

SETTING A CONTEXT FOR FISCAL YEAR 2012 BUDGET DEVELOPMENT

Submitted for: Information.

Summary: *Setting a Context for Fiscal Year 2012 Budget Development* is intended to provide the “lay of the land” to the Board as it develops its fiscal year 2012 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 2012 appropriations. The report concludes with an explanation of how the *Public Agenda* and the work of the Higher Education Finance Study Commission created by Senate Joint Resolution 88 can inform and direct the Board as it develops its fiscal year 2012 operating and capital recommendations.

Action Requested: None.

STATE OF ILLINOIS
BOARD OF HIGHER EDUCATION

SETTING A CONTEXT FOR FISCAL YEAR 2012 BUDGET DEVELOPMENT

Highlights

- Looking back over 15 years, total state funding for higher education (operations, grants, and pensions) is 10.6 percent greater in fiscal year 2011 than in fiscal year 1996 when accounting for inflation. However, the increase is entirely 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 1996 after accounting for inflation. The total decrease is \$440.3 million, or 17.6 percent.
- More recently, when appropriations for the State Universities Retirement System are excluded, total state funding for higher education institutional operations and grants in fiscal year 2011 is \$249.5 million (10.5 percent) less than in fiscal year 2006 after accounting for inflation. This includes reductions in support for public universities, community colleges, financial aid, and institutional grant programs. When pensions are included, state support increased an inflation-adjusted \$411.8 million, or 12.3 percent.
- Between fiscal years 2010 and 2011, operations and grants funding decreased \$104.2 million, or 4.7 percent, when retirement funding is excluded. This reduction is attributable to the loss of federal support provided in fiscal year 2010 for public universities and community colleges through the American Recovery & Reinvestment Act of 2009 (ARRA). The ARRA funds are not available in fiscal year 2011, though the state is required to maintain support for public colleges and universities at the fiscal year 2006 level. Additionally, in fiscal year 2011 the Governor chose not to continue a one-time allocation of \$13.0 million to the Illinois Community College Board for Student Success Grants and required a \$9.0 million reserve on grants (excluding MAP) administered through the Illinois Student Assistance Commission.
- During most of this decade, new capital appropriations for higher education – along with capital appropriations for nearly all state activities – have been non-existent. In fiscal year 2010, the General Assembly and the Governor passed a \$31 billion capital plan for Illinois. The plan, *Illinois Jobs Now!*, appropriated more than \$1.6 billion for more than 120 higher education capital construction and renovation projects, including \$300 million for independent colleges and universities. At this time, funding for less than approximately a dozen of the higher education projects has been released. Despite the existence of the appropriations for the projects, the state has lacked the bonding authority necessary to sell bonds and release the funds for construction.

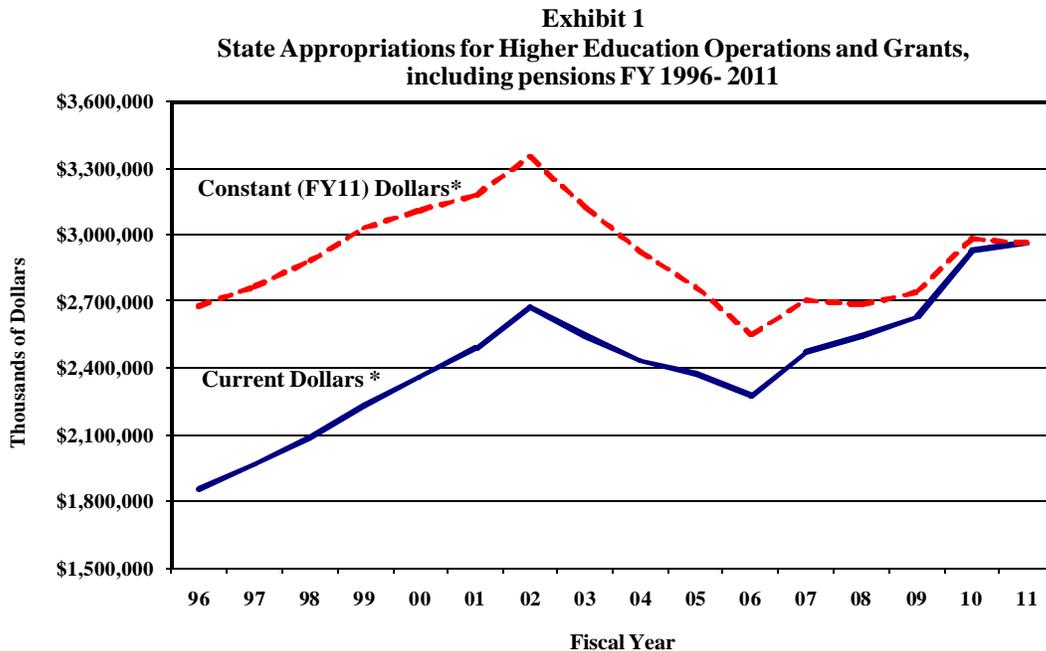
- Illinois and most other Midwestern states have fared worse than all states combined over the past decade in state support for higher education (including funding for pensions). However, as a result of rapidly increasing state appropriations for the State Universities Retirement System to address historical underfunding, Illinois has experienced higher “growth” in state support than several other Midwestern states and the national average. Over the past decade, education costs at Illinois public colleges and universities have increased more slowly than the national average, while at the same time, the Illinois institutions have become more reliant on tuition than institutions nationally.
- The Commission on Government Forecasting and Accountability’s (CGFA) June 2010 *Monthly Briefing* reported that general funds revenue fell \$2.0 billion, or 7.0 percent, in fiscal year 2010, leading to Illinois’ worst financial position in history. Looking forward into fiscal year 2011, CGFA estimates that revenue will improve from lows over the past two years, but will remain weak as the economy continues a slow recovery. At the end of June 2010, the Comptroller reported a \$4.7 billion backlog of unpaid bills. Among the unpaid bills were over \$500 million owed to public colleges and universities.
- *The Public Agenda for College and Career Success* has many ramifications for higher education funding. The recently formed Higher Education Finance Study Commission, convened by Senate Joint Resolution 88, is currently meeting to evaluate higher education budgeting practices in Illinois and to develop recommendations to the IBHE, the Governor, and the General Assembly that will align the goals of the *Illinois Public Agenda* with the State’s higher education budgeting process. The Board’s fiscal year 2011 recommendations continued 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 the State Universities Retirement System between fiscal years 1996 and 2011, both in current and inflation-adjusted (CPI-U) dollars.¹ During this period, state general funds support for Illinois higher education grew from \$1.9 billion to \$3.0 billion, or 60.0 percent. However, after accounting for inflation, state support has increased by only 10.6 percent since fiscal year 1996.² Much of the gain in state support after the mid-1990s was lost between fiscal years 2002 and 2006, and the gain shown in Exhibit 1 since fiscal year 2006 is almost entirely driven by contributions to the pension system to address historical underfunding.



* 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.

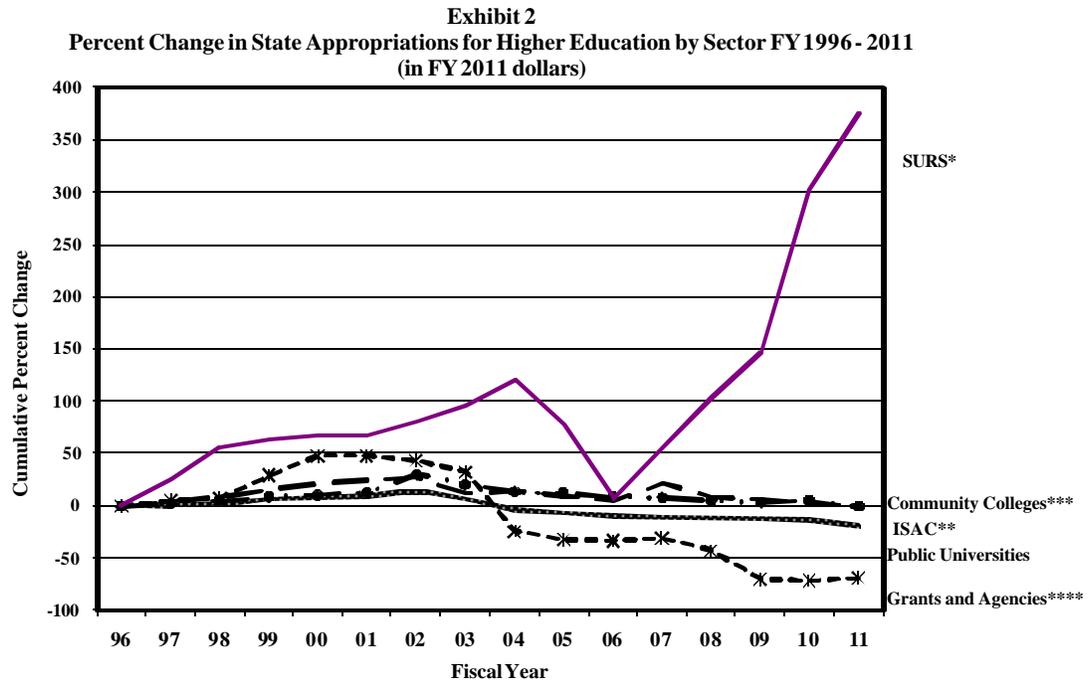
Source: IBHE records.

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

¹ 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 and continued until fiscal year 2011. 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.

² It is important to note that health insurance for university employees is not included in this graph. The state provides significant general funds support for group insurance for university employees and their dependents through the Department of Healthcare and Family Services. Community college employees (except for retirees) are not covered by state group insurance, but are included in the State Universities Retirement System.

State Universities Retirement System (SURS) show the only real growth over this time period. The state has invested significant resources in SURS since the mid-1990s in response to a statutory change (Public Act 88-593) 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 2011) 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.



* Includes State General Funds and State Pension Fund.
 ** Includes Student Loan Operating Fund appropriations for MAP and MAP Plus in FY2007 only.
 *** Includes Adult Ed beginning FY02 and Career & Tech. Ed beginning FY 2004. Grants to colleges have declined since FY2002.
 **** Includes Budget Relief Fund (FY 2009 only). Beginning in FY 2009, Medical Scholarships transferred to IDPH and beginning in FY 2011 Grow Your Own Teach program transferred to IBHE from ISBE.

Source: IBHE records.

When adjusted for inflation, state funding for public universities in fiscal year 2011 is \$315.2 million, or 19.4 percent, less than in fiscal year 1996. Funding for community colleges is slightly below fiscal year 1996 levels even after the inclusion of funds for adult education and postsecondary career and technical education, which were transferred 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 2011 is \$52.3 million, or 14.5 percent, less than in fiscal year 1996.

