

## Illinois Postsecondary Investments

### Executive Summary

May 2017

Adopted nearly 10 years ago, the Illinois Board of Higher Education Public Agenda for College and Career Success recognized that, in order for Illinois to prosper, effective and high-quality education must be available for all residents. The goals of the Public Agenda focus on increasing college attainment, reducing disparities by geographic region, race and age, and better coordinating the research and educational functions of higher education to meet economic needs. However, the current lack of a state budget and declines in state funding over the last several years present major challenges to meeting the goals of the Public Agenda.

To understand the present mix of Illinois higher education finance policies, it is important to examine historical policies and their underlying intent, implementation and effects. The brief starts with an overview of this historical context and funding trends. The second section examines changes in spending patterns over the last decade. The final section leads into an analysis of state trends that could inform the development of a durable investment framework that supports the state attainment goal and the real needs of local communities and employers. This executive summary covers some of the high-level points of the brief.

### Part I: Historical Policies and Funding Trends

Historically, higher education in Illinois was a loose confederation of systems with functions coordinated by the Illinois Board of Higher Education (IBHE). This “system of systems” included four university boards, the community college system, private non-profit institutions and private for-profit institutions. The Illinois Student Assistance Commission (ISAC), created in 1957, was charged with making higher education accessible and affordable for Illinois students.

In 1995, the state legislature and Gov. Jim Edgar decided to eliminate the Board of Governors and the Board of Regents and gave individual boards to the seven universities not part of the University of Illinois or Southern Illinois University systems, with the goal of giving institutions greater autonomy and reducing administrative costs.<sup>1</sup> Over time, the restructuring has widely been seen as making it more difficult for IBHE to establish statewide goals and to allocate resources strategically.

- Historically, there has been no predetermined formula for investing funding in universities to meet strategic needs. However, from the late 1960s to the early 2000s IBHE made slight adjustments to its recommendations if universities’ instructional costs, measured by average weighted credit hour, were above or below the statewide mean.<sup>2</sup>

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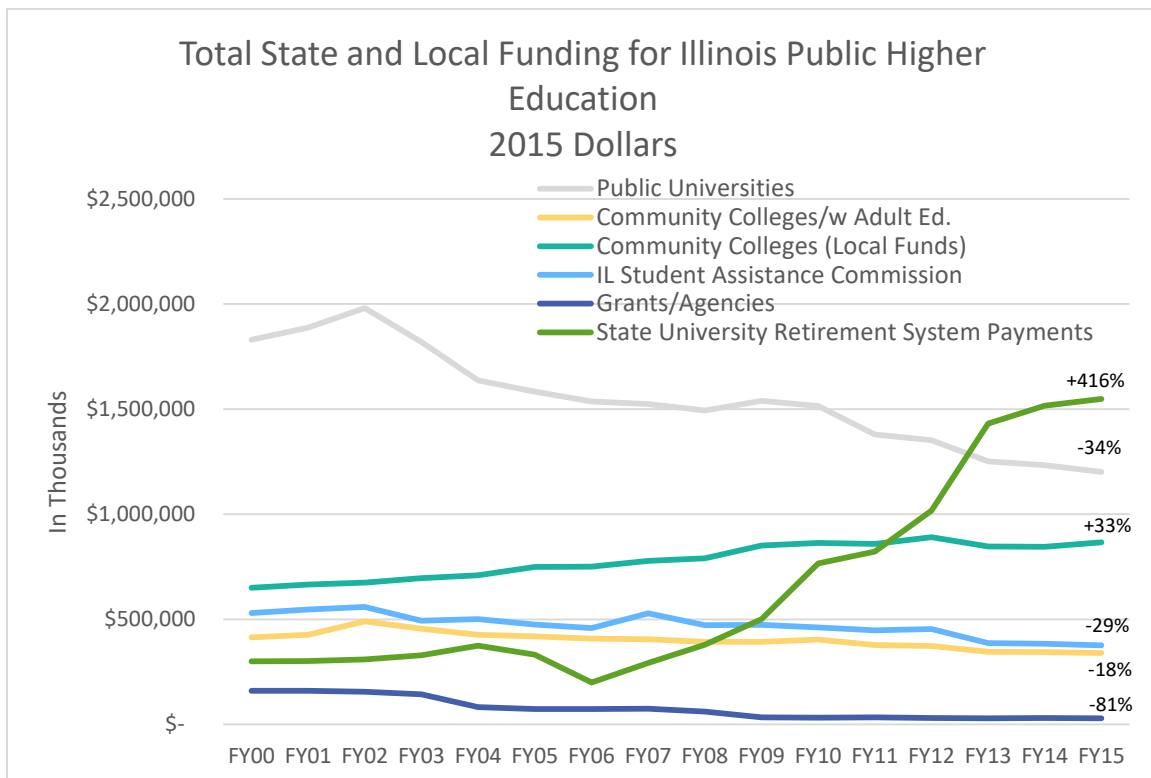
<sup>1</sup> Perna, Finney, & Callan, 2011

