

APPROVED BY THE
COMMITTEE

APR 27 2015

Susan M. Kies
SECRETARY OF THE BOARD

MEETING OF THE AUDIT, BUDGET, FINANCE, AND FACILITIES COMMITTEE
OF THE BOARD OF TRUSTEES OF THE UNIVERSITY OF ILLINOIS

MARCH 2, 2015

This meeting of the Audit, Budget, Finance, and Facilities Committee was held on Monday, March 2, 2015, at 1:00 p.m., in Room 1030, National Center for Supercomputing Applications, 1205 West Clark Street, Urbana campus, Urbana, Illinois. Attendance via videoconference was available in Room 270, College of Pharmacy Building, 833 South Wood Street, Chicago campus, Chicago, Illinois; and the Hatmaker Room, Room 550, Public Affairs Center, One University Plaza, Springfield campus, Springfield, Illinois.

Trustee Edward L. McMillan, chair of the committee, convened the meeting and asked the clerk to call the roll. The following committee members were present: Mr. Lester H. McKeever, Jr., treasurer; Mr. Edward L. McMillan; Mr. James D. Montgomery. Mr. Ramón Cepeda was absent. President Robert A. Easter was present.

Also in attendance were Dr. Phyllis M. Wise, chancellor, Urbana campus, and vice president, University of Illinois; Dr. Eric A. Gislason, interim chancellor, Chicago campus, and vice president, University of Illinois; Dr. Christophe Pierre, vice president for academic affairs; Mr. Walter K. Knorr, comptroller (and vice president/chief financial officer); Mr. Thomas R. Bearrows, University counsel; and Dr. Susan M. Kies, secretary of the Board of Trustees and of the University. Attached is a

listing of other staff members and some members of the media in attendance at this meeting.

Mr. McMillan welcomed everyone to the meeting and asked if there were any comments or corrections to the minutes from the meeting held January 5, 2015. On motion of Mr. Montgomery, seconded by Mr. McMillan, the minutes were approved. There were no “nay” votes.

PRESENTATIONS AND REVIEW OF RECOMMENDED BOARD ITEMS
FOR THE MEETING OF THE BOARD OF TRUSTEES
OF THE UNIVERSITY OF ILLINOIS ON MARCH 12, 2015

Mr. McMillan asked certain individuals in attendance to provide presentations and report on the items that will appear on the Board’s agenda at its meeting on March 12, 2015. All proposed agenda items discussed at the meeting are on file with the clerk.

Student Health Insurance Rates for Urbana, Chicago, and Springfield Campuses,
Academic Year 2015-16

At 1:01 p.m., Mr. McMillan asked Dr. Peter J. Newman, associate vice president for treasury operations, to provide a presentation on student health insurance (materials on file with the clerk). Dr. Newman reviewed key cost drivers for the Chicago and Springfield campus student health insurance rates. He provided tables showing Fall 2015 semester health insurance fee for each campus: \$286 (1.7 percent decrease) for undergraduates and \$370 (1.6 percent decrease) for graduates on the Urbana campus, \$570 (21 percent increase) on the Chicago campus, and \$495 (20.7 percent increase) for the Springfield campus. Dr. Newman noted that student representatives to the process

had reviewed the rates with their constituent groups on each campus. Mr. McMillan stated that while the percent change in fees on the Chicago and Springfield campuses might be startling, they are the result of a process, and added those changes have been communicated to students.

Capital and Real Estate

At 1:04 p.m., Mr. McMillan then asked Mr. Joseph W. Vitosky, senior assistant vice president, capital programs and real estate services, to provide background information on recommended capital and real estate items appearing on the Board's agenda at its March 12, 2015, meeting.

