

Minutes of the
NIU Board of Trustees
FINANCE, FACILITIES AND OPERATIONS
COMMITTEE MEETING
AUGUST 25, 2016

CALL TO ORDER AND ROLL CALL

The meeting was called to order at 12:49 p.m. by Committee Chair John Butler in the Board of Trustees Room, 315 Altgeld Hall. Recording Secretary Vicky Rippberger conducted a roll call of the trustees. Members present were Trustee Robert Boey, Trustee Wheeler Coleman, Trustee Matthew Holmes, Trustee Robert Marshall, Trustee Cherilyn Murer, Trustee Tim Struthers, Board Chair Marc Strauss, and Committee Chair John Butler. Also present were President Douglas Baker, Committee Liaison Alan Phillips, Vice President and Provost Lisa Freeman, Deputy General Counsel Jerry Blakemore, and Board Liaison Mike Mann.

VERIFICATION OF QUORUM AND APPROPRIATE NOTICE OF PUBLIC MEETING

General Counsel Jerry Blakemore indicated the appropriate notification of the meeting has been provided pursuant to the Illinois Open Meetings Act. Mr. Blakemore also advised that a quorum was present.

MEETING AGENDA APPROVAL

A motion to approve the agenda was made by Trustee Strauss; seconded by Trustee Murer. All were in favor. The motion passed.

REVIEW AND APPROVAL OF MINUTES

A motion to approve the minutes of the May 19, 2016 meeting was made by Trustee Strauss; seconded by Trustee Boey. All were in favor. None were opposed. The motion passed.

CHAIR'S COMMENTS/ANNOUNCEMENTS

Chair Butler began, I don't have any comments except to welcome everybody to the first meeting of the Finance, Facilities and Operations Committee for FY17. Obviously we're facing some very serious challenges, and we'll be working together to walk along that path as a community in an attempt to educate people, share our knowledge, and learn of other people's perspectives about all of these very important issues.

Chair Butler continued, we have with us representatives of the University Advisory Committee, Professor Greg Long, Ms. Holly Nicholson, and Professor Rebecca Shortridge. You are welcome to speak in whatever order you wish.

Professor Rebecca Shortridge greeted the Board, good afternoon, I'm happy to be here for the first meeting of this semester. As we start off the new year, I'm excited about the news that the Stevens project will again be going. I think that has a big impact on many of our faculty and many of our students. So that's great news for the campus. I was also really excited that the renovation of the Holmes Student Center is going to move forward. I think that building is a public face to many of our students and families that visit for the first time. The renovation of that facility will be fantastic. I think these two projects send a message that NIU is working towards the future and looking ahead. We can easily get bogged down in the finances of the state, but to see movement forward I think is exciting for the community. So thank you for your efforts in helping us maintain that forward momentum.

Ms. Holly Nicholson added, along those lines as well, I want to express my support for the program priority requests being made for FY18 especially the offering of the web-based degree completion programs. I think this is going to serve our region very well, and it's going to help us serve additional populations; as well as a nursing program which was at or above capacity, and this is going to allow us to increase our overall enrollment.

Professor Greg Long also added, I would just quickly encourage continued focus on budget and program prioritization reporting. Doing so in a consistent and regular fashion with consistent messaging going out, I think, will be very helpful. From a shared governance standpoint, the Resource, Space and Budget Committee is the group that works with Finance and Administration who provide input. The chair of that committee, Sarah McHone-Chase, and I have already met with CFO Phillips to begin planning for this year. We're going to try to introduce some educational modules to make sure that everyone on the committee has some larger understanding of how University finances operate, and also structure some of our meetings to have them be a little more topically based rather than simply a report of 'we have this many millions of debt or revenue or whatever'. That's where we're standing, and I want to say we're looking forward to continued collaboration with the Resource, Space and Budget Committee and other financial discussions on campus.

Chair Butler thanked the representatives. Before asking the other committee members if they have any questions for the representatives, and I don't mean to blindside you with this Professor Long, but at the last committee meeting you indicated that there was an ongoing effort to research salaries and salary equity. Can you provide us any update on that effort?

Professor Long replied, absolutely. We have begun the process of putting the task force together for the salary study. As mentioned last time, it was initially designed to be one that's looking at gender issues, but we have Professor Virginia Wilcox, who's former Chair of Economics, and we have Dr. Kristen Myers, who's a professor in Sociology, as the co-chairs of this task force. Hopefully we will have a list of final people that we're asking to participate by tomorrow. Both of those individuals have some graduate assistant support to help pull this project off. I've also made contact with all of the deans across campus as well as the chairs of the presidential commissions to ask if they had anyone to recommend for the committee so that we could have as much diversity as possible as well as having a lot of people involved who have the competence in research, design, statistical awareness, and understanding to pull this off. I think we're making good progress. We're within the timeline that we've established for ourselves. We fully anticipate that we'll be able to pull this study off and have a report by middle of spring semester.

PUBLIC COMMENT

General Counsel Blakemore indicated that there were no requests for public comment.

UNIVERSITY RECOMMENDATIONS/REPORTS

Action Item 7.a. – Fiscal Year 2018 Budget Request Guidelines

Dr. Phillips explained that even though we're still waiting for funding for the remainder of fiscal year 2017, we have already started to look towards fiscal year 2018 and the legislative session that comes back into session in January, which is not that far off. Hopefully they will be, in addition to the remainder of the FY17 budget, taking up the budget for FY18. We have to make a request to the Illinois Board of Higher Education and, since the last full level of funding we received was roughly \$91.1M in 2015, we are going to return to the revised level of funding of that amount or \$91.1M for fiscal year 2018. We did not receive that for FY16, we did not receive that for FY17. That's the last firm number that we had. So we're going to base our request on that. This includes \$2.5M in program priority requests for teacher preparation, STEM areas, nursing and medical laboratory sciences, health information management, and expanding the offerings of industrial and systems engineering through mechanical engineering programs with pathways with community colleges in Illinois. Our recommendation is that the Board of Trustees approve the budget

request of \$91,920,700 in order to insure timely preparation and submission of our detailed budget request to the IBHE.

