


APPROVED BY THE
COMMITTEE

MAY 05 2014


SECRETARY OF THE BOARD

MEETING OF THE AUDIT, BUDGET, FINANCE, AND FACILITIES COMMITTEE
OF THE BOARD OF TRUSTEES OF THE UNIVERSITY OF ILLINOIS
FEBRUARY 24, 2014

This meeting of the Audit, Budget, Finance, and Facilities Committee was held on Monday, February 24, 2014, at 1:00 p.m. in Room 1030, National Center for Supercomputing Applications, 1205 West Clark Street, Urbana. Attendance via videoconference was available in Room 270, College of Pharmacy Building, 833 South Wood Street, Chicago; the Hatmaker Room, Room 550, Public Affairs Center, One University Plaza, Springfield; and Room S200A, 1601 Parkview Avenue, College of Medicine, Rockford. 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: Dr. Timothy N. Koritz; Mr. Edward L. McMillan; Mr. James D. Montgomery; Ms. Pamela B. Strobel¹. The following committee members were also present: Mr. Michael A. Cunningham, voting student trustee from the Urbana campus; and Mr. Jamaal E. Hollins², student trustee from the Springfield campus. Mr. Lester H. McKeever, Jr., treasurer, was absent. Ms. Danielle M. Leibowitz, student trustee from the Chicago campus, attended the meeting. President Robert A. Easter was also present.

¹ Ms. Strobel participated via telephone.

² Mr. Hollins arrived at 1:06 p.m.

Also present were Mr. Walter K. Knorr, comptroller (and vice president/chief financial officer); Dr. Christophe Pierre, vice president for academic affairs; 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 13, 2014. On motion of Mr. Montgomery, seconded by Ms. Strobel, 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 6, 2014

Mr. McMillan asked the appropriate individuals in attendance to provide presentations and report on the items that will appear on the Board's agenda at its meeting on March 6, 2014. All proposed items discussed at the meeting are on file with the clerk.

Student Health Insurance Rates, Urbana, Chicago, and Springfield,
Academic Year 2014-15

Dr. Peter J. Newman, senior assistant vice president for treasury operations, provided a presentation on the item recommending student health insurance rates at Urbana, Chicago, and Springfield (materials on file with the clerk). He discussed various cost drivers and presented the recommended rates and percent increase at each campus. Dr.

Newman provided the breakdown of the 14.6 percent increase at Urbana and explained that 1 percent is due to coverage of gender reassignment surgery, and the remainder is due to administrative costs and Affordable Care Act requirements. He reported that the recommended rates at Chicago reflect a 2.2 percent increase, and he explained that the Chicago campus offers a self-funded insurance plan with services provided by the hospital. Dr. Newman indicated that Affordable Care Act requirements are being phased in on a different time frame for self-funded plans than the plans available at Urbana and Springfield. He then discussed the recommended 28.9 percent increase at Springfield and explained that this is due to the small population and Affordable Care Act mandated requirements.

Discussion followed regarding the cost of student health insurance at Chicago, which is the highest of the three campuses. Dr. Barbara Henley, vice chancellor for student affairs at Chicago, indicated that this is due to the high cost of doing business in Chicago, and also stated that the plan offered is more comprehensive than the insurance plans available at Urbana and Springfield. Dr. Newman stated that the impact of the Affordable Care Act on the future cost of the plan has yet to be determined.

Mr. Cunningham commented on the recommended insurance rates for Urbana and expressed some reservation regarding the coverage of gender reassignment surgery, stating that he was only recently informed of this and was unsure whether students were aware of this change to the insurance. Dr. C. Renée Romano, vice chancellor for student affairs at Urbana, provided some background on this and stated that discussions on this topic began last spring when the Chicago campus approved