State support for the Illinois Student Assistance Commission (ISAC) in fiscal year 2011 is slightly below fiscal year 1996 levels when adjusted for inflation. About 98.0 percent of the fiscal year 2011 appropriations to ISAC for grants and scholarships go toward the Monetary Award Program (MAP), which sends funds directly to public and independent colleges and universities on behalf of qualifying students demonstrating financial need. Additional funds for MAP between fiscal years 1996 and 2006 have supported a number of program enhancements, including extension of eligibility to part-time students and students attending proprietary

institutions, funding to cover tuition and fee increases, and, although not since fiscal year 2002, increases in the maximum award. In recent years, an unprecedented increase in demand for need-based financial aid has resulted in the early suspension of MAP awards. In fiscal year 2010, ISAC suspended award announcements for MAP applications received after May 15, 2009, several months earlier than the August suspension date of past years. In fiscal year 2011, ISAC suspended award announcements on April 19, 2010, the earliest suspension date since the creation of the MAP program. The earlier suspension date tends to disproportionately affect community colleges students, as many are independent students that tend to apply late for college and financial aid. In fiscal year 2011, ISAC estimates approximately 220,000 eligible MAP applications, of which 142,000 are from community college students, will go unfunded because of the suspension date.

State support for grant programs and agencies in fiscal year 2011 is \$71.3 million, or 68.8 percent, less than in fiscal year 1996 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. Independent colleges and universities were the sole beneficiaries of the Illinois Financial Assistance Act and the Health Services Education Grant.

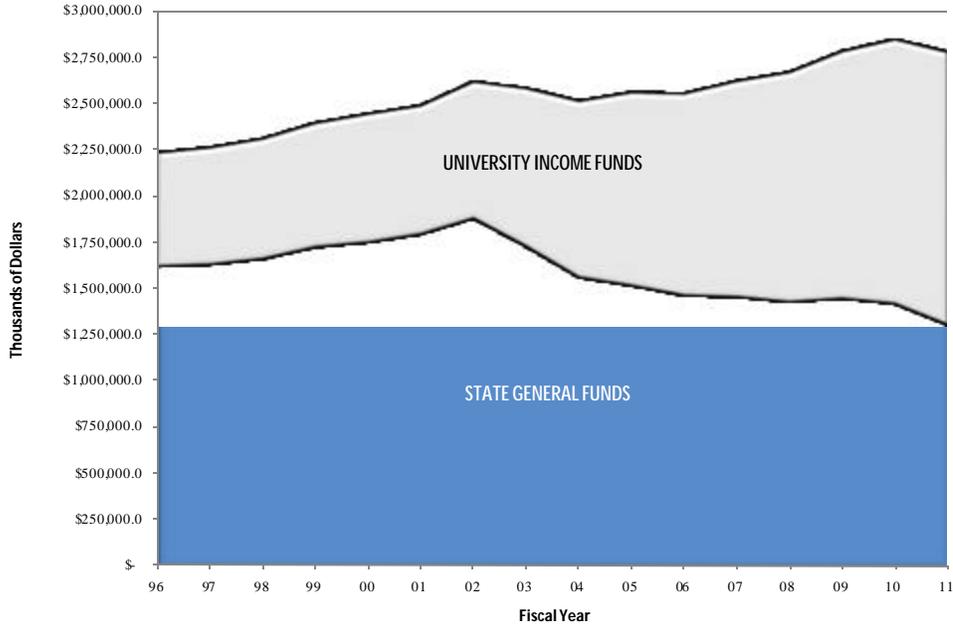
State appropriations are just one source of funding for public university and community college operations. Public universities also receive support for general operating costs from student tuition (i.e., university income funds), and community colleges receive similar support from local property taxes 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.³ 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 revenue bond 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 1996 and 2011 by source. During this period, inflation-adjusted total educational and related revenues increased by 24.3 percent at public universities and by 38.5 percent at community colleges. Total educational and related revenues for public universities reached \$2.62 billion, adjusted for inflation, in fiscal year 2002 and did not exceed that level until fiscal year 2007. Estimated fiscal year 2011 revenues are \$2.78 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 1996, 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 72.7 percent to 47.1 percent between fiscal years 1996 and 2011, while the share from tuition (university income funds) increased from 27.3 percent to an estimated 52.9 percent. For community colleges, state general funds support as a percent of total educational and related

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

revenues declined from 28.2 to 17.4 percent over the same period, while support from tuition increased from 27.9 percent to an estimated 40.0 percent.

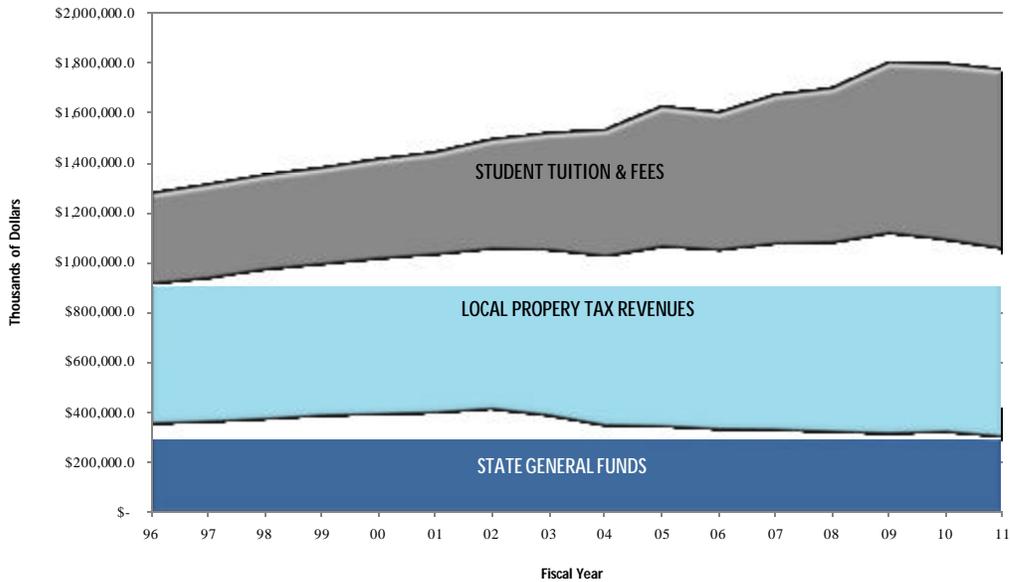
Exhibit 3
Trends in Educational and Related Revenues at Illinois Public Universities
Fiscal Years 1996 to 2011* (in FY 2011 dollars)



*University Income Funds for fiscal years 2010 and 2011 are estimated.

Source: IBHE records.

Exhibit 4
Trends in Educational and Related Revenues at Illinois Community Colleges
Fiscal Years 1996 to 2011* (in FY 2011 dollars)



*Local Property Tax Revenues and Student Tuition and Fees amounts for fiscal years 2010 and 2011 are estimated.

Source: IBHE records.

Recent Operating and Grants Funding Trends

The state's fiscal situation over the past decade has deeply impacted higher education. In fact, excluding contributions to SURS, state appropriations for higher education operations and grants declined by \$141.2 million (not adjusted for inflation), or 6.3 percent, between fiscal years 2001 and 2011 (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.⁴ Budget reductions in fiscal years 2003 and 2004 were more significant in magnitude and were followed by two fiscal years of essentially flat budgets.

Exhibit 5

State Funding for Higher Education Operations and Grants Fiscal Years 2001, 2006, 2010, and 2011

(in thousands of dollars)

	FY2001 Approp.	FY2006 Approp.	FY2010 Approp.	FY2011 Approp.	FY2006 to FY2011		FY2010 to FY2011	
					Dollar Change	Percent Change	Dollar Change	Percent Change
Public Universities	\$ 1,409,882.7	\$ 1,306,876.4	\$ 1,394,438.6	\$ 1,309,126.0	\$ 2,249.6	0.2 %	\$ (85,312.6)	(6.1) %
Community Colleges	<u>316,228.3</u>	<u>300,389.8</u>	<u>320,326.9</u>	<u>307,326.9</u>	<u>6,937.1</u>	<u>2.3</u>	<u>(13,000.0)</u>	<u>(4.1)</u>
Grants to Colleges	313,793.6	298,268.2	318,182.5	305,182.5	6,914.3	2.3	(13,000.0)	(4.1)
ICCB Administration	2,434.7	2,121.6	2,144.4	2,144.4	22.8	1.1	-	-
Adult Education/Postsecondary Career and Technical Education Grants	2,000.0	46,802.8	50,844.9	50,844.9	4,042.1	8.6	-	-
Illinois Student Assistance Commission	<u>408,636.5</u>	<u>390,299.8</u>	<u>425,031.1</u>	<u>416,031.1</u>	<u>25,731.3</u>	<u>6.6</u>	<u>(9,000.0)</u>	<u>(2.1)</u>
Monetary Award Program (MAP)	360,815.8	353,899.8	398,521.1	403,896.1	49,996.3	14.1	5,375.0	1.3
Other Grant Programs	41,620.0	36,400.0	26,510.0	12,135.0	(24,265.0)	(66.7)	(14,375.0)	(54.2)
ISAC Administration	6,200.7	-	-	-	-	-	-	-
Grant Program	<u>100,170.7</u>	<u>41,657.3</u>	<u>6,801.0</u>	<u>9,926.0</u>	<u>(31,731.3)</u>	<u>(76.2)</u>	<u>3,125.0</u>	<u>45.9</u>
Illinois Financial Assistance Act	21,469.1	-	-	-	-	-	-	-
Health Education Grants	20,841.3	17,000.0	-	-	(17,000.0)	(100.0)	-	-
University Center of Lake County	1,000.0	2,600.0	1,716.0	1,716.0	(884.0)	(34.0)	-	-
Institutional Grants	56,860.3	22,057.3	5,085.0	8,210.0	(13,847.3)	(62.8)	3,125.0	61.5
Other Agencies	<u>20,031.1</u>	<u>20,427.1</u>	<u>22,468.6</u>	<u>22,468.6</u>	<u>2,041.5</u>	<u>10.0</u>	<u>-</u>	<u>-</u>
Illinois Mathematics and Science Academy	15,642.7	16,322.9	18,216.4	18,216.4	1,893.5	11.6	-	-
State Universities Civil Service System	1,372.6	1,253.6	1,276.2	1,276.2	22.6	1.8	-	-
Board of Higher Education	3,015.8	2,850.6	2,976.0	2,976.0	125.4	4.4	-	-
Subtotal - Inst'l/Agency Ops and Grants	<u>2,256,949.3</u>	<u>2,106,453.2</u>	<u>2,219,911.1</u>	<u>2,115,723.5</u>	<u>9,270.3</u>	<u>0.4</u>	<u>(104,187.6)</u>	<u>(4.7)</u>
Retirement	225,721.0	90,033.9	706,573.5	852,201.5	762,167.6	846.5	145,628.0	20.6
Higher Education Total	<u>\$ 2,482,670.3</u>	<u>\$ 2,196,487.1</u>	<u>\$ 2,926,484.6</u>	<u>\$ 2,967,925.0</u>	<u>\$ 771,437.9</u>	<u>35.1 %</u>	<u>\$ 41,440.4</u>	<u>1.4 %</u>

More recently state appropriations for higher education operations and grants have rebounded ever so slightly, increasing by \$9.2 million between fiscal years 2006 and 2011. This rebound is due in large part to increases in state support for student financial aid (Monetary Award Program) and modest increases for public universities and community colleges.

