

## SETTING A CONTEXT FOR FISCAL YEAR 2011 BUDGET DEVELOPMENT

**Submitted for:** Information.

**Summary:** *Setting a Context for Fiscal Year 2011 Budget Development* is intended to provide the “lay of the land” to the Board as it develops its fiscal year 2011 budget recommendations. It is also 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-term 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 2011 appropriations. The report concludes with an explanation of how the *Public Agenda* can inform and direct the Board as it develops its fiscal year 2011 operating and capital recommendations.

**Action Requested:** None.



STATE OF ILLINOIS  
BOARD OF HIGHER EDUCATION

**SETTING A CONTEXT FOR FISCAL YEAR 2011 BUDGET DEVELOPMENT**

**Highlights**

- Looking back over 15 years, total state funding for higher education (operations, grants, and pensions) is 3.8 percent greater in fiscal year 2010 than in fiscal year 1995 when accounting for inflation. However, the increase is attributable to funding for the retirement system, which has increased rapidly over this period as the state has addressed chronic historical underfunding of its pension systems. Excluding pensions and adult education/career and technical education (which came under community colleges oversight in 2002), community colleges, public universities, need-based financial aid, and institutional grant programs all have experienced decreases in funding since 1995 when accounting for inflation. The total decrease is \$507.6 million, or 20.6 percent.
- Fiscal year 2002 was the high water mark for higher education funding in terms of dollars appropriated. When appropriations for the State Universities Retirement System are excluded, total state funding for higher education institutional operations and grants in fiscal year 2010 is \$1.0 billion (33.6 percent) less than in fiscal year 2002 after accounting for inflation. (Including pensions, the difference is an inflation-adjusted \$631.4 million, or 18.9 percent). This includes significant reductions in support for public universities, community colleges, need-based financial aid, and institutional grant programs.
- In fiscal year 2009, public universities and community colleges were required to hold 2.5 percent of their state operating appropriations in reserve. Funding for financial aid programs was held flat while several institutional grant programs, including the Health Services Education Grant to independent colleges and universities, were eliminated, resulting in the largest reduction in institutional grants since fiscal year 2004.
- In fiscal year 2010, public universities and community colleges are benefitting from federal stimulus funds, which allowed the state to maintain their funding at the fiscal year 2009 appropriated level. Federal stimulus funds total \$93.9 million and are available only for fiscal year 2010. Funding for the need-based Monetary Award Program administered by the Illinois Student Assistance Commission (ISAC) was reduced nearly 50 percent, funding for the Illinois Veterans Grant was reduced to \$5.75 million, costing the institutions \$11.3 million, and institutional grant programs and the funding for the University Center of Lake County were reduced by over 40 percent from fiscal year 2009.
- Until fiscal year 2010, 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 while in

fiscal year 2007, one \$2 million project specifically identified for a higher education institution was approved. In fiscal years 2008 and 2009 no new capital funds were appropriated. In fiscal year 2010, the General Assembly approved and the Governor signed House Bill 312 and Senate Bill 1221, which provide a \$31 billion capital plan for Illinois. The fiscal year 2010 capital plan, *Illinois Jobs Now!*, provides more than \$1.6 billion for higher education capital construction and renovation projects, including \$300 million for independent colleges and universities.

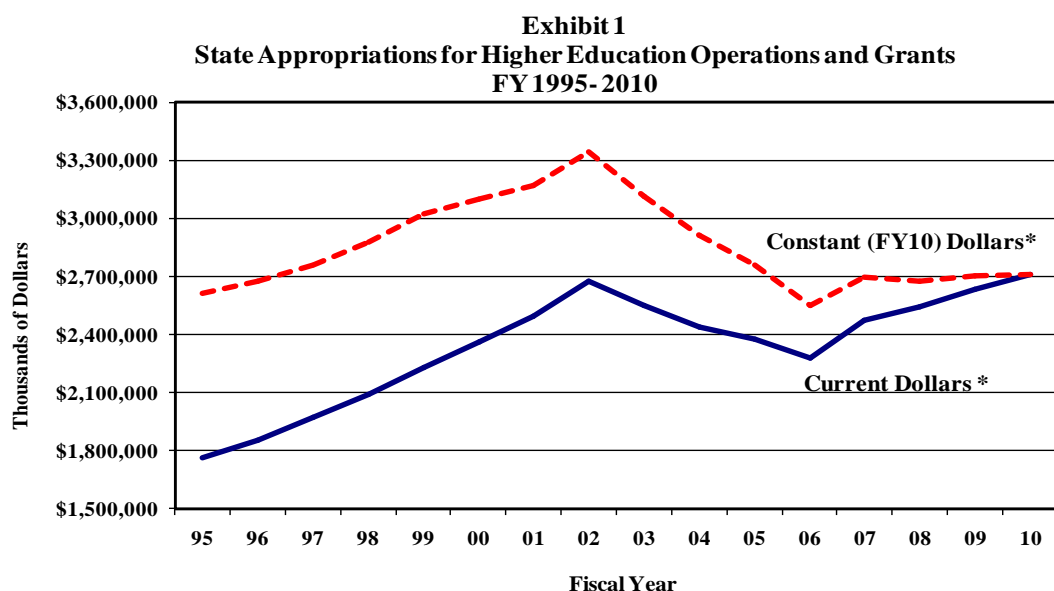
- Largely as a result of increasing state contributions to the State Universities Retirement System, percentage increases in state tax appropriations for higher education operating expenses (including pension costs) in Illinois have been near the Midwestern average since fiscal year 2000. Over the past decade, however, percentage increases in state tax appropriations for operating expenses for higher education in Illinois and most other Midwestern states have been well below the percentage increase for higher education nationally. Most Midwestern states experienced a rebound in state tax appropriations in fiscal years 2008 and 2009 years when compared to the percentage increase for higher education nationally, but revised fiscal year 2009 and fiscal year 2010 data will likely paint a sad picture.
- Fiscal year 2009 marked the end of revenue growth that began in fiscal year 2004. The Commission on Government Forecasting and Accountability's (CGFA) June 2009 *Monthly Briefing* reported that general funds revenue fell \$515 million, or 1.7 percent, in fiscal year 2009, despite over \$1.5 billion in direct federal stimulus revenue. Looking forward into fiscal year 2010, CGFA estimates that revenue sources closely tied to the economy will continue to decline.
- *The Public Agenda for College and Career Success* has many ramifications for higher education funding. The Board's fiscal year 2010 recommendations began to incorporate funding strategies based on the *Public Agenda*, and the Board will continue to prioritize its funding recommendations toward achieving the four goals of the Public Agenda in the future.

## Illinois Higher Education Funding Trends

This section addresses long-term trends in funding for Illinois higher education, recent budget actions, and trends at the state, regional, and national levels.

### Long-Term Funding Trends

Exhibit 1 illustrates the trend in state appropriations for higher education operations, grants, and State Universities Retirement System funding between fiscal years 1995 and 2010, 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 \$1.8 billion to \$2.7 billion, or 57.0 percent. However, when accounting for inflation, state support has increased by only 3.8 percent since fiscal year 1995. As indicated in Exhibit 1, much of the gain in state support since the mid-1990s was lost between fiscal years 2002 and 2006. It is important to note, however, that expenditures in other areas of state government benefit higher education. For example, the significant general funds support provided each year for the state employees' group health insurance program covers public university employees, and is funded through the Department of Healthcare and Family Services.



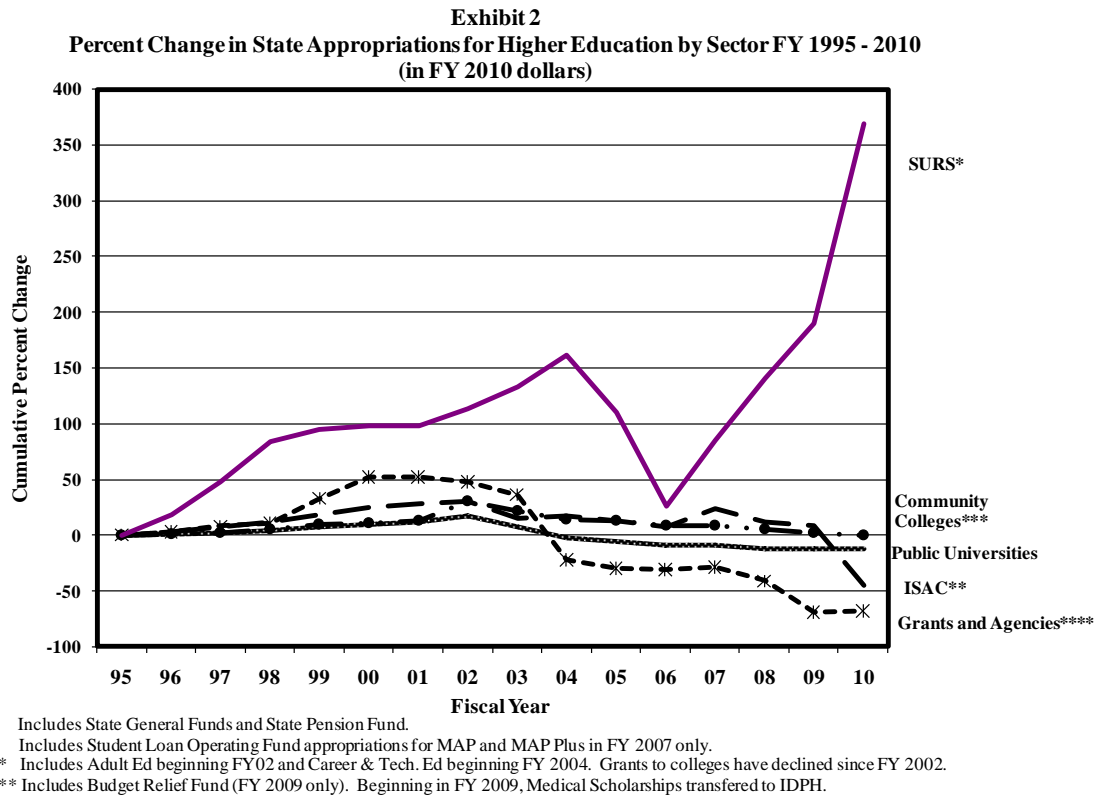
\* Includes State General Funds, Student Loan Operating Fund (for MAP and MAP Plus in FY07 only), Budget Relief Fund (FY 2009 only) and State Pension Fund appropriations.

Source: IBHE records.

