Illinois Postsecondary Investments

May 2017

Nearly 10 years ago, the Illinois Board of Higher Education adopted The Public Agenda for College and Career Success. The Public Agenda recognized that, in order for Illinois to prosper, effective and quality education must be available for all residents. The Public Agenda is focused on four goals: (1) Increasing educational attainment, especially by closing disparities in achievement by race, ethnicity, socioeconomic status and geographic location; (2) ensuring affordability; (3) increasing the number of credentials to meet economic demands; and (4) better integrating educational, research and innovation assets to meet the economic needs of the state and its regions.[1] Having a focused and strategic approach to financing higher education is imperative to meeting these goals. However, the current lack of a state budget and lack of a broad stakeholder focus on the goals of the Public Agenda, as well as declines in state funding over the last several years, present challenges to meeting the goals.

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. This 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 is placed in the context of the state attainment goal and the real needs of local communities and employers.

Part I: Historical Policies and Funding Trends

Examining the historical finance policies and trends that undergird Illinois' higher education system is essential to understanding the current climate around Illinois' higher education finance. These include changes to the structure of higher education, institutional appropriation policies, funding, enrollment, and award trends, tuition and fees, financial aid and the state's attainment goal.

Higher Education Structure

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 nonprofit 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.

[1] Illinois Board of Higher Education, 2009

University Sector: Four Boards, 12 Institutions

Prior to 1996, the university sector consisted of four university boards representing 12 institutions:

- The Board of Trustees of the University of Illinois, with campuses in Urbana-Champaign and Chicago;
- The Southern Illinois University Board of Trustees, with campuses in Carbondale and Edwardsville;
- The Board of Governors of State Colleges and Universities (1941-1996), including at the time of its abolishment Chicago State University, Eastern Illinois University, Governors State University, Northeastern Illinois University and Western Illinois University;[2] and
- The Board of Regents (1967-1996), including Illinois State University, Northern Illinois University and Sangamon State University.[3]

Community Colleges

The origin of the community college system dates to 1901, when Joliet Junior College was established as the first public junior college in the nation.[4] Illinois junior colleges proliferated in the first half of the 20th century as part of public school districts. Gradually, they became integrated with the higher education system.

- The state began providing direct aid to junior colleges in 1955 to encourage the development of new institutions.
- The Junior College Act of 1965 created the Illinois State Junior College Board and placed the colleges and the board under the jurisdiction of the Illinois Board of Higher Education.[5]
- In the 1970s the Junior College Board was renamed the Illinois Community College Board, many junior colleges were renamed community colleges, special assistance equalization grants to equalize local tax revenue per student were introduced, and a state funding formula designed to calculate the resource requirements for all instructional credit and public service non-credit programs was developed.[6]
- Traditionally, individual community colleges have worked with local employers to develop needed training programs. Recent efforts by the system have included a statewide, regional planning process with local communities to identify employer needs and coordination with the Department of Commerce and Economic Opportunity.

[2] Board of Governors of State Colleges and Universities
[3] Board of Regents - RG 475
[4] Joliet Junior College: About, 2017
[5] Smith, 1980
[6] Smith, 1980

Illinois Board of Higher Education

The Illinois Board of Higher Education was created by the legislature in 1961 to coordinate the operations of the various colleges and universities during a time of increasing enrollment. The board was granted statutory responsibilities to plan and develop policy, administer state and federal grants, make operating and capital budget recommendations, and establish a data system tracking students and degree recipients, faculty and staff information, and characteristics of individual colleges and universities.[7] IBHE has historically spearheaded master plans that establish goals and priorities for the system and guide the development of policy initiatives, planning and budget recommendations. The priorities reflected through these efforts have shifted over time to address various eras and responses to state needs.

1960s and 1970s: The initial focus and priority of IBHE was to expand capacity of the system to meet increasing enrollment demands. During this time:

- The state community college system was created in 1965;
- The 1969 master plan established Governors State University and Sangamon State University;
- A medical education study conducted by IBHE in the late 1960s led to the statewide expansion of medical schools, including the creation of the Southern Illinois Medical Center in Springfield, the expansion of the University of Illinois medical programs in Peoria, Rockford and Champaign, and the growth of private medical schools, among other initiatives. This resulted in health care decentralization and an increasing number of physicians in previously underserved downstate Illinois;
- IBHE increased collaboration with private universities by allowing them to participate in planning initiatives and by providing private institutions grants of $100 for lower-division students and $200 for upper-division students; and
- The state's financial aid system was modified to become more focused on need-based aid.

1980s and early 1990s: The focus shifted to addressing evolving public policy priorities such as improving minority student achievement, workforce preparation, undergraduate education, affordability, productivity and accountability. The most visible example of this focus was the 1991 Priorities, Quality, and Productivity Initiative, or PQP. PQP identified 25 guidelines for improving productivity in five broad areas: instruction, research and public service, academics, administration and statewide productivity. As a result of PQP:

[7] Illinois Board of Higher Education, 2017

- Illinois institutions reallocated hundreds of millions of dollars in areas such as undergraduate education, salary competitiveness, minority student achievement, technology enhancements, deferred maintenance and library support;[8]
- Almost 300 university programs and 335 community college programs were eliminated, reduced or consolidated;[9] and
- State leaders invested in PQP, fully funding IBHE's operating budget recommendations from 1995 through 1999 and, overall, increasing support for higher education in the 1990s at a rate approximately 26 percent higher than the national average.[10]

1995 Restructuring: After nearly three decades of operating with the "system of systems," the state legislature and Gov. Jim Edgar decided to end the governance structure with the goal of giving institutions greater autonomy and reducing administrative costs.[11] The Higher Education Reorganization Act of 1995 eliminated 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.[12] Over time, the restructuring has widely been seen as weakening the influence of IBHE, making it more difficult for IBHE to establish statewide goals and to allocate resources strategically.[13] As a result:

The diffused power of the new arrangement made it difficult for IBHE to act as a political buffer, essentially creating an "every university for itself" environment;

- IBHE was forced to cede tuition control to the university boards. Prior to restructuring, tuition revenue had been held by the state treasurer. While the tuition revenue was not directly reallocated from one institution to another, IBHE historically could adjust state appropriation requests to account for major differences in total revenue. After restructuring, the individual boards were granted authority to set tuition without involvement of IBHE, the legislature or the governor;
- IBHE's influence with the governor and legislature weakened, particularly with respect to budget recommendations; and
- The weakening of IBHE was followed by declines in higher education performance, including decreases in the rate of high school students participating in higher education, a declining focus on need-based aid and affordability, and, initially, a

[8] Wallhaus, 1996
[9] MacTaggart & Mingle, 2002
[10] MacTaggart & Mingle, 2002
[11] Perna, Finney, & Callan, 2011
[12] 1995 Illinois Statutes, 110 ILCS 205
[13] Perna, Finney, & Callan, 2011

failure to make progress on closing achievement gaps.[14] Importantly, the last public agenda developed by IBHE dates to 2008.

Institutional Appropriation Policies

Historically, the IBHE budget recommendations to the governor and General Assembly for university operating funds have not been based on any predetermined standard or formula. Instead, appropriation requests have been based on institutions' existing share of state funds with the justification for new funding derived from a combination of factors such as supporting goals of master plans, salary support, new facility operations and maintenance funding, increases in energy costs, and new program requests.[15] From the late 1960s to the early 2000s, IBHE also made slight adjustments to its recommendations if universities' instructional costs, measured by average weighted credit hour, were above or below the statewide mean.[16]

Community college appropriations have primarily been distributed by the Illinois Community College Board (ICCB) through two formula-driven grant programs:[17]

- *Base operating grants:* Comprise approximately two-thirds of ICCB's operating grants, and are determined by multiplying each community college's reimbursable unrestricted credit hours by the per-credit-hour rate in six funding categories (Baccalaureate, Business, Technical, Health, Remedial and Adult Education);[18] and
- *Equalization grants:* Currently account for over a quarter of ICCB operating grants, and are meant to reduce the disparity in local property tax funds available per student, thereby ensuring that colleges with a limited local tax base have access to the funds necessary to support educational programs.[19] Any community college district below an expected local property tax threshold is eligible for tax-base-equalization funding. However, these grants have been funded at a fraction of their intended amounts in recent years.

Beginning with fiscal year 2013, IBHE budget recommendations have been required to include metrics designed to allocate state resources to public universities and community colleges based upon performance in achieving state goals related to student success and certificate and degree completion.[20,21]

[14] Perna, Finney, & Callan, 2011
[15] Higher Education Finance Study Commission, 2010
[16] Illinois Board of Higher Education, 2016
[17] Higher Education Finance Study Commission, 2010
[18] Illinois Board of Higher Education
[19] Illinois Board of Higher Education
[20] Illinois Board of Higher Education, 2017
[21] Illinois Public Act 097-0320

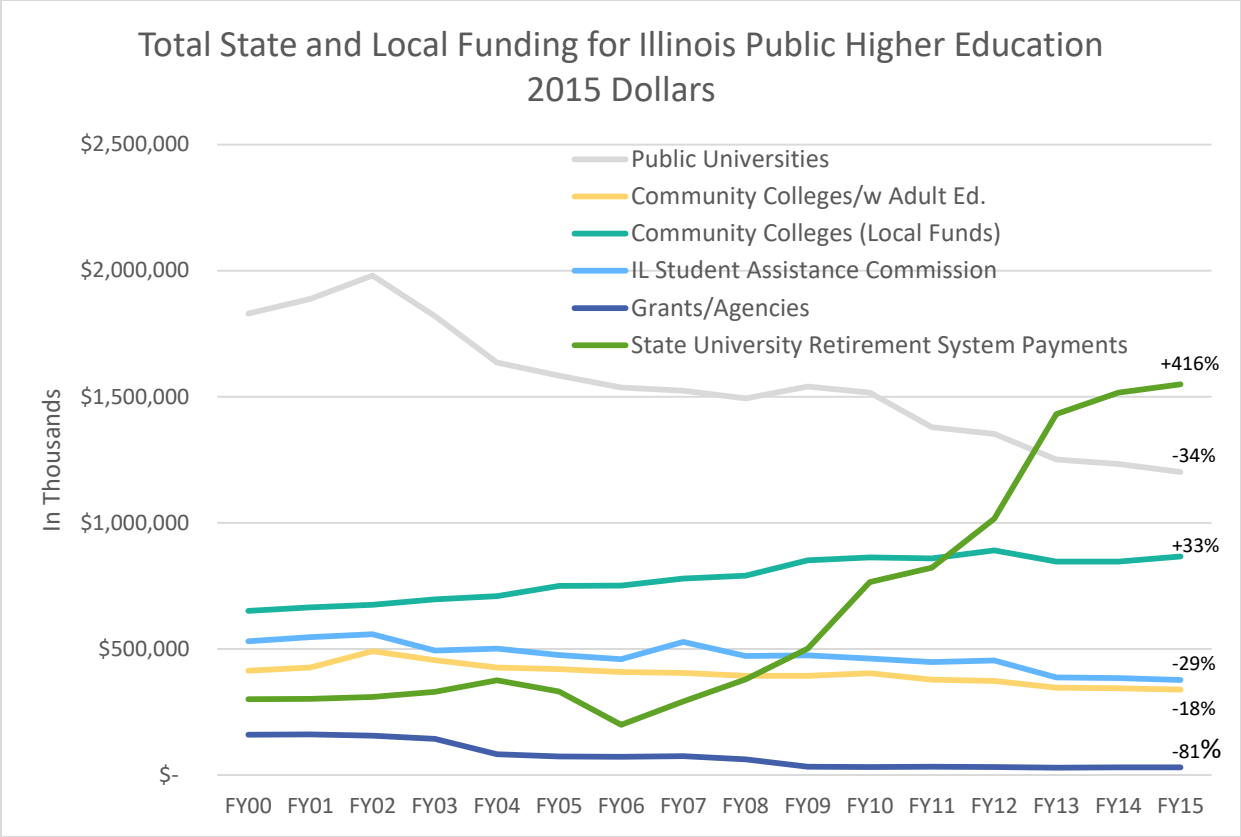
The university performance funding model distributes 0.5 percent of total annual state appropriations based on universities' degree production, research and public service expenditures, student persistence, and efficiency. These measures are weighted according to an institution's mission, and premiums are included for low-income, adult, Hispanic, black, STEM+H students.[22] The model has not been utilized since 2014.

