Contribution capped at 14%, <b>with</b> 5% tuition growth per year <b>and</b> Non-resident percentage grows to 25%	(\$10,019)	(\$43,189)	(\$18,620)	(\$2,782)	\$2,728

NOTE: Scenarios are meant to reflect hypothetical outcomes and are not prescriptive.

We can, and will, solve the medium term challenge.  
Part of the solution is a three-pronged financial strategy to support our mission and objectives



# Rationalizing UC Berkeley's Financial Landscape



But let's be clear: deficit reduction alone is not an economic plan. A growing economy that creates good, middle-class jobs – that must be the North Star that guides our efforts.

President Obama  
State of the Union 2013

## Defining one of the problems:

It is obvious that our method for funding and paying for goods, services and people has become too complicated.

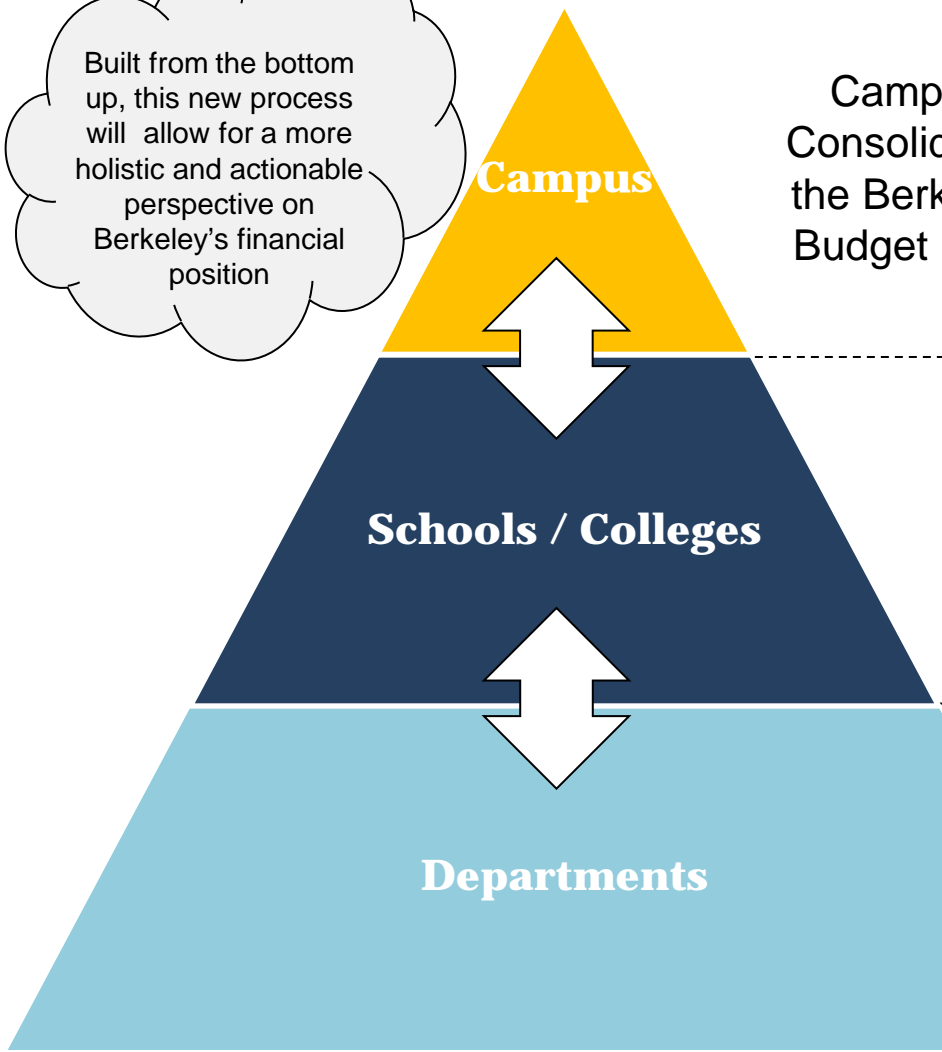
Historically, this has led to:

