

FINANCIAL ANALYSIS

The University of Illinois



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)

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

PENSIONS—TOTAL STATE PENSION LIABILITY

(\$ 000,000)

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



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

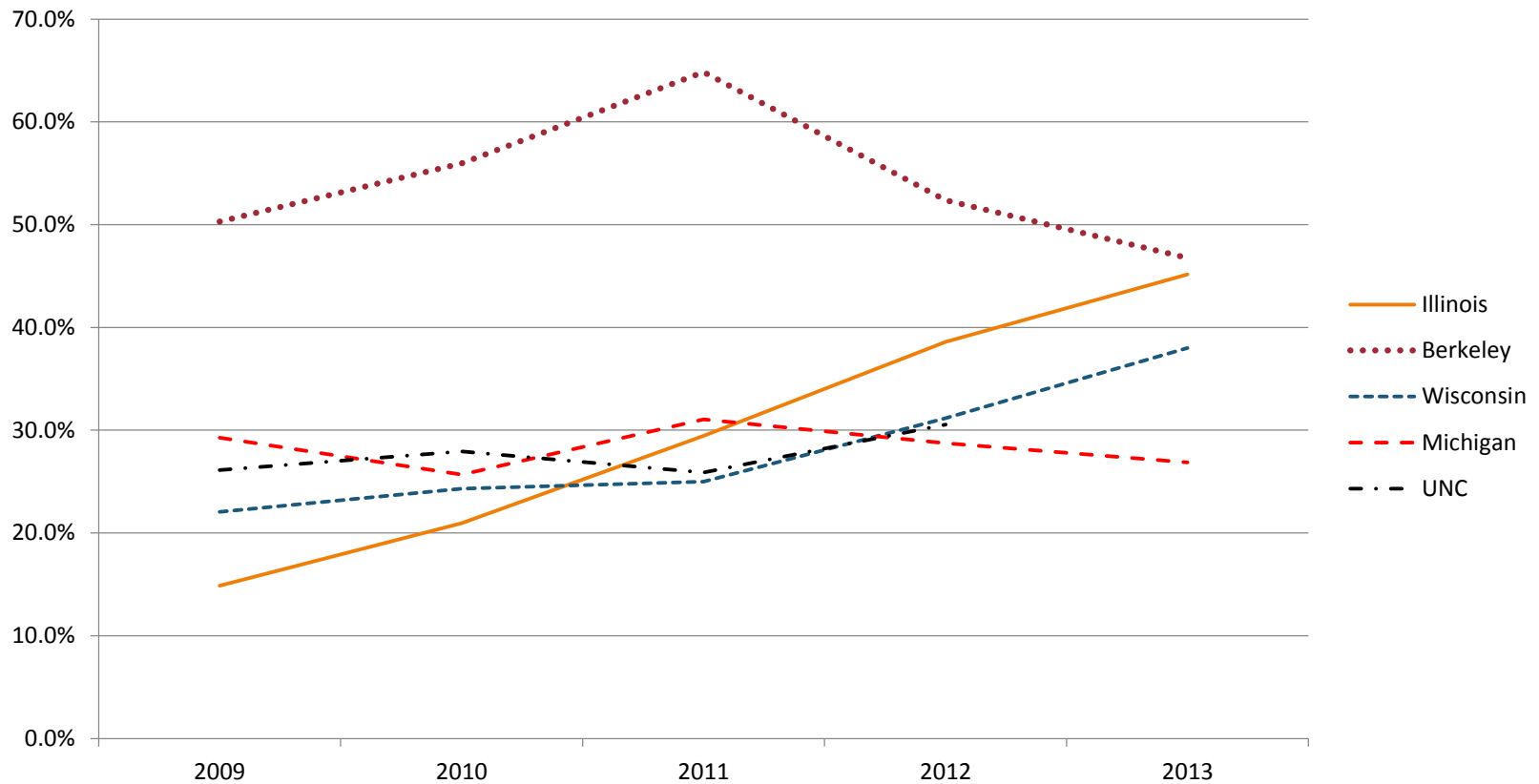


FINANCIAL STATEMENTS—AN OVERVIEW

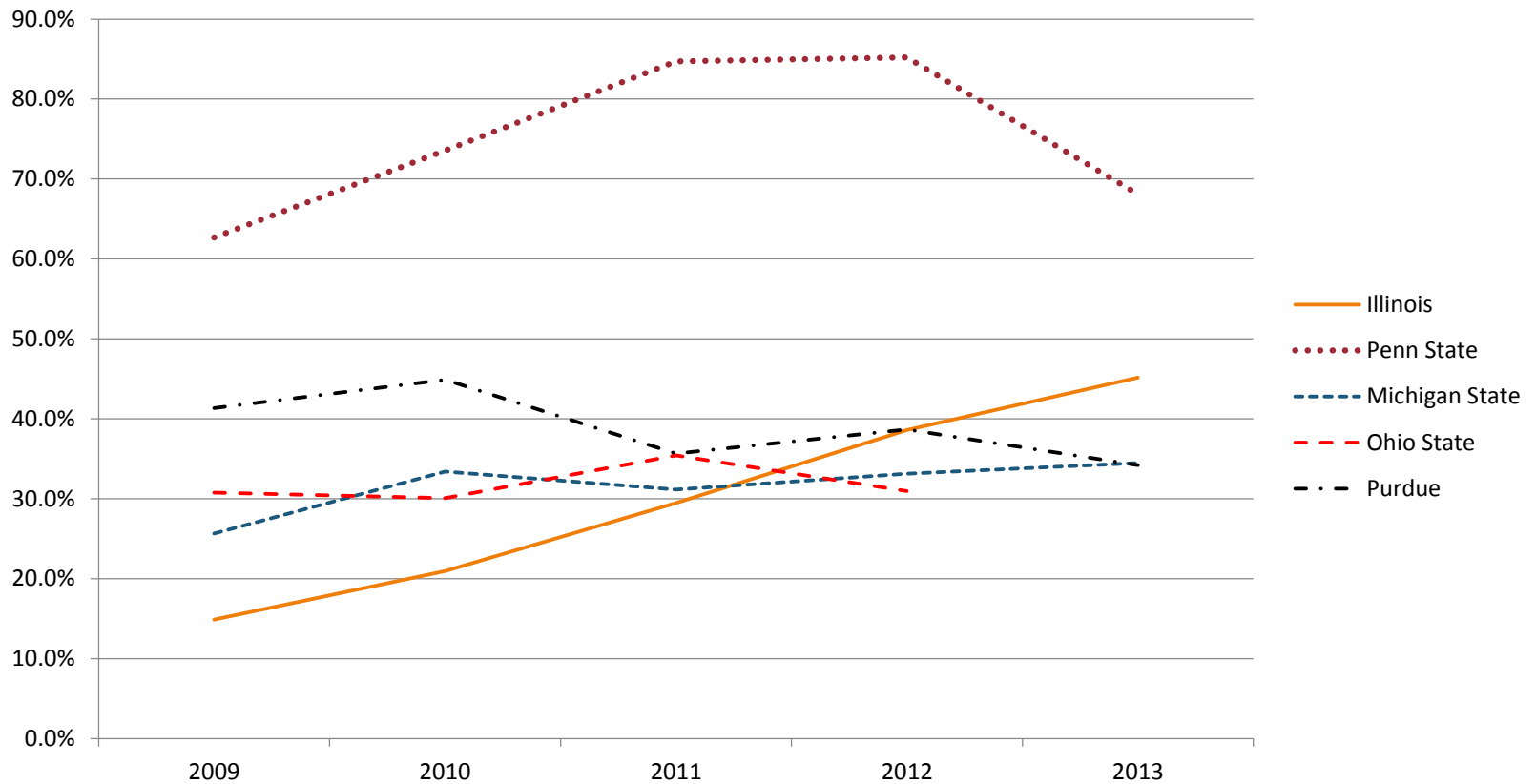
- Bond ratings and an entity's financial condition are based on many factors but the following are key issues:
 - Cash relative to expenses or revenue
 - Debt relative to assets
 - Net income relative to expenses or revenue
 - State funding relative to expenses or revenue
 - Endowment relative to expenses 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 of 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

