

Minutes of the
NIU Board of Trustees
LEGISLATION, AUDIT AND EXTERNAL AFFAIRS COMMITTEE
March 18, 2005

CALL TO ORDER

The meeting was called to order by Chair Myron Siegel at 1:32 p.m. in Room 233 of NIU Hoffman Estates. Recording Secretary Mimms conducted a roll call of Trustees. Members present were Trustee George Moser and Chair Myron Siegel. Not present was Trustee Manuel Sanchez. Also present were Committee Liaison Kathryn Buettner and Board Parliamentarian Kenneth Davidson.

VERIFICATION OF APPROPRIATE NOTICE OF PUBLIC MEETING

Confirmation of Open Meetings Act public notice compliance was given by Parliamentarian Kenneth Davidson.

MEETING AGENDA APPROVAL

Trustee Moser made a motion to approve the agenda. It was seconded by Trustee Siegel. The motion was approved.

REVIEW AND APPROVAL OF MINUTES

It was moved by Trustee Siegel and Seconded by Trustee Moser to approve the minutes of the August 11, 2004 meeting. The motion was approved.

CHAIR'S COMMENTS

Thank you all for coming today. Let the record reflect that the following people were present: Eddie Williams, Anne Kaplan, Wally Czerniak, Sharon Downen, Bob Albanese, Keith Jackson, Clyde Kimball, Rathindra Bose, Virginia Cassidy, Steve Cunningham, and UAC representatives Donna Smith and Shey Lowman.

We always appreciate all the support that we get from the Board of Trustees, Shey Lowman commented. Because of all the pension things that are going on, we look forward to having the same support we have had for other issues. Several of us went down to Springfield and testified on Monday night, and I think it went pretty well. I am very concerned that the legislators really do not understand that at the university the bulk of the people are staff making \$20,000 to \$30,000 a year, and the only thing they have is a guaranteed pension. So, if they reduce the pensions, they really are hurting the little people badly.

We are all aware of it, Chair Siegel said. And we all understand that the Governor and the legislature have some serious issues to deal with not of their making. We just hope they make the right decisions for not only the short term but for the long term. We have been trying to convey that message to them, and I hope we have some success. We do not know exactly what they are going to do, but we do make our voice heard. We are as anxious as you and everyone else to know what the outcome will be. I am sure Ms. Buettner will tell us later about the prospects for that pension reform.

PUBLIC COMMENT

The Chair asked Board Parliamentarian Kenneth Davidson if any members of the public had registered a written request to address the Board in accordance with state law and Board of Trustees Bylaws. Mr. Davidson noted that no timely requests had been received for public comment at that Board meeting.

UNIVERSITY REPORT

93RD GENERAL ASSEMBLY REPORT

Agenda Item 7.a.(1) – Substantive Legislation

This is the beginning of the two-year legislative session process, Ms. Buettner reported, and the first year is always heavy on substantive legislation. There is one particular bill to which I wanted to draw this committee's attention, and it is House Bill 476, a bill that has been introduced by Speaker Madigan and Majority Leader Currie. This bill initially affects naming rights for state property. It was an attempt by the Speaker to make sure that the legislature had appropriate input in naming state facilities such as the State Fair, the Thompson Center and other facilities throughout the state. The situation is such that while the bill has had an amendment filed, the amendment now declares that any gift over \$5 million is exempt from the naming rights processes that are put in place in this amendment. Anything under \$5 million would require that an extensive process kick in at the state level. This amendment does not yet exclude public universities. We are working very closely with the Speaker, the Speaker's staff and the majority leader in Springfield on language that would hold the universities harmless. This would truly affect our Foundations across the state dramatically. When I discussed this issue with Foundation President Mallory Simpson and Mike Malone, Vice President for University Advancement and Development, it was clear to me that if this bill had been in effect as it is amended today it would have perhaps prevented our receiving a gift like the Morgridge Chair because of the lack of flexibility the bill would give us in adopting naming rights for such things as endowed chairs and scholarships. It is not limited to property. It is also not limited at this point to strictly state-owned facilities and would affect the convocation center and other facilities on our campus that are not necessarily state owned or state built. I wanted to draw this committee's attention to this legislation, Mr. Chair, because the bill has actually passed committee and is on Second Reading in the House. I do not know that it will remain there for long. I would like to request that this committee take a close look at this bill and then assist President Peters and me in drafting an appropriate letter of concern to the Speaker. We would like to transmit that letter over the two-week break we have now with the General Assembly to try to get this back on the table. We can do that, Chair Siegel said. He suggested that perhaps existing structures could be exempted.

