

# **Analysis of the Financial Condition of the University of Illinois System**

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## I. Introduction

The analysis below is mainly of the entire University of Illinois system, as the audited financial statements report results for the system as a whole, and not for the individual campuses. Those statements do not delineate the results on the campus level. The 2009 and 2010 budgets do report these budgets for the individual campuses. There will be an analysis done of the UIC campus based on that limited budget report. The results for the entire system are based on the actual results through June 30, 2008.

Overall, the financial condition of the University of Illinois system is strong. This conclusion is based on an analysis of the financial statements, as is demonstrated by examining three broad measures of financial performance:

- Revenues versus expenses, and the growth in revenues
- Low levels of debt
- Strong reserves

More importantly, the first line of the 2008 financial report states (which was written in January of 2009): “The University is well positioned to continue its strong financial condition”

What is missing from this analysis is an examination of the 2009 audited financial statements. The fiscal year end for the UI system is June 30<sup>th</sup>, and the statements for the year ended June 30, 2009 are definitively completed. However, these are not available on the UIC website at: <http://www.obfs.uillinois.edu/obfshome.cfm?level=2&path=aboutobfs&xmldata=annualreports>.

Starting in 2002, NPOs created financial statements that were analogous to those in the for-profit world (this requirement was mandated by the Government Accounting Standards Board, and is called GASB 34). Specifically, two main government-wide statements are required: (1) The Statement of Net Assets, which is analogous to the Balance Sheet in the for-profit sector; (2) The Statement of Activities, which is analogous to the Income Statement in the for-profit sector. For the first time, it is much easier for users of NPO financial statements to understand the financial condition of these entities.

A final note on what is being analyzed: the audited financial statements of the University of Illinois at Chicago are combined with the University of Illinois at Urbana-Champaign and the University of Illinois at Springfield. However, the budgets for the 2009-10 and 2010-11 years are separated by these individual campuses, and some analysis will be performed at that level as well.

## II. Wealth of the UI System

(Source for this data are the Annual Financial Reports, which are at:

<http://www.obfs.uillinois.edu/obfshome.cfm?level=2&path=aboutobfs&xmldata=annualreports>)

The Statement of Net Assets reports the assets versus liabilities of the UI System:

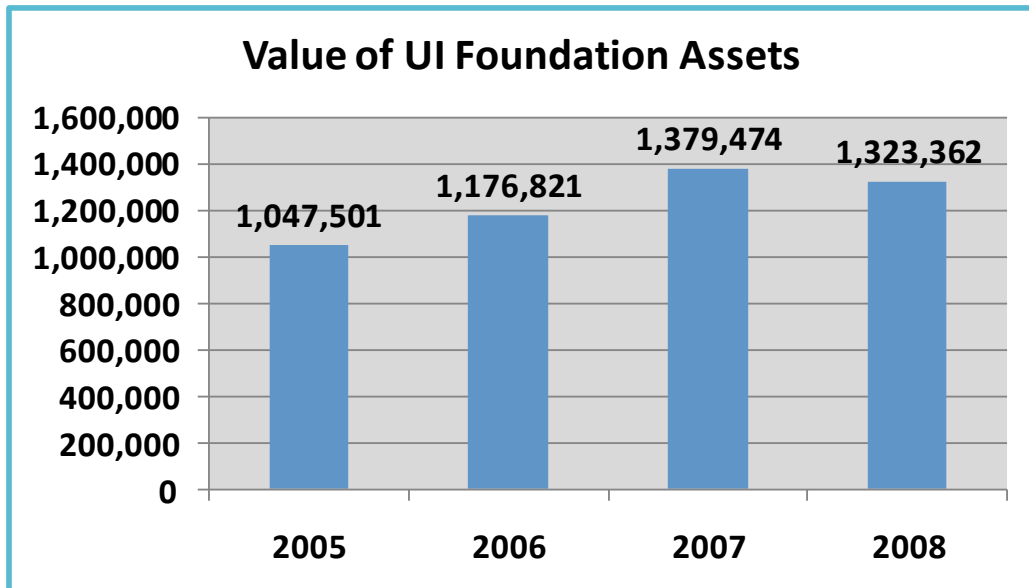
***Table 1: Statement of Net Assets***

	2005	2006	2007	2008
Total Assets	4,316,181	4,537,087	4,905,345	5,143,193
Total Liabilities	2,007,097	2,167,102	2,489,489	2,787,844
Net Assets	2,309,084	2,369,985	2,415,856	2,355,349
	2005	2006	2007	2008
Total Assets	100%	100%	100%	100%
Total Liabilities	47%	48%	51%	54%
Net Assets	53%	52%	49%	46%

- The Statement of Net Assets reveals that total assets greatly exceed total liabilities.
- There has been solid growth in assets, but liabilities are growing somewhat faster. The main reason for this is that in prior years, new capital projects were financed by the State and some debt; over the last few years, the State has reduced (to almost zero) any appropriation for capital needs, and the UI system has had to borrow to finance these new capital projects. The State appropriation for operations is quite substantial, and will be discussed later.
- As we will see later, the level of debt is not that high, and interest payments are not a significant burden on the UI system.
- In addition to the main university, the UI system also has what are called URO's, or University Related Organizations. These are under the control of the UI system, and its main component is the UI Foundation. The Foundation has assets that are mostly stocks and bonds. These Foundation assets cannot be used to fund core academic operations, though income from the Foundation help fund some scholarships.
  - As of June 30, 2008, the Foundation had approximately \$1.3 billion in assets.
  - When the assets and liabilities of the Foundation are combined with those of the three universities (Moody's does this in their analysis), the combined assets of the entire UI system are approximately \$6.5 billion, with only \$3.6 billion of liabilities.