Exhibit 2 illustrates the cumulative percentage change in state appropriations for higher education by sector, adjusted for inflation. As is apparent from Exhibit 2, appropriations to the

<sup>1</sup> State appropriation data for higher education operations and grants presented in Exhibits 1 and 2 include State General Funds (GF) and State Pension Fund (SPF) amounts due to a significant shift in State Universities Retirement System (SURS) funding sources that began in fiscal year 2005. Between fiscal years 1990 and 2004, total SPF support for SURS ranged from \$3.7 million to \$16.7 million annually, representing on average 6.9 percent of total SURS funding. The SPF appropriation for SURS in fiscal year 2010 totals \$702.5 million, representing 100.0 percent of the total SURS funding. Exhibits 1 and 2 include appropriations from the Student Loan Operating Fund for MAP and MAP Plus, which supplemented GF funding for fiscal year 2007 only. Exhibits 1 and 2 also include appropriations from the Budget Relief Fund for Diversifying Faculty in Illinois (DFI), which supplemented GF funding for fiscal year 2009 only.

State Universities Retirement System (SURS) show the only real growth over this time period. The state has invested significant resources 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, but they provide direct support for an important employee benefit. General funds support for community college retirees' group health insurance (\$4.1 million in fiscal year 2010) is also included. The reduction in state support for SURS in fiscal years 2006 and 2007 was due to the passage of Public Act 94-4, which temporarily suspended the pension funding requirements of Public Act 88-593 and reduced the state's annual contribution.



Source: IBHE records.

When adjusted for inflation, state funding for public universities in fiscal year 2010 is \$205.2 million, or 12.8 percent, less than in fiscal year 1995. Funding for community colleges (including funds for adult education and postsecondary career education) is slightly above fiscal year 1995 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 2010 is \$49.0 million, or 13.8 percent, less than in fiscal year 1995.

State support for the Illinois Student Assistance Commission (ISAC) in fiscal year 2010 is \$185.0 million, or 45.7 percent, less than in fiscal year 1995 when adjusted for inflation. This reduction is due entirely to a \$208.4 million cut in funding for grant programs in fiscal year 2010. About 88.0 percent of fiscal year 2010 appropriation to ISAC for grants and scholarships goes toward the Monetary Award Program (MAP), which sends funds directly to public and independent colleges and universities on behalf of students demonstrating financial need.

Additional funds for MAP between fiscal years 1995 and 2009 have supported a number of program enhancements, including 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, and, although not since fiscal year 2002, increases in the maximum award and funding to cover tuition and fee increases.

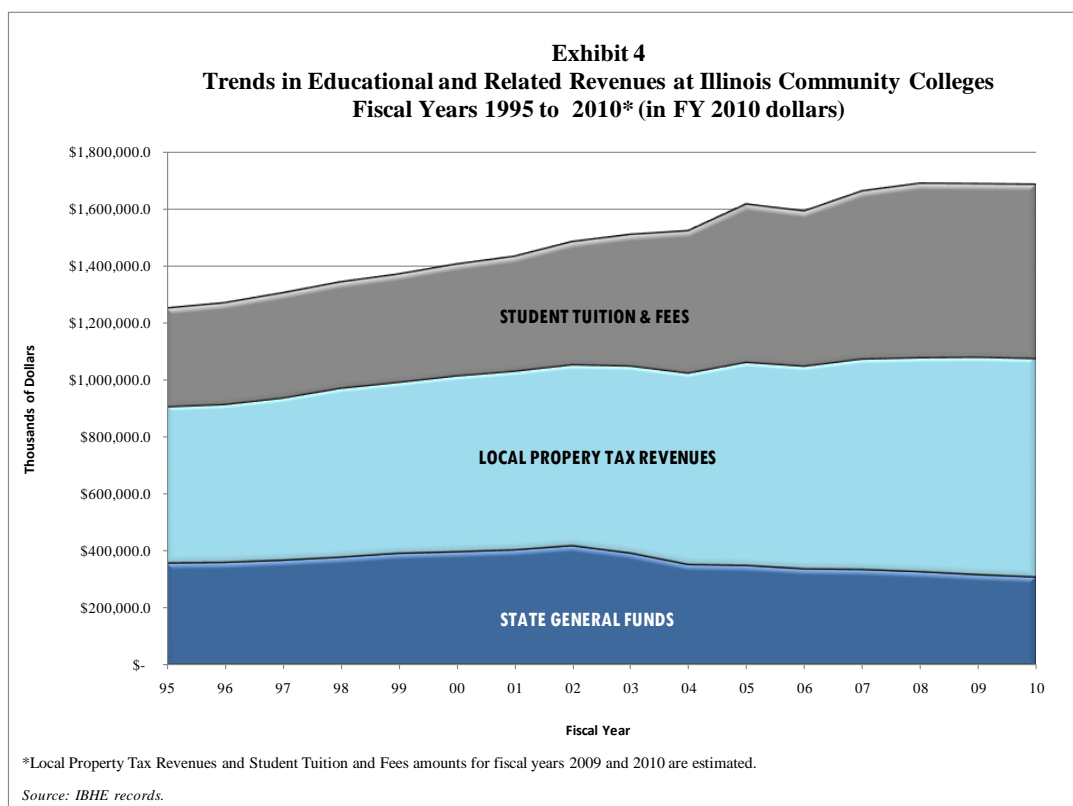
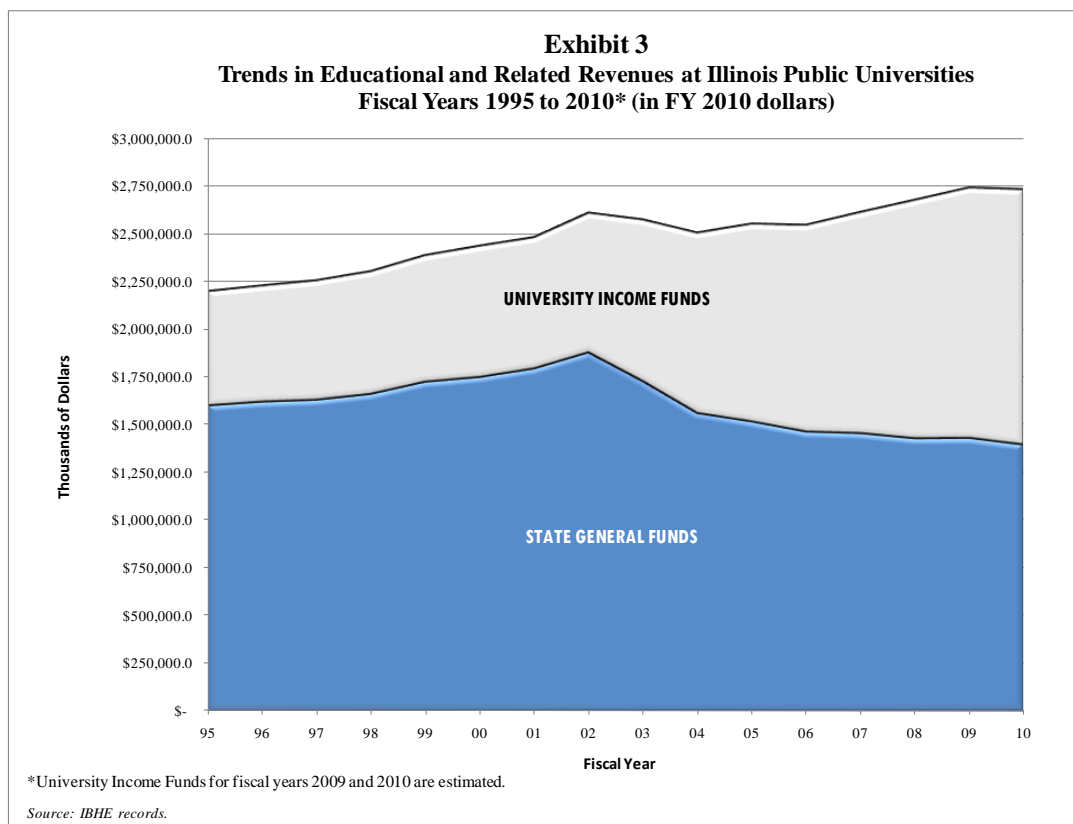
State support for grant programs and agencies in fiscal year 2010 is \$68.4 million, or 68.1 percent, less than in fiscal year 1995 when adjusted for inflation. In large part, this reflects the elimination of funding for the Illinois Financial Assistance Act grant program (\$20.6 million) in fiscal year 2004; the State Matching Grant Program (\$9.5 million) in fiscal year 2008; and the Health Services Education Grant (\$17.0 million) and the Higher Education Cooperation Act grant program (\$3.8 million) in fiscal year 2009.

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, and 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>2</sup> Other institutional operating revenues typically are restricted to the support of specific activities (e.g., sponsored research projects, scholarships, auxiliary enterprises, and 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 1995 and 2010 by source. During this period, inflation-adjusted total educational and related revenues increased by 24.3 percent at public universities and by 34.4 percent at community colleges. Total educational and related revenues for public universities reached \$2.61 billion, adjusted for inflation, in fiscal year 2002 and did not exceed that level until fiscal year 2007. Estimated fiscal year 2010 revenues are \$2.73 billion. Total revenues have grown more steadily for community colleges throughout the period. Nevertheless, in both sectors, support from non-state sources has increased at a greater rate than state support since fiscal year 1995, with the most rapid rate of growth in non-state sources occurring since fiscal year 2001. State general funds support for public universities as a percent of total educational and related revenues declined from 72.8 percent to 51.0 percent between fiscal years 1995 and 2010, while the share from tuition (university income funds) increased from 27.2 percent to an estimated 49.0 percent. For community colleges, state general funds support as a percent of total educational and related revenues declined from 28.4 to 18.2 percent over the same period, while support from tuition increased from 27.4 percent to an estimated 36.0 percent.

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<sup>2</sup> These revenue sources are referred to as “educational and related revenues” for the purposes of this report.



## Recent Operating and Grants Funding Trends



The state's fiscal situation in recent years has deeply impacted higher education. In fact, excluding contributions to SURS, state appropriations for higher education operations and grants declined by \$416.5 million (not adjusted for inflation), or 17.2 percent, between fiscal years 2002 and 2010 (see Exhibit 5). These reductions began 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 reductions in fiscal years 2003 and 2004 were more significant in magnitude than in fiscal year 2002 and were followed by two fiscal years of essentially flat budgets. Fiscal years 2007 and 2008 saw a slight rebound for higher education appropriations, with 2.3 and 2.1 percentage increases respectively (excluding SURS).

More recently, funding for higher education has once again declined. In fiscal year 2009, public universities and community colleges were required to hold 2.5 percent (\$42.8 million) of their appropriations in reserve, resulting in an overall decrease of 1.5 percent (excluding SURS) when compared to the fiscal year 2008 appropriation. In fiscal year 2010 funding for operations and grants decreased 8.3 percent (excluding SURS) when compared with the fiscal year 2009 level after mandatory reserves. This decrease was attributable primarily to reductions of 48.7 percent in funding for student aid programs administered by ISAC and 31.6 percent for IBHE's institutional grants. The funding for adult education and postsecondary career and technical education increased 8.0 percent due to the Governor's allocation of \$27.0 million from a discretionary lump sum for human services. The funding for public universities and community colleges was restored to fiscal year 2009 appropriated levels as a result of federal support through the American Recovery & Reinvestment Act of 2009 (ARRA).