A motion was made by Trustee Strauss; seconded by Trustee Boey. All were in favor. None were opposed. The motion passed.

Action Item 7.b. – Fiscal Year IBHE Capital Budget Request

Dr. Phillips explained that, in conjunction with our operating funding request that we provide on an annual basis to IBHE, we also submit a capital budget request. As you know we have yet to receive, or it's been roughly six years since we've received, any capital funding from the state. The last funding that we received led to the Stevens project funding, which we are very happy to say is moving forward. So once again we are submitting a list consistent with the same list that we had last year. Our request is for roughly \$351,000,000 in capital project funding from the state and \$410,000,000 in capital renewal funding from the state. I would like to point out that currently on the IBHE capital improvement priority list our project for health information and technology is number 2, Wirtz Hall renovation is number 13, roadway reconfiguration and repair is number 19, and Davis Hall renovation is number 28. Our request is that the Board approve the proposed FY18 budget request submission that we will then submit to the Board of Higher Education for consideration and inclusion in the state-wide fiscal year 2018 capital budget recommendation.

A motion was made by Trustee Strauss; seconded by Trustee Murer. All were in favor. None were opposed. The motion passed.

Action Item 7.c. – Stevenson Towers B & C – Roof Replacement

Dr. Phillips indicated that the roofs on Stevenson Tower, Halls B & C, experience periodic and occasional significant leaks. The Towers A & D were approved for replacement at the March 17th Board meeting. This is for Towers B & C. These roofs were last restored in 1981; however, these roofs are well beyond their 20-year life expectancy. The work will include the removal of all existing roof materials to the existing roof deck and a new insulation will be installed with a new roofing membrane system. This is one of our critical projects. As you know, we have limited our project spending as a result of our financial challenges. We are only bringing those critical items to the Board that are certainly necessary, and this will help to prevent further damage to the building. Our recommendation and our request is that the Board of Trustees authorize a project budget for \$625,000, to allow us to contract with an architectural engineering firm for preparation of plans and specifications for work and proceed with contracts, purchase orders, and work orders to complete the roof replacement and renovation work.

A motion was made by Trustee Coleman; seconded by Trustee Strauss. All were in favor. None were opposed. The motion passed.

Action Item 7.d. – DoIT Fiscal Year 2017 NIU Net Modernization

Dr. Phillips requested approval to purchase Sienna hardware, software, and maintenance to upgrade and modernize the NIU Net, which is a premiere network that provides broadband services throughout Illinois for the advancement of high-speed connectivity. It also provides the connectivity that the University requires for research and internet services at its main campus and the outreach centers. Currently one segment of the infrastructure has reached the end of its life. This proposed segment generates over \$300,000 per year in external revenue. In terms of funding for this, the total equipment costs for this request will not exceed \$608,000. Funding is provided through three sources: There's a ten-year agreement between NIU and the Illinois Rural Health Net, where there is a reserve of \$287,000 that can be used for this; \$260,000 of this will come from annual revenue generated by this circuit that we can apply to new equipment; and the remaining \$61,000 will be paid for by wired networking revenue generated through existing wired network fees. No new incremental funding is being sought, only the approval to spend existing funds.

A motion was made by Trustee Strauss; seconded by Trustee Marshall.

Trustee Struthers requested a roll call vote. Trustees Boey, Coleman, Holmes, Marshall, Murer, Strauss and Chair Butler all voted yes; Trustee Struthers abstained. The motion passed.

Chair Butler interjected, before you move into the University Report, in the interest of time, I'd like to ask if any trustees have any questions for Dr. Phillips or Dr. Baker or any of the administrators assembled here on items 8.a through f. There were no questions.

Chair Butler continued, then we'll move to item 8.g., but before we do that, I want to make mention of one issue that's come to my attention after reviewing the report and then talking to some of the other committee members. Dr. Phillips, we've been receiving what we call a quarterly financial report. Is it the intention to not present that report in the committee meeting or is it that it just didn't make it on this agenda?

Dr. Phillips responded, the reason that it is not on this agenda is it would have been the same report that was presented at the last Board meeting as we have not yet closed the books on the end of the fiscal year. We are in the process of closing the books for the year, so the report that will be provided to the Board in December will be the annual report in addition to the first quarter fiscal year 2017.

Chair Butler replied, okay, then I want to open it up in case any committee members have any thoughts on that. If not, we'll just move on to item 8.g. There were no additional comments.

Information Item 8.a. – Fiscal Year 2016 Report of Tuition and Fee Waivers

Information Item 8.b. – Fiscal Year 2016 Report on Capital Activities

Information Item 8.c. – Fiscal Year 2016 Annual Report of Transactions Involving Real Property

Information Item 8.d. – Fiscal Year 2016 Annual Report of Cash and Investments

Information Item 8.e. – Quarterly Summary Report of Transactions in Excess of \$100,000

Information Item 8.f. – Annual Summary Report Obligation of Financial Resources

Information Item 8.g. – Road Map for Central IT

Dr. Phillips introduced Brett Coryell, Vice President for IT, to present the Road Map for Central IT. As you know, the Board has an interest in strategic planning for not only our finances and projects, but also information technology as well.

Mr. Coryell thanked the Board for allowing him to present. Of course you know that I'm often before you in a more transactional manner, such as answering questions about why I need \$608,00 for NIU Net; but I'm glad to be able to come today and start a discussion about some of the more strategic items that we have for IT. As the University goes through change, of course IT is changing within itself, and it needs to change, as support for all the changing business processes and academic functions that we have on campus. To talk about some of the strategic planks, I thought that I would begin with a case study on one particular piece of equipment. This box right here is a storage array. Not many people get to spend time inside of a data center. Trustee Coleman is probably more privileged than most other folks in the room. But if you've ever wondered where your data is stored when you save anything to an H drive or an S drive or any kind of mapped team drive, that's the box that we would use to replace the current aging infrastructure that we have. This box costs, believe it or not, a million dollars. It's about one human-sized piece, and it's full of hard drives. It's the special software, that you really get to pay a lot for, that helps us run and manage all of that. We're on track to spend more than a million dollars, not to buy the upgrade, and I'm going to spend a little bit of time telling you why that can be a sound decision given where we are right now. And to do that, and because this is the FFOC, I thought I would talk a little bit about what IT has been through over the last year to try to make sure we understand our costs. In order to do that, I'm