- Many proponents of furloughs have contended that one reason for the furloughs is that the value of the investments in the foundation has declined significantly. However, two main points demonstrate that this argument has absolutely no merit:
  - The universities in the UI system do not count on the income from these foundations (sometimes referred to as endowments) to fund operations; therefore, the claim that the decline in value of these endowments is a reason for furloughs is not warranted
  - The decline in value of the UI Foundation over the last several years is not significant. As the graph below demonstrates, the decline in value from June 30, 2007 to June 30, 2008 was not that large (a 4% decline)

**Figure 1: Value of UI Foundation Assets**



We will now examine some specific aspects of the Statement of Net Assets.

- First, the system has cash and cash equivalents of over \$600 million as of June 30, 2008 (this does not include the Foundation). UI is very liquid.
- Bonds payable are right at \$1 billion; given total assets of the UI system are over \$5 billion, this is not an excessive amount of debt. When we analyze the Moody's ratios, we will determine specific metrics for the level of debt.
- The last and most important component of the Statement of Net Assets is a review of net assets. Net assets in the NPO sector are the equivalent of owner's equity in the for-

profit sector. They are often referred to as reserves. There are several components of net assets:

- Net Assets invested in capital assets, which do not reveal any significant inference about an institution’s financial condition
- Restricted net assets, which are those that are earmarked for specific purposes, but which may be utilized at the administration’s discretion. Some of these are expendable, and some are not expendable.
- Unrestricted net assets, which can be seen as a pure reserve fund for the UI System, to be used without restrictions.
- Expendable net assets are the numerical sum of restricted-expendable net assets and unrestricted net assets. The expendable net assets are those net assets that can be used for operations or to pay off debt of the UI system. Therefore, they are an indication of financial flexibility. These expendable net assets do not represent a pot of cash; however, they indicate that the UI system either has cash of this amount, or has access to cash in this amount. Expendable net assets are seen by the financial community as an important measure of financial strength, which is why we will see these metric used in several ratios used by bond rating agencies.

Table 2 below clearly reveals that net assets of the UI system have been increasing over the last several years, though they did decline from 2007 to 2008:

**Table 2: Analysis of Net Assets**

<b>Universities Only</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
<b>Unrestricted Net Assets</b>	<b>156,496</b>	<b>125,494</b>	<b>140,865</b>	<b>89,864</b>
<b>Restricted-Expendable Net Assets</b>	<b>327,405</b>	<b>364,599</b>	<b>392,651</b>	<b>396,220</b>
<b>Total Expendable Net Assets</b>	<b>483,901</b>	<b>490,093</b>	<b>533,516</b>	<b>486,084</b>

- Before considering the Foundation, the UI system had almost ½ a billion dollars in total reserves
- If the Foundation is included, the total reserves are almost \$900 million

Conclusions about the wealth of the UI System:

- The UI system has strong reserves
- The UI system does not have a significant amount of debt

### III. Operations: Revenues versus Expense Performance

The main measure of operational performance in the nonprofit sector is called the change in net assets, and is the difference between total revenues and total expenses. It is the equivalent metric to net income or bottom line profit in the for-profit sector.

***Table 3: Change in Net Asset Performance***

	2005	2006	2007	2008
<b>Total Revenues</b>	3,573,109	3,671,158	3,862,426	4,046,002
<b>Total Expenses</b>	3,530,566	3,610,257	3,816,555	4,106,509
<b>Change in Net Assets</b>	42,543	60,901	45,871	(60,507)
<b>% of Total Revenues</b>	1.2%	1.7%	1.2%	-1.5%
<b>Change in Unrealized Value of Investments</b>	11,593	3,200	36,429	(60,508)

- In 2008, for the first time in four years, total expenses were greater than total revenues.
- However, the main reason for this result was the unrealized change in the value of investments. In essence, this is a “paper loss” on the main system’s investment asset (this does not include the Foundation).
- Each year, the UI system has total revenues that are very close to total expenses; the analysis below will break down both revenues and expenses, so that we can further analyze any potential trends and developments.

### IV. Breakdown of Revenue Sources

The Statement of Activities (analogous to the income statement in the for-profit world) details 23 different revenue items for the UI system. In order to analyze these sources in a more condensed manner, I have grouped the revenues into the 7 different categories represented below in table 4.