At this point, Ms. Buettner said, the Speaker's staff has indicated that there will be no blanket exemptions, as we had originally hoped. For many reasons that have nothing to do with public universities, we are trying to work with them to develop language that will protect public universities without directly exempting public universities to fit within the parameters of what the Speaker has been willing to negotiate.

Agenda Item 7.a.(2) – Fiscal Year 2006 Budget Update

The universities are basically at the Governor's level maintaining our current FY05 appropriation base, Ms. Buettner said. The IBHE recommendations that went forward to the Governor were to increase the public university bases just slightly less than one percent. Unfortunately, that was not accepted by the Governor's Office during the final negotiation on the Governor's budget that he laid out earlier in February. So we are held at the base for 2005. That presents problems as we go through some of these issues in the budget process, chief among them the pension reform issues and issues involving health care.

Table 1 gives an overview of how the different entities within the higher education operating budget fared in the Governor's budget process, Ms. Buettner explained. ISAC took a fairly large hit again below their original base. The IBHE had boosted them considerably, as you can see in their recommendations. Not only did the Governor not accept those recommendations, but he lowered the base. The Governor's Office has negotiated with ISAC to take all of their student loan operating and administrative expenses out of the federal funding. So, there have been major funding shifts there. ISAC is down slightly in operating funds but not nearly as much as that number reflects in Table 1. They are maintained and even cut a little bit further back in their ability to deliver financial aid next year.

Table 2 talks about the individual universities, Ms. Buettner said, and we were all given anywhere from a .5 percent increase to less than a 1.0 percent increase in our operating budgets as recommended to the Governor by the IBHE. The Governor's Office felt that the state was not able to afford that and cut us back to a level 2005 appropriation budget. Dr. Williams and I have had numerous conversations about

this with President Peters. One of the things we fear most is that as the budget process unfolds, while the Governor's budget is in essence flat from 2005, the problem is that if the pension reforms continue the way they are drafted, and if the health insurance issue is on the table along with some of these other issues, while the actual base appropriation may indeed remain flat, the percentage increase that the university has to pay in contributions for the university retirement system and/or healthcare (of which our share is about \$3.5 million a year) comes right out of our base. So while the number could remain flat as it is in our report, by the end of session, we could be experiencing several million dollars worth of funds that we were not able to expend in the normal way because of increased costs due to any kind of pension reform that the university has to pick up. We are obviously very concerned about this and watching it very closely.

Table 3 gives an example of the differences between the IBHE recommendations that went to the Governor and the Governor's changes, Ms. Buettner said. During the 2005 budget process, most of the research grants and such that the universities operated on, which in Northern's case amounted to an additional \$3 million that we received every year from the state, were eliminated. So there is not much more that can be eliminated from the higher education budget that has not already been eliminated except, obviously, decreasing the individual base of the university systems and the community college systems.

Table 4 brings us to the capital list, Ms. Buettner said, and I wish I had better news for this committee. I know this has been a concern of this committee, the Board and the university for many years now. Because of the fact that there was no capital budget passed in 2005 by the General Assembly, the capital budget for 2006 that has been proposed by the Governor is almost identical to the one that was on the table for 2005. Therefore, Northern's project for the Stevens building and addition is still number 12 on the list. As you can see from the Governor's budget recommendations, it was not picked up in the Governor's budget. The construction money for the Stevens Building is number 21, the same place on the list that it was last year.