The ARRA includes a number of financial aid/tax credit provisions and appropriations that will benefit students and colleges and universities in Illinois. Among these provisions is \$2.055 billion in Illinois' share of the State Fiscal Stabilization Fund (SFSF). The SFSF is divided into two funds: Education Fund and Government Services Fund. The Education Fund, which makes up 81.8 percent of the SFSF, must be used to maintain funding for public elementary and secondary education and public higher education at the greater of fiscal year 2008 or 2009 levels. The remaining 18.2 percent in the Government Services Fund is discretionary. The fiscal year 2010 budget includes a total of \$93.9 million from the State Fiscal Stabilization Fund for public colleges and universities. Of this total, \$40.4 million is from the Education Fund and \$53.5 million is from the Government Services Fund. The funds provided from the State Fiscal Stabilization Fund are used to fill the difference in state support between fiscal year 2006 and fiscal year 2009. The ARRA funds will not be available in fiscal year 2011, though the state is required to maintain support for public colleges and universities at the fiscal year 2006 level.

**Exhibit 5**

**State Funding for Higher Education Operations and Grants \***  
**Fiscal Years 2002, 2009, and 2010**

(in thousands of dollars)

	FY2002 Appropriations	FY2009 Appropriations with Reserves	FY2010 Appropriations	FY2002 to FY2010		FY2009 to FY2010	
				Dollar Change	Percent Change	Dollar Change	Percent Change
Public Universities	\$ 1,502,910.9	\$ 1,358,998.9	\$ 1,393,838.6	\$ (109,072.3)	(7.3) %	\$ 34,839.7	2.6 %
Community Colleges	333,659.9	300,545.3	307,326.9	(26,333.0)	(7.9)	6,781.6	2.3
Grants to Colleges	331,103.5	298,465.3	305,182.5	(25,921.0)	(7.8)	6,717.2	2.3
ICCB Administration	2,556.4	2,080.1	2,144.4	(412.0)	(16.1)	64.3	3.1
Adult Education/Postsecondary Career and Technical Education Grants	39,005.3	47,097.6	50,844.9	11,839.6	30.4	3,747.3	8.0
Illinois Student Assistance Commission	423,752.3	429,204.8	220,031.1	(203,721.2)	(48.1)	(209,173.7)	(48.7)
Monetary Award Program (MAP)	367,528.3	381,099.8	194,146.1	(173,382.2)	(47.2)	(186,953.7)	(49.1)
Other Grant Programs	49,720.0	48,105.0	25,885.0	(23,835.0)	(47.9)	(22,220.0)	(46.2)
ISAC Administration	6,504.0	-	-	(6,504.0)	(100.0)	-	-
Grant Program	97,256.0	9,949.9	6,801.0	(90,455.0)	(93.0)	(3,148.9)	(31.6)
Illinois Financial Assistance Act	22,169.1	-	-	(22,169.1)	(100.0)	-	-
Health Education Grants	21,708.3	-	-	(21,708.3)	(100.0)	-	-
University Center of Lake County	1,025.0	2,931.9	1,716.0	691.0	67.4	(1,215.9)	(41.5)
Institutional Grants	52,353.6	7,018.0	5,085.0	(47,268.6)	(90.3)	(1,933.0)	(27.5)
Other Agencies	21,245.1	22,501.3	22,465.9	1,220.8	5.7	(35.4)	(0.2)
Illinois Mathematics and Science Academy	16,526.7	18,341.4	18,216.4	1,689.7	10.2	(125.0)	(0.7)
State Universities Civil Service System	1,441.2	1,273.2	1,273.5	(167.7)	(11.6)	0.3	0.0
Board of Higher Education	3,277.2	2,886.7	2,976.0	(301.2)	(9.2)	89.3	3.1
Subtotal - Institutional/Agency Ops and Grants	2,417,829.5	2,168,297.8	2,001,308.4	(416,521.1)	(17.2)	(166,989.4)	(8.3)
Retirement	258,146.1	426,105.3	706,573.5	448,427.4	173.7	280,468.2	65.8
Higher Education Total	\$ 2,675,975.6	\$ 2,594,403.1	\$ 2,707,881.9	\$ 31,906.3	1.2 %	\$ 113,478.8	4.4 %

\* Includes State Pension Fund and Budget Relief Fund (FY 2009 only).

While operating appropriations for colleges and universities remain below fiscal year 2002 levels, it is important to recognize the state's significant contributions to public universities in the form of group health benefits and to community colleges and public universities in the form of retirement contributions. In many states, colleges and universities are directly responsible for securing, administering, and funding these employee benefits. Exhibit 6 highlights state support for employee retirement and group insurance.

**Exhibit 6**

**State Support for Higher Education Employee Benefits**  
**Fiscal Years 2007, 2008, and 2009**

	FY2007 Appropriations	FY2008 Appropriations	FY2009 Appropriations	Fiscal Year 2008 - 2009	
				Dollar Change	Percent Change
State Universities Retirement System	\$ 255,770.8	\$ 345,060.2	\$ 426,105.3	\$ 81,045.1	23.5 %
CC Health Insurance Security Fund (GRF)	3,706.7	4,740.2	3,916.3	(823.9)	(17.4)
State Contribution to SURS *	252,064.1	340,320.0	422,189.0	81,869.0	24.1
Group Benefits					
Contribution to Health Insurance Reserve Fund **	252,524.3	273,211.9	not yet available		

\* Includes State General Funds and State Pension Fund.

\*\* Appropriated through the Department of Healthcare and Family Services

**Public Universities.** Although public universities have benefited from increases in state appropriations in the last several fiscal years, state support for their operations is still 7.3 percent less in fiscal year 2010 than in fiscal year 2002, unadjusted for inflation. As Exhibit 7 indicates, reductions in state support to public universities have been similar across the board. Only Governors State University has seen an increase over fiscal year 2002 levels, and only Chicago State University and Northeastern Illinois University have experienced less than a 4.5 percent decrease in state support compared to fiscal year 2002. In each of these three cases, the percentage variation is due primarily to the effects of new legislative initiatives on relatively small funding bases. Note that Exhibit 7 displays fiscal year 2009 funding after the 2.5 percent reduction for reserves.

#### Exhibit 7

##### State General Funds Support for Public Universities Fiscal Years 2002, 2009, and 2010

(in thousands of dollars)

Institution	FY2009		FY2010 Appropriations	FY2002 to FY2010		FY2009 to FY2010	
	FY2002 Appropriations	Appropriations with Reserves		Dollar Change	Percent Change	Dollar Change	Percent Change
Chicago State University	\$ 44,027.4	\$ 41,059.2	\$ 42,112.0	\$ (1,915.4)	(4.4) %	\$ 1,052.8	2.6 %
Eastern Illinois University	55,274.3	49,302.3	50,566.5	(4,707.8)	(8.5)	1,264.2	2.6
Governors State University	28,045.9	27,616.3	28,324.4	278.5	1.0	708.1	2.6
Illinois State University	93,384.7	82,969.0	85,096.4	(8,288.3)	(8.9)	2,127.4	2.6
Northeastern Illinois University	45,396.8	42,316.9	43,401.9	(1,994.9)	(4.4)	1,085.0	2.6
Northern Illinois University	118,176.2	104,745.3	107,431.1	(10,745.1)	(9.1)	2,685.8	2.6
Western Illinois University	65,047.8	58,421.6	59,919.6	(5,128.2)	(7.9)	1,498.0	2.6
<b>Southern Illinois University</b>	<b>249,933.1</b>	<b>227,734.1</b>	<b>233,567.0</b>	<b>(16,366.1)</b>	<b>(6.5)</b>	<b>5,832.9</b>	<b>2.6</b>
<b>University of Illinois</b>	<b>803,624.7</b>	<b>724,834.2</b>	<b>743,419.7</b>	<b>(60,205.0)</b>	<b>(7.5)</b>	<b>18,585.5</b>	<b>2.6</b>
<b>Total, Public Universities</b>	<b>\$ 1,502,910.9</b>	<b>\$ 1,358,998.9</b>	<b>\$ 1,393,838.6</b>	<b>\$ (109,072.3)</b>	<b>(7.3) %</b>	<b>\$ 34,839.7</b>	<b>2.6 %</b>

In 2003, the General Assembly and the Governor passed Public Act 93-0229, which requires public universities to submit to the IBHE detailed expenditure and revenue information for all activities. That information is published annually by the IBHE in the *Annual Report on Public University Revenues and Expenditures*. The five years of data now available provide a valuable supplement to other financial information collected by the IBHE (fiscal year 2009 revenue and expenditure data are due in October). Exhibits 8 and 9 illustrate the impact of recent reductions in state support on other revenues and expenditures. As shown in Exhibit 8, educational and related revenues (i.e., revenues from state appropriations and university income funds) increased 5.9 percent, from \$2.38 billion to \$2.52 billion, or \$140.2 million, between fiscal year 2004 and fiscal year 2008 after accounting for inflation, while non-appropriated funds (which are mostly restricted to uses other than educational and related expenses) increased \$296.0 million, or 10.1 percent. However, revenue from state appropriations declined by over \$125 million in inflation-adjusted terms while university income fund revenue – which is primarily from tuition – increased by \$265.5 million.