**Table 4: Analysis of Individual Revenue Sources**

	2005	2006	2007	2008
Grants and Contracts	760,728	769,949	783,573	808,226
Hospital/Medical	625,191	655,589	686,331	778,074
State Appropriation	653,913	655,521	665,752	680,503
Student Tuition and Fees	507,137	554,856	617,812	662,464
All Other Items	474,883	486,216	499,817	428,789
Payments for fringes	286,597	266,706	305,047	357,637
Auxiliary enterprises	264,660	282,321	304,094	330,309
Total Revenues	3,573,109	3,671,158	3,862,426	4,046,002
	2005	2006	2007	2008
Grants and Contracts	21.3%	21.0%	20.3%	20.0%
Hospital/Medical	17.5%	17.9%	17.8%	19.2%
State Appropriation	18.3%	17.9%	17.2%	16.8%
Student Tuition and Fees	14.2%	15.1%	16.0%	16.4%
All Other Items	13.3%	13.2%	12.9%	10.6%
Payments for fringes	8.0%	7.3%	7.9%	8.8%
Auxiliary enterprises	7.4%	7.7%	7.9%	8.2%
Total Revenues	100.0%	100.0%	100.0%	100.0%

- The top panel of table 4 reveals that total revenues were 3.573 billion in 2005, and grew to 4.046 billion in 2008, with total revenues increasing each year
- Grants and contracts were the largest revenue source. Note that this includes federal grants, state grants, and private grants.
- Using individual sources, the State appropriation is the largest source, followed closely by tuition and fee revenue.
- The bottom panel reports each revenue item as a percentage of the total. Therefore, in 2008, the state appropriation of 680.503 million was 16.8% of the 4.046 billion total revenues.
- The State of Illinois appropriation is slightly larger than tuition as a revenue source as of 6/30/2008; this may change when we examine the 2009 results.
- The most revealing aspect of the revenue analysis is the growth in total revenues. When we examine the 2009 and 2010 budgets for UI and UIC, we will see that the administration has experienced growing revenues, and continues to expect revenues to grow. Given that expenses are either growing or are expected to grow at a rate almost identical to revenue growth, it is not appropriate that furloughs are even being considered.

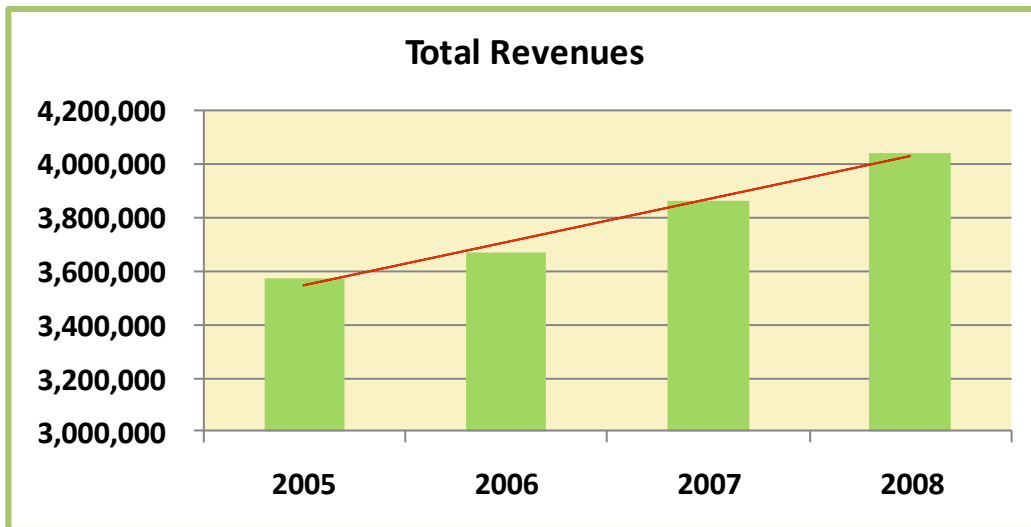


**Table 5: Growth in Total Revenues: 2005 to 2008**

	2005	2006	2007	2008
Total Revenues	3,573,109	3,671,158	3,862,426	4,046,002
Annual Percentage Increase		3%	5%	5%
Increase from 2005 to 2008				13%

- What this table reveals is that total revenues have grown each of the last three years. As we will see later, total expenses have had a similar growth pattern.
- Total revenues increased 3% from 2005 to 2006 (2005 refers to the academic year ending June 30, 2005), 5% from 2006 to 2007, and 5% from 2007 to 2008.
- Over the 4-year period, total revenues increased 13%; the 13% increase is the change from 3.573 billion in 2005 to 4.046 billion in 2008
- The growth and trend in total revenues can be readily seen in Figure 2 below:

**Figure 2: Total Revenues from 2005 to 2008**



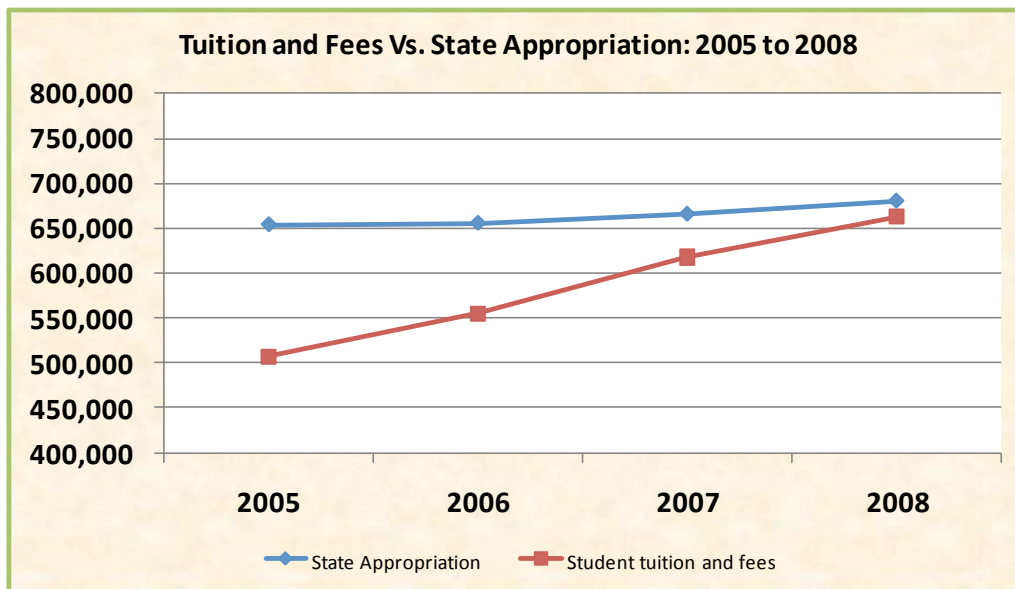
The final component of the revenue analysis will be comparison of tuition and fee revenue when compared to the State of Illinois appropriation. It is clearly the case that tuition and fee revenue is growing, while the State Appropriation is relatively flat. Critics may claim that this data only goes through 2008, and that the State is in much worse financial condition now. However, as we will see in the budget analysis, as of November 12, 2009, the UI system will clearly experience growing revenues through 2010.

**Table 6: State Appropriation vs. Tuition and Fee Revenue**

	2005	2006	2007	2008
State Appropriation	653,913	655,521	665,752	680,503
Student tuition and fees	507,137	554,856	617,812	662,464
Annual Percentage Increase:				
State Appropriation		0.2%	1.6%	2.2%
Student tuition and fees		9.4%	11.3%	7.2%
% Increase from 2005 to 2008:				
State Appropriation	4.1%			
Student tuition and fees	30.6%			

- What is most striking about this table is the incredible growth in tuition and fee revenue. As we will see shortly, this is not just a tuition price increase; for both UIUC and UIC, this is driven by a pure increase in enrollment or the number of students
- Tuition and fee revenue increased over 30% from 2005 to 2008; even the state appropriation increased over this time. Furloughs are certainly not necessary in this environment.

**Figure 3: State Appropriation vs. Tuition and Fee Revenue**



- This graph is very interesting, as we see that the trend seems to point to the fact that tuition and fee revenue will soon exceed the State appropriation.
- The need for furloughs is based on the fact that the State appropriation, a revenue source that is less than 20% of total revenues, will be declining. However, the appropriation was not declining through 2008, and as of November 2009, it was expected to increase through 2010. This expectation may have changed since then, though the effect on total revenues of the UI system will not be overridden by expected enrollment increases, as we will see below.

**Table 7: Enrollment Trends at UIC and UIUC**

	UIC			UIUC	
	Enrollment	Annual % Change		Enrollment	Annual % Change
Fall 2009	26,245	4.0%		41,918	1.0%
Fall 2008	25,243	0.5%		41,495	1.4%
Fall 2007	25,125	3.8%		40,923	-0.6%
Fall 2006	24,200			41,180	
% Change 2006 to 2009	8.5%			1.8%	

Sources for enrollment and tuition data:

UIC enrollment information: <http://www.dria.uic.edu/students/pdfs/miniSDB/Fall2009Enrl.pdf>

UIC tuition information: [http://www.uic.edu/depts/oar/undergrad/tuition\\_undergrad.html](http://www.uic.edu/depts/oar/undergrad/tuition_undergrad.html)

UIUC enrollment: <http://www.dmi.illinois.edu/stuenr/index.asp#abstract>

- The table above reports fall enrollment figures as reported by each university.
- What is most impressive is that the fall 2009 enrollment is 4% higher than fall 2008 enrollment at the Chicago campus; it is 1% higher at Urbana-Champaign.
- Typically, we see that enrollment increases in times of high unemployment.
- The enrollment trend from fall 2006 to fall 2008 is especially impressive at UIC, which has experienced an 8.5% enrollment growth over this period.
- In terms of tuition price increases, at the UIC campus, there was a 2.4% increase from 2008-09 to 2009-10:
  - For 2008-09, the range of tuition for undergraduate Illinois residents was \$5,457 to \$7,610 (depending on when the student began studies and what program the student is enrolled in). This corresponds to an average of \$6,534

- For 2009-10, the range of tuition for undergraduate Illinois residents was \$5,616 to \$7,769. This corresponds to an average of \$6,693
- The 2.4% increase is the percentage change from \$6,534 to \$6,693

Conclusion of Revenue Analysis: The UI system has growing revenues, which are driven by enrollment increases. The State appropriation may be flat or down slightly; taken together, these two revenue sources are increasing. The claim that furloughs are necessary due to the effect of the State of Illinois appropriations is not warranted in any way, shape or form.