Construction Contract for Parking Access and Revenue Controls System Upgrade, Chicago

Mr. Vitosky began by reviewing the recommendation to approve the construction contract for upgrades to the parking access and revenue controls system in Chicago. He stated that, if approved, the item would provide for updated readers, ticketing and access gates at 40 parking facilities and would allow for modifications at the Harrison Street and Paulina Street structures. Mr. Vitosky said competitive bids were taken for the project, detailed the MAFBE participation in this item, and reviewed the schedule for the project. Mr. McMillan and Mr. Mark Donovan, vice chancellor for administrative services, Chicago, discussed the potential impact on the revenue stream. Mr. Montgomery asked if the measure would change the number of student workers at the facilities, and Mr. Donovan said he did not project a decline.

Project for South Exterior Envelope and Floors One and Two Office Remodel,
Armory Building, Urbana

Next, Mr. Vitosky discussed the recommendation to approve the project for remodeling the south exterior envelope and two floors in the Armory Building, Urbana. He described the scope and schedule for the project. Mr. Montgomery asked about the impact of proposed State appropriation reductions on this project, and Dr. Pierre and Mr. Vitosky confirmed that the project would be paid for with institutional funds.

Lease, Illini Center in Chicago, Urbana

Next, Mr. McMillan asked Mr. Bruce K. Walden, director of real estate planning and services, to provide information regarding the recommendation for renewing the lease of office and classroom space at the Illini Center, 200 S. Wacker Drive, Chicago. He reported on the current University of Illinois programs and offices located in the building and history with the facility. Mr. Walden stated that the recommended action required processing as an RFI through the procurement code, and he described that process. He detailed the terms of the new lease and the consolidation of University offices within the building, and stated that the lease is approximately \$1.4 million per year. Mr. McKeever and Dr. Wise discussed the financial contribution of the business school.

Purchase Recommendations

Mr. McMillan asked Dr. Richard D. Elmore, assistant vice president for procurement services, to report on purchase recommendations. Dr. Elmore provided information on

the proposed purchase of student health insurance for the Urbana and Springfield campuses, including policy and vendor details. He then presented a renewal option with Coca-Cola Enterprises, Inc., for continued beverage and vending management on the Urbana campus. Dr. Elmore also detailed the renewal option for En Pointe Technologies Sales, Inc., to provide Microsoft desktop platform enterprise software on an as-needed basis for the Campus Information Technologies and Educational Services (CITES) WebStore's distribution at the Urbana campus. There were no comments or questions regarding the recommended purchases and renewal options.

Revise University of Illinois Investment Policy

At 1:20 p.m., Mr. McMillan asked Dr. Newman to discuss the recommendation to revise the University's investment policy. Dr. Newman reviewed the major revisions proposed in the item, including updating the roles and responsibilities for treasury operations staff, modifying the performance benchmark for Global Equity and non-U.S. Equity asset classes, incorporating language that identifies the holding of equity securities by the Office of Technology Management, and incorporating language to permit the investment of Royalty Funds into private equity investments. There were no comments or questions on this item.

Investment Performance and Program Update

At 1:21 p.m., Mr. McMillan asked Mr. Dean A. Hagan, director of University investments, to provide an update on investment performance and programs (materials on file with the clerk). Mr. Hagan began by presenting slides on capital markets performance, endowment pool peer

rankings, and the University's returns compared in the NACUBO study of endowments. He also presented charts on endowment pool asset allocation. Mr. McMillan and Mr. Hagan discussed the long-term target of asset allocations mix. Mr. Hagan then detailed the private equity investment program review, noting that the University's structure would be moving to a core-satellite approach. Mr. Hagan reviewed the funds that would be used to meet goals, and Mr. McMillan and Mr. Hagan discussed those funds. Mr. Hagan also detailed the manager for emerging managers implementation, including location and MAFBE status of the sub-advisors. Mr. Montgomery asked about local firms, and Mr. Hagan stated that firm location was a factor when choosing sub-advisors. A discussion was had about the performance of the managers versus the benchmark.

