

Minutes of the
NIU Board of Trustees
FINANCE, FACILITIES AND OPERATIONS
COMMITTEE MEETING
November 7, 2013

CALL TO ORDER AND ROLL CALL

The meeting was called to order by Chair Marc Strauss at 12:07 p.m. in the Board of Trustees Room, 315 Altgeld Hall. Recording Secretary Sharon Banks-Wilkins conducted a roll call of Trustees. Members present were Trustees Robert Boey, Wheeler Coleman, Robert Marshall, Cherilyn Murer, Student Trustee Elliot Echols, BOT Chair John Butler and Chair Strauss. Not present was Trustee Anthony Iosco. Also present were Committee Liaison Steven Cunningham, President Douglas Baker and Board General Counsel Jerry Blakemore. With a quorum present, the meeting proceeded.

VERIFICATION OF APPROPRIATE NOTICE OF PUBLIC MEETING

Confirmation of Open Meetings Act notification compliance was given by Board General Counsel Jerry Blakemore.

MEETING AGENDA APPROVAL

Chair Strauss asked for a motion to approve the agenda. Trustee Murer made a motion to approve the agenda, seconded by Trustee Boey. The motion was approved.

REVIEW AND APPROVAL OF MINUTES

It was moved by Student Trustee Echols and seconded by Trustee Butler to approve the minutes of August 29, 2013 meeting. The motion was approved.

CHAIR'S COMMENTS/ANNOUNCEMENTS

Today's agenda includes four action items for consideration by the committee, Chair Strauss said. They are set out in the agenda and should be self-explanatory. There are also a number of presentations and information reports on this morning's agenda that really constitute the meat of our agenda. This is in keeping with my consultation with Dr. Cunningham to look inside the engine of the financial operation one piece at a time. We are going to start that examination today by spending a considerable amount of time looking at the internal budget process. We will take a look at what happens at the state level, which will present in a different format the material that was contained in the agenda items for our last meeting. We will spend some time laying the groundwork for consideration of student recreational facilities. We also will spend some time finishing our examination of the Information Technology Assessment Update, which was referred to this committee from the full Board. Finally, we will look in detail at the way in which the Affordable Care Act impacts both our students and our employees.

The Chair then recognized University Advisory Committee representative Dr. Alan Rosenbaum.

PUBLIC COMMENT

Chair Strauss asked Acting Board General Counsel Gregory Brady if any members of the public had registered a written request to address the Board in accordance with State law and the Board of Trustees *Bylaws*. Mr. Brady noted that no timely requests had been received to address this Board Committee meeting.

UNIVERSITY RECOMMENDATIONS

Agenda Item 7.a. – Student Affairs and Enrollment Management Undergraduate Search Marketing Program

Dr. Eric Weldy's area, Student Affairs and Enrollment Management, is requesting endorsement of an undergraduate search marketing program, Dr. Cunningham stated. Dr. Weldy stated that the lists needed to conduct this program had been targeted from the Fall 2014 cohort, and some names will be purchased for Fall 2015 and Fall 2016.

Chair Strauss asked for a motion to approve the recommendation provided in the Student Affairs and Enrollment Management Undergraduate Search Marketing Program agenda item. Trustee Butler so moved, seconded by Student Trustee Echols. The motion was approved.

Agenda Item 7.b. – College of Engineering and Engineering Technology Grant Subcontract for Services

This subcontract for the College of Engineering is with Northwestern Illinois University, Dr. Cunningham said. It is three-dimensional printing where molecular layers are lined over objects to create and shape matter. Chair Strauss requested a motion to approve the recommendation for the College of Engineering and Engineering Technology Grant Subcontract for Services. Trustee Murer so moved, seconded by Trustee Marshall. The motion was approved.

Agenda Item 7.c. – Northern Illinois Research Foundation Expenditure Authority Amendment

As we increase activity with the research foundation, Dr. Cunningham said, it requires that we increase the expenditure authority proportionally. Therefore, an expenditure authority amendment with the Northern Illinois Research Foundation is requested. Chair Strauss asked for a motion to approve the Northern Illinois Research Foundation Expenditure Authority Amendment. Trustee Marshall so moved, seconded by Trustee Butler. The motion as approved.

Agenda Item 7.d. – Energy Infrastructure Improvements – Phase XI Performance Contract

We have a long history with performance subcontracts, Dr. Cunningham said, and this is Phase XI of our energy infrastructure performance contracting. The process involves our putting out an RFP to seek a contractor that would give us a plan to both finance and implement improvements such as upgrades related to new roofing, new insulation and other facility improvements. The payment plans, whether over a 15-or 20-year timeframe, are guaranteed by the energy savings. An audit is conducted very year to verify those savings. Once the project is paid for, the university continues to realize energy savings and the improvements made to our facilities.

Jeff Daurer, Associate Vice President for Facilities Operations and Planning, explained that of our eleven phases, Phases 1 through 5 already have been paid off. In 2016, we plan to tie into our East Chiller Plant, where we realize significant energy savings, he said, as well as pursuing opportunities for windows and insulation. As opportunities arise, we identify them and put them on the target list for future years.