## V. Breakdown of Expenses (focus on instruction and compensation)

The different expenses reported in the audited financial statements:

**Table 8: Breakdown of UI System Expenses, 2005 to 2008**

	2005	2006	2007	2008	05 to 08 % Change
Instruction	677,813	666,200	703,540	758,676	12%
Research	557,058	556,874	561,876	568,946	2%
Public service	277,626	300,990	326,348	342,840	23%
Academic support	206,894	218,043	236,561	249,000	20%
Student services	79,616	82,656	88,374	99,314	25%
Institutional support	163,770	150,572	167,172	178,572	9%
Plant	199,183	229,038	218,028	259,068	30%
Scholarships and fellowships	175,166	185,155	198,016	199,197	14%
Auxiliary	207,825	229,935	234,751	261,408	26%
Hospital and medical	394,122	406,466	431,762	470,345	19%
Independent operations	9,215	9,639	10,023	9,963	8%
Depreciation	175,978	185,105	191,679	199,609	13%
Fringe payments	347,232	327,927	376,657	441,480	27%
Interest expense	59,068	61,657	71,768	68,091	15%
<b>Total expenses</b>	<b>3,530,566</b>	<b>3,610,257</b>	<b>3,816,555</b>	<b>4,106,509</b>	<b>16%</b>

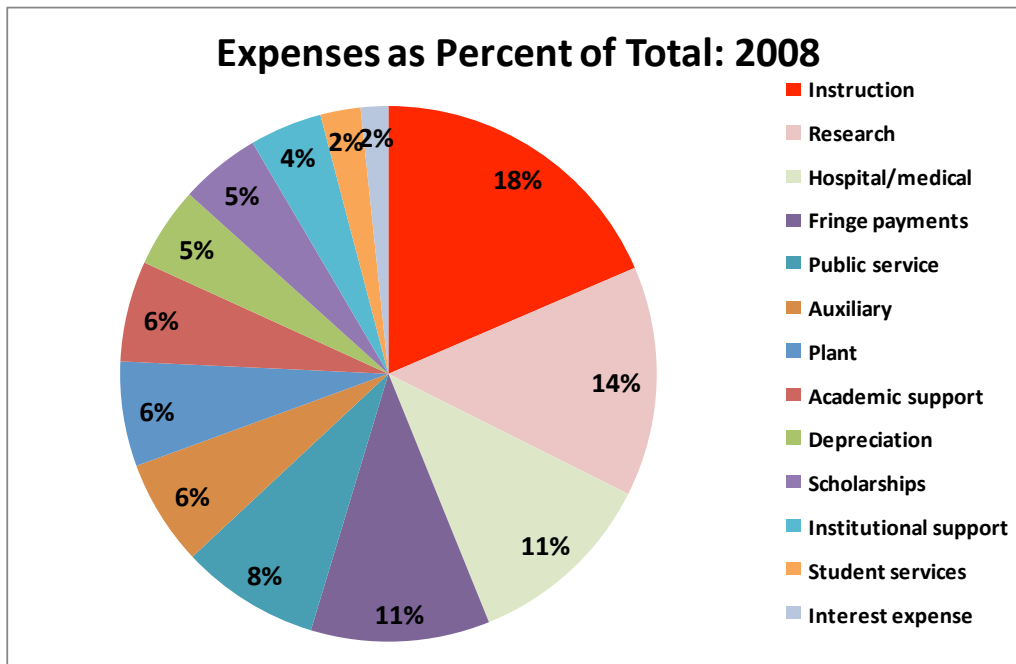
- In 2008, total expenses were 4,106 billion. This represents a 16% increase over the 3.530 billion in total expenses from 2005.
- The main academic expenses are the first two lines: instruction and research. The main administrative expenses are public service, academic support, student services, and institutional support:

- Note that instruction increased only 12% from 2005 to 2008, and research increased only 2%. Both of these increased slower than the 16% increase for all items.
- Three of the four main administrative categories increased more than 20% from 2005 to 2008
- Conclusion: The UI system has not been true to the core academic mission, as they have increased administrative costs at a higher rate than pure academic costs

In addition to examining the percentage changes in expenses, it is useful to report the contribution of each expense category to total expenses, which is reported in the chart below:

**Figure 4: Expense Contribution of the UI System, 2008**

(Each item is a percent of the 4.106 billion of 2008 total expenses)



- It may be surprising that instructional costs are only 18% of the total.
- Note that interest expense is only 2% of total expenses; this reports that the 68 million in 2008 interest expense is only 2% of the total of 4.1 billion of total expenses. This is further proof that the debt level of the UI system is not that large.

