

MEETING OF THE AUDIT, BUDGET, FINANCE, AND FACILITIES COMMITTEE
OF THE BOARD OF TRUSTEES OF THE UNIVERSITY OF ILLINOIS
SEPTEMBER 18, 2024

This meeting of the Audit, Budget, Finance, and Facilities Committee of the Board of Trustees of the University of Illinois was held in the I Hotel and Conference Center, Illinois Ballroom, 1901 South First Street, Champaign, Illinois, on Wednesday, September 18, 2024, beginning at 2:15 p.m.

Trustee Donald J. Edwards, vice chair of the committee, convened the meeting and asked the secretary to call the roll. The following committee members were present: Mr. Donald J. Edwards; Mr. Lester H. McKeever Jr., treasurer; Mr. Wilbur C. Milhouse III; Ms. Ariana A. Mizan, student trustee, Urbana; Ms. Sarah C. Phalen.¹ Mr. Ramón Cepeda was absent. Ms. J. Carolyn Blackwell; Ms. Tami Craig Schilling; Mr. Joseph Gutman; Mr. Jesse H. Ruiz; and Mr. Christian Johnson, voting student trustee, Springfield, attended as guests.

Also present were President Timothy L. Killeen; Dr. Robert J. Jones, chancellor, University of Illinois Urbana-Champaign, and vice president, University of Illinois System; Dr. Marie Lynn Miranda, chancellor, University of Illinois Chicago, and vice president, University of Illinois System; Dr. Janet L. Gooch, chancellor, University

¹ Ms. Phalen attended via remote videoconference.

of Illinois Springfield, and vice president, University of Illinois System; Dr. Paul N. Ellinger, comptroller (and vice president/chief financial officer); Dr. Joseph T. Walsh Jr., vice president for economic development and innovation; Ms. Adrienne Nazon, vice president of external relations and communications; Mr. Scott E. Rice, University counsel; and Dr. Jeffrey A. Stein, secretary of the Board of Trustees and of the University.

OPENING REMARKS

Mr. Edwards welcomed everyone to the meeting and asked Dr. Ellinger to comment. Dr. Ellinger referred to the Fiscal Year 2024 Diversity Spend Report, which he said showed significant growth over Fiscal Year 2023, and External Audit Finding Status Report and said both were made available to members of the committee in advance of this meeting. He noted that the Federal Reserve announced a 50-basis point reduction that day, and he commented on the impact of the reduction on the University.

Mr. Edwards asked if there were any comments or corrections to the minutes from the meeting held on July 10, 2024. On motion of Mr. Milhouse, seconded by Ms. Mizan, the minutes were approved. There were no “nay” votes.

REVIEW OF RECOMMENDED BOARD ITEMS FOR THE MEETING OF THE BOARD OF TRUSTEES OF THE UNIVERSITY OF ILLINOIS ON SEPTEMBER 19, 2024

Mr. Edwards asked specific 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, 2024. All proposed agenda items discussed at the meeting are on file with the secretary.

Approve the Fiscal Year 2025 Services and Management
Agreement for the University of Illinois Foundation

Mr. Edwards asked Dr. Ellinger to report on the recommendation to approve the Fiscal Year 2025 Services and Management Agreement. Dr. Ellinger reviewed aspects of the agreement and described the responsibilities of the University of Illinois Foundation. He said the University will provide direct support for the Foundation at an amount not to exceed \$7,261,000 for the Fiscal Year 2025.

Approve Operating Budget for Fiscal Year 2025

Dr. Ellinger then discussed the recommendation to approve the University of Illinois System's operating budget for Fiscal Year 2025. Dr. Ellinger noted that a preliminary budget was approved by the Board at its May 15, 2024, meeting. He stated that the *Budget Summary for Operations FY2024* (BSO) is a 156-page document that was provided to members of the Board, and he said he would provide an in-depth presentation on the operating budget at the full meeting of the Board the following day. Dr. Ellinger introduced Ms. Sandy B. Street, senior assistant vice president of planning and budgeting, who he said plays a crucial role in overseeing this critical process and collaborates with

campus units to ensure the accurate inclusion of all relevant information. He thanked Ms. Street for her contributions.

Dr. Ellinger emphasized that the numbers shown in the BSO reflect budgets, rather than actual revenues and expenditures. He said the recommended budget for Fiscal Year 2025 is \$8.3 billion, reflecting an increase of 6.2 percent from the previous budget. Dr. Ellinger noted that many revenue sources, such as gifts, grants, and auxiliary funds, are associated with significant restrictions. He listed the four major categories of funds that comprise the total operating budget and described the growth in each area. Dr. Ellinger discussed expenses, referred to the 2 percent salary program, and said there is considerable budget pressure facing the University due to inflation, insurance, and housing and dining costs. He stated that five-year financial plans are being developed in collaboration with each university that will prioritize efforts to enhance business processes, evaluate organizational structures, and focus on cost controls, efficiency improvements, and new revenue generation opportunities. Dr. Ellinger said this item also seeks authorization for the president to accept resignations, make new appointments, reallocate funds across expenditure categories, make programmatic adjustments to the general fund budget, address budget shortfalls, manage tuition waivers, accept revenues exceeding the approved budget, and transfer funds between general and restricted budgets, all within specified policies.

