

SETTING A CONTEXT FOR FISCAL YEAR 2013 BUDGET DEVELOPMENT

Submitted for: Information.

Summary: *Setting a Context for Fiscal Year 2013 Budget Development* is intended to provide the “lay of the land” to the Board as it develops its fiscal year 2013 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 2013 appropriations. The report concludes with an explanation of how the *Public Agenda* and the work of the Performance Based Funding Steering Committee will inform the Board’s decisions as it develops its fiscal year 2013 operating and capital recommendations.

Action Requested: None.

STATE OF ILLINOIS
BOARD OF HIGHER EDUCATION

SETTING A CONTEXT FOR FISCAL YEAR 2013 BUDGET DEVELOPMENT

Highlights

- Looking back over 15 years, total state funding for higher education (operations, grants, and pensions) is 11.3 percent greater in fiscal year 2012 than in fiscal year 1997 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 1997 after accounting for inflation. The total decrease is \$496.4 million, or 19.6 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 2012 is \$325.5 million (13.5 percent) less than in fiscal year 2007 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 \$375.8 million, or 11.2 percent.
- Between fiscal years 2011 and 2012, operations and grants funding decreased \$31.7 million, or 1.5 percent, when retirement funding is excluded. This reduction is attributable primarily to a 1.1 percent across-the-board reduction for public universities and a \$17.2 million reduction to Monetary Award Program (MAP) grants. Additionally, the fiscal year 2012 budget reduces funding for higher education agency operations and the University Center of Lake County.
- In FY 2010, the Governor and the General Assembly approved the \$31 billion *Illinois Jobs Now!* capital program that included more than \$1.6 billion in new appropriations for nearly 120 higher education capital construction and renovation projects. To date, approximately \$465 million in capital grant funding has been released including \$400 million for regular capital projects at Illinois public universities and community colleges, \$35 million in capital grant funding for independent colleges and universities, and \$30 million for capital renewal repairs and maintenance.
- 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

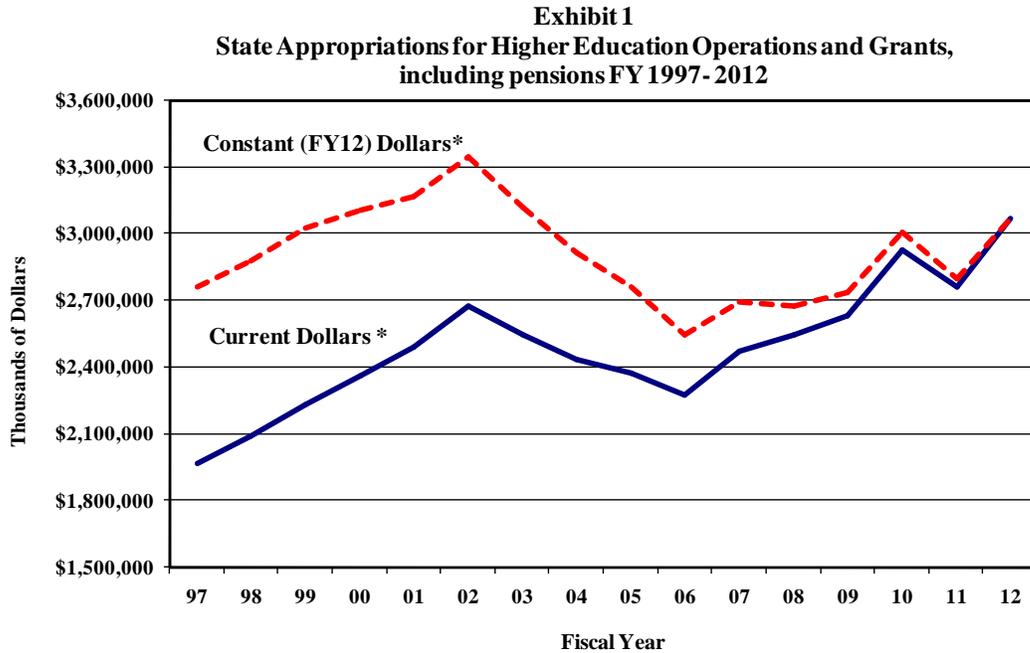
- increased more slowly than the national average, while at the same time, the Illinois institutions have become more reliant on tuition than institutions nationally.
- The Commission on Government Forecasting and Accountability's (CGFA) June 2011 *Monthly Briefing* reported that general funds revenue grew \$3.4 billion, or 12.5 percent, in fiscal year 2011, due to tax changes enacted halfway through the fiscal year and a tax amnesty program in the fall as well as underlying revenue growth as the economy improved. Looking forward into fiscal year 2012, CGFA estimates and overall increase in state tax revenue of \$6.0 billion, or 24.7 percent. At the end of June 2011, the Comptroller reported a \$3.8 billion backlog of unpaid bills. Among the unpaid bills were over \$684 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 Performance-Based Funding Steering Committee, convened pursuant to HB 1503, is currently meeting to devise a system for allocating state resources to public institutions of higher education based upon performance in achieving state goals related to student success and certificate and degree completion. The Board's fiscal year 2012 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* as well as implementation of performance-based funding in fiscal year 2013.

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 1997 and 2012, both in current and inflation-adjusted (CPI-U) dollars.¹ During this period, state general funds support for Illinois higher education grew from \$2.0 billion to \$3.1 billion, or 56.0 percent. However, after accounting for inflation, state support has increased by only 11.3 percent since fiscal year 1997.² 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.



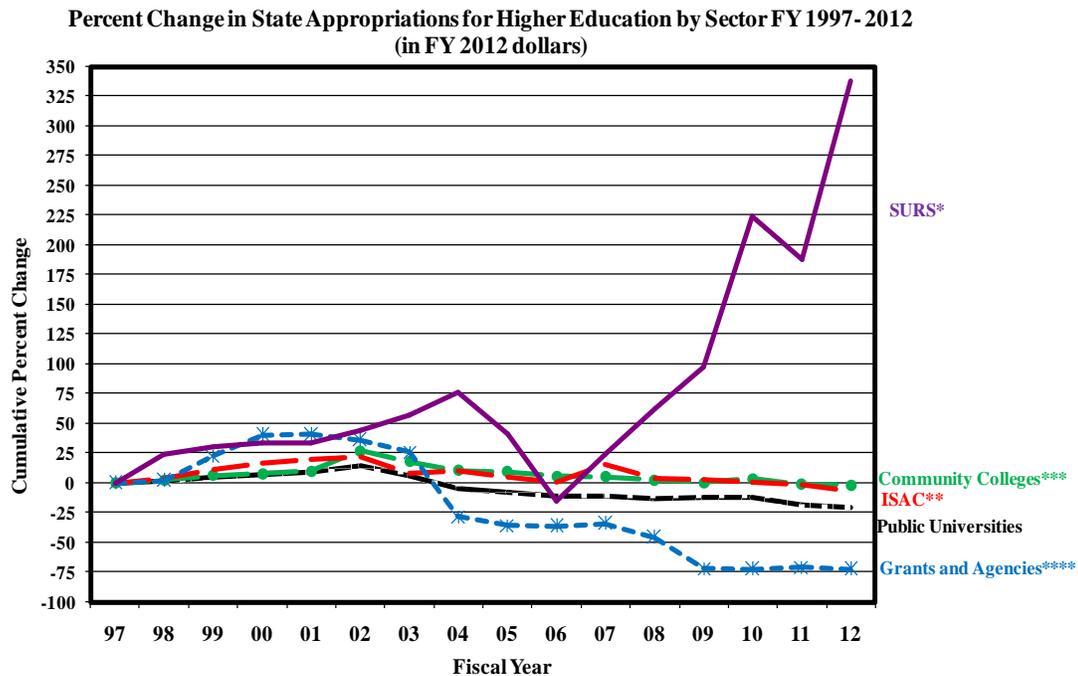
* Includes State General Funds, Student Loan Operating Fund (for MAP and MAP Plus in FY07 only), Budget Relief Fund (FY 2009 only), and State Pension Fund appropriations.

Source: IBHE records.

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. 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.

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 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 is also included, although no appropriation was made in fiscal year 2012. 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 FY 2007 only.
 *** Includes Adult Ed beginning FY02 and Career & Tech. Ed beginning FY 2004. Grants to colleges have declined since FY 2002.
 **** 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 2012 is \$336.1 million, or 20.6 percent, less than in fiscal year 1997. Funding for community colleges is slightly below fiscal year 1997 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 2012 is \$56.0 million, or 15.3 percent, less than in fiscal year 1997.

State support for the Illinois Student Assistance Commission (ISAC) in fiscal year 2012 is \$26.4 million, or 6.1 percent, below fiscal year 1997 levels when adjusted for inflation. About 95.0 percent of the fiscal year 2012 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 1997 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 has resulted in the early suspension of MAP awards. In fiscal year 2011, ISAC suspended award announcements for MAP applications received after April 19, 2010. In fiscal year 2012, ISAC suspended award announcements on March 26, 2011, the earliest suspension date since the creation of the MAP program. The earlier suspension date tends to disproportionately affect community colleges students, as many that are independent students that tend to apply late for college and financial aid. In fiscal year 2012, ISAC estimates approximately 170,000 eligible MAP applications, of which 122,000 are from community college students, will go unfunded because of the suspension date.