Agenda Item 7.a.(3) – Pension Reform Update

Ms. Buettner asked Dr. Steve Cunningham to present the Pension Reform Update. It is intricate, he said, and hard to report on because of the sweeping scope of the proposal. As Shey Lowman indicated, there probably has not been an issue of greater concern to our employee constituencies in decades than the comprehensive nature of these changes. And as Trustee Siegel said, it is not something that has occurred in this timeframe. It is the result of the failure of many past administrations to pay the state contributions into the retirement system. A comprehensive report is included in the Board booklets. Basically, because of the unfunded liabilities, there was an approximately \$50 billion accrual of unfunded liability that had to be dealt with. In 1995, the state devised and approved a funding plan to begin to resolve these unfunded liabilities. There was a ramp-up of debt service payments leading to full payments in the year 2010. So we are not quite to the full implementation of that funding plan. That along with the required normal state contributions to the retirement systems led us to a Fiscal 2006 contribution requirement of about \$2.6 billion out of the state budget going to the pension systems. Of that, about \$500 million represents debt service. This is a number that will continue to grow so that in ten years, the total payments will double to approximately \$4.2 billion. It is a massive problem that has the effect of really disabling the state budget process.

In order to deal with the pension payments in Fiscal Years 2003 and 2004, the state issued pension obligation bonds, though part of those bond proceeds were used to fund the pension contributions in those years. Then, in advance of the FY06 budget, the Governor impaneled a Governor's Pension Commission, which started meeting around April. We knew that probably foreshadowed things to come that might be difficult to deal with, but I do not think we had any idea what the current proposal was leading to. The Pension Commission completed its report just prior to the Governor's budget address on February 16. The Governor outlined his budget, the major component of which was a comprehensive restructuring of the pension systems and the funding plan in order to drive savings created by reduced unfunded future liabilities that were applied to the current budget on the order of \$800 million. The State Universities Retirement System is very much emphasized in the Governor's budget. The proposal included six points outlined on page 3 of your report, five of which pertain to SURS and two of which related solely to SURS. The proposals involve almost an elimination of inflation protection for future

pensions. It is currently three percent per year. That would be reduced to only the first \$24,000 in pension payments; and in future years, \$24,000 will not be a significant amount for a person to live on. The money purchase option, which is an alternative formula under which about 60 percent of higher education employees retire, would be eliminated for future employees and retirement ages would be amended upward significantly, basically eliminating the 30-and-out provision that we worked to get passed in 1997. Both for current and future employees, the rate of return generated by the retirement system and applied to employee accounts would be limited from what it is now, resulting in a slower growth of employee retirement funds. And finally, the employers, rather than the general state budget, would become directly responsible for unfunded liabilities created by salary increases in the highest four years that apply to the retirement formula in excess of three percent per year. This accounted for about 40 percent of the savings that were in the budget. Even looking at an average career history for an average employee, the universities then would be immediately responsible for substantial payments. And, as Kathy mentioned, that would have the affect of a substantial cut or obligation to the operating budget, even if the budget were held constant.

In total, these provisions represent a massive restructuring of the retirement system. Higher education employees do not participate in Social Security, so they do not have a base line inflation adjusted program. Social Security is adjusted at CPI per year. It is interesting that the normal cost of the Social Security program is about 11 percent, which is the operating cost of the pension program. The normal cost of the SURS is also about 11 percent. In terms of the status of the benefits, SURS is really a middle-of-the-road program if you look at the cost of the program and the benefits of the program. And, as Shey Lowman indicated, it is greatly relied upon by our employees. Higher education has a difficult time, especially in this region, just maintaining average salary comparability. Also reducing the pension system as proposed would have the affect of greatly reducing the competitiveness of Illinois universities in the national market.

