PREFACE

As we look toward FY 2005 and beyond, we must look at the last two very difficult years. At this time two years ago, the University had enjoyed several years of strong State support both in the operating and capital budgets. During FY 2002 the economic environment and outlook for State revenues changed dramatically. The University had a reduced appropriation of 6.2% from the beginning of FY 2002 to FY 2003, and an additional 3.0% was redirected within the University’s appropriation to pay additional health care costs for employees. The total reduction and redirection of State funds was 9.2%. In FY 2003 to FY 2004 the University again had a reduced appropriation this time of 8.0%. Besides these direct reductions the University was faced with $29.8 million in unavoidable expenses such as Medicare payments, utility costs, legal liability costs and contract agreements over the last 2 years. The total reductions, redirections and unavoidable expenses facing the University have been $162 million. Even with the addition of tuition increases, these reductions placed extraordinary stress on the University, now and in years to come.

We articulated principles to guide budget reduction steps. We believe 2,000 positions will be cut. Every single element of our operation will be affected. Over the next two years we will lose faculty, administrative, professional and support staff positions. Many, but not all, staff reductions can be addressed through attrition and closing vacant positions. The effects of these reductions are serious and long-lasting. The Board of Trustees endorsed a tuition increase to help fund a small, but critical, salary program for faculty and staff. Stated simply, we are doing everything we can to protect the quality of our instructional programs. This was, without a doubt, the most challenging budget experience in my two decades as an administrator at the University.

Despite these challenges I remain optimistic that the University will continue to move forward with its drive toward excellence. Capital projects are now unfolding at all three campuses. Construction of the College of Medicine Research Building at UIC is progressing rapidly, the classroom and office building at the Springfield campus is being built, and recently we broke ground for a new genomics research building at UIUC. Even in these difficult times the State invested in the long-term instruction and research missions of the University.

The University remains strong, and I would take a moment to reflect on the past year’s successes. We are in the third year of the Capital Scholars Program at UIS. The program continues to receive visibility and applications from some of the best young people in the state. Among all Illinois public universities, the academic credentials of the first two classes of the Capital Scholars program were second only to those for
new freshmen at the Urbana-Champaign campus. Over time the Capital Scholars initiative will transform the University of Illinois at Springfield into a superb option for students who want the experience of a small liberal arts college within a public university setting.

At the Chicago campus, the past year saw growing recognition of our contributions to advanced patient care and medical research. Two young researchers were named to Crane’s Chicago Business’s “40 under 40” list of Chicagoans who are leaders in their fields. They are among the reasons why UIC has cracked the $150 million mark in federal research funding. The Urbana-Champaign campus received more funding from the National Science Foundation than any other University in the country and continues to be one of the finest universities in the nation. These federal dollars are coming back into the Illinois economy to help the people of our State through education, research and service. Here’s some more good news:

- Rankings by the National Science Foundation put UIC among the top 50 universities for federal research expenditures, surpassing several Big 10 universities. The campus moved up to 48th in the nation with about $125 million in federal research expenditures for FY 2001.

- The second-year retention rate for first-year students at UIS exceeds 85%, the highest among Illinois' 12 public campuses.

- UIS's management information systems, clinical laboratory science and teacher education programs boast nearly 100% job placement rates.

- *Kiplinger’s Personal Finance* ranks the Urbana-Champaign campus 8th in its “100 Best Values in Public Colleges” for 2002.

- The Urbana-Champaign campus boasts more than 80 centers, laboratories and institutes that perform research for government agencies, industry and campus units.

- *U.S. News & World Report* ranks many undergraduate programs at Urbana-Champaign in the top 25 in the country for 2002: accountancy 1, aeronautical engineering 8, business management 10, chemical engineering 7, civil engineering 2, computer engineering 5, electrical engineering 2, environmental engineering 3, finance 10, industrial engineering 12, insurance/risk management 8, library and information science 1, marketing 10, materials science 1, mechanical engineering 6, nuclear engineering 8, production/operations management 18 and quantitative analysis/methods 10.

Perhaps the best indicator of quality is that demand for admissions at all of our campuses is exceptionally strong. Enrollment increased at each of the campuses last year. Applications for first-time freshmen hit new records. Study after study illustrates the economic value of a college degree to the individual students, to the extent that lifetime earnings for college graduates exceed those for high school graduates.
by more than $1 million. The combination of strong academics and reasonable costs makes the University of Illinois extremely attractive to students. These successes are based on past public investments in the University of Illinois.

