



BROWN

OFFICE OF FINANCIAL
STRATEGY AND PLANNING
Finance Division

Memo

To: Directors and Department Heads
Budget and Finance Managers

From: Michael P. White, Vice President for Finance, Chief Financial Officer
Tim Fater, Associate Vice President for Financial Strategy and Planning
Rob Eaton, Director, Budget, Planning and Analysis

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

Date: November 30, 2022

Subject: FY 2024 Budget and FY 2023 Forecast Guidance

As we begin development of the FY 2024 budget, we want to start by thanking members of Brown’s community for your diligent management of the University’s resources through a period of unprecedented uncertainty. While the financial markets and broader economic outlook have been challenging, your efforts to carefully manage our financial resources contributed to a surplus for FY 2022, which was key in offsetting a significant loss in FY 2021. The effective management of our resources through the development of a balanced budget is key to support the long-term financial health, and mission, of the University.

As noted, our collective efforts enabled Brown to close FY 2022 in a stronger than expected financial position. Amidst steeply rising inflation, volatility in the capital markets, growing geopolitical uncertainty, and changes in how and where we work, the University closed FY 2022 with an operating budget surplus of \$16.8 million and GAAP (Generally Accepted Accounting Principles) financial statement surplus of \$49.5 million. The University placed a significant focus on gift and endowment restricted fund spending in order to utilize these funds first to relieve dependence on the unrestricted budget. The University ultimately received over \$30 million in FEMA funding to reimburse pandemic-related expenses incurred in the prior fiscal year.

Fundraising remained critical to support the University’s financial health, and in FY 2022 Brown experienced another record year for contributions from its generous donors and alumni with \$476.1 million in new gifts and pledges. The endowment generated a negative return of 4.6% in FY 2022. Given the significant declines in capital markets during the year, this result outperformed many broad market indices like the S&P 500 and surpassed the return of Cambridge Associates’ preliminary mean and median returns for colleges and universities. After FY 2021’s remarkable 51.5% endowment return, we cautioned the need to “plan prudently and consider that endowment returns are susceptible to the inherent cyclicity of capital markets.” We find ourselves in a better public health situation today, but remain planful in recognizing that

instability in the global economy and markets will continue to influence the University's financial resources.

It is important to keep in mind that prior to the disruption caused by COVID-19, Brown had been working diligently toward closing a persistent gap in its annual operating budget. The pandemic has increased the need to focus on the University's finances, thus our work to solve our recurring deficit will continue throughout this, and coming fiscal years to ensure the long-term fiscal health of the University. With responsible stewardship, strong planning and targeted investments, we will continue to build on Brown's strengths while also advancing operational excellence.

As we look forward to FY 2024 budget development, you will find guidance below regarding inflation and reasserting the budget process as the primary mechanism for requesting resources, among other budget guidance. Thank you in advance for your continued partnership.

FY 2024 Budget & FY 2023 Winter Forecast Planning Timeline & Deadlines

As announced at the Office of Financial Strategy & Planning (OFSP) Budget Open Forum on September 16th, please see the link below that includes key dates and deadlines associated with the budget development process:

[FY 2023 Financial Planning Timeline](#)

- **December 8, 2022 - Open Forum:** OFSP is hosting an Open Forum on Thursday, December 8th at 11 am [via Zoom](#). This will provide an opportunity to review and discuss FY 2024 Budget Guidance. We will also plan to provide other relevant updates regarding the University's budget and finances. While this Open Forum is primarily intended for budget and financial managers, we have extended the invitation as optional to senior staff, including deans and vice presidents.
- **December 14, 2022 - Adaptive Planning Opens:** Adaptive Planning will be open and available for departments to begin working on their FY 2024 Budget and FY 2023 Winter Forecast. Supplemental guidance on Adaptive Planning will be issued at this time.
- **February 17, 2023 - FY 2024 Budget and FY 2023 Winter Forecast Due:** Department budget and forecasts due, including FY 2024 Budget Narrative (Appendix I). Similar to last year, narratives provide divisional and departmental leadership an opportunity to contextualize their plans and goals (see Appendix 1 for more information).