Auxiliary Facilities System Refunding Revenue Bonds

Mr. Edwards asked Ms. Sarah Crane, senior director of capital finance, treasury operations, University of Illinois System, to report on the recommendation to approve actions leading to the issuance of one or more series of auxiliary facilities system revenue bonds to fund projects and refund auxiliary facilities system revenue bonds. Ms. Crane referred to the monitoring of the University's debt portfolio and refunding and restructuring opportunities and said a stand-alone refunding must generally produce a present value savings of at least 3 percent. She said that Auxiliary Facility System Bonds, Series 2015A, have a final maturity date of April 1, 2038, with an estimated loan amount of approximately \$79.0 million in the current market. Ms. Crane told the committee that a refund of these bonds will result in a minimum present value savings of \$2.3 million.

The committee recessed at 2:28 p.m., due to noise from an unintentionally activated fire alarm. The meeting reconvened at 2:32 p.m.

Ms. Crane stated that this recommendation also includes the proposed issuance of \$15.0 million in new money bonds to fund part of the Illini Union Roof Replacement Project. She noted that the request for this was previously approved as part of the last bond issuance at the January 18, 2024, Board meeting, and she explained that the issuance was delayed due to project delays. Ms. Crane said in no event will the aggregate principal amount of the bonds exceed \$105.0 million. She told the committee that the transaction would only proceed at the discretion of the vice president/chief financial officer and if in the best interest of the University. She said the results will be shared with the Board. Ms. Crane reviewed other aspects of the issuance and refunding of bonds and listed the members of the financing team.

Rename the Center for Advanced Bioenergy and Bioproducts Innovation (CABBI)
Greenhouse, Urbana

Mr. Edwards asked Dr. Ellinger to provide information regarding the recommendation to rename the Center for Advanced Bioenergy and Bioproducts Innovation (CABBI) Greenhouse at Urbana as the Plant Biology Innovation Greenhouse. Dr. Ellinger gave a history of the project and said the new proposed name reflects its long-term assignment to the Department of Plant Biology at Urbana.

Approve Energy Conservation Project and Professional and Construction Services
Award, University Hall and Behavioral Sciences Building, Chicago

Dr. Ellinger then discussed the recommendation to approve an energy conservation project and professional and construction services award for the University Hall and Behavioral Sciences Building at Chicago. He gave some background on the project, stating that the State of Illinois allows universities to implement “energy conservation measures” under the Public University Energy Conservation Act by partnering with energy service companies (ESCOs) through guaranteed energy savings agreements. Dr. Ellinger said these agreements include a written guarantee that the energy or operational cost savings, or both, will meet or exceed the cost of the energy conservation measures within 20 years. He said this Energy Performance Contracting (EPC) process essentially uses a design-build delivery method, and he provided additional information about the process. Dr. Ellinger told the committee that the University’s experience with EPC

projects has been successful, and he said the 10 EPC projects that have been completed to date have resulted in an estimated \$200.0 million in energy savings.

Dr. Ellinger then provided information about this specific project, which he said would not exceed \$29,800,000, and he said the ESCO's fees would be approximately \$28,600,000. He said the proposed vendor, Ameresco of Chicago, Illinois, has committed to meet or exceed diverse business utilization rates of 31 percent for minority business enterprises and 3 percent for veteran-owned business enterprises.

Purchase Recommendations

Next, Dr. Ellinger discussed the recommended purchase of specialty pharmaceuticals Yescarta and Tecartus for University of Illinois Hospital and Clinics. He stated that these medications are used in Antigen Receptor Therapy, also known as CAR-T therapy, and are an option for patients who have not been successful with previous cancer treatment. Dr. Ellinger provided additional information about the use of these drugs and said the requested approval of \$7.0 million over three years assumes increased usage and an increase in price. He stated that these products can only be obtained through Cardinal Health Specialty Pharmacy, and he listed the historical spend for these in recent years. Mr. Edwards asked if the hospital is reimbursed by payers for these drugs, and Dr. Jonathan M. Radosta, chief medical officer, University of Illinois Hospital and Clinics, said the hospital has been paid for 10 of the 13 treatments over the past four years. He said two patients receiving this treatment had not yet been discharged at the time of the report, and payment on one other treatment may be paid soon. Dr. Radosta stated that

these are used to treat three types of cancer, and he said its use is expected to expand. Dr. Radosta noted that Dr. Damiano Rondelli, chief of the Division of Hematology and Oncology and Michael Reese Professor of Hematology, Chicago, was in attendance via remote videoconference. Dr. Rondelli described the use of this treatment and said it has had excellent results in treating lymphomas. He told the committee he expects its use to expand to other types of cancer and stated that it is a new concept of immunotherapy that has been revolutionary. Mr. Edwards thanked Dr. Radosta and Dr. Rondelli for the information.

