

<p>Approved by the Board of Trustees, September 9, 2004</p>
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## Executive Summary, Annual Operating Budget Fiscal Year 2005

### University Revenue Budget FY2005

The University operating budget includes both unrestricted and restricted funds. Unrestricted funds are available for allocation at the discretion of the University. Restricted funds are available only for those programs and purposes specified by the donor, grantor, contractor, or state statute.

The University classifies unrestricted funds for budgetary purposes as state funds and institutional funds. State funds include both direct state appropriations to the University and the University Income Fund. Direct state appropriations represent operating support provided by the Governor and General Assembly from the General Revenue Fund, the Fire Prevention Fund, and the University Trust Fund (i.e., scholarships funded from license plate revenue). The University Income Fund includes tuition and miscellaneous University revenue. Institutional funds include indirect cost recovery (ICR), royalty, and administrative allowance funds.

Restricted funds include estimated revenue from grants and contracts (i.e., sponsored projects), federal appropriations, private gifts, endowment income, Medical, Dental & Nursing Service Plans (MSP, DSP, & NSP), Auxiliaries & Departmental Operations (i.e., Assembly Hall, Housing, Memorial Stadium, Parking, Pavilion, Sangamon Auditorium, Union operations, Intercollegiate Athletics, patient care at the Colleges of Dentistry, Pharmacy, and Veterinary Medicine, etc.), University Hospital, and state payments on behalf of the University. The following table compares the FY2004 and 2005 operating revenue budget by source of funds.

	FY04	FY05	<b>Change FY2004 - FY2005</b>	
			<b>Amount</b>	<b>Percent</b>
<b>Unrestricted Funds</b>				
Direct Appropriation	\$ 699,459	\$ 700,446	\$ 987	0.1%
University Income Fund	380,652	453,680	73,028	19.2%
ICR	194,819	218,894	24,075	12.4%
Royalties	17,990	12,533	(5,457)	-30.3%
Administrative Allowances	87,214	92,070	4,856	5.6%
<b>Subtotal Unrestricted Funds</b>	<b>\$ 1,380,134</b>	<b>\$ 1,477,623</b>	<b>\$ 97,489</b>	<b>7.1%</b>

**Estimated Restricted Funds**

Sponsored Projects	\$ 568,726	\$ 591,943	\$ 23,217	4.1%
Federal Appropriations	16,449	16,449	-	0.0%
Gift & Endowment Income	106,593	109,936	3,343	3.1%
Medical Service Plan	102,692	110,848	8,156	7.9%
Hospital	280,956	290,312	9,356	3.3%
Auxiliaries & Dept. Operations	423,069	437,709	14,640	3.5%
Payments on Behalf	330,500	347,025	16,525	5.0%
Subtotal Restricted Funds	\$ 1,828,985	\$ 1,904,222	\$ 75,237	4.1%
<b>Total Revenue Budget</b>	<b>\$ 3,209,119</b>	<b>\$ 3,381,845</b>	<b>\$ 172,726</b>	<b>5.4%</b>

The recommended \$700.4 million FY2005 direct state appropriation represents a \$987 thousand (.1 percent) increase in operating support from the Governor and General Assembly from the FY2004 operating budget. The appropriation includes an increase of \$1.55 million from the General Revenue Fund for three special legislative actions: \$1.0 million for the Chance Program at UIC, \$300 thousand for a study of rate reimbursements for mental health enterprises, and \$250 thousand for a UIC early outreach program. The increase also includes \$100 thousand in University Trust Fund, an increase of \$337 thousand from the Fire Prevention Fund for the Fire Services Institute, and a reduction of \$1.0 million from the Tobacco Settlement Fund that were used for economic development.

The recommended \$453.7 million FY2005 University Income Fund budget represents a \$73.0 million (19.2 percent) increase from the FY2004 operating budget. The 8 percent general program tuition increase approved by the board will generate approximately \$27.2 million. The additional 8 percent for tuition guarantee students generates another \$6.0 million. The University Income Fund increase also includes the last year of the four-year tuition increase program, generating approximately \$13.1 million. The University is earmarking these funds for financial aid and program improvements in the liberal arts and sciences, commerce, and other undergraduate programs. Special tuition differentials in engineering and business at UIUC, as well as in selected graduate programs at UIC and UIUC will generate approximately \$12.1 million. Enrollment increases will generate approximately \$5.6 million. Positive enrollment and collection fluctuations of approximately \$9.1 million account for the remaining University Income Funds increase.

The FY2005 University Income Fund revenue budget is net of tuition waivers, or approximately \$161.0 million. There are two basic types of waivers for undergraduates, statutory mandated waivers and discretionary institutional waivers. The State limits undergraduate institutional waivers to 3 percent of gross tuition. The approximate distribution of tuition waivers is 10 percent to undergraduates, 83 percent to graduate students, and 7 percent to students in professional programs. The University, as mandated by statute, reports tuition waivers to the IBHE and legislative staffs.

