

SETTING A CONTEXT FOR FISCAL YEAR 2007 BUDGET DEVELOPMENT

Submitted for: Information.

Summary: *Setting a Context for Fiscal Year 2007 Budget Development* is intended to provide the “lay of the land” to the Board as it develops its fiscal year 2007 budget recommendations. It is intended also to stimulate thought and discussion at the Board and institutional levels that will carry over into the upcoming budget overview meetings and the Board’s budget recommendations.

The report begins with a review of long-range trends in higher education funding in Illinois; an examination of how recent budgetary actions have affected individual campuses, districts and agency programs; and a comparison of trends in Illinois to trends in surrounding states and the nation. Having taken stock of the historical trends, the report turns briefly to the state’s current fiscal context, summarizing recent revenue and expenditure trends that will continue to influence the Governor and the General Assembly as they determine fiscal year 2007 appropriations. The third part of the report reviews fiscal year 2006 Board priorities and raises a number of statewide higher education budget issues that could be addressed in the Board’s fiscal year 2007 recommendations. Finally, the report includes an appendix showing the processes and timelines that will guide fiscal year 2007 budget development.

Action Requested: None.

STATE OF ILLINOIS
BOARD OF HIGHER EDUCATION

SETTING A CONTEXT FOR FISCAL YEAR 2007 BUDGET DEVELOPMENT

Highlights

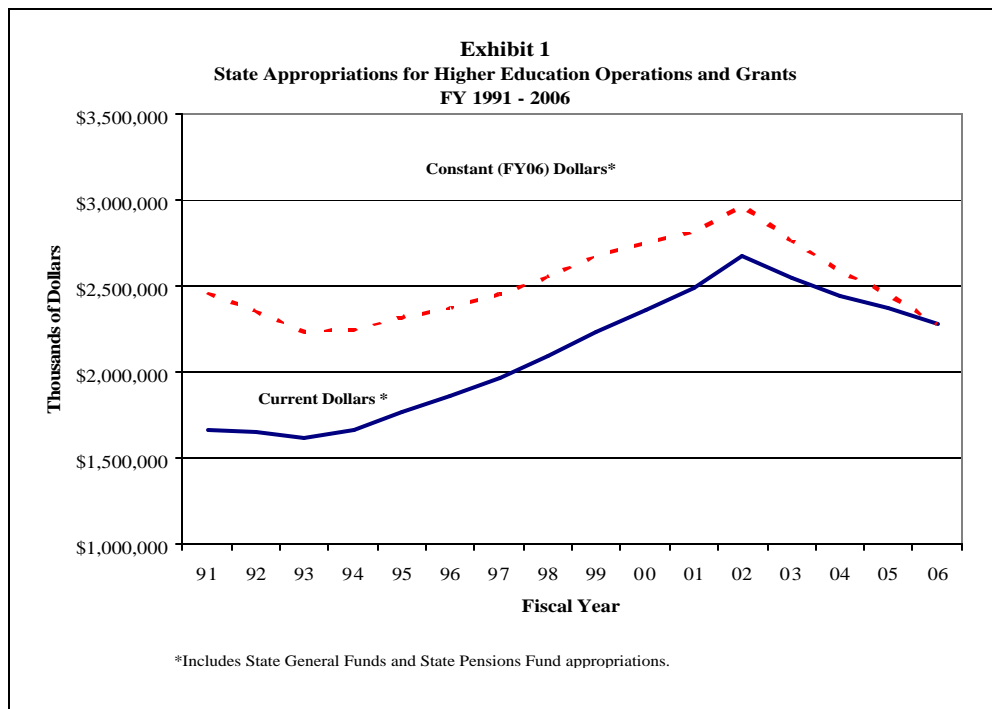
- Total state funding for higher education operations and grants is 7.4 percent **less** in fiscal year 2006 than in fiscal year 1991 when accounting for inflation. The largest funding decreases have been in support of grant programs, public universities, and community colleges, with state funding becoming a smaller proportion of total operating resources at public universities and community colleges alike during this period.
- More recently, total state funding for higher education institutional operations and grants (excluding appropriations for the State Universities Retirement System) **declined** \$311.4 million (12.9 percent) in current dollars (not accounting for inflation) between fiscal years 2002 and 2006. This included significant reductions in support for public universities and community colleges as well as reductions in funding for the Monetary Award Program (MAP) and institutional grant programs. Nearly all of the reductions were made by fiscal year 2004; since then, appropriations have remained essentially flat in current dollar terms, with some reallocations between institutions and agencies.
- New state funding for higher education capital projects, including capital renewal, **decreased** sharply in fiscal years 2005 and 2006 from appropriations early in the 2000s. In fiscal year 2005, no new capital funds were appropriated. In fiscal year 2006, the General Assembly and Governor approved a lump sum, new appropriation totaling \$130 million, but the General Assembly did not provide statutory authority for bond sales to finance the projects.
- Illinois is not alone in experiencing reductions in state tax support for higher education in recent years. Most Midwestern states have reduced state tax support for higher education considerably since fiscal year 2002. Nationally, however, state tax support for higher education has increased slightly since 2002. The reduction in state support relative to other states has ramifications for affordability and faculty salary competitiveness and, as a result, economic competitiveness.
- Illinois' tax collections have improved considerably since fiscal years 2002 and 2003, and the Commission on Government Forecasting and Accountability's May revenue estimate projected general funds growth of about \$517 million, or 2.0 percent, for fiscal year 2006. While the current growth trend is positive news, it likely will not yield a base large enough to meet all the needs and wants of the state in fiscal year 2007.
- While progress was made in the fiscal year 2006 budget toward addressing the statewide budgetary and policy concerns embodied in the Board's fiscal year 2006 recommendations, a number of those concerns remain important issues. These include faculty and staff salaries, deferred maintenance, affordability, and access and diversity.

Illinois Higher Education Funding Trends

This section addresses long-range trends in funding for Illinois higher education operations and grants and capital improvements. More recent budget actions also are addressed. Finally, trends in Illinois are compared to regional and national trends to provide a broader context for fiscal year 2007 discussions.

Long-Range Funding Trends

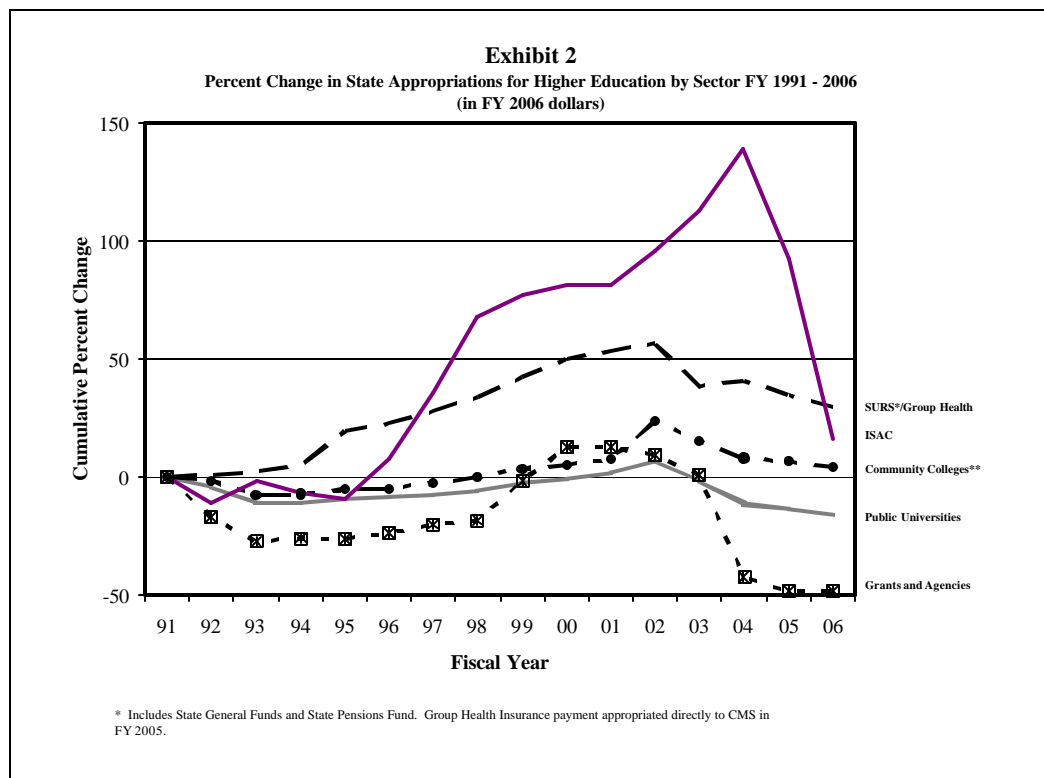
Exhibit 1 shows the trend in state appropriations for higher education operations and grants between fiscal years 1991 and 2006, both in current and inflation-adjusted dollars.¹ During this period, state general funds support for Illinois higher education grew from \$1.7 billion to \$2.3 billion. However, when accounting for inflation, state support has declined by 7.4 percent since fiscal year 1991. As indicated in Exhibit 1, much of the gain in state support since the early 1990s was lost during the last four fiscal years. It should be noted, however, that expenditures in other areas of state government benefit higher education as well, such as the significant general funds support provided each year—almost \$1.1 billion in fiscal year 2006—for the state employees’ group health insurance program through the Department of Healthcare and Family Services.



¹ NOTE: State appropriation data for higher education operations and grants presented in Exhibits 1 and 2 include State General Funds and State Pension Fund (SPF) amounts due to a significant shift in State Universities Retirement System (SURS) funding sources in fiscal years 2005 and 2006 from General Funds to the SPF to meet statutory funding requirements for the System. Between fiscal years 1990 and 2004, total SPF support for SURS ranged from \$3.7 million to \$16.7 million annually, representing 6.9 percent of total SURS funding on average. The SPF appropriation for SURS in fiscal year 2005 totaled \$222.6 million, or 81.5 percent of total funding provided to the System to meet the required funding level. For fiscal year 2006, the General Assembly (in Public Act 94-0004) limited state appropriations to SURS to \$166.6 million, or one-half of the amount needed to meet previously required funding levels. The SPF appropriation for SURS in fiscal year 2006 totals \$80.0 million.

