

Board Meeting
May 22, 2008

ROLL CALL

APPROVE PRELIMINARY OPERATING BUDGET FOR FISCAL YEAR 2009

Action: Approve Preliminary Operating Budget for Fiscal Year 2009

Funding: FY 2009 Operating Funds from All Sources

The University's preliminary operating budget from all sources of funds for the fiscal year beginning July 1, 2008 (Fiscal Year 2009) is presented for approval as outlined in Attachment A. State statutes require governing board approval of operating budgets prior to the beginning of a fiscal year. Fiscal Year 2009 budget plans may be updated at the July Board meeting to reflect information obtained subsequent to this meeting. Final approval of the detailed operating budget is expected to be requested of the Board at its September meeting.

Consideration of FY 2009 budget issues began in June 2007 with the Board's review of the preliminary FY 2009 request and its approval of that request in September 2007. Discussion of FY 2009 funding requirements and University-wide priorities occurred during the Board's review of several items throughout the year, including tuition and strategic planning discussions on several occasions.

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

- State tax support is based upon the FY 2009 budget recommended by the Governor. The budget calls for FY 2009 total state tax support for the University of Illinois to increase by \$14.1 million. The increase is attributable to the transfer of the State scientific surveys from the Department of Natural Resources to the University of Illinois. This transfer added \$15.8 million in general revenue funds and \$1.1 million in various special appropriated funds. Excluding the transfer of the surveys, the FY 2009 budget reflects a decline of \$1.7 million in general revenue funds and a decline of \$1.1 million from the Fire Prevention Fund.
- Incremental income fund revenue is estimated to be \$48.3 million based upon projected tuition increases along with rate changes for specific programs, adjustments for enrollment level projections, increases in cost recovery programs, the inclusion of the Board approved Library/IT fees, and other technical adjustments. The total increase includes \$2.4 million for the Global Campus.
- Sponsored program support (primarily federally funded research grants and contracts) rising at a 2.8 percent rate. This estimate reflects the constrained research support environment. The indirect cost recovery budget declines by 13.2 percent. This results primarily from lower campus carry-forward balances as those funds are being used to offset the impact of substantial rises in energy costs and utility operations.
- Hospital and Medical Service Plan increases of 5.8 percent and 4.6 percent respectively, reflecting improved patient volume in general and targeted increases in selected specific patient care areas.

- Incremental endowment and private giving revenue of \$4.2 million or 2.8 percent, reflecting increasing efforts to generate gift support.
- The Academic Facility Maintenance Fund Assessment (AFMFA), which is being installed over four years. FY 2009 is the third year of this program and is expected to generate an additional \$7.1 million in FY 2009.
- “Payments on Behalf” of University employees to the Department of Healthcare and Family Services and to the State Universities Retirement System that grow by an estimated \$76.7 million, or 17.4 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 budget priorities for FY 2009 are protecting academic quality, ensuring access, addressing deferred maintenance, and meeting mandated cost increases. An allocation of \$6.8 million is planned for academic quality initiatives. Support for financial aid programs is increased by \$3.6 million, deferred maintenance is increased by \$6.5 million as a result of the Academic Facilities Maintenance Fund Assessment (net after financial aid) and the Library/IT support is increased by \$6.5 million (net after financial aid). Energy related costs require an allocation of \$20.8 million (e.g. rising fuel costs plus repair and replacement of energy production/distribution infrastructure) and \$10.6 million is set aside to address cost increases in areas such as insurance, operations and maintenance of new facilities, and Medicare payroll taxes.

Based upon these revenue estimates and expenditure priorities, the Vice President/Chief Financial Officer and Comptroller recommends approval of a \$4.1 billion preliminary FY 2009 unrestricted and restricted funds operating budget beginning July 1, 2008, as outlined in Attachment A. Unrestricted funds include State appropriations, University income fund revenue, ICR, royalty, and administrative allowance funds. Unrestricted funds are used primarily for personal services, benefits, and contractual services. 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. Restricted funds are designated for specific uses by the donor, grantor, contractor, or State statute.

The preliminary FY 2009 unrestricted funds operating budget estimate of \$1.65 billion represents a \$48.9 million (3.0 percent) increase over FY 2008. The FY 2009 restricted funds operating budget recommendation of \$2.5 billion represents a 180.6 million (7.9 percent) increase from FY 2008 primarily due to increases in payments on behalf, personal services, and contractual services. (Excluding "Payments on Behalf," over which the University has no direct control, the restricted funds total represents a 5.6 percent increase over the current year.) Refinements in any of the estimates in this preliminary budget will be reflected in the final FY 2009 Budget Summary for Operations presented at the September meeting of the Board of Trustees.

Subject to the foregoing and the Board's directives concerning establishment of University of Illinois budgets and limitations on changes, 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 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.