

**CHANGING PRIORITIES AND THE EVOLUTION OF PUBLIC HIGHER
EDUCATION FINANCE IN ILLINOIS**

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Introduction

In March 2005 during the 24th annual David Dodds Henry Lecture at the University of Illinois at Urbana-Champaign Constantine Curris stated that “ultimately, success in renewing the covenant between the public and its universities will depend on how well our work in teaching and learning, scholarship and creative endeavor, and engagement with our fellow citizens is received by those who bear the burden of taxes and make personal sacrifices to sustain our work.” This challenge faces all of public higher education today and is particularly relevant in the state of Illinois, where its greatest son, President Abraham Lincoln, once described public universities as the “public’s universities.”

Nearly a century and a half after President Lincoln made this statement, public higher education in Illinois is confronting significant challenges as a result of another economic recession that has created profound state fiscal difficulties and the movement of other state spending priorities to the forefront. These challenges have been triggered by the convergence of unparalleled economic and demographic forces. Despite the state’s long-standing policy goal of providing a wide array of affordable postsecondary education opportunities to students of all ages, public higher education in Illinois is facing increased competition and demands for limited state resources from rapidly growing mandatory funding obligations for Medicaid, other state-funded health care programs, and state retirement systems that together will require an additional \$1.0 to \$1.5 billion in the next state budget. Medicaid alone, according to Kane and Orszag has been called “the biggest challenge casting a shadow on public higher education’s future”, (2003, p. 33). In addition, there is an increasing realization among key state policy makers that the state’s system for funding K-12 education is in serious need of reform given its comparatively high reliance on local property taxes and the resulting inequities created among school districts because of this funding system. Currently, Illinois has one of the most property tax reliant educational systems in the nation and various proposals are being debated in Springfield, Chicago, and across the state that would reduce local property tax reliance for K-12 funding and conversely increase its reliance on state income and sales taxes. These factors will make it difficult at best for public higher education to be a principal beneficiary of any new state tax revenues that might become available during the next decade, not to mention existing state revenues. Complicating this scenario is an increasing sense among state policy makers in Illinois and nationally that higher education can shift the financial burden to the student and parent during periods of economic downturn (Lingenfelter, 2004).

The growing pressures for limited state resources also comes at a time when higher education has become an economic necessity for individual opportunity resulting in rising enrollments and unprecedented demand. In the next decade Illinois forecasts indicate a 12.5 % increase in the annual number of high school graduates and an additional 57,000 new undergraduate students enrolling in colleges and universities across the state (IBHE, 2004; Carnevale and Fry, 2000). Perhaps more significant is the fact that these students will be increasingly diverse and also are likely to be more at-risk academically given the current pattern of results in state standardized tests among

elementary and high school students in Illinois (IBHE, 2004). This will place further strain on the ability of public colleges and universities to handle this influx of additional students without compensatory state funding to support them.

These demographic and educational pressures are rising in keeping with state and national economic dependency on an educated and competitive workforce. As noted by Michael Lawrence, “Increasingly, Illinoisans will vie for high-paying, knowledge-based jobs with bright, highly motivated workers in India who can sit at their computers and partner with intelligent, inventive women and men in Ireland to develop new products and ingenious means of marketing and distributing them” (2005, p. 12). This environment has generated an intense competition for high quality faculty, more sophisticated technology, and universal access to knowledge-based training. Already, numerous reports during the last decade have highlighted the overall competitive decline of public universities when compared to their private university counterparts in the academic marketplace (Alexander, 2001; Kane, 2005). This relative decline in competitive capability has been of particular concern for research universities in Illinois such as the University of Illinois and Southern Illinois University, but has also impacted other public universities throughout Illinois as well.

This potential for diminished funding places at risk the state’s ideal of broad, affordable access to postsecondary education and an overall concern for the quality of academic programs for public college and university students. The convergence of these forces has led some observers to forecast a pessimistic outlook for the support of public higher education in Illinois. This paper will examine these developments by looking at the long-term and short-term financial trends for public higher education in Illinois. The paper also will highlight many of the more pressing issues impacting public higher education in Illinois by discussing the current and historical context of Illinois’ system of higher education. Finally, this paper will provide alternative projections for the future of public higher education in Illinois based on three possible scenarios.

Current Status and Historical Context

Comparatively, Illinois is a very large, wealthy, and diverse state. It is currently the most populated state in the Midwest and the nation’s fifth largest state with approximately 12.5 million people. Additionally, the high school graduation and collegiate attendance rates are consistently above the national average. In 2002 approximately 58% of high school graduates in Illinois entered higher education institutions during the following year (NCES, 2003). This represents a slightly higher college attendance rate than the national average of 56.6%. Further, Illinois residents are above the national average on educational attainment, with 26.1 % of residents over age 25 having completed a bachelor’s degree or higher (compared with a national average of 24.4 %, and have the second highest level of attainment among all Midwestern states (U.S. Census, 2000).

Despite its above average college going rate and level of educational attainment, Illinois also is one of the nation’s leading net exporters of higher education students. In

2000, freshmen leaving the state of Illinois to attend college outnumbered the students coming to Illinois by almost 10,000 (Mortenson, 2003). For nearly two decades Illinois has consistently ranked as one of the nation's top states in the exportation of college students, trailing only the state of New Jersey in this category. The beneficiaries of this educated human capital outflow away from Illinois have been many neighboring states throughout the Midwest and the South such as Michigan, Wisconsin, Indiana, Iowa, and Kentucky. While this pattern has not appeared to have significant impact on the state's overall level of educational attainment to date, it does raise concerns regarding the future economic competitiveness of the state and the capacity of the Illinois higher education system to address the educational needs of a growing and more diverse student population. To better understand the existing limitations of the current higher education system it is important to briefly discuss the current structure and its development over the past half-century.

Current Status

Illinois has a large and diverse system of higher education comprised of nine public universities on 12 campuses, 48 community colleges, 98 private not-for-profit, and 29 proprietary institutions that enrolled just over 800,000 students in total in Fall 2004. In the public two-year sector Illinois is near the national average in the number of public two-year institutions while the postsecondary enrollment in these institutions is significantly above other states as a percentage of all students enrolled. Currently, public community colleges constitute over 45% of all higher education student enrollments. Among all states, Illinois trails only California in the proportion of its population enrolled in two-year institutions. However, the number of public four-year universities has always been comparatively low while the enrollment in this sector only constitutes 25% of the total higher education population in Illinois. This represents one of the smallest four-year public university enrollments as a percentage of the total student population. In the private sector, however, the number of four-year institutions remains above the national average and the enrollments at these institutions also give the private sector (both not-for-profit and proprietary) a larger share of the student base constituting almost 30% of all higher education students in Illinois.

As noted in Exhibit 1, total enrollment across the four sectors grew by 67,700 between Fall Terms 1990 and 2004, or 9.2 %. However, enrollment growth by sector varied significantly, with the most rapid growth during this period occurring in the proprietary and private not-for-profit sectors, and fluctuating but relatively stable growth in both the public university and community college sectors. As noted, enrollment in both the public university and community college sectors actually declined between 1990 and 2000, before rebounding during the past few years. It should also be noted that the relatively rapid growth in proprietary institution enrollment in Illinois during this period has been driven in part by the increasing number of proprietary institutions operating within the state.

