AFLG Meeting

John Wilton
Vice Chancellor

University of California, Berkeley
October 23, 2012
AGENDA
AFLG Meeting - October 23, 2012

➢ VCAF Update
  • Welcome new members and shout-out
  • AFLG Future Agendas
  • Important Searches
  • CalTime
  • HR Reform
  • Shared Services
  • The Financial Outlook

➢ Metrics Demystified – Louise Davidson
➢ Berkeley's Budgetary Evolution – Laurent Heller
Welcome new members!
Shout out!

Moving is never easy but you have done it!
Updates

• Chancellor Search Update
• CIO Search Update

• CalTime
• HR Reform
• Shared Services Implementation
The Financial Outlook

Where are we headed?

We have real challenges.
But we have a short term and medium term plan

Near term, we can bridge the gap: No cascaded cuts to departments and systemic budget reform.

Laurent will discuss the short term approach later in the program…

Looking further to the future requires thinking of the way we fund the university as a whole.
Over the medium term:

Our plan requires work across many fronts: Federal, State, System-wide.

Locally, at Berkeley, we will:

Provide **efficiency**

Grow net new revenue
Our Growth Priorities

**Unit-level entrepreneurialism**
- Savings opportunity: $40-75M+
- Revenue opportunity: 2-4 x Investment

**Online Strategy**
- Revenue opportunity: ?

**Research**
- Revenue opportunity: $20-50M

**Philanthropy**
- Revenue opportunity: $50-100M

**Richmond Bay Campus**
- Revenue opportunity: ?
“Metrics Demystified”
Best Practice Strategic Planning

October, 2012

Louise Davidson, Metrics Coordinator
Question:

• What’s your understanding of Performance Management?
A clear “line of sight” towards our mission

Campus:
Alignment on clearly communicated campus goals

Units:
Clearly articulated goals and metrics that cascade from campus goals

Supervisors:
Metrics for work program goals

Individuals:
Unit goals

Performance management affects our organization at all levels.
Strategic Performance Management Process

1. Environmental Scan
   - What is the strategic context within which we are operating?

2. Strategic Objectives
   - What are we trying to accomplish, and why?

3. Resource Allocation
   - Expenses
   - Capital

4. Risk Scan
   - What are the risks?

5. Performance Management
   - How are we doing?

6. Critical Actions
   - What must management do to stay on track?
**Strategic Direction**

"Are We Focusing On the Right Things?".

<table>
<thead>
<tr>
<th>Business Line</th>
<th>Strategic Objectives</th>
<th>High-Level Indicators</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Strategic Management</strong></td>
<td>Enhanced Bank-wide Strategy Formulation, Articulation, and Understanding</td>
<td>• Satisfaction with Strategic Forum/Dialogue (1-10) Prior 12: 7 Last 12: 9</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Assessment of MTSF (1-10) Prior 12: 7 Last 12: 9</td>
</tr>
<tr>
<td><strong>Finance Management</strong></td>
<td>Dynamic, adaptable and sustainable financial strategies</td>
<td>• Assessment of Financial Sustainability (1-10) Prior 12: ? Last 12: 10 Goal: 9</td>
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<tr>
<td></td>
<td></td>
<td>• Assessment of Pricing and Income Allocation (1-10) Prior 12: ? Last 12: 9</td>
</tr>
<tr>
<td><strong>Risk Management</strong></td>
<td>Proactive Management of Bank-wide Risks</td>
<td>• Risks Understood by Key Stakeholders (1-10) Prior 12: 4 Last 12: 9 Goal: 10</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Senior Management’s Satisfaction with Loan Loss Provisioning (1-10) Prior 12: 8 Last 12: 10</td>
</tr>
<tr>
<td><strong>Resource &amp; Performance Management</strong></td>
<td>Meaningful Budget Reforms Leading to Improved Cost-Effectiveness and Cost-Efficiency</td>
<td>• Budgeting Cost as % of BB (%) Prior 12: 3.2 Last 12: 3.3 Goal: 2.0</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Board Satisfaction with Budget Reform (1-10) Prior 12: ? Last 12: 9</td>
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</table>

"Are We Focusing On the Right Things?".

