

## SETTING A CONTEXT FOR FISCAL YEAR 2008 BUDGET DEVELOPMENT

**Submitted for:** Information.

**Summary:** *Setting a Context for Fiscal Year 2008 Budget Development* is intended to provide the “lay of the land” to the Board as it develops its fiscal year 2008 budget recommendations. It also is intended 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 institutions and agency programs; and a comparison of trends in Illinois to trends in surrounding states and the nation. Next, 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 2008 appropriations. Finally, the report includes an appendix showing the processes and timelines that will guide fiscal year 2008 budget development.

**Action Requested:** None.



STATE OF ILLINOIS  
BOARD OF HIGHER EDUCATION

**SETTING A CONTEXT FOR FISCAL YEAR 2008 BUDGET DEVELOPMENT**

**Highlights**

- Total state funding for higher education operations and grants is 3.2 percent **greater** in fiscal year 2007 than in fiscal year 1992 when accounting for inflation. The largest funding increases have been in support of need-based financial aid programs and the retirement system. Support for the community college/adult education system increased slightly during this time period, due primarily to the transfer of adult education and postsecondary career and technical education funding to the Illinois Community College Board in 2002 and 2004, respectively. Community colleges (excluding adult education and postsecondary career and technical education), public universities, and institutional grant programs all have experienced decreases in funding since 1992 when accounting for inflation.
- When appropriations for the State Universities Retirement System are excluded, total state funding for higher education institutional operations and grants **declined** \$202.3 million (8.4 percent) in current dollars (not accounting for inflation) between fiscal years 2002 and 2007. This included significant reductions in support for public universities, community colleges, and institutional grant programs. Nearly all of the reductions were made by fiscal year 2004 and, in current dollar terms, appropriations remained essentially flat through fiscal year 2006 with some reallocations between institutions and agencies. In fiscal year 2007, an additional \$47.8 million in state general funds, or 2.3 percent over fiscal year 2006 funding levels, was provided for higher education operations and grants. In addition, for fiscal year 2007, \$61.2 million from the Student Loan Operating Fund will be used to supplement state general funds support for MAP Grants and the MAP Plus Program
- New state funding for higher education capital projects, including capital renewal, **decreased** sharply 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. In fiscal year 2007, one \$2 million project specifically identified for a higher education institution was approved. The General Assembly last increased statutory bonding authority to finance capital projects in 2002.
- Illinois is not alone in experiencing reductions in state tax support for higher education in recent years. State tax appropriations for higher education in several Midwestern states still have not recovered to fiscal year 2003 levels. Nationally, however, state tax support for higher education has increased slightly since 2003. 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 July revenue estimate projects general funds growth of about \$961 million, or 3.5 percent, for fiscal year 2007. 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 2008.

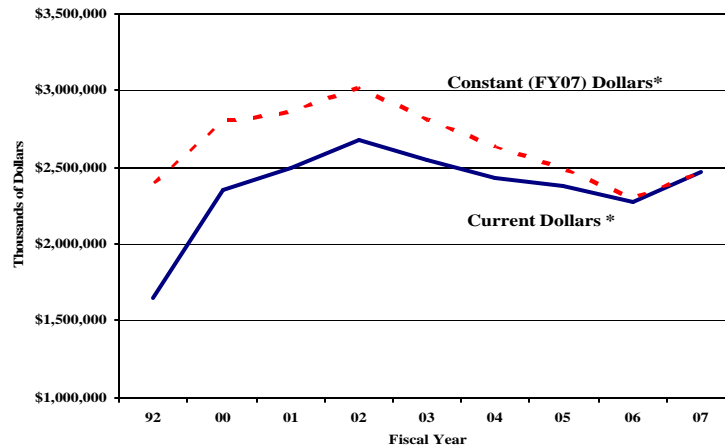
## Illinois Higher Education Funding Trends

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 2008 discussions.

### Long-Range Funding Trends

Exhibit 1 shows the trend in state appropriations for higher education operations and grants between fiscal years 1992 and 2007, both in current and inflation-adjusted (CPI-U) dollars.<sup>1</sup> During this period, state general funds support for Illinois higher education grew from \$1.7 billion to \$2.47 billion. However, when accounting for inflation, state support has increased by only 3.2 percent since fiscal year 1992. As indicated in Exhibit 1, much of the gain in state support since the early 1990s was lost between fiscal years 2002 and 2006. 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 2007—for the state employees’ group health insurance program through the Department of Healthcare and Family Services.

**Exhibit 1**  
**State Appropriations for Higher Education Operations and Grants**  
**FY 1992 - 2007**



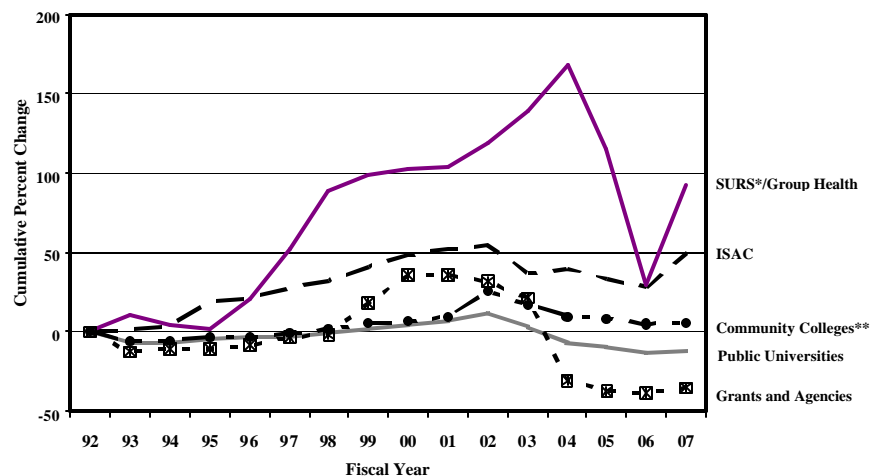
\*Includes State General Funds, Student Loan Operating Funds (appropriated for MAP and MAP Plus), and State Pensions Fund appropriations.

