

OCT 31 2016

Dedra M. Williams
SECRETARY OF THE BOARD

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

AUGUST 29, 2016

This meeting of the Audit, Budget, Finance, and Facilities Committee was held on Monday, August 29, 2016, at 1:00 p.m., in Room 270, College of Pharmacy, 833 South Wood Street, Chicago, Illinois. Attendance via videoconference was available in Room 1030, National Center for Supercomputing Applications, 1205 West Clark Street, Urbana, Illinois; and the Hatmaker Room, Room 550, Public Affairs Center, One University Plaza, Springfield, Illinois.

Trustee Ramón Cepeda, chair of the committee, convened the meeting and asked the clerk to call the roll. The following committee members were present: Mr. Ramón Cepeda; Mr. Lester H. McKeever Jr., treasurer; Mr. Edward L. McMillan; Mr. James D. Montgomery. The following student trustees were present: Mr. Collin T. Schumock, voting student trustee, Urbana, and Mr. Nathan C. Hoffman, Springfield. President Timothy L. Killeen was present.

Also in attendance were: Mr. Walter K. Knorr, comptroller (and vice president/chief financial officer); Mr. Thomas R. Bearrows, University counsel; Ms. Dedra M. Williams, secretary of the Board of Trustees and of the University; and Mr.

Thomas P. Hardy, executive director for University relations. Attached is a listing of other staff members and some members of the media in attendance at this meeting.

Mr. Cepeda welcomed everyone to the meeting and asked if there were any comments or corrections to the minutes from the meeting held July 11, 2016. On motion of Mr. McKeever, seconded by Mr. Montgomery, 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 SEPTEMBER 8, 2016

Mr. Cepeda 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 September 8, 2016. All proposed agenda items discussed at the meeting are on file with the clerk.

Capital and Real Estate Items

Mr. Cepeda asked Mr. Michael B. Bass, senior associate vice president and deputy comptroller, to discuss recommended capital and real estate items. Mr. Bass referred to the recommendation to approve the design for upgrade and expansion of the Educational Laboratory at Talbot Laboratory, Urbana, and he introduced Ms. Horeya Czaplewski from the firm Exp to give a design presentation (materials on file with the clerk). Ms. Czaplewski reviewed the project team and its subcontractors and discussed aspects of the project. She presented the master plan and highlighted site constraints and conditions, and she showed the committee various perspectives of plans for the addition. She

emphasized design features that are meant to convey a feeling of movement. Brief discussion followed, and Ms. Czaplewski explained that the project statement was provided by the department heads who emphasized that they wanted the addition to be engaging and interesting. Ms. Czaplewski also provided additional information about the material to be used for the façade, and she told the committee that she does not anticipate that this project will impact the building's eligibility to potentially receive historic designation. Mr. Bass and Mr. Cepeda thanked Ms. Czaplewski for the presentation.

Mr. Bass then provided information on the recommendation to award a construction contract for Phase 2 of the gas boiler replacement at the Abbott Power Plant at Urbana. He reviewed the history of the project, which was originally approved by the Board in May 2014, and commented on the Environmental Protection Agency timeline requirements. He provided Minority and Female Business Enterprise (MAFBE) participation rates and discussed the scope of the work.

Next, Mr. Bass commented on the recommendation to increase the project budget and award a construction contract for Phase 2 of the restroom renovation at the Pennsylvania Residence Halls at Urbana. He described the history of the project and scope of the work to be completed, stating that this will convert the existing multiuser restroom spaces to single-use restrooms within the existing footprint of the current restroom space. He said this will provide improved privacy, comfort, and accessibility.

Purchase Recommendations

Mr. Cepeda then asked Mr. Richard D. Elmore, assistant vice president for procurement services, to report on purchase recommendations. Mr. Elmore provided information on the recommendation to make a purchase to modify the existing Single Automatic Extraction Condensing Steam Turbine (SAXC) to a Single Automatic Extraction Non-Condensing (SAXNC) operation at Urbana's Abbott Power Plant. He said this is a sole source purchase and told the committee that sole source procedures were followed in accordance with the Illinois Procurement Code. Discussion followed regarding an analysis of the cost to repair versus replace this equipment.