Dynamic, adaptable and sustainable financial strategies.

Meaningful Budget Reforms Leading to Improved Cost-Effectiveness and Cost-Efficiency.
Strategic Choices

Are We Deploying Resources Effectively to Meet Our Objectives?"

Shifts and Tradeoffs

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<tr>
<th>Business Line</th>
<th>Decrease</th>
<th>Increase</th>
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<tbody>
<tr>
<td>Resource &amp; Performance Management</td>
<td>$M -1</td>
<td>+1</td>
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<tr>
<td>Resource &amp; Performance Management</td>
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<td>0.5</td>
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</tbody>
</table>

Comment

- Increased Focus on Macro-level RPM Costs
- Reduced Focus on Micro-level RPM Costs

Resource Allocation (All sources of funds)

<table>
<thead>
<tr>
<th>FY04 ACTUAL</th>
<th>FY05 PLAN</th>
<th>FY05 OUTLOOK</th>
<th>FY06 PLAN</th>
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<tbody>
<tr>
<td>FY08</td>
<td></td>
<td></td>
<td></td>
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<td>$M 0.0</td>
<td>5.0</td>
<td>10.0</td>
<td>15.0</td>
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<tr>
<td>Fiscal Year</td>
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<tr>
<td>STRATEGIC MANAGEMENT</td>
<td>1.4</td>
<td>1.7</td>
<td>1.9</td>
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<tr>
<td>FINANCIAL MANAGEMENT</td>
<td>1.2</td>
<td>1.1</td>
<td>1.3</td>
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<td>DEVELOPMENT MARKETPLACE</td>
<td>4.0</td>
<td>4.0</td>
<td>4.2</td>
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<tr>
<td>RISK MANAGEMENT</td>
<td>4.7</td>
<td>6.1</td>
<td>6.4</td>
</tr>
<tr>
<td>OTHER SOURCES</td>
<td>1.3</td>
<td>1.0</td>
<td>1.2</td>
</tr>
<tr>
<td>PERFORMANCE MANAGEMENT</td>
<td>8.8</td>
<td>8.8</td>
<td>8.2</td>
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<tr>
<td>RESOURCE &amp; PERFORMANCE MANAGEMENT</td>
<td>5.2</td>
<td>5.3</td>
<td>5.5</td>
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<table>
<thead>
<tr>
<th>FY07 PLAN</th>
<th>FY08</th>
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<tbody>
<tr>
<td>$26.6M Actual</td>
<td>$28.1M Plan</td>
</tr>
</tbody>
</table>

- $28.9M Plan
- $26.6M Actual
- $28.1M Plan
- $n.nM Outlook
- $28.9M Plan

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<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Development Marketplace</td>
<td>Other Sources of Funds</td>
<td>Risk Management</td>
<td>Other Bank Budget</td>
<td>Resource &amp; Performance Management</td>
</tr>
</tbody>
</table>
Performance Management

“How Well Are We Performing?”

**Strategic Management**
- Proportion of SI Budget Allocated to Analysis
- Demand/Uptake of SFRSI Analyses

**Institutional KPIs**
- Fixed Cost Ratio
- Quality of Training Received
- Amount of Training
- Internal Mobility
- Engagement Index
- Management Index

**Risk Management**
- Institutional Risk
- Country Credit Risk
- Counterparty Credit Risk
- Market Risk
- Institutional Insurance

**Finance Management**
- Bank’s Rating by Rating Agencies
- Assessment of Bank’s Financial Sustainability (1-10)
- IBRD Stress Test Assessment (1-100)
- Increase in Usability of National Currency Paid In Capital

**Resource & Performance Management**
- Degree of Uptake of PM Process
- Senior Management Satisfaction with SPCs
- Board Satisfaction with QBRs

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Insight into Results
Enabling Tools
You Can’t Measure What You Can’t Describe

Final Outcomes
- Sustain Berkeley’s excellence and unique public character
  - Safe, Secure and Environmentally Friendly Campus/Sports
  - Mission-aligned Strategy and Resources underpinned by sustainable Financial Capacity
  - World-Class Administrative staff and operations and facilities and technology Infrastructure
  - Mainstreamed Best Practices in High Performing Culture (And Development Ideas)

