



**East Tennessee State University
Office of the President**

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TO: ETSU Senior Leadership

FROM: Dr. Brian Noland

DATE: January 9, 2024

SUBJECT: Budget Update

As we approach the start of the calendar year, details related to the institution's overall budget and enrollment landscape have crystalized. In particular, the campus is once again positioned to assess the level of funding that will accrue to its respective colleges and units through the revenue distributions prescribed by our decentralized budget model. In reviewing the comprehensive budget reports provided to my office by the Division of Business and Finance, the following recurring themes emerge:

1. The decentralized budget model continues to guide and frame our strategic operations.
2. Faculty and staff across campus continue to demonstrate prudent fiscal stewardship in the management and oversight of their college, division, and unit budgets.
3. The ability to meet market salary demands in mission critical areas remain of critical importance.
4. Inflationary factors will limit budget flexibility for the foreseeable future.
5. As we enter the 2024 Legislative session, state budget forecasts may not cover inflationary factors as they have in prior budget cycles. Subsequently, the campus must exercise restraint in its budget functions.

Update on 2022-23 Carryforward Funds and Fee Revenues:

A summary, the 2022-23 carryforward report shows:

- East Tennessee State University realized \$5.2 million in carryforward funds from the prior year (FY22-23). As prescribed by the budget model, units retain and carry forward 50% of these funds. The level of carryforward funding available to the university increased by \$1.5 million over the prior year.

- Due to stewardship efforts across campus, a total of \$5.2 million was realized through fallout dollars at June 30, 2023. Colleges and units received \$2.4 million in carryforward funds. Of the \$2.8 million fallout allocated for central administration, \$1.4 million was placed in general university reserves. The remaining \$1.4 million in carryforward funds, in addition to the central benefits fall-out and central scholarship fall-out, will be used to replace the Brinkley Center chiller and placed in general university reserves.
- Most budget units have student fee revenues from FY23 that carried forward into FY24. The FY24 net fee revenue carried forward for all units totals nearly \$14 million.

Salary and Compensation:

- The Tennessee Higher Education Commission has opted to exclude a formal salary request in their 2024-25 budget presentation to Governor Lee. The level of state-supported salary enhancements will not become evident until the Governor's budget is released during the State of the State address.
- The need to enhance salaries for faculty and staff is the primary priority for ETSU as we embark upon the upcoming budget planning process. Colleges and units must utilize all possible resources available from efficiencies, re-allocation of vacant positions, and other sources to maximize discretionary revenues to support salary enhancements above and beyond state allocations. As part of the budget hearing process, budget units will be expected to analyze the need for vacant positions. Units should look at enrollment trends, student/faculty ratios, and other metrics to justify open positions that have been vacant for longer than six months as of December 31, 2023.

Budget Hearings for 2024-25 Year:

In preparation for upcoming budget hearings, the following principles will guide the budget development for FY25:

- Enrollment projections are positive, but the expectation is that there will be no new funding available in the overall FY25 budget other than inflationary operating increases.
- Internally funded initiatives must include a timeline for implementation and a fiscal note with revenues or reductions to support the funding. Fiscal notes should include cost increases for administrative units outside of the unit making the proposal or a statement that there are no administrative impacts outside of the unit. New and/or recurring dollars should be requested through the budget process. However, sources must be identified through college's/unit's re-allocation of funds, carryforward funds, or net fee revenue to support new initiatives that are mission critical and aligned with the Strategic Plan.
- Plans must be presented for any renovation or capital project that will be funded through departmental/internal funds. The total renovation costs and anticipated costs of operations of new space should be detailed and outlined in a three-year pro forma.

- Budget units should review the fallout and fee carryforward funds in the attached PDF document and prepare plans to present to unit supervisors at scheduled budget hearings for the use of the funds. These plans should prioritize the enhancement of college operating reserves and/or salary enhancements.
- Where applicable, budget units should provide a list of course fees and discuss uses of course fees.
- The Senior Leadership team will present budget priorities, aligned to the University's Strategic Plan, in scheduled budget hearings this spring. Each unit scheduled for a budget hearing should complete the attached Excel budget template forms to prioritize and summarize information prior to the budget hearing.

Preparations for Budget Model Adjustments

As the University is evaluating and preparing to implement a new resource allocation model, budget units should expect that the following principles will be used to continue a decentralized budget model with minor modifications that create stability and predictability until permanent adjustments are determined, modeled, and implemented for FY26:

1. The budget for current FY24 is the FY23 base budget with permanent increases for the November 2023 salary adjustments approved by the Board of Trustees.
2. As part of the budget hearing process, we will explore the implications of a revenue adjustment whereby all college and other non-restricted fee sources would be subject to the 50/50 fall-out methodology.
3. The institution has re-chartered the Budget and Strategic Planning Sub-council of the University Council. This group has begun to meet and has been provided with a revised purpose/charge, membership, and meeting calendar.
4. The Strategic Resource Alignment Advisory Committee (Advisory Committee) is responsible for identifying long-term changes to the budget model.
5. The University will run parallel versions of the 2023-2024 and 2024-2025 budget model in conjunction with the revised/updated model emerging from the Advisory Committee, which will include appropriate recalibrations of college and unit base budgets.

In closing, I commend our faculty and staff for their stewardship efforts that have positioned the University to realize \$5.2 million in carryforward funds, as well as operational funding to support targeted programmatic and facilities expansions. During these challenging times, your leadership and fiscal restraint allow us to strengthen our reserves, maintain current essential services and programs, and enhance our financial stability.

Thank you for all that you do for ETSU.