

APPROVED BY THE
COMMITTEE

NOV 05 2018


SECRETARY OF THE BOARD

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

SEPTEMBER 17, 2018

This meeting of the Audit, Budget, Finance, and Facilities Committee was held on Monday, September 17, 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; Dr. Stuart C. King; Mr. Lester H. McKeever Jr., treasurer; Mr. James D. Montgomery; Mr. Sanford E. Perl; Ms. Shaina Humphrey, voting student trustee, Springfield; Mr. Darius M. Newsome, student trustee, Chicago. Mr. Trayshawn M. W. Mitchell, student trustee, Urbana, was absent. Trustee Edward L. McMillan attended the meeting as a guest via telephone. 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 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. Danilo Erricolo, professor, Department of Electrical and Computer Engineering, Chicago, and chair 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 asked if there were any comments or corrections to the minutes from the meeting held July 9, 2018. On motion of Mr. Montgomery, seconded by Mr. Edwards, 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 27, 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 September 27, 2018. All proposed agenda items discussed at the meeting are on file with the secretary.

Approve Operating Budget for Fiscal Year 2019

Mr. Cepeda asked Dr. Ghosh to discuss the recommendation to approve the operating budget for Fiscal Year 2019. Dr. Ghosh gave a presentation (materials on file with the secretary) on the proposed budget for Fiscal Year 2019 and said it reflects a 4.6 percent increase in projected revenue. He reviewed three components of the budget and key revenue changes and reported on sources of restricted and unrestricted funds. Dr. Ghosh showed charts depicting sources of diversified revenue and presented the percentage of the budget for each university, the hospital, system-wide programs, and system offices. He also reported on the revenue budget at Urbana, Chicago, and Springfield, and he discussed aspects of the budget for the system office and system-wide programs. Dr. Ghosh told the committee that salaries and benefits are the largest component of University expenses and showed major expense budget categories, their percentage of the total budget, and the percentage of increase for Fiscal Year 2019. Dr. Ghosh then showed the proposed budget by NACUBO categories and discussed key challenges related to the University's budget.

Discussion followed regarding the designation of restricted and unrestricted funds. Mr. Perl inquired about the classification of cost recovery as unrestricted funds, and Dr. Ghosh and President Killeen provided additional information about how these funds are handled. Mr. Newsome commented on the \$335.0 million allocated for student scholarships and expressed appreciation for the University's commitment to prioritize student aid.

Approve Fiscal Year 2019 Services and Management Agreement
for the University of Illinois Foundation

Mr. Cepeda then asked Mr. Michael B. Bass, senior associate vice president and deputy comptroller, to report on the recommendation to approve the Fiscal Year 2019 Services and Management Agreement for the University of Illinois Foundation. Mr. Bass outlined aspects of the agreement and described the services provided by the University of Illinois Foundation to the University and noted that the University provides direct support to the Foundation for these services. He explained that the proposed agenda item states that the annual support for Fiscal Year 2019 will not exceed \$8,577,500. Mr. Bass stated that the exact amount may vary based on actual costs incurred by the Foundation.

Mr. Edwards asked for clarification on the relationship between the University and Foundation, which Mr. Bass provided. Mr. Edwards also inquired about the source of funds provided to the Foundation, and Mr. Bass and Dr. Ghosh described the funding sources. Mr. Edwards and Dr. Ghosh also discussed the Foundation's role in administering gifts to the University and the rationale for utilizing this structure.

Approve Fiscal Year 2019 Services and Management Agreement
for the University of Illinois Alumni Alliance

Mr. Bass then discussed the recommendation to approve the Fiscal Year 2019 Services and Management Agreement for the University of Illinois Alumni Alliance. He reported on the agreement, which he said is structured similarly to the agreement with the University of Illinois Foundation, and described the services provided by the University

of Illinois Alumni Alliance. He said the proposed agenda item states that the University will provide direct support for the Alumni Alliance at an estimated amount of \$1,293,000 for Fiscal Year 2019. Dr. Ghosh stated that this is an estimate with a maximum cost of \$1,293,000 and that the exact amount may vary based on actual costs incurred by the Alumni Alliance.

Approve Name of Football Performance Center, Urbana

Next, Mr. Cepeda asked Mr. Bass to discuss the recommendation to name the Football Performance Center as the Henry Dale and Betty Smith Football Center. Mr. Bass reported that this recommendation is being made in recognition of the generosity of the Henry Dale and Betty Smith Family for their substantial contribution of \$20.0 million, of which \$15.0 million will be used for the construction of this new facility. Brief discussion followed regarding the budget for the project.