Exhibit 2 shows the cumulative percentage change in state appropriations for higher education by sector, adjusted for inflation. The state has invested significant resources in the State Universities Retirement System (SURS) since the mid-1990s in response to a statutory change (Public Act 88-0593) designed to improve the long-term financial condition of all state-funded retirement systems. These funds are not allocated or spent by individual institutions or agencies; nevertheless, they provide direct support for an important employee benefit. The percentage change shown for retirement on Exhibit 2 also includes \$14.8 million appropriated to the Board of Higher Education in fiscal years 2002 through 2004 for transfer to the Department of Central Management Services (CMS) to cover higher education's share of increased costs incurred by the state employees' group health insurance program. In fiscal year 2005 the funds were appropriated directly to CMS, accounting in part for the downward trend from fiscal year 2004 to fiscal year 2005.² General funds support for community college retirees' group health insurance (\$3.4 million in fiscal year 2006) also is included.

The reduction in state support for SURS in fiscal year 2005 reflects a decrease in unfunded pension liabilities due to the infusion of funds to all state retirement systems from the pension obligation bond sale authorized in 2003 by Public Act 93-0002. The decrease in state support for SURS in fiscal year 2006 is due to the passage of Public Act 94-0004, which temporarily suspends the pension funding requirements of Public Act 88-0593 and reduces the state's contribution by one-half.



Between fiscal years 1991 and 2006, state support for the Illinois Student Assistance Commission (ISAC) increased by \$90.0 million, or 30.0 percent, when accounting for inflation.

² Prior to fiscal year 2006, the group health insurance program was administered by the Department of Central Management Services (CMS). Beginning in fiscal year 2006, it will be administrated by the Department of Healthcare and Family Services.

Nearly 90.0 percent of fiscal year 2006 General Revenue Fund appropriations to ISAC go toward the Monetary Award Program (MAP), with those funds sent directly to colleges and universities on behalf of students and thus supporting institutional expenditures for educational programs. The additional funds provided for MAP since fiscal year 1991 have supported a number of program enhancements – extension of eligibility to part-time students and students attending proprietary institutions, formula changes to target additional resources to students from families with low incomes – as well as increases in the maximum award and funding to cover tuition and fee increases.

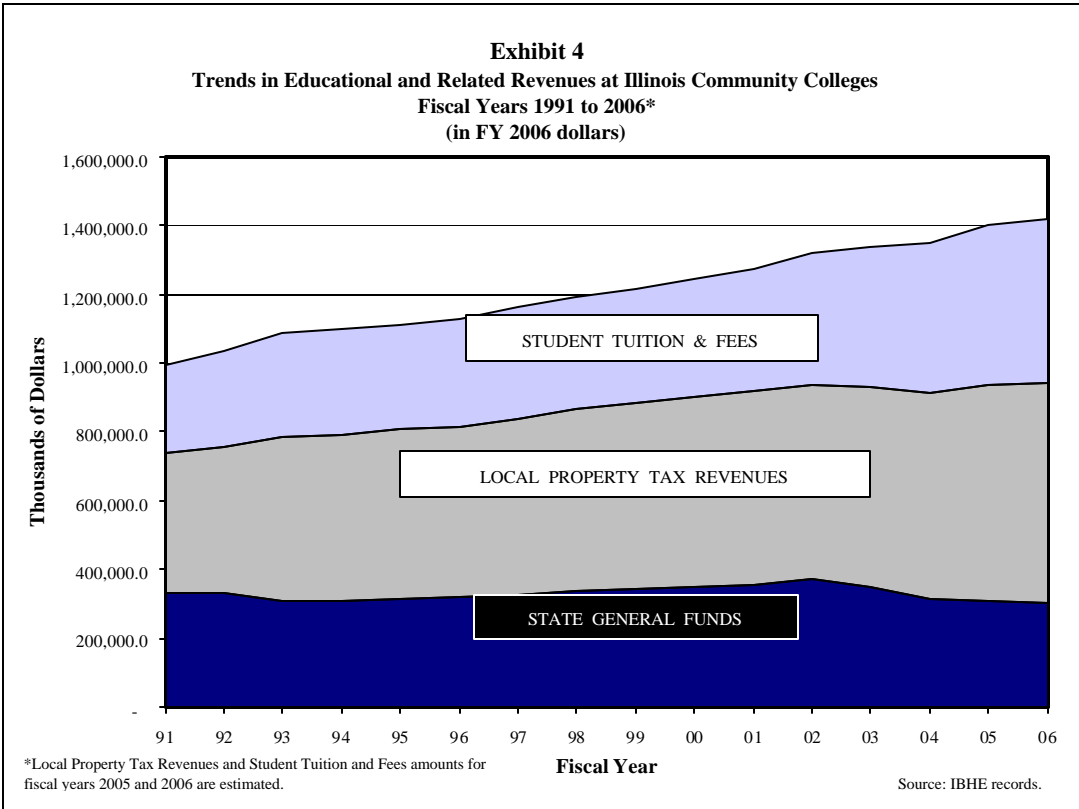
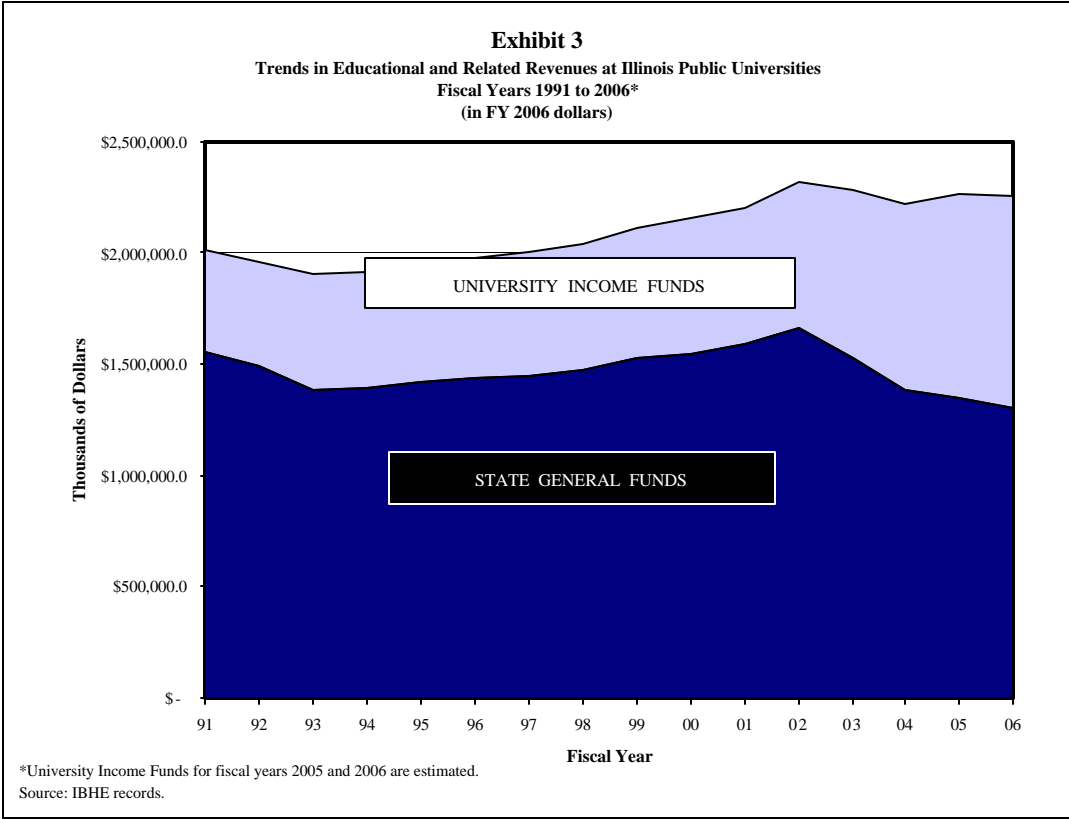
When adjusted for inflation, state funding for public universities in fiscal year 2006 is \$251.8 million, or 16.2 percent, less than in fiscal year 1991. Funding for community colleges (including funds for adult education and postsecondary career education) is slightly above fiscal year 1991 levels due to the transfer of adult education funding accomplished in fiscal year 2002. When these funds are excluded, inflation-adjusted state general funds support for community colleges in fiscal year 2006 is \$32.4 million, or 9.7 percent, less than in fiscal year 1991.

State support for grant programs and agencies in fiscal year 2006 is \$57.9 million, or 48.3 percent, less than in fiscal year 1991 when adjusted for inflation. In large part, this reflects budget reductions for the Higher Education Cooperation Act (HECA) grant program in fiscal year 2003, and the elimination of funding for the Illinois Financial Assistance Act grant program (\$20.6 million) in fiscal year 2004.

State appropriations are just one source of funding for public university and community college operations. Public universities also receive support for general operating costs from student tuition (i.e., university income funds), and community colleges receive similar support from local property taxes and student tuition. In addition, other more restricted revenue sources are important to both sectors (e.g., federal grants that support research projects, fees that support residence halls and other auxiliary operations, private gifts that support scholarships and academic departments). Nevertheless, state funding provides a critical and irreplaceable core of support for both sectors in delivering high quality instructional programs and other services for students. For public universities, state general funds appropriations and university income funds are the primary sources of funding for general support of educational and related activities; for community colleges, state general funds appropriations, local property tax revenues, and student tuition and fees fill those same support needs.³ Other institutional operating revenues typically are restricted to the support of specific activities (e.g., sponsored research projects, scholarships, debt service on bond revenue facilities).

Exhibits 3 and 4 show the inflation-adjusted trend in total educational and related revenues at Illinois public universities and community colleges, respectively, between fiscal years 1991 and 2006 by source. During this period, inflation-adjusted total educational and related revenues increased by 12.1 percent at public universities and by 42.6 percent at community colleges. Total educational and related revenues for public universities reached their highest point in fiscal year 2002, while they have grown steadily for community colleges throughout the period. However, in both sectors, support from non-state sources has increased at a greater rate than state support since fiscal year 1991, with the most rapid rate of growth in these sources since fiscal year 2000. State general funds support for public universities as a percent of total educational and related revenues declined from 77.4 percent to 57.9 percent between fiscal years 1991 and 2006. For community colleges, state general funds support as a percent of total educational and related revenues declined from 33.5 to 21.2 percent over the same period.