Agenda Item 7.a.(4) – Office of Executive Inspector General Legislative Proposals and Implementation Status

Ms. Buettner stated that the agenda item should reflect that the State Official and Employee Ethics Act was amended in 2004, not 1994. To briefly summarize, Ms. Buettner said, in the past inspector generals were appointed by the secretary of state, the attorney general or one of the other constitutional officers, or the Governor in the case of the executive inspector general. Then an Ethics Commission umbrella was created over this. The Ethics Commission is chaired by lawyer and author Scott Turow in Chicago, and I do not believe all of the appointments have been made to the Ethics Commission. Basically, the Executive Inspector General's Office was charged with the task of making sure that all of the state agencies – and the public universities are included in that definition – maintained the highest standards of integrity and accountability in state government. They have as their mission to identify, detect, eliminate and prevent waste, fraud, abuse and corruption by employees of those who do business with these agencies, boards and commissions under its jurisdiction. It is an independent office that does confidential inquiries. It has about 58 staff currently and is headquartered in Chicago with another office in Springfield. Of those 58 employees, around 30 to 35 are strictly investigators that go out and investigate complaints. The office does have subpoena power and also the power to interpret agency rulemaking and authority.

Basically, higher education has had a difficult time fitting in with this structure because it is so different and unique compared to regular state agencies. Dr. Peters, Ken Davidson and I have spent a lot of time in person with the Executive Inspector General, Z. Scott. She is a former prosecutor and assistant U.S. attorney who now heads the office in Chicago. The problem is that we, meaning the public universities as well as the state agencies, are supposed to implement specific personnel policies relating to things such as work time requirements, documentation of time worked and documentation for reimbursement of authorized travel expenses. The travel expense issues are no problem. The work time requirements and the documentation of time worked is particularly problematic for classes of employees, including faculty at the public universities system. As you know, contrary to a state agency, public universities operate 24 hours a day, 7 days a week. A state agency operates from 8:30 a.m. to 4:30 p.m. for the most part. So, the very nature of our missions and our roles are different than the state agencies, Ms. Buettner said. To make a long story short, we have worked with them over a period of months and have now come to the conclusion that it would probably be better for the public universities, if we have to abide by this State

Officials and Employee Ethics Act, to have our own Inspector General of Higher Education who can redefine and remake the rules so that public universities, their faculties and staffs can more easily fit into the intent of the law than we are currently. Sharon Downen, Ken Davidson, Steve Cunningham and I have all been involved at some level in trying to make the current situation work for NIU employees as well as the appropriate personnel from the other universities. As it now stands, it is just not working very well, and it would probably work better for us to have our own higher education inspector general. Z. Scott has come to that conclusion and has advocated the creation of a separate higher education inspector general's office. Senate Bill 1681 addresses that issue and has been filed in Springfield, sponsored by Senator Maloney, who is the chairman of the Senate Higher Education Committee. It has moved out of committee and is on second reading in the Senate.

We are negotiating right now with the leadership in the House and the Senate as well as with the Executive Inspector General's Office to try to resolve some of the issues that are still on the table. Simply creating a separate higher education inspector general without revising some of the ethics provisions that are not subject to interpretation would make it continually problematic for the universities to operate. There are fundamental problems in work time requirements for trustees, faculty members and such that just do not fit the model of an 8:30 a.m. to 4:30 p.m. state agency worker. We are trying to correct these and have been meeting extensively with both chambers as well as the Executive Inspector General's Office to try to come to some sort of unanimity. We are not there yet, but a significant concession has been made. The Governor has agreed to give up his appointment power for the position of Inspector General for Higher Education to the Illinois Board of Higher Education. This has involved a lot of time and making sure that all of our employee groups are notified of these changes right now so that we can comply in as timely a manner as possible.