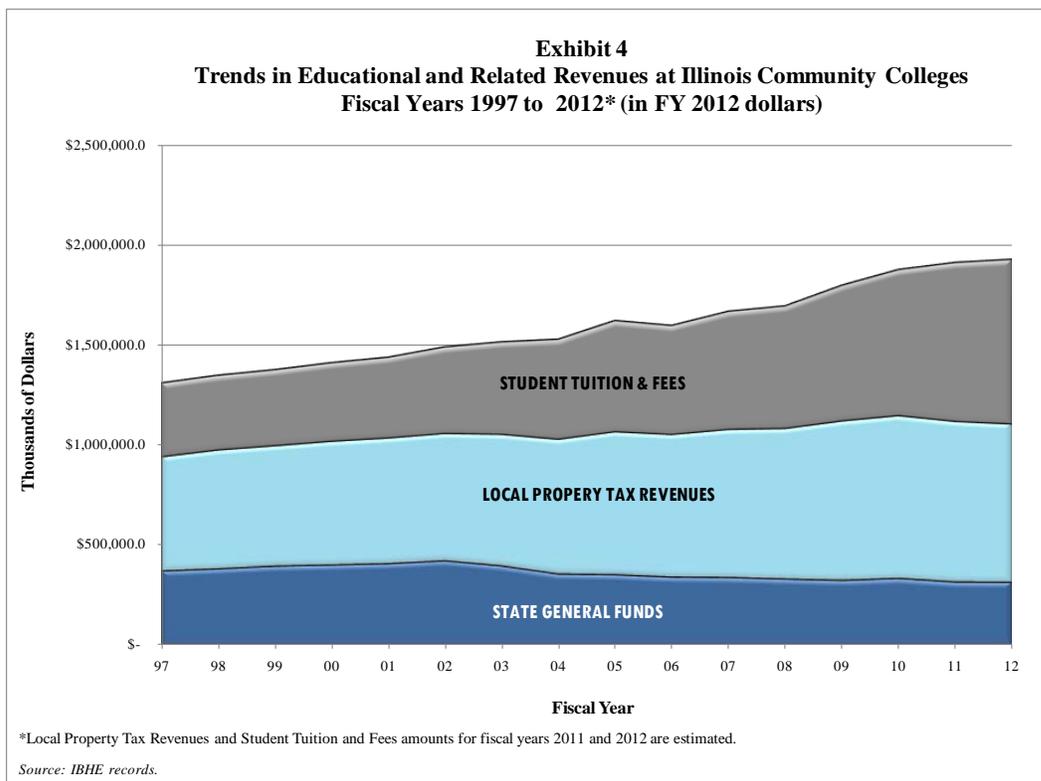
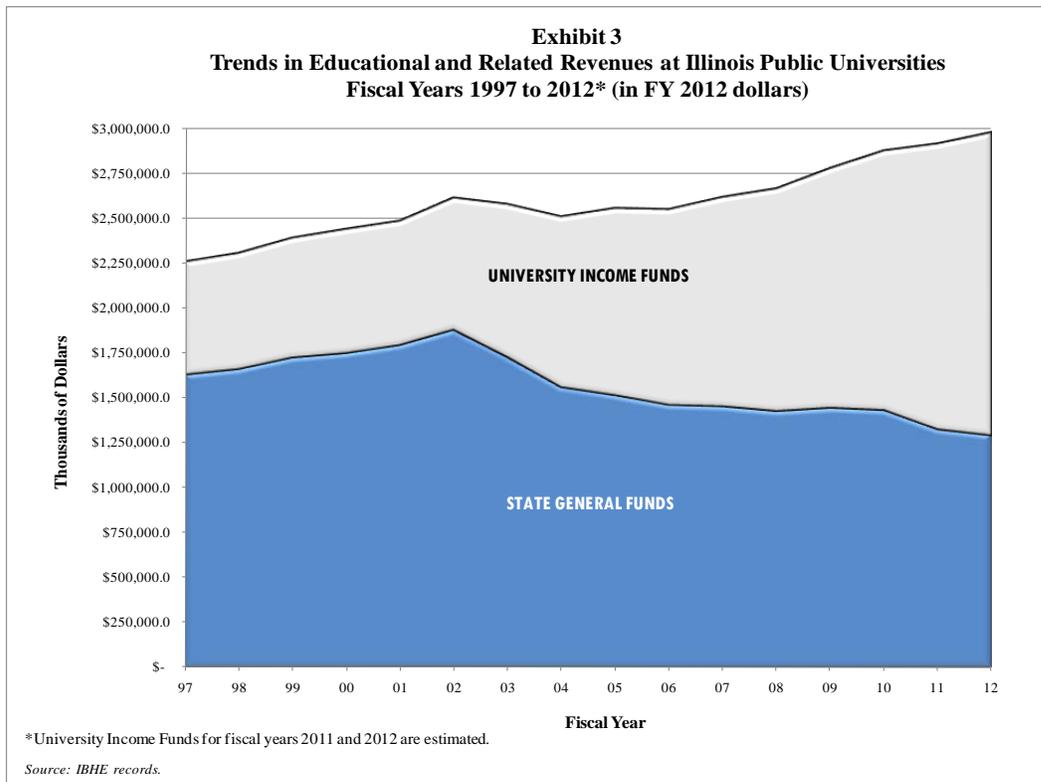
State support for grant programs and agencies in fiscal year 2012 is \$77.9 million, or 71.8 percent, less than in fiscal year 1997 when adjusted for inflation. In large part, this reflects the elimination of funding for the Illinois Financial Assistance Act grant program (\$20.6 million) in fiscal year 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 1997 and 2012 by source. During this period, inflation-adjusted total educational and related revenues increased by 31.8 percent at public universities and by 46.9 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 2012 revenues are \$2.97 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 1997. State general funds support for public universities as a percent of total educational and related revenues declined from 72.3 percent to 43.5 percent between fiscal years 1997 and 2012, while the share from tuition (university income funds) increased from 27.7 percent to an estimated 56.5 percent.

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

For community colleges, state general funds support as a percent of total educational and related revenues declined from 28.0 to 16.2 percent over the same period, while support from tuition increased from 28.1 percent to an estimated 42.5 percent.



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 \$325.4 million (not adjusted for inflation), or 13.5 percent, between fiscal years 2002 and 2012 (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.

Increases in state support for student financial aid (Monetary Award Program) and modest increases for public universities and community colleges helped state appropriations for higher education operations and grants rebound; however, recent declines in state revenue have once again prompted deep cuts to higher education. State appropriations for higher education operations and grants decreased by \$61.9 million, or 2.9 percent, between fiscal years 2007 and 2012. Between fiscal years 2011 and 2012, operations and grants funding decreased \$31.7 million, or 1.5 percent, when retirement funding is excluded.

These reductions are 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). Additionally, in fiscal year 2012, public universities saw the loss of \$15.0 million and MAP was reduced \$17.2 million.

Exhibit 5

State Funding for Higher Education Operations and Grants Fiscal Years 2002, 2007, 2011, and 2012

(in thousands of dollars)

	FY2002 Approp.	FY2007 Approp.	FY2011 Approp.	FY2012 Approp.	FY2007 to FY2012		FY2011 to FY2012	
					Dollar Change	Percent Change	Dollar Change	Percent Change
Public Universities	\$ 1,502,910.9	\$ 1,333,530.6	\$ 1,308,901.0	\$ 1,293,889.3	\$ (39,641.3)	(3.0) %	\$ (15,011.7)	(1.1) %
Community Colleges	333,659.9	306,047.7	307,578.5	310,299.6	4,251.9	1.4	2,721.1	0.9
Grants to Colleges	331,103.5	303,897.8	305,434.1	308,184.1	4,286.3	1.4	2,750.0	0.9
ICCB Administration	2,556.4	2,149.9	2,144.4	2,115.5	(34.4)	(1.6)	(28.9)	(1.3)
Adult Education/Postsecondary Career and Technical Education Grants	39,005.3	47,885.8	50,843.4	50,843.4	2,957.6	6.2	-	-
Illinois Student Assistance Commission	423,752.3	400,969.8	425,031.1	406,865.0	5,895.2	1.5	(18,166.1)	(4.3)
Monetary Award Program (MAP)	367,528.3	354,259.8	403,890.0	386,680.0	32,420.2	9.2	(17,210.0)	(4.3)
Other Grant Programs	49,720.0	46,710.0	21,141.1	20,185.0	(26,525.0)	(56.8)	(956.1)	(4.5)
ISAC Administration	6,504.0	-	-	-	-	-	-	-
Grant Program	97,256.0	43,959.3	9,301.0	8,315.0	(35,644.3)	(81.1)	(986.0)	(10.6)
Illinois Financial Assistance Act	22,169.1	-	-	-	-	-	-	-
Health Education Grants	18,263.3	17,000.0	-	-	(17,000.0)	(100.0)	-	-
University Center of Lake County	1,025.0	2,852.0	1,716.0	1,000.0	(1,852.0)	(64.9)	(716.0)	(41.7)
Institutional Grants	55,798.6	24,107.3	7,585.0	7,315.0	(16,792.3)	(69.7)	(270.0)	(3.6)
Other Agencies	21,245.1	21,907.1	22,468.6	22,197.7	290.6	1.3	(270.9)	(1.2)
Illinois Mathematics and Science Academy	16,526.7	17,652.9	18,216.4	18,216.4	563.5	3.2	-	-
State Universities Civil Service System	1,441.2	1,271.2	1,276.2	1,205.0	(66.2)	(5.2)	(71.2)	(5.6)
Board of Higher Education	3,277.2	2,983.0	2,976.0	2,776.3	(206.7)	(6.9)	(199.7)	(6.7)
Subtotal - Institutional/Agency Ops and Grants	2,417,829.5	2,154,300.3	2,124,123.6	2,092,410.0	(61,890.3)	(2.9)	(31,713.6)	(1.5)
Retirement	235,092.3	68,772.1	451,237.3	845,485.0	776,712.9	1,129.4	394,247.7	87.4
Higher Education Total	\$ 2,652,921.8	\$ 2,223,072.4	\$ 2,575,360.9	\$ 2,937,895.0	\$ 714,822.6	32.2 %	\$ 362,534.1	14.1 %

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.

