FY 2012
BUDGET REQUEST

FOR
OPERATING
AND
CAPITAL FUNDS

PREPARED FOR THE
BOARD OF TRUSTEES
SEPTEMBER 23, 2010

UNIVERSITY OF ILLINOIS
URBANA-CHAMPAIGN • CHICAGO • SPRINGFIELD

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INTRODUCTION

Overview

Higher education in the second decade of this century faces unprecedented challenges. Across the United States great public universities such as the University of Illinois have never been more important to the nation's future. Whether through the students we serve, our programs of scholarship and research, or our service to society through our hospitals and clinics and in a myriad of other ways, what happens on our campuses matters greatly to the future of America.

The challenge faced by this University and others is one of maintaining the highest standards of quality while at the same time keeping access affordable. In many states, that challenge has become more daunting as a result of a weakened economy and the mounting financial crises facing state governments. The great public and land-grant research universities across America have been and are the foundation of innovation and discovery.

The University of Illinois: World-class University, statewide impact.

When you say "the University of Illinois," it conjures up in the mind of some beholders a traditional campus with red-brick buildings arranged symmetrically around tree-lined quads. Others envision an urban university with Walter Netsch Brutalist architecture in its East campus and the largest medical school in the nation and accompanying health-oriented colleges a mile or so west. Others think of an intimate, relatively new campus that seems to have been called up from out of the Illinois prairie for a special purpose.

Indeed, the Urbana-Champaign, Chicago and Springfield campuses all perform their traditional teaching and learning missions well. Each campus has distinctive research strengths: Urbana with its science, agriculture, high-tech, engineering and interdisciplinary projects; Chicago with its medical, health professions and urban research projects; and Springfield in the state's capital with its public policy, political and media strengths.

The traditional higher education functions thrive at the U of I with its 75,500 students and 18,500 graduates in 600 degree programs annually. More than 7,000 students annually earn U of I advanced degrees—master's degrees, MBAs, law degrees, health discipline degrees, veterinary medicine degrees and doctorates from the three campuses.

All that traditional campus-based activity, notwithstanding, the University of Illinois is making a difference every day in every one of Illinois' counties. Start with Cooperative Extension, based at the Urbana campus' College of Agriculture, Consumer and Environmental Sciences ("ACES" to the campus denizens.) Cooperative Extension continues to maintain four core program areas: agriculture and natural resources, community and economic development, family and consumer sciences and 4-H youth development. Major program initiatives focus on the issues of energy and environmental stewardship; food safety and security; sustainable, economic development and workforce preparedness; family health, financial security and wellness; and youth development.

The University of Illinois is making a difference every day in every one of Illinois' counties.

In 2009, the UIC College of Medicine facilities provided 448,500 outpatient visits especially important to low-income patients in Chicago, Peoria, Rockford and Urbana. The Rockford campus also provides service in Rockton, Belvidere and Mt. Morris. The UIC College of Medicine has a branch in Peoria, Urbana and Rockford. All educate physicians and are deeply embedded in the communities' overall health-care effort. The College of Medicine at Peoria is part of a public-private partnership building a new cancer research center. The College of Medicine at Urbana offers advanced research M.D./Ph.D. programs. Rockford boasts a national center on rural medicine, dedicated to the study, understanding and dissemination of information on the special health and wellness needs of rural citizens. Additionally, the College of Pharmacy is establishing a regional campus in Rockford, allowing pharmacy students with rural backgrounds to collaborate with medical students to address the health care needs of rural Illinois communities. This complements the Chicago campus' urban emphasis.

In 2009, the University's research efforts brought $800 million into the state along with 333 technology disclosures, 57 patents and 49 licenses and options to commercialize new technologies, some of which that will become the products, industries and job-generating companies of the future. In the last six years, 59 start-up companies commercializing University-generated technologies got up and running. The business incubation facilities at the Urbana-Champaign and Chicago campuses house more than 50 start-up and established companies, including John Deere, Caterpillar, Archer Daniels Midland, State Farm and high-tech heavyweight, Yahoo!.

Appropriately for a university located in a very political state capital, the University of Illinois at Springfield brings a communication, living-laboratory approach to the policy, politics and politicos that dominate the city. Many of UIS' faculty and staff have long ties to state government and media, and function as policy experts and media contacts for media statewide and beyond. More than 6,400 UIS graduates live in Springfield. There's also the Institute of Illinois Government and Public Affairs with policy and political experts on all three U of I campuses.

Back on the Urbana campus, the Police Training Institute, which was established by the General Assembly in 1955, is one of the nation's largest and longest-serving law enforcement training efforts. The academy provides basic and advanced law enforcement training for Illinois police, sheriffs and correctional officers. The institute also functions as a central source of law-enforcement information and best practices from other states. In 2009, the institute provided training to more than 1,300 Illinois law-enforcement officers.

The University of Illinois is a treasure for our State and its people.

The Illinois Fire Institute, also on the Urbana campus, offers on-campus and online instruction and certifications for the state's 42,000 fire fighters in 1,200 departments. Courses, offering college credits, range from fire-fighting basics to rescue techniques to investigation-prevention to homeland security and weapons of mass destruction response. In 2009, the Illinois Fire Institute provided training to more than 59,000 firefighters. The specialized training the state's law-enforcement and fire fighters receive translates into lives saved and property damage minimalized.

The U of I employs more than 25,000 and provides an annual direct and indirect economic impact of $13 billion and creates 150,000 jobs yearly. The University spends $4.3 billion on payroll, supplies and services. And for every dollar the state of Illinois spends, an additional $17 is infused into the state's economy.

The University of Illinois is proud of its campuses, but they're just the beginning. We're also proud of the difference the University of Illinois makes in the prosperity and quality of the lives of thousands of Illinoisans all over the state every day. Many of these stakeholders care deeply about the state of the University and its future. Stewardship requires that the University's leaders–from trustees to administration, from Foundation to college advisory boards, from active alumni to entrepreneurial faculty, from tuition payers to taxpayers–share an unshakable commitment to the value and the values of public higher education, and particularly to the University of Illinois.

The University of Illinois is dynamic treasure because of the transforming power of education in people's lives.

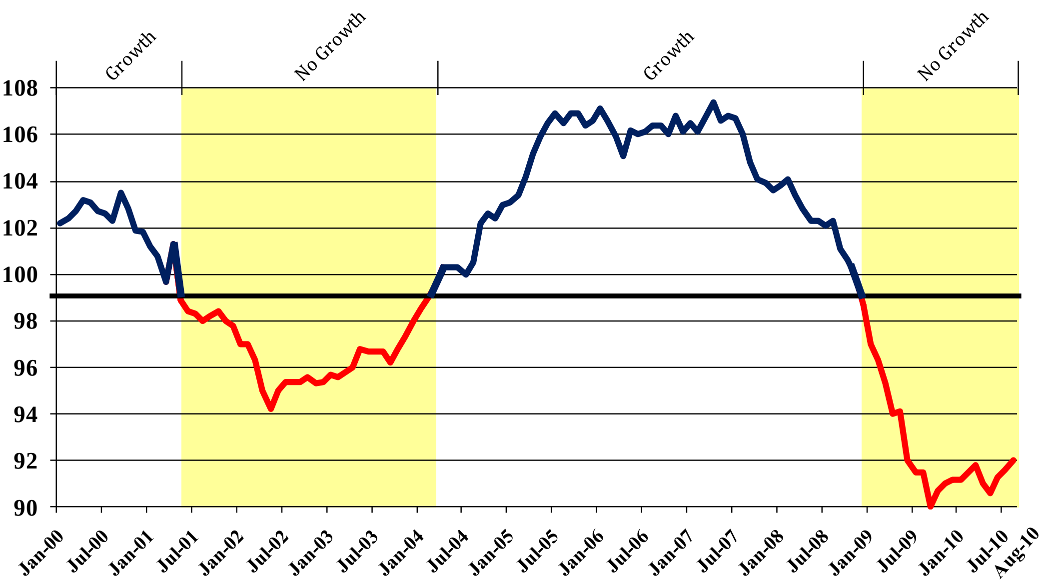
The University of Illinois is a treasure for our State and its people. But it is a dynamic treasure, not a museum treasure. It is dynamic because of the transforming power of education in people's lives. Ultimately the greatest contribution of the University of Illinois over its more that 140-year history is on the lives of the students who have come to our campuses, learned in our classrooms, talked with our faculty, studied in our libraries, worked in our laboratories and graduated to weave the fabric of our nation. They have done remarkable things–big and small. They help build our society, shape our culture and fuel our economy. They are the engaged and informed citizens on whom our democracy depends.

Today, in the face of new technologies and the forces of globalization, a quality education has never been more important in enabling people to achieve their dreams. We see the growing divide between people with good education–people who have bright prospects for their lives–and people who lack a good education and, as a result, face tough times which are likely only to get worse. The University of Illinois is a dynamic treasure because knowledge–the original, cutting edge knowledge that comes from research–is the true capital of the new economy. Land and natural resources still matter in a state's endowment. But educated people and knowledge that create industries to put those people to work matter more. The University of Illinois is a research powerhouse.

ECONOMIC ENVIRONMENT

The context in which the University of Illinois is requesting funding is important. This decade has been a challenging one for the State. The nation, and Illinois, had a significant economic downturn in the early part of this decade. As measured by the University's Institute of Government and Public Affairs "Flash Index" in Figure 1, the Illinois economy had an extended period of contraction (as shown by the shaded area) from May 2001 to May 2004.

Figure 1
U of I Flash Index

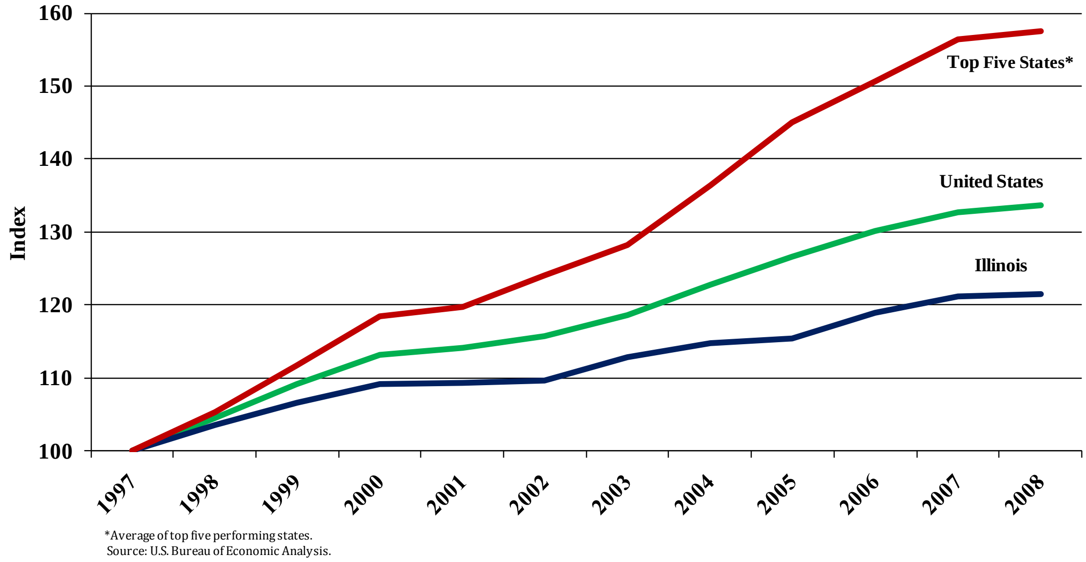


Source: IGPA, U of I.

This was followed by more than four years (from May 2004 to September 2008) when the Illinois economy expanded significantly, as did tax revenues. However, in the past year the nation and State has fallen into what has been termed the "Great Recession," the deepest and most prolonged economic downturn since the Second World War.

However, even when growing, Illinois economic growth has been below national averages. State employment has lagged national averages; manufacturing employment is more than 25% below 1998 levels with overall employment still below the 2000 peak. Trends for the last decade show that Illinois has significantly underperformed national growth as measured by Gross Domestic Product as shown in Figure 2 and was even further behind the top five states. While it is possible that this trend may reverse, there is little evidence of this happening.

Figure 2
Change in Real Gross Domestic Product by State
1997 – 2008



In addition to economic growth weaker than national trends, the State has another major problem specific to Illinois. The State's five public pension systems are also underfunded due to under funding from the State for several decades and because of the historic drop in financial markets over the last two and one-half years. Unfunded liabilities were over $62.4 billion at the end of FY 2009 and the asset to liability funding ratio will be under 47% (estimated) at the end of FY 2010. In March 2010, the Illinois General Assembly passed major pension reform legislation that significantly reduced benefits for future state employees. PA96-0889 was signed by the Governor on April 14, 2010. Even with these changes, state payments to the retirement systems are estimated to increase from $3.5 billion in FY 2011 to over $4.8 billion by FY 2014, or approximately $400 million per year, and it is projected that funding levels will drop to 37% system wide for the next decade.

A NEW BUDGET FRAMEWORK

For the University of Illinois, the early 1990s brought diminished State tax support with two years of outright reductions in combination with general tuition increases held to the level of inflation. What has changed substantially from the earlier period has been the University's determination to redirect resources internally. In earlier times, reallocations might have been made on an ad hoc basis to accommodate declining support, but with the expectation that the next year's funding from the State would improve. Now, however, the University has a renewed emphasis on the importance of adopting long-term budget planning strategies that include redirection of existing resources as an integral component augmenting tax and tuition support.

The University of Illinois has faced a harsher financial environment in this decade than at any time in the last half century. The State appropriation to the University of Illinois from general revenue funds is $697.1 million for day-to-day operations in FY 2011. Along with student tuition, these funds pay most of faculty and staff salaries and wages; heat, cool and light our buildings; put books in the libraries; and equip classrooms and instructional labs. It is the foundation for our central mission of teaching, research, public service and economic development. The University Administration and faculty have worked closely with the Board of Trustees to address key issues of resource management, administrative reorganization, tuition and financial aid policies.

Redirection of existing resources to meet high priority funding needs is an integral and ongoing part of the University's annual budget process.

During FY 2002, the economic environment and outlook for State revenues changed dramatically. From FY 2002 to FY 2005, the direct general tax appropriation from the State declined by more than 16%, representing a loss of $130 million. Consecutive years of mid-year rescissions totaled more than $75 million. In FY 2009, spending authority was reduced mid-year by $18.6 million. Although FY 2010 appropriations restored the mid-year cut in FY 2009 (with support from federal stimulus funds of $45.5 million), the University's budget was reduced $46.4 million, a 6.2% reduction when the federal stimulus funds expired. In addition to these direct reductions, the University has faced unavoidable increases in expenses such as Medicare payments, utility costs, legal liability costs, operations and maintenance for new buildings and contractual agreements, even without two years of general salary increases.

The total reductions, redirections and unavoidable expenses facing the University have been over $385 million over the last eight years. Even with the addition of tuition increases, these reductions have placed extreme stress on the University. Since FY 2002, the University has lost over $1 billion in spending authority. Given those realities, the University has worked hard to reduce its budget. Principles were articulated to guide budget reduction steps. The funds from these reductions were used to protect core missions of the University. The impact is felt now and will be for years to come.

However, cost reductions alone cannot cover the entire burden of reduced State support. Over the next few years, the University will continue to be in jeopardy of losing faculty, administrative, professional and support staff positions. Many, but not all, personnel reductions can be addressed through attrition and closing vacant positions. The effects of these reductions are serious and long-lasting. Our ability to compete and sustain quality is severely strained. At the very time in which the number of Illinois high school graduates is rising and the economic value of a college degree grows, cuts of the magnitude levied in past years threaten the ability of Illinois' higher education system to fulfill its mission and meet the expectations of policy makers and the general public about the quality, scope and scale of programs for which they have come to expect for Illinois. Stated simply, the University of Illinois is doing everything possible to protect the quality of its instructional programs.

Direct State Appropriations for FY 2011 were reduced $46.4 million or down 6.2%.

Understandably, attention has been focused on the immediate and unavoidable problems that the budget reductions present. However, it is even more critical for University leaders, legislative leaders and the executive branch to also assess the long-term impact of these cuts. Illinois' ability to compete effectively in an information-age economy depends on a healthy, vital and robust system of higher education. Budget cuts and reductions of the magnitude implemented from FY 2002 to FY 2011 and the current financial challenges of the State, jeopardize each of those qualities.

The University has recognized the importance of addressing budget requirements via multiple sources, and it is clear that the single most important sources of budget strength remain State tax dollars and tuition. Direct State support now represents less than one-fourth of the University's total operating budget and, in combination with tuition revenue, represents virtually the entire funding for instructional programs. The University of Illinois cannot sustain, let alone enhance its quality without a firm foundation of annual State support.

Beginning in FY 2009, a cash flow crisis was felt by public institutions when the State of Illinois was unable to make state payments needed and promised in a timely fashion. The University of Illinois has done what it can do to forestall this crisis by enacting countless measures to save resources and postpone payments until the last possible minute. Ongoing financial commitments on all our campuses must be met. Without full funding of our appropriations in a timely manner, we will be forced to take even more drastic actions that will diminish the educational opportunities of our students and our service to the people of Illinois. Still, no amount of cutting and sacrifice can make up for the absence of State appropriation payments. Especially in these difficult times we must be able to rely on the State of Illinois as our partner.

ADMINISTRATIVE REVIEW AND RESTRUCTURING (ARR)

The University has a successful history of delivering quality administrative services in a cost efficient manner and, in recent years, administrative units at all levels of the organization have intensified efforts towards this end. The largest administrative initiative ever undertaken by the University was the UI-Integrate/Banner project completed in 2003, which wove a spider web of hundreds of legacy administrative systems into a set of centralized modules for key administrative services that can be maintained efficiently. It also allowed for a significant reduction in the central administrative computing staff.

In fiscal year 2004, in response to three consecutive years of state budget rescissions and reductions, the University developed an Administrative Reduction Plan that led to reductions in administrative costs totaling $37.4 million, including $5.75 million of compensation costs for 57 administrative positions that were eliminated over the course of an 18-month period. According to external consultants engaged by the University in 2005, administrative overhead costs at the University of Illinois were the lowest among all Illinois public universities and seventh lowest among the Big Ten schools.

Beginning in 2008, the University began forward purchases of natural gas to create price certainty for fuel costs and introduced other measures to control rising energy costs. In FY 2009 and FY 2010, the University embarked on a three-year plan to reduce administrative costs by $15.05 million, half within university administration and the other half spread over the three campuses. The first year of the three year administrative cost reductions have already been completed.

The proposals outlined in the ARR report could cumulatively lead to annual cost reductions in the range of $50 to $60 million within two to three years and offer options for the University of Illinois to pursue as it confronts an era of unprecedented financial challenges. The savings will accrue at multiple levels of the organization—from university and campus administrations to individual colleges and departments, and will be across all fund sources. It should be understood, however, that investments in administrative services will still be required in order to improve business processes, meet compliance and regulatory requirements and respond to needs of new academic initiatives. Going forward, the fiscal pressures on the University resulting from reduced state appropriations and cost increases will be substantial and impossible to manage without a more disciplined approach to allocating resources and setting priorities for investments.

FY 2011 BUDGET OUTCOMES

Achieving salary competitiveness for all employees remains a top priority for redirected funds.

The legislative budget process for FY 2011 concluded with cuts to nearly every agency of the State. For Fiscal Year 2011, State support for the University operating budget was reduced by $46.4 million or down 6.2% to $697.1 million. The reduction in funding resulted from the loss of one time funds from the American Recovery and Reinvestment Act of 2009 (ARRA) known as federal stimulus funds. Even with overall State budget reductions of $1.4 billion, State appropriations exceed expected State revenues. The General Assembly was unable to pass legislation to fund the FY 2011 pensions with pension obligations bonds, putting additional stress on general revenue funds. Continued actions on the State budget during the year are expected. Additional tuition revenues were derived from general increases for all students and the continued phase in of special-purpose increases from which all income was specifically dedicated to improvement of instructional programs largely at the graduate professional level.

In 2003, the University of Illinois Act was amended (110 ILCS 305/25) to include a four year tuition guarantee for new students beginning with the fall 2004 cohort. The purpose of the undergraduate guaranteed tuition plan is to provide a high degree of certainty about tuition costs for students and families. The plan applies to all undergraduate students enrolled in a baccalaureate degree program on one of the three campuses of the University of Illinois and the other nine public universities in the state. The plan treats every student as part of a cohort defined by the date of entry to the University. Each freshman-class cohort is guaranteed an unchanged tuition schedule for four years.

FY 2010 ended the absence of new State funded capital projects for the University of Illinois with the passage of a $31 billion State capital budget. The capital bill included projects at all three campuses as well as repair and renovation funding for existing facilities.

In FY 2011, a total of $7.4 million was redirected through internal reallocations. The reallocations accomplished are outstanding examples of program advances that are possible when incremental tax and tuition revenues are coupled with significant internal reallocation. Continued internal reallocations will allow the University to address the most pressing needs.

The following tables and figures illustrate the changes in funding that higher education has experienced in the recent past. The State faces many legal mandates and entitlements that require increased funding now and in the future and has also determined that health care and elementary/secondary education are the State's highest priorities. In sum, there are more high priorities for State funding than available resources. The result has been limited available funds for direct appropriations to public universities. Funding improvements for the State's educational systems at all levels was frequently cited as among the State's highest budget priorities; budget needs for education have played a central role in the justification for recent tax increases. A closer examination of actual State tax appropriations, however, reveals that higher education's share of the State budget today is well below its position prior to the income tax increase of 1989-1990.

Table 1 illustrates that the budget share for higher education has dropped substantially since that increase was enacted, resting today at a level below that prior to the tax increase. For FY 2011, elementary/secondary education continued to be above their 1980 share of 28.8%. For FY 2011, higher education's share of the total budget is projected to increase slightly to 9.9%, up from 9.5% a year earlier. The State Pension fund portion of SURS funding for FY 2006 and FY 2007 was significantly reduced over prior estimates of funding need due to PA 98-4. In FY 2008 the legislature increased funding to all five pension systems to get them back on track with a goal to a 90% funding ratio. For FY 2011, full funding of the actuarial value for all of the State Pension Systems, will be funded from general funds unless legislation is passed to issue pension obligation bonds.

