ILLINOIS BOARD OF HIGHER EDUCATION

Budget Process & Fiscal Year 2021 Budget Context

September 25, 2019

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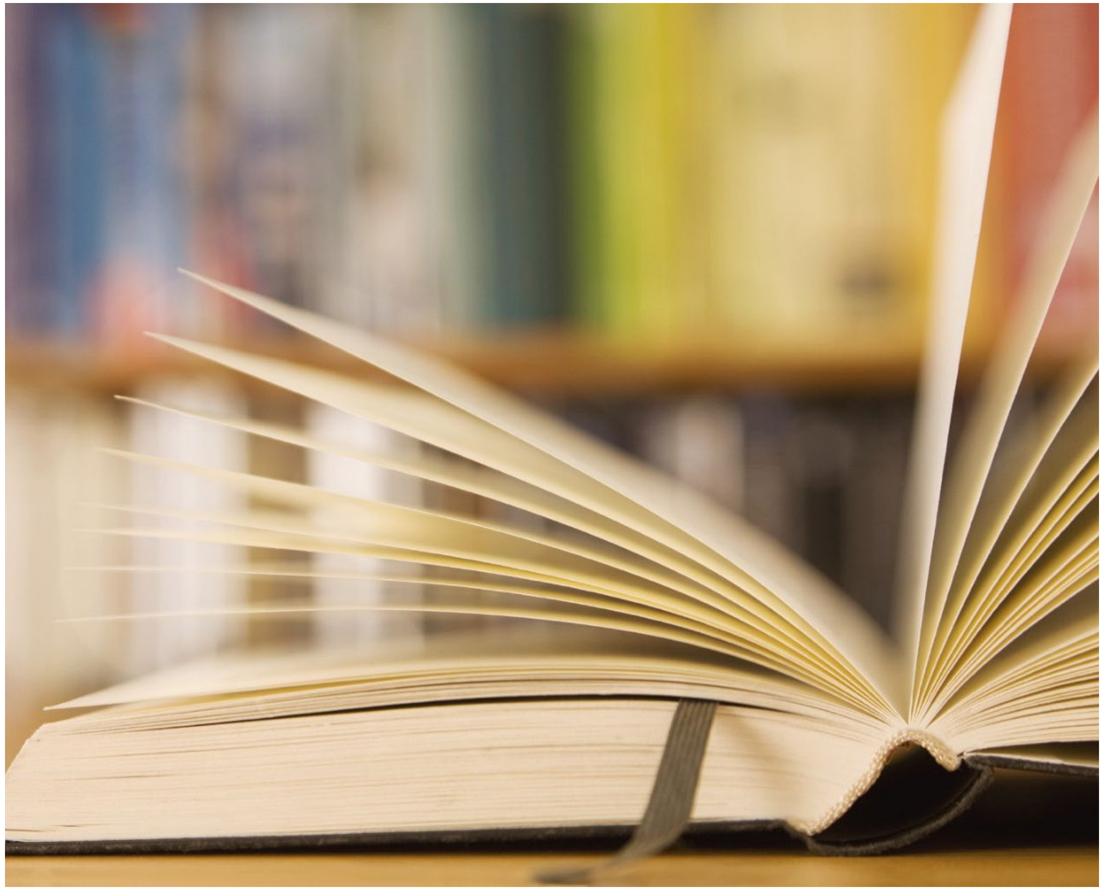

Higher Education Budget Development

- Universities go through their own internal annual budget development process annually
  - Each university uses their own process
  - Capital recommendations generally reflect long-term plans
- Fiscal Year 2021 submissions are due to IBHE, via the Resource Allocation Master Plan (RAMP) on September 30
- RAMP submissions include both operations and capital funding requests
  - RAMP process has been in place for decades
  - Major streamlining for the Fiscal Year 2021 submission to remove forms that are no longer used or redundant

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Higher Education Budget Development

- IBHE also visits each university and each higher education agency by the end of October
  - Discuss requests
  - Look for themes
  - Tour to review capital problems and needs
  - Discuss important financial and program issues
- Some issues that do not become a formal part of the budget work their way into legislative proposals or other efforts
- Working with the Chairman, IBHE staff develop budget recommendations based on initiatives and themes that relate to strategic plans and state goals
  - Try to reflect budget submission themes and developing issues in higher education

Higher Education Budget Development

- The Board votes on the recommendations at its December meeting
  - Recommendations generally equal to or less than university and agency requests
- Recommendations are forwarded to the Governor's office and General Assembly
- Governor's budget is introduced in February
  - Budget rarely matches IBHE recommendations, but that has happened
  - IBHE does try to dialogue with Governor's Office of Management and Budget to get an idea of what they are thinking and what resources may be available
- Budgets will begin in either the Senate or the House, although hearings MAY be held at similar times

Higher Education Budget Development

- Universities and agencies generally will testify in defense of their budget submissions, rather than the IBHE recommendations
  - For the Fiscal Year 2020 budget IBHE and some universities generally supported the GOVERNOR's budget because it was very positive for higher education
- Deadlines are set for bills to move along the process from the first house to the second and through reconciliation
- The final budget normally will pass in the last week of May
- As with other legislation, budgets must be passed out of the General Assembly by May 31 or a three-firths majority is required
- The Governor will either sign, veto or make an amendatory veto of the budget
  - Amendatory veto can reduce a line item but cannot add
  - Line item vetoes are rare because Governor's can instead ask for recisions through executive order

