FY 2016
BUDGET REQUEST

FOR
OPERATING
AND
CAPITAL FUNDS

PREPARED FOR THE
BOARD OF TRUSTEES
SEPTEMBER 11, 2014

UNIVERSITY OF ILLINOIS
URBANA-CHAMPAIGN • CHICAGO • SPRINGFIELD

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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 11, 2014

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

Over the course of its nearly 150-year history, the University of Illinois has flourished thanks to its partnership with the state of Illinois.

The state's financial support has been pivotal in the U of I's rise as a globally recognized leader in education and innovation. It helped bring in the top faculty who are the heart of our excellence–faculty who attract the best and brightest students and the research funding that fosters discovery, progress and economic growth. It provided the crucial programmatic support that enabled the University to fulfill its land-grant mission by providing access to the children of all classes and giving them the life-changing opportunities that higher education provides.

I'm never sure whether people fully grasp our place among the world's premier universities, or what our partnership has contributed to a better tomorrow for our state and nation. Here are just a few of the countless examples:

- We are the state's largest educator with more than 78,000 students across our three campuses–students from every county in our state, every state in our union and every continent. Enrollment has continued to grow as other universities weather declines, thanks to a reputation for quality that brings more than four applications for every seat in our freshman classes.

- Each of the last three years, our campuses have awarded more than 20,000 degrees–more annual graduates than the total enrollment of Harvard, Yale, Princeton and MIT combined. Our campuses produce highly skilled graduates on a large scale, supplying the educated workforce that is required to ensure our state and nation's success in the 21st century.

- The University brings more than $850 million into the state annually in federal grants and contracts. Those dollars would go elsewhere if not for the leading-edge scholarship of our researchers and promise discovery that would add to a rich legacy of innovation by our faculty and alumni that includes LED lighting, hybrid agricultural products, robotic surgery, MRI technology and the graphical browser that revolutionized the World Wide Web.

- Our academic programs include many ranked among the nation's best and our Chicago-based College of Medicine is the nation's largest, with a hospital and clinics that also serve the needs of our citizens through more than 440,000 patient visits annually.

The state financial support that helped build the University of Illinois over the last century and a half is just as critical today to maintain our excellence and our service to society. But the last three decades have

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brought a steady decline in the state's direct annual appropriation which covered half our operating costs in 1980 but now accounts for less than 15 percent of the total University budget. It's a disturbing trend that threatens student affordability and access, academic quality, research discovery and the economy building power of our campuses. Our university–and our state–cannot afford a slide from our hard-earned place among the world's best into the more-crowded realm of just the very good.

Below I outline the operational and capital funds that are needed to advance our missions of education, research, public engagement and economic development.

In the operating budget, our greatest needs are:

- Strengthening academic quality through competitive compensation to recruit and retain top faculty and staff.

- Maintaining state-of-the-art classrooms and facilities that serve the needs of students and faculty.

- Meeting inflationary and other operational cost increases that can siphon money away from our core missions.

The requested increase is 2.3 percent of the general state tax support and income fund base, a modest increase that would enable the University of Illinois to remain competitive with its peers. An additional $25 million is requested to support Medicaid patient activity at the University of Illinois Health System, which is expected to increase under the Affordable Care Act.

Our capital budget request contains only the most critical priorities on our three campuses. The greatest need is funding for Repair and Renovation, which would enable us to whittle away a backlog of projects that has grown over the last five years with no capital funding from the state. Other priorities include partial funding for the renovation of existing facilities, including Urbana-Champaign's Natural History Building ($15 million), Altgeld Hall ($40 million), and main and undergraduate libraries ($50 million). Another priority is the College of Pharmacy in Chicago ($89 million), a project that would entail both renovation and an addition to expand research space. These important improvements will enable us to preserve our facilities and meet the academic needs of our students and faculty.

We are well aware of the state's financial challenges, and the difficult decisions legislators face as they seek to maintain vital services in this era of constrained government resources. And we are trying to do our part to minimize our reliance on state support–through cost containment, prudent spending and an increased emphasis on alternate sources of revenue such as private fundraising.

Even with those efforts, state support remains crucial to provide the human and intellectual capital needed to drive our state forward. We hope that our FY 2016 budget request will be viewed through the lens of history, and the dividends that have been returned to the state by its investments of the past.

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

Sincerely,

Robert Easter

Robert A. Easter

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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. The Urbana-Champaign, Chicago and Springfield campuses all perform their traditional teaching and learning missions well and serve constituents throughout the state. Each campus also has distinct research strengths: Urbana with its science, agriculture, cutting-edge technology, engineering and interdisciplinary projects; Chicago with its medical, health professions and urban research initiatives; 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 2016 that will help the University of Illinois address this challenge and ensure that we continue to achieve our most important goals.

The University of Illinois has remained exceptionally productive in the face of its challenges, enrolling over 78,000 students and producing 20,400 graduates in 600 degree programs annually. More than 8,000 students annually earn University of

Illinois 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 FY 2014, the UIC College of Medicine facilities provided over 446,000 clinical visits–many 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 opening of the new Cancer Research Center in 2012. The College of Medicine at Urbana offers advanced research MD/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 2013, the University's research efforts produced 344 technology disclosures, 96 patents and 96 licenses and options to commercialize new technologies. Some of these innovations will become the products, industries and job-creating companies of the future. In 2013, the University of Illinois licensed 11 start-up companies. In addition, the business incubation facilities at the Urbana-Champaign and Chicago campuses house more than 90 start-up and established companies, including ADM, Caterpillar, John Deere, Dow Chemical, 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 University of Illinois 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 fire fighters. Courses offering college credits range from fire-fighting basics to rescue techniques to homeland security and weapons of mass destruction response. In 2013, the Illinois Fire Service Institute provided training to more than 65,500 firefighters–training that translates into lives saved and property damage minimized throughout the state.

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

The University of Illinois employs over 29,400 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 over $5.5 billion on payroll, supplies and services; and for every dollar the State of Illinois contributes to the University of Illinois; an additional $17 is infused into the state's economy.

The University of Illinois is dynamic treasure because of the transforming power of education in people's lives.

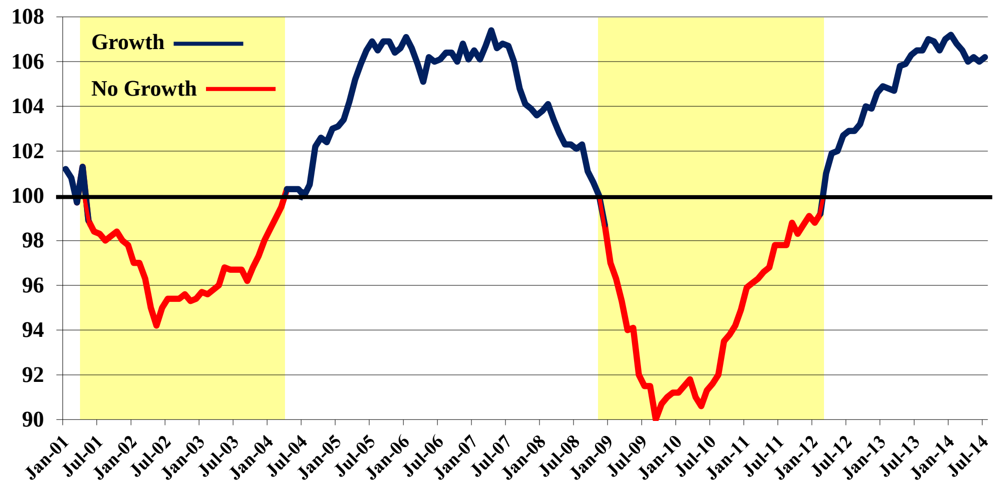
The University of Illinois is a treasure for our state and its people. But it is a dynamic treasure, seeking to transform lives through the power of education in an ever-changing environment and for an increasingly diverse population. Ultimately the greatest impact of the University of Illinois is on the lives of students. They learn in our classrooms, interact with our 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.

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. The past 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. The Flash Index has shown steady improvement in recent years. Despite modest decreases in 2014, it is still approximately at the pre-recession highs recorded in 2007.

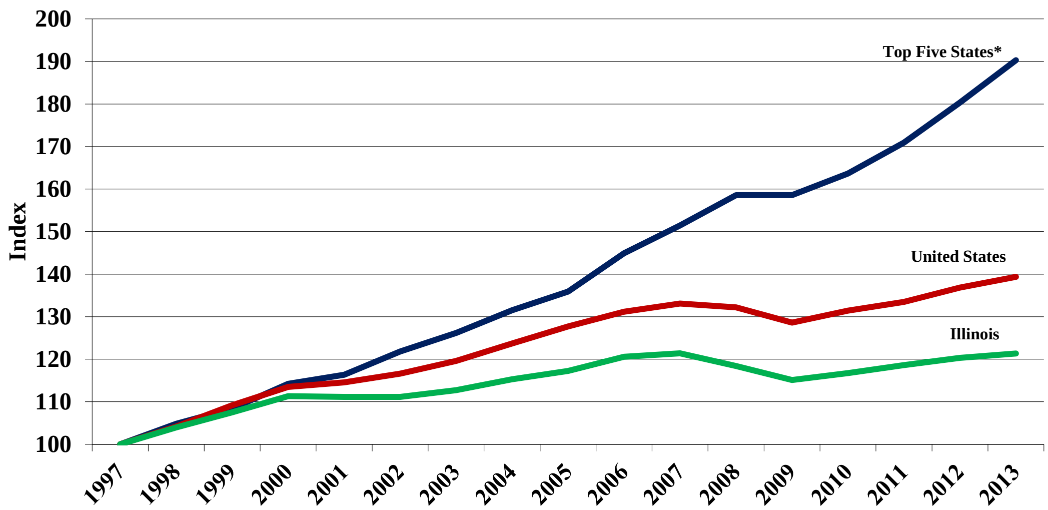
Figure 1
U of I Flash Index



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 2000 levels; and although overall employment increased from 2004 to 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 – 2013



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

In addition to weak economic growth, the state has also faced another major fiscal challenge in the form of unfunded pension obligations. The state's five public pension systems had unfunded liabilities of over $97.5 billion at the end of FY 2013 and were estimated to have an asset-to-liability ratio of under 41.1%. 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.

In December 2013, the General Assembly passed SB1, which reduced benefits for current employees. Actuaries estimate that this legislation will reduce the unfunded liabilities of the state's five retirement systems by approximately $21 billion in FY 2015 and $24 billion in FY 2016. Reductions in state contributions to the pension systems resulting from this legislation are estimated to be $1.2 billion in FY 2016. However, implementation of the pension changes has been halted while the legislation is litigated in court. The uncertainty surrounding the pension reforms not only has important implications for the state's budget outlook, but it also creates unique challenges for the University of Illinois and its efforts to attract and retain world-class faculty and staff.

Illinois' personal and corporate income tax rates also contribute to uncertainty in the state's budget outlook. 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, which also included budgetary spending limits, has a partial sunset provision for 2015. Making the increases permanent has been a topic of discussion in the General Assembly and will likely be debated during the Fall veto session.

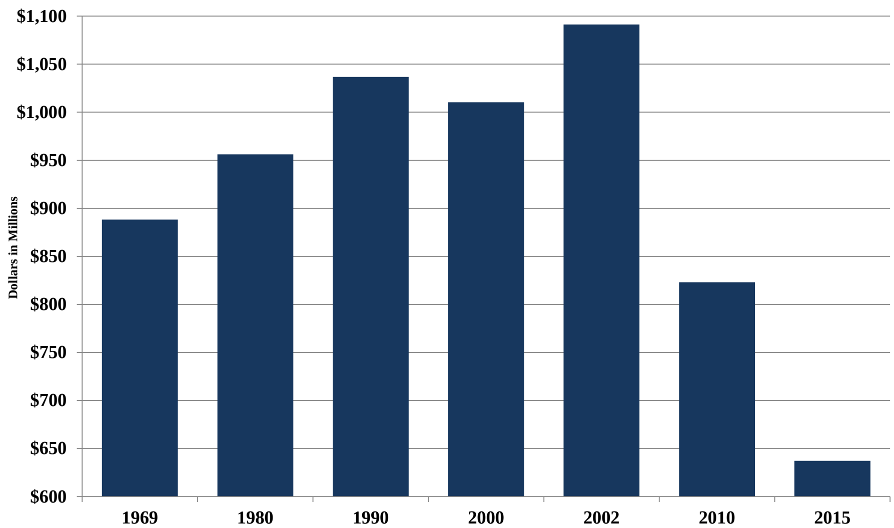
THE BUDGET FRAMEWORK

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. The state appropriation to the University of Illinois from general revenue funds is $662.1 million for day-to-day operations in FY 2015. This figure includes $16.8 million for the Prairie Research Institute (State Scientific Surveys). Along with student tuition, these funds pay most 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. Even as education is often cited among the state's highest budget priorities, an 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
Direct State Tax Support
(In FY 2015 Estimated CPI Dollars)



FY 1969 does not include UIS, all other years include UIS. FY 2002 at original appropriation amount. FY 2010 and FY 2015 includes transfer of State Surveys and excludes health insurance redirection.

