


SETTING A CONTEXT FOR FISCAL YEAR 2020 BUDGET DEVELOPMENT



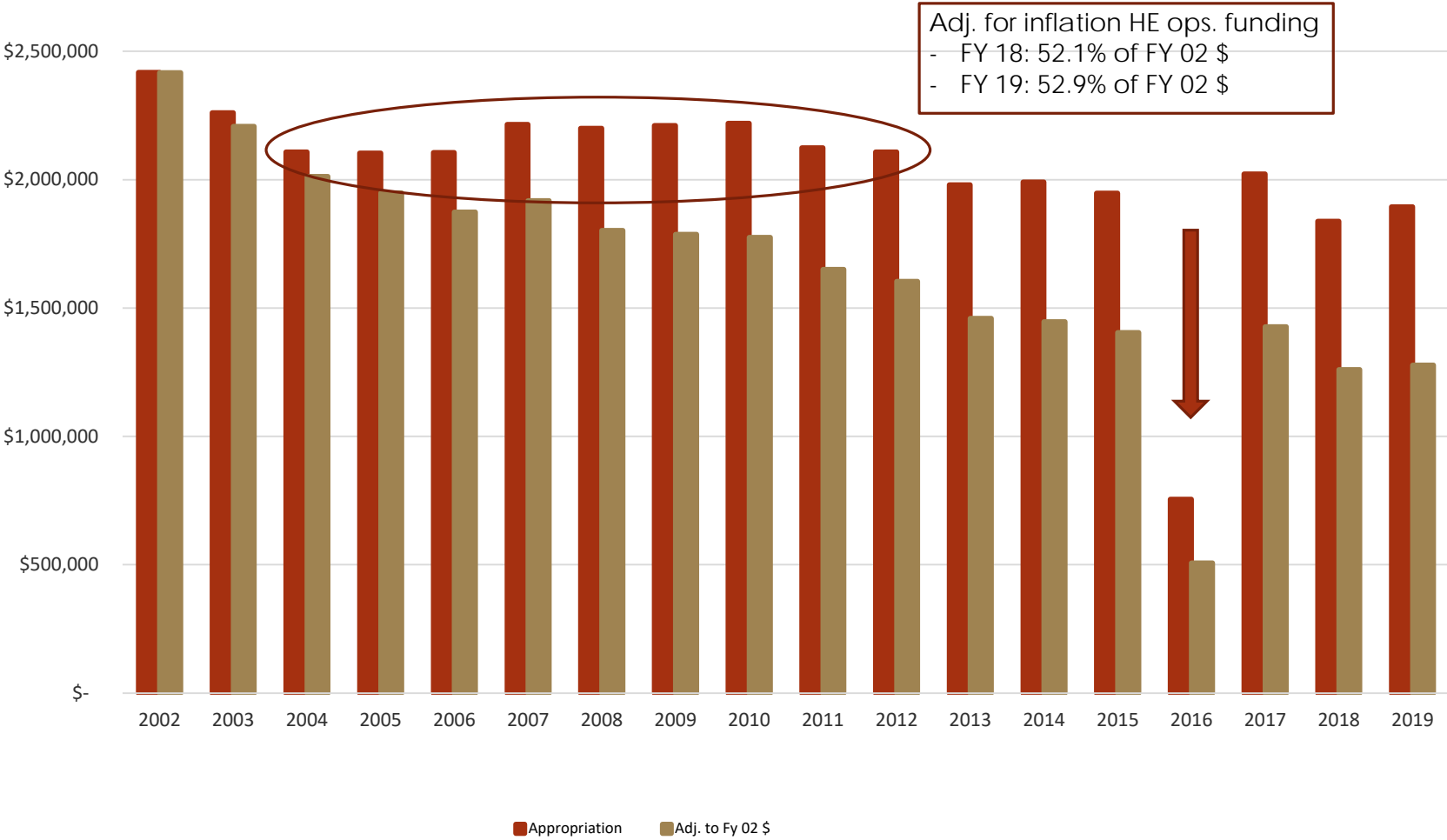
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ILLINOIS BOARD OF HIGHER EDUCATION



Review of Trends in Illinois Higher Education Funding

Years of Decline, Signs of Recovery

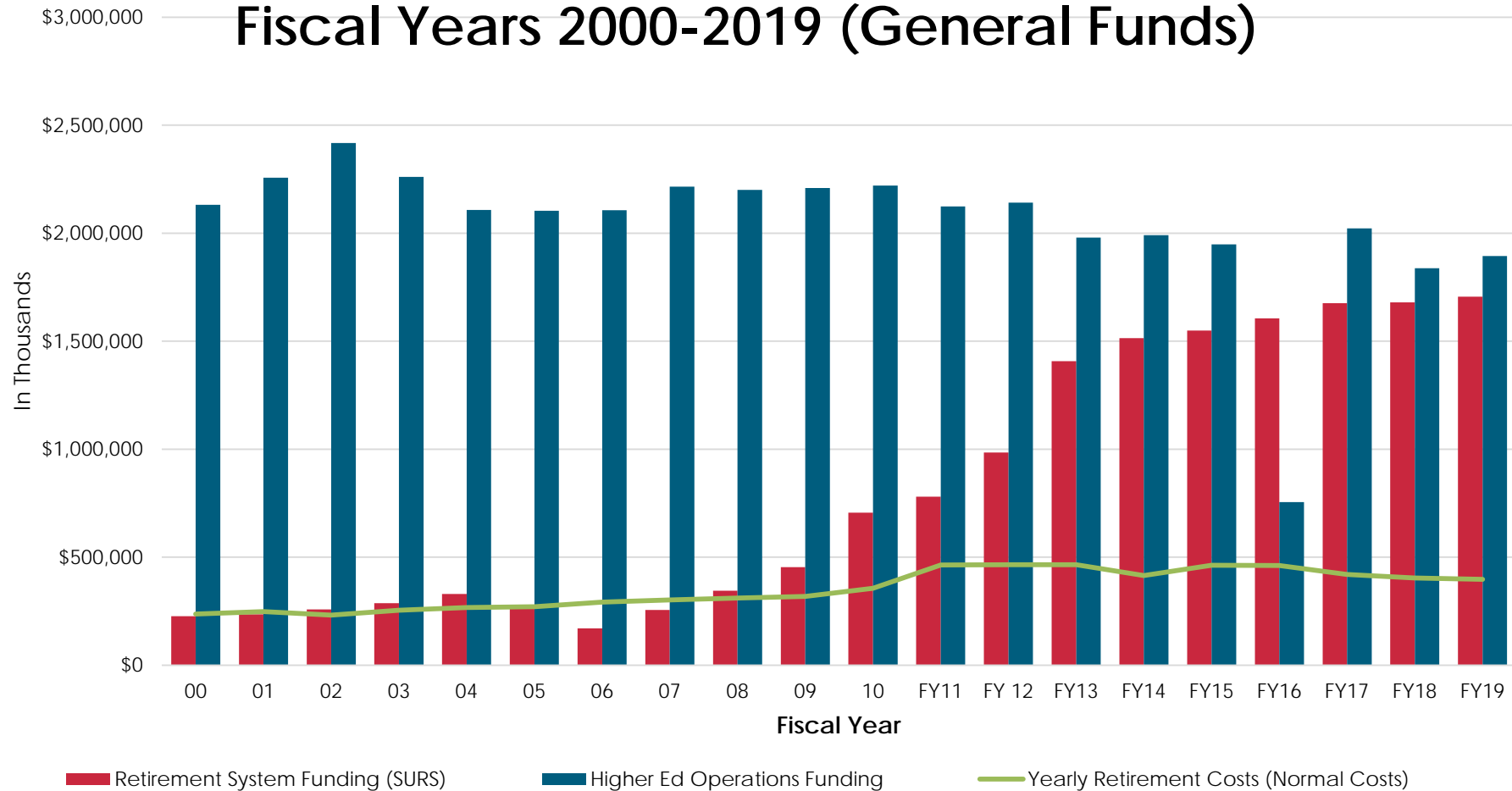
Illinois Higher Education Appropriations Operations History Adjusted for Mandates & Inflation