Mr. Elmore then reported on the recommendation to purchase marketing and delivery services for large-scale, low-cost online degree programs from Coursera, Inc., for Urbana. He stated that this is a sole source purchase the vendor has a proprietary learning management system which readily supports more than 100,000 learners per course and has the expertise in market data analytics to better identify students interested in degree programs. Mr. Elmore indicated that sole source procedures were followed in accordance with the Illinois Procurement Code. Mr. McMillan inquired about similarly sized programs offered through Coursera, and Dr. Charles L. Tucker III, vice provost for undergraduate education and innovation, indicated that this would be the first of its kind. Dr. Tucker provided information about similar programs offered through Udacity from Georgia Institute of Technology and said they are smaller in scale. Dr. Tucker then described the University's experience with Coursera and explained that students can

currently use Coursera to enroll in no-cost massive open online courses (MOOCs) or pay a modest fee to receive a certificate. He explained that this new, third option will permit students to register as University students in degree-granting programs at a lower cost than attending through traditional routes, noting that this is possible because of the large scale. He indicated there is no concern that this online option will have a negative impact on enrollment of face-to-face students, and he said that Georgia Institute of Technology experienced an increase in applications for face-to-face degree programs after they offered large-scale degree programs through Udacity. Dr. Tucker also responded to questions regarding the increase in cost of renewals with Coursera and said this is due to the anticipated increase in enrollment.

Next, Mr. Elmore discussed the recommended sole source purchase of a TrueBeam linear accelerator to be used in the Department of Radiation Oncology at the University of Illinois Hospital and Health Sciences System. He provided information about the equipment and said that sole source procedures were followed in accordance with the Illinois Procurement Code.

Mr. Elmore then reported on the recommended renewal for patented medical products on an as-needed basis for cardiac, spinal, and orthopedic surgeries for the Department of Surgical Services at the University of Illinois Hospital and Health Sciences System. He described the type of equipment and stated that this is the first of two renewal options. He indicated that this vendor has demonstrated greater than satisfactory performance.

Next, Mr. Elmore gave information on the recommended renewal for the Department of Radiation Oncology at the University of Illinois Hospital and Health Sciences System for the purchase of specialized radiation oncology services from the University of Chicago. He said this is the second of three renewals. He explained that professional radiation oncology services have been provided through an outsource agreement with the University of Chicago hospitals since 2004, noting that the University of Illinois Hospital and Health Sciences System does not employ staff to provide these services. Mr. Elmore also clarified that these services are provided at the University of Illinois Hospital.

Academic and Administrative Appointments for Contract Year 2016-17

Mr. Cepeda then asked Mr. Knorr to comment on the recommendation to approve academic and administrative appointments for Contract Year 2016-2017. Mr. Knorr stated that this item represents the so-called "Gray Book," which contains salaries for the new contract year and explained this is an annual statutory requirement.

Certificates of Participation (Refunding)

Next, Mr. Cepeda asked Mr. Robert L. Plankenhorn, assistant vice president for treasury operations, to discuss the recommendation to approve the resolution authorizing the issuance and sale of University of Illinois certificates of participation. Mr. Plankenhorn stated that the Board previously delegated authority to the vice president/CFO and comptroller and authorized a number of actions leading toward the issuance of one or

more series of certificates of participation. He stated that these certificates will refund or restructure some existing certificates of participation, and he reviewed aspects of the transaction that have been completed. He discussed components of the resolution authorizing the issuance and sale of University of Illinois certificates of participation and provided information on minority participation rates of the firms being used in this transaction.

