

FY2007 Appropriated Operating & Capital Budget Update

Trustee Ehlert noted that Assistant to the President for Planning and Budget Joe Rives and Budget Director Julie DeWees would address the FY2007 budget information item.

Dr. Rives noted that the actual item is included in the pocket section in the Information section of the Board packet. Background information is provided to remind the Board of the process for developing a fiscal year budget. It begins with Trustee approval of recommendations for operating and capital increases. That recommendation is then presented to the Illinois Board of Higher Education in December. IBHE's recommendations are followed by the House and Senate recommendations and finally by the Governor's budget. The last step, of course, is action by the General Assembly. At this time we are still pending the Illinois General Assembly's action on the FY2007 budget.

IBHE recommended a 1.1 percent operating increase. The Governor's Budget recommends a 1.5 percent increase. In either case, this is good news. For the last four years, Illinois has been a lag state. As the nation comes out of recession, the return on investment to higher education in Illinois typically lags behind. To have a 1.1 to 1.5 percent increase is good news because that is showing that Illinois is coming out of recession—last in and last out. Only Illinois and West Virginia had declines to higher education last year. Weas

FY2007 Appropriated Operating & Capital Budget Update (Continued)

At the House Appropriation Committee hearings in Springfield I was asked if the university presidents expected an across-the-board increase. I indicated that I did not think that was a good state-wide policy. I believe there should be variability among institutions based on the work they are doing and the needs at each institution.

Trustee Epperly asked about the \$1.6 million for maintenance backlog. What are those items?

Vice President Thompson indicated that we have a plan, and we update it each year, for maintenance projects. We have not had any capital renewal funding for at least three years. On that list are elevator replacements, heating plant upgrades, continual work on steam lines. We

Budget and Financial Data for the Period Ended December 31, 2005 (Continued)

Vice President Thompson added that when we look at December we are about half-way through the fiscal year. We feel comfortable with the manner in which the various departments are spending at this point in the fiscal year.

Trustee Epperly said that it looks like the institution is actually doing better in terms of spending—you are not just on the mark, you are doing better. That is a compliment to the institution as a whole. The revenue is up from numerous different things; your expenses are up no where near the amount the revenue is up. The percentage of expenditures for the first six months is down substantially. That is outstanding management by somebody. Especially since the utilities budget is higher than estimated during the first six months.

Joe Rives noted that the Board has charged us with conservative fiscal management.

Vice President Thompson stated that we knew that we would be dealing with increased utilities at the beginning of this fiscal year. Everybody has worked together realizing that we may need extra money to cover the utility costs.

President Goldfarb added that without any new dollars for deferred maintenance, for new program initiatives, for salary increases or equity issues, the only way we can address some of these issues is to be conservative and save some of the funds. That has become one of our goals as we operate. There is a backlog of needs on campus, and, even with a 1.5 percent increase, we need to conserve funds and allocate the savings to a higher priority.

Trustee Ehlert asked about the Group Insurance amount expended in FY2006 noting it is much larger than in FY2005 at this same time.

Vice President Thompson said that is due to a billing delay. The state bills us for that and it is the same amount each year--\$1.9 million yearly. We can only pay the state when they bill us. If they do not get the bill to us during that quarter, then you will see the next quarter where we have paid two bills. That is just due to the timeliness in the state billing us. Whenever we receive the bill from the state that is when we expend the money.

President Goldfarb explained that a few years ago, around 2002, we became responsible for part of the cost of group insurance for our employees. Rather than give us a fiscal reduction the state asked us to pay part of the bill for employee group insurance. It is the university's share of paying for the group and health insurance for our faculty and staff. What you are seeing is the expenditure to date during this time period. It is the same amount each year. The difference from last year is just based on the state's billing practices.

Trustee Houston noted for new trustees that until 2002, that approximately \$2 million a year was something the state absorbed within the state's budget. In 2002, while they did not give us a budget reduction, they charged each of the state universities for their own health insurance—in our case that has been an approximate \$2 million reduction in actual dollars to spend. We pay that out in real dollars now.

Report on Investment Activities

Vice President Thompson and Director of Business Services Ron Ward briefed the Board on investment activities.

Ron Ward indicated that interest income totals for second quarter were approximately \$500,000 which compared to about \$360,000 earned for the first quarter with the fair market value of the portfolio to about \$57 million. That is reflecting the COPS issuance of about \$10 million that came in during December. This quarter is usually the low point for our market balance. Due to the COPS issuance, we are up. Our benchmark is the 90-day T-Bill. That has gone from 3.38 percent at the end of last quarter to 3.93 percent this quarter, and our interest income is reflecting the rise in interest rates.