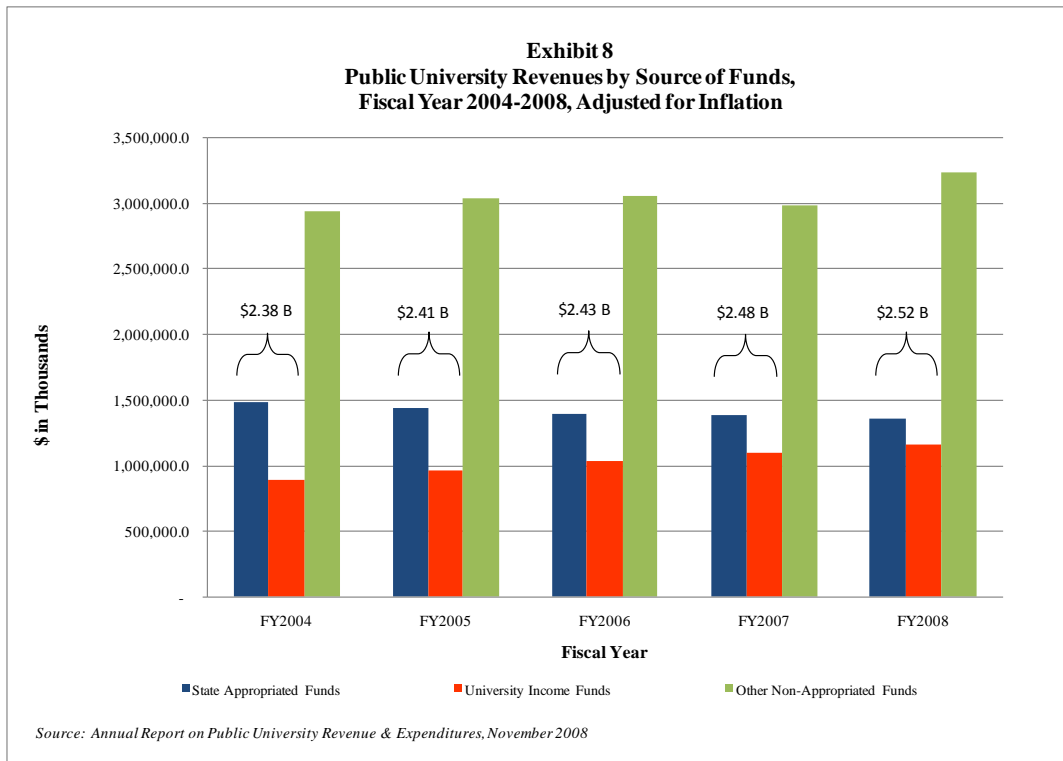
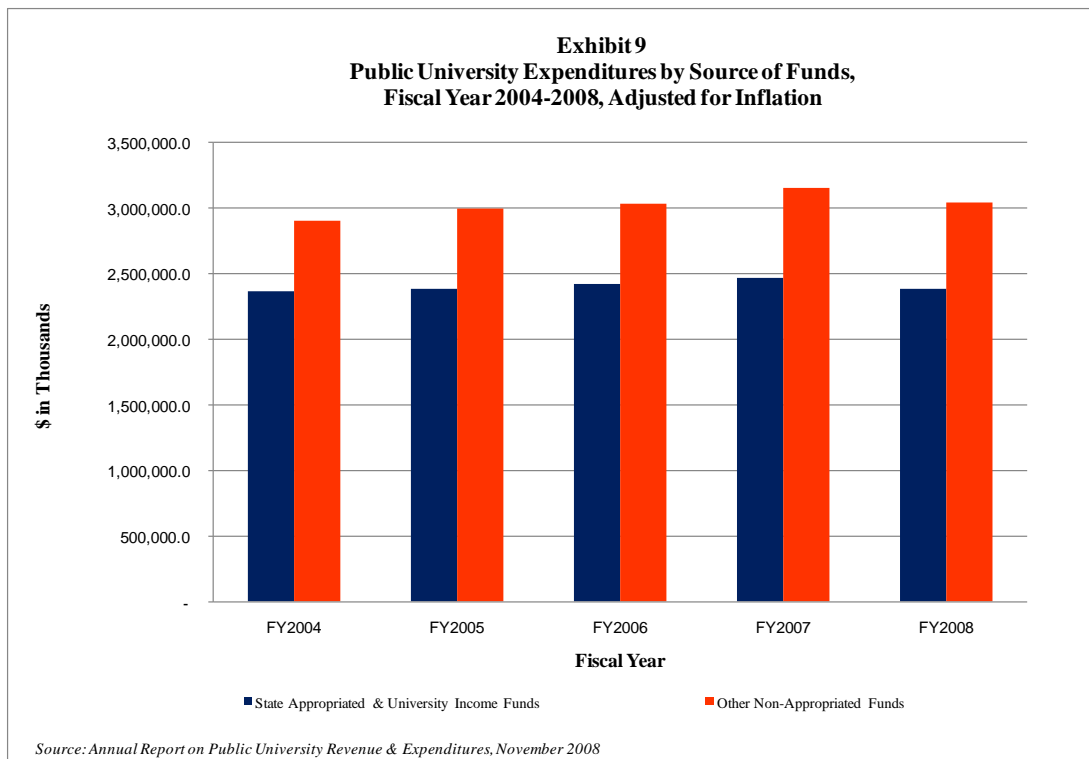


Exhibit 9 demonstrates the same phenomenon from the expenditure side. Public university expenditures from state appropriations and university income funds remained relatively unchanged between fiscal years 2004 through 2008 after accounting for inflation while expenditures from other non-appropriated funds increased by 4.9 percent.

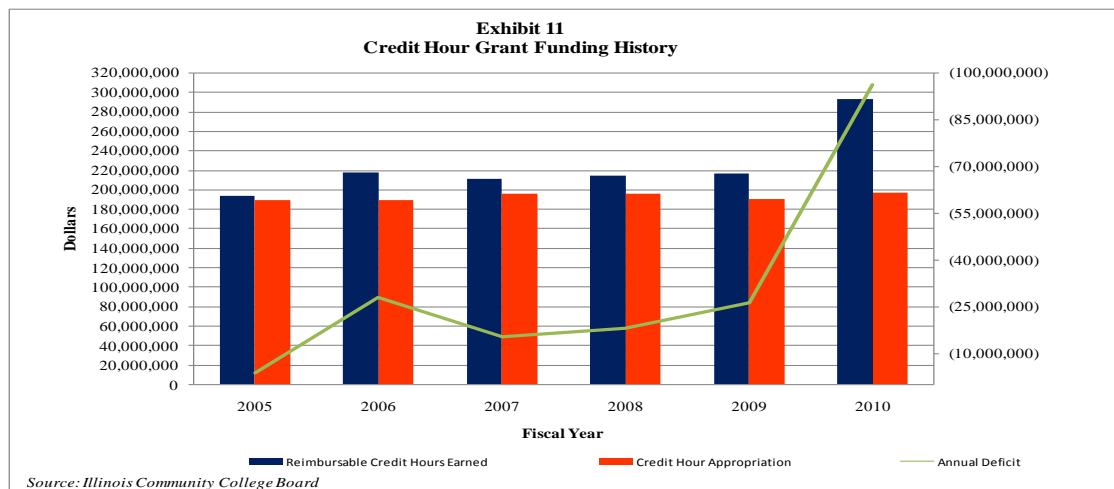


**Community Colleges.** Exhibit 10 presents state general funds support for community college grants and programs. Appropriations for base operating grants, the largest of the unrestricted grant programs at community colleges, increased 2.6 percent between fiscal year 2002 and 2010. However, many restricted grant programs have been eliminated, cut drastically or transferred to other state agencies during this time period. Other grants and special initiatives have been reduced by over 60.0 percent.

**Exhibit 10**  
**State General Funds Support for Community Colleges**  
**Fiscal Years 2002, 2009, and 2010**

	FY2002	FY2009	FY2010	FY2002 - FY2010		FY2009 - FY2010	
	Appropriation	Appropriation with Reserves	Appropriation	Dollar Change	Percent Change	Dollar Change	Percent Change
<b>Grants to Colleges</b>							
Base Operating Grants	\$ 193,775.0	\$ 192,872.6	\$ 198,746.7	\$ 4,971.7	2.6 %	\$ 5,874.2	3.0 %
Grant to City Colleges of Chicago	-	14,625.0	15,000.0	15,000.0	-	375.0	2.6
Small College Grants	900.0	840.0	840.0	(60.0)	(6.7)	-	-
Equalization Grants	77,391.5	75,449.1	76,997.3	(394.2)	(0.5)	1,548.2	2.1
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	-	-	(1,500.0)	(100.0)	-	-
Retirees Health Insurance Grant	735.0	626.6	626.6	(108.4)	(14.7)	-	-
Special Populations/Student Success Grants	13,260.0	-	-	(13,260.0)	(100.0)	-	-
Deferred Maintenance Grants	3,500.0	-	-	(3,500.0)	(100.0)	-	-
Veterans Grants Shortfall	-	7,261.5	7,261.5	7,261.5	-	-	-
<b>Subtotal</b>	<b>\$ 324,985.5</b>	<b>\$ 294,986.1</b>	<b>\$ 302,783.4</b>	<b>\$ (22,202.1)</b>	<b>(6.8) %</b>	<b>7,797.3</b>	<b>2.6 %</b>
<b>Other Grants</b>							
Lincoln's Challenge	125.0	120.1	60.0	(65.0)	(52.0)	(60.1)	(50.0)
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	-	1,020.0	-	-	-	(1,020.0)	(100.0)
College and Career Readiness Pilot Program	-	750.0	750.0	750.0	-	-	-
<b>Subtotal</b>	<b>\$ 6,118.0</b>	<b>\$ 3,479.2</b>	<b>\$ 2,399.1</b>	<b>\$ (3,718.9)</b>	<b>(60.8) %</b>	<b>(1,080.1)</b>	<b>(31.0) %</b>
<b>Total</b>	<b>\$ 331,103.5</b>	<b>\$ 298,465.3</b>	<b>\$ 305,182.5</b>	<b>\$ (25,921.0)</b>	<b>(7.8) %</b>	<b>6,717.2</b>	<b>2.3 %</b>

Base operating grants provide reimbursement to community college districts based on credit hours generated in six funding categories. At full funding, colleges are reimbursed at a calculated credit hour rate for instruction in each of the six funding categories; however, as Exhibit 11 illustrates, the state appropriation has not equaled the system's needs, so the credit hour reimbursement rate has been adjusted downward. A reduction in reimbursable credit hours combined with an increase in the state appropriation led to a reduction in the annual deficit in fiscal year 2007; however, since that time the state appropriation has remained relatively unchanged and the number of credit hours has continued to rise, resulting in an increase in the annual deficit. In fiscal year 2010, despite an increase in the state appropriation, an estimated increase in reimbursable credit hours of over 76,000 will lead to a record deficit estimated at over \$96.0 million.



The Equalization Grant is designed to assure that community college districts with a limited tax base have access to the funds necessary to support educational programs. A threshold or foundation of expected local property tax revenues per student is the basis of equalization funding; any community college district below the threshold is eligible for an equalization grant. As with funding for base operating grants, funding for equalization grants has failed to keep pace with the calculated need and the equalization formula has been prorated. As illustrated by Exhibit 12, funding for the equalization formula remains relatively unchanged since fiscal year 2005 while equalization formula calculations have continued to rise and the annual funding deficit has grown. In fiscal year 2010 equalization grants are underfunded by an estimated 51.8 percent, resulting in a deficit of \$82.8 million.

