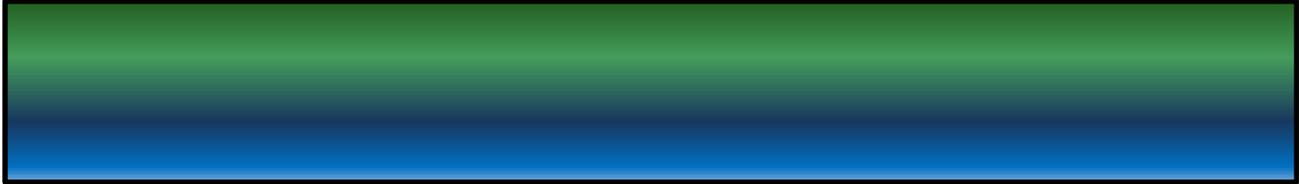


FY 2014 BUDGET REQUEST



**FOR
OPERATING
AND
CAPITAL FUNDS**

**PREPARED FOR THE
BOARD OF TRUSTEES
SEPTEMBER 14, 2012**



UNIVERSITY OF ILLINOIS
URBANA-CHAMPAIGN • CHICAGO • SPRINGFIELD

FY 2014 BUDGET REQUEST

**FOR
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CAPITAL FUNDS**



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BOARD OF TRUSTEES
SEPTEMBER 14, 2012**

UNIVERSITY OF ILLINOIS

Urbana-Champaign • Chicago • Springfield

Office of the President
364 Henry Administration Building
506 South Wright Street
Urbana, IL 61801-3689

Robert A. Easter
President

September 14, 2012

To the members of the Illinois legislature, Governor Pat Quinn, our students, their families, faculty and staff, and the citizens of Illinois:

This year, America is celebrating the 150th anniversary of the Morrill Act, the landmark bill that created the University of Illinois and more than 100 other public, land-grant universities across the nation.

No legislation has had a more profound impact on our country's social and technological progress. The Morrill Act put higher education within reach of ordinary people, not just the elite. It spawned the pioneering research and innovation that has lifted society and propelled economic growth. It demonstrated the transformative power of education, and its life-changing impact on both students and the world.

Since its land-grant founding in 1867, the University of Illinois has never lost sight of the Morrill Act's critical mission. It has grown to three great campuses that enrolled more than 77,600 students last fall, yet another record. It awards more than 19,000 degrees every year, and 70 percent of graduates stay here in Illinois – becoming workforce leaders, and stoking the state's economy through their increased earning power.

It attracted more than \$750 million in research funding last year, dollars that fuel both the local economy and the breakthrough innovation that creates jobs and prosperity. It produces more patents – a leading indicator of innovation and discovery – than any university in Illinois, and is one of the top ten sources of patents in the state.

But as we celebrate the Morrill Act's countless successes, its underpinnings are being tested today as never before in the University's long and storied history. Growing financial challenges are threatening affordability, and the academic and research excellence that has made the U of I one of the world's most accomplished and respected institutions.

In the face of those challenges, we can allow ourselves to drift into mediocrity, blaming our decline on a host of outside forces. Or we can chart our own future, steering the University to a new era of achievement and service to the citizens of Illinois.

Across our campuses, I sense a strong desire to make those tough decisions – those adult decisions. Our trustees and academic leaders share a passion to overcome obstacles, and a commitment to the core values that have made the University of Illinois the envy of our peers.

Members of the Illinois legislature, Governor Pat Quinn, et al.

September 14, 2012

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Our efforts have already begun. An initiative to trim administrative overhead has netted more than \$30 million in annual savings and will ultimately cut operating costs by \$60 million annually – savings that is being redirected to support educational programs.

We also are working to promote affordability and access. A new policy has held tuition increases to the rate of inflation for the last two years. University-provided financial aid has increased fourfold over the last decade, and a \$100 million fundraising campaign is underway to provide even more scholarships.

The University also reallocated more than \$7 million this year to recruit and retain talented students and faculty from underrepresented groups, creating the campus diversity that is crucial as we prepare students to excel in an increasingly global workplace.

But to maintain the excellence that is synonymous with the University of Illinois, we also need the state's support. The Legislature's annual appropriation is critical to our future, and this 2014 budget request represents the necessary operational and capital funds to carry on our missions. I invite you to read this budget request, and welcome your feedback.

Thank you for your distinguished service to the University, and to the people of this great state.

Sincerely,

A handwritten signature in black ink, appearing to read "Robert A. Easter". The signature is fluid and cursive, with the first name "Robert" and last name "Easter" clearly legible.

Robert A. Easter

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**Capital
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Capital Budget Request for FY 2014

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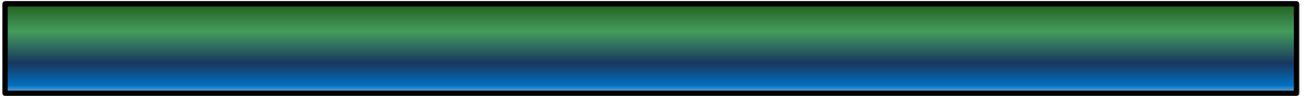
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INTRODUCTION



INTRODUCTION

Overview



Higher education in the United States is uniquely positioned to help the nation face some of its most pressing issues. Through its various economic, social and intellectual outcomes, higher education is the key to a vibrant economy and society. President Obama has acknowledged higher education's role in the country's future by setting a goal of having the world's largest share of college graduates by 2020. Great public universities across the United States with their vast enrollments, research discoveries, health and outreach services and other functions have never been more important to the nation's future. The University of Illinois is one such institution that will continue to have a significant impact in the state, nation and across the globe.



The University of Illinois: World-class University, statewide impact.

The University of Illinois is a uniquely diverse institution with a traditional flagship campus, an urban university with the nation's largest medical school and complex medical center and a small liberal arts campus in the state's capital, serves constituents throughout the state. The Urbana-Champaign, Chicago and Springfield campuses all perform their traditional teaching and learning missions well. Each campus also has distinctive research strengths: Urbana with its science, agriculture, cutting-edge technology, engineering and interdisciplinary projects; Chicago with its medical, health professions and urban research projects; and Springfield with its public policy, political and media strengths.

The greatest challenge faced by the University of Illinois is one of maintaining the highest standards of quality while at the same time keeping access affordable. This same challenge can be found at public institutions across the country. In many states, the challenge has been exacerbated by a weakened economy and mounting pressures on state budgets. This document represents a budget plan for FY 2014 that will help the University of Illinois address this challenge and ensure that we continue to achieve our most important goals.

The U of I has remained exceptionally productive in the face of its challenges, enrolling over 77,000 students and producing 19,400 graduates in 600 degree programs annually. More than 7,800 students annually earn U of I advanced

degrees—master’s degrees, MBAs, law degrees, health discipline degrees, veterinary medicine degrees and doctorates—from the three campuses.

In addition to enrolling students from all over the state, the University of Illinois also makes a statewide impact through its Cooperative Extension and health care services. Cooperative Extension, based at the Urbana campus’s College of Agriculture, Consumer and Environmental Sciences (ACES), offers educational programs in every county in the state. Programs fit into five broad areas: healthy society; food security and safety; environmental stewardship; sustainable and profitable food production and marketing systems; and enhancing youth, family and community well-being.



*The University of
Illinois is making a
difference every day
in every one of
Illinois’ counties.*

The University also provides health services to a large number of Illinois citizens. In 2011, the UIC College of Medicine facilities provided 455,175 clinical visits, many these to low-income patients in Chicago, Peoria, Rockford and Urbana. Each of the UIC College of Medicine’s campuses educates physicians and is deeply embedded in the state’s overall health care effort. The College of Medicine at Peoria is part of a public-private partnership that celebrated the December 2012 ribbon-cutting ceremony of the new Cancer Research Center. The College of Medicine at Urbana offers advanced research M.D./Ph.D. programs. Rockford boasts a National Center for Rural Health Professions, dedicated to the study, understanding and dissemination of information on the special health and wellness needs of rural citizens. Additionally, the College of Pharmacy has established a regional campus in Rockford, allowing pharmacy students with rural backgrounds to collaborate with medical students to address the health care needs of rural Illinois communities. This complements the Chicago campus’s urban emphasis.

In 2011, the University’s research efforts produced 346 technology disclosures, 91 patents and 99 licenses and options to commercialize new technologies. Some of these innovations will become the products, industries and job-creating companies of the future. In the last five years, 54 start-up companies commercializing university-generated technologies got up and running. The business incubation facilities at the Urbana-Champaign and Chicago campuses house more than 90 start-up and established companies, including John Deere, Caterpillar, Archer Daniels Midland, State Farm and Yahoo!.

Appropriately for a university located in a state capital, the University of Illinois at Springfield brings a living-laboratory approach to the public policy and politics that dominate the city. Many of UIS's faculty and staff have long ties to state government and media and function as policy experts and media contacts throughout the state and beyond. The U of I also houses the Institute of Government and Public Affairs (IGPA) with policy and political experts on all three campuses.

The Illinois Fire Service Institute on the Urbana campus offers on-campus and online instruction and certifications for the state's 42,000 fire fighters in 1,200 departments. Courses offering college credits range from fire-fighting basics to rescue techniques to homeland security and weapons of mass destruction response. In 2011, the Illinois Fire Service Institute provided training to more than 49,000 firefighters. This specialized training translates into lives saved and property damage minimized throughout the state.

The U of I employs over 28,500 FTE and provides an annual direct and indirect economic impact of \$13 billion. This economic impact is associated with 150,000 jobs. The university spends \$5 billion on payroll, supplies and services; and for every dollar the State of Illinois contributes to the U of I, an additional \$17 is infused into the state's economy.

The University of Illinois is a treasure for our state and its people. But it is a dynamic, rather than a static, treasure. It is dynamic because of the transforming power of education in people's lives. Ultimately the greatest impact of the University of Illinois is on the lives of students. They learn in our classrooms, interact with faculty, study in our libraries and laboratories and graduate to make their own contributions to society. In the face of new technologies and the forces of globalization, a high quality education is more important today than ever before, enabling people to achieve their dreams and change their economic conditions. University of Illinois students help build our society, shape our culture and fuel our economy. They are the engaged and informed citizens on whom our democracy depends. The University of Illinois is also a dynamic treasure because of the original knowledge that it produces and disseminates. This knowledge is the foundation of the new economy. It is responsible for new industries that put people to work.



*The University of
Illinois is a treasure
for our State and its
people.*



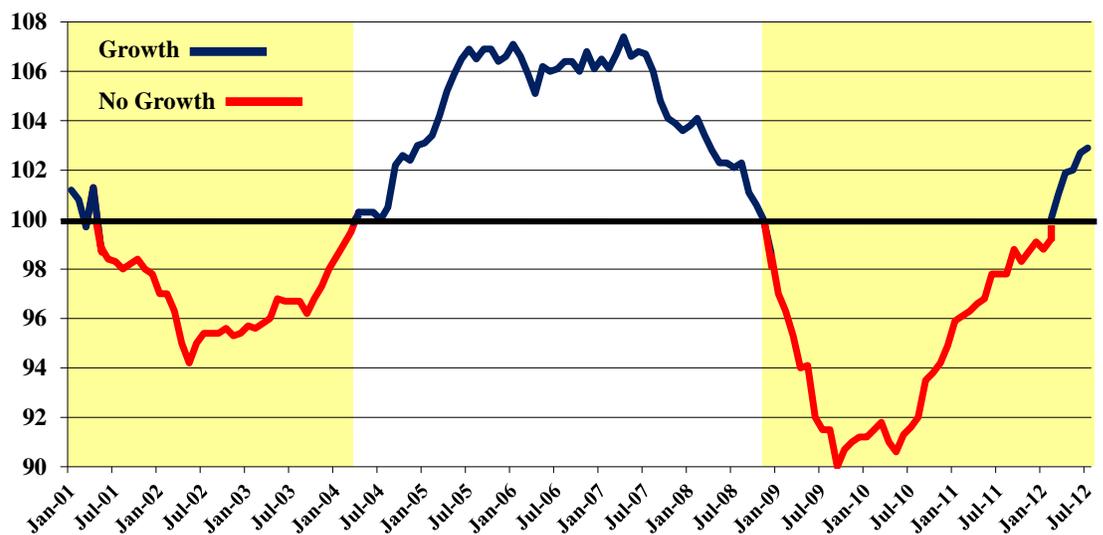
*The University of
Illinois is dynamic
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As evidenced by its broad scope of impacts, the University of Illinois makes a difference in the prosperity and quality of life of thousands of Illinoisans every day. Many of these constituents care deeply about the state of the university and its future. Stewardship requires that the University’s stakeholders—from trustees, administrators and faculty to students, alumni and taxpayers—share an unshakable commitment to the value and the values of public higher education and particularly to the University of Illinois.

ECONOMIC ENVIRONMENT

The context in which the University of Illinois is requesting funding is important. This decade has been a challenging one for the state. The nation and Illinois experienced a significant economic downturn in the early 2000s. As measured by the Institute of Government and Public Affairs’ “Flash Index” in Figure 1, the Illinois economy had an extended period of contraction (as shown by the shaded area) from May 2001 to May 2004. This was followed by more than four years of significant growth for the Illinois economy and the state’s tax revenues. However, in 2008 the nation and state began an economic downturn that has been termed the “Great Recession,” the deepest and most prolonged economic downturn since World War II.

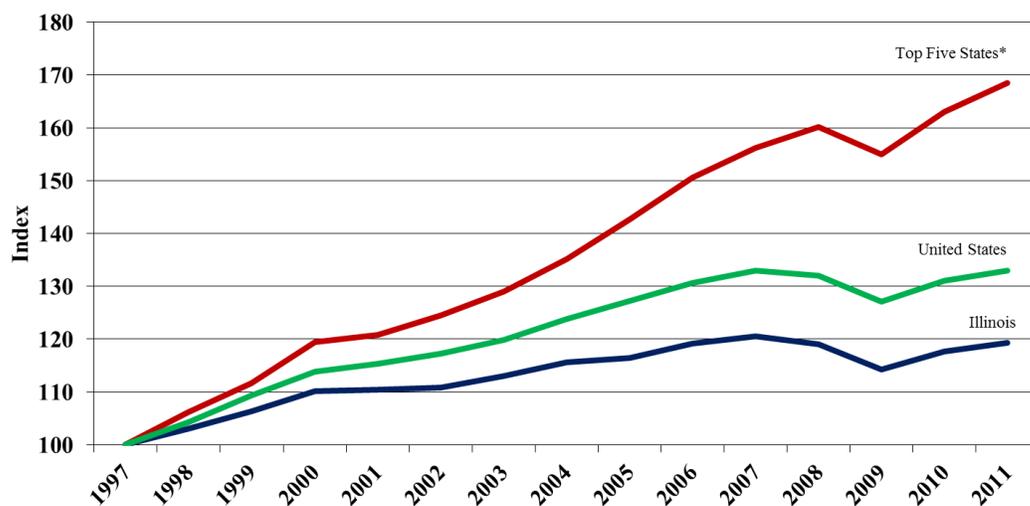
Figure 1
U of I Flash Index



Source: IGPA, U of I.

However, even before the “Great Recession,” Illinois’ economic growth rate was lower than national averages. State employment has lagged national averages; manufacturing employment is 35% below 1998 levels; and although overall employment increased from 2004-2008, we still have not recovered from a sharp decline in 2009. As shown in Figure 2, trends for the last decade show that Illinois’ Gross Domestic Product has significantly underperformed compared to the national average. Illinois was even further behind the top five states. While it is possible that this trend will reverse, there is little evidence of it happening.

Figure 2
Change in Real Gross Domestic Product by State
1997 – 2011



*Average of top five performing states.
 Source: U.S. Bureau of Economic Analysis

In addition to weak economic growth, the state faces another major fiscal challenge in the form of unfunded pension obligations. The state’s five public pension systems had unfunded liabilities of over \$82.9 billion at the end of FY 2011 and were estimated to have an asset-to-liability ratio of under 43%. Unfunded liabilities have accumulated primarily as a result of under-funding from the state for several decades and the more recent drop in financial markets. In March 2010, the General Assembly passed major pension reform legislation that significantly reduced benefits for new state employees. Even with these changes, state payments to the retirement system increased significantly between FY 2011 and FY 2014. Further pension reforms were debated in the legislature again this year; and although no new

legislation was passed, the issue will likely remain at the forefront of state budget discussions.

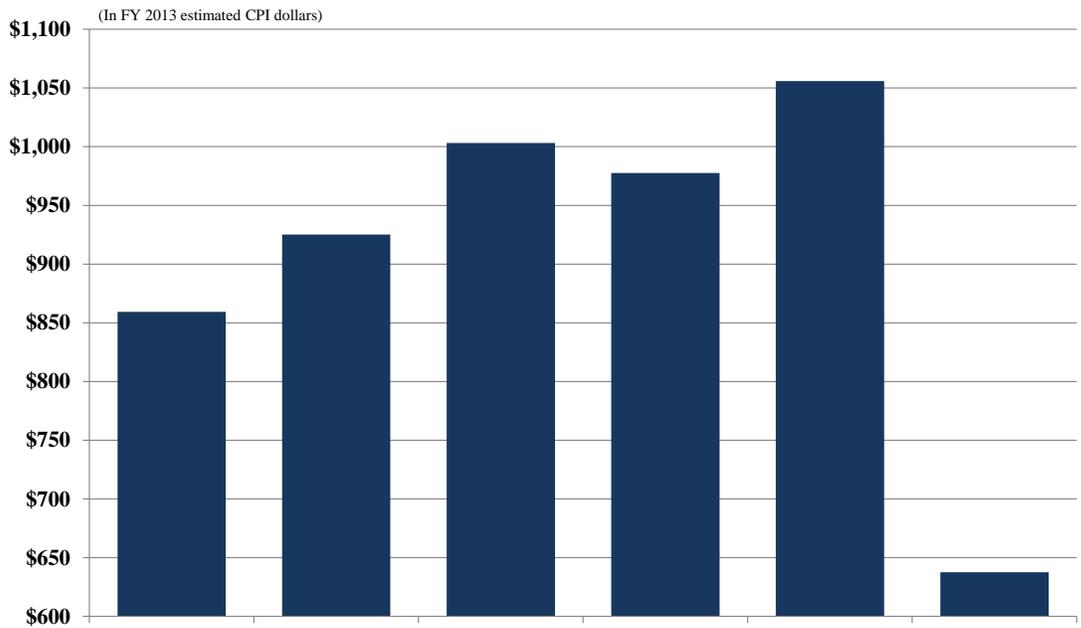
In January 2011, the state legislature passed an increase in the personal income tax from 3.0% to 5.0% and an increase from 4.8% to 7.0% in the corporate income tax rate. This legislation has a sunset provision for 2015. While it is hoped that additional revenues resulting from these increases will ease the state’s budget woes, the legislation also included budgetary spending limits.

THE BUDGET FRAMEWORK

▼
Redirection of existing resources to meet high priority funding needs is an integral and ongoing part of the University’s annual budget process.

The University of Illinois has faced a harsher financial environment in recent years than at any time in the last half century. Even as education at all levels is frequently cited among the state’s highest budget priorities, a closer examination of actual state tax appropriations as shown in Figure 3 reveals that the University of Illinois’ share of the state budget today is well below its position prior to the income tax increase of 1989-1990.

Figure 3
University of Illinois
State Tax Support



FY 1969 does not include UIS, all other years include UIS. FY 2002 at original appropriation amount. FY 2013 includes transfer of State Surveys and excludes health insurance redirection.

The state appropriation to the University of Illinois from general revenue funds is \$662.4 million for day-to-day operations in FY 2013. This figure includes \$15.8 million for the State Surveys. Along with student tuition, these funds pay most of faculty and staff salaries and wages; heat, cool and light our buildings; put books in the libraries; and equip classrooms and instructional labs. These funds are the foundation for our central missions of teaching, research, public service and economic development. University administrators and faculty have worked closely with the Board of Trustees in recent years to address key issues of resource management, administrative reorganization, tuition and financial aid policies.

As historical perspective, the economic environment and outlook for state revenues changed dramatically in FY 2002. From FY 2002 to FY 2005, the direct general tax appropriation from the state declined by more than 16%, representing a loss of \$130 million. In addition, consecutive years of mid-year rescissions totaled more than \$75 million. Spending authority was again reduced mid-year in FY 2009 by \$18.6 million. Although FY 2010 appropriations restored the FY 2009 mid-year cut (with support from federal stimulus funds of \$45.5 million), the university's budget was reduced \$46.4 million in FY 2011, a 6.2% reduction, when federal stimulus funding expired and another \$8 million, 1.1% reduction in FY 2012. In addition to these direct reductions, the university has faced annual redirection of funds for health insurance, unavoidable increases in expenses, including Medicare payments, utility costs, legal liability costs, operations and maintenance for new buildings and contractual agreements.

Reductions, redirections and unavoidable expenses have totaled over \$540 million over the last decade. Even with tuition increases, these reductions have placed extreme stress on the university. Since FY 2002, the university has lost over \$1.4 billion in spending authority. Given these realities, the university has worked hard to become more efficient and sustain quality. Principles were articulated to guide budget reduction decisions. The funds from these reallocations were used to protect core missions of the university. The impact is felt now and will be for years to come.

However, cost reductions alone cannot cover the entire burden of reduced state support. Over the next few years, the university will continue to be in jeopardy of

losing faculty, administrative, professional and support staff positions. The effects of these reductions may be serious and long-lasting. Our ability to compete and sustain quality could be severely strained. At a time in which applications and demand are rising and the economic value of a college degree is growing, further budget cuts threaten the ability of Illinois' higher education system to fulfill its mission and meet the expectations of policy makers and the general public about the quality, scope and scale of programs.

Since FY 2009, the state's fiscal health has further been challenged by a cash flow crisis. Public institutions have been impacted as the state has been unable to make payments in a timely manner. The University of Illinois has done what it can to manage this crisis by enacting measures to save resources and postpone payments as long as possible. However, ongoing financial commitments on our campuses must be met. Without timely funding of our appropriations, we will be forced to take even more drastic actions that will diminish the educational opportunities of our students and our service to the people of Illinois. Still, no amount of cutting and sacrifice can make up for the absence of state appropriation payments.


*Direct State
Appropriations for
FY 2013 were
reduced \$42.5
million or down
6.17%.*

The university has recognized the importance of addressing budget requirements via multiple sources and it is clear that the most important sources of budget strength remain state tax dollars and tuition revenues. Direct state support now represents less than one-fourth of the university's total operating budget and in combination with tuition revenue, represents virtually the entire funding for instructional programs. The University of Illinois cannot sustain, let alone enhance, its quality without a firm foundation of strong and reliable state support.

The university's budgeting process is further complicated by the "Truth in Tuition" Act that was signed into law in 2003. The purpose of the plan was to help students and families plan for college by providing certainty on tuition costs. Guaranteed tuition applies to all undergraduate students enrolled in a baccalaureate degree program at the University of Illinois or one of the other nine public universities in the state. The plan treats every student as part of a cohort defined by the date of entry to the university and each cohort is guaranteed an unchanged tuition schedule for four years.

▼
Performance based funding was incorporated into the FY 2013 budget process.

In spring 2011, the legislature also passed a bill that mandates the introduction of performance based funding for the state’s public higher education institutions. The IBHE was tasked with developing this new budgeting system. A steering committee that was assembled in July 2011 identified the key metrics and proposed a funding model. Performance funding was implemented during the FY 2013 budget cycle as a reallocation of .5% of each institution’s budget.

Through budget uncertainty and complexity, attention has understandably been focused on the immediate and unavoidable problems that the budget reductions present. However, it is even more critical for university leaders, legislative leaders and the executive branch to assess the long-term impact of these cuts. Illinois’ ability to compete effectively in an information-age economy depends on a healthy, vital and robust system of higher education.

FY 2013 BUDGET OUTCOMES

The legislative budget process for FY 2013 concluded with cuts to nearly every agency of the state. State support for the University of Illinois operating budget was reduced by \$42.5 million, or 6.17%. In FY 2013, \$15.8 million was appropriated to the university from general revenue funds for the State Surveys. This amount has been transferred to the university’s income fund since the Surveys were transferred to the university in FY 2009. The change to a general revenue fund appropriation simplifies the University’s appropriation. Given the state’s budget constraints, this budget outcome was considered a moderate success.

▼
Achieving salary competitiveness for all employees remains a top priority for redirected funds.

Additional tuition revenues in FY 2013 were derived from general increases for all students and from differential tuition increases on higher cost programs which primarily is dedicated to improvement of those instructional programs largely at the graduate/professional level. In addition, a total of \$19.9 million was redirected through internal reallocations in FY 2013. Continued internal reallocations will allow the university to address the most pressing needs.

A \$31 billion state capital budget was passed in FY 2010. It funded the first new capital projects since FY 2003. The capital bill included projects at all three

campuses as well as repair and renovation funding for existing facilities. All of these projects have either been completed or are currently underway.

The following tables and figures illustrate the changes in funding that higher education has experienced in the recent past. The state faces many legal mandates and entitlements that require increased funding now and in the future. In short, there are more priorities for state funding than available resources. The result has been limited available funds for direct appropriations to public universities.

Table 1 illustrates that the budget share for higher education has dropped substantially in the past two decades. For FY 2013, elementary/secondary education continued to be above their 1980 share of 28.8%. Higher education's share of the total budget increased in FY 2013 to 11.2%, up from 9.5% a year earlier. All of this increase is attributed to pension costs.

During the same period, budget shares for other human and social services have risen sharply. Just before the 1989-1990 tax increase, the state invested almost identical shares of its budget in higher education (13.1%) and the combined set of major human service agencies, which includes children and family services, human services and corrections (12.9%). By FY 2013, the relationship has changed dramatically. The three human service agencies together have climbed to a share of 17.6%, while higher education has fallen to 11.2%.