⁴ The ongoing contribution of \$45 million for group health benefits is not reflected as a reduction in appropriations. Rather, it is transferred from the appropriated amounts each year.

Between fiscal years 2010 and 2011, operations and grants funding decreased \$104.2 million, or 4.7 percent, when retirement funding is excluded. This reduction is primarily attributable to the loss of federal support provided in fiscal year 2010 for public universities and community colleges through the American Recovery & Reinvestment Act of 2009 (ARRA). The ARRA funds are not available in fiscal year 2011, though the state is required to maintain support for public colleges and universities at the fiscal year 2006 level as a condition of using ARRA funds in fiscal year 2010. Additionally, in fiscal year 2011, community colleges saw the loss of \$13 million from a one-time allocation for Student Success Grants and grants (excluding MAP) administered by ISAC were reduced \$9.0 million by mandatory reserve.

As noted earlier, 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. For fiscal year 2011, funding for the state's pensions systems has not yet been finalized. SB 3514, which has passed the House but not the Senate, would authorize the sale of \$4.1 billion in pension bonds. Alternatively, HB 543, which passed the Senate but not the House, suspends fiscal year 2011 payments "until the Governor certifies to the Comptroller that adequate funds are available" to make pension payments. SURS estimates that it will have to sell \$848.1 million in assets (the amount certified for fiscal year 2011) if the state suspends contributions for fiscal year 2011. If no further action is taken, pension payments will be made as a continuing appropriation at the fiscal year 2011 certified amount.

Public Universities. In fiscal year 2010 state support for public universities was reduced to fiscal year 2006 levels and federal stimulus funds (\$87.0 million total) were allocated to maintain overall public university funding at the fiscal year 2009 level. Because state general funds were not appropriated to replace the loss of federal stimulus funds in fiscal year 2011, the fiscal year 2011 appropriation is nearly that of fiscal year 2006. As shown in Exhibit 6, the fiscal year 2011 appropriation is \$85.3 million, or 6.1 percent, less than fiscal year 2010.

Exhibit 6

State General Funds Support for Public Universities Fiscal Years 2001, 2006, 2010, and 2011

(in thousands of dollars)

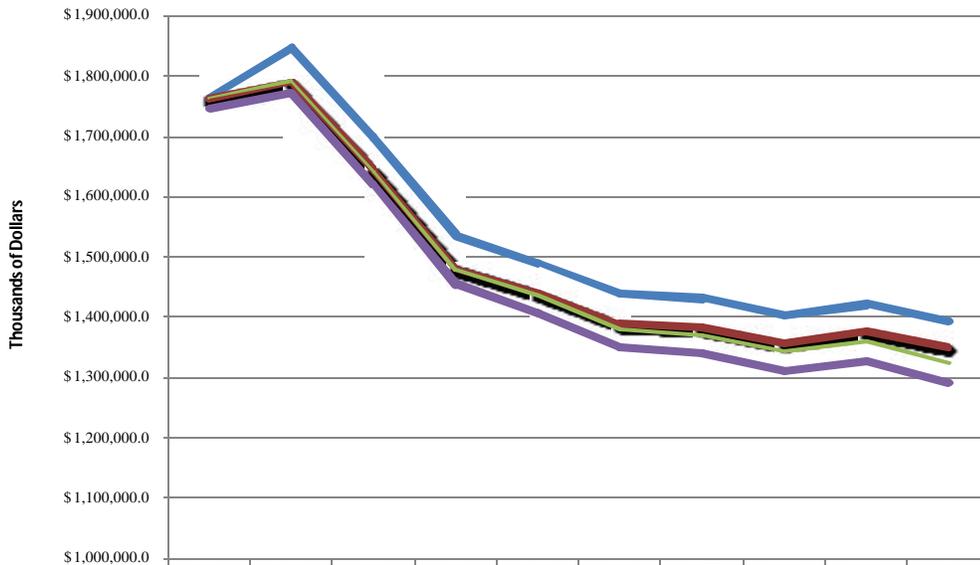
Institution	FY2001 Approp	FY2006 Approp	FY2010 Approp	FY2011 Approp	FY2006 to FY2011		FY2010 to FY2011	
					Dollar Change	Percent Change	Dollar Change	Percent Change
Chicago State University	\$ 40,933.7	\$ 38,660.3	\$ 42,112.0	\$ 39,935.6	\$ 1,275.3	3.3 %	\$ (2,176.4)	(5.2) %
Eastern Illinois University	50,908.7	47,609.5	50,566.5	47,413.0	(196.5)	(0.4)	(3,153.5)	(6.2)
Governors State University	26,384.2	25,986.1	28,324.4	26,558.0	571.9	2.2	(1,766.4)	(6.2)
Illinois State University	87,761.8	80,452.0	85,096.4	79,789.5	(662.5)	(0.8)	(5,306.9)	(6.2)
Northeastern Illinois University	42,610.1	39,247.7	43,401.9	40,695.2	1,447.5	3.7	(2,706.7)	(6.2)
Northern Illinois University	111,286.1	102,729.9	107,431.1	100,731.3	(1,998.6)	(1.9)	(6,699.8)	(6.2)
Western Illinois University	61,407.4	56,391.1	59,919.6	56,182.7	(208.4)	(0.4)	(3,736.9)	(6.2)
<u>Southern Illinois University</u>	<u>234,150.0</u>	<u>217,653.7</u>	<u>234,167.0</u>	<u>220,763.5</u>	<u>3,109.8</u>	<u>1.4</u>	<u>(13,403.5)</u>	<u>(5.7)</u>
University of Illinois	754,440.7	698,146.1	743,419.7	697,057.2	(1,088.9)	(0.2)	(46,362.5)	(6.2)
Total, Public Universities	<u>\$ 1,409,882.7</u>	<u>\$ 1,306,876.4</u>	<u>\$ 1,394,438.6</u>	<u>\$ 1,309,126.0</u>	<u>\$ 2,249.6</u>	<u>0.2 %</u>	<u>\$ (85,312.6)</u>	<u>(6.1) %</u>

Changes in state support to public universities have been similar across the board. The percentage variation is due primarily to the effects of new legislative initiatives on relatively small funding bases. Only Governors State University has not experienced a decrease from fiscal

year 2001 levels, and only Chicago State University, Governors State University, Northeastern Illinois University, and Southern Illinois University have seen a slight increase over fiscal year 2006 levels.

As shown in Exhibit 7, in addition to reduced state support for public universities over the past decade, public universities have been asked to share an increasing burden of the cost for unfunded state mandates. As was previously mentioned, public universities have contributed \$45.0 million annually for the costs of group health insurance since fiscal year 2002. The Illinois Veteran (IVG) and Illinois National Guard (ING) grants, administered by ISAC, pay for tuition and mandatory fees at Illinois public universities and community colleges for qualified veterans. Both grant programs are tuition and fee waivers, meaning that public colleges and universities must waive tuition and fees – although through the IVG and ING programs, ISAC reimbursed institutions for tuition and fee charges. Since fiscal year 2001, appropriations from ISAC have failed to fully reimburse public colleges and universities for the cost of waived tuition and fees for qualified veterans, thus leaving public colleges and universities to make up the difference. In fiscal year 2011, no funding was appropriated for the Illinois Veteran Grants leaving public colleges and universities without reimbursement for waiving tuition charges. State law also provides several other mandatory tuition waivers for qualifying individuals. Public universities waive the collection of tuition and mandatory fees – thus realizing a loss of tuition revenue from these students.

Exhibit 7
Summary of Public University Appropriations Net Unfunded Mandates
 (in 2010 dollars)



	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
State General Funds	1,763,235.	1,846,327.	1,697,799.	1,534,201.	1,490,604.	1,438,340.	1,430,366.	1,403,669.	1,421,849.	1,393,838.
Net Health Insurance Contribution	1,763,235.	1,791,045.	1,643,680.	1,481,248.	1,439,199.	1,388,814.	1,382,098.	1,357,123.	1,375,944.	1,348,838.
Net Unfunded Veterans Grants	1,763,235.	1,791,044.	1,641,683.	1,478,109.	1,434,464.	1,379,157.	1,369,200.	1,342,425.	1,359,741.	1,324,176.*
Net Mandatory Waivers	1,745,720.	1,771,937.	1,619,208.	1,453,866.	1,407,199.	1,350,984.	1,339,330.	1,311,355.	1,325,616.	1,290,723.

* Estimate

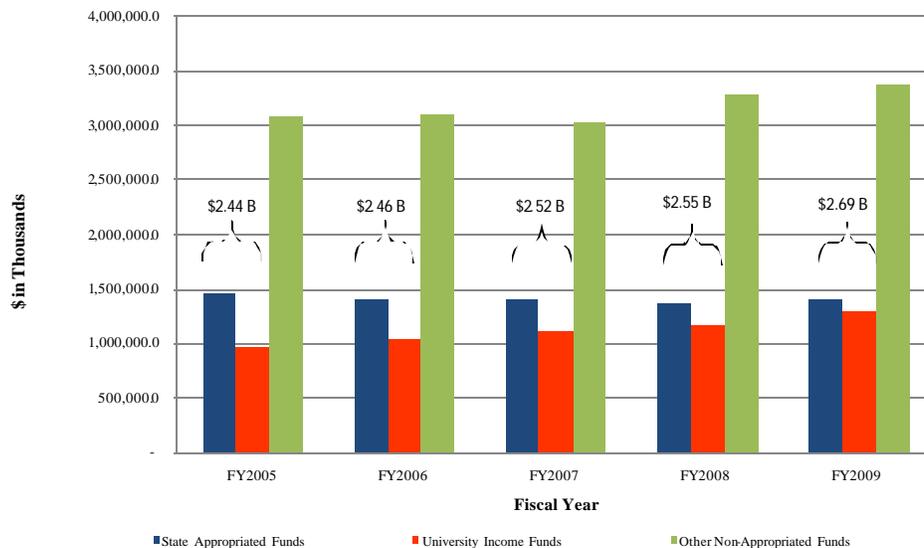
Fiscal Year

Source: IBHE records.