Trustee Ehlert asked Mr. Ward to briefly review for the new trustees the rules of investment the

Report on Contributions (Continued)

McDonough Academic Development endowment. I know the Dean of the College of Business and Technology is delighted with this gift.

In response to a question from Trustee Thomas concerning private contributions for the baseball stadium renovation, Vice President Johnson said he would get that information.

Trustee Houston asked about the progress in hiring development officers.

Vice President Hendricks noted that we plan to hire a total of five. That would be one officer for each of the four colleges and then another for the Malpass Library, International Studies Program and the Centennial Honors College. Since those three entities were involved in searches for Directors, they decided to defer their search for a development officer. We implemented a “bundled” search for the remaining four officers and were able to hire a development director for the College of Education and Human Services. She is currently in that position at Knox College. The second appointment is presently the commanding officer of our ROTC program but will be stepping down from that and staying here with his family to become the new development officer for the College of Fine Arts. We are delighted with both of these appointments. These searches are challenges because we are looking for just the right person. The other two colleges are extending their search. The two new hires will report on July 1. Things are going well and we will continue to pursue the other two appointments. We hope to have four of the five in place by July 1, but it is a long process and takes a lot of time to find just the right person.

In response to a question about the salary range for these new officers, Vice President Hendricks noted they are starting between \$40,000 - \$50,000 depending upon capability and experience. These are five individuals who will have basically the same portfolio in terms of their job expectations and job skills. The salary of each officer is not tied to the size of the college.

Trustee Nelson asked if the contributions report could include a comparison from the prior year. It is always helpful to see where we have been in evaluating this information.

Vice President Hendricks stated he would work on redesigning the report to supply that for trustees. We are running slightly ahead on the Annual Fund. We are \$70,000 to \$100,000 ahead of last year’s total at this same time. But that is not necessarily significant because from year-to-year the pace of this solicitation varies, and, therefore, the flow of income varies as well. We tend to be tracking 10 to 12 percent above last year. The young people are doing a more efficient job in calling and contacting our donors. The average gift that is being made is about \$7 higher than last year and that is quite significant. The more troubling trend is that there are fewer gifts. Because the average gift is larger, that compensates for the slight decline in the number of gifts. That is a national trend and we simply have to work harder to get the job done. On the other gift side, we are tracking to approach a record year. We have a number of gifts that we anticipate, and, if they all come in, this will be the record year.

General Comments by Vice Presidents

Vice President Hendricks reported there is a lot going on in the Advancement and Public Services area. We have tendered an offer to a candidate for the Director of the Annual Fund. He has not yet responded formally. He has responded verbally in a positive way. He would bring an enormous breadth of experience to our advancement program and we would probably increase his job description to include some corporate and foundation work as well.

General Comments by Vice Presidents (Continued)

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You all know about the new DPS building. That has taken a lot of time to plan, but it has been very exciting and rewarding to many of us to get to this point. Physical Plant is extraordinarily busy at this time of the year with all of the activity happening now and going to be happening on campus in the near future. We will see a real vibrancy as these construction projects start to emerge. The staff there is a little stressed, but they are also excited to see the progress that is being made on campus.

We have been working on positive time reporting. We also are looking at salary equity information for our employees. Bringing it back to what it means to be on a campus, we had the opportunity yesterday to thank two of our police officers. We had two officers last Thursday who answered a call to a construction site in Tillman Hall. We had an outside contractor who had just reported for work and collapsed. They literally brought him back to life. He is going to make it thanks to Officer Robertson and Officer Lytle and the fact that a few years ago Vice President Johnson and I invested some funds in AED's all over campus. The officer was talking about watching the AED monitor and how the man's heartbeat came back. We are reminded again of the work the wonderful folks on this campus do in all areas every day.

Trustee Epperly asked if the University has a catastrophe plan in place.

Vice President Thompson replied that we do have a catastrophe plan in place and it is reviewed and updated regularly. We think in terms of a tornado, but we also have a computer disaster recovery plan in place. Student Services feeds into that plan and it is reviewed more than annually by people. If something comes up, we look at the plan and assess how we can make it better to address whatever may happen. We try to develop that plan so there is a frame work and structure that works so we can address whatever situation comes up.

In response to a question about the institution's ability to respond to an emergency like the bird flu, Vice President Johnson said that Beu Health Center works very closely with the community health professionals. I'm sure they have had some discussions about this topic. We are currently working with the Red Cross and others relative to other disasters and how the institution might be involved in helping the community. With our large food service operation, for example, we would be able to provide food service during an emergency if needed.

President Goldfarb added that we do have a succession order in place. The Vice Presidents and others meet regularly to make certain that we have that basic structure in place so that we can respond to emergency situations. We do review those plans regularly.

Motion to Adjourn

There being no further business to come before the Finance Committee, a motion was made and duly processed to adjourn the meeting at 9:35 A.M.

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