

APPROVED BY THE
COMMITTEE

AUG 29 2016

Aledra 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

JULY 11, 2016

This meeting of the Audit, Budget, Finance, and Facilities Committee was held on Monday, July 11, 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: Dr. Barbara J. Wilson, interim chancellor, University of Illinois at Urbana-Champaign, and interim vice president, University of Illinois; Mr. Walter K. Knorr, comptroller (and vice president/chief financial officer); Mr. Thomas R. Bearrows, University counsel; Mr. Thomas P. Hardy, director of University

relations; and Ms. Dedra M. Williams, 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. Cepeda welcomed everyone to the meeting and asked if there were any comments or corrections to the minutes from the meeting held May 9, 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 JULY 21, 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 July 21, 2016. All proposed agenda items discussed at the meeting are on file with the clerk.

Fiscal Year 2016 Financial Audit

Mr. Cepeda asked Mr. Michael B. Bass, senior associate vice president and deputy comptroller, to introduce the Fiscal Year 2016 financial audit presentation. Mr. Bass explained that CliftonLarsonAllen (CLA) is serving its second year as special assistant to the Office of the Auditor General and that this is a required communication. He then introduced Mr. Jeff Bonick and Mr. Chris Suda, both from CliftonLarsonAllen, who presented audit scope and deliverables for the year ended June 30, 2016. They showed the engagement timeline and engagement team, and they encouraged open

communication, welcoming Board members to contact them with questions or concerns. Mr. Bass described University support for the audit, and Mr. Knorr reported that he is scheduled to appear before the legislative audit commission in November regarding the Fiscal Year 2015 audit.

Capital and Real Estate Items

Mr. Cepeda asked Mr. Bass to discuss recommended capital and real estate items. Mr. Bass gave some background information on the project for the classroom addition at the School of Labor and Employment Relations, Urbana. He stated that the proposed project involves renovation of 2,500 square feet, as well as a 2,150 square-foot addition. He discussed the location of the building and funding for the project.

Next, Mr. Bass provided information on the proposed project for heating, ventilation, air conditioning, piping, and exhaust system upgrades, Trelease Hall and Florida Avenue Residence Halls Dining Hall, Urbana. He stated that this project would be paid through proceeds from auxiliary services revenue bonds and department funds and will upgrade the heating, ventilation, and air conditioning systems.

Mr. Bass then reported on the proposed project budget and construction contract for envelope repair, heating, ventilation and air conditioning upgrades at the Henry Administration Building, Urbana, and said that this will significantly improve the exterior envelope to provide energy savings, improve aesthetics, give better controllability, reduce maintenance, and produce better thermal comfort. He told the committee that the scope of work includes prioritized exterior window replacement;

masonry, stone, and concrete repair; and heating, ventilation, and air conditioning upgrades, and he explained that the requested budget increase is needed to fund the purchase of the bid alternate to replace a low-slope roof at the west wing of the building. Mr. Bass reported on the contract being recommended for approval, provided Minority and Female Business Enterprise (MAFBE) participation rates, and reviewed funding for the project.

Mr. Bass then discussed the recommendation to increase the project budget for infrastructure and life safety repairs, Phase II, Smith Memorial Hall, Urbana. He described the scope of the project, which was approved by the Board in May 2015, and said that results from a conceptualization study provided refined design solutions to correct deficiencies, along with updated cost estimates for the proposed work. He told the committee that the proposed increase is \$700,000 and is needed to complete this work, and he reviewed sources of funding for the project.

Next, Mr. Bass commented on the recommendation to increase the project budget for slate roof replacement at the English Building, Urbana, and said that the conceptualization phase report revealed the budget could not support a roof replacement of the entire facility. He stated that a \$2.0 million increase in the budget would support the project to include a new slate roof, dormer window replacement, rebuilding existing masonry chimneys for the east and north wings of the building, and replacement of the metal covering the domes on top of the two towers facing the Quad. Mr. Cepeda asked when the roof was last replaced, and Mr. Bass said he could get this information to him at a later date, noting that it had been a long period of time.

Lastly, Mr. Bass reported on the recommendation to increase the project budget and professional services consultant contract for renovation and addition, Mechanical Engineering Building, Urbana. He described the scope of the work and said that based on the conceptualization phase results, the cost to successfully complete this project, including the design and construction, will require a budget increase of \$34,962,305. He reported on MAFBE participation rates and funding for the project.