Table 1
State of Illinois General Tax Appropriations
(Percent Share of the Total)

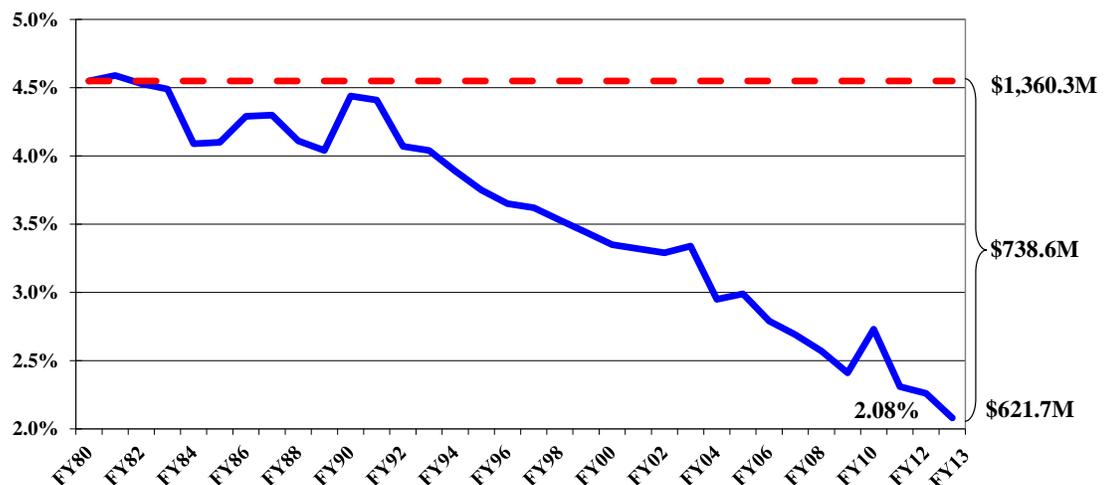
| Year | Elementary/ Secondary | Higher Education | DCFS, Human Services, & Corrections | DHFS | All Other |
|------|--------------------------|---------------------|--|-------|--------------|
| 1980 | 28.8% | 12.9% | 10.7% | 33.8% | 13.7% |
| 1990 | 26.7% | 13.1% | 12.9% | 30.7% | 16.6% |
| 1995 | 23.6% | 11.3% | 15.9% | 35.4% | 13.8% |
| 2000 | 26.3% | 11.0% | 25.9% | 23.1% | 13.7% |
| 2001 | 26.1% | 11.1% | 25.8% | 23.5% | 13.6% |
| 2002 | 26.4% | 11.1% | 25.8% | 22.5% | 14.3% |
| 2003 | 27.0% | 10.9% | 26.1% | 23.3% | 12.8% |
| 2004 | 28.4% | 9.9% | 24.4% | 24.9% | 12.4% |
| 2005 | 30.0% | 9.6% | 24.8% | 22.1% | 13.5% |
| 2006 | 27.9% | 8.9% | 23.5% | 26.3% | 13.4% |
| 2007 | 28.9% | 8.8% | 22.5% | 26.2% | 13.6% |
| 2008 | 30.1% | 7.9% | 22.8% | 25.9% | 13.3% |
| 2009 | 30.1% | 7.9% | 21.8% | 28.5% | 11.7% |
| 2010 | 31.3% | 8.3% | 22.6% | 23.2% | 14.6% |
| 2011 | 31.8% | 9.4% | 20.4% | 22.2% | 16.2% |
| 2012 | 31.5% | 9.5% | 18.5% | 23.0% | 17.5% |
| 2013 | 31.8% | 11.2% | 17.6% | 22.6% | 16.8% |

Note: FY10 - FY11 include the allocation of pension bonds for comparison purposes.


Higher education tax appropriation increases have lagged those of the major social and human services since FY 2000, after accounting for inflation.

As a result of higher education’s declining share of general tax appropriations, Figure 4 illustrates that the budget share for the University of Illinois has dropped substantially as well.

Figure 4
University of Illinois
Share of State Tax Appropriations

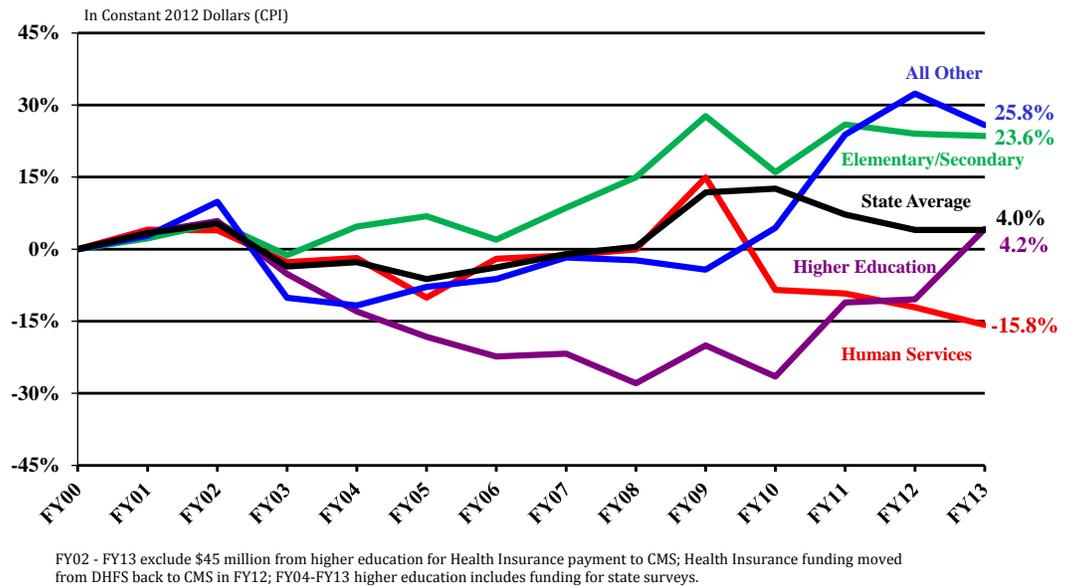


FY02-FY13 exclude \$45 million in payments to CMS from Universities for Health Insurance.
 FY09-FY13 excludes transfer of State Scientific Surveys.

Prior to the income tax increase of 1989-1990, the University of Illinois share of total state tax appropriations was 4.4%. For FY 2013, the University of Illinois share had declined substantially, down to approximately 2.1%, a nearly 53% decline.

Changes in tax support among state agencies are further demonstrated by the trends shown in Figure 5, which illustrate tax funding shifts for state agencies since FY 2000 after appropriations are adjusted for inflation. Elementary/secondary education has experienced a large boost in recent years while Higher Education has risen to the state average.

Figure 5
State Tax Appropriations Changes by Agency

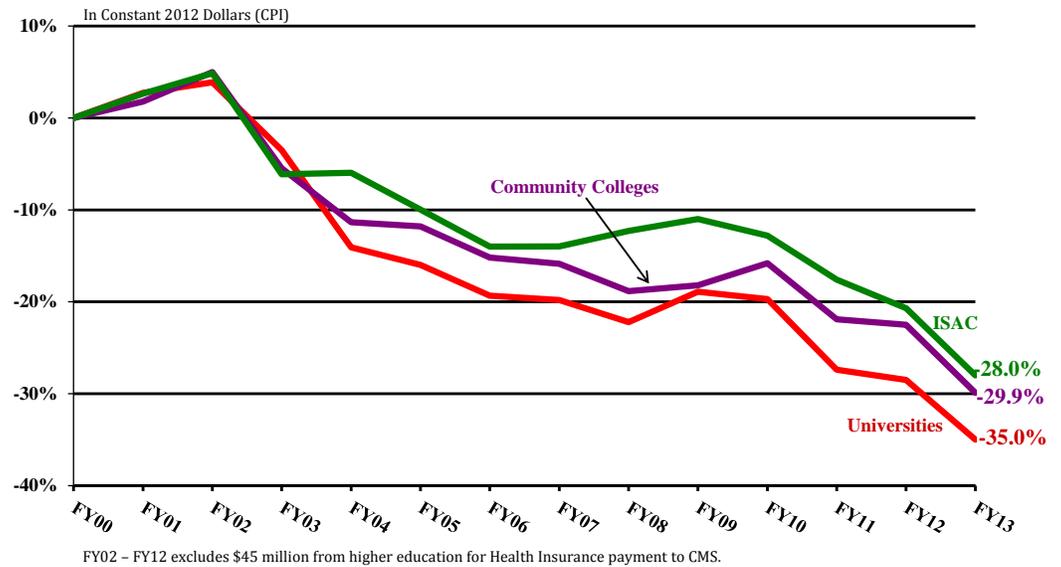


Unfortunately, higher education has seen the gains from the late 1990s and early 2000s completely eroded. Tax support has varied dramatically within the four largest segments of the higher education budget, (Community Colleges, ISAC, SURS and Universities) three of which are shown in Figure 6, again adjusted for inflation. Cumulative state tax support for these three segments has declined between 28% to 35% from FY 2000 after accounting for inflation.



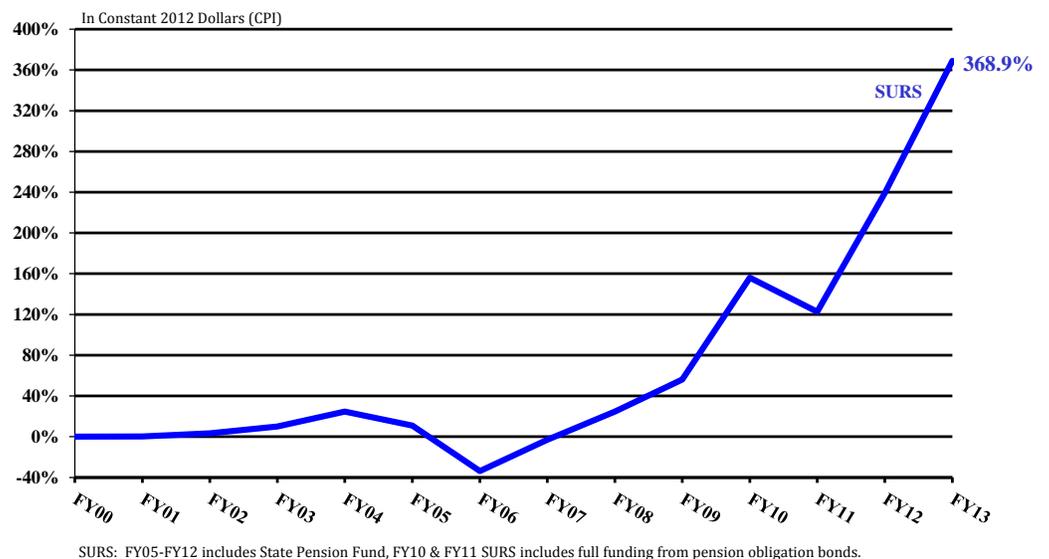
 Within the higher education budget, appropriations for SURS have captured a significant share of the funding since FY 2000 after accounting for inflation.

Figure 6
Cumulative Change in State Tax Appropriations by Selected Higher Education Sector



The most significant factor within the four largest segments of the higher education budget (Community Colleges, ISAC, SURS and Universities) is the dramatic growth in State Universities Retirement System (SURS) funding between FY 2000 and FY 2013 when adjusted for inflation as shown in Figure 7.

Figure 7
Cumulative Change in State Tax Appropriation for State Universities Retirement System (SURS)



Funding for SURS has increased by 368.9% over this time period, increasing from \$290 million to \$1.4 billion. Responding to legislation setting out a multi-year plan to bring SURS support in line with its obligations to employees, SURS received a significant and essential budget boost to preserve the strength of the retirement program serving higher education. The 1995 “catch-up” law combined with the bond sale created a very large pension funding obligation that, along with rising Medicaid and other program costs, has posed a severe challenge to the state for the past few years. At the same time, all other sectors of higher education have declined from \$2.8 billion to \$1.9 billion down 33.8%, again after adjusting for inflation.

Even with recent significant changes impacting the pension benefits of new employees as of January 2011, funding the pension systems continues to be of major concern for the state. Bills dramatically changing the benefits for current employees were introduced in the last two legislative sessions without passage. It is likely that changes to current employee benefits will be discussed in the fall veto session or earlier in a special session. SURS funds do not fall under the governance of the Board of Trustees or administration of the University of Illinois. Even with improved investment earnings in the late 1990s, changes in accounting practices mandated by federal agencies, refinements in assumptions affecting long-term forecasts for pension liabilities and the creation of optional retirement plans, the growth rate in SURS support will continue to be significant for many years. The General Assembly and Governor continue to review retirement systems and benefits.

BUDGET TRENDS IN PERSPECTIVE: REALLOCATION

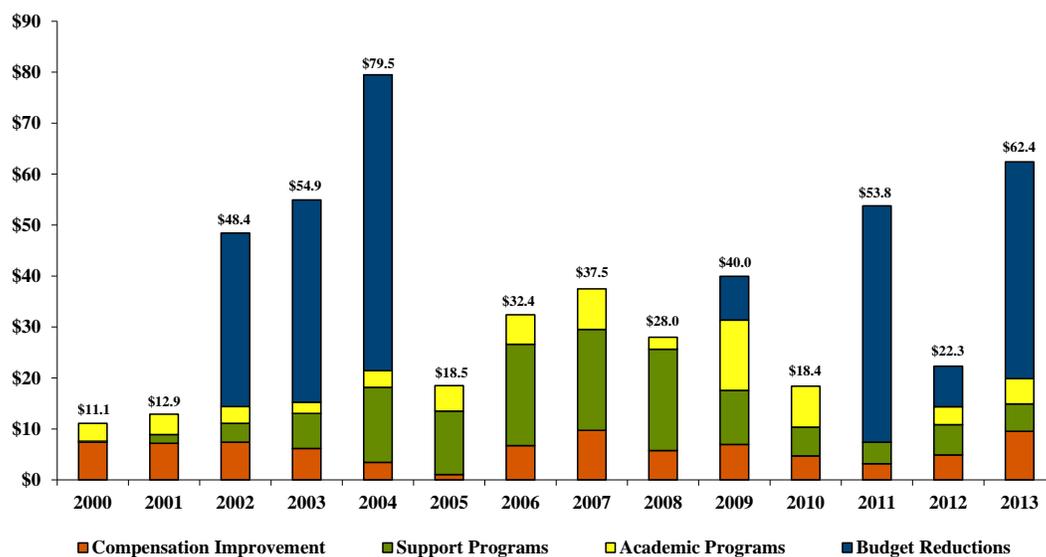
For the University of Illinois, the early 1990s brought diminished state tax support with two years of outright reductions in combination with general tuition increases held to the level of inflation. What has changed substantially from the earlier period has been the university’s determination to redirect resources internally. In earlier times, reallocations might have been made on an ad hoc basis to accommodate declining support, but with the expectation that the next year’s funding from the state would improve. Now, however, the university has a renewed emphasis on the importance of adopting long-term budget planning strategies that include redirection of existing resources as an integral component augmenting tax and tuition support.

As has already been emphasized, the university responded to its decline in budget share primarily through a comprehensive review of academic and support programs and priorities with a corresponding reallocation of existing funds. Since FY 2000, more than \$282 million in existing resources have been redirected to high priority programs and \$237 million was returned outright to the state via budget cuts.

Figure 8 illustrates the size of the reallocations accomplished annually since FY 2000 and identifies the principal uses of reallocations each year.

▼
The University's reallocation efforts are often focused on gaining efficiencies in its administrative services.

Figure 8
Uses of Reallocated Funds
FY 2000 to FY 2013
(Dollars in Millions)

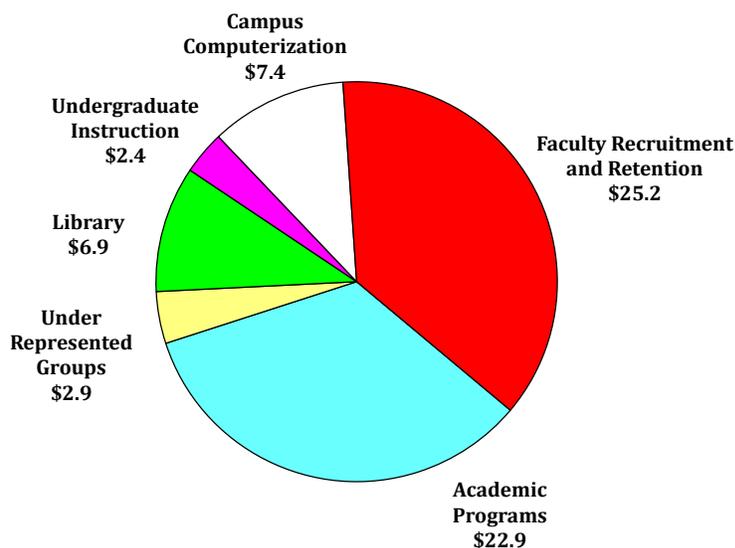


Given the university's paramount need to address faculty and staff salary competitiveness, it is not surprising that a large portion of reallocated funds have been directed to compensation needs. More than 19.2% of the total reallocation achieved since FY 2000 has been devoted to this requirement. Another 45.6% has been required for outright budget reductions. Support programs (including unavoidable cost increases in areas such as Medicare payments to the federal government and statutory sick leave payments to employees leaving the university) have claimed 27%, while the balance, 8.2%, has been used to fund needed academic programs.

Among academic program reallocations, general instruction has received more than 33.9% of the redirected funds. The campuses have sought to add new sections of

courses facing significant enrollment pressures and have created new initiatives, like the Discovery Program at Urbana-Champaign that brings senior faculty and new freshmen together in small class settings early in the students’ academic careers. Faculty recruitment and retention efforts have captured another 37.2% of the reallocation pool, including special salary initiatives, laboratory remodeling and upgrades, equipment purchases and other improvements. As reflected in Figure 9, library initiatives, recruitment of underrepresented groups and campus computerization efforts round out the major categories of program reallocations.

Figure 9
Reallocation for Academic Programs
FY 2000 to FY 2013
(Dollars in Millions)



The university’s reallocation efforts are often focused on gaining efficiencies in its administrative services. In FY 2009 and FY 2010, the university embarked on a three-year plan to reduce administrative costs by \$15.05 million, half within University Administration and the other half spread over the three campuses.

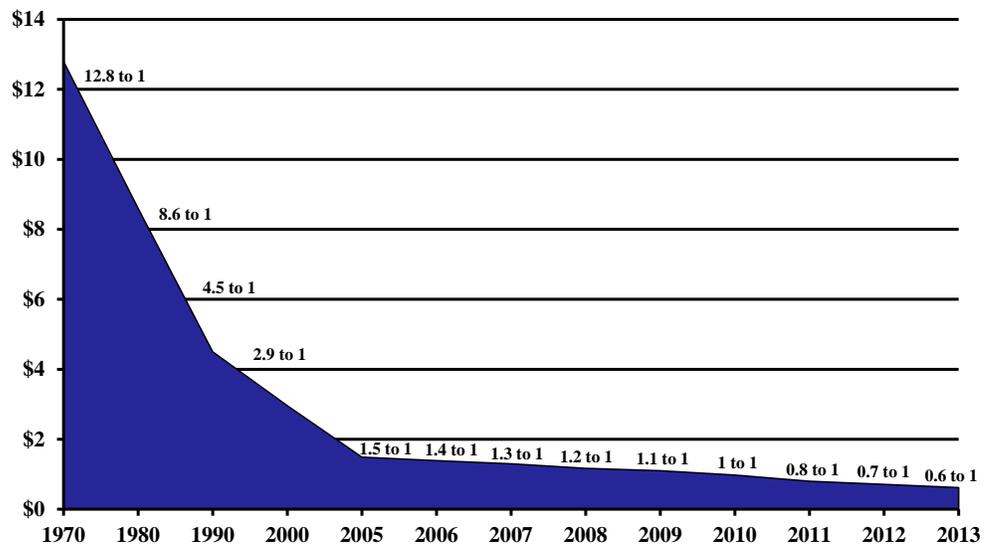
The most recent example of the university’s reallocation efforts is the Administrative Review and Restructuring (ARR) initiative. The proposals outlined in the ARR report could cumulatively lead to annual cost reductions of \$50 to \$60 million within two to three years. The savings will accrue at multiple levels of the organization—from university and campus administrations to individual colleges and departments—and will be across all fund sources.

It should be understood, however, that investments in administrative services will still be required in order to improve business processes, meet compliance and regulatory requirements and respond to needs of new academic initiatives. Going forward, the fiscal pressures on the university resulting from reduced state appropriations and cost increases will be substantial and impossible to manage without a more disciplined approach to allocating resources and setting priorities for investments.

BUDGET TRENDS IN PERSPECTIVE: TUITION

Since FY 1980, tuition revenue has become a much more visible component of the university's total appropriated funds budget as students and their families have been asked to share the burden of offsetting declining state support. In the 1990s, however, general tuition increases remained at approximately the level of the consumer price index. As illustrated in Figure 10, over forty years ago the university received more than \$12 in direct state tax support for each dollar in tuition revenue it collected from students. Today, that figure has dropped to \$0.62 for each dollar in tuition.

Figure 10
Direct State Support per Tuition Dollar
FY 1970 to FY 2013



FY09 - FY13 exclude survey transfer and survey specific appropriation lines.
 FY02-13 excludes health insurance re-direction to CMS.

UNIVERSITY STRATEGIC INITIATIVES

The University of Illinois' overall planning framework is shaped by its underlying intent: to combine academic excellence with an unprecedented commitment to innovation, quality and service so that each campus and support organization is the best among its peers and is recognized as such. The three University of Illinois campuses at Urbana-Champaign, Chicago and Springfield serve Illinois, the nation and the world through a shared commitment to the university's missions of excellence in teaching, research, public service and economic development. At the same time, each campus makes unique contributions to the university's overarching mission and vision. The campuses are strengthened by intercampus cooperation and university-wide support services while carrying out their academic functions through delegated authority from the President and Board of Trustees

In response to the state's escalating financial crisis, the University of Illinois FY 2014 budget request continues to include only our highest priority critical needs. We continue to strategically reassess the scope of our academic programs and search for opportunities to consolidate or even reduce offerings. In the process, we must protect our core land-grant missions of teaching, research, public service and economic development, including clinical care. We must also remain competitive for faculty, staff and students; maintain essential services, but eliminate duplicate and lower priority activities; consolidate and share services and resources; make efficient use of facilities; and take other steps necessary to sustain the university's quality and continuity of operations.

SUMMARY OF THE FY 2014 BUDGET REQUEST

The university's FY 2014 operating budget request includes three broad categories. Strengthen Academic Quality includes salary increases and support for recruitment and retention of faculty and staff. A second section, Address Facility Operations Needs, includes additional resources to operate and maintain new facilities; requests funds to expand operating budget support for facilities maintenance support; and requests funds to establish operating budget support for utilities infrastructure repair and renovation. A final section, Meet Inflationary and Other Cost Increases,

includes requests to meet unavoidable cost increases related to mandatory payroll items and cost increases.

**Strengthen
Academic Quality**



No initiative is more critical than developing and maintaining a competitive compensation program for faculty and staff. In FY 2013, the university will be offering general salary increases for only the second time in four years. However, the university remains vulnerable to further erosion of competitiveness. In addition to the modest salary program, the university will continue to divert funds from other purposes to recruit and retain critical faculty and staff. For FY 2014, our compensation improvement request includes support for direct salaries. A 3% increase is sought for employee salary increases. This increase, combined with the request for recruitment and retention of critical faculty and staff, will be used to prevent further erosion in competitiveness. The University of Illinois must continue to address the issue of faculty compensation and capacity at all three campuses, especially in the areas of highest enrollment demand and those of greatest economic development promise. It is essential that additional reallocation accompany these incremental advances, since serious competitive gaps remain for faculty and other employee groups.

**Address Facility
Operations Needs**



Address Facility Operations Needs includes three components. The first component requests resources to support operations and maintenance costs associated with newly constructed or significantly remodeled space. The second component continues the precedent set in FY 2000 to augment support for facilities maintenance with a stable, secure component in the operating budget. A growing backlog of deferred maintenance projects combined with the need to address normal deterioration in building systems and functional alteration of space to accommodate academic program and technological changes, make it critical that a reliable source of funds is available. Students must have the best facilities possible in which to learn and our scientists and researchers must have the best support possible for their projects. Several Illinois institutions have elevated facility concerns to the top of their priorities and the University of Illinois joins in the call to address this need in the operating budget. The third component seeks to establish operating budget support for utility infrastructure repair and renovation.



New resources must be found to help blunt the impact of nearly a decade of erosion in the academic support base due to inflation.

**Meet Inflationary
and Other Cost
Increases**

▶ Meet Inflationary and Other Cost Increases addresses unavoidable increases associated with payroll and inflationary costs. Other payroll costs and price increase requests are set at levels to meet projected inflationary rises for goods and services and to meet estimated growth in mandatory payroll-related areas such as Medicare and Workers' Compensation. No attempt is made in these areas to address the impact of past inflation that, even at low annual levels, has amplified the erosion of the university's support. The University of Illinois Libraries' are also being significantly impacted by severe price increases far outpacing general inflation.

Additionally, two separate informational items are included at the end of the FY 2014 operating budget request. The first is a discussion of Healthy Returns—The Illinois Bill of Health and the challenges the University of Illinois faces in providing highly trained healthcare providers. The second is a discussion of the urgent problem of medical malpractice costs and the challenges it presents to the University of Illinois. Finally, the operating budget request includes two addenda: the first describes the State Universities Retirement System (SURS) and the second discusses Financial Aid.

We are challenged more seriously today than at any time during the last half century. By working together and making the right decisions we can ensure that Illinois higher education and the University of Illinois remain respected national leaders for the quality of programs they provide and for the diversity of students served. By increasing state support at a steady level, the University of Illinois can focus on preserving the core missions of teaching, research, public service and economic development. The full FY 2014 operating budget request is outlined in Table 2, which follows.

Table 2
FY 2014 Operating Budget Request
(Dollars in Thousands)

| | | |
|--|---------------|--------------------|
| I. Strengthen Academic Quality | | \$ 52,479.5 |
| <i>% of FY 2013 Base</i> | | <i>3.1%</i> |
| A. Competitive Compensation | | \$52,479.5 |
| 1. Salary Improvements - 3% | \$32,479.5 | |
| 2. Recruitment, Retention & Compression | 20,000.0 | |
| II. Address Facility Operations Needs | | \$ 25,033.4 |
| A. O & M New Areas | | \$ 33.4 |
| B. Facility Maintenance Support | | 20,000.0 |
| C. Utility Maintenance Support | | 5,000.0 |
| III. Meet Inflationary and Other Cost Increases | | \$ 3,945.5 |
| A. Payroll Cost Increases | | \$ 1,550.0 |
| 1. Medicare | \$ 550.0 | |
| 2. Workers' Compensation | 500.0 | |
| 3. Legal Liability/Insurance | 500.0 | |
| B. Library Price Increase - 10% | | 2,395.5 |
| Total Request | | \$ 81,458.4 |
| <i>% of FY 2013 Base</i> | | <i>4.9%</i> |
| IV. Healthy Returns—The Illinois Bill Of Health | | \$15,000.0 |
| V. Medical Professional Liability Insurance | | \$10,000.0 |
| <i>FY 2013 Base:</i> | \$1,679,507.4 | |

**OPERATING BUDGET
REQUEST FOR FY 2014**



**STRENGTHEN ACADEMIC
QUALITY**



SALARY IMPROVEMENTS

(\$32,479,500)

Overview



The overall quality of the University of Illinois, as measured by numerous academic indicators, places it among the nation's top higher education institutions. As a national leader, the University faces a dual dilemma: to sustain its national standing it must attract and retain top-quality faculty, staff and students; yet that same national prominence marks the University as a prime target for other institutions seeking to enhance their own quality through recruitment of top faculty. Since 1990, the Urbana campus in particular has lost numerous faculty to competitors. The University must remain active in the market for top-quality faculty or risk falling behind. Enormous growth of the college-age population in many states, combined with rising enrollments, exacerbates the competition for superior faculty.



