



December 14, 2007

Dear Board of Governors and Boards of Trustees Members:

As we close the doors on 2007, there is much to be grateful for!

Two of our students have received singular national honors: Joe O'Shea at Florida State University has been awarded the prestigious Rhodes Scholarship, and Tim Tebow at the University of Florida is the first sophomore ever to win the Heisman Trophy! Their accomplishments are a reminder of the talent that we have right here in this state, and the many opportunities that we have to improve the conditions under which our students can learn and prepare themselves for the complexities ahead of them.

Throughout the next week or two, we will be graduating almost 20,000 students in Fall Commencements, and we have a record number of students in our system and a record number of applicants for graduate education.

December 2007 BOG Meeting:

At our December 5-6 Board of Governors (BOG) meeting, important actions were taken to fill vacating Boards of Trustees (BOT) positions and to develop a broader strategic plan to guide system development over the next two decades. The list of new or reappointed trustees is as follows:

New university trustee appointees include: James Kinsey (FSU), Gene Engle (USF), Doug St. Cerny (FGCU), and Tom Workman (FAU). Reappointed trustees include: Harris Rosen (UCF), Bill Jennings (FAMU), Charles Horner (UWF), John Peterson (NCF), Al Warrington (UF), and Jorge Arrizurieta (FIU). Trustee Kevin Twomey (UNF) is a candidate for reappointment and will be interviewed by the Trustee Nominating Committee (TNC) in January.

The TNC will conduct an orientation session on Wednesday, January 23, 2008, from 11:00 a.m. to 2:30 p.m. prior to the BOG committee meetings scheduled from 3:00 p.m. to 5:00 p.m. at FAMU. The BOG meetings will continue on Thursday, January 24.

Also, the BOG/BOT semi-annual workshop is scheduled to be held on Wednesday, March 26, 2008, in Tallahassee. Please hold the date and stay tuned for more information.

At the December BOG meeting, the Board also approved the proposal to move ahead with Forward by Design. The initiative will focus its efforts on three general issues: improving quality, expanding baccalaureate production, and getting appropriate and predictable funding. Key components will focus on developing an “accord” with the Governor and Legislature for the next five years; “compacts” for each university that specify the relationship between the BOG system strategy and university workplans; and predictable funding that depends on a renewed and more focused set of financial initiatives, most of which are legislatively generated. A working matrix is attached that outlines the specific initiatives and methodologies to move them forward.

Forward by Design Task Groups:

We have established task groups of SUS Presidents to assist the Board in the Forward by Design initiatives. The groups are as follows:

Accord with the Governor and the Legislature: President Hitt (UCF) – Chair, President Delaney (UNF), President Machen (UF), with Dean Colson (Governor Crist’s special adviser for the public universities);

Compacts: President Maidique (FIU) – Chair, President Bradshaw (FGCU), President Genshaft (USF), and President Michalson (NCF); and

Financials: President Wetherell (FSU) – Chair, President Ammons (FAMU), President Brogan (FAU), and President Cavanaugh (UWF).

We expect to bring back to the BOG some options for discussion at the January 2008 meeting.

Goodbye to a Legend:

We recently lost one of our luminaries – Dr. J. Robert Cade. Who was he? He was the “chief creator” of Gatorade! Four decades ago, his scientific research at the University of Florida helped to change the way athletes hydrate themselves and, more generally, how they prepare themselves for rigorous athletic activity.

A nephrologist by training, Dr. Cade’s work has come to symbolize the value of academic research and its relationship to the development of innovative products that improve our lives. He would come to live down the famous statement he made in 1966 that “there is nothing revolutionary...about Gatorade.”

Revenue Generation:

At the December BOG meeting, Senator Jeremy Ring spoke to the Board about the importance of greater SUS engagement in revenue generation through the licensing of faculty inventions. Working with UF President Bernie Machen, Senator Ring is soliciting university projects that can be presented to venture capitalists to help take them to market. The Association of University Technology Managers recently reported that universities created a record number of start-up companies as a result of faculty generated inventions in 2006. Leading the pack in 2006 was the University of California system, with licensing income of \$193 million. New York University was next with \$157 million. The only SUS institution among the leaders was the University of Florida, which earned \$42 million – including 10 start-up companies formed and 73 licenses and options executed. You will be hearing more about bench to bedside initiatives from the Florida Legislature and the BOG.

Budget Cuts:

The economy continues to decline and unemployment is on the rise in Florida. We are expecting another \$1 billion cut to the state budget before the end of the budget year, plus another \$1 billion cut next year.

