

Minutes of the
NIU Board of Trustees
FINANCE, FACILITIES AND OPERATIONS
COMMITTEE MEETING
February 27, 2014

CALL TO ORDER AND ROLL CALL

The meeting was called to order by Chair Marc Strauss at 10:19 a.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, Anthony Iosco, Robert Marshall, Cheryl Murer, Student Trustee Elliot Echols, BOT Chair John Butler and Chair Strauss. Also present were Committee Liaison Nancy Suttentfield, 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.

Chair Strauss proposed that Agenda Items 8.b., 8.c., 8.d., 8.e., 8.f., 8.g., 8.h., 8.i., 8.j., 8.k., 8.l., 8.m., 8.n., 8.q., 9.a. and 9.b. be placed on a consent agenda. He then asked for a motion to approve the agenda as amended. Trustee Murer so moved, seconded by Trustee Boey. The motion as approved.

REVIEW AND APPROVAL OF MINUTES

It was moved by Trustee Coleman and seconded by Trustee Marshall to approve the minutes of November 7, 2013 meeting. The motion was approved.

CHAIR'S COMMENTS/ANNOUNCEMENTS

Chair Strauss recognized University Advisory Committee representative Dr. Alan Rosenbaum. We are in the process of attempting to implement several changes regarding the conduct of business in this committee. We did not have perfect execution this time, but I want to take a moment to explain both to the committee members and some of the people in the audience what we are trying to accomplish. We wanted to make an effort to keep ourselves on time. In the revised agenda, I have attempted to tackle this issue with a suggested time allocation for each item on the agenda as well as to try to deal with routine matters through the use of a consent agenda. My expectation going forward is that for those items moved to the consent agenda, we will have more explanatory materials provided well in advance, in writing, so that we have the opportunity to have common questions answered. I have asked staff to follow the direction for the items that are going to have discussion and that we reserve at least a third of the time to have the opportunity to discuss those more significant issues and hear from the members of the committee. The suggested time allocations were not received until this morning, but we will make an effort to guide ourselves accordingly.

Also, our Interim Chief Financial Officer, Nancy Suttentfield, is now the principal liaison for this committee, though we will continue to hear from other administrators with regard to particular budget items. The nature of Nancy's presentations are complex and, in the interest of making sure she gets through them

as rapidly as possible, we would appreciate your cooperation in holding questions on the items being presented until the end.

We have a number of important agenda items that we are going to talk about today, beginning with a presentation on Guiding Principles for Annual Budget Development and Multiyear Financial Planning. We spent significant time at our last meeting talking about the current budget model. We are going to move on now to talk about what the replacement for that model may look like, and we are interested in feedback from the committee, particularly with regard to the way in which the Board should interact with that process.

Steve Cunningham will be giving a brief follow-up to his budget process presentation from the November 2013 meeting and an update on procurement outreach for local business enterprises. One of the questions we did not get to related to the ability to do fund transfers, and Steve is going to focus on that area in his prepared remarks, but I do not want to preclude other questions the committee may have on the budget process because some of the fundamentals of that will carry over even after we have the new budget philosophy in place.

We will then move to the recommendations for the FY2015 student charges. These, for the first time, will reflect a comprehensive pricing strategy for tuition, room and board, and fee rates for 2015. In the past, we dealt with fees at this meeting and with tuition at the following meeting. The reason for altering this strategy will be part of Nancy's presentation, and she will speak to the underlying rationale for the strategy. As explained in our advanced reading material, making total pricing information available to students much earlier will facilitate both recruitment and housing decisions and more effective communications between NIU and students regarding financial aid.

PUBLIC COMMENT

The Chair asked Board General Counsel Jerry Blakemore 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. Blakemore noted that no timely requests had been received to address this Board Committee meeting.

UNIVERSITY PRESENTATIONS

Agenda Item 7.a. – Guiding Principles for Annual Budget Development and Multiyear Financial Planning

I would like to highlight the primary concepts the Interim Provost and I have assembled and have now discussed with nearly a dozen campus groups to get their feedback regarding an overall new approach to financial planning and budgeting, Ms. Suttentfield began. We still have many more issues to talk through, and for that reason we see this as an evolving transformation of the financial planning and budgeting process that will probably take us over the next 18 to 24 months to get us to a place where we have a consistent, ongoing set of policies and practices for all of the decisions that need to be made. In the course of my presentation today, I would also like to use the opportunity to give you a progress report on the day to day work we are doing to operationalize some of the changes we are making.

Our new approach flows from the University Mission Statement. We also followed the charge of President Baker in his inaugural address last fall. Suffice it to say that without transparency about the financial situation and university budgets, there are unnecessary obstacles to our ability to focus on our highest priorities for teaching and learning, for research, creativity, public service, everything that represents our *raison d'être*. So, in tackling the assignment Interim Provost Freeman and I were given, we asked ourselves how we might build transparency so that we could focus on our strategic priorities. First, we need to start with guiding principles and identifying many of the other essential changes that we believe, when implemented, would be transformative to the way in which we do business at the university. We felt there were four primary themes we should concentrate on beginning with alignment.

When we talk about alignment at the 50,000 foot level, we are talking about alignment from the top down with all decisions we make regarding resource allocation being tied to the mission, vision and values of the institution. Also, we thought that clarity was very important, that our practices, whatever they may look like once they are transformed, whenever they are expressed, they are expressed in very clear and understandable terms, they are available in written form for future reference. When people need to have a reference to make certain that they are approaching things in the desired way, getting to transparency, what that simply means is that in all things that we do, not just in resource allocation and formal financial policy and budget decisions, we are being open and honest in everything that we do. Finally, sustainability is an overarching theme. We are looking to establish flexible practices for today, but also to embed prudent practices in relation to the perpetual missions we have as an institution of higher education.