The community college performance funding model has six metrics: degree and certificate completion, degree and certificate completion of at-risk students, transfer to a four-year institution, remedial and adult education advancement, momentum points, and transfers. Annually, $360,000 – or roughly 0.1 percent of community college state appropriations – is split among the six metrics, with the community colleges' performance defined by the year to year change in each metric.[23]

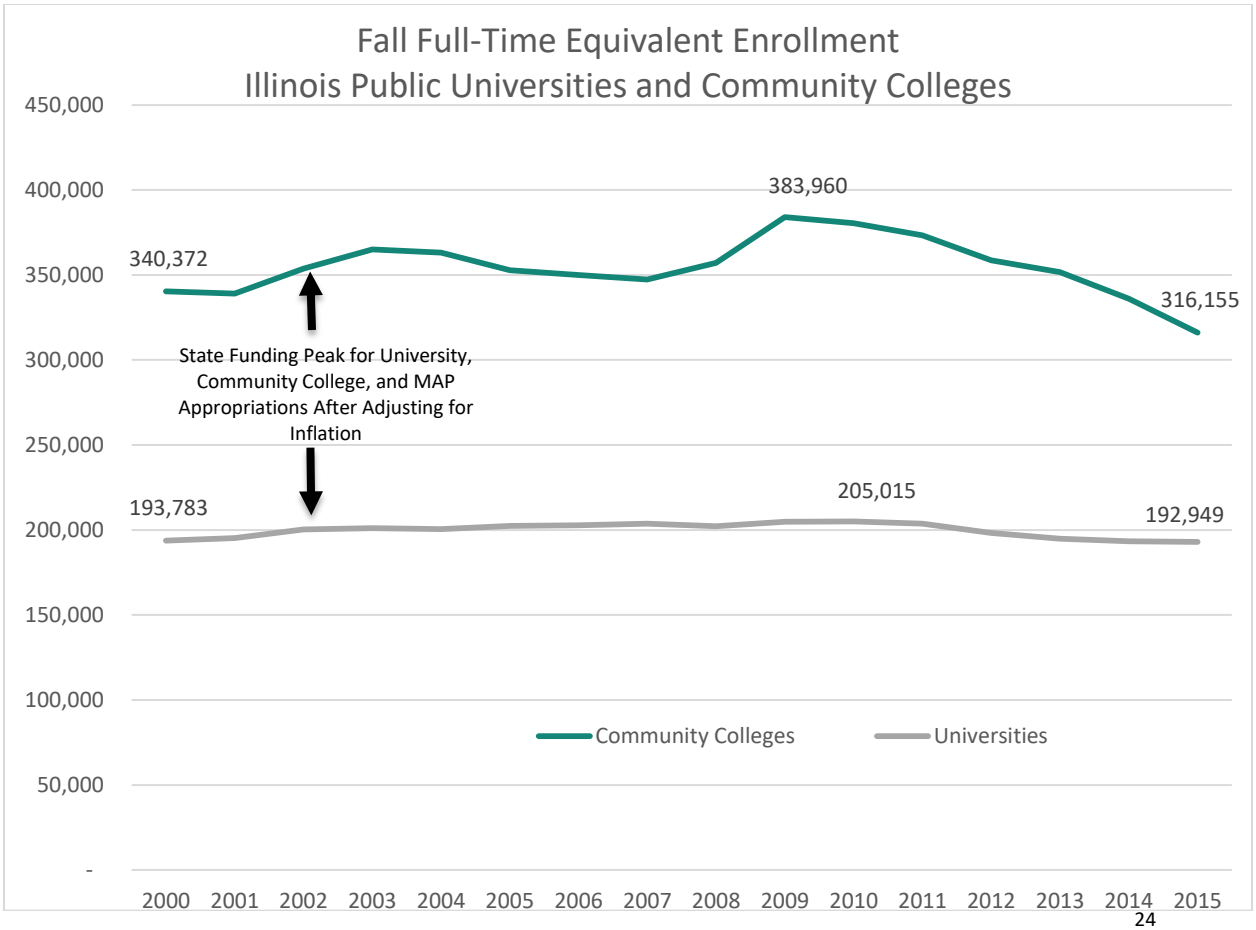
Funding, Enrollment and Award Trends

State Appropriations: State appropriations for higher education have suffered due to Illinois' fiscal condition in recent years. From fiscal year 2000 to fiscal year 2015, 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. As of March 2017, the institutions were operating without any state funding due to the budget impasse.

[22] Illinois Board of Higher Education, 2015
[23] Illinois Board of Higher Education, 2015



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

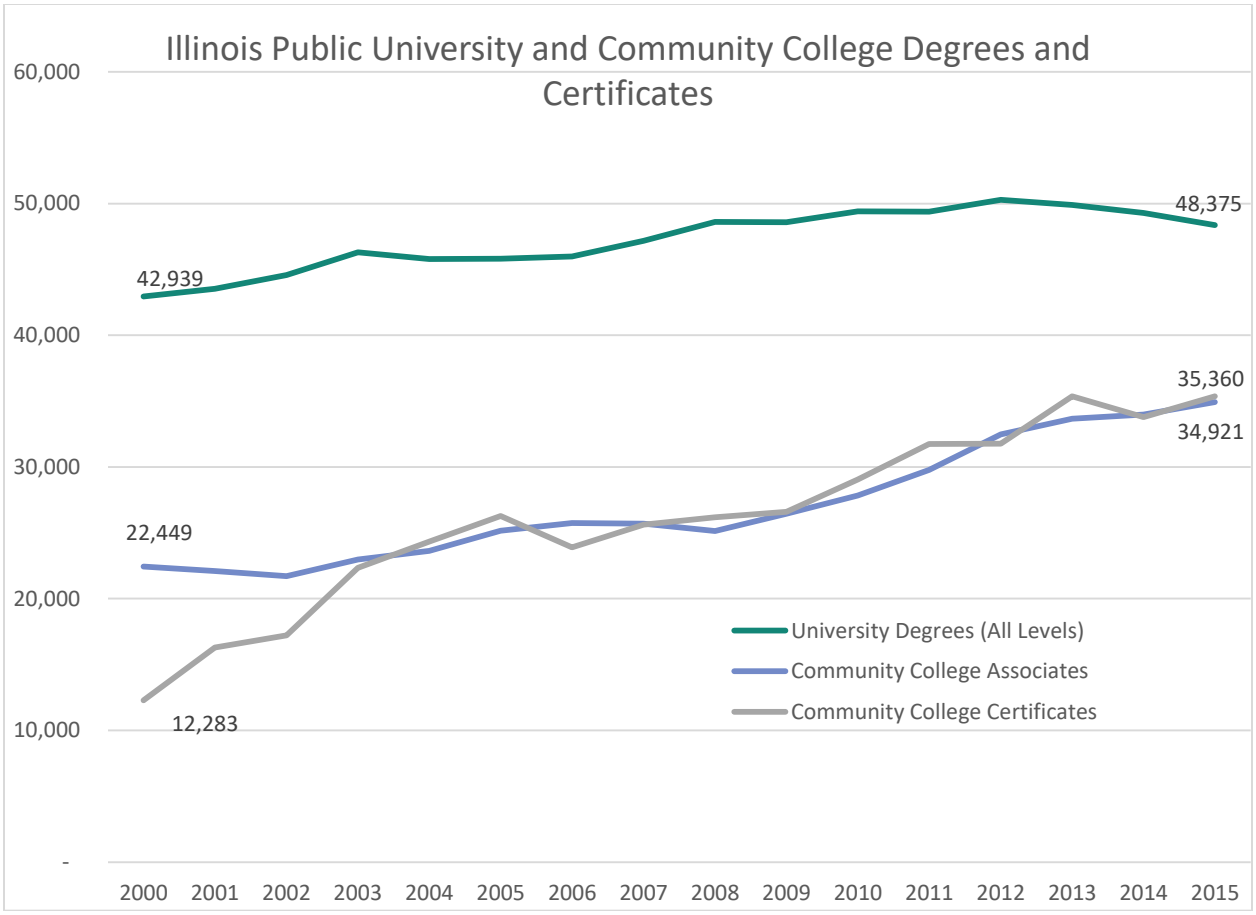


[24]

- Community college full-time equivalent enrollment in fall 2015 was 7 percent lower than fall 2000 and 18 percent lower than the peak in fall 2009.
- University full-time equivalent enrollment was virtually the same in fall 2015 and fall 2000. University enrollment decreased 6 percent from the peak in 2010.

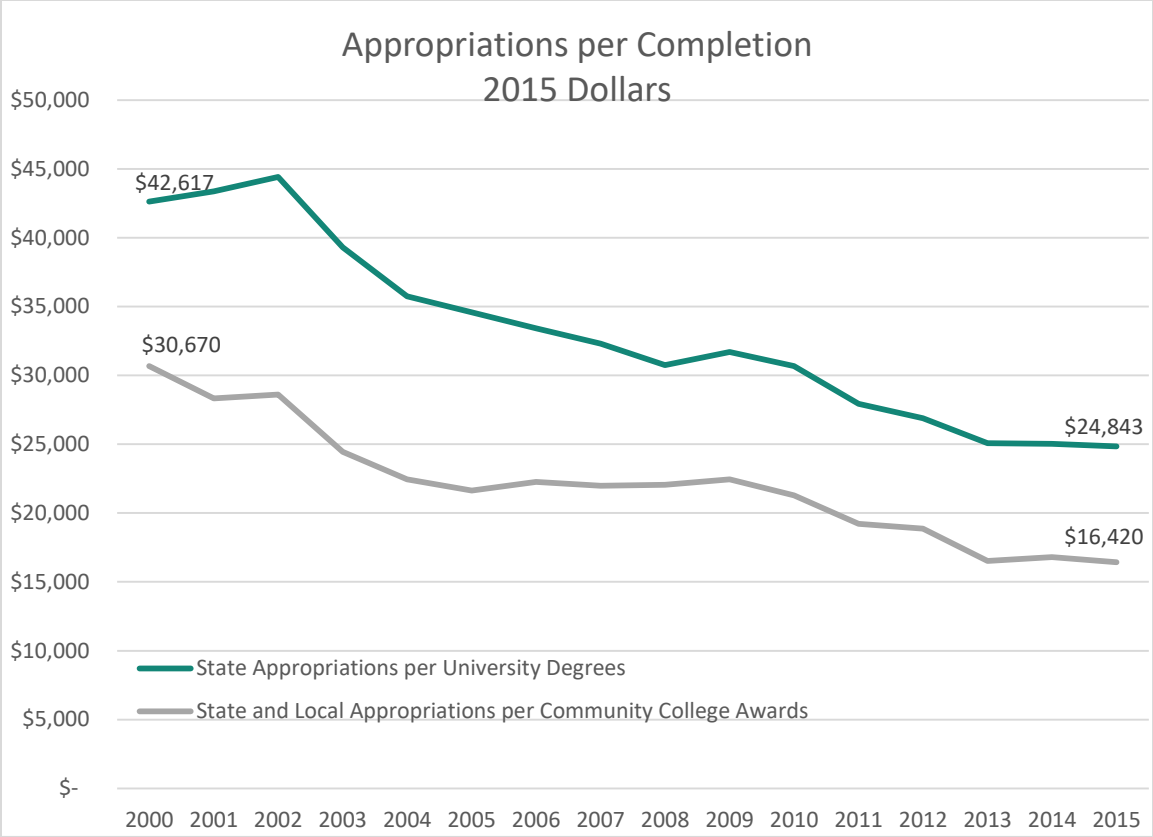
Degrees and certificates have been increasing in both sectors despite stagnant or decreasing enrollment.

[24] National Center for Education Statistics Integrated Postsecondary Education Data System



- Total university degrees increased 13 percent from 2000 to 2015, with a slight dip towards the end of this period.
- Community college associate degrees increased 56 percent from 2000 to 2015 while certificates grew by 188 percent.

