

APPROVED BY THE
COMMITTEE

MAR - 5 2012

Susan M. Kies

SECRETARY OF THE BOARD

Designate

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

January 9, 2012

This meeting of the Audit, Budget, Finance, and Facilities Committee was held on Monday, January 9, 2012, beginning at 1:05 p.m. via videoconference in Room 1030, National Center for Supercomputing Applications, 1205 West Clark Street, Urbana; Room 414, Administrative Office Building, 1737 West Polk Street, Chicago; and the Hatmaker Room, Room 550, Public Affairs Center, One University Plaza, Springfield. 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. Edward L. McMillan, Mr. James D. Montgomery, Mr. Lawrence Oliver, and Ms. Pamela B. Strobel. Mr. John W. Tienken, student trustee from the Springfield campus, was present.

Also present were President Michael J. Hogan; Mr. Walter K. Knorr, vice president/chief financial officer and comptroller; Dr. Christophe Pierre, vice president for academic affairs; Dr. Phyllis M. Wise, vice president, University of Illinois and chancellor of the Urbana campus; Mr. Thomas R. Bearrows, University counsel; Mr. Thomas P. Hardy, executive director for University relations; Dr. Michele M. Thompson, secretary of the Board of Trustees and of the University, and Dr. Susan M. Kies, secretary-designate of the Board of Trustees and of the University.

Attached is a listing of other staff members in attendance at this meeting, as well as some members of the media.

Mr. McMillan welcomed everyone to the meeting and stated that the first item on the agenda was to approve the minutes from the meeting that was held on November 21, 2011. On motion of Mr. Montgomery, seconded by Mr. Oliver, the minutes were approved. There were no nay votes.

PRESENTATIONS TO THE COMMITTEE

Review of the State Economy

Mr. McMillan asked Dr. Richard Dye, co-director and professor, Institute for Government and Public Affairs, University of Illinois, to provide a presentation on the State's economy and budget (materials on file with the clerk). Dr. Dye began his presentation with a discussion of the historical and current unemployment rates in Illinois and throughout the country, and stated that unemployment has remained constant in Illinois in recent months and has not declined as it has in the rest of the country. He then compared unemployment in Illinois and Michigan, explained that the economy in Illinois is often considered dependent on a manufacturing economies that exist in states such as Michigan, and showed that unemployment in Michigan has decreased dramatically in recent months, noting that this may indicate an improvement in the Illinois economy in the near future. Next, he presented graphs depicting the change in total non-farm employment in the United States, Midwest, and Illinois from 2001 through 2011 and the level of employment in Illinois, Michigan, and Indiana from 1990 through 2010. He told the committee that while Illinois and the Midwest had been leading the country in economic recovery, unemployment and employment rates in Illinois remained constant in November 2011.

Dr. Dye then reported on the Illinois fiscal situation, and referred to the structural deficit, unpaid bills, and unfunded future obligations of the State. He discussed the estimated total owed by the State, including future pension costs, and Mr. Knorr commented on the backlog of unpaid bills and the cost of retiree health benefits. Dr. Dye emphasized the need to consider all funds when evaluating the State's finances, and said that fiscal balance would not be achieved for at least six years, even if higher tax rates are maintained and severe spending austerity are imposed. He used charts to show the decrease of the budget gap that resulted from the tax increase in January 2011 and the projected budget gap resulting from the phasing out of the tax increase. He also presented a chart depicting a balanced budget in 2019 based on a continued tax increase and spending austerity, and told the committee that the backlog of payments for unpaid bills and the unfunded pension liability are not included in these figures. Lastly, Dr. Dye reported that Moody's downgraded the State's credit rating because of its unfunded pension liability and bill payment delays, and he discussed the impact of the January 2011 tax increase on the State's credit ratings from Standard and Poor's and Fitch.

Committee members discussed the ramifications of these changes to the State's credit ratings, as well as the impact of potential flat funding to education by the State, which was evident in the three-year preliminary State budget. Additional discussion regarding cuts identified in the State budget followed, and Mr. Knorr told the committee that the University will likely be visited by Moody's soon in response to its downgrading of the State's credit rating.

Mr. McMillan thanked Dr. Dye for the presentation.

