

August 31, 2012

**Members of the Board Finance Committee**

Marquita Wiley, Chair  
Mark Hinrichs  
Donna Manering  
John Simmons

Dear Members of the Finance Committee:

There will be a meeting of the Finance Committee immediately following the Audit Committee on Thursday, September 13, 2012, in the Conference Center, 2<sup>nd</sup> Floor, of the Delyte W. Morris University Center, Southern Illinois University Edwardsville, Edwardsville, IL. The following items have been suggested for the agenda:

1. Approval of Minutes of the July 12, 2012, meeting (enclosure).
2. Notice of Proposed Alternate Tuition Rate: High Achievers Program, SIUC [Addition to 4 Policies of the Board Appendix A 1, Note 1] (Board Agenda Item H).
3. Operating and Capital RAMP Guidelines and Executive Summary: Resource Allocation and Management Program (RAMP) Planning, Operations, and Capital Budget Request, Fiscal Year 2014 (joint with Architecture and Design & Academic Matters Committees) (Board Agenda Item L).
4. Salary Increase Plan for Fiscal Year 2013 (Board Agenda Item M).
5. Approval of Fiscal Year 2013 Operating and Capital Budgets (joint with Architecture and Design Committee) (Board Agenda Item N).
6. Approval of Purchase: Voice and Data Support and Maintenance, SIUE (Board Agenda Item W).
7. Information Item: "Series 2012B Housing and Auxiliary Facilities System Revenue Bonds" (enclosure).

Finance Committee

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8. Associate General Counsel Appointment, General Counsel.
9. Other business.

Enclosed is the FY 2012 Quarterly Investment Report.

Yours truly,

Duane Stucky  
Senior Vice President for Financial and Administrative Affairs  
and Board Treasurer

DS/lap

Enclosures

cc: Jesse Cler  
David Hamilton  
Roger Herrin

Ed Hightower  
Don Lowery  
Glenn Poshard

Rita Cheng  
Julie Furst-Bowe  
Other Interested Parties

## BOARD OF TRUSTEES

### SOUTHERN ILLINOIS UNIVERSITY

#### Minutes of the Finance Committee Meeting

July 12, 2012

The Finance Committee met following the Audit Committee in the Auditorium, 801 N. Rutledge, Southern Illinois University School of Medicine, Springfield, IL. Present were: Marquita Wiley (Chair), Mark Hinrichs, Donna Manering and John Simmons. Other Board members present were: Jesse Cler, David Hamilton, Roger Herrin, Ed Hightower and Don Lowery. Executive Officers present were: President Glenn Poshard; Chancellor Rita Cheng, SIUC; Chancellor Julie Furst-Bowe, SIUE; General Counsel Jeffrey McLellan; Vice President for Academic Affairs Paul Sarvela; and Senior Vice President for Financial and Administrative Affairs and Board Treasurer Duane Stucky.

#### Minutes

Trustee Simmons recommended approval of the minutes of the April 26, May 10, and June 20, 2012, meetings as submitted. The motion was seconded by Trustee Hinrichs and passed by the Committee.

#### Approval of Purchase: Utility System for Electrical Distribution System, SIUE (Board Agenda Item O).

Senior Vice President Stucky stated that this matter has been removed from the agenda. Staff will meet with Trustee Hinrichs and provide additional analysis. The matter will be resubmitted for the September Board agenda.

#### Approval of Salary of Dean, Library Affairs, SIUC.

Chancellor Cheng reviewed the salary approval request for Dr. Anne Cooper Moore.

Trustee Hinrichs recommended approval of the salary. The motion was seconded by Trustee Simmons and was passed unanimously by the Finance Committee.

#### Approval of Purchase Agreement: Fountain, Beverage, and Convenience Snacks at Carbondale Campus, SIUC (Board Agenda Item M).

#### Approval of Purchase: TV Bulk Programming for University Housing-Residence Halls, Carbondale Campus, SIUC (Board Agenda Item N).

Chancellor Cheng reviewed the purchase requests.

In response to a question raised by Trustee Manering, Chancellor Cheng confirmed that SIUC does receive incentives for the beverage/snack contract for a ten-year commitment. Trustee Manering expressed her concern with the length of the contract due to nutritional issues. Chancellor Cheng responded that diet and nutritional items are available. She reviewed some of the incentives and profits that will support green and

sustainability initiatives on campus. Trustee Manering then voiced her support for the contract.