We also felt that alignment was important as a public university to make explicit in our considerations the importance of access and affordability, especially when we take up discussions about pricing as we will later this morning. We created a framework that was both academically responsive, meaning that our processes were responsive to strategic priorities for the core missions, the teaching, the research, public service and so forth, combined with fiscally responsible practices that, for the long term, we are assuring a long-term viability for the financial model of the university. Finally, we felt that we needed to provide for a redefinition and explicit assignment of the authority that is essential to go along with roles and responsibility and should accompany accountability for desired results, whether they are tied to strategic priorities and strategic goals or the day-to-day roles and responsibilities for which our cabinet, deans and others throughout the university are responsible.

President Baker's reorganization and vision brings an alignment through a new partnership between the CAO and the Interim CFO, and the work we do together. Lisa is responsible for assuring that as we develop the actual practices for implementing these guidelines and procedures we are ensuring academically responsive approaches to all decision making. I am responsible for being an enabler and an advisor and providing all of the information and support necessary to the Provost and the President to assure that we are making fiscally responsible decisions. Each officer has designated and complementary roles in formulating and executing the budget as we define those more clearly in the coming months and years. The benefits of alignment are obviously clear and integrated linkages to our mission, vision and values and our strategic goals, the academic and finance partnership, along with complementary authority, along with roles and responsibilities that lead us to better informed and more strategic budget decisions within a framework that assures overall fiscal prudence.

Ultimately, we are trying to get to where we can say we have a much more transparent environment, and transparency, as I mentioned previously, depends on clarity. To get to transparency, it is also essential that we provide clarity to our academic and administrative leadership along with faculty and staff that are doing the day-to-day work of the university. So, clarity is about having established financial policies and budget decisions that can be communicated and easily understood and remembered terms. It also means that on a practical level, the annual budgets we assign to our cabinet members, deans and other managers, represent the full amounts available to them to operate within a given fiscal year. That means we have taken steps in the last couple of months to identify all of the centrally controlled budgets that actually support recurring obligations which have been the responsibility of vice presidents and deans to manage but have not been reflected in their annual budgets. Lisa and I have gone through all of these centrally managed budgets and made base adjustments to transfer those funds to the responsible accountable manager so that manager has the authority necessary to accomplish the specific goals of the unit.

The kinds of expenses included were some centrally budgeted tenure-track faculty positions that the dean will now control; scholarship funds that were held centrally have been transferred to the Vice President for Student Affairs and Enrollment Management. Transparency also depends on having a very communicative budget process, so we will be putting in place a budget hearing process where it is envisioned that the Deans Council will come together with the Provost and the CFO every year to talk about their current situation, the goals for the academic units and resource requirements they may have.

It is envisioned that all of the deans would be together to hear what is going on and what is needed in other units so that we would have more coordinated planning and opportunities for the sharing of resources. We also envision reports that tell a story, and one of the first manifestations of that principle is the information we have tried to assemble for the discussion later this morning on our pricing recommendations with a lot of background information we felt it was important to include so that there was a context for the decision. We are looking to provide more and more information to the campus, as well as to this Board, that actually tells the story in understandable terms before we make recommendations for decisions.

The benefits are self-evident, and we believe the collaboration opportunities that will emerge as a result of this new environment that reflects alignment and clarity will be more bottom-up vibrancy. It is the faculty and staff across the institution that can generate the ideas that can be transformative, as well, in this new environment of openness. Now we enter a new more transparent environment with very intentional actions that we believe will make its way to maturity over the next 18 to 24 months. We will have clarity and openness that build a small foundation for trust, collaboration and integrated strategic initiatives. We will find it possible to use customary higher education vocabulary which, importantly, allows us to benchmark our metrics with the metrics of higher education in general, and that helps us make more informed decisions. At a very granular level, we are hoping to use clarity to make possible enhanced cost analysis that will be much more sophisticated, also for informed decision making.

Once we have transitioned to full transparency and have everyone focused on our true strategic priorities, the key benefits are pretty self-evident. The one I would like to focus on is the fact that in this environment, individual efforts will be amplified, allowing for enhanced potential for what I would like to think are very powerful combinations of outcomes. When the silos come down, when faculty members have the information they need about the resource availability or opportunities to generate their own resources or identify cost savings opportunities that can be repurposed, then everyone is working together and the amplified effects make possible really significant advances. When that starts to happen, the momentum starts to build, and that is what we are hoping to see. Each individual becomes much more cost conscious, and by identifying resource inadequacies, people begin to start thinking about other ways new sources of revenue can be tapped and streamlining and bureaucratic obstacles can be eliminated, with all of the resources associated with that repurposed to the things they would like to do.

The next three slides are really at the heart of the CFO's role. I have always felt that an important aspect of my role is actually to lead, advise and serve as the nagging conscience, and be the advocate for equilibrium as measured by operating performance and balance sheet strength. Yet, the role also requires the equilibrium I just mentioned between prudent financial decisions and using finance as an enabling tool to allow the university to be nimble, flexible and responsive to the needs of faculty, staff and students. Equilibrium is a very important word here, whether we are talking about the financial statements or the day-to-day work of the CFO.

The remainder of the slides that I have here are more or less self-explanatory, but I will mention understanding and managing the drivers of our largest revenue sources, managing those things that we can control, the 80 percent of our revenue stream that comes from enrollments and how we price and, especially, through occupied beds that are significant drivers of our overall situation, and what I like to call a relentless and continuous focus on driving down costs. That, too, is a shared responsibility. In the short months I have been here, I have tried to create a very welcoming environment for anyone that has ideas that they would like to suggest to me about opportunities to streamline, opportunities to save money, to bring money in. By creating this atmosphere of openness and trust, people are giving me great ideas. Some of them we have been able to embrace and take on right away.