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 (6.2%) in FY 2011 when federal stimulus funding expired, $8 million (1.1%) in FY 2012, and $42.5 million (6.2%) in FY 2013. This totaled nearly $100 million in cuts over the three-year span. 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 $366 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 nearly $1.8 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 student demand is strong 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.

Direct State Appropriations for FY 2015 decreased by $1.2 million, or -0.2%.

Since FY 2009, the state's fiscal health has further been challenged by a cash flow crisis. The backlog of unpaid state vouchers improved in FY 2014, but public institutions have been impacted as the state has been unable to make payments in a timely manner in recent years. 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.

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, but 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 legislation 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.

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 that was first implemented into the FY 2013 budget. During the FY 2015 budget cycle, IBHE once again developed performance funding metrics; however, performance funding was not ultimately incorporated into the budget bill that was passed by the General Assembly and signed by the Governor.

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, vibrant and robust system of higher education.

FY 2015 BUDGET OUTCOMES

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

The legislative budget process for FY 2015 concluded with education spending being held relatively flat. State support for the University of Illinois operating budget decreased by $1.2 million in FY 2015, or -0.2%. Given the state's ongoing budget issues, this FY 2015 budget outcome was considered a moderate success.

Additional tuition revenues in FY 2015 were derived from general increases for all students and from differential tuition increases on higher cost programs. In addition, a total of $27.3 million was redirected through internal reallocations in FY 2015.

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. In addition to these projects, FY 2013 also saw the formal release of $64 million in funding for the Advanced Chemical Technology Building at the Chicago campus. This project was originally part of the FY 2003 capital budget, but funds had not been released for construction.

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 recent decades. For FY 2015, elementary/secondary education continued to be above their 1980 share of 28.8%. Higher education’s share of the total budget decreased slightly in FY 2015 to 10.4%, down from 10.5% a year earlier.

In the past three decades, 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 2015, the relationship has changed dramatically. The three human service agencies together have climbed to a share of 17.4%, while higher education has fallen to 10.4%.

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

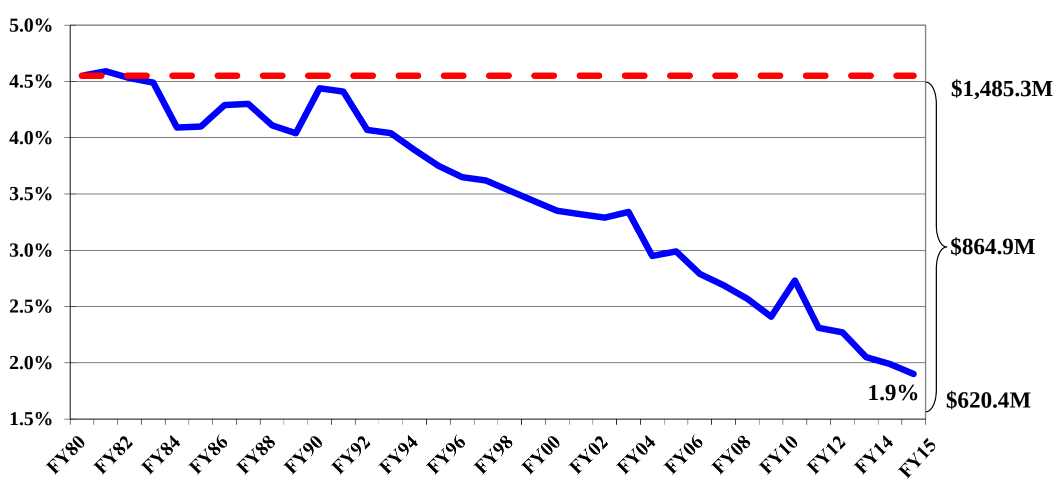
Year	Elementary/ Secondary	Higher Education	DCFS, Human Services, & Corrections	DHFS	All Other
1980	28.8%	12.9%	10.7%	33.8%	13.7%
1990	26.7%	13.1%	12.9%	30.7%	16.6%
2000	26.3%	11.0%	25.9%	23.1%	13.7%
2005	30.0%	9.6%	24.8%	22.1%	13.5%
2006	27.9%	8.9%	23.5%	26.3%	13.4%
2007	28.9%	8.8%	22.5%	26.2%	13.6%
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	31.6%	9.5%	18.5%	23.0%	17.4%
2013	30.8%	10.5%	17.6%	22.2%	18.9%
2014	32.8%	10.5%	16.3%	22.6%	17.8%
2015	32.2%	10.4%	17.4%	21.8%	18.2%

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

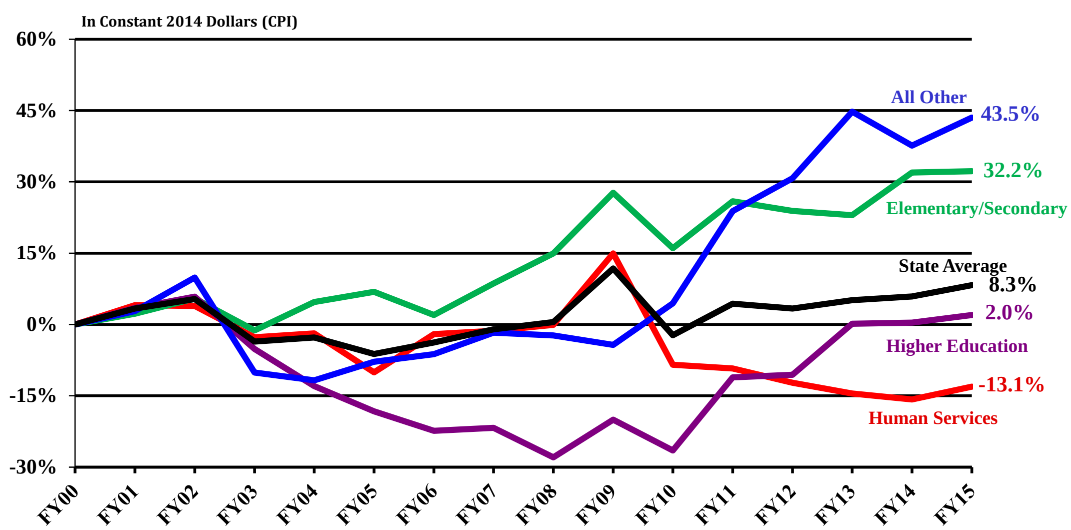


FY02 - FY14 exclude $45 million in payments to CMS from Universities for Health Insurance.
FY09 - FY14 excludes transfer of State Scientific Surveys.

Prior to the income tax increase of 1989-1990, the University of Illinois share of total state tax appropriations was 4.4%. In FY 2015, the University of Illinois share had is substantially lower, down to approximately 1.9%, a 58% 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 continues to lag the state average.

Figure 5
State Tax Appropriations Changes by Agency

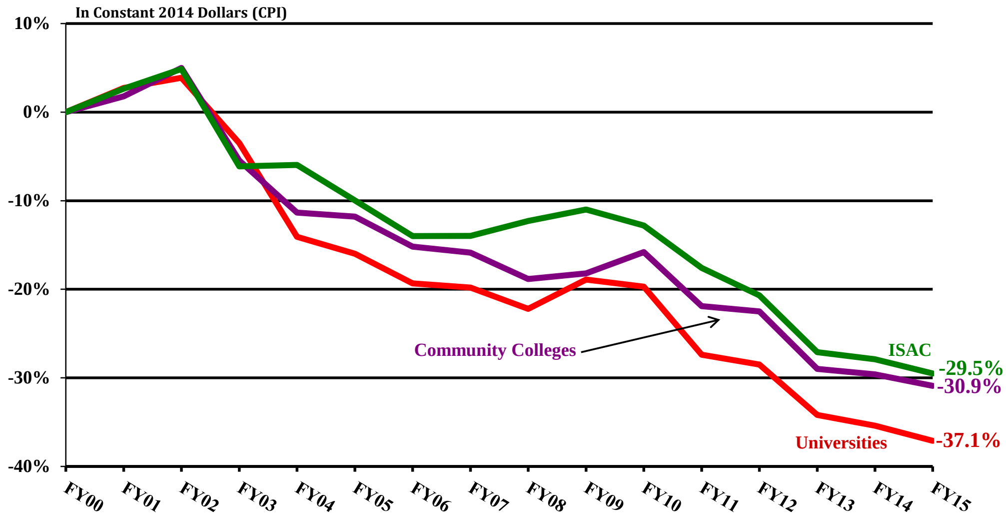


FY02 - FY13 exclude $45 million from higher education for Health Insurance payment to CMS; Health Insurance funding moved from DHFS back to CMS in FY12; FY04 - FY12 adjusted to reflect the change.
FY13 - FY15 higher education includes budget for state surveys.

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 29% to 37% 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.

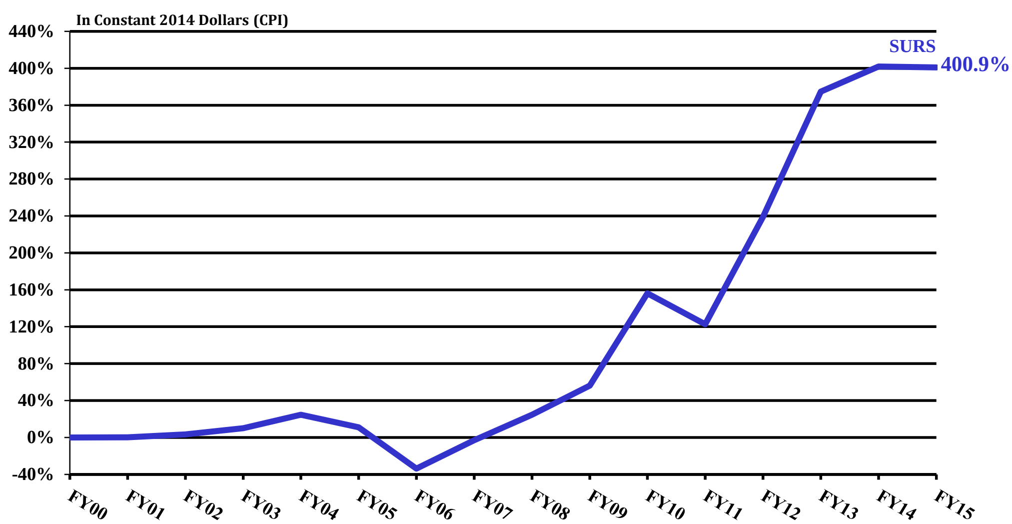
Figure 6
Cumulative Change in State Tax Appropriations by Selected Higher Education Sector



FY02 - FY15 exclude $45 million from higher education for Health Insurance payment to CMS.
FY05 - FY15 includes State Pension Fund; FY10 - FY11 SURS includes full funding from pension bonds.
FY13 - FY15 higher education includes funding for state surveys.

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 2015 when adjusted for inflation as shown in Figure 7.

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



FY02 - FY15 exclude $45 million from higher education for Health Insurance payment to CMS.
FY05 - FY15 includes State Pension Fund; FY10 - FY11 SURS includes full funding from pension bonds.
FY13 - FY15 higher education includes funding for state surveys.

Funding for SURS has increased more than 400% over this time period, increasing from $309 million to $1.55 billion, after adjusting for inflation. 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. Since FY 2000, all other sectors of higher education have declined from $3.0 billion to $1.9 billion, down 35.6%, again after adjusting for inflation.

The pension reform legislation passed in December 2013 has significant implications for the outlook of the state’s five pension systems. Both the unfunded liability and the state’s required pension contributions are projected to decrease significantly under the new law. However, as discussed previously, there is uncertainty as to whether the law will survive a pending legal challenge. This issue is of upmost importance to the University of Illinois and our faculty and staff. As such, university leaders continue to monitor the situation and promote the goals of attracting and retaining faculty and staff.

