

SETTING A CONTEXT FOR FISCAL YEAR 2014 BUDGET DEVELOPMENT

Submitted for: Information.

Summary: *Setting a Context for Fiscal Year 2014 Budget Development* is intended to provide the “lay of the land” to the Board as it develops its fiscal year 2014 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 2014 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 2014 operating and capital recommendations.

Action Requested: None.

STATE OF ILLINOIS
BOARD OF HIGHER EDUCATION

SETTING A CONTEXT FOR FISCAL YEAR 2014 BUDGET DEVELOPMENT

Highlights

- Looking back over 15 years, total state funding for higher education (operations, grants, and pensions) is 14.9 percent greater in fiscal year 2013 than in fiscal year 1998 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 1998 after accounting for inflation. The total decrease is \$731.0 million, or 27.5 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 2013 is \$387.7 million (16.4 percent) less than in fiscal year 2008 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 \$643.8 million, or 18.8 percent.
- Between fiscal years 2012 and 2013, operations and grants funding decreased \$128.4 million, or 6.1 percent, when retirement funding is excluded. This reduction is attributable primarily to a \$79.6 million percent reduction for public universities, \$20.9 million reduction to community colleges, and a \$15.4 million reduction to Monetary Award Program (MAP) grants. Additionally, the fiscal year 2013 budget reduces funding for higher education agency operations and several institutional grant programs.
- 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.
- Most Midwestern states have fared worse than all states combined over the past decade in state support for higher education (including funding for pensions). However, as a result of rapidly increasing state appropriations for the State Universities Retirement System to address historical underfunding, Illinois has experienced higher "growth" in state support

than several other Midwestern states and the national average. Generally, over the past decade education costs at Illinois public colleges and universities have increased more slowly than the national average, while at the same time, the Illinois institutions have become more reliant on tuition than institutions nationally.

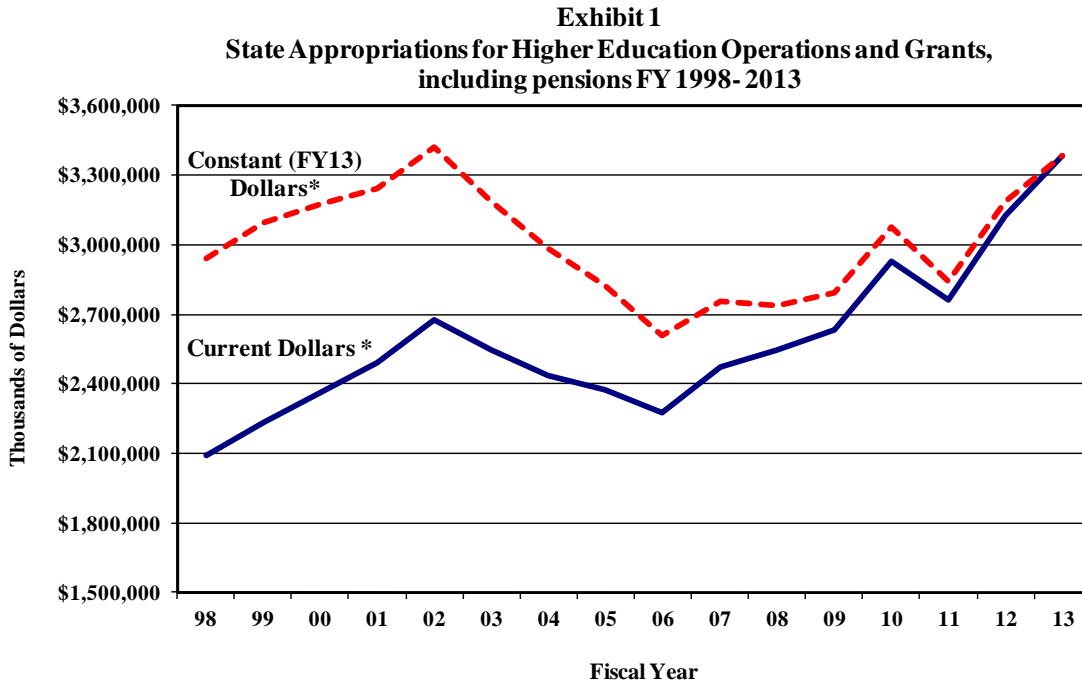
- The Commission on Government Forecasting and Accountability's (CGFA) June 2012 *Monthly Briefing* reported that general funds revenue grew \$3.3 billion, or 10.9 percent, in fiscal year 2012, due to strong performance of the larger economic sources of revenue. Looking forward into fiscal year 2013, CGFA estimates an overall increase in state tax revenue of \$193.0 million, or 0.6 percent. At the end of June 2012, the Comptroller reported a \$3.7 billion backlog of unpaid bills. Among the unpaid bills were over \$476.6 million owed to public colleges and universities.
- *The Public Agenda for College and Career Success* has many ramifications for higher education funding. Fiscal year 2013 marked the introduction 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 2013 recommendations incorporated funding strategies based on the *Public Agenda*. The "Refinement Committee" of institutional representatives are presently meeting to develop and propose changes to the performance funding model in fiscal year 2014. The Board will continue to prioritize its funding recommendations toward achieving the four goals of the *Public Agenda* in fiscal year 2014.

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 1998 and 2013, both in current and inflation-adjusted (CPI-U) dollars.¹ During this period, state general funds support for Illinois higher education grew from \$2.1 billion to \$3.4 billion, or 61.8 percent. However, after accounting for inflation, state support has increased by only 14.9 percent since fiscal year 1998.² Much of the gain in state support after the mid-1990s was lost between fiscal years 2002 and 2006, and the gain shown in Exhibit 1 since fiscal year 2006 is almost entirely driven by contributions to the pension system to address historical underfunding.



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

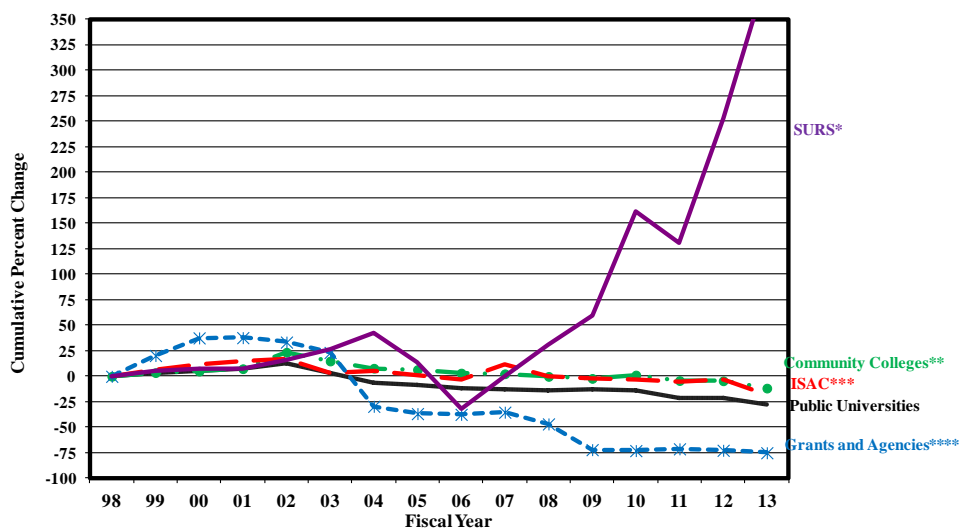
Source: IBHE records.

¹ State appropriation data for higher education operations and grants presented in Exhibits 1 and 2 include State General Funds (GF) and State Pension Fund (SPF) amounts due to a significant shift in State Universities Retirement System (SURS) funding sources that began in fiscal year 2005. Exhibits 1 and 2 include appropriations from the Student Loan Operating Fund for MAP and MAP Plus, which supplemented GF funding for fiscal year 2007 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.

Exhibit 2 illustrates the cumulative percentage change in state appropriations for higher education by sector, adjusted for inflation. As is apparent from Exhibit 2, appropriations to the State Universities Retirement System (SURS) show the only real growth over this time period. The state has invested significant resources in SURS since the mid-1990s in response to a statutory change (Public Act 88-593) designed to improve the long-term financial condition of all state-funded retirement systems. These funds are not allocated or spent by individual institutions or agencies, but they provide direct support for an important employee benefit. General funds support for community college retirees' group health insurance is also included, although no appropriation was made in fiscal year 2013. 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 1998- 2013
 (in FY 2013 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 FY2002.
 *** 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 2013 is \$468.1 million, or 27.6 percent, less than in fiscal year 1998. Funding for community colleges is slightly below fiscal year 1998 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 2013 is \$95.9 million, or 24.9 percent, less than in fiscal year 1998.

State support for the Illinois Student Assistance Commission (ISAC) in fiscal year 2013 is \$82.4 million, or 17.8 percent, below fiscal year 1998 levels when adjusted for inflation. About 95.0 percent of the fiscal year 2013 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 2012, ISAC suspended award announcements for MAP applications received after March 26, 2011. In fiscal year 2013, ISAC suspended award announcements on March 20, 2012, 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 2013, ISAC estimates approximately 166,300 eligible MAP applications, of which 118,200 are from community college students, will go unfunded because of the suspension date.