Chair Strauss asked for a motion to approve the Energy Infrastructure Improvements-Phase XI Performance Contract. Student Trustee Echols so moved, seconded by Trustee Coleman.

UNIVERSITY REPORTS

Agenda Item 8.a. – WTC Consulting Information Technology Assessment

I am very happy to be presenting this assessment report, which was requested by the Board last year, Mr. Czerniak began. Former-President Peters directed that we hire a consultant to come in and look at

our operations. They spent predominantly the first quarter of this year assessing the university. As a reminder, we asked them not only to assess the IT organization structure, governance, physical security, and applications, but to do it in light of higher education institutions and how we compare. They did that and presented their report to us on April 3, 2013.

They said that all of the higher education industries they have interviewed and worked with are facing budget constraints. It is not just the State of Illinois. Access anywhere, anytime, mobility, integrating new technologies, security and compliance have become a big issue for universities, and a new one for the industry, data-driven decision making. Analytics that they have had in private industry over the last few years, and have done amazing things with, are also hitting the university. As you heard earlier in the meeting, clearly, we need more data to answer the questions people are asking.

What universities are doing about these issues is increasing virtualization to save money and to provide security. They are moving servers to designated data centers; prompting resource sharing; using the cloud more; and implementing structure and standards. Lastly, they talked about centralizing to save money, and organizing for better collaboration. In other words, it is no longer just about an individual college or program, it is about the institution.

Now we will look at what they said about NIU. They organized a summary chart with green light, yellow light and red light. The green light on these areas says we have looked at this area, and you are doing really good things, and, besides what you are doing already, you have a written plan for the next 12 to 36 months, and you are going to stay competitive if not be a leader within the industry in these things that are going on right now.

Most institutions a long time ago went to the federal government and asked for money to connect to Internet 2 high speed fiber in central sites. NIU did not do that, but, instead, created the Broadband Initiative, installing fiber throughout the entire state, which is how we gained our Internet 2 access. In the last 30 days, we completed laying over a thousand miles of fiber throughout northern Illinois. This has allowed us to increase our Internet 2 access to 10GB (gigabits). The data people and the iFiber group are now selling and leasing that fiber to private business to bring new jobs, new work and new connectivity to this entire region, not just at NIU. Additionally, we have lit up over 50 percent of the fiber connection points not connected to NIU now. We are going to the schools, to the not-for-profit medical institutions, to the governments, and literally giving them their Internet access, helping them connect to other schools and to other projects. Mr. Czerniak introduced Matt Parks, who he said is responsible for building all of that fiber and is now responsible for lighting up the other 50 percent of those connection points, which he will complete by the end of this year, and then we will spend the rest of our time bringing that new application and technology to all of the people in this community.

Next, I would like to talk about business continuity and disaster planning. They looked at what we have done so far in this area and what our plan is to complete it, and they were very pleased with the results. They thought we were doing an excellent job and that we should pass our next audit. You can rest assured that our security structures, our backup structures and the things we have done to continue operation in light of a problem is well taken care of. They looked at classrooms and student labs and our new philosophy about going to access anywhere, anytime, removing the computers from many of our general access labs. Other places have done or are doing that, so NIU seems to be ahead of the schedule. We received a good checkmark on that issue.

Communication Services and the Web they picked after they interviewed Kathy Buettner's Communications group. Many of you may not be aware that as part of Kathy's Communications group, she has also brought in the Media Services group, and one of their jobs is still tied to classroom management. They are responsible for maintaining the projectors, the overheads, the intelligent, smart podia, all of those types of equipment on the campuses and in all of the labs. After they did their interviews with Kathy's team, the Media Services team and the ITS team, they said they have never seen a better example of how you take people who do not necessarily report to the same area, but act like

they do. They said if we could do every application as well as we built that relationship, the university would be in great shape. So, another thing we are doing really well.

Servers and Storage – they looked at our cloud data centers here on campus and at our off-site campuses, technology, the security, and said everything we are doing is current state-of-the-art. We now have over 700 virtual servers running in our clouds.

Voice Services, we have an antiquated switch which we have had some problems with it, but they said it was a great product. We have adequate plans to replace it at a reasonable time, protecting our investment and protecting the university.

The Wired Data Network and the Wireless Data Network, they said are sound, security is sound, they are well-built and well-designed. Also, our plans to beef them up, keep them going and make them fully independent so that even if we lost any of our major connection points, we could continue to provide services to this entire campus are excellent.

The yellow light areas, they said are really about governance and the organization. And they said, for a long time, NIU was actually leading in this area compared to other universities. We were one of the first to start centralizing academic computing, network computing, the telecom network, to bring those organizations under one roof and reduce the amount of overhead on management, money and the actual implementation and application. They said the problem is we have slowed down. We, like many institutions, did not deal with that 40 percent distributed IT staff and the increasing complexity and importance of IT. The President has issued the directive to create a new CIO position reporting directly to his office, dedicated to the cabinet and to deal with the structure, organization and governance. The Board has authorized the hiring of the consulting firm and that search is well under way.

