

Appendix IV: Illinois Board of Higher Education (IBHE) Data

Table 2

ILLINOIS PUBLIC UNIVERSITIES					
FISCAL YEAR 2013 UNDERGRADUATE INSTRUCTIONAL COSTS					
			Total Cost	Weighted Average Tuition	General Funds Subsidy
<u>Direct Support per Student (from the BHE Cost Study)</u>					
Total Instructional Costs					
Lower Division		\$ 411,118,996			
Upper Division		963,926,645			
Total			\$ 1,375,045,641		
Instructional Credit Hours					
Lower Division		1,504,110			
Upper Division		2,594,299			
Total			4,098,409		
Undergraduate Cost Per Credit Hour			335.51		
Direct Undergraduate Cost Per FTE (30 SCHs)			\$ 10,065	\$ 9,749	\$ 316
<u>Additional Support Per Student</u>					
<u>Undergraduate Instructional Costs Excluded from the Cost Study</u>					
Total Allocated Costs	152,456,700				
Instructional Credit Hours	4,098,409				
Cost per FTE (30 SCHs)			1,116		1,116
<u>Retirement (12.04% of Personal Services Costs)</u>					
FY2013 Personal Services Expenditures - RAMP	1,926,266,600				
FY2013 Total Expenditures - RAMP	2,996,240,800				
Personal Services Percentage	64.3%	6,472	779		779
<u>Group Insurance</u>					
FY2013 IPEDS Faculty Salaries	736,555,487				
FY2013 Institutional Survey of Medical, Dental, Group Life	112,940,309				
Benefits as a Percent of Salaries	15.3%	6,472	990		990
<u>Debt Service</u>					
Higher Education Bond Issues Under GO Bond Act	2,514,170,678				
Total Bond Issues Under GO Bond Act	7,918,754,164				
Higher Education Percentage	31.7%				
FY2013 General Fund Transfers	550,900,000				
Higher Education Share of General Funds Debt Service	174,635,300				
Public Universities Undergraduate Expenditures	1,230,092,000				
Public Universities and Community Colleges FY2013					
Higher Education General Funds and UIF Appropriations	3,298,785,200				
Public Universities Undergraduate Percentage	37.3%				
Public Universities Undergraduate Share of Debt Service	65,138,967				
General Funds Debt Service Per FTE			477		477
<u>Total Support Per Public University Undergraduate Student</u>			\$ 13,427	\$ 9,749	\$ 3,678

Appendix IV-B: Summary Table

	Total Cost	Weighted Average Tuition	General Funds Subsidy
Total Support Per Public University Undergraduate Student	\$ 13,427	\$ 9,749	\$ 3,678
IBHE FY2013 Undergrad FTE	136,766		
Total Support for Public University Undergraduate Students less MAP grants to students at public universities	\$ 1,836,357,082	\$ 1,333,331,734	\$ 503,025,348
		\$ 154,204,980	
Net Public University tuition and fee revenue that would need to be made up under PIF		\$ 1,179,126,754	
Community College tuition and fee revenue that would need to be made up under PIF (source) less MAP grants to students at community colleges		\$ 900,000,000	remove continuing ed or college prep
		\$ 48,284,676	
Net Community College tuition and fee revenue that would need to be made up under PIF		\$ 851,715,324	
Total tuition and fee revenue that would need to be made up under PIF for at least two years		\$ 2,030,842,078	
Pell Grants at public universities		\$ 236,261,130	
Pell Grants at community colleges		\$ 434,698,933	

from IBHE Table 2: ILLINOIS PUBLIC UNIVERSITIES FY2013					
	EFC	1/2 EFC	% tuition paid	#students	
3rd	\$7,088	\$3,544	36%	27,353	
4th	\$18,300	\$9,150	94%	27,353	
1st & 2nd		\$9,749	100%	54,706	
5th			\$0	27,353	
Total	\$719,442,282				
less MAP	\$154,204,980				
Total PIF	\$ 565,237,302				

Appendix IV-C: IBHE Agenda Item

SETTING A CONTEXT FOR FISCAL YEAR 2015 BUDGET DEVELOPMENT

Submitted for: Information.

Summary: *Setting a Context for Fiscal Year 2015 Budget Development* is intended to provide the “lay of the land” to the Board as it develops its fiscal year 2015 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 2015 appropriations. The report concludes with an explanation of how the *Public Agenda* and the work of the performance based funding will impact the Board’s decisions as it develops its fiscal year 2015 operating and capital budget recommendations.

Action Requested: None.

STATE OF ILLINOIS
BOARD OF HIGHER EDUCATION

SETTING A CONTEXT FOR FISCAL YEAR 2015 BUDGET DEVELOPMENT

Highlights

- Looking back over 15 years, total state funding for higher education (operations, grants, and pensions) is 11.1 percent greater in fiscal year 2014 than in fiscal year 1999 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 1999 after accounting for inflation. The total decrease is \$854.1 million, or 30.0 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 2014 is \$397.2 million (16.6 percent) less than in fiscal year 2009 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 \$651.7 million, or 18.7 percent.
- Between fiscal years 2013 and 2014, operations and grants funding increased \$11.5 million, or 0.6 percent, when retirement funding is excluded. This slight increase is attributed primarily to an additional \$2.1 for programs at select public universities, \$3.4 million for community colleges, and \$1.9 million for Monetary Award Program (MAP) grants. Additionally, the fiscal year 2014 budget increases funding for the Illinois Mathematics & Science Academy (IMSA) and select IBHE grants and initiatives, while maintaining level funding for higher education agency operations.
- 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 of 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. Due to the multiple-year nature of the Jobs Now capital plan, the General Assembly did not appropriate any new funds for capital in FY 2011, FY 2012, or FY 2013. In FY 2014, \$3.95 million in new capital funding was appropriated through grants to IMSA, South Suburban Community College, St. Augustine College, and Aurora University.

- Looking back over the past decade, most Midwestern states have fared worse than the total of all states combined decade in state support for higher education (including funding for pensions); although more recently, most Midwestern states have improved relative to all states combined. 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.
- The Commission on Government Forecasting and Accountability’s (CGFA) June 2013 *Monthly Briefing* reported that general funds revenue grew \$2.3 billion, or 6.7 percent, in fiscal year 2013. Such growth is due in large part to the “April Surprise” one-time revenue bump, as well as, underlying revenue growth that were also quite strong. Looking forward into fiscal year 2014, CGFA estimates an overall decrease in state tax revenue of \$1.0 billion, or 3.2 percent. At the end of June 2013, the Comptroller reported an estimated total backlog of unpaid bills at \$6.1 billion. Among the unpaid bills were \$426.2 million owed to public colleges and universities.
- *The Public Agenda for College and Career Success* has many ramifications for higher education funding. Fiscal year 2014 marks the second year of performance-based funding 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 2014 recommendations incorporated funding strategies based on the *Public Agenda*. The Performance Funding Refinement Committee continues meeting to discuss proposed changes to the performance funding model in fiscal year 2015. Likewise, the Board will continue to prioritize its funding recommendations toward achieving the four goals of the *Public Agenda* in fiscal year 2015.

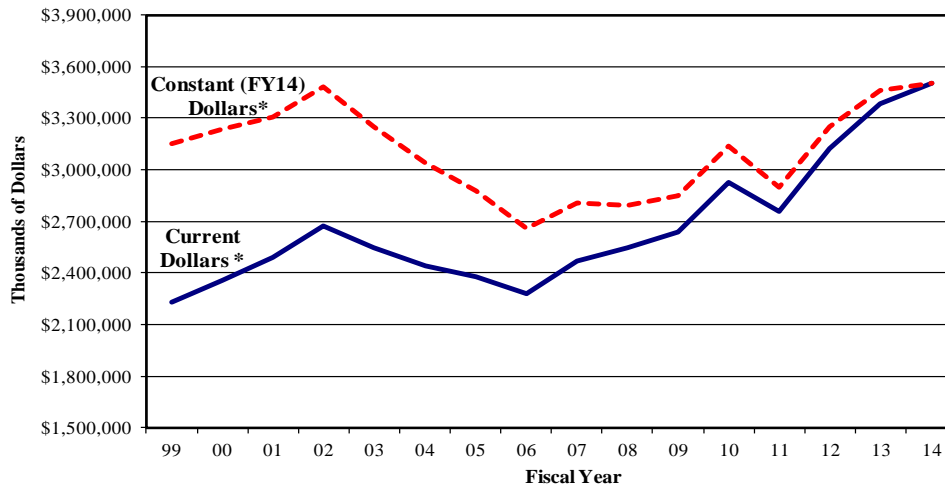
Illinois Higher Education Funding Trends

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 1999 and 2014, both in current and inflation-adjusted (CPI-U) dollars.¹ During this period, state general funds support for Illinois higher education grew from \$2.2 billion to \$3.5 billion, or 56.8 percent. However, after accounting for inflation, state support has increased by only 11.1 percent since fiscal year 1999.² 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.

Exhibit 1
State Appropriations for Higher Education Operations and Grants,
including pensions FY 1999-2014



* Includes State General Funds, Student Loan Operating Fund (for MAP in FY07 and FY 012 and MAP Plus in FY07), Budget Relief Fund (FY 2009), and State Pension Fund appropriations.

Source: IBHE records.

