

ILLINOIS CENTURY NETWORK

**JUNE 12, 2002 POLICY COMMITTEE MINUTES**

The meeting was called to order by Mary Reynolds.

Members present: Bruce McMillan, State Museum; Jean Wilkins, Illinois State Library; Mary Reynolds, Governor's Office; Daniel LaVista, Illinois Board of Higher Education; Joe Cipfl, Illinois Community College Board; and Lugene Finley, Illinois State Board of Education via conference call.

Others attending included: Anne Craig, Illinois State Library; Walt Erchinger, John Anderson, and Alice Engle, Department of Central Management Services; Todd Hart, Illinois Health Education Consortium (IHEC); Dan Layzell, Illinois Board of Higher Education; Neil Matkin, George Badger, Cindi Hitchcock, Lynn Murphy, Lori Sorenson, Karlin Sink and Rebecca Dineen all from the Illinois Century Network.

Mary welcomed Daniel LaVista to the Policy Committee and his first meeting. She also welcomed guests attending the meeting.

1. Policy Committee Minutes

Staff requests the adoption of the March 27, 2002 meeting minutes. Neil noted that a corrected copy of the minutes had been sent to the Policy Committee after a minor grammatical error had been found.

Motion: Bruce made the motion; Jean seconded.

Bruce moved that the ICN Policy Committee adopt the March 27, 2002 minutes with any edits as noted. (No edits were noted.)

Motion carried.

2. Announcements

Mary announced that the Illinois Century Network appropriation to the Board of Higher Education includes the \$10.5 million from the State Board of Education. This is level funding from fiscal year 2002. Even though the ICN was subject to budgetary cuts in fiscal year 2002, level funding for fiscal year 2003 should be considered a success. Mary noted that it was not only legislative leaders that were supportive of level funding for the ICN; the Governor was relentless in his support of level funding.

This year's digital state survey, the same survey that Illinois ranked first in education last year, should be completed in June. Mary has met with several entities, including the ICN and the Illinois Virtual High School, but would like anyone who has specific ideas or suggestions on how to make Illinois unique to please let her know. Lastly, Mary mentioned Tech Town activities at the Illinois State Fair this year. Tech Town will highlight Illinois' virtual learning opportunities and showcase the Illinois Online Leadership Council, the Digital Academic Library, the Virtual High School, and the Virtual Campus. All those initiatives that will be highlighted at Tech Town are meeting tomorrow regarding the role the ICN can play in Tech Town and how to be unique in the showcase. Again, Mary welcomed suggestions and ideas.

### 3. Remarks

The first three years of the ICN focused on growth and connectivity, operating in a way that was sustainable and scalable to prepare Illinois education to truly realize the benefits of the ICN. Almost all ICN primary constituents are connected now and the staff is starting to focus on world-class service with measurable results. It's a normal shift in the maturity curve of the network. The network still has some growth areas with the hospitals, municipalities and county governments. The staff anticipates some partnerships developing in those areas that will prove to be very fruitful in the next fiscal year.

Neil also announced that the staff has continued to work to reduce costs and there is good news regarding cost recovery, especially for our large bandwidth customers. The ICN has successfully negotiated with Ameritech a 20 - 22% decrease in large bandwidth circuits in their service region. . This is unprecedented, as Ameritech has not discounted these circuits in the past. The ICN had tried to include state and county government, municipalities, and hospitals in the original individual case basis tariff for education, but Ameritech legal staff removed them. Talk of these concessions is resuming, however, and it is possible that new developments benefiting hospitals and other groups are on the horizon.

Neil closed his remarks by mentioning that the ICN legislation has passed both the House and Senate and is on the Governor's desk for signature. Mary confirmed that it has been delivered to the Governor. She also suggested that the legislation be circulated to the Policy Committee once there had been action by the Governor.

The number one aspect of that legislation allows the ICN to purchase in aggregate and extend these contracts to reduce costs for primary constituents across the state. The ICN has recently been negotiating contracts because of some network upgrades that could no longer be delayed.

Due to the condition of the telecommunications industry, the ICN's traditional discount of 35% has gone as high as 40% on a major purchase. The staff has been able to negotiate a 45% discount, and due to the ICN's anticipated ability to procure and transfer property, a suburban school district added \$200,000 to that contract, allowing them to secure equipment prices far lower than they could have secured on their own.