<sup>1</sup> 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, beginning in fiscal year 2005, 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 totaled \$80.0 million. For fiscal year 2007, Public Act 94-0004 limits the state appropriations to SURS to \$252.1 million, or about 65 percent of the amount needed to meet previously required funding levels. The SPF appropriation for SURS in fiscal year 2007 totals \$187.0 million. Exhibits 1 and 2 also include appropriations from the Student Loan Operating Fund for MAP and MAP Plus.

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.<sup>2</sup> General funds support for community college retirees' group health insurance (\$3.7 million in fiscal year 2007) also is included.

The reduction in state support for SURS in fiscal year 2006 was due to the passage of Public Act 94-0004, which temporarily suspended the pension funding requirements of Public Act 88-0593 and reduced the state's contribution by one-half. For fiscal year 2007, state contributions to SURS, as specified by Public Act 94-0004, increase by \$85.5 million over the fiscal year 2006 funding level.

**Exhibit 2**  
**Percent Change in State Appropriations for Higher Education by Sector**  
**FY 1992 - 2007 (in FY 2007 dollars)**



\* Includes State General Funds, Student Loan Operating Funds (appropriated for MAP and MAP Plus), and State Pensions Fund. Group Health Insurance payment appropriated directly to CMS in FY 2005.  
 \*\* Includes Adult Education and Career & Tech. Education

Between fiscal years 1992 and 2007, state support for the Illinois Student Assistance Commission (ISAC) increased by \$153.8 million, or 49.9 percent, when accounting for inflation. Nearly 90 percent of fiscal year 2007 funds appropriated to ISAC for grants and scholarships go toward the Monetary Award Program (MAP) or the MAP Plus Program, with those funds sent

<sup>2</sup> 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 administered by the Department of Healthcare and Family Services.

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 1992 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. In fiscal year 2007, additional funding from the federal Student Loan Operating Fund will be provided in support of MAP and for the development of the new MAP Plus Program to aid families who do not qualify for regular MAP grants.

When adjusted for inflation, state funding for public universities in fiscal year 2007 is \$184.9 million, or 12.2 percent, less than in fiscal year 1992. Funding for community colleges (including funds for adult education and postsecondary career education) is slightly above fiscal year 1992 levels due to the transfer of adult education and postsecondary career and technical education funding from the Illinois State Board of Education (ISBE) to the Illinois Community College Board (ICCB). When these funds are excluded, inflation-adjusted state general funds support for community colleges in fiscal year 2007 is \$28.2 million, or 8.4 percent, less than in fiscal year 1992.

State support for grant programs and agencies in fiscal year 2007 is \$35.7 million, or 35.2 percent, less than in fiscal year 1992 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.

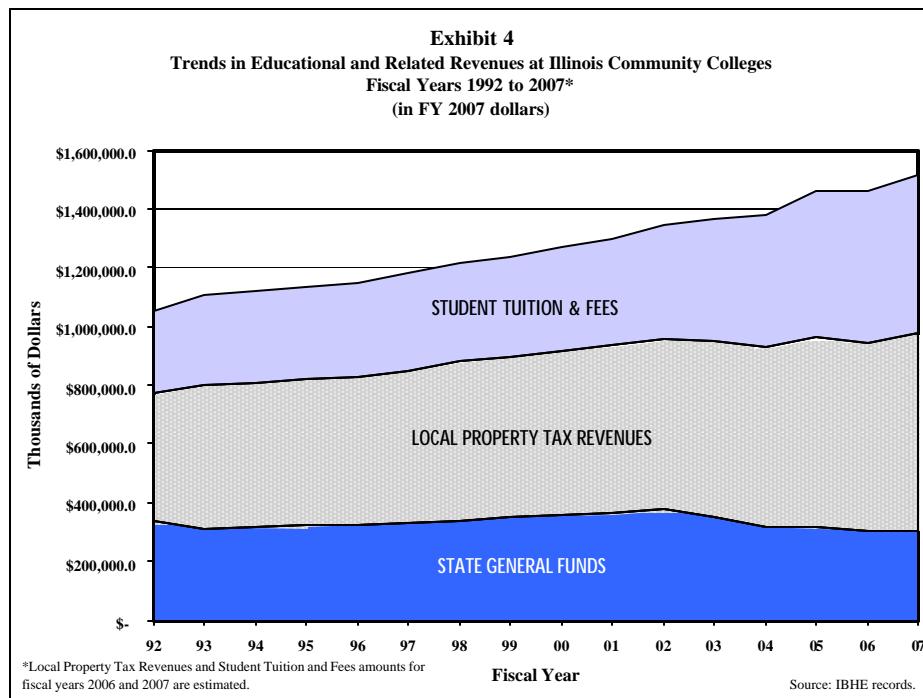
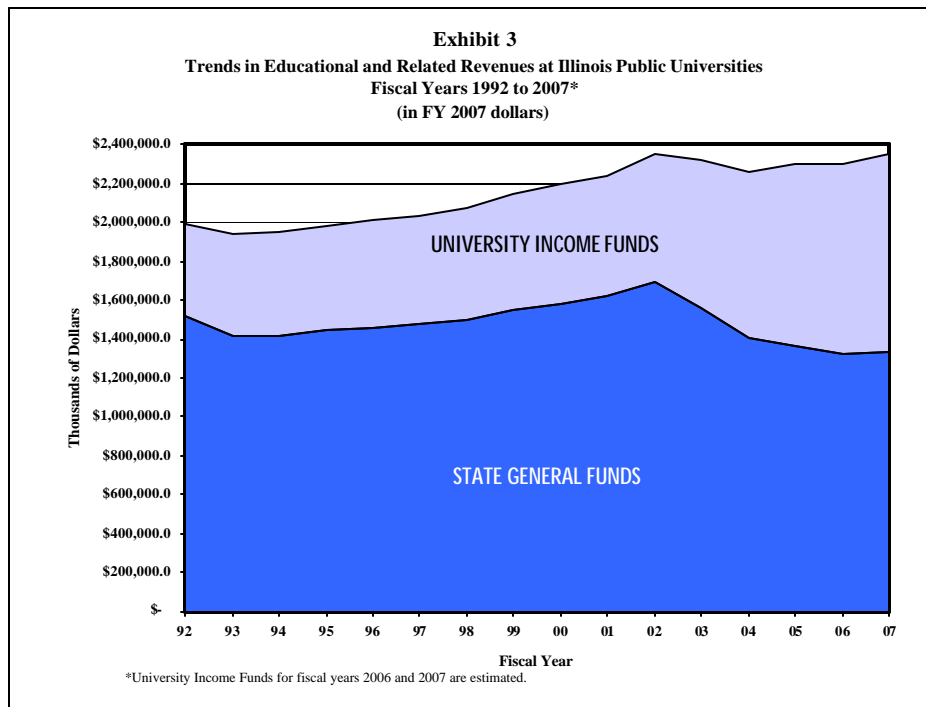
State appropriations are just one source of funding for public university and community college operations. Public universities also receive support for general operating costs from student tuition (i.e., university income funds), and community colleges receive similar support from local property taxes 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.<sup>3</sup> 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 1992 and 2007 by source. During this period, inflation-adjusted total educational and related revenues increased by 18.0 percent at public universities and by 43.6 percent at community colleges. Total educational and related revenues for public universities rose to a peak in fiscal year 2002, before declining and holding relatively steady through fiscal year 2006. Fiscal year 2007 revenues rose slightly and are slightly above fiscal year 2002 revenue levels. Total revenues 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