Higher Ed. Funding, Excluding Pensions

- ▶ Funding for higher education other than pensions peaked in FY02 at \$2.4 B, compared to \$1.9B for FY 2019
- ▶ After reductions for FY 03 & FY 04, funding increased just 1.6% between FY04 and FY12, not accounting for inflation
 - ▶ The decline in purchasing power due to inflation was substantial in this period
- ▶ Steeper cuts have been experienced since FY12
 - ▶ Including the 10% cuts in most areas for FY18
- ▶ 2% increase for most lines in FY 19 just short of CPI increase
- ▶ **Greatest single impact came from FY16**
 - ▶ **Lose of \$1.2 B overall**
- ▶ **Adj. for inflation FY 19 funding estimated to be 52.9% of FY 02**

SURS Funding Compared to Higher Ed. Ops. \$ Fiscal Years 2000-2019 (General Funds)



Note: In FY 2004, a special payment of \$1.4 billion that was made separately to SURS is not factored in the table in Figure 2 since it was a one-time payment as the result of bonds sold by the State in July, 2003. FY 2017 amount includes Property Tax Relief Fund and the Fund for the Advancement of Education in addition to General Funds

Pension Costs Dominate HE Funding Growth

- ▶ While funding for higher education operations declined, pension funding has increased sharply & that will continue
- ▶ Normal Pension Costs = amount SURS calculates is required to cover 100% of the pension costs of persons employed that year
- ▶ SURS appropriations have soared as the state attempts to address historic underfunding based on a schedule to reach 90% funding for all obligations by 2045 as set by state law
 - ▶ Every dollar above the normal cost line goes to pay past obligations

Distribution of State Certified SURS Pension Contributions							
\$ in Thousands							
FY	Normal Costs				State Total	Net	% Past
	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%

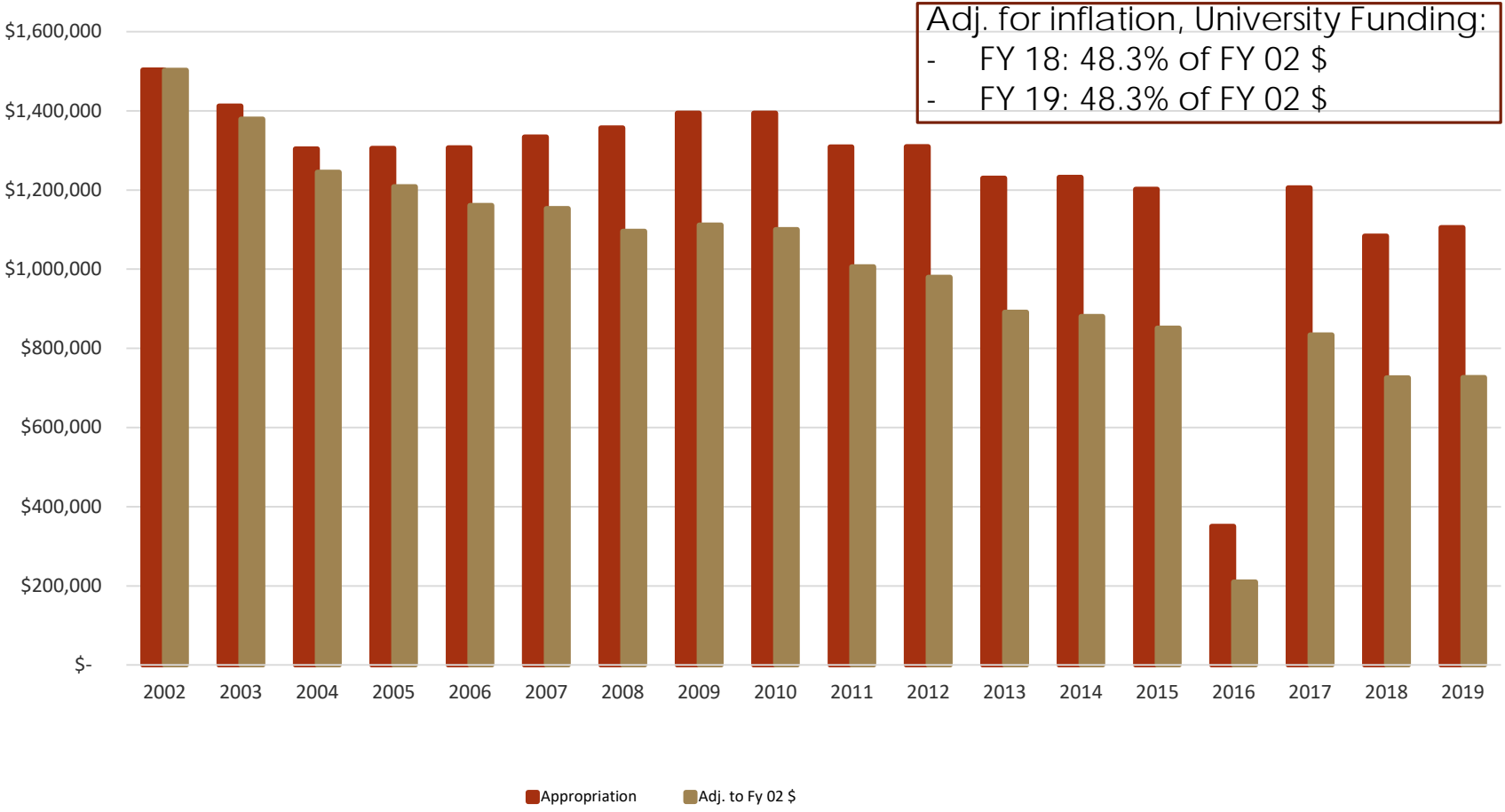
* Table does not reflect current SURS actuarial assessment, particularly in light of pension law changes