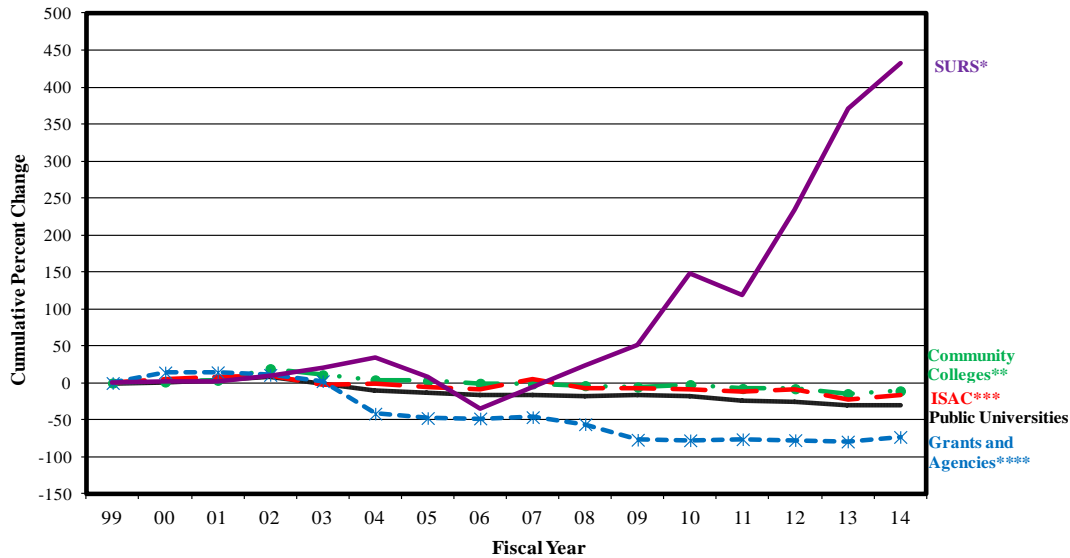
Exhibit 2, on the following page, illustrates the cumulative percentage change in state appropriations for higher education by sector, adjusted for inflation. As is apparent from Exhibit 2, appropriations to the State Universities Retirement System (SURS) show the only real growth over this time period. The state has invested significant resources in SURS since the mid-1990s

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 and fiscal year 2012 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.

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 2014. 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.

Exhibit 2
Percent Change in State Appropriations for Higher Education by Sector FY 1999- 2014
 (in FY 2014 dollars)



* Includes State General Funds and State Pension Fund.
 ** Includes Adult Ed beginning FY02 and Career & Tech. Ed beginning FY 2004. Grants to colleges have declined since FY 2002.
 *** Includes Student Loan Operating Fund appropriations for MAP (FY 07 and FY 12 and MAP Plus in FY 2007 only).
 **** 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 2014 is \$564.8 million, or 27.4 percent, less than in fiscal year 1999. Funding for community colleges is \$40.4 million, or 10.7 percent, below fiscal year 1999 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 2014 is \$113.9 million, or 28.0 percent, less than in fiscal year 1999.

State support for the Illinois Student Assistance Commission (ISAC) in fiscal year 2014 is \$79.9 million, or 17.0 percent, below fiscal year 1999 levels when adjusted for inflation. About 97.0 percent of the fiscal year 2014 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 2013, ISAC suspended award announcements for MAP applications received after March 20, 2012 but later released awards for applications received through April 2nd. In fiscal year 2014, ISAC suspended award announcements on March 1, 2013, 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 2014, ISAC estimates approximately 178,500 eligible MAP applications, including 128,600 are from community colleges, will go unfunded because of the suspension date.

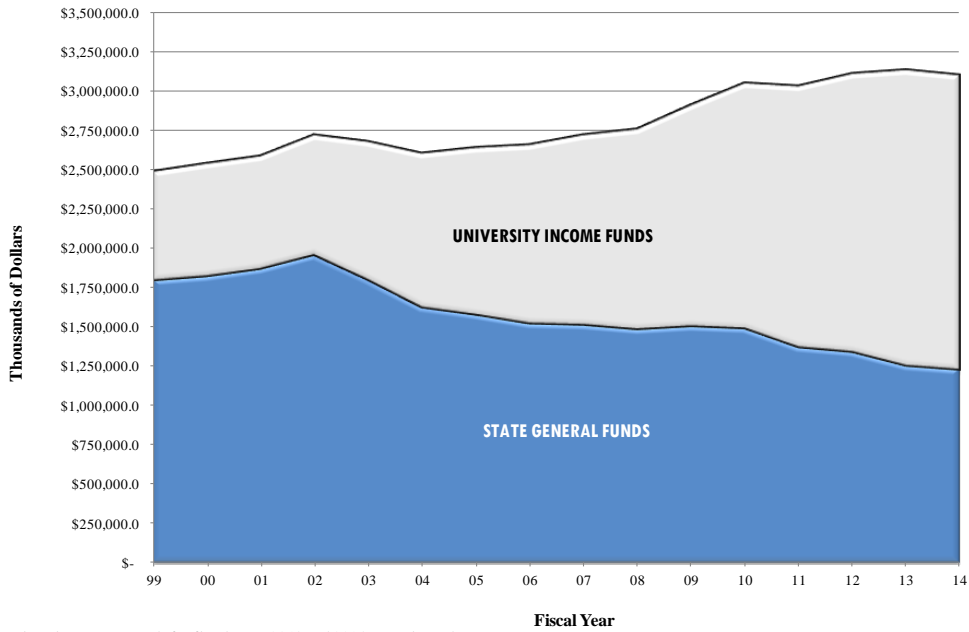
State support for institutional grant programs and agencies in fiscal year 2014 is \$108.4 million, or 72.9 percent, less than in fiscal year 1999 when adjusted for inflation. In large part, this reflects the elimination of funding for the Illinois Financial Assistance Act grant program (\$20.6 million) 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 1999 and 2014 by source. During this period, inflation-adjusted total educational and related revenues increased by 24.5 percent at public universities and by 33.5 percent at community colleges. Total educational and related revenues for public universities reached \$2.72 billion, adjusted for inflation, in fiscal year 2002 and did not exceed that level until fiscal year 2007. Estimated fiscal year 2014 revenues are \$3.10 billion. Total inflation-adjusted revenues have grown more steadily for community colleges through fiscal year 2012; however, total revenues declined during the past two fiscal years. In both sectors, support from non-state sources has increased at a greater rate than state support since fiscal year 1999. State general funds support for public universities as a percent of total educational and related revenues declined from 72.2 percent to 39.8 percent between fiscal years 1999 and 2014, while the share from tuition (university income funds) increased from 27.8 percent to an estimated 60.2 percent. For community colleges, state general funds support as a percent of total educational and related revenues declined from 28.4 percent to 15.3 percent over the same period, while support from tuition increased from 27.5 percent to an estimated 44.7 percent.

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

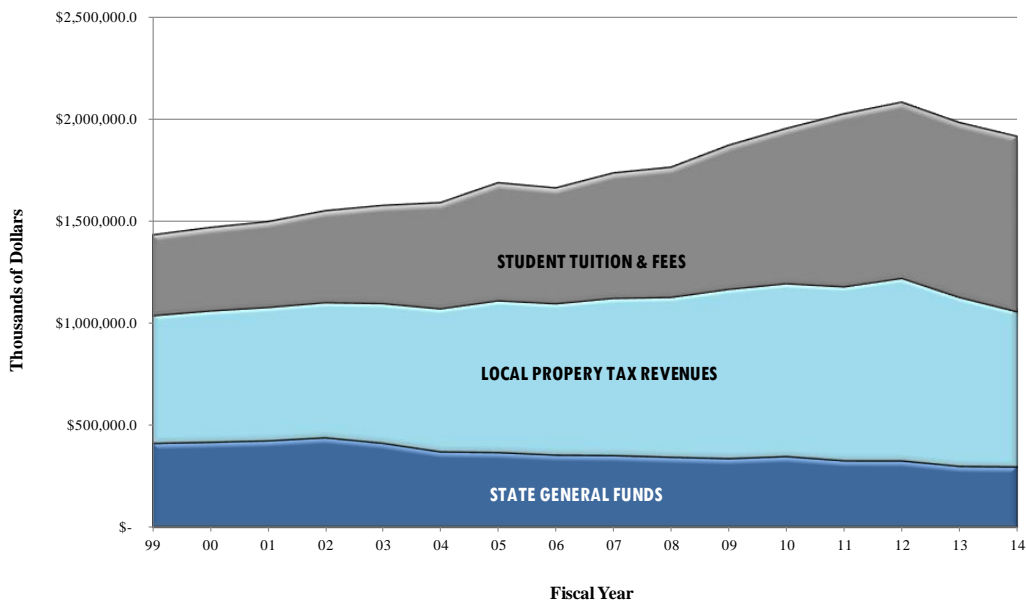
Exhibit 3
Trends in Educational and Related Revenues at Illinois Public Universities
Fiscal Years 1999 to 2014* (in FY 2014 dollars)



*University Income Funds for fiscal years 2013 and 2014 are estimated.

Source: IBHE records.

Exhibit 4
Trends in Educational and Related Revenues at Illinois Community Colleges
Fiscal Years 1999 to 2014* (in FY 2014 dollars)



*Local Property Tax Revenues and Student Tuition and Fees amounts for fiscal years 2013 and 2014 are estimated.

Source: IBHE records.

Recent Operating and Grants Funding Trends

The state's fiscal situation over the past decade has deeply impacted higher education. In fact, excluding contributions to SURS, state appropriations for higher education operations and grants declined by \$426.5 million (not adjusted for inflation), or 17.6 percent, between fiscal years 2002 and 2014 (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.

For a short time, 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, a nationwide recession throughout 2008 and 2009 led to declines in state revenue that once again prompted deep cuts to higher education. Coupled with the nation's economic downturn, 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) led to a reduction of over \$95.0 million in fiscal year 2011 appropriations to public universities and community colleges. In fiscal year 2012, public universities saw the loss of \$15.0 million and MAP was reduced \$17.2 million. Additionally, deep cuts in fiscal year 2013 resulted in losses of \$79.6 million for public universities, \$20.9 million for community colleges and \$15.4 million for MAP grants. Overall, state appropriations for higher education operations and grants decreased by \$219.9 million, or 9.9 percent, between fiscal years 2009 and 2014.

Between fiscal years 2013 and 2014, operations and grants funding increased \$11.5 million, or less than one percent, when retirement funding is excluded. Despite continued budgetary pressures to fund the State's pension systems, the FY 2014 budget was held essentially flat as a result of one-time additional tax receipts received by the State in April 2013.