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

fiscal year 1992, with the most rapid rate of growth in these sources since fiscal year 2001. State general funds support for public universities as a percent of total educational and related revenues declined from 72 percent to 56.6 percent between fiscal years 1992 and 2007. For community colleges, state general funds support as a percent of total educational and related revenues declined from 28.1 to 20.2 percent over the same period.



## 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 state funds appropriated for higher education operations and grants scarcely budged between fiscal year 2004 and 2006. Exhibit 5 presents the cumulative change in state funding by sector/program for higher education operations and grants between fiscal years 2002 and 2007. This table includes both state general funds, the State Pension Fund (SPF) and Student Loan Operating Funds appropriated in fiscal year 2007 for support of the MAP and MAP Plus Programs. Between fiscal years 2006 and 2007, operations and grants funding increased 5.1 percent when retirement funding is excluded. However, state appropriations for higher education operations and grants have declined by \$202.3 million, or 8.4 percent during this five-year period (excluding retirement). During the same period, higher education's share of total state general fund appropriations has declined from 11.5 percent to 8.6 percent.

The effects of the budget cuts at the institutional, agency, and grant level are illustrated in Exhibits 6, 7, and 8. Exhibit 6 shows that reductions in state support to public universities have been similar across the board. Only Governors State University and Chicago State University fall outside the 10.7 percent to 12.8 percent range of reductions since fiscal year 2002. Exhibit 7 presents state general funds support for community college grants and programs. The largest of the unrestricted grant programs at community colleges, base operating grants, increased slightly between fiscal year 2002 and 2007. Restricted grant programs have been cut drastically or transferred to other state agencies during this time period. Other grants and special initiatives have been reduced by almost one-half.

As indicated in Exhibit 8, MAP – Illinois' primary need-based student financial aid program -- regained some lost ground in fiscal years 2006 and 2007, although its general fund appropriation is still \$13.1 million below its fiscal year 2002 appropriation. In fiscal year 2007, the MAP program received a \$7.6 million increase through state general funds and a \$26.8 million increase through Student Loan Operating Funds. In addition, an appropriation of \$34.4 million from Student Loan Operating Funds was included in the fiscal year 2007 budget for a new program -- the MAP Plus Program. This program was established to provide grants to students who do not qualify for MAP grants. The availability of the Student Loan Operating Funds for these purposes is contingent upon the sale or restructuring of student loan assets. In addition, the continuance of MAP Plus beyond fiscal year 2007 is contingent upon legislative extension of the program. Since fiscal year 2006, the administration of ISAC has been funded entirely through the federal loan program.

Exhibit 8 also shows that institutional grant programs administered by IBHE have declined approximately 55 percent since fiscal year 2002. Some programs, most notably the Illinois Financial Assistance Act Grants, are no longer funded by the state. Several new grants

were established in fiscal year 2007 to address shortages in the nursing profession, two of which will be administered by IBHE.

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 increases in subsequent fiscal years such that fiscal year 2007 appropriations are 6.8 percent higher than 2002 levels. The University Center of Lake County received additional funding for fiscal years 2006 that allowed it to operate its new facilities and expand program offerings. An increase of \$252,000 in fiscal year 2007 will be used in part to meet escalating utility costs and to develop an electronic library.

