



**President's Report
to the
Board of Trustees**

June 11, 2020



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ACTION ITEM I. A. APPROVAL OF PRELIMINARY FY21 OPERATING BUDGET

Overview

The Northeastern Illinois University Board of Trustees is asked to approve the University operating budget that represents preliminary estimated spending plans for the upcoming fiscal year beginning on July 1, 2020 and will be asked to approve the final Fiscal Year 2021 (FY2021) detailed budget at its September 2020 Board 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 FY2021 internal budget.

The University's unrestricted operating budget is comprised of two main sources of funds – state general funds appropriations (approximately 41 percent of operating revenues) and university income funds, mostly tuition (approximately 59 percent of operating revenues).

At the September 2020 Board meeting a detailed budget for FY2021 will be presented for approval.

State appropriation

In FY2020, the University received an appropriation of \$35,566,900. In May 2020, the Illinois General Assembly passed a budget that appropriated an equal amount, \$35,566,900, for Northeastern for FY2021. However, we continue to monitor state funding and the possibility that the General Assembly or the Governor may reduce this amount through subsequent action.

In February 2020, the Governor presented a budget plan that called for a 5 percent increase in appropriations to higher education, contingent on passage of a graduated income tax in November 2020. By May 2020, however, the COVID-19 crisis changed the state's financial outlook significantly. In May 2020, prior to the passage of the state budget for FY2021, the Finance, Building and Grounds Committee of the Board was briefed on the status of the FY2021 budget development. In this environment, the University began budget planning for multiple scenarios, including the possibility of a 20 percent reduction in state appropriations. However, the preliminary budget presented here reflects the level appropriation passed in May.

Over the next few weeks, as fall enrollments materialize, the final budget will consider any known changes to state funding and tuition revenues and high priority spending needs.

Income fund

The unrestricted operating budget reflects the tuition and fee rates adopted by the Board in November 2019 for FY2021. Northeastern has seen declining enrollments in the last several years, and concern over the impact of COVID-19 along with the continuing impact of small entering classes in FY2019 and FY2020 present challenges in FY2021 as well.

ACTION ITEM I. A. APPROVAL OF PRELIMINARY FY21 OPERATING BUDGET

At the time this Board report was prepared, total credit hour enrollment for FY2021 is projected to be 10 percent below FY2020. Forecasting enrollment considered overall projections ranging from 4 to 20 percent declines. Based on current data trends and strong summer enrollments, the University decided on a 10 percent decline for this preliminary budget. The final budget, presented in September, will reflect updated projections.

With these enrollments and the approved tuition rates, tuition revenue for FY2021 is projected to be \$48,581,700, reflecting a 6.5 percent decline from FY2020 budgeted tuition revenues. With level College of Business and Management's tuition differential and other sources, total income fund revenues are projected at \$49,926,700.

Taken together, projected revenues from University income and the state appropriation total \$85,493,600 for FY2021, a decline of \$3,353,100, or 3.8 percent from FY2020.

Restricted operating funds

In addition to the unrestricted operating budget, this preliminary 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 2019.

The University received \$6,070,000 in base funding under the CARES Act during FY2020, plus an additional \$441,000 as a Minority Serving Institution. While these one-time funds have already helped Northeastern address issues related to COVID-19 and are available for a period of time that stretches into FY2021, their use is restricted to certain purposes. The University continues to monitor and seek additional available sources of support.

Estimates for auxiliary and grant funds are based on FY2020 revenues, as determined to date.

The total preliminary FY2021 budget is summarized in Table 1.

As shown in Table 1, resources available for operating purposes in FY2021 are estimated at \$145,990,100 a decrease of \$4,400,800, or 2.9 percent, from the FY2020 budget.