<sup>2</sup> Illinois Board of Higher Education, 2016

- The Priorities, Quality, and Productivity (PQP) Initiative started in 1991 identified priorities for improving productivity in five broad areas and led to significant changes to programs and universities' internal allocations, as well as full funding for system priorities.
- Community college appropriations have primarily been distributed by the Illinois Community College Board (ICCB) through two formula-based grants: base operating grants, supplemented with equalization grants for colleges with less capacity for local funding. However, the funding for equalization grants has been appropriated at a fraction of the normal funding recently.
- While Illinois has a well-designed outcomes-based funding model, funding has been minuscule. The formula for universities has not been used since 2014.

Since fiscal year 2000, state operating appropriations for universities, community colleges, ISAC and other grants have decreased \$987 million, or 34 percent, after adjusting for inflation. This decline has been driven primarily by increasing pension obligations after years of missed payments by the legislature crowding out other state spending. Health care obligations and deferred maintenance costs, in the absence of a capital budget, have also placed strain on state and institution finances.

As of March 2017, Illinois higher education institutions were operating without state funding. In the absence of a state budget, schools with the least deep pockets have made substantial cuts in programming and staff, without a statewide plan.



- Currently, the State University Retirement System (SURS) has an estimated unfunded liability of \$23.7 billion. By FY 2015, the SURS payment had increased to \$1.5 billion, around 80 percent of operations funding.
- Adjusted for inflation, this was a 416 percent increase in SURS funding and a 34 percent decrease in operations funding.
- Over 70 percent, or \$1.08 billion, of the 2015 SURS funding was for liabilities from past years.
- In FY 2015, over \$936 million was paid by Central Management Services on behalf of health care costs for university employees and annuitants.<sup>3</sup> This was a 56 percent increase from eight years earlier.
- University employees constitute roughly 43 percent of the total State Group Health enrollment.
- Institutions' operating funds have been further pressured by increases in deferred maintenance costs. Much of the infrastructure was built in the middle of the last century, requiring substantial repairs. Without state capital funding since 2010, these costs have taken an increasing toll on institutional budgets.
- From fiscal year 2000 to fiscal year 2016, the estimated cost of deferred maintenance projects increased 142 percent, after adjusting for inflation, to \$4.1 billion.

During the same period, enrollment remained relatively stable in the public university sector. Community college enrollment fluctuated more than the universities, with increases following downturns in the economy.