**Exhibit 5**

**State Funding for Higher Education Operations and Grants \***  
**Fiscal Years 2002, 2006, and 2007**

(in thousands of dollars)

	FY2002 Appropriations	FY2006 Appropriations	FY2007 Appropriations	FY2002 to FY2007		FY2006 to FY2007	
				Dollar Change	Percent Change	Dollar Change	Percent Change
Public Universities	\$ 1,502,910.9	\$ 1,306,876.4	\$ 1,333,530.6	\$ (169,380.3)	(11.3) %	\$ 26,654.2	2.0 %
Community Colleges	333,659.9	300,389.8	306,047.7	(27,612.2)	(8.3)	5,657.9	1.9
Grants to Colleges	331,103.5	298,268.2	303,897.8	(27,205.7)	(8.2)	5,629.6	1.9
ICCB Administration	2,556.4	2,121.6	2,149.9	(406.5)	(15.9)	28.3	1.3
Adult Education/Postsecondary Career and Technical Education Grants	39,005.3	46,802.8	47,885.8	8,880.5	22.8	1,083.0	2.3
Illinois Student Assistance Commission	423,752.3	390,299.8	462,209.8	38,457.5	9.1	71,910.0	18.4
Monetary Award Program (MAP)/IIA	375,528.3	353,899.8	389,299.8	13,771.5	3.7	35,400.0	10.0
MAP Plus	-	-	34,400.0			34,400.0	-
Other Grant Programs	41,720.0	36,400.0	38,510.0	(3,210.0)	(7.7)	2,110.0	5.8
ISAC Administration	6,504.0	-	-	(6,504.0)	(100.0)	-	-
Grant Program	97,256.0	41,657.3	43,959.3	(53,296.7)	(54.8)	2,302.0	5.5
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	2,600.0	2,852.0	1,827.0	178.2	252.0	
Institutional Grants	52,353.6	22,057.3	24,107.3	(28,246.3)	(54.0)	2,050.0	9.3
Other Agencies	21,245.1	20,427.1	21,907.1	662.0	3.1	1,480.0	7.2
Illinois Mathematics and Science Academy	16,526.7	16,322.9	17,652.9	1,126.2	6.8	1,330.0	8.1
State Universities Civil Service System	1,441.2	1,253.6	1,271.2	(170.0)	(11.8)	17.6	1.4
Board of Higher Education	3,277.2	2,850.6	2,983.0	(294.2)	(9.0)	132.4	4.6
Subtotal - Institutional/Agency Operations and Grants	2,417,829.5	2,106,453.2	2,215,540.3	(202,289.2)	(8.4)	109,087.1	4.9
Retirement/Transfer to CMS Health Insurance Reserve Fund*	258,146.1	170,033.9	255,770.8	(2,375.3)	(0.9)	85,736.9	50.4
Higher Education Total	\$ 2,675,975.6	\$ 2,276,487.1	\$ 2,471,311.1	\$ (204,664.5)	(7.6) %	\$ 194,824.0	8.6 %

\* Includes State General Funds, Student Loan Operating Funds (\$61,240.0 for MAP and MAP Plus), 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, 2006, and 2007**

(in thousands of dollars)

Institution	FY2002 Appropriations	FY2006 Appropriations	FY2007 Appropriations	FY2002 to FY2007		FY2006 to FY2007	
				Dollar Change	Percent Change	Dollar Change	Percent Change
Chicago State University	\$ 44,027.4	\$ 38,660.3	\$ 41,160.0	\$ (2,867.4)	(6.5) %	\$ 2,499.7	6.5 %
Eastern Illinois University	55,274.3	47,609.5	48,282.8	(6,991.5)	(12.6)	673.3	1.4
Governors State University	28,045.9	25,986.1	27,673.8	(372.1)	(1.3)	1,687.7	6.5
Illinois State University	93,384.7	80,452.0	81,457.5	(11,927.2)	(12.8)	1,005.5	1.2
Northeastern Illinois University	45,396.8	39,247.7	40,026.3	(5,370.5)	(11.8)	778.6	2.0
Northern Illinois University	118,176.2	102,729.9	103,927.1	(14,249.1)	(12.1)	1,197.2	1.2
Western Illinois University	65,047.8	56,391.1	57,213.4	(7,834.4)	(12.0)	822.3	1.5
<u>Southern Illinois University</u>	<u>249,933.1</u>	<u>217,653.7</u>	<u>223,159.2</u>	<u>(26,773.9)</u>	<u>(10.7)</u>	<u>5,505.5</u>	<u>2.5</u>
<u>University of Illinois</u>	<u>803,624.7</u>	<u>698,146.1</u>	<u>710,630.5</u>	<u>(92,994.2)</u>	<u>(11.6)</u>	<u>12,484.4</u>	<u>1.8</u>
Total, Public Universities	<u>\$ 1,502,910.9</u>	<u>\$ 1,306,876.4</u>	<u>\$ 1,333,530.6</u>	<u>\$ (169,380.3)</u>	<u>(11.3) %</u>	<u>\$ 26,654.2</u>	<u>2.0 %</u>

\* Nonrecurring appropriations are not excluded.

\*\*Includes transfer of \$245.0 from Northern Illinois University to the University of Illinois for the Consortium of Academic and Research Libraries in Illinois (CARLI).