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 purchase pharmaceutical drug products on an as-needed basis for ambulatory care and hospital outpatient clinics and retail pharmacies at the University of Illinois Hospital and Health Sciences System from McKesson Corporation. Mr. Elmore discussed the procurement process related to this item and said that negotiations resulted in a 5.9 percent decrease in cost, noting that the anticipated annual cost for pharmaceutical drug products is expected to increase due to rising costs. Brief discussion followed regarding the cost of pharmaceutical drug products and methods for monitoring adherence to Business Enterprise Program (BEP) goals.

Next, Mr. Elmore discussed the recommended purchase of convenience foods and sundries for the University of Illinois food services, convenience stores, book stores, and departmental resale outlets from Eby-Brown Company, LLC. He stated that

this strategic contract was considered in order to minimize the number of individual contracts for these items throughout the University and leverage volume discounts.

Certificates of Participation – Refunding Series 2004, 2007A, and 2009A

Next, Mr. Cepeda asked Dr. Peter J. Newman, associate vice president for treasury operations, to report on the recommendation to delegate authority to the vice president/chief financial officer and comptroller to refund outstanding certificates of participation. Dr. Newman provided a presentation (materials on file with the clerk) and stated that the purpose of this recommendation is to refund all or a portion of outstanding certificates of participation Series 2007A and 2009A for debt service savings and to refund the entire variable rate Series 2004 with fixed rate certificates and to terminate the associated interest rate swap. He stated that this recommendation is being made in response to State and budget issues, and he told the committee that credit rating agencies view this as a positive approach. Dr. Newman reviewed the cost of refunding these certificates, reported on overall savings, and presented the financing team. Brief discussion followed regarding some details of this recommendation, and Mr. Knorr added that this eliminates risk and takes advantage of the current interest rate environment.

Two-Year Internal Audit Plan for Fiscal Years 2017-2018

Mr. Cepeda then asked Ms. Julie A. Zemaitis, executive director of University audits, to provide a presentation on the two-year internal audit plan for Fiscal Year 2017-2018 (materials on file with the clerk). Ms. Zemaitis reviewed key elements of the audit plan

development process, noting that the plan is flexible by design, and showed the categories of risk. She discussed statutory requirements and gave an audit plan distribution summary, and she presented a mapping of the Fiscal Years 2017-2018 plan to risk considerations and to the strategic framework. She reminded the committee that the plan is risk based and will be updated as needed throughout the year. Mr. McMillan inquired about the staffing level of her office, and Ms. Zemaitis said there are currently two open positions and that the plan was created based on current staffing levels. Mr. McKeever and Mr. Cepeda commended her on her presentation and for the work her office achieves with limited resources. President Killeen thanked her for her leadership.

Legislative, Budget, and Financial Updates

Next, Mr. Cepeda asked Mr. Knorr to give a legislative, budget, and financial update. Mr. Knorr referred to lump sum appropriation of \$349.2 million and said this will be paid from the educational assistance fund. He made additional comments regarding funding and told the committee that the “Gray Book,” which contains University appointments for the next academic year, and the “Green Book,” which contains the University’s Fiscal Year 2018 budget request, will be discussed at the next meeting of this committee. Mr. Knorr indicated that an “Orange Book,” which contains the University’s budget summary for operations, will likely not be available again this year due to uncertainties related to State funding. He reminded the committee that the University continues to operate within statutory requirements under the approval of the preliminary operating budget. Mr. Knorr then discussed the University’s credit ratings and reported that Standard and

Poor's downgraded the University's rating in response to the downgrading of the State's credit rating, noting that Standard and Poor's has strict guidelines that prevent a state university from being more than three levels higher than the State in which it resides. He commented on the refunding of certificates of participation and said this is a great opportunity to reduce risk. Mr. Knorr and members of the committee discussed expectations for the State appropriation, and Mr. Knorr reported on the amount of funding lost in Fiscal Year 2016. He thanked members of his staff for their work in this difficult climate.

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, August 29, 2016, at 1:00 p.m.

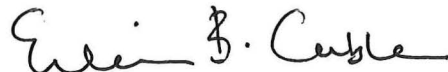
MEETING ADJOURNED

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

Respectfully submitted,


DEDRA M. WILLIAMS
Clerk


RAMÓN CEPEDA
Chair


EILEEN B. CABLE
Assistant Clerk