The other thing here that I would like to say a few words about is managing for uncertainty and balance sheet strength. We have new approaches that we will talk about probably when we get to the budget recommendations in the spring. To give you a teaser about what might be coming, one of the practices I have always found useful in an environment of uncertainty in higher education, when everyone is looking for their budget, at the beginning of the fiscal year or sometimes before the fiscal year, and many

decisions have not been made. One thing we can think about doing is making conditional allocations until we have a clearer picture of what appropriation decisions might be, what the final enrollments might be, so everyone knows that if everything goes according to what we have anticipated will happen, there will be money there for me. If it does not the money may not be there in part or in whole, but we have not yet made commitments against those dollars. It is a very important tool that CFO's working with Provosts can put in place to assure that we are addressing uncertainty without making commitments that are later more difficult to withdraw.

The benefits that come from attention to equilibrium are greater confidence for all of us in this room that we have a sound model and that, ultimately, that model enables us to do what is best for our students, and that is what it is really all about. The more intentional we are in our focus on financial strategies that we actually control, the more productive use of our management time will be possible. With attention to equilibrium, we will also have continuity in our pricing, in our budget decisions from one year to the next without major deviations in one direction or another or up and down, and that is very important to having a stable environment, and enhance flexibility when there are external shocks that come unexpectedly as well as when we have unexpected opportunities.

Mine is less of a question and more of an observation about the principles, Trustee Butler said. First of all, I wanted to say thank you. I confess that I did not read these as much as I have the last two days, and I now have a sense of the profundity of the endeavor. It is clear to me now that this is not only a set of guidelines that control a formulation of the budget, but cover financial planning overall. The Board is mentioned about three times, and it is clear our interest in dashboard indicators, aligning our strategic priorities and resource allocation decisions are served by these guidelines. However, I do not see a few things.

As this process has unfolded throughout the campus, Trustee Butler continued, I am hoping we are at a stage where we can contribute some suggestions. I am happy with all of the principles I have read but think maybe we should be adding something in addition to that with regard to the obligations of the Board in this system. Here are the things I do not see: (1) an acknowledgement that we (the Board) approve the budget and the financial strategy at the end of all this, (2) that we have a role in assuring these guidelines are adhered to, which is a responsibility we would be willing to accept, (3) that perhaps we ultimately control the timeline of this process by our actions as a Board, and this gets into some of the points that were being made in Action 8.a. in the materials we were given, that we really do control the timeline in terms of how issues come to us and the actions that we take, (4) that we want to exercise oversight with regard to dashboard indicators and customary financial ratios. That is more regular than annual, and Trustee Strauss has talked about the kinds of things he would like to see this committee and the Board see on a regular basis as we are exercising our responsibility of oversight, because it does mention that this will be an annual process. What I would like to see is some sort of principle that we could put together as a Board, and I have a suggestion that I would like to show my colleagues as an example, and I ask that at least one reach Dr. Rosenbaum.

Below is Trustee Butler's suggested language:

The results of annual financial planning and budget formulation will be recommended to the Board of Trustees for annual review and approval in accordance with the expectations of State level appropriations processes, annual pricing determinations and determinable decision making and financial planning timelines of enrolled and prospective students. Board of Trustees review of such recommendations will ensure adherence to these guiding principles among responsible campus leaders and major stakeholders, and alignment between the strategic priorities endorsed by the Board of Trustees and resource allocation decisions.

I understand why you wrote this, Trustee Boey said, and I am sensitive to it as well. In reading this, I have to remind myself in carrying out our responsibilities that we do not manage the details too much. Having come from industrial organizations, I am very conscious of the fact that we do not want to ask for

approval to the point where those reporting to us are not sure when and when not to ask for approval. We want to be sure not to over manage.

Our fiduciary responsibility as Board of Trustees members is to oversee the budget and approve the budget, Trustee Coleman commented. Having guiding principles to galvanize and bring together the university after a common cause, does not take away from our fiduciary responsibility. It is implied that we will continue to approve the budget and the budget process as we normally do. That is our responsibility, and I do not see the guiding principles undermining that. I do see the guiding principles as a way to bring together the university to say, we need a budget process in place to help bring us all together on common ground, with transparency, to move the university forward. It is not necessary to adjust the guiding principles. In fact, I wanted to commend Nancy and Dr. Freeman for putting together what I would call the guiding principles of ACTS. I do not know if you intended for this to be the acronym I am creating associated with what you put together here. But the alignment, clarity, transparency and sustainability are something we need to look at and all aspects of the university need to rally behind with the intent that your final products will come in front of this body for approval.

As I jotted notes, Trustee Murer said, fiduciary responsibility came to my mind as well. We have, as Chair Butler has talked about, fiduciary responsibility, and Trustee Coleman used the words financial viability, of the university. So those are our overriding principles – fiduciary responsibility for financial viability. I want to go more into specificity. I can only commend you and President Baker for a philosophy of accountability. There are a couple of things that I would like to see as well. It sounds like what you are proposing is a greater decentralization to the deans which means allocation of line item budgets to the deans for their accountability. In a word, yes, President Baker said, but in the past people have not gotten full budget for their ongoing obligations, and that does not seem like a good way to allocate. So we want to not necessarily decentralize, but actually give full budget for what we have asked them to do.

You are saying you want to hold the deans accountable on a revenue and an expense basis, Trustee Murer said, and we want to assure that there is incorporation of the expenses that are appropriate for allocation to them. I have two questions that I would like to ask the President if he would authorize review of these two issues through your Chief Financial Officer. First, as you now try to allocate both revenue and expenses to the deans to incorporate their legitimate expenses, I would like to also know what flexibility they have in terms of fixed and variable so, we could get a bit more clarity percentagewise, not necessarily dollar-wise, in terms of where there is any flexibility for the deans as they look to their obligations of expenses and revenue.