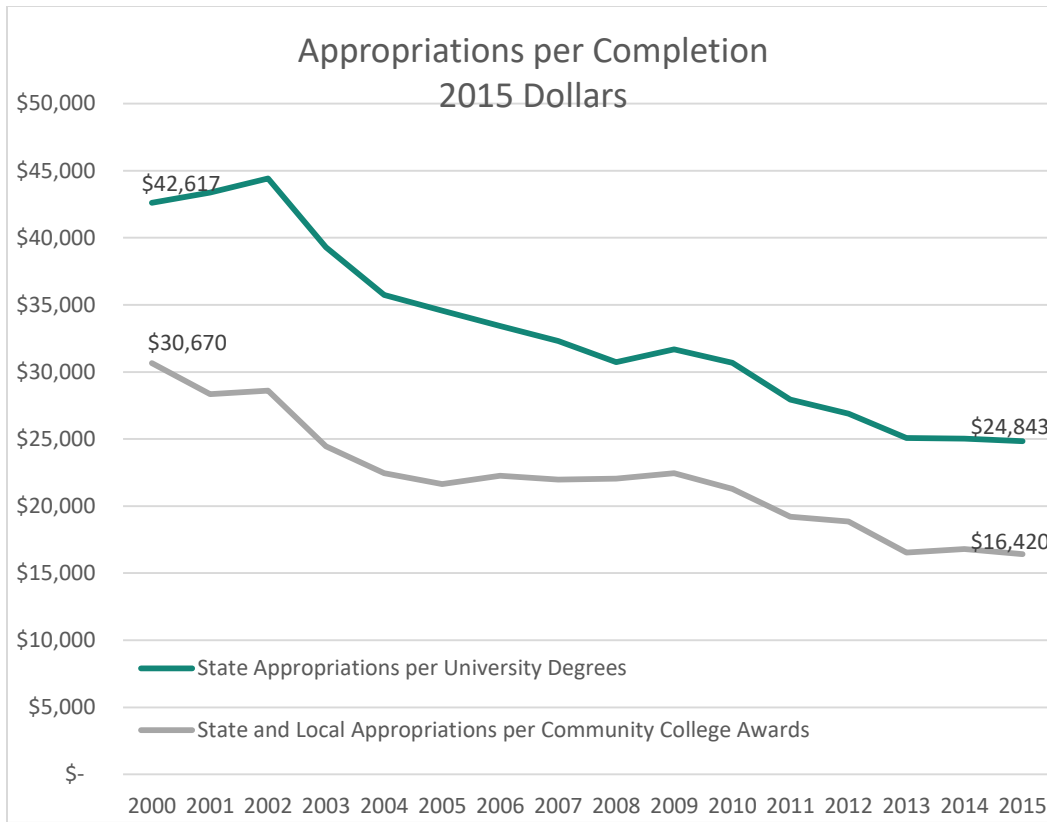
Since 2000, degrees and certificates increased in both sectors despite stagnant or decreasing enrollment.

- Total university degrees increased 13 percent from 2000 to 2015, although there was a slight drop after 2013.
- Community college associate degrees increased 56 percent from 2000 to 2015 while certificates grew by 188 percent.

This increase in awards also occurred as state appropriations were being reduced, resulting in fewer appropriations per completion in both sectors.

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<sup>3</sup> Illinois Board of Higher Education, 2016



#### Affordability

Tuition and fees have risen steadily in Illinois for close to three decades, particularly at universities. Without corresponding increases in need-based financial aid, this makes it less likely that lower-income students can afford to complete a college degree. A number of factors may have impacted the increase:

- Reductions in state appropriations have led to increasing pressure on students, families and local communities to make up for declining state funding.
- After restructuring, institutions were able to set their own tuition without the involvement of the governor, the legislature or the Illinois Board of Higher Education.
- There is some evidence that the 2004 Truth in Tuition Act led institutions to raise tuition faster than they would otherwise to help stabilize funding over the four years a student attends.
- Many institutions began charging higher “sticker prices” and using increased revenue to provide more institutional aid for lower-income students.

At public universities, the decrease in state funding until 2015 has largely been made up by increased tuition. In aggregate, community colleges have made up for lost state funding with

additional local funding and increased tuition. Without a budget in 2017, though, it is not clear how they will make up the lost funding.

- In the 16 years from 1984 to 2000, the weighted annual mean tuition and fees for the public university sector increased \$2,716, or 88 percent. In the 16 years from 2000 to 2016, the weighted annual mean tuition and fees increased \$8,737, or 151 percent. However, the increases have differed by institution.
- Illinois' 2016-17 average public university in-state tuition and fees were the fifth-highest in the country, behind only New Hampshire, Vermont, Pennsylvania and New Jersey.<sup>4</sup>
- In the 16 years from 1984 to 2000, the weighted annual mean tuition and fees for the community colleges increased \$570 or 35 percent. In the 16 years from 2000 to 2016, the weighted annual mean tuition and fees increased \$1,783, or 81 percent.
- Illinois' 2016-17 in-district community college tuition and fees were the 28th-highest in the country but slightly below the national average of \$4,069.<sup>5</sup>

Illinois has raised public university tuition more than other Midwestern states. However, the loss in state funding is even more stark in Illinois, suggesting that not all of the burden of this lost funding has been passed on in increased tuition costs.