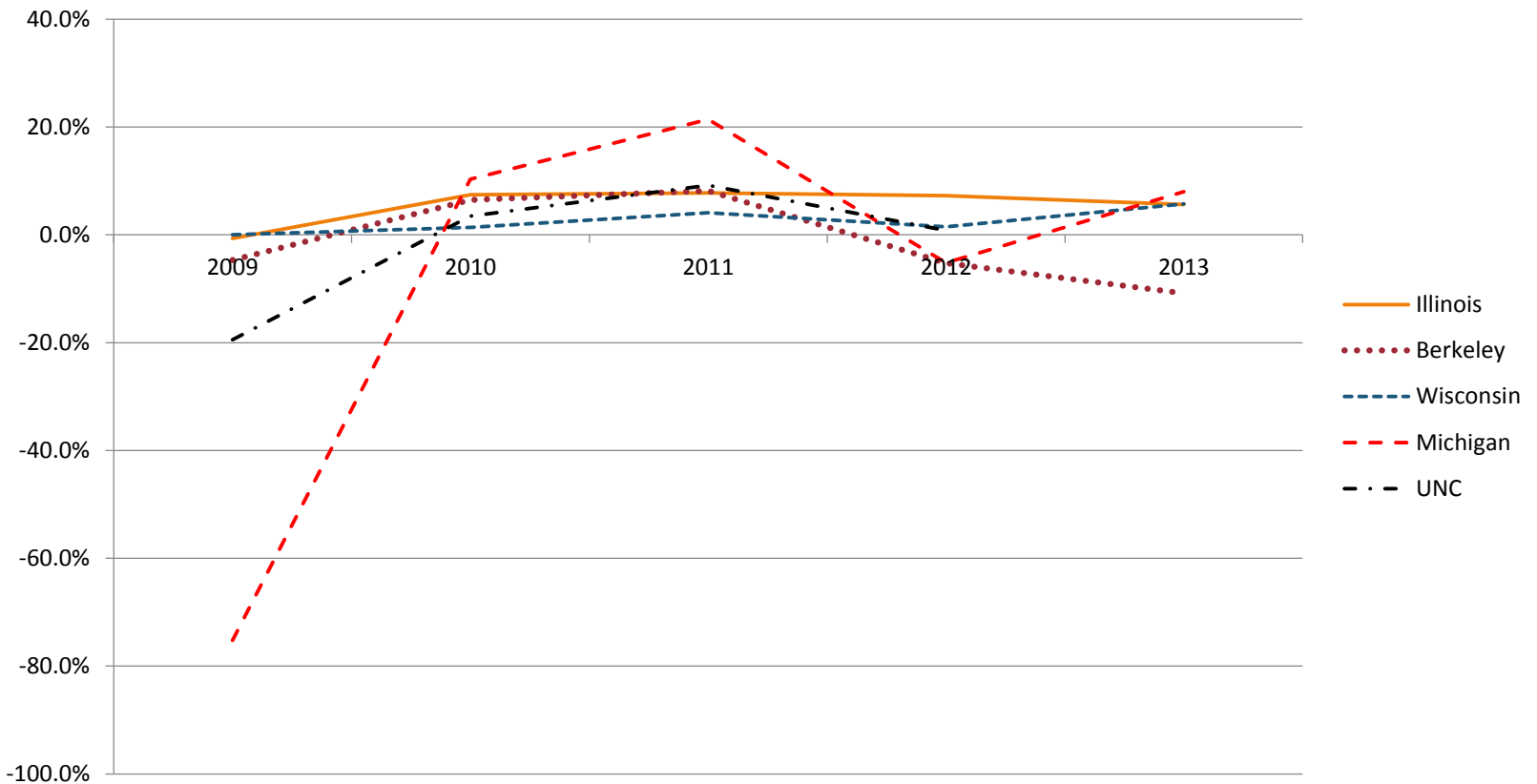
INCOME STATEMENT—NET INCOME (\$ 000)

- The University had deficits for several years, but has had Net Income above \$300 million for the last four years

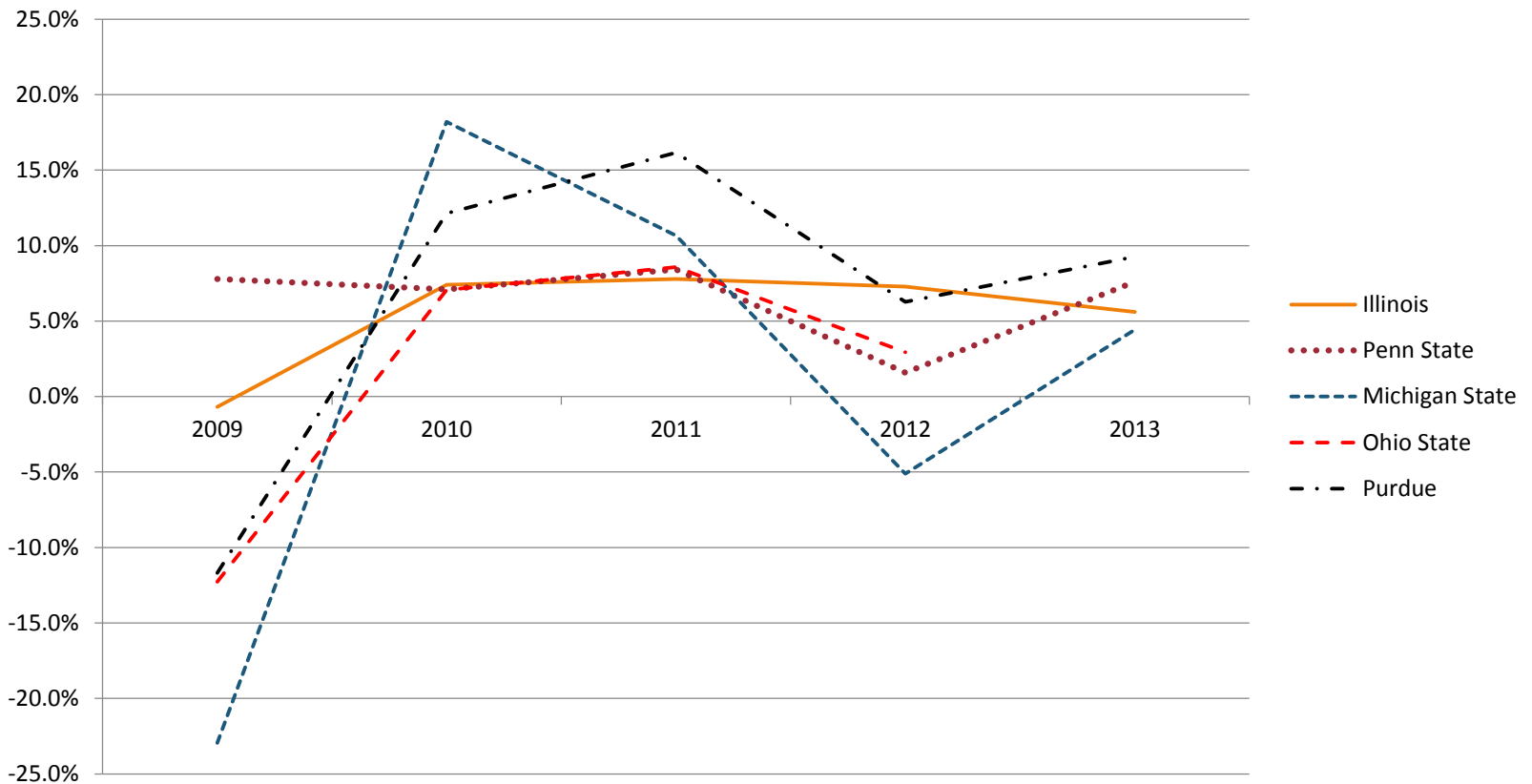
Year	Operating			Nonoperating revenue (expense)*	Net Income (Loss)
	revenues	expenses	loss		
2005	\$2,365,156	\$3,471,498	(\$1,106,342)	\$1,055,190	(\$51,152)
2006	\$2,490,308	\$3,548,600	(\$1,058,292)	\$1,053,385	(\$4,907)
2007	\$2,628,029	\$3,744,787	(\$1,116,758)	\$1,140,856	\$24,098
2008	\$2,846,316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