While we would like to believe that our work is so important that we will be exempted from further budget cuts, this is not likely. We have recommended extreme caution to our Presidents and Provosts. These changes would mean another 8 percent base budget cut on top of the 4 percent base budget cut that we just suffered. Eight percent could mean lay-offs, reduced numbers of classes for our students, and, ultimately, reinforcement of the importance of the Board's decision to cap freshman enrollment growth.

Local Government Investment Pool:

Since devolution, the state universities have invested university funds in two state-managed accounts. One account is administered by the State Treasury, titled Special Purpose Investment Accounts (SPIA) and one is administered by the State Board of Administration, titled the Local Government Investment Pool (LGIP).

The LGIP has been used for many years by units of local government, including counties, school districts and municipalities. The LGIP disclosed in early November that a small portion of its portfolio had been downgraded due to the recent turmoil in the financial markets. Since October, certain depositing entities began to remove all their investments from the LGIP, taking the balance under management from approximately \$27.3 billion on September 30 to its current face value of \$14 billion.

This resulting liquidity crisis caused the State Board of Administration (SBA) to freeze the fund on November 29. An independent financial manager, Black Rock, was selected to make recommendations to the SBA. On December 4, Governor Crist, CFO Sink and

Attorney General McCollum, met as the SBA and took action to stabilize the LGIP. By December 6, it was open again with a new operating plan:

- LGIP will be broken into two funds, A and B
- 86% of LGIP is in Fund A - high-quality debt, all liquid by December 2008
- 14% is in Fund B - debt that is impaired, defaulted or with significant risk

What is the impact to the SUS?

Many institutions had funds in the LGIP until the fund was frozen, and at least six remain in the fund with significant amounts, totaling approximately \$255 million. Of this, \$220 million is backed by money-market grade securities and should be fully recovered. The remaining approximately \$35 million is in lower quality assets valued below par. At this point, the timing of principal recovery is uncertain.

The entire November interest allocation will go into Fund B. Depositors who closed their accounts will not share in this allocation.

What can the SUS do?

Now that the SBA has developed a clearer financial plan for the LGIP, universities will need to re-evaluate their continued participation in the fund.

SBA/Black Rock will establish a formal LGIP Advisory Committee to represent all investors, and the BOG will work with SBA to make sure the SUS institutions have representation on the advisory committee.

The SBA has provided three ways to get or secure cash from the LGIP Pool A account(s).

Level One Liquidity - Pool A participants may redeem amounts up to their available liquid balance (ALB) of 15% or \$2 million (whichever is greater) plus all new deposits into the LGIP.

Level Two Liquidity - Pool A participants can gain access to account balances in excess of their ALB by participating in the LGIP Borrowing Program. In this program, participants may borrow against their Pool A balance. In many ways, this may be a better way to get temporary liquidity because it will allow participants to avoid a redemption fee while continuing to own and earn the interest on Pool A shares. Wachovia has agreed to offer a loan program for participants in the LGIP. A number of other financial institutions also offered to support LGIP participants.

Level Three Liquidity - Participants in Pool A may withdraw funds in excess of their ALB by paying a 2% redemption fee.

BOG staff will continue to monitor the situation and update the SUS as additional information becomes available.

Community Budget Issue Request System:

Senator Lisa Carlton and Representative Ray Sansom announced the opening of the Community Budget Issue Request (CBIR) System on December 14, 2007. The deadline for filing CBIRs is 5:00 p.m. Friday, January 4, 2008. Universities should get their BOG-approved priorities to their delegations.

Tuition:

There have been some questions about tuition setting for the 2008-09 academic year. We intend to wait until after the Legislature completes its work to set tuition. We are hopeful that our full budget request will be attended to. Until the completion of the spring legislative session, we will not know about our budget. Then, and only then, will we make recommendations for the Fall 2008 semester.

Graham-Frey Court Case:

We are still waiting for the judge to make a ruling on standing. We will let you know immediately once we have a verdict and, of course, continue to keep you updated. Winning this court case is a priority – we must have a clear ruling on tuition setting as a means to get us back on the road to competitiveness.

Our Student Leaders:

Finally, I have been meeting throughout the semester with our student government leadership. During the December BOG meeting at UCF, I had the opportunity to meet with student leadership from the university. Brandie Hollinger is president of the UCF Student Government and a nursing graduate student. Maria Pecoraro is Director of Governmental Affairs and a senior in political science. They are excellent leaders and exemplary human beings. May I suggest that if you ever waiver in your commitment to a quality education for our students, talk to Brandie and Maria. You will thank your lucky stars that you did! Your faith in their generation will be buoyed, and you will know why you make the commitments of precious time and energy that you do. These two students are just a few of the many blessings that we have!

Happy Holidays!
Mark B. Rosenberg
Chancellor