University of Illinois Research Park Master Plan 2018

Mr. Bass then gave a brief overview of the recommendation to approve the campus master plan update for the Research Park at the University of Illinois. He introduced Ms. Laura Frerichs, director of the University of Illinois Research Park, to provide additional information. Ms. Frerichs gave a presentation (materials on file with the secretary) and described the vision for Research Park. She showed the Research Park Planning Area, the area identified in the 2018 Research Park master plan, and areas in proximity to this area. She showed previous Research Park master plans and gave an overview of the

process for updating the master plan, noting the engagement of stakeholders. Ms. Frerichs described the principles and considerations used in the process of updating the master plan and discussed opportunities for development, and she noted that some relocation projects are needed to achieve full development. She showed proposed improvements to transportation, including improved access for pedestrians and bicycles. Ms. Frerichs described the phasing of development and growth and discussed goals for total development, noting this may take 30 to 40 years to achieve.

Mr. Cepeda asked if Fox/Atkins Development, LLC, has been the sole developer for the Research Park, and Ms. Frerichs indicated they won the master development request for proposal (RFP) in 2001 and won again in 2011 through a competitive RFP process. She said a new RFP will be issued in 2021 when the current developer agreement expires.

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 award a construction contract for the Siebel Center for Design, Urbana. Mr. Bass gave a history of the project and described the work to be completed. He reported on Women Business Enterprise (WBE) participation rates and told the committee that since this project is funded primarily by gift funds, the architect used in the project was nominated as part of the gift agreement. Mr. Bass said that construction is scheduled to be completed in February 2020.

Next, Mr. Bass discussed the recommendation to award construction contracts for the renovation and expansion of the Civil Engineering Hydrosystems Laboratory at Urbana. He reviewed the history of the project and listed the contractors being recommended. Mr. Bass also gave WBE participation rates.

Mr. Bass then reported on the recommendation to employ a construction manager for renovation, Townsend Hall and Wardall Hall, Illinois Street Residence Halls, Urbana. He described the scope of work to be completed and said this recommendation will allow for the hiring of a construction manager for the design development, construction documents, bidding, and construction phases of the project. Mr. Bass also provided Minority and Female Business Enterprise (MAFBE) participation rates. Mr. Perl asked if this project is typical of renovation costs at the University, and Mr. Bass explained that a higher expense is associated with the remodeling of worn buildings, noting that the overall design, bid, and build process followed by the University is being examined. President Killeen asked Mr. Bass to comment on the lifetime of these projects, and Mr. Bass said building renovations usually last a minimum of 50 years. Mr. Edwards inquired about the benchmark cost for construction projects. Discussion followed, and Dr. Ghosh indicated that an external review team is being hired that will study the construction process at the University, including construction costs.

Mr. Bass provided information regarding the recommendation to approve the project budget for the Surgical Innovation and Training Laboratory, Chicago. He gave a history of the project and said completion is expected in September 2019. Mr. Bass described the project to build a state-of-the-art Surgical Innovation and Training

Laboratory in the basement of the Neuropsychiatric Institute located at 912 South Wood Street, Chicago, and said it is intended to provide modern facilities for a number of programs within the College of Medicine. He told the committee that the budget is \$6,328,000 and that funds for the project are available gift funds, the restricted funds operating budget of the College of Medicine at the University of Illinois at Chicago, and from the institutional funds operating budget of the University of Illinois at Chicago. He commented briefly on the rationale for the budget increase, and Mr. Michael B. Zenn, chief executive officer, University of Illinois Hospital and Clinics, described the current use of the basement as a holding area for inmates needing health care.

Lease of Space for UIC College of Medicine, Urbana

Lastly, Mr. Bass provided information on the recommendation to approve the lease of space for UIC College of Medicine at Urbana. He stated that this space, located on the first and basement floors of the building known as the Carle Forum, houses classroom, office, and storage space. Mr. Bass said the University has occupied the premises since 2009 and now wishes to exercise an option to extend the original lease to continue serving the needs of students completing their MD/PhD degrees at the Urbana regional site.

Purchase Recommendations

Mr. Cepeda then asked Ms. Gloria Keeley, assistant vice president for administrative services, to report on purchase recommendations. Ms. Keeley first discussed the

recommended purchase of coal for utilities at Urbana. She said this includes by-product and waste disposal services and informed the committee that competitive sealed bidding procedures were followed in accordance with the Illinois Procurement Code.

Ms. Keeley then reported on the recommended purchase of a library services platform for the Consortium of Academic and Research Libraries in Illinois (CARLI) that supports the daily operational tasks of an academic library consortium that emphasizes resource sharing among member libraries. She commented on the role of CARLI and said that competitive sealed proposal procedures were followed in accordance with the Illinois Procurement Code.

Next, Ms. Keeley provided information on the recommended purchase of temporary personnel services for the Department of Human Resources at Chicago to be used throughout the University of Illinois at Chicago, including the University of Illinois Hospital and Health Sciences System. She said the included vendors are being recommended for awards based on the quality of their technical responses to the criteria specified in the RFP and said that competitive sealed proposal procedures were followed in accordance with the Illinois Procurement Code.

Ms. Keeley then reported on the recommended purchase of legacy software services for UI Health to support and maintain services of the current multiple disparate clinical, operational, and financial software systems during the transition and implementation of the 3i project. She told the committee that competitive sealed proposal procedures were followed in accordance with the Illinois Procurement Code.

