FY 2017
BUDGET REQUEST

FOR
OPERATING
AND
CAPITAL FUNDS

PREPARED FOR THE
BOARD OF TRUSTEES
JANUARY 21, 2016

UNIVERSITY OF ILLINOIS
URBANA-CHAMPAIGN • CHICAGO • SPRINGFIELD

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Dear Colleagues and Friends of the University of Illinois;

The University of Illinois is a complex organization made up of three campuses with high aspirations and important work to do. It is an engine for progress in science, technology and engineering, but it also is a key member of the state's arts and humanities community. We have scientists working on the world's biggest problems and museums preserving the legacy of the world's cultures. We have the capacity not only to enhance our standing as a great American university, but to help create a prosperous future for the people of Illinois, the nation and the world.

Higher education is a major part of the infrastructure of the State of Illinois. It is a key element to the state's economic revitalization. The University of Illinois has expanded to over 80,000 students and touches the state's economy and virtually every community in unseen ways, ranging from ensuring the quality of your food and fiber, to the civic engineers that build our roads, rails, energy and water systems. We train the state's dentists, veterinarians, social workers, pharmacists and therapists. We have the largest and most diverse medical training program in the nation. The University's health-care professionals treat hundreds of thousands of citizens in our medical clinics. The University is also the source for top business professionals, accountants, financial experts, urban planners and architects who supply their talents everywhere from Fortune 500 businesses to local governments. The University is involved in everything from training first responders, stewarding the environment, working on wetland restoration and maintaining the quality of our rivers and great lakes. U of I faculty continue to make discoveries which improve the quality of our air, water and food; reduce energy consumption; and pioneer new genomic discoveries with implications for future pharmaceuticals and therapies. Our alumni, over 700,000 strong and growing, are making contributions to our communities, our state and our nation. The size and scope of the U of I infrastructure that serves the needs of our state cannot be replaced or outsourced.

Each year, the University sends forward more than 20,000 graduates, each an economic engine that drives prosperity. The need for quality public higher education continues to grow and there is broad agreement that access to higher education in Illinois must expand even further—that quality of academic offerings, the performance of our campuses and success rates of our students must and will improve.

Like the rest of the state, the environment in which the University is now functioning is more competitive, more daunting and more ambiguous than ever before. The University, its Board of Trustees, and its faculty and staff have been up for that challenge. Our campuses continue to be a go-to destination for top students not only from Illinois but from around the world. Our faculty and students are not only employees in the diverse set of industries in Illinois but they are also entrepreneurs, starting businesses built off the research discovery on our campuses. In just the last four years, University research has created more than 50 startup companies, along with nearly 800 patents and licenses. The tech park in Champaign has been labeled by Forbes as "One of 12 Business Incubators Changing the World".

The University of Illinois has a long and storied past with two dozen Nobel Prize winners as well as Pulitzer Prize winners and virtually every other major scientific and humanities prize. The University is a world center for research which has changed lives in ways that many do not realize, from the invention of the visible LED light to night vision goggles. It is home to one of the world's most powerful supercomputers, where researchers are working on solutions to the most important problems facing Illinois and humanity.

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 helps 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 provides 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.

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 ($17.5 million), Altgeld Hall ($43.2 million), and main and undergraduate libraries ($54 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. Our operating budget request is for State FY 2017 funding levels to be restored to starting FY 2015 levels. We hope that our FY 2017 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 for your dedicated service to the people of this great state.

Sincerely,

Tim Killeen

President

University of Illinois

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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 2017 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 80,000 students and producing 20,500 graduates in 600 degree programs annually. More than 8,300 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 2015, the UIC College of Medicine facilities provided over 470,000 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. 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 2014, the University's research efforts produced 348 technology disclosures, 112 patents and 90 licenses and options to commercialize new technologies. Some of these innovations will become the products, industries and job-creating companies of the future. In 2014, 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 2014, the Illinois Fire Service Institute provided training to more than 61,500 firefighters–training that translates into lives saved and property damage minimized throughout the state.

The University of Illinois employs over 29,000 FTE and provides an annual direct and indirect economic impact of $13.9 billion. This economic impact is associated with 175,000 jobs. The university spends over $5.6 billion on payroll, supplies and services. 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 a dynamic treasure for our State because of the transforming power of education in people's lives.

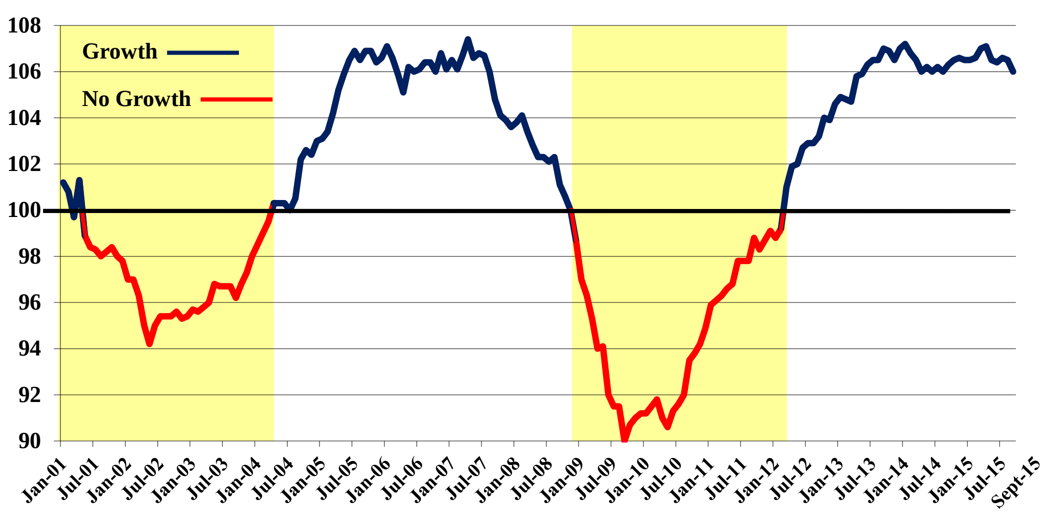
The University of Illinois is a treasure for our state and its people. But it is a dynamic treasure, seeking to transform lives through the power of education in an ever-changing environment and for an increasingly diverse population. Ultimately the greatest impact of the University of Illinois is on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