STATUS OF FEDERAL ISSUES

Agenda Item 7.b.(1) – 2005 Federal Legislative Report

Ms. Buettner pointed out that there is a new education secretary in Washington. The omnibus appropriation bill passed Congress last November, and the university received several earmarks in that legislation, some of which have been announced and some of which are yet to be announced. The budget proposal that President Bush put on the table has a significant impact on the TRIO Program, the Gear-Up Program, the talent search and the Upward Bound programs, which would affect many of the minority constituencies at the university, she said. We are working very closely with the College of Education, which is where some of these programs are housed as well as our members of the delegation to see if we can get funding for these restored. I am pleased to say that the Senate passed an amendment yesterday that restored funding for the TRIO and the Gear-Up Programs, Ms. Buettner said.

Agenda Item 7.b.(2) – Higher Education Reauthorization Status Update

A new Higher Education Reauthorization bill has been filed in Washington, and the House Republicans now lead on that. It is two years overdue, and it still remains questionable whether or not the act will pass given the state of the budget and other issues involving Social Security in Washington, Ms. Buettner said.

Agenda Item 7.a.(3) – Institute for Nanoscience, Engineering and Technology

Ms. Buettner asked Dr. Clyde Kimball and Dr. Rathindra Bose to give the Committee a brief update on the Institute for Nanoscience, Engineering and Technology. This program has been created as a result of primarily earmarked funding leveraged against competitive dollars in the National Science Foundation on which the College of Engineering and the Physics Department have been working, Ms. Buettner explained. Dr. Bose and Dr. Kimball, along with Dr. Promod Vohra, have been trying to set up this Nanoscience Institute, which is a field in which many universities are becoming active.

Our distinguished professor, Clyde Kimball, will update you on the status of the Institute of Nanoscience and Engineering Technology, Dr. Bose said, but before he does, I want to say how grateful we are to have him here and taking charge of this really large scale nanoscience project. The last century has witnessed three great revolutions: agricultural, industrial and technological, that have changed our lives all around the world. In the mid-nineties, a group of scientists felt that the next revolution we needed was nanotechnology. In 1996, President Clinton instituted all nano initiatives when he first allocated

\$500 million. A variety of automobile manufacturing companies are using single atom layer painting on their cars so that we can get rid of them of rust. Nano-devices are being put on the body to detect changes that are coming in order to take care of illnesses before they occur. There are new materials on the horizon to make aircraft ten times lighter than we have right now and at the same time make them more durable and stronger. MRI technology will soon be able to scan the whole body with a small chip based on nanotechnology. This was seen by Professor Kimball and his colleagues a few years ago. His dream was to create something at Northern Illinois University so that would put us on the frontier of this technology. He approached Kathy Buettner and President Peters, and they secured \$3 million-plus funds for this initiative. Provost Legg, Dean Vohra, Dean Kitterle and I met over a year ago to decide how best we can serve the institute by creating a multidisciplinary effort. I am pleased to say that we made tremendous progress and formally created an Institute of Nanoscience and Engineering Technology. The committee has been working on a structure to create a multidisciplinary Ph.D. program that goes across the university – physics, chemistry, computer science, biological sciences, mechanical and electrical engineering, and other engineering fields. Dr. Bose then asked Dr. Kimball to share his passion for taking nanotechnology to its best at Northern Illinois University.

Dr. Kimball gave a slide presentation on the Institute of Nanoscience and Engineering Technology. We began to build a nanoscience effort on the basis of the first earmarked \$2 million, which has since been followed by two approximately half million dollar earmark grants, Dr. Kimball said. We started in LA&S and extended to Engineering. Then Rathindra Bose, Fred Kitterle and Promod Vohra had an idea which originally focused on physical chemistry, solids and condensed matter. We have made enormous strides. Dr. van Veenendaal, Dr. Genis and I made a presentation to the vice president for future development and her staff at Motorola on Friday.

