

MEETING OF THE AUDIT, BUDGET, FINANCE, AND FACILITIES COMMITTEE
OF THE BOARD OF TRUSTEES OF THE UNIVERSITY OF ILLINOIS
NOVEMBER 5, 2018

This meeting of the Audit, Budget, Finance, and Facilities Committee was held on Monday, November 5, 2018, at 3:00 p.m., in Room 414, Administrative Office Building, 1737 West Polk 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 secretary to call the roll. The following committee members were present: Mr. Ramón Cepeda; Mr. Donald J. Edwards; Mr. Lester H. McKeever Jr., treasurer; Mr. James D. Montgomery; Mr. Sanford E. Perl;¹ Ms. Shaina Humphrey, voting student trustee, Springfield; Mr. Darius M. Newsome,² student trustee, Chicago. Dr. Stuart C. King and Mr. Trayshawn M. W. Mitchell, student trustee, Urbana, were absent.

President Timothy L. Killeen was in attendance. Also present were: Dr. Barbara J. Wilson, executive vice president and vice president for academic affairs; Dr. Robert J. Jones, chancellor, University of Illinois at Urbana-Champaign, and vice

¹ Mr. Perl attended the meeting via telephone.

² Mr. Newsome attended the meeting via telephone from 3:10 p.m. until 4:34 p.m.

president, University of Illinois; Dr. Susan J. Koch, chancellor, University of Illinois at Springfield, and vice president, University of Illinois; Dr. Avijit Ghosh, comptroller (and vice president/chief financial officer); Dr. Edward Seidel, vice president for economic development and innovation; Mr. Thomas R. Bearrows, University counsel; and Ms. Dedra M. Williams, secretary of the Board of Trustees and of the University. President Killeen introduced Dr. James Brennan, associate professor, Department of History, Urbana, and member of the University Senates Conference's Finance, Budget and Benefits Committee. 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 acknowledged that this will be Mr. Montgomery's last meeting of the Audit, Budget, Finance, and Facilities Committee. Mr. Cepeda thanked Mr. Montgomery for his service to the University and to this committee. Mr. Montgomery said that he has enjoyed his experience as a trustee over the past 12 years and expressed appreciation for the collegiality among trustees. His comments were followed by a round of applause.

Mr. Cepeda asked if there were any comments or corrections to the minutes from the meeting held September 17, 2018. 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 NOVEMBER 15, 2018

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 November 15, 2018.

All proposed agenda items discussed at the meeting are on file with the secretary.

Fiscal Year 2020 Budget Request

Mr. Cepeda asked Dr. Wilson to discuss the recommendation to approve the budget request for Fiscal Year 2020. Dr. Wilson began her presentation (materials on file with the secretary) by providing the context for the budget request and highlighted the 162 percent increase in financial aid provided by the University over the last 10 years. She reported that the majority of students at each university pay less than full tuition and fees and said that financial aid and scholarships help lower costs for Illinois residents. Dr. Wilson then discussed decreased administrative costs and reductions in the number of non-instructional staff across the University. She presented State appropriations from Fiscal Year 2010 through Fiscal Year 2019 and said that the 2020 operations budget request reflects a 16.5 percent increase, noting that there may be more support for higher education in the coming year. Dr. Wilson showed that these additional funds would be used to ensure competitiveness, maintain infrastructure, and meet inflationary and other cost increases, and she provided some details about each of these expense categories. She told the committee that the Illinois Board of Higher Education indicated that institutions should request at least a 10 percent increase in their operations budget requests for Fiscal Year 2020, and she showed that the Fiscal Year 2020 budget request is still below the Fiscal Year 2015 funding level when adjusted for inflation.

Next, Dr. Wilson discussed the Fiscal Year 2020 capital request, which she said is \$769.4 million. She said these funds would be used for repair and renovation, innovation and workforce development, and library renovation and upgrades, and she provided additional information about the type of work to be completed in these categories.

Discussion followed, and Mr. Montgomery inquired about funding for scholarships provided by the University. Dr. Wilson explained that funds may come from donors or tuition, particularly tuition from out-of-state students. Mr. McKeever commended Dr. Wilson on the presentation. Mr. Edwards commented on tuition and the need to address the University's faculty-student ratios with a long-term tuition plan. Brief discussion followed, and Dr. Wilson referred to a five-year hiring plan that is underway. Committee members discussed faculty-student ratios, the impact of rapid revenue shifts, and the effects of the budget impasse.

UIC Master Plan Update

At 3:30 p.m., Mr. Cepeda asked Mr. Michael B. Bass, senior associate vice president and deputy comptroller, to report on the master plan update for the University of Illinois at Chicago. Mr. Bass provided some context for the master plan update and introduced Mr. Renauld D. Mitchell from Moody Nolan and Mr. Kevin Petersen from Ayers Saint Gross to give a presentation (materials on file with the secretary). Mr. Petersen referred to a collaborative process and listed the guiding principles that were the foundation for the plan, and he said it takes advantages of the university's assets while addressing its needs.