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 2012, funding for the state's pensions systems totals \$845.5 million, an increase of \$394.2 million, or 87.4 percent over fiscal year 2011. Between fiscal years 2007 and 2012, funding for the state's pension system has increased \$776.7 million.

Public Universities. Although public universities benefited from increases in state appropriations in fiscal years 2007 through 2009, state support for their operations is 3.0 percent less in fiscal year 2012 than in fiscal year 2007, unadjusted for inflation. 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 was nearly that of fiscal year 2006. Furthermore, the fiscal year 2012 appropriation is \$15.0 million, or 1.1 percent, less than fiscal year 2011, bringing state support for public university operations to the lowest level in over ten years.

Exhibit 6

State General Funds Support for Public Universities
Fiscal Years 2002, 2007, 2011, and 2012

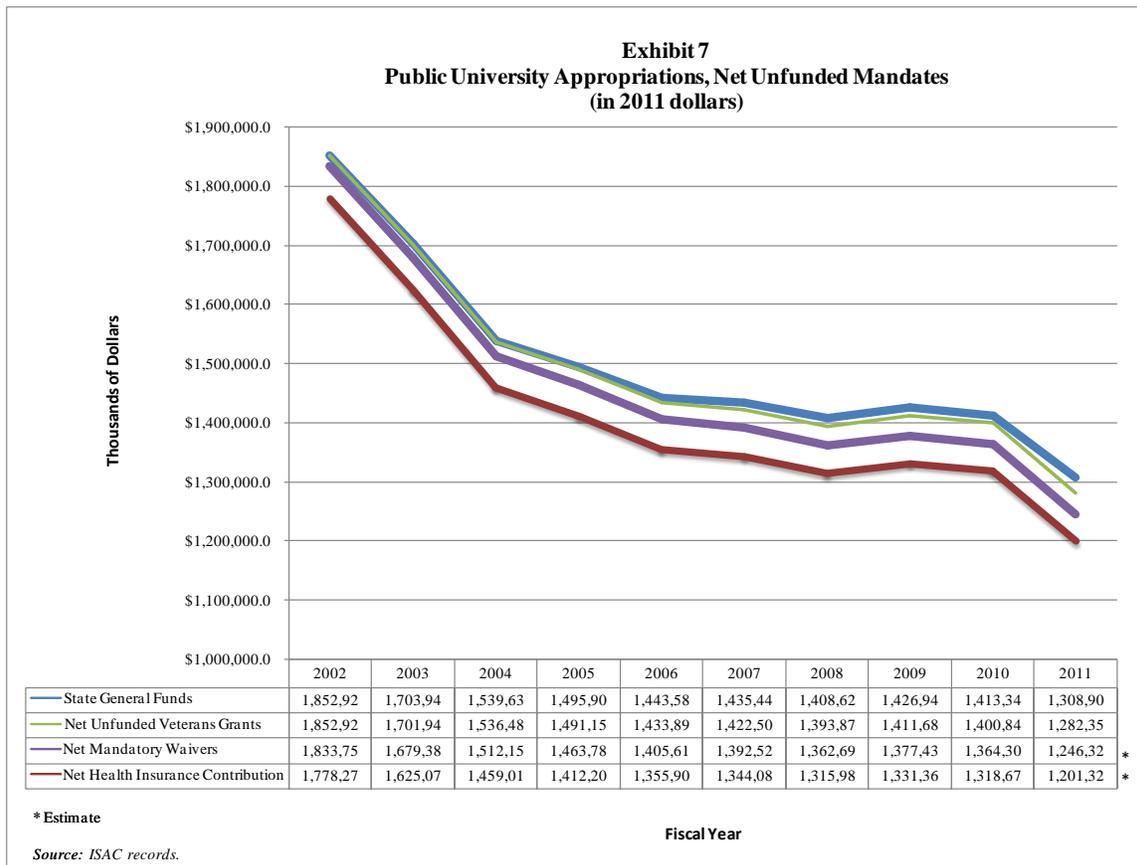
(in thousands of dollars)

Institution	FY2002 Approp.	FY2007 Approp.	FY2011 Approp.	FY2012 Approp.	FY2007 to FY2012		FY2011 to FY2012	
					Dollar	Percent	Dollar	Percent
					Change	Change	Change	Change
Chicago State University	\$ 44,027.4	\$ 41,160.0	\$ 39,710.6	\$ 39,255.2	\$ (1,904.8)	(4.6) %	\$ (455.4)	(1.1) %
Eastern Illinois University	55,274.3	48,282.8	47,413.0	46,869.2	(1,413.6)	(2.9)	(543.8)	(1.1)
Governors State University	28,045.9	27,673.8	26,558.0	26,253.4	(1,420.4)	(5.1)	(304.6)	(1.1)
Illinois State University	93,384.7	81,457.5	79,789.5	78,874.4	(2,583.1)	(3.2)	(915.1)	(1.1)
Northeastern Illinois University	45,396.8	40,026.3	40,695.2	40,228.5	202.2	0.5	(466.7)	(1.1)
Northern Illinois University	118,176.2	103,927.1	100,731.3	99,576.2	(4,350.9)	(4.2)	(1,155.1)	(1.1)
Western Illinois University	65,047.8	57,213.4	56,182.7	55,538.3	(1,675.1)	(2.9)	(644.4)	(1.1)
<u>Southern Illinois University</u>	<u>249,933.1</u>	<u>223,159.2</u>	<u>220,763.5</u>	<u>218,231.5</u>	<u>(4,927.7)</u>	<u>(2.2)</u>	<u>(2,532.0)</u>	<u>(1.1)</u>
<u>University of Illinois</u>	<u>803,624.7</u>	<u>710,630.5</u>	<u>697,057.2</u>	<u>689,062.6</u>	<u>(21,567.9)</u>	<u>(3.0)</u>	<u>(7,994.6)</u>	<u>(1.1)</u>
Total, Public Universities	\$ 1,502,910.9	\$ 1,333,530.6	\$ 1,308,901.0	\$ 1,293,889.3	\$ (39,641.3)	(3.0) %	\$ (15,011.7)	(1.1) %

Changes in state support to public universities have been similar across the board. The percentage variation is due primarily to the effects of legislative initiatives on relatively small funding bases. Only Governors State University has not experienced a decrease from fiscal year 2007 levels, and only Eastern Illinois University, Southern Illinois University and, Western Illinois University have experienced less than a 3.0 percent decrease in state support compared to fiscal year 2007 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.



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 2011 revenue and expenditure data are due in October 2011). 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 14.9 percent, from \$2.48 billion to \$2.85 billion, or \$369.9 million, between fiscal year 2006 and fiscal year 2010 after accounting for inflation, while non-appropriated funds (which are mostly restricted to uses other than educational and related expenses) increased \$459.1 million, or 14.7 percent. However, revenue from state appropriations declined by over \$23.7 million in inflation-adjusted terms while university income fund revenue – which is primarily from tuition – increased by \$393.6 million.

