

Layperson Summary of the University Budget

Faculty Senate Budget and Finance Committee

March 20, 2026

1. Where the Money Comes From (Revenues)

FY2026 Total Revenues

Revenues	Proposed FY2026	Revised FY2026	Change	
Educational & General				
Tuition & Fees	\$ 195,238,000	\$ 198,736,200	\$ 3,498,200	1.8%
State Appropriations	185,837,600	185,763,000	(74,600)	0.0%
Grants, Contracts and Gifts	35,100,600	57,669,500	22,568,900	64.3%
Sales & Services	34,564,500	37,304,400	2,739,900	7.9%
Other Revenues	5,100,000	5,100,000	-	0.0%
Total Educational & General	\$ 455,840,700	\$ 484,573,100	\$28,732,400	6.3%
Auxiliary	37,924,200	37,724,200	(200,000)	-0.5%
Restricted	152,472,200	181,161,400	28,689,200	18.8%
Total Revenues	\$ 646,237,100	\$ 703,458,700	\$57,221,600	8.9%

The university's funding comes from three main categories:

1.1 Unrestricted Revenues (Flexible Funds)

These are the **core operating funds** that can be used for most university activities.

1.1.1 Tuition and Fees

This is the largest and most direct source of revenue.

Students pay:

- Tuition (based on credit hours)
- A **University Service Fee**, which supports:
 - Internet and technology
 - Computer labs
 - Parking
 - Recreation facilities

Layperson Summary of the University Budget

- Athletic events
- Additional fees:
 - Application fees
 - Lab/material fees
 - Course-specific fees

Key idea:

All tuition and fees are collected centrally and then distributed across the university.

1.1.2 State Appropriations (State Funding)

The university receives funding from the state through a performance-based model managed by the Tennessee Higher Education Commission (THEC).

How funding is determined

The state does **not** simply fund based on enrollment. Instead, it evaluates performance using several metrics:

Metric	What It Measures
Student Progression	Whether students complete 30, 60, 90 credit hours
Degree Production	Total number of degrees awarded
Graduation Rate	% graduating within 6 years
Degrees per 100 FTE	Efficiency (degrees relative to student size)
Research Activity	Grants, sponsored programs, and research output

Key idea:

- More students alone does not increase funding
- **Better outcomes and efficiency lead to more funding**

1.1.3 Grants, Contracts, and Gifts

These include:

- Donations from the university foundation
- Research grants and contracts

Layperson Summary of the University Budget

- Indirect cost recovery (overhead from grants)
- State funding for campus schools

Key idea:

These funds are often **earmarked for specific purposes** such as research or scholarships.

1.1.4 Sales and Services

Revenue from services the university provides, such as:

- Athletics
- Event and conference services
- Speech and hearing center
- Early learning/research centers
- Campus recreation

1.1.5 Other Revenues

Primarily:

- Investment income
-

1.2 Auxiliary Revenues (Self-Supporting Units)

These are units that operate like independent businesses:

- Housing
- Dining services
- Parking
- Rental properties
- Vending

Key rule:

- These units must **cover their own costs**
 - They do **not receive general operating funds**
-

1.3 Restricted Revenues (Limited-Use Funds)

These funds must be used for specific purposes.

Sources include:

- Federal grants
- State and local funding
- Private gifts
- Endowments

Key characteristics:

- Cannot be freely reallocated
- Spending depends on grant/project requirements
- Amounts fluctuate throughout the year

2. Where the Money Goes (Expenditures)

FY2026 Total Expenditures and Transfers

	Proposed FY2026	Revised FY2026	Change	
Educational & General				
Instruction	\$ 151,707,500	\$ 171,520,000	\$ 19,812,500	13.1%
Research	57,296,300	81,691,000	24,394,700	42.6%
Public Service	4,238,400	6,307,600	2,069,200	48.8%
Academic Support	46,334,800	57,038,400	10,703,600	23.1%
Student Services	67,776,700	102,756,300	34,979,600	51.6%
Institutional Support	38,068,500	42,207,800	4,139,300	10.9%
Operation & Maintenance	44,663,700	48,273,500	3,609,800	8.1%
Scholarships and Fellowships	31,089,200	31,985,400	896,200	2.9%
Transfers	14,665,600	19,261,700	4,596,100	31.3%
Total Educational & General	\$ 455,840,700	\$ 561,041,700	\$ 105,201,000	23.1%
Auxiliary	37,924,200	37,724,200	(200,000)	-0.5%
Restricted	152,472,200	181,161,400	28,689,200	18.8%
Total Expenditures and Transfers	\$ 646,237,100	\$ 779,927,300	\$ 133,690,200	20.7%

Spending is typically grouped by function.