Outputs
- Police Protection
- Laboratory standards
- Health Services
- Bear Buy
- Parking

Work Programs
- BAS Functions (eg Security, Health, Environment, Parking&Transportation, Purchasing)

Resources
- Budget
- Human Resources
- Technology
- Knowledge
Process Maps

**Figure 18**
Use of Process Map: LEG Example

**Business Line: Legal Advisory Services and Support (to Regions, Network Anchors & Corporate)**

<table>
<thead>
<tr>
<th>Activities</th>
<th>Operations &amp; Projects</th>
<th>Other Advisory Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Knowledge, Research &amp; Outreach</td>
<td>Clear, Substantive, Proactive and Professional Input in Key Legal Areas</td>
<td>Timely, Value-Added Legal Support</td>
</tr>
<tr>
<td>Relevant, Strategically Important Legal Knowledge Research &amp; Outreach Programs</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Activity Outcomes**
- Client Satisfaction for Knowledge, Research and Outreach
- Self Assessment of Knowledge, Research & Outreach Services
- # of Website Hits

**Key Indicators**
- Client Satisfaction for Legal Advisory Services in Operations & Projects
- Time Charged for Legal Advisory Services in Operations & Projects
- # of Requests for Legal Advisory Services in Operations & Projects

- Client Satisfaction for Other Advisory Services
- Time Charged for Other Advisory Services
- # of Requests for Other Advisory Services
The Project

The Scope:

1. Campus-wide level
2. Unit level
3. Insight into Results

The Approach:

✓ Useful
✓ Automated
✓ Willing/Voluntary/Pilots
✓ Engagement of a cross-section of unit types
✓ Nimble
✓ Integrated

A framework that enables the roll up of metrics and provides leaders with useful information to make better decisions and communicate achievements
The Timing

- **Fall 2012**
  - High level design
  - What is it?
  - How will it be used?

- **Spring 2013**
  - Working Model
  - Prototypes with pilot units

- **Summer-October 2013**
  - Finalizing the Design

**October 2013 - Roll Out**
Excellence in Uncertain Times: Berkeley's Budgetary Evolution

Laurent Heller
Executive Director, Budget
October 23, 2012
Agenda

1. State Budget Outlook
2. Weathering the Storm
3. A New Paradigm – Berkeley’s 2012-13 Operating Budget
The State Budget Situation Remains Uncertain…

Los Angeles Times | OPINION

Yes on Proposition 30, no on Proposition 38

The New York Times

Californians Face Rival Ballot Initiatives That Would Raise Taxes and Aid Schools

SFGate

Monday Oct 22, 2012 1:29 PM PT

No on Prop. 30: gimmick, not a solution

Tom Bogelch
Published 11:31 p.m., Tuesday, October 9, 2012

The Economist

Vote yes, or the kids get it

The state’s schools face a tough year if voters fail to measure

The Sacramento Bee

Endorsements: ‘Yes’ on Jerry Brown’s Prop. 30; ‘No’ on Munger’s Prop. 38

Published Sunday, Oct 7, 2012 - 12:00 am

25
But Berkeley is Well Positioned to Weather the Storm...

1. Berkeley has been doing the right things to maximize our financial position...
   1. Operational Excellence
   2. Growing Revenues
   3. Investing in new financial systems & processes

2. Berkeley will invest from our reserves (projected at $20 million) to buy time to bridge to a sustainable financial model.

3. The new view of Berkeley’s finances allowed us to avoid budget cuts in 2012-13.
Recent turmoil and the vote on Prop 30 in November will impact UCB’s use of reserves…

### 2011-2012
- $750 Million cut to UC-wide
- Proposition 30 is added to the 2012 ballot

### 2012-2013
- Small, but important pension contribution ($90 Million UC-wide)
- UCB’s bottom line
- Prop 30 Passes?
  - YES: +$10 M
  - NO: -$38.5 M

**PRELIMINARY**
- UCOP / Regents response is uncertain…
- $250 Million trigger cut UC-wide
- + potential additional cuts resulting from no tuition “buy back” in FY14
Despite the bad news, revenues have grown steadily over the past decade...