Exhibit 1
Total Enrollment in Illinois Higher Education by Sector
Fall 1990 to Fall 2004

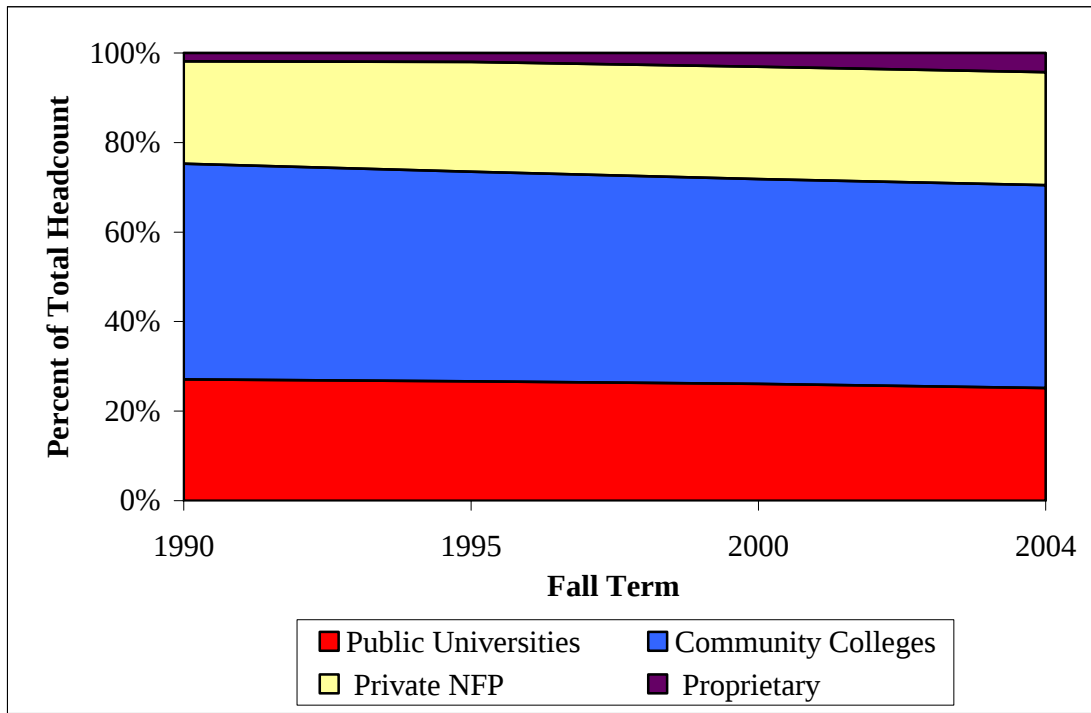
Fall Term	Public Universities	Community Colleges	Private Not-for Profit Institutions	Proprietary Institutions	Total Headcount
1990	198,481	352,898	167,657	13,794	732,830
1995	192,532	337,716	176,855	14,472	721,575
2000	193,783	340,101	186,346	22,719	742,949
2004	201,448	362,771	202,134	34,170	800,523
Change: 1990-2004					
Number	2,967	9,873	34,477	20,376	67,693
Percent	1.5	2.8	20.6	147.7	9.2

Source: Illinois Board of Higher Education Fall Enrollment Surveys.

Exhibit 2 provides an overview of the percentage distribution of total enrollment by sector in Illinois during this period. Approximately 70 % of Illinois students are enrolled in public higher education, with almost one-half in the community college system. As noted, however, the overall share of students enrolled in private higher education (both not-for-profit and proprietary) has increased steadily during this period from 24.5 % in Fall 1990 to 29.5 % in Fall 2004.

The politics of these enrollment and institutional dynamics by sector have always played a significant role in the development of the higher education system in Illinois. Perhaps not surprisingly, the current structure has been based on a long-term effort to encourage both access to and choice among these many higher education sectors through both policy and budget actions, including the establishment of its comprehensive community college system in the early 1960s to augment the public universities and a large need-based student financial aid program that was initiated in the late 1950s.

Exhibit 2
Distribution of Enrollment in Illinois Higher Education by Sector
Fall 1990 to Fall 2004



Source: Illinois Board of Higher Education Fall Enrollment Surveys (various years).

Historical Context

Legacies help to explain present state policies, challenges and behaviors. In Illinois, public institutions were started in rural areas (many as normal schools), while private institutions were established across the state, and particularly dominant in Chicago. Like most states, the growth and development of public higher education in Illinois was relatively modest until after World War II and the impact of the GI Bill. Even after the war, interest in higher education issues among state political leaders was largely of a parochial nature with little attention given to a statewide higher education policy framework or educational delivery system.

A more systemic focus on the role and purpose of higher education in Illinois took root in 1961 with the establishment of the Illinois Board of Higher Education (IBHE), a statewide coordinating board. The board's initial focus was on improving access. Its first master plan published in July 1964 led to establishing the Illinois community college system as well as providing the foundation for the state's overall structure for higher education, which has been called the "system of systems." The system of systems was put together as a structure to improve the capacity of smaller public four-year institutions to compete for resources with the University of Illinois and Southern Illinois University,

and to help coordinate the state's allocation of resources to address the rapidly growing demands for higher education across Illinois (Richardson, Bracco, Callan, and Finney 1999).

The “system of systems” included four public university governing boards with responsibility for 12 public universities. The governing boards included the Board of Governors (responsible for five universities); the Board of Regents (responsible for three universities); the Board of Trustees of Southern Illinois University (two campuses); and the Board of Trustees of the University of Illinois (two campuses). In addition, the 48 community college campuses in Illinois are governed by 39 local boards of trustees who work with the Illinois Community College Board (ICCB) in carrying out their missions. However, the “system of systems” was eliminated in the mid-1990s as the result of action by the Governor and General Assembly to restructure higher education in the state. Legislation was adopted that abolished two of the university boards (the Board of Governors and the Board of Regents), established separate Boards of Trustees for seven of the BOG/BOR institutions, and moved one of the BOR institutions under the control of the University of Illinois.

The organization of the public sector and its subsequent growth raised concerns among private institutions forcing them to lobby the Legislature in the late 1960s to seek state funding to help subsidize the cost of enrolling Illinois students attending private institutions. They also asked that the state maximize capacity in the private sector instead of starting new programs in public institutions. In return the institutions agreed they should be involved in IBHE master planning. By statute, one of the members of the IBHE appointed by the Governor represents the interests of private higher education on the Board.

The decisions made in the 1960s to use the capacity of private colleges and universities rather than building new four-year institutions and to create a statewide system of community colleges to accommodate most of the increases in new students at the lower-division level are important legacies that contribute to the shape of contemporary Illinois higher education and some of its financing challenges. In many ways the history of higher education finance and the challenges facing public colleges and universities in Illinois is as Ferguson (2001) stated, “that the nexus between economics and politics is the key to understanding the modern world” (p.60). The remaining sections of this paper analyze long-term and more recent higher education funding trends, and attempts to forecast how these trends could impact support for public higher education in the coming years.

Trends and Patterns in Illinois Higher Education Funding

In analyzing trends and patterns in Illinois higher education funding, it is important to place Illinois within a national context as well as to examine changes in key components of the state's overall investment in higher education over time.