going to begin by discussing rates and everything that would go into a rate structure. Now we don't recharge everything, but we recharge more than half of my budget, and even though program prioritization has called for that to go away, and I think it's a good thing, it's important to understand the rate structure. In the rate structure go a variety of factors: I need to know what staff I have; I need to know what they work on, their allocation; there are operating expenses, capital expenses; we have certain cost of service calculations that we need to do and if you know the total cost of let's say delivering e-mail and you divide it by the number of people that use email, then you've got a rate structure of some sort. This of course isn't enough to build a budget on, because, as I said, I don't re-charge everything, and things change all the time. My staffing and staff allocation should rightly be part of some sort of periodic review of who do I have, how many people are there, what are their jobs, their job descriptions, their performance reviews which could in some times in our history lead to pay increases, and that would go back around and effect my overall cost of service. And then performance reviews should be part of their own performance review planning cycle we would all find familiar. Everything that I'm showing you is being built up from scratch as we reinvent IT, just like other parts of the University are reinventing themselves. So we walk in and we don't necessarily find the job families, our job descriptions, or performance reviews or training plans that we would like; all of these are now created and they go into helping us understand our costs and how we track the work. In cost of service, if you're really going to calculate that, then I'll generate revenue off of that; but, in order manage it, I need productivity metrics, asset management, and work tracking. I don't want to lose all of the laptops that we hand out, and so all of these have been built now as well. When I come to buy new equipment, then our CFO often rightly asks me to put it in context. Where is this purchase in the lifecycle of all equipment? So we have this now not just for storage, but also for our security appliances. We have it for networks, applications, and databases. We have a complete total cost of services lifecycle over the next five to ten years for every type of equipment. Of course we do projects as well and the yellow line is intended to represent projects. Projects involve staffing, working from left to right. Sometimes we have to buy software maintenance. That's an operating expense. Sometimes we buy equipment to support projects. That's a capital expense. And then there are funding sources that are run by our governance committee, and that needs to be factored in as well. And, with all of those, you can finally weave a blue line that says, 'yes I have a budget'. I know what a budget is. It's affected by all these other lines, and so I now have, if you will, a funding map or it looks like a subway map that will say, depending on what your perspective is and how you want to talk about IT funding, I can go there with you. Do you want to have an operating expense discussion? I've got it. Do you want to talk about staffing and staff levels and how staffing fits into the total cost of IT? Why is it that it costs \$28M to run central IT? A big part is staffing, and we can explain that. If you want to talk about capital equipment, we can do that as well. With all of that then we can come back here and I can say, in a very detailed fashion, exactly what it takes to run IT. The reason that we came back and we didn't buy this box is we simply couldn't afford to. We didn't have a million dollars of cash ready on hand with the state not having provided its contribution to NIU in a timely manner last year. So instead what we did is we purchased extended maintenance on the box that we did have. So we're running on extended maintenance now and spending \$190,000 a year more than it would cost to buy the new one because we can't afford the new one up front. This also plays out with our network, with some of our applications, with our PeopleSoft infrastructure, and it's the primary reason why one of the strategic planks that I'll talk about in a little bit is to move to the cloud.

Mr. Coryell continued, What I'd like to be able to do is to say that IT is best supportive of the University when it moves up this triangle of trust. At the bottom level, IT needs to be called upon to be a reliable provider. And that's where things like network upgrades and server upgrades and storage upgrades come in. If the system isn't available when you want to use it, nothing else can happen. And that's the level that central IT is at right now. This is the IT function that NIU has. We struggle to be a reliable provider. But one step up from that, if we could get that down as a good habit, if we could do that reliably over time, we could be a better partner for the business. We could help the business work on their problems instead of talking with the business about why IT has problems. I could talk with the business more about how to reinvent the procurement cycle instead of talking to them about why they have network slowdowns at three o'clock every day. These conversations of partnership are the minimum expectation that NIU should have for its central IT department, but they're predicated on the ability to keep the infrastructure running. And of course the ideal solution would be if IT could be a peer and help reinvent the future, to help develop new business models. We just aren't at that level yet. We're back down at the level of deciding whether

we can afford a million dollars on storage. So there are eight strategies that we have in IT. Four of them are largely done. I'm not here to talk about all of them today. I'm only going to say a little bit about the cloud, but for context I wanted you to see what some of the big picture items are. I've spent a lot of time with my division over the last two years looking at programs. These are functions that we simply didn't do, like security. We didn't really have a credible stance on security. I think that's better now. Of course I just talked a little bit about what we've done to understand costs, a restructuring or a reorganization of my division in partnership with HR, and then training plans. If you can believe it, we didn't do much training in an IT organization. And since that changes all the time, a constant commitment to training is definitely necessary, and we've got that. The other four strategies though are mostly ahead of us instead of mostly behind us. We should manage according to metrics, we need to modernize many aspects of our infrastructure, our capital challenges, as well as some more positive reasons to move to the cloud are out there. And that cloud movement is what I'm going to spend the next few minute on, my last few minutes on, and then there are just business process improvement projects that the functional offices around campus are seeking to implement, and we're involved with some of those as well. So let me tell you about the cloud. It's interesting, this term the cloud, it became very popular maybe almost ten years ago now, but it really predates this idea of moving everything to the cloud. The place that term comes from is really networking. Network people will draw diagrams like this to try to figure out how to get traffic from one place to another. And then if you say you have to connect to the internet, well it's big and complicated, the details aren't important, they just put it in a cloud, and eventually someone co-opted that and said, you don't have to worry about your e-mail system, don't worry about the details, just put it someplace else. And that's all the cloud is. It's computing in somebody else's data center. If you have your computer, you're connected to the internet, all the same equipment that we would have on our campus just lives in Microsoft's data center or Google's data center, and we call that 'computing in the cloud'. So we have our own local cloud here that we use for applications. We have our own local cloud that we use for servers, but we can be highly advantaged if we move to somebody else's cloud because just as there's a certain advantage for scale when we take departmental servers and we move them centrally because I can aggregate cost across our campus, we have companies like Amazon and Microsoft and Google that are aggregating across the whole world. We'll never be able to match that type of aggregation. The move to the cloud has advantages for cost. It helps protect us against the fact that we often can't muster single, large payments to refresh our infrastructure, but we can turn them into smaller, monthly payments by moving to the cloud. And that is what our plan is over the next four years. Here are some highlights about what we'll be doing in IT to begin our move to the cloud. It starts with training my own staff. Many of them have not worked someplace else or they're not familiar with some of the cloud technologies that we have. We need to get them ready, do initial pilots, have them begin managing equipment in somebody else's data center instead of our own, and that's this year and next year. PeopleSoft will be the big deal. It will cost \$2.5M to replace the infrastructure that runs PeopleSoft. I can't justify that cost. I can stand here and tell you we need to replace storage, definitely. I can stand here and tell you we need to replace our networking equipment. For sure, especially if we want to get to someone else's network. But I can't justify the cost of additional PeopleSoft given our existing capital restraints. So we're going to move PeopleSoft to the cloud and that will probably begin around fiscal year 2019 unless something changes between now and then. We are going to need time to prepare ourselves for that big move and then wind down around 2020. What we'll get from that is the ability to, like I said, change one-time, large capital expenses to smaller monthly operating expenses. But the other benefit that we'll see by moving things like PeopleSoft and many other applications to the cloud is that they will do a lot of our upgrades for us. They will roll out feature releases much faster than we can. They'll assist us with a testing methodology and we'll essentially have more functionality faster than if we tried to do it on our own with limited staffing on campus. And that is your overview of one of my eight strategic planks, to move to the cloud. I'm happy to take questions.