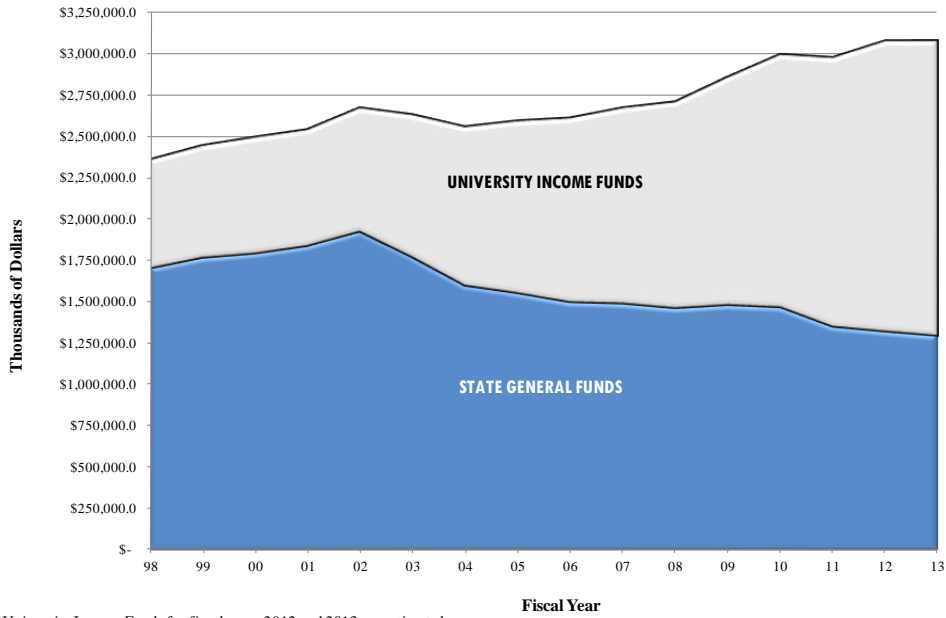
State support for institutional grant programs and agencies in fiscal year 2013 is \$85.0 million, or 75.0 percent, less than in fiscal year 1998 when adjusted for inflation. In large part, this reflects the elimination of funding for the Illinois Financial Assistance Act grant program (\$20.6 million) 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 1998 and 2013 by source. During this period, inflation-adjusted total educational and related revenues increased by 30.5 percent at public universities and by 38.6 percent at community colleges. Total educational and related revenues for public universities reached \$2.67 billion, adjusted for inflation, in fiscal year 2002 and did not exceed that level until fiscal year 2008. Estimated fiscal year 2013 revenues are \$3.07 billion. Total revenues have grown more steadily for community colleges throughout the period. Nevertheless, in both sectors, support from non-state sources has increased at a greater rate than state support since fiscal year 1998. State general funds support for public universities as a percent of total educational and related revenues declined from 72.1 percent to 42.1 percent between fiscal years 1998 and 2013, while the share from tuition (university income funds) increased from 27.9 percent to an estimated 57.9 percent. For community colleges, state general funds support as a percent of total educational and related revenues declined from 28.0 to 15.2 percent over the same period, while support from tuition increased from 27.6 percent to an estimated 44.0 percent.

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

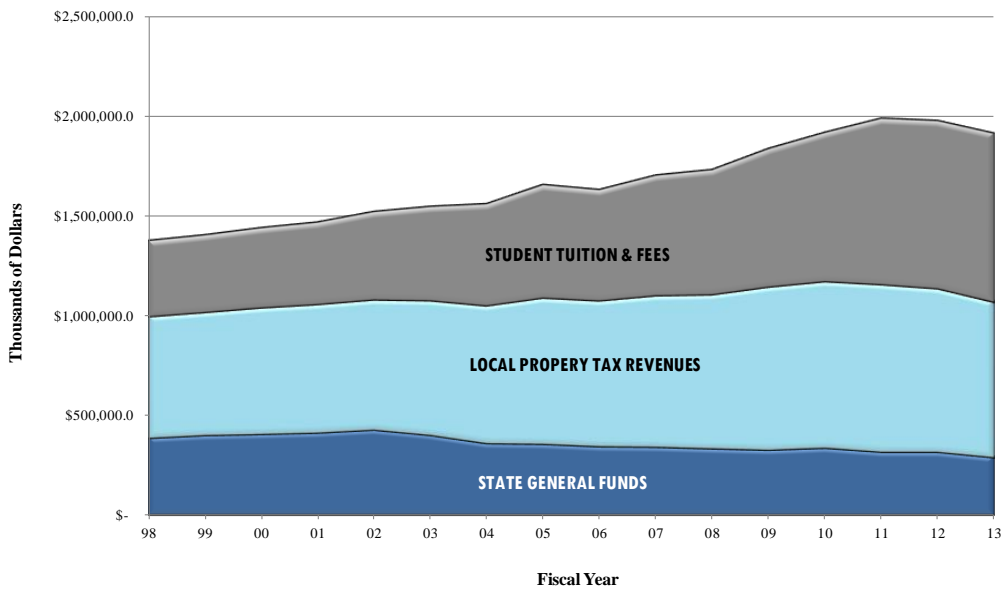
Exhibit 3
Trends in Educational and Related Revenues at Illinois Public Universities
Fiscal Years 1998 to 2013* (in FY 2013 dollars)



*University Income Funds for fiscal years 2012 and 2013 are estimated.

Source: IBHE records.

Exhibit 4
Trends in Educational and Related Revenues at Illinois Community Colleges
Fiscal Years 1998 to 2013* (in FY 2013 dollars)



*Local Property Tax Revenues and Student Tuition and Fees amounts for fiscal years 2012 and 2013 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 \$438.1 million (not adjusted for inflation), or 18.1 percent, between fiscal years 2002 and 2013 (see Exhibit 5). These reductions began in fiscal year 2002 when higher education was asked to place \$25.0 million in general funds appropriations in reserve to assist the state with a mid-year budget deficit. In addition, public universities were required to contribute \$45.0 million that year for a portion of the cost of the state employees' group health insurance program, a practice that has continued each fiscal year since that time.⁴ Budget reductions in fiscal years 2003 and 2004 were more significant in magnitude and were followed by two fiscal years of essentially flat budgets.

Increases in state support for student financial aid (Monetary Award Program) and modest increases for public universities and community colleges helped state appropriations for higher education operations and grants rebound; however, recent declines in state revenue have once again prompted deep cuts to higher education. State appropriations for higher education operations and grants decreased by \$220.3 million, or 10.0 percent, between fiscal years 2008 and 2013. Between fiscal years 2012 and 2013, operations and grants funding decreased \$128.4 million, or 6.1 percent, when retirement funding is excluded.

These reductions are primarily attributable to the loss of federal support provided in fiscal year 2010 for public universities and community colleges through the American Recovery & Reinvestment Act of 2009 (ARRA). 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.

Exhibit 5

State Funding for Higher Education Operations and Grants Fiscal Years 2002, 2008, 2012, and 2013

(in thousands of dollars)

	FY2002 Approp.	FY2008 Approp.	FY2012 Approp.	FY2013 Approp.	FY2008 to FY2013		FY2012 to FY2013	
					Dollar Change	Percent Change	Dollar Change	Percent Change
Public Universities	\$ 1,502,910.9	\$ 1,357,067.3	\$ 1,309,715.8	\$ 1,230,092.0	\$ (126,975.3)	(9.4) %	\$ (79,623.8)	(6.1) %
Community Colleges	333,659.9	309,943.7	310,299.6	289,386.3	(20,557.4)	(6.6)	(20,913.3)	(6.7)
Grants to Colleges	331,103.5	307,799.3	308,184.1	287,400.6	(20,398.7)	(6.6)	(20,783.5)	(6.7)
ICCB Administration	2,556.4	2,144.4	2,115.5	1,985.7	(158.7)	(7.4)	(129.8)	(6.1)
Adult Education/Postsecondary Career and Technical Education Grants	39,005.3	47,765.8	50,843.4	51,323.4	3,557.6	7.4	480.0	0.9
Illinois Student Assistance Commission	423,752.3	429,204.8	406,865.0	380,629.4	(48,575.4)	(11.3)	(26,235.6)	(6.4)
Monetary Award Program (MAP)	367,528.3	381,099.8	386,680.0	371,309.4	(9,790.4)	(2.6)	(15,370.6)	(4.0)
Other Grant Programs	49,720.0	48,105.0	20,185.0	9,320.0	(38,785.0)	(80.6)	(10,865.0)	(53.8)
ISAC Administration	6,504.0	-	-	-	-	-	-	-
Grant Program	97,256.0	34,266.3	8,315.0	6,774.9	(27,491.4)	(80.2)	(1,540.1)	(18.5)
Illinois Financial Assistance Act	22,169.1	-	-	-	-	-	-	-
Health Education Grants	18,263.3	17,000.0	-	-	(17,000.0)	(100.0)	-	-
University Center of Lake County	1,025.0	2,909.0	1,000.0	1,200.0	(1,709.0)	(58.7)	200.0	20.0
Institutional Grants	55,798.6	14,357.3	7,315.0	5,574.9	(8,782.4)	(61.2)	(1,740.1)	(23.8)
Other Agencies	21,245.1	21,902.1	22,197.7	21,603.9	(298.2)	(1.4)	(593.8)	(2.7)
Illinois Mathematics and Science Academy	16,526.7	17,652.9	18,216.4	17,697.9	45.0	0.3	(518.5)	(2.8)
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	2,776.3	2,701.0	(275.0)	(9.2)	(75.3)	(2.7)
Subtotal - Institutional/Agency Ops and Grant	2,417,829.5	2,200,150.0	2,108,236.5	1,979,809.9	(220,340.1)	(10.0)	(128,426.6)	(6.1)
Retirement	235,092.3	4,740.2	754,881.2	1,252,800.0	1,248,059.8	26,329.3	497,918.8	66.0
Higher Education Total	\$ 2,652,921.8	\$ 2,204,890.2	\$ 2,863,117.7	\$ 3,232,609.9	\$ 1,027,719.7	46.6 %	\$ 369,492.2	12.9 %

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 2013, funding for the state's pensions systems totals \$1.3 billion, an increase of \$497.9 million, or 66.0 percent over fiscal year 2012. Between fiscal years 2008 and 2013, funding for the state's pension system has increased \$1.0 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. Overall, state support for public university operations is 7.8 percent less in fiscal year 2013 than in fiscal year 2008, unadjusted for inflation, bringing state support for public university operations to the lowest level in over ten years.

