

# WESTERN ILLINOIS UNIVERSITY BOARD OF TRUSTEES

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## Report 16.3/6

### The Statewide Budget Context and Western Illinois University's Mission-Driven Planning and Results

The State of Illinois at the time of writing this *Report* is in the eighth month of the unprecedented Fiscal Year 2016 budget impasse. However, this is not the first set of fiscal challenges related to state General Revenue Funding (GRF) for all of the Illinois public universities. In the pages that follow, this *Report* sets the statewide budget context for Illinois public higher education by reviewing the State's budget process, and funding trends over the last 14 years that includes reductions, rescissions, delayed payments, and the current budget impasse.

This funding information will be included in a Power Point presentation that will be made at today's Western Illinois University Board of Trustees meeting. This presentation will also address the University's mission-driven plans and results to increase revenue, and decrease expenditures and reliance on GRF funding, while continuing to deliver a high-quality educational experience grounded in core values of Western Illinois University.

## The Statewide Budget Context and Western Illinois University's Mission-Driven Planning

### The State Budgeting Process

The Governor annually enacts a Fiscal Year (FY) operations and grants budget for the 12 Illinois public universities based on recommendations from the Illinois Board of Higher Education and passage from the Illinois General Assembly. Annual institutional operating and grants are based on appropriated and non-appropriated revenue.

Appropriated revenue includes the State's General Revenue Fund (GRF) appropriation to higher education and University Income Fund (UIF) revenue, which is projected tuition and fee revenue. Non-appropriated funds include endowment, grants and contracts, and auxiliary enterprise revenue.

Annual operations and grants budgets support university operating and personal services budgets. These budgets do not include state supported capital construction, which requires separate passage of a State Capital Bill, or university foundation income. Institutional foundations are legally separate not-for-profit organizations that manage and distribute private gifts for universities.

### Illinois Public Higher Education Funding Trends Over the Last 14 Years

Each of the Illinois public universities has experienced four similar challenges in the last 14 years.

*The State is investing less tax revenue in Illinois public higher education.*

- The total GRF investment in Illinois public higher education decreased by \$267.4 million or 17.9%, from \$1.50 billion in FY02 to \$1.23 billion in FY15.
- Western Illinois University experienced GRF reductions of \$12.9 million or 20.0%, from \$64.3 million to \$51.4 million during this time.

*Students and their families are spending more for Illinois public higher education.*

- Total UIF revenue at Illinois public universities increased by \$1.3 billion or 235%, from \$572.6 million in FY02 to \$1.9 billion in FY15.
- Total UIF revenue at Western Illinois University increased by \$45.3 million or 148%, from \$30.6 million in FY02 to \$75.8 million in FY15.

*With decreasing GRF revenue, Illinois public universities are becoming increasingly reliant on UIF revenue.*

- The proportion of total state appropriations from GRF and UIF for Illinois public universities changed from 72.3% GRF and 27.7% UIF in FY02 to 39.0% GRF and 61.0% UIF in FY15. The Illinois public universities, as a whole, have moved from being state-supported to state-assisted institutions.
- The proportion of total state appropriations from GRF to UIF at Western Illinois Universities changed from 67.8% GRF and 32.2% UIF in FY02 to 41.0% GRF and 59.0% UIF in FY15. Western Illinois University has also changed from a state-supported to state-assisted institution.

While becoming increasingly reliant on UIF revenue, enrollments at Illinois public universities are down.

- Total headcount enrollment at Illinois public universities peaked at 205,023 students in fall 2010, and decreased by 5.9% to 192,985 students in fall 2015.
- Total headcount enrollment at Western Illinois University was 12,585 students in fall 2010, and decreased by 11.8% to 11,094 students in fall 2015.

A Closer Examination of Three Funding Trends

Table 1 displays total GRF funding for the Illinois Public Universities. Examination of the data reveals three distinct trends over time.

- FY02-09 was marked by GRF instability with variable reductions, small increases, and rescissions.
- FY10-15 continued with GRF reductions and introduced delayed reimbursements for GRF appropriations.
- FY16 is the unprecedented budget impasse and cost-shift (unfunded mandate) for Illinois public universities to fund the state’s need-based financial assistance program, the Illinois Monetary Award Program.