Trustee Strauss thanked Brett for the overview. You're right. In the past all we've gotten are what appear to us to be disjointed requests for money - usually the day before the money has to be spent. I think that we've succeeded in getting this down to a level where we can all understand the general direction that you want to go. So I think the next issue for me is what progress have you been able to make working together with Al or his people to be able to put together some sort of a budget for this work that can then be integrated into the balance of our financial planning?

Mr. Coryell replied, if anybody likes Excel spreadsheets, I have a doozy. There are over 100,000 cells of Excel spreadsheet that define the budget, and there are several dozen decisions that Al and Larry and Christine, and some of the other folks have been working with my group on, to try to fulfill unmet needs. One example, we ran up on a deadline for replacing a statistical package earlier in the year. It's unfunded. My group had traditionally just taken money away from student computer labs, which need to be refreshed as well, and just used that to pay the stats packages licensing. That decision came up earlier this year. That's working fine. Questions like large storage arrays, that question is still out there. That doesn't have a good answer yet. Another question that's out there is Blackboard. There's no recurring source of funding for Blackboard. Of course we're going to find one. That's in progress. We're working through the executive budget committee to try to find answers to those. But in my area there are about three dozen distinct items or requests that need to be answered. Al?

Dr. Phillips responded, the other challenge is having a budget that goes out one year. We're in the process of bringing folks on board that will help us push our budgeting process out five years, which will make this much, much easier to do. When Brett talks about anything beyond now 2017, it's very difficult to see what that looks like because you don't have any context given the unknowns going forward. Having a multi-year budget process will allow us to make assumptions and will allow us to determine what we can afford instead of everything being last minute, and we're trying to move money around, or you can buy this or that but you can't buy both. This will allow us an opportunity to lay this out in a much more deliberate way where you can see exactly where the funding is and how it matches up to his strategic plan.

Trustee Strauss agreed, yeah, we've had prior conversation about moving to a five-year budget model, and there are many things that recommend that process so I'm also anxious to see that that get completed. But this is at least a framework within which you'll be able to place for us future requests for capital allocation that come before this committee. So I think that would be helpful.

Mr. Coryell continued, and if I were just to go back to this map, I can provide a framework, or I can provide context, in two different ways. One is, I can say okay this is a capital request, it's the purple line. In specific, it's the third one up, servers and storage. I'm asking for a million dollars for this, and you'll be able to see that and maybe think back to 'here's the subway map of IT funding and this is what I'm looking at', but I also now can show you, it's not just a framework. I have my detailed costs for the next five years for every item that's on that list to the extent that anybody can know staffing and raises and that kind of thing, but certainly on the equipment side I've got it, and like with the Siena equipment today, I can say I'm asking for \$600,000 for Siena, \$300,00 is coming from this, \$200,000 is coming from that, \$100,000 is coming from the other thing. I can provide that context with all future requests.

Trustee Strauss noted, one final thing is that, I understand the discussion of rates and, as a general proposition, if we're moving money from one pocket to another and we have to do accounting in order to support it, we ought to get rid of it.

Mr. Coryell expanded, again with the CFO's office, we've already decided and eliminated billing for telephone charges where possible, and I'll come back to that footnote, and for wireless charges. Again, where possible. The footnote is to say that we still have to charge the Foundation because they're a separate entity. There are a few other separate entities that need to retain a separate recharge rate, but for internal and inter-departmental charges, those are gone. We aren't billing people anymore. Wired networking will happen for fiscal year 2018. It's larger and more complicated to get there, and I still need to, as a pitch to my friend Larry, get the money for all of that. I'm not billing, but I don't have the money to actually pay my staff for that. That's already done. There are more coming. There's recharges for Blackboard that I'm sure we'll eliminate in a month. There's recharge for on-base document management system that I hope to eliminate as soon as we get the first two, and there are about six other minor ones that we recharge for. No agreement in principal, we're already headed there.

Dr. Phillips explained, we actually have a concerted effort underway to look at all the charge backs. Not just IT. We have a project with Marketing and Communications to look at charge backs. We've tended probably to move more in that direction than would be appropriate, and so that's a much longer term

problem because nothing is ever easy. In the case of IT, we started with some of the low hanging fruit which was Wi-Fi and phones, and we will move on from there.