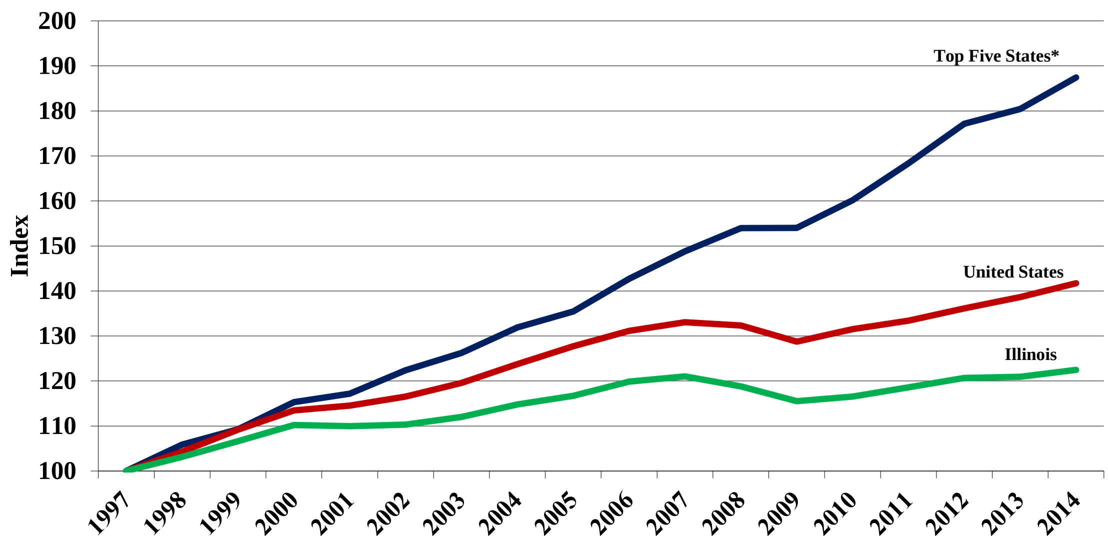
Figure 1
U of I Flash Index



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 34% 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 – 2014



*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 $104.6 billion at the end of FY 2014 and were estimated to have an asset-to-liability ratio of under 42.9%. Unfunded liabilities have accumulated primarily as a result of under-funding from the state for several decades. 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 2015.

In December 2013, the General Assembly passed SB1, which reduced benefits for current employees. Reductions in state contributions to the pension systems resulting from this legislation were estimated to be $1.2 billion in FY 2016. However, in May 2015, the Illinois Supreme Court struck down the legislation. 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, had a partial sunset provision for 2015. The sunset of the tax rate increases led to mid-year rescissions in FY 2015 and has led to a larger state budget hole for FY 2016.

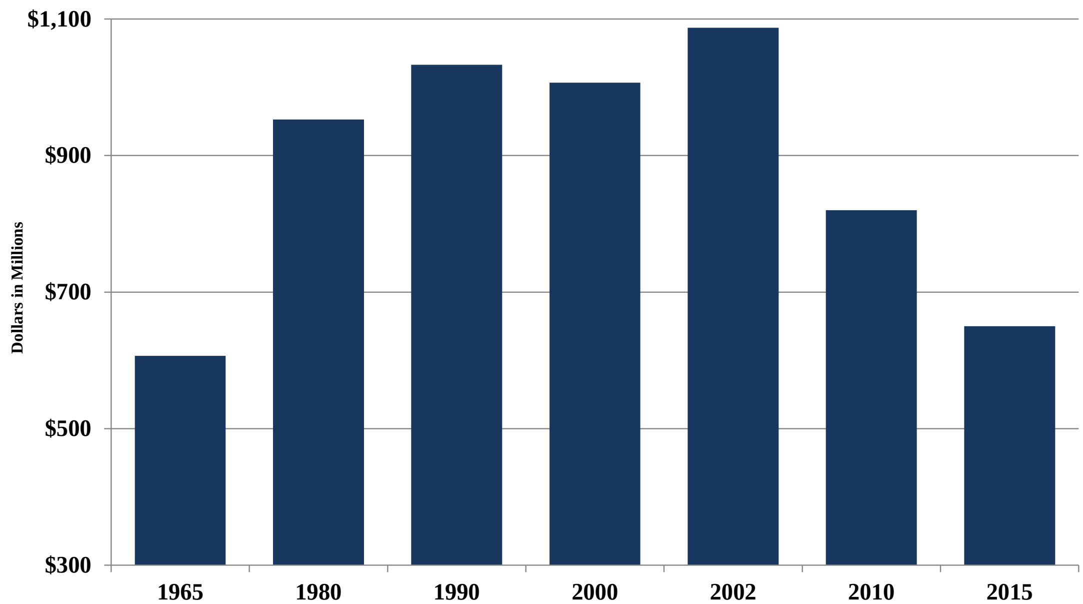
THE BUDGET FRAMEWORK

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 was $662.1 million for day-to-day operations in FY 2015. This figure included $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. At the time of this writing, the university has not received a state appropriation for FY 2016.

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 direct 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 2002 and FY 2015 at original appropriation amount. FY 2010 and FY 2015 *excludes* transfer of State Surveys and health insurance redirection. FY 1965 do not include UIS, all other years include UIS. Inflation for FY 2016 assumed at 2.0%.

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, $42.5 million (6.2%) in FY 2013, and $1.4 million in FY 2015. An additional $14.9 million mid-year reduction was enacted for FY 2015. This totaled over $113 million in cuts over the five-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 $516 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 cumulative state 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.

Since FY 2009, the state's fiscal health has further been challenged by a cash flow crisis. The backlog of unpaid state vouchers improved modestly in FY 2015, 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 undergraduate 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 Illinois Board of Higher Education (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 2016 budget cycle, IBHE once again developed performance funding metrics; however, with no appropriation, it is not known at this time how or to what extent performance funding will be used.

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 2016 BUDGET OUTCOMES

The legislative budget process for FY 2016 is ongoing. No general appropriations have been made to the university for FY 2016 at the time of this writing. Given the state's ongoing budget issues, the university expects a decrease in the level of direct state support this fiscal year.

Although there was no general tuition increase for the 2016 academic year, tuition revenues will increase modestly in FY 2016 with the incoming cohort of students paying a higher rate than the graduating cohort. Cohort-specific tuition rates result from Illinois' guaranteed tuition law. In addition, it is expected that additional internal reallocations will be redirected in FY 2016. Continued internal reallocations will allow the university to address its most pressing needs.

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

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.

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%). In FY 2015, the relationship had changed dramatically.