The red light areas, the consultants told us, are those areas where not only are you not leading or keeping up, we have not seen a written plan to fix these issues. Data Management and Reporting is clearly the newest issue and no university has dealt with it well. This pertains to data warehouse/data analytics. We have acquired the hardware and software and installed it on our computers and servers to start building the warehouse and the analytics tool. A committee has been commissioned to begin this. However, this is not a 30-day project. It is a major undertaking, will be quite extensive and it will be a couple of years before you see all of the benefits. Dr. Cunningham stated that the Board had approved the project last May and was estimated to be around \$3 million.

Steve Pace stated that he projected this system would be put in place and basically paid for by savings and extending software caps going forward. This hardware already has been installed in two locations, which goes along with our business continuity planning. The committee has been formed to look at the business analytics of the parts that we are required to have.

The second item is the Enterprise Systems Business Processes. They discovered that while the application software we have allows for real time online data entry, we did not open that up to all of our employees. They said that all of the universities who bought this software are entering the data one time and not dealing with paper to online. This, they said, will change our business processes and help our efficiency, particularly in these three areas: Human Resources, Finance and Facilities and Student Records. This is not a big project and will not involve a lot of money, just a little bit of time. We should see results in less than a year on most of these..

Server Storage Rate and Funding Model – they said, you have built this great structure, but your rates are too high. Their recommendations were, first, to cut our charge back because, while we do not have a major budget for some things, many of the things we do are sales and service. Secondly, chargeback used to be a good thing, but is not so much anymore because it causes some problems, and suggested we think about a different funding model.

The last thing was Voice Network. Again, they said, you have built this great network, but the majority of your faculty have ten megabit access, not high speed, because they cannot afford the extra \$3 a month you charge, yet you have the capacity. Their recommendations were, first, reduce the rate to let the faculty use what they have. We have over 5,500 ten-megabit connections throughout campus. A few months ago, we began a program to give everyone who has a ten-mega access link a hundred mega access. Today, almost 50 percent of faculty and staff have been upgraded to 100 megabits, and we hope to complete the other 50 percent by the end of the year. The second part, again, was our charge. That will be a major project to change that.

For those listening to this report, it impacts us all, Trustee Coleman said, and it has a tremendous impact on our ongoing operating expenses related to IT and IT Services and our ability to provide a good computing experience for our employees and our students. First of all, there is a lot imbedded in this report. There are a lot of inefficiencies associated with how we bring technology into the university, how we acquire and implement technology, and the integration of technology, whether it is centralized or decentralized. We have to realize that if we can find a way to leverage the synergies and the acquisition of technology as we bring it into the university, we can also help lower the cost of acquiring and leveraging this technology. Areas such as the IT governance and organizational structure are critical and we cannot take that lightly. Even though 50 percent of the fiber has been lit up, I am not certain I have seen a business plan on how we are going to leverage that fiber.

The business plan was fairly simple, Mr. Czerniak said. We needed significant new bandwidth but could not raise rates or get the money from the university, so by applying for these grants, we now own the fiber, the Cisco equipment and the light wave equipment as part of those grant networks to connect us to the public Internet, to Internet 2, which would have cost the university millions, but have been paid by those grants. Secondly, we run a 24 by 7 help desk, and the income we are generating from NIUNet connecting all those places together is paying for those people. As far as the assessment part, we have been working on it and the applications. The towns we serve know they have fiber out there and they're getting better access because of NIU. We now need to make sure we actually help them with learning opportunities and business and economic development, which was our original business plan, and we now are doing a better job of documenting that.

Mr. Czerniak said that the assessment covered the major areas. We had a good study that pointed out our relationships and we learned where we need to improve. Generally speaking, Trustee Coleman noted, a high level IT technical assessment will cost more, but it will identify key areas at a high level that you need to focus on and try to address.

Mr. Czerniak agreed with Trustee Murer that the issues stated in the assessment are more organizational change as opposed to technological deficits, and the remedy in the four bullets in red is moving from a cost center methodology to more G and A allocation.

We generate hundreds of thousands of dollars a year of new income to the university directly through our fiber optics network. That helps pay for some of the people in support and will help subsidize and pay for our own network and the operation and services we provide.

When we talk about a business plan for NIUNet, Trustee Butler said, it seems that we also have to talk about some of the unfortunate aspects of running a business such as risk management and the technical and corporate infrastructures necessary to run a multimillion dollar corporation whose core mission is not teaching students in the classroom. Mr. Czerniak clarified that the only customers we provide services to are the nonprofit schools, cities and some of the medical institutions. We do not provide any service to the for-profits. As long as we monitor the manner in which this is treated in the insurance industry, the case law and so forth, Trustee Butler said, because cyber security breaches ultimately could come to our front door if we are responsible for the technology.