Exhibit 6

State General Funds Support for Public Universities Fiscal Years 2002, 2008, 2012, and 2013

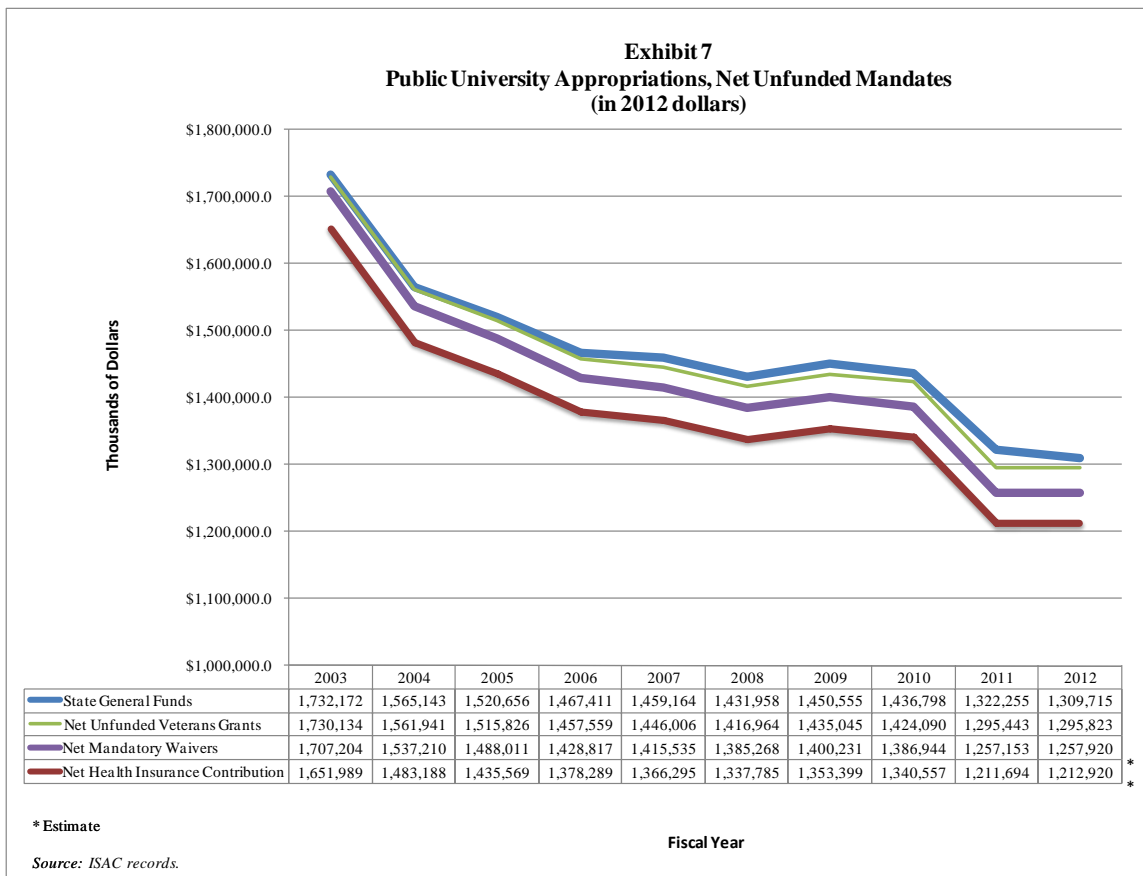
(in thousands of dollars)

Institution	FY2002 Approp.	FY2008 Approp.	FY2012 Approp.	FY2013 Approp.	FY2008 to FY2013		FY2012 to FY2013	
					Dollar Change	Percent Change	Dollar Change	Percent Change
Chicago State University	\$ 44,027.4	\$ 41,160.0	\$ 39,255.2	\$ 36,805.6	\$ (4,354.4)	(10.6) %	\$ (2,449.6)	(6.2) %
Eastern Illinois University	55,274.3	48,282.8	46,869.2	44,041.1	(4,241.7)	(8.8)	(2,828.1)	(6.0)
Governors State University	28,045.9	27,673.8	26,253.4	24,650.5	(3,023.3)	(10.9)	(1,602.9)	(6.1)
Illinois State University	93,384.7	81,457.5	78,874.4	74,082.4	(7,375.1)	(9.1)	(4,792.0)	(6.1)
Northeastern Illinois University	45,396.8	40,026.3	40,228.5	37,807.6	(2,218.7)	(5.5)	(2,420.9)	(6.0)
Northern Illinois University	118,176.2	103,927.1	99,576.2	93,470.2	(10,456.9)	(10.1)	(6,106.0)	(6.1)
Western Illinois University	65,047.8	57,213.4	55,538.3	52,147.8	(5,065.6)	(8.9)	(3,390.5)	(6.1)
<u>Southern Illinois University</u>	<u>249,933.1</u>	<u>223,159.2</u>	<u>218,231.5</u>	<u>204,693.8</u>	<u>(18,465.4)</u>	<u>(8.3)</u>	<u>(13,537.7)</u>	<u>(6.2)</u>
<u>University of Illinois</u>	<u>803,624.7</u>	<u>710,630.5</u>	<u>704,889.1</u>	<u>662,393.0</u>	<u>(48,237.5)</u>	<u>(6.8)</u>	<u>(42,496.1)</u>	<u>(6.0)</u>
Total, Public Universities	\$ 1,502,910.9	\$ 1,333,530.6	\$ 1,309,715.8	\$ 1,230,092.0	\$ (103,438.6)	(7.8) %	\$ (79,623.8)	(6.1) %

Changes in state support to public universities have been similar across the board. The percentage variation is due primarily to the effects of legislative initiatives on relatively small funding bases. Only Northeastern Illinois University and the University of Illinois have experienced less than an 8.0 percent decrease in state support compared to fiscal year 2008 levels. Differences across institutions in state support between fiscal years 2012 and are attributed to the implementation of performance based funding to allocate a small percentage of total institutional funds.

As shown in Exhibit 7, in addition to reduced state support for public universities over the past decade, public universities have been asked to share an increasing burden of the cost for unfunded state mandates. As was previously mentioned, public universities have contributed \$45.0 million annually for the costs of group health insurance since fiscal year 2002. The Illinois

Veteran (IVG) and Illinois National Guard (ING) grants, administered by ISAC, pay for tuition and mandatory fees at Illinois public universities and community colleges for qualified veterans. Both grant programs are tuition and fee waivers, meaning that public colleges and universities must waive tuition and fees – although through the IVG and ING programs, ISAC reimbursed institutions for tuition and fee charges. Since fiscal year 2001, appropriations from ISAC have failed to fully reimburse public colleges and universities for the cost of waived tuition and fees for qualified veterans, thus leaving public colleges and universities to make up the difference. In fiscal year 2012, no funding was appropriated for IVG and ING leaving public colleges and universities without reimbursement for waiving tuition charges. State law also provides several other mandatory tuition waivers for qualifying individuals. Public universities waive the collection of tuition and mandatory fees – thus realizing a loss of tuition revenue from these students.



In 2003, the General Assembly and the Governor passed Public Act 93-0229, which requires public universities to submit to the IBHE detailed expenditure and revenue information for all activities. This data provides a valuable supplement to other financial information collected by the IBHE. The information is published annually by the IBHE in the *Annual Report on Public University Revenues and Expenditures* (fiscal year 2012 revenue and expenditure data are due in October 2012). Exhibits 8 and 9 illustrate the impact of recent reductions in state support on other revenues and expenditures. As shown in Exhibit 8, educational and related revenues (i.e., revenues from state appropriations and university income funds) increased 14.1 percent, from \$2.53 billion to \$2.89 billion, or \$356.5 million, between fiscal year 2006 and fiscal year 2011 after accounting for inflation, while non-appropriated funds (which are mostly restricted to uses other than educational and related expenses) increased \$539.6 million, or 16.9

percent. However, revenue from state appropriations declined by over \$140.8 million in inflation-adjusted terms while university income fund revenue – which is primarily from tuition – increased by \$497.3 million.

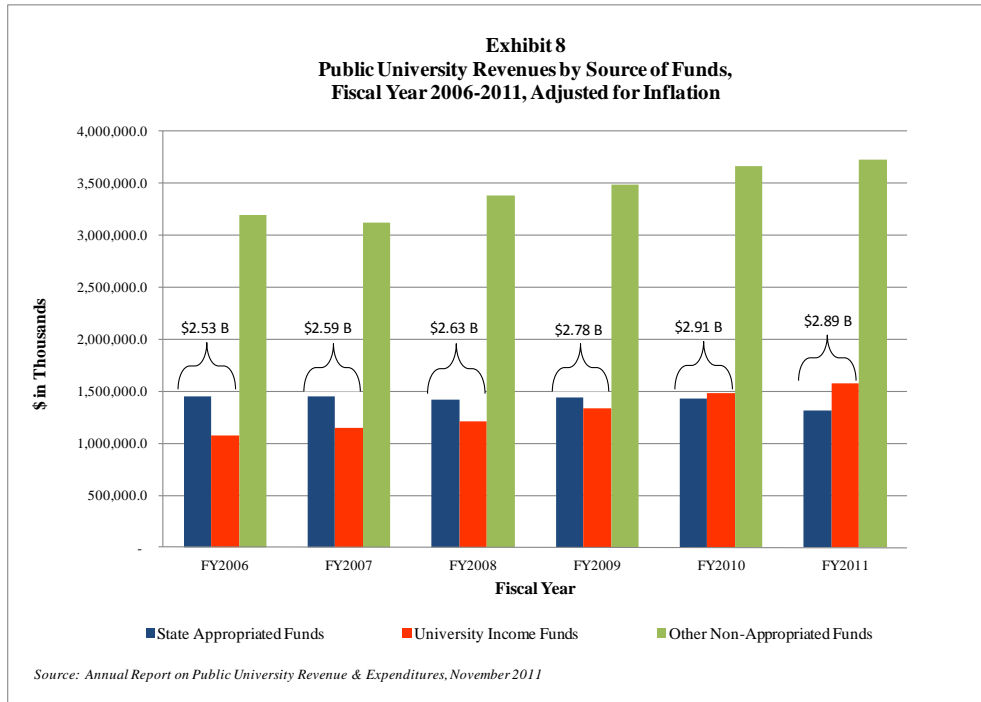
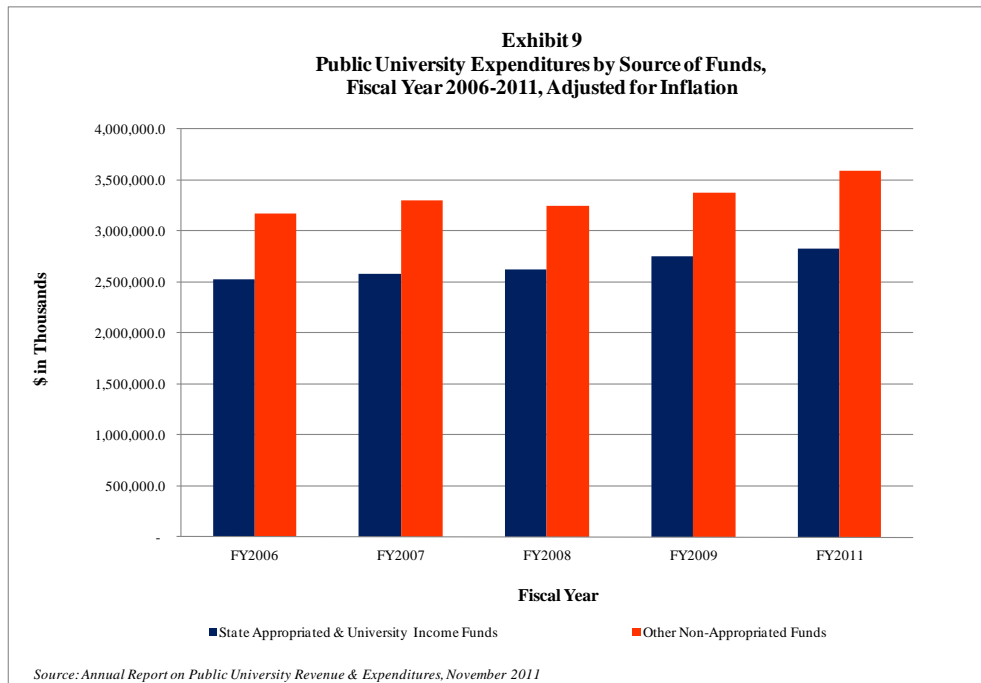