There were no objections to these items being forwarded to the full Board for approval.

PRESENTATIONS

Investment Program Update

Next, Mr. Edwards asked Ms. Geri Melchiorre, senior director of investments, treasury operations, University of Illinois System, to give an investment program update (materials on file with the secretary). Ms. Melchiorre informed the committee that the term “long-term investment pool” is being used in place of “endowment pool,” and indicated there has been no change to the investment strategy. She then began her presentation by showing a chart depicting the University System financial assets, which totaled \$4.9 billion as of June 30, 2024. Ms. Melchiorre stated that the \$1.12 billion long-term investment pool is comprised of long-term investment funds and the permanent

core. She then presented the investment office structure and discussed the market environment. Ms. Melchiorre showed the long-term investment pool allocation, presented long-term investment pool performance, and showed long-term investment fund activity for Fiscal Years 2015-2024. She reported on operating pool positioning and presented operating pool performance. Mr. Edwards noted that there will be a substantial decrease in interest income in the coming years. Ms. Melchiorre described the financial impact of the long-term investment pool, operating pool, and farms distributions. Mr. Edwards referred to the short-term windfall due to high interest rates, and he expressed interest in data related to the amount of these funds and how they were used. Dr. Ellinger stated that he would provide greater detail about this, and he said that the System Wide Opportunity Fund (SWOF) was established in Fiscal Year 2021 to allocate investment income to strategic investments at each university. He emphasized the use of these funds to address deferred maintenance. Ms. Melchiorre provided information about the responsible investment program and its impact, and President Killeen highlighted areas of improvement, as well as its impact. He said the results of the responsible investment program should be shared with the student body. Ms. Mizan and Ms. Melchiorre briefly discussed BlackRock, Inc.'s role in guiding companies to ensure they are working toward sustainable investment goals. Mr. Edwards thanked Ms. Melchiorre for the presentation.

Fourth Quarter and Annual Report for Fiscal Year Ended June 30, 2024

Mr. Edwards asked Ms. Julie A. Zemaitis, executive director of University audits, to present the fourth quarter and annual report for Fiscal Year Ended June 30, 2024

(materials on file with the secretary). Ms. Zemaitis showed the audit plan completion status for Fiscal Year 2024 and noted that the number of completed projects was more than average. She stated that six planned audits were deferred and three withdrawn due to risk being lower than was first anticipated. Ms. Zemaitis showed direct audit hours by type of project and by university or area, and she discussed the utilization of audit staff for the year, noting that some time was spent onboarding and training new staff, and conference attendance. Ms. Zemaitis said audit staff utilization was in line with available peer data.

Ms. Zemaitis then reported on the implementation of audit recommendations in Fiscal Years 2022 through 2024 and said the ending balance for the year end was the lowest in several years. She reported on high and moderate risk findings from July 1, 2023, through June 30, 2024, and provided information on the aging of outstanding recommendations. She then showed a chart depicting the percentage of recommendations implemented within one and two years. Ms. Zemaitis and Mr. Ruiz discussed the fluctuations in the percentage of recommendations implemented from one year to the next, and Ms. Zemaitis said that there are often fluctuations in the percentage of recommendations implemented within one year. Ms. Zematis and Ms. Mizan discussed the implementation of recommendations within one year versus two, and Ms. Zemaitis stated that the goal is usually one year.

Lastly, Ms. Zemaitis shared information regarding the recommendation to approve an updated internal audit charter, which was last approved on March 1, 2021. Ms. Zemaitis said the update reflects the Institute of Internal Auditors (IIA) Global

Internal Audit Standards that will take effect January 9, 2025, and she said the content is based on the IIA's model internal audit charter. She stated that the updated charter is longer than the current charter, and she noted that it does not change the manner in which work is conducted.

Mr. Edwards thanked Ms. Zemaitis for the information and asked if there were any questions regarding the recommendation. There were none. He asked for a motion to approve the item, "Approve Amendments to Internal Audit Charter for the University of Illinois System, Office of University Audits" (materials on file with the secretary). On motion of Mr. Milhouse, seconded by Mr. McKeever, this recommendation was approved. There were no "nay" votes.

OLD BUSINESS

There was no business presented under this aegis.

NEW BUSINESS

Mr. Edwards asked if there was any new business, and there was none.

MEETING ADJOURNED

Mr. Edwards announced that the next meeting of this committee is scheduled for Wednesday, November 13, 2024, at 2:15 p.m., in Chicago. On motion of Ms. Mizan, the meeting adjourned at 3:15 p.m. There were no "nay" votes.

Respectfully submitted,

JEFFREY A. STEIN
Secretary

DONALD J. EDWARDS
Vice Chair

EILEEN B. CABLE
Special Assistant to the Secretary