SURS Projected Total State Contributions

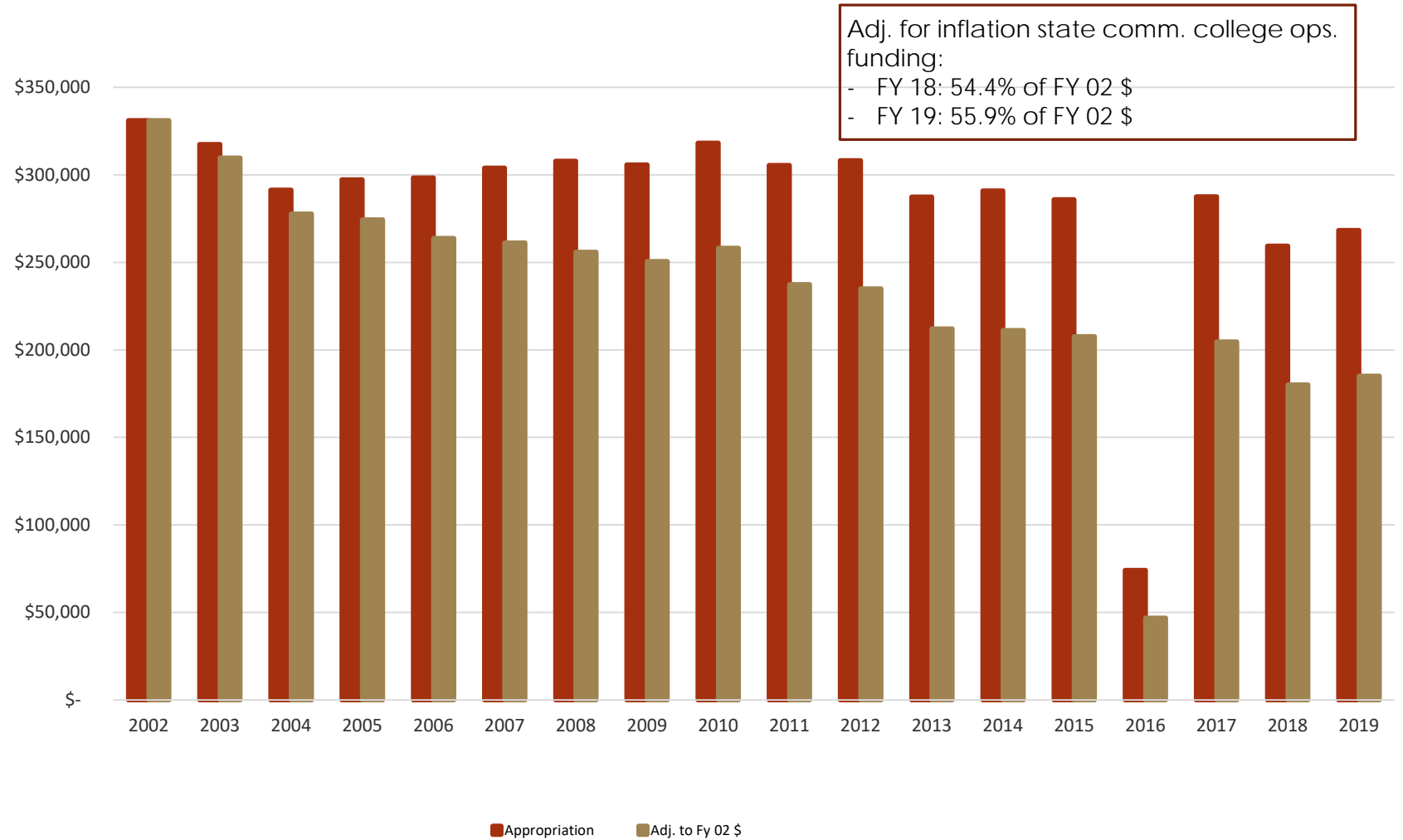
Fiscal Years 2018-2027



Illinois Public University Appropriations History Adjusted for Mandates & Inflation



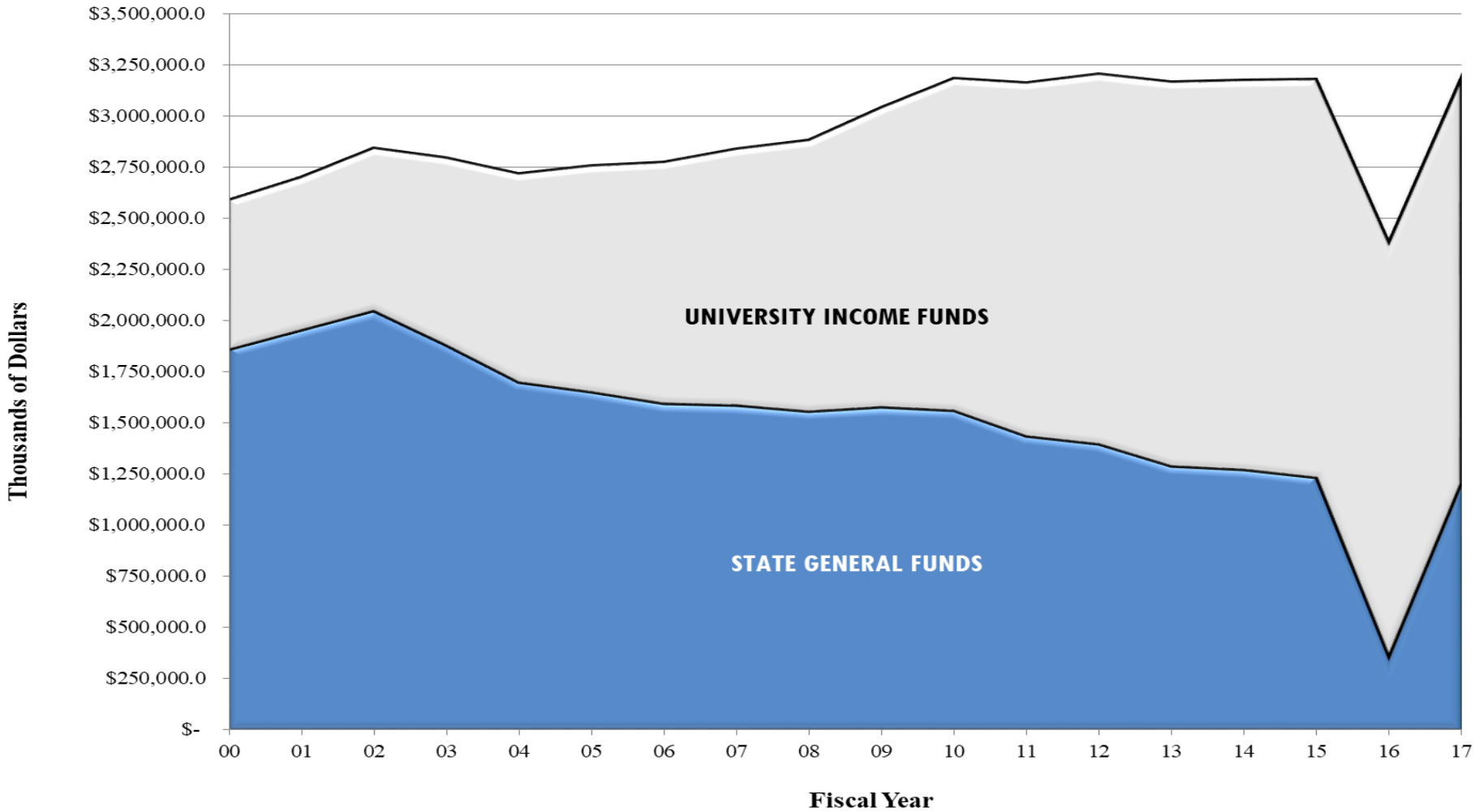
Illinois Community College Appropriations History Adjusted for Mandates & Inflation