³ These revenue sources are referred to as “educational and related revenues” for the purposes of this report.



Recent Operating and Grants Funding Trends

As Exhibits 1 and 2 demonstrate, the state's fiscal situation in recent years has deeply impacted higher education, beginning in fiscal year 2002 when higher education was asked to place \$25.0 million in general funds appropriations in reserve to assist the state with a mid-year budget deficit. In addition, public universities were required to contribute \$45.0 million that year for a portion of the cost of the state employees' group health insurance program, a practice that has continued each fiscal year since that time.

Budget actions in fiscal years 2003 and 2004 were more significant in magnitude than the fiscal year 2002 actions and have had an enduring effect. Indeed, with the exception of appropriations to SURS, the distribution and amount of general funds appropriated for higher education scarcely have budged since fiscal year 2004. Exhibit 5 presents the cumulative change in state funding by sector/program for higher education operations and grants between fiscal years 2002 and 2006. Overall, state appropriations for higher education operations and grants have declined by \$399.5 million, or 14.9 percent during this four-year period. During the same period, higher education's share of total state general fund appropriations has declined from 11.5 percent to 9.1 percent.

Exhibits 6, 7, and 8 demonstrate the effects of the cuts at the institutional, district, agency, and grant level. Exhibit 6 demonstrates that reductions in state support to public universities have been similar across the board. Only Governors State University falls outside the 12.2 percent to 13.9 percent range of reductions since fiscal year 2002.

Allocations of state support to community college districts are made primarily through formulas and vary widely. Nevertheless, as Exhibit 7 shows, only 10 of the 39 districts have experienced an increase in state funding between fiscal years 2002 and 2006. In addition restricted grants to the Illinois Community College Board were reduced by two-thirds between fiscal years 2002 and 2006.

As indicated in Exhibit 8, ISAC's primary student aid program, the need-based Monetary Award Program, regained some lost ground in fiscal year 2006, although its general fund appropriation is still \$20.8 million below its fiscal year 2002 appropriation. Much of the increase for fiscal year 2006 was funded by reallocations from ISAC administration, which is now supported entirely by the federal loan program ISAC administers, and other grant programs, most notably the Merit Recognition Scholarship. Institutional grant programs administered by the IBHE have declined by nearly 60.0 percent since fiscal year 2002. Some programs, most notably the Illinois Financial Assistance Act Grants, are no longer being funded by the state.

Two notable exceptions to the enduring reductions experienced by higher education are the Illinois Math and Science Academy (IMSA) and the University Center of Lake County. While IMSA did experience significant reductions in state funding in fiscal year 2003, it has received small increases in subsequent fiscal years such that fiscal year 2006 appropriations are near fiscal year 2002 levels. The University Center of Lake County received additional funding for fiscal year 2006 that will allow it to operate its new facilities and expand program offerings.

Exhibit 5

State Funding for Higher Education Operations and Grants *
Fiscal Years 2002, 2005, and 2006

(in thousands of dollars)

	FY2002 Appropriations	FY2005 Appropriations	FY2006 Appropriations	FY2002 to FY2006		FY2005 to FY2006	
				Dollar Change	Percent Change	Dollar Change	Percent Change
Public Universities	\$ 1,502,910.9	\$ 1,304,875.4	\$ 1,306,876.4	\$ (196,034.5)	(13.0) %	\$ 2,001.0	0.2 %
Community Colleges	<u>333,659.9</u>	<u>299,419.8</u>	<u>301,037.4</u>	<u>(32,622.5)</u>	<u>(9.8)</u>	<u>1,617.6</u>	<u>0.5</u>
Grants to Colleges	331,103.5	297,198.2	298,268.2	(32,835.3)	(9.9)	1,070.0	0.4
ICCB Administration	2,556.4	2,221.6	2,769.2	212.8	8.3	547.6	24.6
Adult Education/Postsecondary Career and Technical Education Grants	39,005.3	46,257.2	46,155.2	7,149.9	18.3	(102.0)	(0.2)
Illinois Student Assistance Commission	<u>423,752.3</u>	<u>392,250.8</u>	<u>390,299.8</u>	<u>(33,452.5)</u>	<u>(7.9)</u>	<u>(1,951.0)</u>	<u>(0.5)</u>
Monetary Award Program/IIA	374,728.3	345,899.8	353,899.8	(20,828.5)	(5.6)	8,000.0	2.3
Other Grant Programs	42,520.0	41,800.0	36,400.0	(6,120.0)	(14.4)	(5,400.0)	(12.9)
ISAC Administration	6,504.0	4,551.0	-	(6,504.0)	(100.0)	(4,551.0)	(100.0)
Grant Program	<u>97,256.0</u>	<u>40,568.3</u>	<u>41,657.3</u>	<u>(55,598.7)</u>	<u>(57.2)</u>	<u>1,089.0</u>	<u>2.7</u>
Illinois Financial Assistance Act	22,169.1	-	-	(22,169.1)	(100.0)	-	-
Health Education Grants	21,708.3	17,000.0	17,000.0	(4,708.3)	(21.7)	-	-
University Center of Lake County	1,025.0	1,000.0	2,600.0	1,575.0	153.7	1,600.0	
Institutional Grants	52,353.6	22,568.3	22,057.3	(30,296.3)	(57.9)	(511.0)	(2.3)
Other Agencies	<u>21,245.1</u>	<u>19,937.1</u>	<u>20,427.1</u>	<u>(818.0)</u>	<u>(3.9)</u>	<u>490.0</u>	<u>2.5</u>
Illinois Mathematics and Science Academy	16,526.7	15,832.9	16,322.9	(203.8)	(1.2)	490.0	3.1
State Universities Civil Service System	1,441.2	1,253.6	1,253.6	(187.6)	(13.0)	-	-
Board of Higher Education	3,277.2	2,850.6	2,850.6	(426.6)	(13.0)	-	-
Subtotal - Institutional/Agency Operations and Grants	2,417,829.5	2,103,308.6	2,106,453.2	(311,376.3)	(12.9)	3,144.6	0.1
Retirement/Transfer to CMS Health Insurance Reserve Fund*	258,146.1	273,250.7	170,033.9	(88,112.2)	(34.1)	(103,216.8)	(37.8)
Higher Education Total	<u>\$ 2,675,975.6</u>	<u>\$ 2,376,559.3</u>	<u>\$ 2,276,487.1</u>	<u>\$ (399,488.5)</u>	<u>(14.9) %</u>	<u>\$ (100,072.2)</u>	<u>(4.2) %</u>

* Includes State General Funds and State Pension Fund. Health insurance funding (\$14.8 million) appropriated directly to Department of Central Management Services (CMS) in fiscal year 2005. Nonrecurring appropriations have not been excluded.

Exhibit 6

**State General Funds Support for Public Universities*
Fiscal Years 2002, 2005, and 2006**

(in thousands of dollars)

Institution	FY2002 Appropriations	FY2005 Appropriations	FY2006 Appropriations	FY2002 to FY2006		FY2005 to FY2006	
				Dollar Change	Percent Change	Dollar Change	Percent Change
Chicago State University	\$ 44,027.4	\$ 38,760.3	\$ 38,660.3	\$ (5,367.1)	(12.2) %	\$ (100.0)	(0.3) %
Eastern Illinois University	55,274.3	47,609.5	47,609.5	(7,664.8)	(13.9)	-	-
Governors State University	28,045.9	24,280.1	25,986.1	(2,059.8)	(7.3)	1,706.0	7.0
Illinois State University	93,384.7	80,452.0	80,452.0	(12,932.7)	(13.8)	-	-
Northeastern Illinois University	45,396.8	39,227.7	39,247.7	(6,149.1)	(13.5)	20.0	0.1
Northern Illinois University	118,176.2	102,274.9	102,974.9	(15,201.3)	(12.9)	700.0	0.7
Western Illinois University	65,047.8	56,391.1	56,391.1	(8,656.7)	(13.3)	-	-
<u>Southern Illinois University</u>	<u>249,933.1</u>	<u>217,428.7</u>	<u>217,653.7</u>	<u>(32,279.4)</u>	<u>(12.9)</u>	<u>225.0</u>	<u>0.1</u>
<u>University of Illinois</u>	<u>803,624.7</u>	<u>698,451.1</u>	<u>697,901.1</u>	<u>(105,723.6)</u>	<u>(13.2)</u>	<u>(550.0)</u>	<u>(0.1)</u>
Total, Public Universities	<u>\$ 1,502,910.9</u>	<u>\$ 1,304,875.4</u>	<u>\$ 1,306,876.4</u>	<u>\$ (196,034.5)</u>	<u>(13.0) %</u>	<u>\$ 2,001.0</u>	<u>0.2 %</u>

*Nonrecurring appropriations are not excluded.