The University receives revenue as payments from sponsored projects for indirect project costs (ICR)<sup>1</sup>. Sponsored projects pay the University a percentage of the direct project costs as a means of reimbursing the University for indirect project costs. The recommended \$218.9 million FY2005 ICR operating budget represents a \$24.1 million (12.4 percent) increase from FY2004. The recommended ICR operating budget includes \$40.5 million carried forward from FY2004 and a \$178.4 million estimate of FY2005 ICR revenue. The use of ICR funds follows the 'University Guidelines' approved by the Board of Trustees and the Legislative Audit Commission. The allocation of FY2005 ICR revenue to individual ICR account budgets follows campus allocation formulas. The campus formulas provide appropriate incentives for promoting research activities and reflect the cost components of the ICR rate formula.

The primary sources of royalty revenues are payments for University-owned patents and copyrights. The recommended \$12.5 million royalty operating budget represents a \$5.5 million (30.3 percent) decrease from FY2004. The recommended operating budget includes \$6.6 million carried forward from FY2004 and a \$6.0 million estimate of FY2005 royalty revenue. The allocation of FY2005 royalty revenue to individual departmental royalty accounts follows a campus allocation formula. The campus allocation formulas provide appropriate incentives for promoting royalty-generating activities and approximate the costs incurred for the royalty programs.

The primary sources of administrative allowance revenue are payments by auxiliary enterprises, the Hospital, and MSP for University services. The payments are a percentage of the direct costs. The recommended \$92.1 million administrative allowance operating budget represents a \$4.9 million (5.6 percent) increase from FY2004. The recommended administrative allowance operating budget includes \$51.2 million carried forward from FY2004 and a \$40.9 million estimate of FY2005 administrative allowance revenue.

Grantors and contractors restrict the use of sponsored project funds for a specific scope of work and faculty member (Principal Investigator). The FY2005 sponsored project budget is an estimate of grant and contract awards for direct costs. The \$589.9 million estimated sponsored project budget represents a \$21.2 million (3.7 percent) increase from FY2004.

Federal appropriations are funds provided by the federal government for the College of ACES. The \$16.4 million estimated federal appropriations budget is unchanged from FY2004.

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<sup>1</sup> Direct costs are easily and directly identifiable with a particular sponsored project or with the University's instruction, research, public service, or economic development activities. Indirect project costs are common or joint cost and therefore are easily and directly identifiable with a particular sponsored project or any other institutional activity. Since these costs are not easily and directly identifiable with a single grant or contract, it is necessary to share the costs over all grants and contracts.

Private gifts represent funds received from donors in support of the University's annual operating budget. Endowment income funds are allocations from investment income on University and University of Illinois Foundation endowments for use in the annual operating budget. The University's endowment pool budgeted spending program for FY2005 is 4.75 percent of the seven-year moving average endowment market value. The purpose of the budgeting approach is to ensure that annual spending for the donor specified programs and the endowment principal keep pace with inflation. The majority of donors designate the use of gifts and endowments for a specific scope of work or department. The \$109.2 million private gifts and endowment income operating budget represents a \$2.6 million (2.5 percent) increase from FY2004.

The faculty in the Colleges of Medicine, Dentistry, and Nursing generate MSP, DSP, and NSP revenues by providing and billing for patient care services. The departments contribute a portion of this revenue to the dean's office for the operation of the college and retain the balance of the revenue. The recommended \$110.8 million FY2005 MSP, DSP, NSP operating budget represents an \$8.2 million (7.9 percent) increase from FY2004.

The University Hospital generates revenue for providing patient services in the hospital and clinics. The hospital retains the revenue it generates. The recommended \$290.3 million FY2005 hospital operating budget represents a \$9.4 million (3.3 percent) increase from FY2004.

Auxiliaries and departmental operations (i.e., Assembly Hall, Housing, Memorial Stadium, Parking, Pavilion, Sangamon Auditorium, Union operations, Intercollegiate Athletics, patient care at the Colleges of Dentistry, Pharmacy, and Veterinary Medicine, etc.) generate revenue from the sale of products and services. The departmental activities retain the revenue they generate. The recommended \$437.7 million FY2005 operating budget represents a \$14.6 million (3.5 percent) increase from FY2004.

State payments on behalf of the University are appropriations to the State Universities Retirement System (SURS) and the Department of Central Management Services (CMS) to pay the employer's contribution to SURS and a portion of the cost of providing health insurance to employees paid from State and selected restricted funds. The estimated \$347.0 million FY2005 operating budget represents a \$16.5 million (5.0 percent) increase from FY2004.