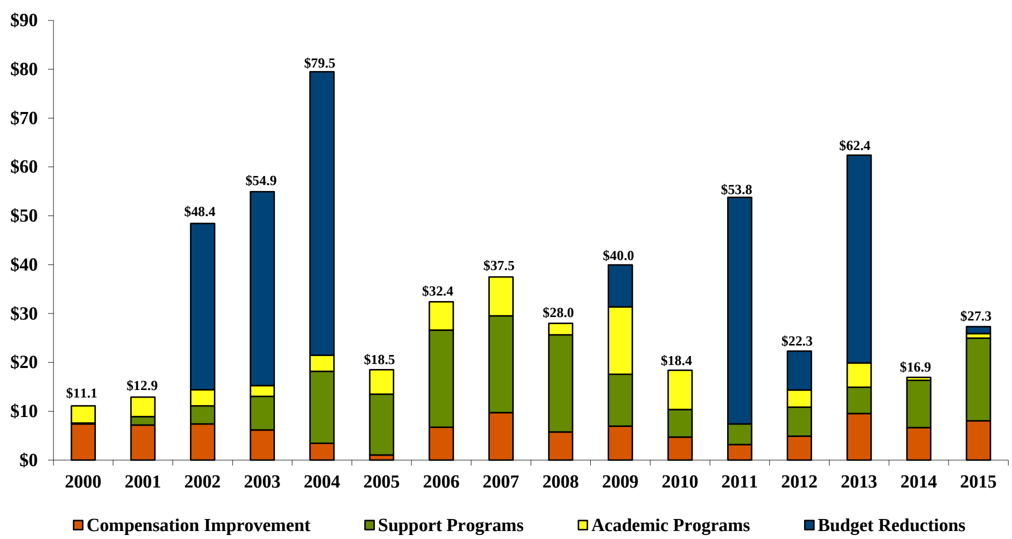
BUDGET TRENDS IN PERSPECTIVE: REALLOCATION

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 $325 million in existing resources have been redirected to high priority programs and $238 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 2015
(Dollars in Millions)

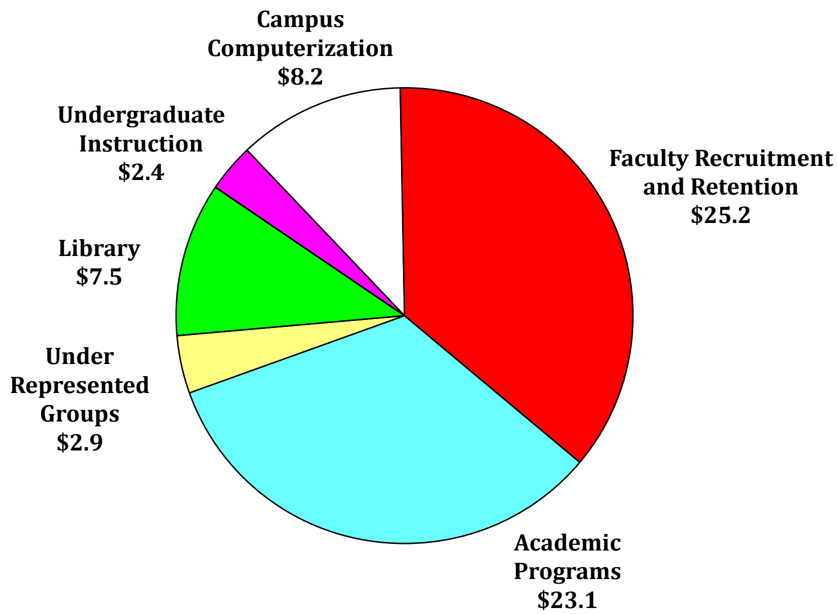


Given the university's paramount need to address faculty and staff salary competitiveness, it is not surprising that a large portion of reallocated funds have been directed to compensation needs. More than 20% of the total reallocation achieved since FY 2000 has been devoted to this requirement. Another 42.3% 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 29.9%, while the balance, 7.8%, has been used to fund needed academic programs.

Among academic program reallocations, general instruction has received more than 33.4% 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 36.4% 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 2015
(Dollars in Millions)



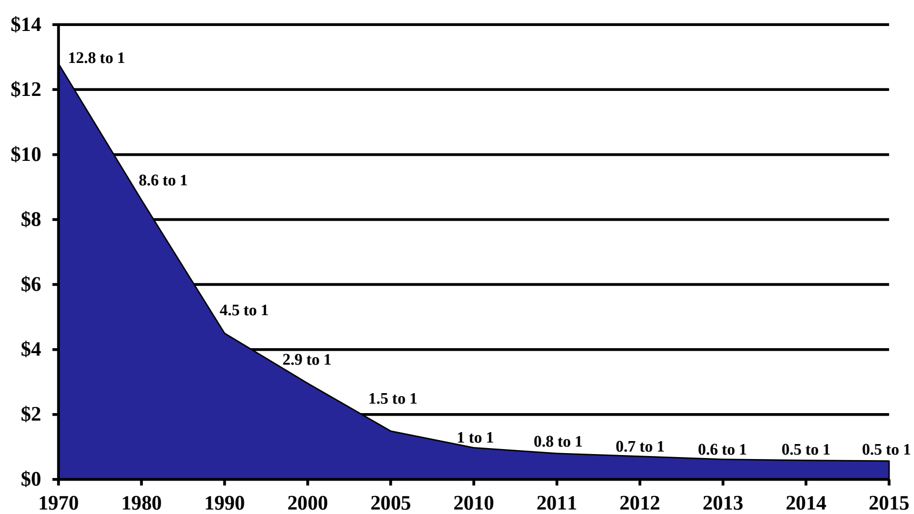
The university's reallocation efforts are often focused on gaining efficiencies in its administrative services. In FY 2009 and FY 2010, the university embarked on a three-year plan to reduce administrative costs by $15.05 million, half within University Administration and the other half spread over the three campuses. More recently, the Administrative Review and Restructuring (ARR) initiative outlined proposals that could cumulatively lead to annual cost reductions of $50 to $60 million. These 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-five years ago the university received more than $12 in direct state tax support for each dollar of tuition revenue it collected from students. Today, that figure has dropped to $0.57 for each dollar of tuition.

Figure 10
Direct State Support per Tuition Dollar
FY 1970 to FY 2015



FY09 - FY15 exclude survey transfer and survey specific appropriation lines.
FY02 - FY15 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 2016 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 2016 BUDGET REQUEST

The university's FY 2016 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 and the university will be offering general salary increases in FY 2015. 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 2016, our compensation improvement request includes support for direct salaries. A 1.3% 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.

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

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.

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.

Additionally, an informational item is included at the end of the FY 2016 operating budget request related to the challenges the University of Illinois faces due to increasing Medicaid patient volume and related costs to maintain the balance in the University of Illinois Hospital Services Fund. 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 2016 operating budget request is outlined in Table 2, which follows.

Table 2
FY 2016 Operating Budget Request
(Dollars in Thousands)

I.	**Strengthen Academic Quality**			**$ 22,633.5**
	% of FY 2015 Base			*1.3%*
	A. Competitive Compensation		$22,633.5	
	1. Salary Improvements - 1.5%	$16,975.1		
	2. Recruitment, Retention & Compression - 0.5%	5,658.4		
II.	**Address Facility Operations Needs**			**$ 16,067.5**
	A. O & M New Areas		$ 1,067.5	
	B. Facility Maintenance Support		10,000.0	
	C. Utility Maintenance Support		5,000.0	
III.	**Meet Inflationary and Other Cost Increases**			**$ 1,550.0**
	A. Payroll Cost Increases		$ 1,550.0	
	1. Medicare	$ 550.0		
	2. Workers' Compensation	500.0		
	3. Legal Liability/Insurance	500.0		
	Total Request			**$ 40,251.0**
	% of FY 2015 Base			*2.3%*
IV.	**Medicaid Funding - UI Health System**		$25,000.0	

FY 2015 Base: $1,765,444.1
Base = GRF + Tuition

OPERATING BUDGET REQUEST FOR FY 2016

STRENGTHEN ACADEMIC QUALITY

SALARY IMPROVEMENTS

($16,975,100)

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 2015, 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 2015. 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 damaged 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 26 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 little or no funding was provided in FY 2010 through FY 2015 and the University did not have a salary increase program in FY 2010 or FY 2011.

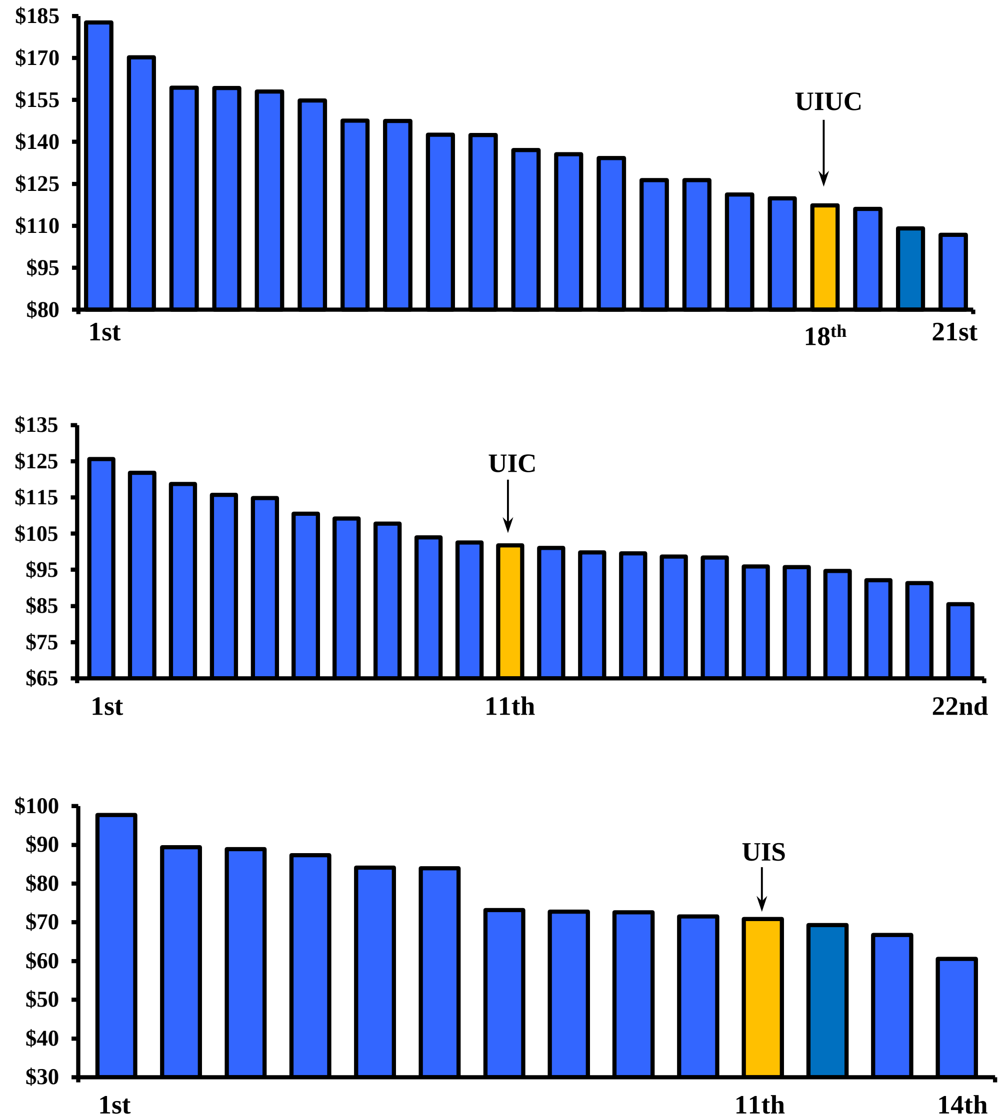
In such an environment, the need to monitor the University's competitive standing may be more crucial than ever. Numerous salary analyses are performed annually for that purpose. Due to the varied nature of the University workforce, separate analyses are performed for academic employees and staff. Salaries 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 18th in its group in FY 2014, up one from FY 2013 and fourth 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 11th in its group of 22 peers in FY 2014, falling two spots from its place in FY 2013. UIS ranked 11th, unchanged from FY 2013 but still in fourth to last place among its comparison group.

Figure 11
FY 2014 Competitive Standing among IBHE Peers
UIUC, UIC and UIS
(Dollars in Thousands)



FY 2014 found faculty salaries at UIUC and UIS near the bottom and UIC at the middle of their respective peer groups.

Minimal gains for the three campuses are likely in FY 2015 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 2014, 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	Michigan State University
Univ. of Colorado - Boulder	Univ. of Minnesota
Univ. of Florida	Univ. of Missouri
Univ. of Il - Chicago	Univ. of North Carolina - Chapel Hill
Univ. of Il - Urbana-Champaign	Ohio State University
Indiana University	Univ. of Oregon
Univ. of Iowa	Penn State University
Iowa State University	Purdue University
Univ. of Kansas	Univ. of Texas - Austin
Univ. of Maryland - College Park	Univ. of Virginia
Univ. of Michigan	Univ. of Wisconsin – Madison

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

Table 3 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 2014. For each discipline, only those institutions reporting data in all three years of the study are included.

