President's Recommended Budget

For the Fiscal Year Ending June 30, 2011

Presented to the Finance Committee on April 19, 2010

THE UNIVERSITY OF TOLEDO

1872

MEMO

To: Finance Committee of the Board of Trustees
The University of Toledo

From: Scott L. Scarborough, Ph.D., CPA
Sr. Vice President for Finance & Administration

Date: April 19, 2010

Re: President's Recommended Operating Budget – FY 2011

The President's Recommended Operating Budget for the fiscal year ending June 30, 2011 includes the following:

	TAB
Combined Academic and Clinical Enterprise Operating Budget – FY 2011	1
Academic Enterprise Operating Budget – FY 2011	2
Clinical Enterprise Operating Budget – FY 2011	3
Listing of Key Budget Assumptions – FY 2011	4
Tuition Rates, Fees, and Student Housing Rates – FY 2011	5
Supplemental Readings	6

"Moody's Annual Sector Outlook for State Governments"
"Moody's Weekly Credit Outlook – Approval of Healthcare Reform"
"Moody's Sector Comment – Increased Student Aid"

The President's Recommended Budget for FY 2011 is the end result of a four-month budget process that began in mid-December 2009. The recommended budget achieves the following:

- Academic and clinical budgets that are cash flow positive.
- 0% operating margin for the academic enterprise.
- 3% operating margin for the clinical enterprise.
- Capital reinvestment that funds 90% of depreciation expense for the combined academic and clinical enterprises.
- 3% salary increase for union faculty and staff per existing collective bargaining agreements.

- 3% salary increase for non-union faculty.
- 2% salary expense for staff working in the academic enterprise making less than $80,000 annually.
- 1% salary increase for employees working in the clinical enterprise.
- 0% salary increase for management and non-hospital staff making more than $80,000 annually.
- Faculty start-up commitments totaling $7.6 million ($4.7 million for operating expenses and $2.9 million for capital expenditures).
- $5 million for a strategic faculty hiring plan.
- Corrects all known structural budget deficits.
- Continues to make strategic investments in the School for Solar and Advanced Renewable Energy and the Scott Park Campus of Energy and Innovation.

The table below summarizes the economic impact of decisions that were necessary to balance the FY 2011 budget for the academic enterprise:

Increase tuition and fees (3.5% undergraduate)	$11.5 M
Increase financial aid	-4.3
Increase salaries and benefits	-10.5
Fund faculty start-up commitments - operating	-4.7
Fund strategic faculty hiring plan	-5.0
Cuts to existing budgets / revenue enhancements	13.0
Net impact to sustain 0% operating margin	**$0.0 M**

As approximately 70% of the expenses of the academic enterprise are employee-related costs (salaries and benefits), it was necessary to eliminate some budgeted positions and layoff some existing employees to balance the budget.

Most importantly, the President's Recommended Budget for FY 2011 begins to prepare the university for what is likely to be a difficult FY 2012. Specifically, FY 2011 budget deliberations identified the following issues that will be explored during FY 2011 in hopes of achieving cost savings in FY 2012:

- Benchmarking of support staff.
- VP realignment.
- Outsourcing.
- Faculty workload.
- Reorganization of colleges and departments.
- Elimination of unproductive centers, institutes, and programs.
- Virtualization of classrooms, labs, learning resources, and student services.
- Student community service as a condition of institutional financial aid.
- Furloughs.

Finally, I encourage you to read the supplemental material provided under Tab 6. In these documents, Moody's discusses the long-term credit impact of national healthcare reform, increases in federal financial aid, and the outlook for state governments. Excerpts from these documents are provided below:

FEBRUARY 2010

U.S. PUBLIC FINANCE

MOODY'S
INVESTORS SERVICE

OUTLOOK

Annual Sector Outlook for U.S. State Governments

2010 Sector Outlook is Negative
Lingering Effects of Sluggish Economy Keep Pressure on Government Budgets
Outlook for Mass Transit Sector—Dependent on Sales Taxes—is also Negative

Table of Contents:

MARCH 2010

U.S. PUBLIC FINANCE

MOODY'S
INVESTORS SERVICE

SECTOR COMMENT

Increased Student Aid is Credit Positive for U.S. Colleges and Universities

Extracted from "Moody's Weekly Credit Outlook", dated March 29, 2010.

Long term, we believe healthcare reform will be neutral to modestly positive for for-profit health systems, mildly credit-negative for pharmaceuticals and medical device manufacturers, and negative for not-for-profit hospitals.

We expect both for-profit and not-for-profit hospitals and health systems to benefit from reduced charity care write-offs and bad debt expense as the number of uninsured in the U.S. should decrease significantly. However, as governmental auditing and oversight of revenue are tightened, hospitals will be pressured to operate more efficiently, forcing spending cuts and mergers among smaller hospitals after 2014 and implementation of many key provisions.

I look forward to discussing the President's Recommended Budget with you at the April 19 Finance Committee meeting.

FY 2011 Operating Budget

Combined Academic Enterprise and Clinical Enterprise (UTMC)

The University of Toledo - Combined Academic Enterprise & Medical Center / UTMAC

Budgeted Income Statement

For the Fiscal Year Ending June 30, 2011

Line #		FY 2010 Projected	FY 2011 Budget	Increase/ (Decrease)	% Change
	Operating Revenue				
1	Student Tuition and Fees	$ 259,082,705	$ 277,073,375	$ 17,990,670	6.9%
2	Scholarships & Other Student Financial Aid	57,551,955	60,609,311	3,057,356	5.3%
3	Net Tuition & Fees	201,530,750	216,464,064	14,933,314	7.4%
4	State Share of Instruction / Other Appropriations	131,762,337	130,993,480	(768,857)	-0.6%
5	Net Patient Revenue	251,167,933	270,310,914	19,142,981	7.6%
6	Gifts, Grants & Contracts	95,126,447	94,614,447	(512,000)	-0.5%
7	Sales & Services	80,050,918	80,447,551	396,633	0.5%
8	Other Revenue	18,266,311	19,425,552	1,159,241	6.3%
9	**Total Operating Revenue**	**777,904,696**	**812,256,008**	**34,351,312**	**4.4%**
	Operating Expenses				
10	Salaries	312,657,153	324,886,911	12,229,758	3.9%
11	Benefits	109,084,875	113,891,549	4,806,675	4.4%
12	Outside Purchased Services	31,498,885	33,044,697	1,545,812	4.9%
13	Supplies	89,334,327	97,033,659	7,699,332	8.6%
14	Seminars & Travel	6,749,605	7,601,990	852,385	12.6%
15	Information & Communication	12,365,497	13,342,364	976,867	7.9%
16	Occupancy	22,033,311	20,069,721	(1,963,590)	-8.9%
17	Provision for Doubtful Accounts	18,507,361	18,947,688	440,326	2.4%
18	Pooled Designated and Other Funds	16,546,270	13,515,468	(3,030,802)	-18.3%
19	Insurance	1,385,328	1,385,548	220	0.0%
20	Reimbursement from Hospital for Central Services	0	0	0	
21	Cost of Goods Sold - Auxiliary Services	24,573,630	24,706,441	132,811	0.5%
22	Leases	441,115	441,115	0	0.0%
23	Miscellaneous	4,857,521	11,850,147	6,992,625	144.0%
24	Depreciation	43,498,333	44,024,164	525,831	1.2%
25	Grants & Contracts	76,512,348	78,957,126	2,444,778	3.2%
26	**Total Operating Expenses**	**770,045,560**	**803,698,588**	**33,653,028**	**4.4%**
27	**Operating Income**	**7,859,136**	**8,557,421**	**698,284**	**8.9%**
28	**Operating Margin**	**1.0%**	**1.1%**	**0.1%**	**9.9%**
29	Investment Income	9,297,723	480,000	(8,817,723)	-94.8%
30	Interest Expense	(17,244,542)	(16,868,116)	376,426	-2.2%
31	Unrealized Gans/(Losses) on Investments	5,971,417	0	(5,971,417)	-100.0%
32	Interest Rate Swaps (new accounting treatment)	4,100,052	0	(3,592,067)	-100.0%
33	**Net Income**	**$ 9,983,786**	**$ (7,830,695)**	**$ (17,306,497)**	**-178.4%**

Note: Budgeted net loss is offset by an $8.8 million cash transfer from the Hospital to the College of Medicine and an estimated $15.5 million of state capital appropriations.

Explanations of Unusual Line Items – Combined

Line #

1 **Student Tuition & Fees** - This line item is increasing primarily due to projected enrollment growth (new and returning students) and increases in tuition rates and various student fees.

2 **Scholarships & Other Student Financial Aid** – This line item is increasing primarily due to undergraduate enrollment growth (new and returning students) and increases in need-based financial aid to assist low income students.

4 **State Share of Instruction / Other Appropriations** – This line item is decreasing due to a scheduled decrease in state share of instruction.

5 **Net Patient Revenue –** See page 15 for an explanation of the budgeted increase in Net Patient Revenue.

7 **Sales & Services** – This line item includes revenues from auxiliary enterprises such as room and board charges, parking, athletic ticket sales, patent royalties, the American Language Institute (ALI), etc. This line item is increasing primarily due to projected increases in patent royalties and ALI student enrollment.

8 **Other Revenues** – This line item includes revenues from continuing education programs and billed amounts to UTMAC and UTP to reimburse costs incurred by UT on their behalf.

10 **Salaries –** This line item is increasing primarily due to planned salary increases per collective bargaining agreements and the decision to provide salary increases for non-union faculty and low-income staff.

11 **Benefits** – This line item is increasing primarily due to projected increases in healthcare costs and retirement contributions associated with salary increases.

12 **Outside Purchased Services –** This line item includes contracted services, outside legal fees, banking fees, and physician income guarantees paid by the College of Medicine to UT Physicians (the physician practice plan).

13 **Supplies –** Increases in budgeted Supplies are offset by decreases Line 18 – Pooled Designated and Other Funds. Net increases are primary due to funding new faculty start-up commitments.

14	**Seminars & Travel –** Increases in budgeted Seminars & Travel are offset by decreases Line 18 – Pooled Designated and Other Funds. Net increases are primary due to funding new faculty start-up commitments.
18	**Pooled Designated and Other Funds** – This line item includes undistributed pooled budgets for student fees, carry-forward budgets, and contingency funds. This line item is decreasing primarily due to increases in budgeted Supplies (Line 13) and budgeted Seminars & Travel (Line 14).
23	**Miscellaneous** – This line item includes Real Estate taxes, amortization of bond issuance costs, and agency fees. This line item also includes UTMAC expenses, the cost of professional liability insurance, and a 1% UTMC expense contingency.
25	**Grants & Contracts –** This line item is increasing primarily due to increases in Pell grant awards.
29	**Investment Income** – This line item includes an estimate of investment income on the university's working capital—it does not include investment earnings on the university's long-term fund as these funds are not used to support current operations.
30	**Interest Expense –** This line item is decreasing primarily due to an overly conservative projection for FY 2010, which will be revised in the next quarterly report.
32	**Interest Rate Swaps** – New accounting rules require changes to the fair value of interest rate swaps to be recognized in the university's financial statements as they occur. This is a non-cash accrual; no amount is budgeted in FY 2011 as changes in fair value cannot be predicted.

The University of Toledo - Combined Academic Enterprise and Medical Center / UTMAC

Budgeted Cash Flow

For the Fiscal Year Ending June 30, 2011

Line #		FY 2010 Projected	FY 2011 Budget	Increase / (Decrease)	% Change
1	**Budgeted Net Income (see previous page)**	$ 9,983,786	$ (7,830,695)	$ (17,814,482)	-178.4%
2	Add Back Non-Cash Expenses (Depreciation)	39,398,281	44,024,164	4,625,883	11.7%
3	Principal Payments on Debt	(8,421,019)	(9,455,000)	(1,033,981)	12.3%
4	Transfers	(734,154)	-	734,154	-100.0%
5	State Capital Appropriations	13,000,000	15,500,000	2,500,000	19.2%
6	Capital Expenditures Funded by Operations	(45,000,000)	(38,000,000)	7,000,000	-15.6%
7	Transfer to Foundation	-	(2,500,000)	(2,500,000)	100.0%
8	**Budgeted Cash Flow (Senate Bill 6 Reserve)**	**$ 8,226,894**	**$ 1,738,469**	**$ (6,488,426)**	**-78.9%**

The University of Toledo Combined Academic Enterprise & Medical Center / UTMAC
Budgeted Balance Sheet
For the Fiscal Year Ending June 30, 2011

Line #		FY 2010 Projected	FY 2011 Budget	Increase/ (Decrease)	% Change
	Assets				
1	Cash and Investments	$ 118,487,646	$ 122,726,115	$ 4,238,469	3.6%
2	Accounts Receivable	96,385,954	96,385,954	-	0.0%
3	Other Current Assets	30,934,605	30,934,605	-	0.0%
4	Capital Assets, Net	610,644,605	604,620,441	(6,024,164)	-1.0%
5	Other Assets	89,684,669	89,684,669	-	0.0%
6	**Total Assets**	**$ 946,137,479**	**$ 944,351,784**	**$ (1,785,695)**	**-0.2%**
	Liabilities				
7	Current Liabilities	$ 94,403,628	$ 94,403,628	$ -	0.0%
8	Bonds Payable	295,500,000	286,399,250	(9,100,750)	-3.1%
9	Other Long-Term Liabilities	31,376,367	31,376,367	-	0.0%
10	**Total Liabilities**	**421,279,995**	**412,179,245**	**(9,100,750)**	**-2.2%**
11	**Net Assets**	**524,857,484**	**532,172,539**	**7,315,055**	**1.4%**
12	**Total Liabilities and Net Assets**	**$ 946,137,479**	**$ 944,351,784**	**$ (1,785,695)**	**-0.2%**