Exhibit 5

State Funding for Higher Education Operations and Grants Fiscal Years 2002, 2009, 2013, and 2014

(in thousands of dollars)

	FY2002 Approp.	FY2009 Approp.	FY2013 Approp.	FY2014 Approp.	FY2009 to FY2014		FY2013 to FY2014	
					Dollar Change	Percent Change	Dollar Change	Percent Change
Public Universities	\$ 1,502,910.9	\$ 1,393,588.6	\$ 1,230,092.0	\$ 1,232,192.0	\$ (161,396.6)	(11.6) %	\$ 2,100.0	0.2 %
Community Colleges	333,659.9	307,864.7	289,386.3	292,821.3	(15,043.4)	(4.9)	3,435.0	1.2
Grants to Colleges	331,103.5	305,720.3	287,400.6	290,835.6	(14,884.7)	(4.9)	3,435.0	1.2
ICCB Administration	2,556.4	2,144.4	1,985.7	1,985.7	(158.7)	(7.4)	-	-
Adult Education/Postsecondary Career and Technical Education Grants	39,005.3	47,765.8	51,323.4	51,323.4	3,557.6	7.4	-	-
Illinois Student Assistance Commission	423,752.3	429,204.8	380,629.4	384,265.7	(44,939.1)	(10.5)	3,636.3	1.0
Monetary Award Program (MAP)	367,528.3	381,099.8	371,309.4	373,198.1	(7,901.7)	(2.1)	1,888.7	0.5
Other Grant Programs	49,720.0	48,105.0	9,320.0	11,067.6	(37,037.4)	(77.0)	1,747.6	18.8
ISAC Administration	6,504.0	-	-	-	-	-	-	-
Grant Program	97,256.0	10,201.9	6,774.9	8,355.7	(1,846.2)	(18.1)	1,580.8	23.3
Illinois Financial Assistance Act	22,169.1	-	-	-	-	-	-	-
Health Education Grants	18,263.3	-	-	-	-	-	-	-
University Center of Lake County	1,025.0	2,931.9	1,200.0	1,200.0	(1,731.9)	(59.1)	-	-
Institutional Grants	55,798.6	7,270.0	5,574.9	7,155.7	(114.3)	(1.6)	1,580.8	28.4
Other Agencies	21,245.1	22,590.6	21,603.9	22,351.7	(238.9)	(1.1)	747.8	3.5
Illinois Mathematics and Science Academy	16,526.7	18,341.4	17,697.9	18,445.7	104.3	0.6	747.8	4.2
State Universities Civil Service System	1,441.2	1,273.2	1,205.0	1,205.0	(68.2)	(5.4)	-	-
Board of Higher Education	3,277.2	2,976.0	2,701.0	2,701.0	(275.0)	(9.2)	-	-
Subtotal - Institutional/Agency Ops and Grant	2,417,829.5	2,211,216.4	1,979,809.9	1,991,309.8	(219,906.6)	(9.9)	11,499.9	0.6
Retirement	235,092.3	176,105.3	1,256,975.8	1,311,766.0	1,135,660.7	644.9	54,790.2	4.4
Higher Education Total	\$ 2,652,921.8	\$ 2,387,321.7	\$ 3,236,785.7	\$ 3,303,075.8	\$ 915,754.1	38.4 %	\$ 66,290.1	2.0 %

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 2014, funding for the state's pensions systems totals \$1.5 billion, an increase of \$102.8 million, or 7.3 percent over fiscal year 2013. Between fiscal years 2009 and 2014, funding for the state's pension system has increased over \$1.1 billion.

Public Universities. Public universities benefited from increases in state appropriations in fiscal years 2007 through 2009; however these increases have since eroded. 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 was reduced \$15.0 million, or 1.1 percent, and the fiscal year 2013 appropriation was reduced \$79.6 million, or 6.1 percent, from the previous year's level. Fiscal year 2014 funding was held essentially flat at fiscal year 2013 levels. Overall, state support for public university operations is 11.6 percent less in fiscal year 2014 than in fiscal year 2009, unadjusted for inflation, bringing state support for public university operations over the past two years to the lowest level in over a decade.

Exhibit 6

State General Funds Support for Public Universities
Fiscal Years 2002, 2009, 2013, and 2014

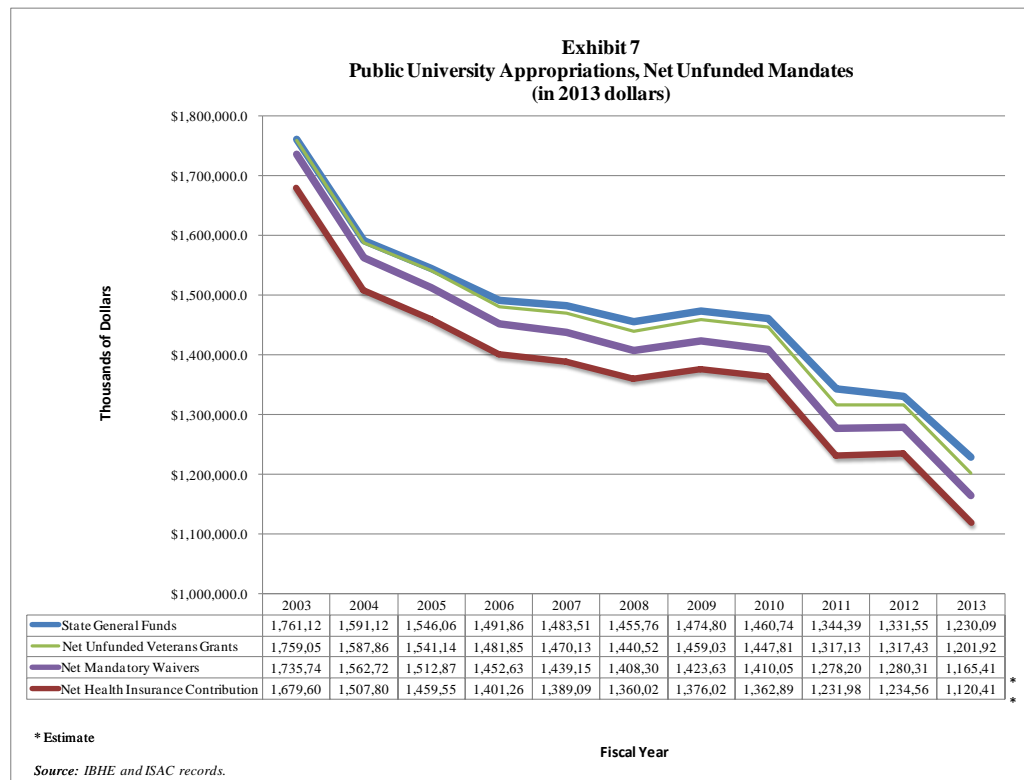
(in thousands of dollars)

Institution	FY2002 Approp.	FY2009 Approp.	FY2013 Approp.	FY2014 Approp.	FY2009 to FY2014		FY2013 to FY2014	
					Dollar Change	Percent Change	Dollar Change	Percent Change
Chicago State University	\$ 44,027.4	\$ 42,112.0	\$ 36,805.6	\$ 37,262.8	\$ (4,849.2)	(11.5) %	\$ 457.2	1.2 %
Eastern Illinois University	55,274.3	50,566.5	44,041.1	44,078.1	(6,488.4)	(12.8)	37.0	0.1
Governors State University	28,045.9	28,324.4	24,650.5	24,675.0	(3,649.4)	(12.9)	24.5	0.1
Illinois State University	93,384.7	85,096.4	74,082.4	74,089.2	(11,007.2)	(12.9)	6.8	0.0
Northeastern Illinois University	45,396.8	43,401.9	37,807.6	37,847.4	(5,554.5)	(12.8)	39.8	0.1
Northern Illinois University	118,176.2	107,431.1	93,470.2	93,412.6	(14,018.5)	(13.0)	(57.6)	(0.1)
Western Illinois University	65,047.8	59,919.6	52,147.8	52,755.1	(7,164.5)	(12.0)	607.3	1.2
<u>Southern Illinois University</u>	<u>249,933.1</u>	<u>233,317.0</u>	<u>204,693.8</u>	<u>204,584.1</u>	<u>(28,732.9)</u>	<u>(12.3)</u>	<u>(109.7)</u>	<u>(0.1)</u>
<u>University of Illinois</u>	<u>803,624.7</u>	<u>743,419.7</u>	<u>662,393.0</u>	<u>663,487.7</u>	<u>(79,932.0)</u>	<u>(10.8)</u>	<u>1,094.7</u>	<u>0.2</u>
Total, Public Universities	\$ 1,502,910.9	\$ 1,393,588.6	\$ 1,230,092.0	\$ 1,232,192.0	\$ (161,396.6)	(11.6) %	\$ 2,100.0	0.2 %

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 Chicago State University and the University of Illinois have experienced less than a 12.0 percent decrease in state support compared to fiscal year 2009 levels. Differences across institutions in state support since fiscal years 2013 is partially attributed to the implementation of a performance based funding model to allocate a small percentage (0.5 percent) of total institutional funds.

As shown in Exhibit 7 on the following page, 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 reimburses 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 the public colleges and universities to make up the difference. In fiscal year 2011, no funding was appropriated for IVG and ING leaving public colleges and universities without reimbursement for waiving tuition charges. While funding was restored in fiscal year 2012, it was once again eliminated in fiscal years 2013 and 2014. 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. As tuition and fees at public universities continues to rise, the financial impact of these waivers also grows.



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 2013 revenue and expenditure data are due in October 2013). Exhibits 8 and 9 illustrate the impact of recent reductions in state support on other revenues and expenditures. As shown in Exhibit 8 on the following page, educational and related revenues (i.e., revenues from state appropriations and university income funds) increased 14.4 percent, from \$2.62 billion to \$3.00 billion, or \$377.2 million, between fiscal year 2007 and fiscal year 2012 after accounting for inflation, while non-appropriated funds (which are mostly restricted to uses other than educational and related expenses) increased \$722.4 million, or 22.9 percent. However, revenue from state appropriations declined by over \$161.3

million in inflation-adjusted terms while university income fund revenue – which is primarily from tuition – increased by \$538.6million.