Tax Effort

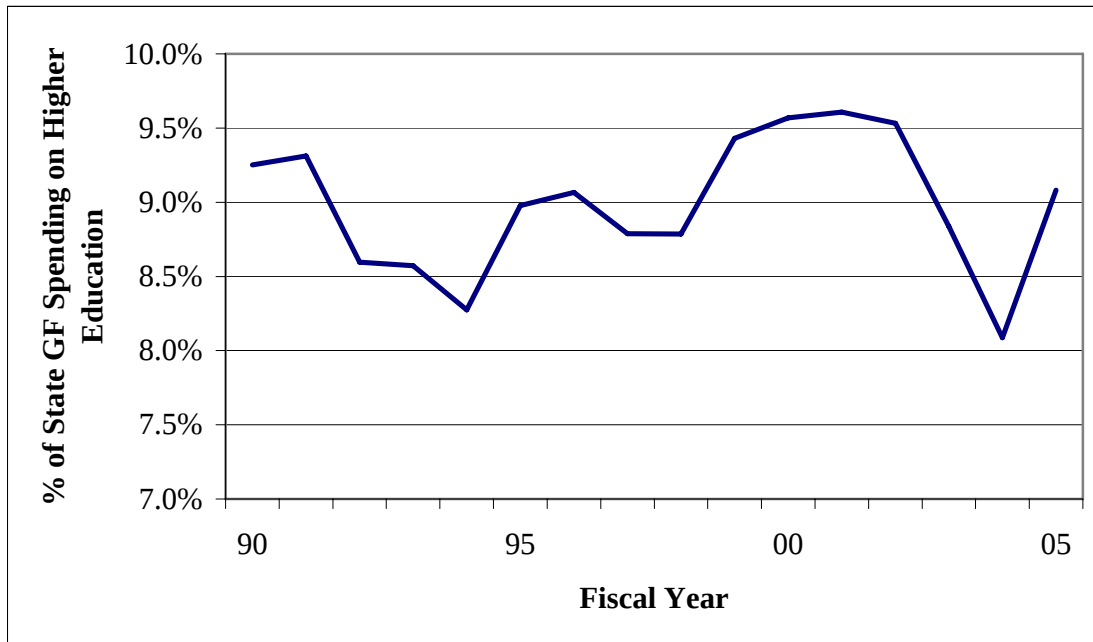
Tax funds allocated annually for higher education in Illinois emanate from two primary sources. *State appropriations* which constitute the lion's share of government revenues to colleges and universities as well as other higher education-related programs and activities (e.g., student aid), and *Local appropriations* to public community colleges, which constitute over \$600 million annually and represent an increasingly larger share of community college budgets in Illinois.

Illinois also is a relatively wealthy state ranking 12th in the nation in per capita income. However, when comparing appropriations of state tax funds for higher education per \$1,000 of personal per capita income, Illinois falls considerably below the national average ranking 32nd overall in tax effort (Palmer, Grapevine, 2004). The Grapevine data are consistent with other reports regarding the below average public support of higher education in Illinois. According to the recent state higher education finance report prepared by the State Higher Education Executive Officers (SHEEO) higher education support per capita in Illinois is 98.7% of the national average or \$6 less per capita than the national average of \$417 (SHEEO, 2004).

In analyzing tax support trends in greater depth by institutional sector what emerges are interesting distinctions in tax effort by institutional control sector. In the four-year public university sector tax effort support was above the national average ranking 15th overall. Despite the appearance of well supported public university system, the primary reason why Illinois tax effort is higher in the this sector is due to the relatively low number of public university students in the public four-year sector as mentioned earlier.

Tax effort support of private higher education colleges and universities in Illinois is among the highest in the nation. In fact, Illinois ranked 4th in the nation in 2001-2002 in tax effort for private four-year colleges and universities. These funds are channeled through a variety of direct and indirect sources with the largest source being the Illinois Monetary Assistance Program (MAP), a need-based student financial aid program. In total, state support for private higher education in Illinois (including student aid and direct institutional grant program support) has typically represented between 8 and 10 % of the total state general fund spending on higher education each year (see Exhibit 3).

Exhibit 3
State Funding for Illinois Private Education as a Percent of
Total State General Fund Spending on Higher Education
Fiscal Years 1990 to 2005



Source: IBHE records.

State Supported Student Aid

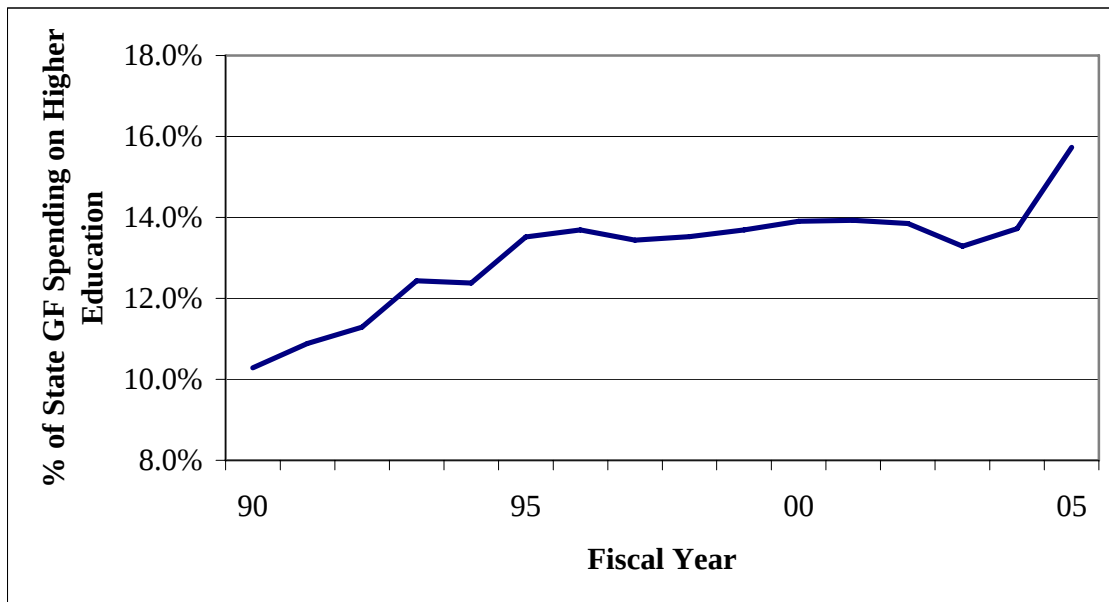
As noted previously, the concept of promoting “access and choice” have historically been a key theme of Illinois state higher education policy and finance decisions. One of the primary mechanisms by which the state has pursued this policy has been through MAP, a need-based student financial aid program administered by the Illinois Student Assistance Commission. The state appropriation for MAP in fiscal year 2005 totaled \$339.6 million, ranking it fourth among all states in spending on need-based financial aid. Funding for MAP reached its high point in fiscal year 2002 (\$372 million) before the most recent state fiscal difficulties. MAP eligibility is limited to Illinois residents enrolled in undergraduate study at an approved Illinois public university, community college, private not-for-profit college or university, or proprietary institution. MAP covers tuition and fees only, and the maximum award that students are currently eligible to receive is just under \$4,500 annually depending on their determined need and cost of attendance.