* 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

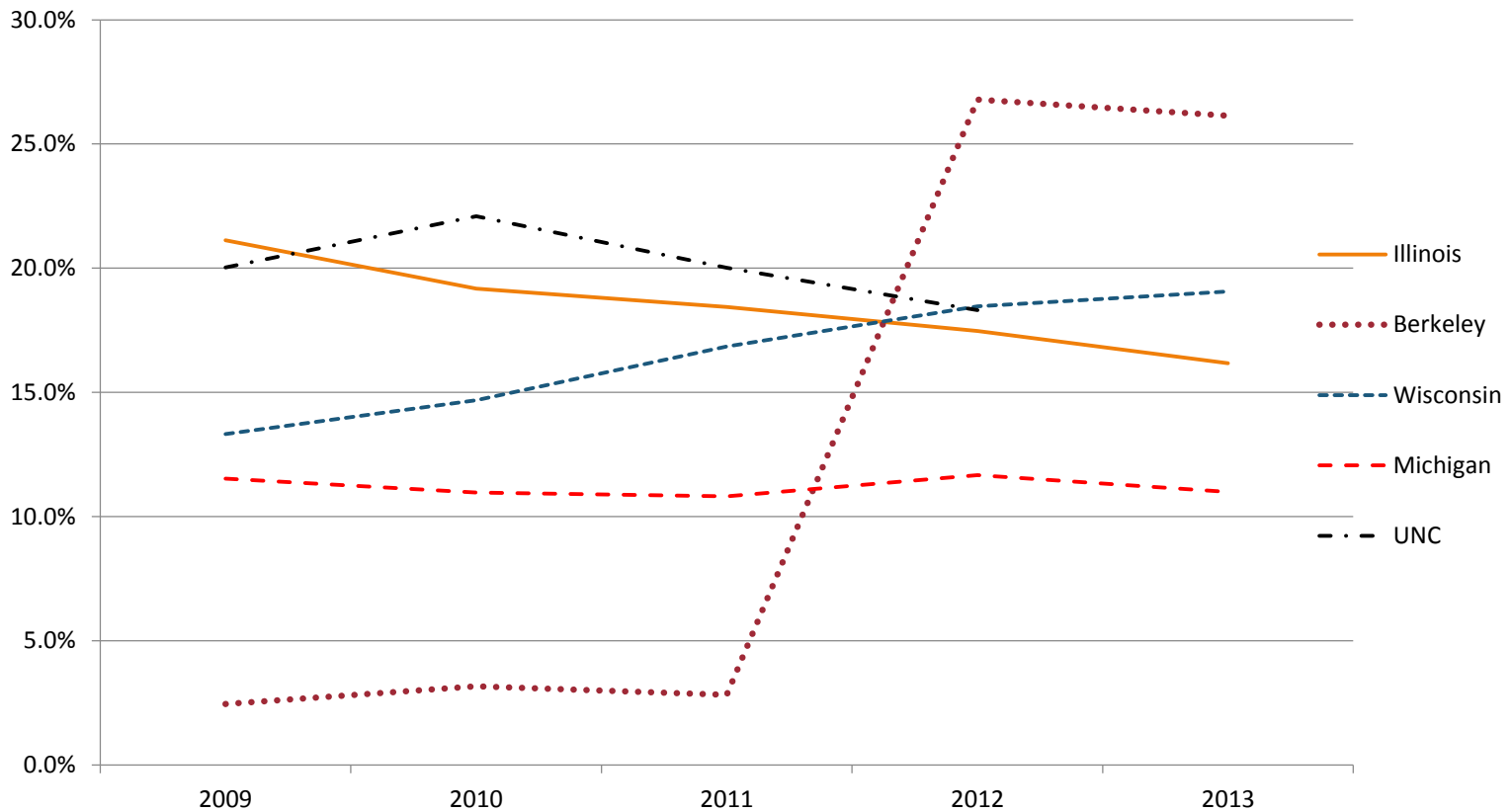
NET INCOME: SUMMARY

- 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