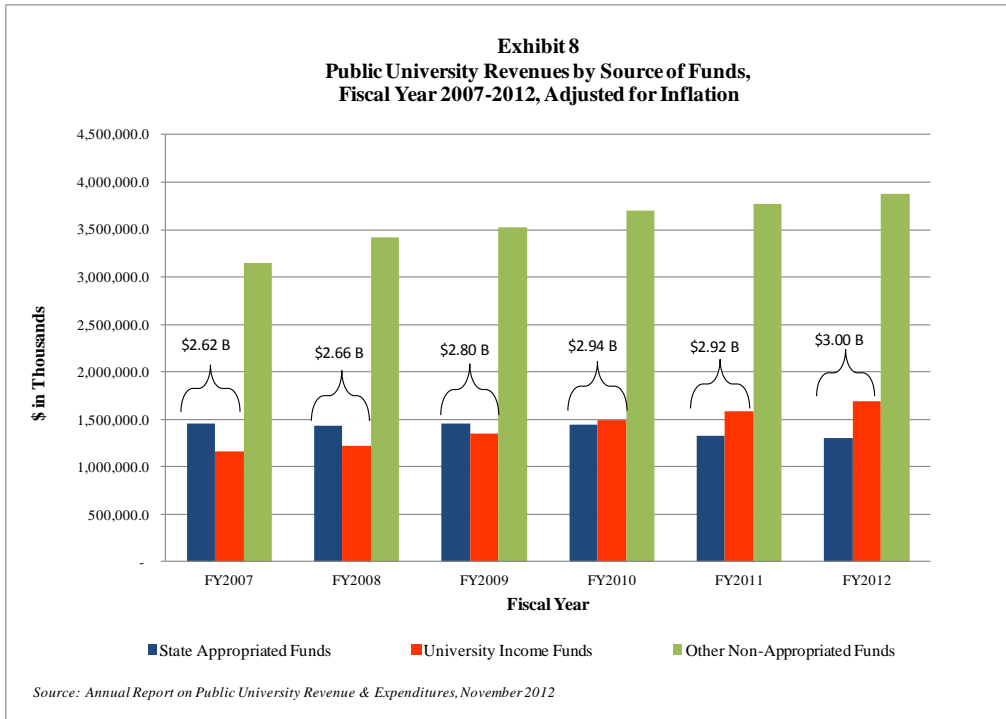
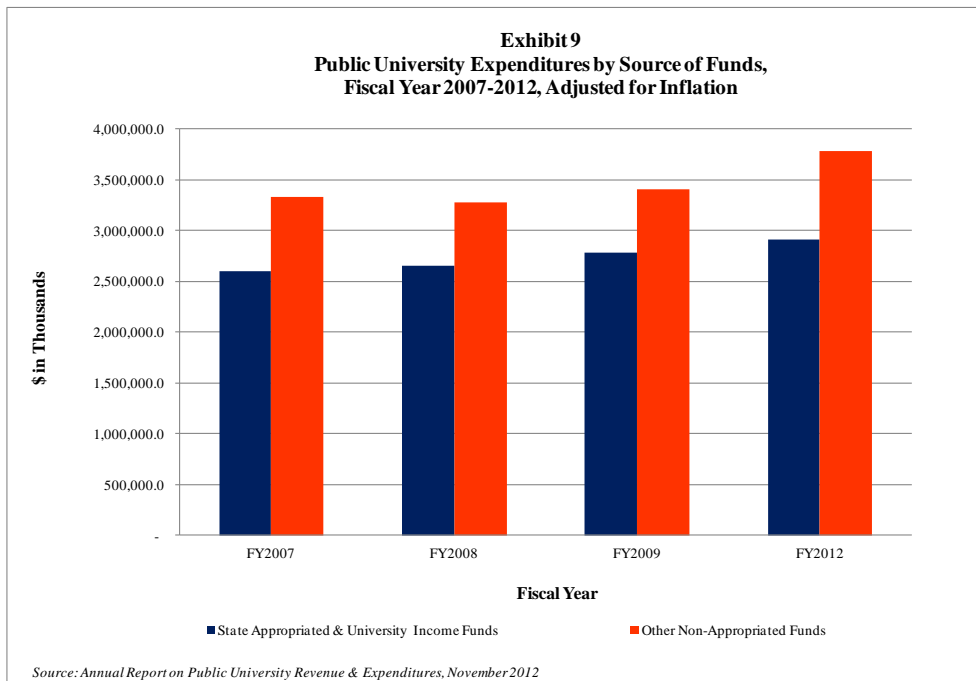


Exhibit 9 illustrates changes in public university expenditures by source of funds. Public university expenditures from state appropriations and university income funds increased 15.3 percent between fiscal years 2007 through 2012 after accounting for inflation while expenditures from other non-appropriated funds increased by 19.5 percent.



Community Colleges. Exhibit 10 presents state general funds support for community college grants and programs, which has decreased \$14.9 million, or 4.9 percent, since fiscal year 2009. Appropriations for base operating grants, the largest of the unrestricted grant programs at community colleges, decreased 3.3 percent between fiscal year 2009 and 2014. Fiscal year 2014 appropriations remain significantly 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, 2009, 2013, and 2014

	FY2002 Approp.	FY2009 Approp.	FY2013 Approp.	FY2014 Approp.	FY2009 - FY2014		FY2013 - FY2014	
					Dollar Change	Percent Change	Dollar Change	Percent Change
Grants to Colleges								
Base Operating Grants	\$ 193,775.0	\$ 197,818.0	\$ 191,271.9	\$ 191,271.9	\$ (6,546.1)	(3.3) %	\$ -	- %
Grant to City Colleges of Chicago	-	15,000.0	14,079.0	14,079.0	(921.0)	(6.1)	-	-
Small College Grants	900.0	840.0	550.0	550.0	(290.0)	(34.5)	-	-
Equalization Grants	77,391.5	77,383.7	75,570.8	75,570.8	(1,812.9)	(2.3)	-	-
Performance Based Funding	2,000.0	-	360.0	360.0	360.0	-	-	-
Workforce Development Grants	19,317.0	3,311.3	-	-	(3,311.3)	(100.0)	-	-
Advanced Technology Grants	14,607.0	-	-	-	-	-	-	-
P-16 Initiative Grants	1,500.0	-	-	-	-	-	-	-
Retirees Health Insurance Grant	735.0	626.6	-	-	(626.6)	(100.0)	-	-
Special Populations/Student Success Grant	13,260.0	-	-	-	-	-	-	-
Deferred Maintenance Grants	3,500.0	-	-	-	-	-	-	-
Subtotal	\$ 326,985.5	\$ 294,979.6	\$ 281,831.7	\$ 281,831.7	\$ (13,147.9)	(4.5) %	\$ -	- %
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	1,491.5	1,491.5	(97.6)	(6.1)	-	-
Leadership and Core Values	250.0	-	-	-	-	-	-	-
Special Initiative Grants	1,210.0	-	-	-	-	-	-	-
Foundation Matching Grants	333.0	-	-	-	-	-	-	-
Veterans Grants Shortfall	-	7,261.5	750.0	750.0	(6,511.5)	(89.7)	-	-
College and Career Readiness Pilot Program	-	750.0	-	-	(750.0)	(100.0)	-	-
Alternative Schools Network	-	-	3,065.8	6,300.8	6,300.8	-	3,235.0	105.5
Designated Grants	-	1,020.0	200.0	400.0	(620.0)	(60.8)	200.0	100.0
Subtotal	\$ 4,118.0	\$ 10,740.7	\$ 5,568.9	\$ 9,003.9	\$ (1,736.8)	(16.2) %	\$ 3,435.0	61.7 %
Total	\$ 331,103.5	\$ 305,720.3	\$ 287,400.6	\$ 290,835.6	\$ (14,884.7)	(4.9) %	\$ 3,435.0	1.2 %

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 had been mitigated to some extent by a specific \$7.6 million appropriation for IVG shortfalls at community colleges that began in fiscal year 2008. However, in fiscal year 2013, this appropriation was reduced to \$750,000 and appropriated to specific community colleges.

Exhibit 11
Community College Appropriations, Net Unfunded Mandates
(in FY 2013 dollars)

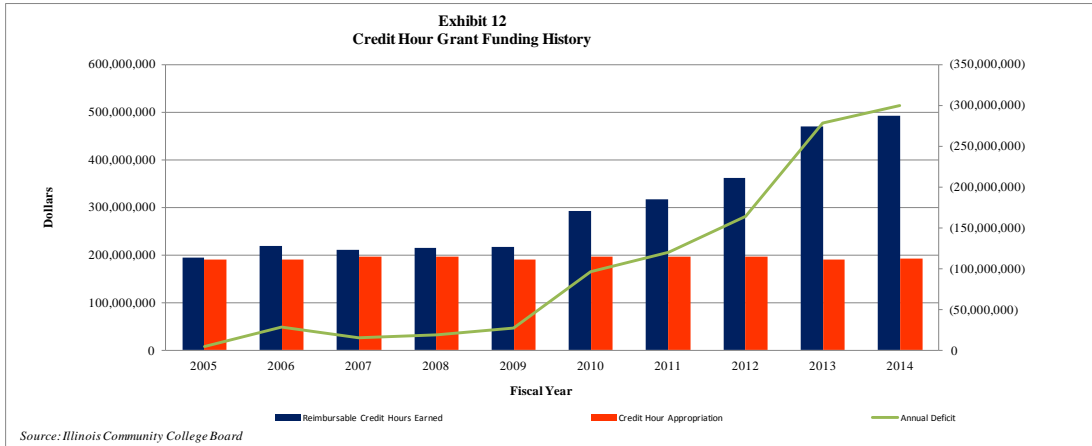
(dollars in thousands)

Fiscal Fiscal Year	State General Funds	Net Unfunded Veterans Grants
2003	399,017.2	397,306.3
2004	358,270.7	355,781.6
2005	354,762.8	351,018.3
2006	342,910.7	337,635.3
2007	340,469.1	334,508.5
2008	332,486.3	332,156.4
2009	325,748.3	325,663.2
2010	335,702.1	332,639.3
2011	315,918.8	311,358.0
2012	315,473.4	314,698.5
2013	289,386.3	278,131.4 *

* Estimated

Source: IBHE and 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 2014, an estimated increase in reimbursable credit hours of over 22,000 will lead to a record deficit estimated at nearly \$299.6 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 while equalization formula calculations have risen through fiscal year 2013 and the annual funding deficit has grown. In fiscal year 2014, the annual deficit declined yet equalization grants remain underfunded by an estimated 52.2 percent, resulting in a deficit of \$82.5 million.