### **University Expense Budget FY2005**

The University classifies its operating expenditures in object of expenditure categories. The State Finance Act defines object of expenditure categories as personal services, contractual services, commodities, equipment, travel, etc. This form of appropriation restricts the use of the funds to the specific object of appropriation categories. Beginning in FY2005 the University's direct state appropriation is made by object-of-expenditure at the total University level.

The following table compares the FY2004 and FY2005 unrestricted and restricted funds operating budget by object of expenditure category. All amounts are in thousands.

	FY04	FY05	Change FY2004 - FY2005	
			Amount	Percent
<b>Unrestricted Funds</b>				
Personal Services & Benefits	\$ 1,007,067	\$ 1,075,734	\$ 68,667	6.8%
Contractual Services	205,046	219,714	14,668	7.2%
Travel & Automotive Equipment	11,463	12,213	750	6.5%
Commodities	26,004	28,159	2,155	8.3%
Equipment	53,254	57,946	4,692	8.8%
Telecommunications	10,953	12,553	1,600	14.6%
Permanent Improvements	7,560	8,081	521	6.9%
Awards and Grants	24,518	30,518	6,000	24.5%
Medical Devices (DSCC)	6,818	5,818	(1,000)	-14.7%
Special Appropriations	2,558	1,994	(564)	-22.0%
Health Insurance	24,893	24,893	-	0.0%
Subtotal Unrestricted Funds	\$ 1,380,134	\$ 1,477,623	\$ 97,489	7.1%
<b>Restricted Funds</b>				
Personal Services & Benefits	\$ 657,673	\$ 686,687	\$ 29,014	4.4%
Contractual Services	436,888	454,005	17,117	3.9%
Travel & Automotive Equipment	24,029	24,970	941	3.9%
Commodities	160,582	166,874	6,292	3.9%
Equipment	82,600	85,836	3,236	3.9%
Telecommunications	14,945	15,534	589	3.9%
Permanent Improvements	3,004	3,121	117	3.9%
Awards and Grants	73,589	76,472	2,883	3.9%
Medical Devices (DSCC)	3,124	-	(3,124)	-100.0%
Mandatory Transfers	42,051	43,698	1,647	3.9%
Payments on Behalf	330,500	347,025	16,525	5.0%
Subtotal Restricted Funds	\$ 1,828,985	\$ 1,904,222	\$ 75,237	4.1%
<b>Total Expense Budget</b>	<b>\$ 3,209,119</b>	<b>\$ 3,381,845</b>	<b>\$ 172,726</b>	<b>5.4%</b>

## **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.

### **FY2005 Board Budget Initiatives**

The following is an overview and status report of major budgetary issues addressed with the board during the past fiscal year.

- ✓ As a public institution the University of Illinois has a commitment to ensure full access for all qualified Illinois residents, regardless of their income level. In addition to federal and state programs, the University sets aside institutional funds to supplement students' financial aid packages. In FY1996 undergraduate tuition and mandatory fees at the Chicago and Urbana campuses exceeded the maximum MAP award defined by the Illinois Student Assistance Commission (ISAC). To bridge this gap for MAP recipients, the University began supplementing MAP grants from University resources. The cost of this program increased significantly as both ISAC and the University faced large budget reductions in the past three years. At the request of the board, in the spring of 2003, the board received a report on tuition and financial aid. In July of 2004 the board adopted a set of guidelines and formulas for future funding of this MAP supplemental program. The amount of supplemental aid will increase proportional to the undergraduate revenue increases from tuition. For FY2005 the budget for this program is \$21.4 million (\$13.3 million at UIC, \$8.1 million at UIUC, and \$51 thousand at UIS).

- ✓ One outcome of the recently completed Administrative Review transfers organizational responsibility for the University's Offices of Technology Management to the Vice President for Technology and Economic Development and mandates the utilization of common systems and processes in the management of the University's intellectual property. This transfer of responsibilities from the Vice Chancellors for Research to the Vice President for Technology and Economic Development will be completed this fall.
  
- ✓ In March 2003 the board directed the president to "Examine all existing administrative structures and return to the board with proposals for consolidation, streamlining, and simplifying administrative structures wherever possible...the study should cover business, financial, and human resource operations at every level of the organization; facilities planning and management operations; public affairs and external relations; and all other support activities." The review included 17 functional areas with a total budget exceeding \$234.0 million. The discovery phase determined that \$156.0 million of the \$234.0 million was within the scope for further administrative review. Over a multi-year period, the University will eliminate at least 57 top administrative positions and reduce discretionary administrative costs by 25 percent. The goal is to improve services, reduce costs and redirect savings to the University's missions of instruction, research, and public service. Review of strategic sourcing of commodities and streamlining will continue through FY2005.