Fiscal Year 2014 Financial Audit Presentation

At 1:36 p.m., Mr. McMillan asked Mr. Patrick M. Patterson, controller and senior assistant vice president, to provide an update on investment performance and programs (materials on file with the clerk). Mr. Patterson stated that the University financial audit concluded in December 2014, and stated that the audit resulted in an unmodified, or "clean," audit opinion on the University's financial statements. He detailed three University-wide findings, which involved year-end expense/revenue accrual and deferral process, P-Card procedures, and reporting of investment activities on Statement of Cash Flows. Mr. Patterson stated that, overall, it was a positive outcome for the audit and efforts toward improvement are ongoing. He said that the University saw a \$307.0 million growth in net position, and he detailed the drivers for that improved position and noted that the news is tempered by the uncertainties in

the State's fiscal condition and proposed cuts. Mr. Patterson also reviewed the next steps for the Fiscal Year 2014 federal and State compliance audits. Mr. Knorr noted that this was the last year for KPMG as the University's State-appointed auditor, adding that the process for selecting the next auditor has begun. He also stated that the compliance audit would be completed soon and presentations would be given during the May meeting. A discussion was had regarding the process for auditor selection.

Summary of Internal Audit Activity - Quarter Ended December 31, 2014

At 1:43 p.m., Mr. McMillan asked Ms. Julie A. Zemaitis, executive director of University audits, to provide a summary of internal audit activity for the quarter ended December 31, 2014 (materials on file with the clerk). Ms. Zemaitis presented the audit plan completion status and discussed the impact of open audit staff positions. She then discussed audit report findings by moderate risk or priority; there were no findings of high risk or priority identified during the quarter. She then showed the implementation of audit recommendations. Next, Ms. Zemaitis presented the aging of outstanding recommendations by management's original implementation date and provided risk, priority, and location details on recommendations with management's original implementation dates of Fiscal Year 2014 and prior. Ms. Zemaitis also delivered information on the management satisfaction surveys conducted. Mr. McMillan stated that, on behalf of Ms. Pamela B. Strobel, former trustee and member of the committee, he wished to compliment those involved in the audit process. Mr. McKeever agreed with

Mr. McMillan's statement, and added that the committee should monitor how budget cuts might affect internal audit staff.

Legislative, Audit, Budget, and Financial Updates

Mr. McMillan then asked Mr. Knorr to provide legislative, audit, budget, and financial updates. Mr. Knorr announced the sale of the auxiliary revenue bonds that were approved in November, provided details on the outcome, and congratulated those involved. He stated that the University's credit rating remains at AA3, which is ahead of the State and the City of Chicago. Mr. Knorr discussed the governor's budget address on February 18, and the \$209 million (31 percent) proposed cut in appropriations, and detailed areas of the University that would be affected. He said he believed the budget picture would evolve over the next several months and would depend on the resolution in the State's Fiscal Year 2015 budget shortfall. Mr. Knorr noted that his office has responded to several legislators' requests for information. He also discussed compliance with the governor's executive orders regarding non-essential spending and long-term employment contracts. Mr. Knorr detailed the Illinois Supreme Court's review of pension reform legislation and noted the potential impact of a decision on the University. He reviewed appropriation hearings, set for March 19, stating that the University would offer to do its part for a solution to the State's economic concerns while seeking to maintain the quality of the institution and its impact as an economic driver in the State. President Easter inquired about the impact of the proposed budget reductions on grants received from State agencies, and Mr. Knorr stated that some institutes and grants will be

affected, including grants that are in progress. Mr. McMillan congratulated those involved with the bond sale.

OLD BUSINESS

There was no business presented under this aegis.

NEW BUSINESS

Mr. McMillan announced that the next meeting is scheduled for Monday, April 27, 2015, at 1:00 p.m.

MEETING ADJOURNED

On motion of Mr. Montgomery, seconded by Mr. McKeever, the meeting adjourned at 2:01 p.m. There were no "nay" votes.

Respectfully submitted,



SUSAN M. KIES
Clerk



EDWARD L. McMILLAN
Chair



AUBRIE L. WILLIAMS
Assistant Clerk