Historic Fiscal Year 2020 Budget

The best operations and capital budget in at least a generation

Illinois’ Fiscal Year 2020 Higher Education Operations Budget: Best Since at Least Fiscal Year 1990

- Overall: Added $154.4 M in general funds, 8.2% increase, largest PERCENTAGE ever*
- Universities: Added $52.8 M, 4.8% increase
  - 5% for general operations but not for special U of I and SIU grants
- Community Colleges: Added $33.3 M, 12.3% increase
  - 4.9% increase for unrestricted grants
  - $23.8 M for new competitive grant program
  - $1 M for transitional math program
- Adult Education: Added $1.9 M, 3.7% increase
  - 5% for base and performance grants, no increase for match to federal funding

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Illinois' Fiscal Year 2020 Higher Education Operations Budget: Best Since at Least Fiscal Year 1990

- MAP: Added $50 M, a 12.5% increase and the largest appropriation ever.
- AIM HIGH: Added $10 M to the new program, total $35 M, which must be matched by public universities that dispense grants to students based on merit-based criteria
- ISAC Operations: Added $4 M to cover decline in federal loan servicing income
  - Maintenance funding, not a net increase in services provided
- Golden Apple Accelerators Program: $750 K for new program
- Exonerated Persons Grants: $150 K for new program
- Grow Your Own Grant: $1 M, 68.2% increase
- Illinois Mathematics and Science Academy: Added $552 K, 3% increase

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Rebuild Illinois Six-Year Capital Program

- Program will be spread over six years
- $3.2 B for public sector projects plus $400 M for private colleges and universities
- $160.6 M CDB line item can be used for other state facilities as well
- 28.7% is reappropriated, mostly for projects funded originally in Fiscal Year 2010 but never completed
- 65.6% is for new projects, new construction
- Many projects on the Fiscal Year 2019 capital emergency list remain and more projects have reached emergency status
- Most new projects will take a number of years to complete
- Funding of projects will compete with all other vertical capital projects over six years.

Rebuild Illinois Higher Education Funding

	New Projects	Emergency & Cap. Renewal*	Total
Universities	$ 1,406,909.8	$ 695,082.5	$ 2,101,992.3
Community Colleges	$ 544,790.4	$ 200,184.0	$ 744,974.4
IMSA	$ 12,851.9	$ 6,680.0	$ 19,531.9
Statewide (CDB)*	$ -	$ 338,612.5	$ 338,612.5
Private Col. & Univ.	$ 400,000.0	$ -	$ 400,000.0
Total	**$ 2,364,552.1**	**$ 1,240,559.0**	**$ 3,605,111.0**
Reappropriation	$ 733,118.4	$ 302,168.5	$ 1,035,286.9
New Appropriations	$ 1,631,433.7	$ 938,390.5	$ 2,569,824.2

*Includes $160.6 M in CDB line not exclusive to higher education

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Review of Illinois Higher Education Funding Fiscal Years 2002-2020

Recovery has only begun and there is a long way back

One Good Budget Does NOT Mean Recovery

- Funding for higher education other than pensions peaked in Fiscal Year 2002 at $2.43 B, compared to $2.05 B for Fiscal Year 2020
  - Fiscal Year 2020 8.2% increase beat the previous best of 7.8% in Fiscal Year 2002 but in dollar terms the Fiscal Year 2002 increase was $174.9 M compared to $154.5 M for Fiscal Year 2020
  - Previous best since Fiscal Year 2002 was $2.3 in Fiscal Year 2007, the only year since Fiscal Year 2002 when new funding exceeded inflation.
  - Four times since Fiscal Year 2002 funding decreased by more than 6%, including a 10% cut to universities and community colleges in Fiscal Year 2018
- Greatest single impact came in Fiscal Year 2016
  - A one-time hit of $1.2 B overall, mostly to universities and community colleges
- Even with an excellent Fiscal Year 2020 budget, adjusted for inflation and unfunded mandates, the total higher education operations buying power for Fiscal Year 2020 is only 56.3% of what was received in Fiscal Year 2002
- Worst impact has been on public universities
  - Funding fell from $1.50 B in Fiscal Year 2002 to $1.16 B in Fiscal Year 2020
  - Adjusted for CPI inflation and unfunded mandates Fiscal Year 2020 state appropriations buying power is only 49.8% of Fiscal Year 2002 and adjusted to the Higher Education Price Index it is only 44.5% of Fiscal Year 2002 buying power