- Shadow systems
- The wrong incentives
- Lack of transparency
- High transaction costs
- Distorted data
- Lack of measurable outcomes
- Numerous exceptions

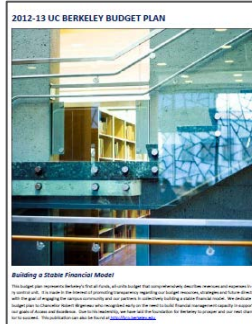


# Berkeley's evolving budget process is allowing us to change

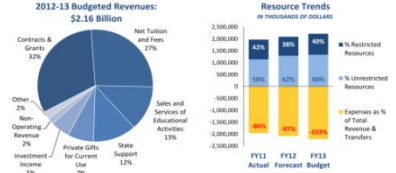
Built from the bottom up, this new process will allow for a more holistic and actionable perspective on Berkeley's financial position



Campus Consolidates the Berkeley Budget Plan



CURRENT FUNDS in thousands of dollars	2010-11 Actual	2011-12 Forecast	2012-13 Operating Budget
Revenues	2,284,054	2,146,506	2,158,795
Operating Transfers	-	-	-
Total Revenues & Transfers	2,284,054	2,146,506	2,158,795
Compensation	1,233,132	1,311,281	1,367,695
Non Compensation	640,014	587,297	663,100
Total Expenses	1,863,146	1,898,578	2,030,795
Net Operating Surplus/(Deficit)	420,907	247,828	127,999
Changes in Fund Balance	-75,590	-163,479	-149,483
Beginning Balance	635,593	980,911	1,285,386
Ending Balance	980,911	1,065,366	1,043,882



## Local Budget Processes

Schools, Colleges, and Administrative Units organize local budget processes including all funds, all positions, all expenses in one consistent format.

These in turn report in to the campus budget process for direction, prioritization, & final approvals.

## New Financial Framework

- Total Revenues & Transfers
- Total Expenses
- Net Operating Surplus (Deficit)
- Changes in Fund Balances
- Beginning Balance
- Ending Balance

Unrestricted    Restricted



# Budget Reform Principles

Every new process we redesign must follow these basic principles:

- **Transparent and easy to understand** – you can explain it and people can understand it
- **Provides the right incentives** – taxes and subsidies are aligned with strategic objectives, reduce need to hoard
- **Transactionally simple** – the fewer the steps, the better
- **Automated** – reduce errors and focus on the work that matters
- **Standard and coherent** across campus – we are all special but not that much!
- **Revenue Neutral** – this will continue to help build trust

# Example 1: Productivity Suite

## Before Funding Reform

- Individuals in units would purchase products such as MS Office, Adobe, Calendar
- Lots of transactions = High overhead for low return
- Access to and quality of products was highly uneven

## After Funding Reform

- Units pay the same amount in aggregate through an automatic tax (\$5.50 per head/month)
- CalAgenda alone used to cost \$1.67 per head/month!
- Individuals do not have to purchase or update the products
- Everyone gets the same high quality products in a timely manner
- We save \$2M in transaction costs alone

# Example 2:

## Campus Shared Services

### Core Services

- Change: Move the relevant staff but not the budget and pay for core services via a 2% tax on expenditures
- Benefits: Neutral in terms of unit budgets; Eradicated time/money spent on transactions; Scales automatically; All units pay the same rate

### Research Administration

- Change: Move the staff and the unrestricted budget, switched off the opaque method of returning a fraction of the ICR to units and pay for RA services directly from the ICR. Proposed returning 10% of the ICR back to the units
- Benefits: Budget positive for units; much reduced transactions costs; it scales automatically; incentives aligned and fungible resources provided to units to facilitate research.



