

To: Directors and Department Heads  
Budget and Finance Managers

From: Michael P. White, Vice President for Finance, Chief Financial Officer  
Tim Fater, Assistant Vice President for Financial Strategy and Planning

CC: Richard M. Locke, Provost  
Russell Carey, Executive Vice President for Planning and Policy and Interim Executive  
Vice President for Finance and Administration

Date: December 16, 2021

Re: Fiscal Year 2023 Budget Guidance

Dear Brown Community,

We want to thank you again for your continued support during the difficult period brought on by COVID-19. While the pandemic has presented the University with many significant challenges, our collective mitigation efforts, combined with very significant market growth of the endowment and record-breaking fundraising, have all contributed to strengthening the University's overall financial position.

As previously reported, the University closed FY21 with an operating budget deficit of \$52.2 million. For FY22 the Corporation approved a consolidated budget with a projected deficit of \$34.8 million, driven in large part by continued COVID impacts. At the same time, the University's endowment and other managed assets grew by a remarkable \$2.4 billion in investment returns for FY21, equating to a 51.5% return. This brings the endowment and other managed assets to an all-time high of \$6.9 billion through June 30, 2021. As part of our mitigation efforts last year, the payout of the endowment was temporarily increased from 4.80% to 5.0% in order to provide supplemental resources across the University. This was done to offset revenue reductions and expense increases related to COVID. Fundraising has also been critically important to the University's financial health, and last year Brown experienced another record year for contributions from its generous donors and alumni with \$430.5 million in new gifts and pledges.

While we are gratified that these strong results will provide the necessary and critical support to operations, we remain cognizant that the contributions from the endowment and fundraising to the operating budget will not be realized immediately, due to the University's endowment payout policy which is a 12-quarter trailing calculation. We must also plan prudently and consider that endowment returns are susceptible to the inherent cyclicity of capital markets, however there is no question we will have additional resources derived from the endowment next fiscal year.

It is also important to recall that prior to the pandemic, Brown had been working diligently toward closing a persistent gap in its annual operating budget. COVID has increased the focus on

the University's finances, thus our work to solve our recurring deficit will continue throughout this year and beyond to ensure the long-term financial health of the University.

To further these efforts, President Paxson established the *Program on Innovation and Financial Sustainability*, composed of several working groups that are focused on the long-term financial health of the University. Led by Provost Locke, the program aims to focus specifically on improving targeted areas of revenue, as well as more effectively managing various types of expenditures. Working groups will be conducting much of their work over the course of FY22, though this work will continue into FY23 and beyond. While we have to be deliberate in our fiscal planning, Brown is incredibly well positioned to manage the challenges we face due to the exceptional leadership from the President, Provost and EVP, which has resulted in a significant strengthening of our financial position over the last several years. Their leadership, combined with your collective efforts to thoughtfully manage University resources, is reason for us all to look forward with great optimism.

With that framing, we request the university community pay close attention to two particular areas as you develop FY23 budgets:

**1. Endowments and gift utilization:** The “first-dollar principle” guides us to spend our most restricted accounts first, which is especially important in Brown’s present context. Endowment and gifts were generously given in support of priorities that advance academic excellence, increase access to a Brown education, and fund research expansion and campus growth. These funds should be readily utilized to support these important initiatives and to maximize the scale of the University’s mission and impact.

Amidst a record-breaking capital campaign and tremendous endowment growth, gift and endowment balances have grown larger across the University. **Departments are asked to consider this and maximize the use of restricted sources to fund departmental and academic activities, where appropriate.** The first-dollar approach allows us to more carefully manage unrestricted resources, which in turn provides departments and the University more financial flexibility. Please also keep in mind these resources exist due to the generous support of our donors and utilizing these resources is important for stewardship purposes.

A custom report will be distributed to all departments in December including current endowment and gift balances, FY23 estimated endowment payouts, and abbreviated fund terms to aid in these utilization efforts. The Workday “Endowment Income Report” and “Spendable Gift Report” are also always available to financial managers. These reports include balance forwards and fiscal-year-to-date activity, including payouts/contributions, additions/deductions, and expenditures. Please contact your budget analysts with any questions regarding these reports.