Exhibit 9 illustrates changes in public university expenditures by source of funds. Public university expenditures from state appropriations and university income funds increased 11.8 percent between fiscal years 2006 through 2011 after accounting for inflation while expenditures from other non-appropriated funds increased by 13.2 percent.



Community Colleges. Exhibit 10 presents state general funds support for community college grants and programs, which has decreased \$20.4 million, or 6.6 percent, since fiscal year 2008. Appropriations for base operating grants, the largest of the unrestricted grant programs at community colleges, decreased 3.3 percent between fiscal year 2008 and 2013. Fiscal year 2013 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, 2008, 2012, and 2013

	FY2002 Approp.	FY2008 Approp.	FY2012 Approp.	FY2013 Approp.	FY2008 - FY2013		FY2012 - FY2013	
					Dollar Change	Percent Change	Dollar Change	Percent Change
Grants to Colleges								
Base Operating Grants	\$ 193,775.0	\$ 197,818.0	\$ 198,811.0	\$ 191,271.9	\$ (6,546.1)	(3.3) %	\$ (7,539.1)	(3.8) %
Grant to City Colleges of Chicago	-	15,000.0	15,000.0	14,079.0	(921.0)	(6.1)	(921.0)	(6.1)
Small College Grants	900.0	840.0	660.0	550.0	(290.0)	(34.5)	(110.0)	(16.7)
Equalization Grants	77,391.5	77,383.7	77,113.0	75,570.8	(1,812.9)	(2.3)	(1,542.2)	(2.0)
Performance Based Funding	-	-	-	360.0	360.0	-	360.0	-
Performance Based Initiative	2,000.0	-	-	-	-	-	-	-
Workforce Development Grants	19,317.0	3,311.3	3,311.3	-	(3,311.3)	(100.0)	(3,311.3)	(100.0)
Advanced Technology Grants	14,607.0	-	-	-	-	-	-	-
P-16 Initiative Grants	1,500.0	2,779.0	-	-	(2,779.0)	(100.0)	-	-
Retirees Health Insurance Grant	735.0	626.6	626.6	-	(626.6)	(100.0)	(626.6)	(100.0)
Special Populations/Student Success Grant	13,260.0	-	-	-	-	-	-	-
Deferred Maintenance Grants	3,500.0	-	-	-	-	-	-	-
Subtotal	\$ 326,985.5	\$ 297,758.6	\$ 295,521.9	\$ 281,831.7	\$ (15,926.9)	(5.3) %	\$ (13,690.2)	(4.6) %
Other Grants								
Lincoln's Challenge	125.0	120.1	61.6	61.6	(58.5)	(48.7)	-	-
East St. Louis Higher Ed. Center	2,200.0	1,589.1	1,589.1	1,491.5	(97.6)	(6.1)	(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	7,261.5	750.0	(6,511.5)	(89.7)	(6,511.5)	(89.7)
College and Career Readiness Pilot Program	-	750.0	750.0	-	(750.0)	(100.0)	(750.0)	(100.0)
Re-Enrollment Student Program	-	-	3,000.0	3,065.8	3,065.8	-	65.8	2.2
Designated Grants	-	320.0	-	200.0	(120.0)	(37.5)	200.0	-
Subtotal	\$ 4,118.0	\$ 10,040.7	\$ 12,662.2	\$ 5,568.9	\$ (4,471.8)	(44.5) %	\$ (7,093.3)	(56.0) %
Total	\$ 331,103.5	\$ 307,799.3	\$ 308,184.1	\$ 287,400.6	\$ (20,398.7)	(6.6) %	\$ (20,783.5)	(6.7) %

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.

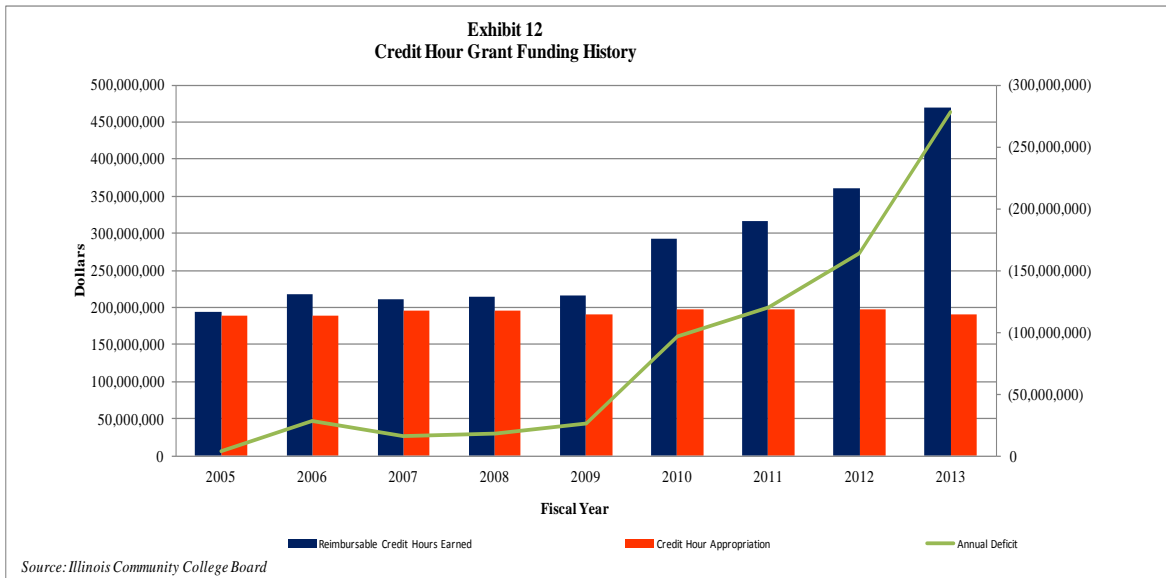
Exhibit 11
Community College Appropriations, Net Unfunded Mandates
(in FY 2012 dollars)

(dollars in thousands)

<u>Fiscal Fiscal Year</u>	<u>State General Funds</u>	<u>Net Unfunded Veterans Grants</u>
2003	392,456.7	390,773.9
2004	352,421.4	349,972.9
2005	348,933.5	345,250.5
2006	337,289.2	332,100.3
2007	334,880.9	329,018.2
2008	327,048.3	326,723.8
2009	320,392.0	320,308.4
2010	316,799.2	313,786.6
2011	310,462.6	305,976.9
2012	307,326.9	306,564.8 *

* Estimated
Source: ISAC records.

Base operating grants provide reimbursement to community college districts based on credit hours generated in six funding categories. At full funding, colleges are reimbursed at a calculated credit hour rate for instruction in each of the six funding categories; however, as Exhibit 12 illustrates, the state appropriation has not equaled the system's needs, so the credit hour reimbursement rate has been adjusted downward. A reduction in reimbursable credit hours combined with an increase in the state appropriation led to a reduction in the annual deficit in fiscal year 2007; however, since that time the state appropriation has remained relatively unchanged and the number of credit hours has continued to rise, resulting in an increase in the annual deficit. In fiscal year 2013, an estimated increase in reimbursable credit hours of over 108,000 will lead to a record deficit estimated at over \$278.0 million.



The Equalization Grant is designed to assure that community college districts with a limited tax base have access to the funds necessary to support educational programs. A threshold, or foundation, of expected local property tax revenues per student is the basis of equalization funding; any community college district below the threshold is eligible for an equalization grant. As with funding for base operating grants, funding for equalization grants has failed to keep pace with the calculated need and the equalization formula has been prorated. As illustrated by Exhibit 13, funding for the equalization formula has remained relatively unchanged while equalization formula calculations have continued to rise and the annual funding deficit has grown. In fiscal year 2013 equalization grants are underfunded by an estimated 55.7 percent, resulting in a deficit of \$95.2 million.