In addition to total expenses, we can examine compensation costs, as these represent over 60% of total expenses for the system:

**Table 9: Analysis of Compensation Expense**

Compensation:	2005	2006	2007	2008	05 to 08
Instruction	557,300	567,006	583,428	613,575	10%
Research	357,919	368,371	367,139	371,610	4%
Public service	163,275	179,154	190,541	198,349	21%
Academic support	126,135	140,795	150,023	156,020	24%
Student services	48,916	52,271	56,855	61,306	25%
Institutional support	120,572	116,801	131,035	130,539	8%
Hospital and Medical	198,307	224,280	239,250	259,075	31%
All Other	613,089	641,282	704,008	783,817	28%
Total	2,185,513	2,289,960	2,422,279	2,574,291	18%
Total Comp/Total Expenses	61.9%	63.4%	63.5%	62.7%	
Instruction Comp/Total Expenses	15.8%	15.7%	15.3%	14.9%	

Conclusions from the compensation analysis:

- Compensation costs were \$2.574 billion in 2008, and these are 62.7% of the total of \$4.106 in fiscal year 2008 expenses
- Total compensation costs increased 18% from 2005 to 2008; however academic compensation did not increase as quickly (10% for instruction and 2% for research). As was evident with total administrative costs (categories of public service, academic support, student services, and institutional support), administrative compensation costs increased faster than academic compensation costs from 2005 to 2008. This is indicative of a system that is putting more and more emphasis on items outside the core academic mission.

## VI. Cash Flow Analysis

It may be claimed that the revenues of the UI system may not translate to actual cash flows. In fact, the cash flow analysis below reveals that the cash flows of the system are greater than the change in net asset numbers would suggest. This is mostly due to the fact that depreciation expense is included in the change in net asset performance, and depreciation is a non-cash expense. I am not suggesting that depreciation expense is not important; however, in analyzing the cash flows of the system, they need to be added back.

**Table 10: Cash Flow Analysis**

	2008	2007	2006	2005
Cash Flow from Operations	(554,032)	(587,641)	(589,879)	(584,382)
Noncapital Financing (mostly the State of Illinois appropriation)	837,263	807,172	796,136	763,136
Debt Issue/Payments	(197,065)	(139,663)	(151,152)	(166,158)
Total Cash Flows	86,166	79,868	55,105	12,596

- For each of the last four years, total cash flows of the UI system have been positive
- The debt principle payments have easily been made each year.
- Any claim that furloughs are necessary to meet debt service payments is simply not supported by the facts

## VII. Analysis of 2009-10 and 2010-11 Budgets

Though the 2009 actual results are not available, the 2009-10 and 2010-11 budgets are available, at <http://www.obfs.uillinois.edu/obfshome.cfm?level=2&path=aboutobfs&xmldata=budgets>

From these budgets, we will be able to examine total revenues and expenses of the UI system, plus examine the UIC budget in more detail. Note that the 2010-11 budget documents were reported on November 12, 2009.

**Table 11: Analysis of 2009 and 2010 Budgets**

	2008	2009	2010	08 to 09	09 to 10
Total Budgeted Revenues	3,899,682	4,164,888	4,662,528	6.8%	11.9%
Total Budgeted Expenses	3,906,129	4,170,838	4,665,228	6.8%	11.9%
Budgeted Tuition Revenue	599,153	648,449	730,942	8.2%	12.7%
State Appropriation	726,014	747,115	747,115	2.9%	0.0%
Total Compensation and Benefits	1,959,625	1,985,269	2,052,401	1.3%	3.4%

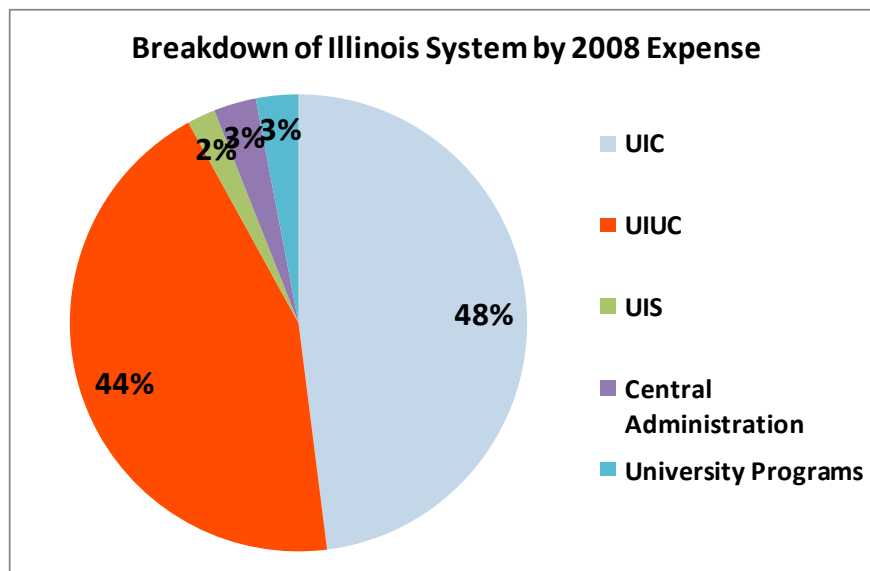
- The most compelling evidence that the UI system is not in any financial trouble is their own revenue forecast. In order to be consistent, the data from the budget

documents (as opposed to the audited financial statements which are not yet available) is utilized to determine annual percentage changes.