Table 1
State of Illinois General Tax Appropriations
(Percent Share of the Total)

Year	Elementary/ Secondary	Higher Education	DCFS, Human Services, & Corrections	DHFS	All Other
1980	28.8%	12.9%	10.7%	33.8%	13.7%
1990	26.7%	13.1%	12.9%	30.7%	16.6%
1995	23.6%	11.3%	15.9%	35.4%	13.8%
2000	26.3%	11.0%	25.9%	23.1%	13.7%
2001	26.1%	11.1%	25.8%	23.5%	13.6%
2002	26.4%	11.1%	25.8%	22.5%	14.3%
2003	27.0%	10.9%	26.1%	23.3%	12.8%
2004	28.4%	9.9%	24.4%	29.1%	8.2%
2005	30.0%	9.6%	24.8%	26.3%	9.3%
2006	27.9%	8.9%	23.5%	30.7%	9.0%
2007	28.9%	8.8%	22.5%	30.5%	9.3%
2008	30.1%	7.9%	22.8%	29.9%	9.3%
2009	30.1%	7.9%	21.8%	28.7%	11.5%
2010	31.0%	9.5%	21.7%	26.2%	11.6%
2011	31.8%	9.9%	20.3%	26.3%	11.7%

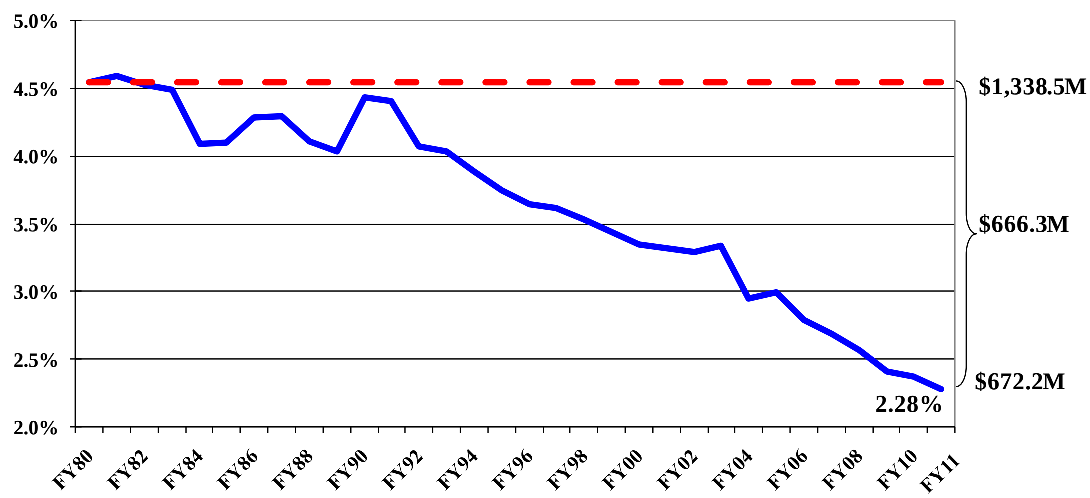
Note: Beginning in FY04 the State's Group Health Insurance program moved from CMS (all other) to DHFS (fka Public Aid)

FY10 & FY11 include allocation for pension funding.

During the same period, budget shares for other human and social services have risen sharply. Just before the 1989-1990 tax increase, the State invested almost identical shares of its budget in higher education (13.1%) and the combined set of major human service agencies, which includes children and family services, human services and corrections (12.9%). By FY 2011, that relationship had changed dramatically. The three human service agencies together have climbed to a share of 20.3%, growth of 57.4%, while higher education has fallen to 9.9%, a decline of about 24.4%.

As a result of higher education's declining share of general tax appropriations, Figure 3 illustrates that the budget share for the University of Illinois has dropped substantially as well. Prior to the income tax increase of 1989-1990, the University of Illinois share of total State tax appropriations was 4.4%. For FY 2011, the University of Illinois share had declined substantially, down to approximately 2.3%, a 49.9% decline.

Figure 3
University of Illinois
Share of State Tax Appropriations

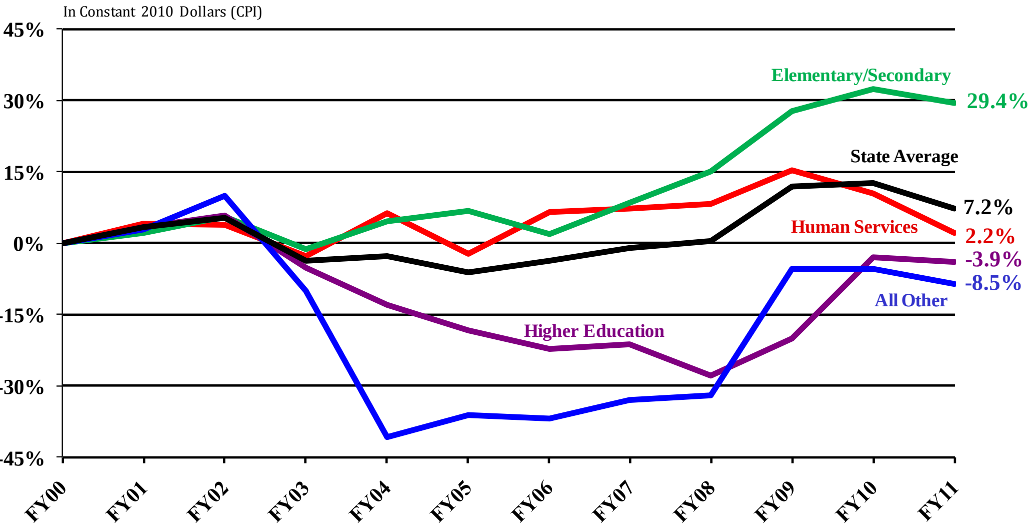


FY02-FY11 exclude $45 million in payments to CMS from Universities for Health Insurance.

Higher education tax appropriation increases have lagged those of the major social and human services since FY 2000, after accounting for inflation.

Changes in tax support among State agencies are further demonstrated by the trends shown in Figure 4, which illustrate tax funding shifts for State agencies since FY 2000 after appropriations are adjusted for inflation. The significant boost in recent years to elementary/secondary education has brought its budget experience well over the statewide average. Fiscal needs of agencies that support children and family services, mental health and corrections have been a high State priority and their budgets, while below the statewide average after accounting for inflation, remain positive.

Figure 4
State Tax Appropriations Changes by Agency

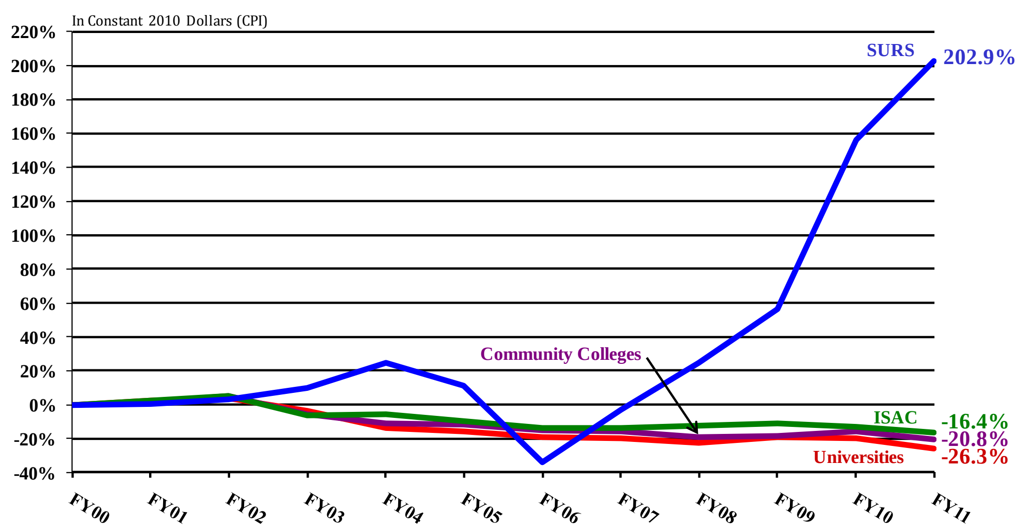


FY02 – FY11 exclude $45 million from higher education for Health Insurance payment to CMS.

Unfortunately, higher education has seen gains from the late 1990s and early part of this decade completely eroded. Tax support has varied dramatically within the four largest segments of the higher education budget as well as shown in Figure 5, again adjusted for inflation.

Within the higher education budget, appropriations for SURS have captured a significant share of the funding since FY 2000 after accounting for inflation.

Figure 5
Cumulative Change in State Tax Appropriations by Higher Education Sector



FY02 – FY11 exclude $45 million from higher education for Health Insurance payment to CMS.
SURS: FY05-FY11 includes State Pension Fund, FY10 & FY11 SURS includes full funding from pension obligation bonds.

The most significant factor highlighted in Figure 5 is the dramatic growth experienced in State Universities Retirement System (SURS) funding between FY 2002 and FY 2011. Responding to legislation setting out a multi-year plan to bring SURS support in line with its obligations to employees who are retired or will retire from the State's public colleges and universities, SURS received a significant but absolutely essential budget boost to preserve the strength of the retirement program serving higher education. The 1995 "catch-up" law combined with the bond sale created a very large pension funding obligation that, along with rising Medicaid and other program costs has posed a severe challenge to the State for the past few years.

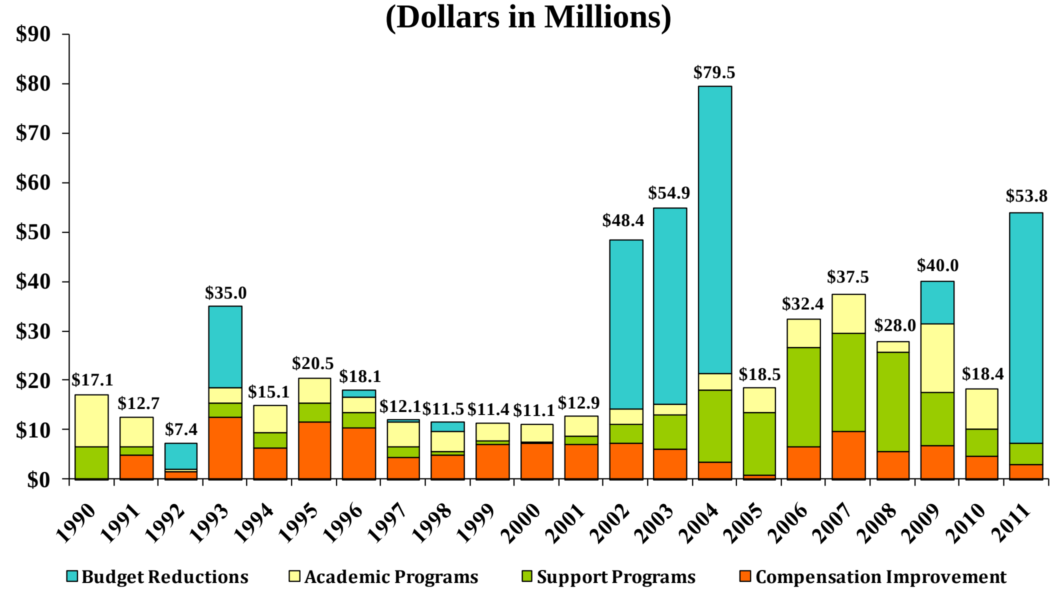
The Governor and General Assembly responded by approving PA 98-4, which reduced the State's required pension contributions to all systems by about $1.2 billion in FY 2006 and $1.1 billion in FY 2007 and recalculated the pension catch-up amounts required in FY 2008, FY 2009 and FY 2010. SURS contributions were reduced to about $167 million (from $365 million) in FY 2006 and $252 million (from $432 million) in FY 2007. However, in FY 2008 the State's contribution to SURS increased to $340 million and in FY 2009 increased to $457 million. Facing an increase in pension funding of $1.2 billion ($250 million increase for SURS), the Governor signed bills authorizing the sale of pension obligation bonds to fully fund the systems for FY 2010. Again facing a significant increase in pension funding for FY 2011, the General Assembly responded by passing significant pension reform legislation that the Governor signed into law as PA096-0889, impacting the pension benefits for future State and University employees. The legislature however, was unable to pass legislation that would allow the state to fund the FY 2011 pensions with pension obligation bonds. It is anticipated that the State will recertify funding levels required for FY 2011. Unless legislation is passed to issue bonds, the state will be required to fund the systems with general revenue funds, decreasing the ability to support other state operations, including Higher Education. SURS funds do not fall under the governance of the Board of Trustees or administration of the University of Illinois. Even with improved investment earnings in the late 1990s, changes in accounting practices mandated by federal agencies, refinements in assumptions affecting long-term forecasts for pension liabilities and the creation of optional retirement plans, the growth rate in SURS support will continue to be significant for many years. The General Assembly and Governor continue to review retirement systems and benefits.

BUDGET TRENDS IN PERSPECTIVE: REALLOCATION

We are proud of the extraordinary accomplishments of the students and faculty of the University of Illinois, but we must be realistic about the future. The cumulative effect of cost increases and State budget difficulties during the last dozen years has significantly eroded the resource base of the University of Illinois. Given those realities, the University has worked hard to reduce its budget. Principles were articulated to guide budget reduction steps. The funds from these reductions were used to protect core missions of the University.

As has already been emphasized, the University responded to its decline in budget share primarily through a comprehensive review of academic and support programs, priorities and a corresponding reallocation of existing funds. Since FY 1990, more than $384.5 million in existing resources have been redirected to high priority programs and $211.8 million was returned outright to the State via budget cuts. Figure 6 illustrates the size of the reallocations accomplished annually since FY 1990 and identifies the principal uses of reallocations each year.

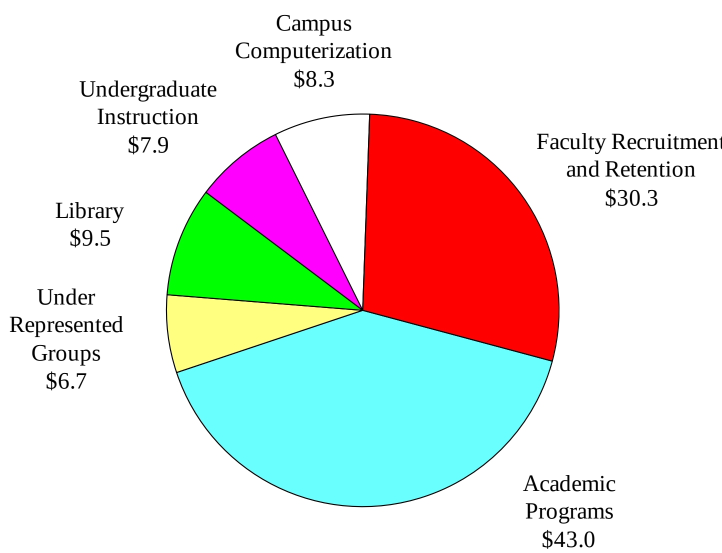
Figure 6
Uses of Reallocated Funds
FY 1990 to FY 2011
(Dollars in Millions)



Given the University's paramount need to address faculty and staff salary competitiveness, it is not surprising that compensation needs have a large share of reallocated allocations. More than 25.2% of the total reallocation achieved since FY 1990 has been devoted to this requirement. Another 35.5% has been required for outright budget reductions. Support programs (including covering unavoidable cost increases in areas such as Medicare payments to the federal government and statutory sick leave payments to employees leaving University service) has claimed 26.6%, while the balance, 12.7% has been used to fund needed academic programs.

Among academic program reallocations, those for general instruction have received more than 40.7% of the redirected funds. The campuses have sought to add new sections of courses facing significant enrollment pressures and created new initiatives such as the Discovery Program at Urbana-Champaign that brings senior faculty and new freshmen together in small class settings early in the students' academic careers. Faculty recruitment, retention and compression efforts have captured another 28.6% of the reallocation pool, including special salary initiatives, laboratory remodeling and upgrades, equipment purchases and other improvements. As reflected in Figure 7, library initiatives, recruitment of under represented groups and campus computerization efforts round out the major categories of program reallocations.

Figure 7
Reallocation for Academic Programs
FY 1990 to FY 2011
(Dollars in Millions)

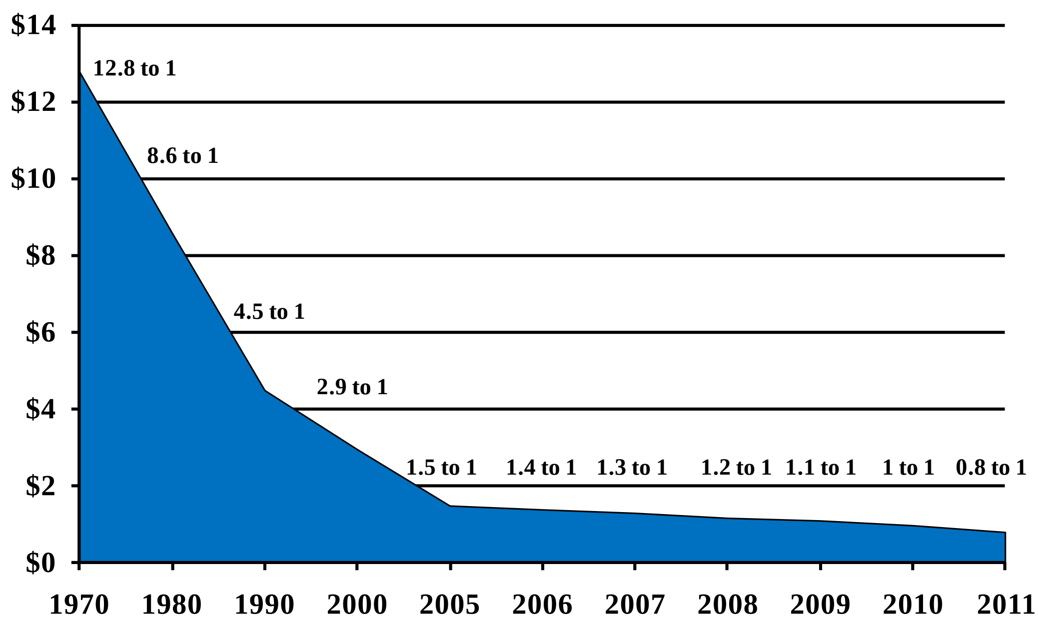


BUDGET TRENDS IN PERSPECTIVE: TUITION

Since FY 1980, tuition revenue has become a much more visible component of the University's total appropriated funds budget as students and their families have been asked to increasingly share the burden of offsetting declining State support. For the decade of the 1990s, however, general tuition increases remained at approximately the level of the consumer price index. During the same period the University has continued to reallocate internally for high priority programs.

As illustrated in Figure 8, forty-one years ago the University received more than $12 in direct State tax support for each $1 in tuition revenue it collected from students. Today, that figure has dropped to $0.8 to $1.

Figure 8
Direct State Support Per Tuition Dollar
FY 1970 to FY 2011



FY02-11 excludes health insurance re-direction to DHFS.
FY09 and FY11 exclude survey transfer.

UNIVERSITY STRATEGIC INITIATIVES

The University of Illinois' overall planning framework is shaped by its underlying intent: to combine academic excellence with an unprecedented commitment to innovation, quality and service so that each University campus and support organization is the best among its peers and competitors and is recognized as such.

The three University of Illinois campuses at Urbana-Champaign, Chicago and Springfield serve Illinois, the nation and the world through a shared commitment to the University's mission of excellence in teaching, research, public service and economic development. At the same time, each campus makes specific and differentiated contributions to the University's overarching mission and vision. The campuses are strengthened by intercampus cooperation and University-wide support services while carrying out their academic functions through delegated authority from the President and Board of Trustees

In response to the state's escalating financial crisis, the University of Illinois FY 2012 budget request does not contain a request for an increase in state appropriations dedicated to support university strategic initiatives. We continue to strategically reassess the scope of our academic programs and search for opportunities to consolidate or cut offerings that we value but may no longer be able to afford. In the process, we must protect our core land-grant missions of teaching, research, public service and economic development, including clinical care; remain competitive for faculty, staff and students; maintain essential services, but eliminate duplicate and lower priority activities; consolidate and share services and resources; make efficient use of facilities; and take such other steps as are necessary to sustain the University's quality and continuity of operation long term.

SUMMARY OF THE FY 2012 BUDGET REQUEST

The University's FY 2012 operating budget request includes three broad categories. Strengthen Academic Quality includes salary increases and support for recruitment, retention and compression of faculty and staff. A second section, Address Facility Operations Needs includes additional resources to operate and maintain new facilities; requests funds to expand operating budget support for facilities maintenance support; and requests funds to establish operating budget support for utilities infrastructure repair and renovation. A final section of the request, Meet Inflationary and Other Cost Increases includes requests to meet unavoidable cost increases related to mandatory payroll items and cost increases.

Strengthen Academic Quality

No initiative is more critical than developing and maintaining a competitive compensation program for faculty and staff. Thus, competitive compensation for faculty and staff is the University's paramount budget requirement and leads off the Strengthen Academic Quality section. Preliminary analysis suggests that with no new general revenue funds in FY 2011 and no funding for a general salary increase, the University is again vulnerable to further erosion of competitiveness. To counter this problem, the University will divert funds from other purposes to recruit and retain critical faculty and staff; to do otherwise, would damage the University's ability to compete for top faculty and staff. For FY 2012, our compensation improvement request includes support for direct salaries. A 3% increase is sought for employee salary increases, an amount which, when combined with the request for recruitment, retention & compression of critical faculty and staff should prevent further erosion in competitiveness. The University of Illinois must continue to address the issue of faculty compensation and capacity at all three U of I campuses, recovering as well as adding capacity in the areas of highest enrollment demand and those of greatest economic development promise. It is essential that additional reallocation accompany these incremental advances, since serious competitive gaps remain for faculty and other employee groups.

Address Facility Operations Needs

Address Facility Operations Needs includes three components. The first component requests resources to support operations and maintenance costs associated with newly constructed or significantly remodeled space. The second component continues the precedent set in FY 2000 to augment support for facilities maintenance from its uneven and uncertain status in the capital budget with a more stable, secure component in the operating budget. A growing backlog of deferred maintenance projects combined with the need to address normal deterioration in building systems, including campus infrastructure in utilities and energy conservation as well as the need for functional alteration of space as academic programs change and the pace of technological progress make it critical that a reliable source of funds is available. Students must have the best facilities possible in which to learn and our scientists and researchers must have the best support possible for their inquiries. Several Illinois institutions have elevated this concern near the top of their priorities and the University of Illinois joins in the call to continue to address this need in the operating budget. The third component sees to establish operating budget support for utility infrastructure repair and renovation.

New resources must be found to help blunt the impact of nearly a decade of erosion in the academic support base due to inflation.

Meet Inflationary and Other Cost Increases

Meet Inflationary and Other Cost Increases address unavoidable costs associated with payroll and inflationary costs. Other payroll costs and price increase requests are set at levels to meet projected inflationary rises for goods and services and to meet estimated growth in mandatory payroll-related areas such as Medicare and Workers' Compensation. No attempt is made in these areas to address the impact of over a decade without attention to the erosion which inflation, even at low annual levels, exacts on the University's academic support base when its effects cumulate.

Additionally, two separate informational items are included at the end of the FY 2012 operating budget request. The first is a discussion on *Healthy Returns−The Illinois Bill of Health* and the challenges the University of Illinois faces to provide a continuous volume of highly trained providers. The second is a discussion on the urgent problem of medical malpractice costs and the challenges it presents to the University of Illinois. Finally, the operating budget request includes two addenda; the first describes the State Universities Retirement System (SURS). The second discusses Financial Aid.

We are challenged more seriously today than at any time during the last half century. By working together and making the right decisions we can ensure that Illinois higher education and the University of Illinois remain respected national leaders for the quality of programs they provide and for the diversity of students served. By increasing State support at a steady level, the University of Illinois can focus on preserving the already high quality of our core missions of teaching, research, public service and economic development.