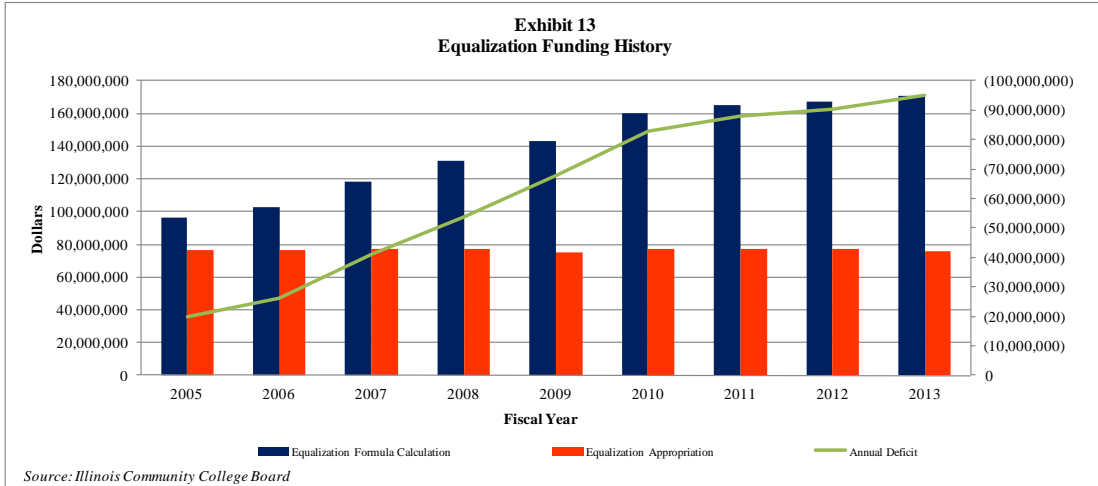
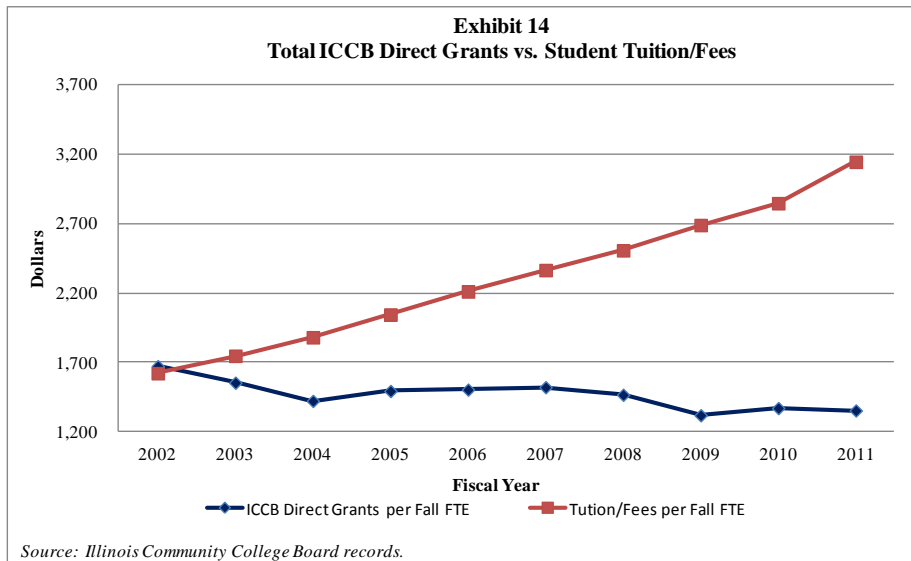


Exhibit 14 demonstrates the relationship between state appropriations and tuition and fees at community colleges. As illustrated by the exhibit, direct grants per full-time equivalent (FTE) student at community colleges declined rapidly between fiscal years 2002 and 2004, and from fiscal year 2004 to fiscal year 2007 increased very slightly. Since fiscal year 2007, direct grants per FTE have once again declined to historical lows in fiscal year 2009 followed by a slight rebound in fiscal year 2010 and little change in fiscal year 2011. Since fiscal year 2002, as state support declined, so began a steady yearly increase in student tuition and fees.



Student Aid. Exhibit 15 includes appropriations to the major grant programs administered by the Illinois Student Assistance Commission. The total fiscal year 2013 appropriation of \$380.6 million is a decrease of \$48.6 million, or 11.3 percent, from fiscal year 2008, largely due to recent cuts in state funding for need-based financial aid (Monetary Award Program) and the elimination several grant programs. The fiscal year 2013 appropriation is \$26.2 million less than fiscal year 2012 because of a reduction in MAP funding and the elimination of funding for the Illinois Veterans Grant (IVG) and Illinois National Guard Grant (ING) programs.

Exhibit 15
State Funding Support for Illinois Student Assistance Commission Programs
Fiscal Years 2002, 2008, 2012, and 2013

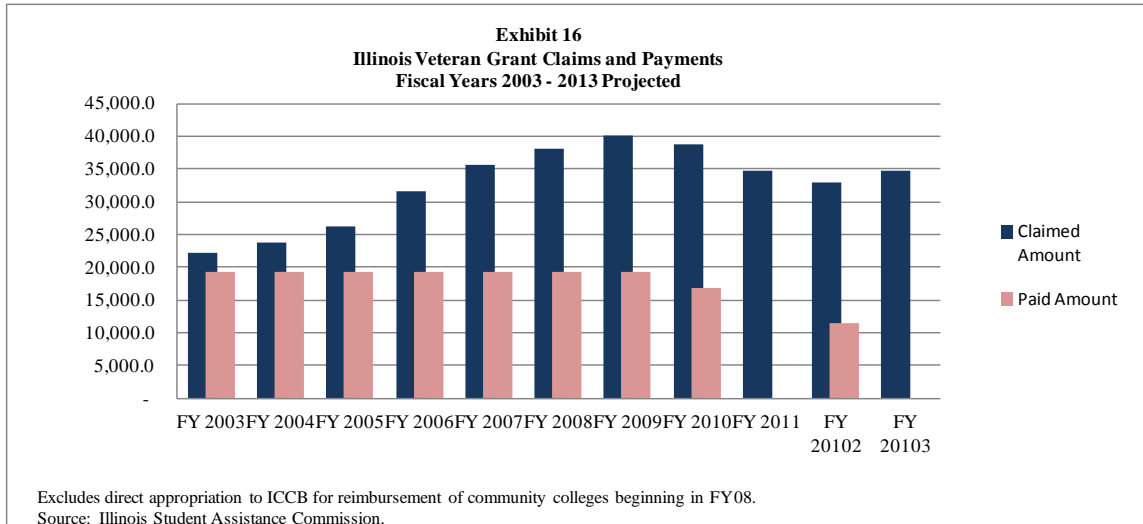
(in thousands of dollars)

	FY2002 Approp.	FY2008 Approp.	FY2012 Approp.	FY2013 Approp.	FY2008 to FY2013		FY2012 to FY2013	
					Dollar Change	Percent Change	Dollar Change	Percent Change
Illinois Student Assistance Commission								
Monetary Award Program (MAP)	\$ 367,528.3	\$ 381,099.8	\$ 386,680.0	\$ 371,309.4	\$ (9,790.4)	(2.6) %	\$ (15,370.6)	(4.0) %
Silas Purnell Illinois Incentive for Access	7,200.0	8,200.0	-	-	(8,200.0)	(100.0)	-	-
Illinois Veteran Grants	20,000.0	19,250.0	6,000.0	-	(19,250.0)	(100.0)	(6,000.0)	(100.0)
National Guard Grants	4,500.0	4,480.0	4,400.0	-	(4,480.0)	(100.0)	(4,400.0)	(100.0)
Other Grant Programs	18,020.0	16,175.0	9,785.0	9,320.0	(6,855.0)	(42.4)	(465.0)	(4.8)
ISAC Administration	6,504.0	-	-	-	-	-	-	-
Total	\$ 423,752.3	\$ 429,204.8	\$ 406,865.0	\$ 380,629.4	\$ (48,575.4)	(11.3) %	\$ (26,235.6)	(6.4) %

For fiscal year 2013, the General Funds budget for MAP totals \$371.3 million, a decrease of \$15.4 million, or 4.0 percent. When other sources of funding are included, total MAP funds decrease \$52.9 million, or 12.5 percent, below FY 2012. The reduction reflects the loss of \$33.5 million in one-time revenue from the Student Loan Operating Fund as well as the loss of \$4.0 million in federal LEAP funds.

The decrease in funding resulted in the suspension of MAP awards on March 20, 2012, the earliest suspension date since the creation of the MAP program. As of September 6, 2012, ISAC has suspended 137,974 eligible MAP applications. In total, ISAC estimates approximately 166,300 eligible MAP applications, of which 118,200 are from community college students, will go unfunded because of the suspension date.

Exhibit 15 also reflects a significant decrease in funding for ISAC's other scholarship and grant programs, as well as the elimination of state support for agency administration. One program particularly hard hit is the Illinois Veterans Grant (IVG) program, which experienced a reduction in state funding from \$19.25 million in fiscal year 2009 to \$6.0 million in fiscal year 2012 (with no funding in fiscal year 2011). In fiscal year 2013, funding for both the IVG and Illinois National Guard (ING) programs is 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 on the following page, 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, payments by ISAC have declined. Without an appropriation in fiscal year 2013 for the IVG program, colleges and universities will waive over \$34.6 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 66.9 percent in fiscal year 2002 to 41.1 percent in fiscal year 2012.

Exhibit 17
MAP Historical Award Summary
FY 2002 - FY 2012

Academic Year	Maximum Award	Effective Award *	Mean Award	# of Announced Eligible Awards	% of Eligible Awards Paid
2001-2002	\$4,968	--	\$2,646	210,299	66.9%
2002-2003	\$4,968	\$4,720	\$2,539	214,179	61.6%
2003-2004	\$4,968	\$4,471	\$2,355	236,631	59.5%
2004-2005	\$4,968	\$4,471	\$2,198	241,024	62.5%
2005-2006	\$4,968	\$4,521	\$2,365	236,168	62.2%
2006-2007	\$4,968	--	\$2,613	236,306	62.1%
2007-2008	\$4,968	--	\$2,637	239,455	60.8%
2008-2009	\$4,968	--	\$2,662	259,333	55.6%
2009-2010	\$4,968	--	\$2,762	314,198	45.0%
2010-2011	\$4,968	\$4,844	\$2,740	351,188	40.2%
2011-2012	\$4,968	\$4,720	\$2,599	369,674	41.1%

* reduction factor applied to awards

Source: *Data Book*, Illinois Student Assistance Commission

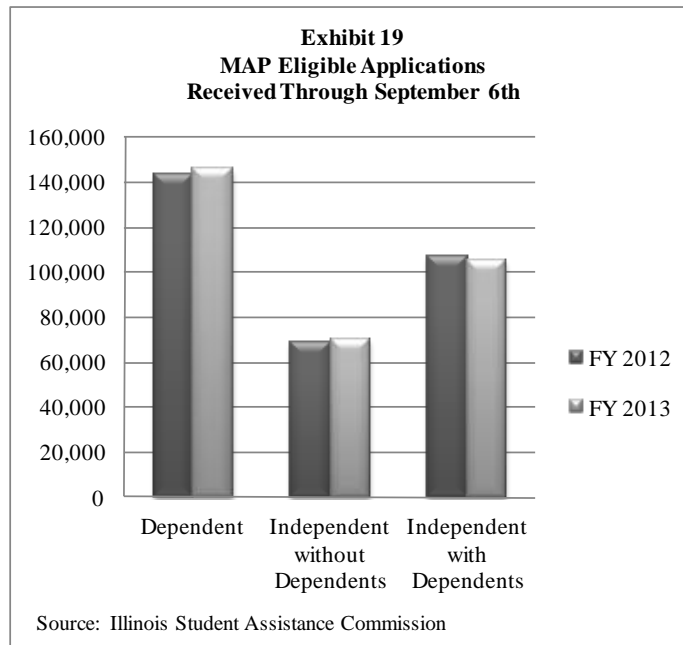
Exhibit 18 provides a breakout of the numbers of MAP-eligible applications by sectors that were received through September 6, 2012. Community colleges had the largest increase in the number and percentage while proprietary institutions had a significant decrease in the number and percentage of MAP-eligible 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, 2012, independent students without dependents had the largest increase in MAP-eligible applications, 1.6 percent over fiscal year 2012. The increase of eligible applications received through the same time was 1.3 percent for dependent students. MAP-eligible applications from independent students without dependents fell 1.3 percent below fiscal year 2012.