- From 2008 to 2009 (academic years 2007-08 to 2008-09) reveals that total revenues were expected to increase 6.8%
- From 2009 to 2010 (academic years 2008-09 to 2009-10) reveals that total revenues **ARE** expected to increase 11.9%.
- Two sources of this revenue increase are:
  - A tuition revenue increase of 12.7%
  - A flat State appropriation
- Even if the State appropriation declines (note that as of 11/12/2009, it was expected to be flat), the 12.7% increase in tuition will more than compensate for any decline.
- Remember, this budget comes from the administration. Requiring furloughs with this type of revenue forecast is absurd, and makes no sense from a financial perspective.

The budget data allows us to examine the UIC financial situation more specifically (recall that all of the above analysis is for the UI system as a whole). As the graph below reports, most of the UI system costs are split between UIC and UIUC

***Figure 5: Breakdown of 2008 UI System Costs***



From this point, we will undertake a close examination of the revenues and expenses for the UIC campus.



**Table 12: Revenue Analysis of the UIC Campus**

UIC Only - Revenues	2008	2009	2010	% Change	
				08 to 09	09 to 10
State Appropriation	283,195	289,104	289,349	2.1%	0.1%
Tuition and Fees	203,111	219,440	250,258	8.0%	14.0%
Institutional Funds	97,431	94,394	102,953	-3.1%	9.1%
Auxiliaries	114,722	113,500	118,037	-1.1%	4.0%
Department Activities	526,802	556,214	594,390	5.6%	6.9%
Gifts, Grants, Contracts	431,030	452,944	482,840	5.1%	6.6%
<b>Total Revenues</b>	<b>1,656,291</b>	<b>1,725,596</b>	<b>1,837,827</b>	<b>4.2%</b>	<b>6.5%</b>

- The conclusion from the above table is clear: though the State appropriation is not expected to increase, tuition and fee revenue is driving the increase in total revenues.
- In addition, every revenue source is expected to increase from 2009 to 2010
- Once the actual 2009 financial statements are released, we will likely confirm what the budget predicted; that total revenues increased from 2007-08 to 2008-09
- Once again, the need for furloughs is not apparent

**Table 13: UIC Expenditures by Main Categories**

UIC Only - Expenditures	2008	2009	2010	% Change	
				08 to 09	09 to 10
Instruction	359,629	372,605	399,306	3.6%	7.2%
Research	258,742	257,390	281,327	-0.5%	9.3%
Public Service	156,234	175,332	178,852	12.2%	2.0%
Academic Support	80,229	83,556	93,393	4.1%	11.8%
Student Services	24,509	25,624	27,217	4.5%	6.2%
Institutional Support	63,642	66,977	69,063	5.2%	3.1%
Plant	85,636	93,285	93,949	8.9%	0.7%
Student Aid	45,390	53,441	59,535	17.7%	11.4%
Hospital/Aux	582,280	597,386	635,185	2.6%	6.3%
<b>Total Expenditures</b>	<b>1,656,291</b>	<b>1,725,596</b>	<b>1,837,827</b>	<b>4.2%</b>	<b>6.5%</b>

**Table 14: UIC Expenditures by Organization**

UIC Only - Expenditures by Organization				% Change	
				08 to 09	09 to 10
<b>Non-Administrative:</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>		
Business	19,600	19,649	21,258	0.3%	8.2%
Dentistry	37,491	38,817	40,688	3.5%	4.8%
Education	19,382	19,810	20,692	2.2%	4.5%
Engineering	37,498	37,214	39,174	-0.8%	5.3%
Architecture	10,916	11,044	12,109	1.2%	9.6%
Graduate College	3,686	3,473	3,399	-5.8%	-2.1%
Liberal Arts & Sciences	87,748	92,959	98,160	5.9%	5.6%
Nursing	24,784	25,482	26,533	2.8%	4.1%
Pharmacy	58,674	64,862	67,906	10.5%	4.7%
School of Public Health	49,533	52,857	54,517	6.7%	3.1%
Applied Health Sciences	22,153	22,661	23,671	2.3%	4.5%
Social Work	12,066	13,487	13,764	11.8%	2.1%
Urban Planning	10,914	11,197	11,472	2.6%	2.5%
Library	19,034	19,113	19,286	0.4%	0.9%
Medicine	385,689	393,323	421,816	2.0%	7.2%
<b>Total</b>	<b>799,168</b>	<b>825,948</b>	<b>874,445</b>	<b>3.4%</b>	<b>5.9%</b>
<b>Administrative:</b>				% Change	
Healthcare System	489,761	508,655	542,302	3.9%	6.6%
All Other	367,362	390,993	421,080	6.4%	7.7%
<b>Total Administrative</b>	<b>857,123</b>	<b>899,648</b>	<b>963,382</b>	<b>5.0%</b>	<b>7.1%</b>
<b>Total Expenditures</b>	<b>1,656,291</b>	<b>1,725,596</b>	<b>1,837,827</b>	<b>4.2%</b>	<b>6.5%</b>

- The above tables indicate that total expenditures for UIC are expected to increase 4.2% from 2008 to 2009, and 6.5% from 2009 to 2010
- However, this increase is not uniform. The top panel of table 14 reports the academic areas of UIC; the bottom panel reports the administrative categories.
  - The academic areas are expected to increase 3.4% from 2008 to 2009, versus a 5.0% increase for administrative costs
  - The academic areas are expected to increase 5.9% from 2009 to 2010, versus a 7.1% increase for administrative costs
- This evidence supports the proposition that the UIC administration is devoting increased resources to administrative costs, and this increase is smaller than the increase for the core academic mission.

