

Approved by the Board of Trustees,
May 19, 2005

Board Meeting
May 19, 2005

ROLL CALL

PRELIMINARY OPERATING BUDGET FOR FISCAL YEAR 2006

Action: Approve Preliminary Operating Budget for Fiscal Year 2006

Funding: FY 2006 Operating Funds from All Sources

The University's preliminary operating budget from all sources of funds for the fiscal year beginning July 1, 2005 (Fiscal Year 2006) is presented for approval as outlined in Attachment A. The board's consideration of FY 2006 budget issues began in July 2004 with its review of the preliminary FY 2006 request, and its approval of that request in September 2004. Discussion of FY 2006 salary increase requirements and University-wide priority needs were part of the board's review of tuition increase issues in November 2004 and when those increases were approved in January 2005.

The revenue estimates included in the preliminary operating budget are built upon the following assumptions that include the most current information available at this time for the University's primary sources of support:

- State tax support is based upon the Governor's FY 2006 budget presented to the General Assembly. That budget calls for essentially flat FY 2006 tax support for the UI at current year levels.
- Incremental tuition income of \$29.3 million based upon board-approved tuition increases of seven percent for continuing students and nine percent for new students, along with more targeted rate changes for specific programs and adjustments for enrollment levels.

- Sponsored program support (primarily federally funded research grants and contracts) and indirect cost recovery income rising at a 4.6 percent rate. This estimate reflects continued strong and successful competitive efforts by UI faculty to secure research support, even as federal funding for research is expected to remain flat in most areas.
- Hospital and Medical Service Plan increases of 9.5 percent and 12 percent respectively, reflecting improved patient volume in general, targeted increases in selected specific patient care areas, and improved reimbursement rates.
- Incremental endowment and private giving revenue of \$8.0 million or 6.8 percent, reflecting increasing efforts to generate gift support.
- “Payments on Behalf” of University employees to the Department of Central Management Services and to the State Universities Retirement System that grow by an estimated \$50.4 million, or 14.5 percent, for the employer’s share of health insurance and retirement based upon current statutory requirements. These funds are not under the direct control of the University and cannot be reassigned for any other purpose. They are included within the University’s formal operating budget based upon directives from the Governmental Accounting Standards Board.

As outlined in earlier presentations, the University’s primary priority for increased investment for FY 2006 is improvement of salary competitiveness for faculty and staff. A general salary increase program between 2.5 percent and 3.0 percent is planned, pending final review and approval by the chancellors and president, requiring approximately \$25.7 million. Another \$16.9 million is required to address a set of University-wide priority expenses such as insurance costs, deferred maintenance, energy price increases, and so on.

Based upon these revenue estimates and expenditure priorities the Vice President for Academic Affairs and Vice President for Administration recommend approval of a \$3.6 billion preliminary FY 2006 unrestricted and restricted funds operating budget, beginning July 1, 2005, as outlined in Attachment A. The University’s Fiscal

Year 2006 appropriation of State tax support established via the State's appropriation process shall supercede the estimated appropriation contained within this item, once that process is complete. Unrestricted funds are available for allocation at the discretion of the University. Restricted funds are designated for specific uses by the donor, grantor, contractor, or State statute. Unrestricted funds include State appropriations, University income fund revenue, ICR, royalty, and administrative allowance funds. Restricted funds include estimated revenue from grants and contracts, federal appropriations, private gifts, endowment income, Medical Service Plan, Auxiliary Enterprises, University Hospital, departmental activities, and State payments on behalf of the University.

The preliminary FY 2006 \$1.516 billion unrestricted funds operating budget recommendation represents a \$38.7 million (2.6 percent) increase over FY 2005. The FY 2006 \$2.08 billion restricted funds operating budget recommendation represents a \$145.0 million (7.5 percent) increase from FY 2005. (Excluding "Payments on Behalf," over which the University has no direct control, the restricted funds total represents a 4.8 percent increase over the current year.) Refinements in any of the estimates in this preliminary budget will be reflected in the final FY 2006 Budget Summary for Operations presented at the September meeting of the Board of Trustees.

Subject to the foregoing and the parameters created in the board's March 2003 and June 2003 resolutions concerning establishment of University of Illinois budgets (summary attached as attachment B), authorization is also requested in accord with the needs of the University and the equitable interest involved and within total resources: (a) to accept resignations; (b) to make such additional appointments as are necessary, and to approve the issuance of notices of non-reappointment, subject to the

provisions of the University of Illinois *Statutes, The General Rules Concerning University Organization and Procedure*, and the *Policy and Rules*; and (c) to make such changes and adjustments in items included in the preliminary budget as are needed.

The board action recommended in this item complies in all material aspects respects with applicable State and federal laws, University of Illinois *Statutes, The General Rules Concerning University Organization and Procedure*, and Board of Trustees policies and directives.

The President of the University concurs.