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. This data provides a valuable supplement to other financial information

collected by the IBHE. The information is published annually by the IBHE in the *Annual Report on Public University Revenues and Expenditures* (fiscal year 2010 revenue and expenditure data are due in October 2010). 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 10.3 percent, from \$2.44 billion to \$2.69 billion, or \$251.7 million, between fiscal year 2005 and fiscal year 2009 after accounting for inflation, while non-appropriated funds (which are mostly restricted to uses other than educational and related expenses) increased \$303.8 million, or 9.9 percent. However, revenue from state appropriations declined by over \$64.5 million in inflation-adjusted terms while university income fund revenue – which is primarily from tuition – increased by \$316.2 million.

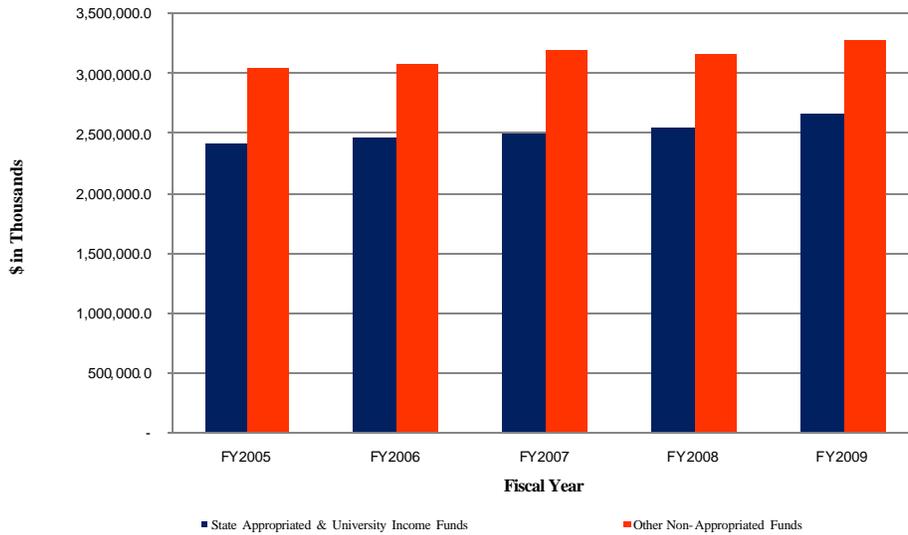
Exhibit 8
Public University Revenues by Source of Funds,
Fiscal Year 2005-2009, Adjusted for Inflation



Source: *Annual Report on Public University Revenue & Expenditures, November 2009*

Exhibit 9 illustrates changes in public university expenditures by source of funds. Public university expenditures from state appropriations and university income funds increased 10.4 percent between fiscal years 2005 through 2009, after accounting for inflation, while expenditures from other non-appropriated funds increased by 7.7 percent.

**Exhibit 9
Public University Expenditures by Source of Funds,
Fiscal Year 2005-2009, Adjusted for Inflation**



Source: Annual Report on Public University Revenue & Expenditures, November 2009

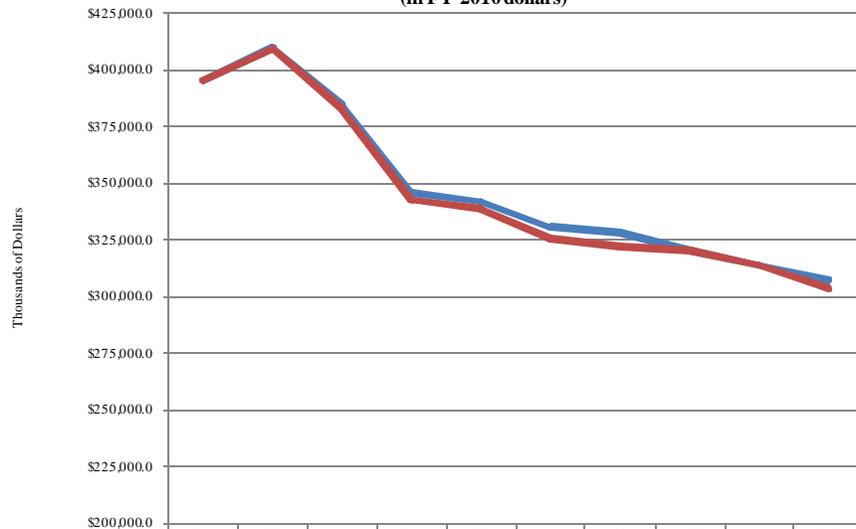
Community Colleges. Exhibit 10 presents state general funds support for community college grants and programs, which has increased \$6.9 million, or 2.3 percent, since fiscal year 2006. Appropriations for base operating grants, the largest of the unrestricted grant programs at community colleges, increased 3.6 percent between fiscal year 2006 and 2011. However, fiscal year 2011 appropriations remain below the fiscal year 2001 level as many grant programs have been eliminated, cut drastically, or transferred to other state agencies.

**Exhibit 10
State General Funds Support for Community Colleges
Fiscal Years 2001, 2006, 2010, and 2011**

	FY2001 Approp.	FY2006 Approp.	FY2010 Approp.	FY2011 Approp.	FY2006 - FY2011		FY2010 - FY2011	
					Dollar Change	Percent Change	Dollar Change	Percent Change
Grants to Colleges								
Base Operating Grants	\$ 182,826.6	\$ 191,837.1	\$ 198,746.7	\$ 198,746.7	\$ 6,909.6	3.6 %	\$ -	- %
Grant to City Colleges of Chicago	-	15,000.0	15,000.0	15,000.0	-	-	-	-
Small College Grant:	900.0	780.0	840.0	840.0	60.0	7.7	-	-
Equalization Grants	73,657.0	76,617.5	76,997.3	76,997.3	379.8	0.5	-	-
Formula Implementation Grants	-	5,507.5	-	-	(5,507.5)	(100.0)	-	-
Workforce Development Grants	18,850.0	3,311.3	3,311.3	3,311.3	-	-	-	-
Advanced Technology Grants	13,600.0	-	-	-	-	-	-	-
P-16 Initiative Grants	1,000.0	2,279.0	-	-	(2,279.0)	(100.0)	-	-
Retirees Health Insurance Grant	735.0	626.6	626.6	626.6	-	-	-	-
Special Populations/Student Success Gra	13,000.0	-	13,000.0	-	-	-	(13,000.0)	(100.0)
Deferred Maintenance Grants	3,250.0	-	-	-	-	-	-	-
Veterans Grants Shortfall	-	-	7,261.5	7,261.5	7,261.5	-	-	-
Subtotal	\$ 307,818.6	\$ 295,959.0	\$ 315,783.4	\$ 302,783.4	\$ 6,824.4	2.3 %	\$ (13,000.0)	(4.1) %
Other Grants								
Lincoln's Challenge	175.0	120.1	60.0	60.0	(60.1)	(50.0)	-	-
East St. Louis Higher Ed. Center	2,100.0	1,589.1	1,589.1	1,589.1	-	-	-	-
Performance Based Initiative	2,000.0	-	-	-	-	-	-	-
Leadership and Core Values	400.0	-	-	-	-	-	-	-
Special Initiative Grants	1,300.0	-	-	-	-	-	-	-
Foundation Matching Grants	-	-	-	-	-	-	-	-
Designated Grants	-	600.0	-	-	(600.0)	(100.0)	-	-
College and Career Readiness Pilot Prog	-	-	750.0	750.0	750.0	-	-	-
Subtotal	\$ 5,975.0	\$ 2,309.2	\$ 2,399.1	\$ 2,399.1	\$ 89.9	3.9 %	\$ -	- %
Total	\$ 313,793.6	\$ 298,268.2	\$ 318,182.5	\$ 305,182.5	\$ 6,914.3	2.3 %	\$ (13,000.0)	(4.1) %

Like public universities, community colleges have also been required to absorb a greater share of the costs for providing tuition waivers to qualified veterans through the IVG and ING programs. Exhibit 11 illustrates the impact of unfunded veterans grants on already declining appropriations for community colleges. The impact has been mitigated to some extent by a specific appropriation for IVG shortfalls at community colleges that began in fiscal year 2008, but the \$7.6 million appropriation will not cover the loss of reimbursement from the Illinois Student Assistance Commission in fiscal year 2011.

Exhibit 11
Summary of Community College Appropriations Net Unfunded Mandates
 (in FY 2010 dollars)



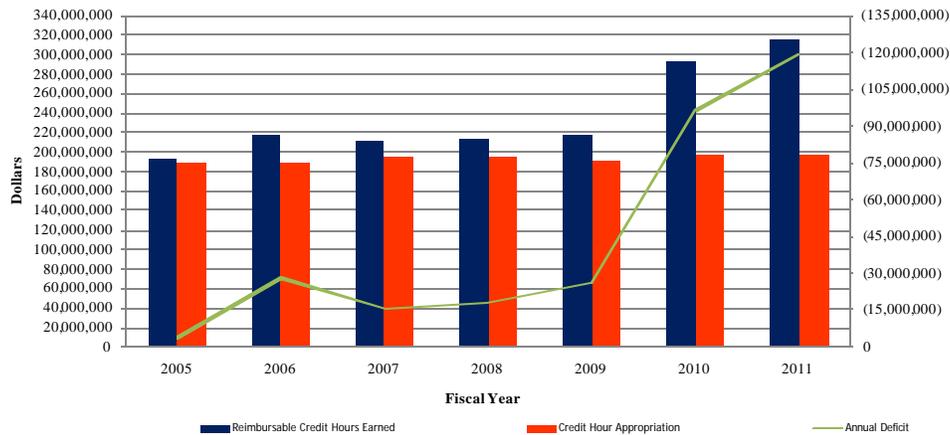
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
State General Funds	395,483.1	409,901.6	384,668.9	345,454.2	342,037.7	330,607.3	328,271.7	320,587.2	314,051.5	307,326.9
Net Unfunded Veterans Grants	395,483.1	409,428.8	383,019.5	343,054.2	338,572.0	325,521.2	322,524.6	320,587.2	314,051.5	303,548.9

* Estimate

Source: IBHE records.

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 12 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 2011, an estimated increase in reimbursable credit hours of over 23,000 will lead to a record deficit estimated at over \$119.0 million.