ACTION ITEM I. A. APPROVAL OF PRELIMINARY FY21 OPERATING BUDGET

Table 1
NORTHEASTERN ILLINOIS UNIVERSITY
Fiscal Year 2021 Preliminary Operating Budget
(with comparable data provided for Fiscal Year 2020)

	FY2020 Budget	FY2021 Preliminary Budget	Annual Change	
			Dollar	Percent
<u>Unrestricted Operating Budget</u>				
State General Funds Appropriations *	\$ 35,566,900	\$ 35,566,900	\$ -	- %
University Income Fund - Tuition	51,934,800	48,581,700	(3,353,100)	(6.5)
University Income Fund - Tuition Differential	480,000	480,000	-	-
University Income Fund - Other	865,000	865,000	-	-
<i>Unrestricted Operating Budget</i>	\$ 88,846,700	\$ 85,493,600	\$ (3,353,100)	(3.8) %
<u>Restricted Operating Budget</u>				
Student Fee Programs	\$ 8,991,300	\$ 8,264,400	\$ (726,900)	(8.1) %
Sales & Services	3,241,700	2,925,400	(316,300)	(9.8)
Auxiliary Services	3,979,700	4,254,700	275,000	6.9
Indirect Costs Recovery **	2,431,500	2,152,000	(279,500)	(11.5)
Grants & Contracts-Education	600,000	600,000	-	-
State and Local Grants & Contracts	8,800,000	8,800,000	-	-
Federal Grants & Contracts	33,000,000	33,000,000	-	-
Private Grants & Contracts	500,000	500,000	-	-
<i>Restricted Operating Budget</i>	\$ 61,544,200	\$ 60,496,500	\$ (1,047,700)	(1.7) %
Total Operating Budget	\$ 150,390,900	\$ 145,990,100	\$ (4,400,800)	(2.9) %

** Includes prior year carryovers of \$279,500 in FY2020 and \$179,500 in FY2021.

ACTION ITEM I. A. APPROVAL OF PRELIMINARY FY21 OPERATING BUDGET

Expenditure Requirements

In September 2019, the Board approved an unrestricted request budget for Northeastern of \$93,288,100 for the current year. This budget included projected salary and cost increases of \$2,281,400 and the University Planning and Budget Council's (UPBC) recommended initiatives of \$2,160,000.

As presented at the May Finance, Building and Grounds committee meeting, the University has already planned to remove the UPBC's initiatives from the restricted operating budget and seek alternative funding, including in part the Strategic Planning Development Fund established by the Board. Under a level state appropriation, this results in a remaining budget shortfall of \$5.8 million. The University has taken a number of additional steps, summarized below, to eliminate this gap.

The University plans to eliminate most current vacant positions, generating approximately \$2.3 million in savings.

The President, Vice Presidents and Deans will reduce their project funding by a combined \$750,000, limiting discretionary spending including travel.

The University can leverage available CARES funding to support IT infrastructure needs, which will alleviate \$450,000 of state budget requirements.

The University has examined and reviewed the central overhead budget and identified areas that generally produce salvage at year-end as a result of prudent and conservative cost estimation. These areas include utilities, pension and accrued leave set-asides, and savings on leased space. These have a combined impact of approximately \$875,000.

Working through Vice Presidents and Deans, the University identified an additional \$767,000 in savings through efficiencies and scaling down plans and events. These restructurings are difficult but necessary to address the budget shortfall.

The University will delay or forego an across-the-board salary increase for non-negotiated A&P employees, generating \$311,000 in budgetary savings.

Finally, in FY2020, the University held an allowance for contingencies related to enrollment and residence hall occupancy. This allowance will be reduced by \$380,000 for FY2021.

Through these adjustments, the University is able to present a plan with expenditures balanced to anticipated revenues. Table 2, below, as required by the IBHE, provides estimated proposed expenditures by functional category (e.g., instruction, organized research) and object category (e.g., personal services, travel) by source of funds. Final categorical expenses will be provided in September.

It is requested that the Board of Trustees approve the FY2021 preliminary budget as presented in Tables 1 and 2, and discussed above.