University & Community College Funding

- ▶ 2% Increase in direct funding to universities roughly equal to inflation
 - ▶ For universities, this maintained steady at 48.3% of peak buying power in FY 02, adjusted for inflation & unfunded mandates
- ▶ New AIM HIGH program will help universities indirectly but they also must match the \$25 M provided
- ▶ For community colleges, 2% increase in base & operating grants supplemented by \$2.9 M increase in veterans grant funding
 - ▶ Improved the estimated FY 02 buying power comparison from 54.4% in FY 18 to 55.9% for FY 19
- ▶ Impact of 30% state funding in FY 16 will continue to be a drag on college & universities ability to respond & address needs

Trends in Educational and Related Revenues at Illinois Public Universities Fiscal Years 2000 to 2017 (in FY 2017 dollars)



Source: University Historical RAMP Submissions

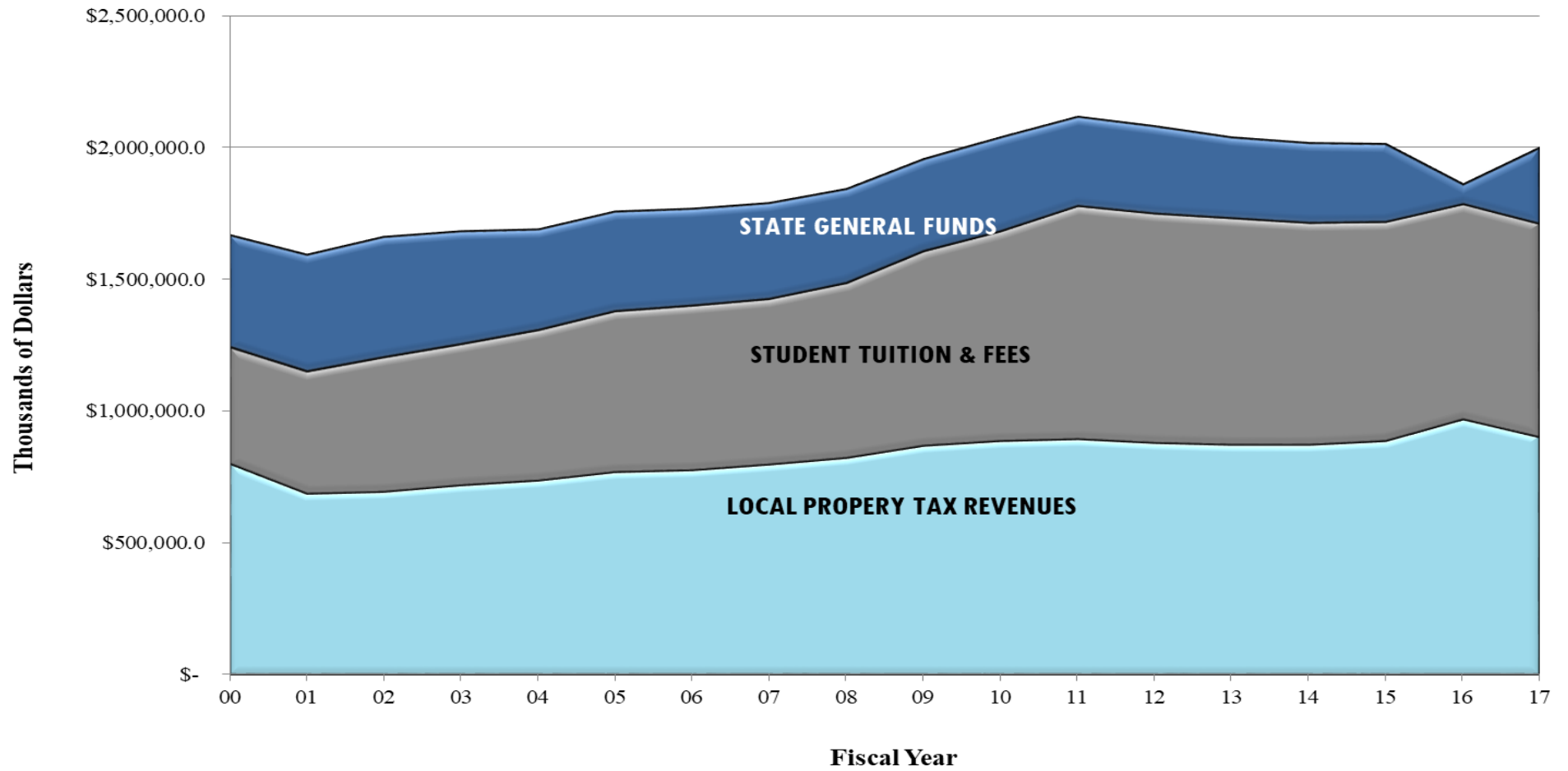
Reduction in State Support, Surge in University Tuition

- ▶ FY 2002: State general funds provided 72% of revenues vs. 28% from income funds (Tuition)
- ▶ FY 2017: State general funds fall to just 37.8% of revenues vs. 62.2% from income funds
- ▶ State general funds provided just 15% of support in FY 16
- ▶ When adjusted for inflation, the decrease in state support between FY 2010 & FY 2017 equaled 98.7% of the increase in income funds

Change in Revenue Support for Illinois Public Universities: FY 10-FY 17

	(\$ in thousands)				
	CPI Adjusted			HEPI Adj.	% State
	Approp.	UIF	Revenues	Revenues	Approp.
FY 02 Adj. Funding	\$ 2,046,726	\$ 796,970	\$ 2,843,696		72.0%
FY 10 Adj. Funding	\$ 1,560,997	\$ 1,623,650	\$ 3,184,647	\$ 3,338,503	49.0%
FY 17 Funding	\$ 1,205,164	\$ 1,984,234	\$ 3,189,398	\$ 3,189,398	37.8%
FY 10-17 \$ Change	\$ (355,833)	\$ 360,584	\$ 4,751	\$ (149,105)	
FY 10-17 % Change	-22.8%	22.2%	0.1%	-4.5%	
% Chng. Explained by Approp. Reduction		98.7%			

Trends in Educational and Related Revenues at Illinois Community Colleges Fiscal Years 2000 to 2017 (in FY 2017 dollars)



Source: ICCB Data Books.