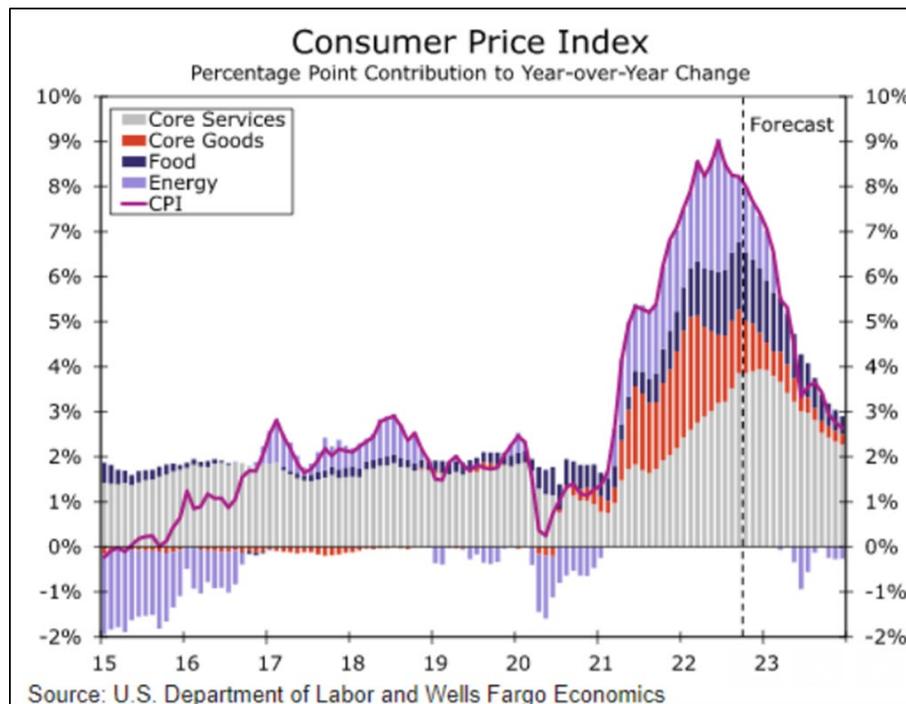
Looking ahead, individual department budgets will be reviewed with University leadership in March and April. The FY 2024 Budget will be presented for review by the University Resources Committee (URC) and for final approval by the Corporation in May. Budgets will be communicated back to departments in June.

FY 2024 Topics of Focus

Please pay particular attention to the following topics when developing your FY 2024 budgets:

1. Inflation and FY 2024 Outlook

Steeply rising inflation has impacted the costs of goods sold, purchased services, and many operational aspects at Brown over the past year. While it is anticipated that these impacts will continue for the immediate future, there are indications that inflation has likely peaked and CPI may be below 3% by the end of calendar year 2023. CPI slowed to 7.7% through October, less than the 7.9% that analysts had expected and down from 8.2% in September.



[Wells Fargo Report Dated October 13, 2022](#)

Given this outlook, **we ask departments not to include blanket inflationary factors in their FY 2024 budget.** If you believe your budget warrants a significant inflation-related assumption, please consult with Rob Eaton and Tim Fater in OFSP by Friday, January 20, 2023. Each specific budget item that is believed to be impacted by inflation should have its own independent assumption. These assumptions should rely on industry-trusted resources.

2. Strategic Resource Reallocation and Incremental Requests

Reallocating resources within existing budgets, rather than through requesting incremental resources, is a key step toward financial sustainability. Employing the University's zero-based approach, each of us has the responsibility to review, scrutinize, and adjust, as necessary, each line item within our budgets. This is critical to ensure all resources are being deployed to their highest and best use in service of the University's mission.

To the extent incremental resources are needed, please be sure to consider the budget cycle as the primary mechanism to identify and request resources, including personnel. We encourage stakeholders to think strategically about resource requests during the budget cycle so they can be evaluated in an increasingly holistic manner and to make interim resource requests far more rare than they are currently. Interim requests during the year will only be considered on a strategic and emergency basis.