Funding for MAP is a significant portion of the overall state higher education budget in Illinois and has actually grown faster over time than the higher education

budget on average. As noted in Exhibit 4, MAP as a proportion of total state general fund spending on higher education has grown from 10 % in fiscal year 1990 to almost 16 % in fiscal year 2005. A series of policy and programmatic changes were put in place during this period as well for MAP to strengthen access and choice including a funding supplement limited to the lowest income students (which primarily benefits students at community colleges) and the expansion of MAP eligibility to include students at proprietary institutions.

Approximately 51 % of MAP funds currently are allocated to students enrolled at an Illinois public university or community college with the balance of 49% going to students at Illinois private institutions (both not-for-profit and proprietary). However, public university and college students constitute over 72% of the eligible students receiving MAP awards. These figures indicate considerable differences in actual awards received by students attending lower cost public institutions and those attending higher cost private institutions. It should be noted however that in fiscal year 1990, 58 % of MAP funds went to students enrolled in private institutions and 42 % went to students at a public university or community college.

Exhibit 4
MAP as a Percent of Total State General Fund Spending on Higher Education
Fiscal Years 1990 to 2005

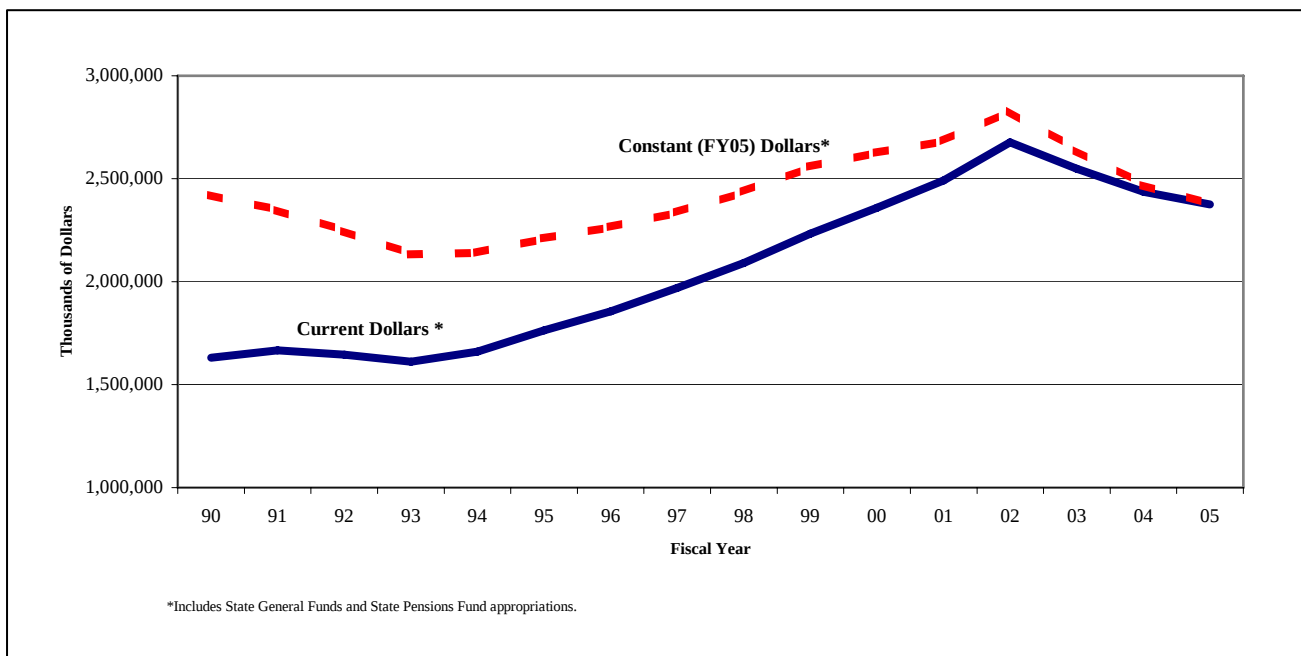


Source: IBHE records.

Long-Term Funding Trends and Patterns

Exhibit 5 shows the trend in state appropriations for higher education operations and grants between fiscal years 1990 and 2005, both in current and inflation-adjusted dollars.¹ During this period, state general funds support for Illinois higher education grew from \$1.6 billion to \$2.4 billion. However, when accounting for inflation, state support has declined by 1.8 % since fiscal year 1990. As indicated in Exhibit 5, much of the gain in state support since the early 1990s was lost during the last three fiscal years. It should be noted, however, that expenditures in other areas of state government benefit higher education as well, such as the significant general fund support provided each year for the state employee group health insurance program (almost \$1.0 billion in fiscal year 2005.)

Exhibit 5
State Appropriations for Higher Education Operations and Grants
Fiscal Years 1990 to 2005

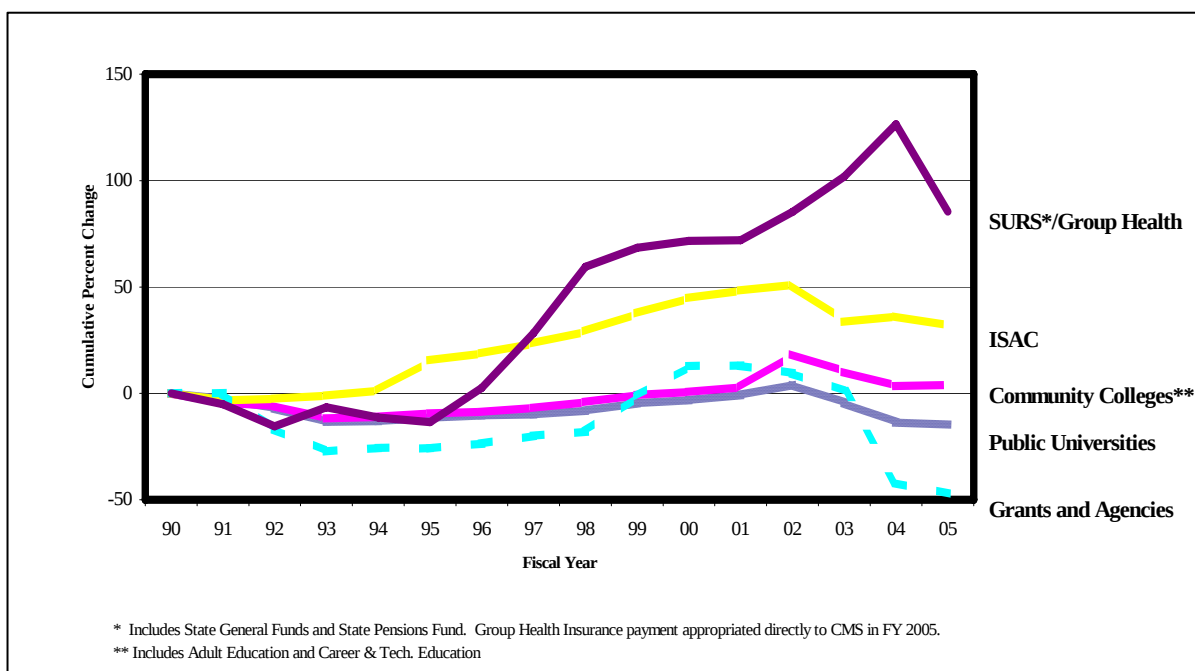


Source: IBHE records.