Agenda Item 8.b. – Budget Process Update

Chair Strauss requested a synopsis of current budgeting procedures to help inform the Board of the current budgetary context, Dr. Cunningham said, and, going forward with President Baker's plans to upgrade the budget process, it serves as a baseline of information for the Board to work with. Our budget is affected by a number of factors, and in the last committee meeting, we talked about the State context. We discussed a number of reasons why we expect a great deal of turbulence going into the Fiscal Year 2015 budget: cash flow, \$60 million in unpaid vouchers related to payroll and Monetary Assistance Plan for FY14, enrollment issues, unfunded mandates and State regulations. We have strategic priorities that we want to build in and link to our budget process in a more systematic way going forward.

Our Interim Chief Financial Officer, Nancy Sutenfield, will be here soon working on this with us. I want to introduce our fiscal staff, who work with the budget process. Mike Mann works with our external budget process, the Governor's Office of Management and Budget and the IBHE. Cristine Black is our Resource Allocation Management Program (RAMP) and Illinois State Legislature (ISL) budget process coordinator. Keith Jackson is the university's Controller. Dena Funkhouser is Director of Budget and Planning and handles the budget review process for department divisions and business managers.

Dr. Cunningham began his PowerPoint presentation focusing internally on fund categories and the fiscal year budget cycle. The internal budget is subdivided into six major fund categories, the largest of which is our income fund, tuition and fees; our appropriated fund, which has shrunken in recent years; revenue bond operations; auxiliary enterprises such as Intercollegiate Athletics that operate but are not associated directly with the facility; grants and contracts; and local funds that deal with cash flow, sales and services at the local level.

A pie chart broke down the budget by subdivisions in the budget categories of expenditure, the largest of which is personal services. In terms of our appropriated budget, well over 80 percent of our appropriated and income fund budget goes to personnel. In the overall budget, the other budget categories are subdivided into expense categories, so they are tracked.

In reply to a query from Trustee Murer regarding the Foundation, Dr. Cunningham explained that in terms of the operation budget, the Foundation contributes about \$2,100,000 a year for professorships and salaries. That is separate from the project funds, donations and facilities that the Foundation funds outside of one-time projects. He stated that she was correct in that most of the philanthropy we have seen over the last decade would go to capital projects and replace any capital expenditures or to scholarship endowments. The Foundation could pull the data. The only monies we show in this report are those that flow from the Foundation into the university operating budget for expenditures.

In reply to a query from Trustee Coleman regarding where revenue from operations such as telecom and NIUNet would be located, Dr. Cunningham replied, as an example, that the IT infrastructure would be a local fund, and the revenue that comes from grants and so on in Dr. Freeman's area, falls into the grants and contracts line.

The Board approved the internal budget on September 19, for \$446 million, for Fiscal Year 2014. The Board also approved a Fiscal Year 2015 budget request that we undergoes an approval process through the General Assembly, the Governor's Office and the IBHE. The FY15 budget starts at \$446 million and is subdivided across the areas in the pie chart. The appropriated fund is \$93.4 million and nonappropriated revenues fill out the rest of the budget.

The first category discussed was general revenue budget that combines appropriated funds with income funds. That is our largest fund category. As the President mentioned in the last presentation, we have been required to rely more on tuition and fees as general revenue has been cut and not kept up with inflation, which has caused the income fund to grow as a proportion of general revenue.

The next category was revenue bond operations. Revenue bond funding is accounted for separately from the rest of the budget. These are tracked to align with bond covenants and governance agreements with most of our facilities related to bond issues, or capital leases that pertain to cash flows that go through those facilities. The student bond fee is a major source of income, but the biggest source is the room and board payments and then food service and catering associated with our housing enterprise.

Auxiliary enterprises are similar to the bond revenue enterprise, but auxiliary enterprises that are not associated with a specific facility operation. For example, Intercollegiate Athletics, the Huskie Bus Line, University Press and other areas that create sales and service operations, but are not housed and centered within a specific bond revenue facility. Certain student fees are attributed to these auxiliary enterprises and sales of merchandise and some room and board and gate receipts compose this \$22 million of auxiliary enterprises.

The next major revenue category was grants and contracts, which pertain to Dr. Freeman's area.

Local funds relating to internally generated revenues was the next major fund source. Most departments have a local fund. These revenues are for sales of goods and services, program fees, certain activity fees and rentals. Local funds are important because we rely on those local funds to support a growing sector of university operations. So when we are entrepreneurial and develop new initiatives or projects and fund them internally, receiving a cash flow, that becomes a local fund.

Dr. Cunningham said they would begin to drill into the actual budgeting procedures at the university. In August, an interim budget was approved by the Board because we were waiting to receive the final verification of what our appropriation would be. On September 19 the Board approved the budget we just reviewed. At the same time, the Budget and Planning staff, are taking that aggregate budget and subdividing it across a number of cost centers. These are verified and loaded up for the year and then the budget review process starts. At the same time, we close out the prior year, Keith and Cristine verify what our actual revenues and expenses were, and these are accounted for down to the dollar. Dena's office then undertakes budget reviews with the business managers across the university's departments, colleges, divisions. There is a cycle every month. Dena's office is monitoring the budgets at a very detailed level, the budget office and our divisions and college business managers who are responsible for monitoring those budgets, and coordinate with our central budget and planning area. Budgets are reconciled, and if there is a significant negative balance occurring somewhere, we have to work collaboratively to resolve it.