Loss of state support for salary increases since FY 2002 poses perhaps the greatest challenge to the University's overall quality since the late 1980s.

In the last few years, many states across the nation have experienced budget pressures brought on by slow revenue growth and rising costs, presenting policymakers with difficult decisions. Despite this constrained budgetary environment, most states have approved modest salary increases for faculty and staff each year since FY 2002. In contrast, the State of Illinois provided little or no salary funding increase between FY 2003 and FY 2013, forcing the University to fully fund or supplement its own salary program internally through tuition allocation and reallocation of other funds. The University is fully funding its own salary program in FY 2013. In 2012 faculty at UIC became members of a newly formed union so any salary program for them will be determined through collective bargaining. State funding cuts have forced the University to leave many faculty vacancies unfilled, mitigating progress in that area. Much damage has been done to the University's ability to compete; experience with past lean budget years suggests it will be difficult to repair.

And yet the challenge remains the same. To avoid diminishing quality, the University of Illinois must retain talented faculty and staff; vying in a national marketplace, it must attract and retain the best-qualified candidates to fill new or vacated positions; and at the same time, it must increase the productivity and morale of current employees. The University's compensation levels are the primary, though

not exclusive, mechanism that affects its ability to attract and retain personnel at all levels.

The last 24 years have seen an erosion of the University's faculty salary standing, with periodic years of no or low increases undoing efforts to build competitiveness. The 0% salary increase year of FY 1988 was followed by two years of raises averaging about 8% per year, but from FY 1991 to FY 1994, the University's annual salary increment averaged less than 1%. At the same time, inflation grew by more than 3% while the University's primary competitors averaged around 4% salary growth in each year. Consequently, the University's faculty salary standing plummeted and earlier progress toward building a competitive advantage crumbled. From FY 1995 to FY 1998, the deterioration of competitiveness was halted and restoration begun, but the magnitude of the erosion was such that past levels of competitiveness remained out of reach. After FY 1998, the national market for quality faculty and staff accelerated, and the University attempted to keep pace. In addition to a 3% salary increment for all University faculty and staff in FY 1999, the Urbana-Champaign campus received additional state money for its "retaining critical faculty" initiative, which also utilized reallocated funds. The following year, the Illinois Board of Higher Education inaugurated its "3 + 1 + 1" program, calling for all Illinois public universities to receive 3% salary increments, plus an additional 1% to recruit and retain critical faculty and staff, to be matched by 1% in local funds. The program enabled faculty salaries at the University to grow by around 5% per year in FY 2000 and FY 2001, but little if any ground was gained, as peer institutions averaged annual growth of 5% to 6%. In FY 2002, the 1% additional state increment was raised to 2% with the same 1% local match, in effect creating a "3 + 2 + 1" program. Sustained effort finally bore fruit, and all three University of Illinois campuses advanced on their peers. Throughout this latter period, the competitiveness of staff salaries with their state employee counterparts was maintained.



Eight years of progress in faculty salary competitiveness were undone in FY 2003. Internal reallocation to fund modest programs in recent years has exhausted the University's ability to reallocate further in future years.

Then came FY 2003. Most peer institutions gave raises of at least 2% to 5%. The University of Illinois and other public institutions in Illinois had no general salary increase program. Eight years of salary advances were undone in one. Exacerbating this setback, the State provided no salary appropriations in Fiscal Years 2004, 2005 and 2006, thus forcing the University to fund modest salary programs by diverting

funds from other purposes. FY 2007 and FY 2008 were encouraging because the state provided a 2.2% increment in FY 2007 and 2.5% in FY 2008 to support a salary program and the university was able to augment the salary program through reallocation. But no funds were provided in FY 2010 through FY 2013 and the University did not have a salary increase program in FY 2010 and FY 2011.

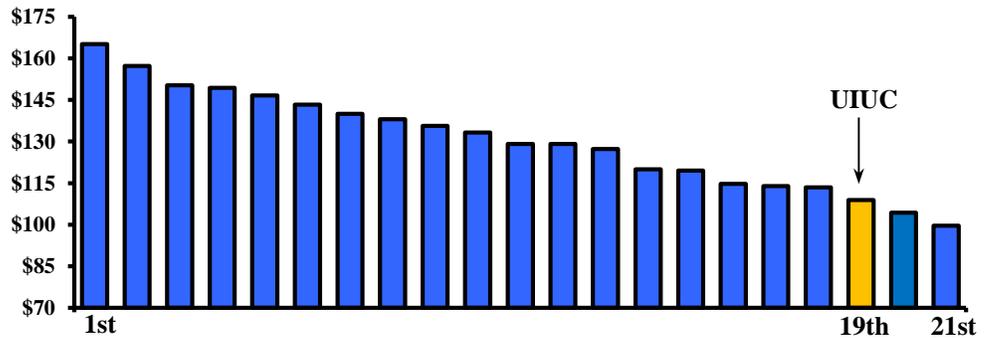
In such an environment, the need to monitor the University's competitive standing may be more crucial than ever. Numerous salary analyses are performed annually for that purpose. Due to the varied nature of the University workforce, separate analyses are performed for academic employees and staff. Salaries for academic employees, including faculty, are compared to those at peer institutions, while staff salary comparisons are made with appropriate employee groups in the state and regional markets. The discussion that follows provides background information concerning the University's competitive position.

FACULTY SALARIES

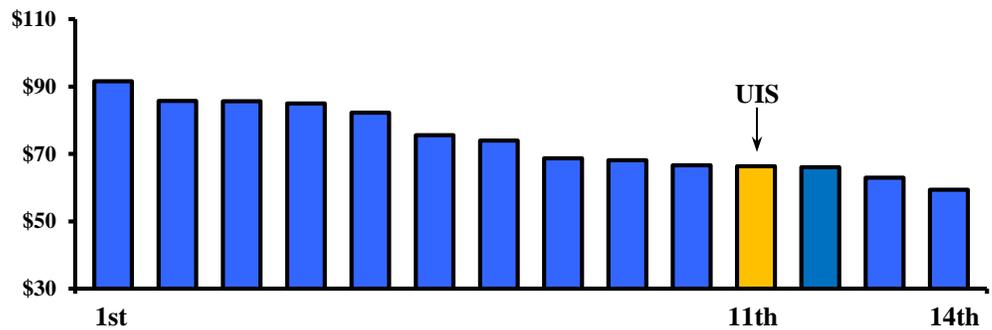
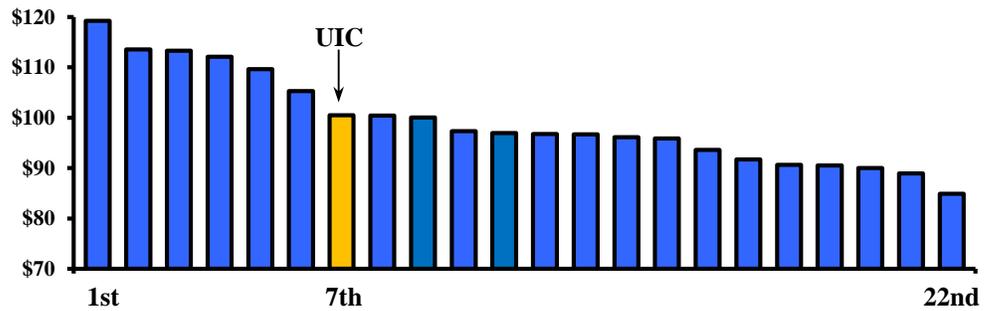
To assess Illinois' position in the national market for faculty salaries, the Illinois Board of Higher Education (IBHE) established groups of peer institutions in 1985. Through a complex statistical process, 1,534 senior institutions were divided into 41 peer groups based on similarity of characteristics, including enrollment levels, type and numbers of degrees conferred, funding levels and detailed faculty characteristics. An updated peer group was developed in FY 2002 for the University of Illinois at Springfield to better reflect the campus' evolving academic mission, as well as its quality and standing within the University of Illinois. The updated peer group for UIS was approved by the IBHE in 2004.

The competitive standing of each campus indicates how well its faculty salaries have fared relative to its peers. Figure 11 shows that UIUC ranked 19th in its group in FY 2012, unchanged from FY 2011 and still third from last place among its comparison group. Although the UIUC campus is among the nation's most academically competitive institutions, salaries for faculty at UIUC have long ranked near the bottom of its comparison group. UIC ranked 7th in its group of 22 peers in FY 2012, gaining two spots from its place in FY 2011. UIS ranked 11th, up one spot in FY 2012 but placing UIS in fourth to last place among its comparison group.

Figure 11
FY 2012 Competitive Standing among IBHE Peers
UIUC, UIC and UIS
(Dollars in Thousands)



▼
FY 2012 found faculty salaries at UIUC and UIS near the bottom while UIC ranked near the top third of their peer groups.



Minimal gains for the three campuses are likely in FY 2013 due to a modest salary increase program expected for UIUC and UIS; collective bargaining will determine any salary program for UIC. However, some of our public peer institutions have indicated they plan to provide modest faculty pay increases, which (all other things being equal) would keep all three campuses in similar rankings. Thus, the University has forfeited all or most of the competitive gains made from FY 1995 to FY 2002, even while inflation continues to erode the base pay of University faculty and staff.

FACULTY SALARIES BY DISCIPLINE



If Illinois' constrained budget climate persists, the University will experience increased difficulty attracting and retaining faculty in high demand disciplines.

Another way to gauge faculty salary standing is to examine salaries by discipline from FY 1987 through FY 2012, years in which funding fluctuations dramatically influenced salary levels. This review identifies areas of continued difficulty for UIUC and UIC. Competition for top quality faculty is intense in high-demand disciplines, especially those in which private enterprises can offer lucrative alternatives to academic service. Such competition has contributed to an unexpected rise in starting salaries, causing salary compression. The University has experienced great difficulty in attracting and retaining key faculty in high demand areas, as well as in areas of lesser demand. If Illinois' constrained budget climate persists, such difficulties could reach critical levels, weakening the overall quality of the University.

The study compares faculty salaries by academic discipline for public institutions in the Association of American Universities Data Exchange (AAUDE) peer group. Institutions included in the following study are:

| | |
|----------------------------------|---------------------------------------|
| Univ. of Arizona | Univ. of Minnesota |
| Univ. of Colorado - Boulder | Univ. of Missouri |
| Univ. of Florida | Univ. of North Carolina - Chapel Hill |
| Univ. of Il - Chicago | Ohio State University |
| Univ. of Il - Urbana-Champaign | Univ. of Oregon |
| Indiana University | Penn State University |
| Univ. of Iowa | Purdue University |
| Iowa State University | Univ. of Texas - Austin |
| Univ. of Kansas | Univ. of Virginia |
| Univ. of Maryland - College Park | Univ. of Washington |
| Univ. of Michigan | Univ. of Wisconsin – Madison |
| Michigan State University | |

Tables 3 and 4 summarizes average salary and rank by discipline reported for FY 1987 (prior to the “no salary increase” policy of FY 1988), FY 2002 and FY 2012. For each discipline, only those institutions reporting data in all three years of the study are included.



Tables 3 and 4 displays data for 18 disciplines at the Urbana-Champaign campus and 13 disciplines at the Chicago campus.

The data show that by FY 2002 both U of I campuses had recovered a good portion of ground lost from the 0% salary program year of 1988 through the early 1990s. In FY 2002, UIUC had kept or regained its FY 1987 rank in 10 of 18 examined disciplines, and UIC had kept or regained it in 8 of 13. In FY 2012, UIUC lost ground in 13 of its 18 comparison disciplines, while UIC lost ground in 7 of its 13 comparison disciplines since 1987.

**Table 3
UIUC Faculty Salary Study by Discipline FY 1987 to FY 2012**

**University of Illinois at Urbana-Champaign and AAUDE Institutions
Weighted to UIUC Distribution of Faculty**

| Academic Discipline | No. of Univ. | FY 1987 | | FY 2002 | | FY 2012 | | | |
|---------------------|--------------|-------------|------|-------------|------|-------------|------|---------------------|------------|
| | | UIUC Salary | Rank | UIUC Salary | Rank | UIUC Salary | Rank | Rank Ch. Since 1987 | Since 2002 |
| Agriculture | 14 | \$40,698 | 6 | \$78,254 | 5 | \$95,628 | 11 | -5 | -6 |
| Architecture | 17 | 38,858 | 8 | 65,221 | 8 | 78,810 | 11 | -3 | -3 |
| Business | 22 | 52,341 | 3 | 113,231 | 8 | 170,831 | 9 | -6 | -1 |
| Communications | 21 | 36,213 | 6 | 73,598 | 4 | 94,878 | 5 | 1 | -1 |
| Computer & Info. | 19 | 50,285 | 7 | 99,268 | 2 | 126,943 | 7 | 0 | -5 |
| Education | 22 | 41,424 | 5 | 70,959 | 3 | 95,806 | 5 | 0 | -2 |
| Engineering | 19 | 53,995 | 2 | 96,741 | 2 | 125,955 | 3 | -1 | -1 |
| Foreign Languages | 22 | 38,917 | 6 | 62,999 | 6 | 80,396 | 7 | -1 | -1 |
| Home Economics | 14 | 32,947 | 6 | 72,290 | 3 | 91,196 | 8 | -2 | -5 |
| Law | 17 | 69,147 | 3 | 122,205 | 7 | 184,960 | 6 | -3 | 1 |
| Letters | 22 | 35,365 | 7 | 68,358 | 6 | 88,791 | 5 | 2 | 1 |
| Mathematics | 22 | 46,480 | 11 | 73,215 | 14 | 96,207 | 13 | -2 | 1 |
| Philosophy | 22 | 33,758 | 12 | 66,889 | 13 | 87,242 | 11 | 1 | 2 |
| Physical Sciences | 22 | 51,512 | 1 | 89,036 | 2 | 119,289 | 3 | -2 | -1 |
| Psychology | 22 | 44,929 | 3 | 85,943 | 5 | 102,940 | 10 | -7 | -5 |
| Social Sciences | 22 | 41,945 | 9 | 76,270 | 9 | 104,525 | 11 | -2 | -2 |
| Social Work | 14 | 38,342 | 6 | 55,660 | 9 | 80,861 | 10 | -4 | -1 |
| Arts | 22 | 36,360 | 7 | 59,701 | 8 | 77,488 | 8 | -1 | 0 |

Source: American Association of Universities Data Exchange (AAUDE)

As a result, at UIUC, only five disciplines (Communications, Computer & Info., Education, Letters and Philosophy) have held or improved their FY 1987 ranking, while 13 others declined. The decliners were: Agriculture, Architecture, Business, Engineering, Foreign Languages, Home Economics, Law, Mathematics, Physical Sciences, Psychology, Social Sciences, Social Work and Arts.

**Table 4
UIC Faculty Salary Study by Discipline FY 1987 to FY 2012**

**University of Illinois at Chicago and AAUDE Institutions
Weighted to UIC Distribution of Faculty**

| Academic Discipline | No. of Univ. | FY 1987 | | FY 2002 | | FY 2012 | | | |
|---------------------|--------------|------------|------|------------|------|------------|------|---------------------|------------|
| | | UIC Salary | Rank | UIC Salary | Rank | UIC Salary | Rank | Rank Ch. Since 1987 | Since 2002 |
| Architecture | 17 | \$34,233 | 14 | \$63,743 | 9 | \$79,006 | 9 | 5 | 0 |
| Business | 22 | 45,451 | 11 | 102,327 | 16 | 137,678 | 21 | -10 | -5 |
| Education | 22 | 33,773 | 10 | 69,540 | 6 | 92,130 | 6 | 4 | 0 |
| Engineering | 19 | 47,921 | 2 | 92,588 | 3 | 114,189 | 10 | -8 | -7 |
| Foreign Languages | 22 | 33,250 | 11 | 65,614 | 5 | 80,712 | 10 | 1 | -5 |
| Letters | 22 | 34,622 | 11 | 67,637 | 6 | 91,145 | 6 | 5 | 0 |
| Mathematics | 22 | 42,184 | 12 | 77,123 | 15 | 107,059 | 7 | 5 | 8 |
| Philosophy | 22 | 41,405 | 4 | 68,602 | 4 | 90,983 | 12 | -8 | -8 |
| Physical Sciences | 22 | 42,846 | 6 | 74,571 | 16 | 95,365 | 20 | -14 | -4 |
| Psychology | 22 | 41,351 | 9 | 74,478 | 7 | 100,494 | 11 | -2 | -4 |
| Social Sciences | 22 | 37,882 | 14 | 71,711 | 13 | 91,098 | 17 | -3 | -4 |
| Social Work | 14 | 36,274 | 8 | 59,171 | 11 | 85,700 | 9 | -1 | 2 |
| Arts | 22 | 33,340 | 7 | 64,144 | 4 | 77,255 | 6 | 1 | -2 |

Source: American Association of Universities Data Exchange (AAUDE)

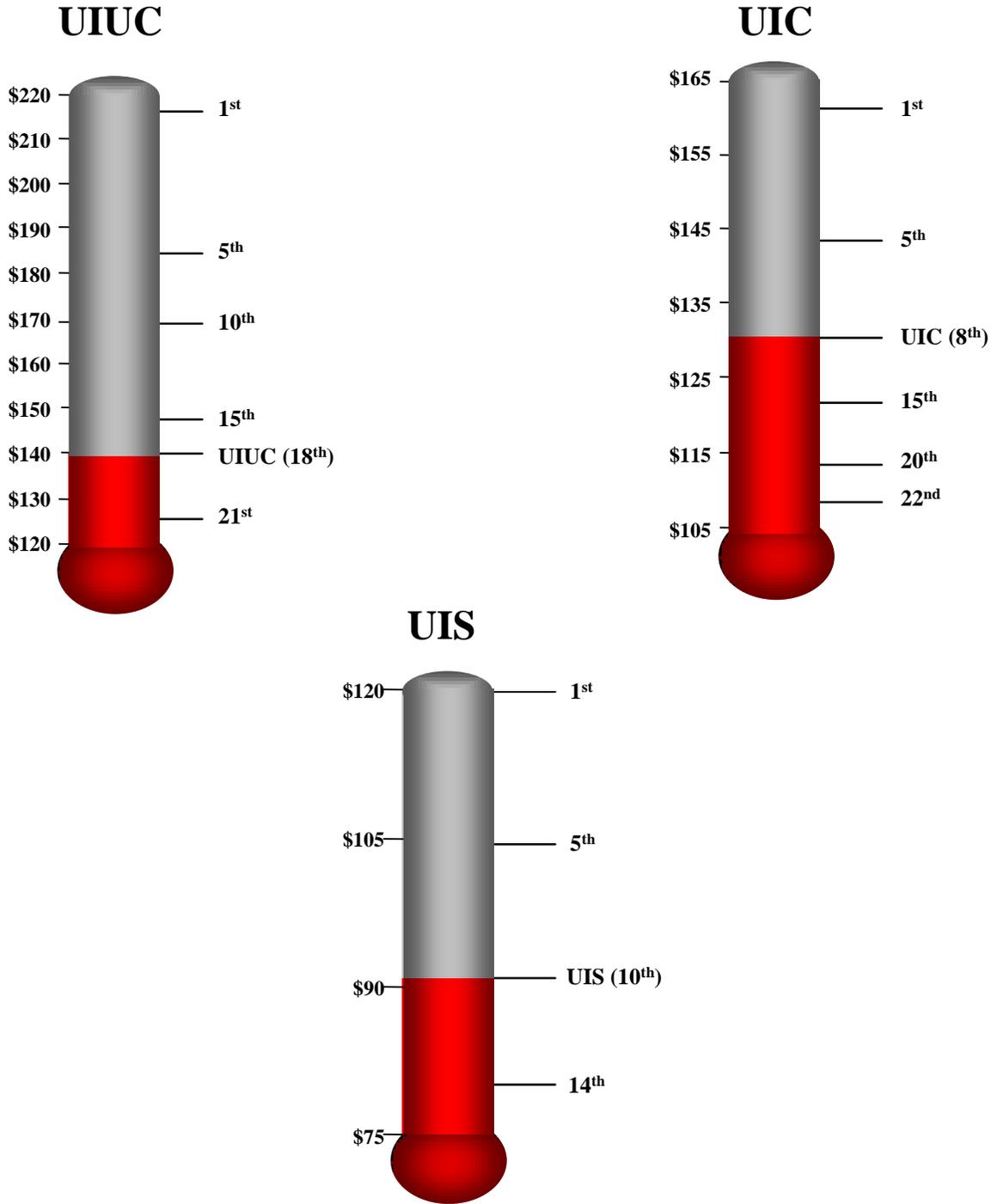
At UIC, six disciplines (Architecture, Education, Foreign Languages, Letters, Mathematics and Arts) have held or improved their FY 1987 ranking, while salary rankings lag FY 1987 levels in the remaining disciplines: Business, Engineering, Philosophy, Physical Sciences, Psychology, Social Sciences and Social Work.

It is clear that past declines in state funding have hurt the University's ability to remain competitive for high quality faculty and staff, although the impact has been greater in some disciplines than in others. Despite progress in some fields, many disciplines continue to suffer from a loss of competitiveness. The magnitude of loss in FY 2003 was similar to FY 1988: the University lost ground in most disciplines, and a very large amount of ground in some. Insufficient progress has been made since then. It is critically important that the University resume the road to recovery in FY 2014 and beyond.

TOTAL COMPENSATION

Total compensation represents the combination of average cash salary and employer contributions to fringe benefits. Figure 12 shows FY 2012 average total compensation for faculty in the ranks of Professor, Associate Professor and Assistant Professor at the three University of Illinois campuses and their peers. UIUC ranks third lowest at 18th out of 21, while UIC ranks in the top 10 at 8th out of 22 and UIS ranks fourth lowest at 10th out of 14.

Figure 12
FY 2012 Faculty Average Total Compensation
U of I Campuses and IBHE Peer Groups
(Dollars in Thousands)



The University's relatively low employer contributions for fringe benefits operate as a drag on total compensation, reinforcing salary deficits where they exist and working in opposition to salary gains. Consequently, the total compensation package must be considered a vital part of an overall strategy to strengthen the University's competitive position.

Budgetary constraints in prior years hurt the University in the faculty salary market. State funding and internal reallocation in more recent years produced salary programs that kept pace with inflation, but were below the University's top competitors in many cases. By FY 2002 Urbana-Champaign showed some gains while stuck near the bottom of its peer group, as the Chicago and Springfield campuses achieved real progress. Absence of funding for salary increases in recent years has left the University again vulnerable to erosion of competitiveness and exhausted its ability to reallocate funds in the future. Incremental funds totaling \$32.5 million are requested for FY 2014 for faculty and staff salary increases to halt the slide and avoid further loss of employee purchasing power. In addition, compensation must be made for years of ups and downs in the University's salary arch. The University's recruitment, retention & compression request asks for \$20 million in additional funding in order to recover upward momentum in a highly competitive marketplace.

STAFF SALARIES

For FY 2012, the University received no funds for a general pay increase for all employee groups. Therefore, internal reallocations were required to help fund contracts previously negotiated with bargaining units and to address special merit, market or equity concerns. Purchasing power comparisons are made using data from the Bureau of Labor Statistics, including sources such as the Employment Cost Index. Compensation costs (not seasonally adjusted) for civilian workers were up 2% for the year ending December 2011. In comparison, compensation costs for state and local government workers increased 1.3% percent for the year ending in December 2011.

STATE UNIVERSITIES RETIREMENT SYSTEM

The health of the State Universities Retirement System (SURS), as well as the University's competitiveness among peer institutions with respect to retirement benefits, has been a matter of prime concern for many years for both individual employees and for leaders within higher education institutions and the SURS system. Any discussion of compensation policy for higher education in Illinois should include a strong call for continued adequate funding of the SURS program to ensure that existing benefits will remain secure. Action taken in 1995 by the General Assembly and the Governor to implement a long-term plan to strengthen pension funding for all state employees was a welcome improvement. For FY 2004, the Governor and the General Assembly approved a plan using bond proceeds to pay pension funding obligations to SURS and the other state-funded systems, which improved the systems' funding ratios but dramatically increased the state's debt and bond repayment costs. In May 2005, the Governor and the General Assembly passed a law reducing SURS contributions to about 46% of those called for in the 1995 law in FY 2006, and to about 58% in FY 2007. The 2005 law also requires the employer to fund the portion of pension increases that result from earnings increases over 6% in any year that is used to calculate a retiree's final average salary. The Addendum contains a more complete discussion of the SURS funding situation and some possible consequences to the University of the new 6% rule, which was softened under PA 94-1057 signed by the governor in July 2006.

For continuing employees, the 2005 law changed the interest calculation for SURS money-purchase annuities and eliminated such annuities entirely for new members hired after July 1, 2005. The law also set a new "pay-as-you-go" requirement for pension enhancements and required any enhancement to expire within 5 years unless specifically renewed. Moreover, it created an Advisory Commission on Pension Benefits to consider changing age and service requirements, automatic cost-of-living increases (COLAs) and employee payroll contributions, among other things. This Commission filed its report to the governor at the end of 2009 and recommended several benefit cuts. The result of this report was the signing of PA 96-0889 in April 2010 which drastically overhauled the pension system. It largely applied to new SURS members because the Illinois Constitution prohibits state funded pension benefits for continuing members from being "diminished or impaired." The State of

Illinois may save money, but at the cost of possibly further undermining the University's ability to attract new faculty and staff.

It should be understood, however, that while achieving and maintaining adequate SURS funding remains a key concern for FY 2014 and beyond, funding improvements will not, in and of themselves, improve either the benefits available to University employees or the University's competitive position among peer institutions in total compensation. The adequacy of SURS' fiscal support must be assured. So, too, must improvements in the University's competitive position in total compensation be achieved.

RECRUITMENT, RETENTION & COMPRESSION

(\$20,000,000)

Overview

▶ The quality of a university's instruction, research, public service and economic development activities depends in large part on the quality of its faculty. Facilities, library resources, staff quality and other factors are vital, too, but it is the mentor in the classroom, the laboratory investigator, the policy center director, the technological innovator, who bring life to an institution. A university's reputation turns on the interactions of its faculty with students and the larger community. Knowing this, institutions compete vigorously for the highest quality faculty members. Institutions also seek to fairly compensate those faculty on hand, to ensure that enthusiasm does not wane and that faculty are justly rewarded for their many and varied contributions.