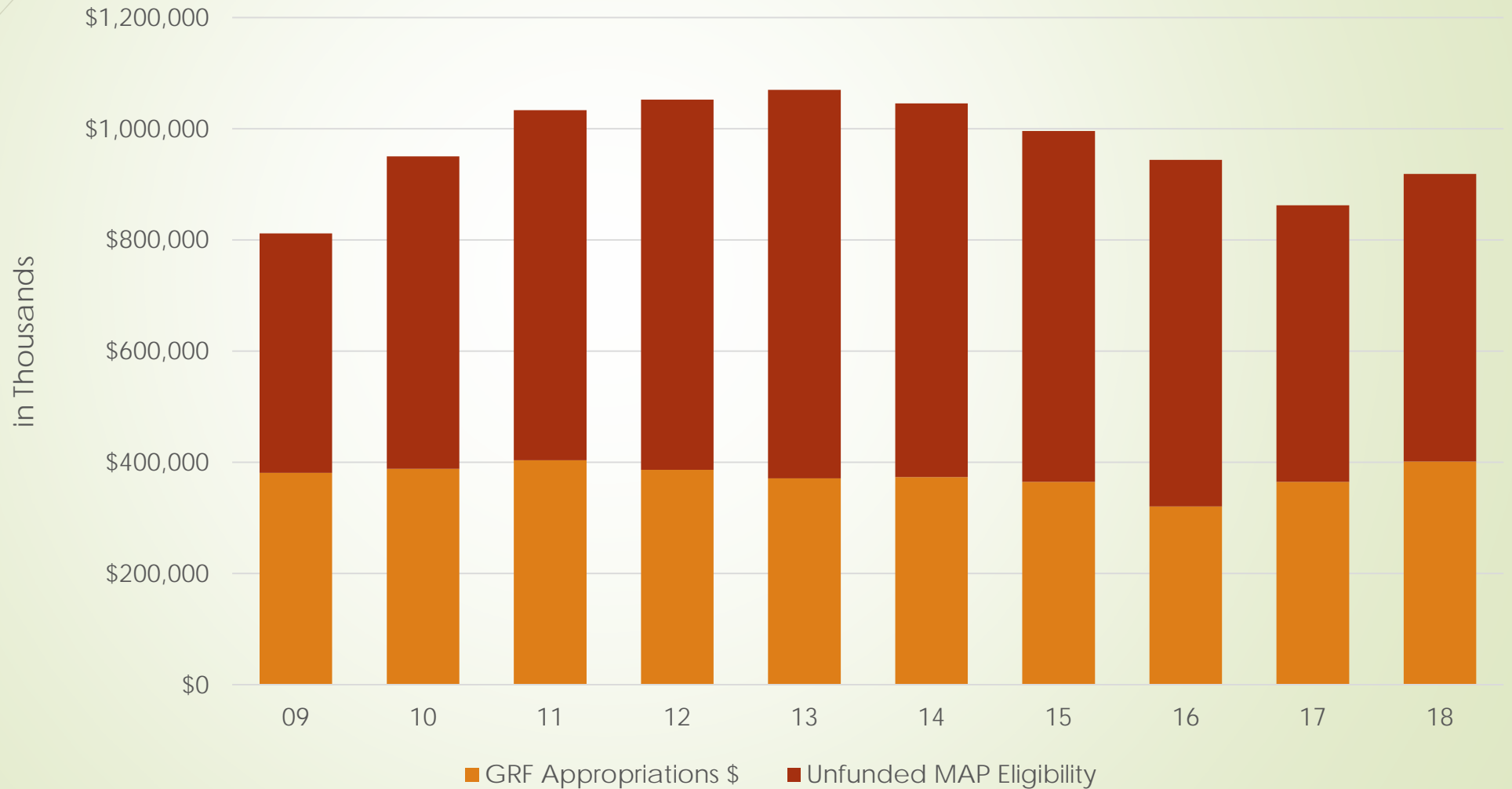


Community College Support Shifts to Students & Property Tax

- ▶ Community colleges were developed with the financial principle that funding would be 1/3 from the state, 1/3 from tuition & 1/3 from property tax support
- ▶ The state's share of community college costs has fallen sharply from 27.4% in FY 2002 to just 14.5% in FY 2017
- ▶ Property taxes coverage has inched up from 42% in FY 2002 to 45.2% in FY 2017
- ▶ The share of costs covered by students increased from 30.6% in FY 2002 to 40.3% in FY 2017
- ▶ FY 2016: State funds, 4.1%, property tax, 52.2%, tuition & fees, 43.7%

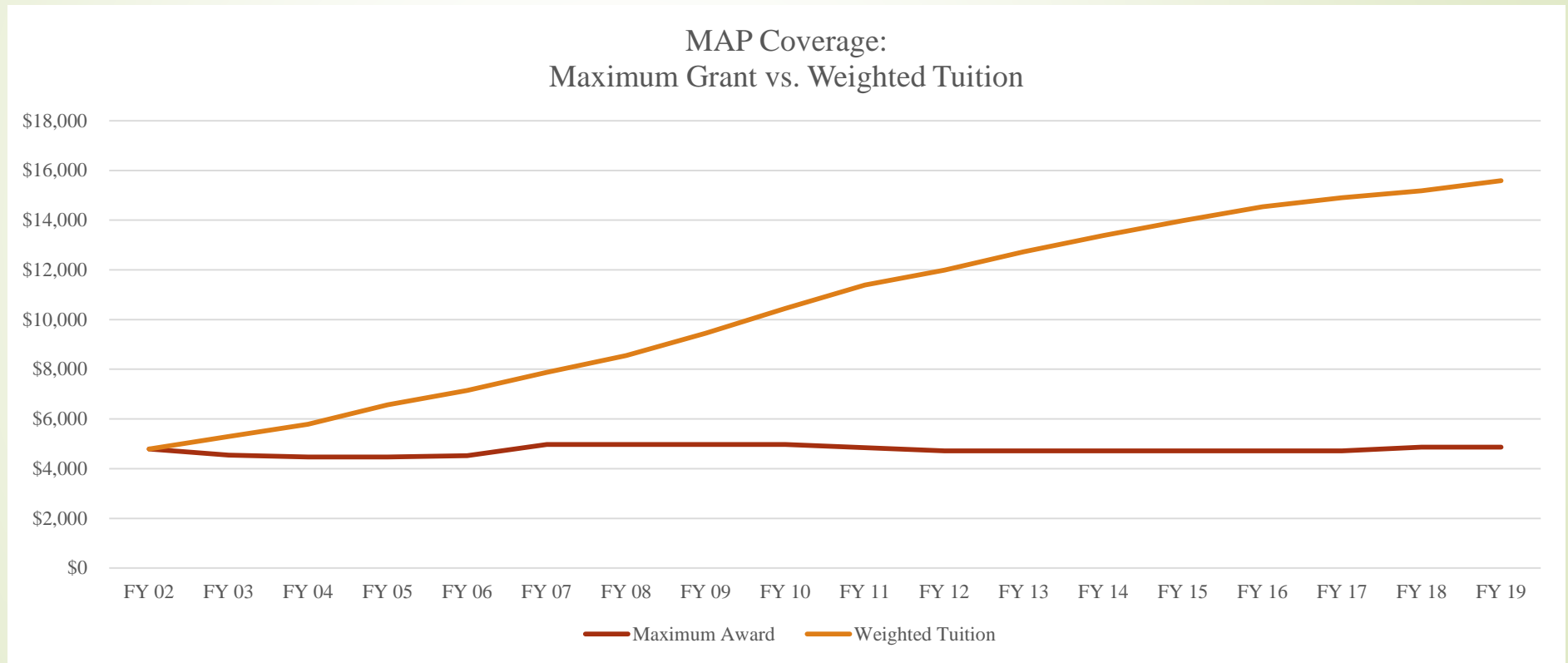
Monetary Award Program Funding History

Fiscal Years 2009-2018



MAP Coverage of Tuition (Public Univ.)