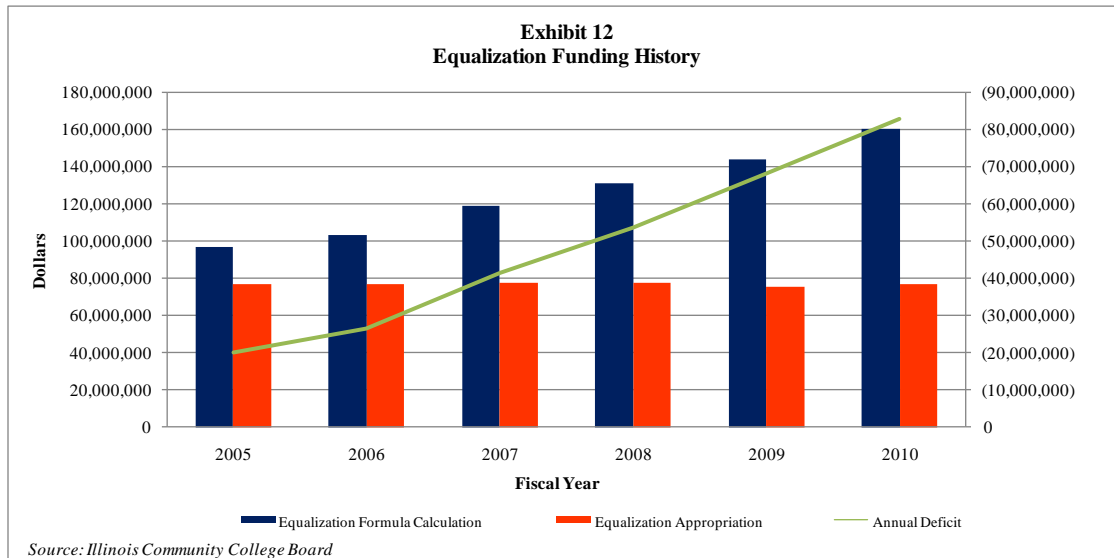
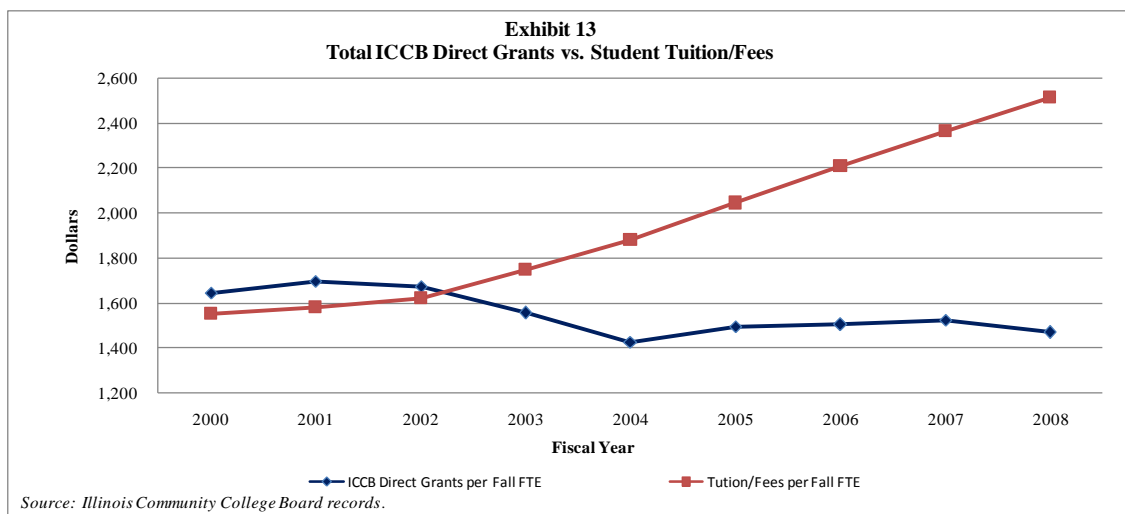


Exhibit 13 demonstrates the relationship between state appropriations and tuition and fees at community colleges. As illustrated by the exhibit, direct grants to colleges declined rapidly between fiscal years 2002 and 2004, and through fiscal year 2007 have only increased slightly. Most recently, in fiscal year 2008, direct grants have once again declined below fiscal year 2005 levels. Since fiscal year 2002, as state support declined, so began a steady yearly increase in student tuition and fees.



**Student Aid.** Exhibit 14 includes appropriations to the major grant programs administered by the Illinois Student Assistance Commission.

**Exhibit 14**  
**State Funding Support for Illinois Student Assistance Commission Programs**  
**Fiscal Years 2002, 2009, and 2010**

(in thousands of dollars)

	FY2002 Appropriations	FY2009 Appropriations	FY2010 Appropriations	FY2002 to FY2010		FY2009 to FY2010	
				Dollar	Percent	Dollar	Percent
				Change	Change	Change	Change
<b>Illinois Student Assistance Commission</b>							
Monetary Award Program (MAP)	\$ 367,528.3	\$ 381,099.8	\$ 194,146.1	\$ (173,382.2)	(47.2) %	\$ (186,953.7)	(49.1) %
Silas Purnell Illinois Incentive for Access	7,200.0	8,200.0	4,500.0	(2,700.0)	(37.5)	(3,700.0)	(45.1)
Illinois Veteran Grants	20,000.0	19,250.0	5,750.0	(14,250.0)	(71.3)	(13,500.0)	(70.1)
National Guard Grants	4,500.0	4,480.0	4,400.0	(100.0)	(2.2)	(80.0)	(1.8)
Other Grant Programs	18,020.0	16,175.0	11,235.1	(6,784.9)	(37.7)	(4,939.9)	(30.5)
ISAC Administration	6,504.0	-	-	(6,504.0)	(100.0)	-	-
Total	<u>\$ 423,752.3</u>	<u>\$ 429,204.8</u>	<u>\$ 220,031.2</u>	<u>\$ (203,721.1)</u>	<u>(48.1) %</u>	<u>\$ (209,173.6)</u>	<u>(48.7) %</u>

For fiscal year 2010, the Monetary Award Program (MAP) suffered a 49.1 percent reduction in state appropriations, or \$187.0 million. As a result, MAP awards were suspended on May 15, 2009, the earliest suspension date since the creation of the MAP program. In addition to the earliest suspension date, recipients will receive only 50 percent of their awards. According to ISAC, approximately 138,000 MAP recipients will not receive their spring term awards, and approximately 130,000 eligible MAP recipients will not receive awards because of the suspension date.

Exhibit 14 also reflects a significant decrease in funding for ISAC's other scholarship and grant programs, as well as the elimination of state support for agency administration. One program particularly hard hit is the Illinois Veterans Grant program, which experienced a reduction in state funding from \$19.25 million in fiscal year 2009 to \$5.75 million in fiscal year 2010. That reduction, however, does not tell the complete story about reductions to the program. Between fiscal year 2002 and fiscal year 2009, IVG claims increased from \$19.6 million to \$40 million, while appropriations remained stagnant at \$19.25 million. Community colleges and universities are required to waive tuition and fees for qualified veterans regardless of state funding. Because of the reduction in state support for the IVG program, colleges and universities will waive over \$30 million in fiscal year 2010 without state reimbursement.

In addition to outright shortfalls, MAP has been unable to keep up with increases in tuition and fees. The MAP formula takes into account a cost of living allowance, tuition and fee rates, a maximum award amount, and an expected family contribution (EFC). Since fiscal year 2002, the cost of living allowance has remained at \$4,875. Tuition and fee rates from fiscal year 2004 have been incorporated into the formula since fiscal year 2006. In addition, as shown in Exhibit 15 on the following page, the maximum paid award has not increased since fiscal year 2002 (the maximum statutory award was increased by PA 95-0917 in 2008, but funding was not provided to implement the new maximum), and the percentage of eligible awards paid has decreased from a peak of 70.5 percent in fiscal year 2001 to 55.6 percent in fiscal year 2009.

**Exhibit 15**  
**MAP Historical Award Summary**  
**FY 1999 - FY 2009**

<u>Academic Year</u>	<u>Maximum Award</u>	<u>Effective Award *</u>	<u>Mean Award</u>	<u># of Announced Eligible Awards</u>	<u>% of Eligible Awards Paid</u>
1998-1999	\$4,320	--	\$2,247	194,985	70.0%
1999-2000	\$4,530	--	\$2,383	194,036	70.4%
2000-2001	\$4,740	--	\$2,500	197,889	70.5%
2001-2002	\$4,968	--	\$2,646	210,299	66.9%
2002-2003	\$4,968	\$4,720	\$2,539	214,179	61.6%
2003-2004	\$4,968	\$4,471	\$2,355	236,631	59.5%
2004-2005	\$4,968	\$4,471	\$2,198	241,024	62.5%
2005-2006	\$4,968	\$4,521	\$2,365	236,168	62.2%
2006-2007	\$4,968	--	\$2,613	236,306	62.1%
2007-2008	\$4,968	--	\$2,637	239,455	60.8%
2008-2009	\$4,968	--	\$2,662	259,333	55.6%

\* Reduction factor applied to awards

Source: *Data Book*, Illinois Student Assistance Commission

Exhibit 16 provides a breakout of the numbers of MAP-eligible applications by sectors that were received through August 28, 2009. Community colleges had the largest increase in MAP-eligible applications, 31.4 percent over fiscal year 2009. The total increase for all sectors in fiscal year 2010 was 21.4 percent over fiscal year 2009.

**Exhibit 16**  
**MAP Eligible Applications Received Through August 28th**  
**with a May 15th Suspense Date - By Sector**

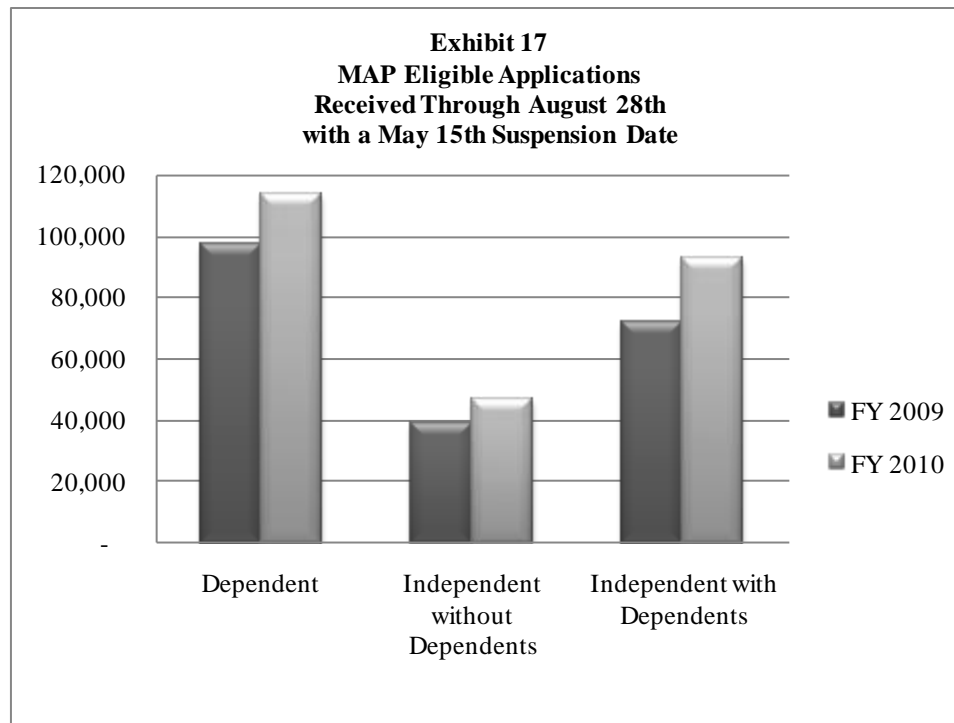
	<u>FY 2009</u>	<u>FY 2010</u>	<u>Increase</u>	<u>% Increase</u>
Public Universities	52,708	59,348	6,640	12.6%
Private Universities	44,991	49,583	4,592	10.2%
Community Colleges	96,222	126,462	30,240	31.4%
Private Two-Year	2,677	3,090	413	15.4%
HSN/Professional	1,070	1,243	173	16.2%
Proprietary	10,629	13,133	2,504	23.6%
Total	208,297	252,859	44,562	21.4%

Source: Illinois Student Assistance Commission

Exhibit 17 provides the distribution of MAP-eligible applications between dependent students, independent students without dependents, and independent students with dependents. As of August 28, 2009, independent students with dependents had the largest increase in MAP-



eligible applications, 28.6 percent over fiscal year 2009. The increase of eligible applications received through the same time was 19.3 percent for independent students without dependents and 16.8 percent for dependent students.