Table 3
Faculty Salary Study by Discipline FY 1987 to FY 2014

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

Academic Discipline	No. of Univ.	FY 1987 UIUC Salary	FY 1987 Rank	FY 2002 UIUC Salary	FY 2002 Rank	FY 2014 UIUC Salary	FY 2014 Rank	Rank Ch. Since 1987	Rank Ch. Since 2002
Agriculture	13	$40,698	6	$78,254	5	$100,565	9	-3	-4
Architecture	16	38,858	8	65,221	8	88,559	8	0	0
Business	21	52,341	3	113,231	8	182,505	6	-3	2
Communications	20	36,213	6	73,598	4	97,295	4	2	0
Computer & Info.	18	50,285	7	99,268	2	135,555	3	4	-1
Education	21	41,424	5	70,959	3	99,935	5	0	-2
Engineering	18	53,995	2	96,741	2	131,693	2	0	0
Foreign Languages	21	38,917	6	62,999	6	88,573	4	2	2
Home Economics	14	32,947	6	72,290	3	99,359	5	1	-2
Law	16	69,147	3	122,205	7	192,383	5	-2	2
Letters	21	35,365	7	68,358	6	98,113	4	3	2
Mathematics	21	46,480	11	73,215	14	104,667	13	-2	1
Philosophy	21	33,758	12	66,889	12	89,507	9	3	3
Physical Sciences	21	51,512	1	89,036	2	124,387	2	-1	0
Psychology	21	44,929	3	85,943	5	106,323	12	-9	-7
Social Sciences	21	41,945	9	76,270	9	113,851	10	-1	-1
Social Work	13	38,342	6	55,660	8	78,096	11	-5	-3
Arts	21	36,360	7	59,701	8	80,350	7	0	1

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

Academic Discipline	No. of Univ.	FY 1987 UIC Salary	FY 1987 Rank	FY 2002 UIC Salary	FY 2002 Rank	FY 2014 UIC Salary	FY 2014 Rank	Rank Ch. Since 1987	Rank Ch. Since 2002
Architecture	16	$34,233	13	$63,743	9	$79,716	16	-3	-7
Business	21	45,451	11	102,327	15	125,995	21	-10	-6
Education	21	33,773	10	69,540	6	89,209	6	4	0
Engineering	18	47,921	2	92,588	3	111,284	14	-12	-11
Foreign Languages	21	33,250	11	65,614	5	77,425	12	-1	-7
Letters	21	34,622	11	67,637	6	88,704	6	5	0
Mathematics	21	42,184	12	77,123	15	103,247	13	-1	2
Philosophy	21	41,405	4	68,602	4	93,069	15	-11	-11
Physical Sciences	21	42,846	6	74,571	16	88,588	20	-14	-4
Psychology	21	41,351	9	74,478	7	101,811	13	-4	-6
Social Sciences	21	37,882	14	71,711	13	93,457	16	-2	-3
Social Work	13	36,274	8	59,171	10	84,927	11	-3	-1
Arts	21	33,340	7	64,144	4	72,157	12	-5	-8

Source: American Association of Universities Data Exchange (AAUDE)

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 11 of 18 examined disciplines, and UIC had kept or regained it in 8 of 13. In FY 2014, UIUC lost ground in 8 of its 18 comparison disciplines, while UIC lost ground in 11 of its 13 comparison disciplines since 1987.

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

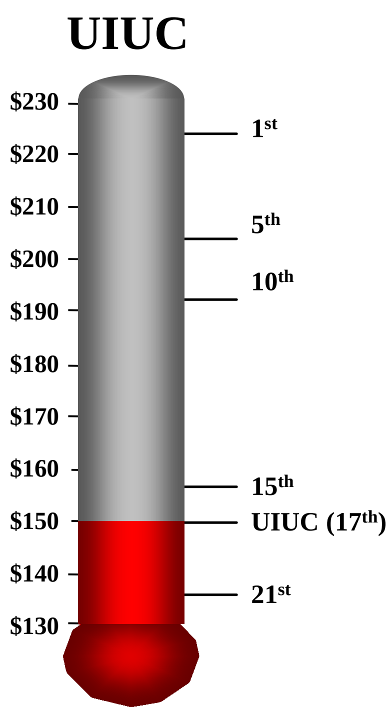
At UIC, only two disciplines (Education and Letters) have held or improved their FY 1987 ranking, while salary rankings lag FY 1987 levels in the remaining eleven disciplines: Architecture, Business, Engineering, Foreign Languages, Mathematics, Philosophy, Physical Sciences, Psychology, Social Sciences,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

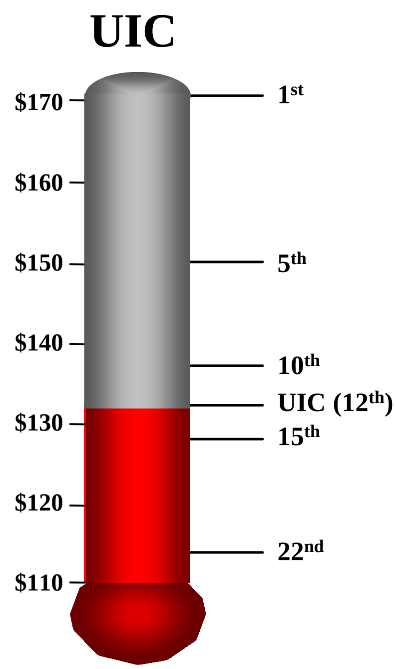
It is clear that past declines in state funding have hurt the University's ability to remain competitive for high quality faculty and staff, although the impact has been greater in some disciplines than in others. Despite progress in some fields, many disciplines continue to suffer from a loss of competitiveness. 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 2016 and beyond.

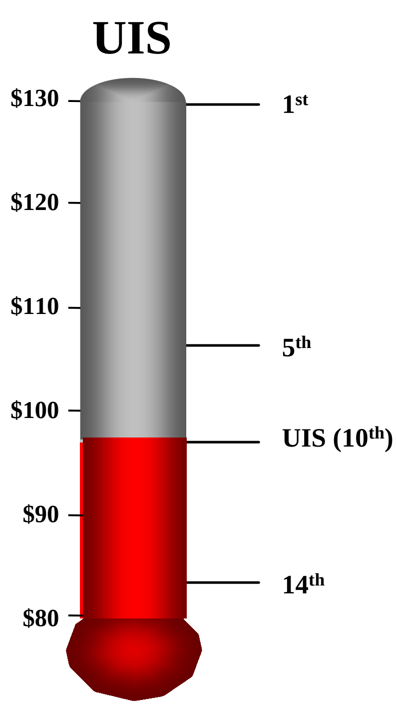
TOTAL COMPENSATION

Total compensation represents the combination of average cash salary and employer contributions to fringe benefits. Figure 12 shows FY 2014 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 fifth lowest at 17th out of 21, while UIC ranks 12th out of 22 and UIS ranks fifth lowest at 10th out of 14.

Figure 12
FY 2014 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 $17 million are requested for FY 2016 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 $5.6 million in additional funding in order to recover upward momentum in a highly competitive marketplace.

STAFF SALARIES

For FY 2014, 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. Most State of Illinois agencies confronted a similar situation. 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 2013. Compensation costs for state and local government workers increased 1.9% percent for the year ending in December 2013.

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 employers 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.

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.

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 four years. Both changes to benefits and shifting of the normal cost to universities and local school districts have been introduced. Although both chambers did individually pass pension bills with substantial changes, in the spring of 2013 the legislature ended that regular session without coming to a consensus. During the last week of spring 2013 session, both chambers voted to convene a pension conference committee charged with drafting a bipartisan bill addressing changes to the pension systems.

In the November/December 2013 veto session, the legislature acted on the conference committee legislation by passing major pension reform for four of the five pension systems (excludes the Judges Retirement System). On December 5, 2013 the Governor signed the bill into law with PA98-0599 with an effective date of June 1, 2014. Prior to the June 1, 2014 effective date of the changes, the court suspended implementation until lawsuits brought by unions, retirees and others challenging the constitutionality of the overhaul of the retirement systems are resolved. In July 2014, the Illinois Supreme Court ruled on a law passed in 2012 that enabled the State to charge retirees for insurance premiums. The Court ruled that the health insurance subsidies are a benefit of membership in a pension or retirement system and as a result are constitutionally protected from any diminishment or impairment. This action has many believing a similar outcome will follow on the pension changes.

It should be understood, however, that while achieving and maintaining adequate SURS funding remains a key concern for FY 2016 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. The Addendum contains a more complete discussion of the SURS funding situation.

RECRUITMENT, RETENTION & COMPRESSION

($5,658,400)

Overview

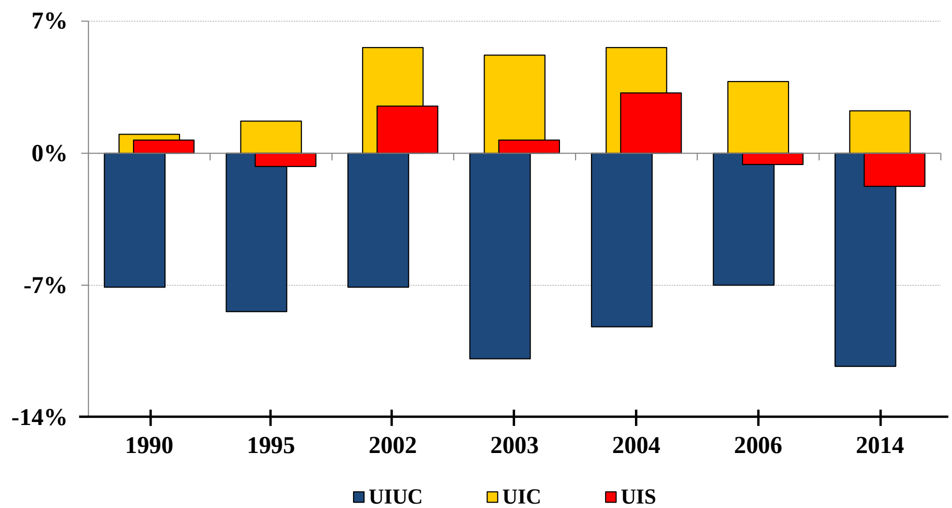
The quality of a university's instruction, research, public service and economic development activities depends in large part on the quality of its faculty. Facilities, library resources, staff quality and other factors are vital, too, but it is the mentor in the classroom, the laboratory investigator, 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 modest salary program internally in recent years, 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 2014. Salaries for UIC have generally exceeded the median, while those at UIS have continued to fall below its IBHE peer group median beginning with FY 2006.

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

- 1990-1994: 8% in ’90. Salary increments average around 1% thru ‘94.
- 1995-1999: Salary increments near inflation (3%).
- 2000-2002: IBHE “3 + 1 + 1” Program. Market hinders UIUC progress.
- 2003: No salary program.
- 2004-2009: No salary appropriation. 2% - 4% program funded internally.
- 2010-2011: No salary program.
- 2012-2013: No salary appropriation. 2.5% program funded internally.
- 2014: No salary appropriation. 2.75% program funded internally.



This up-and-down salary trend is also reflected in the peer group rankings, shown in Table 4. 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 remained at 18th out of 21 institutions, UIS has dropped to 11th out of 15 institutions as of FY 2014, and UIC moved down in the rankings to 11th in FY 2014.

Table 4
Full-Time Instructional Faculty Average Salaries FY 1987 to FY 2014, All Ranks
IBHE Peer Groups
(Dollars in Thousands)

University of Illinois at Urbana-Champaign

FY 1987		FY 1994		FY 2002		FY 2014	
UC-Berkeley	$56.2	Chicago	$75.9	Pennsylvania	$107.5	Columbia	$182.7
UCLA	53.2	Pennsylvania	74.4	Yale	105.2	Chicago	170.2
UC-San Diego	52.6	Yale	73.1	Chicago	104.0	Yale	159.4
Columbia	50.3	NYU	71.3	Columbia	102.0	Pennsylvania	159.2
Chicago	50.0	Columbia	71.2	NYU	100.8	Duke	158.0
Pennsylvania	49.8	Northwestern	71.2	Northwestern	100.6	NYU	154.8
Yale	49.5	Duke	69.9	UC-Berkeley	99.9	UCLA	147.6
Johns Hopkins	49.3	UC-Berkeley	66.4	Duke	97.3	Northwestern	147.5
NYU	48.0	Johns Hopkins	65.4	UCLA	96.9	UC-Berkeley	142.5
Michigan	47.6	USC	64.9	UC-San Diego	91.6	Wash. U. (St.L.)	142.5
Duke	47.6	Michigan	64.3	Wash. U. (St. L.)	91.2	Johns Hopkins	137.0
Northwestern	46.8	Brown	63.3	USC	89.2	Brown	135.6
Brown	45.3	UCLA	62.5	Michigan	87.3	USC	134.2
UIUC	**45.1**	Wash. U. (St. L.)	62.3	Johns Hopkins	87.3	Michigan	126.4
USC	45.0	Rochester	61.7	North Carolina	85.9	UC-San Diego	126.4
North Carolina	44.0	UC-San Diego	61.1	Brown	85.7	Rochester	121.2
Wisconsin	44.0	Texas	59.8	Rochester	84.1	Texas	119.8
Rochester	43.6	North Carolina	59.0	**UIUC**	**82.3**	**UIUC**	**117.3**
Wash. U. (St. L.)	42.8	Wisconsin	58.3	Texas	82.0	North Carolina	116.0
Texas	40.5	U. Wash. (Sea.)	57.5	Wisconsin	81.3	U.Wash. (Sea.)	109.0
U. Wash. (Sea.)	40.4	**UIUC**	**57.3**	U. Wash. (Sea.)	76.8	Wisconsin	106.8