ACTION ITEM I. A. APPROVAL OF PRELIMINARY FY21 OPERATING BUDGET

Table 2
NORTHEASTERN ILLINOIS UNIVERSITY
Fiscal Year 2021 Preliminary Operating Budget
by Function and Line Item

Functional Categories	Unrestricted Operating Budget (State and Tuition)	Restricted Operating Budget	Total
Instruction	\$ 48,006,900	\$ 8,045,300	\$ 56,052,200
Organized Research	122,200	1,705,900	1,828,100
Public Service	966,300	14,135,000	15,101,300
Academic Support	6,328,500	2,407,000	8,735,500
Student Services	4,108,900	24,858,700	28,967,600
Institutional Support	11,815,300	1,664,700	13,480,000
Operations and Maintenance	11,971,900	3,045,300	15,017,200
Independent Operations	-	4,634,600	4,634,600
Benefits/Social Security/Medicare	1,051,000	-	1,051,000
Health Insurance Reserve Fund	1,122,600	-	1,122,600
Total	\$ 85,493,600	\$ 60,496,500	\$ 145,990,100

Line Item Categories	General Operating Fund (State and Tuition)	Restricted Funds	Total
Personal Services	\$ 67,118,300	\$ 13,828,500	\$ 80,946,800
Contractual Services	10,427,100	13,665,200	24,092,300
Travel	186,000	248,600	434,600
Commodities	729,000	987,100	1,716,100
Equipment	941,000	543,400	1,484,400
Telecommunications	346,000	157,400	503,400
Awards/Grants/Tuition Waivers	1,322,000	22,624,000	23,946,000
Permanent Improvements	49,600	97,000	146,600
Benefits/Social Security/Medicare	1,051,000	3,845,300	4,896,300
Health Insurance Reserve Fund	1,122,600	-	1,122,600
Indirect Costs	-	2,152,000	2,152,000
Other/Transfer Out (Debt Service)	2,201,000	2,348,000	4,549,000
Total	\$ 85,493,600	\$ 60,496,500	\$ 145,990,100

RECOMMENDED ACTION

I request that the Board approve the preliminary FY21 operating budget recommendations. The final FY21 operating budget will be presented for board approval at its September meeting.

**ACTION ITEM I. B. APPROVAL OF EXPENDITURES \$100,000 OR MORE:
FINANCIAL ADVISORY SERVICES, BLUE ROSE CAPITAL
ADVISORS, LLC**

Project Background

The University uses a firm to provide financial advisory services related to the University's debt, capital structure, and other areas as needed.

Project Scope

The financial advisory services firm provides competent and objective advice to assist the University with financial matters related to capital planning and debt issuance, investment ratings, primarily revenue bonds and/or certificates of participation. Services shall also include periodic ancillary investment consultant advice and services, along with periodic review of University investment policy and guidelines.

Recommended Consultant

Blue Rose Capital Advisors, LLC. is recommended as the financial advisory services firm based on their strong understanding of best practices in higher education, their broad experience working almost exclusively with higher education clients, and their in-depth understanding of the University's finances.

Blue Rose Capital Advisors, LLC. was one of two firms reviewed by committee via the competitive sealed proposals (RFP) process. The fee for the professional services has been negotiated, and upon Board approval a three-year contract with Blue Rose Capital Advisors, LLC. will commence on July 1, 2020 and will expire on June 30, 2023. The contract also includes a two-year renewal option.

Project Cost

Up to \$230,000 for five years

Source of Funds

University and Auxiliary Funds

Recommended Consultant

Blue Rose Capital Advisors, LLC.

6400 Flying Cloud Dr., Suite 212
Eden Prairie, MN 55344

Recommended Action

I request that the Board approve expenditures of up to \$230,000 for five years for the purchase of financial advisory services from Blue Rose Capital Advisors, LLC, as presented and as vetted in accordance with the state of Illinois procurement process.

INFORMATION ITEM II. A. FALL TRANSITION COMMITTEE UPDATE

This report will be delivered orally.

INFORMATION ITEM II. B. RECRUITMENT AND RETENTION UPDATES

This report will be delivered orally.