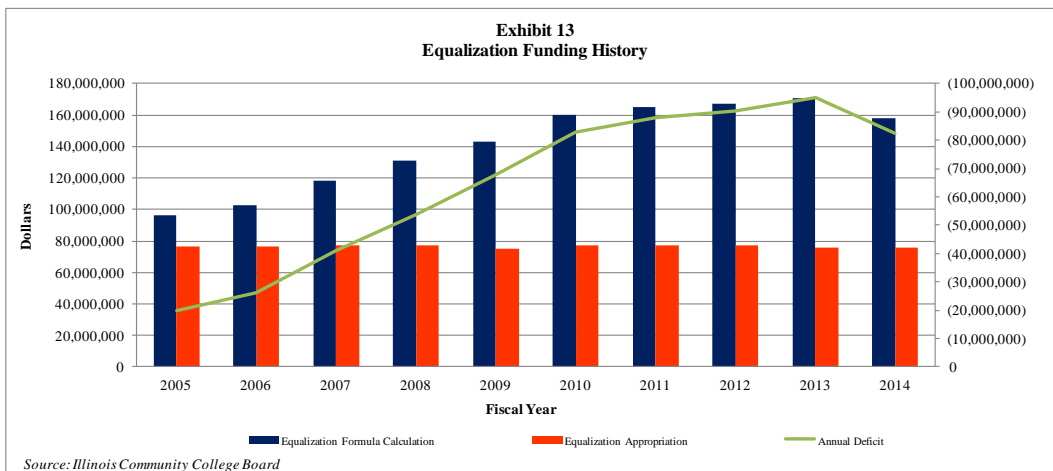
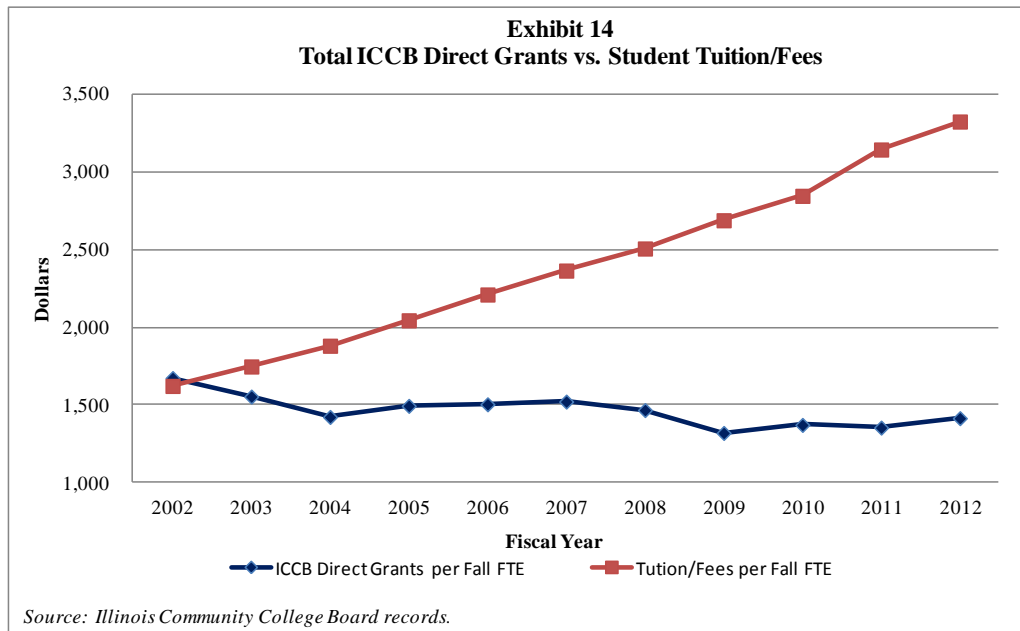


Exhibit 14 demonstrates the relationship between state appropriations and tuition and fees at community colleges. As illustrated by the exhibit, direct grants per full-time equivalent (FTE) student at community colleges declined rapidly between fiscal years 2002 and 2004, and from fiscal year 2004 to fiscal year 2007 increased very slightly. Since fiscal year 2007, direct grants per FTE have once again declined to historical lows in fiscal year 2009 followed by slight growth each fiscal year since. As state support declined in fiscal year 2002, 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 2014 appropriation of \$384.3 million is a decrease of \$44.9 million, or 10.5 percent, from fiscal year 2009. This reduction is largely due to cuts in state funding for need-based financial aid (Monetary Award Program) and the elimination several grant programs, most notably Veterans Grant (IVG) and Illinois National Guard Grant (ING) programs. The fiscal year 2014 appropriation is \$3.6 million more than fiscal year 2013 because of slight increases in MAP and Golden Apple of Illinois funding.

Exhibit 15
State Funding Support for Illinois Student Assistance Commission Programs
Fiscal Years 2002, 2009, 2013, and 2014

(in thousands of dollars)

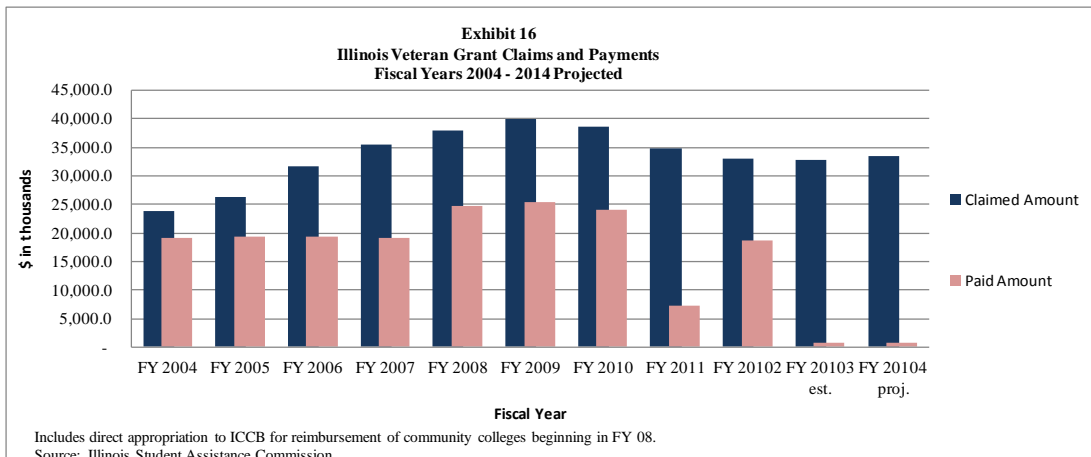
	FY2002 Approp.	FY2009 Approp.	FY2013 Approp.	FY2014 Approp.	FY2009 to FY2014		FY2013 to FY2014	
					Dollar Change	Percent Change	Dollar Change	Percent Change
Illinois Student Assistance Commission								
Monetary Award Program (MAP)	\$ 367,528.3	\$ 381,099.8	\$ 371,309.4	\$ 373,198.1	\$ (7,901.7)	(2.1) %	\$ 1,888.7	0.5 %
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	-	-	(19,250.0)	(100.0)	-	-
National Guard Grants	4,500.0	4,480.0	-	-	(4,480.0)	(100.0)	-	-
Other Grant Programs	18,020.0	16,175.0	9,320.0	11,067.6	(5,107.4)	(31.6)	1,747.6	18.8
ISAC Administration	6,504.0	-	-	-	-	-	-	-
Total	\$ 423,752.3	\$ 429,204.8	\$ 380,629.4	\$ 384,265.7	\$ (44,939.1)	(10.5) %	\$ 3,636.3	1.0 %

For fiscal year 2014, funding for MAP totals \$373.2 million, an increase of \$1.9 million, or 0.5 percent. However, MAP remains far below previous appropriation levels. In fiscal year 2013 total MAP funds decreased \$52.9 million, or 12.5 percent, from the FY 2012 level due to the loss of \$33.5 million in one-time revenue from the Student Loan Operating Fund and a loss of \$4.0 million in federal LEAP funds.

Despite a slight increase in funding, ISAC suspended award announcements on March 1, 2013, resulting in the earliest suspension date since the creation of the MAP program. As of September 12, 2013, ISAC has suspended 147,827 eligible MAP applications. In total, ISAC estimates approximately 178,500 eligible MAP applications, including 128,600 from community colleges, 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. The agency has paid all administrative expenses from federal revenues since fiscal year 2005. Recently, the federal government has proposed significant cuts to ISAC’s largest revenue stream, payment for rehabilitation of defaulted federal student loans. In response, the fiscal year 2014 budget provides language that allows ISAC to use up to 2.0 percent of the MAP appropriation to fund administrative costs for the program. To date, it is unlikely that ISAC will use the full two percent for administrative expenses as the federal government’s proposed cuts have not been implemented; however, ISAC will seek continuation of the spending authority in fiscal year 2015.

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). In fiscal year 2013, funding for both the IVG and Illinois National Guard (ING) programs was once again eliminated. 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 through fiscal year 2009 before declining slightly over the last four fiscal years. At the same time, payment of claims by ISAC has declined, with the exception of fiscal year 2012 when additional funds became available outside of the appropriation. Likewise, over \$7.2 million first appropriated in fiscal year 2008 to pay claims at community colleges has dwindled to \$750,000 in fiscal years 2013 and 2014. Fiscal year 2014 claims are projected to increase slightly at a time when no state funding is available to pay those claims. Without an appropriation in fiscal year 2014 for the IVG program, colleges and universities will waive over \$32.5 million.



In addition to outright shortfalls, MAP has been unable to keep up with increases in tuition and fees. The MAP formula takes into account a cost of living allowance, tuition and fee rates, a maximum award amount, and an expected family contribution (EFC). Since fiscal year 2002, the cost of living allowance has remained at \$4,875. Tuition and fee rates from fiscal year 2004 have been incorporated into the formula since fiscal year 2006. In addition, as shown in Exhibit 17, 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 62.2 percent in fiscal year 2006 to 37.4 percent in fiscal year 2013.