Second, as we are under greater scrutiny of being judicious with our resources, and as we believe it is our responsibility for financial viability above all, and as we are looking to higher education consideration from the media, such as the *New York Times* editorial we talked about earlier, looking to the state of higher education, what the proportional ratio of administrative costs is to faculty being tenured, tenure-track, adjunct and other expenses, with administrative. I would like to see it a bit more selective than just this big number and say, from an administrative perspective, what does that include? It includes a lot in terms of physical plant. What is the percentage that we allocate to an overall budget? How do we run this university? If we had those percentages or pie charts or that level of information, I do not think we are getting too far down, Trustee Boey, which is always my concern, the role of policy versus management, but also for us to be able to have a better picture from a financial standpoint, how we are allocating our resources. I am very interested and commend you for what I call the decentralization down to the deans, but then I want to know what flexibility they have in terms of their obligations, which is not right or wrong, good or bad, they have obligations in their line items, and what is that, and where can we see any flexibility?

We are decentralizing to the Provost, the deans and all the other vice presidential areas, President Baker said, so it is not just the academic arena. In that regard Nancy noted that we have used language internally to manage the institution that is somewhat unusual relative to peers. When we go out into the benchmarking you have just talked about, like faculty staff ratios or percentage spent on facilities or

whatever, it is difficult for us because of the way we have accounted for our own internal dollars. That is the transition Nancy is going through, so then we can go out and do our benchmarking with Delaware Data, NACUBO data or other data around the country. Relative to the budgets, we are 75 or 80 percent people in our budgets. The other 20 or 25 percent, you would think would be the flexible money, but that is paying your utilities and other costs of operation. So, the majority of your flexibility probably is going to be in hiring. As we have turnover, the flexibility can be created with open lines and the reallocation of those to the highest priorities, whether it be other lines or other operating expenses or investment and startup activities, whatever it might be.

In the upcoming months we will be in the process of communicating with the deans about their projected budgets for next year, Ms. Suttentfield said, on a very preliminary basis that reflects the base adjustments, moving the central dollars to their control. We will have many more opportunities through face-to-face discussions with them to understand what restrictions and what flexibility they have. That will help to inform both the Provost and the CFO. Because the deans have very critical hiring deadlines coming up, they need information pretty quickly about what they are likely to have in their budgets. After we have taken care of the deans, we intend to look at all of the administrative areas in exactly the same way. The last point goes back to my mention of reports that tell a story. As a CFO, but also as a former mathematician and economist, I like graphs, and I gave you a little appetizer this morning in the material associated with pricing. You will be seeing many more graphs that give you a very focused view of what is actually going on without having to pour through financial statements or budgets.

The implementation of these guiding principles will create many other questions, and I would be happy to receive those that members of the committee would like us to focus on in future meetings, Chair Strauss commented. With regard to the suggestions made by Trustee Butler and the comments made by Trustees Coleman and Boey, I do not think the intention was to enter into a conversation about micromanagement, but the temptation is going to be that this document on guiding principles is going to stand alone. People are going to pick it up for reference on how this process works. So, I join Trustee Butler in asking for some consideration of the incorporation of the role of the Board of Trustees in the budget process. The precise way in which it is expressed can be accomplished in a number of different ways. To the list of issues Trustee Butler raised, the only other one I would put on the table is to make clear the role of the Board in setting what is set out in Section 1 as Strategic Roles and Priorities, as something that would be suggested to the Board by the President and then ultimately ratified by the Board.

As a Trustee, it helps me to do my job a lot better if I have all the information that I can take, Trustee Marshall remarked. Throwing that nasty word, micromanagement, out the window, we need information and it helps us to help you.

I may be being misunderstood, Trustee Butler said. The goals that the Provost and the CFO have set out to achieve, specifically, one of them is to advance an objective of alignment where authority is matched with roles and responsibilities. My intention with this language was to give it to you as an example of what I meant so that there was no confusion. The principles we have before us are excellent, and I have no objections to any of them. They lay out obligations the university actors have in dealing with the Board, but little in terms of what is expected of the Board as part of the process. It also lacks any mention of something that we are realizing today, issues of timeline – when do we take action? We need to accept responsibility for taking action in accordance with the timelines that have been suggested in these guidelines and in Action Item 8.a., where it is described very well. It would seem appropriate to me that we would at least want to see some of these principles expressed in the FFO Committee Report, Discussion of Pricing Decision Timelines, among the principles. At the very least, would not the Board wish to commit to adjusting our timeline to accommodate the university level processes in these principles? All I am asking is that we participate in this developmental process as a Board and ask ourselves if is our role in here is fully represented. I merely present this as an option for one way that we might enter this process.

Chair Strauss requested that Ms. Sutzenfield consider the input from the committee and then report back with any modifications that might be appropriate with regard to the statement of policy.

When Lisa and I have presented, we have presented as a draft, looked for input questions and any areas that needed to be clarified, and this fits in the same category, so we will be happy to work on it.

CONSENT AGENDA APPROVAL

Chair Strauss asked for a motion to approve the Consent Agenda established earlier in the meeting: for action, Agenda Items 8.b., 8.c., 8.d., 8.e., 8.f., 8.g., 8.h., 8.i., 8.j., 8.k., 8.l., 8.m., 8.n. and 8.q., and for information, Agenda Items 9.a. and 9.b. Student Trustee Echols so moved, seconded by Trustee Boey. The motion was approved.

Agenda Item 7.b. – Follow-Up Questions on Previous Budget

Dr. Steven Cunningham gave a brief PowerPoint on budget transfers. When we last presented about internal budget processes in November, we looked at actual budget documents and so on, and had some follow-up questions on the budget transfer process. First of all, I want to recognize Dena Funkhouser, who works with the entire university on the budget process and completes the budget review cycles we discussed every year. Within the same budget, fiscal managers can move funds from one area of the budget to another, for example, from commodities or contractual funds to personal services. This is done as needed to balance the budget throughout the year, and Dena monitors these requests as they are made and makes sure the budget remains balanced. It does not change the fiscal obligation associated with the budget, it is just movement of money within the same budget, and those are called cost centers. We can move funds across cost centers as well. We have hundreds of cost centers for colleges, departments, etc., and depending on the level of the cost center, different financial authorities will be involved in approving the transfer. So, there might be a need to move money from a college to a department. Divisions have limited funds they can use to support initiatives down through the organization, and, as Nancy indicated, even central funds that the President and CFO have authority over can be transferred for strategic planning and other such purposes. Also, very often, we will have obligations that are funded by several different accounts and cost centers, and they will combine to support the overall initiative. Those do not involve a fund transfer, they just involve multiple funds being used together for a given objective.