Trustee Coleman added, there's some advantages in getting rid of charge backs and there's some disadvantages. We've got to keep in mind that there's no free lunch or no free ride here. People sit back and think they can use as much IT as they want, and they don't have to pay for it. So you've got to be careful and make sure that you've got the appropriate controls in place, the appropriate reporting in place. Some institutions have dropped their charge back but went to a show back. So you can measure utilization and hold people accountable for the amount of storage or the amount of space or IT computer power that they're using. That's just my color commentary on charge backs. Brett, do you have any clue as it relates to modernization of the data center equipment as well as software refreshing, how much technology debt that you may be carrying?

Mr. Coryell answered, yes, lots of clue on that. I'm struggling to remember the number but a good estimate would be to say it's approximately \$2.25M per year. In round numbers, we have between \$10M and \$12.5M of unfunded capital equipment refresh that's out there as a total installed base. None of that has refresh funding. If you amortize that over a five-year lifecycle, \$12.5M of total expense over five years is \$2.25M per year.

Trustee Coleman questioned, so AI, when we talk about risk to the organization, technology debt becomes a risk to the organization. When you cannot update equipment and if you can't update software because you don't have the budget to update it, it creates vulnerability for the institution. In some cases, you may not be able to apply security patches and stay current, which means that we're exposed. So when you're carrying that kind of technology debt, you've got to at some point figure out how do you get rid of that. Now a zero debt is not necessarily good either, but you've got to make sure the technology debt that you're carrying is kept to a minimum.

Dr. Phillips agreed completely. IT underpins everything we do and everyday it underpins more of what we do. The challenge is, as you know, when do you buy technology? Do you buy it early where it's more expensive and it lasts longer? Do you buy it later when it's less expensive and becomes obsolete more quickly? And then the real challenge, and Brett and I talk about this practically daily, is the current fiscal environment and how we manage IT through that, with the understanding that it has to work, it has to function. PeopleSoft is our ERP system. Everything is a function of that. We have conversations on a daily basis on how we can maximize the resources we have to insure that the institution has the IT that it needs. If IT doesn't work, then pretty much nothing gets done. I understand your point extremely well.

Trustee Coleman: Right, and I didn't examine the top 40 risks to the institution regarding IT, specifically the technology debt that we're carrying and the lack of ability to refresh. This is not bringing on new equipment for new functionality; this is simply to refresh the equipment that we have. For some of the non-technical folks, this is the plumbing in the organization, and we know that if we don't replace the plumbing, we end up having lead poison, and we have a Michigan situation on our hands. I'm trying to relate to a few folks that may not understand. So the people side of things of your eight-fold strategy, and by the way I'm glad to hear and see your eight-fold strategy, I'm assuming, is more than just training but it's also hiring, recruiting, and retaining individuals.

Mr. Coryell confirmed, yes, all of that. The first and primary focus for me, once I got my feet underneath me probably 18 months ago, was to look at those green loops. Although you don't see much on recruitment there, we aren't really in an expansion mode right now. The only time we recruit is when we have attrition that can't get replaced. More for me, it's about taking people who had job titles that were either completely inaccurate or mostly outdated. We have microcomputer specialists which is a term from back when people used to use the term microcomputer. You'll relate to how far back that goes. Where we have programmers who still say mainframe programmers in their title, and we haven't had a mainframe on campus for ten years. So to try to modernize their job, their job families, and job descriptions, to establish some sense of a rate structure (salary structure) while staying consistent with the Civil Service system, that's been a long road.

Trustee Coleman asked, are the majority of your IT folks union?

Mr. Coryell replied, no. Actually only a small number of them are in one of two classes that are going through that bargaining and unionization process. The vast majority are Civil Service today. I think we might have, and I'll just look to Laura to see if she happens to know, 12-20 out of 190 people that would be caught up in the first two waves of union bargaining.

Trustee Coleman responded, I'd also like to give you a compliment on what you've done here. I love your train map or your train station map.

Mr. Coryell chuckled, this is my favorite slide that I've created in my entire career.

Trustee Coleman commented, you know I just got back from New York City and riding their trains, and I'll tell you it looks as complicated as their train system, but it also looks pretty comprehensive.

Mr. Coryell explained, and there are lots of ways people want to talk about IT and IT funding. I mean just to poke a little bit of fun at our CFO, you say 'hey I want to redo rates' and he'll say 'what about your capital equipment refresh plan?' 'Okay well let me go get that out for you.' And you come with a capital equipment refresh plan and then he might say 'what about strategic projects, is that going to affect anything?' As with any large division's budget, you can slice it from a number of different perspectives. These are all the ones that make sense to me, and we have all the dots that are on the screen now. I couldn't have said that a year ago.

Trustee Coleman commented, I'm still curious with the ability for every budget cost center owner to go out and buy technology, how are you reigning that in and how do you make sure that you've got standards in place with those acquisitions? I don't need you to go into that now, but I'd love for you at some point to come back and take a deeper dive and talk about governance.

Mr. Coryell agreed, sure, no problem. We have some good success stories across all the IT units on campus, not just mine.

Chair Butler asked for other questions.

Trustee Struthers asked, in ballpark terms, what might you expect to ring out in efficiencies as you move to the cloud - the old process of depreciation, amortization of contracts, personnel, maintenance, etc. etc. versus paying a cloud provider percentage wise.?

Mr. Coryell asked, can I think about it and get back to you?

Trustee Struthers replied, sure. Another part of that question would be, let's say it was \$12M the old way, would we expect it stays at \$12M and we get more power out of it or it actually goes down?

Mr. Coryell responded, I always hate it when people weasel out of answering a question directly like I just did, so I'll tell you why I hesitated on the answer. I'll try to give you an estimate as long as you don't hold me too tightly to it. First of all, according to some statistics I've seen, only 25% of people realize cost savings by going to the cloud. They may go to the cloud for other reasons. At my last university, we had a very large endowment, and my IT shop had a very large budget. We were going to the cloud anyway for productivity reasons, for data analysis reasons, and not for cost reasons so much. Cycle time was another reason, to bypass a lot of our procurement process – in a healthy, legal way – to cut that as a non-value out of the loop and say I already have a contract with Amazon. If I want a server in five minutes I can have one as opposed to any procurement process on the planet that's going to put you through weeks or months of shipping and all that kind of stuff. So only 25% go and actually achieve savings. I think we have savings we can achieve, but one of the reasons I'm hesitant to give you a number is because of what Trustee Coleman called technical debt. I can offer you cost savings over the true cost of actually running

it, but that's not in my budget today. I'm several million dollars short. So I can cut off some of that savings. That's where the first bit of savings will come from. Similarly, many functional offices around campus – admissions, purchasing, central finance, accounting – they don't have the staff that they need, and on my side in the PeopleSoft areas especially, I don't have the staff I need to do the next set of business process improvement projects. And so I can save you money, I can save us all money, by not having to go out and hire as many of those staff because some of the QA functions or some of the development functions or some of the testing functions I can give to an external provider and that's cost avoidance, not cost savings. Trying to value the relative worth to you of cost avoidance versus cost savings, that's why I'm hesitate. And after all that, I'll say 10 percent.