Exhibit 17
MAP Historical Award Summary
FY 2003 - FY 2013

Academic Year	Maximum Award	Effective Award *	Mean Award	# of Announced Eligible Awards	% of Eligible Awards Paid
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	\$4,844	\$2,740	351,188	40.2%
2011-2012	\$4,968	\$4,720	\$2,599	369,674	41.1%
2012-2013	\$4,968	\$4,720	\$2,630	377,207	37.4%

* reduction factor applied to awards

Source: *Data Book*, Illinois Student Assistance Commission

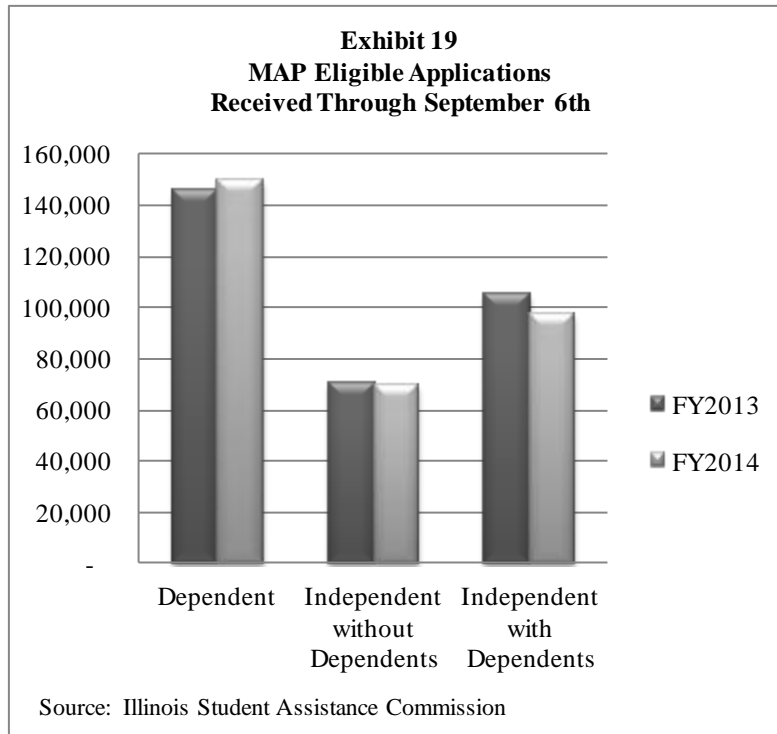
Exhibit 18 provides a breakout of the numbers of MAP-eligible applications by sectors that were received through September 6, 2012. Community colleges had the largest increase in the number and percentage while proprietary institutions had a significant decrease in the number and percentage of MAP-eligible applications from fiscal year 2012 levels. The total increase for all sectors in fiscal year 2013 was 1,494, or 0.5 percent, over fiscal year 2012.

Exhibit 18
MAP Eligible Applications Received Through September 6th
By Sector

	FY 2012	FY 2013	Increase	% Increase
Public Universities	72,228	73,299	1,071	1.5%
Private Universities	62,354	62,149	(205)	-0.3%
Community Colleges	166,435	169,319	2,884	1.7%
Proprietary	18,455	16,199	(2,256)	-12.2%
Total	319,472	320,966	1,494	0.5%

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 September 6, 2013, only MAP eligible applications from dependent students were up over fiscal year 2013 by 2.6 percent. MAP-eligible applications from independent students without dependents fell nearly one percent and independent students with dependents fell 7.3 percent below fiscal year 2013.



Institutional Grants and Higher Education Agencies. Exhibit 20 on the following page, shows that institutional grant programs administered by the IBHE have declined approximately 18.1 percent since fiscal year 2009. 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. Most recently, appropriations for IBHE administered grant programs increased \$1.6 million, or 23.3 percent, over fiscal year 2013. This increase was largely driven by additional funding for Nurse Educator Fellowships, Chicago Area Health and Medical Careers Program (CAHMCP), and Grow Your Own. The fiscal year 2014 budget also provided \$434,000 in new funding to IBHE for continued efforts to implement the Illinois Longitudinal Data system.

One notable exception to the enduring reductions experienced by higher education since fiscal year 2009 has been the Illinois Mathematics and Science Academy, which saw its appropriation remain relatively level. 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, 2009, 2013, and 2014

(in thousands of dollars)

	FY2002 Approp.	FY2009 Approp.	FY2013 Approp.	FY2014 Approp.	FY2009 to FY2014		FY2013 to FY2014		
					Dollar	Percent	Dollar	Percent	
					Change	Change	Change	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	2,931.9	1,200.0	1,200.0	(1,731.9)	(59.1)	-	-	
Quad Cities Graduate Study Center	220.0	220.0	83.9	83.9	(136.1)	(61.9)	-	-	
Diversifying Higher Education Faculty in Illinois	2,000.0	2,800.0	1,740.0	1,490.0	(1,310.0)	(46.8)	(250.0)	(14.4)	
Competitive Nursing School Grants	-	1,000.0	425.0	425.0	(575.0)	(57.5)	-	-	
Nurse Educator Fellowships	-	150.0	163.1	224.3	74.3	49.5	61.2	37.5	
Access and Diversity, HECA Grants	7,084.6	-	-	-	-	-	-	-	
Health Services Education Grants	18,263.3	-	-	-	-	-	-	-	
State Matching Grants	10,000.0	-	-	-	-	-	-	-	
Illinois Longitudinal Data System (ILDS)	-	-	-	434.0	434.0	-	434.0	-	
STEM Diversity Grants	-	1,000.0	840.0	1,575.6	575.6	-	735.6	87.6	
u.Select System	-	-	208.4	208.4	208.4	-	-	-	
Advanced Photon Source	3,000.0	-	-	-	-	-	-	-	
Engineering Equipment Grants	2,800.0	-	-	-	-	-	-	-	
Medical Scholarship Program (IDPH)*	3,445.0	-	-	-	-	-	-	-	
Cooperative Work Study Grants	2,100.0	2,100.0	1,114.5	1,114.5	(985.5)	(46.9)	-	-	
Grow Your Own Teacher **	-	-	1,000.0	1,500.0	1,500.0	-	500.0	50.0	
State Geological Survey	1,600.0	-	-	-	-	-	-	-	
Career Academies	675.0	-	-	-	-	-	-	-	
Workforce and Econ. Development, HECA Grant	3,319.0	-	-	-	-	-	-	-	
Washington Center Internship Program	-	-	-	100.0	100.0	-	100.0	-	
Teaching, Learning, and Quality, HECA Grants	3,480.0	-	-	-	-	-	-	-	
Total	\$ 97,256.0	\$ 10,201.9	\$ 6,774.9	\$ 8,355.7	\$ (1,846.2)	(18.1) %	\$ 1,580.8	23.3 %	
<u>Agencies/Other Institutions</u>									
Illinois Mathematics and Science Academy	\$ 16,526.7	\$ 18,341.4	\$ 17,697.9	\$ 18,445.5	\$ 104.1	0.6 %	\$ 747.6	4.2 %	
State Universities Civil Service System	1,441.2	1,273.2	1,205.0	1,205.0	(68.2)	(5.4)	-	-	
Illinois Board of Higher Education	3,277.2	2,976.0	2,701.0	2,701.0	(275.0)	(9.2)	-	-	

* 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.

As illustrated by Exhibit 21 on the following page, due to the multiple-year nature of the Jobs Now capital plan, the General Assembly did not appropriate any new funds for capital in FY 2011, FY 2012, or FY 2013. In FY 2014, \$3.95 million in new capital funding was appropriated through grants to IMSA, South Suburban Community College, St. Augustine College, and Aurora University.

During this time period, re-appropriation bills have been passed which allow capital funds to be released to support projects that were appropriated in FY 2010. After failing to provide an increase in bond authorization limits for higher education capital projects in fiscal year 2013, the General Assembly authorized an increase of approximately \$360.0 million in bonding authority for fiscal year 2014 to support state capital projects including higher education. As of September 4, 2013, \$1.0 billion out of a total appropriation of \$1.6 billion has been released for higher education capital projects. IBHE staff will continue to work with institutions, the Capital

Development Board (CDB) and the Governor’s Office of Management and Budget (GOMB) regarding higher education capital priorities and the release of funds.

**Exhibit 21
Higher Education Capital Improvements
Fiscal Year 2009 - Fiscal Year 2014**

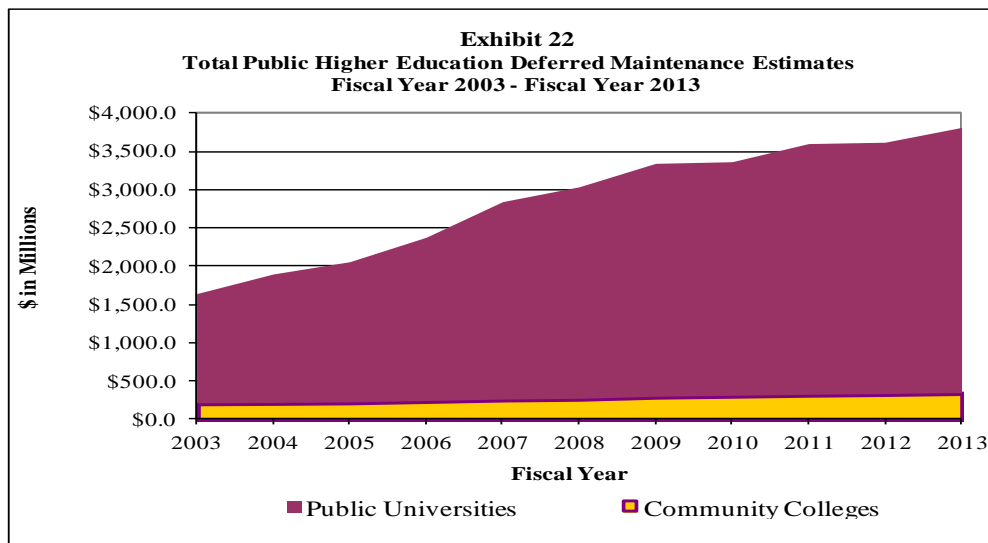
(in thousands of dollars)

Fiscal Year	Requests Submitted to IBHE	IBHE Recommendation	Final Appropriations
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	-
2013	2,330,033.0	1,553,854.0	-
2014	3,777,744.4	1,543,509.4	3,950.0

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

Source: IBHE records.

Lack of capital appropriations prevent 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, the backlog in deferred facilities maintenance at public universities and community colleges was estimated to be over \$3.8 billion in fiscal year 2013, an increase of \$2.2 billion since fiscal year 2003. 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. While most all states have begun to recover from the latest economic downturn, these states continue to face difficult financial choices. Despite recent efforts in many states to minimize cuts to Higher education, funding remains significantly below fiscal year 2008 levels.