**Exhibit 7**

**State General Funds Support for Community Colleges  
Fiscal Years 2002, 2006, and 2007**

	FY2002 Appropriation	FY2006 Appropriation	FY2007 Appropriation	Fiscal Year 2002 - Fiscal Year 2007	
				Dollar Change	Percent Change
<b>Grants to Colleges</b>					
Base Operating Grants	\$ 193,775.0	\$ 191,837.1	\$ 197,818.0	\$ 4,043.0	2.1 %
Grant to City Colleges of Chicago	-	15,000.0	15,000.0	15,000.0	-
Small College Grants	900.0	780.0	840.0	(60.0)	(6.7)
Equalization Grants	77,391.5	76,617.5	77,383.7	(7.8)	(0.0)
Formula Implementation Grants	-	5,507.5	-	-	-
Workforce Development Grants	19,317.0	3,311.3	3,311.3	(16,005.7)	(82.9)
Advanced Technology Grants	14,607.0	-	-	(14,607.0)	(100.0)
P-16 Initiative Grants	1,500.0	2,279.0	2,779.0	1,279.0	85.3
Retirees Health Insurance Grant	735.0	626.6	626.6	(108.4)	(14.7)
Special Populations/Student Success Grants	13,260.0	-	3,000.0	(10,260.0)	(77.4)
Deferred Maintenance Grants	3,500.0	-	-	-	-
<b>Subtotal</b>	<b>\$ 324,985.5</b>	<b>\$ 295,959.0</b>	<b>\$ 300,758.6</b>	<b>\$ (24,226.9)</b>	<b>(7.5) %</b>
<b>Other Grants</b>					
Lincoln's Challenge	125.0	120.1	120.1	(4.9)	(3.9)
East St. Louis Higher Ed. Center	2,200.0	1,589.1	1,589.1	(610.9)	(27.8)
Performance Based Initiative	2,000.0	-	-	(2,000.0)	(100.0)
Leadership and Core Values	250.0	-	-	(250.0)	(100.0)
Special Initiative Grants	1,210.0	-	-	(1,210.0)	(100.0)
Foundation Matching Grants	333.0	-	-	(333.0)	(100.0)
Designated Grants	-	600.0	1,430.0	1,430.0	-
<b>Subtotal</b>	<b>\$ 6,118.0</b>	<b>\$ 2,309.2</b>	<b>\$ 3,139.2</b>	<b>\$ (2,978.8)</b>	<b>(48.7) %</b>
<b>Total</b>	<b>\$ 331,103.5</b>	<b>\$ 298,268.2</b>	<b>\$ 303,897.8</b>	<b>\$ (27,205.7)</b>	<b>(8.2) %</b>

**Exhibit 8**

**State Funding Support for Illinois Student Assistance Commission, Grant Programs and Agencies\*  
Fiscal Years 2002, 2006, and 2007**

(in thousands of dollars)

	FY2002 Appropriations	FY2006 Appropriations	FY2007 Appropriations	FY2002 to FY2007		FY2006 to FY2007	
				Dollar Change	Percent Change	Dollar Change	Percent Change
<b>Illinois Student Assistance Commission**</b>	\$ 423,752.3	\$ 390,299.8	\$ 462,209.8	\$ 38,457.5	9.1 %	\$ 71,910.0	18.4 %
Monetary Award Program (MAP)/IIA	375,528.3	353,899.8	389,299.8	13,771.5	3.7	35,400.0	10.0
MAP Plus	-	-	34,400.0	34,400.0	-	34,400.0	-
Other Grant Programs	41,720.0	36,400.0	38,510.0	(3,210.0)	(7.7)	2,110.0	5.8
ISAC Administration	6,504.0	-	-	(6,504.0)	(100.0)	-	-
<b>Institutional Grant Programs</b>	\$ 97,256.0	\$ 41,657.3	\$ 43,959.3	\$ (53,296.7)	(54.8) %	\$ 2,302.0	5.5 %
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	2,600.0	2,852.0	1,827.0	178.2	252.0	9.7
Quad Cities Graduate Study Center	220.0	220.0	220.0	-	-	-	-
Diversifying Higher Education Faculty in Illinois	2,000.0	2,800.0	2,800.0	800.0	40.0	-	-
Competitive Nursing School Grants	-	-	1,500.0	1,500.0	-	1,500.0	-
Nurse Educator Fellowships	-	-	150.0	150.0	-	150.0	-
International Center on Deafness and the Arts	-	-	300.0	300.0	-	300.0	-
Access and Diversity, HECA Grants	7,084.6	4,687.3	4,787.3	(2,297.3)	(32.4)	100.0	2.1
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)	-	-
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)	-	-
Worforce and Econ. Development, HECA Grants	3,319.0	-	-	(3,319.0)	(100.0)	-	-
Teaching, Learning, and Quality, HECA Grants	3,480.0	-	-	(3,480.0)	(100.0)	-	-
<b>Agencies/Other Institutions</b>							
Illinois Mathematics and Science Academy	16,526.7	16,322.9	17,652.9	1,126.2	6.8	1,330.0	8.1
State Universities Civil Service System	1,441.2	1,253.6	1,271.2	(170.0)	(11.8)	17.6	1.4
Illinois Board of Higher Education	3,277.2	2,850.6	2,983.0	(294.2)	(9.0)	132.4	4.6

\* Nonrecurring appropriations are not excluded.

\*\*Includes \$61,240.0 in Student Loan Operating Funds for MAP and MAP Plus.

## 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. For fiscal year 2007, the General Assembly and Governor approved one \$2.0 million project specifically identified for the higher education community. The General Assembly last increased statutory bonding authority to finance capital projects in 2002. 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 2007, the Board recommended capital funding totaling \$481.5 million from requests totaling over \$1.6 billion. The Board's recommendations included \$40.0 million for statewide capital renewal to help address ongoing deferred maintenance needs, \$315.0 million for Regular Capital projects, and \$126.5 million for projects identified as part of the Governor's *Opportunity Returns* program.

### Exhibit 9

#### Higher Education Capital Improvements Fiscal Year 2002 - Fiscal Year 2007

(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 *
2007	1,630,495.1	481,475.0	2,000.0

\* 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 2000 and 2006. State support in Exhibit 10 includes all operating appropriations of state tax funds, (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).