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

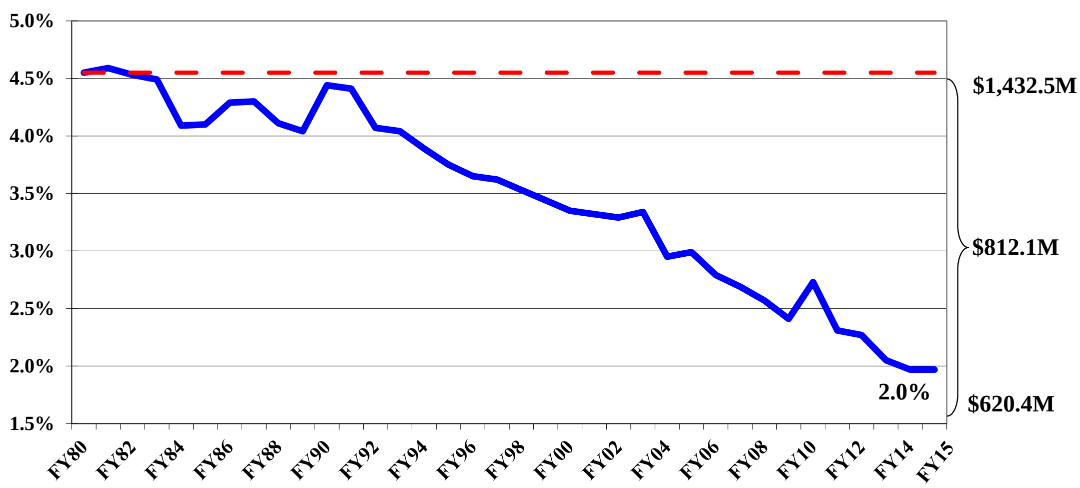
Year	Elementary/ Secondary	Higher Education	DCFS, Human Services, & Corrections	DHFS	All Other
1980	28.8%	12.9%	10.7%	33.8%	13.7%
1990	26.7%	13.1%	12.9%	30.7%	16.6%
2000	26.3%	11.0%	25.9%	23.1%	13.7%
2005	30.0%	9.6%	24.8%	22.1%	13.5%
2010	31.3%	8.3%	22.6%	23.2%	14.6%
2011	31.8%	9.4%	20.4%	22.2%	16.2%
2012	31.6%	9.5%	18.5%	23.0%	17.4%
2013	30.8%	10.5%	17.6%	22.2%	18.9%
2014	32.4%	10.3%	16.4%	23.1%	17.8%
2015	32.3%	10.5%	15.9%	23.2%	18.1%

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. Prior to the income tax increase of 1989-1990, the University of Illinois share of total state tax appropriations was 4.4%.

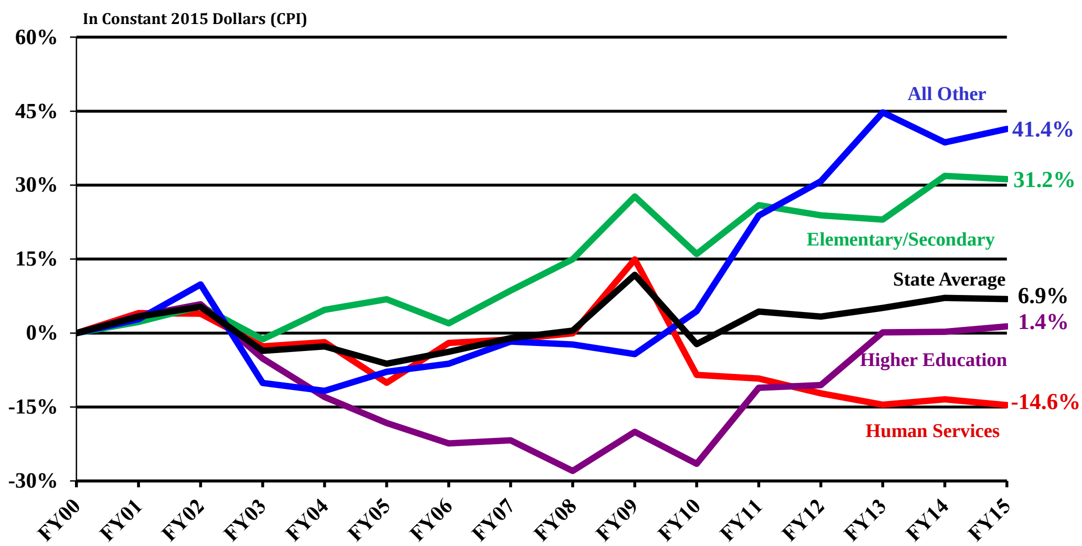
Figure 4
University of Illinois
Share of State Tax Appropriations



Note: FY02-FY15 exclude $45 million in payments to CMS from Universities for Health Insurance.
FY09-FY15 excludes transfer of State Scientific Surveys.

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

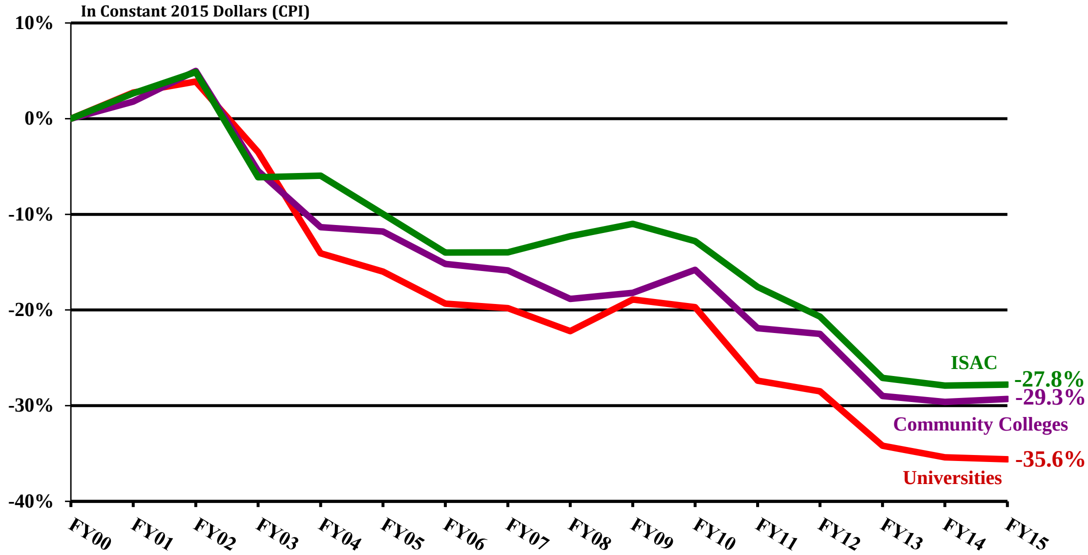


Note: FY02 - FY15 exclude $45 mill from higher ed for Health Insurance payment to CMS; Health Insurance funding moved from DHFS back to CMS in FY12; FY04-FY12 adjusted to reflect the change.
FY13-FY15 higher education includes budget for state surveys.

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.

