Financial Report

Prepared for presentation to the Board of Trustees

July 19, 2018
1. FY19 State Appropriations

2. Long Term Capital Plan Preview
A Timely State Budget
Reduces Uncertainty
State Appropriation of $594.6 Million

- Increase of $11.6M or 2%
- $58.9M for designated purposes;
- $535.7M for general funds
- $538.0M from EAF; $56.6M from GRF
- Other state funds of $5.8M
- Level MAP Funding of $401M
- New “Aim High” scholarship program ($25M)
Capital Appropriation

$q116M of Capital Reappropriated from FY2010
  • UIC Chemical Technology Building ($68.0M)
  • UIC Dentistry Building ($16.6M)
  • UIUC Bio-Processing Lab ($11.8M)
  • UIS Public Safety Building ($5.5M)

$q29m Capital Renewal Funds (U of I)

$q75M for higher education deferred maintenance

Funds Allocated to CDB; contingent on bond financing
Funding for Discovery Partners Institute

- $500M capital appropriation for IIN/DPI
- Allocated to DCEO; Bond financing
- Governor’s pension cost shift proposal not enacted
- New 3% rule for calculating SERS obligation
Long-Term (10 year) Capital Plan
Physical Facilities
We shape our buildings
Thereafter they shape us
Four Questions?

What is the total need?

What are the priorities?

How much can we invest?

How would we fund?
Each university performed a needs analysis and compiled a list of projects

Projects categorized by priority

Includes academic, auxiliary, administrative and athletic facilities (physical infrastructure only)
Identified 510 projects

Estimated cost of nearly $6 billion
Need By Location

<table>
<thead>
<tr>
<th>Location</th>
<th>No. Of Projects</th>
<th>Estimated Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chicago</td>
<td>159</td>
<td>$1,587M</td>
</tr>
<tr>
<td>Springfield</td>
<td>84</td>
<td>$345M</td>
</tr>
<tr>
<td>Urbana</td>
<td>267</td>
<td>$4,027M</td>
</tr>
<tr>
<td>TOTAL</td>
<td>510</td>
<td>$5,959M</td>
</tr>
</tbody>
</table>
Major Projects (> $25M) Account For 80% of Cost

No. of Projects

- < $5M: 72
- $5M - $25M: 16
- > $25M: 12

Est. Cost of Projects

- < $5M: 80
- $5M - $25M: 11
- > $25M: 9
332 Priority Projects

$3.2 Billion Estimated Cost

71 Projects Greater than $5 Million ($2.42B)
Purpose of Priority Projects

- Academic 68.5%
- Auxiliary 23.4%
- Health 4.2%
- Athletic 3.2%
- Administrative 0.7%
Type of Projects

- New Building 52.1%
- Renovation 24.4%
- Remodel/Addition 12.8%
- Deferred Maintenance 10.6%
Over $1 Billion of Projects Currently Underway
<table>
<thead>
<tr>
<th></th>
<th>Chicago</th>
<th>Springfield</th>
<th>Urbana</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Planning/ Design</td>
<td>$51.9M</td>
<td>$2.5M</td>
<td>$231.5M</td>
<td>$285.9M</td>
</tr>
<tr>
<td>Under Construction</td>
<td>329.3</td>
<td>2.7</td>
<td>528.6</td>
<td>860.6</td>
</tr>
<tr>
<td>Total</td>
<td>$381.2</td>
<td>$5.2</td>
<td>$760.1</td>
<td>$1,146.5</td>
</tr>
</tbody>
</table>

Values reported in $ millions
There is Significant Need
How Much Can We Invest?
Facility Construction, Repair and Renovation

FY14 – FY17 Total $1.225 Billion

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount ($ Million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY2014</td>
<td>291.02</td>
</tr>
<tr>
<td>FY2015</td>
<td>335.33</td>
</tr>
<tr>
<td>FY2016</td>
<td>307.68</td>
</tr>
<tr>
<td>FY2017</td>
<td>290.77</td>
</tr>
</tbody>
</table>
### How Much Should We Invest in Capital Projects?