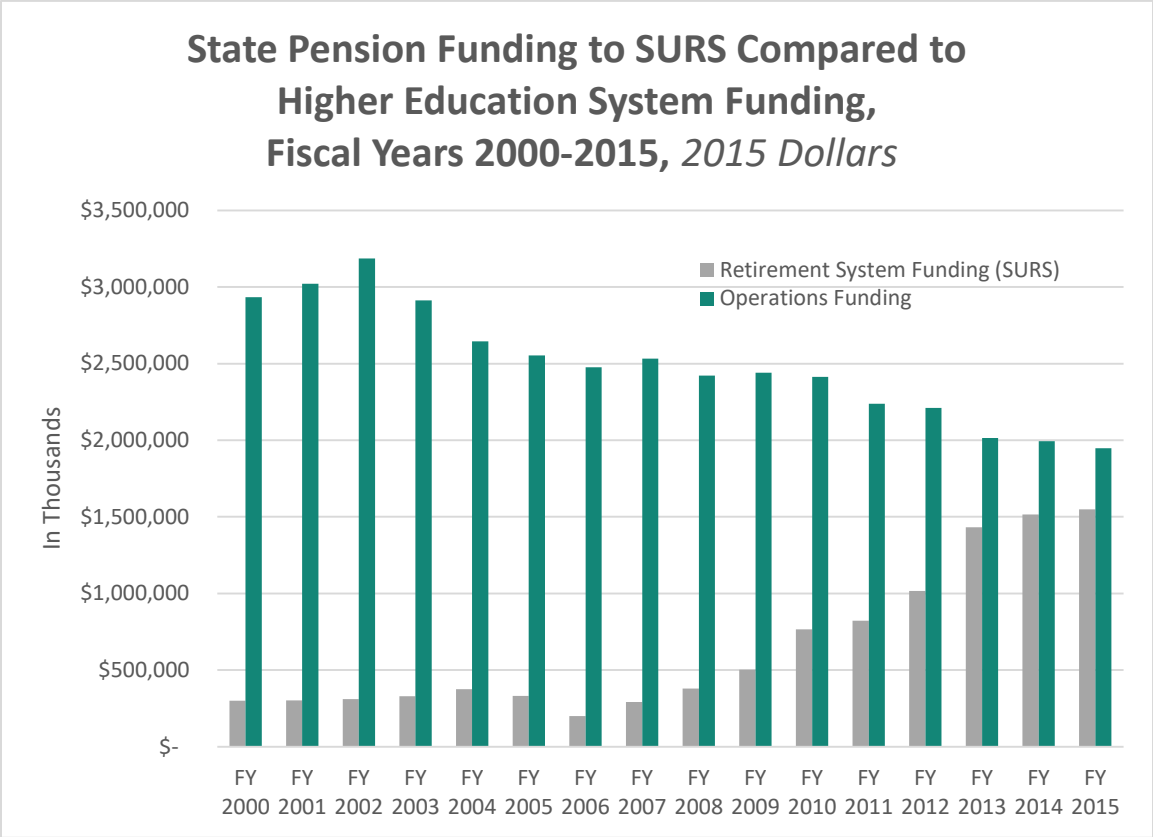
This increase in awards also occurred as state appropriations were being reduced, resulting in fewer appropriations per completion in both sectors.



- Total combined community college state and local appropriations increased eight percent from 2000 to 2015. Underlying this was a 31 percent decrease in state general funds (excluding funds for adult education) and a 33 percent increase in local revenues.
- The change in funding, coupled with the increase in awards, led to a 46 percent reduction in state and local appropriations per total community college awards from 2000 to 2015.
- Total university appropriations decreased 34 percent from 2000 to 2015.
- The decrease in appropriations and the increase in degrees led to a 42 percent decrease in appropriations per degree from 2000 to 2015.

Pressures on Higher Education Finances

State University Retirement System: Currently, the State University Retirement System (SURS) has an estimated unfunded liability of $23.7 billion. Funding this liability is the biggest factor influencing the decline in state higher education appropriations. Since 1996, the state has not appropriated funds directly to the universities to cover pension obligations. Instead, the state makes an on-behalf payment to SURS. These on-behalf pension payments have increased dramatically in the last 15 years due to the need to provide funding for current obligations and make up for the underfunding in the 1990s.



- In fiscal year 2000, the state paid $218 million to SURS. This was equal to ten percent of higher education operations funding.
- By fiscal year 2015, the SURS payment had increased to $1.5 billion, the equivalent of 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.

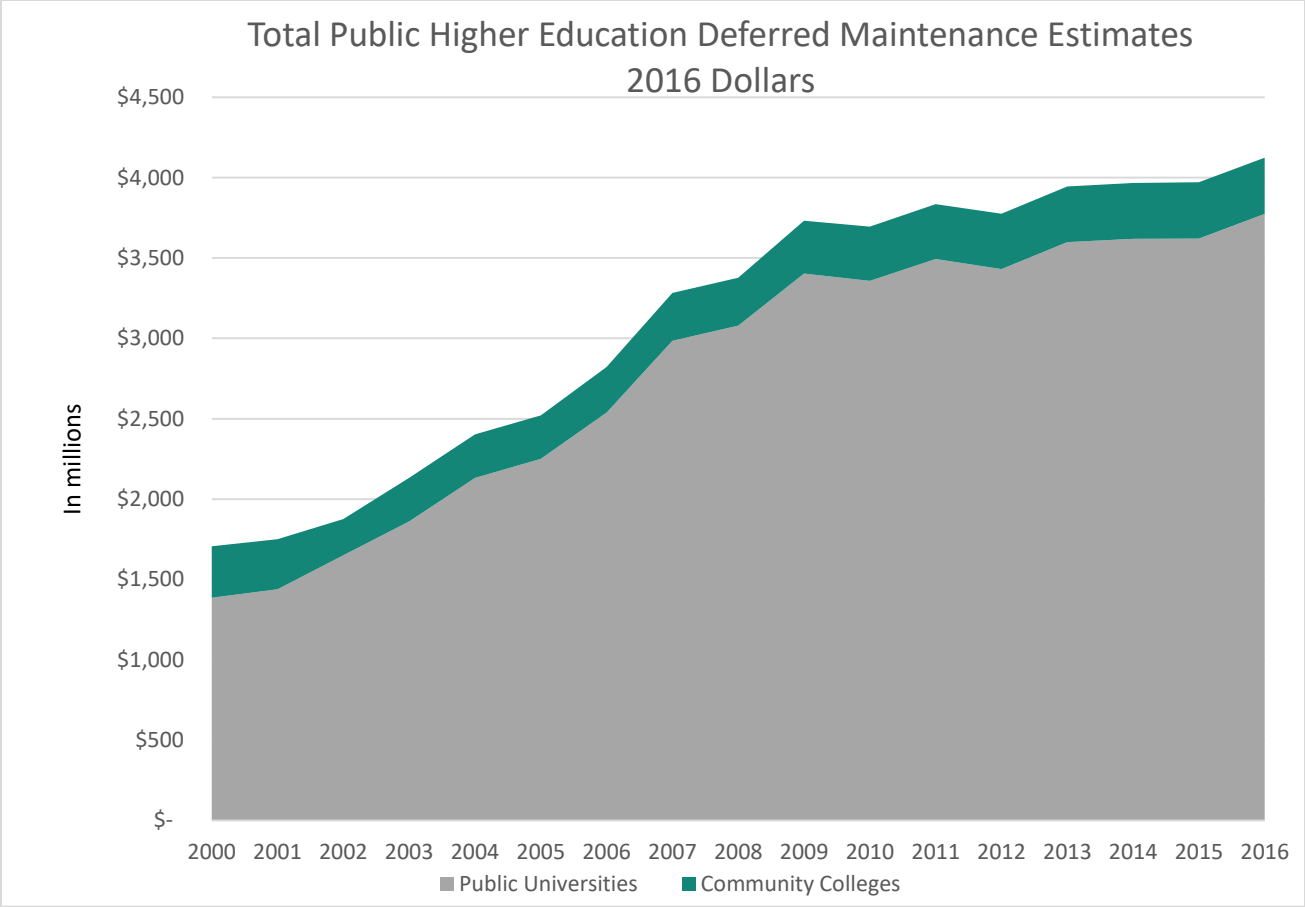
Health Care: Increasing health insurance costs have been another major factor crowding out state funding that could otherwise be utilized for the core functions of higher education. Additionally, the health care cost-sharing agreement between the universities and the state is further pressuring institutions' budgets. The majority of health care costs are paid on behalf of the universities by the Department of Central Management Services (CMS). University employees constitute roughly 43 percent of the total State Group Health enrollment. Annually, these payments have been significant.

FY 2015 Group Insurance Payments by University System (in thousands)		
University System	**On-Behalf (CMS)**	**University Reimbursement**
U of I	$515,947	$24,893
SIU	146,060	7,076
ISU	69,357	3,078
NIU	71,507	3,541
WIU	39,018	1,945
EIU	32,199	1,713
NEIU	26,978	1,073
CSU	18,810	1,024
GSU	16,171	656
Total	**$936,047**	**$44,999**

- In fiscal year 2015, over $936 million was paid by CMS on behalf of health care costs for university employees and annuitants.[25] This was a 56 percent increase from eight years earlier.
- For the last decade, universities have agreed to share this cost by using operating funds to reimburse the state roughly $45 million per year.[26]
- Group insurance payments are not made on behalf of the community colleges. The Community College Employee Health Insurance for current employees is paid by the community college system using revenue from various sources, including state and local revenues.

Deferred Maintenance: Institutions' operating funds have been further pressured by increases in deferred maintenance costs. Much of the state's higher education infrastructure was built in the middle of the last century in response to the coming of age of the baby boom generation. The cost of repairs and routine maintenance has increased significantly as these facilities have aged, although it is not clear how many of the estimated repairs have already been paid for by institutions and how many are still in queue.

[25] Illinois Board of Higher Education, 2016
[26] Illinois Board of Higher Education, 2016



- 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.
- To compound this problem, the state has not had a capital budget since 2010. Instead, institutions have had to reallocate a larger share of state appropriations and tuition revenue to make the inevitable repairs and updates to campus buildings.[27]

Tuition and Fees

Tuition and fees have steadily risen in Illinois for close to three decades. These increases have been driven by a combination of factors and have important implications for the state's affordability, attainment and equity priorities. Without corresponding increases in state or institutional need-based financial aid, these increases in tuition and fees make it much less likely low-income students can afford to attain a college degree.

[27] Illinois Board of Higher Education, 2016

Possible Factors Driving Tuition Increases

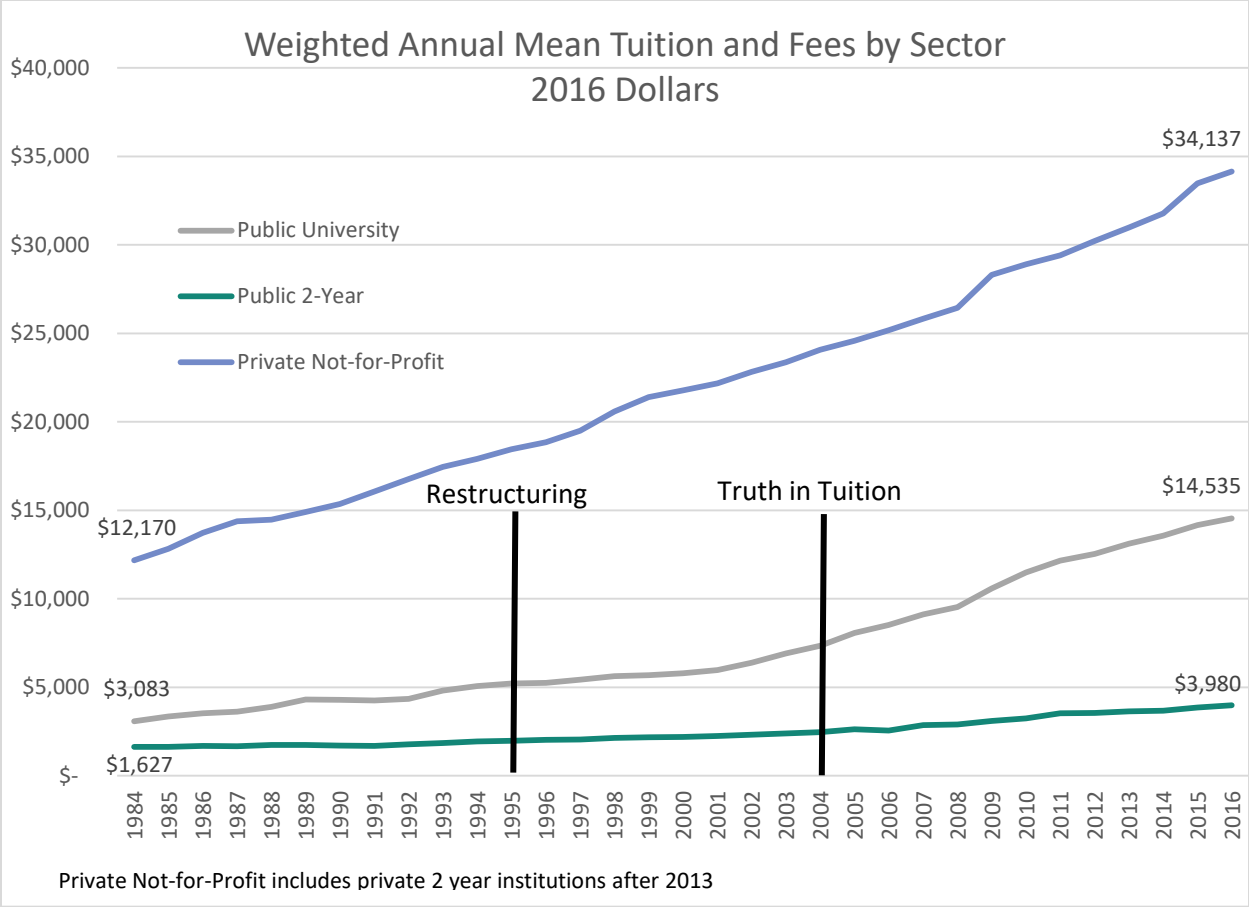
- State Appropriation Reductions: The main driver increasing tuition has been the reduction in state appropriations, primarily due to the pension obligations. Historically, state appropriations have been used to subsidize in-state students and keep their tuition low. As state appropriations have decreased, income funds from tuition have increased to make up for the declining revenue.