The full FY 2012 operating budget request is outlined in Table 2, which follows.

Table 2
FY 2012 Operating Budget Request
(Dollars in Thousands)

I.	**Strengthen Academic Quality**				**$ 52,711.7**
	% of FY 2011 Base				*3.4%*
	A.	Competitive Compensation		$52,711.7	
		1. Salary Improvements - 3.0%	$32,711.7		
		2. Recruitment, Retention & Compression	20,000.0		
II.	**Address Facility Operations Needs**				**$ 11,019.8**
	A.	O & M New Areas		$ 1,019.8	
	B.	Facility Maintenance Support		5,000.0	
	C.	Utility Maintenance Support		5,000.0	
III.	**Meet Inflationary and Other Cost Increases**				**$ 1,500.0**
	A.	Payroll Cost Increases		$ 1,500.0	
		1. Medicare	$ 100.0		
		2. Workers' Compensation	900.0		
		3. Legal Liability/Insurance	500.0		
	Total Request				**$ 65,231.5**
	% of FY 2011 Base				*4.2%*
V.	**Healthy Returns—The Illinois Bill Of Health**			$15,500.0	
VI.	**Medical Professional Liability Insurance**			$10,000.0	

FY 2011 Base: $1,559,476.1

OPERATING BUDGET REQUEST FOR FY 2012

STRENGTHEN ACADEMIC QUALITY

SALARY IMPROVEMENTS
($32,711,700)

Overview

The overall quality of the University of Illinois, as measured by numerous academic indicators, places it among the nation's top higher education institutions. As a national leader, the University faces a dual dilemma: to sustain its national standing it must attract and retain top-quality faculty, staff and students; yet that same national prominence marks the University as a prime target for other institutions seeking to enhance their own quality through recruitment of top faculty. Since 1990, the Urbana campus in particular has lost numerous faculty to competitors. The University must remain active in the market for top-quality faculty or risk falling behind. Enormous growth of the college-age population in many states, combined with rising enrollments, exacerbates the competition for superior faculty.

Loss of State support for salary increases since FY 2002 poses perhaps the greatest challenge to the University's overall quality since the late 1980s.

In the last few years, many states across the nation have experienced budget pressures brought on by slow revenue growth and rising costs, presenting policymakers with difficult decisions. Despite this constrained budgetary environment, most states have approved modest salary increases for faculty and staff each year since FY 2002. In contrast, the State of Illinois provided no salary increases between FY 2003 and FY 2006, modest funding for two years, and again no funding in FY 2009 through FY 2011. Over the last several years, the University has been forced to fully fund or supplement its own salary program internally through tuition allocation and reallocation of other funds. The University is unable to fund its own salary program in FY 2011. State funding cuts have forced the University to leave many faculty vacancies unfilled, mitigating progress in that area. Much damage has been done to the University's ability to compete; experience with past lean budget years suggests it will be difficult to repair.

And yet the challenge remains the same. To avoid diminishing quality, the University of Illinois must retain talented faculty and staff; vying in a national marketplace, it must attract and retain the best-qualified candidates to fill new or vacated positions; and at the same time, it must increase the productivity and morale of current employees. The University's compensation levels are the primary, though not exclusive, mechanism that affects its ability to attract and retain personnel at all levels.

The last 22 years have seen an erosion of the University's faculty salary standing, with periodic years of no or low increases undoing efforts to build competitiveness. The 0% salary increase year of FY 1988 was followed by two years of raises averaging about 8% per year, but from FY 1991 to FY 1994, the University's annual salary increment averaged less than 1%. At the same time, inflation grew by more than 3% while the University's primary competitors averaged around 4% salary growth in each year. Consequently, the University's faculty salary standing plummeted and earlier progress toward building a competitive advantage crumbled. From FY 1995 to FY 1998, the deterioration of competitiveness was halted and restoration begun, but the magnitude of the erosion was such that past levels of competitiveness remained out of reach. After FY 1998, the national market for quality faculty and staff accelerated, and the University attempted to keep pace. In addition to a 3% salary increment for all University faculty and staff in FY 1999, the Urbana-Champaign campus received additional State money for its "retaining critical faculty" initiative, which also utilized reallocated funds. The following year, the Illinois Board of Higher Education inaugurated its "3 + 1 + 1" program, calling for all Illinois public universities to receive 3% salary increments, plus an additional 1% to recruit and retain critical faculty and staff, to be matched by 1% in local funds. The program enabled faculty salaries at the University to grow by around 5% per year in FY 2000 and FY 2001, but little if any ground was gained, as peer institutions averaged annual growth of 5% to 6%. In FY 2002, the 1% additional state increment was raised to 2% with the same 1% local match, in effect creating a "3 + 2 + 1" program. Sustained effort finally bore fruit, and all three University of Illinois campuses advanced on their peers. Throughout this latter period, the competitiveness of staff salaries with their state employee counterparts was maintained.

▼

Eight years of progress in faculty salary competitiveness were undone in FY 2003. Internal reallocation to fund modest programs in recent years has exhausted the University's ability to reallocate further in future years.

Then came FY 2003. Most peer institutions gave raises of at least 2% to 5%. The University of Illinois and other public institutions in Illinois had no general salary increase program. Eight years of salary advances were undone in one. Exacerbating this setback, the State provided no salary appropriations in Fiscal Years 2004, 2005 and 2006, thus forcing the University to fund modest salary programs by diverting funds from other purposes. FY 2007 and FY 2008 were encouraging because the state provided a 2.2% increment in FY 2007 and 2.5% in FY 2008 to support a salary program and the university was able to augment the salary program through reallocation. But no funds were provided in FY 2009 through FY 2011 and the University's ability to further reallocate resources has been exhausted.

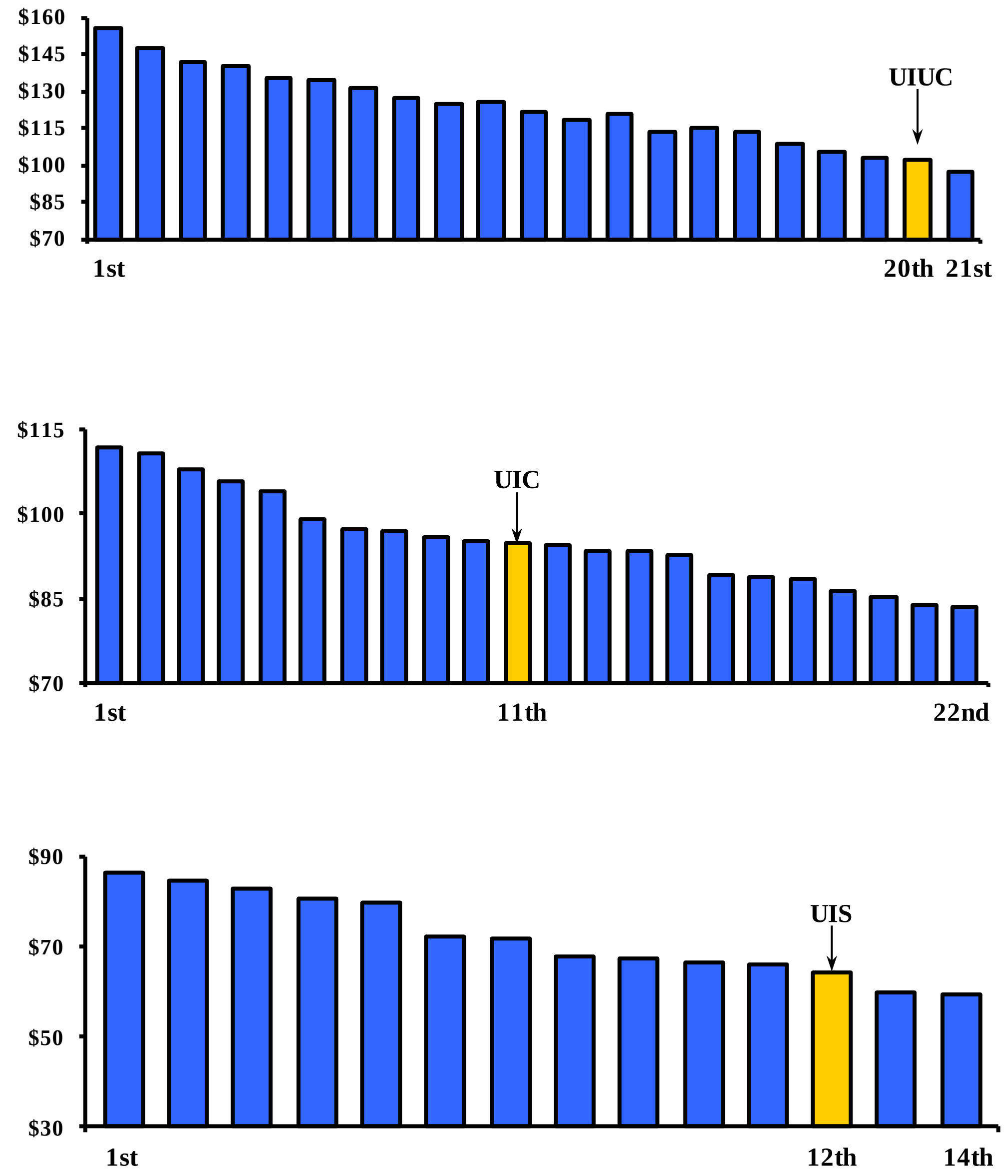
In such an environment, the need to monitor the University's competitive standing may be more crucial than ever. Numerous salary analyses are performed annually for that purpose. Due to the varied nature of the University workforce, separate analyses are performed for academic employees and staff. Salaries for academic employees, including faculty, are compared to those at peer institutions, while staff salary comparisons are made with appropriate employee groups in the State and regional markets. The discussion that follows provides background information concerning the University's competitive position.

FACULTY SALARIES

To assess Illinois' position in the national market for faculty salaries, the Illinois Board of Higher Education (IBHE) established groups of peer institutions in 1985. Through a complex statistical process, 1,534 senior institutions were divided into 41 peer groups based on similarity of characteristics, including enrollment levels, type and numbers of degrees conferred, funding levels and detailed faculty characteristics. An updated peer group was developed in FY 2002 for the University of Illinois at Springfield to better reflect the campus' evolving academic mission, as well as its quality and standing within the University of Illinois. The updated peer group for UIS was approved by the IBHE in 2004.

The competitive standing of each campus indicates how well its faculty salaries have fared relative to its peers. Figure 9 shows that UIUC ranked 20th in its group in FY 2010, the same rank as FY 2009, still second to last place among its comparison group. Although the UIUC campus is among the nation's most academically competitive institutions, salaries for faculty at UIUC have long ranked near the bottom of its comparison group. UIC ranked 11th in its group in FY 2010 equal to its place in FY 2009. UIS ranked 12th, equal to its place in FY 2009 and placing UIS in third to last place among its comparison group.

Figure 9
FY 2010 Competitive Standing among IBHE Peers
UIUC, UIC and UIS
(Dollars in Thousands)



FY 2010 found faculty salaries at UIUC and UIS near the bottom while UIC ranked near the middle of their peer groups.

Gains for the three campuses will be unlikely in FY 2011 due to lack of funding for faculty salary increases. Some of our public peer institutions have indicated they plan to provide minimal faculty pay increases, which (all other things being equal) would keep all three campuses in similar rankings. Thus, the University has forfeited all or most of the competitive gains made from FY 1995 to FY 2002, even while inflation continues to erode the base pay of University faculty and staff.

FACULTY SALARIES BY DISCIPLINE

If Illinois' constrained budget climate persists, the University will experience increased difficulty attracting and retaining faculty in high demand disciplines.

Another way to gauge faculty salary standing is to examine salaries by discipline from FY 1987 through FY 2010, years in which funding fluctuations dramatically influenced salary levels. This review identifies areas of continued difficulty for UIUC and UIC. Competition for top quality faculty is intense in high-demand disciplines, especially those in which private enterprises can offer lucrative alternatives to academic service. Such competition has contributed to an unexpected rise in starting salaries, causing salary compression. The University has experienced great difficulty in attracting and retaining key faculty in high demand areas, as well as in areas of lesser demand. If Illinois' constrained budget climate persists, such difficulties could reach critical levels, weakening the overall quality of the University.

The study compares faculty salaries by academic discipline for public institutions in the Association of American Universities Data Exchange (AAUDE) peer group. Institutions included in the following study are:

Univ. of Arizona	Univ. of Minnesota
Univ. of Colorado - Boulder	Univ. of Missouri
Univ. of Florida	Univ. of Nebraska
Univ. of Il - Chicago	Univ. of North Carolina - Chapel Hill
Univ. of Il - Urbana-Champaign	Ohio State University
Indiana University	Univ. of Oregon
Univ. of Iowa	Penn State University
Iowa State University	Purdue University
Univ. of Kansas	Univ. of Texas - Austin
Univ. of Maryland - College Park	Univ. of Virginia
Univ. of Michigan	Univ. of Washington
Michigan State University	Univ. of Wisconsin – Madison

Table 3 displays data for 18 disciplines at the Urbana-Champaign campus and 13 disciplines at the Chicago campus.

Table 3 summarizes average salary and rank by discipline reported for FY 1987 (prior to the "no salary increase" policy of FY 1988), FY 2002 and FY 2010. For each discipline, only those institutions reporting data in all three years of the study are included.

Table 3
Faculty Salary Study by Discipline FY 1987 to FY 2010

University of Illinois at Urbana-Champaign and AAUDE Institutions
Weighted to UIUC Distribution of Faculty

Academic Discipline	No. of Univ.	FY 1987 UIUC Salary	FY 1987 Rank	FY 2002 UIUC Salary	FY 2002 Rank	FY 2010 UIUC Salary	FY 2010 Rank	Rank Ch. Since 1987	Rank Ch. Since 2002
Agriculture	15	$40,698	6	$78,254	6	$92,353	13	-7	-7
Architecture	18	38,858	8	65,221	8	76,730	11	-3	-3
Business	23	52,341	3	113,231	8	153,979	12	-9	-4
Communications	22	36,213	6	73,598	4	98,862	7	-1	-3
Computer & Info.	19	50,285	7	99,268	2	115,802	9	-2	-7
Education	23	41,424	5	70,959	3	88,791	6	-1	-3
Engineering	20	53,995	2	96,741	2	116,454	3	-1	-1
Foreign Languages	23	38,917	6	62,999	6	76,627	8	-2	-2
Home Economics	15	32,947	6	72,290	3	85,872	9	-3	-6
Law	17	69,147	3	122,205	7	178,192	6	-3	1
Letters	23	35,365	7	68,358	6	84,213	5	2	1
Mathematics	23	46,480	11	73,215	14	91,252	16	-5	-2
Philosophy	23	33,758	12	66,889	13	81,251	17	-5	-4
Physical Sciences	23	51,512	1	89,036	2	111,128	5	-4	-3
Psychology	23	44,929	3	85,943	5	98,305	11	-8	-6
Social Sciences	23	41,945	9	76,270	9	96,364	10	-1	-1
Social Work	15	38,342	7	55,660	9	72,680	13	-6	-4
Arts	23	36,360	7	59,701	8	72,470	11	-4	-3

University of Illinois at Chicago and AAUDE Institutions
Weighted to UIC Distribution of Faculty

Academic Discipline	No. of Univ.	FY 1987 UIC Salary	FY 1987 Rank	FY 2002 UIC Salary	FY 2002 Rank	FY 2010 UIC Salary	FY 2010 Rank	Rank Ch. Since 1987	Rank Ch. Since 2002
Architecture	18	$34,233	15	$63,743	9	$75,471	10	5	-1
Business	23	45,451	11	102,327	16	116,835	21	-10	-5
Education	23	33,773	10	68,752	7	86,170	9	1	-2
Engineering	20	47,921	2	92,588	3	106,897	14	-12	-11
Foreign Languages	23	33,250	11	65,614	5	71,775	16	-5	-11
Letters	23	34,622	11	67,637	6	86,672	8	3	-2
Mathematics	23	42,184	12	77,123	16	93,692	12	0	4
Philosophy	23	41,405	4	68,602	4	87,029	13	-9	-9
Physical Sciences	23	42,846	6	74,571	17	89,224	21	-15	-4
Psychology	23	41,351	9	74,479	7	93,025	13	-4	-6
Social Sciences	23	37,882	14	71,711	13	85,936	19	-5	-6
Social Work	15	36,274	9	59,171	11	78,479	13	-4	-2
Arts	23	33,340	7	64,144	4	72,688	7	0	-3

Source: American Association of Universities Data Exchange (AAUDE)

The data show that by FY 2002 both U of I campuses had recovered a good portion of ground lost from the 0% salary program year of 1988 through the early 1990s. In FY 2002, UIUC had kept or regained its FY 1987 rank in 10 of 18 examined disciplines, and UIC had kept or regained it in 8 of 13. In FY 2010, UIUC lost ground in 17 of its 18 comparison disciplines, while UIC lost ground in 8 of its 13 comparison disciplines since 1987.

As a result, at UIUC, 1 discipline (Letters) improved its FY 1987 ranking, while 18 others declined. The decliners were: Agriculture, Architecture, Business, Communications, Computer & Info., Education, Engineering, Foreign Languages, Home Economics, Law, Mathematics, Philosophy, Physical Sciences, Psychology, Social Sciences, Social Work and Arts.

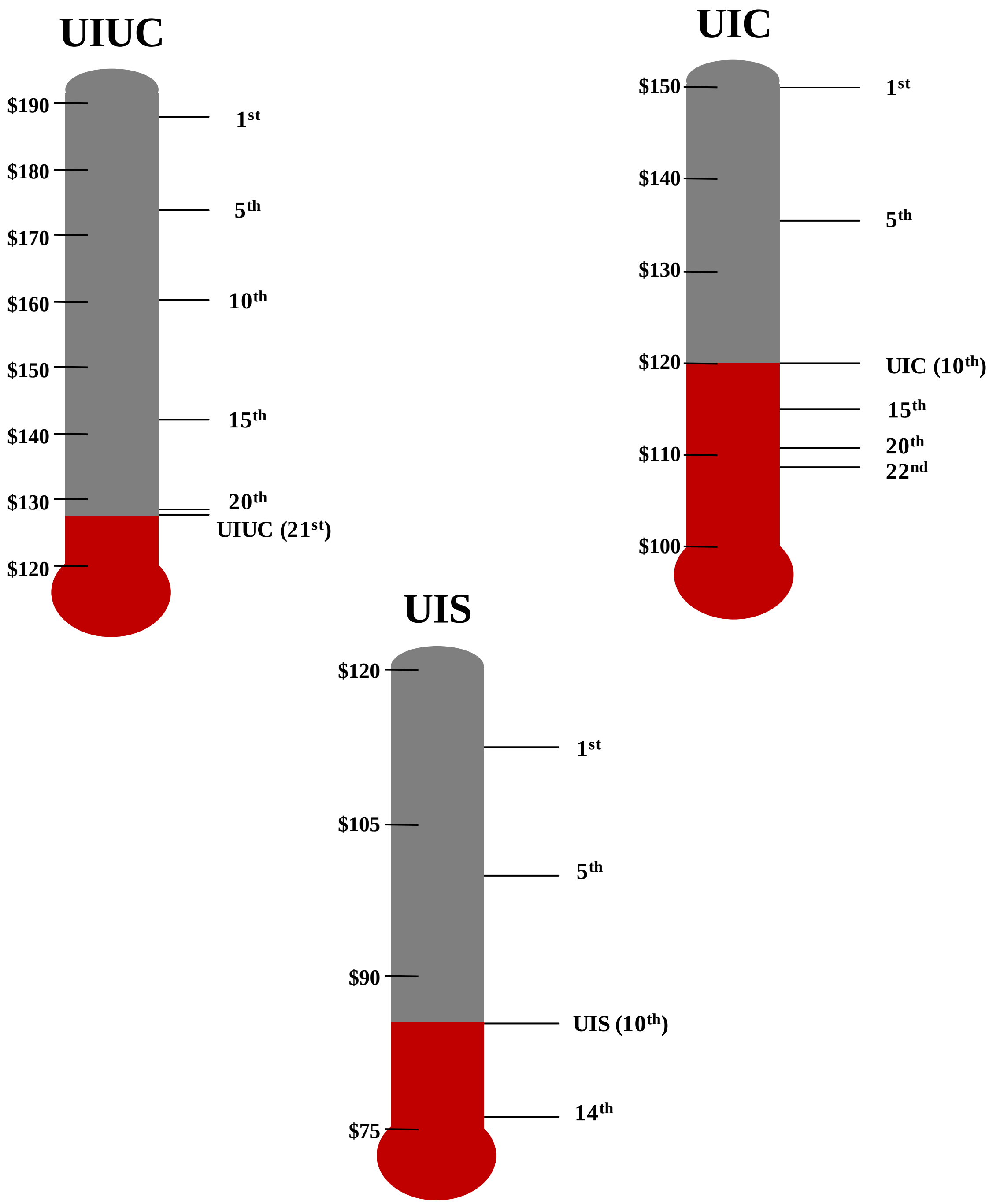
At UIC, only 5 disciplines (Architecture, Education, Letters, Mathematics and Arts) have held or improved their FY 1987 ranking, while salary rankings lag FY 1987 levels in the remaining 8 disciplines: Business, Engineering, Foreign Languages, Philosophy, Physical Sciences, Psychology, Social Sciences and Social Work.

It is clear that past declines in State funding have hurt the University's ability to remain competitive for high quality faculty and staff, although the impact has been greater in some disciplines than in others. Despite progress in some fields, many disciplines continue to suffer from a loss of competitiveness. The magnitude of loss in FY 2003 was similar to FY 1988: the University lost ground in most disciplines, and a very large amount of ground in some. Insufficient progress has been made since then. It is critically important that the University resume the road to recovery in FY 2012 and beyond.

TOTAL COMPENSATION

Total compensation represents the combination of average cash salary and employer contributions to fringe benefits. Figure 10 shows FY 2010 average total compensation for faculty in the ranks of Professor, Associate Professor and Assistant Professor at the three University of Illinois campuses and their peers. UIUC ranks lowest at 21st out of 21, while UIC ranks in the middle at 10th out of 22 and UIS ranks fifth lowest at 10th out of 14.

Figure 10
FY 2010 Faculty Average Total Compensation
U of I Campuses and IBHE Peer Groups
(Dollars in Thousands)



The University's relatively low employer contributions for fringe benefits operate as a drag on total compensation, reinforcing salary deficits where they exist and working in opposition to salary gains. Consequently, the total compensation package must be considered a vital part of an overall strategy to strengthen the University's competitive position.

Budgetary constraints in prior years hurt the University in the faculty salary market. State funding and internal reallocation in more recent years produced salary programs that kept pace with inflation, but were below the University's top competitors in many cases. By FY 2002 Urbana-Champaign showed some gains while it stuck near the bottom of its peer group, as the Chicago and Springfield campuses achieved real progress. Absence of funding for salary increases in recent years has left the University again vulnerable to erosion of competitiveness and exhausted its ability to reallocate funds in the future. Incremental funds totaling $32.7 million are requested for FY 2012 for faculty and staff salary increases to halt the slide and avoid further loss of employee purchasing power. In addition, compensation must be made for years of ups and downs in the University's salary arch. The University's recruitment, retention & compression request asks for $20 million in additional funding in order to recover upward momentum in a highly competitive marketplace.