He discussed proposed short-term and long-term projects on the West Campus, East Campus South, and East Campus North and emphasized the creation of welcoming entries and spaces for people to congregate, the addition of new facilities to support academic and health-care programs, a reinforcement and extension of a collegiate feel to strengthen the university's brand and identity, the establishment of a variety of open spaces, improved connections to and from the city, and increased visibility of the university. Mr. Petersen showed a series of existing spaces throughout the campus and presented proposed projects for these spaces. Mr. Cepeda and the presenters briefly discussed potential changes to the soccer field, and Mr. Edwards asked about the role of finances in the master plan update and indicated that the total cost should be included in the plan. President Killeen referred to a five-year capital plan and said that project planning would be driven by the long-term master plan. Dr. Ghosh stated that some projects included in the master plan are already underway and said that the costs of completing the work reflected in the master plan will be determined. Mr. Cepeda added that the plan provides a framework for planning and decision-making.

Capital and Real Estate Items

Next, Mr. Cepeda asked Mr. Bass to report on capital and real estate items. Mr. Bass first commented on the recommendation to approve the project budget for renovation, Natural History Building, Urbana. Mr. Bass gave a history of the project and explained that the Natural History Building is a 120-year-old historic facility that was designed by renowned architect Mr. Nathan C. Ricker. Mr. Bass referred to extensive deferred

maintenance and unforeseen conditions that must be addressed and discussed challenges that have led to increased costs and delays, and he said a budget increase of \$934,000 is necessary to support additional costs necessary to complete the project. Mr. Edwards asked if it is a historic building and if it would have been cost effective to demolish and build new rather than renovate it, and Mr. Bass explained it is both on the National Register of Historic Places and a university landmark.

Next, Mr. Bass discussed the recommendation to approve the project budget for infrastructure and life safety, Phase 2, Smith Memorial Hall, Urbana, and explained that Smith Memorial Hall is a 100-year-old building that requires work to correct deferred maintenance infrastructure and life safety deficiencies. He said the project also includes the renovation of the seating in the Recital Hall. Mr. Bass reviewed the history of the project, which was approved by the Board in May 2015, and said that the need for repairs is more extensive than anticipated and that an additional \$300,000 is needed to complete the work.

Mr. Bass then reported on the recommendation to award construction contracts for research laboratories at the Medical Sciences Building, Chicago. He gave a history of the project, which was approved by the Board in May 2018, and said it would build state-of-the-art research laboratories on the fifth floor of the Medical Sciences Building, located at 835 South Wolcott Avenue, Chicago. Mr. Bass discussed the scope of work included in the contracts and reported on Women-Owned Business (WBE) and Minority and Female Business Enterprise (MAFBE) participation rates.

Mr. Bass provided information regarding the recommendation to amend the professional services consultant contract for Demirjian Park Stadium, Division of Intercollegiate Athletics, Urbana, and reported on the details of the project. He reviewed the history of the project and said this item recommends the approval to amend the professional services contract, noting that the professional services consultant was selected for this project and approved to proceed with design, bidding, construction administration, and warranty services in accordance with the donor agreement for the project. Discussion followed regarding the arrangement by which departments are responsible for paying for projects. Committee members also discussed the scheduling of projects financed by donor funds.

University of Illinois at Urbana-Champaign
Campus Instructional Facility and Feed Technology Center

Mr. Bass then reported on the recommendation to approve actions for the construction of the Engineering Instructional Facility and Feed Technology Center, Urbana. He told the committee this project is being constructed through a public-private partnership (P3) and described the Board's role in the process. Mr. Bass provided some details about the P3 arrangement and its benefits and reviewed the schedule, stating that completion is scheduled in spring of 2020 with a budget of \$75.0 million for the Engineering Instructional Facility and \$20.0 million for the Feed Technology Center. He thanked the staff at Urbana and the P3 team for making this project a possibility.

Dr. Jones then commented on the project and the enhancement of the student experience at Urbana. He said the College of Engineering is ranked sixth in the country and needs updates to continue to compete, and he told the Board that this critical project will be transformative and allow for an active learning environment. Dr. Jones then commented on the Feed Technology Center and said that it will provide an opportunity for research, undergraduate education, training, and outreach, and he noted that the College of Agriculture, Consumer, and Environmental Sciences is also highly ranked. Dr. Ghosh and Mr. Montgomery discussed the structure of a public-private partnership, and Mr. Bass introduced Mr. David Cocagne from Vermillion Campbell Development, LLC, and Mr. Dan O'Riley from Skidmore, Owings & Merrill, LLP, to provide a design presentation for the Engineering Instructional Facility (materials on file with the secretary).