The Silas Purnell Illinois Incentive for Access (IIA) Grant Program, a program that is open only to freshman with expected family contributions of \$500 or less, experience a reduction in appropriations of \$3.7 million, or 45.1 percent, from fiscal year 2009. Due to the funding reduction and the application volume increase in fiscal year 2010, an April 18<sup>th</sup> suspension date was established, and only students with \$0 expected family contributions are eligible. Exhibit 18 provides a breakout of the number of IIA-eligible applications by sector. Community Colleges had the largest increase in IIA-eligible applications, 67.8 percent over fiscal year 2009. The total increase for all sectors was 62.7 percent over fiscal year 2009.

**Exhibit 18**

**IIA Eligible Applications Volume Zero EFC Freshmen**  
**April 18th Suspense Date By Sector**

	<u>FY 2009</u>	<u>FY 2010</u>	<u>Increase</u>	<u>% Increase</u>
Public Universities	5,282	7,789	2,507	47.5%
Private Universities	4,168	6,138	1,970	47.3%
Community Colleges	32,298	54,203	21,905	67.8%
Private Two-Year	755	1,143	388	51.4%
HSN/Professional	156	231	75	48.1%
Proprietary	2,263	3,594	1,331	58.8%
Total	44,922	73,098	28,176	62.7%

Source: Illinois Student Assistance Commission

**Institutional Grants and Higher Education Agencies.** Exhibit 19 shows that institutional grant programs administered by the IBHE have declined approximately 93.0 percent since fiscal year 2002. Many programs are no longer funded by the state, including the Illinois Financial Assistance Act Grants, State Matching Grants, Engineering Equipment Grants, Higher Education Cooperation Act Grants, and Health Service Education Act Grants. Two of these grant programs, the Illinois Financial Assistance Act Grants and Health Service Education Act Grants, were made exclusively to independent colleges and universities.

Two notable exceptions to the enduring reductions experienced by higher education since fiscal year 2002 have been the University Center of Lake County and the Illinois Mathematics and Science Academy. However, both institutions experienced reduced funding in fiscal year 2010, particularly the UCLC.

**Exhibit 19**  
**State Funding Support for Institutional Grant Programs and Agencies\***  
**Fiscal Years 2002, 2009, and 2010**

(in thousands of dollars)

	FY2002		FY2009		FY2010		FY2002 to FY2010		FY2009 to FY2010	
	FY2002		Appropriations		FY2010		Dollar	Percent	Dollar	Percent
	Appropriations		with Reserves		Appropriations		Change	Change	Change	Change
<b><u>Institutional Grant Programs</u></b>										
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		2,931.9		1,716.0		691.0	67.4	(1,215.9)	(41.5)
Quad Cities Graduate Study Center	220.0		220.0		130.0		(90.0)	(40.9)	(90.0)	(40.9)
Diversifying Higher Education Faculty in Illinois	2,000.0		2,716.0		1,640.0		(360.0)	(18.0)	(1,076.0)	(39.6)
Competitive Nursing School Grants	-		1,000.0		880.0		880.0	-	(120.0)	(12.0)
Nurse Educator Fellowships	-		150.0		180.0		180.0	-	30.0	20.0
Access and Diversity, HECA Grants	7,084.6		-		-		(7,084.6)	(100.0)	-	-
Health Services Education Grants	18,263.3		-		-		(18,263.3)	(100.0)	-	-
State Matching Grants	10,000.0		-		-		(10,000.0)	(100.0)	-	-
Integrated Student Information Systems	-		-		205.0		205.0	-	205.0	-
STEM Diversity Grants	-		1,000.0		590.0		590.0	-	(410.0)	(41.0)
u.Select System	-		-		230.0		230.0	-	230.0	-
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		-		-		(3,445.0)	(100.0)	-	-
Cooperative Work Study Grants	2,100.0		1,932.0		1,230.0		(870.0)	(41.4)	(702.0)	(36.3)
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	3,319.0		-		-		(3,319.0)	(100.0)	-	-
Teaching, Learning, and Quality, HECA Grants	3,480.0		-		-		(3,480.0)	(100.0)	-	-
<b>Total</b>	<b>\$ 97,256.0</b>	<b>\$</b>	<b>9,949.9</b>	<b>\$</b>	<b>6,801.0</b>	<b>\$</b>	<b>(90,455.0)</b>	<b>(93.0) %</b>	<b>\$ (3,148.9)</b>	<b>(31.6) %</b>
<b><u>Agencies/Other Institutions</u></b>										
Illinois Mathematics and Science Academy	\$ 16,526.7	\$	18,341.4	\$	18,216.4	\$	1,689.7	10.2 %	\$ (125.0)	(0.7) %
State Universities Civil Service System	1,441.2		1,273.2		1,273.5		(167.7)	(11.6)	0.3	0.0
Illinois Board of Higher Education	3,277.2		2,886.7		2,976.0		(301.2)	(9.2)	89.3	3.1

\* Includes Budget Relief Fund (FY 2009 only).

\*\* Medical Scholarship Program transferred to the Illinois Department of Public Health in FY 2009

## Capital Improvement Funding Trends

During most of this decade, new capital appropriations for higher education – along with capital appropriations for nearly all state activities – have been non-existent. While state funding for capital improvement projects typically comes from non-general funds sources (i.e., bond proceeds), general funds retire the debt, and thus the overall reduced level of support from previous years also is reflective of the state's fiscal constraints. Until 2009, the General Assembly last increased statutory bonding authority to finance capital projects in 2002. Despite

the lack of new capital 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). However, funds have rarely been available to support the projects. In fiscal years 2008 and 2009, it appeared as though the General Assembly moved closer to finalizing a plan than in recent years, however in the end no such plans emerged. In FY2010, the General Assembly approved, and the Governor signed, House Bill 312 and Senate Bill 1221 which provide a \$31 billion capital plan for Illinois.

The FY2010 capital plan, *Illinois Jobs Now!*, provides more than \$1.6 billion for higher education capital construction and renovation projects (Exhibit 20). The FY2010 capital plan includes all the projects that were recommended by the IBHE including \$90 million for capital renewal funding. In addition, the capital program includes \$300 million for private college and university construction and renovation projects, \$134.5 million for the Community College Temporary Facility Replacement Program, \$60 million for the Petascale Computing Facility, and \$25 million to the Illinois Emergency Management Agency for campus security measures at campuses across the state. At this time, the project release plans for these capital projects have not been finalized.

**Exhibit 20**  
**Higher Education Capital Improvements**  
**Fiscal Year 2005 - Fiscal Year 2010**

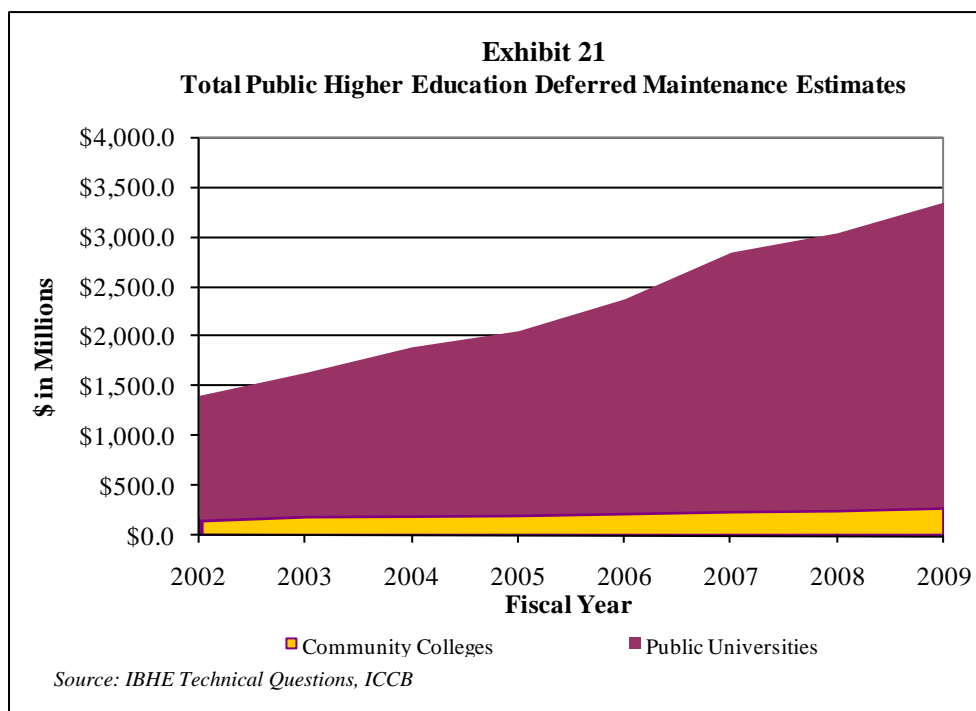
(in thousands of dollars)

Fiscal Year	Requests Submitted to IBHE	IBHE Recommendation	Final Appropriations
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
2008	1,782,380.8	607,745.3	-
2009	1,972,707.5	805,815.7	-
2010	2,302,549.2	890,713.7	1,638,475.3

\* Appropriation was in the form of a lump sum. Specific projects were not identified.

Source: IBHE records.

Lack of capital appropriations prevents colleges and universities from constructing new facilities to meet enrollment and programmatic needs, forcing institutions to crowd classrooms and laboratories and preventing them from meeting student demand for courses and services, but it also affects existing 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 the IBHE would give high priority to protecting that investment. As illustrated by Exhibit 21, the backlog in deferred facilities maintenance at public universities and community colleges was estimated to be over \$3.3 billion in FY 2009, an increase of \$1.9 billion since fiscal year 2002. Lack of capital appropriations and the growing deferred maintenance problem has led nearly all universities to assess students a campus improvement or facilities maintenance fee, which has a direct effect on affordability. The *Illinois Jobs Now!* program will reduce the deferred maintenance backlog to some degree, but the colleges and universities will require years of sustained funding to reduce the backlog to a manageable level.



