SHEEO

STATE HIGHER EDUCATION EXECUTIVE OFFICERS ASSOCIATION

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STATE HIGHER EDUCATION FINANCE

ISSUE BRIEF:

FISCAL CHALLENGES IN ILLINOIS

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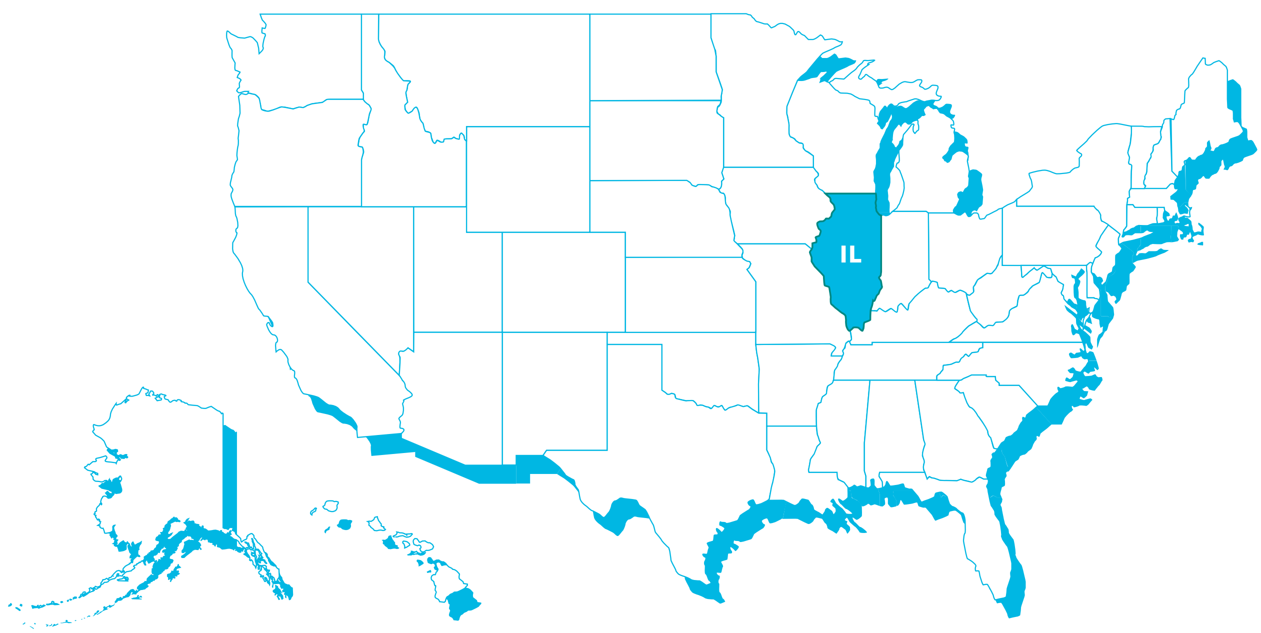


INTRODUCTION

Higher education finance data for Illinois continue to be outliers in the 2018 SHEF report, with educational appropriations nearly twice the U.S. average on a per student basis in 2018 and 30 percent above 2008 levels. While these large increases are technically correct, awareness of nuance and context is necessary to fully understand the fiscal situation in Illinois and its impact on higher education funding. The main reason funding in Illinois has significantly increased since 2008 is due to the state's efforts to address its historically underfunded state retirement pension system. Since 2008, the proportion of total funding spent on the state pension system has increased substantially. Like some other states, enrollment declines in Illinois have also contributed to the increase in per student funding, but to a much lesser degree. Adding further complexity to Illinois's SHEF data in 2016 and 2017, the state went over two years without passing a state budget due to an impasse between the governor at the time and the state legislature.[1]

Table 1 below summarizes the SHEF data for Illinois—including funding for the state pension system—for the last ten years, from 2008 to 2018. The data presented include full-time equivalent (FTE) enrollment, educational appropriations from state and local sources going to public higher education (including funding for the state pension system), and educational appropriations per FTE. Data in this case study are not adjusted for inflation.