University of Illinois at Chicago

FY 1987		FY 1994		FY 2002		FY 2014	
UC-Santa Barbara	$51.9	Massachusetts	$62.2	UC-Santa Barbara	$88.4	UC-Santa Barbara	$125.6
UC-Irvine	50.0	Temple	61.5	Maryland	88.1	UC-Irvine	121.8
UC-Davis	48.3	UC-Santa Barbara	59.5	UC-Davis	85.7	UC-Davis	118.8
UC-Riverside	47.0	Hawaii	59.2	UC-Irvine	84.5	Maryland	115.7
Massachusetts	45.4	UC-Irvine	58.7	UC-Riverside	82.8	Delaware	114.8
Va. Tech.	42.8	Maryland	58.1	Delaware	78.9	Massachusetts	110.5
Maryland	42.3	Delaware	57.9	Massachusetts	78.8	UC-Riverside	109.2
Florida	42.3	UC-Davis	57.4	**UIC**	**76.7**	Arizona St.	107.7
Arizona	42.0	Wayne St.	56.7	Temple	76.2	Michigan St.	104.0
Arizona St.	40.5	Michigan St.	56.1	Va. Tech.	76.0	Utah	102.6
Wayne St.	40.3	Arizona	54.4	Michigan St.	74.8	**UIC**	**101.8**
Michigan St.	39.8	Va. Tech.	53.5	Wayne St.	73.6	Florida	101.0
UIC	**39.7**	UC-Riverside	53.1	Arizona St.	73.1	Va. Tech.	99.8
Georgia	39.4	**UIC**	**52.6**	Arizona	72.9	Arizona	99.6
Temple	39.2	Arizona St.	50.9	Georgia	71.6	Hawaii	98.6
Hawaii	38.7	Utah	50.4	Florida	71.2	Temple	98.4
Delaware	38.3	Florida	50.4	Utah	69.6	Florida St.	95.9
Va. Common.	37.3	Va. Common.	50.2	Va. Common.	69.1	Wayne St.	95.8
Vermont	37.2	Georgia	49.9	Hawaii	68.5	Vermont	94.7
Utah	37.1	Oregon	49.0	Florida St.	66.9	Georgia	92.1
Florida St.	37.0	Florida St.	47.8	Vermont	61.1	Oregon	91.3
Oregon	34.5	Vermont	n.a.	Oregon	60.5	Va. Common.	85.5

Table 4 (continued)
Full-Time Instructional Faculty Average Salaries FY 1987 to FY 2014, All Ranks
IBHE Peer Groups
(Dollars in Thousands)

University of Illinois at Springfield

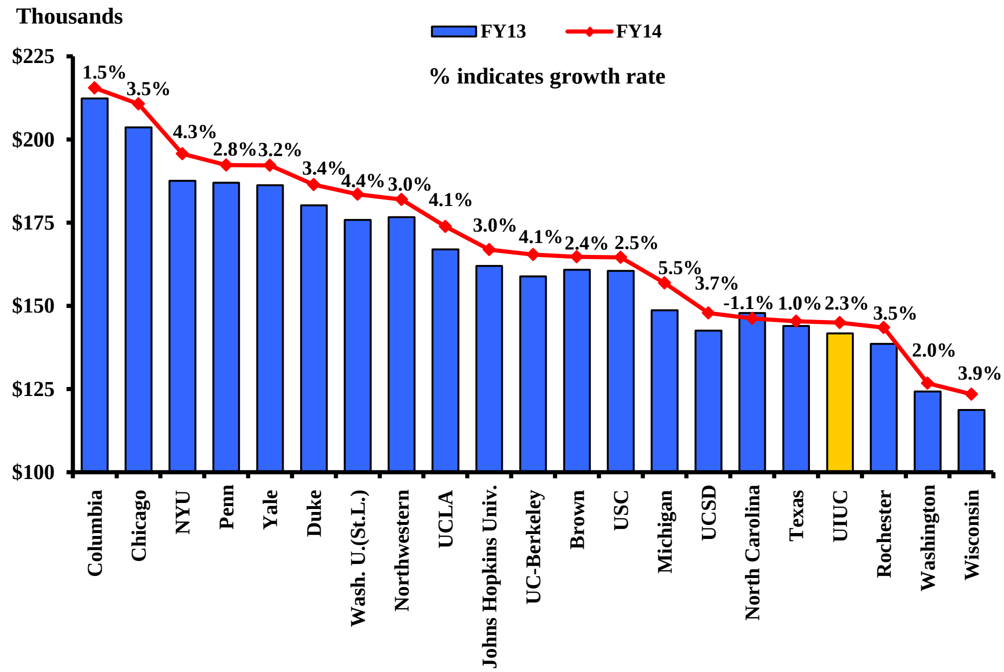
FY 1987		FY 1994		FY 2002		FY 2014	
SUNY-Brockport	$39.2	Shippensburg (Pa.)	$57.5	Union	$71.3	Union	$97.7
Trinity	38.9	Trinity	55.1	Trinity	69.7	Clark	89.4
Clark	38.3	Clark	52.2	Clark	68.4	Trinity	88.9
Union	36.9	Union	52.0	Shippensburg (Pa.)	68.1	Shippensburg (Pa.)	87.4
Iona	36.0	SUNY-Brockport	50.0	Iona	59.4	Marist	84.2
Shippensburg (Pa.)	35.5	No. Michigan	49.4	**UIS**	**58.1**	Iona	84.0
No. Michigan	34.7	Iona	47.0	SUNY-Brockport	57.8	SUNY-Brockport	73.2
Wisc.-Green Bay	33.6	**UIS**	**43.7**	No. Michigan	57.2	So. Dakota	72.7
UIS	**33.5**	Lake Superior St.	43.3	So. Dakota	54.2	No. Michigan	72.6
Charleston	31.9	Wisc.-Green Bay	43.2	Auburn-Mont.	52.8	Charleston	71.5
So. Dakota	31.3	Auburn-Mont.	42.5	Charleston	52.8	**UIS**	**70.9**
Auburn-Mont.	31.3	Marist	42.3	Marist	52.8	Auburn-Mont.	69.3
Lake Superior St.	30.9	Charleston	38.8	Georgia St.	52.1	Georgia St.	66.8
Marist	29.6	Georgia St.	38.2	Lake Superior St.	51.5	Wisc.-Green Bay	60.6
Georgia St.	n.a.	So. Dakota	n.a.	Wisc.-Green Bay	51.3	Lake Superior St.	n.a.

Source: 2014 AAUP Full-time Instructional Faculty Salary Survey.
All faculty includes faculty with ranks Assistant Professor and above.

Figure 14 compares FY 2013 and FY 2014 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 2013 and FY 2014, UIUC had a growth rate of 2.3%, placing it 18^{th} out of the 21 institutions in its peer group. The overall mean growth rate was 3% with -1.1% as the lowest and 5.5% as the highest rate. The growth rate median was 3.2% for all 21 institutions. While UIUC had a lower growth rate than most of its peers, it was not significant enough to change the campus standing from 18^{th} out of the 21 member peer group.

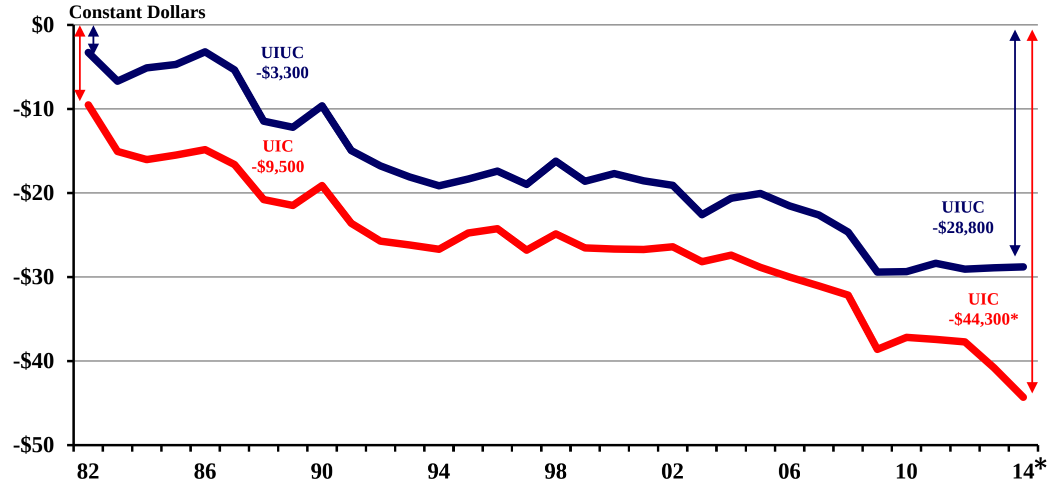
Figure 14
FY 2013 and FY 2014 Professors' Average Salaries
UIUC and IBHE Peers



A closer look at the last 30 years puts FY 2014 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 2014. UIUC was reasonably competitive in 1982, trailing by only $3,300 and UIC was marginally competitive, trailing by $9,500. By FY 2014, the salary gap had exploded to $28,800 at UIUC and $44,300 at UIC. The large increase in UIC's salary gap in FY 2013 and FY 2014 can be attributed to nearly flat faculty salaries while Illinois negotiated with the new UIC faculty union.

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

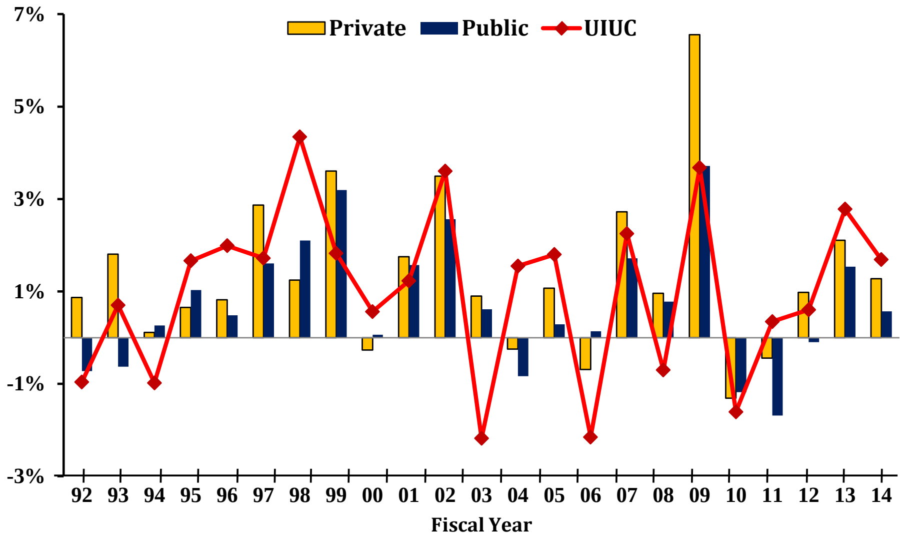


Source: AAUP; BLS.

* Does not reflect pending salary increases from collective bargaining at Chicago.

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 2014 dollars: 1992, 1994, 2003, 2006, 2008 and 2010, but showed positive growth again in 2011, 2012, 2013, and 2014. 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. Even with four years of positive growth in 2011, 2012, 2013, and 2014, UIUC has made little progress in closing the salary gap. 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 (2014) 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, $5.6 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

($1,067,540)

Campus Level:
UIUC
($1,067,540)

The FY 2016 request for funding of the operation and maintenance of new areas supports two projects at the Urbana-Champaign campus. The total space to be supported is approximately 261,670 gross square feet (gsf). These facilities represent additions 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 campus.

The University received no new areas support funding from the State since FY 2004. Over that same period the University was forced to reallocate over $31.4 million to fund these unavoidable costs of new areas with $8.4 million of those funds to cover the last five years of unfunded operations. 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 2016, the requirement to support the operation and maintenance of two new facilities totals $1,067,540 which can be seen in Table 5.

Table 5
FY 2016 Operation and Maintenance
Requirements to Support New Areas

Facility	GSF	Date of Occupancy	Months Requested	Utilities	Other	2016 Total	Annual Cost	Cost/GSF
URBANA-CHAMPAIGN								
Center for Wounded Veterans	31,670	Jul-15	9	$ 96,400	$ 148,600	$ 245,000	$ 326,667	$ 10.31
Electrical & Computer Engineering Building	230,000	Aug-14	3	308,930	513,610	822,540	3,290,161	14.31
TOTAL	261,670			$ 405,330	$ 662,210	$ 1,067,540		

URBANA-CHAMPAIGN PROJECTS

Center for Wounded Veterans

- The Center for Wounded Veterans in Higher Education will be a state-of-the-art facility combining 24-hour comprehensive support with academic programming to prepare severely wounded veterans to live independently and to successfully pursue their educational and career aspirations. The Center will provide health and life skills management training, facilitated peer mentorship, academic tutoring, psychological and career counseling, rehabilitative services and employment services to the population of injured warriors returning from conflicts. The Center will have a family-centric approach with outreach to family members including periodic counseling workshops to assists veterans and their relatives as they adjust to the complex changes that disability can present for a family. Additionally, targeted consultation for injured female veterans will be available at the center to address gender specific expectations and demands concerning issues such as beauty and body wholeness, child care and home management skills. Scheduled for occupancy at the start of FY 2016, nine months of support is requested totaling $245,000.