FY 2011 Operating Budget

Academic Enterprise

The University of Toledo Academic Enterprise

Budgeted Income Statement

For the Fiscal Year Ending June 30, 2011

Line #		FY 2010 Projected	FY 2011 Budget	Increase/ (Decrease)	% Change
	Operating Revenue				
1	Student Tuition and Fees	$ 259,082,705	$ 277,073,375	$ 17,990,670	6.9%
2	Scholarships & Other Student Financial Aid	57,551,955	60,609,311	3,057,356	5.3%
3	Net Tuition & Fees	201,530,750	216,464,064	14,933,314	7.4%
4	State Share of Instruction / Other Appropriations	131,762,337	130,993,480	(768,857)	-0.6%
5	Governmental Grants & Contracts	86,810,433	86,810,433	0	0.0%
6	Non-Governmental Gifts, Grants & Contracts	8,316,014	7,804,014	(512,000)	-6.2%
7	Sales & Services	80,050,918	80,447,551	396,633	0.5%
8	Other Revenue	3,367,541	4,530,389	1,162,848	34.5%
9	**Total Operating Revenue**	**511,837,993**	**527,049,931**	**15,211,938**	**3.0%**
	Operating Expenses				
10	Salaries	214,552,735	221,762,142	7,209,407	3.4%
11	Benefits	84,557,653	87,159,317	2,601,664	3.1%
12	Outside Purchased Services	11,550,730	11,532,151	(18,579)	-0.2%
13	Supplies	20,037,080	23,924,745	3,887,665	19.4%
14	Seminars & Travel	6,211,238	7,099,959	888,721	14.3%
15	Information & Communication	9,752,519	10,740,788	988,269	10.1%
16	Occupancy	22,033,311	20,069,721	(1,963,590)	-8.9%
17	Provision for Doubtful Accounts	2,142,610	2,542,610	400,000	18.7%
18	Pooled Designated and Other Funds	16,546,270	13,515,468	(3,030,802)	-18.3%
19	Insurance	1,385,328	1,385,548	220	0.0%
20	Reimbursement from Hospital for Central Services	(9,862,534)	(8,623,395)	1,239,139	-12.6%
21	Cost of Goods Sold - Auxiliary Services	24,573,630	24,706,441	132,811	0.5%
22	Leases	441,115	441,115	0	0.0%
23	Miscellaneous	1,403,960	1,836,195	432,235	30.8%
24	Depreciation	30,000,000	30,000,000	0	0.0%
25	Grants & Contracts	76,512,348	78,957,126	2,444,778	3.2%
26	**Total Operating Expenses**	**511,837,993**	**527,049,931**	**15,211,938**	**3.0%**
27	**Operating Income**	**0**	**0**	**0**	**0.0%**
28	**Operating Margin**	**0.0%**	**0.0%**	**0.0%**	**0.0%**
29	Investment Income	6,221,423	220,000	(6,001,423)	-96.5%
30	Interest Expense	(14,563,399)	(13,213,514)	1,349,885	-9.3%
31	Interest Rate Swaps (new accounting treatment)	3,592,067	0	(3,592,067)	-100.0%
32	**Net Income (Loss)**	**$ (4,749,909)**	**$ (12,993,514)**	**$ (8,243,605)**	**-173.6%**

Note: Budgeted net loss is offset by an $8.8 million cash transfer from the Hospital to the College of Medicine and an estimated $15.5 million of state capital appropriations (see page 12).

Explanations of Unusual Line Items – Academic Enterprise

<u>**Line #**</u>

1 **Student Tuition & Fees** - This line item is increasing primarily due to projected enrollment growth (new and returning students) and increases in tuition rates and various student fees.

2 **Scholarships & Other Student Financial Aid** – This line item is increasing primarily due to undergraduate enrollment growth (new and returning students) and increases in need-based financial aid to assist low income students.

4 **State Share of Instruction / Other Appropriations** – This line item is decreasing due to a scheduled decrease in state share of instruction.

7 **Sales & Services** – This line item includes revenues from auxiliary enterprises such as room and board charges, parking, athletic ticket sales, patent royalties, the American Language Institute (ALI), etc. This line item is increasing primarily due to projected increases in patent royalties and ALI student enrollment.

8 **Other Revenues** – This line item includes revenues from continuing education programs and billed amounts to UTMAC and UTP to reimburse costs incurred by UT on their behalf.

10 **Salaries** – This line item is increasing primarily due to planned salary increases per collective bargaining agreements and the decision to provide salary increases for non-union faculty and low-income staff.

11 **Benefits** – This line item is increasing primarily due to projected increases in healthcare costs and retirement contributions associated with salary increases.

12 **Outside Purchased Services –** This line item includes contracted services, outside legal fees, banking fees, and physician income guarantees paid by the College of Medicine to UT Physicians (the physician practice plan).

13 **Supplies –** Increases in budgeted Supplies are offset by decreases Line 18 – Pooled Designated and Other Funds. Net increases are primary due to funding new faculty start-up commitments.

14 **Seminars & Travel –** Increases in budgeted Seminars & Travel are offset by decreases Line 18 – Pooled Designated and Other Funds. Net increases are primary due to funding new faculty start-up commitments.

18 **Pooled Designated and Other Funds** – This line item includes undistributed pooled budgets for student fees, carry-forward budgets, and contingency funds. This line item is decreasing primarily due to increases in budgeted Supplies (Line 13) and budgeted Seminars & Travel (Line 14).

20 **Reimbursement from Hospital for Central Services** – This line item is the hospital's reimbursement for university administrative services supporting hospital operations. This line item is decreasing primarily due to budget cuts in university administrative services.

23 **Miscellaneous** – This line item includes Real Estate taxes, amortization of bond issuance costs, and agency fees.

25 **Grants & Contracts –** This line item is increasing primarily due to increases in Pell grant awards.

29 **Investment Income** – This line item includes an estimate of investment income on the university's working capital—it does not include investment earnings on the university's long-term fund as these funds are not used to support current operations.

30 **Interest Expense** – This line item is decreasing primarily due to an overly conservative projection for FY 2010, which will be revised in the next quarterly report.

31 **Interest Rate Swaps** – New accounting rules require changes to the fair value of interest rate swaps to be recognized in the university's financial statements as they occur. This is a non-cash accrual; no amount is budgeted in FY 2011 as changes in fair value cannot be predicted.

The University of Toledo Academic Enterprise

Budgeted Cash Flow

For the Fiscal Year Ending June 30, 2011

Line #		FY 2010 Projected	FY 2011 Budget	Increase / (Decrease)	% Change
1	**Budgeted Net Income (see previous page)**	$ (4,749,909)	$ (12,993,514)	$ (8,243,605)	173.6%
2	Add Back Non-Cash Expense (depreciation expense)	26,407,933	30,000,000	3,592,067	13.6%
3	Principal Payments on Debt	(6,634,950)	(7,354,250)	(719,300)	10.8%
4	Transfer from Hospital	9,230,496	8,792,747	(437,749)	-4.7%
5	State Capital Appropriations	13,000,000	15,500,000	2,500,000	19.2%
6	Capital Expenditures Funded by Operations	(34,000,000)	(30,000,000)	4,000,000	-11.8%
7	Establishment of Endowment (per agreement with state)	-	(2,500,000)	(2,500,000)	-100.0%
8	**Budgeted Cash Flow (Senate Bill 6 Reserve)**	**$ 3,253,570**	**$ 1,444,983**	**$ (1,808,587)**	**-55.6%**

The University of Toledo Academic Enterprise
Budgeted Balance Sheet
Fiscal Year-End 2010

Line #		FY 2010 Projected	FY 2011 Budget	Increase/ (Decrease)	% Change
	Assets				
1	Cash and Investments	$ 60,000,000	$ 63,944,983	$ 3,944,983	6.6%
2	Accounts Receivable	50,000,000	50,000,000	-	0.0%
3	Other Current Assets	20,000,000	20,000,000	-	0.0%
4	Capital Assets, Net	525,000,000	525,000,000	-	0.0%
5	Other Assets	65,000,000	65,000,000	-	0.0%
6	**Total Assets**	**$ 720,000,000**	**$ 723,944,983**	**$ 3,944,983**	**0.5%**
	Liabilities				
7	Current Liabilities	$ 75,000,000	$ 75,000,000	$ -	0.0%
8	Bonds Payable	243,000,000	236,000,000	(7,000,000)	-2.9%
9	Other Long-Term Liabilities	20,000,000	20,000,000	-	0.0%
10	**Total Liabilities**	**338,000,000**	**331,000,000**	**(7,000,000)**	**-2.1%**
11	**Net Assets**	**382,000,000**	**392,944,983**	**10,944,983**	**2.9%**
12	**Total Liabilities and Net Assets**	**$ 720,000,000**	**$ 723,944,983**	**$ 3,944,983**	**0.5%**

FY 2011 Operating Budget

Clinical Enterprise (UTMC)

The University of Toledo Medical Center / UTMAC
Budgeted Income Statement
For the Fiscal Year Ending June 30, 2011

THE UNIVERSITY OF TOLEDO MEDICAL CENTER

Line #		FY 2010 Projected	FY 2011 Budget	Increase/ (Decrease)	% Change
	Operating Revenue				
1	Acute Care Inpatient Revenue	$ 451,738,546	$ 498,760,606	$ 47,022,060	10.4%
2	Rehabilitation Care Inpatient Revenue	16,923,585	18,685,183	1,761,598	10.4%
3	Pychiatric Inpatient Revenue	3,827,744	4,226,179	398,435	10.4%
4	**Total Inpatient Revenue**	**472,489,876**	**521,671,969**	**49,182,093**	**10.4%**
5	Outpatient Revenue	232,775,404	268,842,146	36,066,741	15.5%
6	Emergency Outpatient Revenue	30,862,481	34,067,188	3,204,708	10.4%
7	**Total Outpatient Revenue**	**263,637,885**	**302,909,334**	**39,271,449**	**14.9%**
8	**Total Patient Revenue**	**736,127,761**	**824,581,303**	**88,453,542**	**12.0%**
9	Contractuals	480,251,510	548,002,077	67,750,566	14.1%
10	Charity Care	13,019,440	12,949,312	(70,128)	-0.5%
11	CMS Upper Payment Limit	(1,876,000)	(1,000,000)	876,000	-46.7%
12	Ohio Hospital Care Assurance Program (HCAP)	(3,681,123)	(3,681,000)	123	0.0%
13	Cost Report Settlements	(2,754,000)	(2,000,000)	754,000	-27.4%
14	**Total Deductions**	**484,959,828**	**554,270,389**	**69,310,561**	**14.3%**
15	**Net Patient Revenue**	**251,167,933**	**270,310,914**	**19,142,981**	**7.6%**
16	Other Operating Revenue	14,898,770	14,895,163	(3,607)	0.0%
17	**Total Operating Revenue**	**266,066,703**	**285,206,077**	**19,139,374**	**7.2%**
	Operating Expenses				
18	Salaries	98,104,418	103,124,769	5,020,351	5.1%
19	Benefits	24,527,222	26,732,232	2,205,011	9.0%
20	Supplies	69,297,247	73,108,914	3,811,667	5.5%
21	Travel & Entertainment	538,367	502,031	(36,336)	-6.7%
22	Information & Communication	2,612,978	2,601,576	(11,402)	-0.4%
23	Outside Purchased Services	19,948,155	21,512,546	1,564,391	7.8%
24	Services Rendered by University / Overhead	9,862,534	8,623,395	(1,239,139)	-12.6%
25	Provision for Doubtful Accounts	16,364,751	16,405,078	40,326	0.2%
26	Other Operating Expenses	3,453,561	10,013,952	6,560,390	190.0%
27	Depreciation	13,498,333	14,024,164	525,831	3.9%
28	**Total Operating Expenses**	**258,207,567**	**276,648,657**	**18,441,090**	**7.1%**
29	**Operating Income**	**7,859,136**	**8,557,421**	**698,284**	**8.9%**
30	**Operating Margin**	**3.0%**	**3.0%**	**0.0%**	**1.6%**
31	Interest Expense	(2,681,143)	(3,654,602)	(973,459)	36.3%
32	Investment Income	3,076,300	260,000	(2,816,300)	-91.5%
33	Unrealized Gains/(Losses) on Investments	5,971,417	-	(5,971,417)	-100.0%
34	Interest Rate Swaps (new accounting treament)	507,985	-	(507,985)	-100.0%
35	Capital Gifts	-	-	-	0.0%
36	**Net Income**	**$ 14,733,695**	**$ 5,162,819**	**$ (9,062,892)**	**-61.5%**

Explanations of Unusual Line Items – Medical Center / UTMAC

I/S Line #

I/S Line #	Explanation
1-4	**Total Inpatient Revenue** – The increase in these line items is primarily due to projected growth in inpatient surgical admissions, inpatient rehabilitation services, and a 6% price increase.
5-7	**Total Outpatient Revenue** – The increase in these line items is primarily due to projected growth in outpatient surgery and endoscopy procedures and a 6% price increase.
9	**Contractuals** – This line item is the amount by which gross patient billings are adjusted per contracts with third-party payors. The budget for this line item is increasing as a percentage of Total Patient Revenue from 65% in FY 2010 to 66.5% in 2011. The increase is contractual allowance is primarily due to the uncollectible portion of the 6% price increase.
10	**Charity Care –** This line item is the offset to billings for treating charity care patients (under 150% of the federal poverty line). The budget for charity care is expected to be 1.6% of Total Patient Revenue in FY 2011.
11	**CMS Upper Payment Limit** – This line item is captures state funds received from the Centers for Medicare & Medicaid Services for public and psychiatric hospitals. These amounts are budgeted at 50% of historical collections.
12	**Ohio Hospital Care Assurance Program (HCAP)** – HCAP provides partial reimbursement to hospitals for charity care provided to low-income individuals. HCAP is available to Ohio residents who do not receive Medicaid and whose individual or family income is at or below 100% of the federal poverty line.
13	**Cost Report Settlements** – This line item is final settlement of prior period Medicare and Medicaid billings based on reviews of the hospital's annual cost reports. These amounts are budgeted at 50% of historical collections
16	**Other Operating Revenue** – This line item includes billings for services such as outside laboratory, outpatient pharmacy, and anesthesia physician services.
18	**Salaries** – This line item is budgeted at a 1% increase for FY 2011.
19	**Benefits –** This line item is budgeted at 25.7% of Salaries in FY 2011. In 2010, benefits were budgeted at 25.0% of Salaries.