¹ NOTE: State appropriation data for higher education operations and grants presented in Exhibit 5 and subsequent exhibits in this report include State General Funds and State Pension Fund (SPF) amounts due to a significant shift in State Universities Retirement System (SURS) funding sources in fiscal year 2005 from General Funds to the SPF to meet statutory funding requirements for the System. Between fiscal years 1990 and 2004, total SPF support for SURS ranged from \$3.7 million to \$16.7 million annually, representing 6.9 % of total SURS funding on average during this period. The SPF appropriation for SURS in fiscal year 2005 totals \$222.6 million, or 81.5 % of total funding provided to the System to meet the required funding level.

Exhibit 6 shows the cumulative percentage change in state appropriations for higher education by sector, adjusted for inflation. Significant resources have been invested in the State Universities Retirement System (SURS) since the mid-1990s in response to a statutory change to improve the long-term financial condition of all state-funded retirement systems.²

Exhibit 6
Percent Change in State Appropriations for
Higher Education by Sector
Fiscal Years 1990 to 2005 (in FY 2005 dollars)



Source: IBHE records.

Between fiscal years 1990 and 2005, state support for the Illinois Student Assistance Commission (ISAC) increased by \$95 million when accounting for inflation, or 32 %. Virtually all of the funds appropriated to ISAC are for direct student assistance (98.8 %), the majority of which is through MAP. MAP funds are sent to colleges and universities on behalf of students and thus support institutional expenditures for educational programs. The additional funds provided for MAP since fiscal year 1990 have supported a number of program enhancements – extension of eligibility for part-

² The amount shown for retirement on Exhibit 6 also includes \$14.8 million appropriated to the Board of Higher Education for transfer to the state Group Health Insurance Fund in fiscal years 2002 through 2004, as well as general funds support for community college retirees' group health insurance (\$3.3 million in fiscal year 2005). The funding for employee health insurance costs was appropriated directly to the Group Health Insurance Fund in the fiscal year 2005 budget, which accounts in part for the downward trend in this line from fiscal year 2004 to 2005. The reduction in required state support for SURS in fiscal year 2005 also reflects the infusion of funds to all state retirement systems from the \$10 billion pension bond sale authorized in 2004 through Public Act 93-0002.

time students and students attending proprietary institutions, formula changes to target additional resources to students from families with low incomes – as well as increases in the MAP maximum award and funding to cover tuition and fee increases.

State funding for public universities in fiscal year 2005, when adjusted for inflation, is \$224.1 million less than in fiscal year 1990, or 14.7 %. Funding for community colleges (including funds for adult education and postsecondary career education) is slightly above fiscal year 1990 levels due primarily to the additional investment made in fiscal year 2002 for adult education. When these funds are excluded, inflation-adjusted state general fund support for community colleges in fiscal year 2005 is \$33.3 million less than in fiscal year 1990, or 10 %.

State support for grant programs and agencies in fiscal year 2005 is \$54.1 million less than in fiscal year 1990 when adjusted for inflation, or 47.2 %. In large part, this reflects reductions in support for the Higher Education Cooperation Act (HECA) grant program in fiscal year 2003, and the elimination of funding for the Illinois Financial Assistance Act grant program (\$20.6 million) in fiscal year 2004, which provided capitation grants to eligible Illinois private colleges and universities based on the enrollment of Illinois resident undergraduate students.

Recent Funding Trends

As was seen in Exhibits 5 and 6, the state's difficult fiscal situation in recent years has had an impact on funding available for higher education, beginning in fiscal year 2002 when higher education was asked to place \$25 million (or approximately 1%) in general funds appropriations in reserve to assist the state with a mid-year budget deficit. In addition, public universities were requested to contribute \$45 million from their own resources that year for a portion of the cost of the state employee group health insurance program, a practice that has continued each fiscal year since that date.

The higher education budget impacts in fiscal years 2003 and 2004 were more significant in magnitude. Exhibit 7 presents the cumulative change in state funding by sector/program for higher education operations and grants between fiscal years 2002 and 2004. Overall, state appropriations for higher education operations and grants declined by \$239.2 million, or 8.9 % during that two-year period. During this same period, higher education's share of state general fund appropriations in total declined from 11.5 % to 10.4 %. In addition, higher education was asked to place \$55 million and \$30.6 million of state general funds appropriations in reserve in fiscal years 2003 and 2004 respectively to assist the state in addressing its ongoing fiscal difficulties. There were also significant reductions in state funding for institutional operations (public universities and community colleges) in both fiscal years 2003 and 2004.

The fiscal year 2005 state budget provides \$2.1 billion in state general funds support for higher education operations and grants (excluding retirement), a net decrease of \$4.6 million or 0.2 % from fiscal year 2004 appropriated levels. As highlighted in Exhibit 7, the fiscal year 2005 budget is a departure from the trends noted earlier, by

largely maintaining (and in some cases increasing) state funding for higher education institutions and agencies, although funding was reduced or eliminated for some higher education grant programs and initiatives.

Despite this stabilization in state funding, public colleges and universities in Illinois will have to look to student tuition and fee revenues as a primary source of future funding growth to address increasing enrollment demands and maintain educational quality and competitiveness. As Exhibit 10 indicates, student tuition and fee increases at public universities and community colleges since fiscal year 2002 have nearly doubled the increase of previous years. The next section of this paper looks more closely at funding trends and patterns at Illinois public community colleges and universities over the past several years.

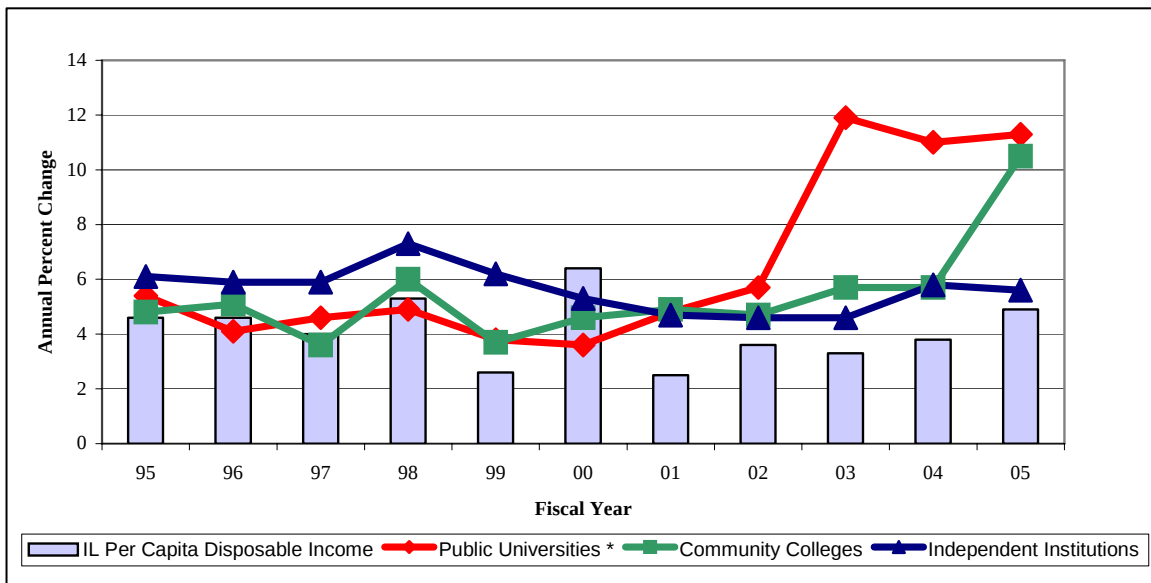
Exhibit 7
State Funding for Higher Education Operations and Grants *
Fiscal Years 2002, 2004, and 2005