coverage of gender reassignment surgery in their health insurance plan. She stated that the student insurance committee at Urbana wanted gender reassignment surgery to be covered by student health insurance. Dr. Romano reported that this was also discussed with the Graduate Employees' Organization, and she referred to a resolution from the student senate on transgender issues. Discussion regarding the lack of involvement of the student trustee followed, and Dr. Romano stated that previous student trustees were not engaged in discussions regarding student health insurance. Dr. Koritz reiterated the comments he made when the coverage of gender reassignment surgery at Chicago was discussed and referred to a medical ethics issue due to the permanent sterility that would result from this type of surgery. He also referred to the opinions of parents who may be paying for this insurance and said it should be a refundable fee. Mr. McMillan also expressed concern that there is not an option to opt-out of paying for the portion of the rates that cover gender reassignment surgery. Ms. Strobel stated that providing an option to opt-out would skew the rates for insurance and expressed discomfort regarding decisions made based on parental involvement and opposition. Mr. McMillan reiterated the lack of student trustee involvement. Mr. Hollins commented on the recommended insurance rates for Springfield and stated that students understand the reasons for the increase there. There were no objections to the item going forward to the full Board.

Capital Projects and Real Estate

At 1:26 p.m., Mr. McMillan asked Mr. Michael B. Bass, senior associate vice president for business and finance and deputy comptroller, to provide information regarding capital and real estate items.

Mr. Bass discussed the recommendation to increase the project budget for the Integrated Bioprocessing Research Laboratory, Urbana, and introduced Ms. Ellen Bailey Dickson from Bailey Edward to provide a presentation on the proposed design for the building (materials on file with the clerk). Ms. Dickson stated that the design for the Integrated Bioprocessing Research Laboratory was previously approved and that this presentation reflects some aesthetic modifications. She reviewed the design-build project team, the site plan, project goals, and project scope and summary. Ms. Dickson then presented prospective sketches and elevations and highlighted revisions that were made since the project was approved. Mr. Bass then provided information regarding financing, and Mr. Montgomery requested that information be provided regarding Minority and Female Business Enterprise (MAFBE) participation.

Next, Mr. Bass commented on the item that recommends renaming the Surveying Building at Urbana to the Irwin Center for Doctoral Study in Business, which he said will provide a contemporary infrastructure for business doctoral students and post-doctoral scholars as they pursue their research and teaching activities.

Mr. Bass then provided information regarding the proposed project for renovation of the Surveying Building at Urbana. He stated that this will provide

additional space for new research areas and associated support spaces for doctoral students in the College of Business.

Mr. Bass discussed the recommendation to rename the Women's and Children's Health Center at Rockford as the University Children's Health Center. He said this would provide an appropriate description of the building's use, since the College of Medicine will no longer provide women's health care there and will continue to provide pediatric care.

Next, Mr. Bass commented on the recommended project for renovation of the Everitt Laboratory at Urbana. He stated that this project proposes to remodel 124,206-square feet of space while converting more than 10,000-square feet into new research areas and associated support spaces for the department of bioengineering.

Mr. Bass then discussed recommended contracts for the renovation and addition of the State Farm Center at Urbana. He commented on the work included in this second phase of the project and stated that the costs total approximately \$88.0 million. He reported that MAFBE participation equals 13.8 percent and indicated he would send a breakdown of this information to Mr. Montgomery.

Next, Mr. Bass provided information regarding the recommended contracts for Stanley O. Ikenberry Commons-Residence Hall No. 3, Urbana. He stated that the work included in this second phase of construction totals approximately \$130.0 million and that the MAFBE participation rate is 14 percent to 15 percent.

Mr. Bass then discussed the recommendation to increase the project budget for additions and renovation of the Chemistry Annex Building at Urbana. He stated that

this project was previously approved and that the additional project costs are \$1,960,790. He provided information regarding funding for this project.

Lastly, Mr. Bass provided information on the recommendation to increase the project budget for the Natural History Building at Urbana. He discussed the cost of additional items and associated design fees and said the final budget will total more than \$73.0 million.

Purchase Recommendation

Mr. McMillan asked Dr. Heather J. Haberaecker, executive assistant vice president, Office of Business and Finance, to report on purchase and renewal recommendations. Dr. Haberaecker discussed the recommendation of a renewal option for the purchase of human organs, including tissue and histocompatibility testing services, for accredited transplant programs at the University of Illinois Hospital and Health Sciences System. She explained that this vendor is the only certified, federally qualified organ procurement organization in the region. Brief discussion regarding the number of transplants performed each year followed, and Dr. Haberaecker stated that the amount specified in the agenda item is an estimate and will be used depending on need.

