OVERVIEW

- The State’s Pension funds are significantly underfunded
- The amount of deferred maintenance exceeds available cash:
  - Deferred maintenance is $1.5-$1.8 billion
  - Although the University had $1.8 billion of unrestricted cash as of June 30, 2013, it does not have $1.8 billion of unneeded cash to spend
  - About $700 million of the $1.8 billion unrestricted cash is available for one-time costs, or less than half of the current deferred maintenance
- The University’s 2013 net income was $300 million
  - There are a large number of claims to that net income
  - Urbana Campus will probably be unable to increase its faculty size beyond 1,900 without a larger endowment
- Our financial condition is about average relative to our peers
**PENSIONS: SURS IS 41.5% FUNDED**  ($000,000)

<table>
<thead>
<tr>
<th>Fiscal year</th>
<th>Accrued liabilities</th>
<th>Assets</th>
<th>% funded</th>
<th>Amount underfunded</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>$19,078.6</td>
<td>$12,586.3</td>
<td>66.0%</td>
<td>$6,492.3</td>
</tr>
<tr>
<td>2005</td>
<td>$20,349.9</td>
<td>$13,350.3</td>
<td>65.6%</td>
<td>$6,999.6</td>
</tr>
<tr>
<td>2006</td>
<td>$21,688.0</td>
<td>$14,175.1</td>
<td>65.4%</td>
<td>$7,512.9</td>
</tr>
<tr>
<td>2007</td>
<td>$23,362.1</td>
<td>$15,985.7</td>
<td>68.4%</td>
<td>$7,376.4</td>
</tr>
<tr>
<td>2008</td>
<td>$24,917.7</td>
<td>$14,586.3</td>
<td>58.5%</td>
<td>$10,331.4</td>
</tr>
<tr>
<td>2009</td>
<td>$26,316.2</td>
<td>$14,282.0</td>
<td>54.3%</td>
<td>$12,034.2</td>
</tr>
<tr>
<td>2010</td>
<td>$30,120.4</td>
<td>$13,966.8</td>
<td>46.4%</td>
<td>$16,153.6</td>
</tr>
<tr>
<td>2011</td>
<td>$31,514.3</td>
<td>$13,945.7</td>
<td>44.3%</td>
<td>$17,568.6</td>
</tr>
<tr>
<td>2012</td>
<td>$33,170.2</td>
<td>$13,949.9</td>
<td>42.1%</td>
<td>$19,220.3</td>
</tr>
<tr>
<td>2013</td>
<td>$34,373.1</td>
<td>$14,262.6</td>
<td>41.5%</td>
<td>$20,110.5</td>
</tr>
</tbody>
</table>
**PENSIONS—TOTAL STATE PENSION LIABILITY**

($ 000,000)

<table>
<thead>
<tr>
<th>Abreviation</th>
<th>Coverage</th>
<th>Page</th>
<th>Liabilities</th>
<th>Assets</th>
<th>% funded</th>
<th>Underfunded</th>
</tr>
</thead>
<tbody>
<tr>
<td>SERS</td>
<td>State Employees</td>
<td>55</td>
<td>$34,720.76</td>
<td>$11,877.42</td>
<td>34.2%</td>
<td>$22,843.34</td>
</tr>
<tr>
<td>JRS</td>
<td>Judges</td>
<td>49</td>
<td>$2,156.80</td>
<td>$610.20</td>
<td>28.3%</td>
<td>$1,546.60</td>
</tr>
<tr>
<td>GARS</td>
<td>General Assembly</td>
<td>51</td>
<td>$320.46</td>
<td>$51.85</td>
<td>16.2%</td>
<td>$268.61</td>
</tr>
<tr>
<td>SURS</td>
<td>Universities</td>
<td>78</td>
<td>$34,373.10</td>
<td>$14,262.60</td>
<td>41.5%</td>
<td>$20,110.50</td>
</tr>
<tr>
<td>TRS</td>
<td>Teachers</td>
<td>98</td>
<td>$93,886.99</td>
<td>$38,155.19</td>
<td>40.6%</td>
<td>$55,731.80</td>
</tr>
<tr>
<td>Totals</td>
<td></td>
<td></td>
<td>$165,458.11</td>
<td>$64,957.26</td>
<td>39.3%</td>
<td>$100,500.85</td>
</tr>
</tbody>
</table>
PENSIONS: SUMMARY

- The State’s pension funds were significantly underfunded
- Whether or not the courts reject the revised pension rules, it is unlikely the State will be able fund the current plan
- SURS will still be significantly underfunded under the new pension rules. The state may have sufficient revenue to provide catch-up funding, but that depends on the economy
FINANCIAL STATEMENTS—AN OVERVIEW

▪ Bond ratings and an entity’s financial condition are based on many factors but the following are key issues:
  o Cash relative to expenses or revenue
  o Debt relative to assets
  o Net income relative to expenses or revenue
  o State funding relative to expenses or revenue
  o Endowment relative to expenses or revenue
UNRESTRICTED CASH AS A % OF EXPENSES
UNRESTRICTED CASH AS A % OF EXPENSES
UNRESTRICTED CASH

- The University had far too little cash in 2009
  - On the verge of being downgraded by bond rating agencies
  - Increased cash by postponing deferred maintenance; it is if a family increased the cash balance in its bank account by increasing credit card debt.

- Adequate cash in 2012, but continued to defer maintenance because of the possibility the University might assume responsibility for its portion of SURS

- The University had $1.8 billion of unrestricted cash and investments on June 30, 2013, but $300 million was quasi-restricted for debt repayment.

- After reductions for UIC back pay, Urbana Campus startup packages and additional office space, unrestricted cash is no more than $1.4 billion.