Budget transfers requests are made continuously where an obligation may require supplemental funding from one account to another. The Budget Office coordinates those along with the business management functions in the colleges and divisions.

Since we have talked about these requests for fund transfers, Chair Strauss said, maybe we can deal in greater detail with Trustee Butler's question regarding what degree of freedom there is to transfer from one fund to another or from one line item to another within a fund.

In Fund 02, which is the appropriated and income fund, we can transfer money between different cost centers, sometimes between different units, Ms. Funkhouser explained. But if it is a different fund, such as Fund 41, we do not normally transfer funds between those cost centers or bond revenue or student fees as a general rule. There could be some cases where there are expenses they might transfer between funds, but we are very particular about that, especially in regard to, for example, the class fees because those fees are based on certain expenses and requests that the departments put forward for a course. If they do not meet with those requirements, we cannot transfer the expense.

The internal budget process that we have looked at so far focuses on the revenue side, Chair Strauss said, so when the Board of Trustees acts, it is only on a budget for revenue, not for expenses. In fact, we never see the expense side. There may be five line items contained in the budget we approve that

reconciles to what happens on the revenue side. For those of us who are involved in private sector enterprises, our budget process differs in that we will do a revenue forecast, but we will also look at what happens on the expense side and then go through an iterative process to try to arrive at what makes sense for a budget for the enterprise, and then follow it over the course of the year. So, can we get some description of how the expense side of the budget is viewed internally, how that process goes, and who participates in that process?

The next few slides will help with the iterative process during the year as we monitor budgets, Dr. Cunningham said. We first post them with the revenue projections, and then as the expenses are incurred, those are tracked and dealt with through the budget review process that Dena administers.

One other factor you could also address, Chair Strauss added, is how that process reconciles to institutional goals and objectives. We have Vision 2020 goals we are trying to achieve and you would expect the budget process would line up with whatever those institutional objectives are. I would also like to circle back and talk about how those things happen on the expense side.

There are allocations for strategic planning priorities. Some of them were related to the Great Journeys Plan, some Vision 2020. In the future, it will be a process of aligning allocations with new priorities. We have talked about cost centers, which is basically a budget device for our departments. Cost centers are associated with each different fund category, so a given department may have several cost centers -- a bond fund, a local fund, and one or more general revenue funds. In many cases, as Dena said, if it is a local or a fee fund, these are segregated accounts because the purpose for which those funds are allocated is restricted to the specific fund name. Those are monitored in terms of fees, course fees, material fees and student fees. Both Board and university policies and the Provost's Office mandate that those fees be separately accounted or channeled to the purpose for which they were established. We have around 14 divisions now, and at least nine major academic colleges and subcategories, and then there are hundreds of departments and thousands of cost centers. As we go down the pyramid, this branches out into a very large dataset.

Dr. Cunningham asked Ms. Funkhouser to explain the contents of the cost center report. This is a financial summary report for a Fund 02 cost center, she said. We do not have any revenues on this because it is appropriated and income funds, so the budgets here are actual dollars. It is divided into categories, personal services, and then it has detail so you can see how those budgets roll up in each area. The first column is the actual activity for the last period run for this report. The next column is the current budget, and that might not necessarily be the base budget. Each year they start out with a base budget, but during the year changes can be made with budget transfers or the budget review process. The next column is obligations. For HR, the permanent positions are obligated out as well as grad assistants, so you see obligations in those columns. Contractual could be purchase orders set up for those items or any equipment. The actual to-date is how much money was spent in each category up to this point, and the available budget shows how much money they have left to spend for the year. These are tracked and reviewed through the budget review cycle, Dr. Cunningham said. Certain fund categories are the focus of attention every month, and are monitored all year long.

Ms. Funkhouser stated that these cost center reports are distributed to the business unit managers every week, and this is an example of an actual financial summary report for one individual cost center for the Fund 02 which they receive every week, she said. There is a roll-up for all of their fund cost centers within a department or college or even up to the division level for the total amount.

This page shows the actual to-date is \$255,000 in total expenses, Trustee Boey said, and an available of \$176,000, so that means in this particular case, they have already spent more than half of their funds. That is correct, Ms. Funkhouser said, and this is what we watch for so that the business managers in the departments can review those and set up a budget transfer as they need to along the way. They can also do budget transfers on the budget review document.

I do not want the pendulum to swing so far that we are going to get into minutia and forget what we are supposed to be looking at, Trustee Murer said. As it relates to expenses, I would like to see, in bigger categorizations than cost centers, how much we are spending in labor directly related to our mission of teaching, and so on as it relates to those things. From a governance standpoint, from a policy standpoint, I want to know what the ramifications are, how we impose this, what the accountability standards are. My only caution is that, as we move down this track, which is probably the most transformational decision we are making in finance is that we really look at the budget.