## VIII. Moody's Bond Ratings

The credit rating agencies use financial statements to judge the financial health of municipalities, with the goal to identify variables that encompass the financial condition/ability to repay debt of the municipality as a whole. Moody's uses three variables, then put various weights on those variables, and come up with a composite score for an institution. These are used by Moody's in the area of public finance. The ratios are all derived from the main components of the Statement of Net Assets and the Statement of Activities. The ratios are described below:

- *Viability ratio*: Expendable net assets divided by debt.
- *Primary reserve ratio*: Expendable net assets divided by total operating expenses.
- *Net Income Ratio*: Change in total net assets divided by total revenues.

The definitions of the components of those ratios are:

- *Expendable net assets*: The sum of unrestricted net assets and restricted expendable net assets.
- *Debt*: Total long-term debt (including the current portion thereof).
- *Total Revenues*: Total operating revenues
- *Total operating expenses*: Total operating expenses, plus interest on long-term debt.
- *Total non-operating expenses*: All expenses reported as non-operating with the exception of interest expenses.
- *Change in total net assets*: Total revenues (operating and non-operating), less total expenses (operating and non-operating).

A composite score is compiled, and below are the numbers assigned to each variable. A score of 5 indicates the highest degree of fiscal strength in each category.

Ratio Scores						
	0	1	2	3	4	5
<b>Viability Ratio</b>	< 0	0 to .29	.30 to .59	.6 to .99	1.0 to 2.5	> 2.5 or N/A
<b>Primary Reserve Ratio</b>	< -.1	-.1 to .049	.05 to .099	.10 to .249	.25 to .49	.5 or greater
<b>Net Income Ratio</b>	< -.05	-.05 to 0	0 to .009	.01 to .029	.03 to .049	.05 or greater

A summary of the Moody's analysis is as follows:

	Numerator	Denominator	Weight		
<b>Viability Ratio</b>	Expendable net assets	Debt	30%		
<b>Primary Reserve Ratio</b>	Expendable net assets	Operating Expenses	50%		
<b>Net Income Ratio</b>	Change in Net Assets	Total Revenues	20%		
<b>Final score = 30% * Viability Ratio + 50% * Primary Reserve Ratio + 20% * Net Income Ratio + 20% of Net Income Ratio</b>					
<b>If the ratio is &gt; 3, the NPO is considered to be in solid financial condition</b>					
<b>solid financial condition.</b>					

Below are the variables and Moody's ratios for the UI System for the last four years. There is a decline in these ratings, though the level is not indicative of financial weakness.

**Table 15: Moody's Composite Ratings Score for the UI System, 2005 to 2008**

	2008	2007	2006	2005
Viability Ratio	78.8%	86.2%	101.0%	102.3%
Primary Reserve Ratio	21.7%	24.7%	23.3%	22.6%
Net Income Ratio	-1.5%	1.2%	1.7%	1.2%
Viability Score	3.0	3.0	4.0	4.0
Primary Reserve Score	3.0	3.0	3.0	3.0
Net Income Score	1.0	3.0	3.0	3.0
Composite Score	2.6	3.0	3.3	3.3

Lastly, what are the actual Moody's ratings for the UI System? The most recent rating is Aa3, which is the 3<sup>rd</sup> highest rating Moody's offers (out of 21 potential ratings). However, it should be noted that Moody's downgraded every single public institution in the State of Illinois in December of 2009, based on the State's financial issues. However, as we will see below, the UI system receives a much smaller percentage of its overall revenue base from the State than other public institutions in Illinois.

## IX. Comparable Institution Analysis

The other public institutions in Illinois all have lower bond ratings than the UI system, as each of these institutions relies on the State of Illinois for a much higher percentage of its total revenues. In the future, we will examine the reserves and debt levels of these comparable institutions.

***Table 16: Information for Public Institutions in Illinois***

	2010 Budget in Dollars	% of Budget from State	Moody's Bond Rating
University Illinois	4,700,000,000	16%	Aa3
Southern Illinois	420,000,000	55%	A2
Western Illinois	123,900,000	48%	A2
Illinois State	363,700,000	23%	A2
Northern Illinois	435,000,000	25%	A2
December 2009: State downgraded from Aa3 to A1;			
All public universities on watch list for potential downgrade			

## X. Conclusions

The UI System is in solid financial condition. This is demonstrated by:

- Strong revenue growth
- Strong level of reserves
- Low level of debt
- Strong ratings by outside credit-rating agencies

The need for furloughs is simply not apparent from the financial information of the UI system and from the UIC budget. This conclusion is based on the audited financial statements as of June 30, 2008, as well as the 2010 budget. The UI system revenue growth in tuition and fees, as well as with other revenue items, will likely more than compensate for any decline in the State appropriation, an appropriation that is less than 20% of total revenues.

The concept of furloughs for academic employees in the UI system should not be accepted by the academic employees of this system.