Institutional Grants and Higher Education Agencies. Exhibit 20 shows that institutional grant programs administered by the IBHE have declined approximately 80.2 percent since fiscal year 2008. Many programs are no longer funded by the state, including the Illinois Financial Assistance Act Grants, State Matching Grants, Engineering Equipment Grants, Higher Education Cooperation Act Grants, and Health Service Education Act Grants. Two of these grant programs, the Illinois Financial Assistance Act Grants and Health Service Education Act Grants, benefited independent colleges and universities exclusively.

One notable exception to the enduring reductions experienced by higher education since fiscal year 2008 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, 2008, 2012, and 2013

(in thousands of dollars)

	FY2002 Approp.	FY2008 Approp.	FY2012 Approp.	FY2013 Approp.	FY2008 to FY2013		FY2012 to FY2013		
					Dollar Change	Percent Change	Dollar Change	Percent Change	
Institutional Grant Programs									
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	2,909.0	1,000.0	1,200.0	(1,709.0)	(58.7)	200.0	20.0	
Quad Cities Graduate Study Center	220.0	220.0	65.0	83.9	(136.1)	(61.9)	18.9	29.1	
Diversifying Higher Education Faculty in Illinois	2,000.0	2,800.0	1,640.0	1,740.0	(1,060.0)	(37.9)	100.0	6.1	
Competitive Nursing School Grants	-	1,000.0	880.0	425.0	(575.0)	(57.5)	(455.0)	(51.7)	
Nurse Educator Fellowships	-	150.0	180.0	163.1	13.1	8.7	(16.9)	(9.4)	
International Center on Deafness and the Arts	-	300.0	-	-	(300.0)	(100.0)	-	-	
Illinois Education Foundation	-	250.0	-	-	(250.0)	-	-	-	
Access and Diversity, HECA Grants	7,084.6	3,787.3	-	-	(3,787.3)	(100.0)	-	-	
Health Services Education Grants	18,263.3	17,000.0	-	-	(17,000.0)	(100.0)	-	-	
State Matching Grants	10,000.0	-	-	-	-	-	-	-	
Integrated Student Information Systems	-	-	-	-	-	-	-	-	
STEM Diversity Grants	-	1,000.0	590.0	840.0	(160.0)	-	250.0	42.4	
u.Select System	-	-	230.0	208.4	208.4	-	(21.6)	(9.4)	
Advanced Photon Source	3,000.0	-	-	-	-	-	-	-	
Engineering Equipment Grants	2,800.0	-	-	-	-	-	-	-	
Medical Scholarship Program (IDPH)*	3,445.0	2,750.0	-	-	(2,750.0)	(100.0)	-	-	
Cooperative Work Study Grants	2,100.0	2,100.0	1,230.0	1,114.5	(985.5)	(46.9)	(115.5)	(9.4)	
Grow Your Own Teacher **	-	-	2,500.0	1,000.0	1,000.0	-	(1,500.0)	(60.0)	
State Geological Survey	1,600.0	-	-	-	-	-	-	-	
Career Academies	675.0	-	-	-	-	-	-	-	
Workforce and Econ. Development, HECA Grant	3,319.0	-	-	-	-	-	-	-	
Teaching, Learning, and Quality, HECA Grants	3,480.0	-	-	-	-	-	-	-	
Total	\$ 97,256.0	\$ 34,266.3	\$ 8,315.0	\$ 6,774.9	\$ (27,491.4)	(80.2) %	\$ (1,540.1)	(18.5) %	
Agencies/Other Institutions									
Illinois Mathematics and Science Academy	\$ 16,526.7	\$ 17,652.9	\$ 18,216.4	\$ 17,697.9	\$ 45.0	0.3 %	\$ (518.5)	(2.8) %	
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	2,776.3	2,701.0	(275.0)	(9.2)	(75.3)	(2.7)	

* Medical Scholarship Program transferred to the Illinois Department of Public Health in FY 2009
** Grow Your Own Teacher transferred from the Illinois State Board of Education in FY 2011

Capital Improvement Funding Trends

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

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. 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. It is worth noting, however, that in FY 2013 the General Assembly did not increase bond authorization limits for K-12 or higher education capital projects. As a result, capital releases in FY 2013 may be limited due to this lack of sufficient bond authorization. The increased cost of borrowing, which comes as a result of the Standard & Poor's downgrading of Illinois' credit rating, could also hinder capital funding releases in the near term. 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 2008 - Fiscal Year 2013

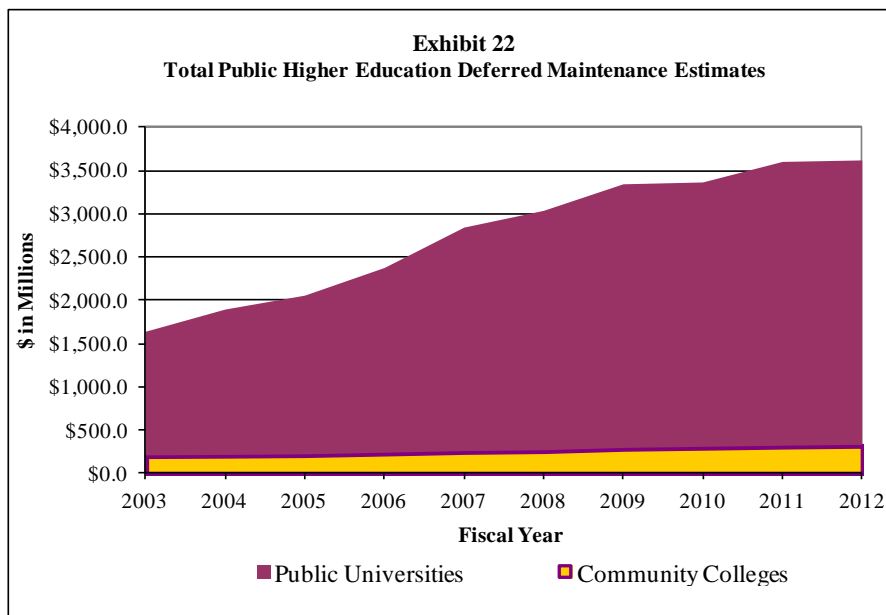
(in thousands of dollars)

Fiscal Year	Requests Submitted to IBHE	IBHE Recommendation	Final Appropriations
2008	1,782,380.8	607,745.3	-
2009	1,972,707.5	805,815.7	-
2010	2,302,549.2	890,713.7	1,638,475.3
2011	1,941,166.5	+	-
2012	2,306,732.0	1,463,095.6	-
2013	2,330,033.0	1,553,854.0	-

+ 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 on the following page, the backlog in deferred facilities maintenance at public universities and community colleges was estimated to be over \$3.6 billion in fiscal year 2012, an increase of \$2.0 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. Nearly all states are once again facing difficult financial choices as a result of declining revenues, and higher education funding is being cut dramatically in many states.

Exhibit 23 shows that the changes in state operating support for higher education in nine Midwestern states (including Illinois) and all states combined. Most Midwestern states have fared worse than all states combined over the past decade. However, Illinois (as a result of funding for SURS) has experienced higher growth in state support than the Midwest and national average. State support in Exhibit 23 includes all operating appropriations of state tax funds (not expenditures) for higher education institutions, agencies, and financial aid, plus expenditures made on behalf of higher education by other agencies (for example, state group health insurance). Appropriations made to the State Universities Retirement System (SURS) are included in the Illinois figures and account for much of the variation in fiscal years 2007 through 2012. Since fiscal year 2007, appropriations to SURS have increased over \$1.1 billion. Revised fiscal year 2012 appropriations and fiscal year 2013 appropriations should be available by January 1, 2013.