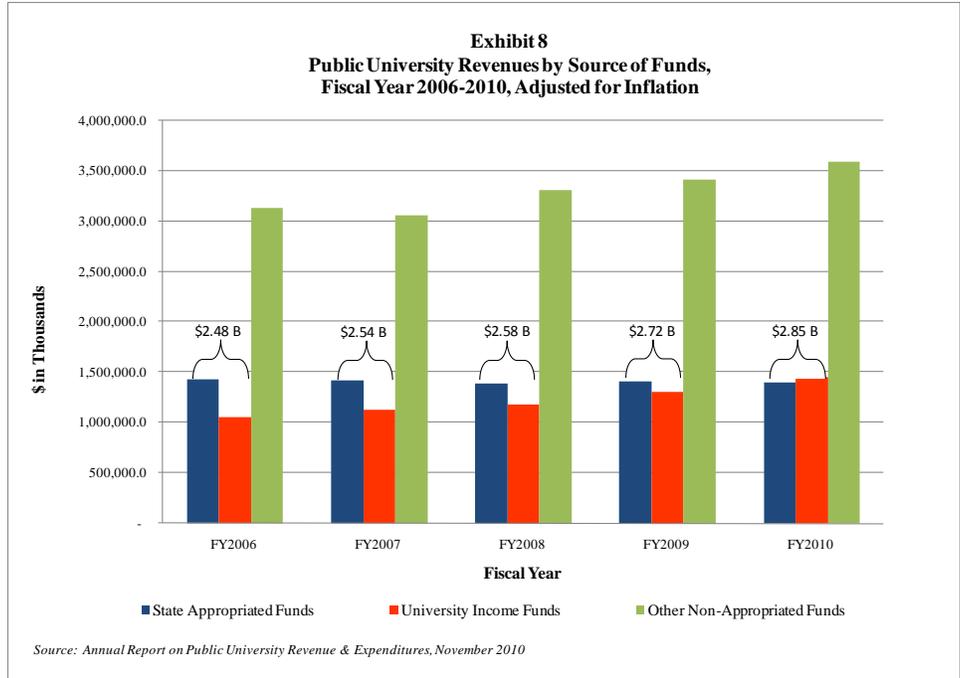
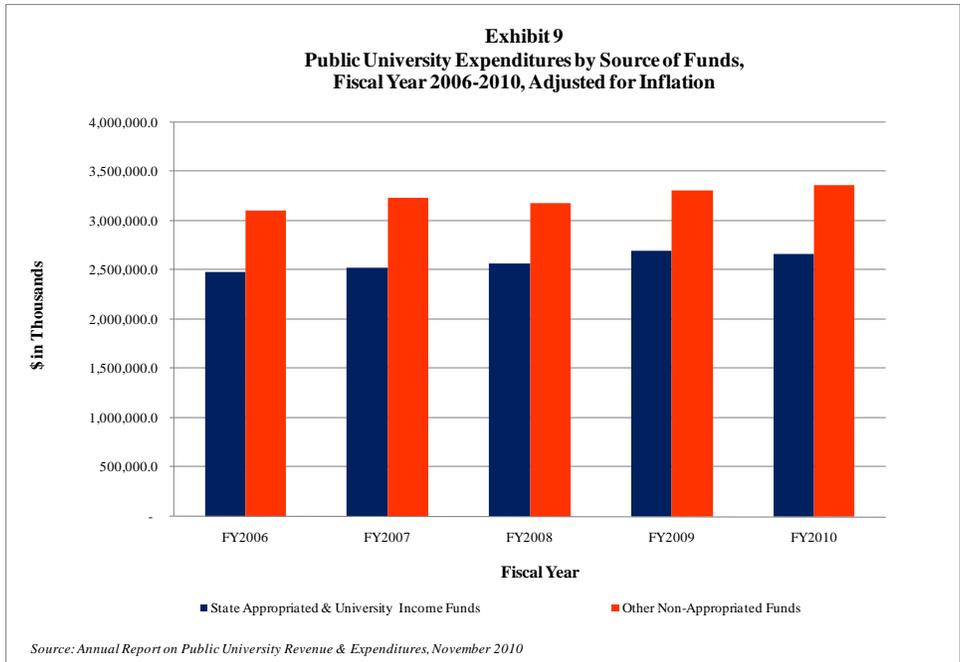


Exhibit 9 illustrates changes in public university expenditures by source of funds. Public university expenditures from state appropriations and university income funds increased 7.7 percent between fiscal years 2006 through 2010 after accounting for inflation while expenditures from other non-appropriated funds increased by 8.5 percent.



Community Colleges. Exhibit 10 presents state general funds support for community college grants and programs, which has increased \$4.3 million, or 1.4 percent, since fiscal year 2007. Appropriations for base operating grants, the largest of the unrestricted grant programs at community colleges, increased 0.5 percent between fiscal year 2007 and 2012. However, fiscal year 2012 appropriations remain below the fiscal year 2002 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 2002, 2007, 2011, and 2012

	FY2002 Approp.	FY2007 Approp.	FY2011 Approp.	FY2012 Approp.	FY2007 - FY2012		FY2011 - FY2012	
					Dollar Change	Percent Change	Dollar Change	Percent Change
Grants to Colleges								
Base Operating Grants	\$ 193,775.0	\$ 197,818.0	\$ 198,811.0	\$ 198,811.0	\$ 993.0	0.5 %	\$ -	- %
Grant to City Colleges of Chicago	-	15,000.0	15,000.0	15,000.0	-	-	-	-
Small College Grants	900.0	840.0	840.0	660.0	(180.0)	(21.4)	(180.0)	(21.4)
Equalization Grants	77,391.5	77,383.7	76,933.0	77,113.0	(270.7)	(0.3)	180.0	0.2
Performance Based Initiative	2,000.0	-	-	-	-	-	-	-
Workforce Development Grants	19,317.0	3,311.3	3,311.3	3,311.3	-	-	-	-
Advanced Technology Grants	14,607.0	-	-	-	-	-	-	-
P-16 Initiative Grants	1,500.0	2,779.0	-	-	(2,779.0)	(100.0)	-	-
Retirees Health Insurance Grant	735.0	626.6	626.6	626.6	-	-	-	-
Special Populations/Student Success Grants	13,260.0	3,000.0	-	-	(3,000.0)	(100.0)	-	-
Deferred Maintenance Grants	3,500.0	-	-	-	-	-	-	-
Subtotal	\$ 326,985.5	\$ 300,758.6	\$ 295,521.9	\$ 295,521.9	\$ (5,236.7)	(1.7) %	\$ -	- %
Other Grants								
Lincoln's Challenge	125.0	120.1	61.6	61.6	(58.5)	(48.7)	-	-
East St. Louis Higher Ed. Center	2,200.0	1,589.1	1,589.1	1,589.1	-	-	-	-
Leadership and Core Values	250.0	-	-	-	-	-	-	-
Special Initiative Grants	1,210.0	-	-	-	-	-	-	-
Foundation Matching Grants	333.0	-	-	-	-	-	-	-
Veterans Grants Shortfall	-	-	7,261.5	7,261.5	7,261.5	-	-	-
College and Career Readiness Pilot Program	-	-	750.0	750.0	750.0	-	-	-
Re-Enrollment Student Program	-	-	-	3,000.0	3,000.0	-	3,000.0	-
Designated Grants	-	1,430.0	250.0	-	(1,430.0)	(100.0)	(250.0)	(100.0)
Subtotal	\$ 4,118.0	\$ 3,139.2	\$ 9,912.2	\$ 12,662.2	\$ 9,523.0	303.4 %	\$ 2,750.0	27.7 %
Total	\$ 331,103.5	\$ 303,897.8	\$ 305,434.1	\$ 308,184.1	\$ 4,286.3	1.4 %	\$ 2,750.0	0.9 %

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. The impact of unfunded veterans grants on already declining appropriations for community colleges has been mitigated to some extent by a specific \$7.6 million appropriation for IVG shortfalls at community colleges that began in fiscal year 2008.

Exhibit 11
Community College Appropriations, Net Unfunded Mandates
(in FY 2011 dollars)

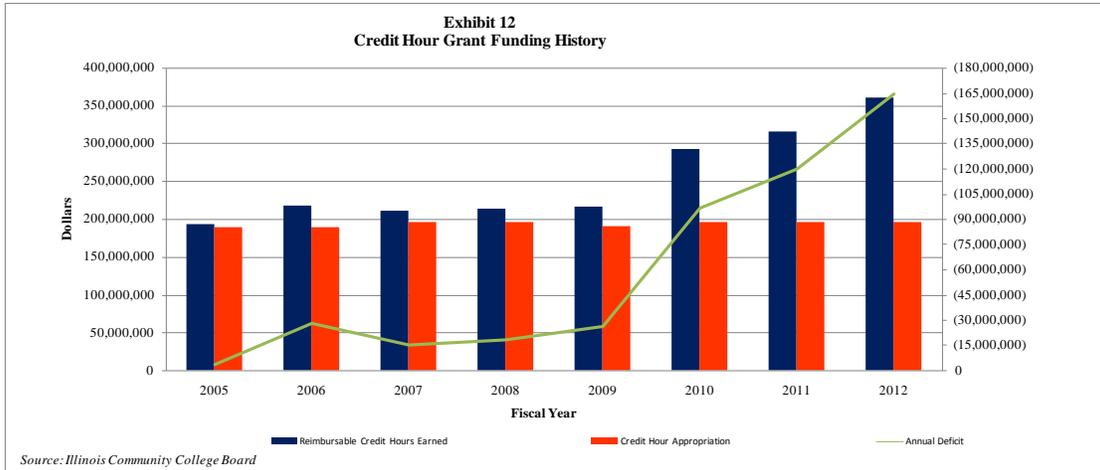
(dollars in thousands)

Fiscal Fiscal Year	State General Funds	Net Unfunded Veterans Grants
2002	\$ 411,367.2	\$ 410,892.7
2003	386,061.8	384,406.5
2004	346,678.1	344,269.5
2005	343,253.2	339,630.2
2006	331,812.4	326,707.8
2007	329,437.8	323,670.3
2008	321,718.6	321,399.4
2009	315,176.8	315,094.5
2010	311,627.4	308,664.0
2011	307,326.9	303,918.5 *

* Estimated

Source: ISAC 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 2012, an estimated increase in reimbursable credit hours of over 44,000 will lead to a record deficit estimated at over \$164.0 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 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 2012 equalization grants are underfunded by an estimated 53.9 percent, resulting in a deficit of \$90.2 million.