INFORMATION ITEM II. C. 3RD QUARTER BUDGET TO ACTUAL

Information Item: Third Quarter Budget to Actual Report

The Northeastern Illinois University Board of Trustees at its June meeting approved the University preliminary operating budget, which represented preliminary spending plans for fiscal year 2020 (FY2020). The Board of Trustees approved the final FY2020 operating budget in September 2019.

The operating budget for FY2020 totals \$150,390,900. Of that total, \$88,846,700 is the University's unrestricted general operating budget supported by State appropriation and student tuition. In addition, the University's restricted funds budget amount of \$61,544,200 is supported by student fee programs, auxiliary services, grants and contracts.

At the Board's request, quarterly reports are provided for the unrestricted operating budget, which supports most University departments and ongoing operations. This report provides an update on third quarter spending in the unrestricted budget and is summarized in Table 1 at the end of this report.

Revenues

The FY2020 budget includes State support of \$35,566,900 for the University's unrestricted general operating budget, or 40 percent of that budget. University Income Funds are comprised primarily of tuition revenues. The FY2020 budget includes estimated income funds of \$53,279,800, or 60 percent of the general operating unrestricted budget.

Through the third quarter, the University has vouchered a total of \$34,473,800 of the state appropriation. Of this amount, through the third quarter, \$21,546,400 was received.

Through the third quarter, 99.1 percent of estimated tuition and income fund revenue was recorded, after adjusting for anticipated waivers and bad debt. These amounts represent the second half of summer 2019 and fall 2019 and spring 2020 enrollments. Because the summer term bridges two fiscal years, accruals are made to apportion the tuition revenues and operating expenses between those fiscal years.

Enrollment projections and the resultant revenue projections for the FY2020 budget are based upon historical enrollment trends, the analysis of Enrollment Management Services, and available current registration data. This altogether resulted in total annual credit hour enrollment projected to decline by 6.3 percent from FY2019 levels. Fall 2019 credit hour enrollments fell slightly short of the budget targets, with final census date hours below the preceding fall by 7.3 percent. Spring 2020 credit hours are slightly ahead of forecast, reflecting a decline of 5.7 percent from Spring 2019.

It is important to note that for both the State appropriation and tuition income, revenues are recorded and reflected in this report as they are billed. Final revenue numbers will be available after the University makes all accounting adjustments during the year-end reconciliation period following June 30, 2020. These adjustments are required to account for activity such as class drop refunds, statutory waivers, bad debt allowances, and fees associated with outstanding account balances.

INFORMATION ITEM II. C. 3RD QUARTER BUDGET TO ACTUAL

Expenses

Through the third quarter, the University spent 70.9 percent of the total \$88,846,700 general operating unrestricted budget.

On March 27, 2020, Congress passed the CARES Act that provides, in part, funding for Universities for expenses related to the public health and economic impacts of COVID-19. The University has begun to track related expenses, including expenses which were incurred during the third quarter of FY2020, in conjunction with federal guidelines around funding available through the CARES Act.

Table 1 provides an outline the actual University revenues and expenses compared to budget through the third quarter of FY2020.

INFORMATION ITEM II. C. 3RD QUARTER BUDGET TO ACTUAL

NORTHEASTERN ILLINOIS UNIVERSITY
FISCAL YEAR 2020 BUDGET TO ACTUAL COMPARISONS
FOR THE PERIOD ENDING March 31, 2020
UNAUDITED FIGURES