Various colleges and universities also expressed some interest. This has all happened in anticipation of the legislation being signed into law.

#### 4. Budget Update: Fiscal Year 2002 Status and Fiscal Year 2003 Preliminary Budget

Lori Sorenson distributed an updated 2002 expenditures report dated May 31, 2002. This item provides a snapshot of the 2002 budget to date. Staff still expects to receive the \$2.4 million in e-rate funding, but is not sure in which fiscal year it will be received, so the budget and expenditures were adjusted accordingly. The change in the State Board of Education appropriation from \$10.5 million down to \$10.328 million is not a reduction. ISBE currently holds a contract for services the ICN has been using and they will be paying that bill direct. Total revenues have also been adjusted down from the November projection due to the \$1.5 million reduction from ISBE and the \$2.4 million in e-rate funds that may not be received this fiscal year.

Mary asked if the staff questioned receiving the e-rate funding at all or just which year it will be received. Lori responded that currently the staff has every reason to believe that the \$2.4 million will be received in the fall. That is a figure that both Lori and Ricardo Tostado (ISBE) agree is a realistic expectation for the e-rate funds, although no official documentation has been received from the program.

The ICN endured a significant reduction this fiscal year, however, the budget is on track, expenditures have been adjusted, and the staff has worked to reduce operating expenditures. A significant factor in the reduction of costs is the delegation of procurement authority from Central Management Services to the ICN.

The next item in the budget presents a preliminary 2003 budget based on a \$25.5 million appropriation. Mary noted that the budget had been signed the previous evening. The fiscal year 2003 budget accounts for e-rate monies from fiscal year 2002 and what would normally be received in fiscal year 2003. The initial cost recovery funds, projected at approximately \$1.6 million, has been lowered to approximately \$1.2 million because of the significant budget reductions that the ICN constituents will be facing. There is a significant change in the personnel line item from fiscal year 2002 and fiscal year 2003. That change is the transition of regional technology center staff from the RTC fiscal agents to the Board of Higher Education. That transition was effective on June 6, 2002, making fiscal year 2003 the first year those employees are reflected in the ICN budget. The personnel line reflects a .04 reduction in the overall personnel costs when grant costs are factored in.

Joe questioned whether or not there are any salary increases anticipated. Neil responded that this is probably poor timing in the budget climate to bring salary increases to the Policy Committee, but would like to have that option in a future meeting to discuss where they might occur. There have been no across the board salary increases brought forward at this time. Neil also noted that there were minor equity adjustments earlier in the year, but all were within the budget range approved during the previous fiscal year and the overall salary line is still below that approved amount. Overall, there is a decrease in the salary line from fiscal year 2002 to fiscal year 2003 in part because of some vacant positions that the management team has no plans to fill at this time.

Mary questioned why there was a line for the RTCs and a significant increase in personnel. The RTC line includes those expenses that were presented at the last meeting and includes rent and other administrative costs. There are no personnel expenses included in the grants. Those costs have been transferred to the personnel line. Both reflect a substantial reduction in the cost of operating the RTCs.

The sources for funding from cost recovery were questioned. Lori responded that all primary constituents receive a baseline bandwidth at no cost. They have the option to purchase additional bandwidth at a fixed rate and the staff expects that there will be a few primary constituents who want to purchase additional bandwidth for specific purposes. Most of the anticipated funds are coming from non-primary constituents that do not receive a baseline bandwidth allocation, for example, municipalities and other not-for-profit entities. These projections are not hard numbers. Neil suggested updating the Policy Committee in September or November with more definitive numbers.

Mary suggested amending what is written as a staff resolution to state the Policy Committee approves the fiscal year 2003 budget now that the general assembly has acted and it is final.

Motion: Joe made the motion with the amended language; Bruce seconded.

Joe moved that the Policy Committee approve the fiscal year 2003 budget.

Motion carried.

##### 5. Dark Fiber Partnership

Dark fiber gives the ICN the ability to increase bandwidth on demand at incremental expense. It can be considered life and death for the future of the network. CMS and the ICN are working together and have identified overlapping needs for dark fiber resources as each organization tries to accomplish its mission for their constituents.