When we process a budget transfer, it goes through the Budget and Planning Office, which is Dena's office, and there is a form on the website for this purpose. A department completes the form, usually electronically by email, and through the budget review process the Budget and Planning Office reviews all budget transfers, whether within the same budget or across budgets, and then adjusts the system accordingly. Those are transfers associated with both across funds and within the same fund.

Trustee Butler asked what the restrictions were that prevent us from using resources dedicated to certain types of activity. He used the student fees that would be discussed later in the meeting as an example. There are all these fees for these various things and those fees are used to fund those activities. But my question is our flexibility with regard to whether funds used to fund activity A could be transferred over to activity B, and whether there are restrictions based on the way in which those funds were first secured through bond financing versus whether they are income fund. I am just looking for a general answer about what is flexible and what is not.

I cannot speak to the history of how it has been handled, Ms. Sutzenfield supplied, but the way I would respond to your question is that working with Vice President Weldy, along with student groups, we are planning to undertake a review of each one of the student fees in the book that will be approved later today in the coming months, with efforts getting underway within the next 30 days with student leaders to review the purposes of the fees, the uses of the fees, the adequacy of the budgets. I am not aware that any fees, previously, that were dedicated to a specific purpose, were used for another purpose. In

the course of our review, if that has been the case, we will be able to come back to you and let you know that happened, and it will be part of the transparency initiative with students and the fees they pay.

Thank you for that answer, but it was a more specific to the question of student fees. What I am generally saying is I would like to learn more as a committee about what flexibility we have within the budget to move funds from one activity to another activity. I am talking about larger activities, like moving funds from the support of activities that are supported with student fees to some activities related to instruction, and vice-a-versa. What limitations do we have as a consequence of the law and as a consequence of the way the funds are received, and from where the funds are received?

I can give a very abbreviated answer, Ms. Sutenfield replied, and will have more to say as we put together the next proposed budget. Many are aware that funds have relative restrictions on them, are related to restricted endowments and restrictions that come with sponsored projects, whether they are funded by the government or from other corporate sponsors, so it is strictly taboo to use those funds for any other purpose. But, by in large, unless there is a specific restriction accompanying an appropriation, the university's leadership has considerable flexibility in how everything else is allocated. That will be very important to us going forward as we are looking at a much more flexible and sustainable model that better aligns the resources we have with our strategic priorities and assures we are not allocating dollars to areas of activity that may have been strategic priorities at one point, but are no longer strategic priorities.

My question to the CFO is on the same line as Trustee Butler's, but I drilled down a bit further, Trustee Murer said, to what the differentiation was between fixed and variable. As you are looking at the fixed, what is the definition of the fixed relative to governmental obligations or union obligations or allocations by donors, for example, in the appropriate use of dedicated funds? We are on the same wavelength on that to see how we can adjust this. Then we need to see where we have opportunity for collaboration. One of the comments made in the ad hoc committee I chaired on Monday on research is, as we look to research grants, each one carries with it some level of administrative oversight allocation to each of the grants. As you have multiple grants, where do we have flexibility for any type of bundling of those types of fees? Once we can see that, how do we subtly take advantage from an operational perspective on the utilization of funds where there is flexibility. As we as a Board look to our responsibility on financial oversight and assuring viability, that is how we can ask proper questions, because then we will know where we have latitude to ask questions.

Agenda Item 7.c. – Update on Procurement Outreach for Local Business Enterprises

Chair Strauss asked that I update you with respect to our procurement outreach, especially, to local businesses in the community and region, Dr. Cunningham stated. This also relates partly to the Business Enterprise Program where Procurement Services routinely has supplier diversity initiatives and what we call a Supplier Diversity Fair where we reach out to regional programs under the Minority and Female and Persons with Disability Benefits Act. We plan to enter into a process working with the local chambers of commerce. We will also work with Bill Nicklas in Community Relations on this to extend the same type of outreach and training to assure that local business enterprises have the ability to work through the complexities of the procurement process and be able to compete for available university projects. The procurement system has been greatly affected by the procurement statutes that apply from the State of Illinois. Partly as a result of that, it has reduced the number of vendors and business enterprises that even participate in the bidding process, and that is not good for competition or access, so we are going to be working on a system of education to help improve that and make it as easy as possible, at least so that there is full knowledge of what the certification requirements and procedures are.

I just want to add, Trustee Strauss said, that as a Trustee who lives in town, I frequently encounter people who ask me what they have to do to do business with the university. That is what this is designed to address in an orderly way, not by granting them a preference over people outside of the community, but in an effort to provide good relationships with the merchants who do business in town. Thank you for the report, and I hope that we will be able to see whether we have had any success with this program at some point in the future.

UNIVERSITY RECOMMENDATIONS

Agenda Item 8.a. – Fiscal Year 2015 Tuition, Room and Board, and Fee Recommendations

We are pleased to present today the university's recommendations for pricing, Ms. Sutenfield said, and I use the term pricing to cover all charges, whether tuition, room and board or other student fees. I will start with a bit of fiscal background. We took a look at the trend since 2003 which is depicted in a couple of graphs in your materials. What is most notable is that since 2003, enrollment has fallen by about 15 percent from that level. Appropriations, the direct appropriations we receive that go into our operating budget have also fallen about 15 percent, and our residence hall occupancy has dropped by 30 percent. Next year, we are facing an additional drop in enrollment of about 800 students. That breaks down to about a hundred freshmen, about 200 transfer students and then 500 students we will lose as the result of the graduation of a larger class than the succeeding classes. During this period, the other graph on the slide shows that our cost structure has remained relatively unchanged.