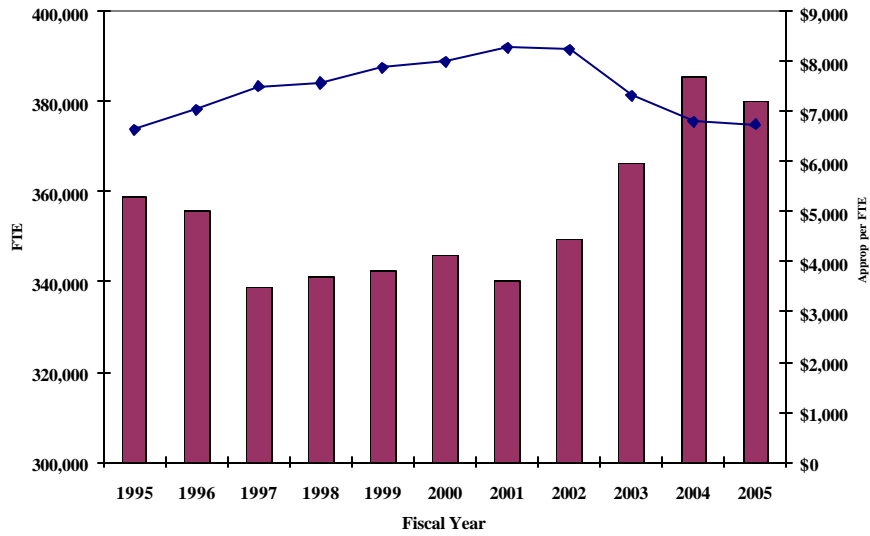
<b>Exhibit 10</b>							
<b>Appropriations of State Tax Funds for Operating Expenses of Higher Education in Nine Midwestern States and All States for Fiscal Years 2000 through 2006</b>							
<b>(In Thousands of Current Dollars)</b>							
<b>States</b>	<b><u>2000</u></b>	<b><u>2003</u></b>	<b><u>2005</u></b>	<b><u>2006</u></b>	<b><u>1-yr</u> Change</b>	<b><u>3-yr</u> Change</b>	<b><u>6-yr</u> Change</b>
<b>Illinois</b>	<b>2,573,964</b>	<b>2,763,756</b>	<b>2,685,921</b>	<b>2,615,389</b>	<b>-2.6%</b>	<b>-5.4%</b>	<b>1.6%</b>
Indiana	1,226,677	1,326,682	1,417,481	1,430,424	0.9%	7.8%	16.6%
Iowa	824,062	769,854	743,170	779,847	4.9%	1.3%	-5.4%
Kentucky	925,506	1,071,006	1,119,608	1,207,437	7.8%	12.7%	30.5%
Michigan	2,077,725	2,154,247	1,953,605	2,017,632	3.3%	-6.3%	-2.9%
Minnesota	1,286,427	1,323,393	1,273,328	1,365,500	7.2%	3.2%	6.1%
Missouri	910,565	875,070	861,421	856,133	-0.6%	-2.2%	-6.0%
Ohio	2,062,827	2,063,714	2,101,592	2,111,733	0.5%	2.3%	2.4%
Wisconsin	1,074,474	1,211,419	1,103,602	1,131,515	2.5%	-6.6%	5.3%
<b>Midwest Totals</b>	<b>12,962,227</b>	<b>13,559,141</b>	<b>13,259,728</b>	<b>13,515,610</b>	<b>1.9%</b>	<b>-0.3%</b>	<b>4.3%</b>
<b>National Totals</b>	<b>52,861,435</b>	<b>62,820,113</b>	<b>62,894,202</b>	<b>66,642,899</b>	<b>6.0%</b>	<b>6.1%</b>	<b>26.1%</b>

Source: *FY2006 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.

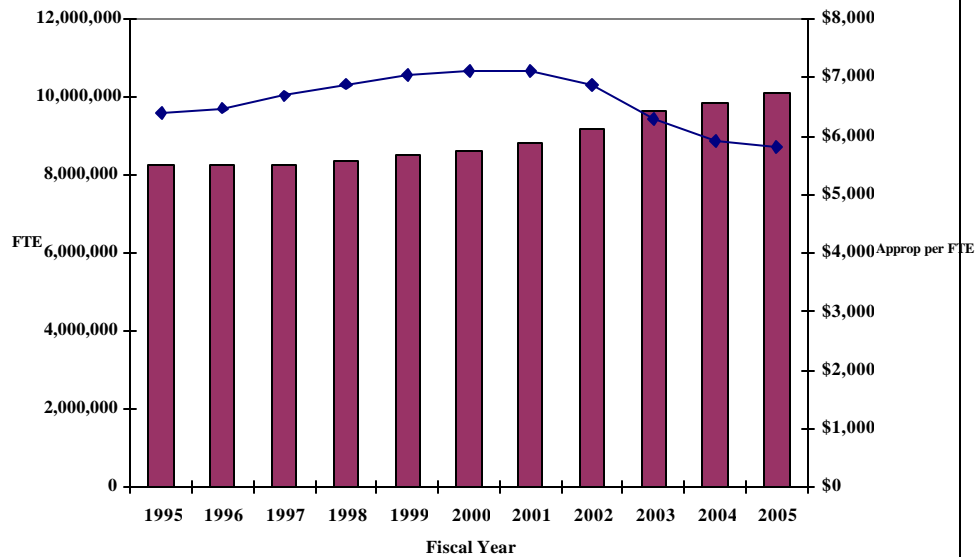
Another telling national comparison of the effect of recent budget reductions on Illinois higher education comes from *Measuring Up*, the National Center for Public Policy and Higher Education’s national higher education report card. Using multiple indicators, *Measuring Up* benchmarks states to the top performers in each of five categories – preparation, participation, affordability, completion, and benefits. Exhibit 13, which covers the 2000, 2002, and 2004 editions, demonstrates that Illinois performs well across all categories, but some slippage has occurred, particularly in regard to affordability. The 2006 edition of *Measuring Up* will be published in fall 2006.