A fiber management team has been put together and includes many of the people in this room: Alice Engle, Walter Erchinger, Neil Matkin, Lori Sorenson and Bill Vetter, who is not here today. The team has been working together to create a technical evaluation team and dark fiber RFP. The RFP was released on May 29, 2002. Vendor inquiries have already been received and the team expects to receive some fairly positive and exciting responses to the RFP. The growing partnership between the CMS telecom team and the ICN team is something that is second only to the procurement of the resource that's going to take the ICN into the next decade. The ICN will be handling dark fiber procurements with extensive input, critique, and review from CMS team members as well as the Advanced Engineering Taskforce and other members of the community with expertise in this area. The acquisition of dark fiber will impact constituents across the state in their ability to use applications and lower their costs.

The staff recommends that the Policy Committee endorse and agree with the partnership described between CMS and the ICN.

Alice and Walt both commented that they too were excited to see CMS and the ICN working together on dark fiber.

One example of an immediate need for large bandwidth for the ICN and its constituents is Internet2. The staff is preparing to announce to all constituents that the ICN is now connected to Internet2 for educational purposes. Internet2 brings unprecedented access to things like the Hubble Telescope and other scientific experiments across the nation and the world. It represents a large external growth area as constituents access institutions outside the state. Another area of growth that will have impact within the state is IP video. IP video will become much more pronounced and have an impact on education far beyond what has been able to be achieved through current efforts thanks primarily to the lower cost of end equipment and large bandwidth. The procurement of dark fiber will encourage that growth rather than impede it.

Lugene questioned why K-12 was not represented on the teams. Neil responded that this was an issue of procuring services rather than procuring for sectors. The procurement benefits all sectors. Also, K-12 is largely represented on the Advanced Engineering Taskforce, which will be reviewing the procurement.

Mary acknowledged the terrific partnership between CMS and the ICN and the role that the Illinois Department of Transportation has played in terms of negotiations. To a large extent, part of this vision came from not only George Badger, but also Charlie Catlett. Mary thanked them for their hard work and their push for dark fiber.

Motion: Dan made the motion; Joe seconded.

Dan moved that the Illinois Century Network Policy Committee endorse and agree with the partnership as described between CMS and the ICN for the purposes of utilizing state-owned dark fiber resources and acquiring additional resources as necessary to meet both the needs of CMS and ICN.

Motion carried.

#### 6. ICN Vehicle Purchase

Currently the ICN does not have any state owned vehicles. Until recently, the staff was able to utilize two vans that ISBE had purchased. However, as of June 30, 2002, the ICN will be totally separated from ISBE and all ICN property will be transferred to an ICN warehouse. When this transfer is complete, the ICN will cease using the ISBE vans due to audit and liability issues. In addition, the new warehouse space acquired by the ICN is across town. This requires staff to make several trips in personal or CMS motor pool vehicles to transfer the daily equipment shipments to and from the ICN. The ICN has used CMS motor pool vehicles in the past; however, there is no guarantee that a vehicle will be available when it is needed. A van purchased by the ICN for use by the staff weekly for equipment transfers and other travel purposes would ensure availability. The van would be assigned to the ICN, not to an individual, and the estimated payback period is 17 months. The estimated life of the van is much longer. The van would be purchased through CMS on the state contract.

Bruce questioned whether this was a matter that needed to be brought before the Policy Committee. Neil responded that the staff wanted to make sure that the Policy Committee was aware and comfortable with the purchase considering its sensitive nature and the current fiscal condition of the state.

Joe questioned whether or not the projected rental costs were based on actual 2002 costs or if they were only projections. Lori responded that the projected costs were based on 2002 motor pool costs and staff reimbursements when personal vehicles had been used. There are also issues regarding insurance and the value of the equipment being transported when the staff uses their personal vehicles. Discussion on the advantages of purchasing a van continued.

Motion: Bruce made the motion; Jean seconded.

Bruce moved the Policy Committee approve the purchase of a passenger van for transporting equipment and staff.

Motion carried.