- With its uncertain cash flows, the three campuses should maintain at least a $700 million cash balance as of June 30 for the next few years.

- That leaves about $700 million of cash available for one-time costs
  - The University has about $1.5-$1.8 billion of deferred maintenance
  - The University can correct its most serious deferred maintenance, which will reduce future operating expenses
The University had deficits for several years, but has had Net Income above $300 million for the last four years.

<table>
<thead>
<tr>
<th>Year</th>
<th>Operating revenues ($000)</th>
<th>Operating expenses ($000)</th>
<th>Operating loss ($000)</th>
<th>Nonoperating revenue (expense) ($000)</th>
<th>Net Income (Loss) ($000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>$2,365,156</td>
<td>$3,471,498</td>
<td>($1,106,342)</td>
<td>$1,055,190</td>
<td>($51,152)</td>
</tr>
<tr>
<td>2006</td>
<td>$2,490,308</td>
<td>$3,548,600</td>
<td>($1,058,292)</td>
<td>$1,053,385</td>
<td>($4,907)</td>
</tr>
<tr>
<td>2007</td>
<td>$2,628,029</td>
<td>$3,744,787</td>
<td>($1,116,758)</td>
<td>$1,140,856</td>
<td>$24,098</td>
</tr>
<tr>
<td>2008</td>
<td>$2,846,316</td>
<td>$4,038,418</td>
<td>($1,192,102)</td>
<td>$1,122,948</td>
<td>($69,154)</td>
</tr>
<tr>
<td>2009</td>
<td>$2,884,241</td>
<td>$4,209,187</td>
<td>($1,324,946)</td>
<td>$1,296,460</td>
<td>($28,486)</td>
</tr>
<tr>
<td>2010</td>
<td>$3,111,169</td>
<td>$4,341,575</td>
<td>($1,230,406)</td>
<td>$1,577,902</td>
<td>$347,496</td>
</tr>
<tr>
<td>2011</td>
<td>$3,264,553</td>
<td>$4,465,371</td>
<td>($1,200,818)</td>
<td>$1,572,789</td>
<td>$371,971</td>
</tr>
<tr>
<td>2012</td>
<td>$3,417,844</td>
<td>$4,744,967</td>
<td>($1,327,123)</td>
<td>$1,699,210</td>
<td>$372,087</td>
</tr>
<tr>
<td>2013</td>
<td>$3,518,912</td>
<td>$5,164,846</td>
<td>($1,645,934)</td>
<td>$1,952,875</td>
<td>$306,941</td>
</tr>
</tbody>
</table>

* Primarily State appropriations and State on-behalf payments for pensions and health insurance.
NET INCOME AS A % OF REVENUE
NET INCOME AS A % OF REVENUE
CLAIMS AGAINST NET INCOME

- Urbana Campus plans to increase its faculty size to 2,100
  - Significantly higher faculty salary costs
  - Significantly higher staff and services support costs
  - Possibly additional benefit costs if they are shifted to the University

- Other increases in recurring expenses
  - Urbana Campus faculty salary adjustments to eliminate inequities
  - Supplemental retirement plan
  - Additional funding for CITES

- Tuition increases will be far less than in the past

- State funding may decline because of the State’s financial condition
CLAIMS AGAINST NET INCOME

- The University cannot deduct depreciation expense for old buildings, but their value declines and they must be maintained or replaced. That omission probably reduces real net income by at least $100 million.

- UIC faculty have had no raises since June 20, 2011. A UIC United Faculty contract will probably include catch-up raises for at least two years, which will increase UIC faculty salary expense by considerably more than a normal one-year raise.
NET INCOME: SUMMARY

- The University had $300 million net income in 2013
- There are more than enough claims to the net income to reduce it to or below zero, including:
  - UIC faculty catch-up raises
  - Supplemental pension plan
  - Possible transfer of some benefit costs to the University
  - Additional faculty hires at Urbana Campus
  - Net income is overstated because it omits depreciation on old buildings
- By growing the faculty gradually, the University should be able to avoid operating deficits. Urbana Campus may be unable to increase faculty size beyond 1,900 without a larger endowment
ADDITIONAL ISSUES

- Relative to its peers, The University of Illinois has:
  - Below average debt, but very large deferred maintenance (which can be thought of economically as a form of borrowing)
  - Above average level of state funding but with substantial uncertainty. The new pension rules will reduce state funding below its current level.
  - A small endowment
DEBT AS A % OF TOTAL ASSETS

- Illinois
- Berkeley
- Wisconsin
- Michigan
- UNC
DEBT AS A % OF TOTAL ASSETS
STATE FUNDING AS A % OF EXPENSES (MINUS CATCH-UP PENSION PAYMENTS; BEFORE THE REDUCTION TO PENSION BENEFITS)
STATE FUNDING AS A % OF EXPENSES (MINUS CATCH-UP PENSION PAYMENTS; BEFORE THE REDUCTION TO PENSION BENEFITS)
ENDOWMENT AS A % OF EXPENSES (LESS STATE FUNDING)
ENDOWMENT AS A % OF EXPENSES (LESS STATE FUNDING)
SUMMARY

- The State’s pension funds are significantly underfunded
  - It is unclear if SB-1 reductions will be sufficient to restore the State’s long-run fiscal balance

- The University has $1.5-$1.8 billion of deferred maintenance
  - The University has about $700 million of cash for one-time purposes, such as reducing deferred maintenance

- The University has net income of $300 million but claims against that amount exceed $300 million

- Relative to its peers, the University has
  - Above average cash but significant deferred maintenance
  - Below average debt but a high deferred maintenance, which can be considered a form of debt
  - Above average state funding but it will decline with the new pension rules
  - A small endowment