Mr. O'Riley and Mr. Cocagne showed the location of the instructional facility within the campus master plan and from an aerial view. They presented the proposed site plan and showed renderings of several building plans and sections, noting that the walls can be shifted based on current needs. They told the committee that this building will feature a mix of large and medium classrooms and can be used as a recruiting tool for new students. They also showed renderings of the exterior from several perspectives. Brief discussion followed regarding the capacity of the building and its features and configuration.

At 4:24 p.m., Mr. Cepeda asked Dr. Peter J. Newman, associate vice president for treasury operations, to give an investment performance and program update and to discuss the recommendation to revise the University of Illinois System Investment Policy Statement and endowment pool asset allocation. Dr. Newman began his presentation by defining University operating funds and endowment funds, and he gave an overview of the University's investment philosophy. He showed the endowment pool asset allocation as of June 30, 2018, and he showed endowment pool performance over one-, three-, five-, and 10-year periods. Dr. Newman explained that short-term fluctuations are expected and said that while recent returns are below benchmark, the five- and 10-year return is in the top quartile. He presented a 10-year summary of endowment pool activity in dollars and discussed the operating investments strategy, noting a need to maintain liquidity.

Next, Dr. Newman gave an overview of the endowment pool asset allocation policy update and referred to concerns raised by trustees at the July 2018 meeting of this committee. He said staff reconsidered the width of allowable asset class ranges and showed the revised endowment asset allocations. Dr. Newman presented endowment asset allocation targets by sub-asset classes and reviewed supplemental guidelines, and he said that materials regarding the proposed agenda item were distributed to members of the committee and the Board. He thanked Ms. Geri Melchiorre, director for investments, and the staff of the Office of Treasury Operations for their assistance with this endeavor. Discussion followed, and Mr. Edwards

commended Dr. Newman and University staff for their work on these recommended investment policy revisions.

Purchase Recommendations

Mr. Cepeda then asked Ms. Gloria Keeley, assistant vice president for administrative services, to report on purchase recommendations. Ms. Keely first discussed the recommended purchase for the Materials Research Laboratory at Urbana of an atom probe for three-dimensional chemical analysis from CAMECA Instruments, Inc. She said that the purchase is exempt from the usual selection process of the Procurement Code but indicated that sole-sources procedures were followed. Ms. Keeley told the committee that negotiations resulted in a discount of 31 percent.

Ms. Keeley then reported on the recommended purchase of expertise and services for the implementation of the 3i initiative for UI Health administration at Chicago. She listed the areas of expertise included in this purchase and said that services will be used on an as-needed basis. Ms. Keeley told the committee that competitive selection procedures were followed in accordance with the Illinois Procurement Code. Mr. Cepeda thanked Ms. Keeley and commended her and the purchasing staff for their negotiating skills.

There were no objections to the agenda items listed above going forward to the full Board for voting.

Summary of Internal Audit Activity through First Quarter ended September 30, 2018

Mr. Cepeda then asked Ms. Julie A. Zemaitis, executive director of University Audits, to give a presentation on audit activity through the first quarter ended September 30, 2018. Ms. Zemaitis presented the audit plan completion status for Fiscal Year 2019 through September 30, 2018, and said the plan is on track. She noted that the search for an auditor at Urbana is complete and that the open position at Chicago is nearly filled. Ms. Zemaitis then showed the implementation of audit recommendations, and she reported on year-to-date findings from July 1, 2018, through September 30, 2018. She showed the aging of open recommendations by management's original expected implementation date, which she said is consistent with prior years, and she reported on the aging of open recommendations with management's original expected implementation date of Fiscal Year 2018 and prior. Ms. Zemaitis told the committee that President Killeen and the chancellors are giving attention to these high risk or priority issues. Ms. Zemaitis then discussed quality assurance review methodologies and the scope of a self-assessment and an external quality assessment. Brief discussion followed, and Mr. Cepeda thanked Ms. Zemaitis for the presentation.

OLD BUSINESS

Mr. Cepeda indicated that a briefing on GASB 75 was sent to members of the committee.

Dr. Ghosh commented on the recent sale of auxiliary system bonds and said that Moody's recently upgraded the University's credit rating to stable. He said the sale of the bonds will result in a savings of \$5.5 million over time, and he listed the projects

funded by the proceeds of the sale. Dr. Ghosh also thanked the P3 team for their success in finding an appropriate arrangement for an academic building. He also thanked Mr. Montgomery for his service to the committee, Board, and University.

NEW BUSINESS

Mr. Cepeda announced that the next meeting of this committee is scheduled for Monday, January 22, 2019, at 3:00 p.m.

