

Board Meeting
June 5, 2006

ROLL CALL

PRELIMINARY OPERATING BUDGET FOR FISCAL YEAR 2007

Action: Approve Preliminary Operating Budget for Fiscal Year 2007

Funding: FY 2007 Operating Funds from All Sources

The University's preliminary operating budget from all sources of funds for the fiscal year beginning July 1, 2006 (Fiscal Year 2007) 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. Review of FY 2007 budget plans will also occur at the July Board meeting in the context of initial discussion of the Fiscal Year 2008 operating budget request. Final approval of the detailed operating budget will be brought to the Board at its September meeting.

Consideration of FY 2007 budget issues began in July 2005 with the Board's review of the preliminary FY 2007 request, and its approval of that request in September 2005. Discussion of FY 2007 funding requirements and University-wide priorities occurred during the Board's review of several items throughout the year, including strategic planning discussions at several points in the year, tuition increase issues in November 2005, and in April 2006 when FY 2007 tuition increases were approved.

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 2007 budget passed by the General Assembly and approved by the Governor. The budget calls for an increase of approximately \$12.8 million or 1.8 percent in FY 2007 total state tax support for the University of Illinois from current-year levels.
- Incremental tuition income of \$53.5 million based upon board-approved tuition increases along with more targeted rate changes for specific programs, adjustments for enrollment levels and projections, and other technical adjustments.
- Sponsored program support (primarily federally funded research grants and contracts) and indirect cost recovery (ICR) income rising at a 2.8 percent rate. This estimate reflects continued strong and successful competitive efforts by University of Illinois faculty to secure research support, even as federal funding for research is expected to remain flat in most areas. Adjustments to indirect cost amounts also reflect lower carry-forward amounts as those funds are used to offset the impact of substantial rises in energy costs.
- Hospital and Medical Service Plan increases of 5.4 percent and 2.8 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 \$10.5 million or 8.4 percent, reflecting increasing efforts to generate gift support.
- The new Academic Facility Maintenance Fee of \$250 per semester for newly enrolled students, which is projected to generate \$7.4 million for the first year in which it is in place.
- "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 \$61.8 million, or 18.9 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 2007 are strengthening academic quality, ensuring access, addressing deferred maintenance, and meeting inflationary cost increases. An allocation of \$50.2 million is planned for academic quality initiatives that include a salary increase program for faculty and staff between 2.5 percent and 3.0 percent at a cost of \$26.2 million, \$22.0 million for academic programs and new faculty, and \$2.0 million for Illinois VENTURES. Support for financial aid programs is increased by \$3.9 million, and deferred maintenance is increased by \$6.5 million as a result of the Academic Facilities Maintenance Fund Assessment. Finally, \$15.5 million is set aside for meeting inflationary costs in areas such as insurance, operations and maintenance of new facilities, 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 \$3.7 billion preliminary FY 2007 unrestricted and restricted funds operating budget, beginning July 1, 2006, as outlined in Attachment A. 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 2007 unrestricted funds operating budget estimate of \$1.58 billion represents a \$67.9 million (4.5 percent) increase over FY 2006. The FY 2007 restricted funds operating budget recommendation of \$2.1 billion represents a \$136.6 million (6.9 percent) increase from FY 2006. (Excluding "Payments on Behalf," over which the University has no direct control, the restricted funds total represents a 4.5 percent increase over the current year.) Refinements in any of the estimates in this preliminary budget will be reflected in the final FY 2007 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 (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 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.