REVIEW OF RECOMMENDED BOARD ITEMS FOR THE MEETING OF THE BOARD
OF TRUSTEES OF THE UNIVERSITY OF ILLINOIS ON JANUARY 9, 2012

Student Fees and University-Operated Housing Rates

Next, Mr. McMillan asked Mr. Knorr to provide information regarding student fees and University operated housing rates for fiscal year 2013. Mr. Knorr began his presentation (materials on file with the clerk) with a description of student fees and assessments and their uses, and he provided information about proposed changes to the fee structure on the Urbana campus to combine \$73 of refundable and nonrefundable fees into a single nonrefundable fee at a decreased cost of \$64. He also reported that the Chicago campus proposed to assess a new \$4 sustainability fee, which he said was passed by a student referendum. He presented the proposed student fees and assessments by semester for each campus, which he said would result in a \$5 increase per semester at Urbana, \$3 at Chicago, and \$18.5 at Springfield. Next, Mr. Knorr reviewed the proposed undergraduate room and board rates per semester at each campus, which he said would result in a cost increase of 2.5 percent at Urbana, 2.0 percent at Chicago, and 2.1 percent in Springfield, noting that these increases are calculated on a cost recovery basis. He stated that some increase at Urbana is also due to the cost of debt service. He then presented the proposed costs for student health insurance per semester, which he said will be finalized in April or May, and said this insurance is intended for students who are not already covered under their parents' health insurance.

Diversity Mission Statement

Mr. McMillan then asked Dr. Heather Haberaecker, executive assistant vice president for business and finance, to report on a diversity mission statement that will appear on the Board's agenda at its meeting on January 19, 2012. Dr. Haberaecker told the committee that the Bronner

Group, who had been hired to provide recommendations and assistance to the University regarding its supplier diversity program, recommended that the current mission statement be evaluated and updated, and she reported that slight changes were made, including the establishment of a goal of 20 percent for diverse business participation across the University. She said this is a high aspirational goal, and she referred to the importance of establishing this ambitious goal in the mission statement. She also briefly discussed the guiding principles included in the mission statement, and said that there may also be an additional goal dealing with businesses owned by veterans at a later date.

Committee members discussed the revised mission statement, and Dr. Haberaecker provided clarification that the goal of 20 percent does not pertain to each campus, but to the University as a whole, and noted that the current rate of participation among minority vendors is 10 percent. Discussion followed regarding the allowable University expenditures for this goal, and Mr. Michael Bass, senior associate vice president for business and finance and deputy comptroller, explained that in accordance with the MAFBE (Minority and Female Business Enterprise) Act, there are certain areas of spending to certified MAFBE owned businesses that must be reported to the State. He said that this does not limit the way in which the University administers its own supplier diversity program, adding that it may be possible to identify opportunities that have not been available in the past. Committee members then discussed sole source contracts, and Mr. Montgomery provided some recommended edits to the mission statement.

Next, Mr. Bass reviewed the timeline for the implementation of supplier diversity initiatives, and he said that positions, such as the director of supplier diversity, will be filled

using currently available resources. He told Mr. Montgomery that he would provide an organizational chart for this group when it is available.

Purchase Recommendations

Mr. McMillan asked Dr. Haberaecker to review the purchase recommendations that will be on the agenda for the meeting of the Board of Trustees on January 19, 2012 (materials on file with the clerk). Dr. Haberaecker provided information regarding the recommended purchase of a subscription to electronic journals by Urbana for all three University campus libraries.

Capital Items and Real Estate

Mr. McMillan then asked Mr. Bass to report on items related to capital projects and real estate that will be on the agenda for the Board meeting on January 19, 2012 (materials on file with the clerk). Mr. Bass provided information regarding items requesting approval of a project to renovate Lecture Center A1 at Chicago and for the hiring of a construction manager for the renovation of the natural history building at Urbana. He also discussed an item requesting approval to amend the professional services agreement for the construction of the Mile Square Health Center at Chicago to account for architectural and engineering services related to the increased scope of the project.

There was no opposition to any of these recommendations being advanced to the Board as a whole.