(in thousands of dollars)

	FY2002	FY2004	FY2005	FY2002 to FY2004		FY2004 to FY2005	
	Appropriations	Appropriations	Appropriations	Dollar Change	Percent Change	Dollar Change	Percent Change
Public Universities	\$ 1,502,910.9	\$ 1,303,764.7	\$ 1,304,875.4	\$ (199,146.2)	(13.3) %	\$ 1,110.7	0.1 %
Community Colleges	333,659.9	293,567.0	299,419.8	(40,092.9)	(12.0)	5,852.8	2.0
Grants to Colleges	331,103.5	291,345.4	297,198.2	(39,758.1)	(12.0)	5,852.8	2.0
ICCB Administration	2,556.4	2,221.6	2,221.6	(334.8)	(13.1)	-	-
Adult Education/Postsecondary Career and Technical Education Grants	39,005.3	46,155.2	46,257.2	7,149.9	18.3	102.0	0.2
Illinois Student Assistance Commission	423,752.3	398,354.9	391,600.8	(25,397.4)	(6.0)	(6,754.1)	(1.7)
Monetary Award Program/IIA	374,728.3	345,899.8	345,899.8	(28,828.5)	(7.7)	-	-
Other Grant Programs	42,520.0	46,270.9	39,985.2	3,750.9	8.8	(6,285.7)	(13.6)
ISAC Administration	6,504.0	6,184.2	5,715.8	(319.8)	(4.9)	(468.4)	(7.6)
Grant Program	97,256.0	46,915.3	40,568.3	(50,340.7)	(51.8)	(6,347.0)	(13.5)
Illinois Financial Assistance Act	22,169.1	-	-	(22,169.1)	(100.0)	-	-
Health Education Grants	21,708.3	17,000.0	17,000.0	(4,708.3)	(21.7)	-	-
Institutional Grants	53,378.6	29,915.3	23,568.3	(23,463.3)	(44.0)	(6,347.0)	(21.2)
Other Agencies	21,245.1	18,463.4	19,937.1	(2,781.7)	(13.1)	1,473.7	8.0
Illinois Mathematics and Science Academy	16,526.7	14,359.2	15,832.9	(2,167.5)	(13.1)	1,473.7	10.3
State Universities Civil Service System	1,441.2	1,253.6	1,253.6	(187.6)	(13.0)	-	-
Board of Higher Education	3,277.2	2,850.6	2,850.6	(426.6)	(13.0)	-	-
Subtotal - Institutional/Agency Operations and Grants	2,417,829.5	2,107,220.5	2,102,658.6	(310,609.0)	(12.8)	(4,561.9)	(0.2)
Retirement/Transfer to CMS Health Insurance Reserve Fund*	258,146.1	329,594.9	273,250.7	71,448.8	27.7	(56,344.2)	(17.1)
Higher Education Total	\$ 2,675,975.6	\$ 2,436,815.4	\$ 2,375,909.3	\$ (239,160.2)	(8.9) %	\$ (60,906.1)	(2.5) %

* Includes State General Funds and State Pension Fund. Health insurance funding (\$14.8 million) appropriated directly to Department of Central Management Services (CMS) in fiscal year 2005.

Exhibit 8
Annual Change in Weighted Average Undergraduate Tuition and Fees by Sector
Fiscal Years 1995 to 2005 (Estimated)



* Reflects annual change in average tuition and fee rate for continuing students.

Source: IBHE records.

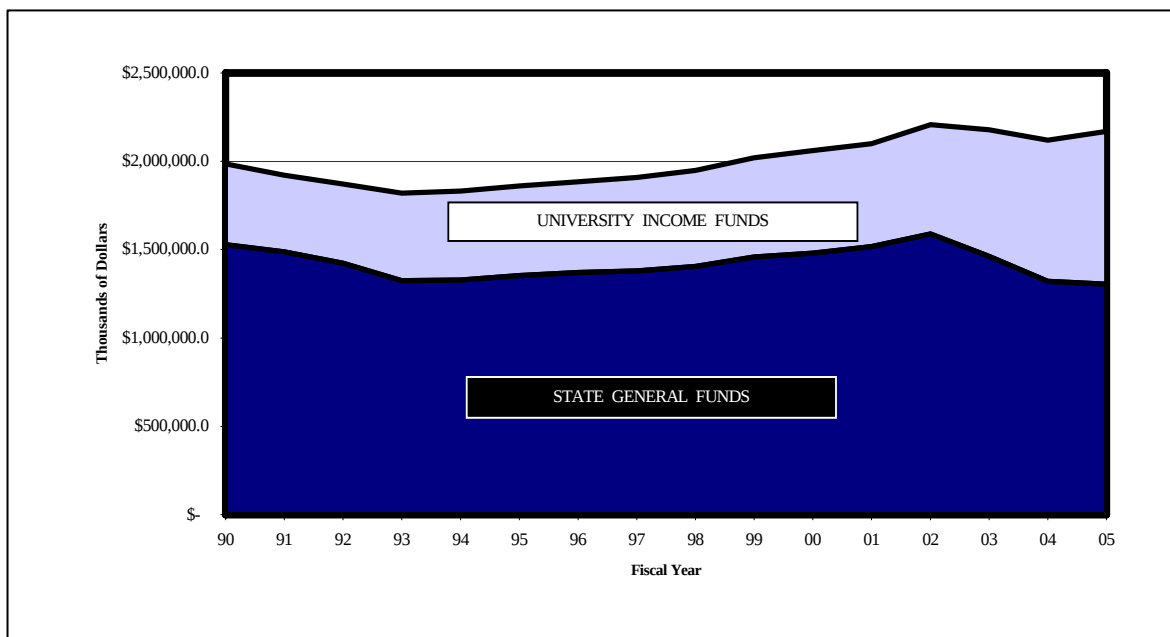
Public Higher Education Funding Trends and Patterns

State appropriations are, of course, 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 to other more restricted revenue sources in both sectors (e.g., federal grants that support research projects, fees that support residence halls and other auxiliary operations, private gifts that support scholarships and academic departments). However, 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 (i.e., student tuition) are the primary sources of funding for general support of educational and related activities; for community colleges, the primary sources of funding for general support of educational and related activities are state general funds appropriations, local property tax revenues, and student tuition and fees.³ Other institutional operating revenue sources (e.g., federal grants and contracts, auxiliary enterprise revenues, private gifts) are typically restricted to the support of specific activities (e.g., sponsored research projects, scholarships, debt service on bond revenue facilities).