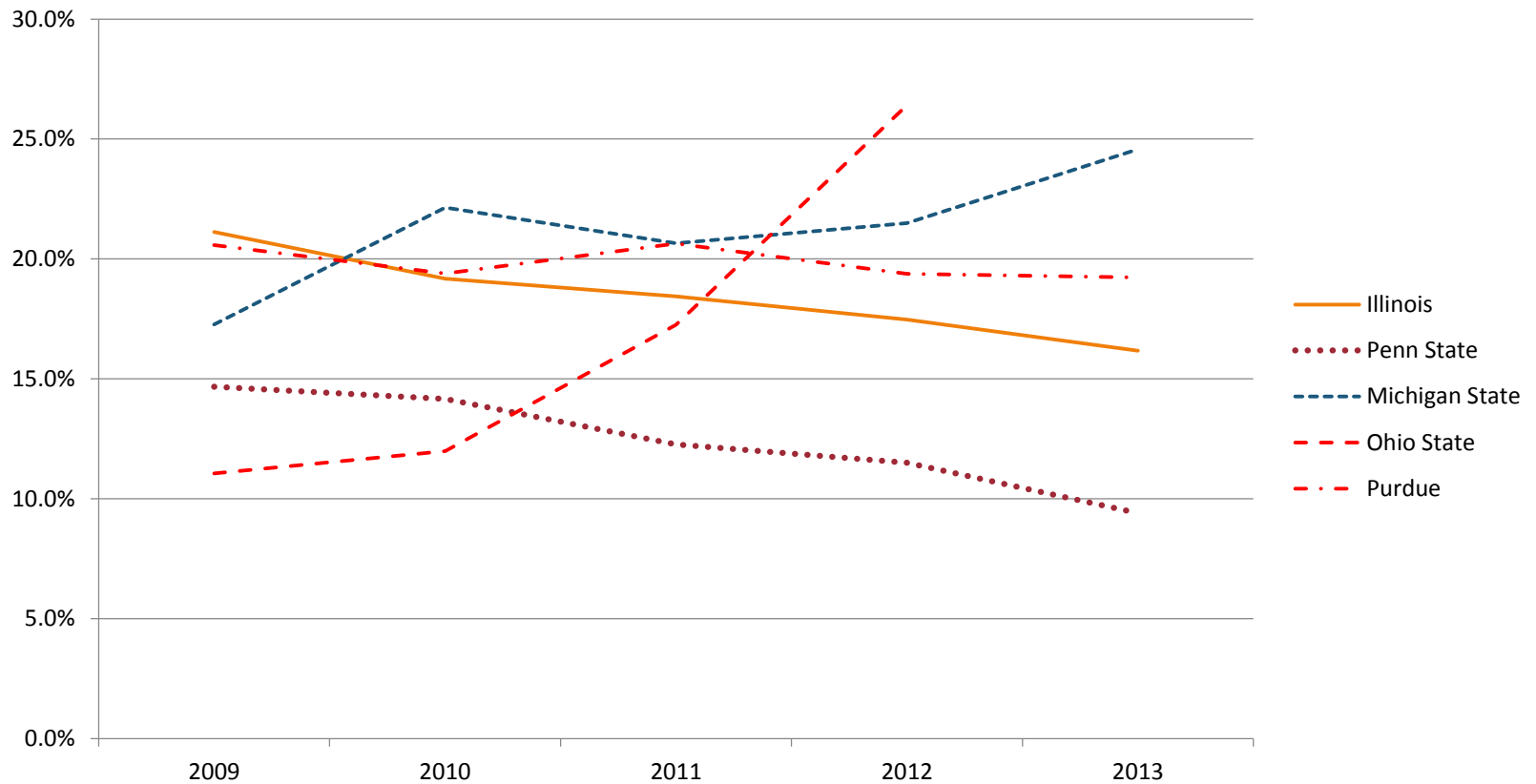
ADDITIONAL ISSUES

- 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

