ILLINOIS STATE UNIVERSITY
Illinois' first public university

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Budget Update from VPFP Glen Nelson

<u>FY25 Budget Update</u>

In 2024 it became apparent that the FY25 budgeted expenditures would exceed the anticipated revenues for FY25. In September 2024, Illinois State implemented a comprehensive strategy (RISE - Resilience, Innovation, Sustainability and Excellence) to ensure long-term financial stability. RISE included several strategies that were immediately put in place to close the gap between revenue and expenses, including mandated divisional budget holdbacks, hiring reductions, deferral of non-urgent projects, and reduction in out-of-cycle and additional pay increases. I'm happy to report that the University's commitment to these actions is working and our projected FY25 expenses are in line to be on track with expense targets if we continue these actions through the remainder of the fiscal year. Thank you to everyone for your hard work on this task.

<u>FY26 Budget Approach</u>

FY26 will be a year of transition for university budgeting as we prepare to implement a new budget model and process in FY27.

Several key changes are occurring during the FY26 transition year:

- Historically, the department/unit expense budget consisted of rolling over the prior year's expense budget without consideration of anticipated university revenues. The FY26 general revenue (GR) expense budgets will be based on the University's expected GR revenues.
- GR expenditure budget targets have been developed for each division/VP area. These budgets are based on FY25 projected GR expenses plus FY26 new commitments.
- The VPs will be working with their respective colleges and departments to develop a detailed department/unit GR expense budget within the division's target budget amount.
- These budget allocations are due to the Budget Office by May 1st.
- Agency/AFS/Service budgets
- Changes in budget terminology
- Guidance for Vacancies, Service and Rental Rates
- Strategic Budget Carryover (SBC)

Agency/AFS(Bond)/Service Budgets

Budgets for other funds (Agency/AFS/Service) will be sent directly to units as in past years and should also be prepared based on expected expenditures, while considering revenues and fund balances. Revenue budgets for these funds will also be requested. These budgets will also be due back to the Budget Office by May 1st.

Budget Terminology

The University will be updating its budget terminology for general revenue budgets in order to provide consistency and align with terminology used for other fund sources. This change in terminology will begin to show in Budget Center reports later this spring.

CURRENT	NEW
Opening Permanent Budget	Opening Budget
Current Permanent Budget	Adjusted Base Budget
Current Budget	Current Budget (no change)

Vacancies

To meet FY25 expense targets, the current process for reviewing and approving vacancies will continue through FY25, and budget pullbacks will continue for vacancies that occur through June 30th. However, in FY26, since the University is budgeting to revenues, budget pullbacks and givebacks due to a vacancy will no longer occur.

Service and Rental Rates

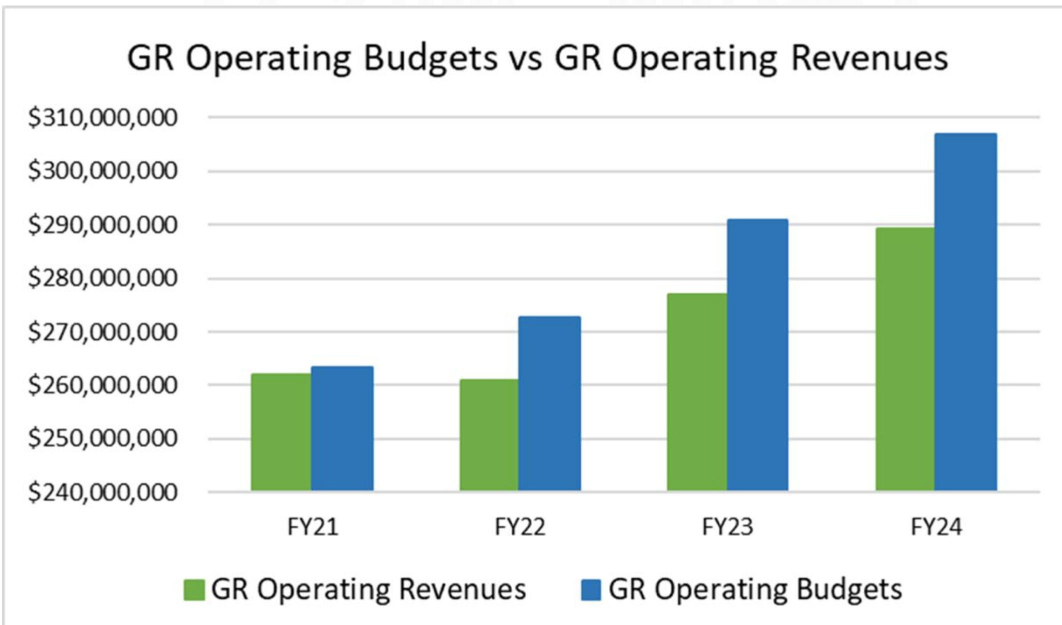
With FY26 being a transition year, service and rental rates for internal university departments or groups will be subject to a one-year freeze. These rates will not increase in FY26. However, service and rental rates for groups external to the University may be adjusted. The service/rental rate approval process will not change, and the Budget Office will soon initiate the FY26 process for development and approval of rates by Cabinet.