* MAP Covered 100% of public university tuition in FY 02 but just 32.1% for FY 19



Monetary Award Program Funding

- ▶ After a 10% increase for FY2018 MAP funding was held flat for FY 2019
- ▶ MAP funding declined significantly between FY11 & FY16
- ▶ For FY 17, ISAC could only plan for funding equal to the lower FY16
- ▶ In FY 2002 MAP covered 100% of eligible applicants at 100% of the weighted average university tuition & fees
 - ▶ For FY 2019 ISAC will cover only 32.1% of weighted university tuition & fees (higher for community colleges, lower for private sector)
 - ▶ The proportion of eligible applications funded fell to just 43.7% in FY 2018
 - ▶ The proportion covered could be lower for FY 2019 since MAP funding remained flat but this depends on the number of eligible applications
- ▶ Uncertainty about MAP funding during the budget impasse contributes to enrollment declines, making coverage look somewhat better
- ▶ In spite of the 10% increase for FY18 to \$401.3 M, duplicated for FY 2019, the appropriation is lower than the \$403.5 M peak FY11 appropriation

FY 2019 Capital Funding

- ▶ Release of 28 projects: Universities, 22, Community Colleges, 4, IMSA, 2
 - ▶ Release of additional \$11.3 M for community colleges expected shortly
- ▶ 17 university emergency projects plus one for IMSA
- ▶ Remaining 10 projects appropriated & started in some way
- ▶ Total of \$74.2 M released, remaining appropriated projects, \$857.8 M
 - ▶ Universities, 72, Community Colleges, 58, IMSA, 3
- ▶ Emergency project list: \$152.8 M, including 43 unfunded university projects plus funds for 2 that were not fully funded by released funding

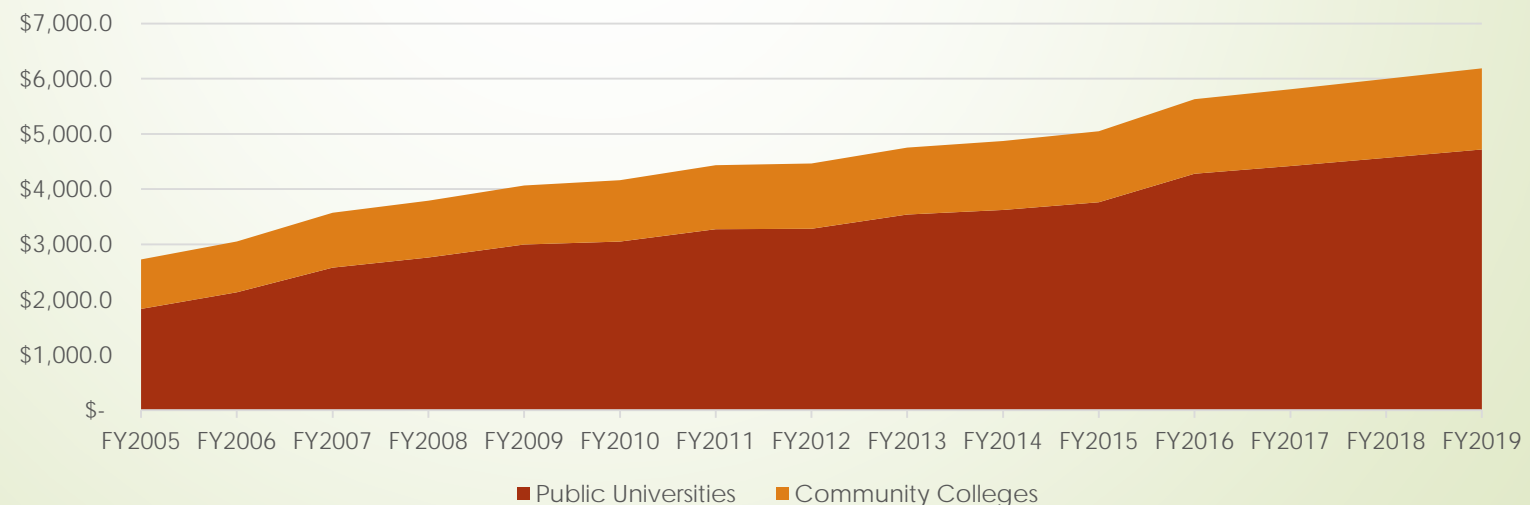
FY 19 Higher Education Capital Funding Status - September 2018

	Universities	Comm. Col.	IMSA	TOTAL
Project Funding Released	63,665,300	3,435,000	7,125,000	74,225,300
Remaining Appropriated	517,634,152	339,393,157	733,986	857,761,295
Remaining Emergency Projects	81,484,000	71,296,780	-	152,780,780
TOTAL	662,783,452	414,124,937	7,858,986	1,084,767,375

Growing Deferred Maintenance

- Deferred maintenance has been a growing problem for community colleges & universities
- Deferred maintenance at universities & community colleges increased from \$2.7 B in FY 2005 to almost \$6.2 B for FY 19
- No capital funding during this period other than Illinois JobsNow!
 - Most of that FY 10 funding was not released, is part of FY 19 funding

Public Higher Education Deferred Maintenance Estimates
(\$ in millions)