TABLE 1

HIGHER EDUCATION FUNDING AND FTE ENROLLMENT IN ILLINOIS, FY 2008-2018, CURRENT UNADJUSTED DOLLARS

FY	FTE ENROLLMENT	1-YEAR % CHANGE	EDUCATIONAL APPROPRIATIONS	1-YEAR % CHANGE	EDUCATIONAL APPROPRIATIONS PER FTE	1-YEAR % CHANGE
2008	358,679		$3,341,158,560		$9,315	
2009	368,019	2.6%	$3,443,330,758	3.1%	$9,356	0.4%
2010	391,926	6.5%	$3,968,199,581	15.2%	$10,125	8.2%
2011	393,313	0.4%	$3,910,979,564	-1.4%	$9,944	-1.8%
2012	384,615	-2.2%	$4,148,226,335	6.1%	$10,785	8.5%
2013	373,403	-2.9%	$4,649,177,747	12.1%	$12,451	15.4%
2014	362,508	-2.9%	$4,617,900,051	-0.7%	$12,739	2.3%
2015	351,917	-2.9%	$4,701,175,294	1.8%	$13,359	4.9%
2016	341,272	-3.0%	$3,886,970,864	-17.3%	$11,390	-14.7%
2017	326,452	-4.3%	$5,054,885,556	30.0%	$15,484	36.0%
2018	311,101	-4.7%	$4,538,018,369	-10.2%	$14,587	-5.8%

NOTES: 1. Full-time equivalent enrollment equates student credit hours to full-time, academic year students, but excludes medical students.

2. Educational appropriations are a measure of state and local support available for public higher education operating expenses including ARRA funds, and exclude appropriations for independent institutions, financial aid for students attending independent institutions, research, hospitals, and medical education.

3. Total educational appropriations per student increased by 56 percent from 2008 to 2018. Excluding state pension payments, the increase was only 13 percent.

SOURCE: State Higher Education Executive Officers Association

1. Illinois State Budget *Fiscal Year 2018*. Retrieved from https://www2.illinois.gov/sites/budget/Documents/Budget%20Book/FY2018%20Budget%20Book/FY2018OperatingBudgetBook.pdf

FTE enrollment in Illinois followed the national trend of increases during the first three years of the Great Recession, increasing 2.6 percent, 6.5 percent, and 0.4 percent in 2009, 2010, and 2011, respectively. Following this period of growth, FTE enrollment has declined each year since and is now 13.3 percent below 2008 levels. In comparison, national FTE enrollment is still above 2008 levels.

Table 1 also shows total educational appropriations provided for higher education. Overall, the funds provided for higher education (and pension costs) have largely increased each year since 2008. Significant increases occurred in 2010 and 2013. Another significant increase occurred in 2017, following a large reduction in 2016 funding due to the budget impasse described below.

On a per student basis, educational appropriations have gone up 56.6 percent since 2008. In comparison, U.S. per FTE appropriations are still 11.6 percent below pre-recession levels. These large increases in Illinois are driven by funding increases to their pension system and, to a lesser degree, enrollment declines.

ILLINOIS STATE UNIVERSITY RETIREMENT SYSTEM

The Illinois State University Retirement System (SURS) is a major budget driver for Illinois higher education funding. In most states, retirement expenses for higher education employees are covered by institutions from their general operating revenues (much like how private-sector employers cover a portion of Social Security investments through FICA taxes). In Illinois, however, the state separately appropriates funds directly into the SURS to fund pension liabilities. For many years, the Illinois SURS program was severely underfunded, and actuarial estimates made it clear that the program would not be able to cover future obligations. This situation is not unique to Illinois. In 2017, the median funding ratio for all state retirement systems (the standard measure of the share of pension liabilities covered by current assets), was 73.7 percent. A handful of states were below 50 percent funded,[2] including Illinois. Illinois is now mandated through state law to reach a 90 percent funded ratio by 2045 and has made significantly larger investments to fund SURS in each year since 2008.[3] Despite the significant increases made to the SURS, the 2018 ratio for Illinois was 41.3 percent funded, according to the Illinois Board of Higher Education.

