

Board Meeting
September 6, 2007

ROLL CALL

APPROVE PRELIMINARY OPERATING BUDGET FOR FISCAL YEAR 2008

Action: Approve Preliminary Operating Budget for Fiscal Year 2008

Funding: All Sources (State, Auxiliary, Federal, etc.)

The University's operating budget from all sources of funds for the Fiscal Year (FY) 2008 is presented for approval as outlined in Attachment A. This recommendation follows the Board's adoption of a preliminary FY 2008 operating budget at the May 2007 meeting. This budget reflects the State appropriation to the University for FY 2008 as passed by the General Assembly and as reduced by the Governor on August 23rd. Final approval of the detailed operating budget (the *Budget Summary for Operations*, or "orange book") will be brought to the Board at its November meeting.

Consideration of FY 2008 budget issues began in June 2006 with the Board's review of the preliminary FY 2008 request and its approval of that request in September 2006. Discussion of FY 2008 funding requirements and University-wide priorities occurred during the Board's review of several items throughout the year, including tuition and budget planning discussions on several occasions.

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

- Direct State appropriation is based upon the FY 2008 budget passed by the General Assembly and reduced by the Governor, PA 095-0348. The budget calls for an increase of approximately \$13.0 million or 1.8 percent in FY 2008 total State support for the University of Illinois from current-year levels. This includes an increment of \$13.3 million for compensation, removal of \$1.7 million in legislative initiatives from FY 2007, and an increase of \$1.4 million to the appropriated Fire Prevention Fund.
- Incremental income fund revenue is estimated to be \$59.4 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.
- Sponsored program support (primarily federally funded research grants and contracts) rising at a 1.2 percent rate. This estimate reflects the constrained research support environment. The indirect cost recovery budget declines by 24 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 6.7 percent and 3.0 percent respectively, reflecting improved patient volume in general and targeted increases in selected specific patient care areas.
- Incremental endowment and private giving revenue of \$10.4 million or 7.4 percent, reflecting increasing efforts to generate gift support.
- The Academic Facility Maintenance Fund Assessment (AFMFA), which is being installed over four years.

FY 2008 is the second year of this program and is expected to generate an additional \$9.4 million in FY 2008.

- “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 \$64.6 million, or 17.1 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 2008 are strengthening academic quality, ensuring access, addressing deferred maintenance, and meeting inflationary cost increases. An allocation of \$38.8 million is planned for academic quality initiatives; including a 2.5 percent salary increase program for faculty and staff at a cost of \$22.9 million and \$15.9 million for campus strategic initiatives and priorities. Support for financial aid programs is increased by \$4.5 million, and deferred maintenance is increased by \$8.5 million as a result of the Academic Facilities Maintenance Fund Assessment (net after financial aid). Finally, \$18.7 million is set aside for meeting inflationary costs in areas such as insurance, operations and maintenance of new facilities, energy price increases, and other operational cost increases.

Based upon these revenue estimates and expenditure priorities, the Vice President/Chief Financial Officer and Comptroller recommends approval of a \$3.9 billion FY 2008 unrestricted and restricted funds operating budget, 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 FY 2008 unrestricted funds operating budget estimate of \$1.6 billion represents a \$30.7 million (2.0 percent) increase over FY 2007. The FY 2008 restricted funds operating budget recommendation of \$2.3 billion represents a \$151.1 million (7.1 percent) increase from FY 2007 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 5.0 percent increase over the current year.) Refinements in any of the estimates in this budget will be reflected in the final FY 2008 *Budget Summary for Operations* presented at the November meeting of the Board of Trustees.

Subject to the foregoing and the directives provided in the Board's March 2003 and June 2003 resolutions concerning establishment of University of Illinois budgets and limitations on changes (summarized in 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 operating 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.

	FY07	FY08	Change	
	Operating Revenue	Operating Revenue	FY2007 - FY2008 Amount	FY2007 - FY2008 Percent
Revenue Budget				
Unrestricted Funds				
Direct Appropriation	713.0	726.0	13.0	1.8%
University Income Fund	539.8	599.2	59.4	11.0%
ICR	199.3	151.4	(47.9)	-24.0%
Royalties	13.1	16.0	2.9	22.1%
Administrative Allowances	101.9	105.2	3.3	3.2%
Subtotal Unrestricted Funds	\$ 1,567.1	\$ 1,597.8	\$ 30.7	2.0%
Estimated Restricted Funds				
Sponsored Projects	589.9	596.7	6.8	1.2%
Federal Appropriations	18.1	18.1	-	0.0%
Gift & Endowment Inc.	141.1	151.5	10.4	7.4%
Medical Service Plans	128.7	132.6	3.9	3.0%
Hospital	368.1	392.7	24.6	6.7%
Auxiliaries & Dept. Operations	490.3	521.7	31.4	6.4%
AFMFA	7.4	16.8	9.4	127.0%
Payments on Behalf	376.7	441.3	64.6	17.1%
Subtotal Restricted Funds	\$ 2,120.3	\$ 2,271.4	\$ 151.1	7.1%
Total Revenue Budget	\$ 3,687.4	\$ 3,869.2	\$ 181.8	4.9%