- System Restructuring: Prior to the 1995 reorganization of the "systems of systems," individual university boards set tuition but revenue went to the state treasurer. Post restructuring, individual public universities were permitted to retain the revenue they raised. This allowed them to set their own tuition without the involvement of the governor, the legislature or the Illinois Board of Higher Education.[28]

- 2004 Truth in Tuition Act: Intended to promote affordability, the act requires public universities to charge incoming resident freshmen a fixed tuition rate for all four years of college.[29] There is some evidence that this policy has led to faster tuition increases than would have otherwise occurred.[30] Under this theory, institutions have the incentive to frontload tuition to ensure revenue stability over the four years of the fixed rate.

- High Tuition/High Aid Policies: Many universities have begun charging higher tuition "sticker prices" while simultaneously using the increased revenue to provide more institutional financial aid. Institutional aid, represented by institutional grants from unrestricted sources and discounts and allowances applied to tuition and fees, increased 158 percent for Illinois public universities and 106 percent for community colleges from 2005 to 2015, after adjusting for inflation.

[28] Perna, Finney, & Callan, 2011
[29] Illinois Public Act 093-0228
[30] Delaney & Kearney, 2015



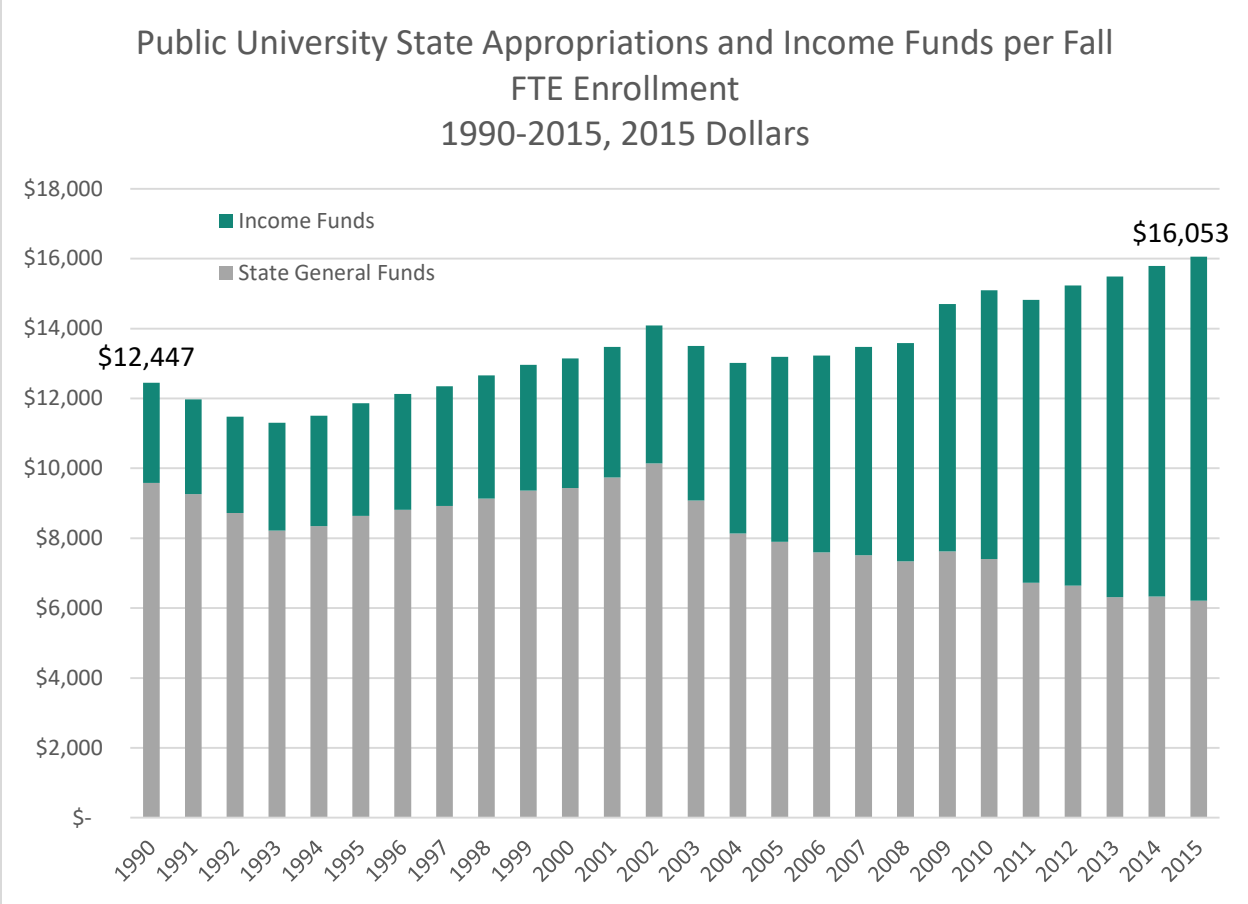
[31]

- 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, although 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.[32]
- 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 and slightly below the national average of $4,069.[33]

[31] Illinois Student Assistance Commission
[32] College Board, 2016

Tuition Trends at Public Universities

Since 1990, decreases in university state appropriations have been made up in large part by students, in the form of increased university tuition and fees.



- In 1990, the state provided the universities with $9,587 per FTE student, in current dollars. By 2015, this had fallen 35 percent to $6,215.
- Concurrently, university income funds (primarily tuition and fees) per FTE student increased almost $7,000.
- Together, revenue from state appropriations and income funds per FTE student increased $3,606, or 29 percent, in constant dollars. Much of this increase has been used to support growth in institution-provided student aid and the operations and maintenance of the campuses. That will be explored further later in this analysis.

[33] College Board, 2016

- The current uncertainty surrounding the state budget may provide an incentive to universities to increase tuition in an attempt to stabilize institutional funding.

The decreases in state funding since the recession have been more severe than in surrounding states. The resulting tuition increases have been somewhat less severe, but significant.

State Funding for Higher Education Below Pre-Recession Levels - 2008-16				
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%[34]	($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

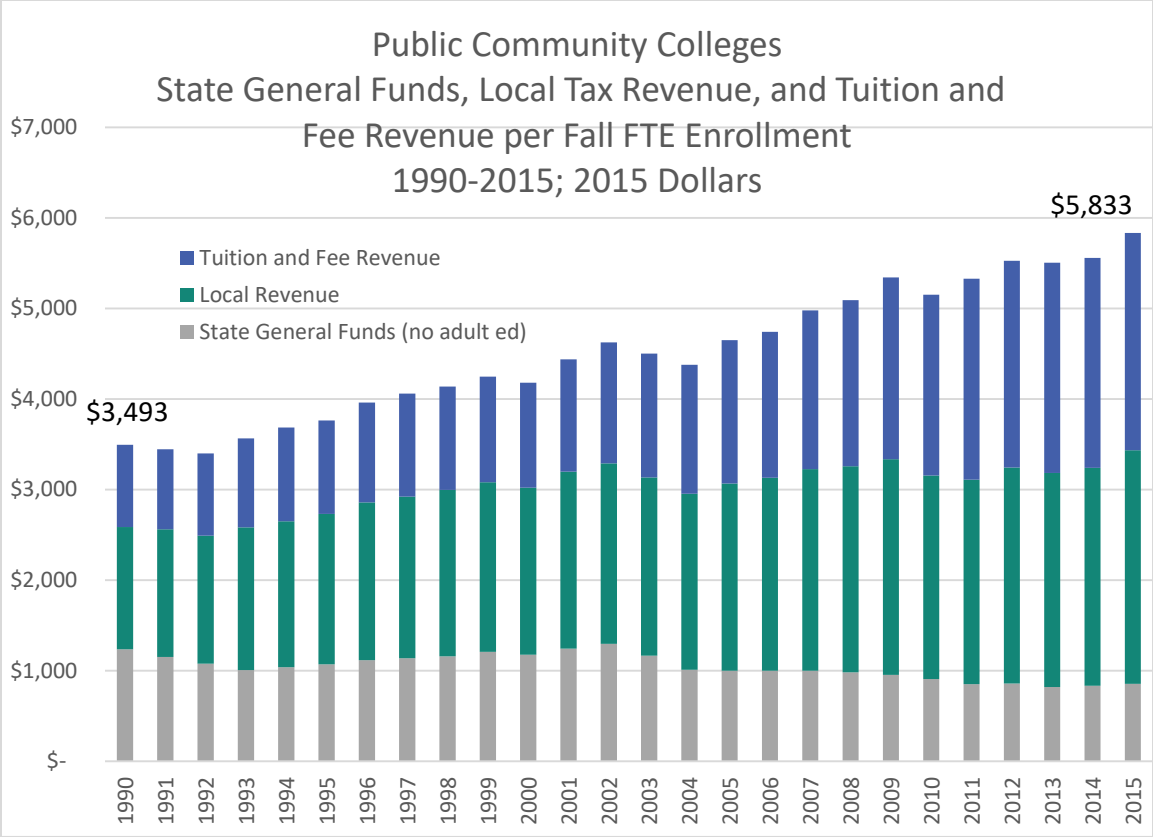
[35]

Tuition Trends at Public Community Colleges

Illinois community colleges have three main sources of revenue: state general funds, tuition revenue and, unlike universities, local tax revenue. Traditionally, each source was intended to make up one-third of total revenue. Community college state appropriations per FTE student have declined since 1990, although not as severely as universities.

[34] Figures in the table were compiled using the Center on Budget and Policy (CBPP) Report, *Funding Down, Tuition Up.* For a full description of CBPP's methodology, please see their full report. The calculations for Illinois are based on a fiscal year 2016 appropriation figure including funding provided in the April 2016 appropriations bill, and two-thirds of funding provided in the June 2016 stopgap budget. Other sources that have analyzed Illinois' higher education funding level for 2016 may differ due the irregularity of that year's budget. For the purposes of this analysis, we use CBPP estimates to be able to compare Illinois with neighboring states using the same source and methodology.

[35] Mitchell, Leachman, & Masterson, 2016

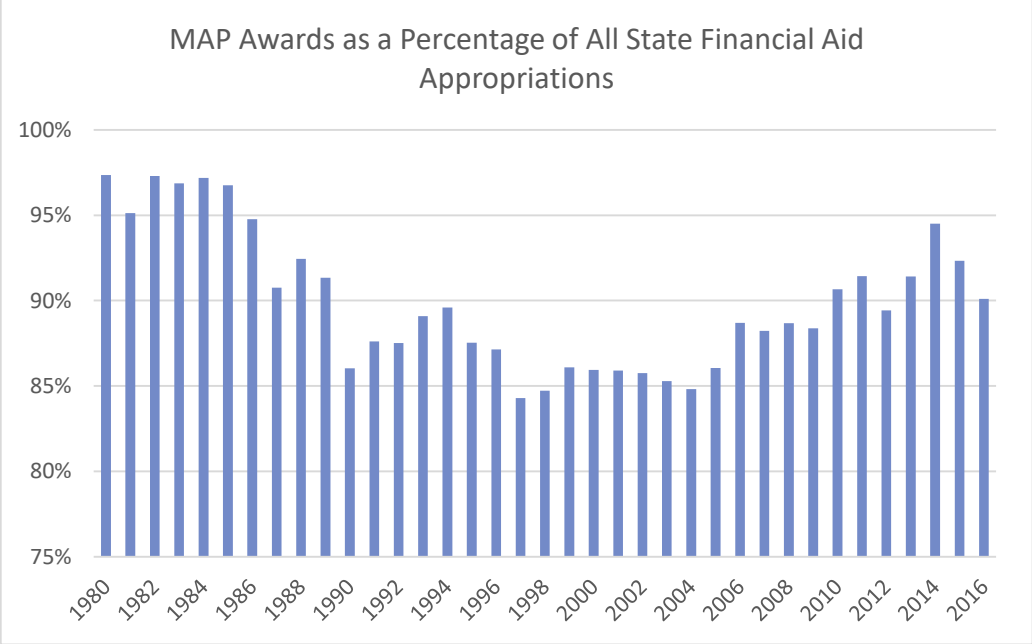


- Appropriations per FTE student in 2015 were $381, or 31 percent, lower than 1990 levels, after adjusting for inflation.
- At the system level, this decline in revenue was more than made up for by tuition and local tax revenue. Tuition revenue per FTE student increased $1,491, or 164 percent, over this same period, and local tax revenue per FTE student increased $1,230, or 91 percent. This varies by institution.
- These increases have led to changes in the community colleges' mix of revenue. In 1990, 35 percent was from state general funds, 39 percent from local tax revenue, and 26 percent from tuition and fee revenue. By 2015, these percentages were 15 percent, 44 percent and 41 percent, respectively, far from the intention of one-third from each source.
- As with the universities, the current uncertainty surrounding the state budget may spur community colleges to increase tuition to stabilize institutional funding.