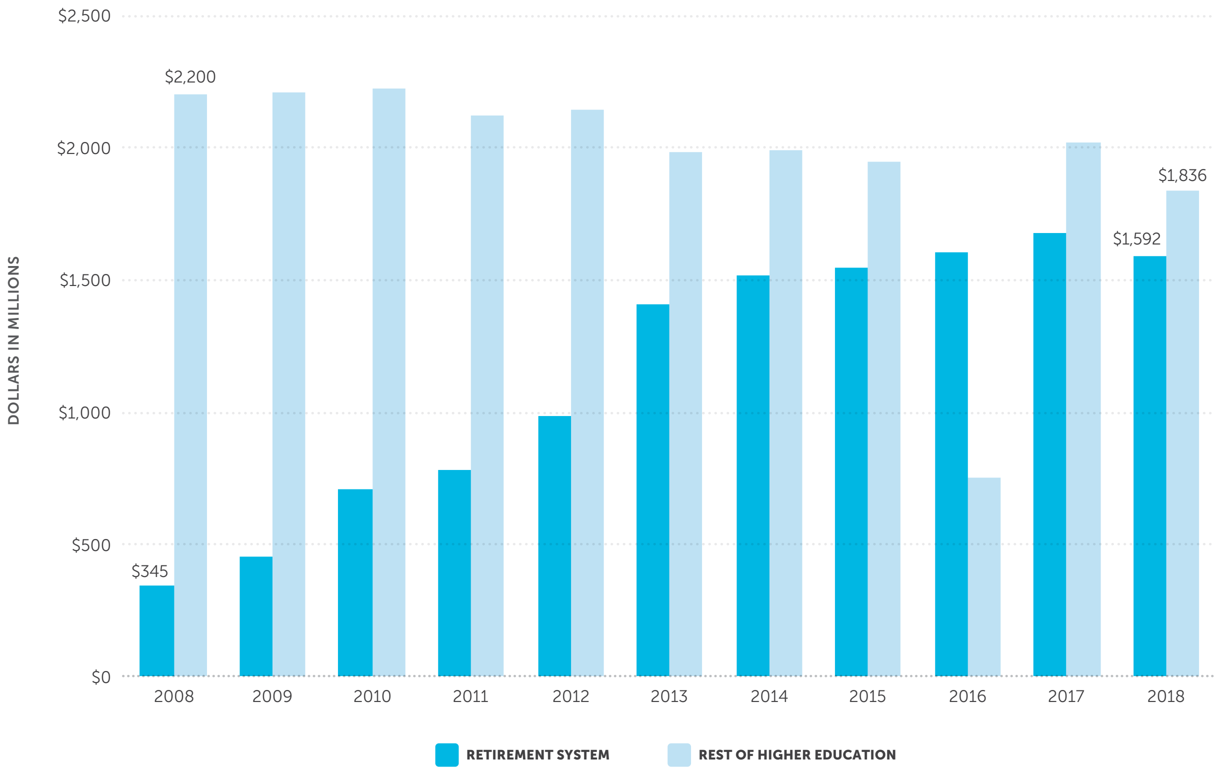
These significant increases have come at the cost of funding for general operations at public higher education institutions in Illinois. This impact is shown in *Figure 1* below. The data in *Figure 1* are nominal and not adjusted for inflation or enrollment.

2. Moran, D. (2018, October 12). Pension fund outlook brightens in 41 states. Retrieved from https://www.bloomberg.com/graphics/2018-state-pension-funding-ratios

3. Illinois Commission on Government Forecasting and Accountability. (2006). *Report on the 90% funding target of Public Act 88-0593*. Retrieved from http://cgfa.ilga.gov/Upload/Funding_PA_88-0593.pdf

FIGURE 1

STATE HIGHER EDUCATION FUNDING FOR RETIREMENT SYSTEM AND REST OF HIGHER EDUCATION IN ILLINOIS, FY 2008-2018 (CURRENT UNADJUSTED DOLLARS)



NOTE: In 2008, the state payment to the State University Retirement System was 16 percent of the total amount of funding for higher education. By 2018, that percentage had risen to 87 percent of that total funding.

SOURCE: Illinois Board of Higher Education

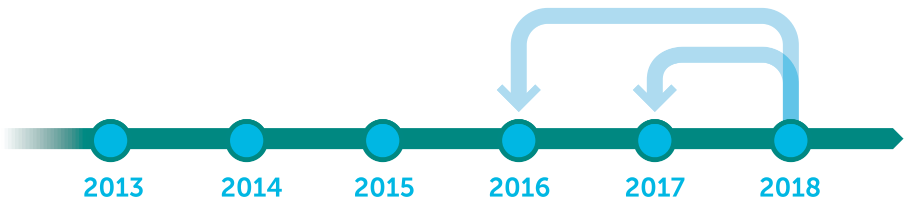
The sum of the light and dark blue bars in the figure above represents the total amount of state funding for higher education that Illinois reported each year. *Figure 1* makes clear that **the large increase in SHEF educational appropriations over the last decade is driven entirely from increases to the state's retirement system for higher education employees**. In 2008, Illinois put $345 million into that system while providing $2.2 billion in state funding for the rest of the higher education system. During the Great Recession, funding to the SURS program increased significantly year over year, reaching $1.4 billion in 2013, while funding for the rest of higher education dropped to just under $2 billion. These funding shifts occurred during the Great Recession when most states saw significant declines in per student, constant dollar appropriations.