State Funding for Higher Education Below Pre-Recession Levels - 2008-2016 <sup>6</sup>				
State	% Change in State Funding per Student	\$ Change in Spending per Student	% Tuition Change Public Four-Year Colleges	\$ Change in Tuition Public Four-Year Colleges
Illinois	-54.0%	(\$3,479)	26.8%	\$ 2,788
Indiana	-5.8%	(\$438)	16.0%	\$ 1,261
Michigan	-20.9%	(\$1,233)	23.4%	\$ 2,276
Minnesota	-14.8%	(\$1,351)	21.5%	\$ 1,918
Missouri	-22.2%	(\$1,577)	9.5%	\$ 740
Ohio	-15.2%	(\$1,051)	5.4%	\$ 523
Wisconsin	3.3%	\$215	20.3%	\$ 1,485

The Illinois Student Assistance Commission has traditionally managed several grant and scholarship programs focused on promoting the affordability of Illinois higher education. The largest has always been the need-based Monetary Award Program (MAP). MAP awards are based on tuition, fees and cost of living less available student resources. The effective maximum award for fiscal year 2018 was set at \$4,720. However, a number of other grants that focused on

<sup>4</sup> CollegeBoard, 2016

<sup>5</sup> CollegeBoard, 2016

<sup>6</sup> Mitchell, Leachman, and Masterson, 2016

very low-income populations or high-demand occupations are no longer funded by the Illinois General Assembly.

- In 2000, the maximum MAP grant covered 100 percent of the average public university tuition and fees. By 2016, this percentage had fallen to 32 percent.
- Similar declines have occurred across all other sectors. Currently, the maximum MAP grant covers 49 percent of community college weighted tuition and fees, 23 percent for proprietary schools, and just 14 percent for private not-for-profit institutions.
- The Illinois Veteran Grant Program and Illinois National Guard Grant Program have not been regularly funded for several years. Instead, mandated tuition waivers were granted at institutions' expense. The unfunded portion of the Veteran Grant covered by institutions increased over \$27 million, or 34 percent, from 2005 to 2016, after adjusting for inflation.
- Without MAP grants for 2017, Illinois' affordability may reach an all-time low.

## Part II: Expenditure Analysis

Illinois' public university expenditures are drawn from three sources: state appropriations, income funds (primarily tuition and fees) and non-appropriated funds. Community colleges receive state appropriations, income funds (primarily tuition and fees) and local funds. The largest growth in expenditures for both universities and community colleges has come from grants and scholarships for students, with instruction coming in second. Additional details on expenditure by source and type are available in the full report.

Annual university expenditures increased 18 percent from fiscal year 2005 to fiscal year 2015, after adjusting for inflation. Expenditures from state-appropriated and university income funds per fall FTE student enrollment increased 21 percent, or \$2,775, over this 10-year period, after adjusting for inflation. This increase was primarily a result of growth in student services, O&M and instructional expenditures.

- Instructional programs were nearly half of expenditures from state-appropriated and university income.
- Thirty-two percent, \$876, of the overall increase was from growth in student services expenditures. Financial assistance to undergraduate students, a subset of student services, accounted for \$775 of this growth, a 326 percent increase from fiscal year 2005.

Community college expenditures have also increased from 2005 to 2015. Total expenditure grew 19 percent after adjusting for inflation and 28 percent after adjusting for inflation and changes in enrollment. Expenditures per FTE student increased 28 percent, or \$1,854, from fiscal year 2005 to fiscal year 2015, after adjusting for inflation. However, this increase was primarily a result of growth in a few functions.

- Expenditures on instruction were the largest functional category for community colleges.

- Over 40 percent of the total change in expenditures was due to growth in scholarships, grants and waivers. This was a 96 percent increase from FY 2005.
- Expenditures on instruction, a 23 percent increase, and institutional support, a 19 percent increase, were the next-largest contributors to the total growth in expenditures.

### Part III: Key Considerations for an Illinois Finance Framework

Meeting Illinois' goal of having 60 percent of the adult population with a degree or credential is vital to the state's future, as it is projected that 63 percent of all Illinois jobs will require a postsecondary education by 2018.<sup>7</sup> It is estimated that an additional 4,400 awards must be produced annually from 2008 to 2025 to meet the 60 x 2025 goal. Until 2013, Illinois was exceeding the production of degrees needed to meet its goal.

As communities of color become a larger part of the state population, reducing college attainment gaps is essential to ensure an economically competitive workforce. Although Illinois has seen some gains in college completions among black and Hispanic students in recent years, there is much more work to be done. Access to high-demand higher education programs for rural residents and low-income populations statewide is also an important consideration as Illinois seeks to continue building the economically competitive workforce major employers seek.

Any funding framework should consider how each investment or potential investment is likely to affect the state's progress toward its attainment goal. The final section of the brief outlines key indicators and trends around affordability and planning and financial stability that the state may want to consider in updating the higher education funding and policies undergirding Illinois' higher education system. A few are included below.