Exhibit 7

**State General Funds Support for Community Colleges*
Fiscal Years 2002, 2005, and 2006**

Institution/District	FY2002	FY2005	FY2006	Fiscal Year 2002 - Fiscal Year 2006	
	Appropriation	Appropriation	Appropriation	Dollar Change	Percent Change
Black Hawk	\$ 10,867,192	\$ 9,186,932	\$ 8,587,444	(2,279,748)	(21.0) %
Chicago	58,134,240	52,688,641	54,645,516	(3,488,724)	(6.0)
Danville	4,020,113	3,444,507	3,505,806	(514,307)	(12.8)
DuPage	17,563,480	14,879,350	14,768,196	(2,795,284)	(15.9)
Elgin	6,203,010	4,879,259	5,046,095	(1,156,915)	(18.7)
Harper	9,798,333	7,011,963	6,990,910	(2,807,423)	(28.7)
Heartland	3,098,769	2,448,733	2,224,100	(874,669)	(28.2)
Highland	3,494,422	2,572,316	2,696,636	(797,786)	(22.8)
Illinois Central	11,753,650	10,214,836	10,290,741	(1,462,909)	(12.4)
Illinois Eastern	13,137,144	13,043,881	13,104,806	(32,338)	(0.2)
Illinois Valley	3,992,444	3,194,085	3,187,167	(805,277)	(20.2)
Joliet	8,104,816	6,733,641	6,721,706	(1,383,110)	(17.1)
Kankakee	6,470,556	6,338,353	6,480,143	9,587	0.1
Kaskaskia	5,847,417	7,324,792	8,925,128	3,077,711	52.6
Kishwaukee	3,731,988	4,217,863	3,937,476	205,488	5.5
Lake County	8,054,266	6,721,119	6,738,895	(1,315,371)	(16.3)
Lake Land	9,160,334	9,905,755	10,410,139	1,249,805	13.6
Lewis and Clark	6,486,066	5,971,920	6,034,117	(451,949)	(7.0)
Lincoln Land	6,555,374	5,206,924	4,713,519	(1,841,855)	(28.1)
Logan	11,987,192	11,450,647	11,776,786	(210,406)	(1.8)
McHenry	3,856,930	2,907,283	2,789,824	(1,067,106)	(27.7)
Moraine Valley	9,932,077	8,787,044	9,066,202	(865,875)	(8.7)
Morton	3,600,710	3,911,471	3,288,956	(311,754)	(8.7)
Oakton	7,964,853	6,660,144	6,122,482	(1,842,371)	(23.1)
Parkland	7,788,575	8,500,209	8,205,355	416,780	5.4
Prairie State	4,834,544	2,871,783	2,688,577	(2,145,967)	(44.4)
Rend Lake	6,552,685	6,310,161	6,946,796	394,111	6.0
Richland	2,822,549	3,677,902	2,900,808	78,259	2.8
Rock Valley	5,761,561	6,926,638	6,453,801	692,240	12.0
Carl Sandburg	4,150,954	4,483,854	4,551,821	400,867	9.7
Sauk Valley	3,022,824	2,879,037	2,686,436	(336,388)	(11.1)
Shawnee	4,435,632	4,599,975	4,518,873	83,241	1.9
South Suburban	8,021,934	7,124,253	7,242,630	(779,304)	(9.7)
Southeastern	6,011,379	5,237,326	5,167,611	(843,768)	(14.0)
Southwestern	16,628,726	16,263,714	15,910,799	(717,927)	(4.3)
Spoon River	2,467,676	2,068,883	2,197,463	(270,213)	(11.0)
Triton	10,765,368	7,278,847	7,615,815	(3,149,553)	(29.3)
Waubonsee	4,681,981	4,580,262	4,024,677	(657,304)	(14.0)
John Wood	3,221,674	2,982,437	3,061,347	(160,327)	(5.0)
District Totals	\$ 324,983,438	\$ 295,486,740	\$ 296,225,599	\$ (28,757,839)	(8.8) %
Other Grants					
Lincoln's Challenge	125,000	120,100	120,100	(4,900)	(3.9)
East St. Louis Higher Ed. Center	2,200,000	1,589,100	1,589,100	(610,900)	(27.8)
Performance Based Initiative	2,000,000	-	-	(2,000,000)	(100.0)
Leadership and Core Values	250,000	-	-	(250,000)	(100.0)
Special Initiative Grants	1,210,000	-	-	(1,210,000)	(100.0)
Foundation Matching Grants	333,000	-	-	(333,000)	(100.0)
Grants to Various Colleges	-	-	330,000	330,000	-
Subtotal	\$ 6,118,000	\$ 1,709,200	\$ 2,039,200	\$ (4,078,800)	(66.7) %
Rounding Adjustments	2,062	2,260	3,401	1,339	64.9
Total	\$ 331,103,500	\$ 297,198,200	\$ 298,268,200	\$ (32,835,300)	(9.9) %

*Nonrecurring appropriations are not excluded.

Exhibit 8

**State General Funds Support for Illinois Student Assistance Commission, Grant Programs and Agencies*
Fiscal Years 2002, 2005, and 2006**

(in thousands of dollars)

	FY2002 Appropriations	FY2005 Appropriations	FY2006 Appropriations	FY2002 to FY2006		FY2005 to FY2006	
				Dollar Change	Percent Change	Dollar Change	Percent Change
Illinois Student Assistance Commission	<u>\$ 423,752.3</u>	<u>\$ 392,250.8</u>	<u>\$ 390,299.8</u>	<u>\$ (33,452.5)</u>	<u>(7.9) %</u>	<u>\$ (1,951.0)</u>	<u>(0.5) %</u>
Monetary Award Program/IIA	375,528.3	345,899.8	353,899.8	(21,628.5)	(5.8)	8,000.0	2.3
Other Grant Programs	41,720.0	41,800.0	36,400.0	(5,320.0)	(12.8)	(5,400.0)	(12.9)
ISAC Administration	6,504.0	4,551.0	-	(6,504.0)	(100.0)	(4,551.0)	(100.0)
Institutional Grant Programs	<u>\$ 103,787.4</u>	<u>\$ 40,568.3</u>	<u>\$ 41,657.3</u>	<u>\$ (62,130.1)</u>	<u>(59.9) %</u>	<u>\$ 1,089.0</u>	<u>2.7 %</u>
<i>Access and Diversity Grants</i>	50,564.1	9,218.3	10,307.3	(40,256.8)	(79.6)	1,089.0	11.8
Illinois Financial Assistance Act Grants	22,169.1	-	-	(22,169.1)	(100.0)	-	-
Illinois Century Network	16,000.0	-	-	(16,000.0)	(100.0)	-	-
Graduation Incentive Grants	75.0	-	-	(75.0)	(100.0)	-	-
University Center of Lake County	1,025.0	1,000.0	2,600.0	1,575.0	153.7	1,600.0	160.0
Quad Cities Graduate Study Center	220.0	220.0	220.0	-	-	-	-
Diversifying Higher Education Faculty in Illinois	2,000.0	2,000.0	2,800.0	800.0	40.0	800.0	40.0
Retention and Graduation Rate Improvement	-	511.0	-	-	-	(511.0)	(100.0)
Access and Diversity, HECA Grants	9,075.0	5,487.3	4,687.3	(4,387.7)	(48.3)	(800.0)	(14.6)
<i>Workforce and Economic Development Grants</i>	47,073.3	31,350.0	31,350.0	(15,723.3)	(33.4)	-	-
Health Services Education Grants	18,263.3	17,000.0	17,000.0	(1,263.3)	(6.9)	-	-
State Matching Grants	10,000.0	9,500.0	9,500.0	(500.0)	(5.0)	-	-
Advanced Photon Source	3,000.0	-	-	(3,000.0)	(100.0)	-	-
Strategic Incentive Grants	456.0	-	-	(456.0)	(100.0)	-	-
Engineering Equipment Grants	2,800.0	-	-	(2,800.0)	(100.0)	-	-
Medical Scholarship Program (IDPH)	3,445.0	2,750.0	2,750.0	(695.0)	(20.2)	-	-
Cooperative Work Study Grants	2,100.0	2,100.0	2,100.0	-	-	-	-
State Geological Survey	1,600.0	-	-	(1,600.0)	(100.0)	-	-
Career Academies	675.0	-	-	(675.0)	(100.0)	-	-
Workforce and Econ. Development, HECA Grants	4,734.0	-	-	(4,734.0)	(100.0)	-	-
<i>Teaching, Learning, and Quality Grants</i>	<u>6,150.0</u>	<u>-</u>	<u>-</u>	<u>(6,150.0)</u>	<u>(100.0)</u>	<u>-</u>	<u>-</u>
Strategic Incentive Grants for Teacher Quality	1,050.0	-	-	(1,050.0)	(100.0)	-	-
Teaching, Learning, and Quality, HECA Grants	5,100.0	-	-	(5,100.0)	(100.0)	-	-
Agencies/Other Institutions							
Illinois Mathematics and Science Academy	16,526.7	15,832.9	16,322.9	(203.8)	(1.2)	490.0	3.1
State Universities Civil Service System	1,441.2	1,253.6	1,253.6	(187.6)	(13.0)	-	-
Illinois Board of Higher Education	3,277.2	2,850.6	2,850.6	(426.6)	(13.0)	-	-

*Nonrecurring appropriations are not excluded.

Capital Improvement Funding Trends

After almost \$1.3 billion of new capital appropriations from fiscal year 2000 through fiscal year 2003, capital appropriations for higher education have decreased significantly. While state funding for capital improvement projects typically comes from non-general funds sources (i.e., bond proceeds), general funds retire the debt. Thus the overall reduced level of support from previous years also is reflective of the state's fiscal constraints. A total of \$111.7 million was appropriated for new higher education capital projects for fiscal year 2004, but the General Assembly did not approve any new capital appropriations, statewide, for fiscal year 2005. For fiscal year 2006 the General Assembly and Governor approved a new \$130.0 million, lump-sum capital appropriation for higher education, but the General Assembly did not increase the statutory authority to sell the bonds to finance the projects. Projects to be funded from the fiscal year 2006 appropriation will be identified when the funds are released by the Governor. Despite decreased new appropriations, the General Assembly and Governor have continued to reappropriate funds for previously authorized capital projects (i.e., projects first appropriated in a prior fiscal year).

For fiscal year 2006 the Board recommended capital funding totaling \$349.9 million from requests totaling over \$1.5 billion. The Board's recommendation included \$40 million for statewide capital renewal to help address ongoing deferred maintenance needs. Consistent with the Board's capital prioritization policies, the fiscal year 2006 recommendation included the same projects as recommended by the Board for fiscal year 2005 with the exception of one project eliminated by the Illinois Community College Board. The recommendation also incorporated increases to address natural escalation in project costs that occurred since the requests were submitted for fiscal year 2005 and other refinements to project scope.

Exhibit 9

Higher Education Capital Improvements Fiscal Year 2002 - Fiscal Year 2006

(in thousands of dollars)

Fiscal Year	Requests Submitted to IBHE	IBHE Recommendation	Final Appropriations
2002	\$ 1,005,852.1	\$ 539,981.3	\$ 412,372.9
2003	1,084,012.5	443,657.1	338,341.4
2004	1,213,953.7	341,781.6	111,732.5
2005	1,379,953.5	341,622.0	-
2006	1,537,316.5	349,938.2	130,000.0 *

* Appropriation is in the form of a lump sum. Specific projects are not identified.