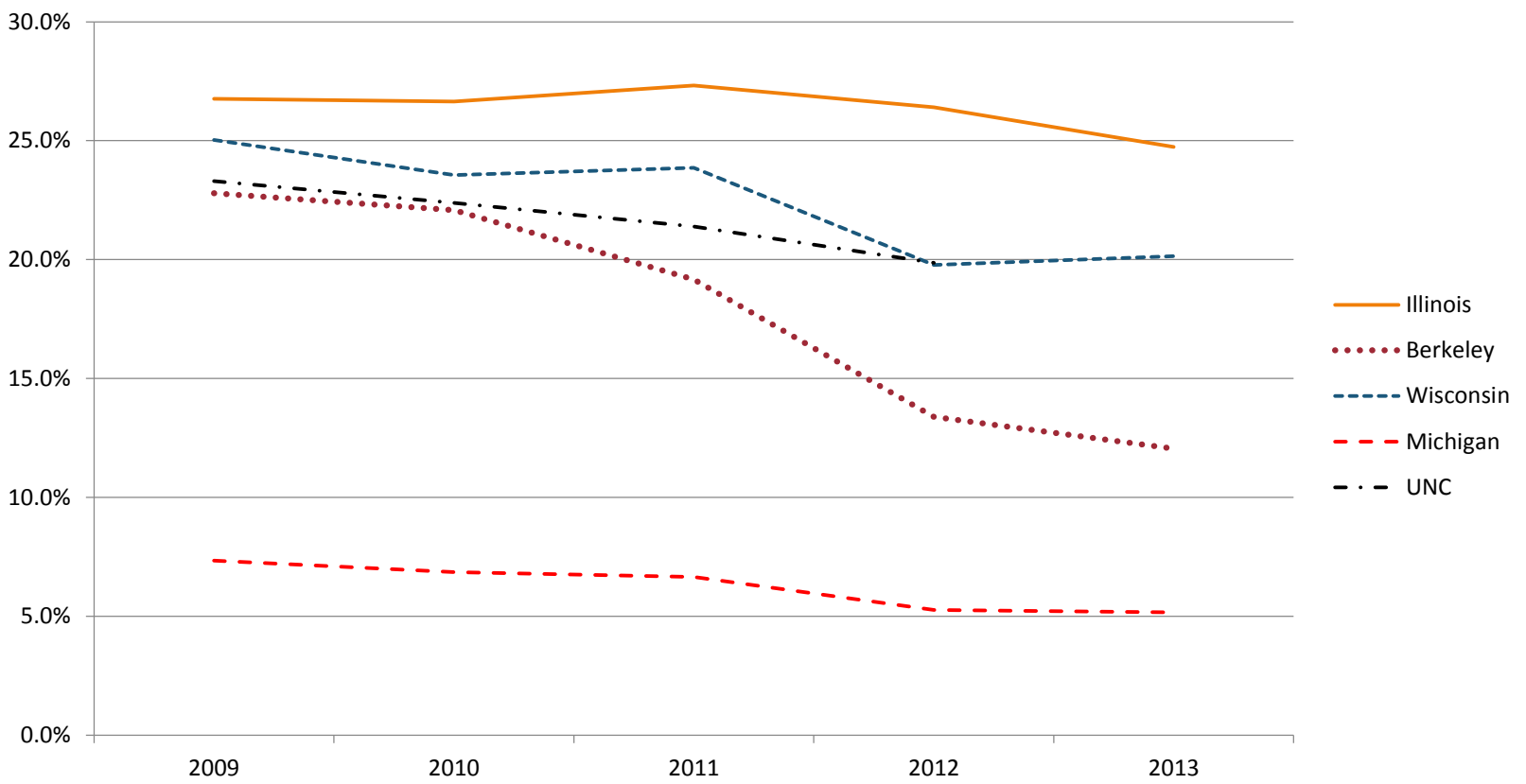
DEBT AS A % OF TOTAL ASSETS



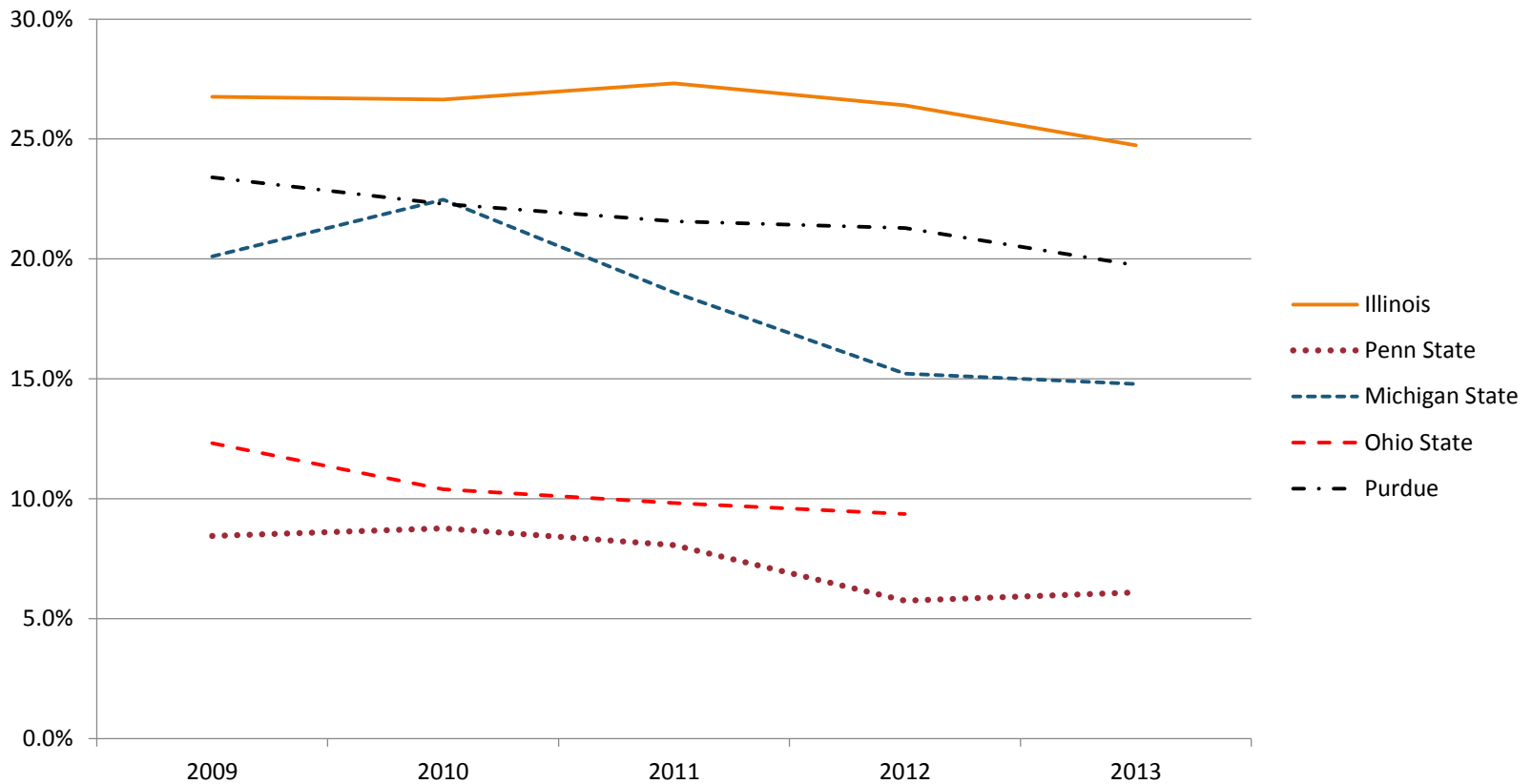
DEBT AS A % OF TOTAL ASSETS