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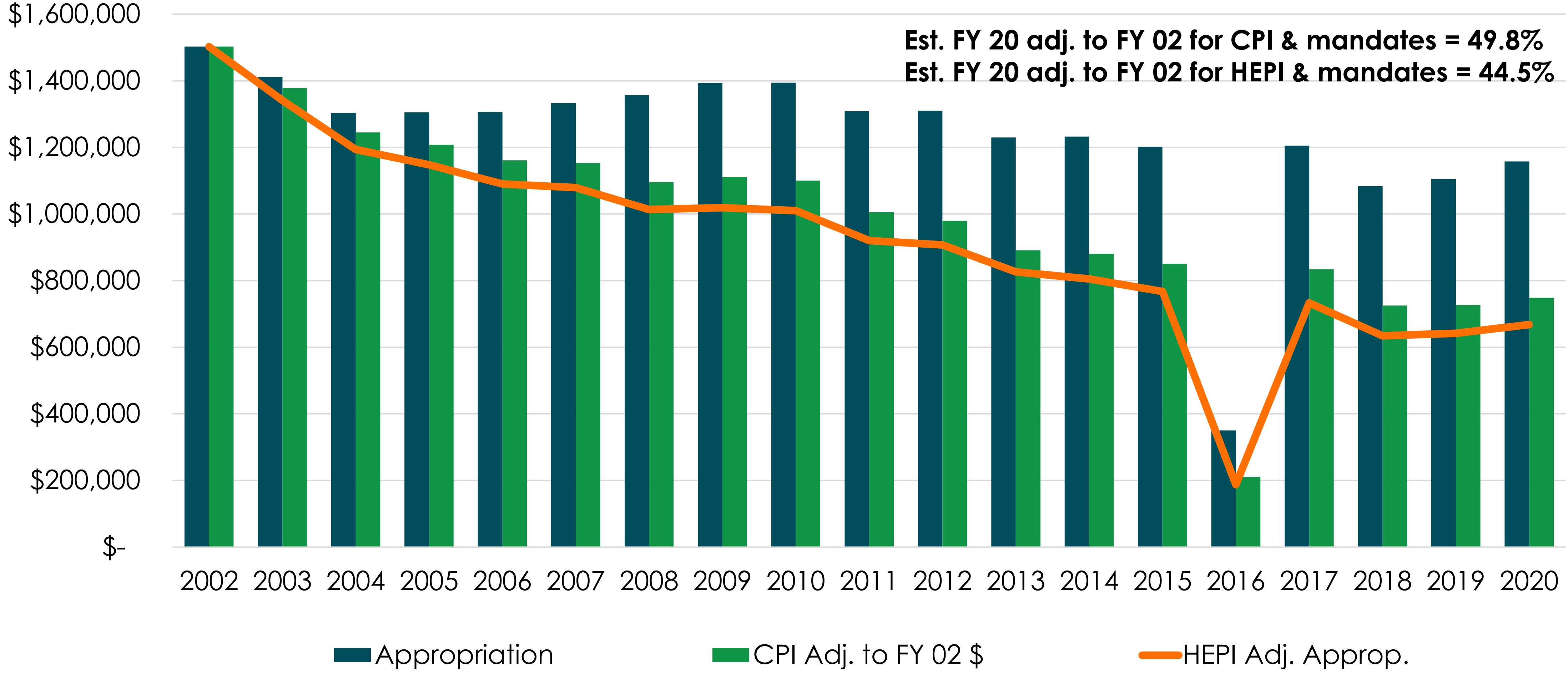
Illinois Public University Appropriations History
Adjusted for Mandates and Inflation (CPI-U)



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Pension Liabilities Consume Available Resources

- While funding for higher education operations declined steadily since Fiscal year 2002, funding for pensions (State University Retirement System) have increased sharply
- Fiscal Year 2000 SURS General Revenues funding - $218.2 M
- But historic underfunding of future pension costs caused the state's liabilities to grow
- To address the underfunding problem the General Assembly approved, back loaded, pension ramp requires escalating contributions through 2045
- Fiscal Year 2020 SURS General Revenues appropriation - $1,644.1 M

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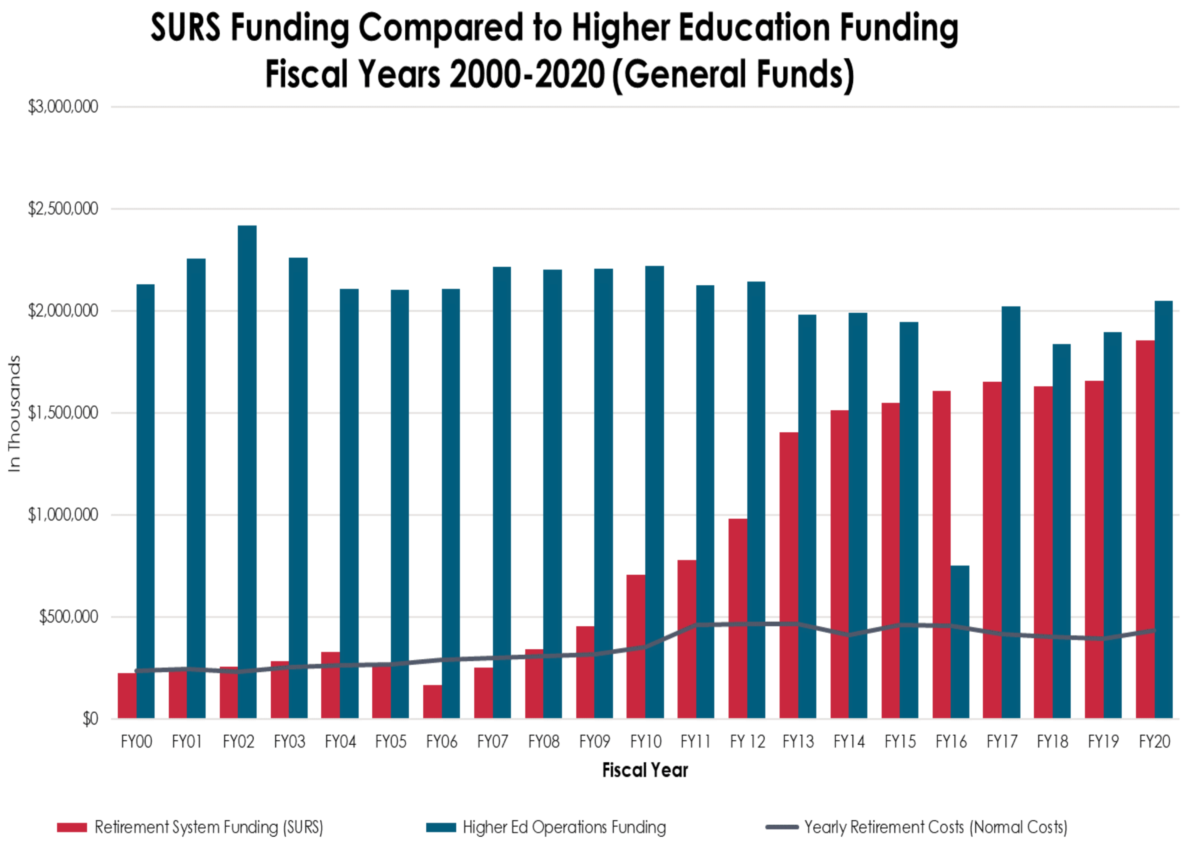
SURS Pension Liabilities vs. Higher Education Operations