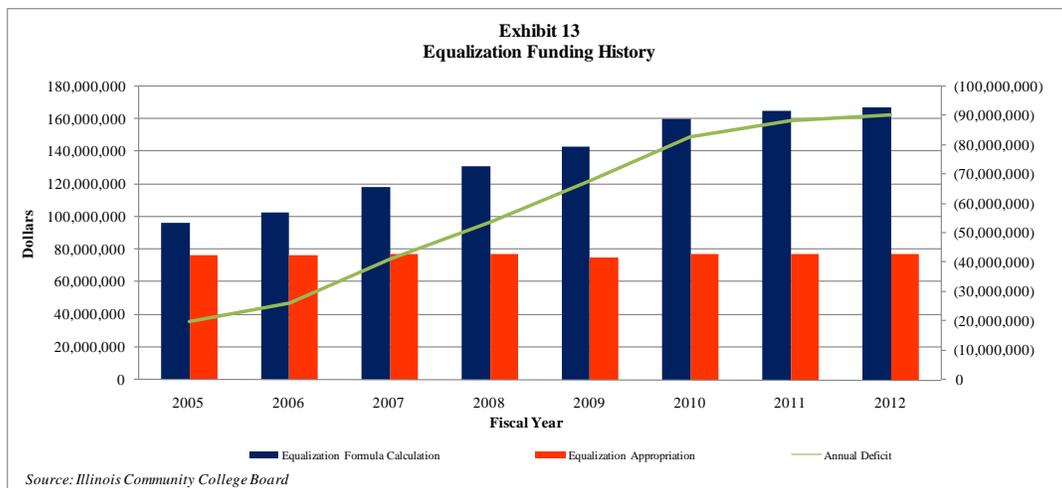
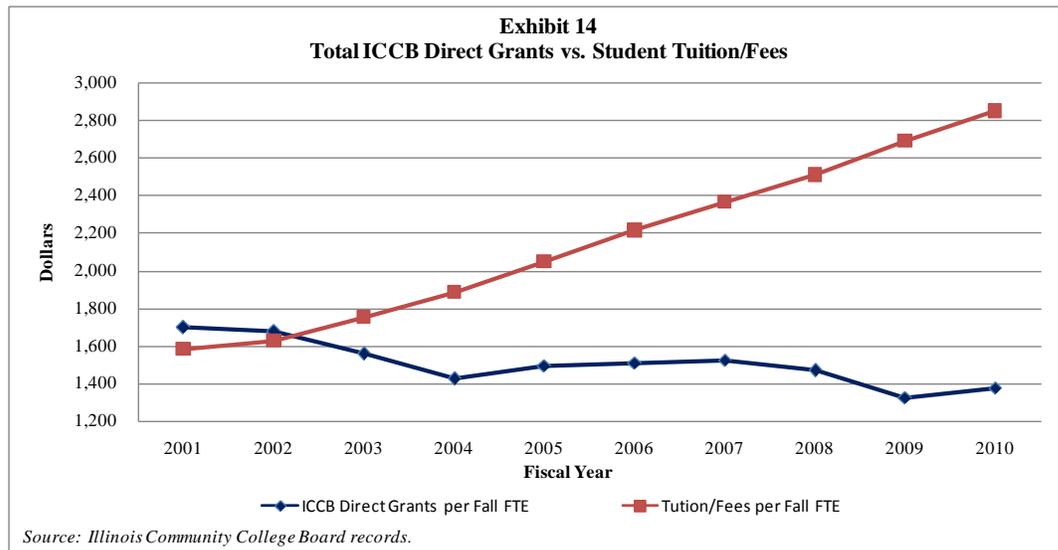


Exhibit 14 demonstrates the relationship between state appropriations and tuition and fees at community colleges. As illustrated by the exhibit, direct grants per full-time equivalent (FTE) student at community colleges declined rapidly between fiscal years 2002 and 2004, and from fiscal year 2004 to 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.



Student Aid. Exhibit 15 includes appropriations to the major grant programs administered by the Illinois Student Assistance Commission. The total fiscal year 2012 appropriation of \$406.9 million is an increase of \$5.9 million, or 1.5 percent, from fiscal year 2007, largely due to increases in state funding for need-based financial aid (Monetary Award Program). The fiscal year 2012 appropriation is \$18.2 million less than fiscal year 2011 because of reduction in MAP funding and the elimination of \$950,000 in funding for the student to student grant program.

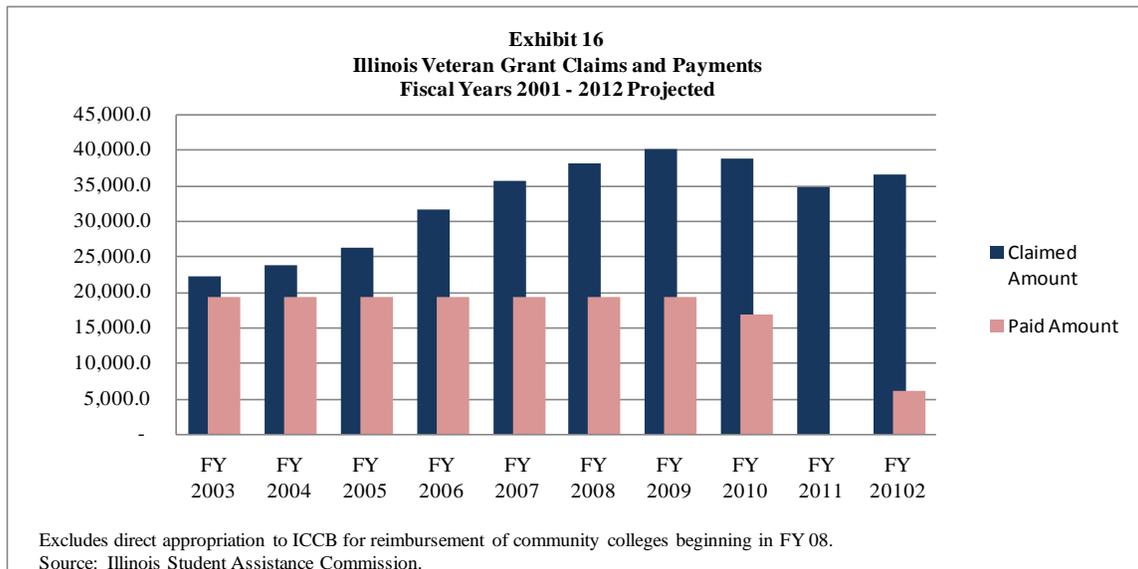
Exhibit 15
State Funding Support for Illinois Student Assistance Commission Programs
Fiscal Years 2002, 2007, 2011, and 2012

(in thousands of dollars)

	FY2002 Approp.	FY2007 Approp.	FY2011 Approp.	FY2012 Approp.	FY2007 to FY2012		FY2011 to FY2012	
					Dollar Change	Percent Change	Dollar Change	Percent Change
Illinois Student Assistance Commission								
Monetary Award Program (MAP)	\$ 367,528.3	\$ 354,259.8	\$ 403,890.0	\$ 386,680.0	\$ 32,420.2	9.2 %	\$ (17,210.0)	(4.3) %
Silas Purnell Illinois Incentive for Access	7,200.0	8,200.0	-	-	(8,200.0)	(100.0)	-	-
Illinois Veteran Grants	20,000.0	19,250.0	6,000.0	6,000.0	(13,250.0)	(68.8)	-	-
National Guard Grants	4,500.0	4,480.0	4,400.0	4,400.0	(80.0)	(1.8)	-	-
Other Grant Programs	18,020.0	14,780.0	10,741.0	9,785.0	(4,995.0)	(33.8)	(956.0)	(8.9)
ISAC Administration	6,504.0	-	-	-	-	-	-	-
Total	\$ 423,752.3	\$ 400,969.8	\$ 425,031.0	\$ 406,865.0	\$ 5,895.2	1.5 %	\$ (18,166.0)	(4.3) %

For fiscal year 2012, the budget for MAP totals \$386.7 million, a decrease of \$17.2 million, or 4.3 percent. The MAP funding reduction reflects an initiative to eliminate proprietary school participation in the MAP program; however, substantive legislation eliminating for-profit schools was not approved. As a result, the reduction in MAP funding has the potential to impact all eligible students. An increase in eligible applications coupled with a decrease in funding resulted in the suspension of MAP awards on March 26, 2011, the earliest suspension date since the creation of the MAP program. As of July 8, 2011, ISAC has suspended 73,637 eligible MAP applications. In total, ISAC estimates approximately 170,000 eligible MAP applications, of which 122,000 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 \$6.0 million in fiscal year 2012 (with no funding in fiscal year 2011). Community colleges and universities are required to waive tuition and fees for qualified veterans regardless of state funding. Fiscal year 2001 was the last time in which claims submitted to ISAC from public colleges and universities were fully paid. As shown in Exhibit 16, public college and university claims have increased significantly while payments by ISAC have declined. Without an appropriation in fiscal year 2011 for the IVG program, colleges and universities will waive over \$34.7 million. Despite an appropriation of \$6.0 million in fiscal year 2011, colleges and universities are expected to waiver an estimated \$36.5 million due to an anticipated increase in claims.



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 41.9 percent in fiscal year 2011.

Exhibit 17
MAP Historical Award Summary
FY 2001 - FY 2011

Academic Year	Maximum Award	Effective Award *	Mean Award	# of Announced Eligible Awards	% of Eligible Awards Paid
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%
2010-2011**	\$4,968	\$4,720	\$2,740	351,186	41.9%

* Reduction factor applied to awards

** Nearly final

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 July 8, 2011. Community colleges had the largest increase in the number and percentage of MAP-eligible applications over fiscal year 2011. The total increase for all sectors in fiscal year 2012 was 25,539, or 10.3 percent, over fiscal year 2011.