The Budget Office will be leading an effort this summer to work with campus fiscal partners to establish new procedures and rates regarding chargebacks and use of overhead rates. This activity is part of the budget redesign process.

Strategic Budget Carryover (SBC)

Historically, Strategic Budget Carryover (SBC) was created when a unit spent less than their expense budget. These savings should have created cash savings or an increase in our reserves, providing a source of cash for SBC funding. However, Illinois State has not budgeted GR revenues, and the annual expenditure budget was based on a historical allocation that was independent from the revenue sources used to support the expenditures. This disconnect between anticipated revenue and expense has resulted in a university expense budget that is more than the GR revenue available to support those expenses. In the situation where the expense budget exceeds revenue, available expense budget, or budget savings (SBC) at the end of a given fiscal year is not supported by current year revenues. In other words, for the last several years SBC generated by "budget savings" did not generate a cash increase in reserves. Rather, it has created a liability or a future expense for which there is no source of revenue.

The following chart depicts the GR activity for the past four fiscal years. The blue bars represent our expenditure budgets and the green bars our revenues. Our expenditure budgets exceeded our revenue budget by a cumulative total of $44 million. In other words, the first $44 million of budget savings or SBC during that period would not create any cash to support future expenditures. If the blue bars or expenditure budget was equal to or less than the green bars or revenues, any budget savings would generate real SBC supported by cash savings.



	FY21	FY22	FY23	FY24	Diff over 4 Yrs
GR Operating Revenues	$261,980,510	$260,785,571	$276,950,117	$289,191,062	
GR Operating Budgets	$263,352,837	$272,600,168	$290,846,546	$306,727,898	
Diff btw GR Revenues and Budgets	$ (1,372,328)	$ (11,814,597)	$ (13,896,429)	$ (17,536,835)	**$ (44,620,189)**

Our current SBC balance is not supported by a cash balance. Funding the current SBC balance would require the use of the university reserves and reduce the cash available for working capital, planned capital investments, and unforeseen emergencies. Because of this, and to protect and ensure the University's financial stability, Strategic Budget Carryover is being phased out. SBC balances will not be available for use in FY26. However, for units that have identified a strategic initiative that was expected to be funded from SBC or for those projects/initiatives that currently have a multi-year commitment, the University will establish a process to review and prioritize these requests. It is important to note that funding for any of these initiatives will require use of our financial reserves, impact our net income, and cause a reduction in net assets. Any currently planned project that the college/department would like considered will be presented through their VP to Cabinet for review, approval, and prioritization. More specific instructions will be shared by your VP office.

FY27 Budget Development

The budget redesign work with the Grant Thornton (GT) team continues on track. Guiding principles to govern the redesign have been developed, and constituent teams are currently working to address a number of key questions that will provide direction in the development of the future state budget framework. This work will continue through the remainder of the spring semester. During the summer months the GT team, using the guiding principles and output of the key questions and decisions, will lead our team through the development of a new proposed budget process and model. During the fall we will continue to analyze the impacts of the new model and make refinements as needed.

A significant change in the new process and model will be how budgets are developed. We will move away from expense-based budgeting practices where prior year budgets were rolled at the department level. In the new budget process the University will adopt a revenue-based budgeting practice which will start with a revenue forecast at the University level. Once the revenue forecast is developed, the Vice President for Finance and Planning will provide a revenue budget to the unit level VP or college dean, where budgets will be managed and aggregated down to departments. Departments will then build an expenditure budget within their revenue target.

I encourage your continued interaction and participation in the town halls, with members of the RISE task force, and other various forums on the budget process redesign project. You may also send feedback to the RISE Task Force by visiting the RISE website and utilizing the feedback form. For questions regarding the FY26 budget process, please contact the Budget Office at UniversityBudgetOffice@illinoisstate.edu

I appreciate your time and attention to these efforts as we continue positioning the University on a path toward financial resiliency. Our collective work and critical review of resource allocations is instrumental to the success of Illinois State.

Sincerely,

Dr. Glen Nelson
VP Finance & Planning and Chief Financial Officer