- While support for current higher education operations declined sharply since Fiscal Year 2002, there has been a 653% increase in SURS contributions from Fiscal Year 2000
- The pressure of the pension ramp will continue well into the future
- Contributions to cover current employees (normal costs) actually are declining each year



Pension Payments Increase but NOT for Current Liabilities

- Increasing pension payments are not for normal costs (current employees) but rather to cover unfunded past liabilities
- Annual normal costs are generally declining as most new employees are moved to the less generous Tier 2 benefit package
- Fiscal Year 2020 liabilities increase sharply due primarily to a change in actuarial assumptions and one-time savings from Fiscal Year 2019 not available in Fiscal Year 2020
- *NOTE: SURS will not issue new certified amounts for Fiscal Year 2020 or for Fiscal Year 2021 until October*

Distribution of State Certified SURS Pension Contributions

$ in Thousands

	Normal Costs				State Total	Net	% Past
FY	**Total**	**Employee**	**State**	**Expenses**	**Certified**	**Past Liability**	**Liability**
2017	$ 703,138	$ 283,520	$ 419,618	$ 16,087	$ 1,651,426	$ 1,215,721	73.6%
2018	$ 689,456	$ 285,632	$ 403,824	$ 16,690	$ 1,629,308	$ 1,208,794	74.2%
2019	$ 676,719	$ 278,992	**$ 397,727**	$ 17,316	**$ 1,655,543**	**$ 1,240,500**	74.9%
2020	$ 716,385	$ 281,315	**$ 435,070**	$ 17,293	**$ 1,855,938**	**$ 1,403,575**	**75.6%**

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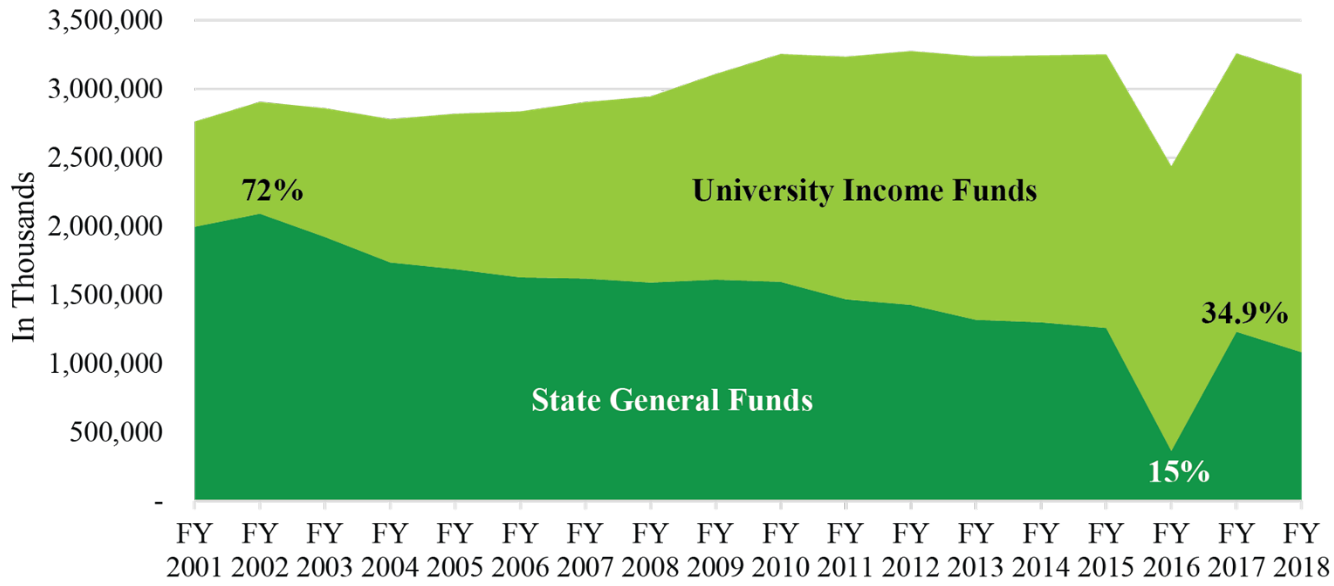
Falling State Support: Increased University Tuition and Fees