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

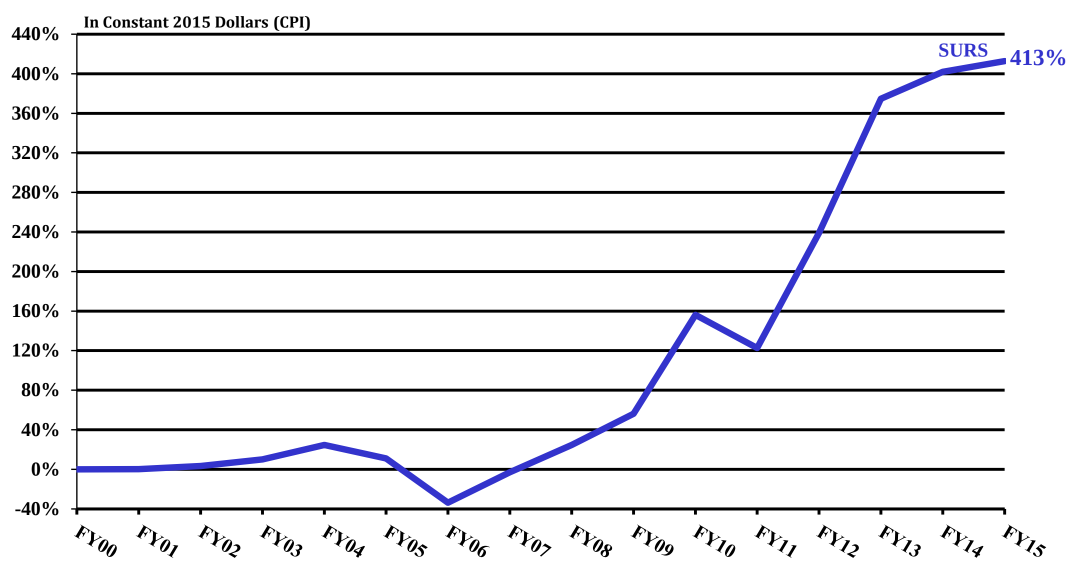
Figure 6
Cumulative Change in State Tax Appropriations by Selected Higher Education Sector



Note: FY02 - FY15 exclude $45M from higher education for Health Insurance payment to CMS.
SURS: FY05 - FY15 include 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)



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

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.

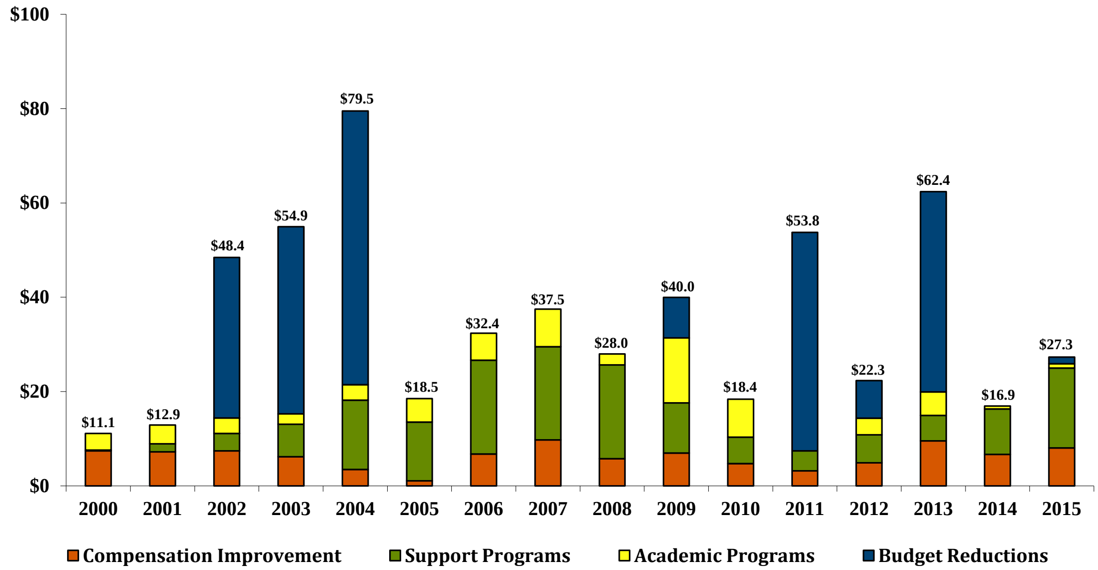
BUDGET TRENDS IN PERSPECTIVE: REALLOCATION

For the University of Illinois, the early 1990s brought diminished direct 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.

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

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

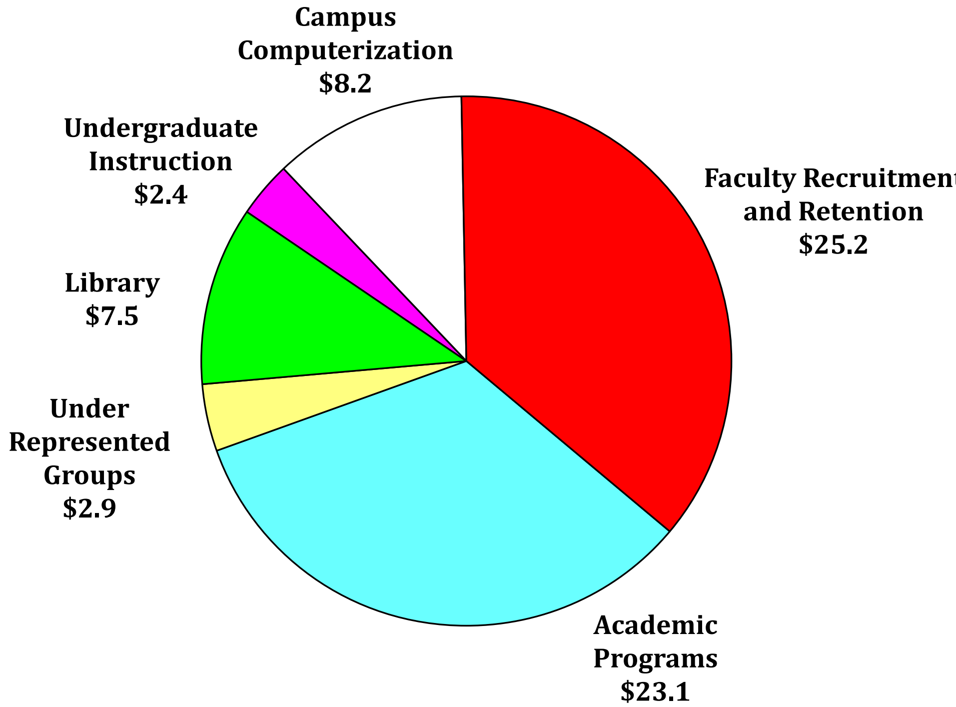
Figure 8
Uses of Reallocated Funds
FY 2000 to FY 2015
(Dollars in Millions)



Given the university's paramount need to address faculty and staff salary competitiveness, it is not surprising reallocated funds continue to be directed to compensation needs.