# Example 3:

## PI Portfolio Reporting and Contracts/Grants Accounting

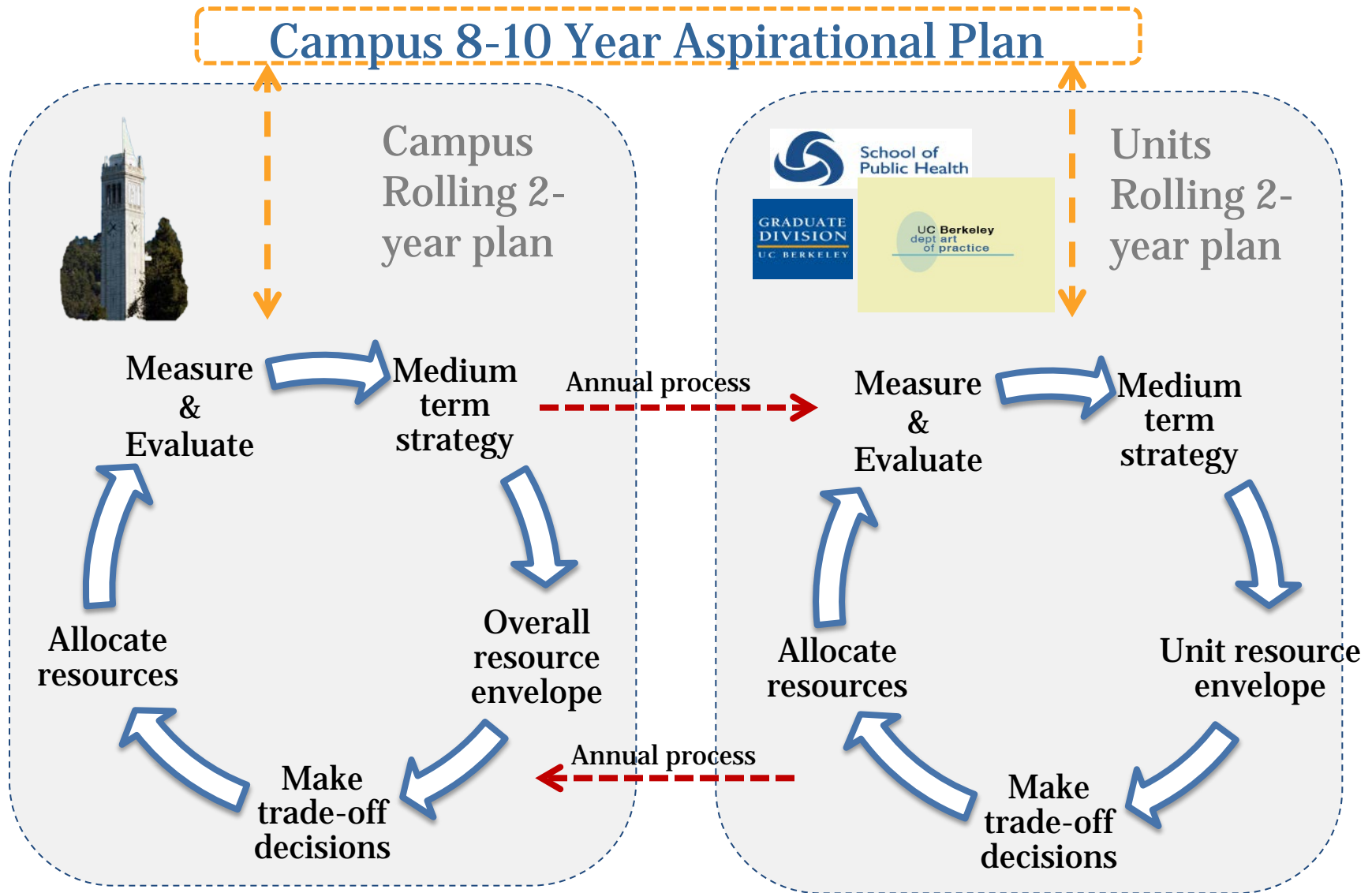
### Current State

- Numerous, costly departmental systems for faculty reporting
- Home-grown contracts and grants billing
- Aging accounts receivable reporting system
- Cost Share data not collected in one system
- Difficult and frustrating for Faculty and PIs to access information