20 **Supplies** – Medical and drug supplies are projected to increase 3% in FY 2011. Implants are projected to decrease $3.5 million in FY 2011 due to renegotiated contract prices. The overall inflation factor for Supplies is 2.3%.

23 **Outside Purchased Services** – This line item includes outside kidney acquisition, physician income guarantees, and collection fees. Collection fees and kidney acquisition costs are projected in increase in FY 2011.

24 **Services Rendered by University / Overhead** – This line item is the hospital's reimbursement for university administrative services supporting hospital operations and other overhead allocations. This line item is decreasing primarily due to budget cuts in university administrative services.

25 **Provision for Doubtful Accounts** – This line item accounts for uncollectible patient accounts receivables (i.e., bad debt expense). The FY 2011 budget for bad debt expense is 2% of Total Patient Revenue (5.9% of Net Patient Revenue).

26 **Other Operating Expenses** – This line item includes UTMAC expenses and the cost of professional liability insurance. UTMAC expenses are budgeted to increase in FY 2011. Also included in Other Operating Expenses is a 1% expense contingency.

31 **Interest Expense** – The increase in this line item is due to the issuance of new bonded indebtedness.

32 **Investment Income** – This line item includes a an estimate of investment income earned on the university's working capital—it does not include investment earnings on the university's long-term fund as these funds are not used to support current operations.

34 **Interest Rate Swaps** – New accounting rules require changes to the fair value of interest rate swaps to be recognized in UTMC's financial statements as they occur. This is a non-cash accrual; no amount is budgeted in FY 2011 as changes in fair value cannot be predicted.

The University of Toledo Medical Center / UTMAC

Budgeted Cash Flow

For the Fiscal Year Ending June 30, 2011

Line #		FY 2010 Projected	FY 2011 Budget	Increase/ (Decrease)	% Change
1	**Budgeted Net Income (see previous page)**	$ 14,733,695	$ 5,162,819	$ (9,570,877)	-65.0%
2	Add Back Non-Cash Expenses (depreciation)	12,990,348	14,024,164	1,033,816	8.0%
3	Principal Payments on Debt	(1,786,069)	(2,100,750)	(314,681)	17.6%
4	Transfer to College of Medicine	(9,964,650)	(8,792,747)	1,171,903	-11.8%
5	Capital Expenditures Funded by Operations	(11,000,000)	(8,000,000)	3,000,000	-27.3%
6	**Projected Cash Flow (Senate Bill 6 Reserve)**	**$ 4,973,324**	**$ 293,486**	**$ (4,679,839)**	**-94.1%**

The University of Toledo Medical Center / UTMAC
Budgeted Balance Sheet
For the Fiscal Year Ending June 30, 2011

THE UNIVERSITY OF TOLEDO MEDICAL CENTER

Line #		FY 2010 Projected	FY 2011 Budget	Increase/ (Decrease)	% Change
	Assets				
1	Cash and Investments	$ 58,487,646	$ 58,781,132	$ 293,486	0.5%
2	Accounts Receivable, Net	46,385,954	46,385,954	-	0.0%
3	Other Current Assets	10,934,605	10,934,605	-	0.0%
4	Capital Assets, Net	85,644,605	79,620,441	(6,024,164)	-7.0%
5	Other Assets	24,684,669	24,684,669	-	0.0%
6	**Total Assets**	**$ 226,137,479**	**$ 220,406,801**	**$ (5,730,678)**	**-2.5%**
	Liabilities				
7	Current Liabilities	$ 19,403,628	$ 19,403,628	$ -	0.0%
8	Bonds Payable	52,500,000	50,399,250	(2,100,750)	-4.0%
9	Other Long-Term Liabilities	11,376,367	11,376,367	-	0.0%
10	**Total Liabilities**	**83,279,995**	**81,179,245**	**(2,100,750)**	**-2.5%**
11	**Net Assets**	**142,857,484**	**139,227,556**	**(3,629,928)**	**-2.5%**
12	**Total Liabilities and Net Assets**	**$ 226,137,479**	**$ 220,406,801**	**$ (5,730,678)**	**-2.5%**

FY 2011 Operating Budget
Listing of Key Budget Assumptions

Listing of Key Budget Assumptions

Enrollments, Patient Volumes, and Tuition/Fee Increases:

- Freshman Class: 4,100 Students
- 100 New Undergraduate Students
- 3% Increase Graduate Students
- See Proposed 2010-11 Tuition & Fee Schedule
    - 3.5% increase in undergraduate tuition and general fee.
    - Market rate increases (0% to 5%) for graduate and professional programs.
    - Adjustments to other fees to cover increases in related program costs.
- Patient Revenue Price Increase: 6%
- No Increase in Hospital Admissions Except for Admissions Pertaining to Increases in Surgical Volumes
- Charity Care: 1.6% of Total Patient Revenue
- Reimbursement Rate Increase: 2.1%

Salaries and Benefits:

- 3% Increase for Union Employees Per Collective Bargaining Agreements
- 3% Increase for Non-Union Faculty
- 2% for Employees Making Less Than $80,000
- 1% Increase in Hospital Salaries

Other Expenses:

- Medical Supplies: 2.3%
- Drug Costs: 3%
- Medical Center Bad Debt: 2% of Total Patient Revenue

FY 2011 Tuition Rates, Fees, and Student Housing Rates

FY 2011 Tuition and Fees

(All fees are per semester amounts unless otherwise noted)

Undergraduate

	Spring 2010			2010-11 (Fall)			
In-State	Tuition	General Fee	Total	Tuition	General Fee	Total	Total % Increase
Full-time (12-16 credit hours)	$ 3,527.04	$ 575.04	$ 4,102.08	$ 3,650.49	$ 595.17	$ 4,245.66	3.50%
Per credit hour	$ 293.92	$ 47.92	$ 341.84	$ 304.21	$ 49.60	$ 353.81	3.50%
Per credit hour ≥ 17	$ 280.46	$ -	$ 280.46	$ 290.28	$ -	$ 290.28	3.50%
Out-of-State							
Full-time (12-16 credit hours)	$ 7,932.84	$ 575.04	$ 8,507.88	$ 8,210.49	$ 595.17	$ 8,805.66	3.50%
Per credit hour	$ 661.07	$ 47.92	$ 708.99	$ 684.21	$ 49.60	$ 733.81	3.50%
Per credit hour ≥ 17	$ 647.61	$ -	$ 647.61	$ 670.28	$ -	$ 670.28	3.50%

Graduate

	2009-10			2010-11			
In-State	Tuition	General Fee	Total	Tuition	General Fee	Total	Total % Increase
Fall & Spring Full-time (12-15 credit hours)	$ 5,520.00	$ 555.60	$ 6,075.60	$ 5,713.20	$ 575.05	$ 6,288.25	3.50%
Per credit hour ≥ 16	$ 460.00	$ -	$ 460.00	$ 476.10	$ -	$ 476.10	3.50%
Summer Full-time (9-11 credit hours)	$ 4,140.00	$ 250.02	$ 4,390.02	$ 4,284.90	$ 258.77	$ 4,543.67	3.50%
Per credit hour ≥ 12	$ 460.00	$ -	$ 460.00	$ 476.10	$ -	$ 476.10	3.50%
Out-of-State							
Fall & Spring Full-time (12-15 credit hours)	$ 10,464.00	$ 555.60	$ 11,019.60	$ 10,830.24	$ 575.05	$ 11,405.29	3.50%
Per credit hour ≥ 16	$ 872.00	$ -	$ 872.00	$ 902.52	$ -	$ 902.52	3.50%
Summer Full-time (9-11 credit hours)	$ 7,848.00	$ 250.02	$ 8,098.02	$ 8,122.68	$ 258.77	$ 8,381.45	3.50%
Per credit hour ≥ 12	$ 872.00	$ -	$ 872.00	$ 902.52	$ -	$ 902.52	3.50%

	2009-10	2010-11
Fall & Spring General Fee per credit hour ≤ 12	$ 46.30	$ 47.92
Summer General Fee per credit hour ≤ 9	$ 27.78	$ 28.76

Law

	2009-10			2010-11			
In-State	Tuition	General Fee	Total	Tuition	General Fee	Total	Total % Increase
Full-time (12-16 credit hours)	$ 8,136.00	$ 555.60	$ 8,691.60	$ 8,420.76	$ 575.05	$ 8,995.81	3.50%
Per credit hour ≥ 16	$ 678.00		$ 678.00	$ 701.73		$ 701.73	3.50%
Out-of-State							
Full-time (12-16 credit hours)	$ 14,004.00	$ 555.60	$ 14,559.60	$ 14,494.14	$ 575.05	$ 15,069.19	3.50%
Per credit hour ≥ 16	$ 1,167.00		$ 1,167.00	$ 1,207.85		$ 1,207.85	3.50%

First Enrolled Fall 2008 or after

In-State	Tuition	General Fee	Total	Tuition	General Fee	Total	Total % Increase
Full-time (12-16 credit hours)	$ 8,796.00	$ 555.60	$ 9,351.60	$ 9,103.86	$ 575.05	$ 9,678.91	3.50%
Per credit hour ≥ 16	$ 733.00		$ 733.00	$ 758.66		$ 758.66	3.50%
Out-of-State							
Full-time (12-16 credit hours)	$ 14,004.00	$ 555.60	$ 14,559.60	$ 14,494.14	$ 575.05	$ 15,069.19	3.50%
Per credit hour ≥ 16	$ 1,167.00		$ 1,167.00	$ 1,207.85		$ 1,207.85	3.50%

	2009-10	2010-11
Fall & Spring General Fee per credit hour ≤ 12	$ 46.30	$ 47.92
Summer General Fee per credit hour ≤ 12	$ 27.78	$ 28.76

MBA

	2009-10			2010-11			
In-State	Tuition	General Fee	Total	Tuition	General Fee	Total	Total % Increase
Full-time (12 credit hours)	$ 6,048.00	$ 555.60	$ 6,603.60	$ 6,048.00	$ 575.05	$ 6,623.05	0.29%
Per credit hour	$ 504.00	$ 46.30	$ 550.30	$ 504.00	$ 47.92	$ 551.92	0.29%
For each credit over 12	$ 130.00	$ -	$ 130.00	$ 130.00	$ -	$ 130.00	0.00%

Out-of-State							
Full-time (12 credit hours)	$ 10,992.00	$ 555.60	$ 11,547.60	$ 10,992.00	$ 575.05	$ 11,567.05	0.17%
Per credit hour	$ 916.00	$ 46.30	$ 962.30	$ 916.00	$ 47.92	$ 963.92	0.17%
For each credit over 12	$ 245.00	$ -	$ 245.00	$ 245.00	$ -	$ 245.00	0.00%

	2009-10	2010-11
Fall & Spring General Fee per credit hour ≤ 12	$ 46.30	$ 47.92
Summer General Fee per credit hour ≤ 12	$ 27.78	$ 28.76

India MBA

Fee	2009-10 Tuition and Fees		2009-10 Total	2010-11 Tuition and Fees		2010-11 Total	Total % Increase
India MBA Program Fee (90 students)	$ 6,050.00		$ 6,050.00	$ 8,400.00		$ 8,400.00	38.84%

Program fee – not per semester

UT-SAMS MBA (new)

Fee	2009-10 Tuition and Fees		2009-10 Total	2010-11 Tuition and Fees		2010-11 Total	Total % Increase
UT-SAMS MBA Program Fee (30 students)	$ -		$ -	$ 11,500.00		$ 11,500.00	100%

Program fee – not per semester

Executive MBA

Fee	2009-10 Tuition and Fees		2009-10 Total	2010-11 Tuition and Fees		2010-11 Total	Total % Increase
EMBA Program Fee	$ 41,000		$ 41,000.00	$ 41,000		$ 41,000.00	0.00%

Program fee – not per semester

M.D. Program

In-State	2009-10 Tuition	2009-10 General Fee	2009-10 Total	2010-11 Tuition	2010-11 General Fee	2010-11 Total	Total % Increase
Fall & Spring (min 15 credit hours)	$ 12,673.00	$ 695.00	$ 13,368.00	$ 13,321.00	$ 719.00	$ 14,040.00	5.03%
Summer (min 9 credit hours)	$ 8,480.00	$ 430.00	$ 8,910.00	$ 8,912.00	$ 445.00	$ 9,357.00	5.02%

Out-of-State							
Fall & Spring (min 15 credit hours)	$ 27,076.00	$ 695.00	$ 27,771.00	$ 28,423.00	$ 719.00	$ 29,142.00	4.94%
Summer (min 9 credit hours)	$ 18,077.00	$ 430.00	$ 18,507.00	$ 18,975.00	$ 445.00	$ 19,420.00	4.93%

	2009-10	2010-11
Fall & Spring General Fee per credit hour ≤ 15	$ 46.33	$ 47.96
Summer General Fee per credit hour ≤ 9	$ 46.33	$ 47.96

Doctor of Nursing Practice (DNP)

In-State	2009-10 Tuition	2009-10 General Fee	2009-10 Total	2010-11 Tuition	2010-11 General Fee	2010-11 Total	Total % Increase
Fall & Spring Full-time (12-15 credit hours)	$ 7,008.00	$ 555.60	$ 7,563.60	$ 7,253.28	$ 575.05	$ 7,828.33	3.50%
Per credit hour ≥ 16	$ 584.00	$ -	$ 584.00	$ 604.44	$ -	$ 604.44	3.50%
Summer Full-time (9-11 credit hours)	$ 5,256.00	$ 416.70	$ 5,672.70	$ 5,439.96	$ 431.29	$ 5,871.25	3.50%
Per credit hour ≥ 12	$ 460.00	$ -	$ 460.00	$ 476.10	$ -	$ 476.10	3.50%