MOTION FOR EXECUTIVE SESSION

At 5:01 p.m., Mr. Cepeda requested a motion for an executive session to consider discussion of minutes of meetings lawfully closed under the Open Meetings Act. On motion of Mr. Edwards, seconded by Mr. Montgomery, this motion was approved. There were no “nay” votes.

EXECUTIVE SESSION

Mr. Cepeda convened the executive session at 5:02 p.m. All committee members were present. The following were also in attendance: President Timothy L. Killeen; Mr. Thomas R. Bearrows, University counsel; Ms. Dedra M. Williams, secretary of the Board of Trustees and of the University; Dr. Avijit Ghosh, comptroller (and vice president/chief financial officer); and Mr. Thomas P. Hardy, executive director for University relations.

Discussion of Minutes of Meetings Lawfully Closed Under the Open Meetings Act

Mr. Cepeda asked Ms. Williams to discuss the recommendation regarding the disclosure of minutes of executive sessions of the Audit, Budget, Finance, and Facilities Committee held between May 2012 and May 2018. The secretary outlined the requirement within the Open Meetings Act for public bodies to review minutes, at least twice annually, for purposes of protection of public interest and in the interest of protection of any individual, and to consider whether a need for these materials to be held from release continues. She stated that she has undertaken this review in conjunction with Mr. Bearrows and recommend the release of minutes from May 7, 2018, which state the discussion of review at that time. No other minutes are proposed for release at this time. Mr. Bearrows reminded committee members of the factors that contribute to the recommendation for release and said employee matters often require holding from release until an appropriate time.

Mr. Edwards and Mr. Bearrows discussed the review period and process for recommending the release of minutes. With no further discussion, Mr. Cepeda then asked for the doors to be opened.

EXECUTIVE SESSION ADJOURNED

There being no further business, the executive session adjourned at 5:06 p.m.

AGENDA

At 5:06 p.m., the open session resumed. Mr. Cepeda stated that there was one agenda item requiring action by the committee, and Ms. Williams read aloud the title of the item, “Disclose Certain Minutes of Executive Sessions Pursuant to Open Meetings Act.” The committee agreed that one roll call vote would be taken and considered the vote on the agenda item as listed below.

Disclose Certain Minutes of Executive Sessions
Pursuant to Open Meetings Act

(1) Under the Open Meetings Act passed by the General Assembly, public bodies subject to the Act that conduct business under exceptions specified in the Act must, at least every six months, determine whether the need for confidentiality still exists with respect to each item considered under such exception.

An item from May 2012 through May 2018 that has been heretofore unreleased are recommended for release at this time.

The University counsel and the secretary of the Board, having consulted with appropriate University officers, recommends that the following matter considered in executive session for the time period above be made available to the public at this time.

The committee action recommended in this item complies in all material respects with applicable State and federal laws, University of Illinois *Statutes*, *The General Rules Concerning University Organization and Procedure*, and Board of Trustees policies and directives.

The president of the University concurs.

Executive Session Minutes Released to Public

May 7, 2018, Audit, Budget, Finance, and Facilities Committee

Mr. Cepeda convened the executive session at 4:44 p.m. All of the committee members except Mr. Montgomery, Mr. Mitchell, and Ms. Humphrey were present. The following were also in attendance: President Timothy L. Killeen; Mr. Thomas R. Bearrows, University counsel; and Ms. Dedra M. Williams, secretary of the Board of Trustees and of the University.

Discussion of Minutes of Meetings Lawfully Closed Under the Open Meetings Act

Mr. Cepeda asked Ms. Williams to discuss the recommendation regarding the disclosure of minutes of executive sessions of the Audit, Budget, Finance, and Facilities Committee held May 2012 through November 2017. Ms. Williams outlined the requirement within the Open Meetings Act for public bodies to review minutes, at least twice annually, for purposes of protection of public interest and in the interest of protection of any individual, and to consider whether a need for these materials to be held from release continues. She stated that she has undertaken this review in conjunction with Mr. Bearrows and recommend the release of minutes from November 6, 2017, which state the discussion of review at that time. No other minutes are proposed for release at this time.

Mr. Cepeda then asked for the doors to be opened.

On motion of Mr. Montgomery, seconded by Mr. Edwards, this recommendation was approved by the following vote: Aye, Mr. Cepeda, Mr. Edwards, Mr. McKeever, Mr. Montgomery, Mr. Perl, Ms. Humphrey; No, none; Absent, Dr. King, Mr. Mitchell, Mr. Newsome.

MEETING ADJOURNED

On motion of Mr. Edwards, seconded by Mr. Montgomery, the meeting adjourned at 5:06 p.m. There were no “nay” votes.

Respectfully submitted,

DEDRA M. WILLIAMS
Secretary

RAMÓN CEPEDA
Chair

EILEEN B. CABLE
Special Assistant to the Secretary