### Illinois Funding Trends in a Regional and National Context

Illinois' recent financial difficulties and the measures taken to deal with them have not been unique. Nearly all states were adversely affected by the economic downturn of the early 2000's and most recently by the current recession. Many states are once again facing difficult financial choices as a result of declining revenues.

Exhibit 22 shows that the changes in state operating support for higher education in Illinois are within the mid-range of changes in support made across the Midwest over the past several years. Illinois and most other Midwestern states have fared worse than all states combined over the past decade. However, more recently, Illinois and most other Midwestern states have experienced higher growth in state support than the national average. State support in Exhibit 22 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). Appropriations made to the State Universities Retirement System are included in the Illinois figures and account for much of the variation in fiscal years 2006 through 2009. Revised fiscal year 2009 appropriations and fiscal year 2010 appropriations should be available by January 1, 2010.

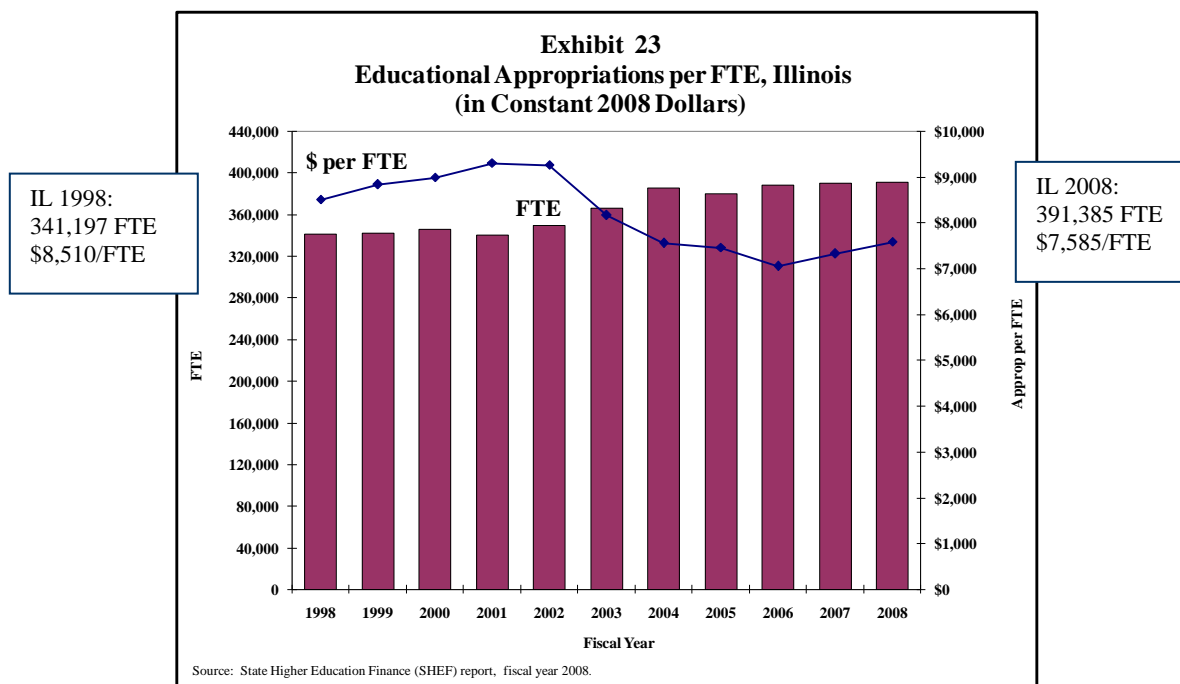
## Exhibit 22

### Appropriations of State Tax Funds for Operating Expenses of Higher Education in Nine Midwestern States and All States for Fiscal Years 2000 through 2009 (In Thousands of Current Dollars)

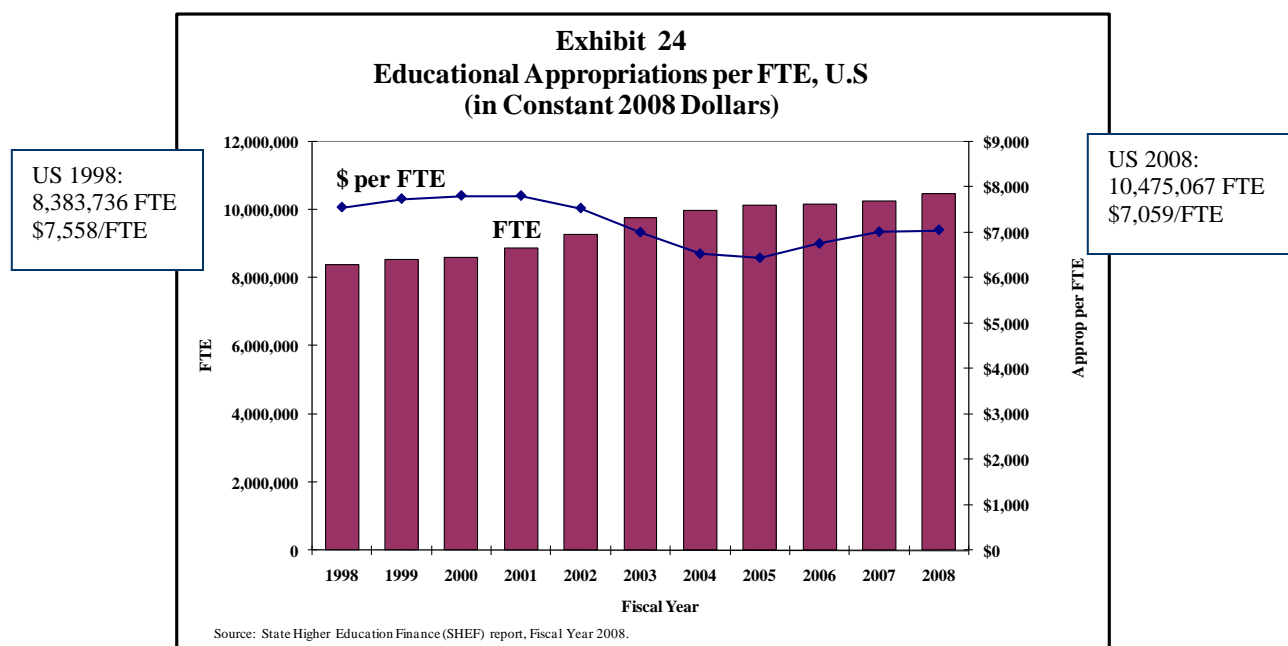
States	2000	2004	2007	2008	2009	1-yr Change	2-yr Change	5-yr Change	9-yr Change
<b>Illinois</b>	<b>2,573,964</b>	<b>2,701,159</b>	<b>2,787,716</b>	<b>2,935,504</b>	<b>3,011,705</b>	<b>2.6%</b>	<b>8.0%</b>	<b>11.5%</b>	<b>17.0%</b>
Indiana	1,226,677	1,360,318	1,456,561	1,528,494	1,594,375	4.3%	9.5%	17.2%	30.0%
Iowa	824,062	737,752	804,488	873,709	935,161	7.0%	16.2%	26.8%	13.5%
Kentucky	925,506	1,104,797	1,253,192	1,312,462	1,283,253	-2.2%	2.4%	16.2%	38.7%
Michigan	2,077,725	1,984,293	2,040,389	2,033,709	2,061,066	1.3%	1.0%	3.9%	-0.8%
Minnesota	1,286,427	1,287,455	1,400,500	1,574,499	1,576,292	0.1%	12.6%	22.4%	22.5%
Missouri	910,565	838,596	895,376	935,281	1,027,185	9.8%	14.7%	22.5%	12.8%
Ohio	2,062,827	2,071,035	2,207,680	2,377,796	2,499,847	5.1%	13.2%	20.7%	21.2%
Wisconsin	1,074,474	1,114,812	1,174,980	1,242,558	1,292,042	4.0%	10.0%	15.9%	20.2%
<b>Midwest Totals</b>	<b>12,962,227</b>	<b>13,200,217</b>	<b>14,020,882</b>	<b>14,814,012</b>	<b>15,280,926</b>	<b>3.2%</b>	<b>9.0%</b>	<b>15.8%</b>	<b>17.9%</b>
<b>National Totals</b>	<b>52,861,435</b>	<b>60,788,467</b>	<b>72,787,633</b>	<b>77,800,730</b>	<b>78,527,989</b>	<b>0.9%</b>	<b>7.9%</b>	<b>29.2%</b>	<b>48.6%</b>

Source: FY2009 Grapevine, Table 4, Illinois State U. Center for the Study of Education Policy

Exhibits 23 and 24, created from data collected by the State Higher Education Executive Officers for its annual *State Higher Education Finance* report, show recent state and local appropriations for public higher education on a full-time-equivalent (FTE) student basis adjusted for inflation.<sup>3</sup> Appropriations per FTE declined more in Illinois than in the nation as a whole between fiscal years 1998 and 2008, although they continue to be above the national average. Illinois' enrollment growth over that period, however, is much less than enrollment growth nationally, and the decline in appropriations per FTE since fiscal year 2002 has been more dramatic in Illinois.



<sup>3</sup> The appropriations are adjusted to remove research, medical, and agricultural extension funding; capital funding; and financial aid to students attending independent colleges and universities. They are also 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). Appropriations to SURS are included.



Another interesting national comparison that demonstrates the effect of recent funding trends in 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 25, which covers the 2000, 2002, 2004, 2006, and 2008 editions, demonstrates that Illinois consistently performs well across most categories, but has lost its high ranking in participation and affordability.

**Exhibit 25**  
**Illinois Performance and Top State Performance as Reported in *Measuring Up***

	2000		2002		2004		2006		2008	
	Illinois	Top State	Illinois	Top State	Illinois	Top State	Illinois	Top State	Illinois	Top State
Preparation	A	UT	B+	MA	B+	MA	B	MA	B	MA
Participation	A	DE	A	MA	A	MA	A	NM	C	IA
Affordability	A	CA	B	CA	D	CA	F	UT	F	CA
Completion	C+	NH	B-	NH	B	VT	B+	NH	B+	IA
Benefits	B-	MD	B-	CO	B-	MD	A	MA	B	MD

### Fiscal Context

Anyone involved in or funded by state government is aware that the fiscal context in Illinois has been challenging in recent years. On the expenditure side, the July edition of *The Illinois State Comptroller's Quarterly* reported that throughout fiscal year 2009, "the state's cash flow position continued to deteriorate rapidly as the recession deepened and the state ended the year in the worst fiscal position in modern times." At the end of June, the backlog of unpaid bills in the Comptroller's Office stood at \$2.8 billion. On July 31, 2009, the Governor took final

action on the allocation plan for the fiscal year 2010 state budget totaling approximately \$25.9 billion. As passed, the budget relies on borrowing \$3.4 billion to make pension payments. The budget also provides for lump sum appropriations instead of specific line items for state grants, programs, and operations. The Governor's plan for an increase in the state income tax has not been approved by the General Assembly.