Trustee Hinrichs recommended approval of Agenda Item M and that it be placed on the Board's agenda. The motion was duly seconded by Trustee Manering and was passed by the Finance Committee.

Trustee Hinrichs recommended approval of Agenda Item N and that it be placed on the Board's agenda. The motion was duly seconded by Trustee Simmons and was passed by the Finance Committee.

**Approval of Purchase: Gasoline Purchase, SIUE (Board Agenda Item P).**

**Approval of Purchase: Head Start Bus Service, SIUE (Board Agenda Item Q).**

**Approval of Purchase: National Corn to Ethanol Research Center, SIUE (Board Agenda Item R).**

**Approval of Purchase: Trash and Recycling Removal Services, SIUE (Board Agenda Item S).**

Chancellor Furst-Bowe reviewed the purchase requests.

In response to a question by Trustee Lowery on fluctuating rates for fuel costs, Vice Chancellor for Administration Kenn Neher explained that prices are adjusted to market rates. Trustee Simmons recommended approval of Agenda Item P and that it be placed on the Board's agenda. The motion was duly seconded by Trustee Hinrichs and was passed by the Finance Committee.

Trustee Manering received clarification from Vice Chancellor Neher regarding Head Start grant monies. Trustee Simmons recommended approval of Agenda Item Q and that it be placed on the Board's agenda. The motion was duly seconded by Trustee Manering and was passed by the Finance Committee.

Trustee Simmons recommended approval of Agenda Item R and that it be placed on the Board's agenda. The motion was duly seconded by Trustee Wiley and was passed by the Finance Committee.

Trustee Manering recommended approval of Agenda Item S and that it be placed on the Board's agenda. The motion was duly seconded by Trustee Hinrichs and was passed by the Finance Committee.

**Other Business.**

There being no further business, the meeting was adjourned.

DS/lap

INFORMATION ITEM:  
“SERIES 2012B HOUSING AND AUXILIARY FACILITIES  
SYSTEM REVENUE BONDS”

Summary

A board matter requesting authorization to issue System Revenue Bonds to fund the Carbondale Recreation Center HVAC and Energy Conservation project, to reimburse the Carbondale Housing Office for demolition of the Triads, and to refund a portion of the Series 2003A and Series 2004A Bonds is expected to be presented to the Board at the November 8, 2012, meeting.

Rationale for Adoption

At its September 8, 2011, meeting, the Board approved the HVAC and Energy Conservation project at the Carbondale campus for a total estimated cost of \$4,000,000. Approval by the Illinois Board of Higher Education was received on December 13, 2011. Debt service for this project is to be repaid using energy savings, student fees and other funds available to the Student Recreation Center. Bids for the project are scheduled to open in October 2012.

Preliminary estimated energy savings from the HVAC and Energy Conservation project indicate that the project is eligible for a federal tax subsidy under the Qualified Energy Conservation Bonds (QECB) program. The Board Treasurer’s Office coordinated with the Illinois Finance Authority for the transfer of their QECB federal tax subsidy allocation to the University. At its December 13, 2011, meeting, the Illinois Finance Authority approved the transfer of the subsidy allocation in an aggregate principal amount not to exceed \$6,000,000. If the HVAC and Energy Conservation Project generates 20% energy savings, the University will qualify to receive the QECB interest subsidy payment from the Internal Revenue Service. It is projected that the QECB interest subsidy would reduce the University’s total interest expense on the project by \$1.2 million.

At its March 22, 2012, meeting, the Board approved the Demolition of Allen, Boomer and Wright Halls, commonly referred to as the Triads, for a total estimated cost of \$5,500,000. The demolition of these buildings is necessary for the eventual construction of new student residence halls at the site location. Bids for the project came in lower than projected, and the revised estimated cost is \$3,500,000. Debt service for the project is to be repaid using SIUC Housing Operation Funds.

A preliminary review, based on current market conditions, indicates that it may be desirable to refund all or a portion of Housing and Auxiliary Facilities System Revenue Bonds Series 2003A and Series 2004A. Funding for the

refunding will come from the sale of additional new Housing and Auxiliary Facilities System Revenue Bonds.

At this time, it is anticipated that all \$6,435,000 of the outstanding Series 2003A bonds will be refunded. Based on market conditions as of June 27, 2012, the present value savings of this refunding would be approximately \$551,332 or 8.57%, and the present value savings will begin to decline after the April 1, 2013, call date for these bonds.