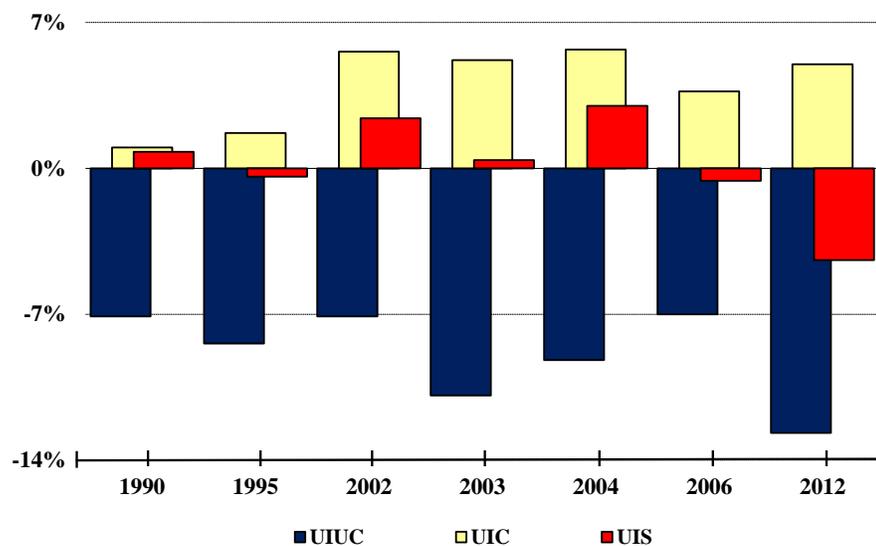
University faculty are highly educated, talented people with many options in the labor market. Compensation levels must remain at least on par with that market to attract and retain brilliant teachers and scientists. Moreover, loyalty to an institution can be bred only by consistency of commitment, which encompasses many things, but most certainly includes steady salary progression. The University of Illinois has had to pay market price to hire new faculty and has had to respond to outside offers in order to retain critical senior faculty, but the salaries of faculty in the middle ranks have been severely compressed and have lost competitive position. If pay is below market and/or does not progress sufficiently, faculty may be more apt than otherwise to exercise their right to find other, more rewarding career opportunities. Given those facts, an uneven history of salary increases can damage an institution, both in terms of competitiveness and morale.

Over the last two decades, faculty salary increases at the University of Illinois have ranged from zero to 8%, with most years between 2% and 5%. The University was highly competitive in the faculty salary market until the late 1980s. Beginning with the first 0% increase year, FY 1988, the University lost significant ground through FY 1994, made slow but steady progress from FY 1995 through FY 2002, fell again in the second 0% increase year of FY 2003, then recovered somewhat in FY 2004 and FY 2005. FY 2010 and FY 2011 represent the fourth and fifth 0% faculty salary increase policy years. The University was fortunate to fund a 2.5% salary program

internally in FY 2012, but the program did not yield any progress in closing the distance to the peer group median. Figure 13 shows the average salary of full-time instructional faculty in the ranks of Assistant Professor and above at each University of Illinois campus as a percent of its peer group median since 1990. UIUC, mired far below its peer group median, achieved slight progress in the years between 2004 and 2006, but is well below its peer group median in 2012. Salaries for UIC have generally exceeded the median, while those at UIS hovered around the median until also falling well below its IBHE peer group median in 2012.

Figure 13
Distance from IBHE Peer Group Median
UIUC, UIC and UIS

- 1990-1994: 8% in 1990. Salary increments average around 1% through 1994.
- 1995-1999: Salary increments near inflation (3%).
- 2000-2002: IBHE “3+1+1” Program. Market hinders UIUC progress.
- 2003: No salary program.
- 2004-2006: No salary appropriation. 2% - 4% program funded internally.
- 2007-2009: Salary appropriation averages 2% resulting in a 2% - 3% program.
- 2010-2011: No salary appropriation. No salary program.
- 2012: No salary appropriation. 2.5% program funded internally.



This up-and-down salary trend is also reflected in the peer group rankings, shown in Table 5. Between FY 1987 and FY 1994, UIUC fell to rock bottom in its peer group, while UIC lost just one rank and UIS gained one. Sustained effort through FY 2002 lifted UIUC to 18th, UIC to 8th and UIS to 6th in their respective peer groups. Since then however, UIUC has dropped a spot back down to 19th out of 21

institutions and UIS to 11th out of 15 institutions as of FY 2012. UIC, however, moved up a spot in the rankings to 7th in FY 2012.

Table 5
Full-Time Instructional Faculty Average Salaries FY 1987 to FY 2012, All Ranks
IBHE Peer Groups
(Dollars in Thousands)

University of Illinois at Urbana-Champaign

| FY 1987 | | FY 1994 | | FY 2002 | | FY 2012 | |
|-------------------|-------------|-------------------|-------------|-------------------|-------------|-------------------|--------------|
| UC-Berkeley | \$56.2 | Chicago | \$75.9 | Pennsylvania | \$107.5 | Columbia | \$165.1 |
| UCLA | 53.2 | Pennsylvania | 74.4 | Yale | 105.2 | Chicago | 157.3 |
| UC-San Diego | 52.6 | Yale | 73.1 | Chicago | 104.0 | Pennsylvania | 150.3 |
| Columbia | 50.3 | NYU | 71.3 | Columbia | 102.0 | Yale | 149.4 |
| Chicago | 50.0 | Columbia | 71.2 | NYU | 100.8 | Duke | 146.6 |
| Pennsylvania | 49.8 | Northwestern | 71.2 | Northwestern | 100.6 | NYU | 143.3 |
| Yale | 49.5 | Duke | 69.9 | UC-Berkeley | 99.9 | Northwestern | 140.0 |
| Johns Hopkins | 49.3 | UC-Berkeley | 66.4 | Duke | 97.3 | UCLA | 138.1 |
| NYU | 48.0 | Johns Hopkins | 65.4 | UCLA | 96.9 | Wash. U. (St. L.) | 135.7 |
| Michigan | 47.6 | USC | 64.9 | UC-San Diego | 91.6 | UC-Berkeley | 133.2 |
| Duke | 47.6 | Michigan | 64.3 | Wash. U. (St. L.) | 91.2 | Johns Hopkins | 129.2 |
| Northwestern | 46.8 | Brown | 63.3 | USC | 89.2 | Brown | 129.1 |
| Brown | 45.3 | UCLA | 62.5 | Michigan | 87.3 | USC | 127.4 |
| UIUC | 45.1 | Wash. U. (St. L.) | 62.3 | Johns Hopkins | 87.3 | UC_San Diego | 120.0 |
| USC | 45.0 | Rochester | 61.7 | North Carolina | 85.9 | Michigan | 119.6 |
| North Carolina | 44.0 | UC-San Diego | 61.1 | Brown | 85.7 | Texas | 114.8 |
| Wisconsin | 44.0 | Texas | 59.8 | Rochester | 84.1 | Rochester | 114.0 |
| Rochester | 43.6 | North Carolina | 59.0 | UIUC | 82.3 | UNC | 113.4 |
| Wash. U. (St. L.) | 42.8 | Wisconsin | 58.3 | Texas | 82.0 | UIUC | 108.9 |
| Texas | 40.5 | U. Wash. (Sea.) | 57.5 | Wisconsin | 81.3 | U. Wash. (Sea.) | 104.4 |
| U. Wash. (Sea.) | 40.4 | UIUC | 57.3 | U. Wash. (Sea.) | 76.8 | Wisconsin | 99.7 |

University of Illinois at Chicago

| FY 1987 | | FY 1994 | | FY 2002 | | FY 2012 | |
|------------------|-------------|------------------|-------------|------------------|-------------|------------------|--------------|
| UC-Santa Barbara | \$51.9 | Massachusetts | \$62.2 | UC-Santa Barbara | \$88.4 | UC-Santa Barbara | \$119.2 |
| UC-Irvine | 50.0 | Temple | 61.5 | Maryland | 88.1 | UC-Davis | 113.6 |
| UC-Davis | 48.3 | UC-Santa Barbara | 59.5 | UC-Davis | 85.7 | UC-Irvine | 113.3 |
| UC-Riverside | 47.0 | Hawaii | 59.2 | UC-Irvine | 84.5 | Maryland | 112.1 |
| Massachusetts | 45.4 | UC-Irvine | 58.7 | UC-Riverside | 82.8 | Delaware | 109.6 |
| Va. Tech. | 42.8 | Maryland | 58.1 | Delaware | 78.9 | UC-Riverside | 105.3 |
| Maryland | 42.3 | Delaware | 57.9 | Massachusetts | 78.8 | UIC | 100.5 |
| Florida | 42.3 | UC-Davis | 57.4 | UIC | 76.7 | Massachusetts | 100.4 |
| Arizona | 42.0 | Wayne St. | 56.7 | Temple | 76.2 | Michigan St. | 100.1 |
| Arizona St. | 40.5 | Michigan St. | 56.1 | Va. Tech. | 76.0 | Utah | 97.3 |
| Wayne St. | 40.3 | Arizona | 54.4 | Michigan St. | 74.8 | Arizona | 97.0 |
| Michigan St. | 39.8 | Va. Tech. | 53.5 | Wayne St. | 73.6 | Arizona St. | 96.8 |
| UIC | 39.7 | UC-Riverside | 53.1 | Arizona St. | 73.1 | Temple | 96.7 |
| Georgia | 39.4 | UIC | 52.6 | Arizona | 72.9 | Hawaii | 96.1 |
| Temple | 39.2 | Arizona St. | 50.9 | Georgia | 71.6 | Florida | 95.8 |
| Hawaii | 38.7 | Utah | 50.4 | Florida | 71.2 | Wayne St. | 93.6 |
| Delaware | 38.3 | Florida | 50.4 | Utah | 69.6 | Georgia | 91.7 |
| Va. Common. | 37.3 | Va. Common. | 50.2 | Va. Common. | 69.1 | Florida St. | 90.6 |
| Vermont | 37.2 | Georgia | 49.9 | Hawaii | 68.5 | Vermont | 90.5 |
| Utah | 37.1 | Oregon | 49.0 | Florida St. | 66.9 | Florida St. | 90.0 |
| Florida St. | 37.0 | Florida St. | 47.8 | Vermont | 61.1 | Oregon | 88.9 |
| Oregon | 34.5 | Vermont | n.a. | Oregon | 60.5 | Va. Common. | 84.9 |

Table 5 (continued)
Full-Time Instructional Faculty Average Salaries FY 1987 to FY 2012, All Ranks
IBHE Peer Groups
(Dollars in Thousands)

University of Illinois at Springfield

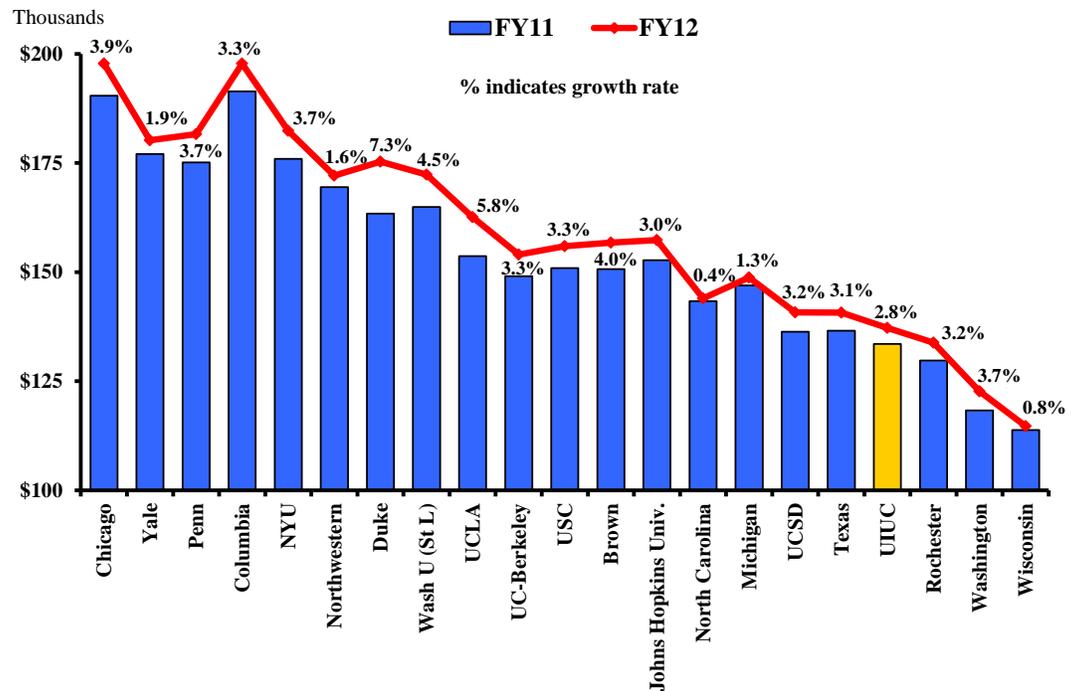
| FY 1987 | | FY 1994 | | FY 2002 | | FY 2012 | |
|--------------------|-------------|--------------------|-------------|--------------------|-------------|--------------------|-------------|
| SUNY-Brockport | \$39.2 | Shippensburg (Pa.) | \$57.5 | Union | \$71.3 | Union | \$91.5 |
| Trinity | 38.9 | Trinity | 55.1 | Trinity | 69.7 | Trinity | 85.8 |
| Clark | 38.3 | Clark | 52.2 | Clark | 68.4 | Clark | 85.7 |
| Union | 36.9 | Union | 52.0 | Shippensburg (Pa.) | 68.1 | Shippensburg (Pa.) | 85.0 |
| Iona | 36.0 | SUNY-Brockport | 50.0 | Iona | 59.4 | Iona | 82.2 |
| Shippensburg (Pa.) | 35.5 | No. Michigan | 49.4 | UIS | 58.1 | Marist | 75.6 |
| No. Michigan | 34.7 | Iona | 47.0 | SUNY-Brockport | 57.8 | SUNY-Brockport | 73.9 |
| Wisc.-Green Bay | 33.6 | UIS | 43.7 | No. Michigan | 57.2 | No. Michigan | 68.7 |
| UIS | 33.5 | Lake Superior St. | 43.3 | So. Dakota | 54.2 | Charleston | 68.1 |
| Charleston | 31.9 | Wisc.-Green Bay | 43.2 | Auburn-Mont. | 52.8 | Auburn-Mont. | 66.6 |
| So. Dakota | 31.3 | Auburn-Mont. | 42.5 | Charleston | 52.8 | UIS | 66.3 |
| Auburn-Mont. | 31.3 | Marist | 42.3 | Marist | 52.8 | So. Dakota | 66.0 |
| Lake Superior St. | 30.9 | Charleston | 38.8 | Georgia St. | 52.1 | Georgia St. | 62.9 |
| Marist | 29.6 | Georgia St. | 38.2 | Lake Superior St. | 51.5 | Wisc.-Green Bay | 59.4 |
| Georgia St. | n.a. | So. Dakota | n.a. | Wisc.-Green Bay | 51.3 | Lake Superior St. | n.a. |

Source: 2012 AAUP Full-time Instructional Faculty Salary Survey.
 All faculty includes faculty with ranks Assistant Professor and above.

Figure 14 compares FY 2011 and FY 2012 average salaries for full Professors at UIUC and its IBHE peers. When reading the figure, please note that “percent growth” in faculty salaries reflects not only institutional salary programs, but also promotion and tenure decisions, retirements, new hires and the like.

Between FY 2011 and FY 2012, UIUC had a growth rate of 2.8%, placing it 16th out of the 21 institutions in its peer group, significantly lower than its standing from 8th highest for growth between FY 2010 and FY 2011. UIUC growth rate changed little, from 2.7% to 2.8%, but several other universities significantly improved their growth rates causing the drop in standings. The overall mean growth rate was 3.2% with 0.4% as the lowest and 7.3% as the highest rate. The growth rate median was 3.2% for all 21 institutions.

Figure 14
FY 2011 and FY 2012 Professors' Average Salaries
UIUC and IBHE Peers



A closer look at the last 30 years puts FY 2012 in context and reveals two major trends in the faculty salary market that do not bode well for the University of Illinois, nor for public higher education institutions across the country. First, funding for public university faculty salaries is closely tied to state revenue booms and busts. Illinois has gone deeper into economic recession than many other states and may be slower to recover. This appears to have been especially true in the early 1990s and again true since 2002. Second, salary progression among private institutions does not slow nearly as much during economic downturns as it does for public institutions. Even with aggressive internal funding of faculty raises, it appears unlikely that public institutions can keep up if these trends continue.

Private institutions began to outpace publics in the faculty salary market in the late 1980s. Figure 15 shows the faculty salary deficit between UIUC and UIC and the average faculty salary at private Research I institutions in constant dollars from FY 1982 to FY 2012. UIUC was reasonably competitive in 1982, trailing by only \$3,200 and UIC was marginally competitive, trailing by \$9,200. By FY 2012, the salary gap had exploded to \$28,200 at UIUC and \$36,600 at UIC.

Figure 15
Salary Gap between UIUC, UIC and Private Research I Institutions
Full-time Instructional Faculty Average Salaries
(Dollars in Thousands)

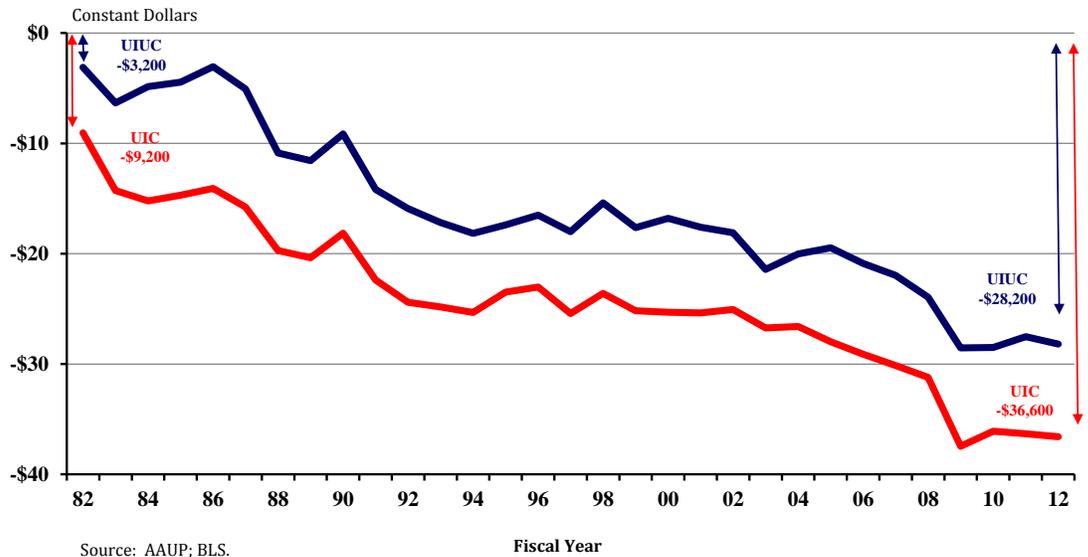
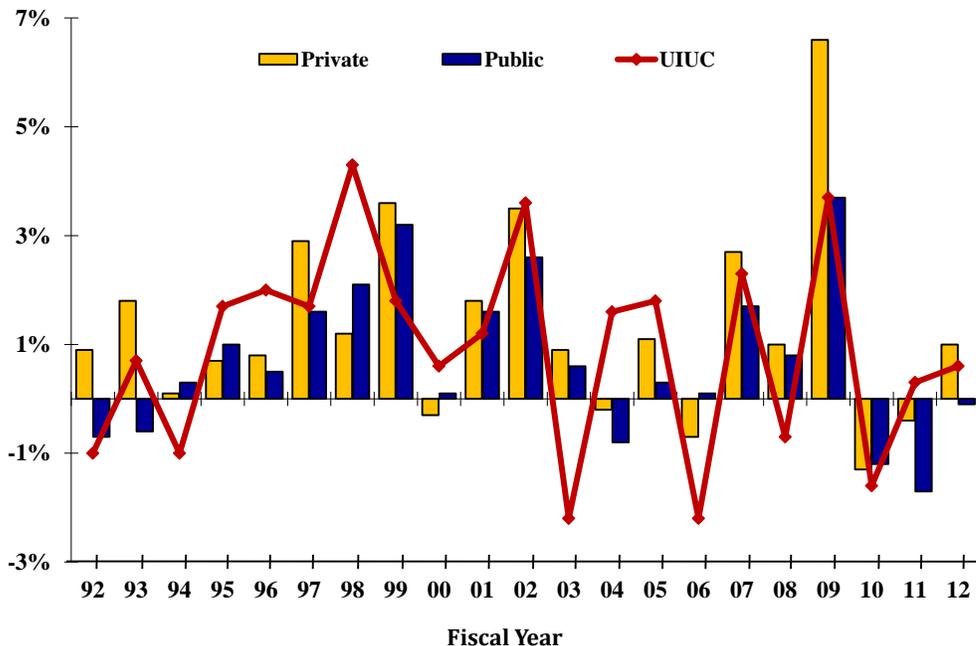


Figure 16 shows annual percent change in instructional faculty (Assistant Professor and above) salaries at UIUC and its peers since FY 1992, highlighting the years in which UIUC fell behind. Since 1992, the campus has had six years of negative real growth in constant FY 2012 dollars: 1992, 1994, 2003, 2006, 2008 and 2010, but showed positive growth again in 2011 and 2012. Public institutions as a group have had six such years: 1992, 1993, 2004, and 2010 through 2012 and private institutions have also had five such years: 2000, 2004, 2006, 2010 and 2011. Overall, cycles of state support for higher education have not played to the University of Illinois’ favor, and in fact have given peer institutions, especially private ones, a widening advantage.

Figure 16
Annual Change in Faculty Average Salaries
UIUC and Research I Institutions



Note: Figure in constant (2011) dollars using CPI-U.

The University of Illinois’ status as an elite public institution can be maintained only while it remains a desirable workplace for top-flight faculty. A multi-year strategic, statewide commitment is required to restore competitiveness lost since the late 1980s. To that end, \$20 million in additional incremental funds are requested for recruitment, retention and compression programs for critical faculty and staff. These additional monies are necessary in order to avert erosion in faculty quality and morale.

**ADDRESS FACILITY
OPERATIONS NEEDS**



OPERATION AND MAINTENANCE NEW AREAS

(\$33,365)

**Campus
Level:
UIUC
(\$33,365)**

▶ The FY 2014 request for funding of the operation and maintenance of new and significantly remodeled areas support one project at the Urbana-Champaign campus. The total space to be supported is approximately 8,429 gross square feet (gsf). This facility represents an addition to the Urbana-Champaign campus to help support the mission of the University of Illinois and serve to provide teaching, research and support space for the campuses.

The University received no new areas support funding from the State since FY 2003. Over that same period the University was forced to reallocate over \$29 million to fund these unavoidable costs of new areas with \$7 million of those funds to cover the last five years of unfunded operations. And while this year's request is relatively small, several large construction projects are in process that once completed will produce large buildings with heavy operations and maintenance demands in the coming fiscal years. Two prominent examples include the Electrical and Computer Engineering Building and Integrated Bioprocessing Research Lab at the Urbana campus. These buildings are large complex science buildings that typically yield a higher cost per square foot to maintain. Obviously, the practice of not funding the operations and maintenance of new areas is not a practice that the University can maintain without seriously infringing on the activities of its other programs. It is critical that the State support the real operation and maintenance costs of facilities that it approves for construction.

For FY 2014, the requirement to support the operation and maintenance of one new facility totals \$33,365 which can be seen in Table 6.

Table 6
FY 2014 Operation and Maintenance
Requirements to Support New Areas

| <u>Facility</u> | <u>GSF</u> | <u>Date of Occup.</u> | <u>Mnths Req</u> | <u>Utilities</u> | <u>Other</u> | <u>2014 Total</u> | <u>Annual Cost</u> | <u>Cost/ GSF</u> |
|---------------------------------|------------|-----------------------|------------------|------------------|--------------|-------------------|--------------------|------------------|
| <u>Urbana-Champaign</u> | | | | | | | | |
| Crop Sciences Research Building | 8,429 | Sep-12 | 3 | \$ 12,320 | \$ 21,045 | \$ 33,365 | \$ 133,459 | \$ 15.83 |
| Total | 8,429 | | | \$ 12,320 | \$ 21,045 | \$ 33,365 | | |

URBANA-CHAMPAIGN PROJECT

Crop Sciences Research Building

▶ This 8,429 gsf metal prefabricated building will provide the Crop Sciences department with new research space. The facility is located on the south farms of the Urbana-Champaign campus having been relocated from the site immediately south of the DIA Golf Driving Range. This building will contain office space, restroom areas, lab/office areas and lab/shop areas with a full length mezzanine above the office area. Three months of support totaling \$33,365 is requested for FY 2014.

FACILITY RENOVATION SUPPORT

(\$20,000,000)

Overview



Stated most simply, physical facilities are a critically important component of the academic support structure necessary to conduct instructional, research and service activities in any institution of higher education. Academic facilities constructed and operated with State funds for the University of Illinois have a replacement cost of over \$6 billion. Most of these facilities were built to “institutional standards” in construction materials and techniques, meaning that with proper maintenance and regular renovation of components which have exceeded their useful lives, the facility can have a nearly infinite life. Toward this end, the University has attempted to create a consistent funding source to service its facilities infrastructure. Attempts starting in FY 1998 met with limited success but that trend came to an abrupt halt in FY 2003 as support was not possible due to the State’s dire fiscal situation. Steady and sustainable revenue streams are crucial to maintain the University’s physical assets. This is vitally important as the University seeks to stem the tide from an ever increasing maintenance burden. For FY 2014, the University seeks to build on a meager start. A variety of University of Illinois programs are today housed satisfactorily in buildings more than 100 years old and that experience can continue if adequate facilities funds are available.

THE NEED



Two-thirds of state constructed space was built prior to 1970.

Three factors contribute to the need for annual attention to the configuration and quality of the physical facilities supporting any academic program:

- Replacement Needs
Normal use inevitably causes wear and tear on building systems and components to the point at which their useful lives are exceeded and they must be replaced. This process is frequently described as depreciation and is universally recognized. If proper annual maintenance is not available for building systems, their useful lives are shortened. If replacement of worn-out building systems is not completed on a timely basis, significant backlogs of deferred maintenance needs arise, eventually resulting in larger and more costly major remodeling requirements.
- Realignment Needs
The needs of academic programs vary over time. As enrollments shift among fields of study, space needs change with them. As the state-of-the-art within fields of study changes, so too do the facilities needed to support new activities.

In some cases, the entire functional use of space must shift to accommodate changes within or among academic programs.

- Renewal Needs

Technological advances can render both facilities and equipment obsolete, sometimes at rates far exceeding their physically useful lives. The application of computing to every discipline within a university and the dizzying pace at which computing power, speed and applications continue to evolve is the most obvious example of such a change.