General Operating Budget					
	FY 2019	FY2020			
	Actual Prior Year to Date	Actual Year to Date	Adopted Budget	Current Budget	% of Current Budget
Revenue					
State Appropriations	\$ 33,569,199	\$ 35,278,207	\$ 35,566,900	\$ 35,566,900	99.2%
Net Tuition Revenue	52,328,139	51,022,280	51,934,800	51,934,800	98.2
Net Differential Tuition Revenue	350,232	517,073	480,000	480,000	107.7
All other sources	<u>1,158,185</u>	<u>1,205,198</u>	<u>865,000</u>	<u>865,000</u>	<u>139.3</u>
Total Revenue	\$ 87,405,755	\$ 88,022,757	\$ 88,846,700	\$ 88,846,700	99.1%
Expenditures					
Personal Services	\$ 50,752,267	\$ 51,844,584	\$ 70,276,255	\$ 70,695,322	73.3%
Contractual Services	8,554,109	7,495,236	12,485,415	12,168,482	61.6
Equipment	53,937	451,244	923,580	962,640	46.9
Commodities	308,535	304,325	836,968	809,892	37.6
Telecommunications	287,255	20,971	582,463	424,188	4.9
Travel	81,813	81,699	187,950	214,337	38.1
Permanent Improvements	2,500	-	49,585	23,680	-
Operation of Auto Equip	30,136	34,150	18,469	57,644	59.2
Tuition Scholarships	1,063,509	1,142,872	1,322,015	1,326,515	86.2
Debt Service	<u>1,598,145</u>	<u>1,621,964</u>	<u>2,164,000</u>	<u>2,164,000</u>	<u>75.0</u>
Total Expenditures	\$ 62,732,208	\$ 62,997,046	\$ 88,846,700	\$ 88,846,700	70.9%

Notes:

1. Original Budget column reflects the FY2020 budget approved by the Board of Trustees in September, 2019.
2. Year-to-date expense activity does not include encumbrances.
3. The Current Budget reflects budget transfers processed between organizations and accounts.

INFORMATION ITEM II. D. PURCHASES BETWEEN \$50,000 AND \$99,999.99

Board of Trustees' Regulations require that the President report to the Board purchases of at least \$50,000 but less than \$100,000 other than those exempt from Board approval (e.g. utilities). The following lists those purchases since the last Board meeting, indicating the Business Enterprise Program (BEP) participation.

VENDOR	DESCRIPTION	PURCHASE ORDER AMOUNT
Campus Labs, Inc. (Non-BEP)	Baseline Student Affairs Software License (2 years)	\$52,128.00
EverFi, Inc. (Non-BEP)	Student Sexual Assault and Substance Abuse Prevention Training (3 years)	\$63,000.00
Davis & Campbell, LLC (Non-BEP)	Counsel and litigation services related to collective bargaining matters	\$55,000.00

INFORMATION ITEM II. E. CONSTRUCTION UPDATE

Electric Cable Replacement Project Phase 1

Bidding documents are scheduled to be released in late June.

Campus Roof Replacements

Bidding documents are scheduled to be released in late June.

Campus Entrance and Walkway Repairs

PA/SD phase is underway. The Capital Development Board (CDB) has conditionally accepted Schematic Design.

Detention Basin Expansion

Final planting of the detention basin has occurred.

University Signage

Design specs are being generated to provide a monument sign at El Centro.

Education Building

Architectural and Engineering restart modification proposal is under review by CDB.

INFORMATION ITEM II. F. C.A.R.E.S. ACT FUNDING UPDATE

Northeastern CARES

<u>Student Share \$3,035,000</u>	<u>University Share \$3,035,000</u>	<u>MSI Share</u>
<ul style="list-style-type: none">• Processed Emergency grants to over 5,900 eligible students• Awards were based on \$42 per credit hour for eligible students and an additional \$15 per credit our for students most in need.• Average award for a student taking 12 credit hours: \$504. Pell students received an additional \$180.• Total awarded: \$2.4M all students and an additional \$0.4M to Pell recipients (\$2,800,000) <p><i>\$235,000 balance for future needs</i></p>	<p>Costs incurred to-date:</p> <ul style="list-style-type: none">• Student fee refunds (\$398,000)• Housing refund (\$45,000)• Technology-related (\$70,000) <p>Future estimated costs:</p> <ul style="list-style-type: none">• Faculty development/quality matters training (\$100,000)• Employee parking refunds (\$85,000)• Computer/laptops for faculty/Staff• Classroom Upgrade/Conversions (\$175,000)	<ul style="list-style-type: none">• \$445,000• Grant Award Notification received June 4th