We are not really prepared today to talk about the next budget that will come in a couple of months, but, clearly, we have to intervene and get greater control over these trends wherever we can. That started for us with a review of some of our processes, and we determined that the process and timeline for all pricing decisions really needed some attention. As you heard previously, our room and board and our student fees have, until now, been presented and approved at March meetings and tuition was approved in June meetings. What we have seen as we have looked at our process and what other universities have been doing is that over time our competitors have moved all of their pricing decisions forward. If we maintain our prior decision timeline, we are at a competitive disadvantage with uncertain pricing and inability to offer final student aid packages for students and their families, and the choices students are making about whether or not to continue to live on campus at a time when we have between 2,500 and 3,000 empty beds. In addition, if we advance our timeline, there is the opportunity to fill some of these empty beds and turn them into revenue that will help us to offset the projected decline of tuition revenue associated with 800 students next year. I included in your materials a rule of thumb. If we look at plus or minus a hundred students who would live on campus, that equates to about \$2.5 million annually. If we look at a hundred students who do not live on campus, that is about a million dollars annually. So you can do the math in your head, just about 800 students is eight times those numbers. On the other hand, if we bring students back to live on campus, for every hundred students we bring back to campus or continue to live on campus after their freshman year, a hundred students generates a million dollars. So, to the extent that was fiscally feasible, accessibility as well as affordability were also on our minds in putting together our pricing recommendations. We initially headed down a path of holding tuition flat for the coming year, but when we received so much feedback from students about how our pricing was unaffordable in our residence halls, we changed our minds and are bringing to you a different recommendation today. We are recommending that tuition be approved for an increase of 2.0 percent next year, and that room and board rates be reduced by an offsetting amount. That is about a \$235 increase in tuition and about a \$235 reduction in room and board, such that the overall cost of attendance for next year would be flat.

I have some fundamental questions to ask, Trustee Coleman said. If we are raising tuition, even though we are saying we are trying to keep the cost of attendance (COA) flat, will that possibly add to a further reduction of new students coming into the university?

The basic supply and demand curve would say yes, President Baker said, if that is the whole story. But we are working hard on offsetting financial aid, so this year we took a look at our financial aid and how we allocate it, which would reduce the actual expenditures of students. In the past, we have not had as coordinated financial aid packaging as we should have, and we are working toward that. It will probably take us a couple of years to get all the pieces put together. We have multiple sources for financial aid. At the federal level, there are Pell Grants. At the State level, we have MAP Grants. At the university level, we allocate budgeted dollars to financial aid. We also have donor supported scholarship programs, and those are allocated centrally by colleges and through the Foundation. It would be good to stack

them in a coordinated fashion given the characteristics of the students' need and other factors so that we are influencing our recruitment and retention. Relative to retention, we have tended to focus on our first year students, not transfers or continuing students. We have a lot of work to do on the packaging piece, but with a \$230 increase in tuition, you may see an influence. It looks like, across the state, that is in the ballpark. University of Illinois went 1.7 percent, and Northeastern was at 5.0 percent. One or two schools tried to keep it at zero. If we could keep it at zero, I would say do that.

So a one year increase of 2.0 percent is about \$2.5 million to the university, Trustee Coleman said. I am all in favor of saying we need to balance our books, but I am not seeing or hearing anything about the expense side of the equation. I know we are trying to get organized, but we have to address our enrollment problem. We increase enrollment, we can take care of some of our shortfalls. The fact that we are losing enrollment, I do not support anything that will probably hinder additional students coming to this institution. Over four years, we are talking over \$10 million. From my standpoint, I just want to go on record, I am not in favor of increasing tuition until we find a way to do two things: take care of the enrollment decline and then start addressing some of the expense side. Right now, there is no pain. We are losing students and no one is feeling the pain. Budget year after year is staying the same or increasing. Everybody in the university has to have accountability for the loss of students. We cannot continue to say that we are going to increase revenue, that is how we will make up for the loss of students. We have to say there is going to be some expense reduction that we have to start addressing to balance out this equation. Then we have to make everybody accountable and asking, how do we turn this tide around in terms of our reduction of students, not only retention but recruitment.

I heard earlier today that we have over units or 400 Facebook or 400 websites that are being generated throughout the university. It takes people to create those and to man those sites. We have redundancy of communication throughout the university. At some point, we have to start bringing those items together, address the expense side associated with the redundancy in items like that so we can start streamlining our operation. I know that is your intention, Nancy, to try to put a process in place so we can understand the expense side and look for redundancy. But, until we get there, I am reluctant to say we have a need to raise tuition. I am a big fan of this administration and of Dr. Baker, Trustee Coleman said. I just want to go on record that, by all means, I want to support the role and what we are trying to achieve. But I also want to go on record that I do not support this at all. I think we are kicking the can down the road for another year. Even though we do not have all the answers, we do not have all our processes in place, we are saying we should raise the revenue side of the equation. I think it is premature to do it, and I do not support it. Until we start making some tough decisions and looking at the expense side of this equation, I think we should reconsider raising revenue.