Illinois Funding Trends in a Regional and National Context

While it may be small comfort, Illinois' recent fiscal crisis and the measures taken to deal with it are not unique. Nearly all states were adversely affected by the economic downturn of the early 2000s, but with their historic reliance on manufacturing, which has not rebounded as quickly as other sectors of the economy, the Midwestern states have been affected longer and harder than most other regions of the country. Exhibit 10 shows that the reductions made to state operating support for higher education in Illinois fall in the middle of the reductions in support made across the Midwest over the past several years. In addition, Illinois and most other Midwestern states have fared worse than all states combined between fiscal years 1999 and 2005. State support in Exhibit 10 includes all operating appropriations (not expenditures) for higher education institutions, agencies, and financial aid, plus expenditures made on behalf of higher education by other agencies (for example, state group health insurance).

Exhibit 10

Appropriations of State Tax Funds for Operating Expenses of Higher Education in Nine Midwestern States and All States for Fiscal Years 1998-99 through 2004-05

(In Thousands of Current Dollars)

States	FY99	FY02	FY04	FY05	1-yr Change	3-yr Change	6-yr Change
Illinois	2,411,068	2,904,184	2,701,159	2,654,340	-1.7%	-8.6%	10.1%
Indiana	1,147,819	1,321,191	1,360,318	1,417,481	4.2%	7.3%	23.5%
Iowa	784,987	786,640	737,623	742,812	0.7%	-5.6%	-5.4%
Kentucky	888,700	1,039,117	1,104,797	1,119,608	1.3%	7.7%	26.0%
Michigan	1,882,500	2,257,732	1,984,293	1,977,258	-0.4%	-12.4%	5.0%
Minnesota	1,239,394	1,379,832	1,287,455	1,273,328	-1.1%	-7.7%	2.7%
Missouri	859,905	974,646	838,643	861,421	2.7%	-11.6%	0.2%
Ohio	1,934,587	2,084,535	2,071,035	2,103,892	1.6%	0.9%	8.8%
Wisconsin	1,040,341	1,194,852	1,114,812	1,103,602	-1.0%	-7.6%	6.1%
Midwest Totals	12,189,301	13,942,729	13,200,135	13,253,742	0.4%	-4.9%	8.7%
National Totals	52,861,435	62,820,113	60,694,185	63,005,272	3.8%	0.3%	19.2%

Source: *FY2004, FY2005 Grapevine*, Table 4, Illinois State University Center for the Study of Educational Policy

Exhibits 11 and 12, taken from data collected by the State Higher Education Executive Officers for its annual *State Higher Education Finance* report, look at recent state and local appropriations for public higher education on a full-time-equivalent (FTE) student basis adjusted for inflation. The appropriations are adjusted to remove research, medical, and agricultural extension funding; capital funding; and financial aid to students attending independent colleges and universities, and they are adjusted by an inflation index designed to approximate the "higher education market basket" rather than the market basket of the typical urban consumer (CPI-U). In general, Illinois has fared about the same as the rest of the United States, though Illinois' enrollment is growing slower than enrollment nationally and state funding in Illinois has dropped slightly more than the decrease in the national average state appropriation per FTE.

Another telling national comparison of the effect of recent budget reductions on Illinois higher education comes from *Measuring Up*, the National Center for Public Policy and Higher Education's national higher education report card. Using multiple indicators, *Measuring Up* benchmarks states to the top performers in each of five categories – preparation, participation, affordability, completion, and benefits. Exhibit 13 demonstrates that Illinois still performs well across all categories, but some slippage has occurred, particularly in regard to affordability.

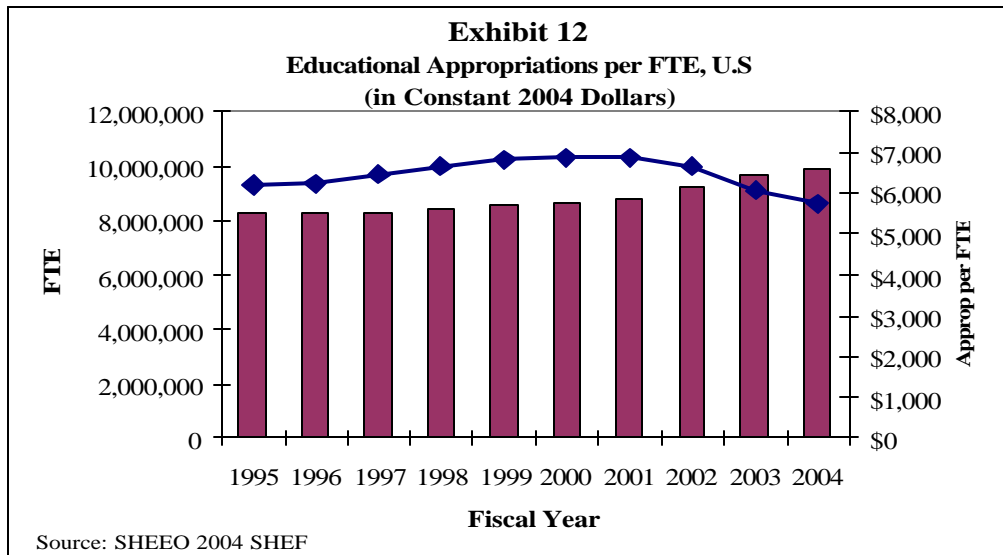
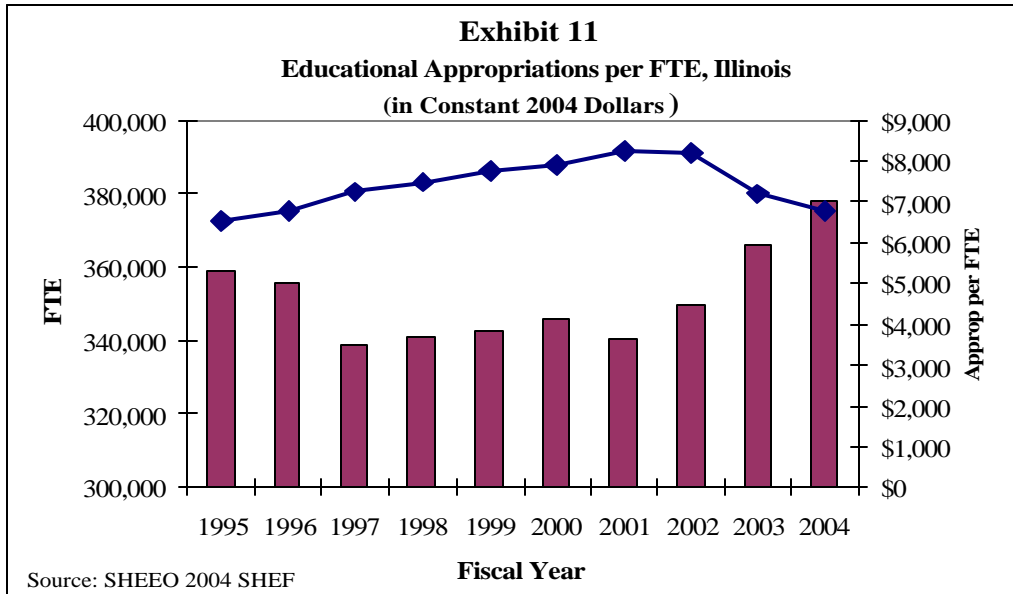


Exhibit 13
Illinois Performance and Top State Performance as Reported in Measuring Up

	2000		2002		2004	
	Illinois	Top State	Illinois	Top State	Illinois	Top State
Preparation	A	UT	B+	MA	B+	MA
Participation	A	DE	A	MA	A	MA
Affordability	A	CA	B	CA	D	CA*
Completion	C+	NH	B-	NH	B+	VT
Benefits	B-	MD	B-	CO	B-	MD

*In the 2004 report, affordability had slipped so much across the country that the top state (California) was assigned a "B." Only two states received a "C" or "C-."

Fiscal Context

In overall terms, fiscal year 2005 general funds revenues exceeded estimates, continuing the growth that began in fiscal year 2004 after two years of declining general funds revenues. The Commission on Government Forecasting and Accountability's (CGFA) June 2005 *Monthly Briefing* reported that general funds revenues grew \$712 million, or 2.8 percent, in fiscal year 2005, with personal income tax, corporate income tax, and sales tax all posting solid gains. According to the CGFA, "the recovery phase that began to materialize in actual receipts last year was able to gain further traction in fiscal year 2005. As a result, the key areas related to the economy, especially sales and income taxes, performed quite well. While rates of growth for these sources should moderate over the coming fiscal year, the improvement in fiscal year 2005 was certainly welcomed given the continuing financial challenges that face the State." Putting the otherwise good news in context, however, state tax collections in fiscal year 2005 were only 8.6 percent above fiscal year 2000 levels, and general funds revenues were up only 12.4 percent for the same period. The Consumer Price Index increased 13.2 percent over the same period.

Exhibit 13

General Funds Revenues Fiscal Years 2000 through 2006

(in millions of dollars)

	2000	2001	2002	2003	2004	2005	2006*
State Taxes	18,877	19,227	18,497	18,074	19,255	20,507	20,979
\$ Increase		350	(730)	(423)	1,181	1,252	472
% Increase		1.9%	-3.8%	-2.3%	6.5%	6.5%	2.3%
General Funds**	23,250	24,106	23,379	22,786	25,428	26,140	26,663
\$ Increase		856	(727)	(593)	2,642	712	523
% Increase		3.7%	-3.0%	-2.5%	11.6%	2.8%	2.0%

Sources: Commission on Government Forecasting and Accountability *Revised FY 2006 Revenue Estimate*, May 5, 2005
Commission on Government Forecasting and Accountability *Monthly Briefing*, June 2005

*This estimate differs slightly from CGFA's May FY 2006 estimate because it begins with final FY 2005 figures, which were higher than the May 2005 CGFA estimates for FY 2005, and adds the percentage increase estimated by CGFA for FY 2006 in its May revenue estimate. A revised FY 2006 forecast will be available from CGFA in August.

