

MEETING OF THE AUDIT, BUDGET, FINANCE, AND FACILITIES COMMITTEE  
OF THE BOARD OF TRUSTEES OF THE UNIVERSITY OF ILLINOIS  
SEPTEMBER 9, 2019

This meeting of the Audit, Budget, Finance, and Facilities Committee was held on Monday, September 9, 2019, 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. Trayshawn M. W. Mitchell, voting student trustee, Urbana.

Also present were President Timothy L. Killeen; 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); Mr. Thomas R. Bearrows, University counsel; Mr. Thomas P. Hardy, executive director for University relations; 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 asked if there were any comments or corrections to the minutes from the meeting held July 15, 2019. On motion of Mr. McKeever, 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 19, 2019

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 19, 2019.

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

Operating Budget for Fiscal Year 2020

Mr. Cepeda asked Dr. Ghosh to discuss the recommendation to approve the operating budget for Fiscal Year 2020. Dr. Ghosh gave a presentation (materials on file with the secretary) that began with the proposed system-wide operating budget of \$6.97 billion, which he said includes benefit payments made by the State. He said this is a 2.1 percent increase from Fiscal Year 2019. Dr. Ghosh described the development of the budget and budget priorities, and he showed the four types of funds that comprise the budget. Next,

he discussed projected University revenue and showed that the budget, excluding payments on behalf, is \$5,254,000, which reflects a 3.8 percent increase over the previous year. Dr. Ghosh presented key revenue changes and reported on the general revenue fund. He told the committee that tuition accounts for 57 percent of the general fund, with the State appropriation providing an additional 25 percent. Dr. Ghosh said the restricted fund is comprised primarily of sponsored programs and auxiliaries, and also includes gift income, medical service plans, and other expenses. He reported on diversified revenue sources and told the committee that the University's finances are strengthened because of its diversity of sources of funds. Dr. Ghosh then presented the proposed budget for each university and showed the percent of the budget comprised of tuition at each. He reported that salaries and benefits are the largest component of expense at the University, and he presented a chart that showed expenditures by function. Dr. Ghosh concluded his presentation by stating that key challenges include stability of State funding, enrollment and tuition growth, maintaining fundraising momentum, and controlling expenses.

Mr. Edwards asked for a description of the services categorized by academic support, which account for 11.3 percent of expenditures. Dr. Ghosh indicated this includes the admissions office, financial aid office, and academic counselors, and he told Mr. Edwards he would provide a more detailed report of the expenses in this category after this meeting. Mr. Cepeda and Mr. Edwards inquired about the cost of payments on behalf, and Dr. Ghosh said the State reported that the cost is \$1,716.0 million. Mr. Edwards then asked what the annual pension cost would be if it did not

include the unfunded pension liability, and Dr. Ghosh said it is approximately \$600.0 million to \$700.0 million.

Approve Fiscal Year 2020 Services and Management Agreement  
for the University of Illinois Foundation

Dr. Ghosh then reported on the recommendation to approve the Fiscal Year 2020 services and management agreement for the University of Illinois Foundation. He described the role and responsibilities of the University of Illinois Foundation and said the University will provide direct support for the Foundation at an estimated amount not to exceed \$8,577,500. Mr. Cepeda asked how this compares to previous years, and Dr. Ghosh said the amount is the same. Mr. Cepeda requested that additional information be provided at a later date with a greater breakdown of the services included.

Approve Fiscal Year 2020 Services and Management Agreement  
for the University of Illinois Alumni Alliance

Dr. Ghosh provided information on the recommendation to approve the Fiscal Year 2020 services and management agreement for the University of Illinois Alumni Alliance. He reported on the role and responsibilities of the Alumni Alliance and said the University will provide direct support for the Alumni Alliance at an estimated amount not to exceed \$944,000, noting that payments are made throughout the year based on actual costs incurred. He told the committee that there is ongoing discussion regarding the future role of the Alumni Alliance and which services it will provide in the future.