- To make up for declining state support since Fiscal Year 2002, public universities and community colleges had to substantially increase tuition and fees
- State dollars fell from 72% of support for universities in Fiscal Year 2002 to just 34.9% in Fiscal Year 2018
    - NOTE: Fiscal Year 2018 spending is the most recently available data
    - State funds covered just 14.5% of costs in Fiscal Year 2016
- A decrease of more than 50%



Declining Monetary Award Program Coverage

- Traditionally MAP covered 100% of the average weighted tuition and fees at public universities and community colleges and all applications deemed eligible
- Despite the substantial increase in funding, ISAC indicates the maximum MAP grant will cover only 34% of average university tuition and fees in Fiscal Year 2020
- The proportion of awards in suspension (unfunded) has increased significantly
- Declining funding of MAP has been a contributing factor to out-of-state student migration and likely to many students choosing to not attend college at all

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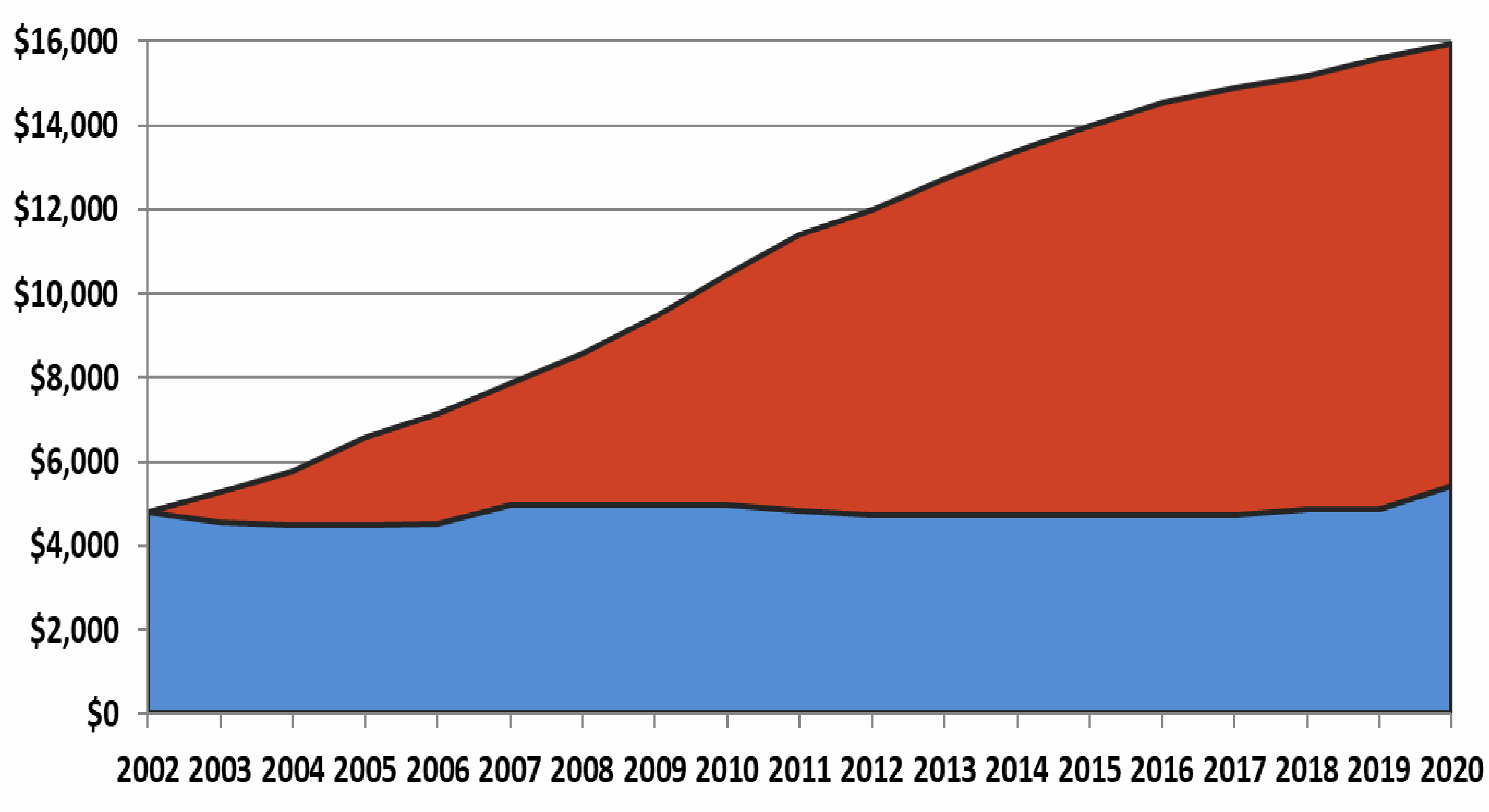
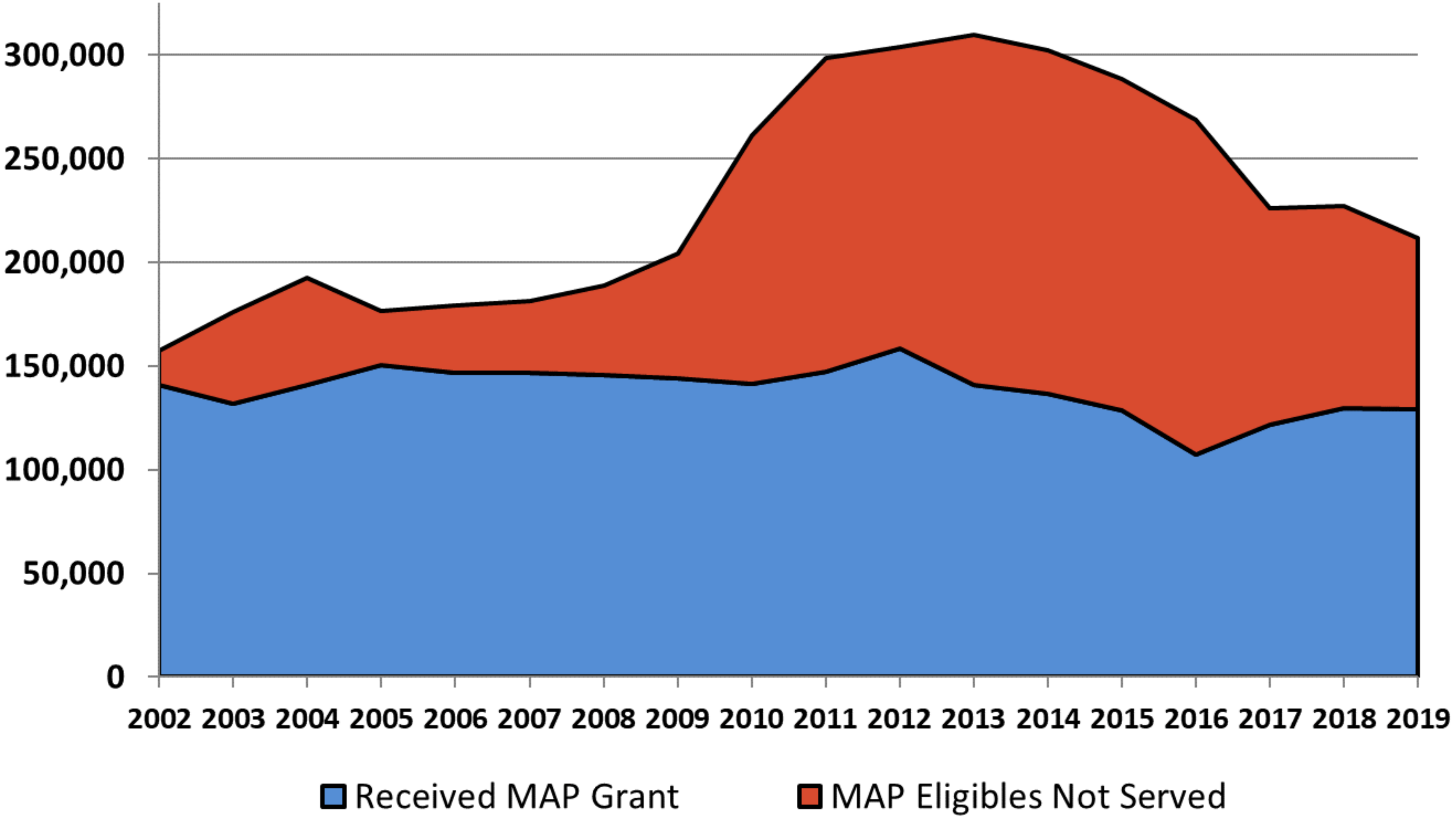
MAP's Purchasing Power has Declined