(in thousands of dollars)		\$ Difference		% Difference	
		Annual	Cumulative	Annual	Cumulative
2002	\$1,496,839.5	--	--	--	--
2003	\$1,411,720.3	-\$85,119.2	-\$85,119.2	-5.7%	-5.7%
2004	\$1,303,564.7	-\$108,155.6	-\$193,274.8	-7.7%	-12.9%
2005	\$1,301,632.9	-\$1,931.8	-\$195,206.6	-0.1%	-13.0%
2006	\$1,316,938.8	\$15,305.9	-\$179,900.7	1.2%	-12.0%
2007	\$1,321,279.4	\$4,340.6	-\$175,560.1	0.3%	-11.7%
2008	\$1,357,067.3	\$35,787.9	-\$139,772.2	2.7%	-9.3%
2009	\$1,393,588.6	\$36,521.3	-\$103,250.9	2.7%	-6.9%
2010	\$1,393,838.6	-\$103,001	-\$103,000.9	-7.4%	-6.9%
2011	\$1,309,126.0	-\$84,713	-\$187,713.5	-6.1%	-12.5%
2012	\$1,293,889.3	-\$15,237	-\$202,950.2	-1.2%	-13.6%
2013	\$1,230,092.0	-\$63,797	-\$266,747.5	-4.9%	-17.8%
2014	\$1,232,192.0	\$2,100	-\$264,647.5	0.2%	-17.7%
2015	\$1,229,438.5	-\$2,754	-\$267,401.0	-0.2%	-17.9%

Table 2 displays total GRF funding for Western Illinois University. The same three trends that were described above apply equally to Western and all other Illinois public universities.

(in thousands of dollars)	\$ Difference		% Difference	
	<u>Annual</u>	<u>Cumulative</u>	<u>Annual</u>	<u>Cumulative</u>
2002	\$64,306.7	--	--	--
2003	\$61,126.0	-\$3,180.7	-4.9%	-4.9%
2004	\$56,091.1	-\$5,034.9	-8.2%	-12.8%
2005	\$56,091.1	\$0.0	0.0%	-12.8%
2006	\$57,297.7	\$1,206.6	2.2%	-10.9%
2007	\$57,029.3	-\$268.4	-0.5%	-11.3%
2008	\$58,287.5	\$1,258.2	2.2%	-9.4%
2009	\$59,919.6	\$1,632.1	2.8%	-6.8%
2010	\$59,919.6	\$0.0	0.0%	-6.8%
2011	\$56,182.7	-\$3,736.9	-6.2%	-12.6%
2012	\$55,538.3	-\$644.4	-1.1%	-13.6%
2013	\$52,147.8	-\$3,390.5	-6.1%	-18.9%
2014	\$52,755.1	\$607.3	1.2%	-18.0%
2015	\$51,445.2	-\$1,309.9	-2.5%	-20.0%

#### Western Illinois University's Mission-Driven Planning and Results

To address variable reductions, small increases, and rescissions during FY02-09, the University limited spending to immediate operational needs, monitored travel requests and expenditures, and reviewed all vacant positions in order to hold as many as possible open in order to conserve funds. The University also established a 1-2% contingency reserve fund to address unforeseen fiscal circumstances. There were no employee layoffs or furloughs during this time.

To address continued GRF reductions and delayed reimbursements for appropriations during FY10-15, the University continued to exercise conservative, mission-driven fiscal practices as described above, in addition to:

- Working with the University Professionals of Illinois and other bargaining units to reach agreements on delaying salary increases.
- Postponing salary increases for non-negotiated personnel.
- Increasing university reserves and carefully monitoring cash balances.
- Introducing retirement incentives.
- Implementing zero-based budgeting to reduce operating expenditures.
- Consolidating 18 academic departments and units into 10, and four technology units into one.
- Centralizing staff in admissions, advisement, and the School of Graduate Studies.
- Holding at least 25% of annual appropriated departmental operating budgets until it could be assured that the University had the resources to meet its fiscal year obligations if GRF revenue was eliminated.
- Planning for the disestablishments of four pre-professional programs, 20 academic minors, one undergraduate major, two post-baccalaureate certificates, and one graduate degree. All of these actions will be completed by FY18, or at an earlier date if students in each of these areas complete their studies sooner than projected. No new students are being admitted into these programs.

The University also engaged in more efforts to become less reliant on GRF and UIF revenue funds. For example, the University:

- Completed a fundraising campaign in January 2014 that generated \$62.1 million, increased the endowment from \$16 million to \$40 million, and raised the University's total asset base to \$55 million.
- Increased the amounts of externally funded awards received by faculty and staff by \$1.2 million or 12.1%, from \$9.9 million in FY14 to \$11.1 million in FY15.
- Maintained instructional and administrative costs below the statewide average of the Illinois public universities. The most recent data published by the Illinois Board of Higher Education (February 2016) shows that the University has the third lowest instructional cost per credit hour (at \$307.32 or 19.6% below the statewide average), and the second lowest administrative cost per credit hour (\$68.85 or 24.0% below the statewide average).
- Benefited from a public-private partnership that allowed a private developer to construct an apartment complex housing 292 residents and two restaurants next to the Western Illinois University-Quad Cities Riverfront Campus at no construction, operating, or personnel costs to the University.