The State’s budget crisis required difficult decisions. The speed of change in economic circumstances was startling and created real challenges to keep the University moving forward. The relative needs among the broad array of social and human services in Illinois also have changed over time and the competition for scarce budget resources inevitably bring forward many more deserving needs than new resources can support. As we look toward a budget request for the next year, we recognize that FY 2005 will be a difficult year as demand for state resources clearly will exceed the supply of new revenues. At the same time we appreciate the historically strong commitment from the State of Illinois, Governor and General Assembly needed to maintain the quality of education at all levels as a top funding priority. No matter how broad our revenues sources are, it is a fundamental fact that support from the State will always be the central, single most important element that sustains our fiscal health. In turn, education and especially higher education is a critical need for the long-term economic health of the State of Illinois and its people.

Even in the late 1990s, in the midst of economic strength in Illinois and the nation, the University faced an array of budget requirements:

- The lifeblood of a great university is its faculty. In FY 2003 there was no general salary funding available and the University lost ground to competitors in salary peer comparisons. The University made a salary program our highest priority in FY 2004 and we hope to not drop further. The salary components of this needs based request for FY 2005 are the University’s highest priority.

- The citizens of Illinois expect their University of Illinois to deliver top-quality instructional programs, especially to undergraduates. At a time of budget constraints we face higher demand for enrollments. There are two fundamentally important factors to be addressed as we assess our instructional mission. First, we must continually improve our undergraduate programs, assuring that they offer our students both top-quality content and a breadth of experiences that will enable them to understand the global nature of our world today and to be active as effective learners and leaders throughout their adult lives. Second, we must ensure that our undergraduate programs remain affordable to all who can benefit from them.

- Technology has changed the way our world operates. We are on the threshold of mind-boggling advances that hold great promise for attacking disease, producing food and understanding the nature of life. Whole new disciplines of study are being created and we must be attuned to them. We will examine the equally daunting moral and ethical challenges that these technologies present.
• The often-dizzying pace at which technology progresses means that technological obsolescence of facilities and equipment also occurs at an accelerating pace. New equipment, laboratories and technologies are needed to keep faculty research and student learning at state-of-the-art readiness.

• The need for learning now spans a lifetime. Businesses of the 21st century need workers skilled in today’s state-of-the-art but also capable of adapting to the state-of-the-art changes tomorrow. Technology is presenting ways for the University to make available its resources to the citizens of Illinois, any time, any place. Investing in these technologies will be critical for the University.

Our budget proposals for FY 2005 are framed in this context. As the State’s economy stabilizes and moves out of recession, the themes upon which the FY 2005 Operating and Capital Budget Request are based align well with the complex issues now confronting society. Our objectives track the full range of goals established within the Illinois Commitment, which sets forth the IBHE planning parameters for all Illinois higher education. We have a broad array of needs; we understand that we must find an equally broad set of mechanisms with which to address them. We remain committed to a careful and continuous analysis of our operations and the reinvestment of existing resources to our highest priorities. While those needs are numerous our attention focuses most sharply on those of greatest import. For example:

• We must assure that the University of Illinois can attract and retain gifted faculty to improve the quality of academic programs. We must be able to offer competitive salaries. In FY 2003 there was no funding for a general salary program, and only a small program was possible in FY 2004. We must continue to address the salary program issue for FY 2005. We must be able to provide state-of-the-art facility and equipment to all programs. We must continue to address the issue of faculty capacity at all three U of I campuses in light of the budget reductions, faculty losses and increased enrollment demand. We must recover capacity lost during fiscal constraints, while at the same time adding capacity in the areas of highest enrollment demand and those of greatest economic development promise.

• We must strengthen our stewardship of existing physical facilities. We must assure that students have the best facilities possible in which to learn, and that our scientists and researchers have the best support possible for their inquiries. Achieving adequate facilities for all our endeavors continues its ascent toward the very top of our priority list, even within the operating budget context.

• The University of Illinois must continue to play a leadership role in producing graduates in areas of greatest workforce demand, and especially those in information technology and biotechnology. Likewise the University must redouble its efforts to improve elementary/secondary education, including finding ways to address the growing teacher shortage in Illinois.

• The University must continue its significant improvement in administrative infrastructure begun in FY 2001. Two components merit special note. First, is the implementation of UI-Integrate, a system that enables human resource, financial and student information systems to operate from a single database. More timely and accurate information will be available to managers at all levels of the University once UI-Integrate is in place. The second component is a major review of all administrative functions and costs. We will continue to strive to minimize administrative costs.
Our needs are many and we recognize that they cannot all be met through additional State resources. We will continue to shift funds from lower to higher priority programs. But at the same time, the value of increased support for higher education to the State and its citizens has never been more important or clear. Nor has the value of the unique contributions to the State that only the University of Illinois can make ever been more visible or linked directly to the economic and social imperatives of the coming century. The returns on the investment to the University of Illinois will pay dividends for generations to come.

James J. Stukel
President