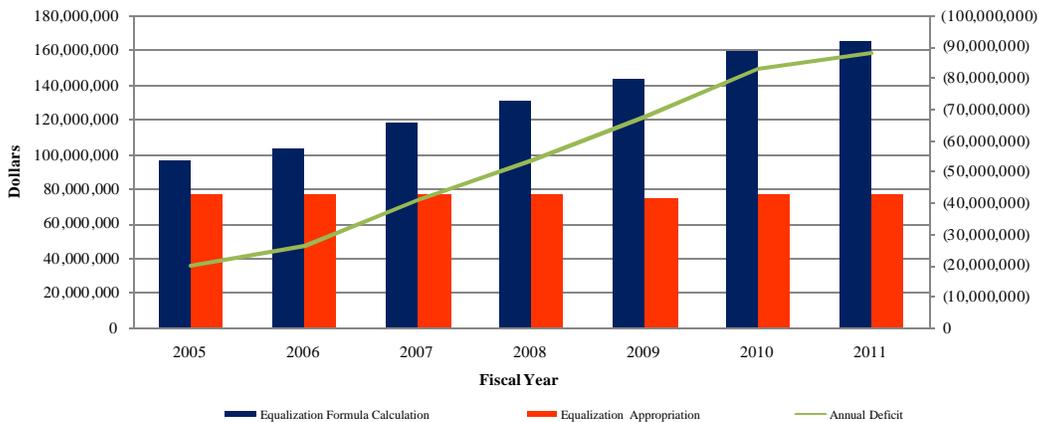
**Exhibit 12
Credit Hour Grant Funding History**



Source: Illinois Community College Board

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 13, funding for the equalization formula has remained relatively unchanged since fiscal year 2006 while equalization formula calculations have continued to rise and the annual funding deficit has grown. In fiscal year 2011 equalization grants are underfunded by an estimated 53.4 percent, resulting in a deficit of \$88.2 million.

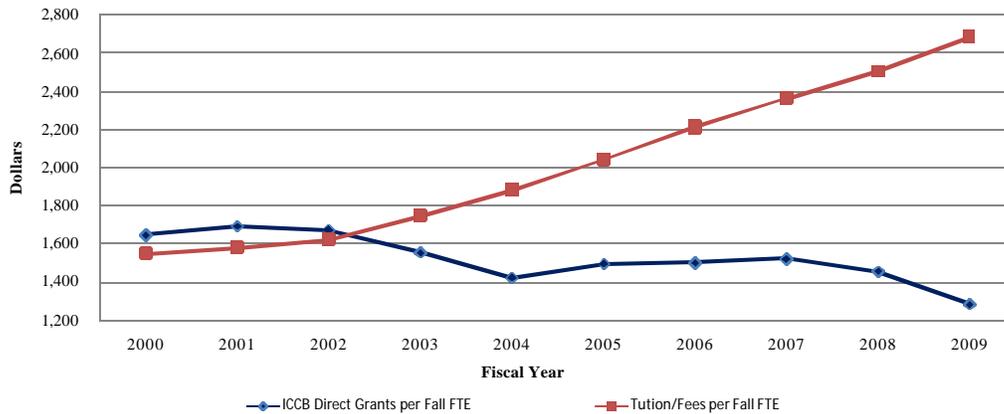
**Exhibit 13
Equalization Funding History**



Source: Illinois Community College Board

Exhibit 14 demonstrates the relationship between state appropriations and tuition and fees at community colleges. As illustrated by the exhibit, direct grants per full-time equivalent (FTE) student at community colleges declined rapidly between fiscal years 2002 and 2004, and from fiscal year 2004 to fiscal year 2007 increased very slightly. Most recently, direct grants per FTE have once again declined to historical lows. Since fiscal year 2002, as state support declined, so began a steady yearly increase in student tuition and fees.

Exhibit 14
Total ICCB Direct Grants vs. Student Tuition/Fees



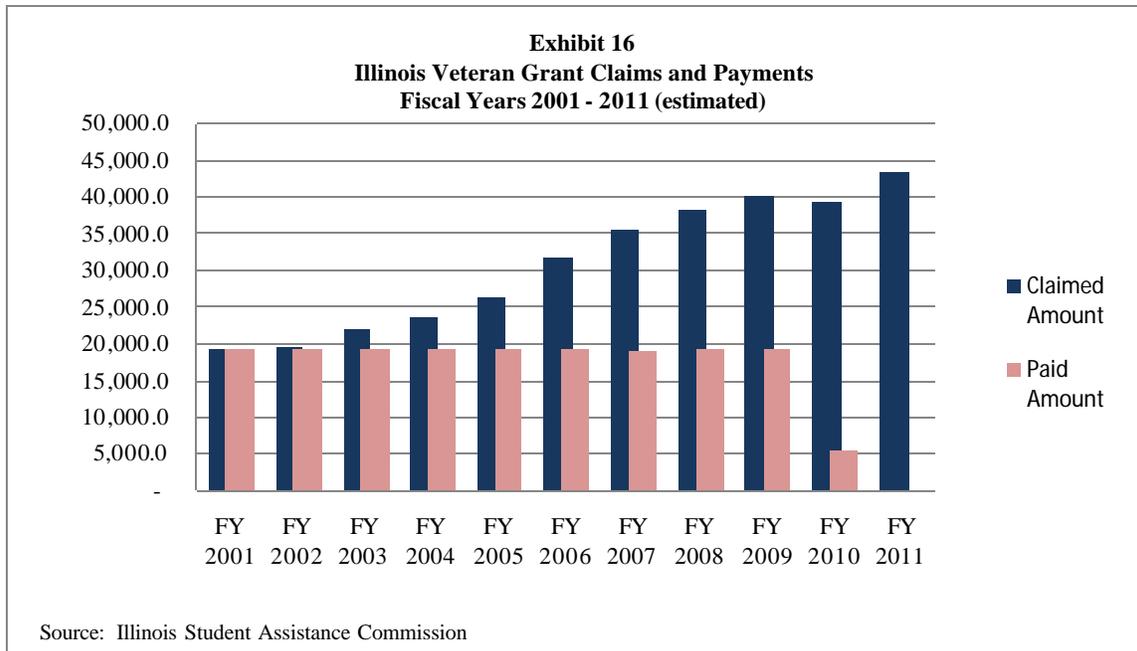
Source: Illinois Community College Board records.

Student Aid. Exhibit 15 includes appropriations to the major grant programs administered by the Illinois Student Assistance Commission. The total fiscal year 2011 appropriation of \$416.0 million is an increase of \$25.7 million, or 6.6 percent, from fiscal year 2006, largely due to increases in state funding for need-based financial aid (Monetary Award Program). The fiscal year 2011 appropriation is \$9.0 million less than fiscal year 2010 because of a reserve placed on various ISAC grant programs, excluding MAP.

For fiscal year 2011, ISAC redirected funds for nursing scholarships and the Silas Purnell Illinois Incentive for Access program to the Monetary Award Program (MAP). As such, the fiscal year 2011 budget for MAP totals \$403.9 million, an increase of \$5.4 million, or 1.3 percent. Despite the increase in funding, an increase in eligible applications of approximately 30.0 percent resulted in the suspension of MAP awards on April 19, 2010, the earliest suspension date since the creation of the MAP program. As of September 2, 2010, ISAC has suspended 101,882 eligible MAP applications. In total, ISAC estimates approximately 220,000 eligible MAP applications, of which 142,000 are from community college students, will go unfunded because of the suspension date.

Exhibit 15 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 (IVG) program, which experienced a

reduction in state funding from \$19.25 million in fiscal year 2009 to \$5.75 million in fiscal year 2010 and was eliminated in fiscal year 2011. Community colleges and universities are required to waive tuition and fees for qualified veterans regardless of state funding. As shown in Exhibit 16, fiscal year 2001 was the last time in which claims submitted to ISAC from public colleges and universities were fully paid. Since that time, public college and university claims have increased while payments by ISAC have declined. Because of the reduction in state support for the IVG program, colleges and universities will waive over \$33.6 million in fiscal year 2010 without state reimbursement. Without an appropriation in fiscal year 2011, colleges and universities will waive an estimated \$43.3 million.



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 17 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 45.0 percent in fiscal year 2010.

Exhibit 17
MAP Historical Award Summary
FY 1999 - FY 2010

Academic Year	Maximum Award	Effective Award *	Mean Award	# of Announced Eligible Awards	% of Eligible Awards Paid
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%
2009-2010	\$4,968	--	\$2,762	314,198	45.0%

* Reduction factor applied to awards

** Estimate

Source: *Data Book*, Illinois Student Assistance Commission

Exhibit 18 provides a breakout of the numbers of MAP-eligible applications by sectors that were received through August 28, 2010. Community colleges had the largest increase in the number of MAP-eligible applications, while proprietary institutions have the largest percentage increase over fiscal year 2010. The total increase for all sectors in fiscal year 2011 was 38,166, or 15.1 percent, over fiscal year 2010.

Exhibit 18

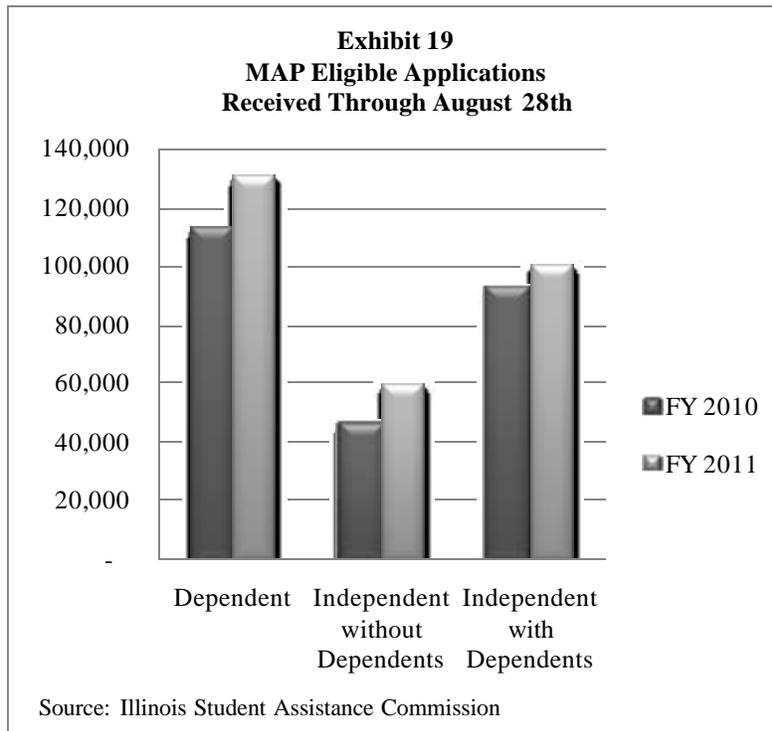
MAP Eligible Applications Received Through August 28th
By Sector

	FY 2010	FY 2011	Increase	% Increase
Public Universities	59,348	66,460	7,112	12.0%
Private Universities	49,583	54,139	4,556	9.2%
Community College	126,462	148,967	22,505	17.8%
Private Two-Year	3,090	3,379	289	9.4%
HSN/Professional	1,243	1,477	234	18.8%
Proprietary	13,133	16,603	3,470	26.4%
Total	252,859	291,025	38,166	15.1%

Source: Illinois Student Assistance Commission

Exhibit 19 provides the distribution of MAP-eligible applications between dependent students, independent students without dependents, and independent students with dependents. As of August 28, 2010, independent students without dependents had the largest increase in MAP-eligible applications, 28.8 percent over fiscal year 2010. The increase of eligible

applications received through the same time was 15.2 percent for dependent students and 8.1 percent for independent students without dependents.