**Includes state taxes (net of personal and corporate income tax refunds), transfers, and federal sources. Does not include short-term borrowing and related transfers, Budget Stabilization Fund transfers, and Pension Contribution Fund transfers.

Although it is early in the state's fiscal year 2007 budget development process, the major spending pressures impacting the state budget in recent years likely will continue to play a significant role in budget deliberations among the Governor, General Assembly, and others next spring. These perennial spending pressures include funding for Medicaid, which grew 37.7 percent between fiscal years 2000 and 2004⁴; the State Employees' Group Insurance program, which grew \$695.3 million, or 64.1 percent, between fiscal year 2001 and 2006⁵; K-12 education, and the state retirement systems. Recent trends in program cost increases, service levels, and other factors in each of these areas suggest that they will once again have the potential to place

⁴ Percent Change in Liabilities per State of Illinois Comptroller, *Fiscal Focus Quarterly*, May 2005 Issue

⁵ Change in appropriations, per CGFA, *Fiscal Year 2006 Liabilities of the State Employees' Group Insurance Program*, March 2005

significant demands on existing state revenues, not to mention any new state revenue growth that may occur in fiscal year 2007.

Statewide Higher Education Budget Issues for Fiscal Year 2007

Fiscal Year 2006 Board Recommendations and Outcomes

The Board's fiscal year 2006 recommendations sought increased base support and funding supportive of the goals of *The Illinois Commitment*, with funding for both anticipated to come from a combination of reallocations, new state funds, and increases in income and other funds. Excluding SURS funding, the Board recommended a \$19.4 million increase in general funds support for operations and grants, or 0.9 percent above general funds support appropriated for fiscal year 2005. Including all funding sources (except funding for SURS), Board recommendations for fiscal year 2006 operations and grants totaled \$243.0 million, or 3.3 percent over fiscal year 2005 levels. Capital recommendations, as noted above, totaled \$349.9 million, including \$40.0 million for capital renewal.

Base Support Recommendations. Base funding increases start with the previous fiscal year's activities and funding levels and add funds to address inflationary increases, such as salary, equipment, and energy cost increases; increases in size—e.g., enrollment and physical plant; or funding inequities between campuses of similar size, mission, and program mix. Base funding increases do not easily fall under statewide goals such as those included in *The Illinois Commitment*, but they are critical for maintaining institutional and agency capacity to meet strategic goals. Furthermore, prioritizing base funding increases in an environment of scarcity is a strategic process in its own right.

The IBHE's fiscal year 2006 recommendations for additional base support prioritized faculty and staff personal services costs at public universities, equalization grants for community colleges, and personal services costs at higher education agencies. The Board's recommendation for SURS was based on the amount certified by SURS as necessary to meet statutory funding requirements. Finally, the Board's capital renewal recommendation was intended to protect the state's existing investment in higher education facilities at public universities and community colleges.

Recommendations for Funding Strategic Goals. The Board's strategic goals funding recommendations are intended to provide the resources necessary to achieve the Board's statewide strategic goals. Currently, those strategic goals are contained in or anchored by *The Illinois Commitment*. The Board's fiscal year 2006 strategic goals recommendations focused on affordability and access and diversity, and the recommendations relied heavily on reallocation of funds from lower to higher priorities.

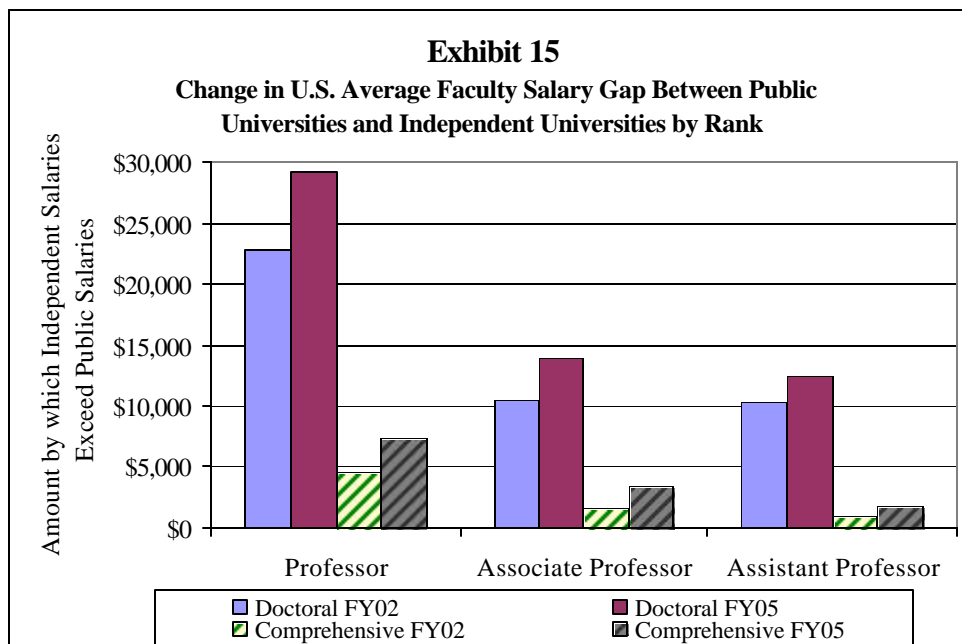
The Board's recommendation regarding affordability included \$18.7 million in new general funds for the Illinois Student Assistance Commission's Monetary Award Program (MAP) to support two program enhancements and leverage \$3.7 million in new federal funding. One program enhancement was intended to fully recognize fiscal year 2003 tuition and fee rates in the MAP award calculation formula; the other was to accommodate projected increases in the number of students applying for and qualified to receive MAP grants. The Board recommended that funds be reallocated from ISAC administration, the Merit Recognition Scholarship program, and the IBHE's Health Services Education Grants to accomplish MAP funding goals. The Board's access and diversity recommendations included additional funding for the University

Center of Lake County, the Diversifying Higher Education Faculty in Illinois Initiative, and Community College Disadvantaged Student Success Grants.

Fiscal Year 2007: Unfinished Priorities and Ongoing Challenges

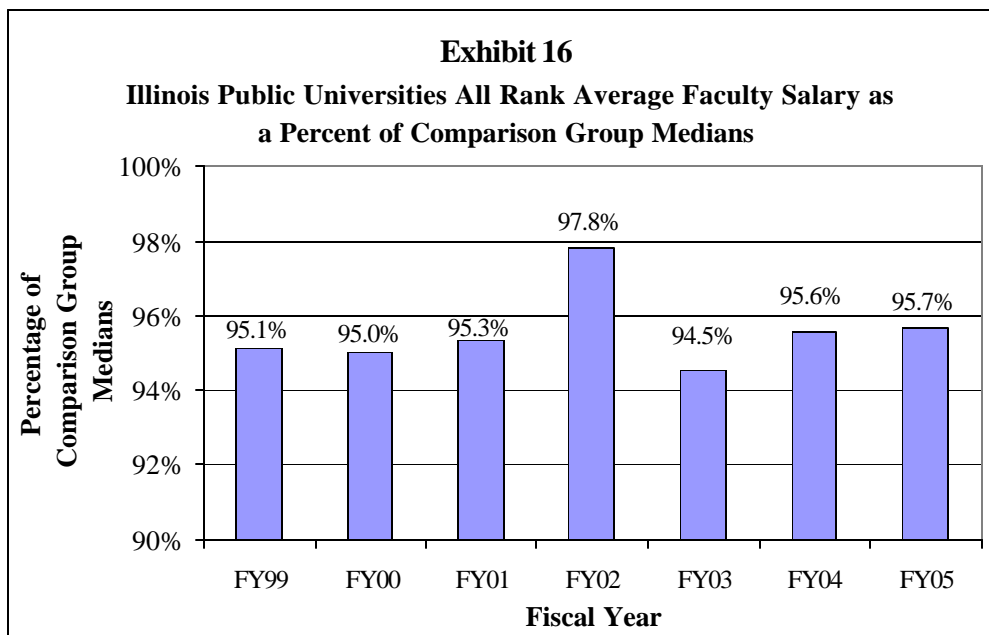
As noted earlier, state revenues have increased, albeit slowly, over the past two fiscal years, and while the state continues to face structural deficit conditions, continuing revenue growth and carefully controlled expenditures have enabled the Governor and General Assembly to relax some of the fiscal management measures imposed in fiscal years 2003 and 2004. General fund appropriations for higher education, while well below the fiscal year 2002 zenith, have held steady in fiscal years 2005 and 2006 (with the exception of SURS funding as noted earlier). Reallocations implemented by the General Assembly and the Governor in the fiscal year 2006 budget, together with \$4.7 million in new funding, will have a small but positive effect on achieving statewide affordability and access and diversity goals; however, more state funds are needed, particularly to bring MAP grants more in line with current tuition and fee levels. Furthermore, fiscal year 2006 appropriations did not fully address the Board’s base funding priorities. Indeed, through the combined forces of enrollment growth, inflation, and—in the case of buildings—time and the elements, standing still is really moving backwards in terms of preserving the base. The following are some of the familiar but important issues facing Illinois higher education that the Board may consider in its fiscal year 2007 recommendations.

Faculty and Staff Salary Competitiveness. Nationwide, public colleges and universities have found themselves less able to compete for faculty on salary terms alone in recent years. As Exhibit 15 shows, the gap between national average salaries at public and independent doctoral and comprehensive institutions, which was already substantial at the doctoral level, has increased considerably between fiscal years 2002 and 2005.