**2. Continue cost-containment practices that emerged during COVID-19:** Please consider reducing and/or eliminating non-critical travel, events, meetings, and procurement, while reallocating resources within existing budgets. *It is important to note this is not intended to disrupt essential academic activities that are core to the University’s mission. This guidance is designed to be considered within the context of protecting and enhancing the University’s*

*teaching and research mission, and accordingly, is primarily focused on University business operations and activities supported through the University's unrestricted budget.*

Through creativity and innovation, the Brown community has helped tremendously to mitigate the financial impact from COVID-19. While it is both expected and necessary that these activities will resume slowly over the next few years, it is also evident that there have been benefits to conducting certain activities virtually. Where virtual options have proven effective, they represent an important opportunity to capture time and cost savings going forward.

Rather than revert to pre-pandemic operations, we ask for your partnership to re-examine operations to adapt for both the short and long-term. For example, this may mean reallocating a portion of conference and travel budgets toward expanding lower-cost virtual conference opportunities to a broader number of our colleagues, or shifting event and meeting budgets toward professional development opportunities. Reallocating resources within existing budgets, rather than requesting incremental resources, is a key step toward financial sustainability.

Please note department budget meetings with University leadership in March/April will include reviews of endowment and gift utilization and discretionary costs.

### **Fiscal Year 2023 Budget Development**

While we anticipate some continued targeted University-level COVID impacts (testing, housing, etc.), budget planning should assume a return to normal academic and administrative operations in FY23, unless otherwise discussed.

**Divisional and departmental budgets are due on Friday, February 25, 2022.** The University's budgeting system, *Adaptive Insights*, will open in mid-January to financial managers who have completed training. Detailed guidance on entering budgets in Adaptive will be shared in early January. If you need training or Adaptive support, please contact Bonny Gonzalez. Budgets should be developed using the base budgeting approach consistent with the last several budget cycles, and as was the case last year, we are requesting a brief narrative to accompany the budget submission. Narratives provide divisional and departmental leadership an opportunity to contextualize their plans and goals (see Appendix 1 for more information).

A consolidated University budget, along with individual department budgets as noted above, will be reviewed with University leadership in March and April. The FY23 budget will be presented for review by the University Resources Committee (URC) and for final approval by the Corporation in May. Budgets will be communicated back to departments in June.

### **Planning Guidance for Fiscal Year 2023 Budget**

- Department budgets have been pre-populated with FY22 forecasts as of December 15, 2021. The base budgeting approach used last year should be employed to construct FY23 budgets, while striving to reallocate existing resources and capture savings wherever possible.
- Adaptive reports are available to help with budget development and to review and verify your FY23 budget. A list of recommended Adaptive reports can be found in Appendix 2.

- Consider a modular approach to budgets by breaking down projects, investments, and commitments into phases and developing options and off-ramps to hedge against uncertainty and maintain agility.
- Spending controls (ex. PCard limits) are expected to continue into the new fiscal year.
- Separate COVID-related costs by bifurcating the expenses from non-COVID costs on a separate line and tagged with PRG300, or ACT30 if the program field is already in use.
- In regards to sponsored budgeting, FD500 should be budgeted, at a minimum, by cost center and spend category, while specifying the sponsor type as federal or non-federal. Use of generic worktags is acceptable. To that end, the generic grant option within Adaptive has been expanded to include options for both Grant-Fed (generic) and Grant-NonFed (generic). For units with sponsored activities, supplemental guidance is available in Appendix 3.
- Faculty and staff salary sheets should be reviewed to ensure that all filled positions and unfilled staff positions that have been approved by the Staff Hiring Review Committee are included and that the salary reflects the current FY22 base salary (salaries should not be prorated based on begin or end date, but should be prorated to adjust for FTE less than 1.00). All seasonal positions should be budgeted on the pooled compensation sheet, either as a lump sum or on individual lines for each position.
- FY23 salary increases: Current hiring controls are expected to remain in place. Budgets should include only filled positions, existing vacant positions that were budgeted in FY22, and any new staff positions that have been approved to be filled through the Staff Hiring Review Process (flag as “new - approved” in Adaptive).
- Internal transfers: Commitments and University contributions should be reviewed and updated to ensure they net zero within the consolidated University budget.
- A cross-university Enrollment Management Group has generated top-down undergraduate enrollment projections which may be used to validate existing local-level projections. These projections have been distributed to many key stakeholders (housing, dining, business services, etc.) in December, though if you would benefit from receiving these projections, please reach out to Jim Downing.