## 7. MSA-by-MSA Analysis Update

Neil presented a PowerPoint presentation on the progress of the MSA-by-MSA analysis prepared by Dirk French, who was unable to attend the meeting. This analysis has been prepared with the cooperation and input of the Illinois Commerce Commission. The purpose of the MSA analysis is to create a snapshot of the network today and identify alternatives for a design that will foster growth and lower costs. The unique telecommunications structure in Illinois makes an analysis of this kind necessary. Illinois has 18 Market Service Areas (MSA) and 30 plus Local Exchange Carrier (LEC) telephone companies, many of which are small proprietorships, rather than larger-sized companies such as Ameritech or Verizon. The ICN currently has a point of presence in each LATA in order to reduce the use of long distance circuits, saving ICN constituents a considerable amount of money. In the future, as the regulatory environment changes, the map may look considerably different and the network will need to redesign, as there's a shift away from long distance boundaries.

The analysis also touches on connectivity level with 5,500 plus connections. The network has virtually 100% of the K-12 institutions connected, 100% of Community Colleges, more than 160 other higher education institutions, 420 plus libraries, 20 museums and over 480 municipalities and other. Neil noted that zoos and other living collections were included in museums. ICN staff is now starting to target those primary constituents who aren't connected. In many cases there are longer-term contracts involved and the constituent is waiting for those contracts to expire. Another factor effecting connectivity and the design of the network is the difference between direct and indirect connections to the ICN, which had been discussed at a previous meeting. The cost of that connection and how the ICN can help lower those costs are especially important now during the budget crisis. Special tariff negotiations and discounted contracts have already been mentioned. Another option is the extension of connection points to bring the network closer to the constituent. That option does not make sense in all areas. Currently, there are approximately 68 community networks connected to the network; however, those connections are also being evaluated. The staff hopes to aggregate local networks and bring them to the ICN in larger connections helping to lower costs.

The analysis also examines the cost variability across the state. Neil noted that the cost for a T1 (1.5 megabit connection) ranges from \$98 to \$427 a month in MSA 1, but that cost could go as high as \$794 in Western Illinois. It is for this reason that the ICN staff has asked the Illinois Commerce Commission to help secure better, more equitable, pricing across the state. This also effects digital divide and other issues important to legislators. The impact of e-rate monies across the state also needs to be considered. If e-rate and federal telecommunication subsidies dissolve, as many predict they will in out years, it could impact the network dramatically. The ICN staff is hopeful that if it does dissolve it will be at a time that the dark fiber network is coming up to speed.

Some areas of the state receive very little e-rate money, Southern Illinois for example. This could be due to the convoluted paperwork process an institution must go through in order to receive the funds. In some cases, the cost of the process in staff time and other resources outweighs the amount of money the institution is eligible for. E-rate is a very positive program, especially for K-12 institutions, and the ICN has supported it fully in the past. ICN staff will continue to support the program in the future and may in fact ask the Policy Committee for their support.

Other factors effecting costs right now include lack of competition creating limited options and the recent industry downturn stifling build outs. These are not entirely negative, however, as these factors have contributed to the availability of dark fiber. Cable, DSL, and wireless satellite communication alternatives will continue to be explored by both the ICN staff and the Advance Engineering Taskforce for certain areas of the state that have the most need for services. This will impact rural K-12 institutions, Community Colleges, and libraries in the state.

The ICN staff is looking at producing a circuit RFP for backbone circuits to lower costs even further. The staff is also looking forward to RFPs for dark fiber and related electronics to light the fiber. Those RFPs have the potential to lower existing costs as well as lower long-term costs. The next step for dark fiber will be a review by the Advanced Engineering Taskforce. Their annual report should be completed and available to the Policy Committee by the July meeting. The report submitted last year was a tremendous success viewed by several thousand people. The ICN staff is going to continue to work with the Illinois Commerce Commission on the MSA analysis and will also work with the Illinois Telecommunications Association to create partnerships rather than competition. The staff is also going to continue to work to lower costs for the ICN and its constituents. Neil noted that the MSA analysis update presented in the agenda is an executive summary of the full analysis, which he looks forward to sharing with the Policy Committee when it is complete.

Mary commented that the Illinois Commerce Commission will find this report enlightening and that it should create some interesting questions. Neil responded that they have been very excited to receive it.

8. Executive Session

Motion: Dan made the motion; Joe seconded.

Dan moved that the Policy Committee go in to closed Executive Session at 4:05 p.m., Wednesday, June 12, 2002 for the purpose of discussing personnel and pending legal issues pursuant to Section 2(B)(1) of the Open Meetings Act.

Motion carried.

Alice Engle attended the executive session as a representative for the Department of Central Management Services.