Chair Butler asked for other questions or comments. There were none.

Information Item 8.h. – Five-Year Repair and Improvement Planning Update

Dr. Phillips explained, this is a presentation you've seen previously. We just want to come back to the Board and show the progress that we are making, especially in the constrained resource environment, to do the very best job we can with our very scarce resources to address our many capital and facilities repair and maintenance needs. So with that I'll turn it over to John Heckmann.

Mr. Heckmann began, my first slide and slide 2 really are reminders of where I left off the last time I had the discussion with all of you. This is the sand chart. It's the set-up, the concept of how I'm approaching, how I'm viewing, our investments that we need to make, the foundation of which is the maintenance. We need to have that maintenance investment complimented with small repairs before we get to some level of discretionary projects, the nice-to-haves, major repairs; beyond that, the large repairs and then the larger discretionary ones well beyond that. This is the foundation of how we're trying to construct our overall facility investment strategy making sure that that lower portion of that sand chart is really where we need to carve out of our budget. It needs to be a regular investment out of our budget, and it's not quite there yet. That's what we need to work hard on as we go forward maturing our budget and making sure we're getting the right investment into our facilities. The upper portion of the sand chart is going to be dependent on how much money is available from year-to-year, and that's going to fluctuate over time. So again, I just wanted to refresh the overall concept from where I left off the last time. Slide number 3, the question then becomes how much. How much maintenance needs to be invested? How much major repairs need to be invested? That has been something I've been struggling with for a number of months now, and I'm arriving at the point where I believe, and I'm recommending to my boss and everyone here in this program, that we need about \$8M for maintenance and about \$15M for major repairs on a regular basis. Is that an unreasonable target? I don't think so, and here's why I believe that. When I looked at how much for maintenance, I looked back historically. How much have we been putting into maintenance, and it seems that we've been hovering between \$8M and \$10M for the last number of years, so it seems to me that that's about right. Maybe \$8M might be the right target there. The big question really is how much major repairs investment have we been putting into our facilities? If you look back over the past years, it hasn't been anywhere near \$15M. As I look at what our needs are right now, we looked at hundreds of projects and we calculated them up, we looked and laid them out over a five-year span, we've got about \$80M worth of things that we can point to right now that say we need to fix this, we need to fix that, we need to repair this air conditioner and that roof that I can actually point to. These are tangible repairs that we need to do, not some algorithm and calculation that's hypothetical. These are real things we need to fix. So \$15M, when I average about \$80M out over a number of years, gives me that magnitude. The other frame of reference that I use is an industry standard for budgeting purposes. There's a lot of algorithms out there in the industry but one that's fairly common is looking at a basis for what the plant replacement value is. So the plant replacement value for our campus is really somewhere in the magnitude of \$2.5B, and that was billion I said. I lowered that down a little bit because there were some numbers, as I looked through our analysis, that seemed a little high to me. Just to be a little bit more conservative, I brought it back to \$2B. Normally industry says you should be putting into your facilities about two percent of your plant replacement value. For us that would be \$40M. I don't think our budget can sustain that at this time. And so \$15M to me seems to be about the right magnitude, an aggressive target that I think is realistic to try carve out of our budget. I'm not saying that we have that capacity in our budget yet, that's still to

become as we work that issue in maturing our budget, but that's the framework and where I'm standing so far in my analysis of where we need to go. Continuing onto the next slide, the next question then becomes: Why are major repairs? Why is \$15M really critical? Well I want to take you back and explain one aspect. When do repairs happen? There's two points in a buildings life that repairs can happen. One end of the spectrum is you catch the repair at the right opportune time before the system fails. Imagine a roof if you would, before the roof starts to leak and you have water coming into the building, it's at the end of its useful life, you catch it there, you restore it, you get another 20 maybe 30 years out of it depending on how you restore the roof. On the other end of the spectrum, you wait too long. The roof starts to leak, you start to get water damage inside the building, and it costs much more to repair. So there's two ends of the spectrum that you can actually conduct an actual repair on. So why am I explaining this? I'm going to take you into a little complicated chart, but I actually hope it's not as complicated as IT's funding map, so bear with me. This is a degradation curve. So again if you can keep in your mind a building roof for example. When a building is first built it is in prime condition for the most part. It's in that green zone as I'm defining on my chart there. So the condition of that building is that line that I'm drawing across there. Over the life of that building and giving proper maintenance, it's going to degrade just a little bit year after year until it gets to a point where the degradation is going to accelerate. You get to the end of the useful life of the materials and things wear out, degradation starts to occur a lot quicker. The best time to repair things is actually right at that point and that's that 'end of useful life' and when it's least costly to repair. Again if you wait too long, that degradation curve continues to go down, and you get to a point where you're in that yellow zone. You're constantly doing itsy-bitsy repairs trying to extend the life before you can get the money to actually do a full restoration or a full repair on whatever you're thinking about. That's the other end of the spectrum. The system has failed, you've got outages, you've got water infiltration and the like. Why do I say all this? Well when we looked at FY17's projects, we stepped back and said what are these projects that we're looking to do, why are they so critical, and we put them in comparison to this framework. I found that about 92% of the projects that we were looking to do in FY17 were in that yellow zone. They illustrate that we're trying to keep them out of the red area when buildings become unoccupiable and you really have very significant issues. In trying to keep them at least in the yellow area and try if we can kick them up into the green zone, it's a significant investment. It's not something that's nice to have. It's something I think we really need to have, a considered effort to carve out of the budget. So hopefully you followed my rationale there. That's the theory behind why we're pressing so hard for \$15M to put into major repairs. As I promised before at the last presentation, what are the actual projects that we want to do major repairs on? This is the initial list of \$250,000 and above projects that we started to map out over a little bit more than five years, because I wanted to back up and give you some framework of where we're starting from. I've got some prior fiscal year projects just to show what projects are underway, what you've already approved. I'm showing the FY16 of what you've already approved and where we're heading with those. I've broken them out by building functions; roofs, envelope, mechanical systems. On the next slide I'll get into utility systems. So when we come in just as you did previously and approved the Stevenson roof, you can see the context for the entire area of why that is important, how it fits in with all the other roofs on campus, and hopefully that gives you a better strategic perspective on these individual projects. Where I do have blanks in there, it doesn't mean we're not doing anything. It might mean that we're doing a lot of projects that are below \$250,000. Don't read into that that we're doing absolutely nothing for envelope repairs for example in the immediate time, but we do have things developing that are going to be more significant repairs. On the next slide I go into utility systems, and a lot of that we talked about with the boiler replacement strategy and the study that we're doing for that, noted other utility systems and again the horizontal infrastructure that we have for our streets and parking lots. We're mapping all of this out systematically, what are the things we need to do, trying to spread out those costs in a reasonable way so we can get a reasonable budget to tackle all these things. The bottom line there, that is the tally of just the \$250,000 projects that I'm showing up here on the slides. In reference to the \$15M I was talking about before, well that delta would be covered by smaller repairs that we would do. Things that would be less than \$250,000. So hopefully this is beginning to make sense of how I'm trying to lay out this strategy. What does that mean for the rest of the sand chart, those discretionary projects? I really haven't brought those into the picture yet. Let me talk about those very briefly. Right now we've got a listing. We've got major renovations that we would like to do. We know what they are. Holmes is the only one that really has funding identified that we can move forward with. All the others are standing by waiting on a funding opportunity. So some of them have been waiting on the IBHE