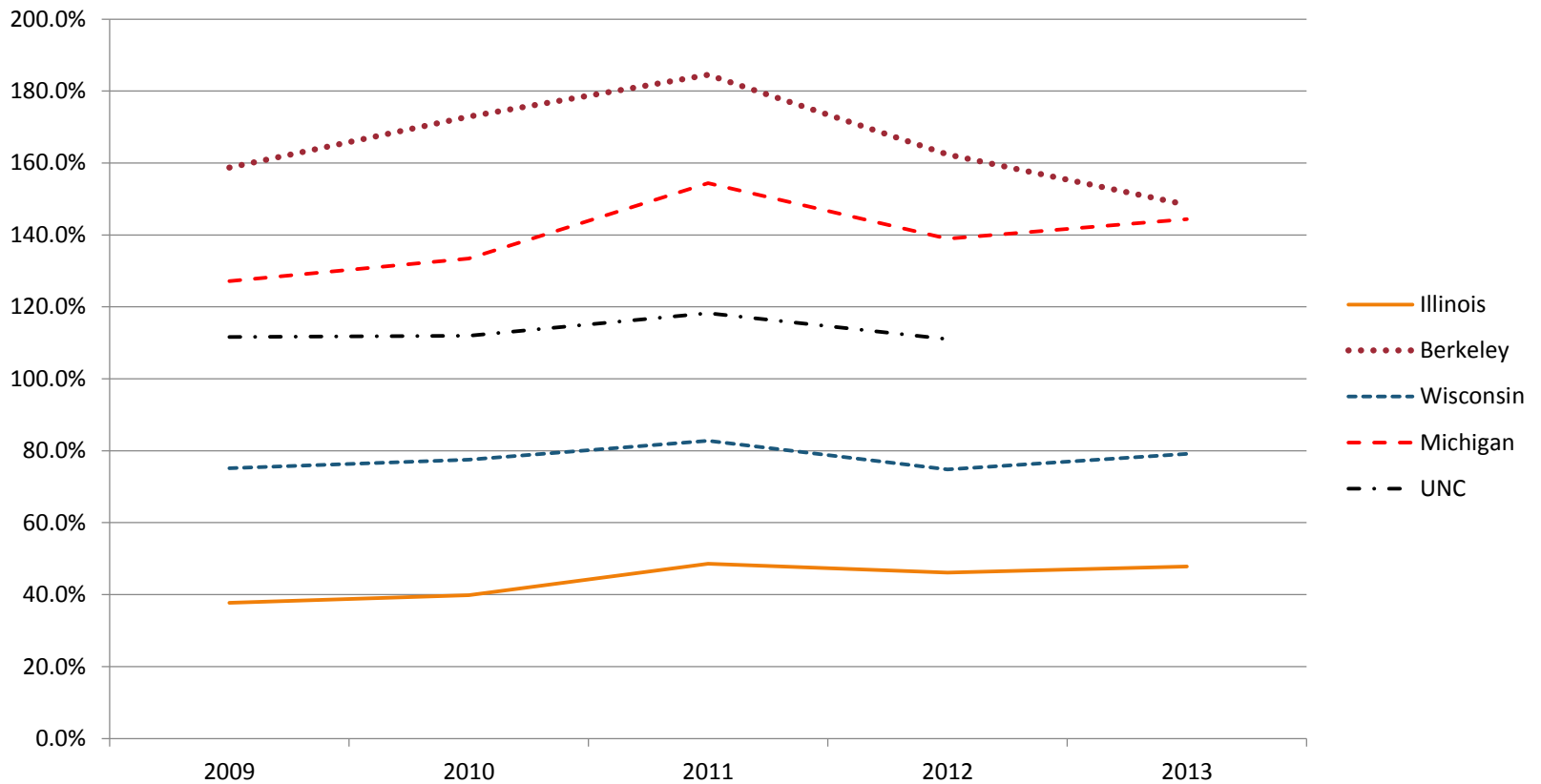
STATE FUNDING AS A % OF EXPENSES (MINUS CATCH-UP PENSION PAYMENTS; BEFORE THE REDUCTION TO PENSION BENEFITS)