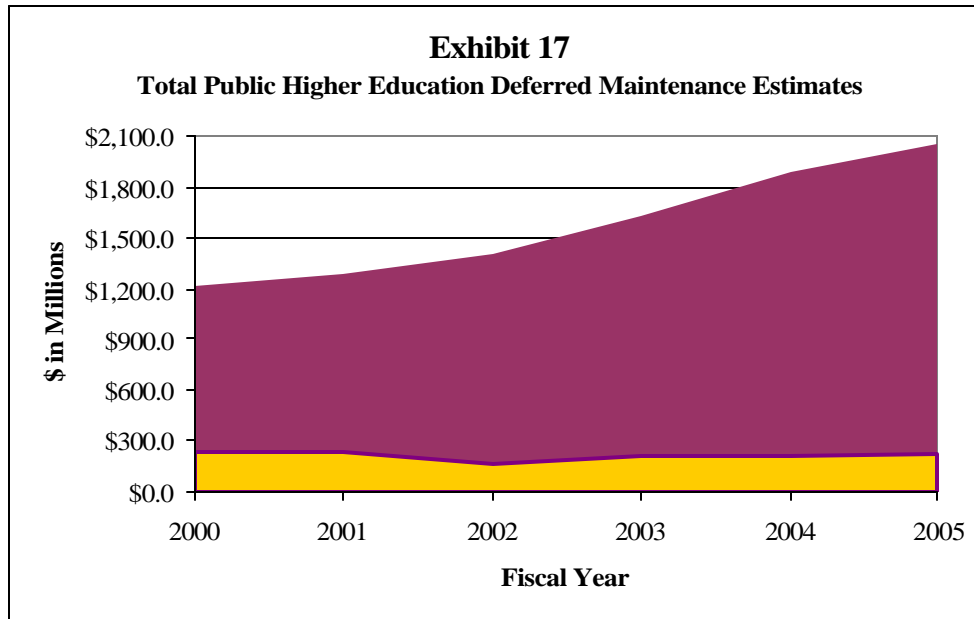
Source: The Annual Report on the Economic Status of the Profession, 2001-02 and 2004-05, *Academe: Bulletin of the American Association of University Professors*. (March-April 2002, March-April 2005)

Despite the fact that most Illinois public colleges and universities have been able to provide some level of salary increase for faculty and staff in the past two years, enhancing competitiveness in this area remains a major statewide issue. Because the quality of instruction and research at a campus relates directly to the quality of the faculty and staff, it is important that Illinois' public colleges and universities be able to attract and retain the highest quality faculty and staff. In fiscal years 2000, 2001, and 2002, funds were provided for an initiative designed to enhance efforts to recruit and retain critical faculty and staff at Illinois public institutions and agencies by bringing faculty salaries to the median of national peers. As Exhibit 15 demonstrates, the state made progress toward that goal until fiscal year 2003. After reaching a level of 97.8 percent of peer group medians in fiscal year 2002, the statewide weighted average faculty salary as a percentage of peer group medians fell back to 94.5 percent in fiscal year 2003 and has become stuck at about 95.6 percent, or near fiscal year 2001 levels.



Source: American Association of University Professors, IBHE analysis

Maintenance and Improvement of College and University Facilities. The state has made a significant investment over time in higher education facilities, and the Board's Committee on Statewide Capital Policies and Priorities reaffirmed in April 2004 that high priority would continue to be given to protecting this investment. The backlog in deferred facilities maintenance at public colleges and universities is currently estimated to be \$2.1 billion and growing. In addition to the deferred maintenance funding recommended by the Board on an annual basis, the fiscal year 2005 and fiscal year 2006 IBHE capital recommendations prioritize large renovation projects, the completion of which would substantially reduce deferred maintenance at several universities and colleges. As noted earlier, the Governor and General Assembly made no new capital appropriations for fiscal year 2005 and made only \$130.0 million in new appropriations for fiscal year 2006.

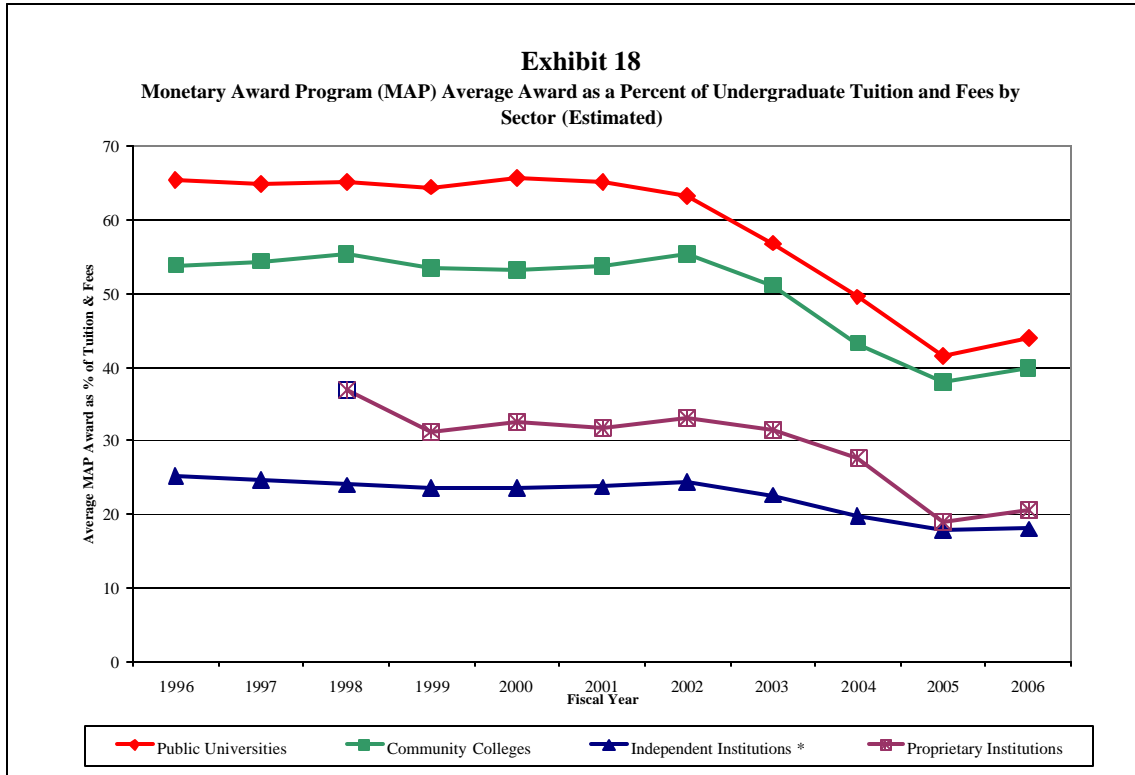


Source: University responses to IBHE technical questions; ICCB

Affordability. Illinois enjoys a well-deserved reputation for the excellence of its need-based student assistance program; yet despite the state’s historically strong commitment to affordability, the trends and indicators highlighted earlier and in Exhibit 18 on the following page demonstrate that the goal of promoting an affordable and accessible system of higher education for all Illinois residents remains at risk. Tuition revenue has supplanted a considerable proportion of state appropriations in the educational and related revenues mix available to public universities and colleges (see Exhibits 3 and 4), and the state’s affordability grade assigned by the National Center for Public Policy and Higher Education in *Measuring Up* dropped from an “A” in 2000 to a “D” in 2004. Furthermore, the average MAP award covers a much smaller percentage of average tuition and fees in fiscal year 2006 than it did prior to the budget reductions that began in fiscal year 2002 (Exhibit 18).

Some progress toward greater affordability was made with the addition of \$8.0 million to MAP’s general funds appropriation for fiscal year 2006. Those additional funds will leverage \$3.7 million in federal Leveraging Educational Assistance Program (LEAP) funds, thereby increasing total MAP funding by \$11.7 million. As a result of the increased appropriations and reduced application volume (after large volume increases in fiscal years 2003, 2004, and 2005), the Illinois Student Assistance Commission (ISAC) has adjusted its MAP formula to incorporate fiscal year 2004 tuition and fees at 100 percent and apply a single reduction factor of 9.0 percent to its grants. With these changes, the average MAP award for fiscal year 2006 is expected to increase by \$235 over the fiscal year 2005 average. In spite of that good news, however, ISAC points out that the changes “do not bring back the level of affordability experienced in FY 2002. Awards will be based on tuition and fee levels that are two years old and will be reduced by 9 percent. Further, with an anticipated suspension date in late August, awards for a significant number of students will again be placed in suspension.”⁶ Ensuring adequate support for MAP grants and other state student financial aid programs in light of these trends should remain a top state priority.

⁶ ISAC 6-24-05 Agenda Item 10, *FY2006 Monetary Award Program (MAP) Recompute*.



Source: IBHE and ISAC records.

Promoting Access and Diversity. Increasing access and diversity in Illinois higher education has been a top priority of the Board in recent years. In particular, the Board has focused its attention on four policy areas falling under the access and diversity umbrella:

1. Strengthening the relationship between higher education and elementary and secondary education through improvements in teacher education, math and science instruction, and increased high school graduation requirements;
2. Making transfer between all higher education sectors easier, more understandable, and more predictable;
3. Increasing student persistence and shortening time to degree; and
4. Diversifying faculty and staff at all Illinois higher education institutions.

The General Assembly also has shown interest in these policy areas through passage of recent legislation including HB 2515 (pending Governor action), which instructs the IBHE to create a website to provide consistent and accurate information on course transfer, and Public Act 94-0205, which authorizes scholarships to students preparing to teach in areas of identified staff shortages. Furthermore, the Senate Higher Education Committee has convened a hearing on retention and graduation rates scheduled for early August 2005. Unfortunately, the state's finances have not yet improved to the point at which the General Assembly and the Governor are able to provide additional state resources to implement the new programs fully. As a result, these programs will continue to require attention as the Board prepares its fiscal year 2007 recommendations.