With the exception of 2016 (described in detail below), since 2014, total funds provided each year for the SURS have ranged from about $1.5 billion to almost $1.7 billion, while funds for the rest of higher education in Illinois were about $2.0 billion per year, falling to $1.8 billion in 2018. Over the last ten years, the share of funding going to cover the state's pension program has grown from 13.6 percent in 2008 to 46.4 percent in 2018. This shift explains why the per student funding data shown above in *Table 1* have increased significantly over the same time frame.

BUDGET IMPASSE

Adding another wrinkle to higher education funding in Illinois, the state recently went over two years without a full state budget. Due to an impasse over budgeting priorities between then-governor Rauner and the Illinois legislature, the state failed to pass and enact a full budget for fiscal years 2016 and 2017, and for part of FY 2018.[4] The legislature finally passed a 2018 budget two months into the fiscal year. The 2018 budget partially restored funding for fiscal years 2016 and 2017 and provided funds for the current year. The lack of a budget during this time did not affect funding of the SURS.

HIGHER EDUCATION SUPPORT PER CAPITA BY STATE, FY 2017



Looking at the light blue bars in *Figure 1* above, it appears that Illinois reduced funds for higher education by 60 percent in 2016 and then restored that cut in 2017. The reality is that appropriations were made after both fiscal years had ended. Public higher education in Illinois went more than two years with no funding from the state. Higher education institutions were forced to cover expenses, including student financial aid, from other sources of revenue, and many made budget and staffing reductions due to the lack of state funds.

The impact on the system was significant. The following examples were provided to us by staff at the Illinois Board of Higher Education. Most institutions covered a total of about $400 million in state financial aid grants for their students. Over the course of the budget standoff, enrollment fell 5 percent statewide; however, some institutions lost significantly more students. More than 500 full-time faculty positions were eliminated, and institutions increasingly shifted to rely more heavily on part-time faculty. Moody's Investor Services downgraded the bond ratings for public institutions once, and in some cases, twice, due to the lack of state funding.[5] The reputation of many public institutions suffered as they scrambled to maintain operations without state funding. Finally, the impact on students from the budget impasse should not be minimized. While institutions were able to cover state financial aid obligations during the time period, uncertainty around funding for the aid program put unneeded pressure on low-income students. Further, the number of state aid awards now lags pre-impasse levels.[6]

4. Manzo IV, F. and Bruno, R. *High-impact higher education: Understanding the costs of the recent budget impasse in Illinois.* Illinois Economic Policy Institute. (2017). Retrieved from: https://illinoisepi.files.wordpress.com/2017/09/ilepi-pmcr-high-impact-higher-education.pdf

5. Pierog, K., Osterman, C. (ed). *Two more Illinois universities at risk of junk ratings from Moody's.* (2017, April 18) Reuters. Retrieved from https://www.businessinsider.com/r-two-more-illinois-universities-at-risk-of-junk-ratings-from-moodys-2017-4

6. Mendoza, S. A. State of Illinois Comptroller. *Consequences of Illinois' 2015-2017 budget impasse and fiscal outlook.* (n.d.). Retrieved from https://illinoiscomptroller.gov/financial-data/find-a-report/special-fiscal/consequences-of-illinois-2015-2017-budget-impasse-and-fiscal-outlook

CONCLUSION

This case study provides additional context and considerations for readers as they interpret the SHEF data for Illinois. Caution should be taken when drawing conclusions from the data alone. The large increases in educational appropriations per student since 2008 are driven almost entirely by mandated increases in the state's underfunded retirement pension program. Further, while the SHEF data show a significant budget cut in 2016 followed by its restoration in 2017, Illinois actually went over two years without passing a state budget. The SHEF data for these two years consists of backfilled appropriations that enabled institutions to partially recover from two years without state funding.

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