STAFF SALARIES

The goal of the University of Illinois salary program for Civil Service employees is to be competitive within the local markets of our three main campuses. Each year, the University compares salaries of University staff with those of State agencies for specific positions.

The University strives to maintain parity in pay ranges with State counterparts for highly competitive classifications. Continuing actions related to parity include:

- Annual comparison with select State of Illinois classifications; and
- Appropriate changes in pay plan ranges.

Table 4 illustrates pay ranges for selected University classes and their State counterparts.

Table 4
Salary Comparisons among State Comparison Groups
For Selected University of Illinois Employment Classes

	University of Illinois FY 2010		State of Illinois January, 2010		% Over/Under State Class	
	Minimum	Maximum	Minimum	Maximum	Minimum	Maximum
Urbana-Champaign Campus						
Storekeeper II	$36,114	$38,240	$35,436	$51,852	1.9%	-35.6%
Accountant I	$31,278	$57,935	$39,984	$59,652	-27.8%	-3.0%
Office Support Specialist (fka Secretary IV)	$29,387	$43,232	$33,312	$47,184	-13.4%	-9.1%
Building Service Worker (fka Building Service Worker I)	$23,381	$32,039	$34,344	$51,336	-46.9%	-60.2%
Applications Programmer I	$34,437	$66,417	$50,268	$77,808	-46.0%	-17.2%
Procedures and Systems Analyst II	$36,134	$69,654	$62,904	$98,472	-74.1%	-41.4%
Chicago Campus						
Office Support Specialist (fka Secretary IV)	$27,437	$41,477	$33,312	$47,184	-21.4%	-13.8%
Staff Nurse II	$53,976	$98,787	$55,716	$76,884	-3.2%	22.2%
Accountant I	$31,239	$56,784	$39,984	$59,652	-28.0%	-5.1%
Applications Programmer I	$35,295	$65,130	$50,268	$77,808	-42.4%	-19.5%
Office Support Associate (fka Secretary III)	$24,219	$36,660	$32,340	$45,396	-33.5%	-23.8%
Procedures and Systems Analyst II	$36,114	$68,270	$62,904	$98,472	-74.2%	-44.2%
Springfield Campus						
Office Support Specialist (fka Secretary IV)	$23,517	$42,413	$33,312	$47,184	-41.7%	-11.3%
Chief Clerk	$22,640	$39,644	$33,312	$47,184	-47.1%	-19.0%
Account Technician III	$32,175	$58,266	$37,056	$53,988	-15.2%	7.3%
Building Service Worker (fka Building Service Worker I)	$20,163	$37,323	$34,344	$51,336	-70.3%	-37.5%
Library Clerk (fka Library Clerk II)	$20,163	$35,295	$28,404	$38,604	-40.9%	-9.4%
Office Support Associate (fka Secretary III)	$20,982	$39,390	$32,340	$45,396	-54.1%	-15.2%

For FY 2010, the University received no funds for a general pay increase for all employee groups. Therefore, internal reallocations were required to help fund contracts previously negotiated with bargaining units and to address special merit, market or equity concerns. Most State of Illinois agencies confronted a similar situation.

Purchasing power comparisons are made using data from the Bureau of Labor Statistics, including sources such as the Employment Cost Index. Compensation costs (not seasonally adjusted) for civilian workers were up 1.5% for the year ending December 2009. In comparison, compensation costs for State and local government workers increased 2.4% percent for the year ending in December 2009.

STATE UNIVERSITIES RETIREMENT SYSTEM

The health of the State Universities Retirement System (SURS), as well as the University's competitiveness among peer institutions with respect to retirement benefits, has been a matter of prime concern for many years for both individual employees and for leaders within higher education institutions and the SURS system. Any discussion of compensation policy for higher education in Illinois should include a strong call for continued adequate funding of the SURS program to ensure that existing benefits will remain secure. Action taken in 1995 by the General Assembly and the Governor to implement a long-term plan to strengthen pension funding for all State employees was a welcome improvement. For FY 2004, the Governor and the General Assembly approved a plan using bond proceeds to pay pension funding obligations to SURS and the other State-funded systems, which improved the systems' funding ratios but dramatically increased the State's debt and bond repayment costs. In May 2005, the Governor and the General Assembly passed a law reducing SURS contributions to about 46% of those called for in the 1995 law in FY 2006, and to about 58% in FY 2007. The 2005 law also requires the employer to fund the portion of pension increases that result from earnings increases over 6% in any year that is used to calculate a retiree's final average salary. The Addendum contains a more complete discussion of the SURS funding situation and some possible consequences to the University of the new 6% rule, which was softened under PA 94-1057 signed by the governor in July 2006.

For continuing employees, the 2005 law changed the interest calculation for SURS money-purchase annuities and eliminated such annuities entirely for new members hired after July 1, 2005. The law also set a new "pay-as-you-go" requirement for pension enhancements and required any enhancement to expire within 5 years unless specifically renewed. Moreover, it created an Advisory Commission on Pension Benefits to consider changing age and service requirements, automatic cost-of-living increases (COLAs) and employee payroll contributions, among other things. This Commission filed its report to the governor at the end of 2009 and recommended several benefit cuts. The result of this report was the signing of PA 96-0889 in April 2010 which drastically overhauled the pension system. It largely applied to new SURS members because the Illinois Constitution prohibits State funded pension benefits for continuing members from being "diminished or impaired." The State may save money, but at the cost of possibly further undermining the University's ability to attract new faculty and staff.

It should be understood, however, that while achieving and maintaining adequate SURS funding remains a key concern for FY 2012 and beyond, funding improvements will not, in and of themselves, improve either the benefits available to University employees or the University's competitive position among peer institutions in total compensation. The adequacy of SURS' fiscal support must be assured. So, too, must improvements in the University's competitive position in total compensation be achieved.

RECRUITMENT, RETENTION & COMPRESSION

($20,000,000)

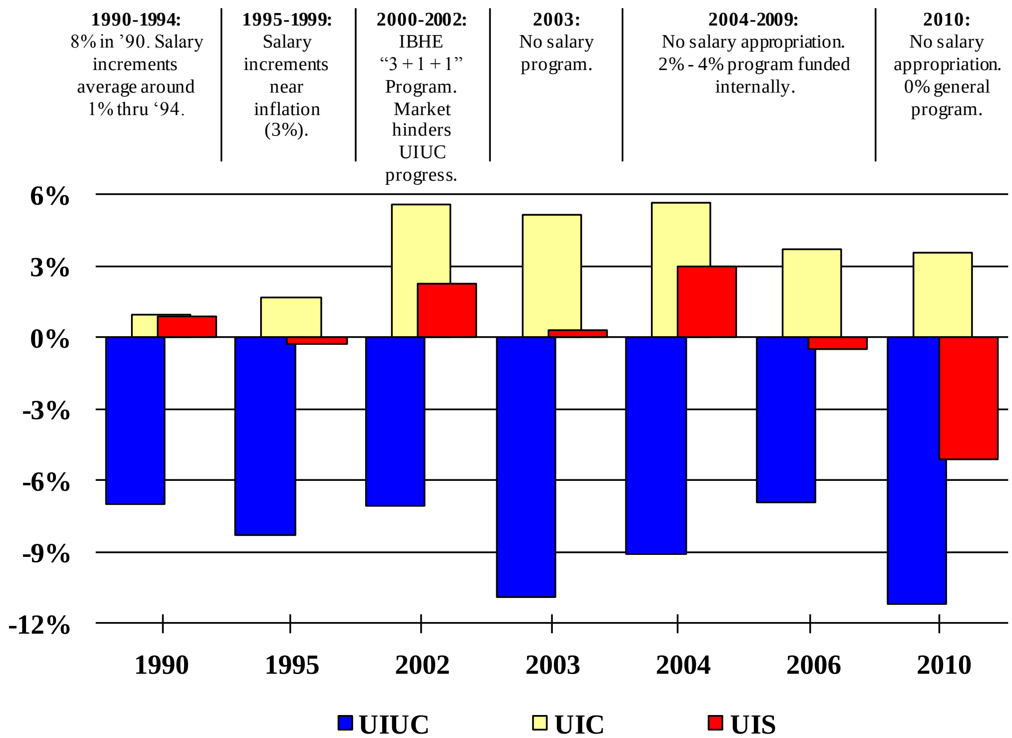
Overview

The quality of a university's instruction, research, public service and economic development activities depends in large part on the quality of its faculty. Facilities, library resources, staff quality and other factors are vital, too, but it is the mentor in the classroom, the laboratory investigator, the policy center director, the technological innovator, who bring life to an institution. A university's reputation turns on the interactions of its faculty with students and the larger community. Knowing this, institutions compete vigorously for the highest quality faculty members. Institutions also seek to fairly compensate those faculty on hand, to ensure that enthusiasm does not wane and that faculty are justly rewarded for their many and varied contributions.

University faculty are highly educated, talented people with many options in the labor market. Compensation levels must remain at least on par with that market to attract and retain brilliant teachers and scientists. Moreover, loyalty to an institution can be bred only by consistency of commitment, which encompasses many things, but most certainly includes steady salary progression. The University of Illinois has had to pay market price to hire new faculty and has had to respond to outside offers in order to retain critical senior faculty, but the salaries of faculty in the middle ranks have been severly compressed and have lost competitive position. If pay is below market and/or does not progress sufficiently, faculty may be more apt than otherwise to exercise their right to find other, more rewarding career opportunities. Given those facts, an uneven history of salary increases can damage an institution, both in terms of competitiveness and morale.

Over the last two decades, faculty salary increases at the University of Illinois have ranged from zero (four times) to 8%, with most years between 2% and 5%. The University was highly competitive in the faculty salary market until the late 1980s. Beginning with the first 0% increase year, FY 1988, the University lost significant ground through FY 1994, made slow but steady progress from FY 1995 through FY 2002, fell again in the second 0% increase year of FY 2003, then recovered somewhat in FY 2004 and FY 2005. FY 2011 represents the fourth 0% faculty salary increase policy year. Figure 11 shows the average salary of full-time instructional faculty in the ranks of Assistant Professor and above at each University of Illinois campus as a percent of its peer group median since 1990. UIUC, mired far below its peer group median, achieved slight progress in the years between 2003 and 2006, but is well below its peer group median in 2010. Salaries for UIC have generally exceeded the median, while those at UIS hovered around the median until also falling well below its peer group median in 2010.

Figure 11
Distance from IBHE Peer Group Median
UIUC, UIC and UIS



This up-and-down salary trend is also reflected in the peer group rankings, shown in Table 5. Between FY 1987 and FY 1994, UIUC fell to rock bottom in its peer group, while UIC lost just one rank and UIS gained one. Sustained effort through FY 2002 lifted UIUC to 18th, UIC to 8th and UIS to 6th in their respective peer groups. Since then however, UIUC has dropped back down to 20th out of 21 institutions, UIC has dropped back down to 11th out of 22 institutions and UIS to 12th out of 14 institutions as of FY 2010.

Table 5
Full-Time Instructional Faculty Average Salaries FY 1987 to FY 2010, All Ranks
IBHE Peer Groups
(Dollars in Thousands)

University of Illinois at Urbana-Champaign

FY 1987		FY 1994		FY 2002		FY 2010	
UC-Berkeley	$56.2	Chicago	$75.9	Pennsylvania	$107.5	Columbia	$155.8
UCLA	53.2	Pennsylvania	74.4	Yale	105.2	Chicago	147.8
UC-San Diego	52.6	Yale	73.1	Chicago	104.0	Yale	141.6
Columbia	50.3	NYU	71.3	Columbia	102.0	Pennsylvania	139.9
Chicago	50.0	Columbia	71.2	NYU	100.8	NYU	134.9
Pennsylvania	49.8	Northwestern	71.2	Northwestern	100.6	Northwestern	134.1
Yale	49.5	Duke	69.9	UC-Berkeley	99.9	Duke	131.4
Johns Hopkins	49.3	UC-Berkeley	66.4	Duke	97.3	Wash. U. (St. L.)	126.9
NYU	48.0	Johns Hopkins	65.4	UCLA	96.9	UCLA	125.4
Michigan	47.6	USC	64.9	UC-San Diego	91.6	UC-Berkeley	124.5
Duke	47.6	Michigan	64.3	Wash. U. (St. L.)	91.2	Johns Hopkins*	121.8
Northwestern	46.8	Brown	63.3	USC	89.2	USC	120.6
Brown	45.3	UCLA	62.5	Michigan	87.3	Brown	118.4
UIUC	**45.1**	Wash. U. (St. L.)	62.3	Johns Hopkins	87.3	Michigan	114.6
USC	45.0	Rochester	61.7	North Carolina	85.9	UC-San Diego	113.6
North Carolina	44.0	UC-San Diego	61.1	Brown	85.7	North Carolina	113.3
Wisconsin	44.0	Texas	59.8	Rochester	84.1	Texas	108.3
Rochester	43.6	North Carolina	59.0	**UIUC**	**82.3**	Rochester	105.3
Wash. U. (St. L.)	42.8	Wisconsin	58.3	Texas	82.0	U. Wash. (Sea.)	102.9
Texas	40.5	U. Wash. (Sea.)	57.5	Wisconsin	81.3	**UIUC**	**102.2**
U. Wash. (Sea.)	40.4	**UIUC**	**57.3**	U. Wash. (Sea.)	76.8	Wisconsin	96.9

University of Illinois at Chicago

FY 1987		FY 1994		FY 2002		FY 2010	
UC-Santa Barbara	$51.9	Massachusetts	$62.2	UC-Santa Barbara	$88.4	Maryland	$112.0
UC-Irvine	50.0	Temple	61.5	Maryland	88.1	UC-Santa Barbara	110.9
UC-Davis	48.3	UC-Santa Barbara	59.5	UC-Davis	85.7	UC-Irvine	107.9
UC-Riverside	47.0	Hawaii	59.2	UC-Irvine	84.5	UC-Davis	106.0
Massachusetts	45.4	UC-Irvine	58.7	UC-Riverside	82.8	Delaware	104.0
Va. Tech.	42.8	Maryland	58.1	Delaware	78.9	UC-Riverside	99.0
Maryland	42.3	Delaware	57.9	Massachusetts	78.8	Michigan St.	97.5
Florida	42.3	UC-Davis	57.4	**UIC**	**76.7**	Hawaii	96.9
Arizona	42.0	Wayne St.	56.7	Temple	76.2	Massachusetts	95.8
Arizona St.	40.5	Michigan St.	56.1	Va. Tech.	76.0	Utah	95.1
Wayne St.	40.3	Arizona	54.4	Michigan St.	74.8	**UIC**	**95.0**
Michigan St.	39.8	Va. Tech.	53.5	Wayne St.	73.6	Arizona	94.5
UIC	**39.7**	UC-Riverside	53.1	Arizona St.	73.1	Arizona St.	93.4
Georgia	39.4	**UIC**	**52.6**	Arizona	72.9	Va. Tech.	93.4
Temple	39.2	Arizona St.	50.9	Georgia	71.6	Temple	92.9
Hawaii	38.7	Utah	50.4	Florida	71.2	Georgia	89.2
Delaware	38.3	Florida	50.4	Utah	69.6	Wayne St.	88.9
Va. Common.	37.3	Va. Common.	50.2	Va. Common.	69.1	Florida	88.4
Vermont	37.2	Georgia	49.9	Hawaii	68.5	Vermont	86.3
Utah	37.1	Oregon	49.0	Florida St.	66.9	Florida St.	85.2
Florida St.	37.0	Florida St.	47.8	Vermont	61.1	Va. Common.	83.5
Oregon	34.5	Vermont	n.a.	Oregon	60.5	Oregon	83.8

Table 5 (continued)
Full-Time Instructional Faculty Average Salaries FY 1987 to FY 2010, All Ranks
IBHE Peer Groups
(Dollars in Thousands)

University of Illinois at Springfield

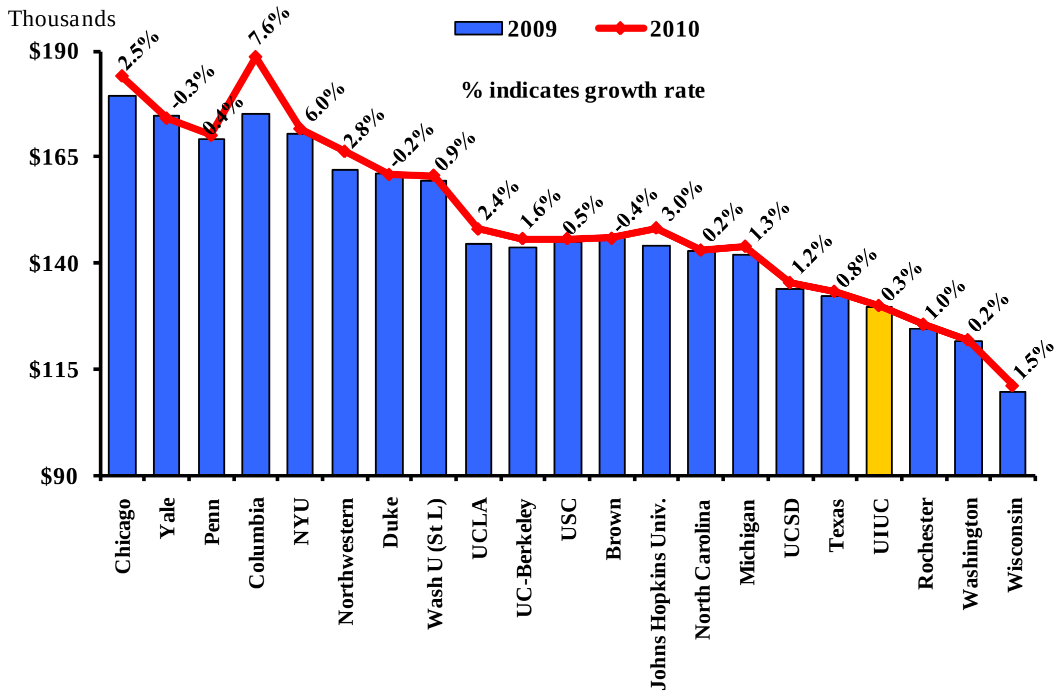
FY 1987		FY 1994		FY 2002		FY 2010	
SUNY-Brockport	$39.2	Shippensburg (Pa.)	$57.5	Union	$71.3	Union	$86.5
Trinity	38.9	Trinity	55.1	Trinity	69.7	Clark	84.7
Clark	38.3	Clark	52.2	Clark	68.4	Trinity	82.7
Union	36.9	Union	52.0	Shippensburg (Pa.)	68.1	Iona	80.5
Iona	36.0	SUNY-Brockport	50.0	Iona	59.4	Shippensburg (Pa.)	79.8
Shippensburg (Pa.)	35.5	No. Michigan	49.4	**UIS**	**58.1**	SUNY-Brockport	72.3
No. Michigan	34.7	Iona	47.0	SUNY-Brockport	57.8	Marist	71.9
Wisc.-Green Bay	33.6	**UIS**	**43.7**	No. Michigan	57.2	So. Dakota	67.8
UIS	**33.5**	Lake Superior St.	43.3	So. Dakota	54.2	Charleston	67.2
Charleston	31.9	Wisc.-Green Bay	43.2	Auburn-Mont.	52.8	No. Michigan	66.6
So. Dakota	31.3	Auburn-Mont.	42.5	Charleston	52.8	Auburn-Mont.	65.8
Auburn-Mont.	31.3	Marist	42.3	Marist	52.8	**UIS**	**64.29**
Lake Superior St.	30.9	Charleston	38.8	Georgia St.	52.1	Georgia St.	59.9
Marist	29.6	Georgia St.	38.2	Lake Superior St.	51.5	Wisc.-Green Bay	59.2
Georgia St.	n.a.	So. Dakota	n.a.	Wisc.-Green Bay	51.3	Lake Superior St.	n.a.

Source: 2010 AAUP Full-time Instructional Faculty Salary Survey.
All faculty includes faculty with ranks Assistant Professor and above.

Figure 12 compares FY 2009 and FY 2010 average salaries for full Professors at UIUC and its IBHE peers. When reading the figure, please note that "percent growth" in faculty salaries reflects not only institutional salary programs, but also promotion and tenure decisions, retirements, new hires and the like.

Between FY 2009 and FY 2010, UIUC had a growth rate of 0.3%, sixth lowest out of the 21 institutions in its peer group, and the third lowest for those peer groups reporting positive growth. The overall mean growth rate was 1.3% with -0.4% as the lowest and 7.6% as the highest rate. The growth rate median was 0.86% for all 21 institutions.

Figure 12
FY 2009 and FY 2010 Professors' Average Salaries
UIUC and IBHE Peers



A closer look at the last 26 years puts FY 2010 in context and reveals two major trends in the faculty salary market that do not bode well for the University of Illinois, nor for public higher education institutions across the country. First, funding for public university faculty salaries is closely tied to state revenue booms and busts. Illinois may go deeper into economic recession than many other states and may be slower to recover. This appears to have been especially true in the early 1990s, and again true since 2002. Second, salary progression among private institutions does not slow nearly as much during economic downturns as it does for public institutions. Even with aggressive internal funding of faculty raises, it appears unlikely that public institutions can keep up if these trends continue.

Private institutions began to outpace publics in the faculty salary market in the late 1980s. Figure 13 shows the faculty salary deficit between UIUC and UIC and the average faculty salary at private Research I institutions in constant dollars from FY 1982 to FY 2010. UIUC was reasonably competitive in 1982, trailing by only $3,000 and UIC was marginally competitive, trailing by $8,800. By FY 2010, the salary gap had exploded to $28,600 at UIUC and $35,800 at UIC.

