Title: Budget Policies and Guiding Principles

Office of Origin: Division of Finance

Document Summary

This draft of the university's Policies and Guiding Principles for Annual Budget Development and Multi-Year Financial Planning were presented to the University Council at their January 2014 meeting. As noted early in the document, the budget process will be iterative with broad campus input.

These guiding principles represent a revisioning of NIU's budgetary processes and procedures as part of the institutional changes introduced by new senior leadership.
1. The President and his leadership team will establish and communicate strategic goals and priorities based on the mission, vision, and values of Northern Illinois University. Among others, as a public university, student access and affordability are fundamental values. Financial planning, resource development, pricing, and budget decisions will be aligned with this overarching framework.

2. The University will create an iterative financial planning and annual budget formulation process with a range of opportunities for input from campus leaders and major stakeholder groups. The process will reflect best practices for higher education.

3. The Executive Vice President and Provost (EVPP) and the Chief Financial Officer (CFO) will together develop an annual budget process for the collection, review, and discussion of relevant management information and jointly oversee monitoring of current budgets and budget performance. The primary roles of the EVPP in this process will be to drive the development and approval of specific goals and initiatives in consultation with academic and student affairs leadership; to weigh competing resource allocation choices; and to recommend overall funding priorities for those programs and activities that support the core University missions. The primary roles of the CFO will be to advise on financial strategy to accomplish the University’s varied goals and maintain prudent financial policies and practices to permit financial stability over time. Similarly, the EVPP and CFO will together take the lead in developing a “trial budget” that includes preliminary budget recommendations for administrative and other central units for discussion with the President’s Cabinet.

Through this academic/business partnership model, well-informed, well-understood resource allocation decisions will be possible.

4. The EVPP and the CFO will serve as co-conveners of an annual "budget hearing" process that will provide for advance submission of certain information that each Vice President and Dean will be asked to present and discuss within their respective peer groups. The EVPP and CFO will also consult with other stakeholder groups (University Council, student government, etc.) as a part of the annual budget process. At the conclusion of these discussions, the EVPP and CFO will communicate preliminary allocations to strategic priorities to units, with an opportunity for appeal before a second iteration of the preliminary budget is discussed with the President and Cabinet.

5. The University will continue to use the current central allocation budget model. This model will be modified and enhanced to be both academically responsive and fiscally responsible.

*Academically responsive means:*

a. The process for establishing resource allocations will advance, support, and enable the
primary missions of instruction, research, and public service and other related strategic priorities (e.g., student life, technology, etc.)

b. Resource allocation decisions, today, will preserve the long-term flexibility of academic programs and their budgets tomorrow, to the maximum extent possible.

c. Each annual budget will provide for a stable pool of unallocated funding, from which the EVPP and President can seed-fund, cover start-up or provide matching funds for key teaching, research, and student initiatives. An internal loan fund will also be created from which departments can borrow for such initiatives, following policies and an approval process to be created jointly by the EVPP and CFO.

d. Programs with recurring annual expenses will not be budgeted in a central account but will instead be transferred to the responsible Dean or VP for management as part of the operating budget. Any exceptions to this policy will require a justification and a joint recommendation by the EVPP and CFO to the President. The central operating budgets that have had funds available for competitive allocation in support of the primary mission under recognized programs will continue to manage these funds (ex: Research & Artistry Program, Travel Fund Block Grants, Presidential Professors etc.)

e. The annual budget process will be sufficiently flexible to include experimentation with alternative financial models for academic programs (as a demonstration project) that may eventually have broader interest and application.

Fiscally responsible means:

a. Financial planning strategies will reflect conditions in the higher education marketplace and preserve and enhance the University's long-term competitive position.

b. Every effort will be made to achieve optimal balance between budgeting for today's strategic academic goals and priorities and providing for tomorrow's faculty, students, unforeseen needs, or opportunities.

c. Financial planning strategies will maintain and, over time, strengthen fiscal equilibrium:

1. Annual operating budgets will be balanced.

2. Distributions from the endowment will be at a level that preserves and enhances its long-term purchasing power so that inter-generational equity for faculty and students is maintained.

3. Outlays for capital improvement will be sufficient to preserve and maximize the useful life of facilities.

d. Programmatic resource allocation decisions will consider full (i.e. direct program, plus activity or administrative support, plus capital) costs and any other long-term cost or funding implications.

e. Recurring expenses will not be funded from non-recurring fund sources, unless
there is a viable, approved plan to replace non-recurring with recurring funds or a direct linkage between the recurring expense and the fund source.

f. Performance, benchmarking, and other metrics will be used to facilitate all "right-sizing" decisions, whether the decision involves reallocation or budget enhancement.

g. Centralized support activities, services, and the administrative technology infrastructure will: be "right-sized" to meet the needs of the campus constituencies they serve; address external regulatory compliance requirements; and capture opportunities to increase the efficiency and effectiveness of resource intensive business processes (via process transformation, increased use of technology, elimination of duplication of effort). The operating and capital requests for these functions will represent the “consensus priorities” of central and corresponding campus business managers, as recommended by one or more working groups of these primary stakeholders.

h. Using customary financial ratio analysis, the University will build stabilization reserves at a prudent level to protect itself against unexpected financial difficulties. These funds will be separate from the “initiatives fund” described in 5.c. above.

i. In addition, customary financial ratios will be assembled in the form of an annual dashboard report and shared with senior leadership and the Board of Trustees as a means of clarifying the overall financial health of NIU and to provide a broader context for budgets and financial plans.