Among academic program reallocations, general instruction has received 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 also received funds from 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)



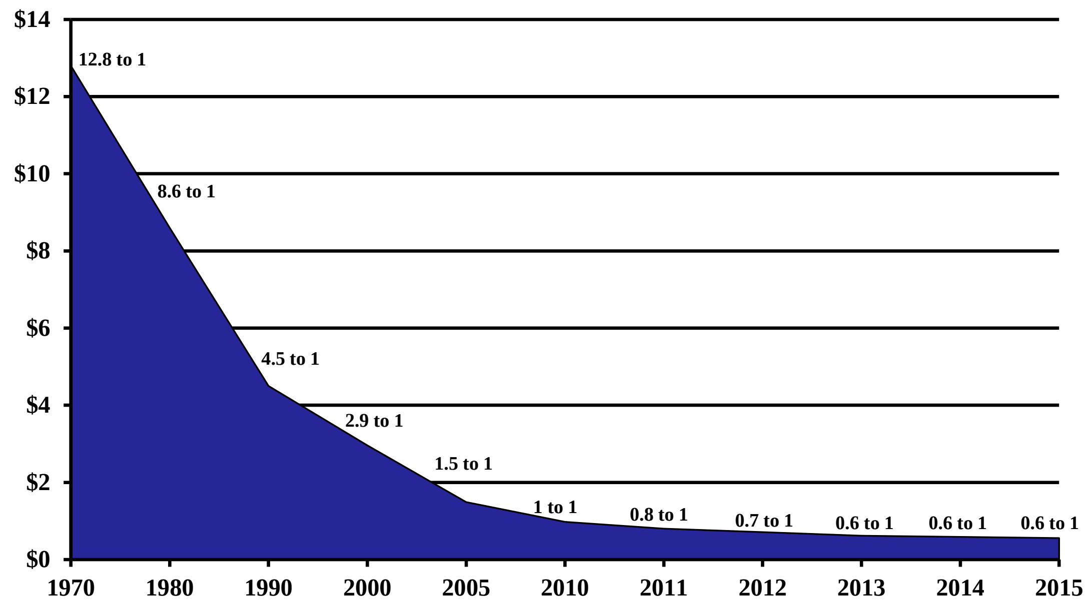
The university's reallocation efforts are often focused on gaining efficiencies in its administrative services. In FY 2009 and FY 2010, the university embarked on a three-year plan to reduce administrative costs by $15.05 million, half within University Administration and the other half spread over the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

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.

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



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

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.

SUMMARY OF THE FY 2017 BUDGET REQUEST

The university's FY 2017 operating budget request is to restore core state support to original FY 2015 appropriation levels in order to protect our in-state students, guarantee our overall academic competitiveness and aid the State in economic development.

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.

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.

CAPITAL BUDGET REQUEST FOR FY 2017

CAPITAL BUDGET

BACKGROUND AND CONTEXT

Overview

To begin consideration of the University's capital budget request it is important to recall that an institution of the size, scope and complexity of the University of Illinois faces a recurring array of facilities related needs every year. The capital facilities make up the University's largest asset and provide the foundation to attract and retain top quality, faculty, staff and students. 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 recent budget freeze on capital has impacted several repair and renovation projects contributing to the inconsistent funding pattern that 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 toward construction phase. However, these four projects along with numerous smaller projects were halted this past summer and that delay has only further exacerbated the problem of uneven funding patterns and capital delivery for the campuses. Unfortunately this progress that began in FY 2010 has been halted in numerous ways as no projects have been forthcoming in the last six fiscal years and those funded recently in FY 2010 are significantly delayed.

Table 1
History of Recent Capital Budget Actions
FY 2011 to FY 2016 Governor's Level
(Dollars in Thousands)

	FY 2011*	FY 2012*	FY 2013*	FY 2014**	FY 2015**	FY 2016**
Campus Requests						
Urbana-Champaign	$222,600.0	$219,100.0	$210,600.0	$191,000.0	$196,000.0	$206,000.0
Chicago	224,200.0	234,200.0	252,000.0	200,000.0	179,200.0	187,000.0
Springfield	37,400.0	53,400.0	53,400.0	55,950.0	57,400.0	59,100.0
TOTAL	$484,200.0	$506,700.0	$516,000.0	$446,950.0	$432,600.0	$452,100.0
IBHE Recommendations						
Urbana-Champaign	$114,329.1	$177,311.7	$168,811.7	$138,445.7	$139,626.0	$151,000.0
Chicago	159,247.6	166,836.0	178,636.0	179,636.0	181,504.0	157,000.0
Springfield	38,551.6	54,845.6	54,845.6	57,395.6	58,912.0	59,100.0
TOTAL	$312,128.3	$398,993.3	$402,293.3	$375,477.3	$380,042.0	$367,100.0
Regular Capital Appropriations						
Urbana-Champaign	$64,329.1	$64,329.1	$39,626.7	$0.0	$0.0	$0.0
Chicago	86,047.6	86,047.6	26,517.3	0.0	0.0	0.0
Springfield	5,551.6	3,551.6	2,187.7	0.0	0.0	0.0
TOTAL	$155,928.3	$153,928.3	$68,331.7	$0.0	$0.0	$0.0
Appropriations for Special Projects						
Opportunity Returns						
TOTAL APPROPRIATION	$155,928.3	$153,928.3	$68,331.7	$.0	$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 2017 PRIORITIES

($553,494,000)

Overview

The University's FY 2017 Capital Budget Request consists of 10 priorities at a total cost of $553,494,000. Table 2 represents a combined priority listing of the proposed projects for this year.

Table 2
FY 2017 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	17,500			17,500
3	Stevenson Hall Classroom Building Modernization		24,000		24,000
4	Altgeld/Illini Hall Renovation	43,240			43,240
5	Pharmacy Renovation & Addition		89,000		89,000
6	Main/Undergrad Library Redevelopment	54,050		58,200	112,250
7	New Engineering Building		86,000		86,000
8	Disability Research, Res. & Educ. Svc. Bldg.	56,644			56,644
9	Art & Design Renovation/Addition	32,430			32,430
10	Education Renovation/Addition	32,430			32,430
		$ 269,894	$ 223,000	$ 60,600	$ 553,494

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 $958 million would be the result. Table 3 reflects the entire capital budget request from the campuses of the University of Illinois.