The comments made were astute, Trustee Murer commented, but I feel a little differently about this in that I do not want to cut off the one opportunity we have that may be reasonable within our peer groups. A few comments have been made that are very important and the issue of just dealing with this plummeting enrollment has to be at the highest level. Obviously it is, but it really almost needs to be at an extraordinarily focused level. One of the comments the President just made in regard to financial aid, goes to Marketing and Communications – the advertisement the University of Phoenix has, their new marketing campaign, says one thing, "Scholarships of \$10,000." Very clean, very clear, very short, very abrupt, certainly peaks your interest. They are talking about scholarships of \$10,000, that is their financial aid package. We are in a point of crisis where we really need to be very succinct with what we are saying. We need to attract students by being able to articulate clearly and concisely, so whatever the average package is that we give – I do not know what that is, but I sure know what it is for the University of Phoenix. That is what we are trying to communicate to people, that we have a sticker price. If that sticker price goes up by 2.0 percent and if that appears to be reasonable, that is one thing this year. We have to figure out what we do with the revenue we have and how we allocate it effectively. This is not just about a bottom line. The most important thing is the student enrollment. I would be very saddened to see us be profitable at 15,000 students. To me that is not the goal. We have a goal to serve the students of the State of Illinois, in particular, and the greater region of the Chicagoland area. So our focus has to be students, enrollment, how we get there and how we communicate that. If the administration says to this Board, because it is a new administration that has just come in with a new

organizational structure, if we need one more year to look at this, to stabilize our revenues, then I think that is something to at least entertain, but, as my colleague has said, with a very strong commitment to a plan of action on reduced costs so that we are sustaining our budget.

We have major issues to address, Trustee Boey remarked, and a short period of time to address them. I do not feel that a 2.0 percent increase is too much right now, and I am in favor of keeping it. If we do not have the increase, it just adds to the other issues we have to address.

A 2.0 percent increase comes out to \$250 per student, Trustee Iosco said, which breaks down to 68 cents a day. That is a very fair amount of money to increase tuition within the context of the financial realities of both the State of Illinois and the whole United States. I am in favor of this increase.

I completely understand what Trustee Coleman is saying, Student Trustee Echols commented, because for the students it is when is enough going to be enough? Is it going to be next time after these four years? Do we increase it again? When do we hold our people accountable for us not retaining our students? There are financial issues, but it is also an engagement issue. Students are not coming for various reasons. Tuition may be one of them. But also, our students are disengaged from what is happening, so not only are they not coming, but they are not staying. So I understand your comments, Trustee Coleman and also those of Trustee Murer on getting to some kind of balance. But when do we set a precedent that this will not be the norm? How do we get to a point where if we reach our goals and we stop this or we try something new? It seems as if we are going to continue to put the university on the backs of students because the university or our employees are not reaching the goals they need to reach, and students are having to pay for that.

I would like to answer that question, Trustee Butler said. In my view, not now, we have a new President. That new President has a new financial team and a new academic team and they are working very hard to determine what it is going to take to turn around these declining enrolment numbers. There is a certain degree of money that is required to implement some of the retention objectives they have planned. These things cost money. Trustee Coleman, I appreciate the argument you are making. They were the arguments that I was trying to make when I first came on the Board, and one of the defining characteristics of this discussion is that the students who will be affected by this tuition increase are not here yet. They are not here to give their view about it. Some of them are finishing high school, and there are nontraditional students as well. Before Truth-in-Tuition, students who would have been affected by a tuition increase would be sitting in this audience right now probably speaking to us about how they cannot afford even \$235 more. I think the message is clear that we have faith in the leadership of the university and I, personally, accept the recommendation. But this Board is growing concerned, greatly concerned, about the cost side. If we are not able to turn this around, the next question becomes, what are we going to do so that, in the words of Trustee Coleman, the campus begins to appreciate the relationship between enrollment and what is important to them in terms of programming, innovation and so forth. I want to say with all sincerity, I appreciate very much what you are arguing. My personal feeling is that the timing is not right to say no to the recommendation, and I hope my other Trustees will join me in that.

Nancy, Lisa, Eric and others who have looked at this all started exactly where you are in terms of holding tuition flat, President Baker said, and we discussed reducing tuition. We had an initial meeting proposing that, and then we modeled it. The reason we ended up at 2.0 percent with an offsetting 2.0 percent on room and board to try and hold it flat was to force some cost reductions on the housing side while at the same time trying not to do too much damage to the balance sheet on the tuition side. An increase of 2.5 percent would be easily dealt with, but that is not the only reduction we are facing. So, 800 students times \$10,000 in tuition and fees is \$8 million. We are also anticipating the end of the temporary income tax. If it goes away, that is a 9.0 percent across the board cut to the State budget. Higher education is one of the few places the State can cut, and I heard Senator Cullerton say 25.0 percent, which is a terrifying number. At 10.0 percent, times our \$95 million in the budget, that is another \$9 million. Taking that \$9 million plus \$8 million equals \$17 million with another \$2.5 million, means we are looking at a \$20 million reduction.

To make those kinds of reductions, you can go across the board and make cuts and just be smaller in terms of what you are. Or, you can look at the systems changes that need to occur so that we are looking at different ways of doing business inside the institution, which in the long run, is a more efficient way to do it than just trying to shrink systems that may not be structured appropriately now. What we are going to do this year, and what we have already started, is looking at those processes. To do that you actually need a budget to figure out how much money people are getting and how much they really need. We have not had that in the past, and that is why it has been so important for Nancy and Lisa to work on these budget principles and start allocating money to the unit managers, the deans and administrative leaders of other units, so that they know what their budgets look like. Anticipating what is coming, they can make adjustments. We started thinking with that playing field on whether we could reduce our budget or our tuition. I held on to the last minute, basically, and said no, I really want to have a flat or lower. We just got to the point where we felt we needed a little breathing room to make this transition. That is why we went with a 2.0 percent increase, \$235 per year per student, and we felt we could survive that. Our goal will be to really work on not only the revenue side of the balance sheet, but on the expense side. On the revenue side, we need to be thinking, basically, that is what our tuition is going to be for some time, the way you increase total revenues, have more students come, and then more students stay. Dr. Baker recognized Vice President for Student Affairs and Enrollment Management Eric Weldy to comment regarding some of the efforts underway on both recruitment and retention?