The point is well taken, the Chair said, but my judgment was that for us to have a conversation about the policy we had to have a fundamental level of understanding about what happens today.

I do not want to focus on how we process each check and have a review of that at all of our meetings. My intention is to have everybody understand the direction we are headed, both on the Board and in the audience.

We heard earlier today that revenue is being cut, Trustee Coleman commented, so our dependency on the state and federal is declining, which comes to a point that have to keep an eye on the financials, both revenue and expenses. One of the things that keeps me up at night is how do we finance our growth? How do we expand colleges that need more professors and more facilities to teach? How do we accommodate students who are leaving our institution because they cannot get into the College of Nursing or the College of Engineering? At some point, we may have to shift some of our financial spending to areas of growth. Those are tough questions and tough situations because everybody wants to protect what they currently have in their operations. We have to start raising those tough questions. We have so many pots out here that we are spending. We have to start getting our hands around that so we can possibly do reallocation of expenditures to help us with our mission. My hope is that what we can take what we learn today about budgets and budget cycles, step back and figure out say how we can influence this to further drive the expenditures as it relates to our mission?

After we finish today, Chair Strauss said, I hope we will have set a threshold of knowledge about the process. I believe, in the future, we are going to hear about changes to the process that are being considered, and that will launch us into consideration of some of the topics Trustee Coleman raised and some of the other things I already have planned for us to take input on and deliberate.

Taking a look at the remaining slides, the Chair said, with the background we have already received, and given the hour, the rest of the slides may be self-explanatory. If we could circle back to some of those larger scale questions that I asked at the beginning, how do we currently align to institutional objectives? What kind of participation is there in the formulation of the expense side of the budget? Then, we will move on to the next agenda item.

President Baker has plans going forward in this regard, Dr. Cunningham said. This is a good baseline for understanding, and there are difficult decisions, such as Trustee Coleman outlined, that have to be made. The process the university has undertaken for many years has been an incremental budgeting process. So, the college and division budgets, for the most part, are reestablished every year based on the prior year budget. Sometimes there are transfers made across divisions and colleges and so forth, but that is not a big part of the current budgeting process. Periodically, the university accumulates central funding authorized by the President to go toward specific strategic objectives. One example was the \$8 million budgeted for Vision 2020 priorities. There was \$6 million a year budgeted for Great Journeys Strategic priorities. Usually, the process has been the distribution of supplemental resources for these priorities and not much transferring, unless a program terminates.

That is the type of process we have had to date, and each division has been responsible at the divisional level, and not so much at the university level, for taking prioritization and budget reallocations across their own priorities, and not.

I appreciate you and your colleagues working with me to get us to this point in the discussion, Chair Strauss aid. Maybe we can give everybody a chance to reflect and ask whatever questions they would like and then carry this over to the next meeting, briefly, in case there are any questions on what we have already covered. Then we will launch into another of the topics on your lists next time and build off this knowledge.

The Board and I are tracking the same direction, President Baker remarked, we want to be good stewards of our scarce financial resources, or our plentiful resources. We have many resources here, and are we allocating them correctly? I think this university like many universities kind of gets in the path with its obligations to staff and faculty where it is hard to move the dial a bit, so you get into these carry forward habits and do not think about whether that is still the priority it was five or ten years ago. We are going to have budget hearings and have people tell us why they want a piece of the portfolio going forward for these strategic reasons. We have not had enough people focused on this to do that yet, so we took a baby step toward it this year. We froze all hiring in the university since the major portion of our expenditures is people. I asked all the vice presidential areas to put together a hiring plan and tell me why they wanted to hire these people. I have gone over those with the Interim Provost, and we have released most of them. Each of the vice presidential areas is doing that this week. We will build a more developed model as Nancy Suttentfield gets into her Interim CFO position in the next few months.

In the last two years, Trustee Coleman said, we approved tuition increases and increases to room and board. Our revenue growth has been, for the most part, on the backs of the students. At some point, we have got to start looking at the expense side of the equation find opportunities or efficiency. so, Dr. Baker, I am thrilled to hear that we are trying to put some rigor around that space to further determine where we have synergies and where our priorities are and where we should be allocating funds. It should be a priority of ours as an institution, especially since the top line revenue is becoming difficult, and we have to make sure we are finding a way to minimize our expenses as we go forward. There are areas that are a priority for the university that we have we have to invest in. If that is four-year scholarships, then we have to figure out where to get the funds to do four-year scholarships. If it is growing out certain colleges because that is a growth area, then to have to figure out where we get the funds to make that happen. It needs to be a concerted effort, but everybody needs to be able to play a role and participate in contributing to the overall mission for the university.

Just to summarize, Chair Strauss said, I appreciate that we are taking a look at what it is we are going to do on a going forward basis, and I know we are going to do it in a way that we honor commitments we have made to employees in the past. We have people who have been granted tenure, and I do not want the Board's interests to be misinterpreted as an effort to cut off at the knees people who have had long and distinguished careers at the institution. But I do think it is our responsibility to be able to look at those areas of operation that we want to emphasize on a going forward basis and those that we need to put a yellow light or a red light on, and to always be mindful of those areas where we have other operating expenses and can maintain initiatives to be able to control the costs.