Figure 13
Salary Gap between UIUC, UIC and Private Research I Institutions
Full-time Instructional Faculty Average Salaries
(Dollars in Thousands)

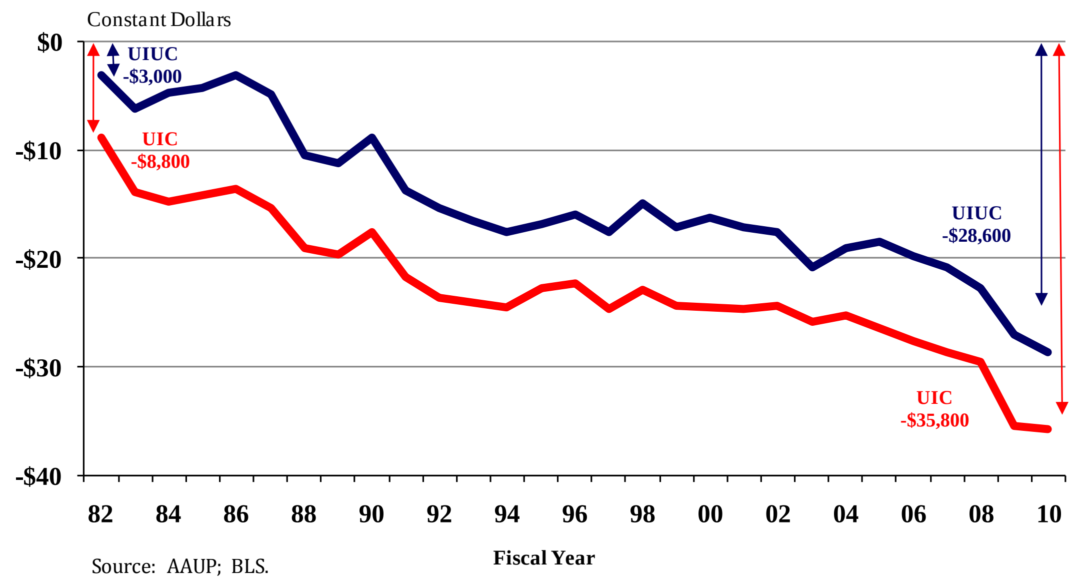
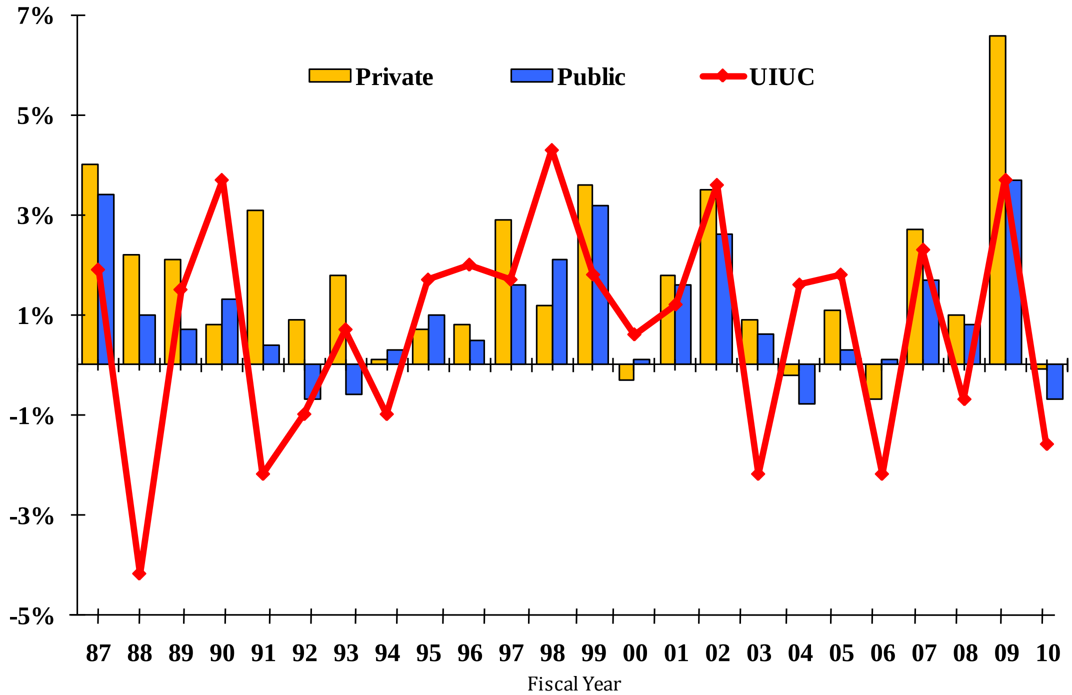


Figure 14 shows annual percent change in instructional faculty (Assistant Professor and above) salaries at UIUC and its peers since FY 1986, highlighting the years in which UIUC fell behind. Since 1986, the campus has had eight years of negative real growth in constant FY 2010 dollars: 1988, 1991, 1992, 1994, 2003, 2006, 2008 and 2010. Public institutions as a group have had four such years: 1992, 1993, 2004 and 2010 and private institutions have also had four such years: 2000, 2004, 2006 and 2010. Cycles of State support for higher education have not played to the University of Illinois' favor, and in fact have given peer institutions, especially private ones, a widening advantage.

Figure 14
Annual Change in Faculty Average Salaries
UIUC and Research I Institutions



Note: Figure in constant (2010) dollars using CPI-U.

The University of Illinois' status as an elite public institution can be maintained only while it remains a desirable workplace for top-flight faculty. A multi-year strategic, statewide commitment is required to restore competitiveness lost since the late 1980s. To that end, $20 million in additional incremental funds are requested for recruitment, retention and compression programs for critical faculty and staff. These additional monies are necessary in order to avert erosion in faculty quality and morale.

ADDRESS FACILITY OPERATIONS NEEDS

OPERATION AND MAINTENANCE NEW AREAS ($1,019,825)

Campus Level:
UIUC
($1,019,825)

The FY 2012 request for funding of the operation and maintenance of new and significantly remodeled areas supports four facilities on one of the three University of Illinois campuses. The total space to be supported is approximately 173,595 gross square feet (gsf). These facilities represent significant additions to the Urbana-Champaign campus to help support the mission of the University of Illinois and serve to provide teaching, research and support space for the campuses.

The University received no new areas support funding from the State since FY 2003. Over that same period the University was forced to reallocate over $26 million to fund these unavoidable costs of new areas with $10 million of those funds to cover the last five years of unfunded operations. Obviously, this practice is not one that the University can maintain without seriously infringing on the activities of its other programs. It is critical that the State support the real operation and maintenance costs of facilities that it approves for construction.

These facilities create a demand that includes above average utility and other operating costs in comparison to most other facilities throughout the state of Illinois or on other institutional campuses. Prior to FY 2004, when funding was provided by the state, the funding policy was detrimental for the University. The first policy, the State's practice of funding utilities at a campus average and other costs at a statewide average created a recurring operating deficit. This policy when coupled with the lack of funding for projects contributed in total to real deficiencies that must be absorbed by the University. The resulting deficiencies contributed to the recent over expenditure of the utilities base budget, requiring reallocation of funds from programs in order for the University to pay its utilities bills. Other operation and maintenance activities, as unfunded expenses, become classified as deferred maintenance. This postponement of expenditures for facility maintenance only permits problems to occur and grow larger through neglect as these facilities continue to age.

For FY 2012, the requirement to support the operation and maintenance of new facilities totals $1,019,825. Four projects, as shown in Table 6, require partial funding of the annual costs for operation and maintenance.

Table 6
FY 2012 Operation and Maintenance Requirements to Support New Areas

Facility	GSF	Date of Occupancy	Months Requested	Utilities	Other	2012 Total	Annual Cost	Cost/GSF
Urbana-Champaign								
Huff Hall North Addition	36,300	Feb-11	8	$ 108,132	$ 194,319	$ 302,451	$ 453,677	$ 12.50
Newmark Student Center Addition	22,500	Apr-10	9	60,365	97,035	157,400	209,866	9.33
NCSA Petascale Computing Facility	92,795	Mar-10	2	416,667	8,318	424,985	2,549,908	27.48
Natural History Survey Building	22,000	Dec-10	6	47,722	87,269	134,990	269,980	12.27
Total	173,595			$ 632,885	$ 386,940	$ 1,019,825		

URBANA-CHAMPAIGN PROJECTS

Huff Hall North Addition

The College of Applied Health Sciences has experienced significant growth in its educational and research programs over the last eight years. The growth has placed considerable strain on the college's physical facilities. A recent architectural feasibility study recommended that a north addition to Huff hall located at the southeast corner of Gregory Drive and Fourth Street be completed as a first step in addressing this need. This project would provide approximately 36,300 gsf of new interdisciplinary research areas and associated support spaces, which will be the first of its kind for the college. The addition will provide instructional space for the Master of Public Health program; faculty offices and laboratories; and some space for the newly created Center on Health, Aging and Disability. This project is consistent with the original design of Huff Hall which anticipated that a north wing, similar to the south wing, would eventually be built to complete the building per the campus master plan. Set for completion in February 2011, eight months of support is requested at $302,451.

Newmark Student Center Addition

The project consists of a 22,500 gsf three story addition to the Newmark Laboratory Building. The facility includes a lecture auditorium, pre-function hall, classrooms and computer rooms as well as offices for undergraduate, graduate and student societies. The addition will be on the northeast side of the Newmark Building which is currently being used as a storage area. A partial basement will be provided to link mechanical systems in the new addition with existing lower level mechanical room. Nine months of support at $157,400 is requested.

NCSA Petascale Computing Facility

This 92,795 gsf state-of-the-art building is a partnership with the National Science Foundation to revolutionize science and engineering research and education in the United States. The building will house the "Blue Waters" petascale computer which is 500 times more powerful than today's supercomputers. The computer will be used to study complex processes such as the interaction of the sun with the earth's magnetosphere and ionosphere while at the same time impart the next generation of students with the skills required to make use of high impact computing. The building will be comprised of offices, storage and loading docks, water-cooled data processing machine rooms and data processing machine room support. The building is sited at the corner of Oak and St. Mary's Roads to capitalize on the close proximity of the Oak Street Chiller and Abbott Power Plants providing reliable and redundant power and cooling for the facility. Completed in the spring of 2010, two months of operations and maintenance are requested at $424,985.

Natural History Survey Building

The new Natural History Survey Building is part of a multi step process which started with the purchase and remodel of the I-Building in the Research Park. This third phase of that process will construct a new building that will provide offices, laboratories and collection space for the INHS Botany Program, the University's botany collection and small crop sciences collection. Future plans call for development of an addition to house the INHS zoological collections. Scheduled for completion in December 2010, this 22,000 gsf facility will require six months of support at $134,990.

FACILITY MAINTENANCE SUPPORT
($5,000,000)

Overview

Stated most simply, physical facilities are a critically important component of the academic support structure necessary to conduct instructional, research and service activities in any institution of higher education which in turn is critical in attracting top-quality faculty, staff and students. Academic facilities constructed and operated with State funds for the University of Illinois have a replacement cost of over $5 billion. Most of these facilities were built to "institutional standards" in construction materials and techniques, meaning that with proper maintenance and regular replacement of components which have exceeded their useful lives, the facility can have a nearly infinite life. Toward this end, the University has attempted to create a consistent funding source to service its facilities infrastructure. Attempts starting in FY 1998 met with limited success but that trend came to an abrupt halt in FY 2003 as support was not possible due to the State's dire fiscal situation. Steady and sustainable revenue streams are crucial to maintain the University's physical assets. When this does not occur, maintenance items slip from the regular maintenance category into the deferred maintenance category; only those items needing the most immediate attention are funded. Through a detailed facility condition audit the University has determined a backlog of over $600 million in deferred maintenance projects. A variety of University of Illinois programs are today housed satisfactorily in buildings more than 100 years old and that experience can continue if adequate facilities funds for maintenance and renovation are available. Even in severely constrained economic times, some attention must be given to long-term as well as immediate needs.

For FY 2012, the University seeks $5 million in operating funds to augment the larger deferred maintenance program. This program relies on funds from the operating budget, capital appropriations, internal reallocations and a special debt issuance. If funded these finances could potentially be used for a second round of debt issuance targeting deferred maintenance. The plan seeks to not only stop the growth of deferred maintenance items but eventually begin the reduction in this significant backlog. These operating funds coupled with those in the capital budget request will slow the growth in deferred maintenance needs by increasing expenditures to $75 million by FY 2022 which is crucial to the continued attention to the attrition of deferred maintenance. It is critical to note however that funds from the state be they in the capital or operating budget have not been forthcoming the last several years. The initial plan included the state sources as part of the funding mechanism to reduce deferred maintenance. The continued lack of support from this source will jeopardize the University's ability to stem the tide on the deferred maintenance front.

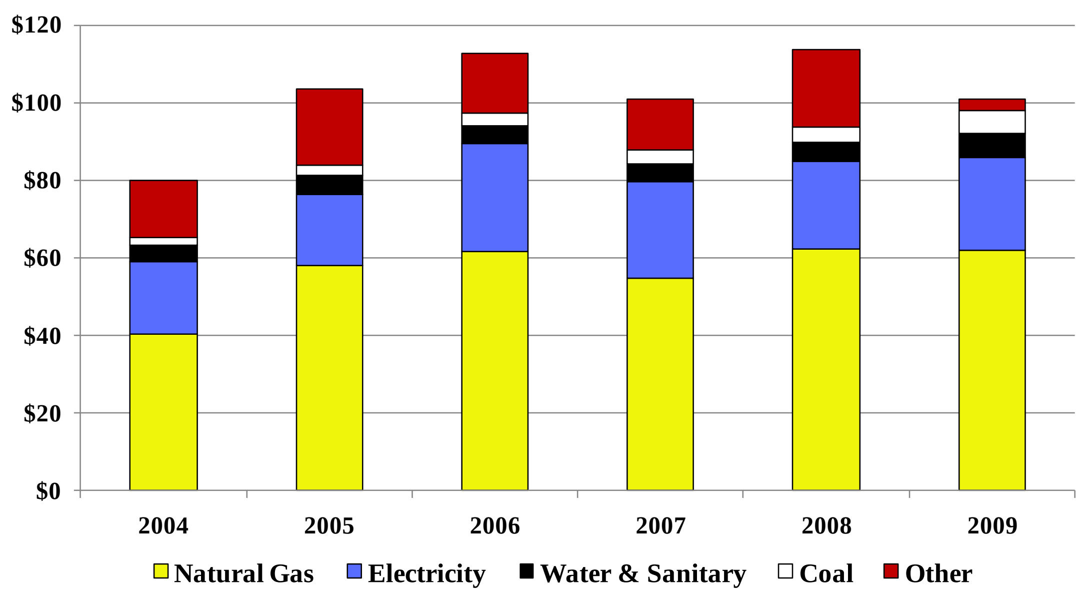
UTILITY MAINTENANCE SUPPORT

($5,000,000)

Overview

For well over two decades, the University has demonstrated creative and highly effective management of its utilities budget in many ways: through cost saving construction projects (Abbott coal conversion, lateral pipeline addition, Cogeneration Facility, thermal storage); contract administration (direct gas transportation, long term gas supply purchase, competitive utility commodities bidding, wholesale purchases of electricity, forward purchase fixed price contracts); rate/tariff intervention and negotiation (electricity, gas, water, sewer), and an aggressive conservation program. These steps have helped the University avoid costs that burdened institutions with less aggressive energy management. They have eased the impact of budget reductions during times of severe fiscal constraint at the State level and at times have provided a source for reallocation into high-priority areas such as addressing deferred maintenance or repair and renovation needs. But operating costs for utility services cannot be deferred and must be met on demand. Figure 15 shows selected utility expenditures from FY 2004 to FY 2010.

Figure 15
Expenditures of Selected Utility Components
FY 2004 to FY 2010
(Dollars in Millions)



Continued volatile utility costs, increased usages and increased deficiencies attributable to unfunded new areas costs have placed the University with a large deficit. In 2006 the Energy Task Force was commissioned to examine the physical energy infrastructure and recommend organizational change.

Background

Between 1993 and 2009, commodity prices for natural gas skyrocketed. The University was vulnerable to these price increases for three primary reasons. First, for two decades, the University focused on much needed production and distribution improvements in plant reliability and ultimately conservation projects. Second, the University has a well documented deferred maintenance problem, which contributes to significant inefficiencies in energy use. Estimates as high as 25% of the energy provided to buildings being wasted have been reported. Although much effort has been made in the area of conservation, recent equipment installations at the University such as the NCSA Petascale Computing Facility is requiring more energy. Figure 16 shows utility expenditures as compared to gross square footage.

Figure 16
Utility Expenditures versus Gross Square Footage
FY 2003 to FY 2010

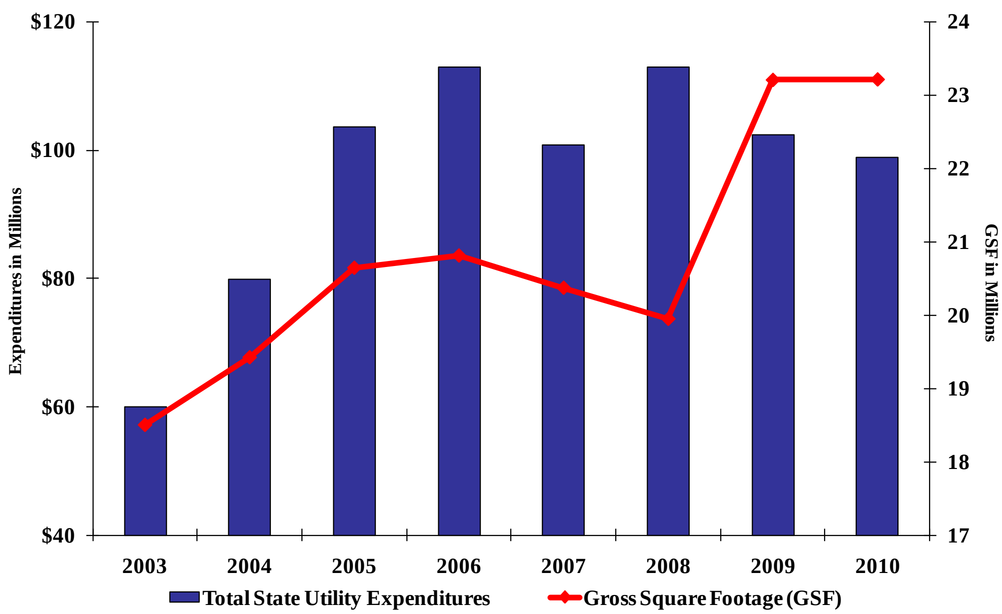
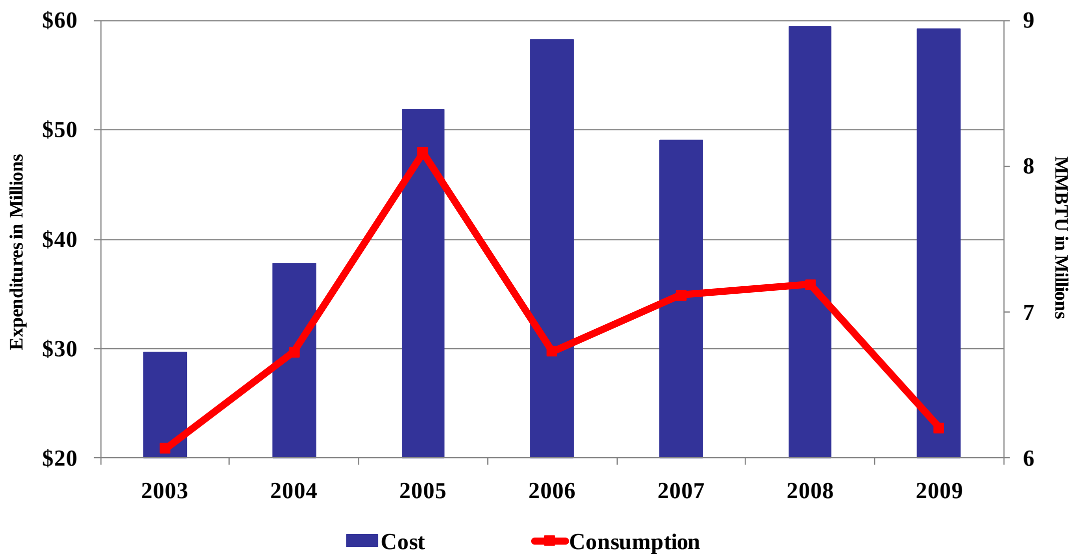


Figure 17 shows natural gas consumption from FY 2003 to FY 2010. The work of the energy task force fell into five basic areas: efficient energy use, reliability of supply, cost control, facility investment and organization. In 2009 SAIC reports for each campus evaluating the conditions of the physical assets were completed and addressed energy production options, reducing energy usage and required investment.

Figure 17
Natural Gas Consumption versus cost
FY 2003 to FY 2010



Energy Production Options

In Chicago, installed plant capacity requires that the most expensive equipment, the gas-turbines, must be run during the periods of maximum steam demand. When these conditions exist there is little redundancy thereby placing campus steam supply at risk. In Urbana, not only do the boiler assets need significant repairs, but the steam distribution and condensate lines are old and also require repair and/or replacement. SAIC's report recommended that the University retain ownership and control of the utility assets. SAIC reported that the magnitude of the investment required to ensure reliability at the three campuses over the next 15 years is estimated to be between $305 million to $413 million for energy production and $78 million to $106 million for distribution systems.

Three actions are required to improve and ensure utility reliability. First, utility rates must include significant amounts for annual repair and replacement (R&R) of generation and distribution assets. SAIC suggest that $20 million to $30 million per year be provided for this purpose. Second, establishment of reserve accounts inside each campus utility budget be made available for large capital R&R items or system emergencies. Third, capital allocation for energy generation/distribution projects should be handled separately from programmatic capital projects.

Reduce Energy Usage

The energy goals of ASHRAE 90.1 – 1999/2004, the standard for heating, ventilating and air conditioning systems, have been met in buildings designed and constructed in the last decade. Unfortunately, the asset base for the University system predates most energy control technologies. SAIC estimated that deteriorated systems have resulted in 15-20% heat loss in distribution and as much as 25% in the buildings. SAIC estimates that system wide there are conservation projects totaling $115 million where energy savings exceed the costs. Immediate access to capital is necessary to accrue the estimated $14 million annual savings resulting from investment in these projects.

Requirement Investment

Provide specific funding to be set aside for planned and approved energy-related capital and deferred maintenance projects that can achieve an expected economic payback over a period not to exceed five years. This funding arrangement may also be used to support production facility needs dictated by safety, environmental compliance, regulatory or reliability requirements.

For FY 2012, the University seeks $5 million in operating funds to augment energy infrastructure repair and renovation requirements.

MEET INFLATIONARY AND OTHER COST INCREASES

PAYROLL COST INCREASES

($1,500,000)

Overview

The University has faced increasing requirements for specialized payroll-related expenditures without receiving commensurate funding to cover them. Payouts for federally mandated Medicare contributions have placed additional stress on the University's budget in recent years. While some of the extreme stress on Federal Medicare has been relieved through years of major reallocation, pressure remains on Workers' Compensation and, to a lesser degree, Social Security contributions. Currently, the University is required by federal law to match new employees' contributions to Medicare and for certain employees, to Social Security. Additionally, board legal liability claims continue to be worrisome. Increases in funding are essential to provide for these unavoidable expenditures.

MEDICARE AND SOCIAL SECURITY CONTRIBUTIONS – $100,000

Effective April 1, 1986, the federal government mandated participation in the Medicare system by all newly hired State and local government employees not covered under the Social Security system. These employees and their employers are responsible for equal portions of the FICA Medicare Tax of 1.45% of gross pay. Additional legislation, effective July 1, 1991, requires employees not covered by the State University Retirement System to participate in the Social Security system.

Medicare cost increases present mandatory, unavoidable budget requirements.

In FY 1995, federal legislation removed the cap on the FICA Medicare Tax. In prior years, the tax of 1.45% was capped at $135,000 of gross pay. The FY 1995 legislation removed the cap and allows the 1.45% tax on the entire gross payment. This action, with an effective date of January 1, 1994, significantly increased Medicare expenditures for the second half of FY 1994 and subsequent years.