Electrical and Computer Engineering Building

- The new 230,000 gsf LEED Silver certified facility for the Electrical and Computer Engineering Department will integrate instruction and research. The new facility will be four stories with a basement, centrally located near other major engineering facilities south of Beckman Institute. The building will house a major portion of the ECE Department which will be consolidated from several facilities on north campus primarily Everitt Laboratory, Optical Physics & Engineering and Beckman Institute. The Departments of Computer Science, Electrical and Computer Engineering and selected units in the multi-disciplinary Coordinated Science Laboratory span the spectrum from theory to application. In common facilities, these programs have greater potential to generate new endeavors than the same units operating alone. While this facility will primarily serve the research missions of the Electrical and Computer Engineering Department, it will also improve and expand graduate education and enhance specialized upper-level undergraduate programs and projects. This building will provide the modern facilities needed to reinforce and enhance the campus's reputation in electrical and computer engineering while forming the foundation for lasting preeminence in these fields. Opened at the start of FY 2015 three months of support at $822,540 is requested for FY 2016.

FACILITY RENOVATION SUPPORT

($10,000,000)

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 $6.5 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 had limited success but that trend ended in FY 2003 as the State's dire fiscal situation severely limited possible support. 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 2016, the University continues efforts to protect the physical assets of the state. 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

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

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

- 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 (SR^3)

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 SR^3.

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

The SR^3 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 SR^3 requirements to two-thirds of one percent of the building's replacement cost.

The SR^3 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 SR^3 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 2016, the SR^3 requirement is $49 million.

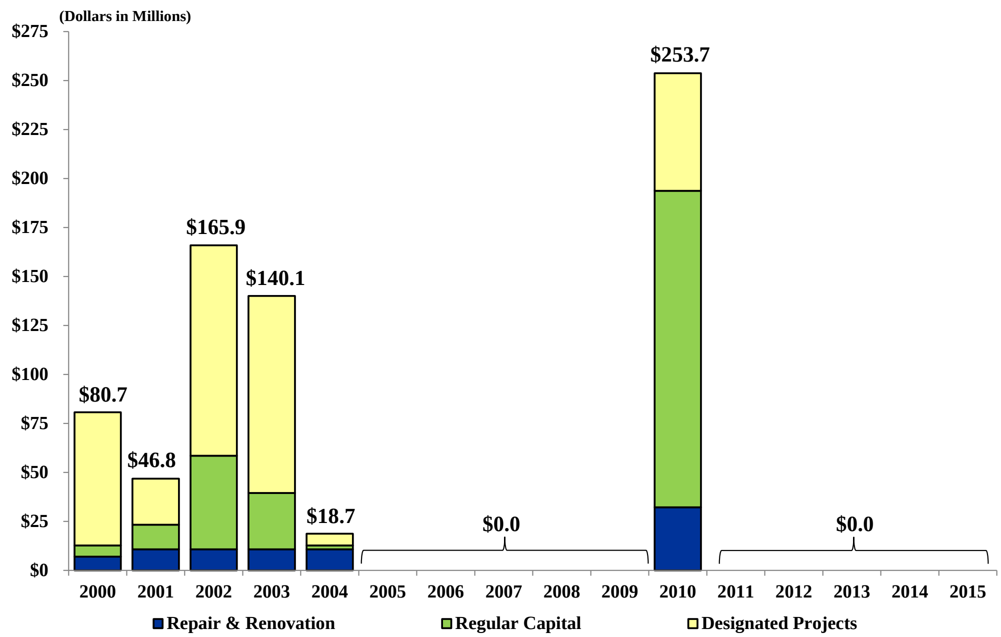
SR^3 Proven Effective

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 SR^3 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 SR^3 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 SR^3 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 SR^3 formula prescribes for each institution. As shown in Figure 17 there has only been one fiscal year 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 2015



FY 2016 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 2016 the University of Illinois will continue the program and seek to add incremental funds necessary to fund the SR³ formula. For FY 2016, the University seeks $10 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 SR^3 formula approach is the most effective mechanism to implement an operating budget based facilities renovation program. The SR^3 approach offers numerous advantages, which include the following:

- SR^3 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.
- SR^3 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.
- SR^3 is equitable to all institutions regardless of size or complexity.
- SR^3 effectiveness and impact is demonstrable, since it has been in place well over 30 years in the University of Illinois Auxiliary Facilities System.
- SR^3 is less costly than the current capital budget system, since it improves efficiencies in project planning, scheduling, completion and it requires no debt service.
- SR^3 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 SR^3 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 SR^3 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 University's three main campuses is served by central utility production and distribution systems that provide heating, cooling and electricity to serve the needs of its respective campus. While each campus system differs in infrastructure and processes, each is essential to their campus' ability to provide the basic utility services necessary to support the University's 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 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 along with recommendations for capital improvements.

Key Findings and Recommendations

<u>Cost Effective Investments in Production and Distribution Systems</u>

In order to maintain reliable operation of the plant, significant investments will be required:

- For UIUC this is in the range of $15 - $20 million per year over the next 15 years.
- For UIC this is in the range of $10 - $15 million per year over the next 15 years.

This is consistent with the most recent planning budgets provided by Utility Administration for each campus, and also includes investments identified by the SAIC team. The investments include capital items, major overhauls, and also investments in increased plant maintenance.

Consumption Reduction Measures

The potential campus wide annual energy operating cost savings from representative energy conservation measures (ECMs) range from:

- $3 to $18 million at UIUC;
- $2 to $17 million at UIC; and
- $200,000 to $459,000 at UIS.

This cost savings would require the following investments:

- $20 to $150 million at UIUC;
- $15 to $157 million at UIC; and
- $3 to $7.4 million at UIS.

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 maintain the necessary reliability and efficiency.

Urbana-Champaign Campus

At UIUC, the Abbott Power Plant is a mixture of new systems, older refurbished systems and older high maintenance equipment. The chilled water production and distribution system has one new plant and five older partially refurbished plants. There is a comprehensive Utility Master Plan in progress to refine the earlier SAIC repair estimate of $15 to $20 million dollars per year over 15 year duration. The master plan is to analyze the plant and distribution condition and develop options beyond “business as usual” to meet proposed campus goals under various load growth scenarios. The master plan will identify budget requirements, fuel usage, risk, reliability, and environmental impacts of the options. Until the master plan is completed, the previous repair estimates of $15 to 20 million will be carried forward for long range planning. Current major repair needs include three new gas boilers (with oil backup), backpressure steam turbine overhauls, condensate storage tank replacement, raw water storage tank replacement, solid fuel system replacement, distribution system refurbishments, cooling tower refurbishments and plant auxiliary system refurbishments.

Chicago Campus

At the Chicago campus, both east and west side plants contain some equipment that is considered 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 unless economic opportunities warrant the generation of electrical energy. It is estimated that an annual investment over the 15 year period of $10 to $15 million is required to maintain reliable operation of the plants. Projects recommended for UIC include replacement of steam generation assets to meet current and future demands. Additional chiller capacity at both the east and west plants is necessary to reliably serve the existing demand and meet future load requirements. The UIC East and West campuses are in need of a distributed control systems with necessary instrumentation and controls to properly oversee the operation of plant equipment.

Springfield Campus

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 upgrades to electrical systems around campus and projects designed to reduce utility loads.

Required Investment

Significant investments are required to improve and ensure utility reliability. The SAIC report recommends that $20 to $35 million per year be provided for this purpose. In addition, the report also recommends additional investments to realize annual energy savings.

For FY 2016, the University seeks $5 million in operating funds to augment utility infrastructure repair and renovation requirements.

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. Although years of major reallocation for Federal Medicare and recent changes in Workers' Compensation laws have brought the budgets more in line with expenditures, we must continue to fund the annual growth in these Mandates. 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, until recently they had been insufficient in meeting actual needs. Table 6 details annual appropriations and expenditures along with each year's percentage growth rate.

Table 6
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	15,721.1		6.5%
2014	16,122.6	16,740.4		6.5%
2015	16,972.6	17,290.4	(est.)	3.3%

The FY 2014 appropriation was $16,122,600 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 prior four years. In FY 2015, expenditures are expected to rise in conjunction with the associated salary program. An increment of $550,000 is requested for the FY 2016 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 7 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 7
Appropriations and Expenditures for Workers' Compensation
(Dollars in Thousands)

Fiscal Year	Appropriations	Expenditures	% Change in Expenditures
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	6,076.7	-9.3%
2014	6,820.0	5,278.7	-13.1%
2015	6,920.0	6,845.0 (est)	29.7%

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 2015 Cost Per $100 Payroll to be $0.69. When multiplied by state payroll the expected cost to fund the program is $6.845 million. When compared to the State appropriation of $6.9 million, we are projecting slightly under budget. 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, it is prudent to continue current budgeting practices because of the significant variances in expenditures from year to year. For FY 2016, $500,000 for workers' compensation is requested.

LEGAL LIABILITY – $500,000

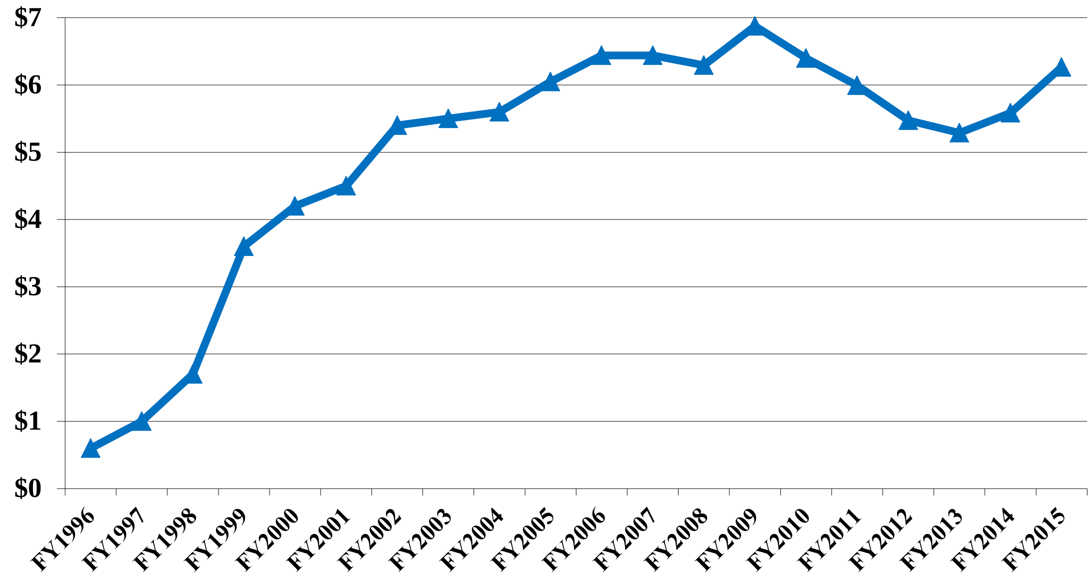
Following national trends, all forms of legal liability claims costs at the University of Illinois have grown. Awards of the court are hitting new highs; claims are requiring more dollars to effect settlement. The Cook County venue is one of the most litigious in the country; awards and settlements are 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 $0.6 million to $6.27 million during the period FY 1996 to FY 2015. 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 29,400 FTE employees and over 78,000 students. There are currently 41 open board legal claims, which is a frequency less than .01%. For FY 2015, the University allocated $6.27 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. For FY 2015 we are seeing an uptick in costs once again. 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.

HEALTHY ILLINOIS–
MEDICAID SUPPORT

HEALTHY ILLINOIS–MEDICAID SUPPORT

($25,000,000)

Overview

The University of Illinois Medical Center and Health Sciences Colleges – together the UI Health System – deliver extensive services in Chicago and throughout the state of Illinois. In addition to delivering direct patient care, the system serves as a laboratory where tomorrow's healthcare professionals are trained and where cutting edge health research is conducted. In order to ensure that every citizen of Illinois has access to world-class healthcare and to grow the capacity to produce skilled providers to meet the healthcare needs of the State and nation, the University is requesting additional support.

UIC's health professional training programs reach throughout the state.

The UI Health System is the single largest contributor to the healthcare needs of the state of Illinois. Physicians trained at the UIC College of Medicine, the largest medical school in the country, practice in nearly every Illinois county, over 40% of the State's dentists and one-third of the State's pharmacists are trained at UIC's College of Dentistry and College of Pharmacy, and the Medical Center provides over 600,000 patient visits each year. In addition to being exceptional in the scope and reach of its operations, the UI Health System trains and serves diverse populations. The UIC College of Medicine trains 60% of the minority physicians in the state and 70% of patients at the Medical Center are minorities. In addition, 60% of the Medical Center's patients are covered by Medicaid or Medicare, or are uninsured. The UI Health System is providing services to the citizens who need them most.