Exhibit 23 shows that the changes in state operating support for higher education in nine Midwestern states (including Illinois) and all states combined. Looking back over the past decade, most Midwestern states have fared worse than the total of all states combined; although more recently, most Midwestern states have improved relative to all states combined. Illinois (as a result of funding for SURS) has experienced higher growth in state support than the Midwest and national average. State support 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 2008 through 2013. Since fiscal year 2008, appropriations to SURS have increased over \$1.4 billion. Revised fiscal year 2013 appropriations and fiscal year 2014 appropriations should be available by January 1, 2014.

Exhibit 23

State Support for Higher Education Nine Midwestern States and All States for Fiscal Years 2003 through 2013 (In Thousands of Current Dollars)

States	2003	2008	2011 ¹	2012 ¹	2013	1-yr Change	2-yr Change	5-yr Change	10-yr Change
Illinois	2,763,757	2,948,632	3,251,432	3,594,470	3,566,692	-0.8%	9.7%	21.0%	29.1%
Indiana	1,326,682	1,525,217	1,564,731	1,549,460	1,555,283	0.4%	-0.6%	2.0%	17.2%
Iowa	769,854	873,734	758,712	740,352	787,420	6.4%	3.8%	-9.9%	2.3%
Kentucky	1,071,006	1,320,540	1,287,724	1,237,726	1,178,977	-4.7%	-8.4%	-10.7%	10.1%
Michigan	2,154,247	2,033,709	1,869,659	1,547,833	1,596,325	3.1%	-14.6%	-21.5%	-25.9%
Minnesota	1,323,393	1,560,644	1,381,065	1,283,690	1,285,247	0.1%	-6.9%	-17.6%	-2.9%
Missouri	875,070	1,021,705	1,000,998	933,329	931,240	-0.2%	-7.0%	-8.9%	6.4%
Ohio	2,063,714	2,288,295	2,282,711	2,013,731	2,039,964	1.3%	-10.6%	-10.9%	-1.2%
Wisconsin	1,211,419	1,242,537	1,330,088	1,153,559	1,182,780	2.5%	-11.1%	-4.8%	-2.4%
Midwest Totals	13,559,142	14,815,013	14,727,120	14,054,150	14,123,927	0.5%	-4.1%	-4.7%	4.2%
National Totals	62,429,873	80,681,264	78,522,456	72,224,712	71,966,407	-0.4%	-8.3%	-10.8%	15.3%

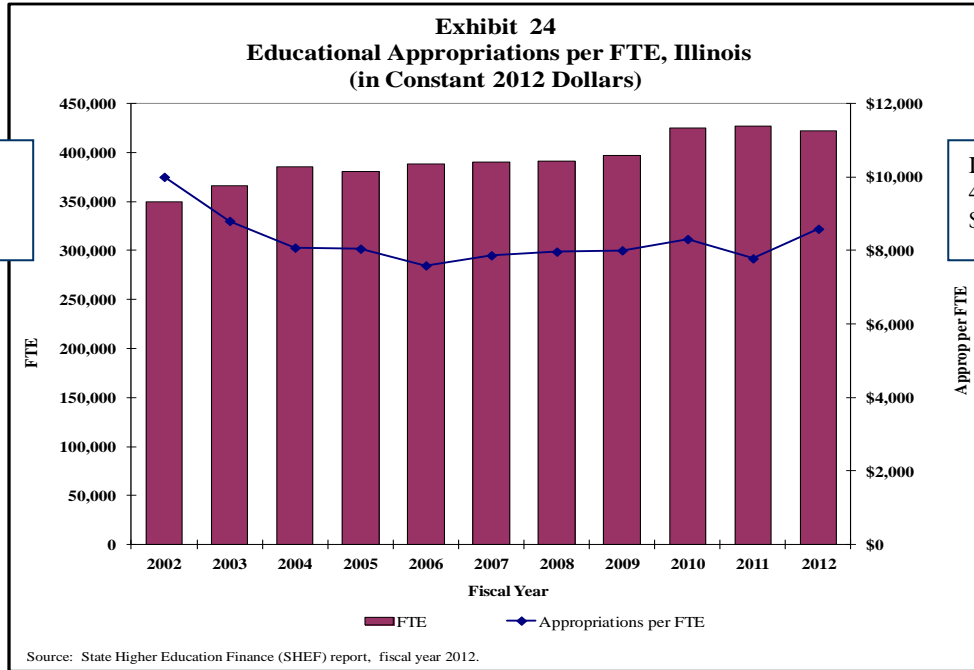
¹ Includes Federal Stimulus Monies under the American Recovery and Reinvestment Act of 2009 (Education Stabilization & Government Services funds). Education Stabilization Funds used to restore the level of state support for public higher education. Government Services Funds exclude funds used for modernization,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

Source: FY2013 Grapevine 50-State Summary, Illinois State U. Center for the Study of Education Policy

Exhibits 24 and 25 on the following page, 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

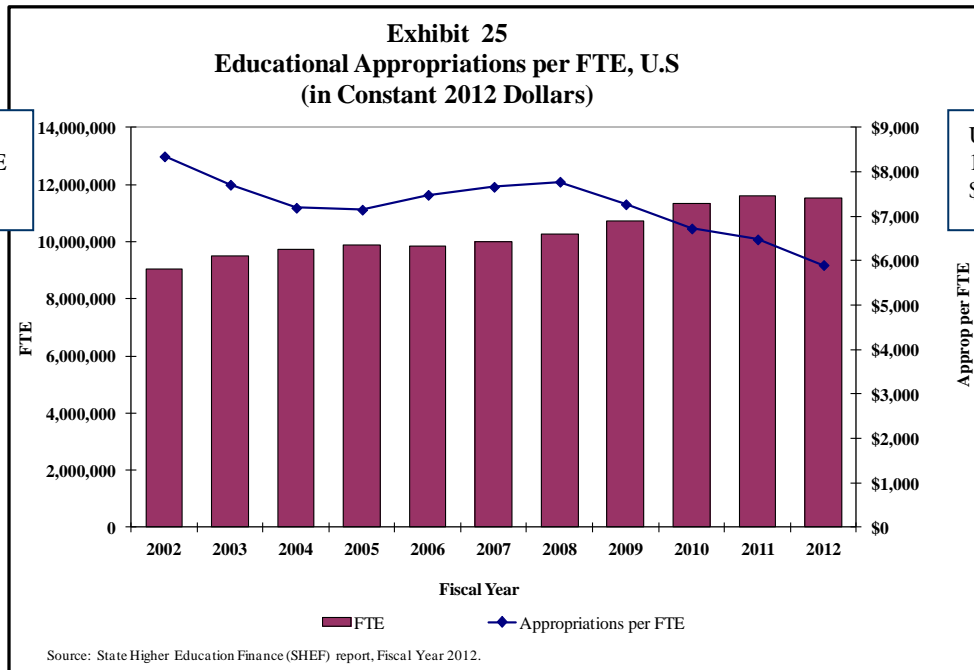
⁵ The appropriations are adjusted to remove research, medical, and agricultural extension funding; capital funding; and financial aid to students attending independent colleges and universities. They are also adjusted by an inflation index designed to approximate the "higher education market basket" rather than the market basket of the typical urban consumer (CPI-U). Appropriations to SURS are included.

the nation as a whole between fiscal years 2002 and 2012. Illinois' appropriations per FTE continue to be above the national average; however, enrollment growth over that period is less than enrollment growth nationally.



IL 2002:
349,331 FTE
\$10,004/FTE

IL 2012:
422,261 FTE
\$8,591/FTE



US 2002:
9,034,365 FTE
\$8,352/FTE

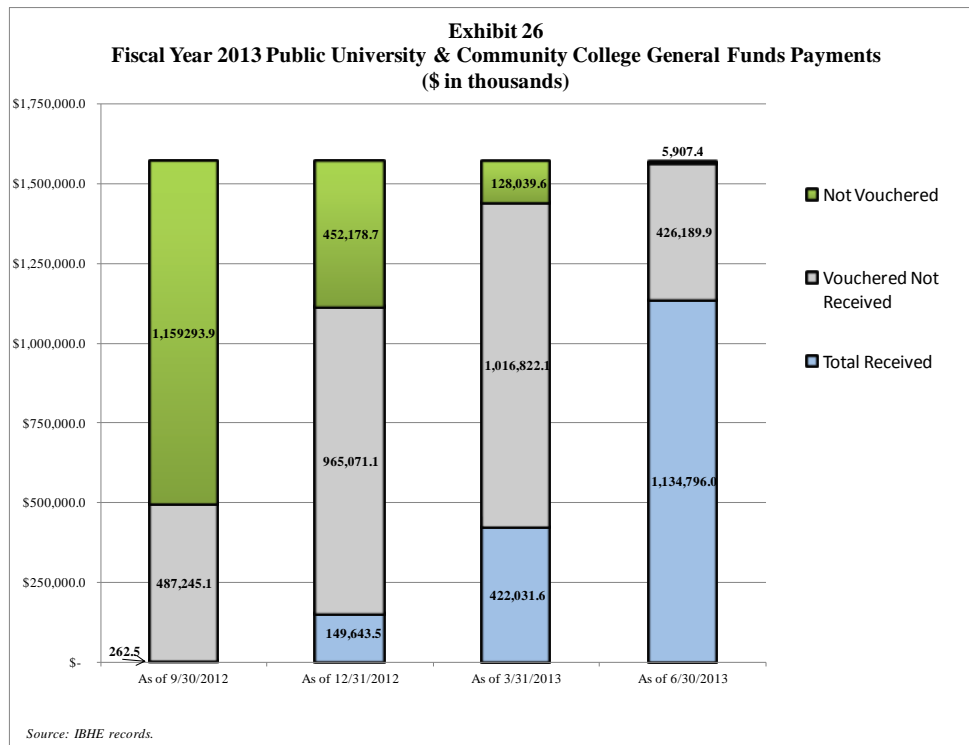
US 2012:
11,548,974 FTE
\$5,906/FTE

Fiscal Context

On July 10, 2013, the Governor took final action on the last of a series of appropriation bills passed by the General Assembly. Overall, the fiscal year 2014 state budget totals approximately \$35.4 billion in general funds. The Governor vetoed \$13.9 million for legislative salaries after the General Assembly failed to pass pension reform legislation by the Governor's July 9, 2013, deadline.