On the revenue side, fiscal year 2009 marked the end of revenue growth that began in fiscal year 2004. The Commission on Government Forecasting and Accountability's (CGFA) June 2009 *Monthly Briefing* reported that general funds revenue fell \$515 million, or 1.7 percent, in fiscal year 2009, despite over \$1.5 billion in direct federal stimulus revenue. According to the CGFA, the declines are attributed to the continuing effects of the ongoing recession which has caused income and sales tax receipts to plummet. Looking forward into fiscal year 2010, CGFA estimates personal income tax will drop as job loss continues at least in the near term. Likewise, corporate income tax is expected to suffer a second year of declines as the business sector continues to contract and profitability remains elusive. Finally, sales tax receipts are also expected to decline. According to CGFA, even if the economy improves, it will be too late into the fiscal year to avoid another year of declines. In fact, fiscal year 2010 will mark two consecutive years of base revenue declines totaling \$2.7 billion, far worse than the \$1.3 billion reduction experienced over the two-year period of the last recession (FY 02 and FY 03). According to the State Comptroller, "without any changes to current trends, the prognosis for fiscal year 2010 is disturbing...the demands on cash management will be unprecedented." (*The Illinois State Comptroller's Quarterly*, Edition 32, July 2009).

Exhibit 26 provides actual revenues to the general funds for fiscal years 2002 through 2009 and estimated fiscal year 2010 revenues based on CGFA's April 2009 estimate of revenues for fiscal year 2010 and June 2009 year-end revenue report for fiscal year 2009.

**Exhibit 26**  
**General Funds Revenues**  
**Fiscal Years 2002 through 2010**

(in millions of dollars)

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
State Taxes	18,497	18,074	19,255	20,508	21,818	23,078	24,152	22,343	21,278
\$ Increase	(730)	(423)	1,181	1,253	1,310	1,260	1,074	(1,809)	(1,065)
% Increase	-3.8%	-2.3%	6.5%	6.5%	6.4%	5.8%	4.7%	-7.5%	-4.8%
General Funds*	23,379	22,786	25,428	26,160	27,359	28,640	29,659	29,144	26,868
\$ Increase	(727)	(593)	2,642	732	1,199	1,281	1,019	(515)	(2,276)
% Increase	-3.0%	-2.5%	11.6%	2.9%	4.6%	4.7%	3.6%	-1.7%	-7.8%

\* 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.

Sources: Commission on Government Forecasting and Accountability - *FY 2010 Economic & Revenue Forecast and Updated FY2009 Revenue Estimate*, April 2009; and *Monthly Briefing*, June 2009.

Although it is early in the state's fiscal year 2011 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; other healthcare programs, including the State Employees' Group Insurance program; K-12 education; and the state retirement systems, which will require an estimated \$186.9 million increase in employer contributions for fiscal year 2011 to continue on the 50-year funding program established by

Public Act 88-0593.<sup>4</sup> Nearly \$31.0 million of the estimated \$186.9 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 predicted revenue growth that may occur in fiscal year 2011.

Along with the program pressures listed above, the backlog of unpaid bills, declining revenues, and the pension hole passed over by borrowing in fiscal year 2010, the state will face the loss of federal State Fiscal Stabilization Fund funding in fiscal year 2011. The state is using over \$2 billion in SFSF funds to maintain education spending in fiscal years 2009 and 2010 at fiscal year 2009 levels; however, the SFSF funds will be used up in fiscal year 2010. As a condition of receiving SFSF funds, the state pledged that it would maintain levels of state support for colleges and universities at fiscal year 2006 levels. If the state is unable to replace completely the SFSF funds with state appropriated funds in fiscal year 2011, colleges and universities will experience a decline of \$93.9 million in funding for fiscal year 2011.

### **Fiscal Year 2011 Budget Recommendations and the *Public Agenda***

The IBHE adopted The *Illinois Public Agenda for College and Career Success* as a blueprint for the continuing development of Illinois' higher education system in December 2008. The goals of the *Public Agenda*, which are listed below, and the strategies adopted to achieve them have clear ramifications for state higher education funding.

#### *Goal 1. Increase educational attainment to match best-performing U.S. states and world countries.*

- a. Increase success of students at each stage of the P-20 education pipeline to eliminate achievement gaps by race, ethnicity, socioeconomic status, gender, and disability.*
- b. Increase the number of adults, including GED recipients, reentering education and completing a postsecondary credential.*
- c. Reduce geographic disparities in educational attainment.*

#### *Goal 2. Ensure college affordability for students, families, and taxpayers.*

- a. Make Illinois one of the five most affordable states in the country to get a college education.*

#### *Goal 3. Increase the number of high-quality postsecondary credentials to meet the demands of the economy and an increasingly global society.*

- a. Increase the number of people with high-quality postsecondary credentials to ensure the state has an educated workforce and an engaged citizenry.*
- b. Improve transitions all along the education pipeline.*
- c. Increase the number of postsecondary degrees in fields of critical skill shortages.*

#### *Goal 4. Better integrate Illinois' educational, research and innovation assets to meet economic needs in the state and its regions.*

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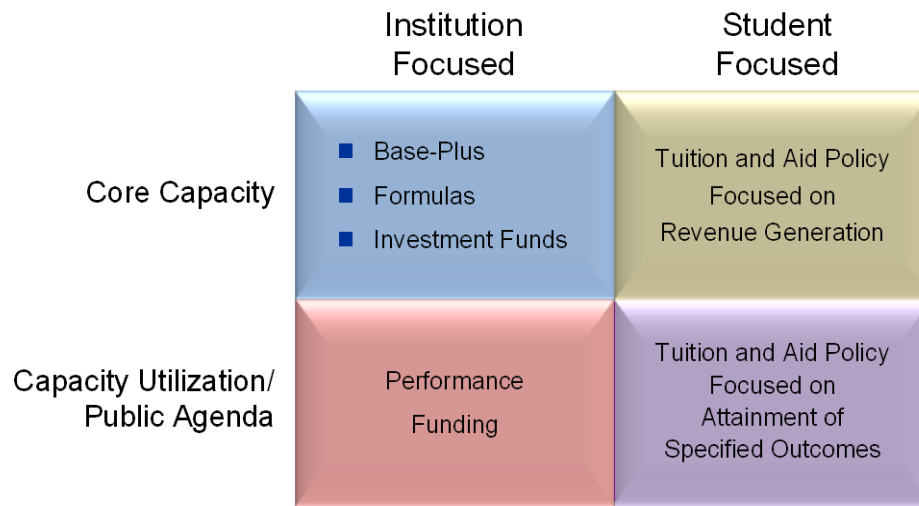
<sup>4</sup> Commission on Government Forecasting & Accountability, *Pensions: Report on the Financial Condition of Illinois Public Employee Retirement Systems*, February, 2009, pages 69 and 72.



a. *Boost Illinois into the ranks of the five states with the fastest growing economies.*

The National Center for Higher Education Management Systems (NCHEMS), which assisted the IBHE and the Public Agenda Task Force with the development of the *Public Agenda*, provides a useful framework (Exhibit 27) for understanding how finance policy can be directed toward meeting strategic goals. As the Board moves forward with its budget recommendations, it will need to consider how to balance institutional needs for sufficient revenues to carry out their missions with the ability of students and families to pay for higher education and the use of incentive or investment funds to accomplish particular strategic goals such as graduating more minority students from science, technology, mathematics, and engineering programs.

**Exhibit 27: Finance Policy Options**



Source: NCHEMS Consultants' Report: Developing a Public Agenda for College and Career Success, August 4, 2008.

The IBHE's fiscal year 2010 budget recommendations were developed to begin the implementation process by focusing state funds on core activities and targeted interventions meant to make quality higher education widely available and affordable. The Board's fiscal year 2011 recommendations will continue that focus on the *Public Agenda*. Many of the potential funding priorities appear in Exhibit 28 on the following page.

**Exhibit 28: Align Potential Initiatives with Public Agenda Goals, FY2011**

Goals for College and Career Success	1.) Increase Educational Attainment				2.) Ensure College Affordability	3.) Increase Production of Postsecondary Credentials				4.) Better Integrate Educational, Research, and Innovation Assets
	a. Eliminate Achievement Gaps					a. Improve Learning and Skill Levels				
	b. Increase Adults Reentering Education					b. Increase Production				
	c. Reduce Geographic Disparities					c. Improve Transitions (between associate and baccalaureate degree levels)				
						d. Critical to Illinois Economy				
Potential Initiatives for FY11										
Institutional Support for Core Capacity	x	x	x	x		x	x	x	x	
Early Intervention and Financial Aid	x		x	x		x				
Adult Education Opportunities	x	x	x	x		x	x	x		
Application of University Research									x	
Baccalaureate Completion Initiatives	x	x	x	x		x	x	x	x	
Workforce Certification and Credentialing	x	x		x		x	x		x	
P-20 Data Systems	x	x	x			x	x	x	x	
Faculty Diversity	x		x			x				
Dual Credit			x	x		x	x			
Student Financial Aid	x	x		x			x			
Interinstitutional Cooperation Initiatives	x	x	x					x	x	
Nursing and Health Education Initiatives							x		x	
Research Matching Grants									x	
Minority Incentives	x		x	x		x	x	x		
School Leader & Teacher Prep	x		x			x				
Rapid Response to Employer Needs		x	x			x			x	
Incentives for Regional Collaboration	x	x	x				x	x	x	
Performance Funding – Course Completion				x		x	x	x		
Performance Funding – Degree Production	x			x			x	x		
Career and College Readiness	x	x		x		x	x			
GED Testing		x	x							
u.select	x			x			x			

## **Recommendation Structure**

At the suggestion of Chairwoman Hightman, the Board departed from previous recommendations in fiscal year 2009 by adopting an investment-level approach offering recommendations at four different levels of investment ranging from 1.0 percent through a 7.9 percent overall increase. In fiscal year 2010, the Board continued with the investment-level approach; however, two investment levels reflecting decreased funding were included in recognition of the State's economic context. It is anticipated that Board will continue to make investment-level recommendations in fiscal year 2011.

## **Timeline**

The timeline and processes for the development of the Board's fiscal year 2011 operating and capital budget recommendations are contained in Appendix A.

## **Appendix A: IBHE Timelines and Processes**

### **2009**

July 10	Distribute budget development schedules and accompanying memos
July 31	Distribute historical RAMP schedules Distribute operating and capital budget request materials Distribute technical questions
September 28	Historical RAMP submissions due back to BHE
October	Begin budget overview meetings
October 1	IMSA operating and capital requests due back to BHE
October 15	All other 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

### **2010**

January	Discussion budget meetings
February	BHE to consider staff budget recommendations