The UI Health System is not only distinguished by its size and diversity, but also by its excellence. The UIC College of Nursing and College of Pharmacy, for example, are both consistently ranked as top 15 programs nationally. The Health Sciences Colleges collectively generate over $150 million in federal research funding annually. The Medical Center has a history of providing innovative and state-of-the-art procedures. It was one of the first hospitals in the Chicago area to offer minimally invasive technology for treating brain aneurysms, and it was one of the first institutions in the nation to perform a robotic-assisted surgery. The UI Health System is truly marked by its excellence in health education and medical services.

The UI Health System currently faces significant challenges in meeting the healthcare needs of the state and nation. The Affordable Care Act and the Patient Protection and Affordable Care Act (PPACA) are expected to significantly increase the number of people with access to health services. Medicaid enrollments in Illinois, for example, are expected to increase by over 400,000, potentially increasing the demand for services among a population for whom the UI Medical Center plays a vital role.

A $25 million investment in the University of Illinois Hospital is an investment in the future health of all Illinois citizens.

Recurring State support of $25 million per year is being requested to be used to reimburse UI Health for hospital and pharmacy services, to reimburse practitioners employed by UI Health, to reimburse other health care facilities operated by UI Health and to pass through to UI Health Federal financial participation earned by the State as a result of expenditures made by UI Health. Due to increasing Medicaid patient volume and related costs, an additional $25 million appropriation is requested.

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 rarely achieved and, in effect, part of the State's obligation to cover the legacy costs of current and past 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 annual funding dropped significantly below the "gross payout" level. While these reductions were seen as necessary to prevent deeper cuts in current operating funds, the State was in effect borrowing against the future pension obligations.

In FY 1995, there was significant movement towards an improved level of retirement funding. Public Act (PA) 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, based on strong investment returns.

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 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 regarding the stability of the Illinois pension systems.

Again faced with negative investment returns in FY 2009 which further escalated funding requirements and the 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 dramatically impacted the availability of State revenues for other purposes. On April 14, 2010, Governor Quinn signed (SB 1946) PA 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 increased 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 was 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 with grandfathering for those above. The new provisions named, as well as others outlined in Table 8, apply to all newly hired employees eligible to participate in any retirement system on or after January 1, 2011.

Table 8
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 *lower*
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 *lower*, 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 *later*
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. PA 96-1497 was signed on January 14, 2011, and amended 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 years of underfunding by the employer (the State of Illinois) 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, FY 2013, FY 2014 and FY 2015 of $4.9 billion, $5.9 billion, $6.8 billion, and $6.9 billion respectively. The required state FY 2015 contribution for SURS, which is determined actuarially based on the System's June 30, 2013, fiscal year-end results, is $1,588.2 million. Although an estimated $44 million will be received by SURS from non-state funding sources, the remaining $1,544.2 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 state appropriations for this purpose, the General Assembly has proposed a number of major changes to the pensions for current employees under various bills introduced in the past four years. Both changes to benefits and shifting of the normal cost to universities and local school districts have been introduced. Although both chambers did individually pass pension bills with substantial changes, in the spring of 2013 the legislature ended that regular session without coming to a consensus. During the last week of spring 2013 session, both chambers voted to convene a pension conference committee charged with drafting a bipartisan bill addressing changes to the pension systems.

PENSION REFORM (PA98-0599)

In the November/December 2013 veto session, the legislature acted on the conference committee legislation by passing major pension reform for four of the five pension systems (excludes the Judges Retirement System). On December 5, 2013 the Governor signed the bill into law with PA98-0599 with an effective date of June 1, 2014. The following benefit changes were enacted for current Tier I employees (hired prior to January 1, 2011) and additional changes for new employees:

- **Automatic Annual Increase (COLA)**

1) Automatic annual increases on or after the effective date of the law are reduced to 3% of the lesser of
   a) the total annuity payable at the time of the increase, including previously granted increased or

b) $1,000 multiplied by the number of years of creditable service upon which the annuity is based. The $1,000 multiplier will be increased by CPI-u each year beginning January 1, 2016.

2) Tier 1 actives will not be eligible to receive the following automatic annual increase:
   a) Age 50 or over [on the effective date of the law] - will not receive their 2nd automatic annual increase;
   b) Age 47 to 50 [on the effective date of the law] - will not receive their 2nd, 4th, or 6th automatic annual increase;
   c) Age 44 to 47 [on the effective date of the law] - will not receive their 2nd, 4th, 6th, or 8th automatic annual increase;
   d) Age 43 and under [on the effective date of the law] - will not receive their 2nd, 4th, 6th, 8th, or 10th automatic annual increase.

- **Normal Retirement Age**

1) Normal Retirement Ages are adjusted for those employees age 45 or younger on June 1, 2014 by 4 months (up to 60 months/5 years) for every year a member is under 46.

- **Pensionable Earnings Limitation**

1) Pensionable earnings shall not exceed the Tier 2 Wage Base (2011 Social Security wage base adjusted by ½ CPI).
2) Tier 1 participants that are receiving earnings exceeding the Tier 2 Wage Base as of the effective date are grandfathered and pensionable earnings are limited to the participant's rate of earnings as of the effective date of the law, or the expiration, renewal or amendment of a collective bargaining agreement that is in effect on the effective date of the law.

- **Tier 1 Employee Contribution Decrease**

1) Beginning July 1, 2014, Tier 1 employee contributions are decreased by 1% of earnings.

- **SURS and TRS Money Purchase Formula Changes**

1) Beginning in FY 2015, the annuity factors used to calculate money purchase benefits shall change to a new effective rate of interest.
2) The new effective rate of interest shall be equal to the 30-year US Treasury bond rate plus 75 basis points. The new effective rate of interest shall apply prospectively towards crediting interest to money purchase plan accounts, portable plan lump sum payouts, portable plan refunds, purchases of service credit, etc.
3) Changes to the money purchase conversion factors are applied prospectively, but members who retire after the effective date of the law are eligible to receive the money purchase benefit they were eligible to receive had they retired during the fiscal year preceding the effective date of the law or the money purchase benefit they are eligible to receive under the new formula, whichever is greater.

- **Optional Defined Contribution Plan**

1) An optional defined contribution will be made available to active Tier 1 employees. The plan is to be implemented by July 1, 2015, unless the plan is not qualified under the Internal Revenue Code. If the plan is not qualified by July 1, 2015, the plan shall be implemented upon being determined a qualified plan. No more than 5% of eligible employees may elect to participate in the plan.
2) Tier 1 employees participating in the DC plan will contribute at the same rate as other participants contribute under the DB plan.
3) Employer contributions shall be a minimum of 3% of pay up to the employer's normal cost for Tier I members in the DB plan.

- **Unused Sick and Vacation Time- New Hires**

1) Persons who first become participants on or after the effective date of the law are not eligible to convert unused sick and/or vacation days into service credit or have unused sick and/or vacation days used to enhance pensionable earnings.

- **Prohibition of Non-Public Employers**

1) Employers that are not defined as an employer under the SURS article shall be excluded from enrolling new employees in SURS. Those employees of such employers that are already SURS participants shall remain participants. The SURS Board of Trustees is given the authority to determine whether or not a person is an employee. SURS members shall not be eligible to receive service credit for a leave of absence for service with a teacher organization if that leave of absence begins on or after the effective date.

- **State Funding**

1) The State shall be required to adhere to a funding schedule that provides an annual contribution, beginning in FY 2015, equal to normal cost plus an amount that is sufficient to fund 100% of each system's liabilities by FY 2044. Normal cost contributions shall be determined under the entry age normal cost method beginning in FY 2016. In FY 2045 and each fiscal year thereafter, the State shall contribute an annual amount to maintain a funding status of 100%. Prior to this, the systems had been operating under the statutory funding program established by PA 88-593 since 1996. This funding program was designed to reach a 90% funding ratio by the end FY 2045.
2) Additional Pension Stabilization Fund Contributions– beginning in FY 2019, the 5 state retirement systems shall receive additional payments as debt service payments on existing Pension Obligation Bonds expire. The Pension Stabilization Fund will receive dedicated revenues that will be proportionately distributed to each system based on the systems proportional share of the State's total unfunded liabilities. In FY 2019, the Pension Stabilization Fund will receive $364 million. Beginning FY 2020, the Pension Stabilization Fund will receive $1 billion a year. The transfers will terminate at the end of FY 2045 or when each of the retirement systems has achieved 100% funding, whichever occurs first. The systems shall not include these contributions or

interest accrued on these contributions in calculations to determine required contributions until the system is 100% funded or FY 2045, whichever occurs first.

3) Additional supplemental payments- beginning in FY 2016, the 5 state retirement systems shall receive additional payments equal to 10% of the difference of what contributions would have been required had the reform not been enacted and required contributions under the reform. The systems shall not include these contributions or interest accrued on these contributions in calculations to determine required contributions until the system is 100% funded or FY 2045, whichever occurs first.

- **Funding Guarantee**

1) Beginning July 1, 2014, the State is obligated to properly fund the system. If the State fails to make a required payment, the Board of Trustees shall bring a mandamus action in the Illinois Supreme Court to compel the State to make the required payment. For purposes of this Section, the State waives its sovereign immunity. This payment mechanism will also apply to "Pension Stabilization Fund" payments. However, all such payments are subordinate to bonded debt obligations.

Prior to the June 1, 2014 effective date of the enacted changes, the court suspended implementation until lawsuits brought by unions, retirees and others challenging the constitutionality of the overhaul of the retirement systems are resolved.

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 29,500 U of I undergraduates received some form of gift 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 9.

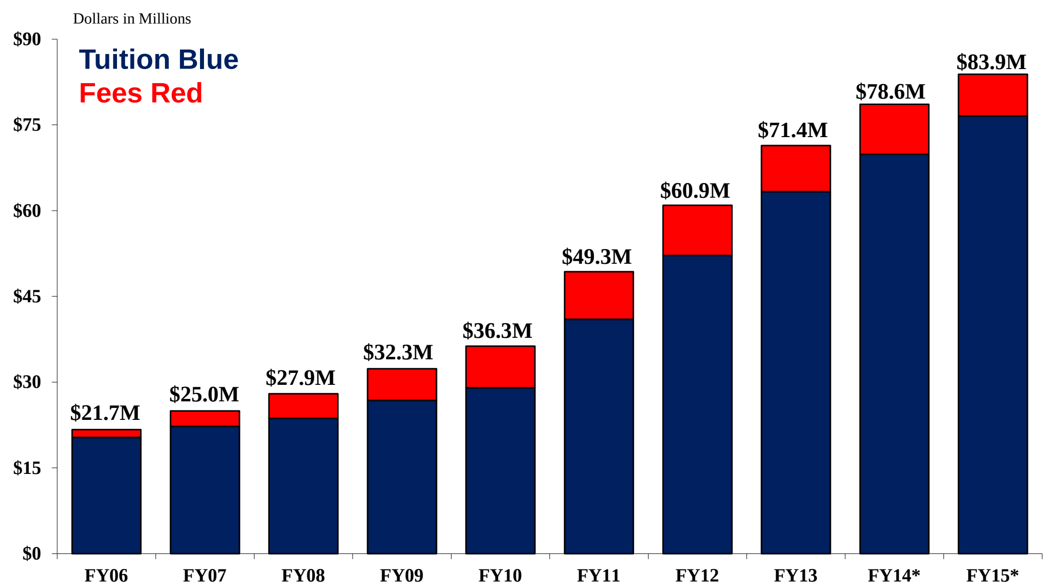
Table 9
Federal Pell Grants and Illinois Monetary Award Program
Maximum Award Levels

Fiscal Year	Pell	MAP	Total	UIUC Freshmen General Tuition + Fees
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
2014	5,645	4,968	10,613	15,258
2015	5,730	4,968	10,698	15,602

1) ISAC MAP formula uses FY 2003-2004 tuition levels.
2) MAP Formula uses max of $4,968 and reduces all awards by 5%. (FY12 - FY15)

For several years the Pell and MAP program maximum awards have not kept pace with the increases in tuition and fees. To ensure access the University has set aside supplemental funding to help the neediest students. As shown in the Figure 20, 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.

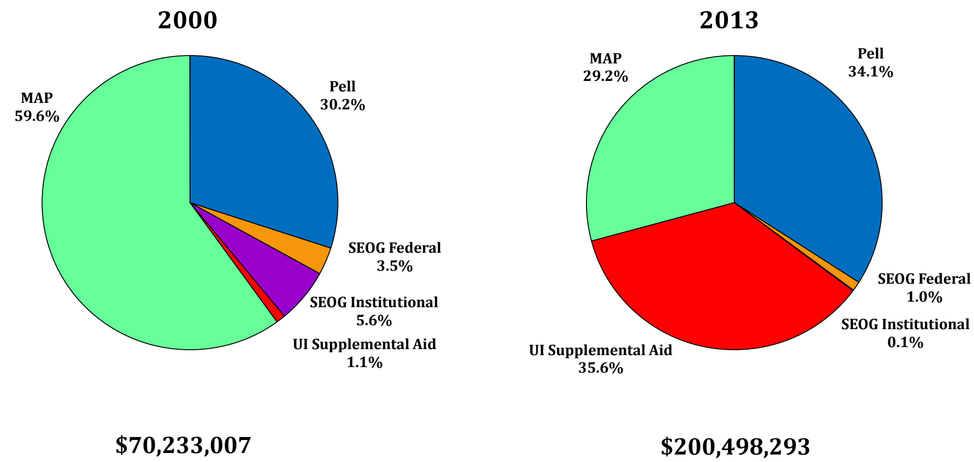
Figure 20
University of Illinois
Supplemental Financial Aid Expenditures
FY 2006 to FY 2015



*FY 2014 preliminary, FY 2015 estimated.