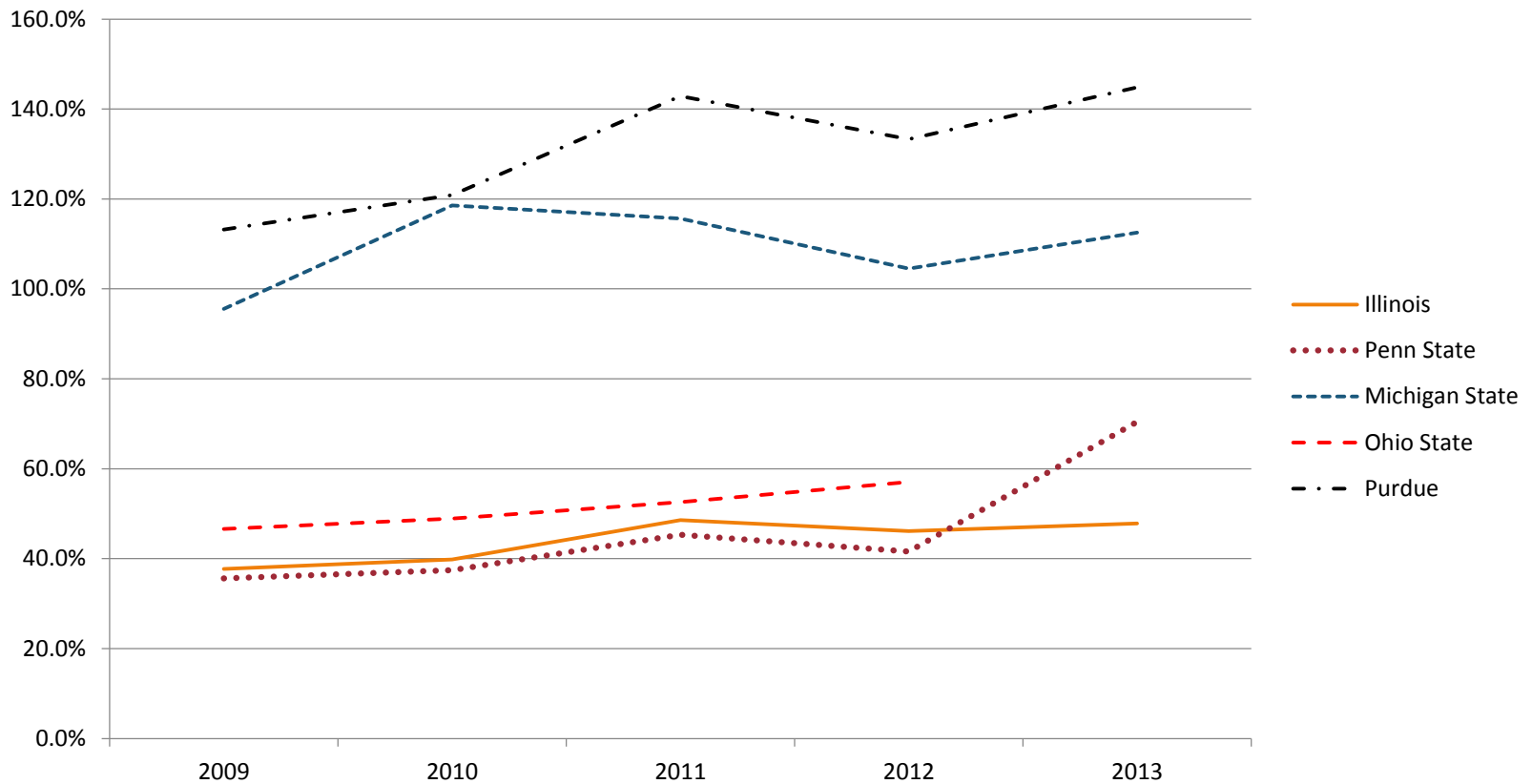
STATE FUNDING AS A % OF EXPENSES (MINUS CATCH-UP PENSION PAYMENTS; BEFORE THE REDUCTION TO PENSION BENEFITS)



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

QUESTIONS