Since FY 1987, expenditures have grown at a rapid rate as a result of the changes in Social Security requirements and the turnover of those employees exempt from Medicare requirements. Although appropriations for these costs also have increased, they have been insufficient in meeting actual needs. Table 7 details annual appropriations and expenditures along with each year's percentage growth rate.

Table 7
Appropriations and Expenditures
for Medicare and Social Security Costs
(Dollars in Thousands)

Fiscal Year	Appropriations	Expenditures	% Change in Expenditures
1996	5,967.3	5,982.0	-
1997	5,967.3	6,086.6	1.7%
1998	6,141.5	6,267.3	3.0%
1999	6,302.7	6,754.1	7.8%
2000	6,491.8	7,589.9	12.4%
2001	6,686.6	8,589.7	13.2%
2002	6,887.1	9,753.7	13.6%
2003	9,037.1	10,009.3	2.6%
2004	10,037.1	10,272.8	2.6%
2005	10,037.1	10,656.0	3.7%
2006	10,037.1	11,525.0	8.2%
2007	11,037.1	12,731.6	10.5%
2008	12,037.1	13,440.7	5.6%
2009	14,241.6	14,574.6	8.4%
2010	15,285.6	13,858.6	-4.9%
2011	15,385.6	14,551.5 (est.)	5.0%

The FY 2010 appropriation was $15,285,600 for the combined Medicare and Social Security requirements. However, with no general salary program in FY 2010 and mandatory furloughs, FY 2010 expenditures came in below budget. In FY 2011, expenditures are expected to rise, and through reallocation we have increased the FY 2011 budget by $100,000. An increment of $100,000 is requested for the FY 2012 appropriation. Because it is a federal mandate, this is truly an unavoidable increase for the University.

WORKERS' COMPENSATION – $500,000

The University of Illinois, unlike other universities or State agencies whose claims are handled through the Illinois Department of Central Management Services, receives a direct appropriation for payments of Workers' Compensation claims to University employees. Table 8 details the State appropriation to the University compared to actual expenditure claims. In the last 18 years, the University has been forced to reallocate funds to cover increased claims. Because the Workers’ Compensation Reform Act of 2005 was conservatively estimated to increase annual expenditures by at least 10%, additional time and resources have been spent in efforts to control costs, but the University continues to face growing exposure in this area.

Table 8
Appropriations and Expenditures for Workers' Compensation
(Dollars in Thousands)

Fiscal Year	Appropriations	Expenditures		% Change in Expenditures
1993	2,193.5	2,193.5		-
1994	2,986.3	3,001.1		36.8%
1995	2,986.3	3,291.0		9.7%
1996	2,986.3	4,258.6		29.4%
1997	3,365.0	3,598.9		-15.5%
1998	3,365.0	3,727.0		3.6%
1999	3,466.0	3,686.8		-1.1%
2000	3,466.0	3,727.1		1.1%
2001	3,570.0	3,713.1		-0.4%
2002	3,570.0	3,689.3		-0.6%
2003	3,570.0	4,622.3		25.3%
2004	3,570.0	5,462.7		18.2%
2005	3,570.0	4,815.1		-11.9%
2006	3,570.0	5,612.9		16.6%
2007	3,570.0	5,333.9		-5.0%
2008	3,570.0	7,219.00		35.3%
2009	5,070.0	6,153.00		-14.8%
2010	5,570.0	6,346.00		3.1%
2011	5,820.0	7,312.00	(est)	15.2%

For the last several years, the University has utilized an actuarial firm to establish an appropriate level of funding for Workers' Compensation. The firm's methods for estimating projected claims and resulting outlays have proven to be very accurate. The impact of the Workers' Compensation Reform Act of 2005 has contributed significantly to the increase in program costs. Cost containment efforts have been initiated, including worker safety training programs and aggressive return to work programs. Actuaries have calculated the FY 2011 Cost Per $100 Payroll to be $0.74. When multiplied by state payroll the expected cost to fund the program is $7.3 million. When compared to the State appropriation of $5.8 million, there is a shortfall of roughly $1.49 million. The University has created extensive programs, charge backs and incentives to control and reduce costs in the last several years.

Even with the success of these programs, additional resources are required. For FY 2012, $900,000 for workers' compensation is requested.

LEGAL LIABILITY – $500,000

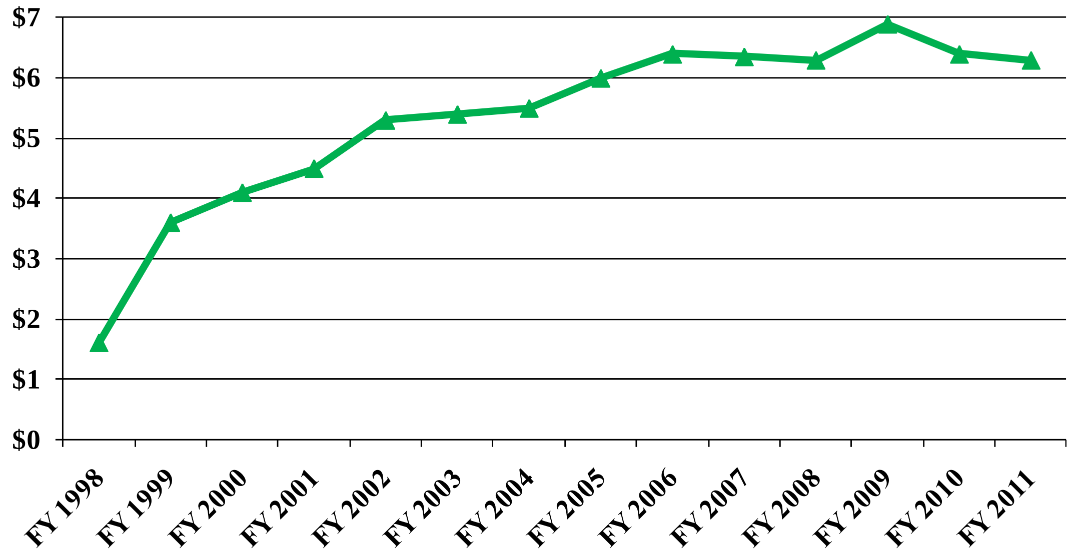
Following national trends, all forms of legal liability claims costs at the University of Illinois have grown. Awards of the court are hitting new highs; claims are requiring more dollars to effect settlement. The Cook County venue is one of the most litigious in the country; awards and settlements are among the highest. These facts are given consideration by both the actuary and the insurer.

The University of Illinois maintains a comprehensive liability self-insurance program to cover the cost of claims made for bodily injury and personal injury. By far the largest exposure to the University is in the Board Legal Liability area, where claims are made for personal injury. Personal injury includes claims of discrimination, wrongful termination, civil rights violations, failure to educate, etc. The funding costs for the General and Board Legal liability programs has escalated from $0.6 million to $6.3 million during the period FY 1996 to FY 2011. This marked increase is due to:

- The increased cost of defense of cases in which resolution is problematic due to the personal nature of issues involved.
- Actuarial funding recommendations influenced by national trends, proliferation of class-action suits, frequency of punitive damage awards, the decisions of the Supreme Court and the Cook County location–a highly litigious venue.

Loss control for Board Legal liability is difficult; the type of claim is varied, the source of claims is scattered and the frequency is low, but costs can be high for a limited number of claims. Current loss control programs are general in nature, with peer-to-peer dispute resolution being the most recently initiated program. The University has approximately 29,000 FTE employees and 75,500 students. An average of 50 claims is filed each year, a frequency less than .01%. For FY 2011, the University allocated $6.3 million to the Legal Liability fund. Figure 18 is a graphical representation of the historical cost of the program.

Figure 18
Legal Liability
(Dollars in Millions)



During the past few years the cost of the program has experienced some flattening; however given the escalation in recent years, this could be an anomaly. Using the funding requirements of the past several years as an indicator, it is expected that funding needs will continue to experience increases due to inflation, although we hope we will continue to contain costs due to loss control and loss prevention. All funding requirements are based on annual actuarial review.

The University will continue to attempt to control the acceleration in costs arising from this area through training, awareness and by improved procedures. In response to the large exposure employment practices claims presents to the University, a committee was formed to evaluate this issue. The committee included experts in Legal Affairs, Risk Management, Actuarial Science and representatives from units with the highest exposure. The University has increased risk awareness and funded mediation training based on the report of the committee. However, as costs do continue to rise, the University is requesting $500,000 for General and Board Legal Liability funding.

HEALTHY RETURNS–THE ILLINOIS BILL OF HEALTH

HEALTHY RETURNS–THE ILLINOIS BILL OF HEALTH
($15,500,000)

Overview

UIC plays a vital role in the healthcare training of Illinois students. UIC is the home of the nation's largest college of medicine, one of only two colleges of dentistry in the state, one of only 24 publically funded Schools of Public Health in the United States, and also houses colleges of pharmacy, nursing, and applied health sciences. The UIC alumni from these programs represent 1 of 6 Illinois physicians, 44% of the state's dentists, and 1 in 3 pharmacists. This cadre of skilled health professionals provides Illinois residents with high quality healthcare, which is in greater demand as people's life expectancy and desire for a higher quality of life makes demand for healthcare consumption greater.

Between 2010 and 2020 the number of people age 65 or greater will double. Patients over the age of 65 average 6.4 visits to a physician annually, while patients under the age of 65 average 2.9 visits to a physician annually. The demand for healthcare services will continue to escalate as the population of Illinois ages.

With the closing of the Loyola and Northwestern University dental schools in 1993 and 2001, respectively, UIC's College of Dentistry is now one of only two dental colleges in Illinois. Over 40% of Illinois dentists are alumni of UIC, and as more and more alumni of closed dental schools at Loyola and Northwestern University retire, that percentage will only increase.

The high cost of training healthcare providers threatens the ability of UIC to continue to provide a continuous volume of highly trained providers. Should the state not provide adequate funding, Illinois might face similar healthcare shortages as those currently experienced by the State of Missouri, where over 90% of the counties experience dental shortages and/or are medically underserved.

Healthcare education costs are admittedly significantly higher than those required to teach undergraduates. In order to ensure proper training for specific procedures, student-to-faculty ratios must be kept very low. Healthcare training frequently requires hands-on-training, which necessitates that class sizes be very small, and be conducted in appropriate venues. New technological discoveries and methods of diagnosis and treatment require that the health science colleges keep up-to-date on constantly evolving technology.

Students are already bearing their share of the higher instructional cost. Continuing to increase student tuition and fees will create an even greater economic barrier to potential health science students, thus reducing the pool of students available to be trained.

UIC anticipates that it will require $50 million ($10 million per year in recurring operating funds) to allow continued optimum operation of the health science colleges. The $10 million per year will be used to retain the best faculty in health science, provide equipment and technology upgrades in teaching facilities, keep tuition increases to an affordable 3% and prevent cuts in health science enrollments. To accommodate the Association of American Medical Colleges target of expanding enrollment by 20% (65 additional medical students per class), UIC will require an additional $5.5 million.

The UIC hospital and the health science colleges are located in outmoded and deteriorating facilities. In addition to basic operating needs to continue to provide educational opportunities and medical and dental care to the community, completion of the master plan for the renovation and expansion for the Medical Center is imperative.

Once the master plan is completed, capital investment will be crucial to the preservation of the UIC health science colleges. Without capital investment, deferred maintenance on existing facilities will inhibit optimum classroom utilization, render certain classrooms and labs inappropriate for new technological installations, and limit the size of health science cohorts, due to a lack of classroom and/or lab space.

MEDICAL PROFESSIONAL LIABILITY INSURANCE

MEDICAL PROFESSIONAL LIABILITY INSURANCE
($10,000,000)

Overview

Nationally the substantial increase in costs associated with medical liability continues. It is rare that a week goes by when an article about escalating malpractice costs is not in a local newspaper. Illinois legislation passed in 2005 included caps on damage awards, but the issue of balancing a patient's right to sue because of medical error against the cost of litigations continues to be hotly debated. In November 2007, tort reform legislation was overturned–for the third time–and in early 2010 the Illinois Supreme Court upheld this decision. Therefore, caps on non-economic damages for medical liability claims are once again a dead issue.

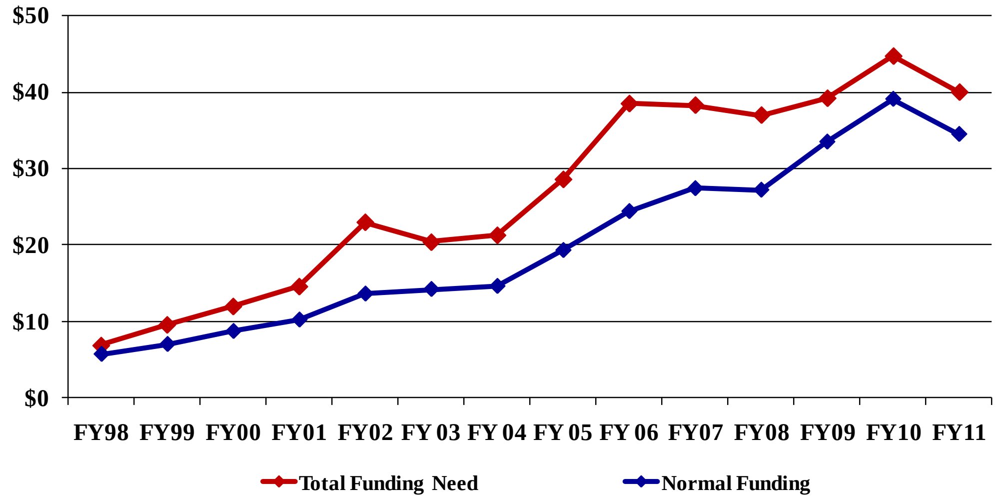
No single factor may be responsible for rising malpractice insurance costs. However, the reality is we continue to be in the midst of a crisis. It will come as no surprise that malpractice coverage has become so expensive that physicians are closing practices, retiring early, or moving to areas where insurance costs less. The AMA continues to make liability reform a top legislative priority.

Following national trends, the University of Illinois claim experience has deteriorated over the past several years, primarily due to the size of the awards and verdicts, not because we have an increase in medical errors. Awards of the court are hitting new highs; claims are requiring more dollars to effect settlement. The Cook County venue is one of the most litigious in the country; awards and settlements are among the highest. These facts are given consideration by both the actuary and the insurer.

The total funding requirement for the Hospital/Medical professional liability self-insurance program increased 599% in just over a decade, increasing from $6.4 million in FY 1998 to $44.7 million in FY 2010, despite an increased focus on patient safety. Funding went down roughly 10% in FY 2011, primarily because several large claims were finally closed and taken off the books.

Normal funding (the projected, future cost for claims incurred in the upcoming year) has steadily grown since FY 1998. Both the "total funding requirement" and the "normal funding requirement" are discounted to recognize the time value of money and the long time required to effect closure. Figure 19 shows medical malpractice funding needs.

Figure 19
Medical Malpractice
FY 1998 to FY 2011
(Dollars in Millions)



In FY 2010, hospital discharges and outpatient clinic visits are down from prior years. During the same period in excess of $6 million was paid by the University to settle claims. The University's actuary estimates the discounted outstanding liabilities for current medical liability claims is roughly $159 million.

The University of Illinois Medical Center (UIMC) is a prestigious academic medical center providing high-level medical care for difficult medical problems; additionally, the University provides a broad range of services for participants in the State's entitlement programs. An outside audit has indicated that existing procedures and risk management programs in the hospital and clinics are appropriate and effective. Loss control programs are in place, but claims happen. If national trends play out at the University of Illinois Medical Center, the incidence of claims and the cost to adjudicate those claims will increase despite tort reform.

ADDENDA

ADDENDA I

RETIREMENT

Overview

The level of funding of the State Universities Retirement System (SURS) has been a source of significant concern through the years. Although legislation passed in 1967 required that annual appropriations for the System cover the projected costs of future benefits plus interest on the System's existing unfunded liability (i.e., future pension costs for employees still working), this statutory level of funding was never reached and, in effect, part of the State's obligation to cover the retirement costs of current employees has been shifted to future years.

There was modest movement toward an improved level of retirement funding from FY 1979 through FY 1981. In each of those years, the State's contribution was at or above the "gross payout" level of funding–covering all of that year's benefits and administrative expenses. The System was then able to add all employee contributions, as well as interest and dividend income, to existing assets to help offset the costs of future benefits earned by current employees.

Unfortunately this improved funding level was short lived. As the State's economy worsened, so did SURS financial support. From FY 1982 through FY 1994 funding dropped significantly below the "gross payout" level. While these reductions were seen as necessary to prevent deeper cuts in operating funds, the State was in effect borrowing against the future.

In FY 1995, there was significant movement towards an improved level of retirement funding. Public Act 88-593 mandated that the State's five pension systems achieve a level of 90% of full actuarial funding in 50 years and includes a continuing appropriation provision to enable the State to reach that goal. This legislation was intended to strengthen the financial condition of the Retirement Systems and help preserve funding stability for pension systems despite periodic fiscal constraints in the rest of the State budget. A mandated change in valuation methodology and actuarial assumptions altered, to some degree, the annual increments necessary to fund SURS required by PA 88-593. Under new Governmental Accounting Standards Board (GASB) guidelines, SURS assets as of June 30, 1997 were valued at market rather than book value. This change alone significantly increased the funding ratio of assets to liabilities, and the funding ratio was increased even further by a new set of actuarial assumptions adopted in December 1996 that recognized strong returns on SURS assets, which lowered projected future liabilities. The System's funding ratio peaked at over 88% in FY 2000.

Unfortunately, investment returns in 2001 and 2002 were negative, and only about 3% in FY 2003. As a result unfunded liabilities increased greatly for SURS, as they did for all of the State's retirement systems, which also experienced poor investment returns. At the end of FY 2004, the funding ratio for SURS was only about 66%.

Faced with an extremely constrained budget situation in FY 2004, the General Assembly and the Governor approved PA 93-2, authorizing the sale of $10 billion in pension obligation bonds in order to meet the statutory pension funding obligations. The infusion of money combined with extremely strong investment performance increased the funding ratio of SURS from a low of 53.9% at the end of FY 2003 to 66% at the end of FY 2004. The law called for the State's pension contribution to be split between payments to the pensions systems and interest and principal payments on the bonds.

The 1995 "catch-up" law combined with the bond sale created a very large pension funding obligation that, along with rising Medicaid and other program costs, posed a severe challenge to the State's FY 2006 budget. The Governor and General Assembly responded by approving PA 98-4, which reduced the State's required pension contributions to all systems by about $1.2 billion in FY 2006 and $1.1 billion in FY 2007 and recalculated the pension catch-up amounts required in FY 2008, FY 2009 and FY 2010. SURS contributions were reduced to about $167 million (from $365 million) in FY 2006 and $252 million (from $432 million) in FY 2007. The FY 2008 SURS contribution was $340 million, FY 2009 was $450 million and the FY 2010 required contribution was $708 million. The law also made the following major substantive changes to SURS:

- The State Comptroller (rather than the SURS Board) will now certify the SURS effective rate of interest for the money-purchase formula.

- The money-purchase formula is not available for new SURS members hired on or after July 1, 2005.

- Employers must pay the actuarial value of pension increases that result from earnings increases over 6% in any year used to calculate a retiree's final rate of earnings. This provision does not apply to raises paid under collective bargaining agreements in effect before July 1, 2005. This legislation was modified under PA 94-1057 and signed by the Governor in July 2006 to further clarify the basis used for calculations and to address exclusions such as overload work and certain promotions.

- The Governor created an Advisory Commission on Pension Benefits and their recommendations from October 2005 are as follows:

1. The Commission recommends that the State adopt means by which to dedicate revenues in excess of a specific target percentage of growth towards the additional funding of the pension systems when those targets are met, and establish a minimum when those targets are not met.

2. The Commission recommends that if the State sells certain assets, then 100% of the resulting revenues should be dedicated towards reducing liabilities, including the Pension Systems' unfunded liabilities, as a component part of a broader plan to reduce those unfunded liabilities.

3. The Commission recommends that the General Assembly consider creating incentives for employees to continue working beyond the year when they achieve the maximum pension percentage as a means to reduce the State's pension costs.

4. The Commission recommends that the General Assembly consider the issuance of Pension Obligation Bonds as quickly as practicable as a financing instrument to reduce the State's pension costs, as long as (1) there are favorable market conditions and (2) the issuance of such POBs is a component part of a broader plan to reduce the Pension Systems' unfunded liabilities.

5. The Commission recommends that the General Assembly should explore new revenue sources dedicated to reducing the Pension Systems' debt, as a component part of a broader plan to reduce the Pension Systems' unfunded liabilities.

6. The Commission affirms the significance of the benefit reforms achieved in the 2005 Spring legislative session, and also affirms that, at the present time, most SERS, TRS and SURS benefits and employee contributions are comparable to other public pension systems in the United States and recommends that the General Assembly should regularly review, as part of the agreed bill process as well as a part of their normal budgetary review process, the affordability of the Pension Systems' plan provisions regarding benefits and make an affirmative determination thereon.

Though pension systems invest for the long run, all have been greatly impacted by the historic declines in asset prices over recent years. The public pension systems of Illinois are no exception. The combination of long term underfunding and the historic drop in asset prices have created a long term concern of the stability of the Illinois pension systems.

Again faced with negative investment returns in FY 2009 which significantly further escalates funding requirements and continued ramp up in funding from PA88-593, the Governor and General Assembly responded by passing legislation that fully funded the FY 2010 required pension contributions by issuing $3.466 billion in 5-year Pension Obligation Bonds. Governor Quinn also appointed a Pension Modernization Task Force which formed subcommittees and provided recommendations on investments, benefits and funding. The committee examined all options related to pension funding and employee benefits. The work of this task force ended November 1, 2009 and filed its final report to the Governor at that time, though without a majority-approval of its overall content.

Under PA 88-593 there continued to be a ramp up in funding for the State's five retirement systems, going from $4.0 billion in FY 2010 to over $5.8 billion in FY 2014. For SURS, funding would increase from $707.7 million in FY 2010 to $1.12 billion in FY 2014. This significant increase in employer contributions would dramatically impact the availability of State revenues for other purposes.

Then, on April 14, 2010, Governor Quinn signed (SB 1946) Public Act 96-0889 into law. It was one of the most substantial pension overhauls in the country, modifying most public pension systems other than Police and Fire funds. Of note, it created a two-tier pension system in which the required age to receive full annuity will increase to 67 – the highest teacher retirement age in the country – and the vesting period was raised to 10 years. The required age to receive a reduced annuity will be modified to age 62 with 10 years of service; the reduction in benefit amounting to ½ of 1% for each month that the member's age is under 67.

PA 96-0889 also caps maximum pensionable salary at $106,800. The new provisions names, as well as others outlined in Table 9, apply to all newly hired employees eligible to participate in any retirement system on or after January 1, 2011.