In FY 2002, the maximum MAP grant covered 100% of Public University T&F. Even with the improved FY 2020 MAP formula, only 34% will be covered.



Demand for MAP Exceeds Supply

MAP grants have not kept up with the increase in demand.



60 X 25: Failing to Meet the Needs of the Economy

- The state goal is to have 60% of working residents hold a high-quality certificate or degree by 2025 because 60% of jobs will require such credentials by 2025
- Since 2013 we have fallen progressively farther behind the goal, to just 85.4% in 2017, the most recent year for which there is complete data
- Illinois started as a leader but has progressed more slowly than many other states
- It is believed the budget impasse negatively impacted progress, including by increasing the proportion of students who start college outside of Illinois

Fiscal Year 2021 Budget Development Consideration

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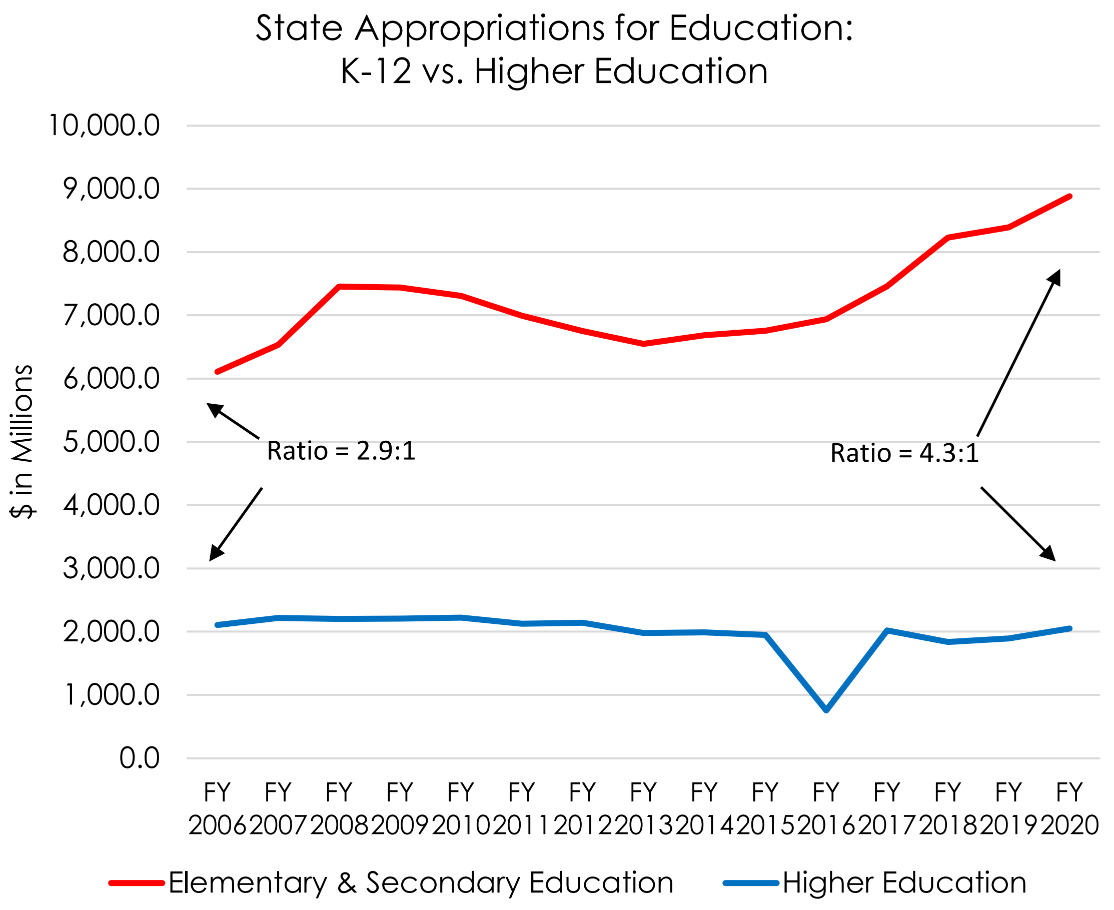
Fiscal Year 2021 Budget Possible Decision Rules: Tie to K-12 Funding

- Return to the rule that higher education should receive a dollar in new funding for every $2 in new funds K-12 receives
- This was an unwritten rule until it was discarded by Governor Blagojevich
- Since that time the actual ratio has increased from 2.5:1 to over 4.3:1
- For Fiscal Year 2020, only 18.7% of education operations funding (excluding pension payments) went to higher education
  - In Fiscal Year 2006, 25.6% of education operations funding went to higher education

Higher Ed's Declining Share of Education Funding

- Though the Fiscal Year 2020 budget was very good for higher education, the ratio was only 2.6:1
  - K-12 received $396 M, exceeding the promised amount, while higher education received $154.5 M
- Illinois has pledged to fully fund a K-12 needs-based formula at the rate of $375 M/year in new funds
- An overall request following the 2:1 rule would give higher education an additional $187.5 M, substantially more than was received for Fiscal Year 2020



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Fiscal Year 2021 Budget Possible Decision Rules: Major Line Items

- Soaring tuition costs present an increasing barrier to many students entering college and are most often cited as the reason students leave the state to start college elsewhere
  - As state support has declined, universities have become highly dependent on tuition and fees
  - It would take a 5.9% increase in general funds to provide flat funding without increasing tuitions, assuming flat enrollment
  - While that is a larger percentage than universities received for Fiscal Year 2020, it would only provide 2.1% more funds than they received in Fiscal Year 2015 and it would be 18.4% less than they received in Fiscal Year 2002
- Community colleges need a similar increase to help hold down tuition and fees, as well as local property taxes
- The Governor has expressed an interest in supporting another $50 M for MAP
- Additional funding is needed for AIM HIGH to expand it to cover a third year of eligible students
- A return to funding for the Higher Education Cooperation Action (HECA) would help universities recover from the budget impasse and reimagine Illinois higher education system to reflect changes in society
- Additional funding is needed for ISAC to maintain operations and outreach, covering declining federal revenues
- IBHE has long championed restoring funding for veterans and National Guard tuition and fees, which is an unfunded mandate on universities and underfunded mandate for community colleges

Keeping Pace with Inflation: Flat Tuition or Flat State Funding

CPI Based on 3 Year Average CPI Increase

<u>General Fund Increase Needed to Avoid Tuition Increases</u>

	$ Distribution	Increase	Net
Inflation	100.0%	2.06%	102.06%
University Income Fund	65.1%	0.00%	65.10%
State $	34.9%	5.90%	36.96%
Net			102.06%