The Office of Financial Strategy and Planning (OFSP) is available to work with you and your financial manager(s) to support the development of your FY23 budget. Please do not hesitate to reach out to your financial analyst or budget liaison if you have any questions or need additional assistance.

As always, we are grateful for your continued partnership and look forward to working with you to develop the FY23 budget.

## **Appendix 1: FY23 Budget Narrative**

We are requesting a brief narrative to accompany budget submissions due on February 25. Similar to last year, this narrative is designed to provide divisional and departmental leadership an opportunity to contextualize their financial plans. Narratives will be included in budget packages and will be reviewed with the Provost, EVP, and CFO in March/April. In approximately 2-3 pages, please respond to the following questions:

*To ensure consistent formatting and completeness, please respond using the Word document version that was distributed with the Fiscal Year 2023 Budget Guidance communication on December 16, 2021.*

1. Please describe your division and/or department's main goals, challenges, opportunities, and how they align with your financial plan and University priorities.
2. Please describe major revenue and expenses variances from FY22 budgets, including any areas significantly impacted by COVID-19.
3. Please describe endowment and gift balances (if applicable) and their utilization plans.
4. Please describe actions recently implemented and/or planned that represent a change from "business as usual", including:
  - a. Where and how have efficiencies been created?
  - b. Where and how have resources been reallocated?
  - c. Where and how have investments been made that will benefit future fiscal years?
  - d. What efforts have been made to generate additional revenue (if applicable)?
5. Please list and describe any material incremental resource requests.
6. For areas with material sponsored activities, describe significant changes in grant portfolio composition or volume from FY22 (shifting sponsor composition, significant new awards or awards ending, etc.)

## Appendix 2: Adaptive Report Listing

NOTE: Reporting for FY23B is currently pointing to Adaptive FY22 Working Version and will be updated when FY23B Working Version is available.

Adaptive Report Name	Description
01.01 Budget Review: Operating Statement	Standard P&L includes Next Year Budget, Current Year Forecast, Current Year Budget, Current Year Actual YTD, and Prior Year Actuals (3 years) with variance calculations (\$/%) Parameters: Level, BU, Fund, Driver Worktag, Assignee, Location, Program, and Cost Sharing
01.02 Budget Review: Business Unit View	Standard P&L (by BU) includes Next Year Budget, Current Year Forecast, Current Year Budget, and Prior Year Actual Parameters: Level, Fund, Driver Worktag, Assignee, Location, Program, and Cost Sharing
01.03 Budget Review: Time Series View	Standard P&L includes Next Year Budget, Current Year Forecast, Current Year Budget, Current Year Actual YTD, and Prior Year Actuals (3 years) with variance calculations (\$/%) Parameters: Level, BU, Fund, Driver Worktag, Assignee, Location, Program, and Cost Sharing
01.04 Budget Review: Fund Hierarchy View	Standard P&L (by fund) includes Next Year Budget, Current Year Forecast, Current Year Budget, and Prior Year Actual Parameters: Level, BU, Driver Worktag, Assignee, Location, Program, and Cost Sharing
01.05 Budget Review: Fund Hierarchy by Cost Center	High-Level P&L by Cost Center (by fund) includes Next Year Budget, Current Year Forecast, Current Year Budget, and Prior Year Actual Parameters: Level, BU, Driver Worktag, Assignee, Location, Program, and Cost Sharing
01.06 Budget Review: Operating Statement by Driver Worktag & Program	Simple P&L includes Next Year Budget, Current Year Forecast, Current Year Budget, Current Year Actual YTD, and Prior Year Actuals (3 years) Parameters: Level, BU, Fund, Program, Assignee, Location, Activity Worktag, and Cost Sharing <b>Note: This report will automatically download to excel (instead of HTML view).</b> <b>Report runs best at lower levels – will timeout if requested to bring back too much data.</b>
01.10 Budget Review: Time Series by Cost Center	High-Level P&L by Cost Center includes Next Year Budget, Current Year Forecast, Current Year Budget, Current Year Actual YTD, and Prior Year Actuals (3 years) with variance calculations (\$/%) Parameters: Level, BU, Driver Worktag, Assignee, Location, and Program
01.11 Budget Review: Restricted Expenses by Level and Fund	Endowments, Grants, & Gifts only by Driver Worktag and Level. Summarized P&L across the columns Parameters: Version and Time
01.11 Budget Review: Restricted Expenses by Level, Fund, Worktag	Endowments, Grants, & Gifts only by driver Worktag and Level. Summarized P&L across the columns Parameters: Version and Time