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

Exhibits 9 and 10 show the inflation-adjusted trend in total educational and related revenues at Illinois public universities and community colleges respectively between fiscal years 1990 and 2005 by source. During this period, total educational and related revenues increased by 9.2 % at public universities and by 42.7 % at community colleges, when adjusted for inflation. As indicated, total educational and related revenues for public universities were at their highest in fiscal year 2002, while they have grown steadily for community colleges during this period. However, in both sectors, support from non-state sources has increased at a greater rate since fiscal year 1990, with the most rapid rate of growth in these sources since fiscal year 2000. State general funds support for public universities as a percent of total educational and related revenues declined from 77.0 % to 60.2 % during this period. For community colleges, state general funds support as a percent of total educational and related revenues declined from 35.4 % to 22.3 % during this period.⁴

Exhibit 9
Trend in Educational and Related Revenues at Illinois Public Universities
Fiscal Years 1990 to 2005 * (in FY 2005 dollars)

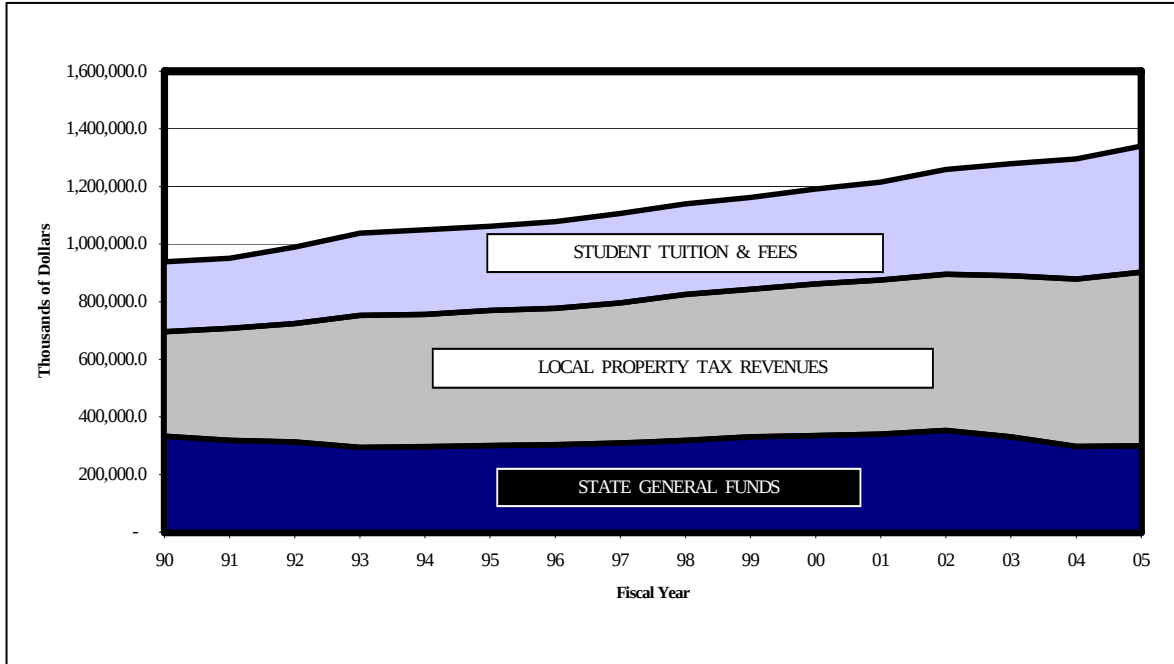


* University Income Funds for FY 2005 are estimated.

Source: IBHE records.

⁴ Note: The ability of community college districts to generate local property tax revenue can be “capped” through the state Property Tax Extension Limitation Law (PTELL), and 14 of the 39 districts currently fall under this limitation. Community college tuition and fee rates are also limited under state law to no more than one-third of per capita instructional costs, although no district currently faces this limitation.

Exhibit 10
Trend in Educational and Related Revenues at Illinois Community Colleges
Fiscal Years 1990 to 2005 *(in FY 2005 dollars)

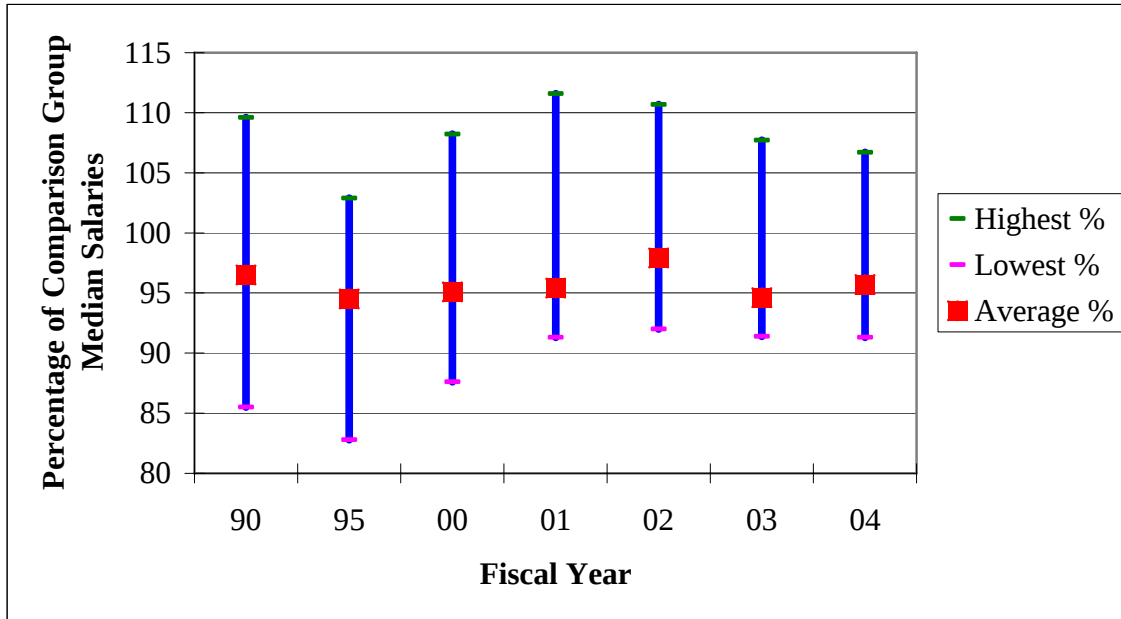


* Local Property Tax Revenues and Student Tuition and Fees amounts for FY 2004 and FY 2005 are estimated.

Sources: IBHE and ICCB records.

As noted earlier, institutional competitiveness in the academic marketplace is of keen interest to Illinois public universities for both enrollment capacity and educational quality concerns. The IBHE has analyzed the competitiveness of full-time faculty salaries at Illinois public colleges and universities relative to their unique comparison (i.e., “peer”) groups on an annual basis since the mid-1980s. Exhibit 11 shows the range (highest and lowest) and average of weighted average faculty salaries at public universities in relation to each public university’s comparison group median faculty salary since fiscal year 1990. As noted, on average, Illinois public university salaries have been below the median each year (95.7% on average in fiscal year 2004). Further, although a few public universities have been above their individual comparison group medians, the majority of institutions have been below their median. Not surprisingly, most Illinois public universities have made enhancing faculty and staff compensation the top institutional budget priority in recent years.

