

ACTION ITEM: APPROVAL OF FISCAL YEAR 2023 UNIVERSITY OPERATING BUDGET

Summary

The University is requesting an operating budget of \$83,940,000 for Fiscal Year 2023. This represents a decrease of 7.0% from FY2022, due primarily to a decrease in enrollment, both among new and continuing students. The FY2023 budget is based on an 11.1% decline in projected tuition revenue and a 5% increase in the State appropriation. The requested operating budget is balanced between revenues and expenditures, in part by relying on \$2.4 million in Federal COVID-19 relief funding that has been deferred from FY2022 and a transitory increase of \$650,000 in anticipated interest income. These transitory funding streams will not be available in FY2024, and sustainability planning is necessary to address the gap.

The operating budget presented in this request is substantially different from the FY2023 Preliminary Operating Budget request approved by the Board on June 9, 2022 and from the Final FY23 Operating Budget request presented to the Finance, Building and Grounds committee on August 15, 2022. After the August committee meeting, realized enrollments for the Fall 2022 semester have come in significantly below forecast. In response, the committee requested a revision to the final budget. The revised final budget is presented below.

Key differences in the budget presented here include increased reliance on lost revenue grants through COVID-19 relief funding, an increase in anticipated interest income, higher-than-anticipated NEST occupancy, delayed hiring of vacant positions, limited restructuring of operations, and some reduction in non-personnel expenses.

Overview

The Northeastern Illinois University Board of Trustees is asked to approve the University operating budget that represents estimated spending plans for the current fiscal year beginning on July 1, 2022 and ending on June 30, 2023. A preliminary FY2023 budget was approved at the June 2022 Board of Trustees meeting.

In August 2003 the Illinois Board of Higher Education (IBHE) adopted Recommended Actions to Expand and Enhance Public University Annual Operating Budget Review, Approval and Oversight. Actions included a requirement that each public university adopt a "preliminary/estimated spending plan" prior to July 1 that includes:

- funding sources reported by, at a minimum, State-appropriated funds, University income funds, and all other non-appropriated funds, and
- expenditures by object of expenditure (e.g., personal services, contractual services, equipment).

This report provides the information required by the IBHE for the FY2023 internal budget.

The University's unrestricted operating budget is comprised of two main sources of funds – state general funds appropriations (approximately 43 percent of operating revenues) and university income funds, mostly tuition (approximately 57 percent of operating revenues).

State appropriation

In FY2022, the University received an appropriation of \$35,566,900. In April 2022, the Governor signed into law a budget that called for a 5% increase of \$1,788,400, to a total of \$37,345,300 for FY2023. The final budget presented here includes this level of appropriation.

Income fund

The unrestricted operating budget reflects the tuition and fee rates adopted by the Board in November 2021 for FY2023, and enrollment projections developed internally by the University. These tuition rates include no increase in undergraduate tuition, currently \$420.44 per credit hour for Illinois residents and a two percent increase for new graduate students from \$441.46 to \$450.29 per credit hour for Illinois residents.

The forecast for FY2023 tuition revenues is based on an examination of the flow of new and continuing graduate and undergraduate students.

The forecast for new student credit hours includes the impact of the NEIU for YOU program approved by the Board of Trustees during FY2022. This program is designed to reverse the declining trend in new student enrollment. The program established targets of 400 new first-time full-time freshmen, 900 new transfer students, and 538 new graduate students for Fall 2022. The FY2023 preliminary budget was built around these targets. However, actual fall enrollments were 516 freshmen, 581 transfers, and 449 graduate students. In total, this represents 16% fewer new enrolled students than anticipated.

For continuing students, declining enrollment in recent years leads to persistent future declines as well, and incoming classes are not sufficient to replace the flow of students who are graduating. For this reason, the preliminary budget anticipated a decline of 7.9% in continuing enrollment. Based on fall enrollments, the forecast has been revised to reflect an anticipated 14% decline.

The preliminary budget anticipated 128,300 credit hours for FY2023. The revised budget presented here is based on a projection of 112,900 credit hours. Based on the cohort mix of students, this translates into a decline in tuition revenue of 11.1% from the preliminary budget.

In the previous fiscal year, Other Income included \$2,788,000 in federal COVID-19 relief funding. Lower-than-anticipated spending during that fiscal year resulted in a reduced need to claim these funds and they have not to date been claimed. In addition, there has been an extension in the time period available to claim expenditures against the associated federal grants. As a result of these events, the University is budgeting for \$2,400,000 in COVID-19 relief funding during FY2023. This is reflected as part of Other Income in Table 1.

In addition to the appropriation and tuition revenue, the University generates some income from interest on cash balances and miscellaneous sales. A favorable interest rate environment has led to a larger than anticipated inflow in interest income, leading to an increase in projected interest of \$650,000 since the preliminary budget was prepared.

Expenditures

Expenditures for FY2023 are balanced to anticipated operating revenues of \$83,940,000 as outlined above. In response to the enrollment shortfall relative to the preliminary budget projections, financial managers were asked to identify both one-time and ongoing structural adjustments to ensure a balanced budget. Reductions included \$2.9 million in personal services costs, primarily through elimination of vacant positions and course scheduling adjustments,

\$200,000 in reduced occupancy contributions due to increase enrollment in the NEST, and \$235,000 in non-personnel costs.