Agenda Item 8.c. – Student Recreation Facilities Update

Vice President Eric Weldy and Associate Vice President Jeff Daurer presented a preliminary report on student recreation facilities. The goal of this report is really just to document sort of what our existing facility infrastructure is for student recreation, Dr. Cunningham stated, and then Dr. Weldy will work on a more detailed going forward report for the next committee meeting in February.

The students are interested in the Board taking a look at the status of our recreational facilities, and Student Trustee Echols has been instrumental in bringing this to our attention, and we have all read articles in the *Northern Star*. This is an effort to establish the baseline, to see what we have right now. I have asked that we do a needs assessment to figure out what services are being requested of us and then see how our existing stock of square footage lines up with what is desired. Then we can try to formulate a plan that will go as far as we can with budget constraints to be able to address this.

We are here today to give you an update on the campus recreation center facilities, Mr. Daurer said. To do so, we are going to take you back in time in the history of NIU. In 1983, we broke ground for the original Campus Recreation Center. This 95,000 square foot facility cost around \$4.5 million at the time, and included tennis and basketball courts, racquet and wallyball courts, significant office area, locker rooms, an outdoor outing center and a one-fifth mile track for walking and jogging. Our students embraced Campus Recreation, and in 1995, we added another 28,000 square foot addition, including much needed large court space, cardio and strength training and some multipurpose breakout room space.

Our culture continued to change through these years and demand for recreational opportunities continued to increase. In 2004, we began a \$225 million renovation to convert the field house interior into generous multipurpose court space, a jogging and walk track, cardio fitness and much more. The addition to the Campus Recreation portfolio meant another 65,000 square feet.

This past fall, we opened a beautiful 27-acre outdoor recreation sport complex. This facility is open to all of our students, and lighting has been added for activity late into the evenings. The facility includes fields that will accommodate softball, baseball, rugby, flag football, lacrosse, soccer and Frisbee. We set up spectator benches, a three-quarter mile walk path, and built a small building to accommodate equipment checkout, light concessions, bathrooms, etc.

In the last two years, we have added fitness space in New Residence Hall and in Gilbert Hall. There are a combination of cardio and strength training options within these facilities, and they benefit all of our residence hall students who can access these throughout the day and into the evening. Mr. Daurer thanked Angie Bolinger, who did all the research for this presentation.

Last July, I took a tour of our campus recreation facilities, Dr. Weldy began, and a few weeks ago, I had an opportunity to visit our residence hall recreation facilities. The Gable Hall pool area, has about 7,490 square footage. Gable Hall broke ground in 1956 and was occupied in 1958. The last renovation for Gable was in 1986 at a cost of \$225,000. This indoor pool aquatic facility is used not only by students, but it is also used by faculty and staff. When we talk about campus recreational facilities, we need to think in terms of students as well as faculty and staff.

There are basketball courts and inline hockey located across from Stevens. There are also sand volleyball courts located around a number of our residence hall facilities, including New Residence Hall, Neptune, Lincoln Hal and, Stevenson, and there are also field hockey fields and shared tennis courts. The changes we have made or are adding, the a wonderful, new state-of-the-art outdoor facility, which is a great example of what we need from the standpoint of attracting, not only students, but also faculty and staff, to our campus. Total square footage of indoor facility space for all campus recreation is approximately 206,179 square feet. Our largest indoor facility space is the multipurpose courts which take up just over 56 percent of our space. Second is office space, circulation, service and service structure etc.

Sandi Carlisle, Director of Campus Recreation, stated that the Anderson pool is used for overflow for swimming, but only one night a week which is the only time it is available. The other spaces, which are under our purview as well, have been used for sport club practices. We have used the space in some ways, but probably need to take a closer look to see if there are other opportunities there. In reply to a query she noted that the ration of student to faculty/staff use was approximately 90:10 with only a very small percentage of that being used by the community.

What concerns me about the direction we are headed, in terms of the way we are looking at this snapshot of the present situation, is that we are looking at square footage, Trustee Butler said, but I would like to know what the usage is of the facilities, particularly of the Recreation Center, because that is going to be the primary focus of most students seeking recreational services. Finally, it may be too early to test this, but we need to determine whether we are getting positive usage results from these residence hall fitness centers, because if they prefer that space, then maybe we should move in that direction. But then we have to weigh that against the potential advantages that come from the

community gathering issues of retention and diversity and so forth when students all come to the same place for recreational activity.

This should be part of the needs assessment to figure out whether the distribution works and what is being used, Chair Strauss commented. The square footage does not have to be used the same way it is being used now, but I thought it was important that we take a look at what exists.