Financial Aid

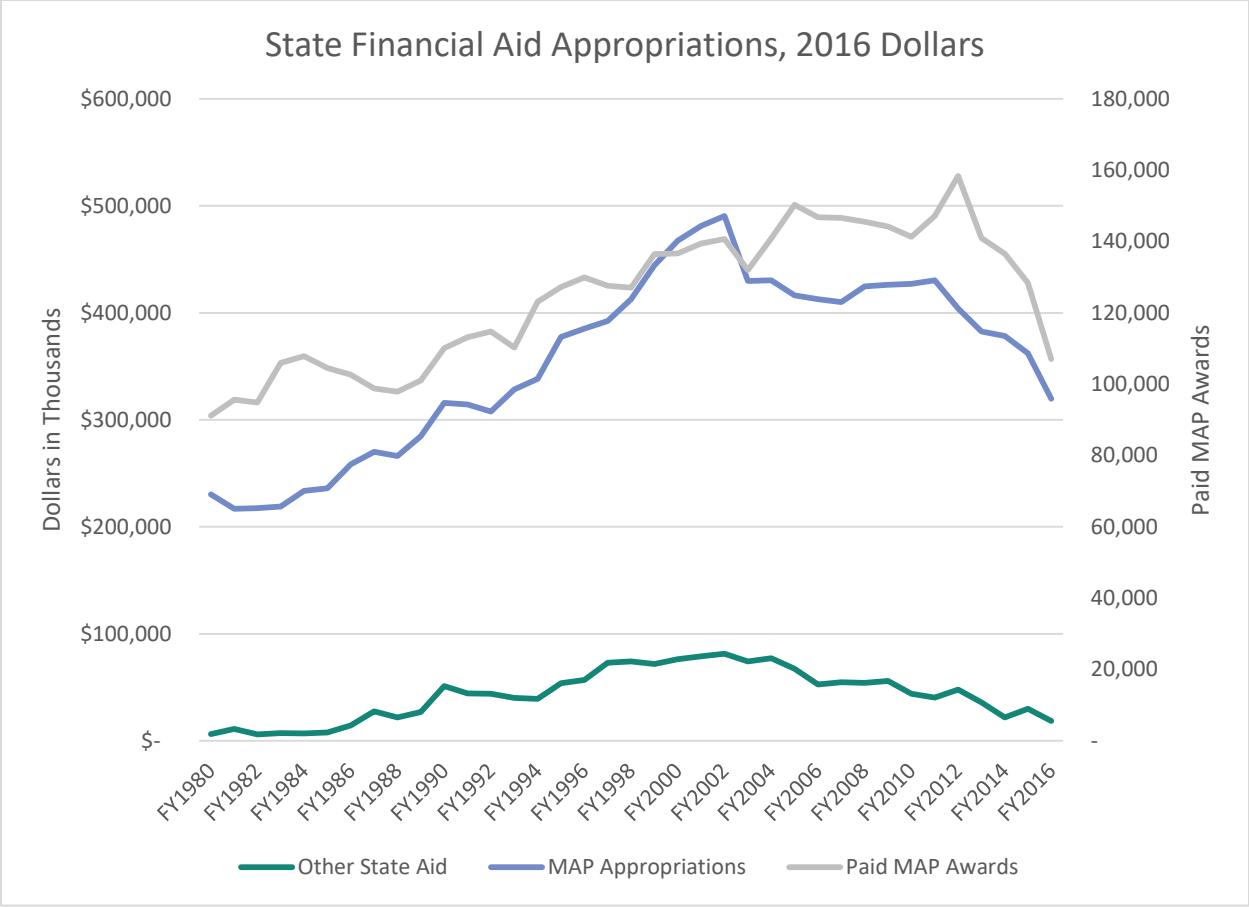
The Illinois Student Assistance Commission has traditionally managed several grant and scholarship programs focused on promoting the affordability of Illinois higher education. The largest program has always been the need-based Monetary Award Program (MAP). The MAP grant began as a small program for juniors and seniors in the late 1950s and evolved into its

present form beginning in 1967.[36] The program provides grant assistance to eligible students demonstrating financial need. MAP grants are applied toward tuition and mandatory fees for undergraduate students in the public and private sectors, not to exceed a set maximum award amount. MAP awards are based on tuition, fees and the cost of living, less available student resources. The effective maximum award for fiscal year 2018 was set at $4,720.

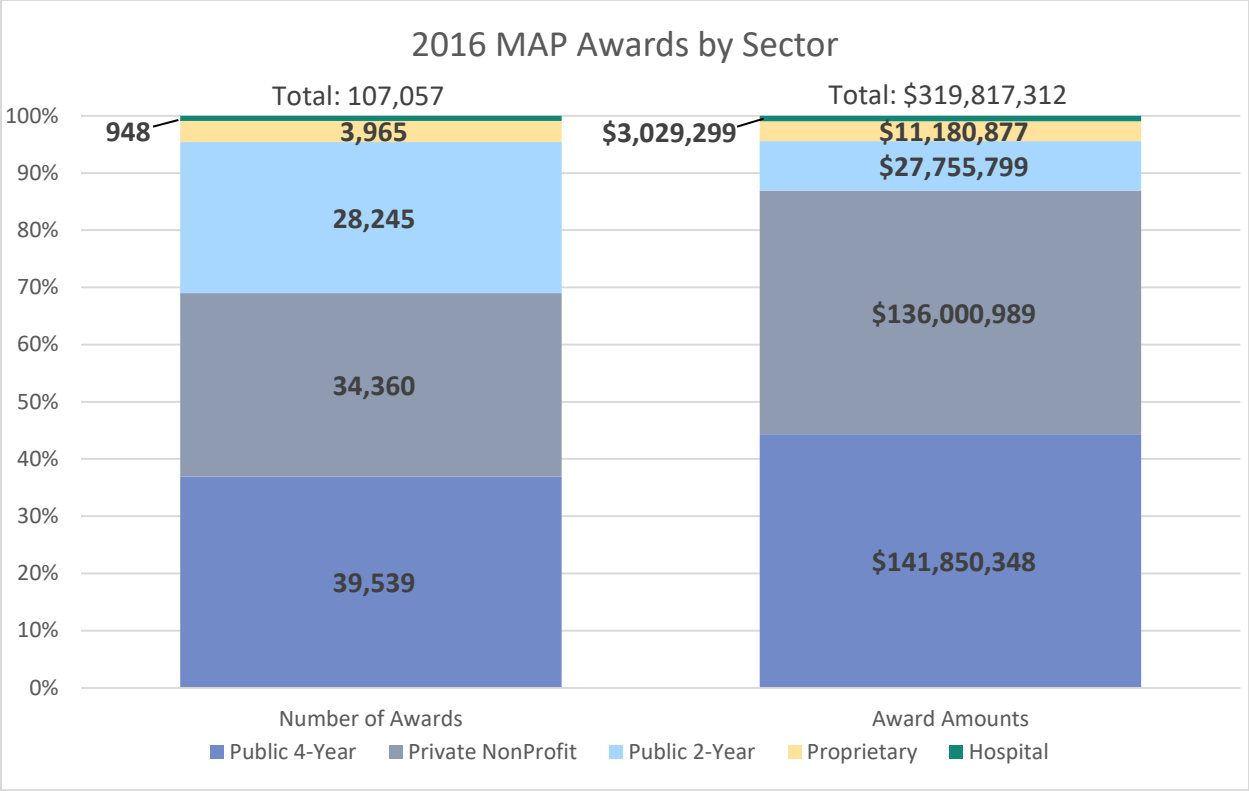


- Since 1980, MAP awards have nearly always made up at least 85 percent of state financial aid appropriations. The increase in MAP share in the last decade has been partially driven by the decreasing investment in other state aid programs.
- In recent years, several state financial aid programs have not been funded by the state. In fiscal year 2016, unfunded programs included the Minority Teachers of Illinois Scholarship, Illinois Teachers Loan Repayment Program, Nurse Educator Loan Repayment Program, Veterans' Home Nurse Loan Repayment Program, IL Special Education Teacher Tuition Waiver Program, Merit Recognition Scholarship Program, and Silas Purnell Illinois Incentive for Access Grant.[37]
- Additionally, in fiscal year 2016, the Illinois Veteran Grant Program and Illinois National Guard Grant Program were not funded. Instead, mandated tuition waivers were granted at institutions' expense. For the Veteran Grant program, the unfunded portion the institutions had to cover increased over $27 million, or 34 percent, from 2005 to 2016, after adjusting for inflation.

[36] Monetary Award Program Task Force, 2012
[37] Illinois Student Assistance Commission, 2016

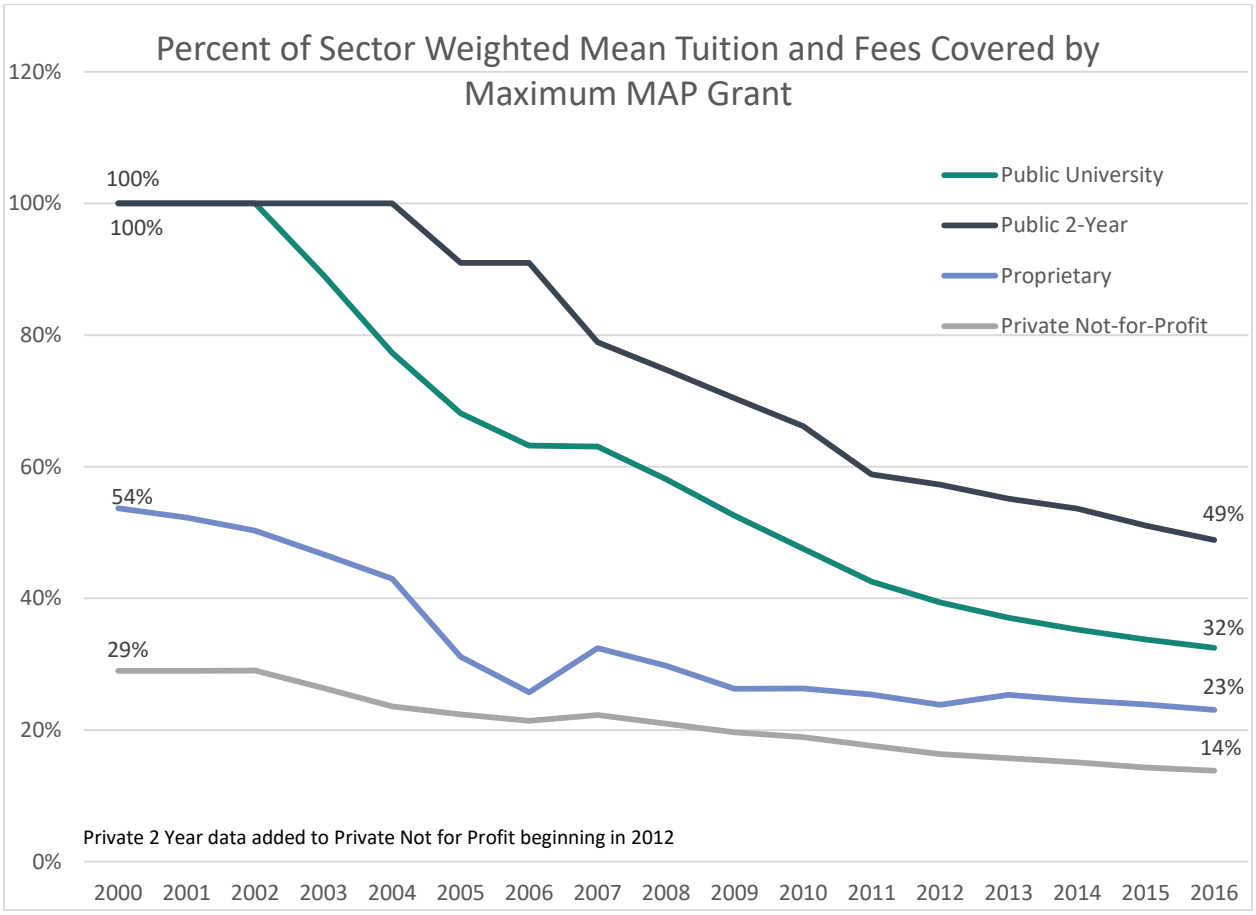


- Appropriations for the MAP grant, as well as total ISAC operations, peaked in fiscal year 2002, after accounting for inflation.
- From the peak to fiscal year 2016, MAP appropriations decreased 35 percent, from $490 million to $319.8 million, adjusted for inflation. All other ISAC appropriations decreased 77 percent over this period.
- Over the last decade, awards have been rationed by adjusting the application deadline for students to be earlier in the year. This has resulted in thousands of eligible applicants not receiving an award. In 2006, 32,455 of the 236,168 eligible students (14 percent) did not receive MAP awards. By 2016, half (161,546) of the 320,511 total eligible students were not funded.
- More recently, in fiscal year 2017, MAP awards have been suspended completely because of the lack of a state budget.