Table 3
FY 2017 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	17,500
3	4	Altgeld/Illini Hall Renovation	43,240
4	6	Main/Undergrad Library Redevelopment	54,050
5	8	Disability Research, Resources and Education Services Building	56,644
6	9	Art and Design Renovation/Addition	32,430
7	10	Education Building Renovation & Addition	32,430
8		Burrill Hall Renovation	27,025
9		Davenport Hall Renovation	24,863
10		Architecture Building FAA Library Renovation	32,430
		Total	**$354,212**
		CHICAGO	
1	1	Repair & Renovation	$ 24,000
2	3	Stevenson Hall Classroom Building Modernization	20,000
3	5	Pharmacy Renovation & Addition	89,000
4	7	New Engineering Building	86,000
5		Medical Sciences Building Modernization Ph. I	27,000
6		Utility and Mechanical System Upgrades	24,000
7		Façade Repair Program	72,000
8		Central Utility Plant Renewal Modernization	24,000
9		Information Technology Infrastructure Modernization	20,000
10		CUPPA Hall Replacement Building	50,000
11		Performing Arts Center	105,000
		Total	**$541,000**
		SPRINGFIELD	
1	1	Repair & Renovation	$ 2,400
2	6	Brookens Library Renovation	58,200
3		Warehouse Storage Facility	2,670
		Total	**$ 63,270**

The first priority is a $60,000,000 Repair and Renovation request, which is comprised of seven projects at the Urbana-Champaign campus, three projects at the Chicago campus and two projects at the Springfield campus. These projects, while not large enough to compete with major remodeling requests, represent a significant, real funding need. A high priority on renovation and renewal must be maintained by institutions with facilities the size, scope, complexity and age of the University of Illinois. The Repair and Renovation request is vital for the continued renewal of existing University facilities, provision of up-to-date support for academic programs and protection of the State's investment in capital facilities. More detailed descriptions of these projects are provided in the sections following this overview.

The second priority seeks $17,500,000 as part of a larger effort to rehabilitate the historically significant Natural History Building at the Urbana-Champaign campus.

The third priority seeks $24,000,000 for the Chicago campus to modernize Stevenson Hall, one of the major classroom buildings on campus.

The fourth priority seeks $43,240,000 for the Urbana-Champaign campus to remodel Altgeld and Illini Halls.

The fifth priority requests $89,000,000 primarily for an addition to the Pharmacy College at the Chicago campus

The sixth priority seeks $112,250,000 parsed $54,050,000 at the Urbana-Champaign campus and $58,200,000 at the Springfield campus to upgrade the main library at those campuses.

The seventh priority seeks $86,000,000 to build a new Engineering Building at the Chicago campus.

The eighth priority seeks $56,644,000 for a Disability Research, Resources and Education Services Building on the Urbana-Champaign campus, helping them to remain at the forefront in serving students with disabilities.

The ninth priority seeks $32,430,000 for the Urbana-Champaign campus to remodel and add on to the Art and Design Building.

The tenth priority seeks $32,430,000 for the Urbana-Champaign campus to remodel and build an addition to the Education Building.

Table 4 lists the FY 2017 capital budget request by category and campus. Table 5 lists the future funding implications of the FY 2017 capital budget request. These projects are described in further detail in the pages that follow.

Table 4
FY 2017 Combined Capital Budget Request
Summary by Category and Campus
(Dollars in Thousands)

Category	Urbana-Champaign	Chicago	Springfield	TOTAL
Building, Additions, and/or Structure	$121,504	$175,000		$296,504
Land Acquisition				
Utilities				
Remodeling	148,390	48,000	$ 60,600	256,990
Site Improvements				
Planning				
	$269,894	$223,000	$ 60,600	$553,494

Table 5
FY 2017 Combined Capital Budget Request
Future Funding Implications
(Dollars in Thousands)

Priority	Project	Category	FY 2017 Request	FY 2018 Cost	Cost for 2019 and Beyond
1	Repair and Renovation	Remodeling	$ 60,000		
2	Natural History Building	Remodeling	17,500		
3	Stevenson Hall Classroom Building Modernization	Remodeling	24,000		
4	Altgeld/Illini Hall Renovation	Remodeling	43,240		
5	Pharmacy Renovation & Addition	Building	89,000		$ 50,000
6	Main/Undergrad Library Redevelopment	Remodeling	112,250		
7	New Engineering Building	Building	86,000		
8	Disability Research, Res. & Educ. Svc. Bldg.	Building	56,644		
9	Art & Design Renovation/Addition	Building	32,430		
10	Education Renovation/Addition	Building	32,430		

CAPITAL REQUESTS

CAPITAL BUDGET

PRIORITIES

($553,494,000)

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
Huff Hall, HVAC Upgrades	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
Science and Engineering South, Envelope and Life Safety Upgrades	$ 13,500,000
Stevenson Hall, Envelope Repairs	4,000,000
College of Medicine East Tower, Facade Repairs	6,500,000
TOTAL	**$ 24,000,000**

Springfield Projects	Amount
Campus Service Drives and Walkways, Repairs	$ 1,400,000
Campus Buildings, Roof Repairs	$ 1,000,000
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 12 projects. Detailed descriptions of these projects are found in the Repair and Renovation project descriptions, following this Priorities section.

Priority 2:

Natural History Building $17,500,000 – 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 $75,000,000 with the balance of funds provided by the campus and through private gifts and deferred maintenance funding.

Priority 3:

Stevenson Hall Classroom Building Modernization $24,000,000 – 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 4:

Altgeld/Illini Hall Renovation $43,240,000 – 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 $86,480,000 with $43,240,000 being requested from the state.

Priority 5:

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 6:

Main/Undergraduate Library Redevelopment $54,050,000 – 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 $58,200,000 – 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 $58,200,000 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 7:

New Engineering Building $86,000,000 – Chicago

The College of Engineering has experienced dramatic growth in undergraduate enrollment in the past decade. In the past 9 years, enrollment has grown steadily from 1,550 students to 2,724 students, an increase of over 75%. And the growth has been accelerating in recent years. As a consequence, additional space is needed to accommodate the demand for additional classrooms, laboratories and faculty offices resulting from this rapid growth.

A new 157,000 SF Engineering Building is planned in the parking lot adjacent and connected to the current Science and Engineering Laboratories. The new facility will feature state-of-the-art classrooms, three large auditoriums, small seminar rooms, student organization spaces, a modern senior design space, laboratories and faculty offices.

Priority 8:

Disability Research, Resources and Education Services Building $56,644,000 – 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 $56.6 million.

Priority 9:

Art & Design Renovation/Addition $32,430,000 – Urbana

Built in the late 1950s, the Art and Design Building has undergone only minor repairs and upgrades. The current condition of the building reflects the wear and tear of 60+ years of continuous use as an administrative, teaching, and research facility. It suffers from general fatigue and deterioration of comfort and visual quality. Also during this time, requirements of the School's disciplines have undergone dramatic change, creating entirely new functional demands which were unimagined when the building was conceived. New program and equipment needs have rendered the original space configuration outmoded, inefficient and ill-suited to their original purposes. This project will renovate and upgrade the existing facility and provide an addition to consolidate all functions, activities, and programs into one facility. Total project budget is $64,860,000 with $32,430,000 being requested from the state.