UC Berkeley – Operating Revenues
(2003 to 2011, in $ Billions)

In Billions

2003: $1.4 Billion
2004: $1.5 Billion
2005: $1.5 Billion
2006: $1.6 Billion
2007: $1.7 Billion
2008: $1.8 Billion
2009: $1.9 Billion
2010: $2.1 Billion
2011: $2.4 Billion
Does Our Budget Recognize Growth?
Expanding the Limited view of the Permanent Budget...

The Flow
Annual Operating Results (Income Statement)

- Revenues & Transfers
- Expenses
- Annual Surplus or Deficit

Berkeley must manage with a more complete view of our finances...

The Stock
Net Assets (Balance Sheet)

- Assets
- Liabilities
- Reserves (Fund Balance)

In the view provided by the permanent budget, there are no balances and revenues always equal expenses. Limited to certain funds (state, etc.).
### The 2012-13 UC Berkeley Budget Plan

#### Current Funds

<table>
<thead>
<tr>
<th></th>
<th>2010-11 Actual</th>
<th>2011-12 Forecast</th>
<th>2012-13 Operating Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenues</strong></td>
<td>2,284,054</td>
<td>2,146,506</td>
<td>2,158,795</td>
</tr>
<tr>
<td><strong>Operating Transfers</strong></td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total Revenues &amp; Transfers</strong></td>
<td>2,284,054</td>
<td>2,146,506</td>
<td>2,158,795</td>
</tr>
<tr>
<td><strong>Compensation</strong></td>
<td>1,223,132</td>
<td>1,311,281</td>
<td>1,367,695</td>
</tr>
<tr>
<td><strong>Non Compensation</strong></td>
<td>640,014</td>
<td>587,297</td>
<td>663,100</td>
</tr>
<tr>
<td><strong>Total Expenses</strong></td>
<td>1,863,146</td>
<td>1,898,578</td>
<td>2,030,795</td>
</tr>
<tr>
<td><strong>Net Operating Surplus/(Deficit)</strong></td>
<td>420,907</td>
<td>247,928</td>
<td>127,999</td>
</tr>
<tr>
<td><strong>Changes in Fund Balance</strong></td>
<td>-75,590</td>
<td>-163,473</td>
<td>-149,483</td>
</tr>
<tr>
<td><strong>Beginning Balance</strong></td>
<td>635,593</td>
<td>980,911</td>
<td>1,065,366</td>
</tr>
<tr>
<td><strong>Ending Balance</strong></td>
<td>980,911</td>
<td>1,065,366</td>
<td>1,043,882</td>
</tr>
</tbody>
</table>

#### 2012-13 Budgeted Revenues: $2.16 Billion

- **Contracts & Grants**: 32%
- **Net Tuition and Fees**: 27%
- **Private Gifts for Current Use**: 7%
- **Non-Operating Revenue**: 2%
- **Investment Income**: 5%
- **State Support**: 12%
- **Sales and Services of Educational Activities**: 13%

#### Resource Trends

<table>
<thead>
<tr>
<th></th>
<th>FY11 Actual</th>
<th>FY12 Forecast</th>
<th>FY13 Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>% Restricted Resources</td>
<td>-86%</td>
<td>-97%</td>
<td>-103%</td>
</tr>
<tr>
<td>% Unrestricted Resources</td>
<td>42%</td>
<td>38%</td>
<td>40%</td>
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</table>

### 2012-13 UC Berkeley Budget Plan

**See page 4**
## The New View of Berkeley’s Financial Position: Statement of Revenue, Expenses, & Change in Net Assets (SRECNA)