2.1 Unrestricted Spending

Layperson Summary of the University Budget

Category	Examples
Instruction	Faculty salaries, teaching costs
Research	Labs, research support
Operations	Facilities, maintenance, utilities
Administration	Central support functions

2.2 Auxiliary Spending

- Each auxiliary unit manages its own budget
- Revenues must equal expenses

2.3 Restricted Spending

- Tied directly to grants and projects
- Changes depending on funding activity

2.4 Transfers (Important Concept)

Some funds are **set aside for future needs** rather than current spending.

Examples:

- Building repairs (roof, HVAC)
- Technology upgrades
- Major equipment replacement
- Emergency reserves

Key idea:

Transfers reduce the amount available to spend now but improve long-term stability.

3. Budget Cycle (How the Budget Is Updated)

Each fiscal year has **three versions of the budget**.

3.1 The Three Budget Stages

Layperson Summary of the University Budget

Stage	Timing	What Happens
Proposed Budget	June (prior to the fiscal year)	Initial plan for the upcoming fiscal year. Based on best estimates. Does not yet include approved tuition or fee increases.
Revised Budget	October (fall semester)	Updated version that includes actual fall enrollment and any approved tuition/fee changes. More accurate than the proposed budget.
Estimated Budget	June (end of the fiscal year)	Final updated version reflecting near-actual revenues and expenses after spring enrollment and year-end adjustments.

Simple Timeline Example (FY26)

- **June 2025** → Proposed Budget (for FY26)
- **Fall 2025 (Dec)** → Revised Budget (Usually, the revised budget is submitted for approval in October; in 2025, it was postponed to December due to special circumstances.)
- **June 2026** → Estimated Budget

Key Takeaway

The budget is refined over time:

Estimate → Update → Finalize,
with major updates occurring **each June and again in the fall semester.**

3.2 What Changes Over Time

- Enrollment updates
- Tuition and fee decisions
- Revenue adjustments
- Final expense corrections

Key idea:

The budget is **not fixed**. It evolves throughout the year.

4. Budget Process and Model

4.1 Previous Model: Incremental Budgeting

- Start with last year's budget
- Make small adjustments

Pros: Simple

Cons: Does not reward performance or efficiency

4.2 Current Model: RCM (Responsibility Center Management)

Core Principle: Units that generate revenue are responsible for managing it.

4.3 How RCM Works

Revenue-Generating Units (Colleges/Schools)

- Receive funding based on:
 - Enrollment
 - Tuition revenue
- Must manage their own expenses

Implication:

They must balance their budgets and plan strategically.

Administrative Units

- Do not generate revenue
- Submit budget requests for approval

Their costs are:

- Allocated across revenue-generating units
-

4.4 Practical Impact

For Colleges

- More control over resources

Layperson Summary of the University Budget

- More financial responsibility
- Greater exposure to enrollment changes

For the University

- More decentralized decision-making
 - Stronger focus on efficiency and outcomes
-

4.5 Recommended Practice

Each college/school should:

- Establish a budget committee
 - Plan strategically
 - Align spending with long-term goals
-

5. Big Picture: How Everything Fits Together

5.1 Core System Logic

1. Students enroll → generate tuition revenue
 2. University provides instruction and services
 3. Students progress and graduate
 4. Strong outcomes → increase state funding
 5. Resources are reinvested into the institution
-

5.2 Three Key Drivers

Driver	Why It Matters
Enrollment	Drives tuition revenue
Outcomes	Drives state funding
Efficiency	Determines resource effectiveness

5.3 Major Shift in Philosophy

The system is moving from:

- “How much do we spend?”

to:

- “What results do we produce?”
-

6. Executive Summary

- The university relies heavily on **tuition and performance-based state funding**
- State funding is tied to **student success and efficiency**, not just enrollment
- Some units operate as **self-supporting businesses**
- The budget is **dynamic and updated multiple times per year**
- The university has shifted to an **RCM model**, increasing:
 - Decentralization
 - Accountability
 - Strategic decision-making