Priority 10:

Education Renovation/Addition $32,430,000 – Urbana

The College is planning a major expansion of College of Education facilities and the concurrent consolidation of operations into one location. College personnel currently reside in six buildings that range from as far south as the Children's Research Center on Gerty Drive to two miles north at Healey and Fourth. The expanded and consolidated College of Education is envisioned as a new environment for teaching, learning, and community interaction.

The original design for the current College of Education building called for two parallel structures, but only one was completed. Thus, from the very beginning the Education Building was not able to accommodate even the existing programs of that time. Further, the building systems in this structure have clearly suffered the ravages of use, and it is imperative to renew the outdated and costly mechanical systems.

Plans call for flexible design with new classrooms, research facilities, and meeting and office space along with the historic preservation of the Education Building, which is a critical part of the heritage of the campus and worthy of restoration. The Chancellor's Capital Review Committee embraced that goal in the spring of 2009, which presented a charge to investigate the condition of the existing building.

The renovation of approximately 96,000 square feet will preserve the historic architecture of the iconic Education Building while creating improved functional work and learning spaces for students, staff, and faculty in the College, in adjacent academic units, and throughout the community. It will also reinforce the identity of the College in one place, as a true icon and public resource that invites, inspires and encourages the world to experience the College of Education and join the educational debate.

The project will also create 86,000 square feet of new classroom, research, and meeting space (and vacate 47,000+ sq. ft. in 4 satellite locations). This will provide a flexible and adaptable facility for teaching, research, meetings, and offices for 84 tenured faculty members, 45 clinical faculty, 695 undergraduate students, 267 secondary education/LAS students who take Education coursework in the College, 1,089 graduate students, including 497 full time PhD students, as well as the more than 250 students each semester who participate in online instruction.

Total project budget is $64,860,000 with $32,430,000 being requested from the state.

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.

Huff Hall, HVAC Upgrades $3,500,000

George Huff Hall, built in 1924 with major additions in 1926 and 2010, has areas within the building currently served by deficient mechanical systems. This project would address each of these deficiencies prioritized as follows:

1) The gymnasium is currently exhausted with large fans that create major negative pressure issues throughout the building. This project would add make-up air units to relieve that negative pressure;

2) Offices on the east and west of the original building have original windows and window air conditioners. This project would replace windows and provide new air handling units for heating, ventilation and air conditioning. The existing perimeter heating system would also be considered for potential replacement;

3) Room 300 (aka. the wrestling room) on the third floor of the 1926 addition does not have air conditioning which causes issues to the air conditioned office areas adjacent to this room. This project would add a new air handling unit to service this area.

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)

Science and Engineering South, Envelope and Life Safety Upgrades
$13,500,000
Science and Engineering South was built in 1968 as part of the original East Side construction. The 456,000 gross square foot building is among the most heavily utilized academic buildings on the campus when measuring credits hours of instruction and quantity of space (square feet) dedicated to sponsored research activities.

Unfortunately, SES is among the plethora of buildings constructed in the 1960s which all have building systems requiring replacement at once. Even though it is one of the most productive academic facilities on campus, it has an estimated facility condition of critical. Due to the size, complexity and utilization of SES, it is not feasible to be replaced and must therefore be recapitalized.

In anticipation of the construction of the Advanced Chemical Technology Building–which will be physically connected to SES on multiple floors–the campus has invested heavily in the building's mechanical systems and has included it in a multi-building $65 million Energy Conservation Project which is currently overhauling its mechanical systems–air handlers, exhaust fans, fume hoods. Once completed, it will take the building's facility condition to poor.

Despite these major investments in this crucial facility, several deficiencies exist. The building lacks a fire sprinkler system, despite having a high concentration of research and teaching laboratories utilizing volatile chemicals. Furthermore, the building facade is severely deteriorated. A 2009 facade assessment estimated the repair construction costs at over $35 million. Since then, the campus has implemented a $4 million project in immediate facade repairs to address the most urgent requirements. This repair and renovation will upgrade the fire alarm system in the building and repair the building facade.

Stevenson Hall, Envelope Repairs $4,000,000

Named for Adlai Stevenson I, a Congressman from Illinois and the twenty-third Vice President of the United States, Stevenson Hall is a classroom building built in 1966 as part of the original Circle Campus construction. The 33,983 gross square foot building is among the most heavily utilized instructional buildings on the campus when measuring both the quantity and intensity of credits hours of instruction. Additionally, Stevenson Hall serves the largest number of students from all colleges offering an undergraduate degree (approximately 2,200 incoming students per semester). Therefore, its renovation will impact the broadest group of students.

Stevenson Hall is also among the many buildings constructed in the 1960s and nearly all of its building systems require replacement. Even though it is one of the more productive instructional facilities on campus, it has an estimated facility condition of critical. A 2015 assessment, indicated the roof and facade are in poor condition and require replacement. With this project the building will see the roof replaced and additional façade repairs will be completed.

College of Medicine East Tower, Facade Repairs $6,500,000

The College of Medicine East Tower is an academic facility built in 1931. It has an estimated condition index of 0.21, indicating it is in poor condition. The 189,314 gross square foot building supports academic, research and clinical activities for the College of Medicine and the College of Applied Health Sciences. The facility is connected to the College of Medicine West Tower and College of Medicine West, forming a large complex of health sciences facilities. Combined, this complex is physically connected to another complex of health sciences facilities, including the Medical Sciences Building, College of Medicine Research Building, Clinical Sciences Building, Neuropsychiatric Institute, and several others.

In the past several years, over $15 million have been invested in repairing the facades of this complex of buildings. The repairs have been needed to ensure the integrity of the building envelope systems and to prevent water infiltration. A series of 2004 reports prepared by an independent engineering firm identified a multitude of facade deficiencies requiring repair. This $6.5 million project is the final phase in the effort to complete major repairs to the facades of the College of Medicine Complex and to ensure the integrity of the building envelope systems.

Springfield Projects ($2,400,000)

Campus Service Drives and Walkways, Repairs $1,400,000

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.

Campus Buildings, Roof Repairs $1,000,000

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 two one story buildings that will be repaired as part of this project; Human Resources Building and the Health and Sciences Building.

FY 2017 Budget Request 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 1, apply to all newly hired employees eligible to participate in any retirement system on or after January 1, 2011.