Adaptive Report Name	Description
01.12 Version Comparison (same year) by Account by Fund	Simple P&L (by fund) allows for selection of two versions for comparison within same year (ex: FY22F vs FY22B) Parameters: Version, Level, BU, Fund, Driver Worktag, Assignee, Location, and Program
01.12 Version Comparison (prior year) by Account by Fund	Simple P&L (by fund) allows for selection of two versions for comparison with one being a prior year version (ex: FY23B vs FY22B) Parameters: Version, Level, BU, Fund, Driver Worktag, Assignee, Location, and Program
01.13 Version Comparison (same year) by Account by BU	Simple P&L (by BU) allows for selection of two versions for comparison within same year (ex: FY22F vs FY22B) Parameters: Version, Level, Fund, Driver Worktag, Assignee, Location, and Program
01.13 Version Comparison (prior year) by Account by BU	Simple P&L (by BU) allows for selection of two versions for comparison with one being a prior year version (ex: FY23B vs FY22B) Parameters: Version, Level, Fund, Driver Worktag, Assignee, Location, and Program
01.14 Version Comparison (same year) by Ledger-Spend	Ledger-Spend (no Acct roll-up) allows for selection of two versions for comparison within same year (ex: FY22F vs FY22B) Parameters: Version, Level, BU, Fund, Driver Worktag, Assignee, Location, and Program
01.14 Version Comparison (prior year) by Ledger-Spend	Ledger-Spend (no Acct roll-up) allows for selection of two versions for comparison with one being a prior year version (ex: FY23B vs FY22B) Parameters: Version, Level, BU, Fund, Driver Worktag, Assignee, Location, and Program
01.15 Version Comparison (same year) by Account by CC	Simple P&L (by Cost Center) allows for selection of two versions for comparison within same year (ex: FY22F vs FY22B) Parameters: Version, Level, Fund
01.15 Version Comparison (prior year) by Account by CC	Simple P&L (by Cost Center) allows for selection of two versions for comparison with one being a prior year version (ex: FY23B vs FY22B) Parameters: Version, Level, Fund

Adaptive Report Name	Description
01.16 YTD Comparison	Simple P&L allows for selection of current year Budget or Forecast for comparison to current YTD with historical actuals compared to same YTD period for prior years (2-years) Parameters: Version, Level, BU, Fund, Driver Worktag, Assignee, Location, and Program
01.17 Version Comparison (same year) by Position	Allocated salary & fringe by POS# by Cost center - comparison between two versions of the same year (ex: FY22F vs FY22B) Parameters: Level, Fund, Business Unit, Program, Position, Ending Version, Starting Version
01.17 Version Comparison (prior year) by Position	Allocated salary & fringe by POS# by Cost center - comparison between two versions with one as prior year (ex: FY23B vs FY22B) Parameters: Level, Fund, Business Unit, Program, Position, Ending Version, Starting Version
01.18 Fund Hierarchy Table	Condensed P&L (by fund) allows for selection of any version for selected year Parameters: Version, Time, Level, Business Unit, Driver Worktag, Assignee, Location, Program
01.19 Restricted/Non-Restricted Comparison	Standard P&L (by restricted/non-restricted groupings) includes Next Year Budget, Current Year Forecast, Current Year Budget and Prior Year Actuals with variance calculations (\$/%) Parameters: Version, Level, Business Unit, Driver Worktag, Assignee, Location, Program
01.20 Compensation/Non-Compensation Comparison Table	Compensation vs Non-compensation P&L includes Next Year Budget, Current Year Forecast, Current Year Budget and Prior Year Actuals with variance calculations (\$/%) Parameters: Version, Level, Business Unit, Driver Worktag, Assignee, Location, Program
01.21 Budget Review: Operating Statement by Assignee & Program	Simple P&L includes Next Year Budget, Current Year Forecast, Current Year Budget, Current Year Actual YTD, and Prior Year Actuals (3 years) Parameters: Level, BU, Fund, Program, Assignee, Location, Activity Worktag, and Cost Sharing <b>Note: This report will automatically download to excel (instead of HTML view). Report runs best at lower levels – will timeout if requested to bring back too much data.</b>

**Definitions of P&L Type:**

Standard P&L: shows breakdown of tuition & fees (undergraduate, masters, etc.)