Several types of funding are required to meet the range of facilities operating, maintenance, renovation and replacement needs which universities confront annually. In Illinois, day-to-day operations and maintenance costs are funded through the annual operating budgets of colleges and universities. Major remodeling and new construction funds come from capital budget appropriations with annual sales of bonds which customarily carry 25-year debt retirement obligations. At this time, funds to address minor remodeling needs most often associated with the factors outlined above also come from capital budget sources. Unfortunately those funds in the capital budget have largely been nonexistent over the last decade.



Without an annually sustainable source of funds to support facilities renovation, the State's investment in college and university facilities is at risk.

Why is a recurring source of support for facility renovation required? There are at least three important reasons:

1. Public colleges and universities in Illinois have accumulated backlogs of deferred maintenance projects reaching tens of millions and in some cases hundreds of millions of dollars per campus. The State's investment in college and university facilities is at risk.
2. Once fully implemented, an operating budget based facilities renovation program would permit institutions to plan, schedule and complete minor remodeling projects more rapidly, more efficiently and less expensively than the present capital budget based program permits. Funding such projects from annual operating budgets would enable the State to devote its bond-funded activities to major remodeling and new construction needs.
3. The capital budget offers an uncertain and uneven level of support for renovation projects, which must compete with other capital needs for major remodeling and new construction.

SPACE REALIGNMENT, RENEWAL AND REPLACEMENT SR³

Approximately thirty years ago the University of Illinois defined the need for an operating budget based source of funds to address annual space renovation requirements. Using historical reviews of the useful lives of all building components, the University developed a formula based approach to provide an estimate of the annual expenditures which an institution would need for regular replacement of components which had exceeded their useful lives (such as roofs, heating, ventilating and cooling systems and so forth) and which could also address the annual need for reconfiguration of space to address new functional requirements brought on by changes in academic programs. This approach was termed Space Realignment, Renewal and Replacement or SR³.



The University has devised a formula based approach to determine the annual investment necessary to keep facilities in adequate condition.

The SR³ formula is based on the assumption that certain building components (foundation, superstructure and exterior skin) have an infinite life, while other components need replacement on a predictable life cycle of normal use. Providing an annual allocation of one-half of one percent of the replacement cost of the facility is sufficient to address these needs. In addition, however, for academic facilities some provision must be made to address the need for functional changes in space and other programmatically driven space reconfiguration requirements. Adding these needs to the building component replacement requirements raises the annual amount necessary to meet SR³ requirements to two-thirds of one percent of the building's replacement cost.

The SR³ approach thus requires that an institution keeps an accurate inventory of the space it has and that it computes the replacement costs of all of its facilities by type of space. Fortunately in Illinois, the Capital Development Board and IBHE have worked together to provide institutions with construction cost estimates for the various types of space which colleges and universities require and with inflation estimates needed to escalate those costs for future construction timetables.

Summing the SR³ requirements for all the facilities on a campus establishes the amount which an institution should spend each year to make certain that its academic facilities are functionally appropriate for the programs it offers. For the three campuses of the University of Illinois for Fiscal Year 2014, the SR³ requirement is \$46 million.

SR³ Proven Effective

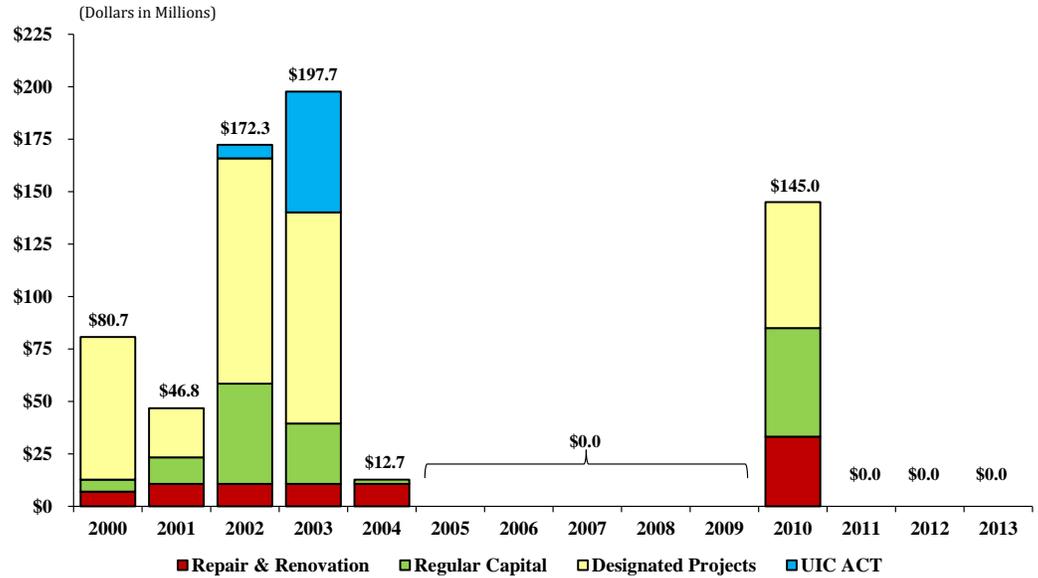
In 1979, the University of Illinois undertook a major restructuring of the debt for its auxiliary facilities and created an entity known as the Auxiliary Facilities System. An integral part of the debt restructuring was the initiation of an annual space renewal and replacement component in the operating budgets of all auxiliary facilities. Since auxiliary facilities do not face the same need for functional reconfiguration of space to meet changing academic program needs that academic facilities must address, the annual Auxiliary Facilities System space renewal and replacement requirement equals one-half of one percent of the facilities' replacement costs. This requirement represents a first dollar operating budget commitment for all University of Illinois auxiliary facilities. It has been in place over 30 years and it provides the best documentation possible for the effectiveness of the SR³ philosophy and approach to effective facilities maintenance. As a group, University of Illinois auxiliary facilities today are significantly better maintained than the University's academic buildings.



For three decades, the University has demonstrated the effectiveness of SR³ in keeping its auxiliary facilities in good working order.

The IBHE has endorsed many of the principles embodied in the Space Realignment, Renewal and Replacement approach. For more than a decade IBHE has recommended and the General Assembly and Governor have supported a capital budget based Repair and Renovation (R & R) program which uses the SR³ formula approach to allocate funds among institutions for minor remodeling projects defined with considerable flexibility by the institutions. Unfortunately, the capital R & R initiative, when funded, has been funded at approximately one-third of the annual need which the SR³ formula prescribes for each institution. As shown in Figure 17 there have only been two fiscal years in the last decade where the R & R funds have been released for University use. A backlog of critically important R & R projects is growing to near crisis proportions, emphasizing dramatically the need for regular, recurring attention to facilities renewal, realignment and replacement requirements.

Figure 17
University of Illinois
Capital Appropriations
FY 2000 to FY 2013



FY 2014 OPERATING BUDGET REQUEST FOR FACILITY RENOVATION



*SR³ is simple,
 straightforward,
 equitable,
 comprehensive and
 cost effective.*

The need for an operating budget based program which can address a variety of facilities needs facing the University of Illinois has grown to the point that its priority matches the need for new or expanded academic program funds. For FY 2014 the University of Illinois will continue the program and seek to add incremental funds necessary to fund the SR³ formula. For FY 2014, the University seeks \$20 million for this multi-year initiative.

Funds provided under this program would be used to meet facilities needs arising in three distinct areas:

1. To accelerate the attack on a burgeoning backlog of deferred maintenance projects centered on building system components well beyond their useful lives.
2. To address functional changes in space configuration caused by program changes or state-of-the-art changes in instruction and research. Upgrading class laboratories would be a significant element in this category.

3. To address continually changing infrastructure needs to accommodate changes in technology.

The University strongly believes that the SR³ formula approach is the most effective mechanism to implement an operating budget based facilities renovation program.

The SR³ approach offers numerous advantages, which include the following:

- SR³ is simply defined and easily understood. Its components (amount of space maintained with State funds, space inventory by type, replacement costs) can be easily computed by all colleges and universities and are elements which institutions, the IBHE and legislative and executive agency staff are very comfortable and have dealt with for a number of years.
- SR³ is easy to implement. All of its components are already in place at all public colleges and universities participating in the capital budget R & R program.
- SR³ is equitable to all institutions regardless of size or complexity.
- SR³ effectiveness and impact is demonstrable, since it has been in place well over 30 years in the University of Illinois Auxiliary Facilities System.
- SR³ is less costly than the current capital budget system, since it improves efficiencies in project planning, scheduling, completion and it requires no debt service.
- SR³ is easily audited through a review of individual projects planned and completed.

A period of several years will be required to adapt to annual spending on facilities improvement projects on the order of magnitude provided by the SR³ approach. In addition, some reappropriation mechanism will eventually be needed to ensure that funds made available for facilities improvements in the early years of the program could be fully expended on projects which might require several months of planning and up to one year after that to complete. As the program becomes fully operational, it is expected that a portion of each year's appropriation would be devoted to planning and design for future projects, which would allow construction to start as soon as the new fiscal year began.

Finally, it is still desirable that an operating budget based facilities improvement program would complement the existing capital budget based R & R program while

the existing backlog of deferred maintenance projects is reduced. Once the SR³ program is fully implemented in the annual operating budget at an appropriate level of support, it could be expected that it would replace the capital R & R program. The capital budget could then be devoted to major remodeling projects and new construction initiatives.

UTILITY INFRASTRUCTURE SUPPORT

(\$5,000,000)

Overview



Each of the Universities three campuses is served by a central utility plant that distributes heating, cooling and electricity to serve the needs of its respective campus. While each campus differs in basic utility production equipment and processes, each is essential to their campuses ability to provide the basic central plant utility infrastructure in support of the academic mission. In recent years the University has undertaken the analysis of its energy policies in total as it evaluates how to effectively and efficiently provide the energy its campuses need. The assessment of production, delivery and consumption was performed with the assistance of consultant group Science Applications International Corporation (SAIC) as part of the recent Energy Task Force. In relation to the capital infrastructure, the study sought to identify cost effective investments in the existing central energy plants and distribution systems. The main goal was to identify improvements to the central plants that would result in reduced operation and maintenance costs and most importantly maintain or improve reliability. Key findings from that report were presented in August of 2009 including recommendations for capital improvements. Those key findings are as follows:

Heating/Power Plant Operations

1. Cogenerated electricity, (electricity produced in University of Illinois plants as a byproduct of the steam production for heating needs), is cost competitive.
2. At present and near-term market prices for electricity, both Chicago and Urbana should purchase from the commercial grid any electricity needs beyond the cogenerated byproduct and not seek to expand electricity generation capacity. For most of the year, neither of the UIC and UIUC campus plants can competitively generate electricity as a primary product, except perhaps on the hottest summer afternoons when the market price is high. UIC has a slight advantage, in that the market price of power in the Chicago area is higher than downstate and Midwest Independent Suppliers Organization (MISO) prices for Urbana.
3. The University should retain ownership of the existing plants, but must invest significant sums to make them reliable and prevent large-scale outages.

Condition of Infrastructure

1. Heating/power plants on both the Urbana and Chicago campuses are aged and in need of significant annual investment over the next 15 years to provide the necessary reliability. The 15 year required investment totals estimated by SAIC are as follows:
 - a. UIUC: \$173 million to \$234 million
 - b. UIC: \$131 million to \$177 million
 - c. UIS: \$1.5 million to \$2 million

2. Utility distribution systems on the Urbana and Chicago campuses are similarly aged and also need significant investment over the next 15 years. Distribution systems in poor condition are estimated to waste \$6.5 million to \$10 million per year in heat loss and leakage on the combined system capacities of Urbana and Chicago. The 15 year required investment totals estimated by SAIC are:
 - a. UIUC: \$51 million to \$69 million
 - b. UIC: \$27 million to \$37 million
 - c. UIS: \$200,000 to \$400,000

3. Buildings on all campuses are wasting energy and in need of upgrade/renewal, though the problem is most acute in Urbana and Chicago. The SAIC study estimates that as much as 25% of the energy used in buildings could be saved through regular, prudent investment in conservation measures. The estimated 15 year conservation investment totals are, at a minimum:
 - a. UIUC: \$52 million
 - b. UIC: \$62 million
 - c. UIS: \$1.8 million

The conservation projects included above have a benefit-to-cost ratio greater than one, and average to a simple payback of 7 years.

4. Funds for annual reinvestment in energy production/distribution and conservation in buildings should be recovered from utility rates. In parallel, funds for addressing deferred maintenance and capital renewal in campus buildings should be provided from a separate and dedicated funding source structure, i.e. similar to the infrastructure fee presently charged to all students.

As previously mentioned while each campus differs in infrastructure type at their plant, each has important improvements that can be made to increase reliability which is mission critical for the delivery of a quality academic program. The heating/power plants at both the Urbana-Champaign and Chicago campuses, although well maintained, are aged and in need of significant annual investment in order to provide the necessary reliability. At UIUC the Abbott Power Plant is old by

industry standards and with the exception of recent combined-cycle equipment, the main steam and power generating equipment is past its original design age. Plant operation is complex due to the variety of equipment and operating limitations. Additional redundancy is needed to overcome reliability issues with ageing equipment. In order to maintain reliable operation of the plant it is recommended that \$15 million to \$20 million dollars be invested each year over the next 15 years. Immediate deficiency remedies include new condensate cleaning system to reduce premature corrosion of plant equipment, new condensate storage tanks, additional reverse osmosis water treatment capability for makeup water treatment, coal handling equipment repairs, ongoing boiler maintenance and repairs to the steam distribution system piping to prevent heat loss, maintain structural integrity and increase reliability.

At the Chicago campus both east and west side plants are old by industry standards including the piping distribution systems and tunnels. Plant operation is driven mainly by the need for steam/hot water, with electrical power production from the gas turbine generators a secondary consideration. It is estimated to maintain reliable operation of the plants an annual investment over the 15 year period of \$10 million to \$14 million is required. Projects recommended for UIC include replacement of several boilers on the west campus. Additional chiller capacity at both the east and west plants is necessary to serve the existing demand and meet future load requirements. The UIC east campus is in need of a distributed control system with necessary instrumentation and controls to properly oversee the operation of plant equipment.

The Springfield campus while not as dated as the two larger campus plants has the opportunity to reduce operation and maintenance costs while at the same time improving reliability. Proposed improvements to the UIS plant infrastructure project out to \$2 million over the next decade. Recommended projects include modifications for the boiler systems on campus including updated burner control system, flue gas breeching repairs and steam flow measurement for those boiler systems.

**Required
Investment**

▶ Three actions are required to improve and ensure utility reliability. First, utility rates must include significant amounts for annual repair and replacement (R&R) of generation and distribution assets. SAIC suggest that \$20 million to \$30 million per year be provided for this purpose. Second, establishment of reserve accounts inside each campus utility budget be made available for large capital R&R items or system emergencies. Third, capital allocation for energy generation/distribution projects should be handled separately from programmatic capital projects.

MEET INFLATIONARY AND OTHER COST INCREASES



PAYROLL COST INCREASES

(\$1,550,000)

Overview



The University has faced increasing requirements for specialized payroll-related expenditures without receiving commensurate funding to cover them. Payouts for federally mandated Medicare contributions have placed additional stress on the University's budget in recent years. While some of the extreme stress on Federal Medicare has been relieved through years of major reallocation, pressure remains on Workers' Compensation and, to a lesser degree, Social Security contributions. Currently, the University is required by federal law to match new employees' contributions to Medicare and for certain employees, to Social Security. Additionally, board legal liability claims continue to be worrisome. Increases in funding are essential to provide for these unavoidable expenditures.

MEDICARE AND SOCIAL SECURITY CONTRIBUTIONS – \$550,000

Effective April 1, 1986, the federal government mandated participation in the Medicare system by all newly hired State and local government employees not covered under the Social Security system. These employees and their employers are responsible for equal portions of the FICA Medicare Tax of 1.45% of gross pay. Additional legislation, effective July 1, 1991, requires employees not covered by the State University Retirement System to participate in the Social Security system.



Medicare cost increases present mandatory, unavoidable budget requirements.

In FY 1995, federal legislation removed the cap on the FICA Medicare Tax. In prior years, the tax of 1.45% was capped at \$135,000 of gross pay. The FY 1995 legislation removed the cap and allows the 1.45% tax on the entire gross payment. This action, with an effective date of January 1, 1994, significantly increased Medicare expenditures for the second half of FY 1994 and subsequent years.

Since FY 1987, expenditures have grown at a rapid rate as a result of the changes in Social Security requirements and the turnover of those employees exempt from Medicare requirements. Although appropriations for these costs also have increased, they have been insufficient in meeting actual needs. Table 7 details annual appropriations and expenditures along with each year's percentage growth rate.

Table 7
Appropriations and Expenditures
for Medicare and Social Security Costs
(Dollars in Thousands)

| Fiscal Year | Appropriation & IF Budget | Expenditures | % Change in Expenditures |
|----------------|------------------------------|-----------------|-----------------------------|
| 1996 | \$ 5,967.3 | \$ 5,982.0 | - |
| 1997 | 5,967.3 | 6,086.6 | 1.7% |
| 1998 | 6,141.5 | 6,267.3 | 3.0% |
| 1999 | 6,302.7 | 6,754.1 | 7.8% |
| 2000 | 6,491.8 | 7,589.9 | 12.4% |
| 2001 | 6,686.6 | 8,589.7 | 13.2% |
| 2002 | 6,887.1 | 9,753.7 | 13.6% |
| 2003 | 9,037.1 | 10,009.3 | 2.6% |
| 2004 | 10,037.1 | 10,272.8 | 2.6% |
| 2005 | 10,037.1 | 10,656.0 | 3.7% |
| 2006 | 10,037.1 | 11,525.0 | 8.2% |
| 2007 | 11,037.1 | 12,731.6 | 10.5% |
| 2008 | 12,037.1 | 13,440.7 | 5.6% |
| 2009 | 14,241.6 | 14,574.6 | 8.4% |
| 2010 | 15,285.6 | 13,858.6 | -4.9% |
| 2011 | 15,385.6 | 14,366.6 | 3.7% |
| 2012 | 15,340.6 | 14,765.2 | 2.8% |
| 2013 | 15,725.6 | 16,300.0 (est.) | 10.4% |

The FY 2012 appropriation was \$15,340,600 for the combined Medicare and Social Security requirements. However, with no general salary program in FY 2010 or FY 2011 and mandatory furloughs in 2010 and Urbana's Voluntary Retirement Program, expenditures came in below budget for the past three years. In FY 2013, expenditures are expected to rise. An increment of \$550,000 is requested for the FY 2014 appropriation. Because it is a federal mandate, this is truly an unavoidable increase for the University.

WORKERS' COMPENSATION – \$500,000

The University of Illinois, unlike other universities or state agencies whose claims are handled through the Illinois Department of Central Management Services, receives a direct appropriation for payments of Workers' Compensation claims to University employees. Table 8 details the State appropriation to the University compared to actual expenditure claims. In the last 20 years, the University has been

forced to reallocate funds to cover increased claims. Because the Workers' Compensation Reform Act of 2005 was conservatively estimated to increase annual expenditures by at least 10%, additional time and resources have been spent in efforts to control costs, but the University continues to face growing exposure in this area.

Table 8
Appropriations and Expenditures for Workers' Compensation
(Dollars in Thousands)

| <u>Fiscal Year</u> | <u>Appropriations</u> | <u>Expenditures</u> | <u>% Change in Expenditures</u> |
|------------------------|-----------------------|---------------------|-------------------------------------|
| 2000 | 3,466.0 | 3,727.1 | - |
| 2001 | 3,570.0 | 3,713.1 | -0.4% |
| 2002 | 3,570.0 | 3,689.3 | -0.6% |
| 2003 | 3,570.0 | 4,622.3 | 25.3% |
| 2004 | 3,570.0 | 5,462.7 | 18.2% |
| 2005 | 3,570.0 | 4,815.1 | -11.9% |
| 2006 | 3,570.0 | 5,612.9 | 16.6% |
| 2007 | 3,570.0 | 5,333.9 | -5.0% |
| 2008 | 3,570.0 | 7,219.0 | 35.3% |
| 2009 | 5,070.0 | 6,153.0 | -14.8% |
| 2010 | 5,570.0 | 6,445.4 | 4.8% |
| 2011 | 5,820.0 | 8,190.0 | 27.1% |
| 2012 | 6,320.0 | 6,697.3 | -18.2% |
| 2013 | 6,570.0 | 7,367.0 (est) | 10.0% |

For the last several years, the University has utilized an actuarial firm to establish an appropriate level of funding for Workers' Compensation. The firm's methods for estimating projected claims and resulting outlays have proven to be very accurate. The impact of the Workers' Compensation Reform Act of 2005 has contributed significantly to the increase in program costs. Cost containment efforts have been initiated, including worker safety training programs and aggressive return to work programs. Actuaries have calculated the FY 2013 Cost Per \$100 Payroll to be \$0.76. When multiplied by state payroll the expected cost to fund the program is \$7.4 million. When compared to the State appropriation of \$6.57 million, there is a shortfall of roughly \$797 thousand. The University has created extensive programs, charge backs and incentives to control and reduce costs in the last several years. Even with the success of these programs, additional resources are required. For FY 2014, \$500,000 for workers' compensation is requested.

LEGAL LIABILITY – \$500,000

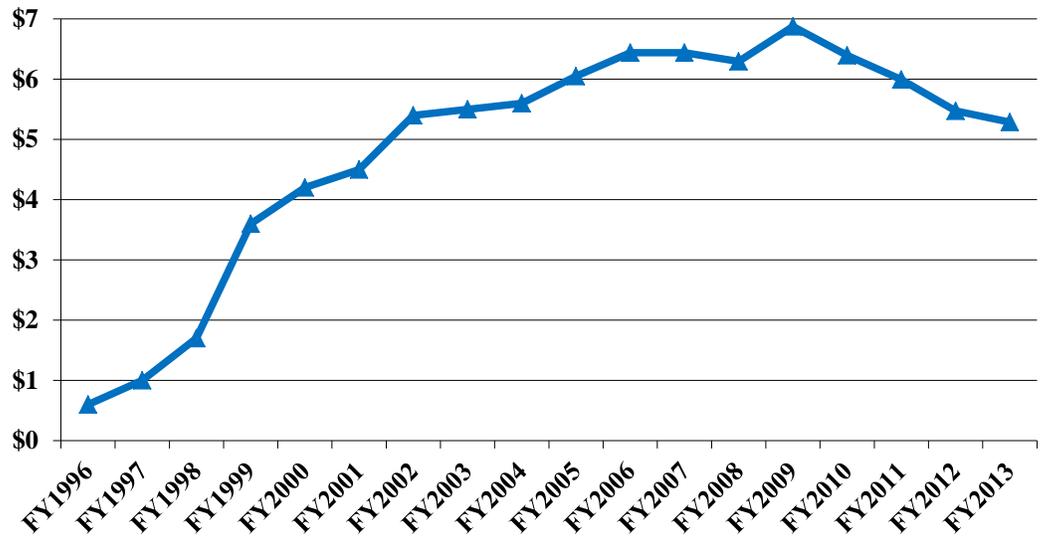
Following national trends, all forms of legal liability claims costs at the University of Illinois have grown. Awards of the court are hitting new highs; claims are requiring more dollars to effect settlement. The Cook County venue is one of the most litigious in the country; awards and settlements are among the highest. These facts are given consideration by both the actuary and the insurer.

The University of Illinois maintains a comprehensive liability self-insurance program to cover the cost of claims made for bodily injury and personal injury. By far the largest exposure to the University is in the Board Legal Liability area, where claims are made for personal injury. Personal injury includes claims of discrimination, wrongful termination, civil rights violations, failure to educate, etc. The funding costs for the General and Board Legal liability programs has gone from from \$0.6 million to \$5.3 million during the period FY 1996 to FY 2013. This marked increase is due to:

- The increased cost of defense of cases in which resolution is problematic due to the personal nature of issues involved.
- Actuarial funding recommendations influenced by national trends, proliferation of class-action suits, frequency of punitive damage awards, the decisions of the Supreme Court and the Cook County location—a highly litigious venue.

Loss control for Board Legal liability is difficult; the type of claim is varied, the source of claims is scattered and the frequency is low, but costs can be high for a limited number of claims. Current loss control programs are general in nature, with peer-to-peer dispute resolution being the most recently initiated program. The University has approximately 28,500 FTE employees and over 77,000 students. There are currently 37 open board legal claims, which is a frequency less than .01%. For FY 2013, the University allocated \$5.3 million to the Legal Liability fund. Figure 18 is a graphical representation of the historical cost of the program.

Figure 18
Legal Liability
(Dollars in Millions)



During the past few years the cost of the program has experienced some reduction; however given the escalation in recent years, it is premature to expect the reduction to be a trend. Using the funding requirements of the past several years as an indicator, it is expected that funding needs will continue to experience increases due to inflation, although we hope we will continue to contain costs due to loss control and loss prevention. All funding requirements are based on annual actuarial review.

The University will continue to attempt to control costs arising from this area through training, awareness and by improved procedures. In response to the large exposure employment practices claims presents to the University, a committee was formed to evaluate this issue. The committee included experts in Legal Affairs, Risk Management, Actuarial Science and representatives from units with the highest exposure. The University has increased risk awareness and funded mediation training based on the report of the committee. However, as costs do continue to rise, the University is requesting \$500,000 for General and Board Legal Liability funding.

LIBRARY PRICE INCREASES

(\$2,395,500)

Overview

▶ Despite a downturn in the economy, price increases for library acquisitions continue to outpace general inflation. As more information resources become available in electronic formats, a significant additional financial burden is placed upon the libraries. In each of the last five fiscal years, when inflation generally settled into the 5% to 8% range, the Libraries received no earmarked State dollars to support increases in library material prices. Without additional funding, the Libraries of the University of Illinois are struggling to maintain the current quality of their collections and service levels appropriate to the students and faculty at an institution of its caliber.

Increasing Demands and Decreasing Resources

▶ Any increase in funding would provide for collections and information resources to support the scholarship, research and teaching of students, faculty and researchers at the University and throughout the State. The funding provided to a university's library for collections is a clear barometer of how well funding bodies and administrators understand the link between scholarship and access to scholarly resources. The prestige and the success of the University of Illinois are driven by the faculty's research accomplishments and students' ability to learn. The ability of our faculty and students to succeed is directly dependent on the ability of the Libraries to ensure access to collections of all types and to provide students with the tools they need to negotiate an increasingly complex information environment.



In 2008, a research team determined that for every \$1 invested in library materials, UIUC received approximately \$13.82 in grant funding

In recent campus surveys of graduate and undergraduate students at the University of Illinois at Urbana-Champaign, Chicago and Springfield, users repeatedly asked for greater access to scholarly resources, including both electronic resources and printed books. The value placed on our collections by these budding scholars clearly indicates their understanding of the vital link between the availability of these resources and their ability to fulfill their personal educational and research goals. Over the past decade, annual inflation rates for library materials have ranged as high as 12% in some disciplines. For most of these years, the Libraries received no earmarked funding for material price increases from the state and only modest increases from the University.