Next, Ms. Keeley provided information on the recommended purchase of patented implants and supplies used in cardiological, spinal, and orthopedic surgeries and procedures of the University of Illinois Hospital and Health Sciences System from Medtronic USA, Inc. She said this purchase is exempt from competitive selection procedures in accordance with the Illinois Procurement Code Section regarding contracts for medical supplies and services necessary for the delivery of care and treatment. She said negotiations resulted in discounts of 10 percent to 40 percent off the list price.

Lastly, Ms. Keeley discussed the recommended purchase for continued maintenance and support of the three Solar Turbines gas turbines installed at the west steam plant at Chicago. She explained that the control system is obsolete and in need of an upgrade and said if any component of the outdated system fails, the engine will be rendered inoperable, which will present a life/safety and undue financial burden to the University. Ms. Keeley indicated this is a sole-source purchase because the products are patented and Solar Turbines is the only manufacturer. She said the pricing is considered reasonable and acceptable based on the historical cost for these services.

Amend the Energy Cost Management Policy

Mr. Cepeda asked Mr. Sean D. Reeder, assistant director, capital programs and real estate services, to discuss the recommendation to amend the Energy Cost Management Policy. Mr. Reeder explained that the Energy Cost Management Policy provides authority for Prairieland Energy, Inc. to procure natural gas and electricity on a rolling, forward-looking, 10-year basis. He said it is recommended by the Prairieland board of directors

that the policy be modified to allow Prairieland to be authorized to enter into power purchase agreements for investment in and sourcing of sustainable energy with a term not to exceed 20 years. Mr. Montgomery inquired about the extent to which this will change the composition of energy used by the University, and Mr. Reeder explained that this remains to be seen, since this recommendation provides authority to issue an RFP that will be used to determine pricing.

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

Office of University Audits Fourth Quarter and Annual Report
for the Year Ended June 30, 2018

At 4:05 p.m., Mr. Cepeda asked Ms. Julie A. Zemaitis, executive director of University audits, to give a fourth quarter and annual report audit presentation (materials on file with the secretary). Ms. Zemaitis showed the Fiscal Year 2018 audit plan completion status and presented direct audit hours by type of project and by university or area in 2017 and 2018. She reported on the Fiscal Year 2018 productivity rate, which showed that more time was spent on training than originally planned, and compared these figures to peers. Ms. Zemaitis then discussed the implementation of system audit recommendations, and discussion followed regarding recommendations that were not implemented because the risks were accepted by management. She reported on year-to-date audit report findings and showed the functional area and number of findings that were high or moderate risk.

She told the committee that there were 10 high risk findings and 160 moderate risk findings in Fiscal Year 2018. Next, Ms. Zemaitis presented the aging of outstanding recommendations by management's original expected implementation date, noting that five of these have been implemented since year-end. She showed that the average number of days to implement audit recommendations has decreased, and she reported that historically, between 50 percent and 66 percent were implemented within one year and between 82 percent and 95 percent of recommendations were implemented within two years. Mr. Montgomery asked if the Office of University Audits is now fully staffed, and Ms. Zemaitis responded that there are two positions open that are in the process of being filled. Mr. McKeever commended Ms. Zemaitis for the amazing job done while being short staffed for the past two years, and Dr. Koch thanked Ms. Zemaitis for the excellent analysis and advisory services provided by the Office of University Audits. Committee members and Ms. Zemaitis briefly discussed the process of tracking hours by project.

OLD BUSINESS

There was no business presented under this aegis.

NEW BUSINESS

Mr. Cepeda asked the committee if there was any new business to discuss. Dr. Ghosh discussed the use of a new accounting standard, GASB 75, from the Illinois Office of the Comptroller that would impact the University's financial reporting for active employees

whose health insurance costs are paid directly by the University. He referred to discussions with the State, and he asked Mr. Brent Rasmus, interim controller and assistant vice president, to give an update. Mr. Rasmus discussed the potential impact to the University estimated at \$1.3 billion, noting that this is an accounting change and does not impact the University's cash flow. Mr. Montgomery inquired about the impact to the University's credit rating, and Dr. Ghosh explained this is not yet known. Mr. Edwards, Mr. Perl, and Dr. Ghosh discussed the State's rationale for this change, the University's financial reporting, and the potential impact to the University. Dr. Ghosh indicated this change affects other universities and said that the rating agencies are aware of this change but have not made any statements about it. Mr. Edwards requested that a summary of the impact of GASB 75 be sent to committee members in order to fully understand this change.

Mr. Cepeda announced that the next meeting of this committee is scheduled for Monday, November 5, 2018, at 3:00 p.m.

MEETING ADJOURNED

On motion of Mr. Edwards, seconded by Mr. Montgomery, the meeting adjourned at 4:32 p.m. There were no "nay" votes.

Respectfully submitted,


DEDRA M. WILLIAMS
Secretary

RAMÓN CEPEDA
Chair

EILEEN B. CABLE
Special Assistant to the Secretary