Anyone involved in or funded by state government is aware that the fiscal context in Illinois has been extremely challenging in recent years. According to *The Illinois State Comptroller's Quarterly* (July edition) "Illinois appears to have made improvements in its overall financial condition during the past year, [but] much of that is attributable to one-time revenue events." The *Comptroller's Quarterly* goes on to report that the state's massive backlog of unpaid bills has improved largely due to the collection of \$1.3 billion more revenue than expected during the Spring tax season as residents and businesses accelerated transactions to take advantage of 2012 federal tax rates. According to the Comptroller's Office, Illinois enters fiscal year 2014 with an estimated total backlog of unpaid bills of \$6.1 billion, compared to \$7.5 billion last year. The total backlog includes: \$3.3 billion in unpaid bills submitted to the Comptroller's office, approximately \$2.0 billion in unpaid Medicaid and state employee health insurance bills, and \$900 million in additional fiscal year 2013 vouchers arriving during the lapse period.

While the backlog of unpaid bills at the Comptroller's office has dropped, it is unlikely to continue to improve dramatically over the next 12 months. As the State enters fiscal year 2014, the Comptroller's office will be focused on payment of remaining fiscal year 2013 obligations, which may claim more than \$4 billion in fiscal year 2014 revenues. In fact, payment delays will likely increase as spending pressures during the first half of the year exceed expected revenues. As shown in Exhibit 26, public universities were owed a total of \$343.6 million and community colleges were owed \$82.6 million as of June 30, 2013.



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 2012 - 2014, 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.

In fiscal year 2013, both personal and corporate income taxes performed exceptionally well, in large part due to the “April Surprise” noted above; but, underlying revenue growth was also quite strong. The Commission on Government Forecasting and Accountability’s (CGFA) June 2013 *Monthly Briefing* reported that fiscal year 2013 general funds revenue grew \$2.3 billion, or 6.7 percent, above fiscal year 2012. Fiscal year 2013 marks the third consecutive year of general funds revenue growth.

Looking forward, overall fiscal year 2014 revenues are expected to fall by \$618.0 million as a result of the one-time “April Surprise” experienced in fiscal year 2013 not reoccurring. Additionally, struggling employment gains and unspectacular economic performance combined to force conservative expectations of the State’s revenue picture. According to the CGFA, “Illinois’ employment numbers continue to disappoint, corporate profits are expected to slow, and consumer spending is forecast to be at modest levels.”⁶ CGFA estimates both personal and corporate income tax revenues will decline 3.3 percent and 7.8 percent respectively in fiscal year 2014. Likewise, sales tax receipts are expected to remain virtually flat. Despite these lowered revenue estimates, it is hoped that all of the large economic sources will outperform expectations and force and upward revision as some point during the fiscal year. Already two month into fiscal year 2014, sales tax revenues and personal income tax revenues have shown modest gains.

Exhibit 27 provides actual revenues to the general funds for fiscal years 2004 through 2013 and estimated fiscal year 2014 revenues.

Exhibit 27
General Funds Revenues
Fiscal Years 2004 through 2014

(in millions of dollars)	<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>	<u>2013</u>	<u>2014</u>
State Taxes	19,255	20,508	21,818	23,078	24,152	22,343	20,494	24,422	30,187	32,493	31,468
\$ Increase	1,181	1,253	1,310	1,260	1,074	(1,809)	(1,849)	3,928	5,765	2,306	(1,025)
% Increase	6.5%	6.5%	6.4%	5.8%	4.7%	-7.5%	-8.3%	19.2%	23.6%	7.6%	-3.2%
General Funds*	25,428	26,160	27,359	28,640	29,659	29,144	27,090	30,488	33,797	36,064	35,446
\$ Increase	2,642	732	1,199	1,281	1,019	(515)	(2,054)	3,398	3,309	2,267	(618)
% Increase	11.6%	2.9%	4.6%	4.7%	3.6%	-1.7%	-7.0%	12.5%	10.9%	6.7%	-1.7%

* 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 2014 Budget Summary*, August 2013.

Although it is early in the state’s fiscal year 2015 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

⁶ Commission on Government Forecasting & Accountability, *State of Illinois Budget summary, Fiscal Year 2014*, August 2013, page 24.

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 \$200.2 million increase in employer contributions for fiscal year 2015 to continue on the 50-year funding program established by Public Act 88-0593.⁷ Nearly \$74.0 million of the estimated \$200.2 million is for the State Universities Retirement System. Recent trends in program cost increases, service levels, and other factors in each of these areas suggest that they will once again have the potential to place significant demands on existing state revenues, not to mention a predicted revenue decline that may occur in fiscal year 2015.

Fiscal Year 2015 Budget Recommendations and the *Public Agenda*

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

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

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

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

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

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

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

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

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

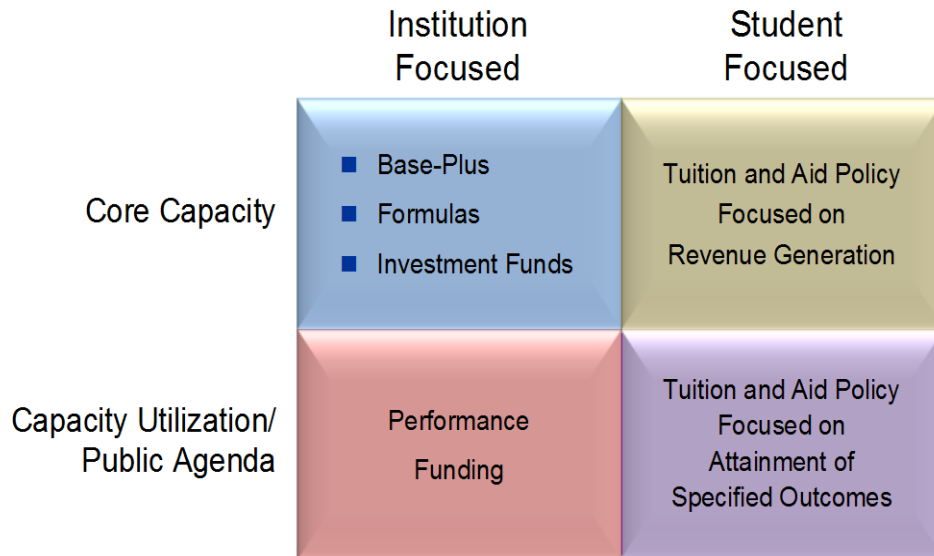
⁷ Commission on Government Forecasting & Accountability, *Pensions: Report on the Financial Condition Of Illinois State Retirement Systems*, February 2013, pages 95 and 98.

Performance-Based Funding

The Higher Education Finance Study noted in its 2010 report that institutional funding policy in Illinois has not been directly tied to the *Public Agenda* and concludes that performance funding is a viable policy tool to align higher education finance with state goals. In response to the Commission’s recommendations, Public Act 97-320 directed IBHE, beginning in Fiscal Year 2013, to form a broad-based group of individuals 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. In creating such a system, IBHE wanted to develop a model that is linked directly to the goals of the *Illinois Public Agenda* and the principles of Public Act 97-320.

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 28) for understanding how finance policy can be directed toward meeting strategic goals.

Exhibit 28: Finance Policy Options



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

The IBHE established the Performance Funding Steering Committee to formulate a performance based funding model based upon feedback from the vested parties involved (community colleges, public universities, elected officials, labor, community groups, etc.). The resulting performance funding models for public universities and community colleges focuses on the fundamental goal of increasing completion, rewarding performance of institutions in advancing the success of students who are academically or financially at-risk, and accounting for the unique differences of each of Illinois’ public colleges and universities. The model is a dynamic model devised to capture the changes in institutional performance from year to year. The performance measures are meant to indicate the status of each of the schools on an annual

basis, which allows them to adjust their practices in order to improve in certain areas as they go forward. The model takes into account the diversity of each university's student population in addition to awarding funding based on academic criteria.

The current models provide an accurate blue print for today's higher education system based on a wide range of research, data, and input from highly credible resources. The fiscal year 2014 budget provides for the reallocation of \$6.2 million to four-year universities based upon the performance model adopted by the IBHE. The budget also provides for \$360,000 for performance funding to community colleges.

Over the past two years, the Performance Funding Refinement Committee, comprised of public university finance and research experts, has been tasked with strengthening the existing performance measures and sub-categories to the extent possible or finding replacement measures that capture what is being measured in a more efficient way. The committee proposed several changes to the performance funding model that were incorporated into a revised model used for allocating funding funds in fiscal year 2014. The committee continues to meet and will likely recommend additional changes for fiscal year 2015. A revised model will be presented to the Board for approval at its February 2014 meeting along with the fiscal year 2015 budget recommendations for higher education.

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 2014 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 2015 recommendations will continue that focus on the *Public Agenda*. Many of the potential funding priorities appear in Exhibit 29 on the following page.

Exhibit 29: Align Potential Initiatives with Public Agenda Goals, FY 2015

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 FY15										
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 Longitudinal 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	X			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

In fiscal year 2009, the Board departed from previous recommendations 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 2015 alongside and impacted by the refinement of performance-based funding to public colleges and universities.

Timeline

The tentative timeline and processes for the development of the Board's fiscal year 2015 operating and capital budget recommendations are contained in Appendix A.

Appendix A: IBHE Timelines and Processes

ILLINOIS BOARD OF HIGHER EDUCATION

Fiscal Year 2015 Budget Development Schedule Summary

2013

July 10	Distribute budget development schedules and accompanying memos
August 1	Distribute historical RAMP schedules Distribute operating and capital budget request materials Distribute technical questions
September 27	Historical RAMP submissions due back to BHE
October	Begin budget overview meetings
October 1	IMSA operating and capital requests due back to BHE
October 15	All other operating and capital requests due back to BHE Technical question responses due back to BHE
October 28 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

2014

January	Discussion budget meetings
February	BHE to consider staff budget recommendations