state list for a long time. If that program ever gets restarted, we'll have some hopes of getting back to some of those projects. But we do understand there's a significant magnitude of major renovations that we would like to get to. The same can be said about new construction. Again, there's a whole host of things that we would like to tackle and get to, but frankly without the state funding and/or donor funding, we just don't have the capacity in the budget to cover these. Again, I'm rushing through to the bottom line on the last slide and that really is, I want to reemphasize our focus is on maintenance, is on major repairs. That is where we have to get something out of our budget routinely invested into facilities. And all the other things, the major renovations and the new construction desires are going to have to wait on the state and/or donor funding to materialize before we can proceed. I'll stop with that and ask for questions.

Trustee Strauss questioned, I'd like to go back to the maintenance expenses where your target is \$15M a year, and one of the assumptions is that the funding source for this is going to be split equally between the auxiliary and the general revenue funds. I'm interested in how much is currently coming out of the general revenue funds for expenses so we can get some idea about what the real funding gap is. My assumption in asking that question is that we have adequate funds in reserve and the auxiliary funds to cover what you're proposing we spend for that purpose.

Mr. Heckmann answered, I would say yes, that's my general perception at this point. There seems to be a sufficient amount in the auxiliaries to proceed. I'm a little worried if there's enough to sustain what we need to do, so we're still working on a strategy of how we need to mature the auxiliary funding and budget strategy for those operations. I am more concerned about the general revenue side of it.

Dr. Phillips interjected, the real challenge is we were spending a considerable amount of funds on repair and maintenance. The problem was it wasn't necessarily prioritized, and in some cases, we probably could have spent the money in better or different ways. More recently, the real challenge is the state funding shortfall. So we pulled way back on anything that's not critical, which certainly doesn't even get us to the \$15M, but the hope is that at some point in time we would budget for this and determine what a long-term funding strategy would be in concert with the funds, not just operating funds but also the auxiliary funds and what that ratio should be going forward looking at what's on the list of things that we have to do.

Trustee Strauss requested, I'd be interested in continuing the conversation as to what the amount of that shortage is and what avenues we have to be able to make sure that we have enough funds available to be able to implement this plan. The second area that I wanted to ask a question about is the listing of the large discretionary projects. Are those projects listed in random order or do they represent some sense of established priorities?

Mr. Heckmann responded, I have not vetted the priority listing, the order I should say, with any of the leadership, so right now all I can say is I put them up in some order. Maybe in the context of my mind there was some order to it, but I can't validate that right now.

Trustee Strauss continued, so I think it also would be productive for us to have a conversation, not today, but at some point in the future, about how that priority list is established. We have a list for certain projects that require state funding that we've been submitting, and we've all been voting for those, so I assume we understand and agree with those priorities, but for the other buildings, I think it would be good for us to take a look at that so that we have the ability to make sure that we have a unified set of institutional objectives. We're going to have to ask other people to help us finance those, and they may have particular desire that we would need to honor, but for those that don't, that want to be able to make a contribution to the highest need, we ought to have a clear answer as to what the highest need is.

Mr. Heckmann committed, that will be on my to-do list. Yes, sir.

Trustee Coleman questioned, I probably need to take a class, a one-on-one class, in terms of funding options that are available to us to accommodate some of the repair work as well as some of maybe the discretionary work. Do we have options? I'm assuming we have options to possibly float bonds and some of the other stuff to do some of this.

Dr. Phillips responded, our ability to float bonds is somewhat limited because of our current debt coverage. In the past we would have received typically several million dollars a year from the state for not just capital renewal, which is just the maintenance and upkeep, but also for new projects. Because that money pretty much does not exist and our bonding capability to bond to cover this is limited, that puts us in a position of either using operating funds, which we have done more and more over time to cover the shortfall, just basic maintenance and repair, or finding other sources of funds to help us with some of these, and typically those go into more major projects. We do have some funds available that we could put towards specific kinds of things, bond funds that might still be available, but we're very limited in terms of the revenue sources for these kinds of projects. The other institutions are in the same situation. As the state funding has declined capital funding to practically zero, more and more of your operating funds end up covering the difference because that's the only source of funds you have.