Institutional Grants and Higher Education Agencies. Exhibit 20 shows that institutional grant programs administered by the IBHE have declined approximately 76.2 percent since fiscal year 2006. 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, benefited independent colleges and universities exclusively.

One notable exception to the enduring reductions experienced by higher education since fiscal year 2006 has been the Illinois Mathematics and Science Academy (IMSA), which saw its appropriation increase 11.6 percent. Unlike public universities that also rely on tuition revenues and community colleges that rely on tuition and local tax revenues, IMSA's primary source of revenue is state general funds.

Exhibit 20
State Funding Support for Institutional Grant Programs and Agencies*
Fiscal Years 2001, 2006, 2010, and 2011

(in thousands of dollars)

	FY2001 Approp.	FY2006 Approp.	FY2010 Approp.	FY2011 Approp.	FY06 to FY11		FY2010 to FY2011		
					Dollar Change	Percent Change	Dollar Change	Percent Change	
Institutional Grant Programs									
Illinois Financial Assistance Act Grants	\$ 21,469.1	\$ -	\$ -	\$ -	\$ -	- %	\$ -	- %	
Illinois Century Network	15,000.0	-	-	-	-	-	-	-	
Graduation Incentive Grants	50.0	-	-	-	-	-	-	-	
University Center of Lake County	1,000.0	2,600.0	1,716.0	1,716.0	(884.0)	(34.0)	-	-	
Quad Cities Graduate Study Center	211.8	220.0	130.0	130.0	(90.0)	(40.9)	-	-	
Diversifying Higher Education Faculty in I	1,600.0	2,800.0	1,640.0	1,640.0	(1,160.0)	(41.4)	-	-	
Competitive Nursing School Grants	-	-	880.0	880.0	880.0	-	-	-	
Nurse Educator Fellowships	-	-	180.0	180.0	180.0	-	-	-	
Access and Diversity, HECA Grants	8,500.0	4,687.3	-	-	(4,687.3)	(100.0)	-	-	
Health Services Education Grants	20,841.3	17,000.0	-	-	(17,000.0)	(100.0)	-	-	
State Matching Grants	10,000.0	9,500.0	-	-	(9,500.0)	(100.0)	-	-	
Integrated Student Information Systems	-	-	205.0	205.0	205.0	-	-	-	
STEM Diversity Grants	-	-	590.0	590.0	590.0	-	-	-	
u.Select System	-	-	230.0	230.0	230.0	-	-	-	
Advanced Photon Source	3,000.0	-	-	-	-	-	-	-	
Engineering Equipment Grants	2,800.0	-	-	-	-	-	-	-	
Medical Scholarship Program (IDPH)**	3,445.0	2,750.0	-	-	(2,750.0)	(100.0)	-	-	
Cooperative Work Study Grants	2,050.0	2,100.0	1,230.0	1,230.0	(870.0)	(41.4)	-	-	
Grow Your Own Teacher ***	-	-	-	3,125.0	3,125.0	-	3,125.0	-	
State Geological Survey	122.0	-	-	-	-	-	-	-	
Career Academies	169.5	-	-	-	-	-	-	-	
Workforce and Econ. Development, HECA	4,700.0	-	-	-	-	-	-	-	
Geographic Alliance	500.0	-	-	-	-	-	-	-	
Teaching, Learning, and Quality, HECA Gr	4,712.0	-	-	-	-	-	-	-	
Total	\$ 100,170.7	\$ 41,657.3	\$ 6,801.0	\$ 9,926.0	\$ (31,731.3)	(76.2) %	\$ 3,125.0	45.9 %	

Agencies/Other Institutions

Illinois Mathematics and Science Acadei	\$ 15,642.7	\$ 16,322.9	\$ 18,216.4	\$ 18,216.4	\$ 1,893.5	11.6 %	\$ -	- %
State Universities Civil Service System	1,372.6	1,253.6	1,276.2	1,276.2	22.6	1.8	-	-
Illinois Board of Higher Education	3,015.8	2,850.6	2,976.0	2,976.0	125.4	4.4	-	-

* Includes Budget Relief Fund (FY 2009 only).

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

*** Grow Your Own Teacher transferred from the Illinois State Board of Education in FY 2011

Capital Improvement Funding Trends

During most of this decade, new capital appropriations for higher education – along with capital appropriations for nearly all state agencies – have been non-existent. While state funding for capital improvement projects typically comes from non-general funds sources (e.g., 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 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!*, appropriated \$1.6 billion for more than 120 higher education capital construction and renovation projects (Exhibit 21). The fiscal year 2010 capital plan included all the projects that were recommended by the IBHE including \$90 million for capital renewal funding. In addition, the capital program provided \$300 million for private college and university construction and renovation projects, \$134.5 million for the Community College Temporary Facility Replacement Program, and \$25 million to the Illinois Emergency Management Agency for campus security measures at campuses across the state. At this time, funding for less than approximately one dozen of the higher education projects has been released.

Despite the existence of the appropriations for the projects, the state lacks the bonding authority necessary to sell bonds and release the funds for construction. The IBHE's fiscal year 2011 capital recommendation supported the release of funding for the fiscal year 2010 projects before naming a new set of projects. In April 2010, the IBHE prepared a capital planning list to identify projects that reflect higher priorities that may be included in future budget recommendations once the funding for the fiscal year 2010 projects has been released. The fiscal year 2011 budget included re-appropriations for the entire list of fiscal year 2010 higher education capital projects; however, there were no new capital appropriations and, at this time, no increase in bonding authority needed to fund the re-appropriated projects.

Exhibit 21
Higher Education Capital Improvements
Fiscal Year 2005 - Fiscal Year 2011

(in thousands of dollars)

Fiscal Year	Requests Submitted to IBHE	IBHE Recommendation	Final Appropriations
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
2011	1,941,166.5	+	-

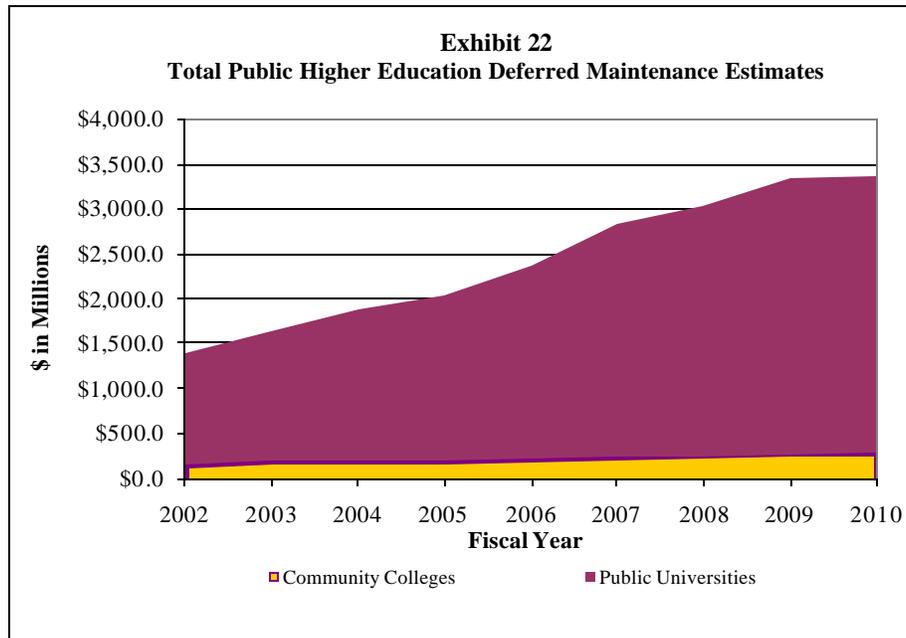
* Appropriation was in the form of a lump sum. Specific projects were not identified.

+ In FY2011, the IBHE recommended the authorization and release of funds 'appropriated in FY2010.

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 22 on the following page, the backlog in deferred facilities maintenance at public universities and community colleges was estimated to be over \$3.4 billion in fiscal year 2010, an increase of \$2.0 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.



Source: IBHE Technical Questions, ICCB

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 2000s and most recently by the current recession. Nearly all states are once again facing difficult financial choices as a result of declining revenues, and higher education funding is being cut dramatically in many states.

Exhibit 23 shows that the changes in state operating support for higher education in nine Midwestern states (including Illinois) and all states combined. Illinois and most other Midwestern states have fared worse than all states combined over the past decade. However, more recently, Illinois (as a result of funding for SURS) and several other Midwestern states have experienced higher growth in state support than the national average. State support in Exhibit 23 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 (SURS) are included in the Illinois figures and account for much of the variation in fiscal years 2005 through 2010. Since fiscal year 2005, appropriations to SURS have increased over \$433.0 million. Revised fiscal year 2010 appropriations and fiscal year 2011 appropriations should be available by January 1, 2011.