Exhibit 11
Range and Average of Illinois Public University Weighted Average Full-Time
Faculty Salaries as a Percentage of Comparison Group Medians
Fiscal Years 1990, 1995, and 2000-2004



Note: The fiscal year 2004 faculty distribution among ranks was used to determine weighted average faculty salaries for all years to minimize the impact of annual changes in faculty mix on the trend analysis.

Source: IBHE Faculty Salary Studies (various years).

What Next?: Alternative Projections Based on Three Possible Scenarios

Forecasting future funding trends for public higher education with any degree of precision is a difficult task at any time, and especially at this point in history when considering the unpredictability of current economic conditions in Illinois and throughout the nation. However, by analyzing previous fiscal trends and the resulting impact on public higher education in Illinois, this paper outlines three broad, alternative economic scenarios for the future and the potential consequences that could occur in the next decade if these scenarios are realized. These predictions are based on both the intended and unintended consequences of previous budgetary fluctuations for public higher education in Illinois and the responses to such conditions. These alternative forecasts are intended to illustrate a likely range of possible scenarios for public higher education and their relative impacts and outcomes should they become reality and should be viewed as such.

As shown in Exhibit 12 the “Most Likely Scenario” or economic possibility does not provide a very promising outlook for public higher education in Illinois. This scenario is based on a continuation of current economic instability and limited ability to address

the fiscal needs of public higher education institutions or students. In this most likely category public colleges and universities will experience only minimal to modest funding changes in state appropriations over the next decade at best, averaging approximately from 0 % to 1 % annual growth. Judging by previous conditions the most likely result is a series of responses by public universities ranging from limited enrollment growth to enrollment caps at some universities. This scenario also will undoubtedly lead to a consistent continuation of moderate to high tuition increases that could average from 10% to 15% annually for the next decade. The most optimistic consequence of this “most likely” scenario will be that institutional aid packages awarded to students will also increase somewhat due to these tuition increases.

In this economic scenario the public community colleges will also face significant challenges that will most likely result in moderate increases in property taxes, moderate tuition growth in the range of 6% to 9% annually, and continued enrollment growth with more lower-income and full-time students seeking admission. The “Most Likely Scenario” will also impact state student aid programs by forcing further changes in the MAP formula to target financial aid to lower income students while only receiving moderate increases in overall program funding.

In the two additional possibilities for public higher education in Illinois shown in Exhibit 13 predictions are made based on a potential “Best Case Scenario” and a “Worst Case Scenario”. The “Best Case” prediction presents a very optimistic view and is contingent upon a strong state economy and resulting state revenue growth that will support 2% to 4% average increases in state appropriations for public higher education during the next decade. If this scenario comes to fruition then public universities will most likely experience significant enrollment growth throughout Illinois while student tuition and fee rates will only increase at annual rates of 5% to 8%. For public community colleges the additional revenues in this scenario would result in only low to moderate tuition and local property tax growth. State student aid programs (especially MAP) would also be a beneficiary of the additional funding available. This essentially means that private colleges and universities also would receive more state support as well.

In the “Worst Case Scenario” for public higher education in Illinois average annual changes in state appropriations would fall by at least 1% to 5% per year over the next decade. This would have very detrimental consequences on public higher education in Illinois and the growing numbers of students seeking postsecondary education opportunities. For public universities, continued appropriation declines would result in the following consequences: low to capped enrollment growth; elimination and consolidation of academic programs; and significant tuition and fee increases to help backfill lost state funds needed to support institutional operating costs. The consequences for public community colleges would not be much better. Community colleges in Illinois would likely experience rapid enrollment pressures driven in part by the tuition increases and enrollment caps implemented by the public universities. They would also experience moderate to high tuition and property tax increases to support their expanded educational and student needs. In addition, it is possible that there would be

increased public pressure for the establishment of limited baccalaureate programs at public community colleges as the demand for greater access permeates the higher education landscape in Illinois.

The impact of the “Worst Case Scenario” on the Monetary Assistance Program and other student aid programs would be detrimental as well. This scenario would most likely result in flat funding at a time when tuition rates are rapidly increasing. However, a positive impact would be that there would most likely be formulaic changes that would provide more assistance to lower income students attend lower cost colleges such as public community colleges and lower cost public universities.

Conclusion

These three scenarios provide a window into the future of public higher education in Illinois in the next decade. The unpredictability of this environment remains an important challenge in itself as public universities and community colleges struggle to plan for the future to both maintain educational quality and provide access for an increasing number of students from across the state. Irregardless of which (if any) of these scenarios become reality, it is evident that the compact between state government and public higher education has entered a new era in Illinois. While the state will likely remain the primary financier and stakeholder of public higher education in Illinois, it is also likely that the growing demands for higher education across the state will outstrip the state’s ability to adequately fund those demands forcing public community colleges and universities to become more tuition-reliant and/or seek other funding arrangements with the state. Absent any significant influx of new state revenues, it is also possible that state government itself will look to other means and mechanisms for allocating the limited resources available for public higher education to maximize access and choice for state residents. In any event, to paraphrase David Breneman (2004), state policy makers and public higher education leaders must make a conscious and deliberate decision on what characteristics and desired outcomes are most important for Illinois’ system of higher education rather than allowing it to happen by “inaction or default”.

Exhibit 12
2005-2015 Possible Fiscal Scenarios for Public Higher Education in Illinois

<i>Sector/Program</i>	<i>Best Case Scenario (2% to 4% Average Annual Change in State Appropriations)</i>	<i>Most Likely Scenario (0% to 1% Average Annual Change in State Appropriations)</i>	<i>Worst Case Scenario (-1% to -5% Average Annual Change in State Appropriations)</i>
Public Universities	■ High enrollment growth ■ Low to moderate tuition growth (5-8% annually)	■ Moderate enrollment growth ■ Enrollment caps in selected academic programs ■ Moderate to high tuition growth (10-15% annually) ■ Movement toward surcharges for higher cost/higher demand programs (e.g., engineering, business, nursing)	■ Low to flat enrollment growth ■ Enrollment caps at selected institutions and academic programs ■ Pressure to eliminate and consolidate academic programs ■ Significant tuition growth (>15% annually)
Public Community Colleges	■ Low enrollment growth ■ Low to moderate tuition growth (4-6% annually) ■ Low to moderate property tax growth	■ Moderate enrollment growth ■ Moderate tuition growth (6-9% annually) ■ Moderate property tax growth	■ High enrollment growth (driven in part by caps and tuition increases at public universities) ■ Pressure to establish selected baccalaureate programs at selected community colleges ■ Moderate to high tuition growth (10-15% annually) ■ Moderate property tax growth

<i>Sector/Program</i>	<i>Best Case Scenario (2% to 4% Average Annual Change in State Appropriations)</i>	<i>Most Likely Scenario (0% to 1% Average Annual Change in State Appropriations)</i>	<i>Worst Case Scenario (-1% to -5% Average Annual Change in State Appropriations)</i>
Monetary Award Program	■ Moderate to strong growth in program funding (<i>above the rate of growth for higher education on average</i>)	■ Moderate growth in program funding ■ Some changes in program allocation formula to target funding for lower income students	■ Flat program funding ■ Strong focus on program allocation formula changes to support more access at lower cost institutions for lower income students instead of choice
Institutional Financial Aid	■ No change in current status	■ Moderate to strong growth at public universities (<i>funded in part through tuition increases</i>)	■ No change in current status

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