- In 2016, almost $320 million in MAP awards were disbursed to over 107,000 students.
- The public university sector accounted for 37 percent of all awards and 44 percent of all awarded dollars. The mean university award was $3,588.
- The private nonprofit sector accounted for 32 percent of all awards and 43 percent of awarded dollars. The mean private nonprofit award was $3,958.
- The public two-year sector accounted for 26 percent of all awards but just 9 percent of awarded dollars. The mean public two-year award was $983.

In addition to the reduced number of awards being provided to eligible students, the purchasing power of the average MAP grant has also declined. This decline is driven by the formula used to set MAP award levels. The formula has not been revised to reflect increases in cost of living or the significant increases in tuition and fees over the last decade. This has had the effect of holding MAP awards artificially low.



- 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.

Part II: Expenditure Analysis

Illinois public university expenditures are drawn from three sources: state appropriations, income funds and non-appropriated funds. For the purposes of this analysis, non-appropriated funds are separated from state appropriations and income funds, as they are often for restricted purposes. Examples of non-appropriated fund sources include research grants, fundraising and hospital revenues.

Total University Expenditures (2015 Dollars)[38,39]				
	FY 2005	**FY 2015**	**$ Change**	**% Change**
State Appropriations and University Income Funds	$2,626,685,784	$3,070,217,800	$443,532,016	17%
Other Non-Appropriated Funds	$3,299,507,924	$3,918,118,700	$618,610,776	19%
Total Funds	$5,926,193,708	$6,988,336,500	$1,062,142,792	18%
State Appropriations and University Income Funds per FTE Enrollment	$13,103	$15,878	$2,775	21%
Other Non-Appropriated Funds per FTE Enrollment	$16,459	$20,263	$3,804	23%
Total Funds per FTE Enrollment	$29,562	$36,142	$6,580	22%

- Annual university expenditures increased 18 percent from fiscal year 2005 to fiscal year 2015, after adjusting for inflation.
- Expenditures from state appropriations and university income funds increased slightly less than the total while expenditures from non-appropriated funds increased slightly more than the total.
- Expenditure growth was 4 percentage points higher after adjusting for growth in student enrollment.

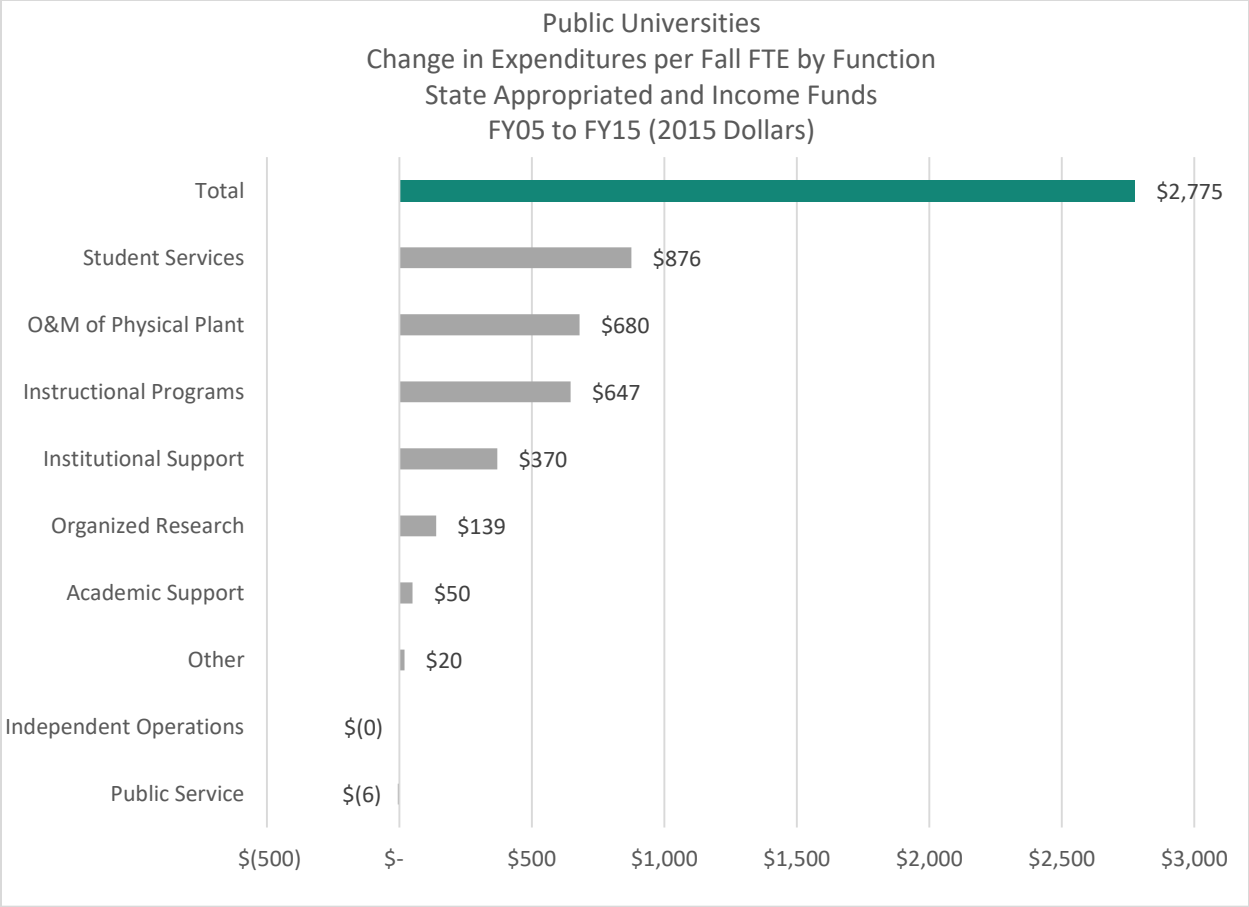
Universities annually report expenditures to IBHE by standard functional categories. While expenditures have increased overall, the growth has not been consistent across all categories.[40]

[38] Illinois Board of Higher Education, 2005
[39] Illinois Board of Higher Education, 2015
[40] See Appendix A for descriptions of functional categories

Share of FY15 University Expenditures by Source		
	State Appropriated and University Income Funds	Other Non-Appropriated Funds
Instructional Programs	45%	10%
Organized Research	5%	17%
Public Service	3%	14%
Academic Support	10%	20%
Student Services	9%	16%
Institutional Support	9%	1%
O&M of Physical Plant	16%	10%
Independent Operations	0%	12%
Other	3%	1%
Total	**100%**	**100%**

- Instructional programs constitute nearly half of expenditures from state appropriated and university income funds.
- Non-appropriated funds are more evenly distributed by category, with the exception of very small expenditures on institutional support and other expenditures.
- Most of the research, public service, academic support and student services expenditures are funded by non-appropriated funds.
- Seventy-eight percent of instructional programs and 86 percent of institutional support, which includes administrative expenses, are funded from state appropriated and university income funds.
- The shares of expenditures by source have remained relatively consistent over the last 10 years.

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.



- Thirty-two percent, or $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.
- If expenditures from non-appropriated funds are included, financial assistance per FTE student increased $1,549 over the decade, a 119 percent increase.
- O&M of the physical plant was the functional category with the second largest dollar increase. This increase is correlated with the increase in estimated deferred maintenance projects.
- Institutional support increased $370 per FTE student. Included in this, expenditures on employees with executive, administrative and managerial assignments increased only $44 per FTE student.

Community college expenditures also increased from 2005 to 2015. Total expenditures grew 19 percent after adjusting for inflation and 28 percent after adjusting for inflation and changes in enrollment.

Total Community College Current Fund Expenditures (2015 $s)[41,42]				
	FY 2005	FY 2015	$ Change	% Change
Total Funds	$2,396,948,783	$2,841,783,131	$444,834,348	19%
Total Funds per FTE Enrollment	$6,601	$8,455	$1,854	28%

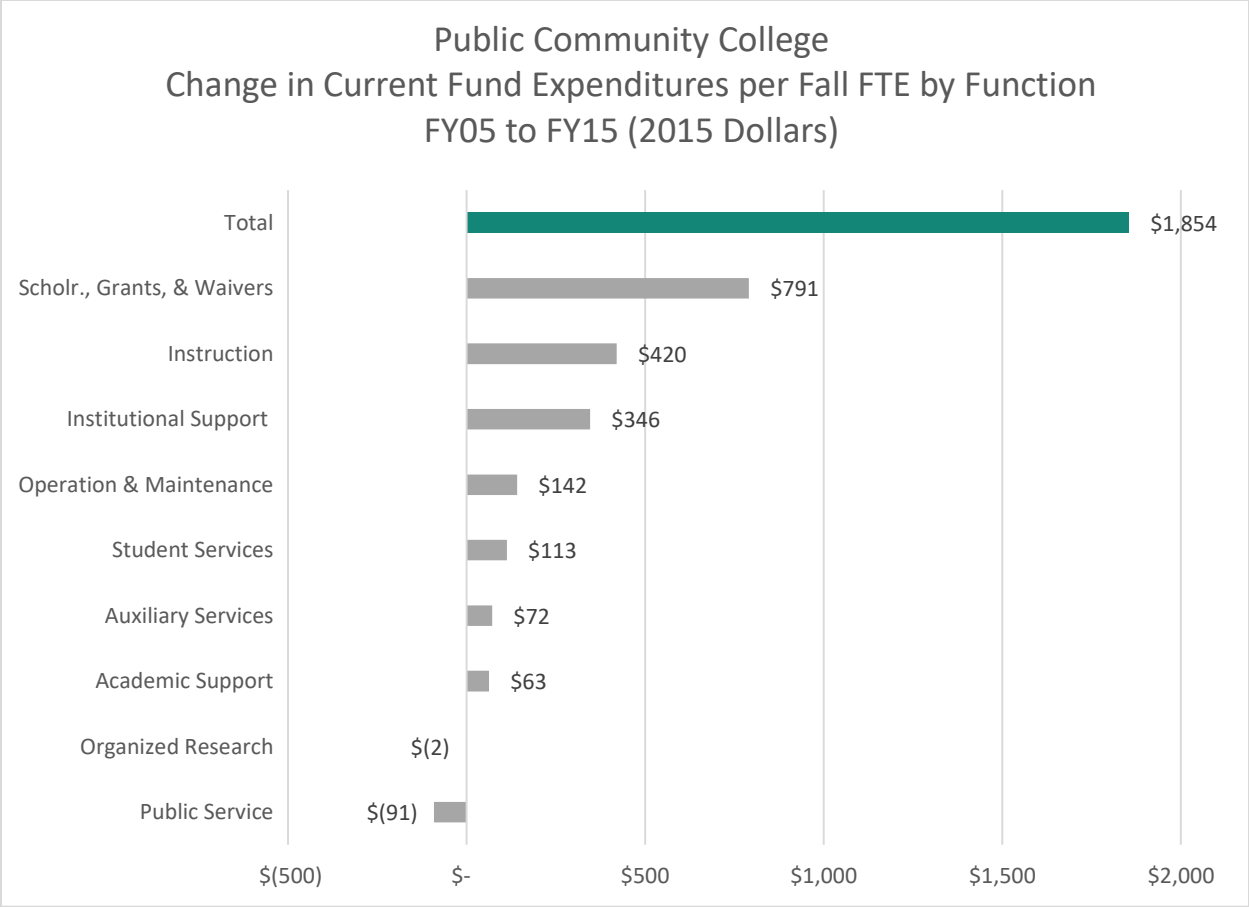
The community college expenditure by functional categories are similar to the university categories. The main difference is scholarships, grants and waivers being listed as its own category, instead of being part of student services as financial assistance is for the universities.

Share of FY15 Community College Expenditures by Function	
Instruction	31%
Scholarships, Grants and Waivers	19%
Institutional Support	18%
Operation & Maintenance	9%
Student Services	8%
Auxiliary Services	6%
Academic Support	5%
Public Service	3%
Organized Research	0%
Total	**100%**

- Similar to universities, expenditures on instruction constitute the largest functional category for community colleges.
- Scholarships, grants and waivers are the second largest category of expenditures.
- Public service expenditures make up a very small portion of the total. Only one community college reported formal research activity.
- The share of expenditures by category has remained relatively stable from 2005 to 2015, with the biggest change being a 7-percentage-point increase in scholarships, grants and waivers.

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.