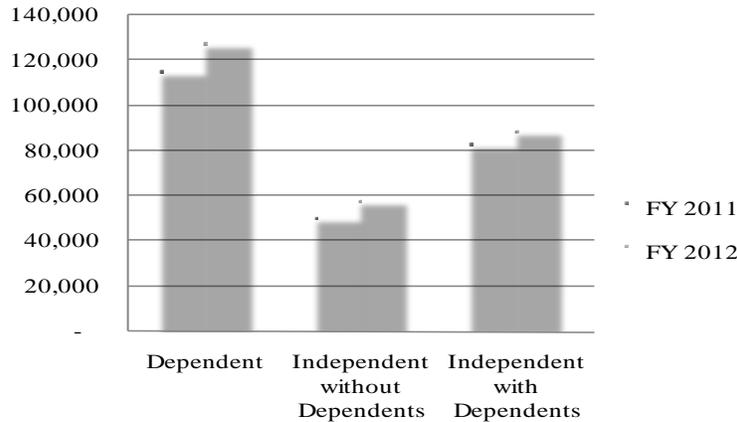
Exhibit 18
MAP Eligible Applications Received Through July 8
By Sector

	FY 2011	FY 2012	Increase	% Increase
Public Universities	61,997	67,164	5,167	8.3%
Private Universities	50,489	54,110	3,621	7.2%
Community Colleges	116,060	130,834	14,774	12.7%
Private Two-Year	2,916	2,985	69	2.4%
HSN/Professional	1,375	1,456	81	5.9%
Proprietary	14,536	16,363	1,827	12.6%
Total	247,373	272,912	25,539	10.3%

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 July 8, 2011, independent students without dependents had the largest increase in MAP-eligible applications, 15.7 percent over fiscal year 2011. The increase of eligible applications received through the same time was 10.9 percent for dependent students and 6.3 percent for independent students without dependents.

**Exhibit 19
MAP Eligible Applications
Received Through July 8th**



Source: Illinois Student Assistance Commission

Institutional Grants and Higher Education Agencies. Exhibit 20 shows that institutional grant programs administered by the IBHE have declined approximately 81.1 percent since fiscal year 2007. 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 exceptions to the enduring reductions experienced by higher education since fiscal year 2007 has been the Illinois Mathematics and Science Academy, which saw its appropriation increase 3.2 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 2002, 2007, 2011, and 2012**

(in thousands of dollars)

	FY2002 Approp.	FY2007 Approp.	FY2011 Approp.	FY2012 Approp.	FY2007 to FY2012		FY2011 to FY2012	
					Dollar Change	Percent Change	Dollar Change	Percent Change
<u>Institutional Grant Programs</u>								
Illinois Financial Assistance Act Grants	\$ 22,169.1	\$ -	\$ -	\$ -	\$ -	- %	\$ -	- %
Illinois Century Network	16,000.0	-	-	-	-	-	-	-
Graduation Incentive Grants	75.0	-	-	-	-	-	-	-
University Center of Lake County	1,025.0	2,852.0	1,716.0	1,000.0	(1,852.0)	(64.9)	(716.0)	(41.7)
Quad Cities Graduate Study Center	220.0	-	130.0	-	(155.0)	(70.5)	(65.0)	(50.0)
Diversifying Higher Education Faculty in Illinois	2,000.0	2,800.0	1,640.0	1,640.0	(1,160.0)	(41.4)	-	-
Competitive Nursing School Grants	-	1,500.0	880.0	880.0	(620.0)	(41.3)	-	-
Nurse Educator Fellowships	-	150.0	180.0	180.0	30.0	20.0	-	-
International Center on Deafness and the Arts	-	300.0	-	-	(300.0)	(100.0)	-	-
Access and Diversity, HECA Grants	7,084.6	4,787.3	-	-	(4,787.3)	(100.0)	-	-
Health Services Education Grants	18,263.3	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)	(100.0)
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	2,100.0	2,100.0	1,230.0	1,230.0	(870.0)	(41.4)	-	-
Grow Your Own Teacher **	-	-	2,500.0	2,500.0	2,500.0	-	-	-
State Geological Survey	1,600.0	-	-	-	-	-	-	-
Career Academies	675.0	-	-	-	-	-	-	-
Workforce and Econ. Development, HECA Grants	3,319.0	-	-	-	-	-	-	-
Teaching, Learning, and Quality, HECA Grants	3,480.0	-	-	-	-	-	-	-
Total	\$ 97,256.0	\$ 43,959.3	\$ 9,301.0	\$ 8,315.0	\$ (35,644.3)	(81.1) %	\$ (986.0)	(10.6) %
<u>Agencies/Other Institutions</u>								
Illinois Mathematics and Science Academy	\$ 16,526.7	\$ 17,652.9	\$ 18,216.4	\$ 18,216.4	\$ 563.5	3.2 %	\$ -	- %
State Universities Civil Service System	1,441.2	1,271.2	1,276.2	1,205.0	(66.2)	(5.2)	(71.2)	(5.6)
Illinois Board of Higher Education	3,277.2	2,983.0	2,976.0	2,776.3	(206.7)	(6.9)	(199.7)	(6.7)

* 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

In FY 2010, the Governor and the General Assembly approved the \$31 billion *Illinois Jobs Now!* capital program that included more than \$1.6 billion in new appropriations for nearly 120 higher education capital construction and renovation projects. While appropriations were approved for these projects, the actual release of funding was not immediately forthcoming due to the lack of available bond proceeds and the limited amount bonding authority authorized for FY 2010. Due to these limitations, the Governor's Office of Management and Budget (GOMB) implemented a roll-out plan to fund the new capital projects over the course of several years.

To date, approximately \$465 million in capital grant funding has been released including \$400 million for regular capital projects at Illinois public universities and community colleges, \$35 million in capital grant funding for independent colleges and universities, and \$30 million for capital renewal repairs and maintenance. The capital program was put on hold in FY 2011 when the Illinois Appellate Court ruled that the plan violated the state constitution's single-subject clause. However, on July 11, 2011 the Illinois Supreme Court ruled that the state's \$31 billion capital construction plan did not violate a constitutional requirement that legislation deal with one subject at a time. This ruling will allow the capital plan to go forward without further action from other courts.

IBHE staff continues to work with the Capital Development Board (CDB) and the Governor's Office of Management and Budget (GOMB) regarding higher education capital needs and the release of capital project funding. It appears at this time that the higher education capital projects in the Illinois Jobs Now! program will continue to be released over the next few years.

Exhibit 21 Higher Education Capital Improvements Fiscal Year 2008 - Fiscal Year 2012

(in thousands of dollars)

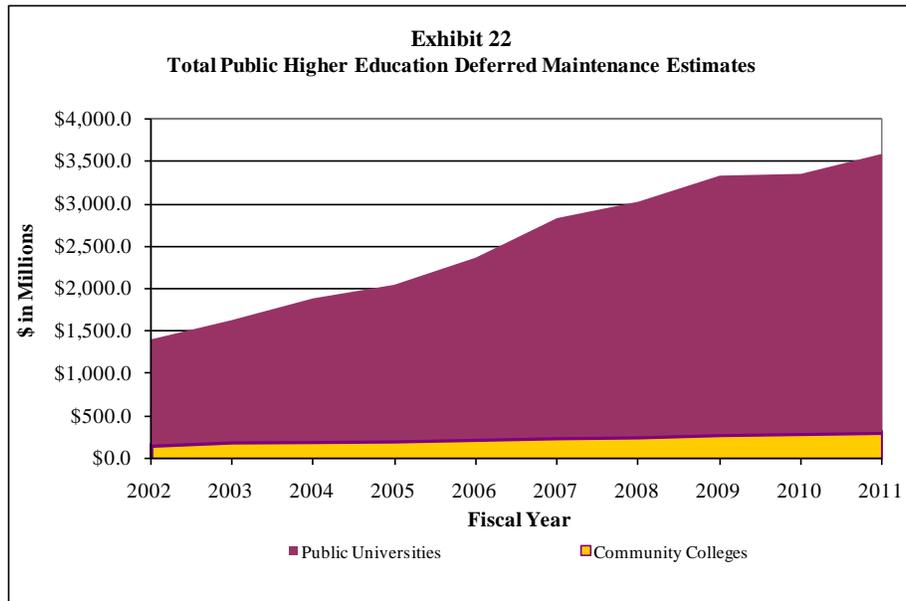
Fiscal Year	Requests Submitted to IBHE	IBHE Recommendation	Final Appropriations
2008	1,782,380.8	607,745.3	-
2009	1,972,707.5	805,815.7	-
2010	2,302,549.2	890,713.7	1,638,475.3
2011	1,941,166.5	+	-
2012	2,306,732.0	1,463,095.6	-

+ 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 \$3.6 billion in fiscal year 2011, an increase of \$2.2 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: University responses to 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 again in recent years. 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) has experienced higher growth in state support than the Midwest and 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 2006 through 2011. Since fiscal year 2006, appropriations to SURS have increased over \$361.0 million. Revised fiscal year 2011 appropriations and fiscal year 2012 appropriations should be available by January 1, 2012.