Restricted operating funds

In addition to the unrestricted operating budget, this final plan includes forecasts for the restricted operating budget, which includes student fee programs, auxiliary services, indirect costs and grant sources. The restricted operating budget includes expenditures from revenue sources that are restricted either by an external requirement or by internal accounting policy. Preliminary student fee program budgets reflect the fee rates as approved by the Board of Trustees in November 2021. These restricted operating funds are projected to total \$59,279,300 in FY2023. This represents a decline of \$5,676,000 from FY2022, primarily due to the decline in federal COVID-19 support and a decline in student fee-supported activities, due to anticipated declines in credit hour enrollment.

The total FY2023 budget is summarized in Table 1. Resources available for operating purposes in FY2023 are estimated at \$143,219,000, a decrease of \$11.9 million or 7.7 percent, from the FY2022 budget.

Recommended Action

It is requested that the Board of Trustees approve the final FY2023 budget as presented in Tables 1 and 2 and discussed above.

Table 1
NORTHEASTERN ILLINOIS UNIVERSITY
Fiscal Year 2023 Operating Budget
(with comparable data provided for Fiscal Year 2022)

	FY2022 Budget	FY2023 Preliminary Budget	FY2023 Budget	Annual Change	
				Dollar	Percent
Unrestricted Operating Budget					
State General Funds Appropriations	\$ 35,566,900	\$ 37,345,300	\$ 37,345,300	\$ 1,778,400	5.0 %
University Income Fund - Tuition	50,780,200	47,412,000	42,172,200	(8,608,000)	(17.0)
University Income Fund - Tuition Differential	692,000	972,400	972,400	280,400	40.5
University Income Fund - Other*	3,188,700	1,600,000	3,450,100	261,400	8.2
Unrestricted Operating Budget	\$ 90,227,800	\$ 87,329,700	\$ 83,940,000	\$ (6,287,800)	(7.0) %
Restricted Operating Budget					
Student Fee Programs	\$ 9,001,100	\$ 8,412,600	\$ 8,412,600	\$ (588,500)	(6.5) %
Sales & Services	2,817,100	2,463,800	2,463,800	(353,300)	(12.5)
Auxiliary Services	3,977,900	4,056,500	4,056,500	78,600	2.0
Indirect Costs Recovery	2,138,900	1,870,600	1,870,600	(268,300)	(12.5)
Grants & Contracts-Education	600,000	600,000	600,000	-	-
State and Local Grants & Contracts	12,704,400	12,028,100	12,028,100	(676,300)	(5.3)
Federal Grants & Contracts**	32,926,000	28,926,000	28,926,000	(4,000,000)	(12.1)
Private Grants & Contracts	790,000	921,700	921,700	131,700	16.7
Restricted Operating Budget	\$ 64,955,400	\$ 59,279,300	\$ 59,279,300	\$ (5,676,100)	(8.7) %
Total Operating Budget	\$ 155,183,200	\$ 146,609,000	\$ 143,219,300	\$ (11,963,900)	(7.7) %

* Other Income includes \$2.4 million in COVID-19 relief funding

Table 2
NORTHEASTERN ILLINOIS UNIVERSITY
Fiscal Year 2023 Operating Budget
by Function and Line Item

<u>Functional Categories</u>	Unrestricted Operating Budget (State and Tuition)	Restricted Operating Budget	Total
Instruction	\$ 43,698,185	\$ 9,438,497	\$ 53,136,682
Organized Research	195,831	1,314,104	1,509,935
Public Service	634,273	4,885,147	5,519,420
Academic Support	7,369,382	4,043,027	11,412,409
Student Services	4,002,989	29,804,869	33,807,858
Institutional Support	13,968,056	4,437,864	18,405,920
Operations and Maintenance	11,943,684	1,877,745	13,821,429
Independent Operations	-	3,478,047	3,478,047
Benefits/Social Security/Medicare	1,051,000	-	1,051,000
Health Insurance Reserve Fund	1,076,600	-	1,076,600
Total	\$ 83,940,000	\$ 59,279,300	\$ 143,219,300

<u>Line Item Categories</u>	General Operating Fund (State and Tuition)	Restricted Funds	Total
Personal Services	\$ 65,015,113	\$ 11,040,600	\$ 76,055,713
Contractual Services	11,208,604	10,575,926	21,784,530
Travel	168,841	103,920	272,761
Commodities	774,575	1,284,770	2,059,345
Equipment	867,845	4,555,505	5,423,350
Telecommunications	176,422	48,919	225,341
Awards/Grants/Tuition Waivers	1,299,000	27,047,677	28,346,677
Permanent Improvements	25,000	-	25,000
Benefits/Social Security/Medicare	1,055,000	2,359,584	3,414,584
Health Insurance Reserve Fund	1,072,600	-	1,072,600
Indirect Costs	-	702,397	702,397
Other/Transfer Out (Debt Service)	2,277,000	1,560,003	3,837,003
Total	\$ 83,940,000	\$ 59,279,300	\$ 143,219,300

* Other Income includes \$2.4 million in COVID-19 relief funding