Agenda Item 8.d. – The Affordable Care Act

Dr. Eric Weldy and Dr. Steven Cunningham co-presented this item because it has implications for our employment policies as well as our employee group health insurance program and our student health insurance program. The employer mandate is to provide minimal standards of health insurance, Dr. Cunningham said, and to be accountable for employees who fall into the gap and go to the exchange for coverage, and the financial implications have been delayed at least until January 2015. That gives us a little more time to deal with the employer mandate dimensions. It defines full-time employees as those working 30 or more hours on a sustained average basis during a look-back period of six to 12 months. Central Management Services initially took the lead in terms of indicating they were the agency of record for the Illinois public universities, but that may change, so we are working carefully with Central Management Services on this. The individual mandate to be insured takes effect January 1. It may be extended due to the problems with the exchanges at the federal level. The university met its obligation to notify all employees, including student employees and graduate assistants, of their requirements and eligibility for insurance coverage pursuant to the Affordable Care Act.

We confirmed that State employees are now all eligible for the State program if they are employed on a less than 50 percent basis or otherwise not eligible to participate in the State Universities Retirement System. The State Employees Group Insurance Program, though, does fulfill the employer mandate for purposes of employees who are qualified to participate in that group program.

Our biggest issue is what we call Gap Employees, personnel who could work more than 30 hours during the look-back period, but are not otherwise qualified to participate in the State Group Health Insurance Program, and there are four categories: student employees, graduate assistants, extra help and affiliates. If one Gap Employee winds up beyond the safe harbor, which is 95 percent of your workforce, so we have a five percent buffer. Beyond that five percent, if one or more employees go to the exchange and are insured, then the employer accrues a stiff penalty of \$2,000 per full-time employee. We have around 4,000 employees who would be considered full time for purposes of this statute, so that would be an \$8 million penalty. We are going to make sure we do not cross into that. Again, it is still being determined whether the State or the individual universities are the employer of record for this purpose.

All students are charged a student healthcare administrative fee, Dr. Weldy began, at a fee of \$10.07 per credit hour. All students are able to access health services as long as they are enrolled in at least one credit hour. The fees cover most services, and there are some charges for medications and immunizations. Dependents can be covered by the student health insurance. Students pay \$1,060, a spouse or partner \$4,412, and the cost is just over \$2,000 per child. Historically, since about 2008, 2009, 55 to 65 percent of our students opt in to the student healthcare plan.

Currently, there is a \$500,000 annual dollar limit on essential health benefits. There will be no limits beyond Fiscal Year 2014, and this is a great decision for our students and the kind of healthcare they will receive. Examples of essential health benefits include such things as ambulatory patient services, emergency services, hospitalization, oral and vision care, to name a few.

Our current minimum medical loss ratio is 80 percent. That means 80 percent of premiums must be spent on clinical services or activities to improve healthcare quality. Previously, it was 65 percent. The remaining 20 percent of each premium dollar is spent on overhead expenses such as salaries, administrative costs, marketing and profits. We anticipate an increase in healthcare premiums primarily

due to the pharmaceutical benefits, and they could increase 30 percent or more. We continue to keep costs down by maintaining an established college high risk pool rather than using the general individual market pool. The high risk pool basically provides for those who may have a serious preexisting medical condition to be covered.

One point to make is that the student health insurance program does not fulfill the employer mandate for Gap Employees, Dr. Cunningham said. We really have to look at the Gap Employees and rely on the CMS Group Health Insurance Program to cover the others.

We have policies that limit work hours for student employees, and it is going to be important for both graduate assistants and student employees that we establish very consistent policies in terms of work schedules and documentation of time worked so that we systematically look at the full-time coverage thresholds simply because of the numbers of employees involved (5,400). That five percent margin would be about 200, so it will be necessary for us to implement sound policies for the gap groups.

We are collaborating with the other universities and with Central Management Services. We will be implementing very systematic policies prior to January 1, 2015 regarding Gap Employees. Eric's group is making sure the student health plan is compliant with minimum standards, and we have already fulfilled our notification requirements pursuant to the Affordable Care Act.

- Agenda Item 8.e. – Semiannual Progress Report of Active Capital Projects**
- Agenda Item 8.f. – Quarterly Summary Report of Transactions in Excess of \$100,000**
- Agenda Item 8.g. – Periodic Report on investments**

Trustee Strauss stated that the committee would accept the filing of the other informational items if there was no objection from anyone on the committee.

NEXT MEETING DATE

The Chair announced that the next meeting of Finance, Facilities and Operations Committee would be announced after the Board approves its 2014 meeting schedule at its December meeting.

ADJOURNMENT

Chair Strauss asked for a motion to adjourn. Trustee Coleman so moved, seconded by Trustee Butler. The meeting was adjourned at approximately 2:25 p.m.

Respectfully submitted,

Sharon M. Banks-Wilkins
Recording Secretary

In compliance with Illinois Open Meetings Act 5 ILCS 120/1, et seq, a verbatim record of all Northern Illinois University Board of Trustees meetings is maintained by the Board Recording Secretary and is available for review upon request. The minutes contained herein represent a true and accurate summary of the Board proceedings.