<table>
<thead>
<tr>
<th>Total FY 2012-13</th>
<th>Unrestricted</th>
<th>Designated</th>
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<tbody>
<tr>
<td>Revenues and Operating Transfers</td>
<td></td>
<td></td>
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<tr>
<td>State Support</td>
<td>262,057</td>
<td>262,019</td>
</tr>
<tr>
<td>Net Tuition and Fees</td>
<td>572,443</td>
<td>538,020</td>
</tr>
<tr>
<td>Contracts &amp; Grants</td>
<td>682,220</td>
<td>0</td>
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<tr>
<td>Private Gifts for Current Use</td>
<td>157,887</td>
<td>13,789</td>
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<tr>
<td>Investment Income</td>
<td>116,545</td>
<td>40,867</td>
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<tr>
<td>Sales and Services of Educational Activity</td>
<td>280,276</td>
<td>276,297</td>
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<tr>
<td>Nonoperating Revenue</td>
<td>39,754</td>
<td>102</td>
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<tr>
<td>Adjustment: Revenue - Plan</td>
<td>47,613</td>
<td>45,684</td>
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<tr>
<td>Operating Transfers</td>
<td>0</td>
<td>0</td>
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<tr>
<td><strong>Total Revenue &amp; Transfers</strong></td>
<td>2,158,795</td>
<td>1,176,778</td>
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<table>
<thead>
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<th>Expenses</th>
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<tbody>
<tr>
<td>Total Compensation</td>
<td>1,367,695</td>
<td>944,670</td>
</tr>
<tr>
<td>Total Non Compensation</td>
<td>660,887</td>
<td>277,884</td>
</tr>
<tr>
<td>Adjustment: Total Expenses - Plan</td>
<td>2,214</td>
<td>1,329</td>
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<tr>
<td><strong>Total Expenses</strong></td>
<td>2,030,795</td>
<td>1,223,884</td>
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<table>
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<tr>
<th>Net Operating Surplus/(Deficit)</th>
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<tr>
<td></td>
<td>127,999</td>
<td>(47,105)</td>
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<table>
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<tr>
<th>Changes in Fund Balance</th>
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<tr>
<td>(149,483)</td>
<td>15,036</td>
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<table>
<thead>
<tr>
<th>Beginning Balance</th>
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<tr>
<td>1,065,366</td>
<td>690,324</td>
<td>35,714</td>
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<table>
<thead>
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<th>Ending Balance</th>
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<tr>
<td>1,043,882</td>
<td>658,255</td>
<td>34,234</td>
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### Restricted Funds

<table>
<thead>
<tr>
<th>Restricted Gift Funds</th>
<th>Restricted Endowments and FFAs Funds</th>
<th>Contracts and Grants</th>
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<tbody>
<tr>
<td>107,189</td>
<td>122,175</td>
<td>714,776</td>
</tr>
</tbody>
</table>

| (12,000)               | (9,775)                              | (140,745)            |
| 204,770               | 134,558                              | 0                    |
| 199,597               | 140,983                              | 10,812               |

*See page 14*
A three-pronged financial strategy is required to support our mission and objectives

Control Expenses
- Every dollar we save is a dollar that we can redeploy towards the highest needs
- Every unit and every employee can do their part to trim expenses

Grow Revenues
- Campus units need to become more engaged in the process of generating and managing revenues
- We need to move towards a world defined by dynamic revenue generation (versus incremental mindset)

Improve Resource Allocation
- Ensure that we are doing the best possible job of allocating our scarce resources towards your unit’s top priorities
A robust budget process that is informed by long-range operational and financial plans

- Objectives
  - Performance
    - Operational & Financial Strategy
  - Unit Strategy
    - Integrates competing priorities & brings focus
- Annual Budget Cycle
- Includes financial and non-financial metrics
- Evaluate Outcomes & Revise
- Unit Strategy Informs the Annual Budget
What Can You Do Now?

1. We need to learn to walk before we can run…

2. Your units are currently working on verifying position rosters for the HCM position rollout. Due November 2\textsuperscript{nd}.

3. Participate in the build out of your unit’s detail level budget in Cal Planning, between now and early December.

4. Make sure this work accurately reflects your budget plan for your unit.

5. Quarterly budget reviews for VCAF will be scheduled soon. Targeting early December.

6. Start thinking now about the new world view of finances. What does this mean for your unit? How could you better use balances to deliver on your mission?
Thanks! Go Bears…