Out-of-State							
Full-time (12-15 credit hours)	$ 10,464.00	$ 555.60	$ 11,019.60	$ 10,830.24	$ 575.05	$ 11,405.29	3.50%
Per credit hour ≥ 16	$ 872.00	$ -	$ 872.00	$ 902.52	$ -	$ 902.52	3.50%
Summer Full-time (9-11 credit hours)	$ 7,848.00	$ 416.70	$ 8,264.70	$ 8,122.68	$ 431.29	$ 8,553.97	3.50%
Per credit hour ≥ 12	$ 872.00	$ -	$ 872.00	$ 902.52	$ -	$ 902.52	3.50%

	2009-10	2010-11
Fall, Spring, & Summer General Fee per credit hour	$ 46.30	$ 47.92

Medical Sciences*

	2009-10 Tuition	2009-10 General Fee	2009-10 Total	2010-11 Tuition	2010-11 General Fee	2010-11 Total	Total % Increase
In-State	$ 19,766.00	$ 1,246.00	$ 21,012.00	$ 20,785.00	$ 1,290.00	$ 22,075.00	5.06%

Out-of-State	$ 44,319.00	$ 1,246.00	$ 45,565.00	$ 46,529.00	$ 1,290.00	$ 47,819.00	4.95%

*Full-time tuition & fees for one-year program (40 credit hours)

Pharm D

	2009-10			2010-11			
In-State	Tuition	General Fee	Total	Tuition	General Fee	Total	Total % Increase
Full-time	$ 5,412.00	$ 555.60	$ 5,967.60	$ 5,601.42	$ 575.05	$ 6,176.47	3.50%
Per credit hour	$ 451.00	$ 46.30	$ 497.30	$ 466.79	$ 47.92	$ 514.71	3.50%
For each credit over 12	$ 123.00		$ 123.00	$ 127.31		$ 127.31	3.50%
Out-of-State							
Full-time	$ 10,356.00	$ 555.60	$ 10,911.60	$ 10,718.46	$ 575.05	$ 11,293.51	3.50%
Per credit hour	$ 863.00	$ 46.30	$ 909.30	$ 893.21	$ 47.92	$ 941.13	3.50%
For each credit over 12	$ 239.00		$ 239.00	$ 247.37		$ 247.37	3.50%

Upper Division Fee

Upper Division Fee (per Credit Hour)	Current Fee	New or Adjusted Fee	FY11 Projected Volume at Approved Rate	FY11 Projected Revenue	FY10 to FY11 Projected Revenue Change	Total % change in fee
College of Business	$ 15.00	$ 26.00	38,941	$ 1,012,466	$ 487,466.00	73%
College of Pharmacy	$ 95.73	$ 139.34	12,960	$ 1,805,846	$ 627,218.40	46%

Technology Fees

Technology Fees	Current Fee	FY11 Proposed Fee	FY11 Projected Volume (students)	FY11 Projected Revenue at Approved Fee	FY10 to FY11 Projected Revenue Change	Total % change in fee
College of Business	$ 8.50	$ 9.00	90,500	$ 814,500	$ 487,466	6%
College of Education	$ 7.00	$ 8.00	53,550	$ 428,400	$ 53,599	14%
College of Engineering	$ 12.50	$ 15.50	80,000	$ 1,240,000	$ 241,037	24%
College of HSHS - Occupational Therapy	$ -	$ 720.65	20	$ 14,413	$ 14,413	100%
*Projected volume based on 20 students @$10.15/credit hour fee for 71 credits in Yr 1 & 2 only of OTD program						
College of HSHS - Physical Therapy	$ -	$ 730.80	28	$ 20,462	$ 20,462	100%
*Projected volume based on 28 students @$10.15/credit hour fee for 72 credits in Yr 1 & 2 only of DPT program						

Infrastructure Fee

Infrastructure Fee	Current Fee	New or Adjusted Fee	FY11 Projected Volume at Approved Rate	FY11 Projected Revenue	FY10 to FY11 Projected Revenue Change	Total % change in fee
College of Engineering	15	$ 18.00	60,253	$ 1,084,554	$ 418,779	20%

Graduate Application Fee

Fee Name	Current Fee	FY11 Proposed Fee	FY11 Projected Volume (students)	FY11 Projected Revenue at Approved Fee	FY10 to FY11 Projected Revenue Change	Total % change in fee
Graduate School International Application Fee	$ 45.00	$ 75.00	1,562	$ 117,150	$ 49,560	67%

Orientation

Fee Name	Current Fee	FY11 Proposed Fee	FY11 Projected Volume (students)	FY11 Projected Revenue at Approved Fee	FY10 to FY11 Projected Revenue Change	Total % change in fee
UTLC Orientation Fee	$ 30.00	$ 50.00	500	$ 25,000	$ 14,980	67%
Graduate School Orientation Course	$ -	$ 460.00	1,500	$ 690,000	$ 690,000	100%

Parking Fees

Fee Name	Current Fee	New or Adjusted Fee	FY11 Projected Volume at Approved Rate	FY11 Projected Revenue	FY10 to FY11 Projected Revenue Change	Total % change in fee
Student Parking	$ 100.00	$ 125.00	23,200	$ 2,900,000	$ 351,318	25%

*Parking Services moved to a single rate parking permit for all students in FY09; no longer a distinction between full and part-time.

ID Fees

Fee Name	Current Fee	New or Adjusted Fee	FY11 Projected Volume at Approved Rate	FY11 Projected Revenue	FY10 to FY11 Projected Revenue Change	Total % change in fee
ID Fee	$ 20	$ 32	6,200	$ 198,400	$ 36,400	60%
ID Replacement Fee	$ 25	$ 37	1,100	$ 40,700	$ (34,300)	48%

Student Account Fees

Fee Name	Current Fee	New or Adjusted Fee	FY11 Projected Volume at Approved Rate	FY11 Projected Revenue	Fy10 to FY11 Projected Revenue Change	Total % change in fee
Late Payment Monthly Fee	$ 25	$ 50	16,326	$ 816,300	$ 340,150	100%
IPP (Installment Payment Plan) Fee	$ 50	$ 60	3,216	$ 192,960	$ 58,960	20%
Failure to Unregister Fee	$ -	$ 500	500	$ 250,000	$ 250,000	100%
Return Check Fee	$ 25	$ 30	240	$ 7,200	$ 1,375	20%
Stop Payment Fee	$ 20	$ 25	75	$ 1,875	$ 975	25%

Health Professions Living Learning Community Fee

Fee Name	Current Fee	New or Adjusted Fee	FY11 Projected Volume at Approved Rate	FY11 Projected Revenue	Fy10 to FY11 Projected Revenue Change	Total % change in fee
Student Participation Fee	$ 50	$ 75	500	$ 37,500	$ 12,500	50%

Residence Life Living Learning Fees

Fee Name	Current Fee	New or Adjusted Fee	FY11 Projected Volume at Approved Rate	FY11 Projected Revenue	Fy10 to FY11 Projected Revenue Change	Total % change in fee
Dowd Hall Living Learning Fee for SEE	$ -	$ 100	110	$ 11,000	$ 11,000	100%
Nash/White Living Learning for Envir. Sustain.	$ -	$ 100	217	$ 21,700	$ 21,700	100%

Residence Halls

Housing Fee	Current Fee	New or Adjusted Fee	FY11 Projected Volume at Approved Rate	FY11 Projected Revenue	Fy10 to FY11 Projected Revenue Change	Total % change in fee
Academic House	$ 3,174	$ 3,238	363	$ 1,175,394	$ 23,232	2%
Academic House (Single)	$ 3,614	$ 3,687	8	$ 28,912	$ 584	2%
Carter Hall (Std)	$ 2,885	$ 2,943	95	$ 274,075	$ 5,510	2%
Carter Hall (Trpl)	$ 2,597	$ 2,649	581	$ 1,508,857	$ 30,212	2%
Dowd/Nash/White	$ 2,688	$ 2,688	311	$ 835,968	$ -	0%
MacKinnon (Single)	$ 3,099	$ 3,161	3	$ 9,297	$ 186	2%
MacKinnon	$ 3,099	$ 3,161	121	$ 374,979	$ 7,502	2%
International House (Single)	$ 3,614	$ 3,687	53	$ 191,542	$ 3,869	2%
International House	$ 3,285	$ 3,351	323	$ 1,061,055	$ 21,318	2%
Parks Tower (Single)	$ 3,492	$ 3,562	27	$ 94,284	$ 1,890	2%
Parks Tower	$ 3,174	$ 3,238	604	$ 1,917,096	$ 38,656	2%
McComas Village	$ 2,490	$ 2,490	303	$ 754,470	$ -	0%
The Crossings (Single)	$ 3,944	$ 4,023	2	$ 7,888	$ 158	2%
The Crossings	$ 3,585	$ 3,656	574	$ 2,057,790	$ 40,754	2%
Ottawa House (Single)	$ 3,944	$ 4,023	8	$ 31,552	$ 632	2%
Ottawa House	$ 3,585	$ 3,656	586	$ 2,100,810.00	$ 41,606	2%

Meal Plan Fees

Meal Plan Fees	Current Fee	New or Adjusted Fee	FY11 Projected Volume at Approved Rate	FY11 Projected Revenue	Fy10 to FY11 Projected Revenue Change	Total % change in fee
Any 10	$ 1,370	$ -	0	$ -	$ -	eliminate meal plan
Flex 10	$ 1,170	$ 1,410	300	$ 423,000	$ 72,000	20.5%
Premier 19 Meals	$ 1,565	$ 1,635	3,150	$ 5,150,250	$ 220,500	4%
Rocket 15 Meals	$ 1,430	$ 1,615	3,100	$ 5,006,500	$ 573,500	13%
Block 125	$ 870	$ 935	810	$ 757,350	$ 52,650	7%
Block 80	$ 565	$ -	0	$ -	$ -	eliminate meal plan
Block 50	$ -	$ 520	410	$ 213,200	$ 213,200	100%
Block 30	$ 290	$ -	0	$ -	$ -	eliminate meal plan
Block 10	$ 105	$ -	0	$ -	$ -	eliminate meal plan
Block 5	$ -	$ 30	100	$ 3,000	$ 3,000	100%

Lab Fees - Adjusted

Subject	Current Fee	New Fee	FY11 Projected Volume (students)	FY11 Projected Revenue at Approved Fee	Explanation
College of Arts and Sciences					
Art					
Foundations of Sculpture	$ 98.67	$ 103.60	45	$ 4,662.00	Cover increased material costs
Special Topics in Art/Sculpture - 1990	$ 98.67	$ 103.60	6	$ 621.60	Cover increased material costs
Special Topics in Art/Sculpture - 2990	$ 98.67	$ 103.60	7	$ 725.20	Cover increased material costs
Special Topics in Art/Sculpture - 3990	$ 98.67	$ 103.60	6	$ 621.60	Cover increased material costs
Independent Study / Sculpture - 4910	$ 98.67	$ 103.60	5	$ 518.00	Cover increased material costs
Independent Study / Sculpture - 4920	$ 98.67	$ 103.60	9	$ 932.40	Cover increased material costs
Independent Study / Sculpture - 4930	$ 98.67	$ 103.60	8	$ 828.80	Cover increased material costs
Special Studies / Sculpture	$ 98.67	$ 103.60	9	$ 932.40	Cover increased material costs
Indiv. Study Art - Grad Sculpture	$ 98.67	$ 103.60	5	$ 518.00	Cover increased material costs
Indiv. Study Art - Grad Photo	$ 82.71	$ 95.48	3	$ 286.44	Cover increased material costs
Special Topics in Printmaking - 1990	$ 59.59	$ 69.69	5	$ 348.45	Solvents, inks, chemistry and shipping
Special Topics in Printmaking - 2990	$ 59.59	$ 69.69	5	$ 348.45	Solvents, inks, chemistry and shipping
Special Topics in Printmaking - 3990	$ 59.59	$ 69.69	5	$ 348.45	Solvents, inks, chemistry and shipping
Special Topics in Printmaking - 4990	$ 59.59	$ 69.69	5	$ 348.45	Solvents, inks, chemistry and shipping
Aspect of Printmaking - 2230	$ 68.05	$ 78.05	6	$ 468.30	Solvents, inks, chemistry and shipping
Etching	$ 68.05	$ 78.05	5	$ 390.25	Solvents, inks, chemistry and shipping
Lithography	$ 68.05	$ 78.05	5	$ 390.25	Solvents, inks, chemistry and shipping
Screenprinting	$ 68.05	$ 78.05	10	$ 780.50	Solvents, inks, chemistry and shipping
Independent Study / Printmaking - 4910	$ 59.59	$ 69.69	10	$ 696.90	Solvents, inks, chemistry and shipping
Independent Study / Printmaking - 4920	$ 59.59	$ 69.69	5	$ 348.45	Solvents, inks, chemistry and shipping
Independent Study / Printmaking - 4930	$ 59.59	$ 69.69	5	$ 348.45	Solvents, inks, chemistry and shipping
Independent Study / Art Grad Student	$ 44.60	$ 55.60	3	$ 166.80	Solvents, inks, chemistry and shipping
Additive Sculpture	$ 98.67	$ -	0	$ -	delete course fee
Subtractive Sculpture	$ 98.67	$ -	0	$ -	delete course fee
Subtractive Casting and Fabrication	$ 98.67	$ -	0	$ -	delete course fee
Chemistry					
Concepts in Chemistry Lab	$ 113.63	$ 121.24	82	$ 9,941.68	Increased Operational Costs
General Chemistr Lab 1	$ 113.63	$ 121.24	1,070	$ 129,726.80	Increased Operational Costs
General Chemistr Lab 2	$ 113.63	$ 121.24	693	$ 84,019.32	Increased Operational Costs
Organic Chemistry Lab 1	$ 168.72	$ 180.02	546	$ 98,290.92	Increased Operational Costs
Organic Chemistry Lab 2	$ 168.72	$ 180.02	439	$ 79,028.78	Increased Operational Costs
Organic Chemistry Lab 1	$ 168.72	$ 180.02	5	$ 900.10	Increased Operational Costs
Organic Chemistry Lab 2	$ 168.72	$ 180.02	6	$ 1,080.12	Increased Operational Costs
Analytical Chemistry Lab - WAC	$ 168.72	$ 180.02	35	$ 6,300.70	Increased Operational Costs
Advanced Lab I - WAC	$ 168.72	$ 180.02	20	$ 3,600.40	Increased Operational Costs
Advanced Lab II	$ 168.72	$ 180.02	11	$ 1,980.22	Increased Operational Costs
Advanced Lab III	$ 168.72	$ 180.02	2	$ 360.04	Increased Operational Costs
Biochem Lab	$ 168.72	$ 180.02	25	$ 4,500.50	Increased Operational Costs
Foreign Languages					
French Lab Component - 1110	$ 13.80	$ 25.00	235	$ 5,875	Cover lab usage and operational costs
French Lab Component - 1120	$ 13.80	$ 25.00	117	$ 2,925	Cover lab usage and operational costs
French Lab Component - 1500	$ 13.80	$ 25.00	12	$ 300	Cover lab usage and operational costs