PRESENTATIONS TO THE COMMITTEE, CONTINUED

State Legislative, Budget, and Audit Update

Mr. McMillan then asked Mr. Knorr to provide an update on State legislation, the budget, and on the University's annual financial audit. Mr. Knorr stated that the governor recently signed legislation to approve funding for the Monetary Award Program (MAP) and Prairie Research

Institute (State surveys), and also signed legislation to approve some procurement exemptions for colleges and universities. He then reported that Urbana received \$13.3 million of MAP funding on the day of this meeting, and said he was unsure of the receipt of MAP funding at the other campuses. He said that the State appropriation from the prior year was paid in full in December, and that the State currently owes \$242.0 million of its appropriation for the current year, noting that this is an improvement from last year. Next, he discussed a successful bond sale and the refunding of auxiliary system bonds, which he said will result in savings of \$7.5 million. He provided a brief update on the hiring of additional fixed income investment managers. Next, he stated that the results of the University's 2011 financial audit were released by the State Auditor General, and said that a presentation on this will be made at the next meeting of this committee. He referred to the University's financial strength and said the audit results contain clean opinions, and he told the committee that the firm KPMG conducted the audit under the auspices of the Auditor General. Lastly, Mr. Knorr briefly discussed the recent credit ratings from Standard and Poor's, which included an A1 credit rating for the hospital and the downgrade of a bond issue that was supported by a letter of credit. He said Standard and Poor's commented on the hospital's available cash, and said that this is being closely monitored.

OLD BUSINESS

There was no business presented under this aegis.

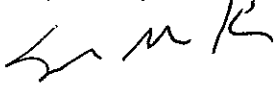
NEW BUSINESS

Mr. McMillan announced that the next meeting of this committee is scheduled for Monday, March 5, 2012, at 1:00 p.m.

MEETING ADJOURNED

Mr. McMillan requested a motion to adjourn the meeting. On motion of Mr. Montgomery, seconded by Mr. Oliver, the meeting adjourned at 2:25 p.m. There were no nay votes.

Respectfully submitted,



Susan M. Kies

*Clerk
designate smk*



Edward L. McMillan

Chair



Eileen B. Cable

Assistant Clerk

AUDIT, BUDGET, FINANCE, AND FACILITIES COMMITTEE MEETING
STAFF AND PUBLIC ATTENDANCE, MEETING OF JANUARY 9, 2012

Urbana Campus Site

Abbas Aminmansour, associate professor, architecture, Urbana-Champaign campus
Mike Bass, senior associate vice president for business and finance and deputy comptroller
Sophia Beausoleil, reporter, WCIA
Sean Doners, reporter, WILL
Kevin Duff, manager, capital programs and real estate services
Randy Kangas, associate vice president for planning and budgeting
Janier Koss, staff, Board of Trustees
Nathaniel Lash, reporter, Daily Illini
Jo Menacher, associate director, planning and budgeting
Jill Odom, administrative assistant, office of the vice president/chief financial officer and comptroller
Maureen Parks, executive director and associate vice president for human resources
Pat Patterson, controller and senior assistant vice president, business and financial services
Menah Pratt-Clarke, associate chancellor, Urbana-Champaign campus
Scott Rice, senior associate University counsel
Maxine Sandretto, assistant vice president for business and finance, Urbana-Champaign campus
Sandy Street, director of budget planning, planning and budgeting
Joseph Vitosky, assistant vice president, capital programs and real estate services
Julie Wurth, reporter, the News-Gazette
Julie Zemaitis, executive director of University audits

Chicago Campus Site

Colleen DeHart, media specialist, university relations
Richard Dye, professor, institute for government and public affairs
Mark Donovan, vice chancellor for administrative services, Chicago campus
Frank Goldberg, vice provost for resource planning and management, Chicago campus
Heather Haberaecker, executive assistant vice president for business and finance, Chicago campus
Barbara Henley, vice chancellor student affairs, Chicago campus

Springfield Campus Site

Aaron Shures, associate provost, director of business and financial analysis, Springfield campus

Teleconference

Eileen Cable, assistant to the secretary, board of trustees
Jodi Cohen, reporter, Chicago Tribune
Maureen Bosovich, reporter, WICD