Similarly, a range of success/performance indicators will be established, monitored, and used regularly to inform financial planning and budget decisions for all major programs and activities; and for inclusion in a separate dashboard report on the performance of mission-driven programs and activities, for annual review with senior leadership and the Board of Trustees.

j. To the extent possible, significant budget or financial policy changes will be fully vetted to identify their potential impacts and will be phased in, if necessary, to mitigate major program disruption.

6. Financial planning and budgeting processes will make optimal use of both restricted and unrestricted funds. Unless otherwise specified by a donor or grantor, NIU’s restricted funds will be used before any appropriated, income, or other unrestricted University funds are expended for the intended purposes, to permit maximum budget flexibility.

7. As with the operating budget, an annual capital budget will be developed and aligned with the University's strategic goals and priorities. The direct and the “opportunity” costs of delaying needed investment in facilities will be quantified and considered along with the current capital budget need.

8. As new space comes on-line or building operations become more complex, the budget process will identify and provide for the impacts on operating expenses.

9. New or additional resources allocated to strategic priorities will represent a combination of
new state appropriations, tuition revenues, and re-deployment of current budgets. To the extent possible, Vice Presidents, Vice Provosts, and Deans will be partners in developing funding strategies by contributing re-allocated funding and/or accumulated reserves to match fully or partially any new or increased funding allocated in the University budget process.

10. The University's draft and final annual budgets will be organized and communicated in a way that clearly demonstrates to trustees, University leaders, faculty, staff and others the level of investment being made in strategic priorities from new or reallocated resources. Although standard budget reports for each academic and administrative unit are necessary for VP's, deans, chairs, and other staff managers to understand and manage their respective revenue and expense, these budgets do not contribute to broad campus, governing board, or state-level stakeholder understanding of how the next budget will address strategic priorities.

11. To facilitate more effective management and execution of the budget, internal fees and cross-charges will undergo an advance review and approval process for each new fiscal year. Units will not be permitted to increase or add new fees for their services to other units unless approved as part of this process. Current fees will be reviewed each year to determine which ones make "good business" sense (e.g., curbing wasteful use, distributing costs based on level of service consumed, etc.) and which should be terminated and their purpose funded in a more appropriate way (e.g., allocation to a permanent base operating budget).

12. The effectiveness of approved financial planning and budget strategies can be undermined if non-emergency, postponeable resource allocation decisions are made outside of the established annual process for evaluating all needs and opportunities relative to strategic goals. Therefore, academic and administrative units and individual members of the campus community will be discouraged from seeking "off-cycle" consideration of additional funding for such purposes. In addition, budget requests that have not been affirmed by the responsible Vice President or Dean will be referred back to the Vice President or Dean to be prioritized in the unit's next budget submission.

13. Vice Presidents and Deans will be accountable for completing each fiscal year with a balanced budget. When there has been a surplus in their budget, each will be permitted to retain and carry over 50 percent of their unspent funds for an approved spending or reserve proposal, and 50 percent will be captured to build the new seed fund for strategic initiatives of the EVPP and President. The EVPP shall review and approve proposed uses of College/School reserve funds; and the CFO will review and recommend for the President’s approval the Vice Presidents proposed uses, whenever uses exceed the lower of $ X or Y percent of a unit’s reserve or whenever the previous allocations for the current fiscal year reach that threshold.

Conversely, in situations where a unit or individual makes a commitment beyond available resources, that unit's future budget will be required to absorb in entirety the shortfall. In other words, expenditures that exceed the approved budget will be treated as a loan to be repaid by the unit from future budgets.

14. Since a large share of the University's expenditures consists of salaries and benefits, the University will maintain position control over all faculty and staff positions. Positions that become vacant will not necessarily be filled in the same department without review and
approval by the respective senior academic (DeanProvost) or administrative (VP) leadership. Position control will serve as a key tool to facilitate effective re-allocation of resources to the University's highest priorities.

15. Once a new annual budget process has been fully phased in (18-24 months), multi-year financial plans for both operating and capital expenses will be established and updated as part of each annual budget cycle.

16. At the end of each annual budget cycle, the EVPP and CFO will consult with Vice Presidents and Deans and develop an evaluation of the efficacy of the process reflected above and identify any aspect of the process that should be modified. The annual review will serve as the basis to determine process modifications that will ensure that it remains academically responsive and fiscally responsible.