German Lab Component - 1110	$ 13.80	$ 25.00	142		$ 3,550	Cover lab usage and operational costs
German Lab Component - 1120	$ 13.80	$ 25.00	67		$ 1,675	Cover lab usage and operational costs
Japanese Lab Component - 1110	$ 13.80	$ 25.00	76		$ 1,900	Cover lab usage and operational costs
Japanese Lab Component - 1120	$ 13.80	$ 25.00	56		$ 1,400	Cover lab usage and operational costs
Spanish Lab Component - 1110	$ 13.80	$ 25.00	583		$ 14,575	Cover lab usage and operational costs
Spanish Lab Component - 1120	$ 13.80	$ 25.00	462		$ 11,550	Cover lab usage and operational costs
Spanish Lab Component - 1500	$ 13.80	$ 25.00	63		$ 1,575	Cover lab usage and operational costs

GEPL

Geographic Info Systems Appl - 4180	$ 36.88	$ 45.00	5		$ 225	Cover increased material costs
Remote Sensing Environment - 4490	$ 36.88	$ 45.00	5		$ 225	Cover increased material costs
Digital Image Analysis - 4500	$ 36.88	$ 45.00	5		$ 225	Cover increased material costs
Geographic Info Systems Appl - 5180	$ 36.88	$ 45.00	10		$ 450	Cover increased material costs
Remote Sensing Environment - 5490	$ 36.88	$ 45.00	5		$ 225	Cover increased material costs
Digital Image Analysis - 5500	$ 36.88	$ 45.00	5		$ 225	Cover increased material costs
Adv Geographic Info Systems Sem	$ 35.12	$ 45.00	0		$ -	Cover increased material costs

Music

Applied Music - 1800	$ 62.83	$ 100.00	30		$ 3,000	Piano tuning and other related costs
Applied Music - 1810	$ 62.83	$ 100.00	30		$ 3,000	Piano tuning and other related costs
Applied Music - 5800	$ 62.31	$ 100.00	20		$ 2,000	Piano tuning and other related costs
Applied Music - 6800	$ 97.85	$ 100.00	200		$ 20,000	Piano tuning and other related costs
History of Jazz	$ 6.39	$ 10.00	1,200		$ 12,000	Piano tuning and other related costs
Orchestra	$ 29.46	$ 40.00	50		$ 2,000	Piano tuning and other related costs
Chamber Ensemble	$ 29.46	$ 30.00	70		$ 2,100	Piano tuning and other related costs
Varsity Band	$ 29.46	$ 40.00	30		$ 1,200	Piano tuning and other related costs

Physics

Survey of Astronomy	$ 13.00	$ 15.00	1,400		$ 21,000	Increased Operational Costs
Elem Astronomy Lab	$ 4,500.00	$ 46.50	182		$ 8,463	Increased Operational Costs
Intermediate, Advanced, Grad Labs (all)	$ 65.00	$ 67.00	4		$ 268	Increased Operational Costs
Intermediate, Advanced, Grad Labs (all)	$ 65.00	$ 67.00	20		$ 1,340	Increased Operational Costs
Intro level labs (all)	$ 51.00	$ 52.50	1,600		$ 84,000	Increased Operational Costs

College of HSHS

Anatomy & Physio I Lab	$ 33.99	$ 36.00	800		$ 28,800	Increased cost of supplies
Anatomy & Physio II Lab	$ 30.18	$ 36.00	540		$ 19,440	Increased cost of supplies
Human Anatomy Lab	$ 26.57	$ 36.00	200		$ 7,200	Increased cost of supplies
Human Physiology Lab	$ 26.57	$ 30.00	100		$ 3,000	Increased cost of supplies
Exercise Physio Lab	$ 22.25	$ 30.00	100		$ 3,000	Increased cost of supplies
Thera Modalities	$ 31.83	$ 35.00	24		$ 840	Increased cost of supplies
Clin Skills III	$ 31.83	$ 35.00	24		$ 840	Increased cost of supplies
Rehab of AT Injuries	$ 31.83	$ 35.00	24		$ 840	Increased cost of supplies
Exer T & P Lab	$ 32.85	$ 36.00	30		$ 1,080	Increased cost of supplies
Physio of Exercise - 6100	$ 27.60	$ 35.00	15		$ 525	Increased cost of supplies
Physio of Exercise - 8100	$ 27.60	$ 35.00	5		$ 175	Increased cost of supplies
Biomech Instrumentation - 6200	$ 22.25	$ 35.00	15		$ 525	Increased cost of supplies
Biomech Instrumentation - 8200	$ 22.25	$ 35.00	5		$ 175	Increased cost of supplies
Adventure Program in Rec/RT	$ 68.60	$ 135.00	40		$ 5,400	Increased travel costs
Adventure Program in Rec/RT	$ 69.01	$ 135.00	5		$ 675	Increased travel costs
First Aid	$ 30.08	$ 37.00	484		$ 17,908.00	Increased costs for disposable items, printing, replacement of manequins
Recreation Activity Course	$ 14.32	$ 20.00	600		$ 12,000.00	Increased cost of equipment and supplies
Neonatal & Pediatric Rep	$ 15.45	$ 16.22	25		$ 405.50	Increased cost of supplies
Resp Care Prac III	$ 22.66	$ 23.79	25		$ 594.75	Increased cost of supplies
Card Diag II	$ 29.87	$ 31.36	25		$ 784.00	Increased cost of supplies
Advanced Card Life	$ 28.63	$ 30.06	25		$ 751.50	Increased cost of supplies
Resp Care - Alternate	$ 10.61	$ 11.14	25		$ 278.50	Increased cost of supplies
Prof Practice I	$ 10.00	$ 25.00	25		$ 625.00	Increased cost of supplies
Prof Practice II	$ 20.00	$ 25.00	25		$ 625.00	Increased cost of supplies
Prep for Prof	$ 144.20	$ 151.41	25		$ 3,785.25	Increased cost of supplies
Cardiac Dysrhythmias Lab	$ 33.00	$ -	0		$ -	Course abolished / delete fee
12 Lead Lab	$ 33.00	$ -	0		$ -	Course abolished / delete fee
EKG Clinical - summer	$ -	$ -	0		$ -	Course abolished / delete fee
Echo Lab - 2090	$ 25.00	$ -	0		$ -	Course abolished / delete fee
Echo Lab - 2190	$ 25.00					Course abolished / delete fee
PV Lab - 2410	$ 25.00	$ -	0		$ -	Course abolished / delete fee
PV Lab - 2430	$ 25.00	$ -	0		$ -	Course abolished / delete fee
US Physics	$ 25.00	$ -	0		$ -	Course abolished / delete fee
CV Clinical - summer	$ -	$ -	0		$ -	Course abolished / delete fee
Med Linguistics	$ 10.00	$ -	0		$ -	Delete lab fee / going virtual

Health Resources	$ 10.00	$ -	0	$ -	Delete lab fee / going virtual
Acute Care	$ 28.80	$ -	0	$ -	Delete lab fee / going virtual
Ambulatory Care	$ 25.80	$ -	0	$ -	Delete lab fee / going virtual
Healthcare Documentation	$ 25.80	$ -	0	$ -	Delete lab fee / going virtual
Reimbursement	$ 25.80	$ -	0	$ -	Delete lab fee / going virtual
Healthcare Stats	$ 25.80	$ -	0	$ -	Delete lab fee / going virtual
Project Mgt	$ 25.00	$ -	0	$ -	Delete lab fee / going virtual
Health Info Adm Practices	$ 25.80	$ -	0	$ -	Delete lab fee / going virtual
Integ Capstone	$ 10.00	$ -	0	$ -	Delete lab fee / going virtual

Lab Fees - New

Subject	New Fee	FY11 Projected Volume (students)	FY11 Projected Revenue at Approved Fee	Explanation
College of Medicine				
Physician Assistant Program Fee	$ 50.00	140	$ 7,000	Suppy expense for program
College of Pharmacy				
IPPE P1 Fall	$ 35.00	108	$ 3,780	Usage of E*Value (portfolio & experimental)
IPPE P1 Spring	$ 35.00	108	$ 3,780	Usage of E*Value (portfolio & experimental)
IPPE P2 Fall	$ 35.00	108	$ 3,780	Usage of E*Value (portfolio & experimental)
IPPE P2 Spring	$ 35.00	108	$ 3,780	Usage of E*Value (portfolio & experimental)
IPPE P3 Summer	$ 35.00	108	$ 3,780	Usage of E*Value (portfolio & experimental)
IPPE P3 Fall	$ 35.00	108	$ 3,780	Usage of E*Value (portfolio & experimental)
APPE P4 Fall	$ 8.75	108	$ 945	Usage of E*Value (portfolio & experimental)
APPE P4 Fall	$ 8.75	108	$ 945	Usage of E*Value (portfolio & experimental)
APPE P4 Fall	$ 8.75	108	$ 945	Usage of E*Value (portfolio & experimental)
APPE P4 Fall	$ 8.75	108	$ 945	Usage of E*Value (portfolio & experimental)
APPE P4 Fall	$ 8.75	108	$ 945	Usage of E*Value (portfolio & experimental)
APPE P4 Spring	$ 8.75	108	$ 945	Usage of E*Value (portfolio & experimental)
APPE P4 Spring	$ 8.75	108	$ 945	Usage of E*Value (portfolio & experimental)
APPE P4 Spring	$ 8.75	108	$ 945	Usage of E*Value (portfolio & experimental)
APPE P4 Spring	$ 8.75	108	$ 945	Usage of E*Value (portfolio & experimental)
APPE P4 Spring	$ 8.75	108	$ 945	Usage of E*Value (portfolio & experimental)
PPT: Capstone	$ 65.00	108	$ 7,020	Usage of E*Value (portfolio & experimental)
College of HSHS				
Clinical Skills I	$ 30.00	24	$ 720	Added modules requiring supplies
Labe Tech - Ex Physio	$ 35.00	10	$ 350	Added modules requiring supplies
Biomech of Hum Mot	$ 30.00	15	$ 450	Added modules requiring supplies
Biomech of Hum Mot	$ 30.00	5	$ 150	Added modules requiring supplies
Cardio-Pulmonary Physio	$ 35.00	10	$ 350	Added modules requiring supplies
Cardio-Pulmonary Physio	$ 35.00	5	$ 175	Added modules requiring supplies
Gross Anatomy	$ 50.00	28	$ 1,400	Cost to move program to MC and purchase supplies
Neuroscience	$ 50.00	28	$ 1,400	Cost to move program to MC and purchase supplies
Therapeutic Interventions II	$ 50.00	28	$ 1,400	Cost to move program to MC and purchase supplies
Neuromuscular Rehab *I*	$ 50.00	28	$ 1,400	Cost to move program to MC and purchase supplies
Neuromuscular Rehab *II*	$ 50.00	28	$ 1,400	Cost to move program to MC and purchase supplies
Speech-Language Practicum	$ 900.00	50	$ 45,000	Costs of individualized instruction, etc.
Speech-Language Practicum	$ 900.00	72	$ 64,800	Costs of individualized instruction, etc.
Diagnostic Practicum	$ 900.00	48	$ 43,200	Costs of individualized instruction, etc.
Audiology Practicum	$ 900.00	24	$ 21,600	Costs of individualized instruction, etc.
Neurological Disorders: TBI	$ 15.00	24	$ 360	Cost to using Hillebrand Clinical Skills Center
Internship Preparation	$ 474.00	20	$ 9,480	Fee for certification exam prior to graduation
Health Care Admin - 4360	$ 21.00	65	$ 1,365	Cover purchase of course resources and memberships
Health Care Admin - 4530	$ 21.00	65	$ 1,365	Cover purchase of course resources and memberships
College of Arts & Science				
Remedial Math	$ 100.00	2,577	$ 257,700	Per course fee
Pre-Professional (Pre-Med & Dental)	$ 100.00	1,143	$ 114,300	Pre-Med and Pre-Dental majors
Pre-Professional (Communication)	$ 50.00	800	$ 40,000	Communication majors
Biological Sciences				
The Nature of Science	$ 50.00	80	$ 4,000	Per course fee
Communication				
Photojournalism Lab	$ 100.00	30	$ 3,000	Cover class material