In addition, it is anticipated that some of the \$33 million outstanding Series 2004A bonds may be refunded. Based on market conditions as of June 27, 2012, it is anticipated that \$12,880,000 of the Series 2004A bonds would be refunded with the Series 2012B bonds. The present value savings from refunding \$12,880,000 of the Series 2004A bonds would be \$835,412 or 6.49%. This refunding percentage declines to 5.24% if all \$33 million of the Series 2004A bonds are refunded. This decline in present value savings is due to an increase of the negative arbitrage generated in the escrow account. The Series 2004A bonds have a call date of April 1, 2014.

The Board Treasurer's Office will continue to work with our Financial Advisor to monitor the market conditions and analyze various refunding options to determine how much of the Series 2003A and Series 2004A bonds should be refunded with the upcoming Series 2012B bonds.

The sale of Housing and Auxiliary Facilities System Revenue Bonds is estimated to be \$29 million, with a maximum of \$52 million in the unlikely event that all of the Series 2004A bonds are refunded. These amounts include a 10% contingency which would be more than sufficient to cover the bond issuance costs and any unexpected increase in the project construction cost.

	<b><u>Probable Par Issued</u></b>	<b><u>Maximum Par Issued</u></b>
HVAC and Energy Conservation Project	\$ 4,000,000	\$ 4,000,000
Demolition of Triads	\$ 3,500,000	\$ 3,500,000
Refunding all of Series 2003A bonds	\$ 6,435,000	\$ 6,435,000
Refunding of Series 2004A bonds	<u>\$12,880,000</u>	<u>\$33,035,000</u>
Sub-Total	\$26,815,000	\$46,970,000
10% Contingency	<u>\$ 2,681,500</u>	<u>\$ 4,697,000</u>
Total	<u>\$29,496,500</u>	<u>\$51,667,000</u>

Members of the financing team, including Bond Counsel, Financial Advisor, and Underwriting Firm, were previously selected in accordance with the State Procurement Code.



# **Southern Illinois University**

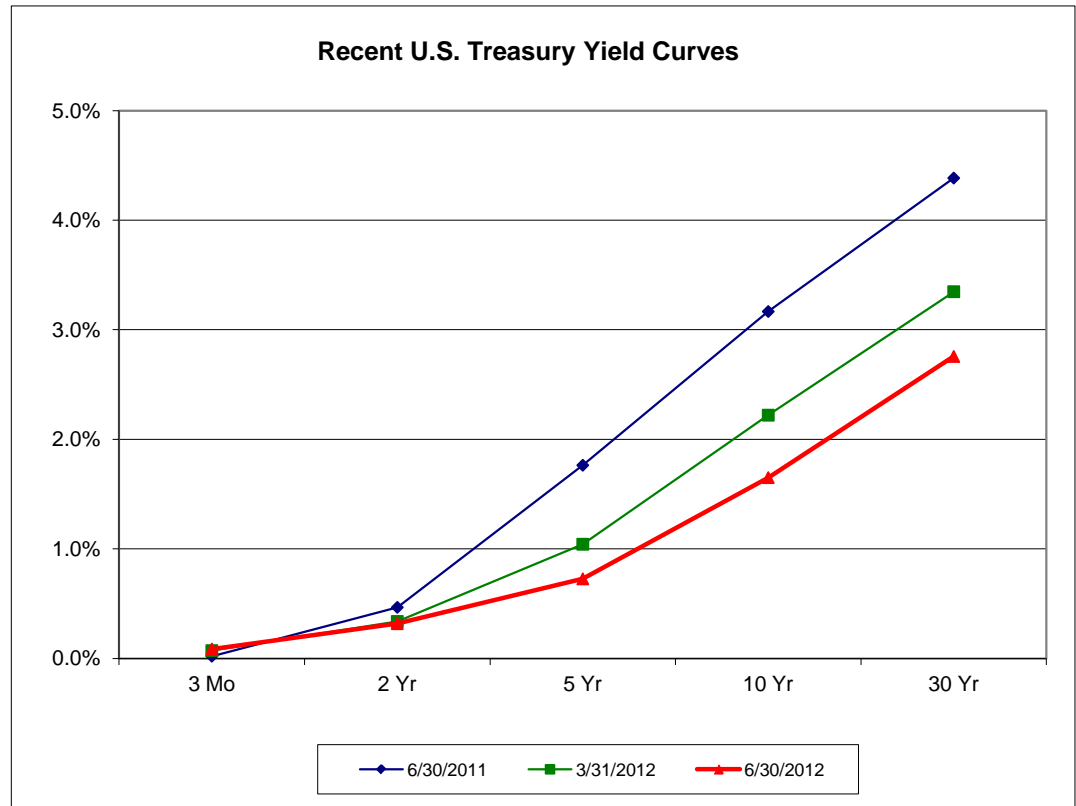
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Quarterly Investment Report  
June 30, 2012