Exhibit 23

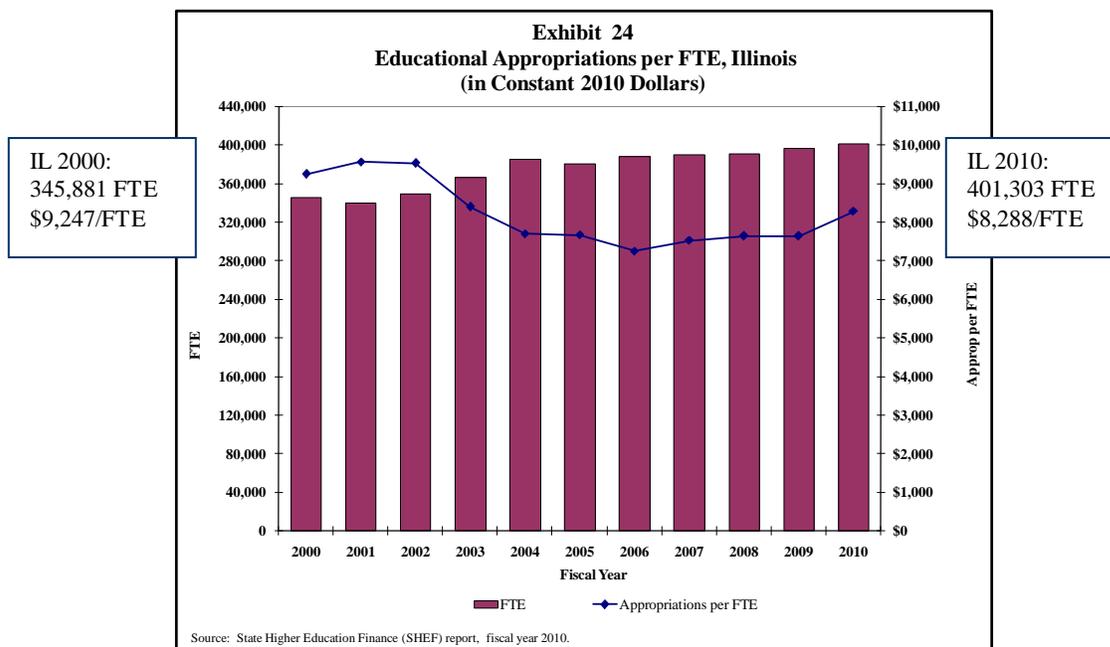
State Support for Higher Education
 Nine Midwestern States and All States for Fiscal Years 2001 through 2011
 (In Thousands of Current Dollars)

States	2001	2006	2009 ¹	2010 ¹	2011 ¹	1-yr Change	2-yr Change	5-yr Change	10-yr Change
Illinois	2,719,734	2,640,437	2,995,462	3,319,569	3,185,176	-4.0%	6.3%	20.6%	17.1%
Indiana	1,283,197	1,430,424	1,619,828	1,598,246	1,567,194	-1.9%	-3.2%	9.6%	22.1%
Iowa	851,182	779,847	914,195	863,776	758,773	-12.2%	-17.0%	-2.7%	-10.9%
Kentucky	1,001,625	1,207,616	1,282,618	1,284,693	1,272,857	-0.9%	-0.8%	5.4%	27.1%
Michigan	2,234,157	2,012,271	2,051,065	1,905,704	1,869,659	-1.9%	-8.8%	-7.1%	-16.3%
Minnesota	1,349,137	1,365,500	1,557,899	1,563,382	1,381,065	-11.7%	-11.4%	1.1%	2.4%
Missouri	959,402	926,756	1,108,021	1,119,798	968,935	-13.5%	-12.6%	4.6%	1.0%
Ohio	2,181,991	2,142,242	2,474,063	2,277,952	2,155,277	-5.4%	-12.9%	0.6%	-1.2%
Wisconsin	1,170,122	1,111,871	1,276,924	1,363,029	1,420,722	4.2%	11.3%	27.8%	21.4%
Midwest Totals	13,750,547	13,616,964	15,280,075	15,296,150	14,579,657	-4.7%	-4.6%	7.1%	6.0%
National Totals	60,762,533	70,281,476	80,603,511	79,534,049	78,918,458	-0.8%	-2.1%	12.3%	29.9%

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.

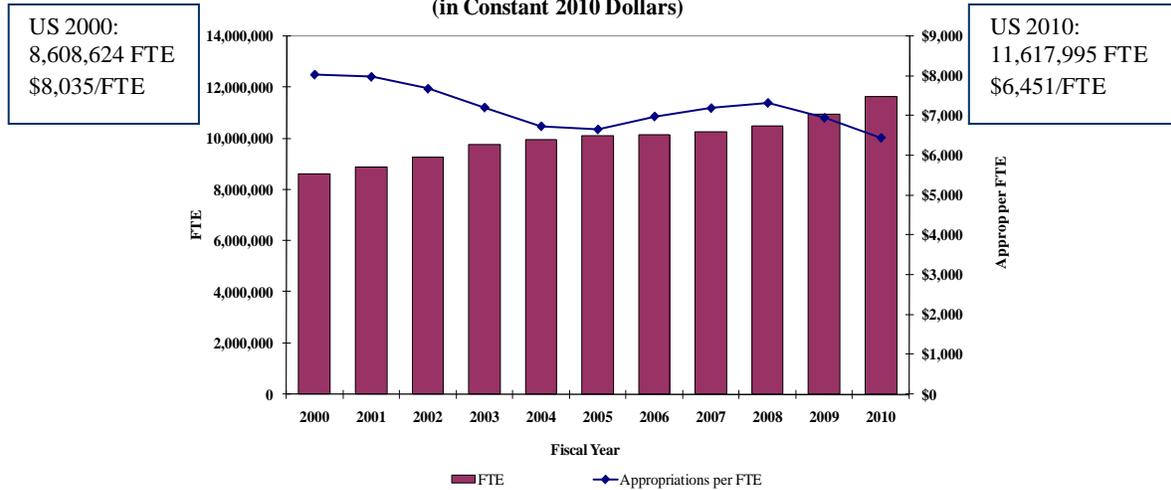
Source: FY2011 Grapevine 50-State Summary, Illinois State U. Center for the Study of Education Policy

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 a slower rate than in the nation as a whole between fiscal years 2000 and 2010. 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.

Exhibit 25
Educational Appropriations per FTE, U.S
(in Constant 2010 Dollars)



Source: State Higher Education Finance (SHEF) report, Fiscal Year 2010.

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
<i>Change from 2003-2008</i>	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%
<i>Percentage-point change from 2003-2008</i>	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%
<i>Percentage-point change from 2003-2008</i>	1	-2	n/a	-3	-1	-1	-1	-1
Completions per 100 FTE students								
2008	27	33	n/a	28	25	24	20	26
<i>Change from 2003-2008</i>	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
<i>Change from 2003-2008</i>	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 (the most recent year data is available). 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

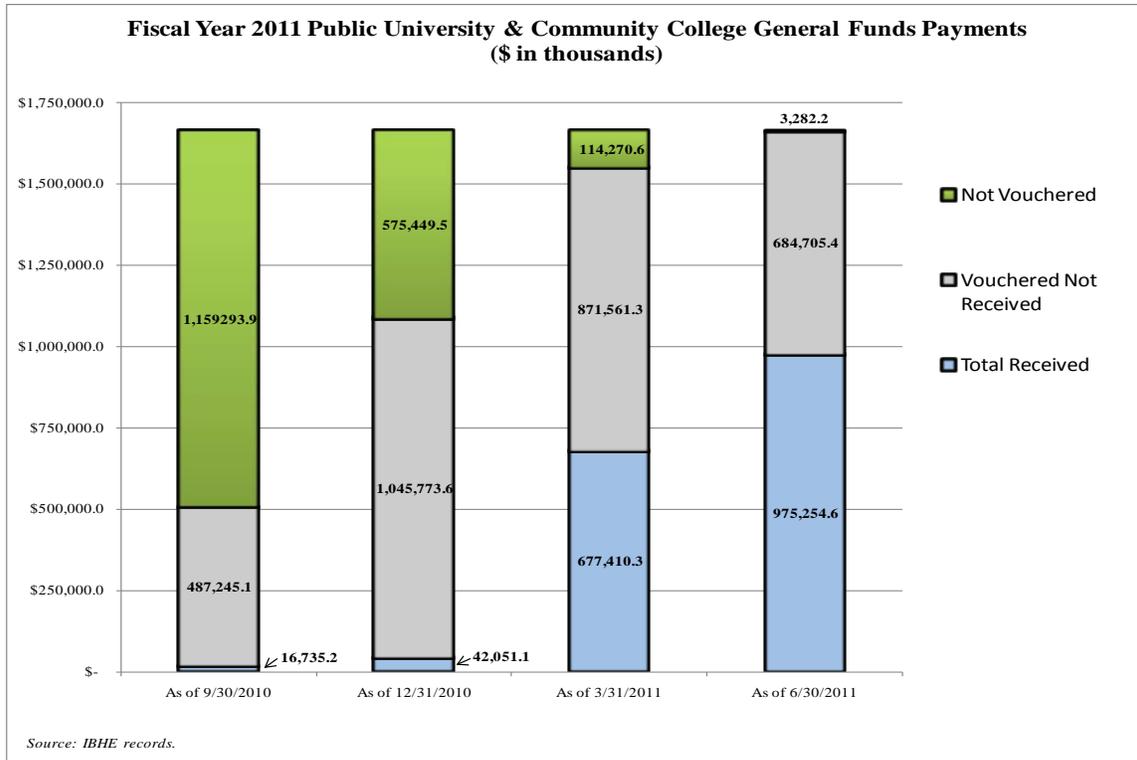
	Public Research Institutions			Public Masters' Institutions			Public Community Colleges		
	<u>National</u>	<u>Illinois</u>	<u>Illinois</u>	<u>National</u>	<u>Illinois</u>	<u>Illinois</u>	<u>National</u>	<u>Illinois</u>	<u>Illinois</u>
	<u>Average</u>	<u>Illinois</u>	<u>Rank</u>	<u>Average</u>	<u>Illinois</u>	<u>Rank</u>	<u>Average</u>	<u>Illinois</u>	<u>Rank</u>
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

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. However, the July edition of *The Illinois State Comptroller’s Quarterly* reported that “after three years of declining end-of-year General Revenue Fund balances, fiscal year 2011 has concluded with Illinois in a better position than it was 12 months ago.” Despite this recent improvement, the Comptroller’s Office notes that “Illinois continues to face staggering long-term financial challenges, and enters fiscal year 2012 without some of the key revenue sources and spending shifts that have been used to support previous budgets”.