Delegate Authority to Comptroller to Approve Lease and Purchase  
of the Illinois Conference Center Addition, Urbana Research Park

Mr. Cepeda then asked Mr. Michael B. Bass, special advisor to the president, to report on the recommendation to delegate authority to comptroller to approve the lease agreement, purchase agreement, and related financing arrangements to affect the construction and purchase of an addition to the Illinois Conference Center. Mr. Bass explained that the Illinois Conference Center is attached to the I Hotel in the Urbana Research Park and is located immediately south of the State Farm Center, and that the addition to the facility will allow the University to meet growing demand for conference facilities. He described the proposed addition project and said the facility will be initially leased during construction. Mr. Bass said it is anticipated that upon completion, the University will execute an option to purchase the addition at an expected price of \$13.0 million.

Approve Minutes of the Board of Trustees  
as the Sole Member of Prairieland Energy, Inc., Meeting

Next, Mr. Cepeda asked Mr. Sean D. Reeder, assistant vice president of capital programs and utility services, to comment on the recommendation to approve the minutes of the Board of Trustees as the sole member of Prairieland Energy, Inc., meeting. He said the Board will meet as the sole member of Prairieland Energy, Inc., on September 19, 2019, and that these minutes are from the meeting held on March 14, 2019.

Approve Power Purchase Agreement for Solar Farm 2.0 at Urbana-Champaign

Mr. Reeder then discussed the recommendation to approve the power purchase agreement for Solar Farm 2.0 at Urbana. He reported on the savings that would be achieved through this project, provided details about the proposed solar farm, and described its benefits.

Mr. Cepeda asked what currently resides on the land that would be used for the solar farm, and Mr. Reeder said it is farmland that was utilized for research and is no longer in use. Mr. Edwards inquired about an analysis of return on investment, and Mr. Reeder said this was shared in a presentation made at the last meeting of the Prairieland Energy, Inc., board of directors. Mr. Edwards requested a copy of the presentation prior to the next meeting of the Board.

#### Capital and Real Estate Items

Next, Mr. Cepeda asked Dr. Ghosh to report on capital and real estate items. Dr. Ghosh first discussed the recommendation to approve the project budget and award a construction contract for Gary R. Wieneke Track and Field Replacement project in the Division of Intercollegiate Athletics at Urbana. Dr. Ghosh gave a brief history of the project and said a budget increase of \$126,000 is needed with a project total of \$6.126 million. He said it is recommended that a contract be awarded to Stark Excavating, and he reviewed the Minority and Female Business Enterprise (MAFBE) participation rates for subcontractors. Mr. McKeever commented on the improvement in diversity among subcontractors. Dr. Ghosh also discussed funding for the project, which he said is scheduled to begin in October 2019 and finish in August 2020.

Award Construction Contracts for Renovation,  
Townsend Hall and Wardall Hall, Illinois Street Residence Halls, Urbana

Dr. Ghosh then reported on the recommendation to award construction contracts for renovation of Townsend Hall and Wardall Hall, Illinois Street Residence Halls, Urbana. He gave a history and scope of the project and said that due to bid prices exceeding estimated costs, the construction of Wardall Hall is being eliminated from the current project scope and will be rebid in the future. Dr. Ghosh described the rationale for this decision and asked Dr. Jones to comment. Dr. Jones explained he was involved in this decision and that Townsend Hall, which is currently gutted, is critical for housing needs. He told the committee that some students are in temporary housing. Dr. Ghosh then reported on the contracts being recommended for approval and gave the MAFBE participation rates for each vendor. Mr. Cepeda referred to the original budget of \$55.5 million for the construction of both buildings and noted that the budget for the construction of Townsend Hall alone is \$50.0 million. Dr. Ghosh indicated the budget for Wardall Hall may also increase, and Mr. Cepeda said it would be helpful to see details of the original budget. President Killeen commented, and Mr. Edwards emphasized the high cost of these large projects and the tendency to exceed budget estimates. He emphasized the need for a review of suppliers in Champaign and proactive efforts to bring vendors to Champaign from other parts of the state. Dr. Ghosh said these ideas are under consideration and agreed efforts need to intensify. President Killeen referred to recommendations from an Ernst & Young external consultant study that indicated a

savings of 6 percent could be achieved if certain issues were rectified, noting that this is an area of focus of the new role being filled by Mr. Bass. Mr. Edwards reminded the committee of the high cost per square foot for construction at the University.