Foreign Languages						
Arabic Lab Component	$	25.00	37	$	925	Cover class material
Arabic Lab Component	$	25.00	18	$	450	Cover class material
Arabic Lab Component	$	25.00	17	$	425	Cover class material
Arabic Lab Component	$	25.00	14	$	350	Cover class material
Chinese Lab Component	$	25.00	23	$	575	Cover class material
Chinese Lab Component	$	25.00	14	$	350	Cover class material
Chinese Lab Component	$	25.00	10	$	250	Cover class material
Chinese Lab Component	$	25.00	11	$	275	Cover class material
French Lab Component	$	25.00	106	$	2,650	Cover class material
French Lab Component	$	25.00	95	$	2,375	Cover class material
German Lab Component	$	25.00	49	$	1,225	Cover class material
German Lab Component	$	25.00	40	$	1,000	Cover class material
Japanese Lab Component	$	25.00	34	$	850	Cover class material
Japanese Lab Component	$	25.00	31	$	775	Cover class material
Latin Lab Component	$	25.00	41	$	1,025	Cover class material
Latin Lab Component	$	25.00	27	$	675	Cover class material
Latin Lab Component	$	25.00	16	$	400	Cover class material
Latin Lab Component	$	25.00	13	$	325	Cover class material
Spanish Lab Component	$	25.00	389	$	9,725	Cover class material
Spanish Lab Component	$	25.00	342	$	8,550	Cover class material
Geography						
Geographic Info Systems - 4110	$	45.00	15	$	675	Cover class material
Geographic Info Systems - 5110	$	45.00	15	$	675	Cover class material
Music						
Recital - 3810	$	100.00	5	$	500	Cover piano tuning costs and programs for recital
Recital - 4810	$	100.00	5	$	500	Cover piano tuning costs and programs for recital
Jazz Piano Class	$	27.60	10	$	276	Repair and replacement of electric pianos and headphones
Percussion Class	$	28.63	10	$	286.30	Repair and replacement of percussion equipment & instructional materials
Introduction to Music	$	10.00	400	$	4,000	Offset printing costs for handouts
Intro to Music Theory	$	44.19	25	$	1,105	Costs for materials to keep lab up to date
Music Theory Non-Major	$	15.00	60	$	900	Offset printing costs for handouts
Music Early Child Teach	$	10.00	70	$	700.00	Replacement of elementary classroom instruments
Brass Choir	$	30.00	10	$	300	Purchase new music
Group Voice Non-Major	$	28.63	20	$	572.60	Purchase new music
UTLC						
SKLS 0980	$	10.00	412	$	4,120	Cover class material

Supplemental Readings

Moody's
INVESTORS SERVICE

OUTLOOK

Annual Sector Outlook for U.S. State Governments

2010 Sector Outlook is Negative

Lingering Effects of Sluggish Economy Keep Pressure on Government Budgets
Outlook for Mass Transit Sector—Dependent on Sales Taxes—is also Negative

Table of Contents:

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» *contacts continued on the last page*

This sector outlook expresses our opinion on the overall credit conditions faced by any one sector over a 12- to 18-month period. It is not an outlook on any particular rating, and it is not applicable to all issuers within that sector. It does not suggest that the prospects for any particular state government or mass transit issuer are negative. A sector outlook is distinct from our rating outlooks for individual issuers, which are predictive of future rating direction for particular issuers. Individual issuer level outlooks and ratings are assigned by rating committee after careful consideration, as always on a case-by-case basis, of the factors that are related to each credit.

Summary Opinion

The outlook for U.S. states remains negative. First assigned in February of 2008, the negative outlook for the U.S. states sector reflects the lingering fiscal pressures brought on by the deepest and longest recession experienced in the last 70 years. The severe recession has caused high unemployment, lower valuations of home equity and stock portfolios, and lower income, sales and other tax revenues that are needed to fund state government budgets. While U.S. states are experiencing significant pressure, we expect that most of them will make the hard choices to adjust to declining revenues and increased costs. In this major election year, there may be minimal political support to enact new taxes or to extend temporary tax surcharges that were previously introduced in some states. There may also be a limit to the amount of debt any particular state is willing or authorized to incur to resolve budgetary gaps.

Most state governments are strongly affected by the national economy, and Moody's believes that a sluggish recovery is the most likely result for the U.S. economy in 2010 based on our global macro-economic scenario. We believe that the global economy is unlikely to rebound with strong growth in 2010 and 2011, but is rather more likely to return to lower growth rates typical of long-term average trends, with persistent higher unemployment and budget deficits. In the U.S., even as certain local economies begin to show signs of stabilizing, a return to full employment could be years away, preventing state government budgets from recovering as easily as in previous post-recession periods.

Record unemployment has not only resulted in a fall-off in state revenues, but has increased pressure on states to spend as more people are unemployed and availing themselves of social programs such as Medicaid and public assistance that are funded, in part, by states. Furthermore, lower stock market valuations, which remain 30% lower than the 2007 peak, have lowered the valuations of pension and post-retirement healthcare benefit programs, putting long-term pressure on states to borrow or tax more to fund these programs or to explore benefit reductions.

Federal fiscal stimulus aid to the states from the American Recovery and Reinvestment Act of 2009 (ARRA) has been crucial in helping states to avoid having to make the most serious spending reduction or tax increase decisions. It has materially improved their liquidity and offset a significant amount of credit deterioration that might have occurred without it. As fiscal year 2011 approaches, states face the challenge of budgeting without this aid or with a reduced amount of additional federal fiscal stimulus.

Despite the significant pressures on state balance sheets, we expect that most issuers will make the difficult decisions necessary to manage through this challenging time. States remain inherently strong in their ability to raise revenue, reduce expenditures and push funding requirements down to lower levels of government. Already, during this recession, we have seen states cut costs, utilize reserves, and increase certain fees.

2010 is an election year for many state governors. In total, there will be 37 state gubernatorial elections. Turnover in almost half of the states is certain as 15 current governors will not run for reelection due to term limits and seven others have decided to retire. Already this year, two new governors have been sworn in. The campaigning anticipated prior to this major turnover at the executive level may lead to new policies or political stand-offs that could significantly change the way in which states react to their fiscal challenges.

Our negative outlook for the mass transit sector is closely related to the same factors affecting states. The negative sector outlook for transit reflects pressures from declining sales and other tax collections, reductions or delays in state aid, and recessionary pressures on passenger farebox revenues.

Median State Rating Remains Aa2; 15 States Have Negative Outlooks

Since the beginning of 2009, Moody's has lowered state ratings seven times affecting five states. The State of California was downgraded through two actions to Baa1. Illinois' general obligation bond rating, also through two actions, was lowered to A2. Nevada and Ohio were downgraded to Aa2 and Arizona was downgraded to A1.

Despite the downward pressure on revenues, most states have adjusted well by cutting expenditures, increasing revenues, and judiciously utilizing reserves. States have also been helped significantly by the federal fiscal stimulus funds made available by the ARRA. States have proven to be resourceful during this downturn. Some have swept reserves while some have offered tax amnesties. Several states implemented a personal income tax increase or tax surcharge on the wealthy while others refinanced debt service coming due during the year, pushing payments out into the future.

FIGURE 1

State Ratings Distribution

(as of February 10, 2010)

Reflecting the continuing negative pressure on state credit, there are currently 15 state general obligation or issuer ratings with negative outlooks.

STATE	RATING
States With Negative Outlooks	
Arizona	A1
Connecticut	Aa3
Florida	Aa1
Hawaii	Aa2
Illinois	A2
Kansas	Aa1
Kentucky	Aa2
Michigan	Aa3
Minnesota	Aa1
New Jersey	Aa3
Ohio	Aa2
Pennsylvania	Aa2
Rhode Island	Aa3
Washington	Aa1
Wisconsin	Aa3
States with Positive Outlooks	
Louisiana	A1
West Virginia	Aa3

Benefit of Economic Recovery Will Lag for States

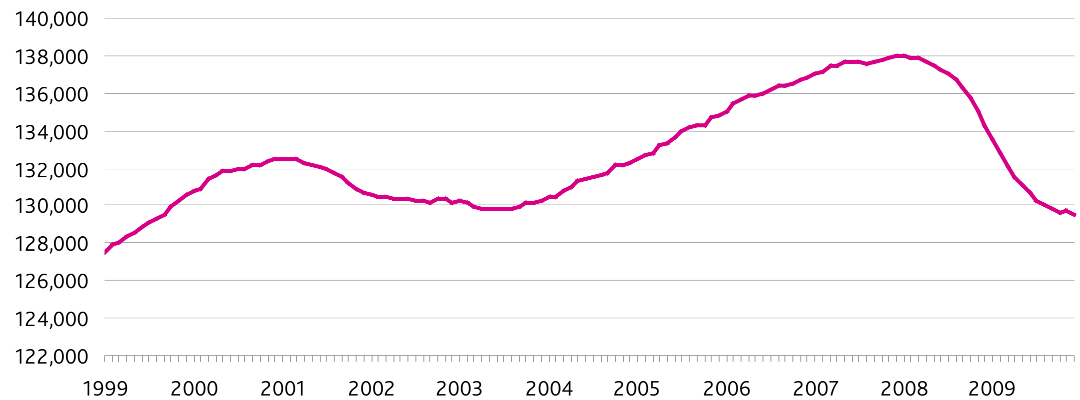
While many measures recently have pointed to the start of economic recovery, conditions will continue to challenge state finances in 2010. Revenues in some states may have reached their recessionary nadir, but tax collections will not begin sustained growth again until employment levels rebound. In 2010, the extent to which the economy adds jobs and unemployment declines will be the primary catalyst for recovery in states' two main revenue sources, the personal income tax and the sales tax.

Unemployment Continues to Dampen Growth

The national unemployment rate decreased to 9.7% in January, but jobs continued to contract, shrinking by an additional 3% compared to one year earlier. The outlook for employment during 2010 is mixed. Through the current downturn, 8.4 million jobs have been lost.

FIGURE 2

Total Nonfarm Employment (000s), 1999-2009



Source: Bureau of Labor Statistics

Although some industries have added jobs recently, employment growth is not expected to keep pace with increases in the labor force. Indeed, Moody's Economy.com[1] forecasts that, even with January's positive news, the unemployment rate will once again rise until it peaks at 10.5% in the third quarter. Many of the jobs added recently have been temporary ones in the auto manufacturing sector, but production there may not be sustainable until consumer confidence recovers. Federal government employment also has increased in recent months, growth that is expected to continue this year as it adds temporary workers for the 2010 census. Those jobs may provide some near-term boost for states but will not reflect an ongoing employment recovery.

Modest Increase in State Revenues Expected in Fiscal Year 2011

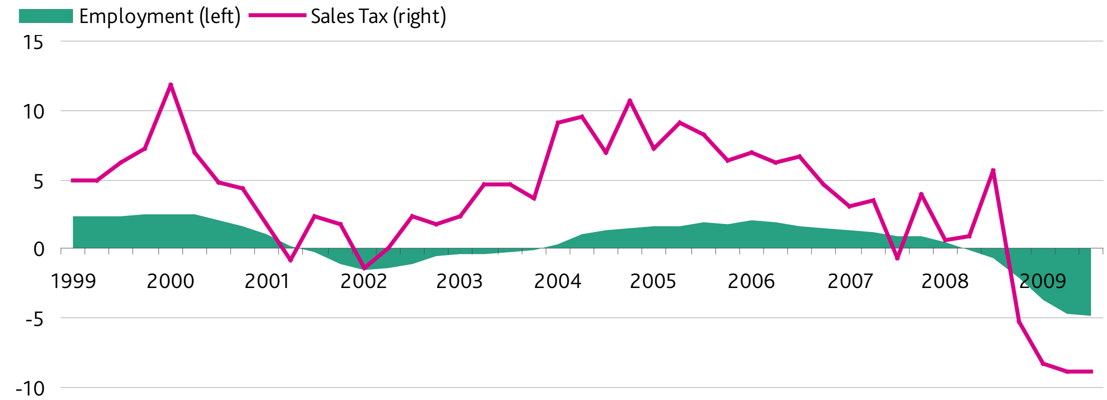
Considering how weakly state revenues have performed, we still expect some degree of growth during 2010. Most states are forecasting revenue stability to modest growth for fiscal 2011 which, for most states, begins July 1, 2010. The outlook for state personal income tax collections remains mixed. Withholding collections have weakened substantially, according to the Rockefeller Institute of Government, thus employment gains will have a positive effect. In certain states, however, withholding collections may not recover as quickly amid new finance industry regulation and changes in how financial institutions pay bonuses. Tax collections from sources other than payroll withholding continue to be volatile, also particularly in high wealth states. Estimated tax payments may fare better later in 2010 if the stock market improves further. Tax refunds, which in many states have far outpaced estimates, may abate based on lower payments made during 2009.

[1] Moody's Economy.com is a sister company to Moody's Investors Service.

Sales taxes have followed consumer confidence downwards. The outlook here also is uncertain, and tied tightly to recovery in employment. Spending—and thus sales tax collections—will not rebound until the jobs situation improves and confidence begins to recover.