[41] Illinois Community College Board, 2006
[42] Illinois Community College Board, 2016



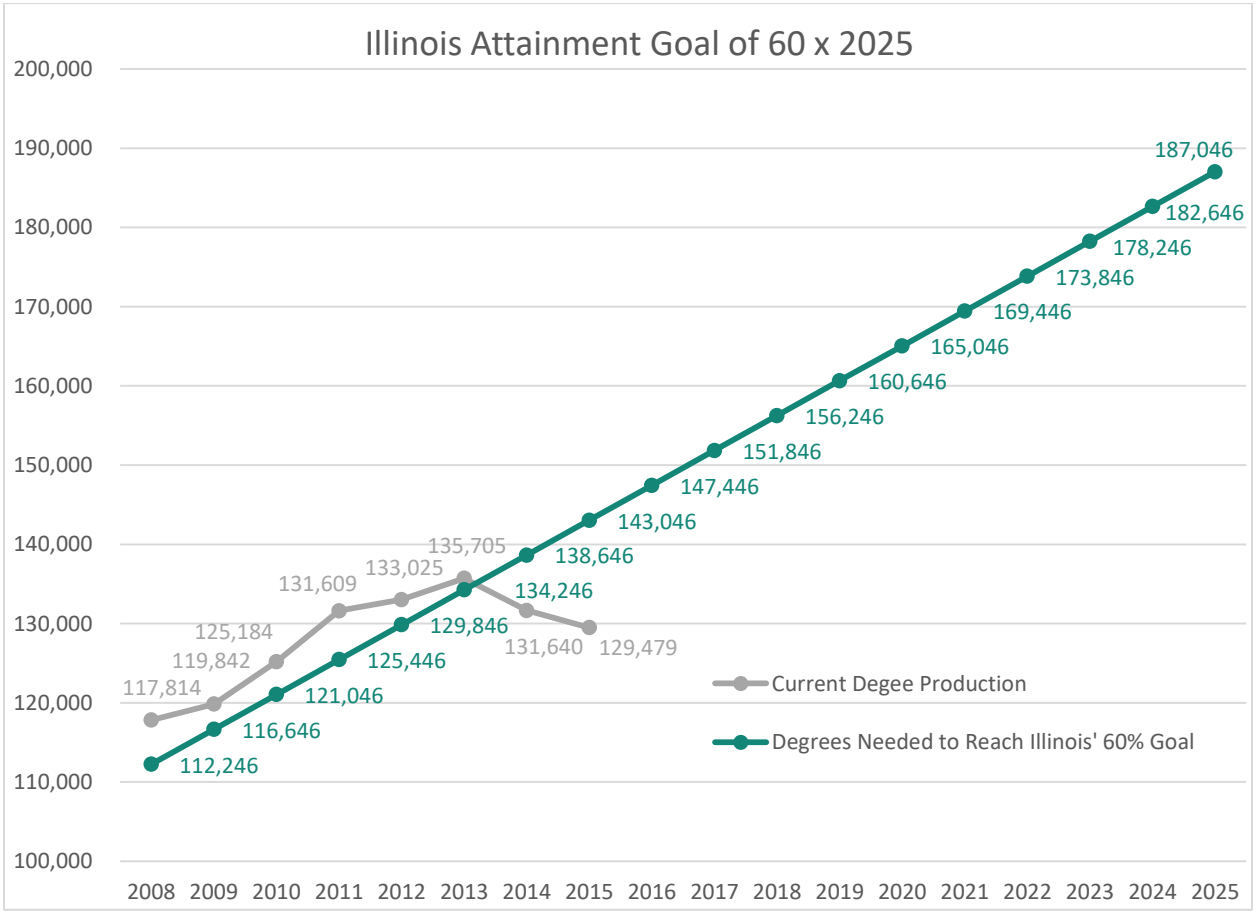
- Over 40 percent of the total change in expenditures was due to growth in scholarships, grants and waivers. This was a 96 percent increase from FY 2005.
- Expenditures on instruction, a 23 percent increase, and institutional support, a 19 percent increase, were the next largest contributors to the total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

Part III: Key Considerations for an Illinois Finance Framework

Attainment Goal

The Illinois attainment goal, established by the state's P-20 Council, aims to increase the percentage of the Illinois adult population with a degree or major credential to 60 percent by 2025 (60 x 25).[43] Meeting this goal 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.[44]

It was estimated that an additional 4,400 awards would have to be produced annually from 2008 to 2025 to meet the 60 x 2025 goal. Illinois degree and credential production was on track with these projections from 2008 to 2013, but growth decreased in 2014 and remained flat in 2015, primarily a result of decreasing awards from the proprietary sector. Smaller decreases occurred in the public university and private nonprofit sectors.



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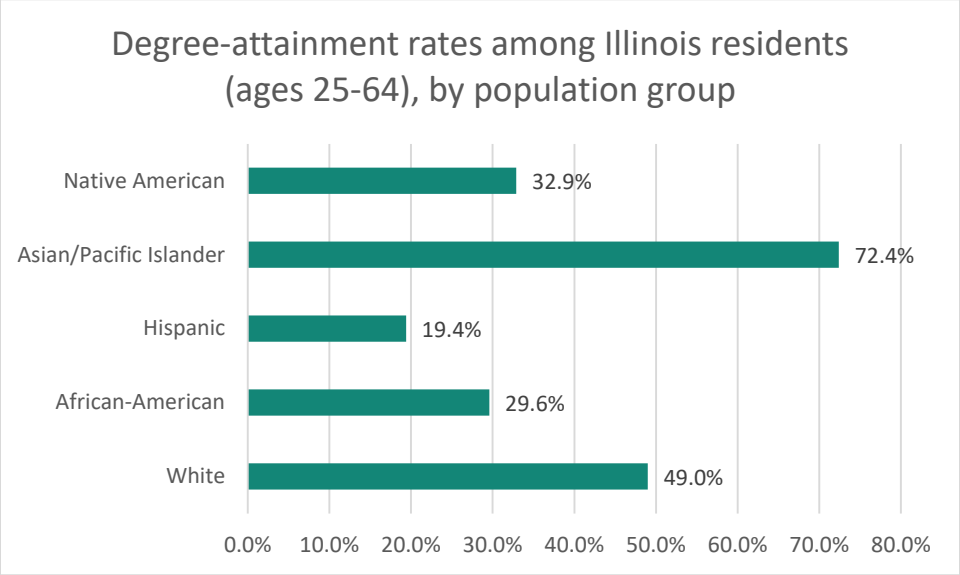
[43] Illinois Board of Higher Education, 2016
[44] Carnavale, Smith, & Strohl, 2010
[45] Illinois Board of Higher Education, 2016

In keeping with the Public Agenda, it is particularly important to focus on underserved populations if the attainment goal is to be met. These groups are becoming a greater share of the total state and student population, and their attainment rates have the most room to improve. While African-Americans and Hispanics in Illinois have recently shown a modest but consistent increase in completions, their attainment rates still trail the rest of the population.[46]



[47]

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 this 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 approach undergirding Illinois' higher education system.

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.

Until recently, Illinois' higher education investment has been more supportive of low-income students than in most states, primarily because of its significant investment in need-based financial aid.

[46] Illinois Board of Higher Education, 2015
[47] Lumina Foundation, 2016

The proportion of low-income students in higher education, however, is much lower than the proportion in the K-12 population. As a result, higher education spending other than need-based aid is more regressive than investment in elementary and secondary education, with much of the benefit of postsecondary spending supplementing students who are not low-income.

If low-income students in Illinois attended institutions that received per-student state and local appropriations equal to those at institutions attended by higher-income students, they would benefit equally from the public investment. Yet on average, they attend institutions receiving somewhat less in state and local appropriations per student. So, while Pell-eligible students account for 37 percent of all undergraduates, their weighted share of appropriations is only 33 percent.

That gap is smaller than the gap nationwide, and the state has historically spent a larger share of its total budget on financial aid than average, while also allocating that aid almost entirely based on financial need. However, recent trends in state divestment, increasing reliance on tuition revenue, and decreases in MAP funding have had disproportionate effects on low-income students, making access to higher education even more limited for them. Financial barriers faced by students result in their not enrolling, under-enrolling as part-time students, under-matching (attending a less selective school than academically qualified for) or taking on higher levels of loans and debt, all of which have implications on students' likelihood of persisting and completing a credential.

Increasing debt levels are also of concern and an area where Illinois is losing ground. According to the Project on Student Debt, the average debt of 2005 graduates from Illinois universities was $20,740 in current dollars, 29th highest in the country. By 2015, the average debt of graduates had grown by 41 percent to $29,305 and Illinois was ranked as the state with the 19th highest average debt.[48]

The other factor driving affordability is the source of funding for higher education support. As in most states, Illinois taxes are regressive and take a disproportionate share out of low-income residents' incomes, which may be a reason to ensure that the spending also benefits those residents economically.

Key implications for Illinois' funding framework:

- The largest "grant" most Illinois students receive is disguised in the form of resident tuition rates. Institutional funding allocations should be made with an understanding of how they impact both average affordability and affordability for low-income and other high-priority populations.

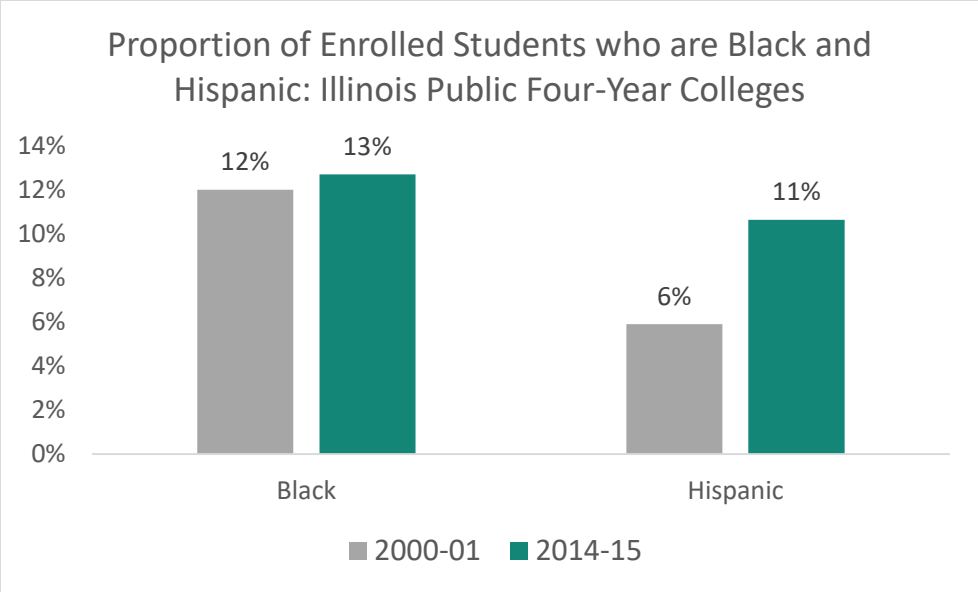
[48] Project on Student Debt, 2016

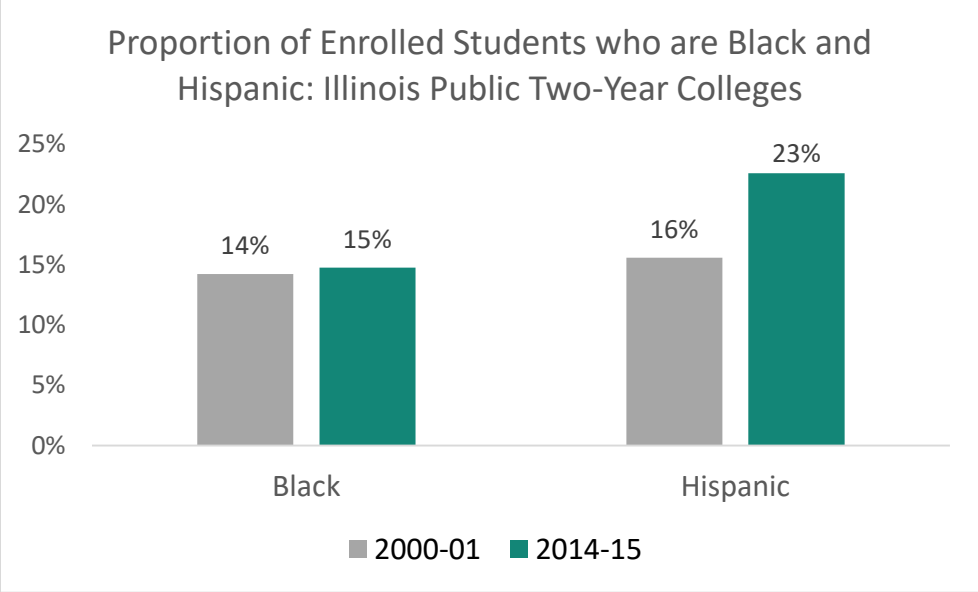
- Targeted investments in institutions serving high proportions of low-income or place-bound students, or in aid programs that directly benefit those students, with a focus on improving student outcomes would improve overall funding equity within the state.
- The effects of the decline in MAP funding over the past 15 years, and the complete absence of MAP funding in 2017, could have serious disproportionate effects and implications for access and affordability and therefore attainment, equity and ultimately the development of the future Illinois workforce.
- Decreases in affordability may not be felt evenly throughout the state. In the two-year sector, local funding can vary greatly among institutions, and ICCB equalization grants, intended to reduce the disparity in local property tax funds available per student, have been underfunded in recent years.