**Exhibit 11**  
**Educational Appropriations per FTE, Illinois**  
**(in Constant 2005 Dollars)**



Source: State Higher Education Finance (SHEF), FY2005

**Exhibit 12**  
**Educational Appropriations per FTE, U.S**  
**(in Constant 2005 Dollars)**



Source: State Higher Education Finance (SHEF), FY2005

**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**

Overall, fiscal year 2006 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 2006 *Monthly Briefing* reported that general funds revenues grew \$1.2 billion, or 4.6 percent, in fiscal year 2006, with personal income tax, corporate income tax, and sales tax all posting solid gains. According to the CGFA, "receipts performed quite well in FY 2006, particularly the key areas related to the economy such as income and sales taxes. While rates of growth for these sources should moderate over the coming fiscal year, continued revenue improvement in FY 2006 was welcomed given the ongoing financial challenges that face the State." Nevertheless, in spite of the good revenue news, the State Comptroller (*The Illinois State Comptroller's Quarterly*, Edition 20, July 2006) reports that revenue growth was offset by significant growth in base spending, resulting in a "very modest improvement in the state's financial position."

**Exhibit 14**  
**General Funds Revenues**  
**Fiscal Years 2000 through 2007**

(in millions of dollars)

	2000	2001	2002	2003	2004	2005	2006	2007
State Taxes	18,877	19,227	18,497	18,074	19,255	20,508	21,818	22,575
\$ Increase		350	(730)	(423)	1,181	1,253	1,310	757
% Increase		1.9%	-3.8%	-2.3%	6.5%	6.5%	6.4%	3.5%
General Funds*	23,250	24,106	23,379	22,786	25,428	26,160	27,359	28,320
\$ Increase		856	(727)	(593)	2,642	732	1,199	961
% Increase		3.7%	-3.0%	-2.5%	11.6%	2.9%	4.6%	3.5%

Sources: Commission on Government Forecasting and Accountability - *FY 2007 Revenue Estimate and Revised FY2006 Revenue Revenue Estimate*, March 2006 and *Monthly Briefing*, June and July 2006.

\*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.

Exhibit 14 provides actual revenues to the general funds for fiscal years 2000 through 2006 and CGFA's July 2006 estimate of revenues for fiscal year 2007. The Governor's Office of Management and Budget also projects 3.5 percent revenue growth for fiscal year 2007.<sup>4</sup>

Although it is early in the state's fiscal year 2008 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 2004<sup>5</sup>; the State Employees' Group Insurance program, which grew \$622.6 million, or nearly 50.0 percent, between fiscal year 2002 and 2007<sup>6</sup>; K-12 education, and the state retirement systems, which will require nearly \$610.0 million to return to the 50-year funding program established by Public Act 88-0593<sup>6</sup>. Nearly \$100.0 million of the \$610.0 million is for the State Universities Retirement System. 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 significant demands on existing state revenues, not to mention any new state revenue growth that may occur in fiscal year 2008.

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<sup>4</sup> Commission on Government Forecasting and Accountability, Monthly Briefing, July 2006

<sup>5</sup> Percent Change in Liabilities per State of Illinois Comptroller, *Fiscal Focus Quarterly*, May 2005 Issue

<sup>6</sup> Change in appropriations, per CGFA, *Fiscal Year 2007 Liabilities of the State Employees' Group Insurance Program*, March 2006

<sup>6</sup> *Report on the 90% Funding Target of Public Act 88-0593*, CGFA, January 2006