FIGURE 3

Year-Over-Year Quarterly Percentage Change in Nonfarm Employment & State Sales Tax Collections, 1999-2009



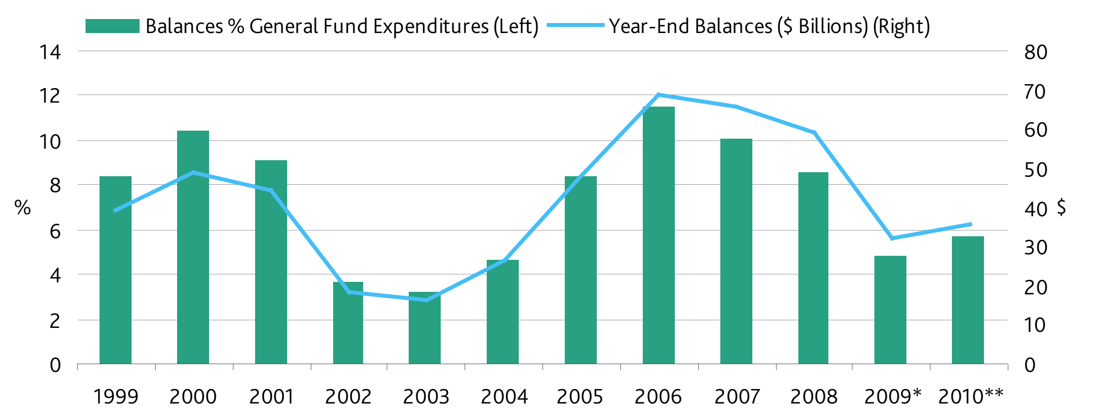
Source: Bureau of Labor Statistics and Rockefeller Institute of Government

Financial Reserves Have Buffered Revenue Shortfalls; Reserve Levels Still Exceed 2003 Lows

After the recession of the early 2000s, some U.S. states established rainy day funds for the first time and others rebuilt reserves fairly quickly. These actions meant that U.S. states were reasonably well positioned with respect to reserves or "rainy day" funds as the national recession took hold in December 2007. To date, while reserves have been drawn down – to zero in some states – the value of remaining reserves is still a higher percentage of expenditures than reserves were in 2003 when reserves reached their lowest point after the last recession. The severity and duration of the current downturn, however, is expected to limit the capacity of the states to augment reserves as quickly as they did last time around.

FIGURE 4

Fiscal Year-End Balances + Reserves as a Percentage of General Fund Expenditures



Source: National Association of State Budget Officers
** Fiscal 2009 figures are preliminary actual*
*** Fiscal 2010 figures are appropriated*

The magnitude of the stress that states are confronting is evident by the mid-fiscal year 2010 budget gaps that virtually all states with few exceptions have either encountered or continue to confront. According to the National Conference of State Legislatures, states solved a cumulative $100 billion budget gap in fiscal year 2009 and have already addressed $145.9 billion of budget gaps in fiscal year 2010. As of November 2009, the National Conference of State Legislatures reported that there was an aggregate budgetary gap of $83.7 billion for the remainder of fiscal year 2010 and fiscal year 2011. We expect states to address these gaps head on as they have over the past two years. However, due to the severity of the downturn, as reflected in the unemployment rate, the historically large declines in state tax revenues, and expiration of the federal stimulus program, the replenishment of reserves will likely take several years.

Liquidity Will Remain Strained For Some States

As tax revenue collections have declined, many states have experienced narrowing liquidity. In order to maintain sufficient cash for operations, various actions, including the following, have been employed:

» Issuing cash-flow notes by those states that don't routinely do so

» Issuing cash-flow notes in a larger amounts than usual

» Delaying payments to vendors

» Delaying payments to local governments

» Arranging lines of credit in the event they are needed

» Allowing interfund borrowing that had previously been prohibited

Over the past year, some states have dealt with narrowed liquidity through their short-term cash-flow borrowing. Pennsylvania, for example, which is not usually a cash-flow note borrower, issued short-term cash-flow notes to support operations in fiscal 2010. California and Illinois, both regular cash-flow note borrowers, issued greater amounts in fiscal year 2010 than they had in the prior year. Other states dealt with cash declines by allowing themselves access to more cash without going to the market, either by arranging for lines of credit (Arizona and Connecticut are examples) or by allowing the state's general fund to borrow from other funds (New York and Ohio are examples). Still other states found themselves in a cash crunch in the middle of the year and were forced to delay payments to vendors or local governments. California, Illinois, Kansas, and New York all employed this cash management technique.

While the tools utilized were varied, all reflect the fact that states have been actively involved in managing their cash positions during the economic downturn. Some states are reporting cash receipts close to forecasts in recent months, which may be a sign that we can expect to see improved liquidity this year and fewer cash management tools used, at least in some states. On the other hand, revenues are not expected to show a healthy rebound this year, and many states are already dealing with current-year gaps and large gaps for the next budget year, which may be a sign that we can expect to see some states looking at another year of strained liquidity and more of the same tools used to smooth out cash flow.

Federal Fiscal Stimulus Has Eased the Strain

The $787 billion federal stimulus measure enacted in February 2009, the ARRA, provided states with vital fiscal relief as they confronted record budget gaps. Fiscal stabilization funds that totaled $54 billion and nearly $87 billion provided through a temporary increase in the Federal Medical Assistance Percentage (FMAP) helped states mitigate even more severe budget cuts than they already were making during the second half of fiscal 2009 and in the current fiscal year (the fiscal year in most states runs July-June). Without the stimulus aid, state actions to manage their finances would have been even more sweeping, negatively impacting credit quality.

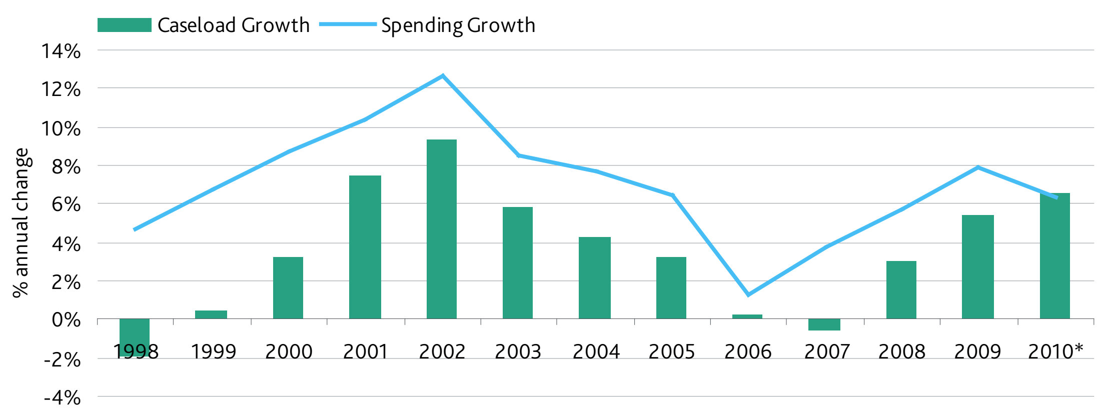
The current stimulus provisions expire at the end of December 2010. Although it is uncertain whether there is enough support to extend the FMAP increase for six months, until June 2011, the president's budget proposal includes such a provision. Even if the extended FMAP aid is enacted, the states that will be the best positioned going forward have proposed conservative fiscal 2011 budgets that do not assume additional federal aid. With revenue growth uncertain, those states will better be able to manage their finances going forward, balance their own recurring expenditures with their own recurring resources, and progress towards structural balance once recovery takes hold. If the federal government does not extend the additional FMAP funding, states that budgeted for it will face immediate budget gaps for which solutions will have to be found, creating more fiscal stress for and possible negative rating pressure on those states.

Medicaid Costs are Increasing

Driven by increasing unemployment, total Medicaid spending (combined federal and state) escalates during and just after recessionary periods. Enrollment increased by an average of 5.4% in fiscal year 2009, and the pace of growth for fiscal year 2010 is estimated at 6.6% according to the Kaiser Commission on Medicaid and the Uninsured. If these rates hold, they would be the highest growth rates in seven years. Total Medicaid spending for fiscal year 2009 grew at a rate of 7.9% over fiscal year 2008, considerably faster than the 5.7% and 3.8% year-over-year growth rates in fiscal year 2008 and 2007, respectively.

FIGURE 5

Total Medicaid Spending and Enrollment Trends



** Adopted*
Source: Kaiser Commission on Medicaid and the Uninsured

Medicaid expenses are split between the federal government and the states. According to the National Association of State Budget Officers' recent report on state expenditures, state Medicaid spending increased 3.2% and 5.3% in fiscal 2008 for states and the federal government, respectively. However, federal spending for fiscal year 2009 increased by 15.9% while total state spending actually dropped by an average of 2.2% year-over-year, reflecting the fiscal stimulus legislation which increased the federal share of the burden for a temporary period.

Medicaid expenses remain the second largest expenditure item for states. According to the National Association of State Budget Officers, Medicaid represented about 21% of total spending for 2008, after K-12 education which accounted for roughly 22% of total spending. Prior to the federal stimulus package which was adopted in February 2009, the average Medicaid funding split was 57% FMAP and 47% state funds. Each state's matching rate, which is inversely related to its average personal income relative to the nation, ranged from a minimum of 50% and is capped at 77%, although the income data lags by three to five years.

Following the passage of last year's ARRA, states received direct federal aid to help close budget gaps in the short term. In addition to stabilization grants-in-aid for K-12 operating expenditures, states received a 6.2% temporary increase in FMAP for Medicaid costs. States were also eligible to receive an additional increase in the federal share of their Medicaid costs through a formula based on the increase in their unemployment rate. The Congressional Budget Office reports that the average federal portion of Medicaid costs has increased to 68% from 57%. Depending on how the funds were utilized in state-specific Medicaid programs, the additional resources have helped states bridge budget gaps in fiscal years 2009 and 2010, and are expected to help in 2011 as well.

While there are signs that the economy is beginning to stabilize, unemployment is high at 9.7% as of January and the underemployed population is reported to be even higher at approximately 17%. This underemployment has driven Medicaid enrollment higher at a time when state revenues continue to under perform. States will likely be challenged to meet Medicaid obligations if the federal stimulus program is not extended beyond the scheduled ending date of December 31, 2010. The anticipated return to the traditional split in funding for Medicaid may be cushioned by a $25.5 billion extension of FMAP proposed by President Obama which, if adopted by Congress, would benefit states in fiscal year 2011. To the extent that the increased FMAP is not extended, several states have signaled their willingness to cut certain Medicaid costs.

Pension and OPEB Liabilities Are Growing; Required State Contributions Are Rising

The measure of long-term pension and other post-employment benefits (OPEB) liabilities is based on many factors including investment returns. After the severe investment declines of late 2008, state pensions' collective funding deteriorated significantly. Audited financial statements for the year ended June 30, 2009, will indicate asset depreciation in line with broad index performance, such as the S&P 500 Index's 28% drop, albeit these paper losses will be moderated by smoothing the losses over a number of years. These losses will boost contribution requirements, especially for states with constitutional mandates to fully fund retirement plans. Rising required state employer contributions will increase current operating budget pressures on states. This pressure has already resulted in several governors, including those in Massachusetts and New Jersey, proposing pension reforms to lower costs for state governments.

On average, state pension assets have equaled between 80% and 85% of pensions' actuarial accrued liabilities in recent years. The average funded ratio for state plans will head lower as the recent losses are factored in. Despite market gains that may occur before the next actuarial valuation of these funds, the paper losses experienced in 2008 will impact required pension contributions for years as most states smooth such losses over three to five years.

The deterioration in invested assets will have significant budget implications, particularly for states where pension funding already was weak. For most of these states, unfunded liabilities are the product of years of benefit enhancements combined with failure to pay in full the actuarially required amounts. For some, under-funding has already been cited as a factor in rating downgrades and is expected to be a growing credit challenge as fiscal 2009 losses are factored in. Weak pension funding contributed to both downgrades of Illinois (now rated A2) last year, in April and December. In January of this year, Illinois issued $3.5 billion of bonds to fund the bulk of its annual pension contribution, and it has a negative outlook partly because of concern over its ability to manage pension funding requirements. Significant pension underfunding was also factored into recent negative rating actions or outlook changes for Connecticut, Nevada, and New Jersey.

Some states' credit profiles have been strengthened in recent years by improvement or at least stability in the funded status of their pensions. Delaware (Aaa/stable) reported that its Delaware Employees Pension Plan is 99% funded as of the end of fiscal year 2009. West Virginia (Aa3/positive) was historically among the weakest states with respect to unfunded pension liabilities, but the state has taken steps to improve funding, depositing $805 million from a 2007 tobacco settlement bond issue into its Teachers Retirement System and using $683 million of additional surplus revenue for pension contributions in fiscal years 2006 and 2007. Some of West Virginia's efforts, which raised the TRS funded ratio to 50% from below 25% in 2005, will be reversed by subsequent declines in investments.

For OPEB, consisting of primarily of healthcare coverage, the investment declines of late 2008 will have little impact because most states lack significant OPEB assets. OPEB liabilities nevertheless may assume increased importance in state credit positions as plan valuations are factored in. Most states do not fully fund their OPEB benefits, instead spending simply the amounts needed to provide existing retirees with benefits year-by-year. This approach, often referred to as "pay-as-you-go," requires a far smaller cash outlay in the near term than would be required by making the annual required contribution (or ARC), which covers both the value of future benefits accrued by employees for service in the current fiscal year and amortization of a share of benefits accumulated from prior years. Moody's approach to OPEB liabilities focuses on the relative burden that full, actuarial funding would place on states' budgets: the ARC as a percent of revenues. States have reported liabilities ranging from 0% for those with minimal exposure to 17.5% for those providing generous benefits and covering teachers in addition to state employees. States with the largest OPEB commitments by this relative measure are Alabama (17.5%), Ohio (15.4%) and New Jersey and North Carolina (both 14.8%).

2010 U.S. Mass Transit Outlook: Negative

Moody's rates about $40 billion of debt issued by U.S. mass transit agencies. The outlook for the sector is negative, reflecting pressures from declining sales and other tax collections, reductions or delays in state aid, and recessionary pressures on farebox revenues. While the outlook is negative, credits in this sector are expected to manage through this cycle benefiting from continued high gross bond coverage, strong bondholder protections, and continued essentiality of transit service.

While state governments typically provide some form of financial support for transit agencies, the current stress on state government finances has led to reduced or delayed aid in several cases. For example, the State of Illinois has frequently been late paying some of the aid it provides to the Regional Transportation Authority (sales tax bonds Aa3) and the Chicago Transit Authority (sales tax bonds A1) which has caused significant liquidity strains at those agencies, in part leading to downgrades during 2009. Both of these credits are expected to remain pressured during 2010 due, in part, to delays in state payments. The largest mass transit issuer, the Metropolitan Transportation Authority of New York (MTA), with approximately $12.6 billion of transportation revenue bonds (TRBs, rated A3) outstanding, was also downgraded recently and is expected to remain stressed during 2010. This stress is due, in part, to a new state payroll tax which has significantly underperformed, along with a decline in aid payments from the State of New York.