### Future State

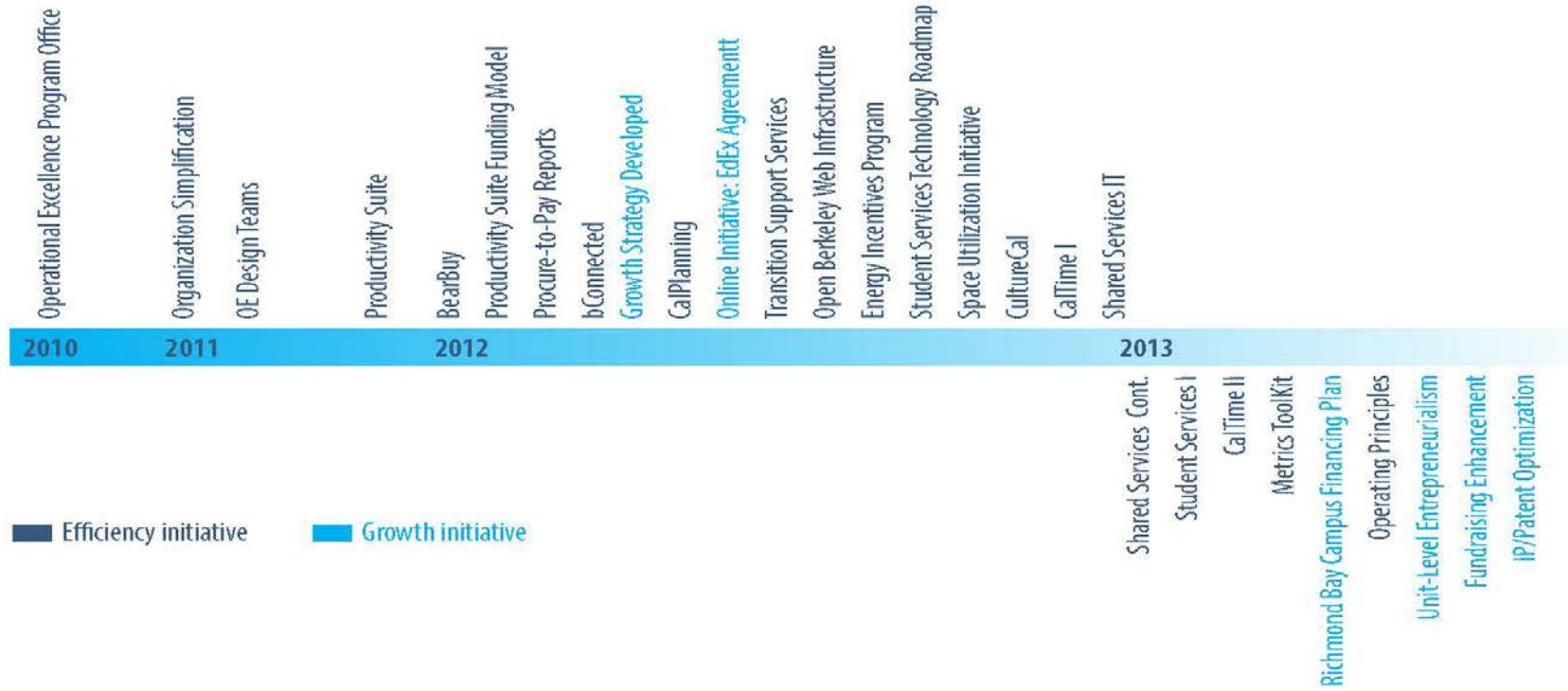
- Timely, accurate, and easy-to-use reporting accessible for Faculty and PIs
- Faculty and PIs view all funds in one place (awards, start-up, retention, etc.)
- Support staff better able to respond to inquiries
- Reduced enterprise risk due to improved ability to plan award spend
- Continuous improvement with faculty input

# Finally, A New Overall Framework for Decision-Making With a dynamic, iterative, integrated strategic planning process



# We've done a lot...but we need to continue to push ahead

## FINANCIAL SUSTAINABILITY Driving **Efficiency** | Pursuing **Growth**



“The organizations with the highest successes were those with the management skills necessary to redefine strategy and reconfigure the resources and skills of the organization to fit the new market requirements caused by market discontinuities and shocks.”

-Peter Wilton, Berkeley: Haas Business School