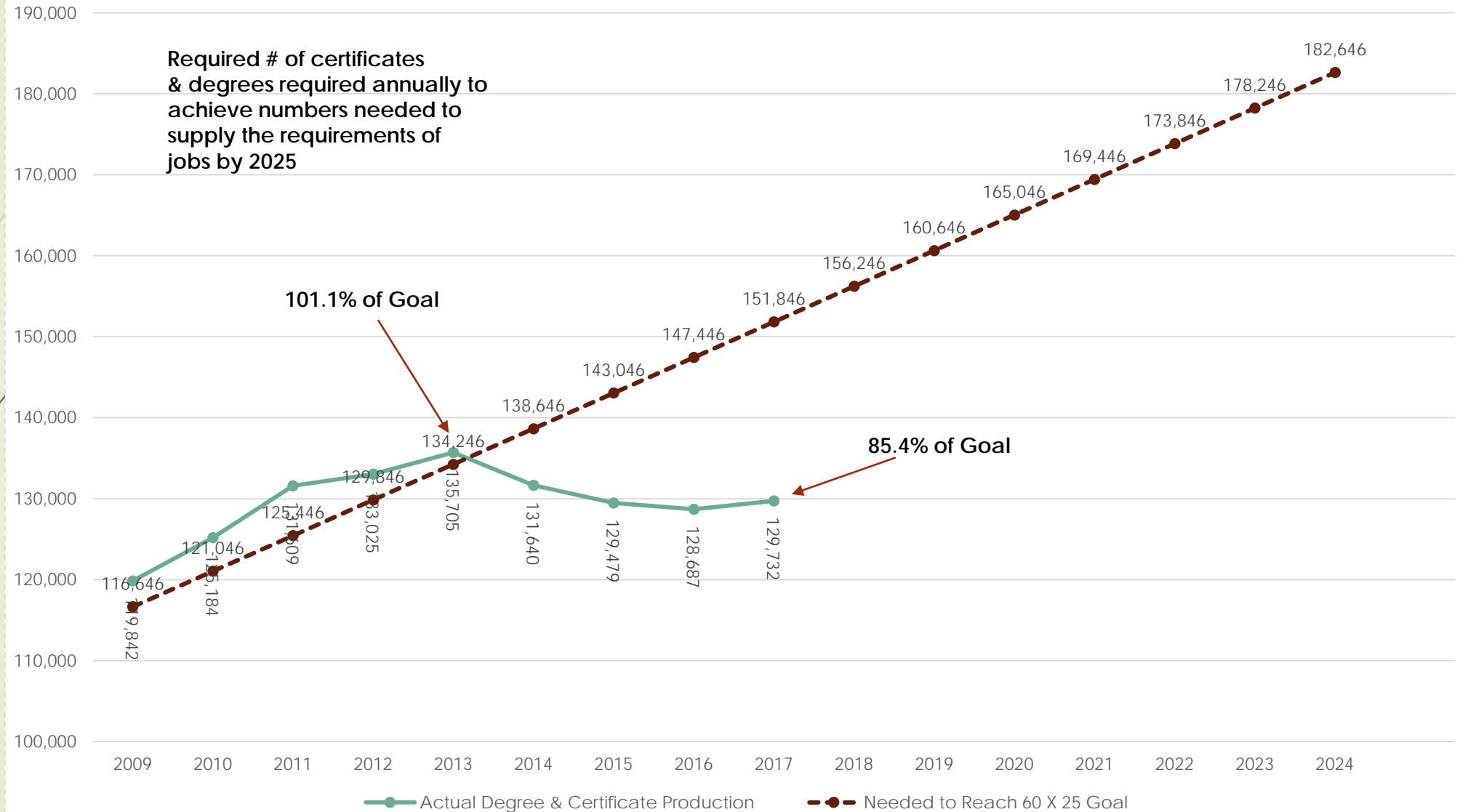



University Capital Renewal Needs

- Universities maintain 70.8 M sq. ft. of facilities
- Value of \$23.8 B
- \$16.5 B State Supported
- \$7.3 B (30.5%) Not State Supported
- 2% Capital renewal needed to maintain a 50 year replacement cycle
- Less could mean falling farther behind
 - Some covered by tuition by necessity
- \$4.7 B in deferred maintenance (FY 19)
- Would take 28.6 years to catch-up if additional 1% in funding was provided
- Add community college deferred maintenance of approximately \$1.5 B

Total Square Feet	70,769,851
Avg. \$/Square Foot	\$336.00
Total Value of University Facilities	\$ 23,778,990,920
State Supported Square Feet	49,162,418
Avg. \$/Square Foot	\$336.00
Est. Value of State Facilities	\$ 16,518,795,200
2% Capital Renewal	\$ 330,375,904
1% Catch-up Funding	\$ 165,187,952
3% Capital Renewal	\$ 495,563,856
FY 19 Univ. Requests	\$ 327,178,210
Difference	\$ 168,385,646
FY 19 Reported Def. Maint.	\$ 4,718,625,000
Est. Years to Recovery	28.6
Non-State Supported Sq. Feet	21,607,434
Avg \$/Square Foot	\$336.00
Value of Non-State Facilities	\$ 7,260,195,720
% of Non-State Supported Facilities	30.5%

Illinois 60 X 2025 Goal Progress





Meeting the 60 x 2025 Goal

- GOAL: 60% of adults with degrees or certificates by 2025 based on the expectation that 60% of jobs will require a degree or certificate by 2025
- Progressive annual goals were met until 2013, when the actual production of certificates & degrees was 101.1% of the goal
- The number of certificates & degrees produced in 2017 was just 85.4% of the goal
- Several signs indicate that the budget impasse worsened the situation & continues to be a drag



Pension Law Changes

- ▶ **IMPLEMENTED:** Employer responsible for the employee normal cost on the amount earned in excess of Governor's salary (\$177,500 in FY18)
- ▶ **NOT IMPLEMENTED:** Creation of Optional Hybrid Plan (OHP = defined benefit & defined contribution) at a future implementation date determined by SURS (Necessary legislative changes not passed)
- ▶ Three buy-out programs
 - ▶ Will not cost employers but savings, which will be earned over many years, were booked & used to fund FY 2019 projects
- ▶ 6% salary increase rule changed to 3%
 - ▶ Pension payments for the amount of individual salaries over the Governor's salary
 - ▶ Rule that required employers to pay normal pension costs for salary increases over 6% near retirement changed to 3%
 - ▶ Creates a deterrent to rewarding/retaining most experienced staff

Other Pressures: Unfunded Mandates

- ▶ Health insurance payments – \$45 M paid by public universities
- ▶ Veteran's Tuition Waivers – FY16: Universities, \$16.0 M, Comm. Colleges, \$3.9 M (net)
 - ▶ FY 19 unfunded comm. College costs will be limited in FY 19 due to increase in state coverage from \$1.3 M to \$4.3 M
- ▶ National Guard Tuition Waivers – FY17: Universities, \$8.7 M, Comm. Colleges, \$5.1 M
- ▶ Cap. Development Board – 3% management fee of capital projects
- ▶ Procurement rules were loosened last year but remain costly & burdensome
- ▶ Pension changes that push future pension payments on to employers
 - ▶ Salary payments in excess of Governor's salary
 - ▶ Move from the 6% rule to 3% rule (previously noted)



Environment for Higher Education Funding

- ▶ State government continues to face significant financial headwinds & weakness
 - ▶ Continued structural deficit due to revenue structure
 - ▶ Pension liabilities in addition to SURS
 - ▶ Deferred maintenance in addition to higher education
 - ▶ Entitlement demands & promises to K-12
 - ▶ High level of state government unpaid bills, even for FY 2019
- ▶ BUT most favorable environment for HE funding in years
 - ▶ Understanding that disinvestment in HE has been very damaging
 - ▶ Concern about the exodus of the best students
 - ▶ Concern about affordability & push for free college
 - ▶ GA Higher Education Working Group puts greatest emphasis in a generation on improving the HE environment in Illinois



Proposed FY 2020 Budget Development

Themes & Approach:

Sell Early & Often



FY 2020 Budget Themes

- ▶ **First Do No Harm: Keeping Pace with Inflation**
 - ▶ Illinois' higher education system has lost out to inflation since FY 2002
 - ▶ A flat budget is a cut on-top of years of cuts
 - ▶ The 2% increase for FY 2019 was just roughly equal to inflation
 - ▶ The Higher Education Price Index has run 14.2% higher than the CPI since FY 2002, meaning the impact is even worse than our charts show
 - ▶ Failure to at least cover inflation puts pressure on already high tuition rates or fall farther behind in programs & facilities
 - ▶ Budget impasse has left universities & community colleges less able to respond to pressures such as inflation