Guiding Principles for Fiscal Year 2007 Budget Development

Developing the Board's budget recommendations involves numerous decisions, and choices must be made among a number of competing and important priorities within Illinois' large and diverse system of higher education. It is particularly important in difficult fiscal times that such decisions and choices are guided by a set of principles reflecting the highest priorities. The following principles, presented in no particular order of importance, will help to inform the Board's fiscal year 2007 budget development process in consultation with the higher education community and others:

- **Further Advancement of *The Illinois Commitment*.** All funds recommended will be targeted to further advancement of the goals of *The Illinois Commitment*. The recommendations must reaffirm the importance of higher education to the state, and show that progress can be made in priority areas of need even during difficult financial times, providing the highest quality education possible with the highest level of accountability.
- **Policy-Based/Policy-Driven Recommendations.** The significant recent reductions to state funding for higher education notwithstanding, funds will not be requested simply to replace those that were lost in recent years. A sound and reasonable policy rationale must guide any recommendation that increases funding for institutions, agencies, and/or programs. Base funding recommendations will be selected to maximize institutions' and agencies' abilities to achieve statewide strategic goals.
- **Consultative Budget Development Process.** The Board will consult broadly with the higher education community and others in developing its recommendations. To the extent possible, the Board's budget recommendations will reflect the consensus position of the entire system of higher education with regard to needs and priorities.
- **Advancement of the Priorities of the Governor and General Assembly.** The Board's budget recommendations will reflect the expressed priorities and needs of the Governor and General Assembly regarding higher education, particularly in fundamental areas such as affordability, access, and accountability. The overall goal is endorsement of these recommendations by the Governor and General Assembly.
- **Statewide Focus.** The Board's budget recommendations will take into account the specific and unique needs of individual institutions and agencies, but primary consideration will be given to the best interests of the overall system of higher education and the state as a whole, including consideration of the state's current fiscal situation.
- **Anticipation of Future Needs.** Given the significant demographic, economic, and other trends facing the state over the next several years, the Board's budget recommendations will take into consideration both immediate and longer-term needs and priorities for the state's higher education system.

These principles are not exhaustive and in some cases one principle may conflict with another, requiring that great care and consideration be given to balancing these principles in the Board's fiscal year 2007 budget development process.

Appendix: Timelines and Processes

The following pages lay out the schedule and the processes that will be followed during the development of the Board's fiscal year 2007 budget recommendations.

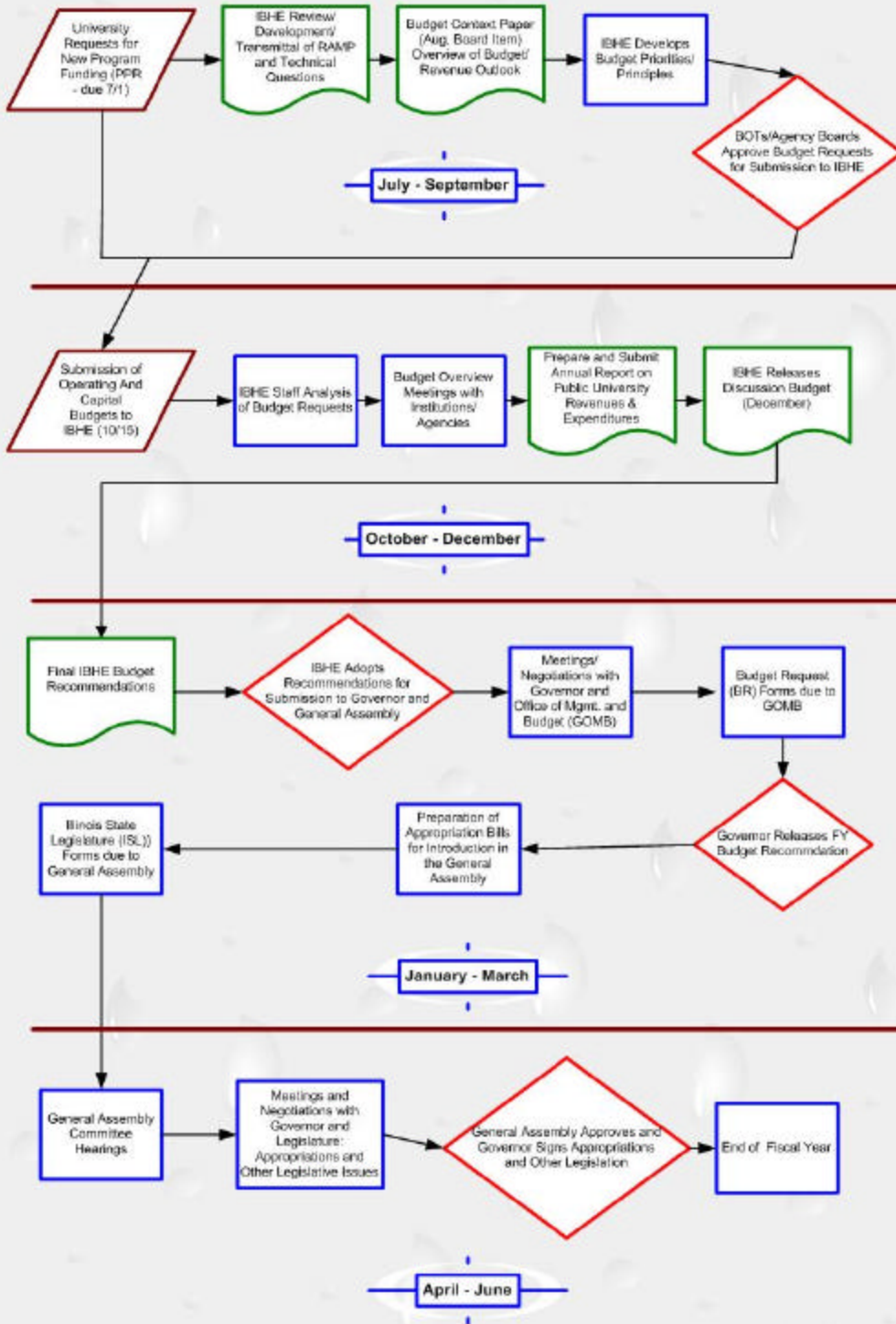
2005

- June 24 Mail budget development schedules and accompanying memos
- July 15 Program Requests due
- August 8 Distribute historical RAMP schedules
Distribute operating and capital budget request materials
Distribute technical questions
- September 30 Historical RAMP submissions due
- October Begin budget overview meetings
- October 15 Operating and capital requests due back to BHE
Technical question responses due back to BHE
- October 28 Annual Revenue and Expenditure Report due to Governor and General Assembly
- November 15 Annual Sick/Vacation Leave Status Report due to Governor, Commission on
Governmental Forecasting/Accountability, Pension Laws Commission, and
SURS
- December 22 Discussion budget to be distributed

2006

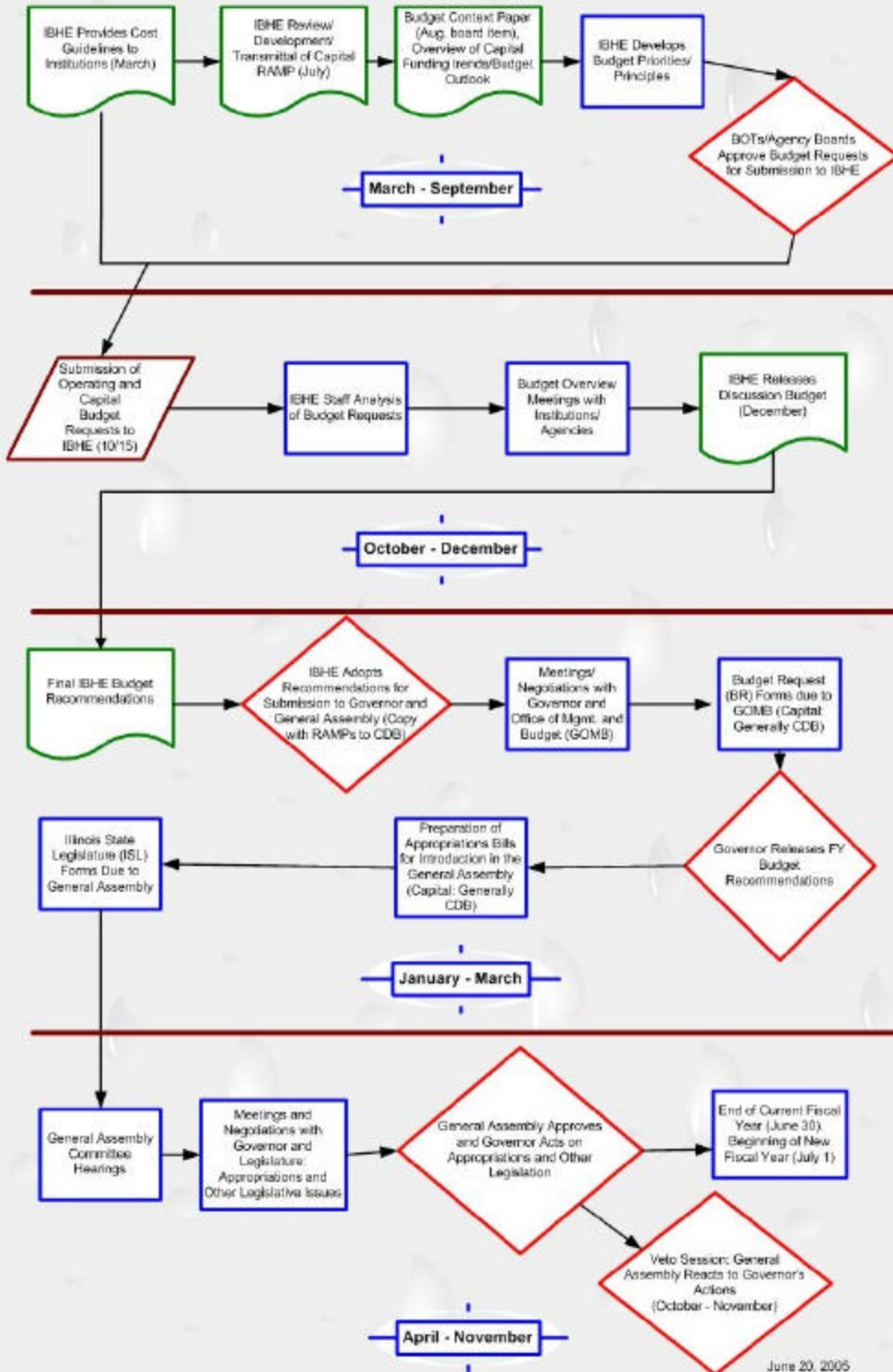
- January 9 - 13 Discussion budget meetings
- February 7 BHE to consider staff budget recommendations

Illinois Board of Higher Education Operations and Grants Budget Process



June 20, 2005

Illinois Board of Higher Education Capital Budget Process



June 20, 2005