Simple P&L: no breakdown of tuition & fees as noted above

High-Level P&L: shows revenue, expenses, operating margin, designated fund transfers, & net results in total only (no ledger-spend detail)

Condensed P&L: shows revenue in total, category groupings of expenses, contributions, & operating margin (expandable to ledger-spend detail)

**Appendix 3: Best Practices for Sponsored Revenue and Expenditures Activity in Adaptive**

Recommended Worktag Use – Sponsored Expenditures	<p>It is appropriate to use generic worktags for all spending on FD500 (and FD120, where applicable). When using generic worktags, Adaptive entry should, at a minimum, be specified at a cost center level using the appropriate generic grant sponsor type (federal (Grant-Fed (generic)) or non-federal (Grant-NonFed (generic))).</p> <p>It is at the discretion of a given school or department if there are situations where a specific worktag is required. In these situations, the unit should have documentation describing the methodologies used, and these methodologies should be consistent for both FD500 and FD120.</p>
Restricted Revenue Offset	<p>Restricted Revenue offsets will follow the worktags used on the sponsored expenditures in FD500. When using generic worktags, a school or department can elect to provide more detailed specific worktags for revenue. In these situations, it is the responsibility of the department to provide the detailed breakdown as part of their budget submission and the rationale for such a breakdown.</p>
Indirect Revenue	<p>For schools and departments responsible for their own Adaptive entry, it is their responsibility to collect and enter indirect cost revenue. Indirect cost revenue entry should match the methodology used for the restricted revenue offset, and, at a minimum, should be entered by sponsored funding type using the generic worktags.</p> <p>For schools and departments working with OFSP on Adaptive entry, indirect cost revenue will be estimated using the information from Huron Analytics software. The final submissions of indirect cost revenue will be reviewed and verified by OFSP in conjunction with OVPR.</p>
Data Collection and Entry (Direct Adaptive Entry Users)	<p>Where a school or department is responsible for collection and Adaptive entry, it is at the discretion of the unit on the best methodology for collecting sponsored expenditures information.</p> <p>For FD500 and FD120 spend, at a minimum, expenses should be entered at the cost center and sponsor type level. In order to capture the modified total direct costs, at a minimum, the following spend categories should be budgeted separately: Sub-contracts (Spend: 9420, 9440), capital equipment (Ledger: 70000), tuition (Spend 5510-5530),</p>

	<p>rental cost (Spend Hierarchy: Rent), patient care and participant support costs (Spend: 3340).</p> <p>Personnel expenses should be budgeted on the personnel tab consistent with all other personnel budgeting practices.</p> <p>Non-personnel sponsored spending is entered in the “Sponsored and Departmental Research” Tab.</p>
<p>Added Guidance - Data Collection and Entry: OFSP Budget Clients</p>	<p>Where a school or department is working directly with OFSP on Adaptive entry, OFSP will provide estimates for overall research expenditures by sponsor type based on historical averages and known proposal activity as part of the budget cycle. This data will be generated by the Huron Analytics tool.</p> <p>Once the overall sponsored information is confirmed, expenses should be determined in the following order: (1) reconcile personnel expenses on FD500 on the applicable personnel tabs; (2) spread the remaining costs to non-personnel expenses proportionally based on historical actuals data. Non-personnel expenditures should be entered on the “Sponsored and Departmental Research” Tab.</p> <p>The final submissions of FD500 and FD120 expenditures should be reviewed and confirmed with the client department. This review should include a review of sponsor type distribution and review of the spend category spread for non-personnel expenses.</p>
<p>Documentation Requirements</p>	<p>It is the responsibility of the school or department to maintain supporting documentation on the Adaptive entry, should questions arise. Further, for those schools or departments with FD500 activity, a supplemental question will be included in the budget narrative regarding the overall makeup of the sponsored research budget and key variances from prior budgets and actuals.</p>