Table 1
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 $265,000 in 2015 (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 certified funding amount for all five pension systems for FY 2016 is $7.5 billion. However, without an appropriation, the state is statutorily required to fund the systems at that level The required state FY 2016 contribution for SURS, which is determined actuarially based on the System's June 30, 2014, fiscal year-end results, is $1,647.5 million. Although an estimated $46 million will be received by SURS from non-state funding sources, the remaining $1,601.5 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.

- **<u>Optional Defined Contribution Plan</u>**

  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.

- **<u>Unused Sick and Vacation Time- New Hires</u>**

  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.

- **<u>Prohibition of Non-Public Employers</u>**

  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.

- **<u>State Funding</u>**

  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. On May 8, 2015 the Supreme Court of the State of Illinois upheld the ruling by the Circuit Courts of Sangamon County and found the changes unconstitutional.

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 30,400 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 2.

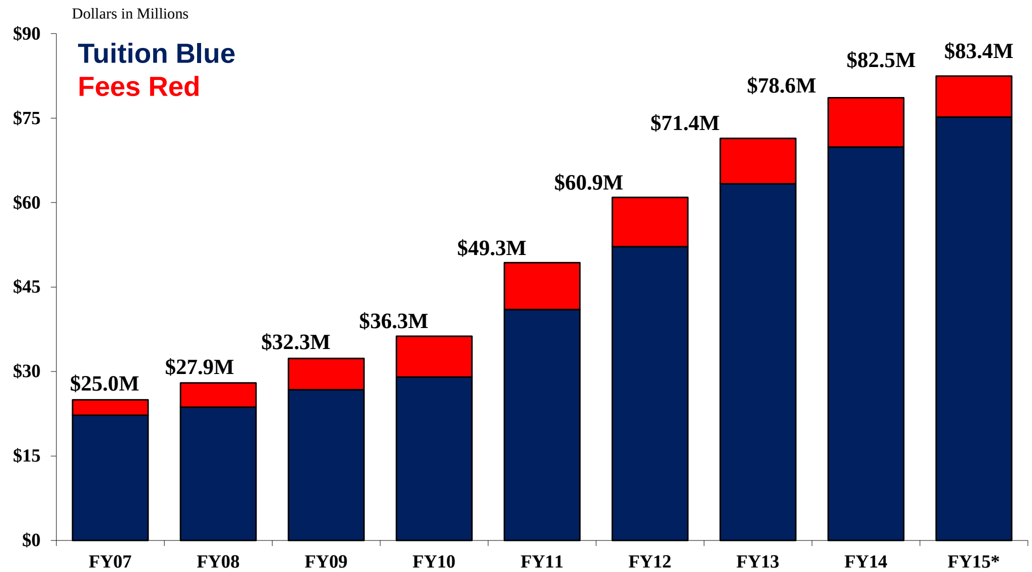
Table 2
Federal Pell Grants and Illinois Monetary Award Program Maximum Award Levels

Fiscal Year	Pell	MAP	Total	UIUC Freshmen General Tuition + Fees
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
2016	5,775	4,968	10,743	15,626

ISAC MAP formula uses FY 2003-2004 tuition levels.
MAP Formula uses max of $4,968 and reduces all awards by 5%. (FY12 - FY16)
FY 2016 MAP awards may change.

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 1, 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.

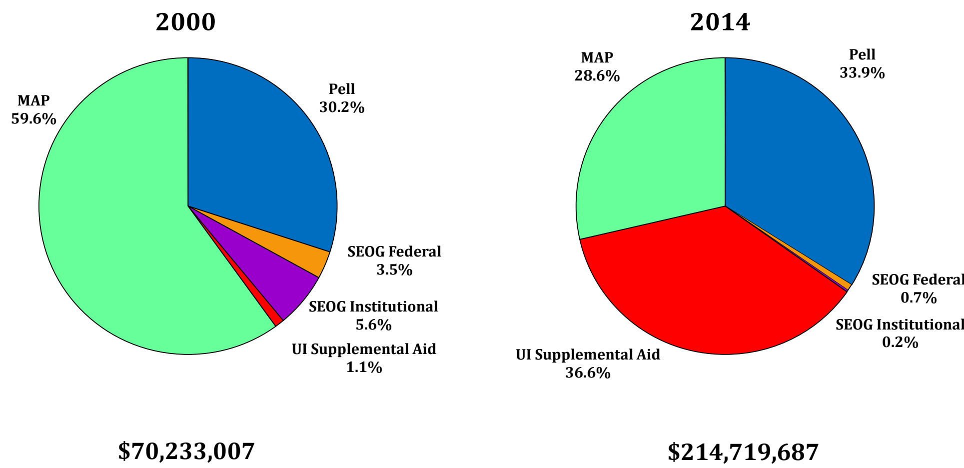
Figure 1
University of Illinois
Supplemental Financial Aid Expenditures
FY 2007 to FY 2015



*FY 2015 preliminary.

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 2016 will exceed both Pell grants and MAP grants, and as such the University has become a major partner in the financial aid process. Figure 2 shows the changing environment, the increase in the total amount of aid and the growth in institutional aid in the last decade.

Figure 2
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, November 2008 and September 2014.

GUIDING PRINCIPLES FOR FINANCIAL AID - 2014

- The University of Illinois will make every effort to enable qualified students who cannot afford the cost of a university education, as determined by federal financial need, to participate in its programs of study.
- 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.

- Each campus will determine eligibility for financial aid based on a number of criteria. Good academic progress toward degree completion is an essential feature.

INSTITUTIONAL SUPPLEMENTAL FINANCIAL AID POLICY - 2014

- Supplemental Financial Aid grants will be derived from institutional funds, as well as from auxiliary enterprise and self-supporting funds.

- These grants will be awarded to Illinois resident undergraduates, and generally be limited to the first four years (eight semesters), with an additional year available at the discretion of each campus.

- 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.

- On a yearly basis, the University will review and set Supplemental Financial Aid budgets on the campuses in relation to resident tuition and mandatory fees collected during the academic year, and will assess the effectiveness and the financial viability of financial aid programs. On average, each campus will increase its supplemental financial aid pool by a percentage that is greater than or equal to the percent increase in resident undergraduate tuition and mandatory fee income, provided student unmet financial needs warrant such increase, and provided such increase does not impair the University’s core missions and functions.

- This information will be reported to the Board of Trustees on a yearly basis in order to ensure that Supplemental Financial Aid expenditures at each campus are appropriate and that financial aid programs are effective in meeting the objectives.

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. The supplemental financial aid program will continue to be monitored and evaluated, in conjunction with multiple sources of student aid, student needs and student progress, in order to maximize its benefit to the students. 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 15,500 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 2015 are estimated at over $30 million for public universities. As recently as ten 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 2015 the University waived $9.4 million for the IVG and veteran related programs.