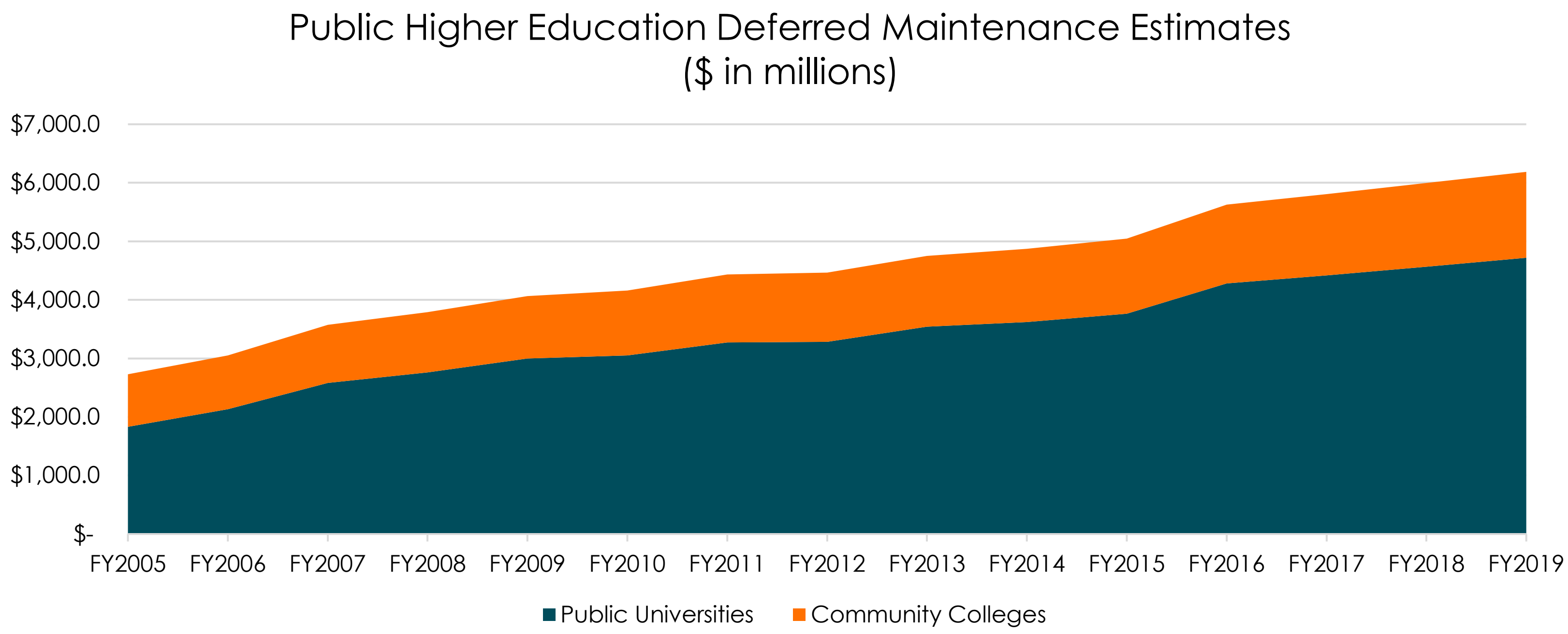
<u>Needed to Maintain Buying Power with Flat General Funding *</u>

	$ Distribution	Increase	Net
Inflation	100.0%	2.06%	102.06%
University Income Fund *	65.1%	3.16%	67.16%
State $	34.9%	0.00%	34.90%
Net			102.06%

*** Reflects change in revenues but due to Truth in Tuition law, tuition increases can only be applied to new students. So, tuition increases would need to be significantly higher. *Closer to 10%.***

Growing Deferred Maintenance: Prior to Fiscal Year 2020

- Deferred maintenance has been a growing problem for community colleges and universities
- Deferred maintenance at universities and community colleges increased from $2.7 B in Fiscal Year 2005 to almost $6.2 B in Fiscal Year 2019
- No capital funding during this period other than Illinois JobsNow!
  - Most Fiscal Year 2010 projects never released, included in Rebuild Illinois



Public University Capital Renewal: Annual Investment Needed

- 30.9% of the $24.5 B in university facilities are not supported by state funds
- To keep up with a 50-year replacement cycle for facilities 2% of the replacement cost should be invested each year in capital renewal, $338.5 M
- If an additional 1% of replacement cost was invested each year it would take 30.9 years to catch-up, $169.3 M
- 3% total for universities, $507.8 M
- Table excludes IMSA, UCLC and community colleges
- Rebuild Illinois likely will fund universities at about 1% of replacement costs
- Even with Rebuild Illinois, institutions will need to continue to use operations funds to limit increases in deferred maintenance

Public University Capital Analysis: FY 19 *

Total Square Feet	**71,739,730**
Avg. $/Square Foot	$ 341.26
Total Value of University Facilities	**$ 24,481,575,213**
State Supported Square Feet	**49,466,618**
Avg. $/Square Foot	$ 342.18
Est. Value of State Supported Fac.	**$ 16,926,246,303**
2% Current Capital Renewal	$ 338,525,000
1% Catch-up Funding	**$ 169,262,500**
3% Capital Renewal Request	**$ 507,787,500**
FY 19 Deferred Maintenance	$ 5,229,723,000
Est. Years to Recovery @1%	**30.9**
Non-State Supported Facilities	**22,273,111**
Avg. $/Square Foot	$ 339.21
Est. Value of Non-State Supported	**$ 7,555,328,910**
% Non-State Supported Facilities	**30.9%**

* Excludes IMSA & UCLC

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Questions and Discussion

This overview of the current budget and budget trends from Fiscal Year 2000 to Fiscal Year 2020 is intended to help set the table for development of the Fiscal Year 2021 Higher Education budget recommendations from the Board to the Governor and the General Assembly.

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