When increases have been available at UIUC, they have typically been no higher than 3% to 5% of the overall materials' budget, resulting in a slow erosion of the Libraries' ability to meet the research needs of the University's increasingly diverse and complex research and teaching programs. For example, in FY 2006, the Library at UIUC cancelled some \$300,000 in journals; this follows on the previous year's cancellation of over \$500,000 in titles. While the pace has reduced, FY 2007 witnessed the cancellation of \$22,000 in additional serials. During the early years of this decade, UIUC cancelled approximately \$2 million in journals. While some of these cancellations were tied to the shift from print to electronic access, this represents the loss of important research materials and the elimination of one option that many peer institutions are currently using to cushion themselves from the current fiscal difficulties their own institutions are facing.

At UIC, the financial impact has been partially off-set by internal reallocations to support collections and a fee instituted in fall 2008 (the Library/Information Technology Assessment), a portion of which is spent for acquisition of electronic resources requested by students. However, the UIC Library cancelled numerous subscriptions in FY 2009 through FY 2011.

In both FY 2006 and FY 2007, the Library at UIS cancelled nearly \$100,000 in journals and electronic resources. While this may seem like a small sum, it represents 10% of that library's total materials budget.

To support work in disciplines that rely on publications from abroad, all three Libraries must also deal with the diminished value of the U.S. dollar against foreign currencies. In areas such as global resources and the humanities, a combined 20% to 25% inflation and devalued dollar impact is common. In FY 2008, UIUC lost nearly \$30,000 in buying power against the Euro and nearly \$50,000 was lost against the British Pound. Combined with the sharp increase in publishing output in developing nations, the ability of our institution to provide rich resources to its faculty is diminishing.

Over the last several years, the Libraries actively began shifting collections expenditures from print-based resources to the electronic materials now routinely expected by faculty and students and essential to supporting the University's

growing online degree programs. These materials include many essential full text journal articles, electronic books and reference guides, additional abstracting and indexing services and new collections of electronic primary resource material. The accessibility of electronic material is essential for distance education programs. The enhanced access makes these resources critically important in numerous disciplines as well as to the translational research programs viewed as key to the University of Illinois' future development. The three campus libraries have worked together to negotiate favorable prices for many electronic resources and to avoid duplication while still supporting their diverse academic communities. Despite negotiated rates to keep annual increases as low as 4.5% for some packages, electronic journals cost 10% to 30% more than their print equivalents and face average annual inflation rates ranging as high as 10% to 12% annually. When the University of Illinois Libraries cannot afford to license the material, they rely on access through an inter-library lending agency in which the cost of a single article averages \$40 to \$50. By comparison, the per-use costs for articles licensed by the University can be far below \$1.00 per article per use.

One of the things that made the University attractive to top scholars in decades past was the ability of the Libraries to meet their research needs. As resources to support library materials erode, the ability of the libraries to meet these needs and attract high-powered scholars to the Midwest is diminished. The three libraries have a long history of collaboration and have worked to minimize costs for both library materials and for associated activities. The Libraries have also taken a leadership role in joining digital preservation initiatives such as LOCKSS and Portico, both third-party repositories that hold publisher content should access to publisher-supplied digital content be compromised. However, being collaborative and assuming leadership roles can only go so far to meet the needs of faculty and students.

Student Fees

► The Library/IT fee was implemented in FY 2008 at the Urbana campus, in FY 2009 at the Chicago campus and in FY 2010 at the Springfield campus. The fee at Urbana and Chicago were phased in over a four year period of time. In FY 2013, the Library/IT fee is expected to gross approximately \$25.7 million and net approximately \$22 million after financial aid. The fee provides funding for a transition towards electronic media, digitization and increase in library hours,

improvements in information technology services, new and improved tools for online learning/research and to enhanced access to both electronic and print material collections. Students are involved in the allocation and use of the Library/IT funds through various student advisory groups on each campus.

The Local Impact UIUC

▶ The UIUC Library is a major educational and cultural resource and a critical investment for the University and the State of Illinois. With a collection conservatively valued in 2001 at \$1.5 billion, the collections rank among the largest capital investments owned by the University. Yet, the impact of this investment is little realized. Based upon the results of a Return on Investment study conducted in 2008, a research team determined that for every \$1.00 invested in Library materials, UIUC received approximately \$13.82 in grant funding. This is a critical figure, especially as the State and the University seek a competitive edge in grant-heavy fields such as agriculture, post-genomics and biotechnology, engineering, translational medicine, the arts and social policy.

Unfortunately, inflation and declining investment in the collections impact even our most prominent academic programs. The Library at UIUC has continued to lose value compared to peer institutions as a competitive factor in attracting high quality faculty who rely on their institution's library to support their teaching, research and grant activities. Support for Engineering at UIUC provides an important example of this dilemma: in previous years, the University of Michigan provided some \$300,000 more to its engineering libraries budget annually than was available for the UIUC engineering collection, despite the fact that UIUC's College of Engineering is nationally recognized as a leader in educating engineers for today and tomorrow. The result can be seen in UIUC Library's continued decline in rankings. With a materials budget recently ranking 22nd among 115 reporting Association of Research Libraries members and fifth in the CIC, the historic strength of UIUC's collection will not be able to keep up against those institutions with ongoing stronger support. The campus' ability to support acquisitions in Africana is another example of the challenges UIUC face. With a total budget roughly equivalent to Indiana University's Library, UIUC supports a much broader array of disciplines—including very expensive disciplines such as Engineering and Agriculture. The result is that UIUC can only afford an allocation for acquisitions in Africana that equals about 60% of that supported by IU-Bloomington. While consortia borrowing can help

address this deficiency, it does not completely offset the difference—one that is only further exacerbated by cuts to Federal Title VI grant programs.

Strong and unique collections have long been a hallmark of the UIUC Library. With a collection of more than 23 million items, it is one of the world's great research libraries. Distinguished collections in areas as diverse as American history, chemistry, English literature, emblem books, engineering, mathematics, music and Slavic languages and literature attract and support the work of distinguished faculty and students as well as scholars from around the world. Special collections, including holdings on Carl Sandburg, James "Scotty" Reston, John Milton, William Shakespeare, Marcel Proust, H.G. Wells, Mark Twain, John Phillip Sousa and Shana Alexander further enhance the Library's unique importance to scholars. The services provided do not stop at the borders of this campus. UIUC is a committed member of the state-wide library consortium and is actively providing services to individuals throughout the State of Illinois through direct interactions and the digitization of valued resources, many of which have distinct ties to the University and the state. These services are valued locally and throughout the state and they are recognized nationally for their importance. Providing adequate support for library materials makes the provision of these services feasible.

The Local Impact UIC

▶ The Library at UIC serves the largest University, including six health sciences colleges, in the Chicago area, as well as tens of thousands of students and faculty from other colleges and universities in the city and beyond. It holds the distinction of having a highly diverse student body and is active in its outreach to both its urban and rural constituents. The Library holds 7.8 million items, in all formats. The UIC Library of the Health Sciences, with its regional sites in Peoria, Rockford and Urbana is one of the largest medical libraries in the nation and is designated by the National Library of Medicine as the Regional Medical Library for the Greater Midwest Region, i.e., ten states from Kentucky to North Dakota. UIC's special collections include a wide range of research materials, with emphasis on the history of Chicago. These include the Jane Addams Memorial Collection; the 10,000 item Lawrence Gutter Collection of Chicagoana; the R. Hunter Middleton Chicago Design Archives; the corporate archives of the Chicago Board of Trade; records of the Century of Progress International Exposition (1933-34); the Midwest Women's Historical Collection; and the Chicago Urban League. Recent additions include the

500,000 images in the “Chicago in the Year 2000” (CITY2000) Collection, the James S. Parker photographic collection and the papers of Ellen Nyland. The Library of the Health Sciences, Chicago, holds a range of materials in the history of medicine.

In a strategic decision to reduce its operational costs and consequently free more of its budget for purchasing library materials, UIC closed its Science Library in summer 2011. The Science Library was located in a campus building that houses faculty offices and labs and as a consequence, researchers, instructors and students have lost easy access to the science materials and librarian expertise. Of course, the science collection and the reference and collection development librarian will be available in the main library, but there is no longer the convenience of having a library where teaching and research are taking place.

The Local Impact UIS

▶ The Library at UIS supports students with a collection numbering 586,018 volumes, a large collection compared to peer group public liberal arts colleges. Over half of UIS students take at least one online course and the library has been aggressive in purchasing electronic resources to meet the needs of these distance education students. In FY 2010, Brookens Library acquired 21,150 e-book titles as compared to 1,973 print monographs. For financial reasons and because users as a whole have expressed a preference for electronic materials, by the end of FY 2010 the library’s print journal collection had declined to only 730 titles, down from nearly 3,000 titles at the beginning of the 21st century. The Library has avoided large-scale cancellations of electronic resources only because a hiring freeze meant that the materials budget was being supplemented by funding that would otherwise have gone to salaries.

The universe of databases, electronic journals and e-books that would be valuable for UIS students and faculty keeps expanding as the buying power of the library declines. For instance, as visual images become more important in many disciplines, not just the visual arts, the Brookens Library should be offering the visual image database ArtStor to its students and faculty. However, the subscription price of this resource puts it out of reach for UIS given the current budget. In addition, the most frequent complaint that the Library hears from UIS faculty is that many of the electronic journals and databases available on the other two University

of Illinois campuses are not available to UIS faculty unless they drive to either Champaign-Urbana or Chicago to use them. Although the Library explains that license agreements prevent use by anyone not a party to the agreement, faculty remain convinced that there must be a way to offer electronic resources to the entire University of Illinois community.

Due to the public policy focus of UIS and its location in the State capital, the UIS Library also serves as a resource for State government agencies. Based on this public affairs focus, the Brookens Library has been designated a federal government document depository, the only depository in the State of Illinois to have been designated by a senator, Senator Dick Durbin. The UIS Library's special collections unit houses an oral history collection containing interview tapes and transcripts (recently digitized) from more than 1,200 persons whose memories touch on important themes in the social, economic and political history of the State. This oral history collection will be augmented in the 2012 academic year with a donation of resources related to the beginning of the recycling movement in the United States. The UIS Archives is the location of an Illinois Regional Archives Depository, collecting county and municipal records from 14 central Illinois counties in support of research focusing on local history and genealogy.

Benchmarking The Impact



The cost of purchasing materials in traditional and electronic formats continues to rise annually at rates well above the Consumer Price Index. Major factors for continuing double-digit price increases include increasing output from the world's scholars, increasing control of the market by commercial publishers and the demand for electronic materials to which perpetual access is not assured. These factors impact the purchasing power of all three campus libraries. Increasing prices coupled with inconsistent collection funding over the past twenty years have seriously compromised the quality of the Libraries' collections. Among the members of the Association of Research Libraries (ARL), the UIUC and UIC Libraries' materials expenditures declined. The UIUC Library ranking dropped from 8th in FY 1985 to 22nd in FY 2010. Similar trends have been noted at UIC. For example, in 2000, UIC ranked 58th and its 2010 ranking was 91st. These trends have only continued.

Reviewing past expenditures for the Top 20 Research Libraries, the University of Illinois can make projections about how trends will impact the institution's standing.

Figure 19 clearly shows that if current levels of support continue, UIUC’s material expenditures will decline from \$1.9 million below the average in 1998 to a projected \$6.2 million below the average in 2015.

Figure 19
Projected Materials Expenditures
In Top 20 Research Libraries
(Dollars in Millions)

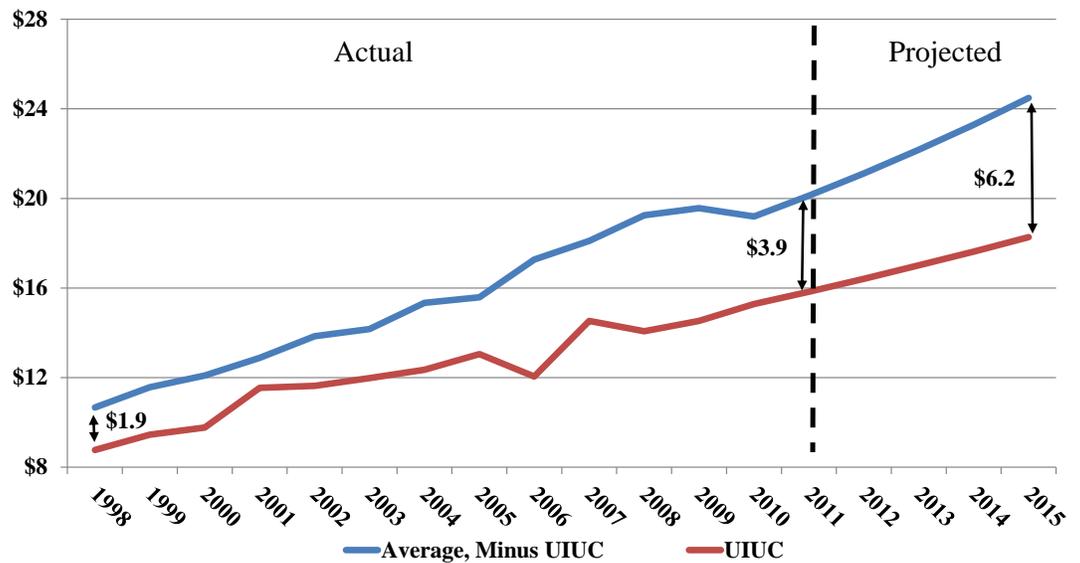


Table 9 shows the trend is similar within the Committee on Institutional Cooperation membership including UIC. In 1998, the UIUC Library materials expenditures ranked 6th among the thirteen member universities. By the end of 2015 projected expenditures, UIUC will rank 7th.

Table 9
Committee on Institutional Cooperation including UIC
Expenditures for Total Library Materials

| Actual 1998 | | Projected 2015 | | | |
|--------------------------------|-----------------------------------|------------------|--------------------------------|--------------------------|-------------------|
| 1 | Michigan | \$14,258,911 | 1 | Michigan | \$ 26,141,555 |
| 2 | Pennsylvania State | 11,697,412 | 2 | Chicago | 24,800,294 |
| 3 | Minnesota | 9,333,452 | 3 | Minnesota | 23,152,312 |
| 4 | Ohio State | 9,166,910 | 4 | Iowa | 19,115,462 |
| 5 | Indiana | 9,016,440 | 5 | Michigan State | 18,994,232 |
| 6 | Illinois, Urbana-Champaign | 8,766,170 | 6 | Pennsylvania State | 18,361,714 |
| 7 | Wisconsin | 8,136,068 | 7 | Illinois, Urbana | 18,269,741 |
| 8 | Chicago | 7,918,951 | 8 | Ohio State | 17,060,059 |
| 9 | Iowa | 7,686,253 | 9 | Northwestern | 16,141,908 |
| 10 | Northwestern | 7,033,193 | 10 | Indiana | 14,960,760 |
| 11 | Michigan State | 5,853,308 | 11 | Purdue | 13,431,709 |
| 12 | Nebraska | 5,151,691 | 12 | Wisconsin | 12,189,812 |
| 13 | Illinois, Chicago | 4,797,246 | 13 | Illinois, Chicago | 9,155,476 |
| 14 | Purdue | 4,635,650 | 14 | Nebraska | 7,181,242 |
| Average CIC plus UIC | | 8,103,690 | Average CIC plus UIC | | 17,068,306 |
| Average CIC minus UIUC and UIC | | 8,324,020 | Average CIC minus UIUC and UIC | | 17,627,588 |

The special values of the Libraries' collections lie in the unique strengths of their holdings for students, scholars and users throughout the State, the nation and the world. Now and in the future, continuing and stable financial support is critical to fulfilling the educational and scholarly needs of the campuses, to enhance access to collections in other libraries, to exploit the potential of electronic information and to fulfill their role as the Libraries of last resort for the citizens of Illinois.

A 10% library price increase (materials) would be \$2,395.5 thousand.

HEALTHY RETURNS—THE ILLINOIS BILL OF HEALTH



HEALTHY RETURNS—THE ILLINOIS BILL OF

HEALTH

(\$15,000,000)

Overview



The University of Illinois Hospital & Health Sciences System (UI Health System) provides extensive clinical services in Chicago and throughout Illinois. In addition to delivering direct patient care, this system serves as a laboratory where top-notch health research and professional training for Illinois' current and future healthcare workforce can occur. In order to allow continued optimum operation of our system and all of its related components, we are requesting additional support from the state. This support would be an investment in the future health of all Illinois citizens.

Our health system includes the clinical operations of a 495 bed hospital, over 60 outpatient care clinics, 11 Federally Qualified Health Centers (FQHC) and 7 health sciences colleges (medicine, nursing, dentistry, pharmacy, public health, social work and applied health sciences). Together, these sites employ over 8,000 people who help coordinate and are responsible for providing comprehensive patient care for more than 850,000 healthcare encounters each year.

Part of our mission is to serve vulnerable populations, and we are particularly proud of our service to Medicaid recipients. For example, in 2011, we treated 39,000 unique Medicaid patients in our Chicago hospital, 8,300 at our Mile Square Health Centers, 11,000 in our dental clinics, 17,400 through our pharmacies and over 16,000 in clinics in Rockford and Peoria.

The clinical operations of the UI Health System also play a vital role in the training of our state's healthcare workforce. The University of Illinois is the home of the nation's largest college of medicine (and one of the most diverse), one of only two colleges of dentistry in the state, and one of only 24 publically funded schools of public health in the United States. The alumni from our programs represent 1 in 6 currently practicing Illinois physicians, 44% of the state's dentists and 1 in 3 pharmacists. In order to adequately train these professionals, our clinical sites must keep up-to-date on constantly evolving technology and methods of diagnosis and

treatment. This is an investment that allows us to remain leaders in the highly competitive and rapidly evolving world of patient care and training.

The workforce we are training is needed now more than ever. Recent expansions to health coverage and a rapidly aging population mean that the demand for healthcare services will continue to escalate. Even now, there are notable gaps in access that the UI Health System plays a substantial role in filling. For example, many rural counties in Illinois have been officially designated as Health Profession Shortage Areas (HPSAs) by the Illinois Department of Public Health. Most training programs will do little to address this problem: according to a 2010 workforce study conducted by the Illinois Hospital Association, only 1.5% of graduating residents or fellows in Illinois planned to practice in a rural area. Fortunately, our campuses in Peoria and Rockford are distinguished by the relatively large number of students and residents who choose to practice locally after graduation.

Our clinical sites are also crucial to conducting essential health research. Examples of research that is possible in a system with inpatient and outpatient facilities includes the development of groundbreaking new treatment for sickle cell anemia; exciting new programs in robotic surgery, magnetic resonance imaging and stroke and neurological surgery; and important translational research in pharmacogenomics (personalized drug therapy) and comparative drug effectiveness. Major initiatives are underway on new treatments for diabetes and obesity, diseases that disproportionately affect minorities and the underserved. Much of the research conducted by our scholars is geared toward advancements that enhance patient care, meaning that the UI Health System is well positioned to quickly implement successful treatments.

We anticipate that it will require \$75 million (\$15 million per year in recurring operating funds) to allow continued optimum operation of the clinical operations that support patient care, training and research. The \$15 million per year will be used to support the basic operating needs of the clinical facilities.

In addition, the UI Health System is located in outmoded and deteriorating facilities. These funds would allow for completion of the master plan for the renovation and expansion of the hospital. Once the master plan is completed, capital investment

will be crucial to the preservation of the system. Without capital investment, deferred maintenance on existing facilities will inhibit our ability to effectively serve patients, train new healthcare professionals and conduct essential research.

MEDICAL PROFESSIONAL LIABILITY INSURANCE



MEDICAL PROFESSIONAL LIABILITY INSURANCE

(\$10,000,000)

Overview



Nationally the substantial increase in costs associated with medical liability continues. It is rare that a week goes by when an article about escalating malpractice costs is not in a local newspaper. Illinois legislation passed in 2005 included caps on damage awards, but the issue of balancing a patient's right to sue because of medical error against the cost of litigations continues to be hotly debated. In November 2007, tort reform legislation was overturned—for the third time—and in early 2010 the Illinois Supreme Court upheld this decision. Therefore, caps on non-economic damages for medical liability claims are once again a dead issue.

No single factor may be responsible for rising malpractice insurance costs. However, the reality is we continue to be in the midst of a crisis. It will come as no surprise that malpractice coverage has become so expensive that physicians are closing practices, retiring early, or moving to areas where insurance costs less. The AMA continues to make liability reform a top legislative priority.

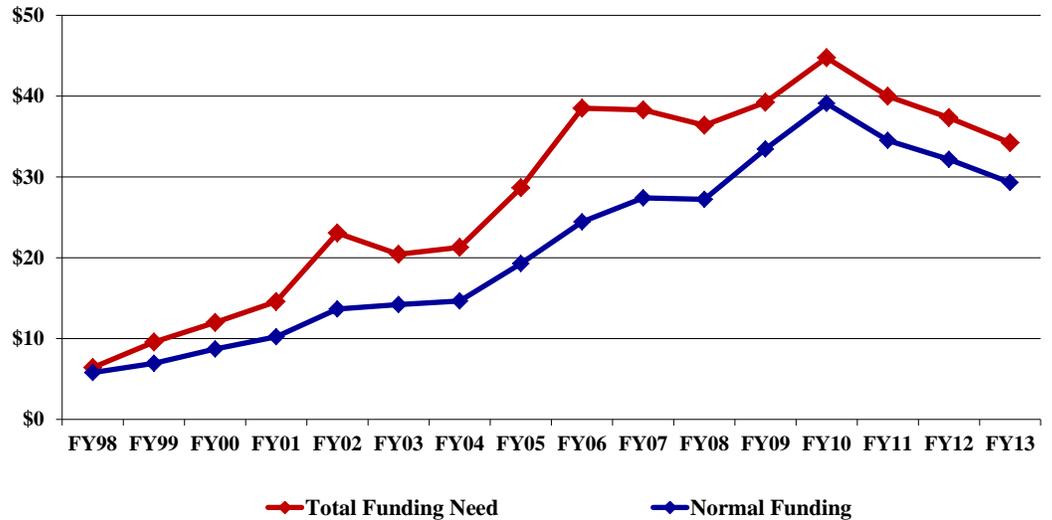
Following national trends, the University of Illinois claim experience has deteriorated over the past several years, primarily due to the size of the awards and verdicts, not because we have an increase in medical errors. Awards of the court are hitting new highs; claims are requiring more dollars to effect settlement. The Cook County venue is one of the most litigious in the country; awards and settlements are among the highest. These facts are given consideration by both the actuary and the insurer.

The total funding requirement for the Hospital/Medical professional liability self-insurance program increased 435% in the past fifteen years, increasing from \$6.4 million in FY 1998 to an all-time high of \$44 million in FY 2010, despite an increased focus on patient safety. The funding requirement has been going down recently; -6.7% in FY 2012 and -8.3% in FY 2013—primarily because some large claims were closed and taken off the books.

Normal funding (the projected, future cost for claims incurred in the upcoming year) has steadily grown since FY 1998. Both the “total funding requirement” and the

“normal funding requirement” are discounted to recognize the time value of money and the long time required to effect closure. Figure 20 shows medical malpractice funding needs.

Figure 20
Medical Malpractice
FY 1998 to FY 2013
(Dollars in Millions)



In FY 2012, hospital discharges and outpatient clinic visits are down from prior years. During the same period in excess of \$38 million was paid by the University to settle claims. The University’s actuary estimates the discounted outstanding liabilities for current medical liability claims is roughly \$165 million.

The University of Illinois Medical Center (UIMC) is a prestigious academic medical center providing high-level medical care for difficult medical problems; additionally, the University provides a broad range of services for participants in the State’s entitlement programs. An outside audit has indicated that existing procedures and risk management programs in the hospital and clinics are appropriate and effective. Loss control programs are in place, but claims happen. If national trends play out at the University of Illinois Medical Center, the incidence of claims and the cost to adjudicate those claims will increase despite tort reform.

ADDENDA



ADDENDA I

RETIREMENT

Overview

▶ The level of funding of the State Universities Retirement System (SURS) has been a source of significant concern through the years. Although legislation passed in 1967 required that annual appropriations for the System cover the projected costs of future benefits plus interest on the System's existing unfunded liability (i.e., future pension costs for employees still working), this statutory level of funding was never reached and, in effect, part of the State's obligation to cover the retirement costs of current employees has been shifted to future years.

There was modest movement toward an improved level of retirement funding from FY 1979 through FY 1981. In each of those years, the State's contribution was at or above the "gross payout" level of funding—covering all of that year's benefits and administrative expenses. But from FY 1982 through FY 1994 funding dropped significantly below the "gross payout" level. While these reductions were seen as necessary to prevent deeper cuts in operating funds, the State was in effect borrowing against the future.

In FY 1995, there was significant movement towards an improved level of retirement funding. Public Act 88-593 mandated that the State's five pension systems achieve a level of 90% of full actuarial funding in 50 years and includes a continuing appropriation provision to enable the State to reach that goal. Under new Governmental Accounting Standards Board (GASB) guidelines, SURS assets as of June 30, 1997 were valued at market rather than book value. This change alone significantly increased the funding ratio of assets to liabilities, and the funding ratio was increased even further by a new set of actuarial assumptions adopted in December 1996 that recognized strong returns on SURS assets, which lowered projected future liabilities. The System's funding ratio peaked at over 88% in FY 2000.

Unfortunately, investment returns in 2001 and 2002 were negative, and only about 3% in FY 2003. As a result unfunded liabilities increased greatly for SURS, as they did for all of the State's retirement systems, which also experienced poor investment returns.

Faced with an extremely constrained budget situation in FY 2004, the General Assembly and the Governor approved PA 93-2, authorizing the sale of \$10 billion in pension obligation bonds in order to meet the statutory pension funding obligations. The infusion of money combined with extremely strong investment performance increased the funding ratio of SURS from a low of 53.9% at the end of FY 2003 to 66% at the end of FY 2004. The law called for the State's pension contribution to be split between payments to the pensions systems and interest and principal payments on the bonds.

The 1995 "catch-up" law combined with the bond sale created a very large pension funding obligation that, along with rising Medicaid and other program costs, posed a severe challenge to the State's FY 2006 budget. The Governor and General Assembly responded by approving PA 98-4, which reduced the State's required pension contributions to all systems by about \$1.2 billion in FY 2006 and \$1.1 billion in FY 2007 and recalculated the pension catch-up amounts in subsequent years. SURS contributions were reduced to about \$167 million (from \$365 million) in FY 2006 and \$252 million (from \$432 million) in FY 2007. The FY 2008 SURS contribution was \$340 million, FY 2009 was \$450 million and FY 2010 was \$708 million. The law also made the following major substantive changes to SURS:

- The State Comptroller (rather than the SURS Board) will now certify the SURS effective rate of interest for the money-purchase formula.
- The money-purchase formula is not available for new SURS members hired on or after July 1, 2005.
- Employers must pay the actuarial value of pension increases that result from earnings increases over 6% in any year used to calculate a retiree's final rate of earnings. This provision does not apply to raises paid under collective bargaining agreements in effect before July 1, 2005. This legislation was modified under PA 94-1057 and signed by the Governor in July 2006 to further clarify the basis used for calculations and included a sunset provision to address exclusions such as overload work and certain promotions. Unfortunately, these exclusions expired on June 30, 2011 and the University no longer benefits from those exclusions.
- The Governor created an Advisory Commission on Pension.