<table>
<thead>
<tr>
<th>Indicator</th>
<th>University of Illinois FY2018 (Estimated)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Spending Ratio (X)</td>
<td>1.01</td>
</tr>
<tr>
<td>Capital Investment to Operations (%)</td>
<td>4.69</td>
</tr>
</tbody>
</table>

(1) Purchase of Capital Assets / Depreciation

(2) Purchase of Capital Assets / (Operating Expenses – Depreciation)
## Are We Investing Enough in Capital Projects?

<table>
<thead>
<tr>
<th>Indicator</th>
<th>University of Illinois FY2018</th>
<th>Moody’s Median Aa3</th>
<th>Moody’s Median A1</th>
<th>Median Comprehensive Public</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Spending Ratio (X)</td>
<td>1.0</td>
<td>1.5</td>
<td>1.5</td>
<td>1.4</td>
</tr>
<tr>
<td>Capital Investment to Operations (%)</td>
<td>4.7</td>
<td>10.3</td>
<td>11.3</td>
<td>8.9</td>
</tr>
</tbody>
</table>

(1) Purchase of Capital Assets / Depreciation

(2) Purchase of Capital Assets / (Operating Expenses – Depreciation)
Investment at Median A1 Level

Depreciation Level X 1.5 = $394 Million

Leads to:

Capital Investment / Operations = 6.7%

Still less than A1 median value of 11.3%

Investments of $400 million/yr. consistent with norm
How Would We Fund?
Sources of Funding

- State Appropriations
- Capital Reserves
- Gift Funds
- Facility Maintenance Fee (AFMFA)
- Institutional Funds
Sources of Funding

- Public Private Partnerships (P3)
- Debt Financing
  - AFS/HSFS/COPS/ESCO

Creates Ability to Transfer Future Funds to the Present
Public Private Partnerships

- Utilizes off balance sheet private capital
- Shifts construction risk to private partner
- Uses design-build process to deliver projects
- Captures potential construction cost efficiencies
Implementing the P3 Model

- University contracts with developer

- Developer partners with a 501c3 organization that has been specially approved by IRS as tax-exempt financing conduit

- The developer contracts with architects, engineers and contractors and utilizes Illinois Finance Authority to issue tax-exempt debt

- University contracts to make annual payments

- University may provide upfront equity
$1.38 Billion of Debt
Used to Finance Variety of Projects

Capacity for Debt Financing = Retire Current Debt + Issue New Debt
Current Debt Retirement

Current (2018) Principal Outstanding: $1,382 Million
Principal Pay Off 2018 - 2023: $435 Million
Principal Pay Off 2023 – 2028: $302 Million
Total 10 Year Capacity: $738 Million

Assumes Constant Overall Debt Levels
## Capacity for Additional Debt

<table>
<thead>
<tr>
<th>Indicator</th>
<th>University of Illinois FY2018*</th>
<th>University of Illinois +$400 million</th>
<th>Median** A1</th>
<th>Median** Comprehensive Public</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual Debt Service Coverage</td>
<td>6.5</td>
<td>2.7</td>
<td>2.0</td>
<td>2.6</td>
</tr>
<tr>
<td>Total Debt to Cash Flow (X)</td>
<td>1.9</td>
<td>4.8</td>
<td>5.5</td>
<td>4.7</td>
</tr>
<tr>
<td>Total Debt to Capitalization (%)</td>
<td>17.5</td>
<td>27.0</td>
<td>32.4</td>
<td>26.5</td>
</tr>
<tr>
<td>Monthly Days Cash on Hand</td>
<td>141.5</td>
<td>134.0</td>
<td>149.7</td>
<td>170.6</td>
</tr>
<tr>
<td>Spendable Cash &amp; Investments to Total Debt (X)</td>
<td>2.6</td>
<td>2.0</td>
<td>1.0</td>
<td>1.6</td>
</tr>
</tbody>
</table>

* FY2018 Moody’s Credit Ratios calculated by PFM. Actual results may vary.  
** Moody’s 2017 Public Higher Education
Existing Capacity for Additional Debt

- $400M Additional Debt Capacity
- $435M Recaptured in 5 Years
- Total Capacity $835M
- $644M Available Capacity
- $191M Approved Projects
Next Steps

- Refine Priority Projects for First Five Years
- Create Feasible Funding Plan (including P3 and debt issuance)
- Review Capital Delivery Processes
- Present 5-year Plan to Board