On June 30, 2011, the Governor took action on the fiscal year 2012 state budget totaling approximately \$33.0 billion in general funds. Payment delays continued throughout fiscal year 2011, with some vouchers at the end of June dating back to January 2011 and transfers back to August 2010. 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. 97-0075 extends the state’s lapse period through the end of December 2011. At the end of June, the backlog of unpaid bills in the Comptroller’s Office stood at \$3.8 billion, compared to \$4.7 billion last year.

According to the Comptroller’s Office, Illinois had roughly \$7.4 billion in unaddressed obligations including: \$3.8 billion in unpaid bills submitted to the Comptroller’s office, as much as \$1.3 billion in additional fiscal year 2011 vouchers arriving in the lapse period, \$1.2 billion in unpaid state employee health insurance bills, and \$650 million in unpaid corporate income tax refunds. As a result, the backlog of unpaid bills at the Comptroller’s office is unlikely to fall dramatically over the next 12 months and most vendors (including public universities and community colleges) will continue to face significant payment delays. Exhibit 28 illustrates fiscal year 2011 payments to public universities and communities. As of June 30, 2011, public universities were owed a total of \$584.3 million and community colleges were owed \$100.5 million.



Following two consecutive years of declining revenue growth, The Commission on Government Forecasting and Accountability's (CGFA) June 2011 *Monthly Briefing* reported that fiscal year 2011 general funds revenue grew \$3.4 billion, or 12.5 percent, above fiscal year 2010. In January 2011, P.A. 96-1496 increased the individual and corporate income tax rates for the first time in many years. Under the law, the individual income tax rate temporarily increases from 3% to 5% in tax years 2011, falling to 3.75% and in tax year 2015 and 3.25% in tax year 2025. The corporate income tax rate temporarily increases from 4.8% to 7% in tax year 2011, falling to 5.25% in tax year 2015 and 4.8% in tax year 2025. The law also establishes state spending limitations as follows: FY 2012 - \$36.818 billion; FY 13 - \$37.554 billion; FY 14 - \$38.05 billion; and FY 15 - \$39.072 billion. The tax increases are void if the state exceeds spending limits.

According to the CGFA, fiscal year 2011 revenue growth can be attributed to not only tax changes enacted halfway through the fiscal year and a tax amnesty program in the fall, but also underlying improvement in tax revenue as the economy improves. Looking forward into fiscal year 2012, CGFA estimates personal income tax revenue growth of 41.7 percent and corporate income tax growth of 40.7 percent as the economy continues to improve and the higher tax rate is effective for the entire fiscal year. Sales tax receipts are also expected to increase slightly at 0.6 percent. According to CGFA, overall state tax revenue is estimated to increase \$6.0 billion, or 24.7 percent.

Exhibit 29 provides actual revenues to the general funds for fiscal years 2003 through 2011 and estimated fiscal year 2012 revenues based on CGFA's March 2011 estimate of revenues for fiscal year 2012 and June 2011 year-end revenue report for fiscal year 2011.

Exhibit 29
General Funds Revenues
Fiscal Years 2003 through 2012

(in millions of dollars)

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
State Taxes	18,074	19,255	20,508	21,818	23,078	24,152	22,343	20,494	24,422	30,449
\$ Increase	(423)	1,181	1,253	1,310	1,260	1,074	(1,809)	(1,849)	3,928	6,027
% Increase	-2.3%	6.5%	6.5%	6.4%	5.8%	4.7%	-7.5%	-8.3%	19.2%	24.7%
General Funds*	22,786	25,428	26,160	27,359	28,640	29,659	29,144	27,090	30,488	34,882
\$ Increase	(593)	2,642	732	1,199	1,281	1,019	(515)	(2,054)	3,398	4,394
% Increase	-2.5%	11.6%	2.9%	4.6%	4.7%	3.6%	-1.7%	-7.0%	12.5%	14.4%

* 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 2012 Economic Forecast & Revenue Estimate and FY2011 Revenue Update*, March 2011 and *Monthly Briefing*, June 2011.

Although it is early in the state's fiscal year 2013 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 likely be compounded by a continued 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 \$421.4 million increase in employer contributions for fiscal year 2013 to continue on the 50-year funding program established by Public Act 88-0593.⁶ Nearly \$77.2 million of the estimated \$421.4 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 2013.

Fiscal Year 2013 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*

⁶ Commission on Government Forecasting & Accountability, *Pensions: Report on the Financial Condition Of Illinois Public Employee Retirement Systems*, March 2011, pages 91 and 94.

education.

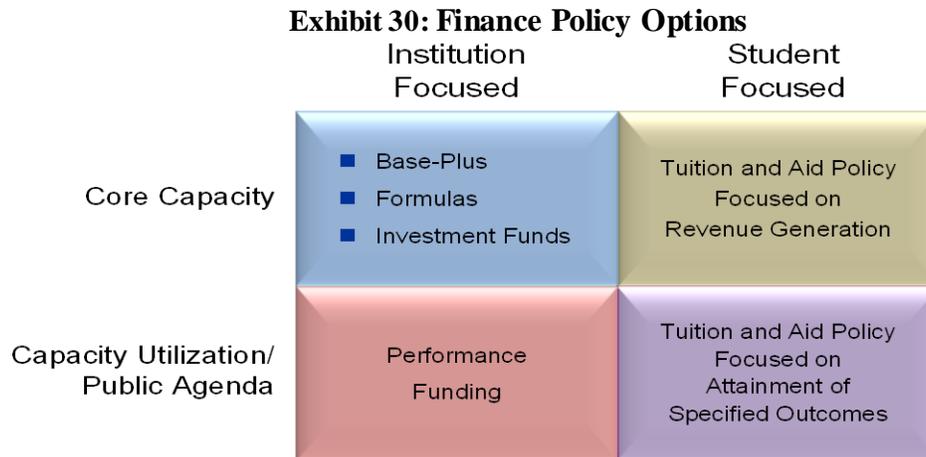
Goal 3. Increase the number of high-quality postsecondary credentials to meet the demands of the economy and an increasingly global society.

- 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.

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

Performance-Based Funding. 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*.



Source: NCHEMS Consultants' Report: Developing a Public Agenda for College and Career Success, August 4, 2008.⁴

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 reviewed and analyzed 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*. Among its recommendations, the Commission concluded that "Performance Funding is a viable policy tool to achieve improved outcomes." In its final report, the Commission recommended that:

- 1) Performance-based funding must be developed through a consultative process. Consensus must be built in a collaborative manner with representation from all school types.
- 2) Performance funding models must be tailored to each sector of higher education. Any model should take into consideration the unique mission of each sector of higher education. Community colleges, master's level, and research institutions.
- 3) Performance-based funding must encourage at-risk students to complete a certificate or degree. Improving graduation rates among at-risk students should be an important part of any performance funding formula.
- 4) Funds Tied to Completion. Base funding should be tied to course completion and degree production, rather than course enrollment.
- 5) Maintain Quality. Performance-based funding mechanisms must be designed to maintain the quality of degrees, certificates, courses, and programs.

In response to the Higher Education Finance Study Commission's recommendations, during the spring 2011 session the Illinois General Assembly passed HB 1503 directing IBHE to form a board-based group to devise a system for allocating state resources to public institutions of higher education based upon performance in achieving state goals related to student success and certificate and degree completion. IBHE has formed a Steering Committee to consider funding metrics and recommend a performance based funding model upon which funds will be allocated to public institutions of higher education in the Illinois Board of Higher Education's annual budget recommendations beginning with fiscal year 2013. The first Steering Committee meeting was held in late July with a series of subsequent meetings planned through November.

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 performance funding 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. The IBHE's fiscal year 2012 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 2013 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, FY 2013

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 FY13										
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 2013 alongside and impacted by the initiation of performance-based funding to public universities and community colleges.

Timeline

The tentative timeline and processes for the development of the Board's fiscal year 2013 operating and capital budget recommendations are contained in Appendix A. (Note, the performance funding initiative will, at some point, intersect and impact the Board's overall funding recommendations for fiscal year 2013).

Appendix A: IBHE Timelines and Processes

ILLINOIS BOARD OF HIGHER EDUCATION

Fiscal Year 2013 Budget Development Schedule Summary

2011

July 26	Distribute budget development schedules and accompanying memos
August 8	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 14	All other operating and capital requests due back to BHE Technical question responses due back to BHE
October 28 Assembly	Annual Revenue and Expenditure Report due to Governor and General
November 15	Annual Sick/Vacation Leave Status Report due to Governor, Commission on Government Forecasting/Accountability, and SURS

2012

January	Discussion budget meetings
February	BHE to consider staff budget recommendations

** It is important to note the FY2013 Budget Development Schedule may be impacted by recently passed performance funding legislation.*