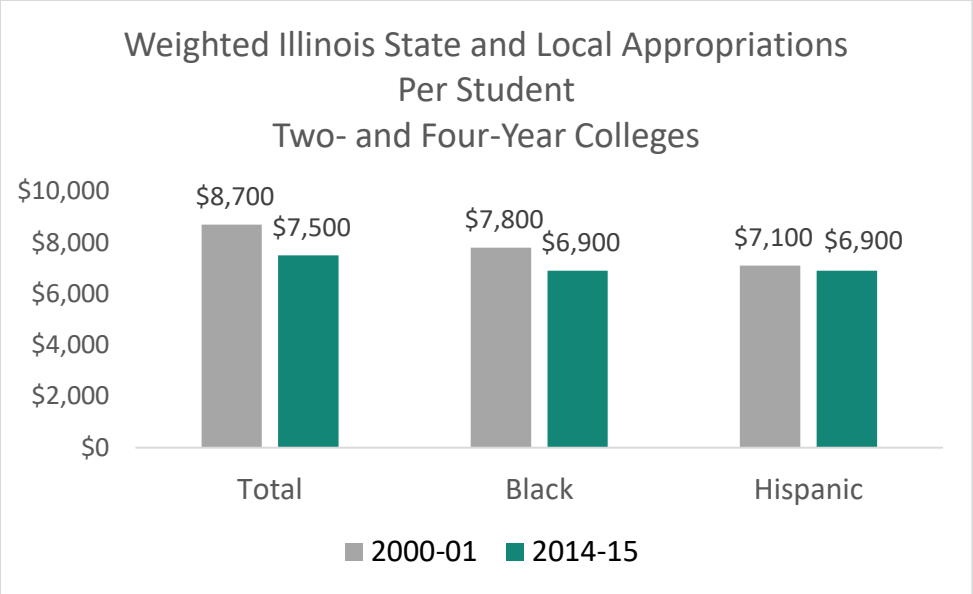
#2. Illinois' higher education appropriations provide slightly less support for minority than nonminority students, but the gap has narrowed.

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. Appropriations per student increased at community colleges over this period, for example, while they declined at four-year institutions. This is primarily because community colleges receive local appropriations and four-year colleges do not.[49]

[49] These charts are based on analysis of institutional appropriations and enrollment IPEDS data by Postsecondary Analytics. A share of each institution's appropriations was assigned based on the proportion of the minority group in the student population, and the total amount statewide was divided by the total number of students in that group.


Proportion of Enrolled Students who are Black and Hispanic: Illinois Public Four-Year Colleges
14%
12%
10%
8%
6%
4%
2%
0%
12%
13%
6%
11%
Black
Hispanic
2000-01
2014-15


Proportion of Enrolled Students who are Black and Hispanic: Illinois Public Two-Year Colleges
25%
20%
15%
10%
5%
0%
14%
15%
16%
23%
Black
Hispanic
2000-01
2014-15



Key implications for Illinois' funding framework:

- Unequal levels of state funding may result in unequal levels of services or program offerings available, especially given that programs with high employment demand, such as those in health or technology fields, 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 potential implications for student equity goals and imperatives.

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. For universities, the share of public funds changed from 77 percent state appropriations/23 percent tuition revenue in 1990 to 39 percent state appropriations/ 61 percent tuition revenue in 2015. Community colleges saw a similar decline in the share associated with state appropriations. In 1990, community college public funds were 35 percent state appropriations/39 percent local appropriations/26 percent tuition revenue. By 2015, these shares were 15 percent state appropriations/44 percent local appropriations/41 percent tuition revenue.

Key implications for Illinois' funding framework:

- Tuition is effectively a form of "performance funding," which supports institutions that can recruit and retain higher-income, fee-paying students. With tuition (and sometimes other revenue sources) making up the lion's share of institutional budgets, institutional planning necessarily becomes more market- and enrollment-driven. This can be a powerful positive force as institutions seek out areas of high demand, and work to retain enrolled students in their programs. But it can limit opportunities for students who cannot afford to participate and discourage institutions from promoting more accelerated degree completion or transfer.
- Local appropriations disproportionately go to community colleges serving large numbers of minority and low-income students. In the aggregate this improves the equity of the overall investment.
- However, the differences in the ability of communities to raise local funds result in regional disparities in equity.
- Overall, this increased reliance on tuition and tax property 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.
- Tuition rate increases may be a factor contributing to increases in outmigration of high school graduates. In 2002, 29 percent of all four-year college-going Illinois high school graduates enrolled at an out-of-state institution. By 2015, 45 percent enrolled out-of-state.[50]
- 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. Being targeted and strategic with state investments is even more essential in an era of limited resources.

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

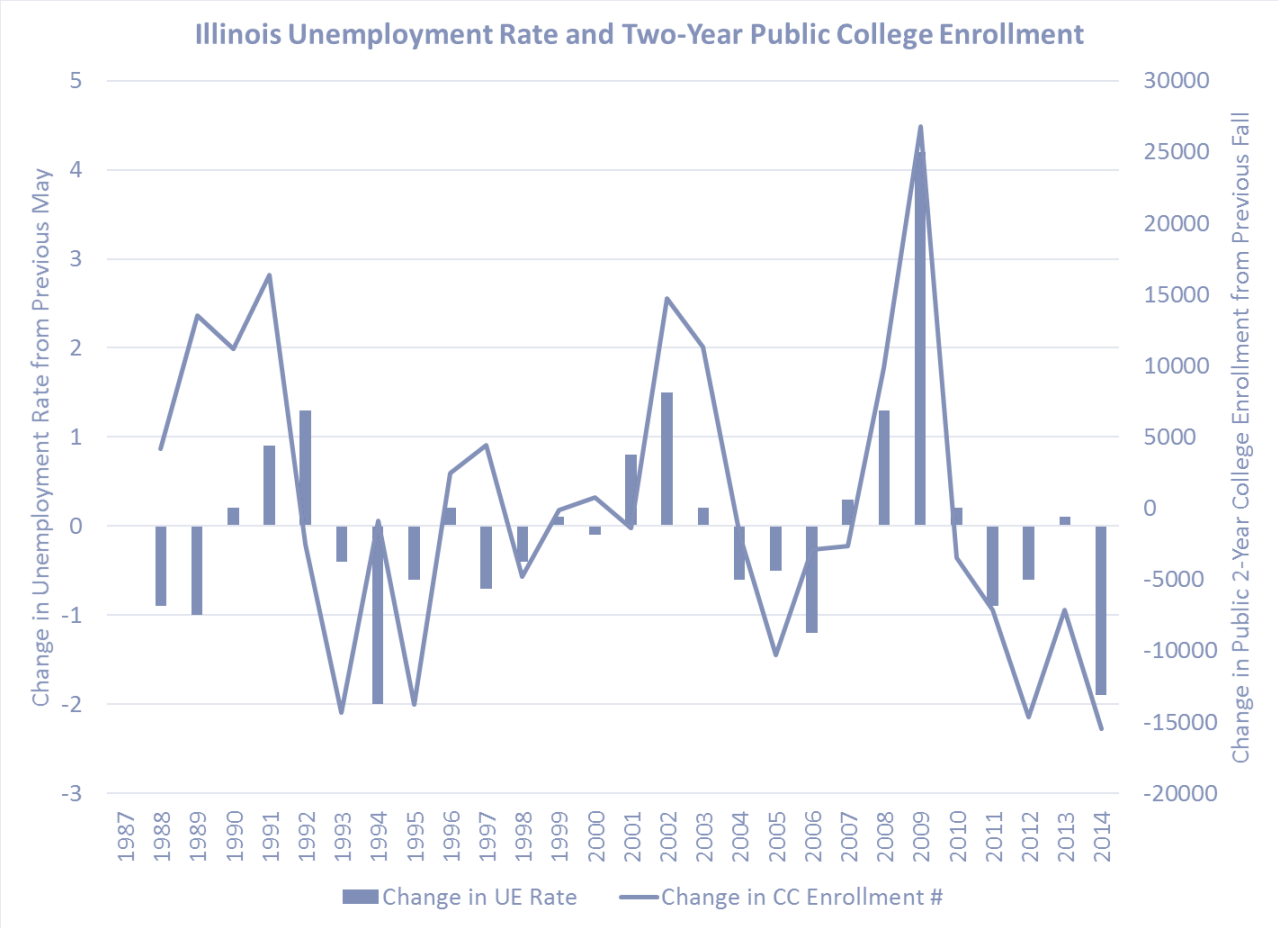
States and institutions are often surprised by enrollment surges or declines that are actually fairly predictable. A one-point annual change in the Illinois unemployment rate prior to fall term can usually be expected to move community college enrollments statewide by 3,000 to 8,000 students, with similar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

When unemployment is low and jobs are easily available, the opportunity cost of attending college is higher, depressing college enrollments. At the same time, the healthy economy produces more tax revenue so the state has more money on hand to support fewer students.

[50] Illinois Board of Higher Education, 2017

Unfortunately, the opposite happens during a downturn, resulting in tuition increases just when students can least afford them and depriving institutions of needed funds just as demand is spiking.

States like Illinois should anticipate local or statewide recessions and their effects on higher education. 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.[51]



[51] The graph and effect estimates are based on Postsecondary Analytics calculations from enrollment data provided by the Office of Higher Education and annual unemployment data from the U.S. Bureau of Labor Statistics.

Key implications for Illinois' funding framework:

- Economic downturns produce predictable surges in enrollment, and if the capacity exists to enroll and graduate students efficiently, they represent the best opportunity to make significant progress toward attainment goals while making good use of otherwise unproductive time.
- Economic cycles can also be highly localized – if, for example, a major employer starts or ends operations in a region, or if the price of a locally produced commodity swings drastically in one direction or another. Funding policies may need to include mechanisms to respond to these changes and to allocate resources efficiently not just within a given year or biennium but over a longer time horizon as well.
- 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, or to build operating reserves if there is sufficient confidence they will be available in a downturn.
- The state may want to anticipate this correlation, perhaps through mechanisms similar to those used to fund unemployment benefits: building reserves in times of high employment that are then spent on student aid and institutional support in times of high unemployment. In times of high unemployment, moreover, many part-time students may be able to attend full time if they are working fewer hours.

#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 60 x 25 attainment goal. However, before institutions can focus on meeting the goal, they need to ensure that they have the minimal funding and capacity 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.

Also of concern is the lack of a rational funding formula at the university sector. The state is forfeiting a significant policy tool by not having a funding formula that is aligned with state goals and priorities. This is especially true during times of decreasing funding, as across-the-board unplanned reductions may further exacerbate the current inequities.

Finally, a common refrain heard from stakeholders involved in Illinois higher education is that the higher education system no longer has the capacity to plan initiatives and address big-picture issues. Instead, its decentralized nature following restructuring in 1995 has been blamed for limited accountability and a lack of coordination among campuses.

Key implications for Illinois' funding framework:

- 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.

Report prepared by Scott Boelscher, Nate Johnson, Martha Snyder and Meegan Dugan Bassett

Appendix A: University Functional Expenditure Categories

- Instructional Programs
  - Activities carried out for the explicit purpose of eliciting some measure of "educational change" in a learner or group of learners.
- Organized Research
  - Activities intended to produce one or more research outcomes, including the creation of knowledge, reorganization of knowledge, and the application of knowledge.
- Public Service
  - Program elements established to make available to the public various unique resources and capabilities of the university for the specific purpose of responding to a community need or solving a community problem.
- Academic Support
  - Academic Support activities are carried out in direct support of the three primary programs of Instruction, Organized Research, and Public Service.
    - Includes direct patient care
- Student Services
  - Activities carried out with the objective of contributing to the emotional and physical well-being of students, as well as to their intellectual, cultural, and social development outside the context of the university's formal instructional activities.
    - Includes financial assistance provided to undergraduate students in the form of grants, trainee stipends, prizes awarded by the university or through the university, and matching funds for student loan programs.
- Institutional Support
  - Activities carried out to provide for both the day-to-day functioning, as well as the long-range viability of the university as an operating organization to provide for the university's organizational effectiveness and continuity.
    - Includes executive management: employees with executive, administrative, and managerial assignments.
- O&M of Physical Plant
  - Activities related to maintaining existing grounds and facilities used for educational and general purposes, providing utility services, campus security and fire protection, transportation, and rental of space.
- Independent Operations
  - Includes auxiliary services and activities that are unrelated to the primary mission of the university
- Other
  - Includes refunds/lapsed funds, CMS group health insurance, and Medicare payments.

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