Exhibit 23

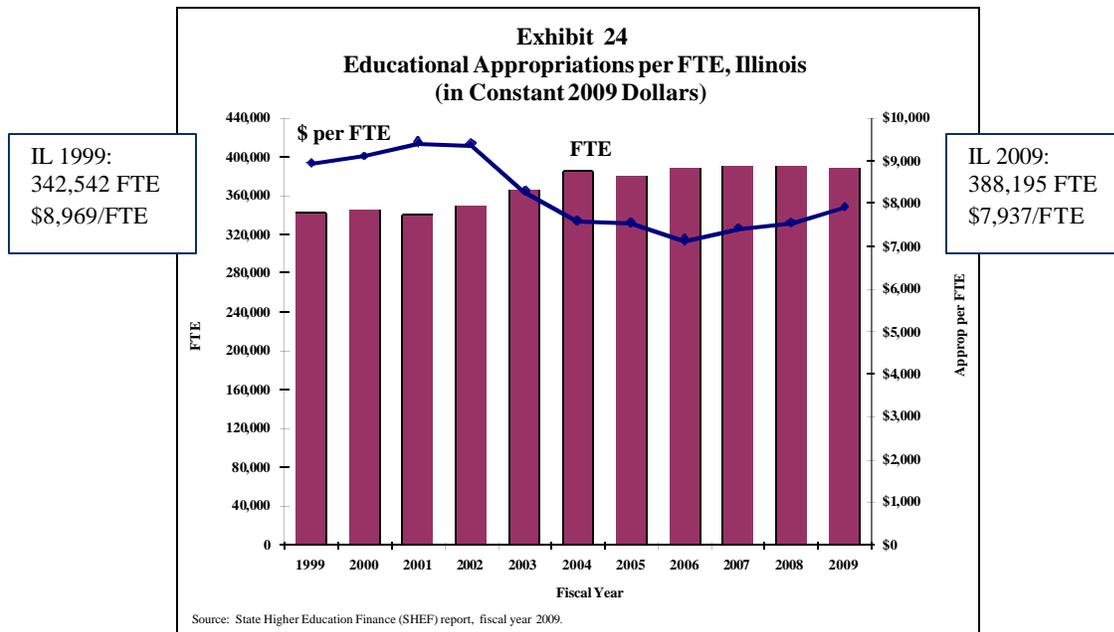
State Support for Higher Education
 Nine Midwestern States and All States for Fiscal Years 2000 through 2010
 (In Thousands of Current Dollars)

States	2000	2005	2008	2009 ¹	2010 ¹	1-yr Change	2-yr Change	5-yr Change	10-yr Change
Illinois	2,573,964	2,685,921	2,948,632	2,997,137	3,133,876	4.6%	6.3%	16.7%	21.8%
Indiana	1,226,677	1,417,478	1,528,494	1,619,828	1,639,843	1.2%	7.3%	15.7%	33.7%
Iowa	824,062	743,122	873,709	914,197	827,395	-9.5%	-5.3%	11.3%	0.4%
Kentucky	925,506	1,076,740	1,320,540	1,270,507	1,273,786	0.3%	-3.5%	18.3%	37.6%
Michigan	2,077,725	1,947,745	2,033,709	2,051,065	1,905,704	-7.1%	-6.3%	-2.2%	-8.3%
Minnesota	1,286,427	1,273,328	1,574,499	1,572,602	1,565,412	-0.5%	-0.6%	22.9%	21.7%
Missouri	910,565	925,046	1,021,705	1,108,021	1,176,136	6.1%	15.1%	27.1%	29.2%
Ohio	2,062,827	2,102,154	2,288,295	2,474,063	2,278,285	-7.9%	-0.4%	8.4%	10.4%
Wisconsin	1,074,474	1,217,729	1,228,374	1,276,924	1,191,512	-6.7%	-3.0%	8.7%	10.9%
Midwest Totals	12,962,227	12,293,263	14,817,957	15,284,344	14,991,950	-1.9%	1.2%	22.0%	15.7%
National Totals	52,861,435	65,140,376	80,744,608	80,273,540	79,411,898	-1.1%	-1.7%	21.9%	50.2%

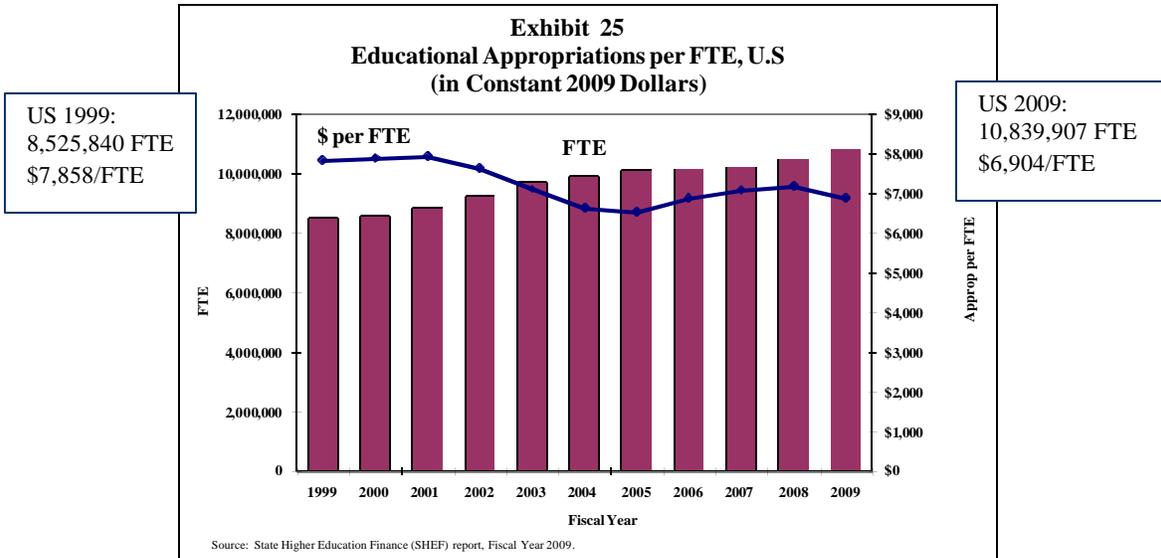
¹ Includes Federal Stimulus Monies under the American Recovery and Reinvestment Act of 2009 (Education Stabilization & Government Services funds).
 Education Stabilization Funds used to restore the level of state support for public higher education.
 Government Services Funds exclude funds used for modernization, renovation, or repair.

Source: FY2010 Grapevine 50-State Summary, Illinois State U. Center for the Study of Education Policy

Exhibits 24 and 25, 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.⁵ Appropriations per FTE declined in Illinois at the same rate as in the nation as a whole between fiscal years 1999 and 2009. Illinois' appropriations per FTE continue to be above the national average; however, enrollment growth over that period is much less than enrollment growth nationally.



⁵ 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 the Delta Cost Project. The Delta Cost Project looks specifically at trends in educational and related (E&R) costs – instruction, student services, administration, and facility maintenance – borne by the student (tuition) and state (general funds subsidy). Figure 26 compares E&R costs per student to student performance. With the exception of public master’s institutions, increases between academic years 2003 and 2008 in education and related costs per FTE student have been below national averages. However, increases in the student share of education and related costs have exceeded national averages, particularly at public research and master’s institutions. For academic year 2008, education and related spending per completion is lower at all institutional types in Illinois than the national average.

Exhibit 26

Average education and related costs per FTE student, student share, instruction share, and performance

	Illinois				United States			
	Public Research	Public Master's	Public Bachelor's	Community Colleges	Public Research	Public Master's	Public Bachelor's	Community Colleges
Education and related costs per FTE student								
2008	\$16,282	\$13,560	n/a	\$7,836	\$15,619	\$12,185	\$17,075	\$10,396
Change from 2003-2008	8%	6%	n/a	5%	10%	7%	4%	8%
Net tuition share of education and related costs								
2008	55%	48%	n/a	31%	50%	47%	44%	31%
Percentage-point change from 2003-2008	12	13	n/a	4	6	7	7	3
Instruction share of education and related costs								
2008	61%	54%	n/a	47%	62%	52%	47%	50%
Percentage-point change from 2003-2008	1	-2	n/a	-3	-1	-1	-1	-1
Completions per 100 FTE students								
2008	27	33	n/a	28	25	24	20	26
Change from 2003-2008	0	3	n/a	2	1	1	1	3
Education and related spending per completion								
2008	\$59,453	\$46,343	n/a	\$34,182	\$62,654	\$54,252	\$84,561	\$45,949
Change from 2003-2008	7%	3%	n/a	-3%	3%	3%	0%	-4%

Delta Cost Project IPEDS State Database, 2003-2008.

Exhibit 27 illustrates how Illinois compares nationally in E&R spending per student and state and local subsidy per student by type of institution in academic year 2008. As shown below, Illinois research and master’s level institutions are above national averages while community colleges are well below. In fact, Illinois community colleges rank near the bottom (46 out of 50 states) in E&R spending per student and rank 31st in state and local subsidy per student. Public institutions at all levels are experiencing an increase in the share of costs paid by students through tuition.

Exhibit 27
Illinois and National Comparisons
E&R Spending and State & Local Subsidy Per Student, Academic Year 2008

	Public Research Institutions			Public Masters' Institutions			Public Community Colleges		
	National Average	Illinois	Illinois Rank	National Average	Illinois	Illinois Rank	National Average	Illinois	Illinois Rank
E&R spending per student	\$ 15,619	\$ 16,282	20	\$ 12,185	\$ 13,560	13	\$ 10,396	\$ 7,836	46
State & local subsidy per student	\$ 8,055	\$ 7,533	28	\$ 6,578	\$ 7,203	17	\$ 7,404	\$ 5,422	31

Source: Delta Cost Project

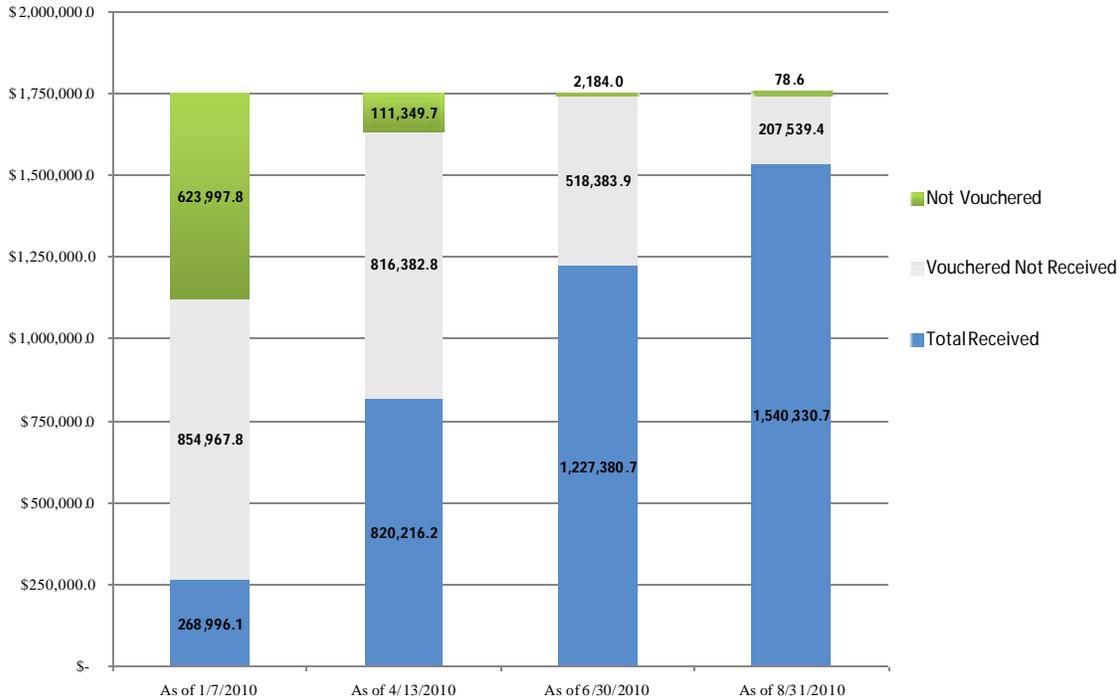
Fiscal Context

Anyone involved in or funded by state government is aware that the fiscal context in Illinois has been extremely challenging in recent years. On the expenditure side, the July edition of *The Illinois State Comptroller’s Quarterly* reported that “throughout fiscal year 2010, both the state’s financial condition and cash flow position continued to deteriorate rapidly, as spending pressures were left largely unabated and as the recession continued to impact state revenues.” Illinois ended the fiscal year in its worst fiscal position in history.

