

→ BERKELEY'S FINANCIAL DYNAMICS AND RELATED STRATEGY WORK

Our analysis of Berkeley's current financial outlook shows that we need to continue to pursue new and innovative ways to achieve long term sustainability. While we have the financial resources to bridge the funding gap caused by the unwise, sudden and unpredictable disinvestment by the State in the short run, this is not the case in the long term. Unavoidable cost increases coupled with the need to remain competitive will result in a growing financial deficit if we do not innovate. Our work also shows that while increased efficiency is essential, Berkeley cannot close the deficit by focusing exclusively on the cost side of the ledger. This one-sided approach is incompatible with maintaining our standards of access and excellence. Put simply, Berkeley would cease to be Berkeley. Consequently, we must place similar emphasis on developing the capacity and willingness to generate revenue. We need to invest to grow.

Achievements: The development of a campus-wide financial model has provided us with the capacity to provide credible projections and illustrate the impact of different scenarios. This has proved a very effective tool in gaining the support of all our stakeholders - faculty, staff, students and alumni. Our financial credibility has also been enhanced by the progress we have made via the implementation of the new budget tool - CalPlanning - and the broader-based budget reform effort led by our CFO.

In terms of efficiencies, we have made significant progress in implementing "Operational Excellence" (see section below). We are on track to achieve the goal of generating annual savings of \$75 million from expenses related to administration and finance. Our efforts have spread beyond OE, for example the more efficient use of renovated finance and budget offices.

On the revenue side we spent much of last year analyzing a range of potential ideas before focusing on the five/six initiatives that we consider will offer the highest net return to Berkeley. Consequently, we have now launched ambitious programs in online education, research, unit-level entrepreneurialism, philanthropy, and the Richmond Bay Campus - in some cases linking up with existing programs. Progress has been made across several of these areas, for example we established an executive steering committee for online education and entered a partnership with Harvard and MIT for edX on-line, we have partnered with our development colleagues to make the case of increased investment in their activities, we are creating the organizational structure to foster revenue creation at the

unit level, we are working with the VCR to create the Berkeley Research Development Office, and we are playing an active role in the planning of the Richmond Bay Campus.

Plan: Work across multiple fronts including state, federal, UCOP/Regents, and the campus to lobby for increased resources, advocate for governance reform, identify barriers to growth, grow new revenue, change the campus culture, and measure performance. Continue to implement ongoing OE projects and search for new cost-cutting initiatives.

→ BUDGET REFORM

Our budget process has been in serious need of reform for some time. During the past year, we developed a detailed road map of what we needed to do to move Berkeley towards best practice. Goals in this area include: simplify the mechanics of financial flows, make the budget process driven by Berkeley's realities (rather than the cycle of State budget appropriations), establish a financial information system that yields consistent data and facilitates analysis instead of being transaction focused, and, create incentives to motivate our managers to make decisions that are in the best long term interests of Berkeley.

Achievements: In 2011-2012, we moved away from incremental budgeting based on the temporary/permanent budget framework. In its place, the campus successfully rolled out CalPlanning and introduced its first, all-funds, all-units budget that comprehensively describes revenues and expenses in every control unit, school, college and division. The resulting detailed accounting of the campus operating budget is consistent with the aforementioned campus wide financial model and provides us with a crucial tool to provide line managers with the information they require to make informed strategic decisions. The CFO continued to drive organizational reform within Finance, turning her attention to the Controllers unit (with the full support of the Controller).

Plan: We will continue to take steps to implement the "road map" of best practices. We need to drive the reforms deeper and train our managers and staff how to use the new information and tools. We need to further improve the understanding and presentation of our financial accounts, re-examine the structure/functions of our finance departments, cascade the implementation of CalPlanning into smaller units, and work with the heads of our business units (VCs, deans, administrative units) to create appropriate financial incentives. CalPlanning will roll-out Phase 3 in winter 2013, which will include new employee and position budgeting functionality.

→ OPERATIONAL EXCELLENCE

The Executive Committee has so far committed \$60.2M in investments for a total of 23 projects designed to significantly improve our operations and achieve savings. Several of these projects are now starting implementation.