3. **Gift and Endowment Utilization**

The “first-dollar principle” guides us to spend restricted funding first and it is important to utilize these resources for stewardship purposes. Gifts and endowments were generously given and exist in support of priorities that advance academic excellence, increase access to a Brown education, and fund research expansion and campus growth. Departments are asked to maximize the use of restricted sources to fund departmental and academic activities, where appropriate. The first-dollar principle allows us to more carefully manage unrestricted resources, which in turn provides departments and the University more financial flexibility.

A custom report will be distributed to all departments in December including current endowment and gift balances, FY 2024 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 analyst with any questions you may have regarding these reports.

We also wanted to introduce you all to Maureen Moran, Director, Gifts and Endowments, who recently joined the Finance Division. In this role, Maureen will partner with stakeholders across the University to develop effective and appropriate gift and endowment spending plans that support department and University goals, while ensuring responsible stewardship of these critical donor-supported funds. Maureen brings more than 20 years of experience leading fundraising operations teams and is fluent with the intricacies of gift agreements. Maureen is available for gift and endowment support any time of the year, particularly during the budget process. Feel free to reach out to Maureen directly at Maureen_moran@brown.edu.

4. **Continue cost-containment practices that emerged during the pandemic**

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.

5. **Operational Plan for Investing in Research**

Brown launched its plan to substantially grow its research activity in October 2022 ([Click here to read the plan](#)). While this is a long-term plan, if your FY 2024 budget includes initial investments in support of the plan, we have included a question specific to these incremental resources in the FY2024 Budget Narrative (Appendix I) to be completed as part of the Department’s FY 2024 budget submission.

FY 2024 Budget and FY 2023 Winter Forecast Planning Guidance

Department budgets will be pre-populated in Adaptive Planning (opening December 14, 2022) with FY 2023 Fall Forecast data submitted on November 4, 2022. While we hope this data will serve as a helpful “starting point”, please remember to employ the University’s zero-based budget approach, where each budget line item should be reviewed, scrutinized, and adjusted, as necessary, as described above.

1. Personnel - Salaries, Wages, and Benefits

- **Review Faculty and Staff Sheets (Salary & Allocation) in Adaptive Planning:** Sheets should be reviewed to ensure that all filled positions and unfilled staff positions are accurate. Salaries reflect what was loaded and updated by departments in the FY 2023 Fall Forecast. New positions approved by the Staff Hiring Committee should be added if approval has been received.
- **New FY 2024 Staff Position Requests:** Personnel requests should be made during the FY 2024 budget process. Interim requests during the year will only be considered on a strategic and emergency basis. Workday and Adaptive Planning do not generate new position numbers (POS) until they are approved. Therefore, all new requests should be clearly identified under Pooled Compensation sheets labeled “New Position Request” and identified in the department’s Budget Narrative in Question 3 (Appendix I). Departments should also toggle the Approval Status required field for each new position as either “Pending Approval (on-going)” or “Pending Approval (one-year).” Departments should not assume any new staff positions requests are approved until notification is received from the Staff Hiring Committee.
- **FY 2024 Faculty & Staff Salary Pools:** Salary pools, including merit and equity, are currently under deliberation by the University Resources Committee (URC). The URC will make a recommendation to the President in the coming weeks. The President will submit a recommendation to the Brown Corporation for review and ultimate approval. OFSP will load non-Union staff merit into pooled compensation by cost center and funding source for all departments. OFSP will also load non-Union staff equity into central divisional cost centers for unrestricted funds. Departments will be responsible for entering faculty and union FY 2024 estimates for both merit and equity.
- **Fringe Benefit Rates:** Fringe rates have been updated in the Adaptive Planning “FY24 Budget” version to reflect the proposed new rates for next fiscal year per the table below. These proposed rates below are subject to change.

| Category | FY 2023 Budget | FY 2023 Forecast | FY 2024 Budget |
|-----------------|-----------------------|-------------------------|-----------------------|
| Full-time | 29.5% | 29.5% | 31.0% |
| Part-time | 7.5% | 7.5% | 7.1% |

- **Personnel Allocations Across Department & Units:** Please coordinate and collaborate with other departments if you have faculty/staff that are allocated across department budgets. If you are unsure of who to contact, please reach out to OFSP or use the [Find your Budget and Financial Operations contact](#) on the OFSP website.
- **Post Docs & Limited Term Faculty/Staff & Seasonal:** Budget these under pooled compensation since they are either 100% grant funded or often turn over frequently throughout the year. This will allow for easier budgeting.