Table 9
PA 96-0889 – Applicable to SURS Participants

Provision	Current Members	New Members on or after January 1, 2011
Required Age and Service Years to Receive Full Annuity	Age 62 with 5 years of service, 55 with 8 years OR any age with 30 years	At age 67 with at least 10 years of service
Required Age and Service Years to Receive Reduced Annuity	If under 30 years of service, the annuity is reduced by ½% per month for each month that the member's age is under 60	At age 62 with 10 years of service. The pension would be reduced a ½% for each month the member is under the normal retirement age as provided by SSA
Average Final Salary Calculation	The average of the highest 52 consecutive pay periods of earnings in the last 10 years preceding retirement	The average highest 96 months of earnings in the last 10 years preceding retirement
Maximum Pensionable Earnings	IRS requires that pensionable earnings cannot exceed $245,000 in 2010 (for employees hired after 1/1/96)	Caps the average final salary used at $106,800; this amount automatically increases annually by 3% or by one-half of the increase in the Consumer Price Index-u, whichever is *lower*
Computation of the Surviving Spouse's Annuity	60% plus 1% per year of service of the annuity the deceased member had been receiving or would be entitled to receive on the date of death, maximum 85%.	66-2/3% of the annuity the deceased member had been receiving or would be entitled to receive on the date of death
Annuitant (Retiree and Surviving Spouse) COLA	3% of the annuity payable at the time of the increase	3% or one-half of the increase in the Consumer Price Index, whichever is *lower*, of the original annuity
Schedule for First Retiree Annuitant COLA	On the first of the month in which the anniversary of retirement occurred	The first of the month following the attainment of age 67 or the first anniversary of the commencement of the annuity, whichever is *later*
Schedule for First Spouse Annuitant COLA	First day of the calendar month in which there is an anniversary of the employee's retirement or date of death, whichever occurred first	January 1st occurring on or after the commencement of the spouse annuity if the member died after retirement. For the spouse of the member who died in service, January 1st occurring after the first anniversary of the commencement of the annuity.

With passage of PA-96-0889, it is expected that contributions will be recertified and the funding required for the pension systems will be reduced from $4.5 billion to $3.5 billion for FY 2011. Even with the enacted changes, funding for the pension systems will continue to increase at least $400 million per year for the next four years and the funding ratio is expected to drop from 46.9% in FY 2010 to 37% in FY 2014.

While the University understands the very difficult budget situation facing Illinois, it also supports adequate annual funding for all State pension systems, including SURS. SURS should be viewed not only as an important part of the University's benefit package, but as a crucial component of the State's commitment to higher education.

ADDENDA II

ENSURING ACCESS–FINANCIAL AID

Overview

The University of Illinois has a strong commitment to access for the people of Illinois whose taxes contribute substantially to the support of the University. To ensure full access for all qualified Illinois residents, regardless of their income level, the University assists students with a wide range of financial aid programs including grants and loans from federal, State and private sources; federal work study funds; and grants and loans from institutional resources. Over 26,500 U of I undergraduates received some form of assistance, the largest portion being need based financial aid. Financial aid is crucial for ensuring accessibility to students from families with limited means. A critical component of financial aid packages for Illinois residents is the Monetary Award Program (MAP) grants they receive from the Illinois Student Assistance Commission (ISAC). For many years the maximum MAP grant awarded to those students with greatest financial need was sufficient to cover the full tuition and mandatory fees at Illinois public universities. In FY 1996, tuition and mandatory fees at the Chicago and Urbana campuses of the University of Illinois first exceeded the maximum MAP award, and the University began supplementing MAP grants for these students to cover the difference.

Students and the University are more directly affected by changes in State and Federally sponsored financial aid programs than ever before. Maximum award levels for Pell and MAP are shown in Table 10. For several years the Pell and MAP program maximum awards have not kept pace with the increases in tuition and fees.

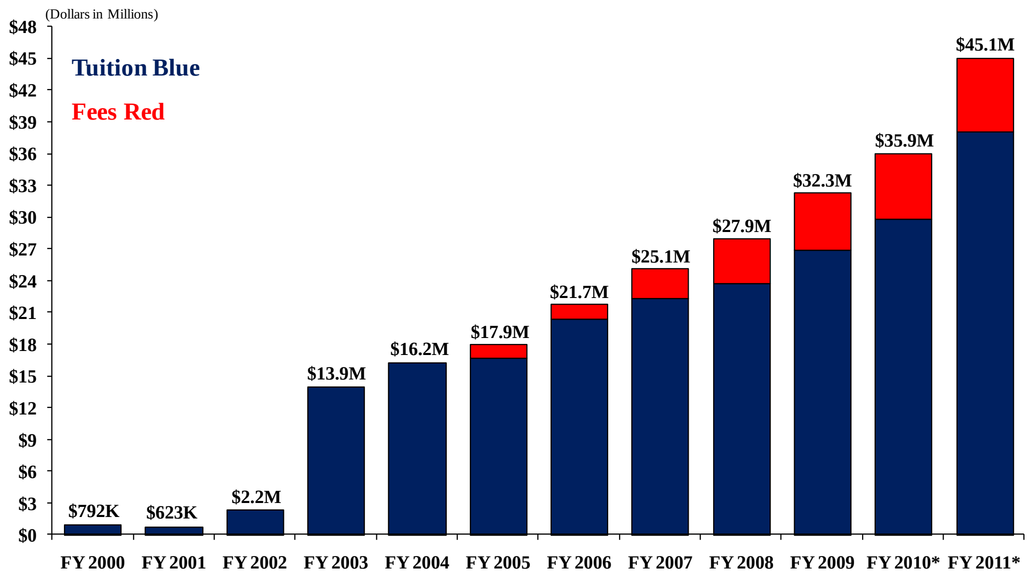
Table 10
Federal Pell Grants and Illinois Monetary Award Program Maximum Award Levels

Fiscal Year	Pell	MAP	Total	UIUC General Tuition + Fees
2005	$4,050	$4,471	$8,521	$ 7,944
2006	$4,050	$4,471	$8,521	$ 8,634
2007	$4,050	$4,968	$9,018	$ 9,882
2008	$4,310	$4,968	$9,278	$ 11,130
2009	$4,731	$4,968	$9,699	$ 12,230
2010	$5,350	$4,968	$10,318	$ 12,528
2011	$5,550	$4,968	$10,518	$ 13,508

1) Initial awards were multiplied by .95 to determine the final award amount.
2) ISAC MAP formula uses FY 2003-2004 tuition levels.
3) FY 2011 MAP Maximum $6,468 in Statute; subject to appropriations. Formula uses max of $4,968.

To ensure access the University has set aside supplemental funding to help the neediest students. As shown in the Figure 20, the cost of the Supplemental Financial Aid program began to increase several years ago as budget cuts to both ISAC and the University precipitated reductions in MAP grants and increases in the sticker price of tuition and fees.

Figure 20
University of Illinois
Supplemental Financial Aid Expenditures
FY 2000 to FY 2011
(Dollars in Millions)



FY 2005-2011 all sources including fees.
*FY 2010 Budgeted, FY 2011 Preliminary

In June 2002, the board directed the administration to review the institution's tuition and financial aid policies that were adopted in 1995, and to make recommendations for changes, if warranted. The report, *Ensuring Quality and Affordability: Tuition and Financial Aid at the University of Illinois*, was submitted to the Board of Trustees in January 2003. The report, which was developed with the help of the chancellors and provosts, faculty representatives, and representatives of the Board of Trustees, includes a statement of the guiding principles for financial aid and recommendations for managing the University's Supplemental Financial Aid program. The Board of Trustees approved a policy at the July 2004 meeting, and reviewed and modified the policy in November of 2007.

GUIDING PRINCIPLES FOR FINANCIAL AID

- The University maintains the goal of ensuring access for qualified students, regardless of financial circumstance. As determined by federal financial need, qualified students will be assisted with the cost of attendance through a financial aid package that includes various types of assistance

- Students who can afford to pay the full price of tuition and fees are expected to do so. Such students will still be eligible for merit scholarships.

- Students who cannot afford to pay the full price will be offered a combination of grants and loans from various sources appropriate to their financial circumstances.

- The University will control its costs through control of the length of study for which it will support students from institutional funds and of the proportion of loans to grants made from institutional funds.

MAP SUPPLEMENTAL FINANCIAL AID POLICY

- Need based institutional grant aid for Illinois resident undergraduates that are funded from institutional funds will be supported for up to 4 ½ years on a full time equivalent basis; institutional grant aid may be offered for one additional FTE semester for students in programs requiring more than 120 credits.

- As a group, undergraduates with financial need will be moved as far as is prudent away from University-funded grants to loans.

- The financial aid officers, in consultation with the campus academic leaders, will develop specific campus policies for awarding Supplemental Financial Aid grants to their undergraduate students. Grants to individual students will be adjusted, within the constraints of campus policy and available resources, as circumstances warrant to best serve these students and their families.

- To manage future increases in tuition and mandatory fees, the campus MAP Supplemental Financial Aid pools will be increased by percentages that are fixed multipliers of the percent increases in total undergraduate tuition income. Current multipliers are 1.67 at Chicago, 1.5 at Springfield and 1 at Urbana.

- This methodology will be reviewed at least every three years to ensure adequate and appropriate funding for Supplemental Financial Aid at each campus.

The financial aid guidelines and policy were developed with the advice and counsel of Trustees, the Administration and the Academic Affairs Management Team. The

University Policy Council reviewed the financial aid guidelines and policy before being enacted by the Board of Trustees. It is recognized that in future years the University will continue to need to set aside institutional funds for financial aid to ensure access. The actual amount needed in the budget year will continue to be analyzed based on a number of variables.

Additionally the University has been impacted by shortfalls in funding for the other programs funded through the Illinois Student Assistance Commission (ISAC). The State's cash flow problems have impacted ISAC funding and timing of payments as well. Changes in funding to ISAC are critical to almost 13,000 university students directly, and also to the financial health of the University. The University will continue to monitor payments and cash flow from ISAC. The ISAC Board has determined the highest priority for ISAC funding is the MAP program and has reduced or eliminated funding for several other programs such as the Illinois Veteran Grant (IVG) program. The IVG program is a scholarship program administered under ISAC. If there is insufficient funding in the program, under current State statute the college or university is prohibited from collecting the funds from the student. In recent years there has been a growing funding shortfall for the program. (In fact there are three related programs, Illinois National Guard Grants, POW/MIA Scholarships and the IVG, with the IVG being by far the largest and most underfunded). Expected claims for FY 2010 are estimated at $40 million without a clear funding mechanism. As recently as five years ago the program was fully funded, there were no waivers associated necessary by the institutions. In FY 2009 the University waived $5.6 million for these programs. While ISAC made some funding available for this program in FY 2010 on a non-recurring basis, a permanent funding for this statutory program is not in place.

CAPITAL BUDGET REQUEST FOR FY 2012

CAPITAL BUDGET

BACKGROUND AND CONTEXT

Overview

Perhaps too obvious yet worth stating is the fact that academic and administrative facilities exists for one purpose, to support academic programs. The capital facilities make up the University's largest asset and provide the foundation to attract and retain top quality faculty, staff and students. Any discussion of the capital budget must begin with the understanding that an institution of the size, scope and complexity of the University of Illinois faces a recurring array of facilities needs each year. As buildings age through their normal life cycles, it is crucial to address minor repair and renovation needs as they occur. Failure to do so accelerates deterioration and leads to costly major remodeling requirements more quickly than would be necessary if prudent attention to annual repair and renovation were possible. Changing programmatic emphases in academic units also create the need for relatively small remodeling projects which can be addressed quickly to make existing space more useful for emerging academic priorities. Toward that end the University is coming off of several fiscal years with a limited capital budget appropriation. As stated previously, consistent and steady funding patterns are supremely important to maintain the physical plant. Fiscal year 2010 did see a budget approved by the Governor and General Assembly which does provide a capital appropriation to the University that includes funds for repair and renovation. However, the inconsistent funding pattern has only exacerbated the deferred maintenance problem while making it more difficult to reduce it in the future. The state's contribution in reducing the level of deferred maintenance on the campuses is an integral part of the funding plan toward that end. Several years without that piece of the funding solution leaves the University in the proverbial two steps forward and one step back position.

Based on these factors, the University has once again placed the repair and renovation request at the top of the capital request list requesting $60 million. Along with that request the University continues to fight the battle with the recently approved Academic Facilities Fund Assessment coupled with prior issues of Certificates of Participation in order to jump start the reduction of deferred maintenance on each campus. However, the state portion of the funding tool is still critical and frankly without the state support, reduction in deferred maintenance will be severely curtailed.

Buildings and the infrastructure systems which support them have finite useful lives. Roofs deteriorate; heating, ventilating and cooling systems wear out; masonry decays; and so on. At a certain point major remodeling is required to extend the useful life of every University facility constructed and every annual capital budget request will contain a share of major remodeling projects, usually in the cost range of $2 million to $15 million. Major remodeling projects can also result from the need to enlarge the capacity of a building, change its functional use, upgrade or extend campus wide infrastructure systems. For example, as technological advances have accelerated over the past two decades and computers now permeate the conduct of almost every phase of instruction and research activity, the need to expand electrical and cooling capacity for individual buildings and for entire campuses has grown dramatically.

At times, buildings may outlive their usefulness for the purposes for which they were originally constructed, but with remodeling and renovation can be refitted for other, usually less complex uses. This is particularly true for research facilities more than 40 or 50 years old. The cost to upgrade building systems to current state-of-the-art standards for today's research and instructional programs is usually greater than new construction costs for the same type of space.

From time to time, the University will require construction of completely new facilities to replace outmoded buildings that have gone beyond their useful lives, to expand significantly the scope of an existing program or to begin new program initiatives. Land acquisition may also be required to address such needs. Due to the extraordinary length of time required to move from initial determination that a new facility is required, through planning, appropriation and construction phases to the point at which a new building is actually in use (often a minimum of six years), each annual capital request from the University typically has several new building requests at various priority rankings.

It is important to reemphasize the recurring nature of these crucial facilities-related budget requirements which must be addressed on an annual basis. When that is not possible, a backlog of unfunded projects grows quickly and accelerates the cycle of deterioration in facilities which, if not addressed, leads inevitably to deterioration of academic programs and loss of key faculty and students.

In this context where steady and measured funding increases for facility needs are vitally important, the last half decade and more of capital budgets have been disappointing. The FY 2010 capital appropriation did however provide hopeful signs as several University projects were appropriated and released including: Lincoln Hall Remodeling, College of Medicine Rockford, along with funding for the NCSA Petascale project. Unfortunately that progress was halted again as no FY 2011 projects have been released to date.

Table 1
History of Recent Capital Budget Actions
FY 2006 to FY 2011 Governor's Level
(Dollars in Thousands)

	FY 2006		FY 2007*	FY 2008*	FY 2009*	FY 2010	FY 2011
Campus Requests							
Urbana-Champaign	$ 176,077.4		$ 236,550.8	$ 162,550.8	$ 176,450.8	$ 216,930.4	$ 222,600.0
Chicago	114,665.9		93,691.3	90,581.8	84,181.8	197,581.8	224,200.0
Springfield	4,468.7		4,812.4	8,812.4	3,187.4	39,687.4	37,400.0
TOTAL	$ 295,212.0		$ 335,054.5	$ 261,945.0	$ 263,820.0	$ 454,199.6	$ 484,200.0
IBHE Recommendations							
Urbana-Champaign	$ 59,952.7		$ 89,100.7	$ 148,475.7	$ 128,450.8	$ 140,534.2	$ 114,329.1
Chicago	23,054.5		25,254.5	41,193.2	42,581.8	48,117.7	159,247.6
Springfield	458.2		458.2	572.8	687.4	687.4	38,551.6
TOTAL	$ 83,465.4		$ 114,813.4	$ 190,241.7	$ 171,720.0	$ 189,339.3	$ 312,128.3
Regular Capital Appropriations							
Urbana-Champaign	$ 15,215.4	**	$ 6,225.4	$ 120,235.4	$ 122,225.4	$ 140,534.2	$ 64,329.1
Chicago	4,165.9	**	4,165.9	38,115.9	38,415.9	48,117.7	86,047.6
Springfield	343.7	**	343.7	343.7	343.7	5,031.1	5,551.6
TOTAL	$ 19,725.0		$ 10,735.0	$ 158,695.0	$ 160,985.0	$ 193,683.0	$ 155,928.3
Appropriations for Special Projects							
Opportunity Returns				$ 60,490.0	$ 62,490.0	$ 61,975.0	
TOTAL APPROPRIATION	$ 19,725.0		$ 10,735.0	$ 219,185.0	$ 223,475.0	$ 255,658.0	$ 155,928.3

* Funding recommended by Governor but not approved or passed by General Assembly.
**FY 2006, three planning projects at Urbana Champaign Campus released totaling $9.0M, no other projects released.

SUMMARY OF FY 2012 PRIORITIES
($506,700,000)

Overview

The University's FY 2012 Capital Budget Request consists of 10 priorities at a total cost of $506,700,000. Table 2 represents a combined priority listing of the proposed projects for this year.

Table 2
FY 2012 Combined Capital Budget Request
Summary by Priority
(Dollars in Thousands)

Priority	Project	Urbana	Chicago	Springfield	Total
1	Repair and Renovation	$ 33,600	$ 24,000	$ 2,400	$ 60,000
2	Advanced Chemical Technology Supplemental		43,000		43,000
3	Natural History Building	58,500			58,500
4	Pharmacy Renovation & Addition		73,200		73,200
5	Main/Undergrad Library Redevelopment	50,000		51,000	101,000
6	Hospital Modernization Phase I		40,000		40,000
7	Disability Research, Res. & Educ. Svc. Bldg.	50,000			50,000
8	Science and Engineering Lab Renovation Phase I		35,000		35,000
9	Burrill Hall Remodeling	27,000			27,000
10	Stevenson Hall Classroom Building Modernization		19,000		19,000
		$ 219,100	$ 234,200	$ 53,400	$ 506,700

It is important to note that while the priority list includes those projects most critical to the University each campus has a much larger list that the priority list is culled from each year. The combined priority list is not meant to show an exhaustive list of needs for each campus but merely a realization and sense of proportion for the State Capital Budget. If the entire University of Illinois list were submitted, not including special initiatives, a total request in the neighborhood of $749 million would be the result. Table 3 reflects the entire capital budget request from the campuses of the University of Illinois.

Table 3
FY 2012 Capital Budget Request
Summary by Campus
(Dollars in Thousands)

Campus Priority	University Priority	Urbana-Champaign		
1	1	Repair & Renovation	$	25,850
2	3	Natural History Building		58,500
3	5	Main/Undergrad Library Redevelopment		50,000
4	7	Disability Research, Resources and Education Services Building		50,000
5	9	Burrill Hall Renovation		27,000
6		Cultural Center Buildings		15,000
7		Education Building Renovation & Expansion		30,000
8		Architecture Building FAA Library Renovation		35,000
9		Music Building Rehabilitation & Expansion		20,000
10		Altgeld/Illini Hall Renovation		30,000
		Total	**$**	**341,350**

		Chicago		
1	1	Repair & Renovation	$	24,000
2	2	Advanced Chemical Technology Supplemental		43,000
3	4	Pharmacy Renovation & Addition		73,200
4	6	Hospital Modernization Phase 1		40,000
5	8	Science and Engineering Lab Renovation Phase I		35,000
6	10	Stevenson Hall Classroom Building Modernization		19,000
7		Utility and Mechanical System Upgrades		17,000
8		Façade Repair Program		60,000
9		Medical Sciences Building Modernization Phase I		21,000
10		Central Utility Plant Renewal Modernization		20,000
		Total	**$**	**352,200**

		Springfield		
1	1	Repair & Renovation	$	2,400
2	5	Brookens Library Renovation		51,000
3		Warehouse Storage Facility		2,500
		Total	**$**	**55,900**

The first priority is a $60,000,000 Repair and Renovation request, which is comprised of fourteen projects at the Urbana-Champaign campus, three projects at the Chicago campus and four projects at the Springfield campus. These projects, while not large enough to compete with major remodeling requests, represent a significant, real funding need. A high priority on renovation and renewal must be maintained by institutions with facilities the size, scope, complexity and age of the University of Illinois. The Repair and Renovation request is vital for the continued renewal of existing University facilities, provision of up-to-date support for academic programs and protection of the State's investment in capital facilities.

More detailed descriptions of these projects are provided in the sections following this overview.

The second priority seeks $43,000,000 to protect against inflationary losses in the construction of the Advanced Chemical Technology Building at the Chicago campus. Initial appropriations were made in FY 2002 and FY 2003 but construction has been delayed due to the state's fiscal condition.

The third priority requests $58,500,000 to rehabilitate the historically significant Natural History Building at the Urbana campus.

The fourth priority seeks $73,200,000 primarily for an addition to the Pharmacy College at the Chicago campus.

The fifth priority seeks $101,000,000 parsed $50,000,000 at the Urbana campus and $51,000,000 at the Springfield campus to upgrade the main library at those campuses.

The sixth priority seeks $40,000,000 to begin modernization efforts for the University of Illinois Hospital and Medical Center.

The seventh priority seeks $50,000,000 for a Disability Research, Resources and Education Services Building on the Urbana-Champaign campus helping them to remain at the forefront in serving students with disabilities.

The eighth priority seeks $35,000,000 to remodel the Science and Engineering Lab on the Chicago campus.

The ninth priority seeks $27,000,000 to remodel Burrill Hall on the Urbana-Champaign campus.

The tenth priority seeks $19,000,000 for the Chicago campus to modernize Stevenson Hall one of the major classroom buildings on campus.

These projects are described in further detail in the pages that follow.

Table 4
FY 2012 Combined Capital Budget Request
Summary by Category and Campus
(Dollars in Thousands)

Category	Urbana-Champaign	Chicago	Springfield	TOTAL
Building, Additions, and/or Structure	$ 50,000	$ 116,200		$ 166,200
Land Acquisition				-
Utilities				-
Remodeling	169,100	118,000	$ 53,400	340,500
Site Improvements				-
Planning				-
	$ 219,100	$ 234,200	$ 53,400	$ 506,700

Table 5
FY 2012 Combined Capital Budget Request
Future Funding Implications
(Dollars in Thousands)

Priority	Project	Category	FY 2012 Request	FY 2013 Cost	Cost for 2014 and Beyond
1	Repair and Renovation	Remodeling	$ 60,000		
2	Advanced Chemical Technology Supplemental	Building	43,000		
3	Natural History Building	Remodeling	58,500		
4	Pharmacy Renovation & Addition	Building	73,200		$ 140,000
5	Main/Undergrad Library Redevelpoment	Remodeling	101,000		
6	Hospital Modernization Phase 1	Remodeling	40,000		50,000
7	Disability Research, Res. & Educ. Srv. Bldg.	Building	50,000		
8	Science and Engineering Lab Renovation Phase 1	Remodeling	35,000		115,000
9	Burrill Hall Remodeling	Remodeling	27,000		
10	Stevenson Hall Classroom Building Modernization	Remodeling	19,000		

CAPITAL REQUESTS

PRIORITIES

($506,700,000)

Priority 1:

Repair and Renovation $60,000,000 – All Campuses

As in past years, the University's top priority is focused on annual repair and renovation as shown in Table 6.