Achievements: OE has already saved the campus \$29.9M and the projected on-going annual savings of approved projects is \$75.4M. BearBuy, Timekeeping, CalPlanning, and bCal all had successful roll-outs in 2011-2012. The Energy Initiative launched its web system "My Power at Berkeley – Saving Energy on Campus." Campus Shared Services has completed its design phase, identified space, and is finalizing its funding plan. We have gained broad acceptance of the most comprehensive move to shared services attempted by any university that we are aware of.

Plan: We need to stay focused on implementing existing initiatives (BearBuy, Timekeeping, CalPlanning, EDW) to ensure they yield adequate savings and have clear metrics and lines of responsibility. Critical next steps for the coming year include:

- Successfully implement other projects, including: timekeeping, mail migration, operating principles and metrics.
- Complete planning and successfully pilot campus shared services.
- Complete planning and initiate work on student systems.
- Finalize plans and implement transition of the OE Program Office to be a unit that focuses both on cost efficiencies and revenue generation projects.

→ Intercollegiate Athletics (IA)

We are in the midst of changing our strategic approach to IA. The re-instatement of the five sports, the opening of the SAHPC and CMS (soon), and the performance of Cal athletes present tremendous positive opportunities. At the same time, the financial dynamics of IA present a real challenge.

Achievements: As part of our attempt to reassess the situation, we invited a group of alumni that work for Bain to undertake an objective, pro bono, analysis of IA's business model. The findings indicate that while IA is cost efficient, it underperforms on the revenue side. Consequently, we have developed an aggressive business plan to increase net revenue in IA. This is not without risks and will require a sophisticated communication strategy. Put simply, the challenge that IA confronts is the same as campus at large. We

cannot cut our way to sustainability and maintain the current level of access, breadth of sports and excellence. We have to invest to grow.

Plan: Fully implement revenue generation initiatives identified in the IA business model review and continue the operational improvements that have been initiated over the last few years. Develop and implement goals and metrics to ensure that staff have clear accountability for their areas of responsibility and are appropriately rewarded for performance.

→ EXTERNAL PARTNERSHIPS and COLLABORATIONS

Educational institutions all over the nation are undergoing major changes in mission, financial models, and operational consolidations due to global and national pressures. We need to do a better job of reaching out to our immediate stakeholders and more broadly. By working more collaboratively with others, we can leverage expertise and resources, and create better opportunities for success.

Achievements: The integration of the procurement function between UCB and UCSF has been extremely successful. At Berkeley, we exceeded our projected benefits target for 2011-2012 of \$4.3M within the first three quarters of the fiscal year. We are also collaborating with UCOP on PPS replacement and retirement administration services. We have reached an agreement with MIT and Harvard to join them in promoting on-line education via the new edX platform.

Plan: Continue to work with all stakeholders to improve their understanding of Berkeley's financial dynamics and the challenges we face with the objective of generating more support. Significant work in this area will occur through the revenue generation initiatives noted above.

→ VCAF REFORMS

The VCAF will continue to look critically at its organizational structure and business model to encourage greater collaboration across units and ensure they are adequately funded. New systems and workflows are needed. We also must take a look at the way we are organized and how we communicate internally.

Achievements: VCAF consolidated business services for several divisions under IST in a first step towards moving to Campus Shared Services. Based on customer feedback, the

Business Contracts Office was completely reorganized in 2011-2012 and the reporting line consolidated with that of the OMBO. In addition, the AVC BAS successfully reorganized several additional units in his area to reduce costs and eradicate long standing deficits. Human Resources launched an ambitious planning process, bringing in consultants to evaluate their service offerings and operational structure. The diagnostic stage of this work is largely complete and the consultants will deliver a central HR organization model, define staffing requirements, and provide a high-level action plan later this month. In addition, the budget & planning and HR units collaborated in a remodeling project to consolidate their footprints within University Hall, thus obviating the continued need for rental space in downtown Berkeley. This will result in an annual savings of \$500K/year.

Plan: The Office of Emergency Preparedness and the Office of Continuity Planning will be merged into a new Office of Emergency Management in 2012-2013. Human Resources will begin the implementation of its new organizational and service model. VCAF will be an early adopter of Campus Shared Services and will continue to development and utilize standard workflows and new systems across the control unit.