## **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 2008 budget recommendations.

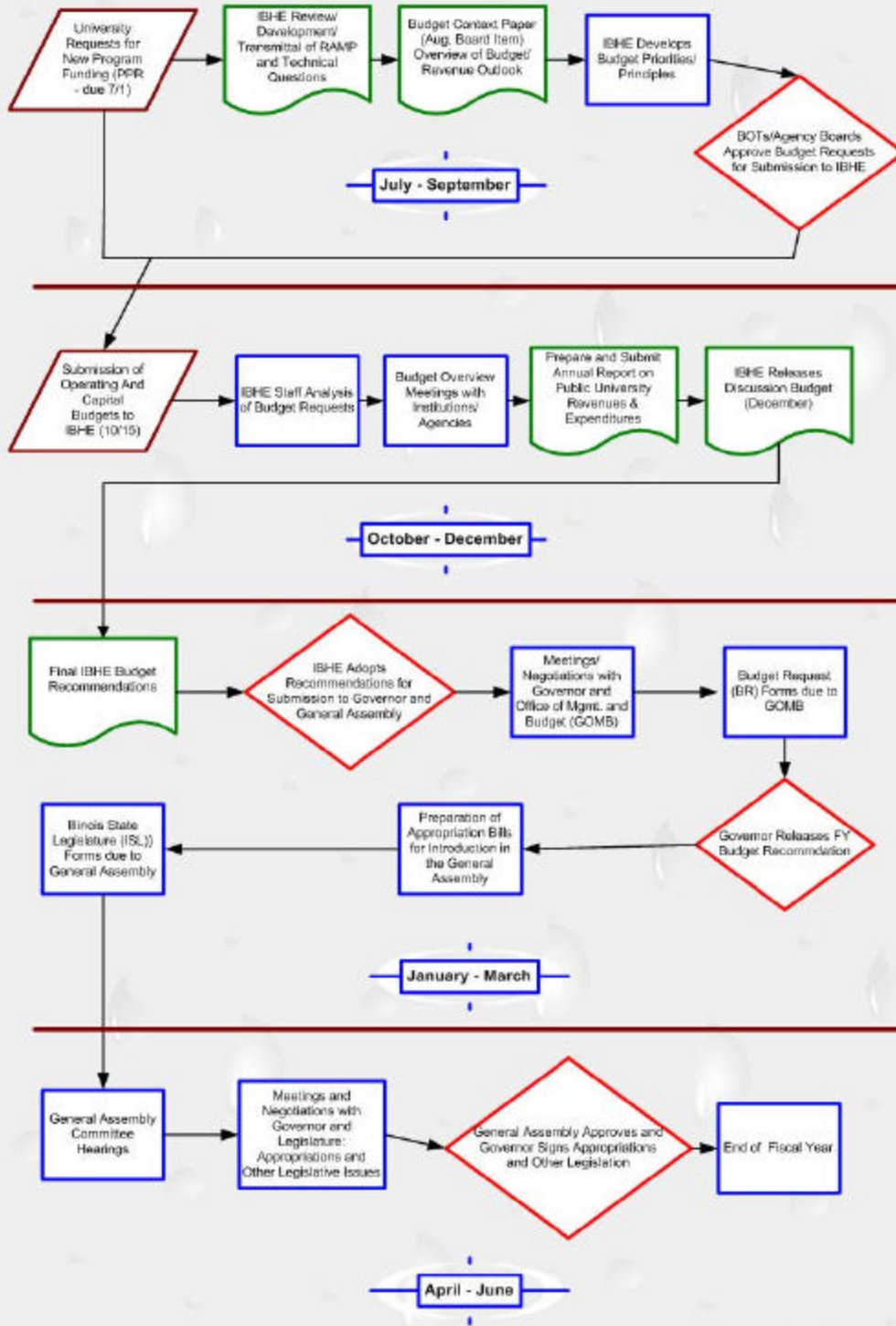
### **2006**

June 21	Mail budget development schedules and accompanying memos
August 1	Effective Practice submissions for Performance Report due
August 4	Distribute historical RAMP schedules Distribute operating and capital budget request materials Distribute technical questions
September 1	Narrative and performance indicator components for Performance Report due
September 29	Historical RAMP submissions due
October	Begin budget overview meetings
October 13	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 Government Forecasting/Accountability, and SURS

### **2007**

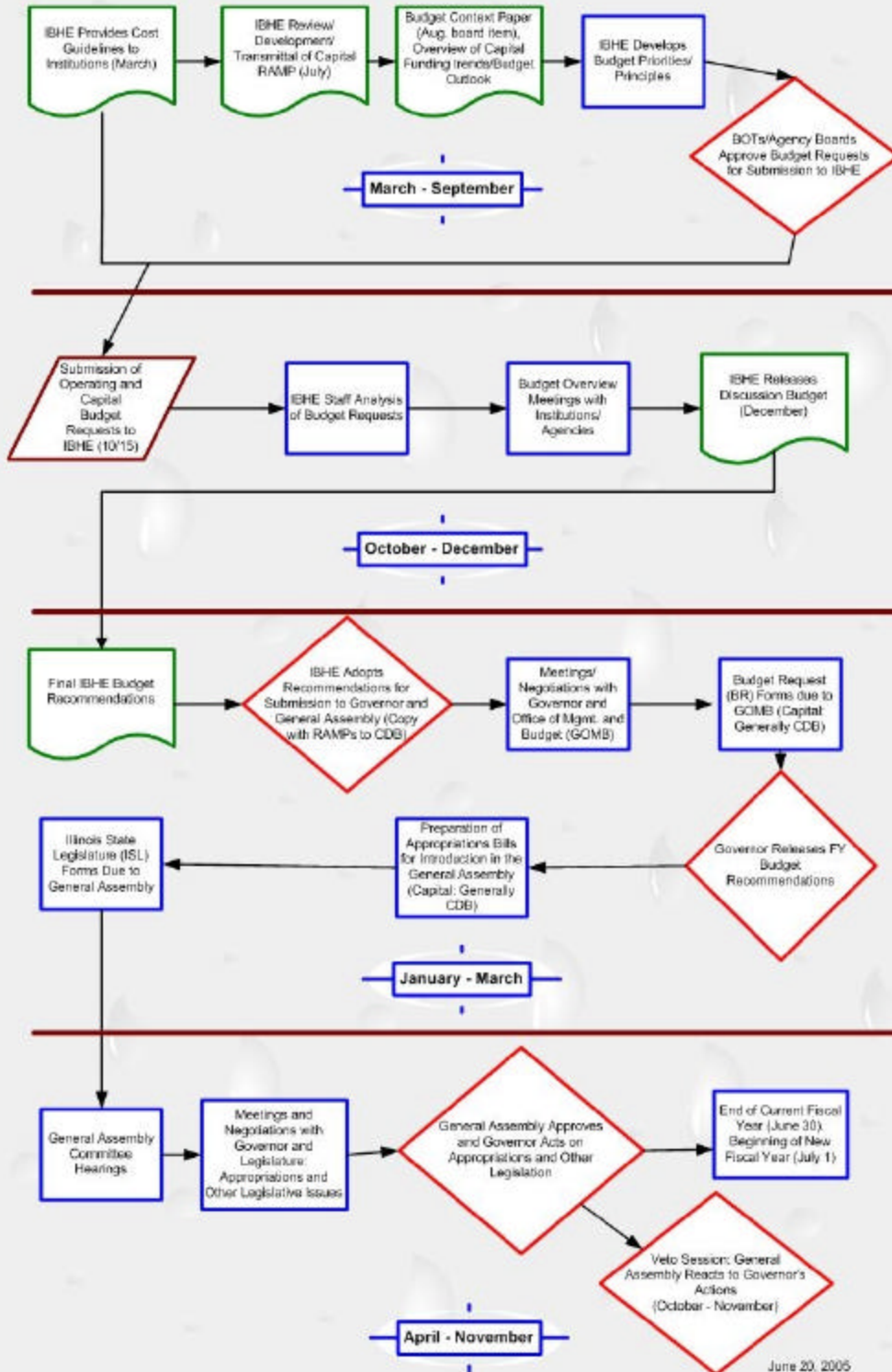
January	Discussion budget meetings
February	BHE to consider staff budget recommendations

## Illinois Board of Higher Education Operations and Grants Budget Process



June 20, 2005

## Illinois Board of Higher Education Capital Budget Process



June 20, 2005