Exhibit 23

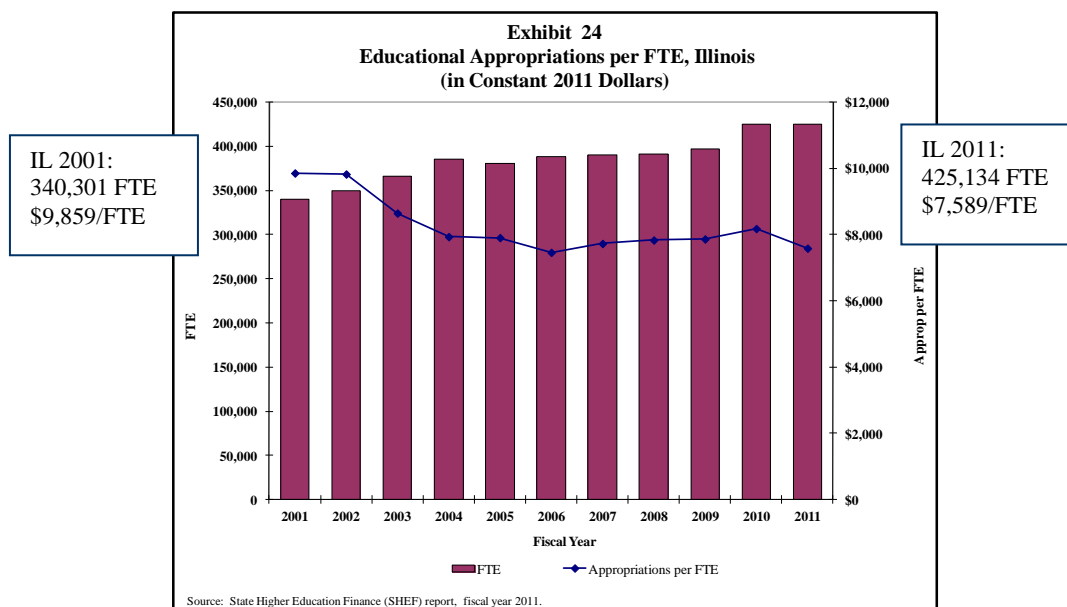
**State Support for Higher Education
Nine Midwestern States and All States for Fiscal Years 2002 through 2012
(In Thousands of Current Dollars)**

States	2002	2007	2010 ¹	2011 ¹	2012 ¹	1-yr Change	2-yr Change	5-yr Change	10-yr Change
Illinois	2,904,184	2,848,130	3,385,243	3,200,025	3,585,962	12.1%	5.9%	25.9%	23.5%
Indiana	1,283,197	1,456,514	1,595,424	1,564,731	1,549,460	-1.0%	-2.9%	6.4%	20.7%
Iowa	851,182	804,449	863,776	758,712	739,052	-2.6%	-14.4%	-8.1%	-13.2%
Kentucky	1,001,625	1,253,992	1,284,580	1,279,424	1,235,422	-3.4%	-3.8%	-1.5%	23.3%
Michigan	2,234,157	2,035,388	1,905,704	1,869,659	1,641,659	-12.2%	-13.9%	-19.3%	-26.5%
Minnesota	1,394,137	1,400,500	1,563,382	1,381,065	1,283,690	-7.1%	-17.9%	-8.3%	-7.9%
Missouri	959,402	978,772	1,085,179	1,000,998	930,090	-7.1%	-14.3%	-5.0%	-3.1%
Ohio	2,181,991	2,208,184	2,277,952	2,282,711	2,013,797	-11.8%	-11.6%	-8.8%	-7.7%
Wisconsin	1,170,122	1,170,359	1,247,697	1,330,088	1,153,559	-13.3%	-7.5%	-1.4%	-1.4%
Midwest Totals	13,979,997	14,156,288	15,208,938	14,667,413	14,132,690	-3.6%	-7.1%	-0.2%	1.1%
National Totals	62,820,114	73,742,207	78,239,457	78,390,541	72,543,813	-7.5%	-7.3%	-1.6%	15.5%

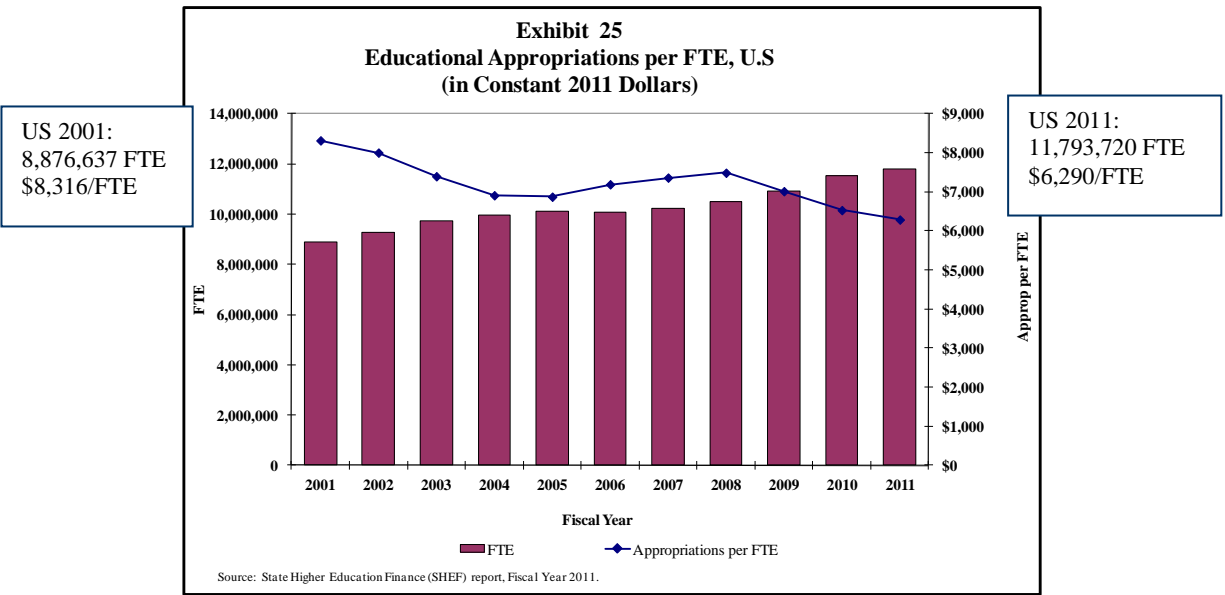
¹ Includes Federal Stimulus Monies under the American Recovery and Reinvestment Act of 2009 (Education Stabilization & Government Services f Education Stabilization Funds used to restore the level of state support for public higher education. Government Services Funds exclude funds used for modernization,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

Source: FY2012 Grapevine 50-State Summary, Illinois State U. Center for the Study of Education Policy

Exhibits 24 and 25, created from data collected by the State Higher Education Executive Officers for its annual *State Higher Education Finance* report, show recent state and local appropriations for public higher education on a full-time-equivalent (FTE) student basis adjusted for inflation.⁵ Appropriations per FTE declined in Illinois at a slower rate than in the nation as a whole between fiscal years 2001 and 2011. Illinois’ appropriations per FTE continue to be above the national average; however, enrollment growth over that period is much less than enrollment growth nationally.



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



Another interesting national comparison that demonstrates the effect of recent funding trends in Illinois higher education comes from the Delta Cost Project. The Delta Cost Project looks specifically at trends in educational and related (E&R) costs – instruction, student services, administration, and facility maintenance – borne by the student (tuition) and state (general funds subsidy). Figure 26 compares E&R costs per student to student performance. With the exception of public research institutions, increases between academic years 2004 and 2009 in education and related costs per FTE student have been below national averages. However, increases in the student share of education and related costs have exceeded national averages, particularly at public research and master’s institutions. For academic year 2009, education and related spending per completion is lower at public master’s institutions and community colleges in Illinois than the national average.

Exhibit 26

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

	Illinois				United States			
	Public Research	Public Master's	Public Bachelor's	Community Colleges	Public Research	Public Master's	Public Bachelor's	Community Colleges
Education and related costs per FTE student								
2009	\$18,725	\$14,800	n/a	\$8,060	\$15,919	\$12,363	\$13,235	\$10,242
Change from 2004-2009	15%	-6%	n/a	-4%	12%	9%	8%	7%
Net tuition share of education and related costs								
2009	53%	48%	n/a	32%	52%	49%	44%	32%
Percentage-point change from 2004-2009	10	16	n/a	6	3	4	3	2
Instruction share of education and related costs								
2009	60%	57%	n/a	46%	62%	51%	48%	50%
Percentage-point change from 2004-2009	1	2	n/a	-2	-1	-1	-1	-1
Completions per 100 FTE students								
2009	27	32	n/a	29	25	24	20	26
Change from 2004-2009	1	2	n/a	4	1	1	1	1
Education and related spending per completion								
2009	\$68,082	\$49,889	n/a	\$33,439	\$64,179	\$54,167	\$68,393	\$46,759
Change from 2004-2009	12%	-14%	n/a	-16%	8%	4%	2%	-2%

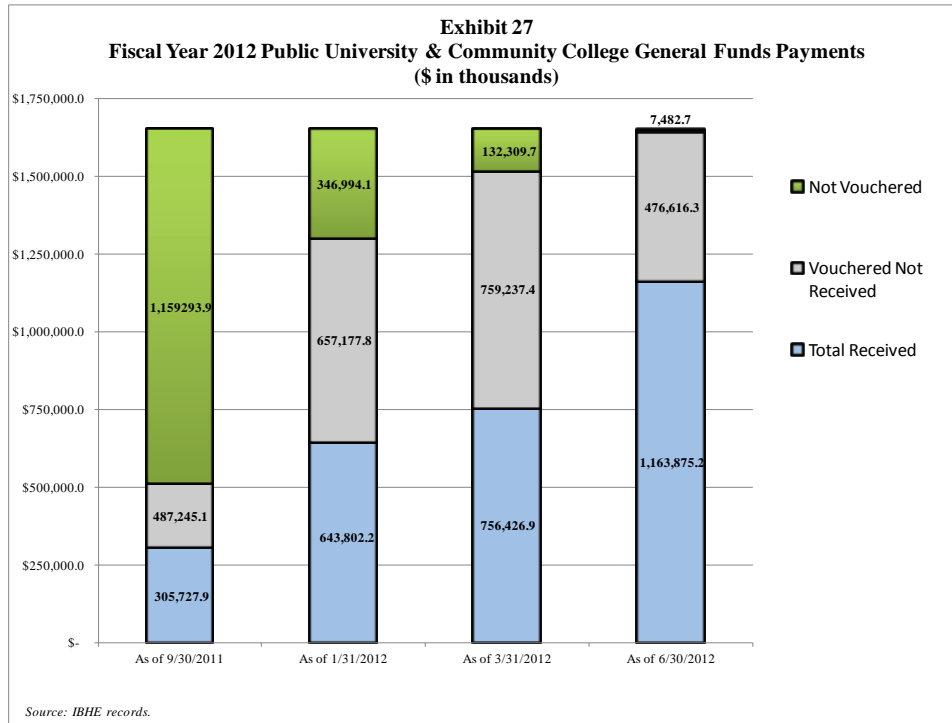
Delta Cost Project IPEDS State Database, 2004-2009.