2. Enrollment and Revenue Projections

- A cross-university Enrollment Management Group has generated FY 2024 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.). If you believe your department could benefit from these projections, please reach out to Rob Eaton and Tim Fater.

3. Internal Transfers

- Internal transfers should be reviewed and updated to ensure they net to zero within the consolidated University budget.
- Collaborate with other departments to ensure internal transfers are budgeted correctly across department budgets. If you are unsure of who to contact, please reach out to OFSP or use the [Find your Budget and Financial Operations contact](#) on the OFSP website.

4. University Contributions and Dean Start-up Commitments

- University contributions should be reviewed and updated to ensure they net to zero within the consolidated University budget. Please contact Rob Eaton to review centrally-funded university contributions.
- The Division of Biology and Medicine, School of Public Health, and School of Engineering should reflect actual and projected year-end spending with dean start-up commitments for FY 2023 and FY 2024 only. Please contact Rob Eaton to discuss these as they will be budgeted by centrally-funded university contributions.

5. Approval Status Required Field in Adaptive Planning

- Sheets now include a required field, “Approval Status”, that allows OFSP to track new spending requests as well as allowing departments to identify material changes to their budget and forecast. The field will require one of the four options below. Please review, amend, and add as necessary. It is at the discretion of the department to determine materiality and identify “new” items that should be called out in their respective budget and forecast.
- Approved (on-going): item was previously approved in the budget by the Brown Corporation or the Staff Hiring Committee (if a new position), and is likely an on-going item. Reminder that all budgeted items should be reviewed annually using the University’s zero-based approach.
- Approved (one-year): item was previously approved in budget by the Brown Corporation or the Staff Hiring Committee (if a new position). The item will likely only be necessary in the fiscal year identified and is one-time in nature. FY 2023 items will not be included in the FY 2024 budget information in Adaptive.
- Pending Approval (on-going): item was not included in the approved budget by the Brown Corporation or the Staff Hiring Committee (if a new position), and is likely an on-going item.
- Pending Approval (one-year): item was not included in the approved budget by the Brown Corporation or the Staff Hiring Committee (if a new position). The item will likely only be necessary in the fiscal year identified and is one-time in nature. FY 2023 items will not be included in the FY 2024 budget information in Adaptive.

6. Central Fees (administrative and facilities service)

- FY 2024 central fees and contributions (Internal Contributions to Non Central E&G 9001) will be updated and loaded into Adaptive Planning in December 2022. OFSP will be contacting departments impacted by central fees individually in advance.

7. FY 2023 Winter Forecast

- The FY 2023 Winter Forecast should be developed by reviewing the FY 2023 Budget, FY 2023 Fall Forecast, and year-to-date actuals, adjusting pre-populated amounts as necessary to reflect expected annual revenue and expenses. Materiality should be considered in evaluating and developing your current forecast.
- Revenue projections should reflect any anticipated changes including those related to updated enrollment projections or program/service changes.
- Expense projections should assume current University guidance and will remain in place for the entirety of FY 2023. This includes: continued normal operations, hiring controls (including approval from the Staff Hiring Committee), and planned efficiencies resulting from hybrid operating options, where applicable.
- Departments should review and adjust salaries with Effective Start and Effective End dates to reflect the period the position is expected to be filled. You should include any assumptions for position(s) that were/or are expected to be vacant for any period during the fiscal year. Positions filled or approved by the Staff Hiring Committee that were not included in the FY 2023 budget submission will need to be added manually by departments.
- Forecasts should include all funds and should plan for maximizing the use of restricted funding sources whenever possible. Endowments and spendable gifts should be projected at the account level. The “other revenue” sheet should include restricted revenue forecasts that equal the restricted expense forecasts.

Adaptive Planning & OFSP Support

Adaptive Planning will be available on December 14, 2022 to financial managers who have completed Adaptive training prior to that date. Please request Adaptive training for new employees and those who need access to the system, refresher training for existing users, or system support issues via the [Adaptive Training/Support Request Form](#).

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 forecast and 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 FY 2024 budget.