#### Affordability Considerations

*#1. Illinois has historically been better than most states in targeting its public investment to support low-income students, but budget uncertainty and decreasing MAP funding are threatening affordability.*

Illinois' significant investment in need-based aid has historically made it a leader in college access. However, the complete loss of MAP in 2017 threatens access for low-income students. Furthermore, with a lower proportion of low-income students attending postsecondary than K-12, and those who do attending colleges and universities with lower state and local appropriations, much of the benefit of state higher education funding goes to students who are not low-income.

- The largest "grant" most Illinois students receive is disguised in the form of resident tuition rates.

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<sup>7</sup> Carnavale, Smith, & Strohl, 2010

- The loss of MAP could have a serious disproportionate impact on college access and affordability.
- Even with the addition of local funding, decreases in affordability may not be felt evenly throughout the state, as schools in rural or low-income communities can often contribute much less in local funding, and equalization grants have not kept up.

*#2. Illinois' higher education appropriations provide slightly less support for minority than nonminority students, but the gap has narrowed.*

Black and Hispanic students in Illinois attend institutions receiving slightly less in state and local appropriations than average. That funding gap has narrowed since 2000-2001 because funding per student at institutions serving large numbers of minority students declined at a slower rate than average.

- Unequal levels of state funding may result in unequal access to programs with high employment demand, such as those in health or technology fields, which are often more costly to deliver.
- Funding policies that aim to be “fair” to institutions by allocating increases (or cuts) across the board, without regard to trends in enrollments or outcomes, may end up producing “unfair” allocations for students.
- Both of these have serious implications for equitable access to college and family-supporting jobs.

**Planning and Financial Stability**

*#3. Tuition revenue and local appropriations account for a larger share of the budget than state appropriations.*

While total public revenue (state appropriations, tuition revenue and local appropriations) per FTE student at both universities and community colleges has increased since 1990, tuition revenue and local appropriations now make up the majority share.

- Tuition is effectively a form of “performance funding” that supports institutions that can recruit and retain higher-income, fee-paying students. This has an impact on internal institutional priorities and student access.
- Overall, this increased reliance on tuition and property tax revenue has effects that are counter to how the state will reach its attainment goal—expanding access, increasing affordability and improving outcomes for underserved, low-income student populations.
- The fact that there are limited state dollars for higher education makes it all the more important to evaluate how those dollars can best be spent to support state goals and objectives.



*#4. Higher education demand (enrollment) predictably increases in recessions and declines in periods of growth.*

States and institutions are often surprised by enrollment surges or declines that are actually fairly predictable. A 1-point annual change in the Illinois unemployment rate prior to fall term can usually be expected to move community college enrollments statewide by 3,000 to 8,000 students, with similar effects in the for-profit sector and in many master's degree programs.

- In good times, the state should build reserves or spend in ways that build long-term capacity so that institutions do not have to resort to huge tuition increases or enrollment restrictions during a recession, when such measures would hurt students the most.
- Economic downturns produce predictable surges in enrollment, and can be an opportunity to make significant progress toward attainment goals while making good use of otherwise unproductive time.
- Funding policies may need to include mechanisms to respond to localized economic changes such as the loss of a major employer and to allocate resources efficiently over several years.
- Significant funding increases in periods of growth might best be used for capital projects or other nonrecurring purposes that result in higher capacity or lower operating costs in the long term.

*#5. Higher education institutions need stability in the form of funding and policy.*

Stable and predictable higher education funding is necessary for Illinois to meet the state's 60 x 25 attainment goal. However, before institutions can focus on meeting the goal, they need to ensure that they have the minimal funding to carry out their core missions. The current budget impasse has left many institutions struggling with faculty layoffs and significant cuts to programs. The most critical issue facing Illinois higher education is the adoption of a state budget. Additional areas of attention include creating a clearer funding rationale for universities and improving systemic planning and coordination.

- The state should recognize that strategic higher education funding decisions are necessary, especially when funds are limited. If resources are scarce, how can they be best targeted to meet state and regional needs?
- The university sector should adopt a rational appropriation methodology that addresses state and regional need and demand. Several states utilize outcomes-based funding models that are tied to an attainment goal, differentiate among institutions by mission and prioritize underserved students.
- The state should consider strengthening planning and coordination across the system to align policies and initiatives to meet state attainment priorities. This work should connect the university, community college, financial aid, and workforce development systems in a strategic way that supports accountability.

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*For more detailed source citations, see full report.*