### Purchase and Renewal Recommendations

Mr. Cepeda then asked Mr. Bass to report on recommended purchase and renewal recommendations. Mr. Bass first discussed the recommended purchase of an electron beam lithography system for the Materials Research Laboratory at Urbana. He described the use of the equipment and the benefits of the purchase. He said sole-source procedures were followed in accordance with the Illinois Procurement Code. Mr. Bass said the vendor offered a discount and a price that was lower than competitors. Mr. McKeever asked about Business Enterprise Program (BEP) goals for sole-source purchases, and Mr. Bass stated they could discuss this further after the meeting.

Next, Mr. Bass reported on the purchase to furnish and deliver coal, including by-product waste disposal services, at Urbana. He reviewed the bid process and said a waiver was granted due to excessive cost, noting that BEP goals were not met. He said this will be reevaluated next year.

Mr. Bass then commented on recommended purchases for the University of Illinois Hospital, all of which were exempt contracts. He reported on the recommended purchase of human organs, including tissue and histocompatibility testing, from Gift of Hope Organ and Tissue Donor Network, Inc. Mr. Bass then provided information on the recommended purchase of specialty medicines for cancer therapy from two vendors and

said that they did not offer a discount for these medications. Next, he discussed the recommended purchase of clinical laboratory testing services from Associated Regional and University Pathologists, Inc., Laboratories and explained that the hospital sends them hospital patient tests that cannot be performed in the in-house laboratory. He said the vendor's pricing is reasonable, and he discussed the high cost of bringing additional laboratory testing in-house.

Discussion followed regarding the laboratory services at the hospital, and Mr. Laurence S. Appel, chief financial officer at the University of Illinois Hospital and Health Sciences System, said that the number of tests sent to the outside lab reflects a small portion of the total amount of testing needed by the hospital. Mr. Edwards asked about reimbursement for the medications purchased to treat cancer, and Mr. Appel listed the reimbursement rates for managed care, Medicaid, and Medicare.

There was no objection to the items listed above going forward to the full Board for voting.

#### Fourth Quarter and Annual Internal Audit Report for the Year Ended June 30, 2019

At 4:04 p.m., Mr. Cepeda asked Ms. Julie A. Zemaitis, executive director of University audits, to give a fourth quarter and annual report (materials on file with the secretary). Ms. Zemaitis showed the audit plan completion status for Fiscal Year 2019 and said that two planned audits were withdrawn and seven planned audits have been deferred to the Fiscal Year 2020 plan. She presented direct audit hours by type of project and by

university or area and showed the Fiscal Year 2019 productivity rate, noting that additional time was spent on training because a new employee was hired in 2018. Ms. Zemaitis reported on the implementation of audit recommendations and discussed high and moderate risk findings from July 1, 2018, through June 30, 2019. She provided information on the aging of outstanding recommendations and said that those from 2016 and 2017 are being closely monitored. Ms. Zemaitis showed a chart that depicted the average number of days to implement audit recommendations and noted this has improved over time. Ms. Zemaitis then presented data that showed that 91 percent of recommendations are implemented within two years and 70 percent are implemented within one year, and she highlighted the improvement in recommendations implemented within one year compared to previous fiscal years.

Ms. Zemaitis concluded her presentation, and Mr. McKeever commended the Office of University Audits on their professionalism and quality. Mr. Cepeda agreed. There were no additional comments or questions.

#### OLD BUSINESS

There was no business presented under this aegis.

#### NEW BUSINESS

Mr. Cepeda if there was any new business, and Dr. Ghosh noted that Governor Pritzker signed an amendment to the State Property Control Act that allows public universities to sell property that is considered surplus with proceeds of such sales to be used for repair

and renovation of existing property. He stated that his team is working on the Board approval process for such sales in the future.

Mr. Cepeda announced that the next meeting of this committee is scheduled for Monday, November 4, 2019, at 3:00 p.m.

MEETING ADJOURNED

On motion of Mr. Edwards, seconded by Mr. McKeever, the meeting adjourned at 4:14 p.m. There were no “nay” votes.

Respectfully submitted,

DEDRA M. WILLIAMS  
*Secretary*

RAMÓN CEPEDA  
*Chair*

EILEEN B. CABLE  
*Special Assistant to the Secretary*