On August 3, 2010, the Governor took final action on the allocation plan for the fiscal year 2011 state budget totaling approximately \$24.9 billion. As was first done in fiscal year 2010, the budget provides for lump sum appropriations instead of specific line items for state grants, programs, and operations. Public Act 96-958, the Emergency Budget Act of Fiscal Year 2011, gives the Governor extraordinary powers over budget allocation, including the power to set aside contingency reserves from amounts appropriated for all state agencies, boards, commissions, and institutions, including public colleges and universities. The Governor’s power to order contingency reserves expires January 9, 2011.

Following the close of a fiscal year, the state traditionally has until August 31st, the “lapse period,” to pay bills from the prior fiscal year’s appropriations. P.A. 96-958 extends the state’s lapse period through the end of December 2010. At the end of June, the backlog of unpaid bills in the Comptroller’s Office stood at \$4.7 billion. A large portion of the fiscal year 2011 revenues must be set aside to pay the prior year’s bills. According to the Comptroller’s Office, other than payments for mandated debt service on state bonds, general state aid to K-12 education, federal stimulus-related Medicaid, and critical state operations, a limited amount of fiscal year 2011 obligations are likely to be paid in calendar year 2010. As a result, the state is expected to end fiscal year 2011 with a general revenue bill backlog significantly higher than that at the end of fiscal year 2010 – possibly topping \$6.0 billion. Exhibit 28 illustrates fiscal year 2010 payments to public universities and communities. As of August 31, 2010, public universities were owed a total of \$158.0 million and community colleges were owed \$49.5 million.

Exhibit 28
Fiscal Year 2010 Public University & Community College General Funds Payments
(\$ in thousands)



Source: IBHE records.

On the revenue side, fiscal year 2008 marked the end of revenue growth that began in fiscal year 2004. The Commission on Government Forecasting and Accountability’s (CGFA) June 2010 *Monthly Briefing* reported that fiscal year 2010 general funds revenue fell \$2.0 billion, or 7.0 percent, below fiscal year 2009. 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 2011, CGFA estimates revenues will improve from lows suffered over the past two years, but remain weak as the economy continues to slowly recover. Personal income tax is expected to increase a modest 1.6 percent as job growth remains slow, while corporate income tax is expected to grow approximately 10.0 percent. Finally, sales tax receipts are also expected to increase slightly at 1.6 percent as a slow economic recovery begins. According to CGFA, a third consecutive year of declines in income and sales tax should be avoided, but combined growth in fiscal year 2011 is only expected to be \$363 million. Despite growth in tax revenues, the loss of federal stimulus funds translates into an overall decline in available general funds.

Exhibit 29 provides actual revenues to the general funds for fiscal years 2002 through 2010 and estimated fiscal year 2011 revenues based on CGFA’s April 2010 estimate of revenues for fiscal year 2011 and June 2010 year-end revenue report for fiscal year 2010.

Exhibit 29
General Funds Revenues
Fiscal Years 2002 through 2011

(in millions of dollars)	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
State Taxes	18,497	18,074	19,255	20,508	21,818	23,078	24,152	22,343	20,494	20,796
\$ Increase	(730)	(423)	1,181	1,253	1,310	1,260	1,074	(1,809)	(1,849)	302
% Increase	-3.8%	-2.3%	6.5%	6.5%	6.4%	5.8%	4.7%	-7.5%	-8.3%	1.5%
General Funds*	23,379	22,786	25,428	26,160	27,359	28,640	29,659	29,144	27,098	26,557
\$ Increase	(727)	(593)	2,642	732	1,199	1,281	1,019	(515)	(2,046)	(541)
% Increase	-3.0%	-2.5%	11.6%	2.9%	4.6%	4.7%	3.6%	-1.7%	-7.0%	-2.0%

* 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 2011 Economic & Revenue Forecast and Updated FY2010 Revenue Estimate, March 2010 and Monthly Briefing, June 2010.

Although it is early in the state's fiscal year 2012 budget development process, the major spending pressures impacting the state budget in recent years will continue to play a significant role in budget deliberations among the Governor, General Assembly, and others next spring, and they will be compounded by the backlog of unpaid bills. 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 \$415.2 million increase in employer contributions for fiscal year 2012 to continue on the 50-year funding program established by Public Act 88-0593.⁶ Nearly \$96.5 million of the estimated \$415.2 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 2012.

Fiscal Year 2012 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.*

⁶ Commission on Government Forecasting & Accountability, *Pensions: Report on the Financial Condition Of Illinois Public Employee Retirement Systems*, February, 2010, pages 87 and 90. Illinois will receive \$415.4 million from the \$10 billion federal Education Jobs Fund passed in August 2010. That funding is not reflected in the CGFA reports.

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.

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

Higher Education Finance Study Commission. During its spring 2010 session, the Illinois General Assembly approved Senate Joint Resolution 88, mandating the Illinois Board of Higher Education (IBHE) to convene the Higher Education Finance Study Commission. The Commission is tasked to review and analyze the best options for Illinois to develop a strategic method of financing higher education that aligns with the goals of the *Illinois Public Agenda for College and Career Success*. The Commission is to be cognizant of the principles that underlie the *Illinois Public Agenda*, in particular:

1. Priorities, policies, and budgets must align with state goals; and
2. Adequate and equitable P-20 funding, deployed effectively and efficiently, is essential.

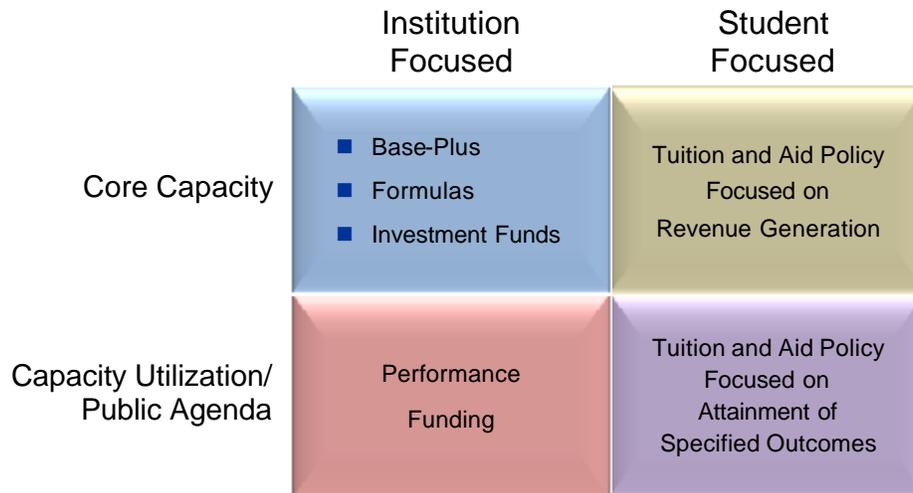
To-date, the Commission has met on three occasions to hear presentations from national experts on productivity in higher education, funding based on student outcomes, and financial aid policies that encourage degree completion. A final report to the Governor and General Assembly is due December 1, 2010. Specifically, the resolution directed the Commission to consider the following:

- The history and means of higher education funding in this State, and comparison of funding with other states and peer institutions.
- Comparison of productivity of Illinois higher education to other state systems and the productivity of public colleges and universities to peer institutions.
- Practices implemented in other states that incent certificate and degree completion, including incentives for both students and institutions.
- Review of tuition and financial aid policies and practices and their roles in improving certificate and degree completion.
- Alternative funding mechanisms that will advance the goals.

The National Center for Higher Education Management Systems (NCHEMS), which assisted the Public Agenda Task Force with the development of the *Public Agenda*, provides a useful framework (Exhibit 30) for understanding how finance policy can be directed toward meeting strategic goals. Currently, institutional funding policy in Illinois is not directly tied to the *Public Agenda*. 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 increasing certificate and degree completion, particularly among minority students. Compounding this task, the Board must remain cognizant that colleges and universities are waiting months for state funds to be disbursed to them, creating great uncertainty and strain on other revenues, notably tuition.

Exhibit 30: Finance Policy Options



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

The IBHE's fiscal year 2011 budget recommendations continued the *Public Agenda* 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 2012 recommendations will continue that focus on the *Public Agenda*. Many of the potential funding priorities appear in Exhibit 31 on the following page.

Exhibit 31: Align Potential Initiatives with Public Agenda Goals, FY2012

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	b. Increase Adults Reentering Education	c. Reduce Geographic Disparities			a. Improve Learning and Skill Levels	b. Increase Production	c. Improve Transitions (between associate and baccalaureate degree levels)	d. Critical to Illinois Economy	
Potential Initiatives for FY12										
Institutional Support for Core Capacity	X	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	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	X
Nursing and Health Education Initiatives							X		X	
Research Matching Grants										X
Minority Enrollment and Completion Incentives	X		X	X		X	X	X		
School Leader & Teacher Prep	X		X			X				
Rapid Response to Employer Needs		X	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							
Course Applicability System (CAS)	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. The investment-level approach has since been adopted each year by the Board although the numbers of levels and degrees of investment have changed each year to reflect both the Board's priorities and the state's fiscal condition. It is anticipated that Board will continue to make investment-level recommendations in fiscal year 2012.

Timeline

The timeline and processes for the development of the Board's fiscal year 2012 operating and capital budget recommendations are contained in Appendix A.

Appendix A: IBHE Timelines and Processes

2010

July 9	Distribute budget development schedules and accompanying memos
July 30	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

2011

January	Discussion budget meetings
February	BHE to consider staff budget recommendations