	FY07	FY08	Change	
	Operating Expense	Operating Expense	FY2007 - FY2008 Amount	FY2007 - FY2008 Percent
Expense Budget				
Unrestricted Funds				
Personal Services & Benefits	1,137.4	1,164.8	27.4	2.4%
Contractual Services	237.8	243.5	5.7	2.4%
Travel & Automotive Equipment	11.7	10.4	(1.3)	-11.1%
Commodities	27.8	26.0	(1.8)	-6.5%
Equipment	55.6	53.0	(2.6)	-4.7%
Telecommunications	13.8	13.7	(0.1)	-0.7%
Permanent Improvements	7.9	7.9	-	0.0%
Awards and Grants	39.2	42.8	3.6	9.2%
Medical Devices (DSCC)	5.3	5.3	-	0.0%
Special Appropriations	5.7	5.5	(0.2)	-3.5%
Health Insurance	24.9	24.9	-	0.0%
Subtotal	\$ 1,567.1	\$ 1,597.8	\$ 30.7	2.0%
Restricted Funds				
Personal Services & Benefits	799.4	827.8	28.4	3.6%
Contractual Services	487.9	513.4	25.5	5.2%
Travel & Automotive Equipment	26.2	27.4	1.2	4.6%
Commodities	203.4	213.9	10.5	5.2%
Equipment	63.8	67.5	3.7	5.8%
Telecommunications	15.9	16.8	0.9	5.7%
Permanent Improvements	5.2	5.4	0.2	3.8%
Awards and Grants	87.4	92.2	4.8	5.5%
Mandatory Transfers	47.0	48.9	1.9	4.0%
AFMFA	7.4	16.8	9.4	127.0%
Payments on Behalf	376.7	441.3	64.6	17.1%
Subtotal	\$ 2,120.3	\$ 2,271.4	\$ 151.1	7.1%
Total Expense Budget	\$ 3,687.4	\$ 3,869.2	\$ 181.8	4.9%

Board of Trustees Budgetary Oversight and Accountability

The Board of Trustees exercises its stewardship and fiduciary responsibilities by (1) approving the University's annual operating budget including specified changes to the budget, (2) establishing policies of the delegation of administrative authority for approving and, where applicable, reporting specified budget transactions (such policies shall ensure appropriate balance between the need for Board of Trustees oversight while facilitating the effective and efficient operation of the University), and (3) establishing an organization structure and management team for University operations to ensure the approval and reporting of specified budget transactions in accordance with board policies. The following specifies the Board of Trustees requirement for prior board approval of specified budgetary transactions, the delegation of authority for specified budgetary transactions and the required board reporting of budgetary activities.

Prior Board of Trustees approval is required to authorize:

- ✓ The transfer of any unrestricted funding from the Personal Services and Benefits object of expenditure to any other object of expenditure.
- ✓ The transfer of any unrestricted funding from an object of expenditure that will cause the total transfers to exceed two percent of the total unrestricted funds budget.
- ✓ Individual unrestricted programmatic budget adjustments greater than \$2.0 million, exclusive of routine accounting transactions as defined in the glossary.
- ✓ The allocation or expenditure of a supplemental state appropriation, additional University Income Fund revenue and additional Institutional Fund revenue.

The Board of Trustees delegates to the President authority for:

- ✓ The transfer of any unrestricted funding from an object of expenditure, not including Personal Services and Benefits object of expenditure, that will not cause the total transfers to exceed two percent of the total unrestricted funds budget.
- ✓ An individual programmatic budget adjustment up to \$2.0 million in accordance with the University's needs, the policies and institutional priorities established by the Board of Trustees, and within total income as it accrues, exclusive of routine accounting transactions as defined in the glossary. Individual programmatic budget adjustments greater than \$1.0 million and less than \$2.0 million, exclusive of routine accounting transactions will be included in quarterly reports to the Board of Trustees.
- ✓ The reduction of departmental allocations necessitated by a decrease in the state appropriation, University Income Fund revenue or Institutional Fund revenue.

- ✓ The acceptance of restricted fund revenue. The board recognizes that restricted funds revenue and the object of expenditure categories of such revenue may vary from the estimated restricted funds operating budget approved by the board. Consequently, the board authorizes departmental restricted fund budgets and expenditures for the restricted purposes of the funds within the total income as it accrues. The board also delegates authority to the president to oversee restricted funds revenue for the restricted purpose and to allocate such restricted funds as the revenue accrues.

The Board of Trustees requires quarterly reporting as follows:

- ✓ Comparison of unrestricted fund budgets and projected expenditures by object of expenditure category.
- ✓ Unrestricted fund expenditures by campus and object of expenditure category.
- ✓ Restricted fund expenditures by campus and object of expenditure category.
- ✓ Comparison of University Income Fund revenue to budget.
- ✓ Comparison of ICR fund budget and projected expenditures.
- ✓ Comparison of ICR fund revenue to budget.
- ✓ Report of programmatic budget transfers, exclusive of routine accounting transactions, in excess of \$1.0 million but not greater than \$2.0 million.