Fiscal Year 2014 Services and Management Agreement for the University of Illinois Foundation

At 1:47 p.m., Mr. McMillan asked Mr. Knorr to provide information regarding the recommendation to amend the Fiscal Year 2014 services and management agreement for

the University of Illinois Foundation. Mr. Knorr stated that this amendment would provide an additional \$870,000 to the Foundation, and he commented briefly on funding for this.

Internal Audit 2nd Quarter Report

Next, Mr. McMillan asked Ms. Julie A. Zemaitis, executive director of University audits, to provide a summary of internal audit activity for the second quarter ended December 31, 2013 (materials on file with the clerk). Ms. Zemaitis reviewed the audit plan completion status through December 31, 2013, and stated that it is similar to the second quarter from the previous year. She then reported on high and moderate risk or priority audit recommendations. Ms. Zemaitis presented the implementation of audit recommendations and discussed an increase in the number of new recommendations this quarter. She reported on the aging of outstanding audit recommendations and stated that work is underway in this area. Ms. Zemaitis informed the committee of an external quality assessment review of the Office of University Audits and said that this is required every five years.

Financial and Compliance Audit Fiscal Year 2013

At 1:55 p.m., Mr. McMillan asked Mr. Patrick M. Patterson, controller and senior assistant vice president for business and finance, to provide a presentation on the Fiscal Year 2013 Financial Audit (materials on file with the clerk). Mr. Patterson thanked University staff and the auditors at KPMG for their work on the audit and reported that

the University received an unmodified or clean audit opinion on financial statements. He discussed two findings – year-end expense/revenue accrual and deferral processes; and P-Card procedures – and said that significant improvements have been made in these areas. Mr. Patterson provided some financial statement highlights and reported that the Fiscal Year 2013 federal and State compliance audits will be available in mid- to late-March.

Discussion followed regarding the \$466 million growth in net position, and Mr. Patterson explained that some of this is due to tuition combined with expenditure controls, adding that some is not recurring. President Easter noted that many factors contribute to tuition revenue, including the number of students and those who enroll from out of state.

Investment Performance

Next, Mr. McMillan asked Dr. Newman to provide an update on investment performance (materials on file with the clerk). Dr. Newman acknowledged Mr. Dean A. Hagan, director of University investments, and Mr. Brady O'Connell, from Hewitt EnnisKnupp, Inc. Dr. Newman provided a capital markets review as of December 31, 2013, and presented the preliminary endowment pool performance. He used the NACUBO Commonfund Study of Performance to compare the performance of the University's endowment to those at peer institutions, and he commented that he is pleased with the performance. Dr. Newman then provided the endowment pool asset allocation and a summary of endowment pool activity. He discussed the emerging manager of managers

opportunity fund. Mr. McMillan complimented Hewitt EnnisKnupp, Inc., and Dr. Newman for their work.

Mr. McMillan left the meeting at 2:08 p.m., and Mr. Montgomery served at chair *pro tem* for the remainder of the meeting.

Federal, State, and Local Budget and Financial Updates

Mr. Montgomery asked Mr. Knorr to provide a federal, State, and local budget and financial update. Mr. Knorr stated that he would be appearing before the legislative audit commission the following day regarding the Fiscal Year 2012 audit. He reported that \$357.0 million is due to the University by the State, and he discussed Fiscal Year 2015 funding for Medicaid. Mr. Knorr told the committee that the State appropriation hearing will take place on March 21, 2014. He also reported on the success of the recent bond sale and said that the University secured a rate of 4.76 percent, which was better than expected.

OLD BUSINESS

There was no business presented under this aegis.

NEW BUSINESS

Mr. Montgomery announced that the next meeting of this committee is scheduled for Monday, May 5, 2014, at 1:00 p.m.

MEETING ADJOURNED

On motion of Mr. Cunningham, seconded by Dr. Koritz, the meeting adjourned at 2:12 p.m. There were no "nay" votes.

Respectfully submitted,



SUSAN M. KIES
Clerk



EDWARD L. MCMILLAN
Chair



EILEEN B. CABLE
Assistant Clerk