FY 2020 Budget Themes

► **Competitiveness: Illinois Economy**

- Illinois faces a fiercely competitive economic environment
- Illinois needs to attract & retain businesses to thrive
- One of the chief needs of businesses is a trained & ready workforce
- Public higher education is critical as a means of training a competitive workforce
- By 2025 60% of jobs in the state will required a degree or certificate
- As state support for higher education has declined, so has its ability to develop a qualified workforce



FY 2020 Budget Themes

- ▶ **Competitiveness: Universities & Community Colleges**
 - ▶ Illinois universities faces a fiercely competitive economic environment
 - ▶ Out-of-state colleges & universities took advantage of the budget impasse to attract more Illinois students
 - ▶ The budget impasse robbed universities & community colleges of resources needed to respond to changing needs
 - ▶ Lack of capital funding has made it difficult for schools to maintain competitive facilities & programs
 - ▶ Lack of capital funding has made it difficult for universities to compete for students & harder to train students for the jobs of the future



FY 2020 Budget Themes

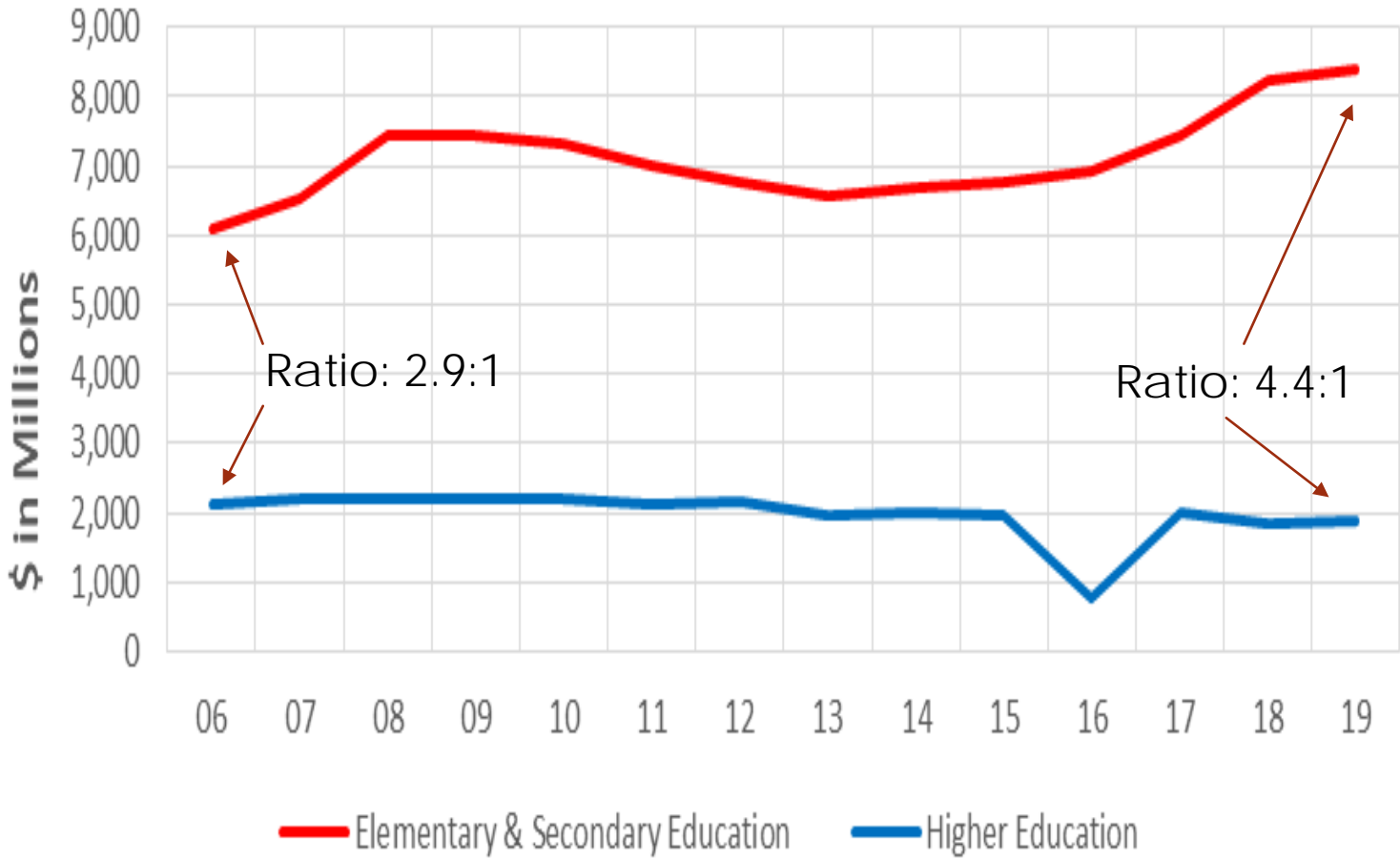
- **Higher Education is an Investment**
- Colleges & universities don't just drive their local community economies, they are a major driver of the state economy
- A study during the budget impasse calculated a total annual economic impact of colleges & universities, including the private sector, was \$50 B & that did not measure all impacts
- Emphasize the importance of higher education as a means of training a competitive workforce
- Failure to support higher education is a failure to support a competitive economy



FY19 Budget Development Approach

- ▶ Continue focus on historic funding & related trends
 - ▶ Note the disproportionate impact on higher education
 - ▶ Important to note reductions started before the budget impasse
- ▶ Specifically document the damage & lingering impact of the budget impasse
 - ▶ Work with universities & ICCB to develop a set of measures, such as loss in assets, headcount cuts, turnover numbers, enrollment declines, credit ratings, measures of reputation
 - ▶ Include a 1-2 page summary developed by each university to tell their story of response, resilience & recovery
 - ▶ Work with ICCB to include something similar for community colleges


State Appropriations for Education: K-12 vs. Higher Ed.



FY 2020 Budget Development Approach

▶ Return at Least to the 2:1 Principle

- ▶ Up until FY 2002 there was a general understanding that higher education would receive \$1 for every \$2 received by elementary & secondary education received in new funds
- ▶ At that time the operating funds ratio was 2.5:1 (2.9:1 in FY 2005)
- ▶ Since that time E & S funding has grown significantly while higher education funding has been slashed
- ▶ The education funding ratio for FY 2019 is 4.4:1
- ▶ The ratio of state funds to tuition fell from **72%/28% to 38%/62%**
- ▶ E & S education is promised funding increases well into the future
- ▶ To hold-down tuition & develop a competitive workforce, higher education needs steady, increased support from the state



Anticipated FY 2020 Budget Framework

- ▶ **Work with universities, ICCB & ISAC to start making the case now, rather than waiting until recommendations are finalized in December**
 - ▶ Universities: 10% increase based on impact of inflation & restoring competitiveness
 - ▶ Community Colleges: Similar 10% increase
 - ▶ MAP: 5-10% increase to address affordability & cover more eligible students
 - ▶ ISAC Operations: \$6 M to cover lost federal loan revenues & maintain operations & outreach
 - ▶ Veterans & National Guard Waivers: Up to \$27 M to cover costs at universities & community colleges
 - ▶ AIM HIGH: Uncertain as program is still developing
 - ▶ Adult Education, IBHE Ops. & Grants, SUCSS, IMSA, Other: Uncertain