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 2015 will exceed both Pell grants and MAP grants, and as such the University has become a major partner in the financial aid process. Figure 21 shows the changing environment, the increase in the total amount of aid and the growth in institutional aid in the last decade.

Figure 21
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 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, and November 2008.

GUIDING PRINCIPLES FOR FINANCIAL AID - 2008

- 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.

INSTITUTIONAL SUPPLEMENTAL FINANCIAL AID POLICY - 2008

- 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 other programs administered 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 over 14,800 university students directly, and also to the financial health of the University. The University will continue to monitor payments and cash flow from ISAC.

ISAC has also determined the highest priority for funding is the MAP program and has reduced or eliminated funding for several other programs such as the Illinois Veterans Grant (IVG) program. Beginning in FY 2011, IVG grant funding was eliminated by the state. If there is insufficient funding in the program, under current Illinois state statute the college or university is prohibited from collecting the funds from the student. Although recent Federal Post 911 benefit changes have diverted some students off of the IVG, expected waivers for FY 2014 are estimated at over $20 million for public universities. As recently as eight years ago the program was fully funded by the state, today they are waived entirely by the institutions. 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. Two related programs, Illinois National Guard Grants and POW/MIA Scholarships have also been underfunded. In FY 2013 the University waived $10.4 million for the IVG and veteran related programs.

CAPITAL BUDGET REQUEST FOR FY 2016

CAPITAL BUDGET

BACKGROUND AND CONTEXT

Overview

Perhaps too obvious yet worth stating is the fact that academic and administrative facilities exists 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. 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 of $60 million at the top of the capital request list. 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. 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, Electrical and Computer Engineering, College of Medicine Rockford, along with funding for the NCSA Petascale project. Other projects from FY 2010 that were released more recently include Integrated Bioprocessing at Urbana-Champaign, Dentistry Modernization at Chicago and the Public Safety Building in Springfield. Additionally, the Advanced Chemical Technology Building originally appropriated in FY 2003 for the Chicago campus was fully released and is currently moving into construction phase. Unfortunately this progress that began in FY 2010 has been halted again as no projects have been forthcoming in the last five fiscal years as shown in Table 1.

Table 1
History of Recent Capital Budget Actions
FY 2010 to FY 2015 Governor's Level
(Dollars in Thousands)

	FY 2010	FY 2011*	FY 2012*	FY 2013*	FY 2014**	FY 2015**
Campus Requests						
Urbana-Champaign	$216,930.4	$222,600.0	$219,100.0	$210,600.0	$191,000.0	$196,000.0
Chicago	197,581.8	224,200.0	234,200.0	252,000.0	200,000.0	179,200.0
Springfield	39,687.4	37,400.0	53,400.0	53,400.0	55,950.0	57,400.0
TOTAL	$454,199.6	$484,200.0	$506,700.0	$516,000.0	$446,950.0	$432,600.0
IBHE Recommendations						
Urbana-Champaign	$140,534.2	$114,329.1	$177,311.7	$168,811.7	$138,445.7	$139,626.0
Chicago	48,117.7	159,247.6	166,836.0	178,636.0	179,636.0	181,504.0
Springfield	687.4	38,551.6	54,845.6	54,845.6	57,395.6	58,912.0
TOTAL	$189,339.3	$312,128.3	$398,993.3	$402,293.3	$375,477.3	$380,042.0
Regular Capital Appropriations						
Urbana-Champaign	$140,534.2	$64,329.1	$64,329.1	$39,626.7	$0.0	$0.0
Chicago	48,117.7	86,047.6	86,047.6	26,517.3	0.0	0.0
Springfield	5,031.1	5,551.6	3,551.6	2,187.7	0.0	0.0
TOTAL	$193,683.0	$155,928.3	$153,928.3	$68,331.7	$0.0	$0.0
Appropriations for Special Projects						
Opportunity Returns	$61,975.0					
TOTAL APPROPRIATION	$255,658.0	$155,928.3	$153,928.3	$68,331.7	$0.0	$0.0

* Funding recommended by Governor but not approved or passed by General Assembly.
** No new funding recommended by Governor or passed by General Assembly.

SUMMARY OF FY 2016 PRIORITIES

($452,100,000)

Overview

The University's FY 2016 Capital Budget Request consists of 10 priorities at a total cost of $452,100,000. Table 2 represents a combined priority listing of the proposed projects for this year.

Table 2
FY 2016 Combined Capital Budget Request
Summary by Priority
(Dollars in Thousands)

Priority	Project	Urbana	Chicago	Springfield	Total
1	Repair and Renovation	$ 33,600	$ 24,000	$ 2,400	$ 60,000
2	Natural History Building	15,000			15,000
3	Pharmacy Renovation & Addition		89,000		89,000
4	Altgeld/Illini Hall Renovation	40,000			40,000
5	Main/Undergrad Library Redevelopment	50,000		56,700	106,700
6	Medical Sciences Building Modernization Ph. 1		27,000		27,000
7	Stevenson Hall Classroom Building Modernization		23,000		23,000
8	Utility and Mechanical System Upgrades		24,000		24,000
9	Cultural Center Building	15,000			15,000
10	Disability Research, Res. & Educ. Svc. Bldg.	52,400			52,400
		$ 206,000	$ 187,000	$ 59,100	$ 452,100

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 $672 million would be the result. Table 3 reflects the entire capital budget request from the campuses of the University of Illinois.

Table 3
FY 2016 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	Altgeld/Illini Hall Renovation	40,000
4	5	Main/Undergrad Library Redevelopment	50,000
5	9	Cultural Center Building	15,000
6	10	Disability Research, Resources and Education Services Building	52,400
7		Architecture Building FAA Library Renovation	30,000
8		Education Building Renovation & Addition	30,000
9		Music Building Rehabilitation & Expansion	20,000
10		Burrill Hall Renovation	25,000
		Total	**$311,000**
		CHICAGO	
1	1	Repair & Renovation	$ 24,000
2	3	Pharmacy Renovation & Addition	89,000
3	6	Medical Sciences Building Modernization Ph. I	27,000
4	7	Stevenson Hall Classroom Building Modernization	23,000
5	8	Utility and Mechanical System Upgrades	21,000
6		Façade Repair Program	72,000
7		Central Utility Plant Renewal Modernization	24,000
8		Information Technology Infrastructure Modernization	20,000
		Total	**$300,000**
		SPRINGFIELD	
1	1	Repair & Renovation	$ 2,400
2	5	Brookens Library Renovation	56,700
3		Warehouse Storage Facility	2,600
		Total	**$ 61,700**

The first priority is a $60,000,000 Repair and Renovation request, which is comprised of seven projects at the Urbana-Champaign campus, two 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 $89,000,000 primarily for an addition to the Pharmacy College at the Chicago campus.

The fourth priority seeks $40,000,000 for the Urbana-Champaign campus to remodel Altgeld and Illini Halls.

The fifth priority seeks $106,700,000 parsed $50,000,000 at the Urbana-Champaign campus and $56,700,000 at the Springfield campus to upgrade the main library at those campuses.

The sixth priority seeks $27,000,000 to upgrade the Medical Sciences Building at the Chicago campus.

The seventh priority seeks $23,000,000 for the Chicago campus to modernize Stevenson Hall, one of the major classroom buildings on campus.

The eighth priority seeks $24,000,000 for the Chicago campus to upgrade mechanical systems in several buildings.

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

The tenth 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.

Table 4 lists the FY 2016 capital budget request by category and campus. Table 5 lists the future funding implications of the FY 2016 capital budget request. These projects are described in further detail in the pages that follow.

Table 4
FY 2016 Combined Capital Budget Request
Summary by Category and Campus
(Dollars in Thousands)

Category	Urbana-Champaign	Chicago	Springfield	TOTAL
Building, Additions, and/or Structure	$ 67,400	$ 89,000		$156,400
Land Acquisition				
Utilities				
Remodeling	138,600	98,000	$ 59,100	295,700
Site Improvements				
Planning				
	$206,000	$187,000	$ 59,100	$452,100

Table 5
FY 2016 Combined Capital Budget Request
Future Funding Implications
(Dollars in Thousands)

Priority	Project	Category	FY 2016 Request	FY 2017 Cost	Cost for 2018 and Beyond
1	Repair and Renovation	Remodeling	$ 60,000		
2	Natural History Building	Remodeling	15,000		
3	Pharmacy Renovation & Addition	Building	89,000		$ 50,000
4	Altgeld/Illini Hall Renovation	Remodeling	40,000		
5	Main/Undergrad Library Redevelopment	Remodeling	106,700		
6	Medical Sciences Building Modernization Ph. 1	Remodeling	27,000		50,000
7	Stevenson Hall Classroom Building Modernization	Remodeling	23,000		
8	Utility and Mechanical System Upgrades	Remodeling	24,000		
9	Cultural Center Building	Building	15,000		
10	Disability Research, Res. & Educ. Svc. Bldg.	Building	52,400		

CAPITAL REQUESTS

PRIORITIES

($452,100,000)

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**
Architecture Building, HVAC & Window Upgrades	$ 10,200,000
Henry Administration Building, HVAC & Envelope Repair	3,500,000
Material Sciences and Engineering Building, Renovation Ph. III	5,500,000
Morrill Hall, Infrastructure Phase II	3,000,000
National Soybean Research Center, HVAC & Lab Remodeling Phase I	1,400,000
Talbot Lab, Infrastructure Repairs	5,000,000
Transportation Building, Envelope Repairs	5,000,000
TOTAL	**$ 33,600,000**

Chicago Projects	**Amount**
Campus Buildings, Life Safety Corrections	$ 12,000,000
Campus Buildings, Masonry Restoration and Window Replacement	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 ensures that those projects will not slip and fall into the deferred maintenance category. A total of $60,000,000 is requested for 11 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 $73,435,000 with the balance of funds provided by the campus and through private gifts and deferred maintenance funding.

Priority 3:

Pharmacy Renovation and Addition $89,000,000 – 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:

Altgeld/Illini Hall Renovation $40,000,000 – Urbana

A comprehensive renovation is desired for historic Altgeld Hall and 2nd and 3rd floors of Illini Hall. These spaces serve the Departments of Mathematics and Statistics, the Mathematics Library, and the campus classrooms in Altgeld Hall. The project will restore Altgeld and Illini Halls to a level consistent with a world class academic enterprise. The classrooms must be improved, the library refurbished, and departmental offices, computer labs and common areas require comprehensive modernizations. Many ancillary, but essential, infrastructural elements such as heating, cooling, data technology, roofing, masonry, flooring and windows must be brought up to modern standards for occupant comfort, safety and progressive instructional practices. Landscaping will be addressed, as will many deferred maintenance elements that have been identified in the campus wide facilities condition audit. Total project budget is $80,000,000 with $40,000,000 being requested from the state.

Priority 5:

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 $56,700,000 – 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 campus 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 facility's 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, 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 $56,700,000 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 6:

Medical Sciences Building Modernization Phase I $27,000,000 – 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 7:

Stevenson Hall Classroom Building Modernization $23,000,000 – 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:

Utility and Mechanical System Upgrades $24,000,000 – Chicago

This project will include modernization at various campus buildings of building control systems, replacement and upgrading of air handling equipment and heating and cooling coils, replacement of key central plant equipment, and related measures aimed at energy conservation and cost control. The development of a UIC Utility Master Plan is underway with completion expected in the current FY 2014 year. As the plan is completed a more definitive out year cost and phases will be developed.

Priority 9:

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 $56,000,000 with $15,000,000 requested as part of this State request.

Priority 10:

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.

REPAIR AND RENOVATION PROJECT DESCRIPTIONS

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

Architecture Building, HVAC & Window Upgrades $10,200,000

The Architecture Building, built in 1926, is currently highly energy inefficient and a constant drain on maintenance resources. This project is an opportunity to significantly improve student and faculty comfort, stabilize building function, and advance sustainability on campus by connecting the facility to central chilled water, upgrading ventilation systems and replacing single paned windows. This project will introduce up to date controlled environment throughout the building and reduce significantly energy consumption.

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 III $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.

Chicago Projects ($24,000,000)

Campus Buildings, Life Safety Corrections $12,000,000

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 $12,000,000

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.

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.