Before 2002, there was no infrastructure at Northern Illinois University to make these objects on a nanoscale, which is a thousand times smaller than a microscale. The nanoscale is ten to a hundred atomic lengths. When we talk about the nanoscale, the physics and chemistry are completely different. To give you an example, when we take a material and begin to shrink it, we shrink it to under the dimensions in which the physical processes that determine its properties are larger than the material itself. It is called the wave function or the state function. If we take a different material and shrink it, the same thing happens. When we put those two materials together, the first material is in the second and the second is in the first because of this wave function that is happening internally. Then what happens is you have a completely new material with properties that are different than either of the two you have put together.

The other way to do this is to actually carve them using lithography, which is a widely used technique in the electronic and semiconductor industries. We installed a soft x-ray emission electron microscopy in the Advanced Electron Microscopy Center at Argonne. We did this for a number of reasons. They have a permanent technician, and they pay for the maintenance costs. That instrument will allow us to develop a whole new series of nanomaterials. We bought an x-ray microdiffraction system which effectively acts as an eye so we can see what we have. It contains a very large CCD detector so all angles can be seen at once. Dr. Kimball displayed six patterns that were done on this machine in 18 minutes. He explained that Argonne requires a day to do just one of these patterns.

One of our people is helping to develop what is called the dynamic polarized electron microscope, Dr. Kimball said. With it, you can actually look at not only the electron properties but the magnetic properties on a nanoscale. This is an ultra-fast nanoscale electron microscopy. As you begin to build these systems in which you want to watch them switch from zeroes to ones, you have to understand how that switching takes place. We are talking about a completely different era of speed that is measured in terahertz, which is equivalent to a thousand gigahertz. That is particularly interesting because it couples the accelerator end of the Physics Department with the material science end of the Physics Department.

It has been discovered that when nanofluids are put into diesel fuel, for example, the fuel efficiency increases by five percent, and the emission decreases by five percent. That product is already in a beta test in buses in California. If this is the case with nanofluids, we have a real future here, because we have a few real experts – one who is outstanding in fluid thermodynamics and one who is an expert in polymers and the behavior of nanoparticles in polymers.

This committee has always been a supporter of our advanced programs. It was this committee that fought for our Ph.D. in Physics and we will be pleased to help get another Ph.D. program approved with the IBHE. We have been very successful in our federal funding through our legislative affairs department.

Agenda Item 7.c. – Fiscal Year 2004 Compliance Audit Report

I am very pleased to report to this Committee that the Fiscal Year 2004 Compliance Audit Report showed that the university had **no** material audit findings, Ms. Buettner said. In fact, the Auditor General's Office went so far as to commend the university for maintaining effective internal controls. So, we are very proud to report these findings to you. I know that this committee, in particular, watches this very carefully. We just finished a series of audits with The Bronner Group who have been our auditors. However, in 2005, we are starting with a new set of external special assistant auditors.

Trustee Moser started the process and drove it down from 30-some findings the very first year to just a few, Chair Siegel said. And we have continued to push, push, push. I have to say to Sharon Downen and Keith Jackson that this is fantastic and I am elated. The Chair expressed his thanks to all the internal auditors and controllers for such a great report. We just want you to know how appreciative we are.

OTHER MATTERS

I would like our record to reflect that the Committee is asking the President to develop a program to expand our governmental affairs area so that we can get even more power and more results on the federal level in particular and at the state level, Chair Siegel said. Hopefully we can come up with something that makes sense considering this budget crisis. And, of course, it is all of those people who also help us keep track of the pension issues and fight for our priorities. Because NIU needs to have a voice down there all the time, monitoring the bills, and fighting for grants and money for our programs at both the state and federal levels.

ADJOURNMENT

The Chair asked for a motion to adjourn. Trustee Moser so moved, seconded by Chair Siegel. The motion was approved. The meeting was adjourned at 2:34 p.m.

Respectfully submitted,

Sharon M. Mimms
Recording Secretary