Trustee Coleman commented, we sit and we see some of the needs. I guess the game plan is coming that says 'how we're going to fulfill those needs?'

Dr. Phillips explained, the first thing is to identify all the requirements. This gets back to the discussion with IT because not only are we in the same situation with IT, but now we're making tradeoffs between IT and new projects, because it's all operating funds traditionally. The first challenge was to capture what the needs and requirements were, come up with a strategy for how we were going to proceed, and then start identifying and prioritizing where we would put the efforts, and that better helps us make the best possible use of every dollar that we have. In the past there was no strategic plan for how we went about doing this. I certainly applaud John and his folks and all that work that's gone into this to come up with a strategy and to identify what the numbers are. Even though it's not \$40M, what can we squeeze out. In the past this did not exist. When projects came up, they got funded. There was not necessarily a priority tied to them. In some cases, it was the latest shiny object. Now we have a very deliberate plan for going forward that clearly identifies the priorities and how we need to approach each of these projects. We're not quite at the point of prioritizing all the big things, and to Trustee Strauss's point, we certainly want to do that because we want to help people identify things they want to fund. However, we have moved significantly down the road in terms of getting a handle on our capital challenges. The other challenge I have is I need the budget for that so I can put that in the budget. As we push the budget out multiple years, all these things are going to be competing for the same pot of funds, but we have to have a clear idea of what the priorities are and how best to allocate those funds going forward. We do have more work to do, but I'm very pleased with the work that has gone into this to get us even to this point.

Trustee Strauss commented, to expand on both Trustee Coleman's question and Dr. Phillips answer, we have needs for both operating funds and capital funds. On the operating side, I'm trying to assess what the gap is, and there may be funding strategies, it could include the assessment of fees but wouldn't include the use of borrowed money on an on-going basis. We have to see if we can close that gap. I want to be explicit that there is another step that we haven't yet talked about, but I know I've discussed with Dr. Phillips, which is after we can identify all of the capital needs, we need to do at least a medium term financing plan and maybe a longer term financing plan to be able to align the indebtedness that we currently have on the books with what we will need in order to be able to implement the future plans that come after the program prioritization process is finished and we've analyzed the balance of the capital projects.

Trustee Struthers noted, this is good work. It would be my personal opinion to really firmly budget the \$8M and the \$15M, so the \$23M, on an annual basis and execute on that plan. Without being true to that, we're simply kicking the can down the road, and we're not seeing the real expenses that our institution is obligated to pay. With 92% of the identified projects in the yellow band today, that will only get worse as time goes on, and these will become more expensive. So while we have saved \$50M in expenses over the last couple of years, and I'm going to exaggerate to make a point, if all \$50M of that was the deferment of capital expenditures, we are not making any progress, not at all right? So I think the idea you've identified through a very rigorous exercise, \$23M of annual expenditures that doesn't seem to be overly aggressive but is responsible, we need to get on with doing it. If that creates a deficit, I believe that's reality. I believe that's a better plan than not doing it and kicking more of this into the yellow and red zone down the road. It just

makes us be honest and true with ourselves.

Dr. Phillips agreed, the real challenge is the level of state funding we can expect to receive going forward. At some point in time, it will stabilize and that will help us with our longer term planning. Like I said, we went from the expectation of \$90M in revenue from the state to actually receiving \$26M.

Trustee Struthers continued, (not on microphone) expense to avoid, but the reality of it it's going to grow. It will force us to make other decisions should we do this in accordance with a plan.

Dr. Phillips concurred, correct. Everything is a trade-off.

Trustee Murer questioned, I have a very out of the box question, and I probably look to our General Counsel for this. As I'm listening to these things, I certainly agree on deferred maintenance. My gosh, since we began on the Board we've never had adequate funds for this. But I sit here realizing that different than the conversation we have about operating expenses, the capital issues are related to ownership by the state of Illinois. They own these buildings. We don't own these buildings. The state of Illinois owns these buildings. I just wondered if there's any statutory requirements in the caretaking of the assets that belong to the state of Illinois? Has that ever been addressed? It may be a question that just needs thought and research. I'm just thinking from a compliance perspective, if you have these assets in your domain, was there ever contemplated any statutory responsibility for the maintenance of these and especially if 92 percent are on the verge in that yellow zone that could fall into the red zone. Is there any legal liability that we have relative to the assets?

Mr. Blakemore answered, I am not aware of any statutory requirements that impose upon the University the obligation to maintain the buildings. There are reporting obligations with respect to any distribution of sale, lease, etc. of the facilities, but they are the state's ultimate responsibility, and because the state has not, and AI may be able to update this, had a capital budget for more than ten years, the state has basically left care and maintenance to the institution, and there has been very little assistance provided in that regard. But I am not aware of it. We can certainly research that.

Trustee Murer clarified, and this is not a question to be answered necessarily today, but it is something to contemplate in the future in terms of if buildings start to crumble, who's responsibility is it and where does that responsibility lie? These are all theoretical questions. I'm just thinking about it, and having been on the Board for ten years, I've never seen a big capital allocation. I don't know what that looks like. Trustee Boey may know a little bit more about a capital allocation.

Trustee Boey commented, don't drag me into this conversation.

Trustee Murer continued, it's something to think about from a legal perspective. I'll just leave it at that.

Trustee Boey complimented Mr. Heckmann on his presentation. Unfortunately, I know way too much on the cost involved and I accept that. Both your presentation and the IT presentation that went before, for the first time I have a very good feeling about NIU's ability to recognize our issues. It's good. So keep up your good work is what I'm trying to say. I certainly can concur with what you have said.

Chair Butler concluded, on that positive note, I'm not seeing any other interest in addressing the presentation. Thank you.

OTHER MATTERS

No other matters were discussed.

NEXT MEETING DATE

The next meeting of the Finance, Facilities and Operations Committee will be November 17, 2016.

ADJOURNMENT

A motion was made to adjourn by Trustee Strauss; seconded by Murer. The motion passed.

Meeting adjourned at: 2:01

Respectfully submitted,

Vicky Rippberger
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.