NIU, in regards, to our tuition and our fees, is the third highest among public institutions in the State of Illinois, Dr. Weldy said. Within the nation, publicly, with our peer institutions, we are about 39th or so in regard to our costs. So, students are voting with their feet and they are not coming in the numbers we would like them to come. They are leaving in large numbers, so cost is very important. An increase of \$250 may not seem like much, but to a student, \$250 or \$500 is a lot because the students we recruit are heavily need based, and for many of our students and their families, it is a lot of money. We need to consider from the standpoint of cost and our student body makeup. Demographic changes have been significant over the past ten years and we have been feeling that. I want to stress the importance of us taking a good look at our student body and their families and what they actually are capable of from the financial standpoint.

This has been an intelligent conversation and a good one, Chair Strauss said. It is nice to have people weigh in on the issues that are involved. It is naive to believe that price is the only determining factor as to whether or not people attend NIU. There are a cluster of issues that influence that decision, and people have to work hard on all of those issues, not just tuition and fees and the allocation of financial assistance awards, but whether or not the people who answer the phone regarding admissions questions are cordial; whether or not the people in the Bursar's Office, who have to accept payments, are off-putting or accommodating; whether or not the students' experience on campus socially fits the vision they have when they make a decision to enroll here; whether or not they receive the appropriate instruction, academic support and feel like there is an appropriate learning environment; whether or not they feel safe in attending here; whether or not the community outside the campus is inviting for them. There are a cluster of issues that all have to be addressed. Part of the reason that this recommendation has been made by the administration is they need flexibility to be able to identify and address all of those issues. Everybody in this room has a part in seeing that we are able to address our enrollment and retention issues. Everybody has a roll in admission, a roll in seeing that we meet our enrollment and our retention obligations, and this holds true whether or not the full Board ultimately votes on a tuition increase and the fees that are proposed. I do not want that fact to get lost in this discussion. We should have a discussion about whether or not there is a fee decrease and a tuition increase.

My first thought is that I am one of the guys who does share the pain, Trustee Marshall remarked. I spent a lot of years here as a student, and I am looking at a number of variables, one of them being that according to our President, we are having our competition also raising prices, as much as that hurts. We are not going to be out there alone. Most importantly, it is up to us to move forward and start implementing, as Wheeler mentioned, any cuts that we can for the benefit of the students.

Regarding a query from Trustee Marshall on Truth-in-Tuition and any mandates related to cutting tuition in the future, Bursar Kinga Mauger answered the Truth-in-Tuition bill does not say we cannot cut tuition, we just cannot raise it.

Chair Strauss entertained a motion to approve the following: In support of the university's commitment to affordability and access, the university recommends a 2.0 percent increase in resident tuition for eligible students, including undergraduate, graduate and law, for both on- and off-campus; and, in order to address student affordability concerns, the university is recommending no change in board rates and a 2.7 percent reduction in standard room rates for Fiscal Year 2015 as a modest step to entice more students to reside on campus and to hold the total pricing package flat for students entering the university in the Fall of 2014. Trustee Butler so moved, seconded by Trustee Iosco. A roll call vote on the motion was as follows:

Trustee Robert Boey	Yes	Trustee Wheeler Coleman	No
Trustee Anthony Iosco	Yes	Trustee Robert Marshall	Yes
Trustee Cherilyn Murer	Yes	Student Trustee Elliot Echols	No
Trustee John Butler	Yes	Chair Marc Strauss	Yes

The motion passed with six voting Yes and two voting No.

- Agenda Item 8.b. – Fiscal Year 2015 Student Accident and Sickness Insurance Contract Renewal**
- Agenda Item 8.c. – Fiscal Year 2015 International Programs Division Expenditures**
- Agenda Item 8.d. – Fiscal Year 2015 NIU Foundation Professional Services Contract**
- Agenda Item 8.e. – Fiscal Year 2015 Outreach Education Centers Catering Services Contract Renewal**
- Agenda Item 8.f. – Fiscal Year 2015 Document Services Copier and Controller System Contract Renewal**
- Agenda Item 8.g. – Fiscal Year 2015 Document Services and Materials Management Printing Paper Open Orders**
- Agenda Item 8.h. – Fiscal Year 2015 Materials Management Central Stores Commodities Contract Renewal**
- Agenda Item 8.i. – Fiscal Year 2015 Mass Transit Contract Renewal**
- Agenda Item 8.j. – Fiscal Year 2015 Transportation Services, Physical Plant and Facilities Motor Fuels**
- Agenda Item 8.k. – Fiscal Year 2015 ITS Voice/Data Cellular Service Open Order**
- Agenda Item 8.l. – Fiscal Year 2015 ITS Telephone Hardware Maintenance**
- Agenda Item 8.m. – Fiscal Year 2015 Office of General Counsel – Open Order for Legal Services**
- Agenda Item 8.n. – Fiscal Year 2015 Office of Education System Innovation Grant Subcontract – Services**
- Agenda Item 8.o. – Fiscal Year 2015 Parking Lot P and Lot PS Reconstruction - Capital Project Approval**
- Agenda Item 8.p. – Fiscal Year 2015 Parking Structure Reconstruct Four Exit Stairs – Capital Project Approval**
- Agenda Item 8.q. – Fiscal Year 2015 Capital Project – Electrical Infrastructure Replacement – Phase III**

Consent Agenda Items.

UNIVERSITY REPORTS

- Agenda Item 9.a. – WTC Consulting Information Technology Assessment**
- Agenda Item 9.b. – Budget Process Update**

Consent Agenda Items

NEXT MEETING DATE

The Chair announced that the next meeting of the Finance, Facilities and Operations Committee is scheduled Thursday, May 29, 2014, in DeKalb.

ADJOURNMENT

Chair Strauss asked for a motion to adjourn. Trustee Boey so moved, seconded by Student Trustee Echols. The meeting was adjourned at approximately 12:01 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.