Fiscal Context

On June 30, 2012, the Governor took action on the fiscal year 2013 state budget totaling approximately \$33.7 billion in general funds. The Governor vetoed \$57.0 million from the budget passed by the General Assembly. These reductions focused on the closure and consolidation of 57 state facilities in order to improve government efficiency.

Anyone involved in or funded by state government is aware that the fiscal context in Illinois has been extremely challenging in recent years. The July edition of *The Illinois State Comptroller's Quarterly* reported that the state's massive backlog of unpaid bills remains despite an increase of \$2.3 billion in base revenues for fiscal year 2012. At the end of June 2012, the backlog of unpaid bills in the Comptroller's Office stood at \$3.7 billion, compared to \$3.8 billion last year. According to the Comptroller's Office, Illinois had roughly \$7.5 to \$8.0 billion in unaddressed fiscal year 2012 obligations including: \$3.7 billion in unpaid bills submitted to the Comptroller's office, approximately \$3.5 billion in unpaid Medicaid and state employee health insurance bills, and \$100 million in due to be repaid to other state funds for previous borrowing.

While the backlog of unpaid bills at the Comptroller's office is slightly lower than the \$8.5 billion of the last two fiscal years, it is unlikely to fall dramatically over the next 12 months. In fact, payment delays to public universities and community colleges could get worse in fiscal year 2013 as the Educational Assistance Fund (which supports payments to public universities and the university retirement system) continues to be over-appropriated. Fiscal year 2013 appropriations from the Educational Assistance Fund (EAF) exceed last year's level, even with a significant backlog currently in the fund. Legislation authorized the transfer of monies from GRF to EAF in fiscal year 2012 and 2013; however, GRF also has a cash flow problem making the transfer difficult. Exhibit 27 illustrates fiscal year 2012 payments to public universities and communities. As of June 30, 2012, public universities were owed a total of \$378.6 million and community colleges were owed \$98.0 million.



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 20112 - 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.

The tax rate increases and improved consumer spending combined to increase state revenue in fiscal year 2012. The Commission on Government Forecasting and Accountability’s (CGFA) June 2012 *Monthly Briefing* reported that fiscal year 2012 general funds revenue grew \$3.3 billion, or 10.9 percent, above fiscal year 2011. Fiscal year 2012 marks the second consecutive year of general funds revenue growth.

Looking forward, strong performance of the larger economic sources in fiscal year 2012 does not automatically translate into continued fiscal year 2013 strength. According to the CGFA, “uncertainties over U.S. fiscal policy, Euro Zone fiscal policy, pending expiration of the ‘Bush Tax Cuts’, and the outcome of the fall elections are all conspiring to hold down [revenue] expectations.” CGFA estimates modest overall personal income tax revenue growth of 1.0 percent – in part due to the timing of the tax increase that artificially increased fiscal year 2012 revenue growth. Corporate income tax receipts are expected to increase 6.8 percent, while sales tax receipts are also expected to increase 2.5 percent. According to CGFA, overall state tax revenue is estimated to increase \$193.0 million, or 0.6 percent.

Exhibit 28 provides actual revenues to the general funds for fiscal years 2004 through 2012 and estimated fiscal year 2013 revenues based on CGFA’s February 2012 estimate of revenues for fiscal year 2013 and June 2012 year-end revenue report for fiscal year 2012.

Exhibit 28
General Funds Revenues
Fiscal Years 2004 through 2013

(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>
State Taxes	19,255	20,508	21,818	23,078	24,152	22,343	20,494	24,422	30,187	30,305
\$ Increase	1,181	1,253	1,310	1,260	1,074	(1,809)	(1,849)	3,928	5,765	118
% Increase	6.5%	6.5%	6.4%	5.8%	4.7%	-7.5%	-8.3%	19.2%	23.6%	0.4%
General Funds*	25,428	26,160	27,359	28,640	29,659	29,144	27,090	30,488	33,797	33,990
\$ Increase	2,642	732	1,199	1,281	1,019	(515)	(2,054)	3,398	3,309	193
% Increase	11.6%	2.9%	4.6%	4.7%	3.6%	-1.7%	-7.0%	12.5%	10.9%	0.6%

* 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 - *FY2013 Economic Forecast & Revenue Estimate and FY2012 Revenue Update*, February 2012 and *Monthly Briefing*, June 2012.

Although it is early in the state’s fiscal year 2014 budget development process, the major spending pressures impacting the state budget in recent years will continue to play a significant role in budget deliberations among the Governor, General Assembly, and others next spring, and they will likely be compounded by a continued backlog of unpaid bills. These perennial spending pressures include funding for Medicaid; other healthcare programs, including the State Employees’ Group Insurance program; K-12 education; and the state retirement systems, which will require an estimated \$300.8 million increase in employer contributions for fiscal year 2014 to

continue on the 50-year funding program established by Public Act 88-0593.⁶ Nearly \$53.2 million of the estimated \$300.8 million is for the State Universities Retirement System. Recent trends in program cost increases, service levels, and other factors in each of these areas suggest that they will once again have the potential to place significant demands on existing state revenues, not to mention predicted revenue growth that may occur in fiscal year 2014.

Fiscal Year 2014 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.*

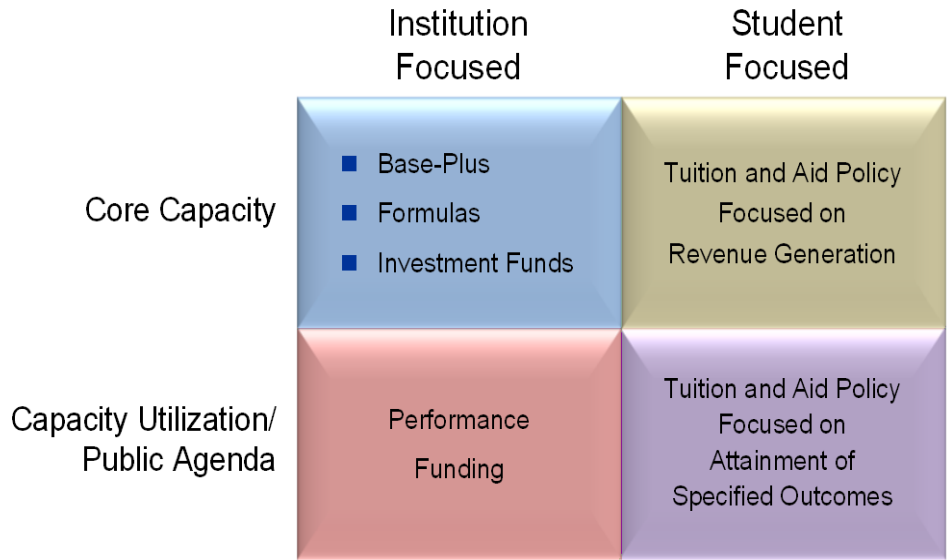
⁶ Commission on Government Forecasting & Accountability, *Pensions: Report on the Financial Condition Of Illinois State Retirement Systems*, March 2012, pages 95 and 98.

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, P.A. 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 29) for understanding how finance policy can be directed toward meeting strategic goals.

Exhibit 29: 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 which met throughout the summer and fall of 2011 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 differentiated missions of institutions of higher education. The implementation of a performance funding model for Illinois higher education is progressive and will adapt over time to the state’s evolving fiscal climate. However, 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 2013 budget approved by the General Assembly 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 the reallocation of \$360,000 for performance funding to community colleges.

Throughout the summer 2012, the IBHE has held meetings with representatives from each public university (known as the Refinement Committee) to work on further refinements to the performance funding model. It is anticipated these refinements will include changes in data sources used to calculate select measures and the introduction of new measures to the funding formula. These changes are likely to go before the Board for approval as part of the fiscal year 2014 budget recommendations.

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 2013 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 2014 recommendations will continue that focus on the *Public Agenda*. Many of the potential funding priorities appear in Exhibit 30 on the following page.

Exhibit 30: Align Potential Initiatives with Public Agenda Goals, FY 2014

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 FY14										
Institutional Support for Core Capacity	X	X	X	X	X	X	X	X	X	X
Early Intervention and Financial Aid	X		X	X	X	X				
Adult Education Opportunities	X	X	X	X	X	X	X	X		
Application of University Research										X
Baccalaureate Completion Initiatives	X	X	X	X	X	X	X	X	X	
Workforce Certification and Credentialing	X	X		X	X	X	X		X	X
P-20 Data Systems	X	X	X			X	X	X		X
Faculty Diversity	X		X			X				
Dual Credit			X	X	X	X	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	X		
School Leader & Teacher Prep	X		X			X				
Rapid Response to Employer Needs		X	X			X			X	X
Incentives for Regional Collaboration	X	X	X				X	X		X
Performance Funding – Course Completion				X	X	X	X	X		
Performance Funding – Degree Production	X			X	X		X	X		
Career and College Readiness	X	X		X	X	X	X			
GED Testing		X	X							
Course Applicability System (CAS)	X			X	X		X			

Recommendation Structure

At the suggestion of Chairwoman Hightman, the Board departed from previous recommendations in fiscal year 2009 by adopting an investment-level approach offering recommendations at four different levels of investment. The investment-level approach has since been adopted each year by the Board although the numbers of levels and degrees of investment have changed each year to reflect both the Board's priorities and the state's fiscal condition. It is anticipated that Board will continue to make investment-level recommendations in fiscal year 2014 alongside and impacted by the refinement of performance-based funding to public universities and community colleges.

Timeline

The tentative timeline and processes for the development of the Board's fiscal year 2014 operating and capital budget recommendations are contained in Appendix A.

Appendix A: IBHE Timelines and Processes

ILLINOIS BOARD OF HIGHER EDUCATION

Fiscal Year 2014 Budget Development Schedule Summary

2012

July 19	Distribute budget development schedules and accompanying memos
August 1	Distribute historical RAMP schedules Distribute operating and capital budget request materials Distribute technical questions
September 28	Historical RAMP submissions due back to BHE
October	Begin budget overview meetings
October 1	IMSA operating and capital requests due back to BHE
October 15	All other operating and capital requests due back to BHE Technical question responses due back to BHE
October 26 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

2013

January	Discussion budget meetings
February	BHE to consider staff budget recommendations