## Performance Analysis

Treasury yields declined significantly during the quarter ending June 30, 2012, particularly during the first two months. The yields on the 5, 10 and 30-year Treasuries dropped 32, 57, and 59 basis points, respectively, for the quarter, while the 3 Mo. & 2-year Treasuries were virtually unchanged. Treasury yields are also substantially lower from where they stood a year ago on 6/30/2011 and although the yield curve has flattened some over the past year, it still maintains an upward slope characteristic of the post-credit crisis period. Treasury securities closed the fiscal year quite close to record low yield levels, as continued concerns in Europe and a stuttering domestic economy are increasing the demand for safe haven securities like Treasuries.

The significant decline in interest rates during the 2nd Quarter of 2012, particularly in April and May, created capital gains on the longer dated holdings in SIU's portfolio, enhancing the quarter's total return. For the quarter ending 6/30/2012, SIU's combined portfolio returned 0.47%, up from a slight loss of -0.01% for the preceding quarter. Although higher, this total return of 0.47% is somewhat lower than the 0.54% return on the weighted benchmark portfolio. The Western Asset Management Company's ("WAMCo") Intermediate Fund posted a return of 1.23% for the quarter (4.92% annualized), which consisted of 0.43% in current income return (after fees) and 0.80% in net capital gain. Measurable capital gains in April and May, due to falling interest rates, more than offset a modest capital loss in June, while the current return was consistent with the 0.44% current return of the preceding quarter. WAMCo's 1.23% quarterly return underperformed the 1.45% quarterly benchmark return (5.93% annualized) of the Barclays Capital U.S. Govt. Intermediate Index. This benchmark return consisted of 0.52% of current income and 0.93% of capital gain. SIU posted modest quarterly returns of 0.02% on the Illinois Funds and 0.04% on the Bank of Edwardsville Money Market Account. These returns are slightly above the money market benchmark return of 0.00% in this very low short-term interest rate environment. These quarterly returns equate to annual returns of 0.09% and 0.15%, respectively, or a combined annualized return of approximately 9.7 basis points on all of SIU's liquid funds.





# **Operating Investments**

## Operating Investment Position

### Investment Balance

#### Market Value (\$ in millions)

	6/30/2011	9/30/2011	12/31/2011	3/31/2012	6/30/2012
State Treasury Fund (Money Market Mutual Fund)	\$ 90.1	\$ 153.4	\$ 178.9	\$ 172.5	\$ 115.7
The Bank of Edwardsville (Money Market Account)*	-	-	-	-	25.0
Subtotal Cash & Cash Equivalents	\$ 90.1	\$ 153.4	\$ 178.9	\$ 172.5	\$ 140.7
Western Asset - Intermediate Portfolio	100.1	102.9	103.5	103.4	104.7
Total Portfolio	\$ 190.2	\$ 256.3	\$ 282.4	\$ 275.9	\$ 245.4
Due from State	98.7	95.8	70.0	110.0	65.6
Total Portfolio including Due from State	\$ 288.9	\$ 352.1	\$ 352.4	\$ 385.9	\$ 311.0

#### Market Value Change (\$ in millions)

	6/30/2011	9/30/2011	12/31/2011	3/31/2012	6/30/2012
Beginning Market Value	\$ 248.4	\$ 190.2	\$ 256.3	\$ 282.4	\$ 275.9
Deposits (Withdrawals)	(60.1)	63.4	25.5	(6.5)	(31.8)
Interest Income, Net of Fees	0.5	0.4	0.5	0.5	0.5
Realized Gain (Loss)	0.1	0.1	0.0	0.1	0.3
Unrealized Gain (Loss)	1.3	2.2	0.1	(0.6)	0.5
Ending Market Value	\$ 190.2	\$ 256.3	\$ 282.4	\$ 275.9	\$ 245.4