A history of strong conservative fiscal management maintained the fiscal health of the University during periods of GRF reductions, rescissions, and delayed reimbursements with no furloughs or layoffs. Table 3 shows that Western Illinois University's Composite Financial Indicator (CFI) Score has never fallen at or below a value of 1.1 during these challenging fiscal times. A CFI in this threshold would trigger Higher Learning Commission reviews and decision-making processes over the current fiscal status and long-term viability of the institution.

Table 3  
Western Illinois University Financial Ratios  
Reported to the Higher Learning Commission-North Central Association of Colleges and Schools  
Fiscal Year 2008 through Fiscal Year 2014

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Composite Financial Indicator	1.80	1.30	3.00	3.60	2.90	1.70	2.50
Primary Reserve Ratio	0.17	0.06	0.21	0.25	0.27	0.26	0.25
Net Operating Revenue Ratio	0.01	0.01	0.04	0.06	0.04	0.00	0.01
Return on Net Assets Ratio	0.05	0.03	0.13	0.18	0.12	0.04	0.13
Viability Ratio	0.73	0.80	0.10	0.76	0.70	0.75	0.77

Further evidence of the financial health of Western Illinois University during these fiscally challenging times is evidenced by the following.

- The primary reserve ratio demonstrates institutional fiscal stability. A negative or decreasing trend over time would indicate a weakening financial condition.
- The net operating ratio shows institutional operations with a surplus in six of the last seven years, therefore enabling the University to carry forward funds in conjunction with limitations established in Illinois statutes for public institutions.
- The net assets ratio shows availability of additional expendable net assets to satisfy debt obligations.
- The viability assets ratio maintains continues to increase despite a volatile economy.

A history of strong conservative fiscal management has resulted improved efficiency, maintained and enhanced quality, and enabled the University withstand the unprecedented state budget impasse.

Western Illinois University reduced state appropriated personal services budgets by \$14.2 million, and state appropriated operating budgets by \$2.7 million between FY11 and FY15. This \$16.9 million reduction represents a cost savings and avoidance to the University. The size of the University workforce also decreased by 163 employees (52 faculty and 111 staff) between fall 2011 and fall 2015.

With a strong commitment to our core values, Western Illinois University faculty and staff continues the tradition of delivering a high quality education where, as stated in our *Mission*, we empower students, faculty, and staff to lead dynamic and diverse communities.

- Western Illinois University continues for 12 years as a Best Midwestern Institution by *U.S. News and World Report* and the *Princeton Review*.
- Western Illinois University continues to be recognized as a Military Friendly Institution by both *GI Jobs Magazine* and *Military Times Edge Magazine*.
- National ranking systems such as *Washington Monthly* and *U.S. News and World* report show that more students graduate from Western Illinois University than projected based on entering student characteristics (i.e., high school percentile rank and ACT composite score).
- Results from the last published *Alumni Surveys* shows that.
  - One year after graduation, 88% of WIU alumni are employed, and 19% of the alumni are pursuing an additional degree, graduate or professional studies.
  - Five years after graduation, 98% of WIU alumni are employed and 29% of the alumni earned an additional degree.
  - Nine years after graduation, 98% of WIU alumni are employed and 37% of the alumni earned an additional degree.
- Annual salary analyses published by the *Economist* and the *Brookings Institute* show that Western Illinois University alumni earn more than salary forecasts predict.

A strong history of conservative fiscal management has positioned the University to withstand the unprecedented FY 2016 budget impasse and unfunded mandate for colleges and universities to assume the costs of the State's need-based financial aid program, the Illinois Monetary Assistance Program (MAP).

During academic year 2015-2016, Western Illinois University allocated \$11.0 million to MAP recipients. Of the 3,000 fall 2015 recipients, 2,700 (90%) re-enrolled at the University in spring 2016, which is similar to the fall-to-spring retention rate for all students. Not funding the program would have devastating effects on university enrollment and student success.

While the University has withstood the current budget impasse for eight months, no public university will find the absence of GRF funding a sustainable fiscal practice for the long-term. Therefore, a power point presentation will be made at today's Western Illinois University Board of Trustees meeting addressing funding trends and the University plans to increase revenue, and to decrease expenditures and reliance on GRF funding, while continuing to deliver a high-quality educational experience grounded in the *Mission* and core values of the University.