Though pension systems invest for the long run, all have been greatly impacted by the historic declines in asset prices over recent years. The public pension systems of Illinois are no exception. The combination of long term underfunding and the

historic drop in asset prices have created a long term concern of the stability of the Illinois pension systems.

Again faced with negative investment returns in FY 2009 which significantly further escalates funding requirements and continued ramp up in funding from PA 88-593, the Governor and General Assembly responded by passing legislation that fully funded the FY 2010 required pension contributions by issuing \$3.5 billion in 5-year Pension Obligation Bonds. Governor Quinn also appointed a Pension Modernization Task Force which formed subcommittees and provided recommendations on investments, benefits and funding.

Under PA 88-593 there continued to be a ramp up in funding for the State's five retirement systems. This significant increase in employer contributions would dramatically impact the availability of State revenues for other purposes. On April 14, 2010, Governor Quinn signed (SB 1946) Public Act 96-0889 into law. It was one of the most substantial pension overhauls in the country, modifying most public pension systems other than Police and Fire funds. Of note, it created a two-tier pension system in which the required age to receive full annuity will increase to 67—the highest teacher retirement age in the country—and the vesting period was raised to 10 years. The required age to receive a reduced annuity will be modified to age 62 with 10 years of service; the reduction in benefit amounting to ½ of 1% for each month that the member's age is under 67. PA 96-0889 also caps maximum pensionable salary at \$106,800. The new provisions named, as well as others outlined in Table 10, apply to all newly hired employees eligible to participate in any retirement system on or after January 1, 2011.

Table 10
PA 96-0889 – Applicable to SURS Participants

| Provision | Current Members | New Members on or after January 1, 2011 |
|---|--|---|
| Required Age and Service Years to Receive Full Annuity | Age 62 with 5 years of service, 55 with 8 years OR any age with 30 years | At age 67 with at least 10 years of service |
| Required Age and Service Years to Receive Reduced Annuity | If under 30 years of service, the annuity is reduced by ½% per month for each month that the member's age is under 60 | At age 62 with 10 years of service. The pension would be reduced a ½% for each month the member is under the normal retirement age as provided by SSA |
| Average Final Salary Calculation | The average of the highest 52 consecutive pay periods of earnings in the last 10 years preceding retirement | The average highest 96 months of earnings in the last 10 years preceding retirement |
| Maximum Pensionable Earnings | IRS requires that pensionable earnings cannot exceed \$245,000 in 2010 (for employees hired after 1/1/96) | Caps the average final salary used at \$106,800; this amount automatically increases annually by 3% or by one-half of the increase in the Consumer Price Index-u, whichever is <i>lower</i> |
| Computation of the Surviving Spouse's Annuity | 60% plus 1% per year of service of the annuity the deceased member had been receiving or would be entitled to receive on the date of death, maximum 85%. | 66-2/3% of the annuity the deceased member had been receiving or would be entitled to receive on the date of death |
| Annuitant (Retiree and Surviving Spouse) COLA | 3% of the annuity payable at the time of the increase | 3% or one-half of the increase in the Consumer Price Index, whichever is <i>lower</i> , of the original annuity |
| Schedule for First Retiree Annuitant COLA | On the first of the month in which the anniversary of retirement occurred | The first of the month following the attainment of age 67 or the first anniversary of the commencement of the annuity, whichever is <i>later</i> |
| Schedule for First Spouse Annuitant COLA | First day of the calendar month in which there is an anniversary of the employee's retirement or date of death, whichever occurred first | January 1st occurring on or after the commencement of the spouse annuity if the member died after retirement. For the spouse of the member who died in service, January 1st occurring after the first anniversary of the commencement of the annuity. |

With passage of PA 96-0889, contributions for FY 2011 were recertified and the funding required for the pension systems was reduced. Public Act 96-1497 was signed on January 14, 2011. This act amends the General Obligation Bond Act to authorize an additional \$3.7 billion in bonds for the purpose of making the state's Fiscal Year 2011 required contributions to the state retirement systems.

After the past few years of underfunding and issuing bonds for pension payments, the State did make a positive step by appropriating the full certified funding amounts for all five pension systems for FY 2012 and FY 2013 of \$5.1 billion and \$5.9 billion respectively. However, even with the enacted changes, funding for the pension systems continues to put extreme pressure on the State's budget. The need for FY 2014 is projected to be \$6.2 billion, an increase of over \$300 million over FY 2013.

The required state FY 2013 contribution for SURS, which is determined actuarially based on the System's June 30, 2011, fiscal year-end results, is \$1,442.8 million. Although an estimated \$40 million will be received by SURS from non-state funding sources, the remaining \$1,402.8 million will come from the state's General Revenue Fund and the state's unclaimed property fund, which is called the State Pension Fund. With continuing pressure to reduce expenditures, the General Assembly has proposed a number of major changes to the pensions for current employees under various bills introduced in the past two years. Both changes to benefits and shifting of the normal cost to universities and local school districts have been introduced. One thing to note is that none of the changes proposed would reduce the unfunded liability; however it would keep it from growing. Although the legislature ended the regular session without voting on the proposed changes, it is expected that there will be further discussions in the fall veto session.

SURS and the other four state contributory retirement systems have been operating under the statutory funding program established by Public Act 88-593 since 1996. This funding program is designed to assure that each of the systems will have assets sufficient to cover 90% of their liabilities for present and earned future benefits no later than the end of state fiscal year 2045. The Commission on Government Forecasting and Accountability (COGFA) recently issued a report on the appropriateness of the 90% target funding level. They concluded that the target funding ratio of 90% remains an appropriate goal. As of June 30, 2011, SURS had a funding ratio of 43.3%.

While the University understands the very difficult budget situation facing Illinois, it also supports adequate annual funding for all State pension systems, including SURS. SURS should be viewed not only as an important part of the University's

benefit package, but as a crucial component of the State's commitment to higher education. While Illinois' pension funding ratio is one of the lowest in the nation, many other states are not changing their benefit structure significantly. Major changes in benefits could put the University of Illinois at a substantial disadvantage when recruiting faculty of national and international stature. While the University is a creation of the State, the market in which it operates is significantly different than state agencies. While the State continues to grapple with this major problem, the University is concerned about being able to maintain an overall competitive compensation package to recruit top faculty and staff.

ADDENDA II

ENSURING ACCESS—FINANCIAL AID

Overview

▶ The University of Illinois has a strong commitment to access for the people of Illinois whose taxes contribute substantially to the support of the University. To ensure full access for all qualified Illinois residents, regardless of their income level, the University assists students with a wide range of financial aid programs including grants and loans from federal, State and private sources; federal work study funds; and grants and loans from institutional resources. Over 26,500 U of I undergraduates received some form of assistance, the largest portion being need based financial aid. Financial aid is crucial for ensuring accessibility to students from families with limited means. A critical component of financial aid packages for Illinois residents is the Monetary Award Program (MAP) grants they receive from the Illinois Student Assistance Commission (ISAC). For many years the maximum MAP grant awarded to those students with greatest financial need was sufficient to cover the full tuition and mandatory fees at Illinois public universities. In FY 1996, tuition and mandatory fees at the Chicago and Urbana campuses of the University of Illinois first exceeded the maximum MAP award, and the University began supplementing MAP grants for these students to cover the difference.

Students and the University are more directly affected by changes in State and federally sponsored financial aid programs than ever before. Maximum award levels for Pell and MAP are shown in Table 11. For several years the Pell and MAP program maximum awards have not kept pace with the increases in tuition and fees.

Table 11
Federal Pell Grants and Illinois Monetary Award Program
Maximum Award Levels

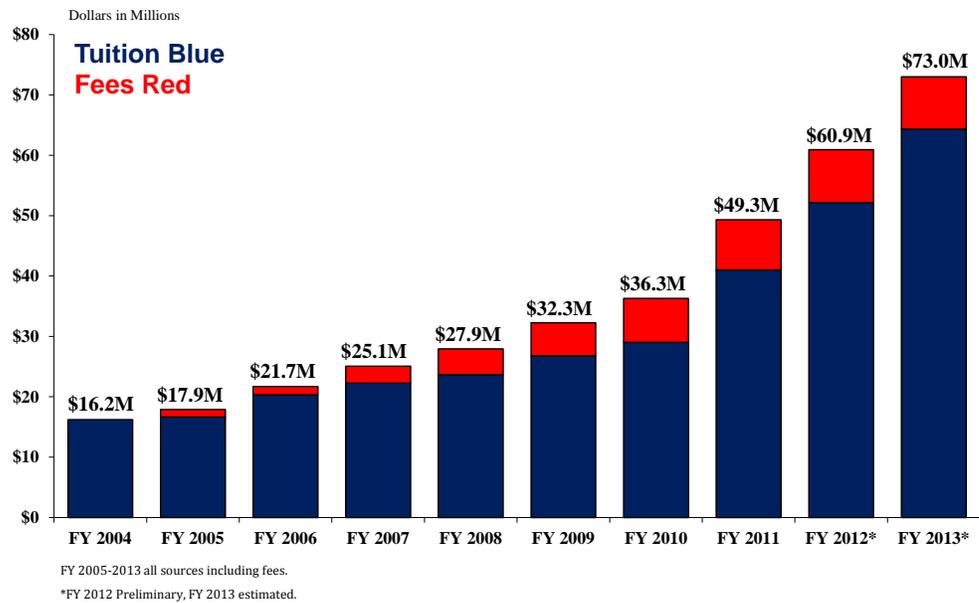
| <u>Fiscal Year</u> | <u>Pell</u> | <u>MAP</u> | <u>Total</u> | <u>UIUC General Tuition + Fees</u> |
|--------------------|-------------|------------|--------------|------------------------------------|
| 2006 | \$ 4,050 | \$ 4,471 | \$ 8,521 | \$ 8,634 |
| 2007 | 4,050 | 4,968 | 9,018 | 9,882 |
| 2008 | 4,310 | 4,968 | 9,278 | 11,130 |
| 2009 | 4,731 | 4,968 | 9,699 | 12,230 |
| 2010 | 5,350 | 4,968 | 10,318 | 12,528 |
| 2011 | 5,550 | 4,968 | 10,518 | 13,508 |
| 2012 | 5,550 | 4,968 | 10,518 | 14,276 |
| 2013 | 5,550 | 4,968 | 10,518 | 14,960 |

1) ISAC MAP formula uses FY 2003-2004 tuition levels.

2) MAP Formula uses max of \$4,968 and reduces all awards by 5%.

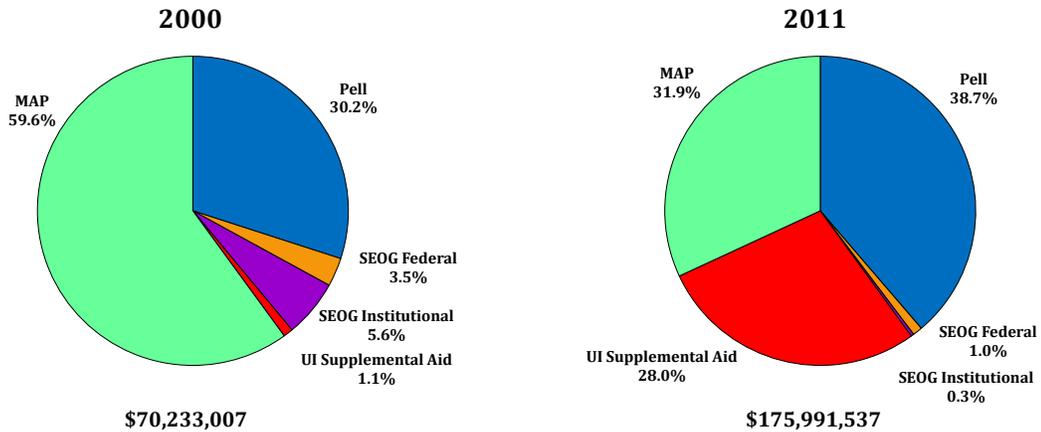
To ensure access the University has set aside supplemental funding to help the neediest students. As shown in the Figure 21, the cost of the Supplemental Financial Aid program began to increase several years ago as budget cuts to both ISAC and the University precipitated reductions in MAP grants and increases in the sticker price of tuition and fees.

Figure 21
University of Illinois
Supplemental Financial Aid Expenditures
FY 2004 to FY 2013
(Dollars in Millions)



As the University continues to balance quality with affordability, institutional aid has become a much larger part of the access for students. Institutional aid in FY 2013 will be approximately equal to the funding for MAP or Pell grants, and as such the University is a major partner in the financial aid process. Figure 22 shows the changing environment, the increase in the total amount of aid and the growth in institutional aid in the last decade.

Figure 22
University of Illinois
Undergraduate PELL, MAP, SEOG, and UI Supplemental Aid



Source: IBHE Financial Aid Survey

In June 2002, the board directed the administration to review the institution’s tuition and financial aid policies that were adopted in 1995, and to make recommendations for changes, if warranted. The report, *Ensuring Quality and Affordability: Tuition and Financial Aid at the University of Illinois*, was submitted to the Board of Trustees in January 2003. The report, which was developed with the help of the chancellors and provosts, faculty representatives and representatives of the Board of Trustees, includes a statement of the guiding principles for financial aid and recommendations for managing the University’s Supplemental Financial Aid program. The Board of Trustees approved a policy at the July 2004 meeting, and reviewed and modified the policy in November of 2007.

GUIDING PRINCIPLES FOR FINANCIAL AID

- The University maintains the goal of ensuring access for qualified students, regardless of financial circumstance. As determined by federal financial need, qualified students will be assisted with the cost of attendance through a financial aid package that includes various types of assistance
- Students who can afford to pay the full price of tuition and fees are expected to do so. Such students will still be eligible for merit scholarships.

- Students who cannot afford to pay the full price will be offered a combination of grants and loans from various sources appropriate to their financial circumstances.
- The University will control its costs through control of the length of study for which it will support students from institutional funds and of the proportion of loans to grants made from institutional funds.

MAP SUPPLEMENTAL FINANCIAL AID POLICY

- Need based institutional grant aid for Illinois resident undergraduates that are funded from institutional funds will be supported for up to 4 ½ years on a full time equivalent basis; institutional grant aid may be offered for one additional FTE semester for students in programs requiring more than 120 credits.
- As a group, undergraduates with financial need will be moved as far as is prudent away from University-funded grants to loans.
- The financial aid officers, in consultation with the campus academic leaders, will develop specific campus policies for awarding Supplemental Financial Aid grants to their undergraduate students. Grants to individual students will be adjusted, within the constraints of campus policy and available resources, as circumstances warrant to best serve these students and their families.
- To manage future increases in tuition and mandatory fees, the campus MAP Supplemental Financial Aid pools will be increased by percentages that are fixed multipliers of the percent increases in total undergraduate tuition income. Current multipliers are 1.67 at Chicago, 1.5 at Springfield and 1 at Urbana.
- This methodology will be reviewed at least every three years to ensure adequate and appropriate funding for Supplemental Financial Aid at each campus.

The financial aid guidelines and policy were developed with the advice and counsel of Trustees, the Administration and the Academic Affairs Management Team. The University Policy Council reviewed the financial aid guidelines and policy before being enacted by the Board of Trustees. It is recognized that in future years the University will continue to need to set aside institutional funds for financial aid to ensure access. The actual amount needed in the budget year will continue to be analyzed based on a number of variables.

Additionally the University has been impacted by shortfalls in funding for the other programs funded through ISAC. The State's cash flow problems have impacted

ISAC funding and timing of payments as well. Changes in funding to ISAC are critical to almost 13,000 university students directly, and also to the financial health of the University. The University will continue to monitor payments and cash flow from ISAC. The ISAC Board has determined the highest priority for ISAC funding is the MAP program and has reduced or eliminated funding for several other programs such as the Illinois Veteran Grant (IVG) program. The IVG program is a scholarship program administered under ISAC. If there is insufficient funding in the program, under current State statute the college or university is prohibited from collecting the funds from the student. Beginning in FY 2011, IVG grant funding has been eliminated by the state and there are two related programs, Illinois National Guard Grants and POW/MIA Scholarships that have also been underfunded. IVG expected waivers for FY 2012 are estimated at over \$30 million for public universities. As recently as seven years ago the program was fully funded by the state, today they are waived entirely by the institutions. In FY 2011 the University waived \$8.9 million for these programs. While ISAC made some funding available for this program in the past on a non-recurring basis, a permanent funding for this statutory program is not in place.

**CAPITAL BUDGET REQUEST
FOR FY 2014**



CAPITAL BUDGET



BACKGROUND AND CONTEXT

Overview

▶ Perhaps too obvious yet worth stating is the fact that academic and administrative facilities exist for one purpose, to support academic programs. The capital facilities make up the University's largest asset and provide the foundation to attract and retain top quality faculty, staff and students. Any discussion of the capital budget must begin with the understanding that an institution of the size, scope and complexity of the University of Illinois faces a recurring array of facilities needs each year. As buildings age through their normal life cycles, it is crucial to address minor repair and renovation needs as they occur. Failure to do so accelerates deterioration and leads to costly major remodeling requirements more quickly than would be necessary if prudent attention to annual repair and renovation were possible. Changing programmatic emphases in academic units also create the need for relatively small remodeling projects which can be addressed quickly to make existing space more useful for emerging academic priorities. Toward that end the University is coming off of several fiscal years with a limited capital budget appropriation. As stated previously, consistent and steady funding patterns are supremely important to maintain the physical plant. Fiscal year 2010 did see a budget approved by the Governor and General Assembly which does provide a capital appropriation to the University that includes funds for repair and renovation. However, the inconsistent funding pattern has only exacerbated the deferred maintenance problem while making it more difficult to reduce it in the future. The state's contribution in reducing the level of deferred maintenance on the campuses is an integral part of the funding plan toward that end. Several years without that piece of the funding solution leaves the University in the proverbial two steps forward and one step back position.

Based on these factors, the University has again placed the repair and renovation request at the top of the capital request list requesting \$60 million. Along with that request the University continues to fight the battle with the recently approved Academic Facilities Fund Assessment coupled with prior issues of Certificates of Participation in order to jump start the reduction of deferred maintenance on each campus. However, the state portion of the funding tool is still critical and frankly

without the state support, reduction in deferred maintenance will be severely curtailed.

Buildings and the infrastructure systems which support them have finite useful lives. Roofs deteriorate; heating, ventilating and cooling systems wear out; masonry decays; and so on. At a certain point major remodeling is required to extend the useful life of every University facility constructed and every annual capital budget request will contain a share of major remodeling projects, usually in the cost range of \$20 million to \$85 million. Major remodeling projects can also result from the need to enlarge the capacity of a building, change its functional use, upgrade or extend campus wide infrastructure systems. For example, as technological advances have accelerated over the past two decades and computers now permeate the conduct of almost every phase of instruction and research activity, the need to expand electrical and cooling capacity for individual buildings and for entire campuses has grown dramatically.

At times, buildings may outlive their usefulness for the purposes for which they were originally constructed, but with remodeling and renovation can be refitted for other, usually less complex uses. This is particularly true for research facilities more than 40 or 50 years old. The cost to upgrade building systems to current state-of-the-art standards for today's research and instructional programs is usually greater than new construction costs for the same type of space.

From time to time, the University will require construction of completely new facilities to replace outmoded buildings that have gone beyond their useful lives, to expand significantly the scope of an existing program or to begin new program initiatives. Land acquisition may also be required to address such needs. Due to the extraordinary length of time required to move from initial determination that a new facility is required, through planning, appropriation and construction phases to the point at which a new building is actually in use (often a minimum of six years), each annual capital request from the University may have a few new building requests at various priority rankings.

It is important to reemphasize the recurring nature of these crucial facilities-related budget requirements which must be addressed on an annual basis. When that is not

possible, a backlog of unfunded projects grows quickly and accelerates the cycle of deterioration in facilities which, if not addressed, leads inevitably to deterioration of academic programs and loss of key faculty and students.

In this context where steady and measured funding increases for facility needs are vitally important, the last decade of capital budgets have been disappointing. As mentioned earlier the FY 2010 capital appropriation did however provide hopeful signs as several University projects were appropriated and released and those projects are now complete including: Lincoln Hall Remodeling, College of Medicine Rockford, along with funding for the NCSA Petascale project. Other projects from FY 2010 were released in the past year include Electrical and Computer Engineering, Integrated Bioprocessing at Urbana-Champaign, Dentistry Modernization at Chicago and the Public Safety Building in Springfield. Unfortunately progress that began in FY 2010 was halted again as for the last three fiscal years no projects have been forthcoming as shown in Table 1.

Table 1
History of Recent Capital Budget Actions
FY 2008 to FY 2013 Governor's Level
(Dollars in Thousands)

| | <u>FY 2008*</u> | <u>FY 2009*</u> | <u>FY 2010</u> | <u>FY 2011*</u> | <u>FY 2012*</u> | <u>FY 2013*</u> |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Campus Requests | | | | | | |
| Urbana-Champaign | \$162,550.8 | \$176,450.8 | \$216,930.4 | \$222,600.0 | \$219,100.0 | \$210,600.0 |
| Chicago | 90,581.8 | 84,181.8 | 197,581.8 | 224,200.0 | 234,200.0 | 252,000.0 |
| Springfield | 8,812.4 | 3,187.4 | 39,687.4 | 37,400.0 | 53,400.0 | 53,400.0 |
| TOTAL | \$261,945.0 | \$263,820.0 | \$454,199.6 | \$484,200.0 | \$506,700.0 | \$516,000.0 |
| IBHE Recommendations | | | | | | |
| Urbana-Champaign | \$148,475.7 | \$128,450.8 | \$140,534.2 | \$114,329.1 | \$177,311.7 | \$168,811.7 |
| Chicago | 41,193.2 | 42,581.8 | 48,117.7 | 159,247.6 | 166,836.0 | 178,636.0 |
| Springfield | 572.8 | 687.4 | 687.4 | 38,551.6 | 54,845.6 | 54,845.6 |
| TOTAL | \$190,241.7 | \$171,720.0 | \$189,339.3 | \$312,128.3 | \$398,993.3 | \$402,293.3 |
| Regular Capital Appropriations | | | | | | |
| Urbana-Champaign | \$120,235.4 | \$122,225.4 | \$140,534.2 | \$64,329.1 | \$64,329.1 | \$39,626.7 |
| Chicago | 38,115.9 | 38,415.9 | 48,117.7 | 86,047.6 | 86,047.6 | 26,517.3 |
| Springfield | 343.7 | 343.7 | 5,031.1 | 5,551.6 | 3,551.6 | 2,187.7 |
| TOTAL | \$158,695.0 | \$160,985.0 | \$193,683.0 | \$155,928.3 | \$153,928.3 | \$68,331.7 |
| Appropriations for Special Projects | | | | | | |
| Opportunity Returns | \$60,490.0 | \$62,490.0 | \$61,975.0 | | | |
| TOTAL APPROPRIATION | \$219,185.0 | \$223,475.0 | \$255,658.0 | \$155,928.3 | \$153,928.3 | \$68,331.7 |

* Funding recommended by Governor but not approved or passed by General Assembly.

SUMMARY OF FY 2014 PRIORITIES

(\$446,950,000)

Overview

► The University's FY 2014 Capital Budget Request consists of 10 priorities at a total cost of \$446,950,000. Table 2 represents a combined priority listing of the proposed projects for this year.

Table 2
FY 2014 Combined Capital Budget Request
Summary by Priority
(Dollars in Thousands)

| <u>Priority</u> | <u>Project</u> | <u>Urbana</u> | <u>Chicago</u> | <u>Springfield</u> | <u>Total</u> |
|-----------------|---|-------------------|-------------------|--------------------|-------------------|
| 1 | Repair and Renovation | \$ 33,600 | \$ 24,000 | \$ 2,400 | \$ 60,000 |
| 2 | Natural History Building | 15,000 | | | 15,000 |
| 3 | Pharmacy Renovation & Addition | | 86,000 | | 86,000 |
| 4 | Main/Undergrad Library Redevelopment | 50,000 | | 53,550 | 103,550 |
| 5 | Hospital Modernization Phase I | | 43,000 | | 43,000 |
| 6 | Disability Research, Res. & Educ. Svc. Bldg. | 52,400 | | | 52,400 |
| 7 | Stevenson Hall Classroom Building Modernization | | 22,000 | | 22,000 |
| 8 | Burrill Hall Remodeling | 25,000 | | | 25,000 |
| 9 | Medical Sciences Building Modernization Ph. 1 | | 25,000 | | 25,000 |
| 10 | Cultural Center Building | 15,000 | | | 15,000 |
| | | <u>\$ 191,000</u> | <u>\$ 200,000</u> | <u>\$ 55,950</u> | <u>\$ 446,950</u> |

It is important to note that while the priority list includes those projects most critical to the University each campus has a much larger list that the priority list is culled from each year. The combined priority list is not meant to show an exhaustive list of needs for each campus but merely a realization and sense of proportion for the State Capital Budget. If the entire University of Illinois list were submitted, not including special initiatives, a total request in the neighborhood of \$725 million would be the result. Table 3 reflects the entire capital budget request from the campuses of the University of Illinois.

