Budget Update and Long-term Economic Trends

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A Pretty Good Year (or two!)
FY11: Strengthening our Foundation

• Absorbing VSIP and VRP
• Reducing costs
  – Central Efforts
  – College Efforts
• Campus-wide planning
  – Hiring plans (and hiring!)
  – CMER program
  – Dramatically improved balance sheet
Improving Statewide Finances

Some good news:

• GRF before transfers and adjustments is up 17.5%, personal income tax is up >21%.
• Before adjustments, GRF is up 17.5%, mostly based on the tax increase ($3.2 billion)
• Unemployment ticked down from peak.

However:

• The state still has a massive backlog of unpaid bills. Owes the U of I alone >$300m!
• Unemployment is down because of “a sharp fall in labor force participation”
FY12 @ UIUC

• Limited GRF reduction; significant tuition growth ($60m)
• First true salary program in several years
• Significant growth in financial aid
• Restoration of facilities funding including floor cleaning crews
• Some programmatic investment
• Faculty hiring programs

A great year for most units!
Intermediate-term Financial Issues
The first five months of FY11 had receivables from FY10 outstanding at the end of the month. The receivable amount for each month in millions was as follows: July $193; August $119; September $33.1; October $10.9; November $10.9. June 2011 is as of June 5, 2011.
Despite the state’s challenges, we should do okay for a few years
Long-term Financial Issues both Local and National
Pensions
State of Illinois Unfunded Public Pension Obligations (SERS, SURS, JRS, GARS, TRS) (Dollars in Billions)

At end of Fiscal Year, FY 2003-04 sale of Pension Bonds)
# Active Members to # Retirees
Public Pension Systems
TRS, SERS, SURS, JRS, GARS
Cumulative Change in State Tax Appropriation by Higher Education Sector

In Constant 2010 Dollars (CPI)

- FY02 – FY11 exclude $45 million from higher education for Health Insurance payment to CMS.
- SURS: FY05-FY11 includes State Pension Fund, FY10 & FY11 SURS includes full funding from pension obligation bonds.
Our Changing World

- Loss of US competitive advantage
- Decline of the blue collar middle-class
- Increased competition for limited resources
- Nine billion by 2050!
Real Gross Domestic Product by State
1997 – 2008
(Millions of Chained 2000 Dollars)

The decline of manufacturing has held back growth in Illinois compared to the nation.

Top Five States
United States
Illinois

Source: U.S. Bureau of Economic Analysis.
Cost & Revenue Considerations
Updating Facilities

• We have relied on state funding for facility upgrades
• Large state-funded projects are over for the next 5-10 years
• Student fee helps us not fall further behind on deferred maintenance (roofs, windows, HVAC. . .)
• How do we support facility renovation?
Neoclassical Beauty

or a $60 million project?
An MEL Classroom
• Tuition—One of the highest cost publics; cost growing beyond capacity to pay. All publics receiving pushback

• Unmet aid need of $70m at UIUC

• Each $ of increase adds 50 cents of unmet need
University of Illinois
Supplemental Financial Aid Expenditures
FY 2003 - FY 2012

Dollars in Millions

**Tuition Blue**

**Fees Red**

FY 2000
FY 2001
FY 2002
FY 2003
FY 2004
FY 2005
FY 2006
FY 2007
FY 2008
FY 2009
FY 2010*
FY 2011*
FY 2012*

$792K
$623K
$2.2M
$13.9M
$16.2M
$17.9M
$21.7M
$25.1M
$27.9M
$32.3M
$36.3M
$45.2M
$51.2M

*FY 2010 Budgeted, FY 2011 Preliminary, FY 2012 Preliminary

FY 2005-2011 all sources including fees.
Federal Funds
2010 U.S. Federal Outlays by Source

Total = $3.456 Trillion

Source: Office of Management and Budget, Historical Tables.  [http://www.whitehouse.gov/omb/budget/Historicals](http://www.whitehouse.gov/omb/budget/Historicals)
2010 U.S. Federal Outlays by Function

Total = $3.456 Trillion

Social Security, Medicare, & Income Security 51.5%
Defense 20.1%
Health, Education & Veterans' Affairs 17.5%
Interest 5.7%
Other 5.2%

Total U.S. Debt as a % of GDP

No Degrees of Freedom
What are the Cost Drivers at a Large Public University?

- **The level of State support**
  - Drop in direct State support

- **Competition**
  - Salaries
  - Benefits
  - Facilities

- **Mix of disciplines and functions**
  - Agriculture
  - Science & Engineering
  - Vet Med
  - Service

- **Unavoidable and mandated costs**
  - Energy
  - Payroll costs, Workers’ Compensation, Medicare
  - Deferred maintenance and facility costs
  - Student Aid
Our Challenge

• We are asked to:
  – Educate student to be successful in a changing world (while holding costs down)
  – Solve the world’s pressing problems (but not on the public dime)

• Do all this at the same time that
  – The capacity and desire of states to support us diminishes
  – The capacity of students and families to pay is declining
  – Federal resources are under threat