Authorized Representative of the Board of Trustees of the University of Illinois
for the University of Illinois Liaison Office in New Delhi, India

Mr. Cepeda then asked Mr. Bass to comment on the recommendation to appoint an authorized representative of the Board of Trustees of the University of Illinois for the University of Illinois Liaison Office in New Delhi, India. Mr. Bass explained that the lease of office space in New Delhi will terminate at the end of September 2016, and that a new resolution is needed so that the authorized representative has continuing authority to sign and file documents with various government offices in India. Ms. Katherine C. Galvin, associate chancellor, Urbana, explained that the office is being closed for financial reasons and that it will cost \$14,000 per year to pay the liaison while the future of the office in India is being evaluated.

Endowment Investment Performance

Next, Mr. Cepeda asked Dr. Peter J. Newman, associate vice president for treasury operations, to give an endowment investment performance and program update (materials

on file with the clerk). Dr. Newman presented a capital markets review and commented on the impact of the United Kingdom's intention to withdraw from the European Union (also known as "Brexit") on the market. He showed performance and peer rankings of the endowment pool and discussed the endowment pool asset allocation. Dr. Newman gave a 10-year summary of endowment pool activity, provided an asset manager update, and reviewed several investment office projects. Discussion followed regarding the timeline for the shift in endowment pool asset allocation. Committee members also discussed the impact of fees on the endowment pool benchmarks and suggested that this could be noted in the report.

Fourth Quarter and Annual Report for the Year Ended June 30, 2016

At 2:02 p.m., Mr. Cepeda Ms. Julie A. Zemaitis, executive director of University audits, to give a fourth quarter and annual report for the year ended June 30, 2016. Ms. Zemaitis presented the audit plan completion status for Fiscal Year 2016 and highlighted hours spent on planned audits and special projects. She showed direct audit hours by type of project and by area in Fiscal Year 2015 and Fiscal Year 2016, and she presented the Fiscal Year 2016 productivity rate and compared this to peer groups. Next, Ms. Zemaitis showed the implementation of audit recommendations for Fiscal Years 2014, 2015, and 2016, and she presented open audit recommendations by risk and priority rating from June 30, 2015, and June 30, 2016. She discussed audit report findings from July 1, 2015, through June 30, 2016, and showed the aging of outstanding recommendations by management's original implementation date. Ms. Zemaitis reviewed high risk audit

recommendations with management's original implementation dates of Fiscal Year 2014 and prior and showed management's current expected implementation date. Lastly, she showed a chart depicting a decrease in the average number of days to implement audit recommendations. Brief discussion followed, and Mr. McKeever expressed concern regarding adequate staffing to perform this important function.

Legislative, Budget, and Financial Updates

Next, Mr. Cepeda asked Mr. Knorr to give a legislative, budget, and financial update. Mr. Knorr referred to changes to the return rate of the Teachers' Retirement System of the State of Illinois pensions and the State Employees' Retirement System of Illinois pensions and commented briefly on the impact of this adjustment on the State. He then discussed the bridge or stopgap State appropriation and the \$350.0 million lump sum appropriation and methods of using these funds to pay for expenses in Fiscal Year 2016 and Fiscal Year 2017. Mr. Knorr told the committee that he shared the operating loss that will be reported with the credit rating agencies. He also announced that he will be meeting with the legislative audit commission on February 22, 2017. Mr. McKeever thanked Mr. Knorr for his hard work.

OLD BUSINESS

There was no business presented under this aegis.


NEW BUSINESS

Mr. Cepeda announced that the next meeting of this committee is scheduled for Monday, October 31, 2016, at 1:00 p.m.


MEETING ADJOURNED

On motion of Mr. Montgomery, seconded by Mr. McKeever, the meeting adjourned at 2:20 p.m. There were no "nay" votes.

Respectfully submitted,


DEDRA M. WILLIAMS
Clerk


RAMÓN CEPEDA
Chair


EILEEN B. CABLE
Assistant Clerk