Table 3
FY 2014 Capital Budget Request
Summary by Campus
(Dollars in Thousands)

| Campus Priority | University Priority | URBANA | |
|----------------------------|--------------------------------|--|-------------------|
| 1 | 1 | Repair & Renovation | \$ 33,600 |
| 2 | 2 | Natural History Building | 15,000 |
| 3 | 4 | Main/Undergrad Library Redevelopment | 50,000 |
| 4 | 6 | Disability Research, Resources & Education Services Building | 52,400 |
| 5 | 8 | Burrill Hall Renovation | 25,000 |
| 6 | 10 | Cultural Center Building | 15,000 |
| 7 | | Education Building Renovation & Expansion | 30,000 |
| 8 | | Architecture Building FAA Library Renovation | 35,000 |
| 9 | | Music Building Rehabilitation & Expansion | 20,000 |
| 10 | | Altgeld/Illini Hall Renovation | 30,000 |
| Total | | | \$ 306,000 |
| CHICAGO | | | |
| 1 | 1 | Repair & Renovation | \$ 24,000 |
| 2 | | Advanced Chemical Technology Building | 48,000 |
| 3 | 3 | Pharmacy Renovation & Addition | 86,000 |
| 4 | 5 | Hospital Modernization Ph. 1 | 43,000 |
| 5 | 7 | Stevenson Hall Classroom Building Modernization | 22,000 |
| 6 | 9 | Medical Sciences Building Modernization Ph. I | 25,000 |
| 7 | | Utility and Mechanical System Upgrades | 20,000 |
| 8 | | Façade Repair Program | 68,000 |
| 9 | | Central Utility Plant Renewal Modernization | 22,000 |
| Total | | | \$ 358,000 |
| SPRINGFIELD | | | |
| 1 | 1 | Repair & Renovation | \$ 2,400 |
| 2 | 4 | Brookens Library Renovation | 53,550 |
| 3 | | Warehouse Storage Facility | 2,625 |
| Total | | | \$ 58,575 |

The first priority is a \$60,000,000 Repair and Renovation request, which is comprised of nine projects at the Urbana-Champaign campus, three projects at the Chicago campus and two projects at the Springfield campus. These projects, while not large enough to compete with major remodeling requests, represent a significant, real funding need. A high priority on renovation and renewal must be maintained by institutions with facilities the size, scope, complexity and age of the University of Illinois. The Repair and Renovation request is vital for the continued renewal of existing University facilities, provision of up-to-date support for academic programs

and protection of the State's investment in capital facilities. More detailed descriptions of these projects are provided in the sections following this overview.

The second priority seeks \$15,000,000 as part of a larger effort to rehabilitate the historically significant Natural History Building at the Urbana-Champaign campus.

The third priority requests \$86,000,000 primarily for an addition to the Pharmacy College at the Chicago campus.

The fourth priority seeks \$103,550,000 parsed \$50,000,000 at the Urbana-Champaign campus and \$53,550,000 at the Springfield campus to upgrade the main library at those campuses.

The fifth priority seeks \$43,000,000 to begin modernization efforts for the University of Illinois Hospital and Medical Center.

The sixth priority seeks \$52,400,000 for a Disability Research, Resources and Education Services Building on the Urbana-Champaign campus helping them to remain at the forefront in serving students with disabilities.

The seventh priority seeks \$22,000,000 for the Chicago campus to modernize Stevenson Hall one of the major classroom buildings on campus.

The eighth priority seeks \$25,000,000 to remodel Burrill Hall on the Urbana-Champaign campus.

The ninth priority seeks \$25,000,000 to upgrade the Medical Sciences Building at the Chicago campus.

The tenth priority seeks \$15,000,000 for the Urbana-Champaign campus to construct the new Cultural Center Building.

Table 4 lists the FY 2014 capital budget request by category and campus. Table 5 lists the future funding implications of the FY 2014 capital budget request. These projects are described in further detail in the pages that follow.

Table 4
FY 2014 Combined Capital Budget Request
Summary by Category and Campus
(Dollars in Thousands)

| <u>Category</u> | <u>Urbana-Champaign</u> | <u>Chicago</u> | <u>Springfield</u> | <u>TOTAL</u> |
|---------------------------------------|-------------------------|------------------|--------------------|------------------|
| Building, Additions, and/or Structure | \$ 67,400 | \$ 86,000 | | \$153,400 |
| Land Acquisition | | | | |
| Utilities | | | | |
| Remodeling | 123,600 | 114,000 | \$ 55,950 | 293,550 |
| Site Improvements | | | | |
| Planning | | | | |
| | <u>\$191,000</u> | <u>\$200,000</u> | <u>\$ 55,950</u> | <u>\$446,950</u> |

Table 5
FY 2014 Combined Capital Budget Request
Future Funding Implications
(Dollars in Thousands)

| <u>Priority</u> | <u>Project</u> | <u>Category</u> | <u>FY 2014 Request</u> | <u>FY 2015 Cost</u> | <u>Cost for 2016 and Beyond</u> |
|-----------------|---|-----------------|------------------------|---------------------|---------------------------------|
| 1 | Repair and Renovation | Remodeling | \$ 60,000 | | |
| 2 | Natural History Building | Remodeling | 15,000 | | |
| 3 | Pharmacy Renovation & Addition | Building | 86,000 | | \$ 150,000 |
| 4 | Main/Undergrad Library Redevelopment | Remodeling | 103,550 | | |
| 5 | Hospital Modernization Phase I | Remodeling | 43,000 | | 43,000 |
| 6 | Disability Research, Res. & Educ. Svc. Bldg. | Building | 52,400 | | |
| 7 | Stevenson Hall Classroom Building Modernization | Remodeling | 22,000 | | |
| 8 | Burrill Hall Remodeling | Remodeling | 25,000 | | |
| 9 | Medical Sciences Building Modernization Ph. 1 | Remodeling | 25,000 | | 25,000 |
| 10 | Cultural Center Building | Building | 15,000 | | |

CAPITAL REQUESTS



PRIORITIES

(\$446,950,000)

Priority 1: ▶ Repair and Renovation \$60,000,000 – All Campuses

As in past years, the University’s top priority is focused on annual repair and renovation as shown in Table 6.

**Table 6
Repair and Renovation Projects by Campus**

| Urbana-Champaign Projects | Amount |
|--|----------------------|
| Abbott Power Plant, Gas Turbine/HRSG Bypass Flue | \$ 1,500,000 |
| Art & Design, Chilled Water Conversion, HVAC & Exterior Envelope | 5,700,000 |
| Henry Administration Building, HVAC & Envelope Repair | 3,500,000 |
| Material Sciences/Engineering Building, Renovation Ph. II | 5,500,000 |
| Morrill Hall, Infrastructure Phase II | 3,000,000 |
| National Soybean Research Center, HVAC & Lab Remodeling Phase 1 | 1,400,000 |
| Talbot Lab, Infrastructure Repairs | 5,000,000 |
| Transportation Building, Envelope Repairs | 5,000,000 |
| Turner Hall, Exterior Envelop, Energy Reduction, and Laboratory Renovation | 3,000,000 |
| TOTAL | \$ 33,600,000 |
| | |
| Chicago Projects | Amount |
| Campus Buildings, Life Safety Corrections | \$ 4,000,000 |
| Campus Buildings, Masonry Restoration and Window Replacement | 8,000,000 |
| University Hall, Façade Repair | 12,000,000 |
| TOTAL | \$ 24,000,000 |
| | |
| Springfield Projects | Amount |
| Campus Buildings, Roof Repairs | \$ 1,500,000 |
| Campus Service Drives and Walkways, Repairs | 900,000 |
| TOTAL | \$ 2,400,000 |

Attention to annual repair and renovation assures that those projects will not slip and fall into the deferred maintenance category. A total of \$60,000,000 is requested for 14 projects. Detailed descriptions of these projects are found in the Repair and Renovation project descriptions, following this Priorities section.

Priority 2:**Natural History Building \$15,000,000 – Urbana**

The Natural History Building is the oldest historical academic building centrally located on the Main Quad on the University of Illinois campus. The original portion was built in 1894 by Nathan C. Ricker, followed by additions in 1908, 1910 and 1921. The building was officially listed on the National Register of Historic Places in November 1986 as part of the Nathan C. Ricker thematic district. It provides lecture rooms and teaching labs to approximately 8,000 general education students in addition to undergraduate majors and graduate students and is one of the most intensely utilized facilities on campus. It also contains high-tech research laboratory spaces sponsored by grants and contracts from NSF, DOE, NOAA and many others. The Natural History Building is essential to the teaching and research mission of the University of Illinois, yet it suffers from structural inadequacies in addition to years of accumulated deferred maintenance.

The Natural History Building has been in constant use since its construction in 1894 and all of the program space is in need of extensive upgrade and modernization. In addition, during a structural analysis of the building to determine the extent of visible termite damage, it was discovered that the floor live load capacities of the 1908 building addition were under-reinforced to the extent that they have little to no quantifiable live load capacity. This deficiency is an insufficient amount of reinforcement placed in the slab at the time of construction. While the floor slabs have been in service for just over 100 years, they are vulnerable to sudden failure with little or no advanced warning. In June 2010, the entire 1908 building addition and those areas dependent on egress through the 1908 building were evacuated and occupancy discontinued until the elevated floor slabs of the 1908 addition are replaced.

The University of Illinois Urbana-Champaign Campus has an urgent interest in renovating the entire building to address the imminent structural failure, termite damage and deferred maintenance issues. This project will remediate the structural issues; upgrade the infrastructure, which is well beyond its life expectancy, including electrical service, plumbing and provide for HVAC systems; new walls, flooring, finishes and ceilings; and improvements of life safety and ADA code compliance components. At the completion of the project, an efficient floor plan will allow for two large lecture halls, instructional labs, classrooms, research

laboratories and offices. The ongoing exterior envelop renovation will be completed this year. The project cost totals \$70,000,000 with the balance of funds provided by the campus and through private gifts and deferred maintenance funding.

Priority 3:**Pharmacy Renovation and Addition \$86,000,000 – Chicago**

This request is for funds for the initial phase of work on a program for an overall renovation of the existing College of Pharmacy building and for the construction of a new pharmaceutical research addition. The requested renovation and addition are necessary to meet the goal of expanding College of Pharmacy's research base and the education of practitioners to serve the people of the State of Illinois.

Phase I work will consist of the construction of an addition that will allow for the relocation of laboratory and laboratory support functions to permit the renovation of existing laboratory functions, student service space and offices in the existing building without major disruption to on-going research and educational activities. The proposed addition will allow the College to relocate fume hood intensive research laboratories into a facility with more appropriate air circulation and exhaust capabilities consistent with the types of cutting edge research projects being undertaken and envisioned. This will facilitate pursuit of research opportunities currently constrained by the physical limitations of the existing laboratory environments.

In subsequent phases of this project, the existing building will be renewed and modernized. Because the infrastructure of the existing building has degraded dramatically due to age, problematic HVAC, electrical, telecommunications, plumbing, computer wiring, roof systems and fire protection systems need to be serviced, upgraded or replaced. In addition, teaching labs, classrooms, research labs, student support space and administrative offices will be modernized.

Priority 4:**Main/Undergraduate Library Redevelopment \$50,000,000 – Urbana**

With the exception of an addition to the northwest corner of the Main Library in 1964, the user and staff spaces of this building have changed very little since the Library was dedicated in 1929. The Library remodeling effort is improving the logical arrangement and upgrading to modern standards the quality of the space

occupied by various departmental libraries located primarily on the second and fourth floors of the Main Library.

Remodeling will also enhance the quality of space for the libraries. In particular, computer wiring, electrical wiring and lighting will be upgraded to respond to the demands of new technologies. In the last decade, the development of electronic information resources has revolutionized the academic library. For universities to be effective in their teaching and research missions it is critical that access to information through electronic medium be readily available. The reconfiguration of space and improved technological capabilities of the space will allow the Main Library to deliver information by both traditional and electronic formats more effectively to the students and faculty of the University.

Main and Undergraduate Library Redevelopment \$53,550,000 – Springfield

The purpose of this project is to renovate the Brookens Library at the Springfield campus. This 200,000 square foot facility was constructed in 1975 as the first major permanent building on the Springfield campus. While the building has served the university well, it is now in need of renovation. The building's deficits include severe overcrowding and lack of growth space for the collection, technology and services; a confusing physical layout; an inefficient window system that creates uncomfortable cold and hot spaces; poor lighting system; severe acoustic problems; worn and outdated finishes and furnishings; and inaccessible spaces as defined by the Americans With Disabilities Act. The deferred maintenance in the building makes up a large portion of the campus' overall deferred maintenance as cited in the VFA study. Renovation will allow the university to address the facilities' deficits and reposition learning, teaching, research services, supporting technologies and collections.

Brookens Library currently is split into two separate sections, a library side and an academic office/classroom side, both on level 3 and level 4. Academic classrooms and offices are located on both levels, primarily in the north and west sides of the facility on both levels, with the library collections and reader study areas located in the south and east sides. The College of Education is housed on the third level, as are the majority of the classrooms located in building. This configuration has presented numerous problems including way finding, uneven temperature control

and inefficient use of space. This project creates an opportunity to recreate the library into a superb learning centered and technology rich facility by moving all the academic program space in the facility to one level and by relocating the library's services and collections to areas that will provide the optimal use of space.

Other improvements include the ability to provide better temperature control to all spaces in the facility and improve way finding in the facility. Renovation of the HVAC and mechanical systems will allow the university to dramatically improve the energy efficiency of the facility in addition to providing optimal humidity and climate controls that are required in such areas as the university archives. Additionally, renovation of the facility will allow the library to provide optimal use of the space by relocating several library services and collections to renovated space that will better serve the students and campus community. This project also includes providing an enhanced entrance to the facility that will increase Brookens Library's presence on the UIS quadrangle. This \$53,500,000 renovation of the Brookens Library will rehabilitate the building into a state-of-the-art learning center, extend the life of the facility and profoundly improve the quality of scholarly communications across the university.

Priority 5:



Hospital Modernization Phase I \$43,000,000 – Chicago

The University of Illinois Medical Center has developed a strategic plan for the modernization, expansion and renovation of the medical center facilities to meet current and anticipated healthcare needs. Phase I includes the restoration or replacement of mechanical, electrical and plumbing systems along with the renovation and expansion of strategic growth areas including surgery and imaging services. The infrastructure modernization is intended to correct the immediate areas of risk for mechanical systems that may impact hospital operations and allow the hospital to continue to function for the next ten to twenty years.

Priority 6:



Disability Research, Resources and Education Services Building \$52,400,000 – Urbana

The College of Applied Health Sciences is comprised of one service unit, the Division of Disability Resources and Educational Services (DRES) and three academic units, the departments of Kinesiology and Community Health; Recreation, Sport and Tourism; and Speech and Hearing Science. DRES has been a

pioneer in post-secondary educational access for persons with disabilities for over half a century. As the nation's first program in post-secondary disability support services, DRES programs and services continue to reach far beyond legal mandates, making it one of the prominent programs of its kind.

DRES programs are housed in the basement and first floor of the Rehabilitation Education Center. The campus facilities condition audit shows just over \$2 million in deficiencies largely concentrated in the mechanical, electrical and plumbing systems. Unfortunately while the original building plan has remained fixed, the numbers of students requiring the services has grown exponentially. In addition to the significant maintenance needs, the building no longer meets current services needs in design and capacity as the facility was built to accommodate less than 200 students. Currently the facility serves approximately 1,000 students with current projections for an additional 100% increase in the next 10 years.

Space assigned in support of DRES activities is significantly deficient from what is needed. Estimated deficiencies for the service program are approximately 37,200 net assignable square feet (nasf), research and educational programs by 10,000 nasf and the competitive sport program is deficient by 41,600 nasf. Vertical expansion of the existing building is not possible and other options for additions to the current building could only provide a maximum of 10,000 nasf. A new 70,000 nasf facility will address DRES's basic service program needs, enhance specialized academic support services and provide research and educational space. The request for the Disability Research, Resources and Education Services Building totals \$52.4 million.

Priority 7:



Stevenson Hall Classroom Building Modernization \$22,000,000 – Chicago

Stevenson Hall is used for general education and composition courses which are required of all beginning undergraduate students at UIC. It serves over 2,200 students per semester. The renovation of Stevenson Hall is part of a long-term plan for renovating East Campus general use classroom buildings to upgrade the instructional spaces. It will follow the renovation of Lincoln Hall, Douglas and Grant Halls. It is part of a long term plan that will also include the renovation of Taft Hall, Burnham and Addams Halls, the Behavioral Sciences Building, Science and Engineering South, and the six Lecture Centers. The renovation plan recognizes

that the East Campus general use classrooms are deficient in multiple ways and that their problems cannot be solved incrementally. The Stevenson Hall modernization will include renovation of building systems including heating ventilation and air conditioning, electrical and lighting, roofing and plumbing

Priority 8:**► Burrill Hall Remodel \$25,000,000 – Urbana**

Burrill Hall has been used intensively for forty years, primarily for research and has had minimal minor remodeling performed to upgrade the heavily used spaces. All of the space in Burrill Hall is in need of significant upgrading with regards to the building mechanical systems infrastructure to make the building suitable for biological instruction and research in the twenty-first century. This project will see wall reconfigurations, replacement of fixed laboratory equipment, plumbing, electrical, lighting, data and HVAC changes. In addition, all new finishes are envisioned for this building, including flooring, ceilings and walls.

Priority 9:**► Medical Sciences Building Modernization Phase I \$25,000,000 – Chicago**

This project will initiate a multi-phase program of renovation and infrastructure renewal for the Medical Sciences Building (MSB) at UIC. The MSB building opened nearly 50 years ago in 1963. Due to its age, this building cannot support state-of-the-art research. However, the basic design concept of the building and especially its floor-to-ceiling height, make it well-suited to modernization. Although its laboratories were considered to be state-of-the-art at the time of original construction, major renovation and renewal work is required due to changes in research technology, related infrastructure support requirements and the obsolescence of the basic building systems. A significant portion of the project budget will support infrastructure renewal and upgrading of the building's HVAC and electrical systems. This will include upgrading and/or replacement of electrical gear and distribution systems, piping and air handler units and building control systems. The programmatic remodeling portion of this project will address the needs of the UIC Research Resources Center (RRC) and the creation of "Class A" laboratory space for use by health sciences researchers.

Priority 10:**► Cultural Center Building \$15,000,000 – Urbana**

A number of campus units for cultural affairs on the Urbana-Champaign campus are currently in temporary, antiquated or leased facilities that are substandard, not

institutional quality and beyond their useful life. Units such as the African American Studies, Bruce D. Nesbitt African American Center, American Indian Studies, Native American House, Asian American Studies, Asian American Cultural Center, Gender & Women's Studies, Women's Resources Center, Latina/Latino Studies, LaCasa Cultural Latina, Lesbian, Gay, Bisexual and Transgender Resources Center and Office of Inclusion and Intercultural Relations are in facilities that require attention. The Campus Master Plan designates the Urbana city block bound by Mathews Ave., Goodwin Ave., Oregon St. and Nevada St. to be a future super site for the next major Chemical and Life Sciences building. Of the subject units above, five of the seven houses along Nevada St. are on this super site. Perpetuating any existing campus buildings on this site would not align with the long range plans for the "sciences corridor" extending south to the Institute for Genomic Biology; and therefore, all will require future relocation. All of the existing campus facilities on this future super site are temporary structures, with poor energy efficiencies. All facilities, except for one, are converted residential structures from the 1920s with severe long term maintenance issues. Analysis of their existing space indicate the need for better offices to properly serve each core program mission and additional activities support in the form of small classrooms, communal lecture hall, conference rooms, computer labs and social gathering space.

This project will provide existing and new program support for the aforementioned units on one site in concert with the campus master plan for a major building project. The project will enhance academic experiences including both curricular and co-curricular activities that genuinely reflect and represent the multiplicity and variousness of communities and cultures locally, nationally and globally. It is intended to facilitate collaborative relationships among departments, other campus academic units and community partners while embracing diversity and the general education mission and culturally relevant architectural designs to promote a welcoming and inclusive environment. Total project budget is \$30,000,000 with \$15,000,000 requested as part of this State request.

REPAIR AND RENOVATION PROJECT

DESCRIPTIONS

Urbana- Champaign Projects (\$33,600,000)

▶ Abbott Power Plant, Gas Turbine/HRSG Bypass Flue \$1,500,000

This project involves the installation of a bypass flue on one of the gas turbines, so flue gases can be diverted around the Heat Recovery Steam Generator (HRSG) during startup. This bypass would facilitate the ability to start and load a gas turbine in approximately 20 minutes, providing approximately 12.5MW of power for the campus. Without a bypass, the flue gases from the gas turbine must flow through the HRSG. A cold HRSG requires a 4 hour warm up period so that the metal in the boiler can be safely raised to operating temperatures. During this 4 hour warm-up period, the gas turbine is run unloaded and is not generating electricity.

Art and Design, Chilled Water Conversion, HVAC & Exterior Envelope \$5,700,000

This project will include conversion of mechanical systems to accommodate the extension of campus chilled water to the building. Outdated air handlers and associated components will be replaced. DDC controls will be installed. The existing chiller will be removed and chilled water delivered by the central campus loop will be distributed throughout the Art and Design building. This work is to be coordinated with the chilled water work at Krannert Art Museum. Energy reduction improvements will be made to the exterior envelope including, but not limited to, the installation of double-pane window units.

Henry Administration Building, HVAC & Envelope Repair \$3,500,000

There are several parts of the building that are not served by a central cooling system and others served by antiquated equipment. This project will design a mechanical system to serve the third floor and replace existing dated systems. The project will include installation of an air handling unit, ductwork, DDC controls, dampers and associated components to comprise a complete energy efficient HVAC system. Window units will be removed utilizing proper disposal protocol.

Additional project work will repair the loose and failing mortar on the building's exterior. Masonry and stonework will be cleaned and tuckpointed. Exterior stairs

and entrances will be repaired and upgraded as necessary. The roof on the one story portion infill will be replaced with a single ply roofing system.

Material Sciences and Engineering Building, Renovation Phase II \$5,500,000

The Materials Science and Engineering Building (MSEB) was built in 1908 for the Physics department and at one time was also known as the Metallurgy and Mining Building. Today, MSEB is occupied by the Department of Materials Science and Engineering. MSEB contains approximately 102,521 gross square feet on five levels, with approximately 61,304 net assignable square feet. Material Science is assigned 46,949 of assignable space in the building. Recent remodeling phases have addressed main corridors and research labs in select areas of the building. In this phase we will remodel approximately 9,500 square feet of research, office, and mechanical space. This includes the unfinished center portion of the fourth floor which will be mechanical space, the entire south side of the third floor and the first floor northeast wing.

Morrill Hall, Infrastructure Phase II \$3,000,000

Aged air handling units and associated components primarily serving the fourth, fifth and sixth floors of the west portion of the building and select components in the east portion of the building will be replaced. This project includes heat recovery and modifications to the air distribution system. Electrical switchgear, transformer, distribution panel boards, and antiquated wiring systems and other electrical components will be replaced. Fume hoods in poor condition will be replaced.

National Soybean Research Center, HVAC and Lab Remodeling Phase I \$1,400,000

The focus of this project is modernization and energy efficiency elements for two areas of National Soybean Research Center. Work includes remodeling of a class room, research laboratories, support areas and office spaces which support soybean research activities. All rooms in the remodeled space need to be connected to a central air handling unit since no HVAC is currently provided in these areas. The project would also replace select windows with energy efficient units and life safety components would be installed.

Talbot Lab, Infrastructure Repairs \$5,000,000

Chilled water is to be distributed throughout Talbot Lab. This infrastructure project will prepare selected areas of Talbot Laboratory for campus chilled water usage. Air handlers, ductwork and other components are to be installed. Window air conditioners are to be removed. Single paned metal windows are to be replaced with energy efficient aluminum double-pane units. This project will also include installation of a sprinkler system to comply with life safety provisions.

Transportation Building, Envelope Repairs \$5,000,000

This project will address identified deficiencies in the Transportation Building. Included are the repairs or replacement of the slate roof, windows, gutters, downspouts, tuckpointing of masonry surfaces, replacement of exterior doors and hardware and other miscellaneous exterior repairs. Installation of a new air handling system with DDC controls and connection to the campus chilled water loop are also included in this project.

Turner Hall, Exterior Envelop, Energy Reduction and Laboratory Renovation \$3,000,000

The single glazed wood windows and infill panels on the exterior of Turner Hall are severely deteriorated. This project will replace window systems with energy efficient integrated units. Cracked masonry and deteriorated mortar joints are to be repaired. Outdated air handling units and controls are to be replaced with more energy efficient equipment utilizing DDC controls. In addition, this project includes the remodeling of instructional laboratories, support areas, a research laboratory and office and student services space. The labs are located throughout the building and are part of an ongoing effort to keep the spaces modernized and up-to-date.

**Chicago
Projects
(\$24,000,000)****Campus Buildings, Life Safety Corrections \$4,000,000**

Multiple buildings on the campus require fire alarm and sprinkler renovations to address life safety concerns. A prioritized list of projects has been developed to address these concerns. This project is part of a continuing effort to eliminate these life safety concerns and will work to address the most critical of the project needs on the east and west sides of campus.

Campus Buildings, Masonry Restoration and Window Replacement \$8,000,000

This project includes window replacement and repair of distressed and deteriorating masonry, tuck pointing, replacement of steel and masonry lintels, limestone panels and trim and various masonry anchorage devices. Buildings included in this project are the College of Medicine, Science and Engineering South, Neuropsychiatric Institute, School of Public Health and Psychiatric Institute, and the Science and Engineering Office Building.

University Hall, Façade Repair \$12,000,000

University Hall, a 28-story high-rise building, was constructed in the early 1960s. The structural framing consists of reinforced concrete columns, shear walls, one-way joists and exterior spandrel beams. The building has exposed aggregate pre-cast concrete curtain wall panels with narrow glass fixed windows on the east and west elevations. The curtain wall is set back three to six feet from the exterior plane of the concrete framing, creating exterior galleries.

The exposed concrete frame of this building has developed extensive deterioration in the form of cracks, delaminations and previously applied repair patches that have failed and spalled. A recent investigative study has indicated that this deterioration is due to inadequate thickness of concrete coverage over the reinforcing steel bars. The study reported that the deterioration has no impact upon the structural integrity of the building. However, periodic breaking of concrete presents a serious safety hazard to pedestrians around the building. Therefore, all deteriorated concrete needs to be removed and patched using state-of-the-art concrete restoration techniques.

The concrete rehabilitation work consists of removal of all deteriorated concrete, exposing the full length of corroded reinforcing bars, installation of supplementary mechanical anchors and embedded galvanic anodes and the forming and pouring of a concrete mix, matching the original concrete as closely as possible. As a second line of defense against corrosion, a surface-applied mitigating corrosion inhibitor or a solvent-based, breathable, acrylic, colorless coating will be applied to all exposed concrete.

**Springfield
Projects
(\$2,400,000)****▶ Campus Buildings, Roof Repairs \$1,500,000**

Several roofs on campus buildings are in need of repair as they have developed tears or soft spots over time and have outlived their useful life. The single ply fully adhered EPDM roofing membrane will be replaced along with the thermal and moisture protective insulation and associated roofing system materials. There are three one story buildings that will be repaired as part of this project; the Student Life, Student Affairs and Human Resources Buildings.

Campus Service Drives and Walkways, Repairs \$900,000

Many of the campus service drives and interior roadways throughout campus are severely degraded and in need of replacement. This project will provide for the resurfacing of these internal campus roads with asphalt overlay along with paving of the maintenance yard and central receiving areas with concrete. Many sidewalks throughout the older east side of campus are damaged from the normal wear patterns in the Midwest with cracked, heaving or crumbled concrete. This project will repair those areas with deteriorated sidewalks and provide a safe path of transit for visitors, faculty and staff with new sidewalks. Related site work associated with those projects will be included with this project.