Table 6
Repair and Renovation Projects by Campus

Urbana-Champaign Projects	**Amount**
Abbott Power Plant, Gas Turbine/HRSG Bypass Flue	$ 1,500,000
Aeronautical Lab A, Structural Improvements	1,000,000
Altgeld, Interior Repairs	1,100,000
Art & Design, Chilled Water Conversion, HVAC & Exterior Envelop	5,000,000
Bioengineering Laboratory, Remodeling	1,200,000
Campus Pavement Reconstruction - 1st Street and Gregory Drive	700,000
Davenport Hall, Infrastructure and Window Replacement	5,000,000
Fourth Street Repairs and Safety Modifications	1,300,000
Morrill Hall, Infrastructure Phase II	3,000,000
National Soybean Research Center, HVAC and Lab Remodeling Phase 1	1,400,000
Noyes Laboratory, Masonry & Chimney Repairs	1,000,000
Talbot Lab, Infrastructure Repairs	5,000,000
Turner Hall, Exterior Envelop, Energy Reduction, and Laboratories Renovation	5,000,000
Veterinary Med Teaching Hospital, Metal Roof Replacement	1,400,000
Total	**$ 33,600,000**

Chicago Projects	**Amount**
Campus Buildings, Life Safety Corrections	$ 4,000,000
Masonry Restoration Window Replacement, Various Buildings	12,000,000
University Hall, Facade Repair	8,000,000
Total	**$ 24,000,000**

Springfield Projects	**Amount**
Campus Buildings, Life Safety Corrections	$ 150,000
Campus Buildings, Carpet Replacement	590,000
Public Affairs Center, Office Upgrade	160,000
Campus Sidewalk Repairs	1,500,000
Total	**$ 2,400,000**

Attention to annual repair and renovation assures that those projects will not slip and fall into the deferred maintenance category. A total of $60,000,000 is requested for 21 projects. Detailed descriptions of these projects are found in the Repair and Renovation project descriptions, following this Priorities section.

Priority 2:

Advanced Chemical Technology (Supplemental) $43,000,000 – Chicago

The Advanced Chemical Technology Building (ACTB) building design was approved at the November 11, 2004 Board of Trustees meeting. The State of Illinois provided a total of $64 million in state capital support for the ACTB, beginning with a $6.4 million appropriation for planning in FY 2002, and another $57.6 million in construction funds in FY 2003. In October of 2002, due to state budgetary constraints, a hold was placed on the bidding of all construction contracts. Because the cost of construction materials, labor and energy has escalated significantly during the time that this project has been on hold, we are seeking additional funds to permit a full build-out of the proposed facility.

The ACTB will be a 78,000 net assignable square foot (nasf) facility, housing faculty from chemistry, biology and physics. The facility will contain laboratory space for chemical scientists and other synergistic groups of researchers who will benefit from contiguous research space. It will provide space for labs, offices for Principal Investigators, shared conference and support facilities. The ACTB will be physically connected to and located immediately south of Science and Engineering South.

Priority 3:

Natural History Building $58,500,000 – Urbana

The Natural History Building is the oldest historical academic building centrally located on the Main Quad on the University of Illinois campus. The original portion was built in 1894 by Nathan C. Ricker, followed by additions in 1908, 1910, and 1921. The building was officially listed on the National Register of Historic Places in November 1986 as part of the Nathan C. Ricker thematic district. It provides lecture rooms and teaching labs to approximately 8,000 general education students in addition to undergraduate majors and graduate students and is one of the most intensely utilized facilities on campus. It also contains high-tech research laboratory spaces sponsored by grants and contracts from NSF, DOE, NOAA and many others. The Natural History Building is essential to the teaching and research mission of the University of Illinois, yet is suffers from structural inadequacies in addition to years of accumulated deferred maintenance.

The Natural History Building has been in constant use since its construction in 1894 and all of the program space is in need of extensive upgrade and modernization. In addition, during a structural analysis of the building to determine the extent of visible termite damage, it was discovered that the floor live load capacities of the 1908 building addition were under–reinforced to the extent that they have little to no quantifiable live load capacity. This deficiency is an insufficient amount of reinforcement placed in the slab at the time of construction. While the floor slabs have been in service for just over 100 years, they are vulnerable to sudden failure with little or no advanced warning. Therefore, the entire 1908 building addition and those areas dependent on egress through the 1908 building were evacuated in June 2010 and occupancy discontinued until the elevated floor slabs of the 1908 addition are replaced. Therefore, the University of Illinois Urbana Campus has an urgent interest in renovating the entire building to address the imminent structural failure, termite damage and deferred maintenance issues. This project will remediate the structural issues; upgrade the infrastructure, which is well beyond its life expectancy, including electrical service, plumbing, and provide for HVAC systems; new walls, flooring, finishes, and ceilings; and improvements of life safety and ADA code compliance components. At the completion of the project, an efficient floor plan will allow for two large lecture halls, instructional labs, classrooms, research laboratories and offices. The ongoing exterior envelop renovation will be completed this year. The project cost totals $78,500,000 with the balance of $20 million provided by the campus and through private gifts.

Priority 4:

Pharmacy Renovation and Addition $73,200,000 – Chicago

This request is for funds for the initial phase of work on a program for an overall renovation of the existing College of Pharmacy building and for the construction of a new pharmaceutical research addition. The requested renovation and addition are necessary to meet the goal of expanding College of Pharmacy's research base and the education of practitioners to serve the people of the State of Illinois.

Phase I work will consist of the construction of an addition that will allow for the relocation of laboratory and laboratory support functions to permit the renovation of existing laboratory functions, student service space and offices in the existing building without major disruption to on-going research and educational activities. The proposed addition will allow the College to relocate fume hood intensive research laboratories into a facility with more appropriate air circulation and exhaust capabilities consistent with the types of cutting edge research projects being undertaken and envisioned. This will facilitate pursuit of research opportunities currently constrained by the physical limitations of the existing laboratory environments.

In subsequent phases of this project, the existing building will be renewed and modernized. Because the infrastructure of the existing building has degraded dramatically due to age, problematic HVAC, electrical, telecommunications, plumbing, computer wiring, roof systems and fire protection systems need to be serviced, upgraded or replaced. In addition, teaching labs, classrooms, research labs, student support space and administrative offices will be modernized.

Priority 5:

Main/Undergraduate Library Redevelopment $50,000,000 – Urbana

With the exception of an addition to the northwest corner of the Main Library in 1964, the user and staff spaces of this building have changed very little since the Library was dedicated in 1929. The Library remodeling effort is improving the logical arrangement and upgrading to modern standards the quality of the space occupied by various departmental libraries located primarily on the second and fourth floors of the Main Library.

Remodeling will also enhance the quality of space for the libraries. In particular, computer wiring, electrical wiring and lighting will be upgraded to respond to the demands of new technologies. In the last decade, the development of electronic information resources has revolutionized the academic library. For universities to be effective in their teaching and research missions it is critical that access to information through electronic medium be readily available. The reconfiguration of space and improved technological capabilities of the space will allow the Main Library to deliver information by both traditional and electronic formats more effectively to the students and faculty of the University.

Main and Undergraduate Library Redevelopment $51,000,000 – Springfield

The purpose of this project is to renovate the Brookens Library at the Springfield campus. This 200,000 square foot facility was constructed in 1975 as the first major permanent building on the Springfield campus. While the building has served the university well, it is now in need of renovation. The building's deficits include severe overcrowding and lack of growth space for the collection, technology and services; a confusing physical layout; an inefficient window system that creates uncomfortable cold and hot spaces; poor lighting system; severe acoustic problems; worn and outdated finishes and furnishings; and inaccessible spaces as defined by the Americans With Disabilities Act. The deferred maintenance in the building makes up a large portion of the campus' overall deferred maintenance as cited in the VFA study. Renovation will allow the university to address the facilities' deficits and reposition learning, teaching, and research services and the supporting technologies and collections.

Brookens Library currently is split into two separate sections, a library side and an academic office/classroom side, both on level 3 and level 4. Academic classrooms and offices are located on both levels, primarily in the north and west sides of the facility on both levels, with the library collections and reader study areas located in the south and east sides. The College of Education is housed on the third level, as are the majority of the classrooms located in building. This configuration has presented numerous problems including way finding, uneven temperature control and inefficient use of space. This project creates an opportunity to recreate the library into a superb learning centered and technology rich facility by moving all the academic program space in the facility to one level and by relocating the library's services and collections to areas that will provide the optimal use of space.

Other improvements include the ability to provide better temperature control to all spaces in the facility and improve way finding in the facility. Renovation of the HVAC and mechanical systems will allow the university to dramatically improve the energy efficiency of the facility in addition to providing optimal humidity and climate controls that are required in such areas as the university archives. Additionally, renovation of the facility will allow the library to provide optimal use of the space by relocating several library services and collections to renovated space that will better serve the students and campus community. This project also includes providing an enhanced entrance to the facility that will increase Brookens Library's presence on the new UIS quadrangle. This $51,000,000 renovation of the Brookens Library will rehabilitate the building into a state-of-the-art learning center, extend the life of the facility and profoundly improve the quality of scholarly communications across the university.

Priority 6:

Hospital Modernization Phase I $40,000,000 – Chicago

The University of Illinois Medical Center has developed a strategic plan for the modernization, expansion and renovation of the medical center facilities to meet current and anticipated healthcare needs. Phase I includes the restoration or replacement mechanical, electrical and plumbing systems along with the renovation and expansion of strategic growth areas including surgery and imaging services. The infrastructure modernization is intended to correct the immediate areas of risk for mechanical systems that may impact hospital operations and allow the hospital to continue to function for the next ten to twenty years.

Priority 7:

Disability Research, Resources and Education Services Building $50,000,000 – Urbana

The College of Applied Health Sciences is comprised of one service unit, the Division of Disability Resources and Educational Services (DRES) and three academic units, the departments of Kinesiology and Community Health; Recreation, Sport and Tourism; and Speech and Hearing Science. DRES has been a pioneer in post-secondary educational access for persons with disabilities for over half a century. As the nation's first program in post-secondary disability support services, DRES programs and services continue to reach far beyond legal mandates, making it one of the prominent programs of its kind.

DRES programs are housed in the basement and first floor of the Rehabilitation Education Center. The campus facilities condition audit shows just over $2 million in deficiencies largely concentrated in the mechanical, electrical and plumbing systems. Unfortunately, while the original building plan has remained fixed the numbers of students requiring the services has grown exponentially. In addition to the significant maintenance needs, the building no longer meets current services needs in design and capacity as the facility was built to accommodate less than 200 students. Currently the facility serves approximately 1,000 students with current projections for an additional 100% increase in the next 10 years.

Space assigned in support of DRES activities is significantly deficient from what is needed. Estimated deficiencies for the service program are approximately 37,200 nasf, research and educational programs by 10,000 nasf and the competitive sport program is deficient by 41,600 nasf. Vertical expansion of the existing building is not possible and other options for additions to the current building could only provide a maximum of 10,000 nasf. A new 70,000 nasf facility will address DRES's basic service program needs, enhance specialized academic support services and provide research and educational space. The request for the Disability Research, Resources and Education Services Building totals $50 million.

Priority 8:

Science and Engineering Laboratory Renovation Phase I $35,000,000 – Chicago
The purpose of this project is to initiate modernization of the original Science and Engineering Laboratory Building which is over 40 years old. The proposed work includes complete renewal of deteriorated and/or obsolete building infrastructure systems and programmatic remodeling required updating functionally obsolete classroom and laboratory facilities. The project will be implemented in a series of phases with each phase addressing a four-story section of the building. The following systems and building components will be replaced: air handling units, temperature controls, heat exchangers, rooftop lab exhaust fans, exterior windows, exterior doors, electrical risers and power panels, motor control centers and the electrical switchgear. In addition, the project would implement a programmatic modernization of the laboratories and classrooms, upgrade the telecom/data/wireless communications/audio-visual capacities, modernize the plumbing and toilet rooms and improve ADA entrances

Priority 9

Burrill Hall Remodel $27,000,000 – Urbana
Burrill Hall has been used intensively for forty years, primarily for research, and has had minimal minor remodeling performed to upgrade the heavily used spaces. All of the space in Burrill Hall is in need of significant upgrading with regards to the building mechanical systems infrastructure to make the building suitable for biological instruction and research in the twenty-first century. This project will see wall reconfigurations, replacement of fixed laboratory equipment, plumbing, electrical, lighting, data and HVAC changes. In addition, all new finishes are envisioned for this building, including flooring, ceilings, and walls.

Priority 10:

Stevenson Hall Classroom Building Modernization $19,000,000 – Chicago
Stevenson Hall is used for general education and composition courses which are required of all beginning undergraduate students at UIC. It serves over 2,200 students per semester. The renovation of Stevenson Hall is part of a long-term plan

for renovating East Campus general use classroom buildings to upgrade the instructional spaces. It will follow the renovation of Lincoln Hall, Douglas and Grant Halls. It is part of a long term plan that will also include the renovation of Taft Hall, Burnham and Addams Halls, the Behavioral Sciences Building, Science and Engineering South, and the six Lecture Centers. The renovation plan recognizes that the East Campus general use classrooms are deficient in multiple ways and that their problems cannot be solved incrementally. The Stevenson Hall modernization will include renovation of building systems including heating ventilation and air conditioning, electrical and lighting, roofing, and plumbing.

REPAIR AND RENOVATION PROJECT DESCRIPTIONS

Urbana-Champaign Projects ($33,600,000)

Abbott Power Plant, Gas Turbine/HRSG Bypass Flue $1,500,000

This project involves the installation of a bypass flue on one of the gas turbines, so flue gases can be diverted around the Heat Recovery Steam Generator (HRSG) during startup. This bypass would facilitate the ability to start and load a gas turbine in approximately 20 minutes, providing approximately 12.5MW of power for the campus. Without a bypass, the flue gases from the gas turbine must flow through the HRSG. A cold HRSG requires a 4 hour warm up period so that the metal in the boiler can be safely raised to operating temperatures. During this 4 hour warm-up period, the gas turbine is run unloaded and is not generating electricity.

Aeronautical Lab A, Structural Improvements $1,000,000

As a result of a Structural Assessment Report completed in the summer of 2009, this project will make recommended exterior envelope improvements to the Aeronautical Laboratory A building thereby extending the useful life of the building. All windows will be replaced with either historically correct steel windows or aluminum windows depending on review by the Illinois Historic Preservation Agency. Narrow brick masonry piers between windows on the north and south walls will be demolished and reconstructed with provisions to add interior horizontal steel support structure to provide added lateral support to the large sized windows. All cracks in exterior brick masonry joints will be raked and tuck pointed. All damaged limestone window sills will be replaced. Existing steel lintels above window openings that have lost over 15% of original thickness due to corrosion will be removed and replaced. The remaining steel window lintels will be removed and refurbished. Incidental structural shoring and masonry work associated with lintel and pier restoration will be included.

Altgeld, Interior Repairs $1,100,000

This project would address deferred maintenance items in selected areas of Altgeld Hall. Items to be addressed include flooring, plumbing, HVAC, electrical distribution and painting. It is expected a later project will address historically significant areas of the building.

Art and Design, Chilled Water Conversion, HVAC & Exterior Envelope $5,000,000

This project will include conversion of mechanical systems to accommodate the extension of campus chilled water to the building. Outdated air handlers and associated components will be replaced. DDC controls will be installed. The existing chiller will be removed and chilled water delivered by the central campus loop will be distributed throughout the Art and Design building. This work is to be coordinated with the chilled water work at Krannert Art Museum. Energy reduction improvements will be made to the exterior envelope including, but not limited to, the installation of double-pane window units.

Bioengineering Laboratory, Remodeling $1,200,000

This project represents a next phase of remodeling to provide research space for the Bioengineering Department in the Digital Computer Laboratory (DCL) building.

Campus Pavement Reconstruction, 1st Street and Gregory Drive $700,000

This project will reconstruct pavement on the worst condition high volume streets and add bike lanes per current campus standards. This work will occur on Gregory Drive from Oak Street to First Street and First Street from Gregory Drive to Kirby Avenue.

Davenport Hall, Infrastructure and Window Replacement $5,000,000

This project will include installation of a new energy efficient HVAC system and DDC controls in Davenport Hall. Window air conditioning units will be removed. Wood windows with single pane glazing will be replaced with energy efficient aluminum or aluminum clad double-pane windows.

Fourth Street Repairs and Safety Modifications $1,300,000

Fourth Street corridor is one of two two-way streets that travel the length of the campus and is used by commuting staff, visitors, bus traffic and service vehicles. In addition, this street sees high volumes of pedestrian crossing and biking activity. Through cooperation with the cities of Champaign and Urbana and the Champaign-Urbana Mass Transit District, design standards were developed to better accommodate pedestrians, bicycle, transit and vehicle movements in this competing environment. This project will include resurfacing, incorporating on-street bike lanes and narrowing crossing distances at all intersections with curb bump outs, all measures to improve safety in the area.

Morrill Hall, Infrastructure Phase II $3,000,000

Aged air handling units and associated components primarily serving the 4th, 5th and 6th floors of the west portion of the building and select components in the east portion of the building will be replaced. This project includes heat recovery and modifications to the air distribution system. Electrical switchgear, transformer, distribution panel boards, and antiquated wiring systems and other electrical components will be replaced. Fume hoods in poor condition will be replaced.

National Soybean Research Center, HVAC and Lab Remodeling Phase I $1,400,000

The focus of this project is modernization and energy efficiency elements for two areas of NSRC. Work includes remodeling of a class room, research laboratories, support areas and office spaces which support soybean research activities. All rooms in the remodeled space need to be connected to a central air handling unit since no HVAC is provided currently these areas. Project also would replace select windows with energy efficient units. Life safety components would be installed.

Noyes Laboratory, Masonry and Chimney Repairs $1,000,000

Significant deterioration of the masonry chimneys have posed a public safety threat at Noyes Laboratory. This project addresses rebuilding deteriorated chimneys and tuck pointing select areas of the exterior walls to provide a weather tight exterior envelope.

Talbot Lab, Infrastructure Repairs $5,000,000

Chilled water is to be distributed throughout Talbot Lab. This infrastructure project will prepare selected areas of Talbot Laboratory for campus chilled water usage. Air handlers, ductwork and other components are to be installed. Window air conditioners are to be removed. Single paned metal windows are to be replaced with energy efficient aluminum double-pane units. This project will also include installation of a sprinkler system to comply with life safety provisions.

Turner Hall, Exterior Envelope, Energy Reduction and Laboratory Renovation $5,000,000

The single glazed wood windows and infill panels on the exterior of Turner Hall are severely deteriorated. This project will replace window systems with energy efficient integrated units. Cracked masonry and deteriorated mortar joints are to be repaired. Outdated air handling units and controls are to be replaced with more energy efficient equipment utilizing DDC controls. In addition, this project includes the remodeling of instructional laboratories, support areas, a research laboratory and office and student services space. The labs are located throughout the building and are part of an ongoing effort to keep the spaces modernized and up-to-date.

Veterinary Medicine, Teaching Hospital, Replace Metal Roofs $1,400,000

The metal batten seam roofs on the large and small animal clinics are aged, rusted and failing. The built-up roof exhibits signs of membrane slippage, blisters and flashing failures. These roofs are to be replaced.

Chicago Projects ($24,000,000)

Campus Buildings, Life Safety Corrections $4,000,000

Multiple buildings on the campus require fire alarm and sprinkler renovations to address life-safety concerns. A prioritized list of projects has been developed to address these concerns. This project is part of a continuing effort to eliminate these life-safety concerns and will work to address the most critical of the project needs on the east and west sides of campus.

Masonry Restoration and Window Replacement $12,000,000

This project includes window replacement and repair of distressed and deteriorating masonry, tuck pointing, replacement of steel and masonry lintels, limestone panels and trim and various masonry anchorage devices. Buildings included in this project are the College of Medicine, Science and Engineering South, Neuropsychiatric Institute, School of Public Health and Psychiatric Institute, and the Science and Engineering Office Building.

University Hall, Façade Repair $8,000,000

University Hall, a 28-story high-rise building, was constructed in the early 1960s. The structural framing consists of reinforced concrete columns, shear walls, one-way joists and exterior spandrel beams. The building has exposed aggregate pre-cast concrete curtain wall panels with narrow glass fixed windows on the east and west elevations. The curtain wall is set back three to six feet from the exterior plane of the concrete framing, creating exterior galleries.

The exposed concrete frame of this building has developed extensive deterioration in the form of cracks, delaminations and previously applied repair patches that have failed and spalled. A recent investigative study has indicated that this deterioration is due to inadequate thickness of concrete coverage over the reinforcing steel bars. The study reported that the deterioration has no impact upon the structural integrity of the building. However, periodic breaking of concrete presents a serious safety hazard to pedestrians around the building. Therefore, all deteriorated concrete needs to be removed and patched using state-of-the-art concrete restoration techniques.

The concrete rehabilitation work consists of removal of all deteriorated concrete, exposing the full length of corroded reinforcing bars, installation of supplementary mechanical anchors and embedded galvanic anodes and the forming and poring of a concrete mix, matching the original concrete as closely as possible. As a second line of defense against corrosion, a surface-applied mitigating corrosion inhibitor or a solvent-based, breathable, acrylic, colorless coating will be applied to all exposed concrete.

Springfield Projects ($2,400,000)

Campus Buildings, Life Safety Corrections $150,000

The University is currently in the process of completing a life safety code assessment at each campus. The audit will be a survey of non residential space at each campus. The facility assessment for life safety code compliance at UIS' non-residential facilities include the Public Affairs Center, Brookens Library, Health & Sciences Building and the five major metal buildings located on the east side of campus.

With the assessment results, UIS will be able to evaluate condition and code based deficiency requirements for each building. This project will use results of the assessment to formulate a project list based on the survey to focus deficiencies in the areas of fire alarm systems, fire suppression systems, hazardous areas and means of egress. Funding will be required to address the most critical life safety projects from this new facilities assessment.

Campus Buildings, Carpet Replacement $590,000

This project consists of replacing worn and unsafe carpet in the Public Affairs Center and Brookens Library. The greatest area of carpet replacement is in the classrooms and offices on Brookens level 3, which houses the College of Education and Human Services programs. The carpet is over 25 years old. Most of these areas on level 3 will likely remain classroom and office space for the next 10 to 15 years.

Public Affairs Center, Office Upgrade $160,000

This project consists of upgrading the UIS TV Office control room to digital technology. Improvements to the TV Office, which is located on level 1 in the Public Affairs Center, includes permanent installation of digital electronics for video switching and effects; recording and editing; digital audio system; and electronic bases for intercom and interruptible feedback systems.

Campus Sidewalk Repairs $1,500,000

Many sidewalks throughout the older east side of campus are damaged from the normal wear patterns in the Midwest with cracked, heaving or crumbled concrete. This project will repair those areas with deteriorated sidewalks and provide a safe path of transit for visitors, faculty and staff with new sidewalks.