\* Transferred \$25 million into account on 4/12/12

## Operating Performance

### Quarterly Performance

	6/30/2011	9/30/2011	12/31/2011	3/31/2012	6/30/2012
<b>State Treasury Fund (Money Market Mutual Fund)</b>	0.01%	0.01%	0.02%	0.02%	0.02%
Benchmark: Ready Assets Prime MMF	0.00%	0.00%	0.00%	0.00%	0.00%
<b>The Bank of Edwardsville (Money Market Account)*</b>	N/A	N/A	N/A	N/A	0.04%
Benchmark: Ready Assets Prime MMF	N/A	N/A	N/A	N/A	0.00%
<b>Western Asset Intermediate Portfolio</b>	1.94%	2.83%	0.58%	-0.09%	1.23%
Benchmark: Barclays Capital Int U.S. Govt	2.08%	3.19%	0.69%	-0.38%	1.45%
<b>Total Portfolio</b>	0.83%	1.23%	0.24%	-0.01%	0.47%
Total Benchmark	0.86%	1.50%	0.26%	-0.12%	0.54%

\* Transferred \$25 million into account on 4/12/12

### Historical Annual Performance

	FY 2008	FY2009	FY2010	FY2011	FY2012
<b>Total Portfolio</b>	5.95%	3.80%	3.01%	1.26%	1.74%
Benchmark	6.40%	3.51%	2.97%	1.08%	1.85%

## Asset Allocation

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**Asset Allocation**  
**As of June 30, 2012**

	<b>Market Value</b> (in millions)	<b>Allocation</b> <b>Percentage</b>	<b>Target Asset</b> <b>Allocation</b> (in millions)
State Treasury Fund (Money Market Mutual Fund)	\$115.7		
TheBANK of Edwardsville (Money Market Account)	25.0		
Subtotal Cash & Cash Equivalent	\$140.7	57%	\$40 Minimum
Western Asset - Intermediate Term Portfolio	104.7	43%	\$65-115
Total Portfolio	\$245.4		

## Fees

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### Investment Manager Fees\*

	<b>Basis Points</b>					
	<b>As of 3/31/12</b>	<b>6/30/2011</b>	<b>9/30/2011</b>	<b>12/31/2011</b>	<b>3/31/2012</b>	<b>Total</b>
State Treasury Fund (Money Market Mutual Fund)	8.3	\$26,772	\$25,592	\$32,500	\$45,752	\$130,616
Western Asset - Intermediate Term Portfolio	25.0	\$62,392	\$63,214	\$63,464	\$63,678	\$252,748
Total Investment Manager Fees		\$89,164	\$88,806	\$95,964	\$109,430	\$383,364

### Custody Bank Fees\*

	<b>6/30/2011</b>	<b>9/30/2011</b>	<b>12/31/2011</b>	<b>3/31/2012</b>	<b>Total</b>
JP Morgan Chase	\$4,821	\$4,875	\$4,910	\$5,163	\$19,769

\* Fees for the current quarter were not available at the time this report was prepared. All fees are reflected on an accrual basis.

# **Capital Investments**

## Capital Investments Position

### Investment Balance

#### Market Value (\$ in millions)

	6/30/2011	9/30/2011	12/31/2011	3/31/2012	6/30/2012
<b>Housing &amp; Auxiliary Facilities System</b>					
Construction Proceeds	3.7	0.5	0.3	27.7	24.8
Interest Sinking Fund	7.7	13.7	10.7	21.0	7.6
Debt Service Reserve	9.2	9.2	9.2	10.0	8.4
Total HAFS	<u>20.6</u>	<u>23.4</u>	<u>20.2</u>	<u>58.7</u>	<u>40.8</u>
<b>Medical Facilities System</b>					
Construction Proceeds	0.0	0.0	0.0	0.0	0.0
Interest Sinking Fund	0.4	0.9	0.9	1.3	0.4
Debt Service Reserve	0.0	0.0	0.0	0.0	0.0
Total MFS	<u>0.4</u>	<u>0.9</u>	<u>0.9</u>	<u>1.3</u>	<u>0.4</u>
<b>Certificates of Participation</b>					
Construction Proceeds	0.0	0.0	0.0	0.0	0.0
Interest Sinking Fund	1.0	0.5	0.5	0.5	0.5
Debt Service Reserve	0.0	0.0	0.0	0.0	0.0
Total COPS	<u>1.0</u>	<u>0.5</u>	<u>0.5</u>	<u>0.5</u>	<u>0.5</u>
Total Capital Investment Portfolio	\$ 22.0	\$ 24.8	\$ 21.6	\$ 60.5	\$ 41.7

Capital Investments are managed internally and are invested in high quality, low risk government securities. The investment maturity, rate of return and type are limited by covenants in the debt financing documents.