Sales tax collections, which support over $21 billion of Moody's rated mass transit debt, have been severely pressured across the nation during the recession. For example the Los Angeles County Metropolitan Transportation Authority (LACMTA), with senior sales tax debt rated Aa3, saw sales tax collections fall 0.4% in fiscal year 2008 (ended June 30, 2008), 9.2% in fiscal 2009, and the first two quarters of fiscal 2010 were down another 19%. This is a sharp departure from the past; the tax has been collected since 1983 and had never fallen by 9% in any one fiscal year and has never dropped in two consecutive years. Nevertheless, coverage on LACMTA's two sales tax liens remained sturdy during fiscal 2009, at 3.0 and 4.2 times, respectively, and the outlook for all LACMTA debt is stable. Other large issuers of transit sales tax bonds including the Massachusetts Bay Transportation Authority (MBTA) (sales tax bonds rated Aa2) and the Metropolitan Atlanta Rapid Transit Authority (sales tax bonds rated Aa3) have also experienced significant declines in sales tax performance over the past year, although MBTA has benefited from a state-guaranteed floor on sales tax.

Other trends have been more favorable. According to the Federal Transit Administration, total U.S. transit ridership reached 10.3 billion in 2008, up nearly 15% from 2004. While individual transit agencies are beginning to report declining ridership in 2009, the drop has been mild compared to the severe recession. For example the CTA reported a 1% ridership decline during calendar 2009, strong results considering a fare increase was implemented and job losses in the Chicago area have exceeded 4%. Public support for transit has generally remained firm or increased. Five major credits: the RTA, CTA, LACMTA, New York MTA, and the Central Puget Sound Transit Authority (Sales and Motor Vehicle Excise Tax Bonds rated Aa2) have recently seen tax increases approved by either the voters or state legislatures. Also, several new rail lines—typically light rail lines in the western United States—have opened to generally favorable reviews and solid ridership. Finally, federal support for transit has grown due to the American Recovery and Reinvestment Act of 2009 and a new federal administration that is more supportive of this form of transportation. Increased federal spending on Amtrak and other high-speed rail projects will also indirectly help local mass transit as Amtrak typically has excellent connections to mass transit, and public acceptance for rail travel may increase.

Conclusion

After a two-year recession, U.S. states are operating on revenues that have fallen to 2004 – 2006 levels. Supported in large part by sales taxes as well as state aid, mass transit revenues are also down. This drop off in revenues has resulted in states and mass transit operators having to make very difficult choices about service levels and taxes. Most states have faced these challenges and made the difficult decisions necessary to balance spending with reduced revenue yield. Most have cut expenses and used some or all of their reserves. Some have introduced new fees or temporary tax surcharges. Many have refinanced debt coming due in the current fiscal year. During this next year, as the economy stabilizes, we expect these issues to remain on the front burner as federal fiscal stimulus dollars that have helped to off-set the decline in state-source revenues, are set to expire on December 31, 2010 unless extended by Congress as the President has proposed. Choices made by state governments and mass transit providers about how to budget in this uncertain environment may affect credit.

As the economy stabilizes and begins a slow recovery, it will likely take several years before state revenues recover to the levels experienced prior to fiscal year 2009 but most states have adjusted to lower levels of spending and maintained their strong credit attributes. The funding of long-term liabilities such as pensions and post-retirement health care will continue to pressure the states that have not addressed the full costs of these benefits in the past.

The federal government support in transitioning states through this long and deep recession has been an important financial and credit positive. The extent to which the federal government continues to fund certain state programs or, in the absence of continued federal support, the willingness of states to continue to cut spending or raise revenues, will impact how quickly states' finances recover from this difficult downturn.

As sales tax revenues rebound in tandem with the economy and states regain their ability to support services, mass transit systems will also benefit.

Moody's Related Research

Rating Methodology

» Moody's State Rating Methodology, November 2004 (89335)

Special Comment

» U.S. State Governments – 2009 Sector Outlook, February 2009 (114526)

Credit Reports

» State of California High Profile Report, December 2009 (121497)

» State of Illinois High Profile Report, December 2009 (121671)

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

» contacts continued from page 1

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MOODY'S
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22 March 2010

Weekly Credit Outlook

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House Approval of Healthcare Reform Signals Sweeping Changes and Mixed Credit Effects

After more than a year of national debate in Congress, popular media and town hall meetings, U.S. healthcare reform moved one major step closer to reality on 21 March after the House of Representatives voted to approve legislation originally passed by the Senate in December 2009. Now the Senate is expected to consider complementary legislation also passed by the House aimed at reconciling some of the key differences between the Senate and the House. The non-partisan Congressional Budget Office (CBO) estimates health reform legislation would cost nearly one trillion dollars over ten years.

Long term, we believe healthcare reform will be neutral to modestly positive for for-profit health systems, mildly credit-negative for pharmaceuticals and medical device manufacturers, and negative for not-for-profit hospitals.

Neutral to modestly positive for for-profit health systems and negative for not-for-profit hospitals. Over the next three years, most for-profit and not-for-profit hospitals should be able to navigate the implications of healthcare reform relatively unscathed as many of the key provisions of reform do not start until 2014. In the longer term, larger for-profit hospital corporations will be the better equipped to meet future challenges as they tend to benefit from greater scale and diversity than do most of their not-for-profit peers and also generally face fewer labor and pension issues. Reform legislation will be neutral to a modest net positive for them. Among not-for-profit hospitals and health systems, many stand-alone community hospitals will have difficulties dealing with future constraints on reimbursement from payers and demands to operate more efficiently. Consequently, we expect healthcare reform to contribute to additional consolidation in the industry as many not-for-profit hospitals will struggle with these challenges.

We expect both for-profit and not-for-profit hospitals and health systems to benefit from reduced charity care write-offs and bad debt expense as the number of uninsured in the U.S. should decrease significantly. However, as governmental auditing and oversight of revenue are tightened, hospitals will be pressured to operate more efficiently, forcing spending cuts and mergers among smaller hospitals after 2014 and implementation of many key provisions.

Longer-term risks stem from basic provisions of reform that will affect all hospital revenue streams. Notably, the reform legislation includes:

» savings through lower Medicare reimbursement totaling $155 billion over ten years;

» reduced disproportionate share funding starting in federal fiscal year 2014, although the reconciliation bill lowers the funding cutback;

» efficiency provisions that could lead to additional Medicare reimbursement cuts for high-cost, less efficient hospitals in high-cost markets, although the most efficient hospitals could benefit from these provisions.

We also expect hospitals will face more difficult negotiations with commercial and managed care insurers who themselves face increased scrutiny and fees and are most affected by sweeping changes in the legislation.

There are favorable provisions in the reform legislation for hospitals in the long-term. Its most significant impact will be a material reduction in the number of uninsured in the U.S., which will reduce charity care and bad debt expense for the hospitals. This would be accomplished by:

- provisions to prohibit insurers from excluding individuals based on pre-existing conditions;
- individual mandates to acquire insurance starting in 2014 and holding employers responsible for offering healthcare coverage;
- expanded Medicaid eligibility.

We also believe hospitals will benefit from increased Federal funding for states to help fund the costs of services to newly eligible individuals beginning in 2014 as Medicaid coverage is expanded. Hospitals with employed physician practices will benefit from increased Medicaid payments to primary care physicians.

Long-term negative for pharmaceuticals. Passage of the reconciliation bill is a mild credit negative for the pharmaceutical industry. Modestly higher prescription drug volumes resulting from expanded insurance coverage will be more than offset by certain levies placed on the industry. The original Senate Bill contained provisions expected to result in a cost of $80 billion for the industry over 10 years. We understand that the reconciled bill modestly increases this figure by $4.8 billion, with a one-year delay in the implementation date to 2011. Key components of the $84.8 billion figure include higher Medicaid rebates and pricing discounts for Medicare Part D beneficiaries affected by the "donut hole."

The industry's anticipated earnings power and cash flow capabilities are currently large enough to absorb the $84.8 billion price-tag. In addition, the bill avoids several provisions that would have been more onerous to the industry, such as direct negotiations for Medicare drug pricing, or restoring Medicaid-level rebates to the Medicare/Medicaid "dual eligibles." But longer term, additional cost containment for pharmaceutical spending is likely, especially if other areas of healthcare spending prove difficult to contain.

On balance, long-term negative for medical devices. Although legislation directed at the medical device sector has long-term negative implications for the medical device sector, the newly reconciled bill delays the starting date for the sector fee by two years, to 2013. Also, the reconciled version changes the industry fee to an excise tax at a rate of 2.9%. Similar to the Senate Bill, the reconciled bill contains exclusions for Class I products as well as retail medical devices such as eyeglasses, contact lenses and hearing aids. Total contributions are still expected to be about $20 billion, in line with both the original Senate and House Bills. While this fee is a credit negative for the sector, most companies should be able to absorb the tax via cost cutting initiatives. Longer term, comparative effectiveness initiatives will raise the sector's risk profile if coverage is linked to outcomes and more winners and losers emerge. Any benefits from increases in admissions and higher use rates by expanding coverage remain unclear.

MOODY'S
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SECTOR COMMENT

Increased Student Aid is Credit Positive for U.S. Colleges and Universities

Extracted from "Moody's Weekly Credit Outlook", dated March 29, 2010.

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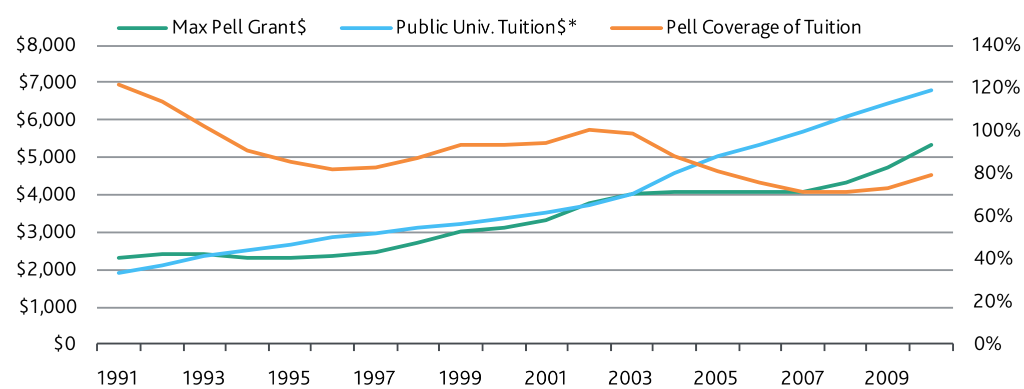
The new U.S. health care reform legislation contains large increases in federal funding for higher education. The new law increases student aid programs and eliminates private- sector-guaranteed student lending. These changes have positive credit implications for colleges and universities, particularly public universities and community colleges.

The most significant revisions are to the federal Pell Grant program that provides aid to low-income students. Under the new law, the amount available to an individual student each year would rise to $5,975 over the next decade from the current $5,350, with amounts guaranteed to rise by at least inflation. This latter provision was successfully challenged on parliamentary grounds in the Senate during its debate on the Health Care and Education Reconciliation Act, but then later re-approved by both the Senate and House.

Funding for the Pell Grant program is anticipated to be $19 billion below the aggregate student demand in 2010 because the severe recession has encouraged more people to return to college, and more students are eligible for these grants. The new law is intended to ensure full funding in the future, but the maximum Pell Grant per student still only covers 80% of average four-year public university in-state tuition and 35% of total cost of attendance, including room and board. As shown in the exhibit below, Pell Grants covered 120% of public university tuition 20 years ago, but increases in tuition have outpaced increases in the grants.

Maximum Pell Grant Award and Tuition at Public Universities



** Average in-state annual tuition at four-year degree-granting public universities in U.S*
Source: National Center for Educational Statistics; Moody's

What is Moody's Weekly Credit Outlook?

Moody's Weekly Credit Outlook provides our research clients with timely opinions on breaking credit market developments and trends. Published every Monday morning, the newsletter will help you start your week informed of Moody's latest opinions from across the organization.

Expansion of the Pell Grant program is expected to cost $36 billion over the next 10 years. This additional funding will most directly benefit public universities and community colleges, which enroll the majority of students eligible for Pell Grants. These institutions will continue to see enrollment growth as a result of the boost in aid and the greater federal aid could help offset reductions in state appropriations. Some lower priced private colleges and universities, especially in urban areas, will also benefit from the changes because they also enroll a high share of Pell-eligible low-income students.

Other provisions of the legislation will also produce positive credit impacts for specific types of higher education institutions. Community colleges will receive $2 billion to support a federal job training program. Historically-black colleges and universities are slated to gain $2.55 billion in federal funding.

The costs of the additional higher education funding will be paid from savings generated by a restructuring of federal loan programs. The new law moves federal loans fully to the direct loan model by which the government makes loans directly, and colleges and universities administer the program. The Federal Family Education Loan Program (FFELP), under which private lenders supplied loans to students that were guaranteed and subsidized by the federal government, is being eliminated. Savings from this change are estimated at $61 billion.

A growing number of colleges and universities anticipated these changes and began implementing the direct loan program over the past two years due to growing Congressional pressure to alter the student lending market. Passage of the College Cost Reduction Act in 2007 lowered the subsidies the government provided to private sector student loan issuers under the program, thereby giving them with less incentive to participate.

Access to private sector capital markets for many student loan lenders was also severely limited by the general credit crunch that restricted their ability to raise capital with which to make loans. A tightening of credit standards further restricted students and their families with lower credit ratings or at schools with lower graduation rates and higher default rates from receiving private loans.

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