

MERC Board of Directors Meeting
February 26, 2010
10:00-Noon

Attendees: Gary Allen, Rita Gulstad, Donna Liss, Craig Klimczak, Mark Mabe, Rick Mihalevich, Rusty Monhollon, Kevin Palmer, Chad Shepherd, Ken Voss

MOREnet Staff: Natasha Angell, Chip Byers, Rebekah Enzler, John Gillispie, Hank Niederhelm, Nancy Piringer, Debbie Rodman, Greg Silvey

Board members and MOREnet staff attended by TelePresence at MU-Columbia, UMKC, and UMSL. It was decided that upcoming meetings shall continue to use this technology.

Welcome – Mark Mabe

Mabe called the meeting to order at 10:00 a.m. and welcomed MOREnet's new Executive Director, John Gillispie.

MERC Financial Reports – Greg Silvey, MOREnet

Silvey briefly reviewed the MERC financial report for the year ending June 30, 2010. Member service fees are very close to last year at this time with the difference owing to losing Fontbonne University as a member

MOREnet Proposed Cost Allocation Model and Overview –John Gillispie, MOREnet

Gillispie indicated that historically MOREnet has published fees in March but questions the prudence of waiting until the Governor signs the final budget. Gillispie noted that with 75 % of the State's budget committed to the K-12 funding formula and Medicaid, all ancillary programs are taking hits. The new cost model is designed to address possible future funding cuts.

The biggest challenges to sustaining MOREnet are member data line and bandwidth growth. MOREnet's financial reserves cannot sustain past FY13 based on the current cost allocation model and growth allowances (up to 100Mb). One option is to reduce the bandwidth ceiling and spread costs to those who are using more bandwidth. Gillispie recommends MOREnet Council reviews what constitutes "need" for growth. Gillispie recommends maintaining a minimum of sixty days working capital in addition to the emergency operation fee.

In the proposed cost allocation model expenditures from general and administrative areas are clearly identified, and the aggregation costs are pushed out to member circuits based on technology type and bandwidth instead of being included in the cost of the core (shared) network. Gillispie took the Board through a PowerPoint presentation; several points of discussion and clarification follow:

Cost Allocation Model

- The proposed cost allocation model does not result in a regional fee structure. MOREnet staff used actual costs with regional variances to arrive at true costs and then averaged those costs across the membership to arrive at per-MB pricing by connection type.
- The budget represented in the PowerPoint is understated by \$300,000 due to the anticipated online resources cost increase. FY10's comparatively lower cost for online resources was due to a one-time discount negotiated by REAL.
- Aggregation circuits save money over direct connections to Telecoms because the cost of port densities is reduced. In addition, higher speed connections (e.g., Ethernet) cost less than lower speed connections (e.g., T1) because the number of ports is reduced. This is reflected in the proposed fee structure.
- At the aggregation level members are only billed for logical capacity and not total ordered bandwidth. The additional cost of minimal spare capacity is embedded into the cost of the core network.
- Member connections are two thirds of the budget. In comparing the proposed FY11 cost allocation model to the FY10 model, true costs are driven to the membership, resulting in the distributed cost of the core network decreasing and K12 costs increasing.
- The Board thanked Gary Allen and the University for fronting monies still owed from E-rate receivables and thus preventing MOREnet from operating at a 5M deficit.

Shepherd moved that the Board endorse the expense allocation model on page nineteen where expenses are driven to a functional representation and are distributed to the various programs. The motion was seconded by Mihalevich. Hearing no discussion, the Board voted, and the motion passed unanimously.

House Bill 3 Appropriation Priority Funding Sequence

Gillispie explained that due to an unexpected additional FY10 withhold, MOREnet did not pay the plant fund this year. The FY11 budget includes an appropriate contribution to the plant fund but does not compensate for FY10's lack of contribution. In answer to Klimczak's suggestion that the plant fund be given high precedence, Rodman explained that contribution to the plant fund is already embedded into the functional areas (as opposed to the programs) of the proposed cost allocation method.

The Board agreed to use the most recent TNP HB 3 appropriation percentage of 40% rather than 32% based on recent Council approval of 40%.

Under the new recommendation to consider funding the core network the highest precedence, the previous model whereby TNP received 40% of the appropriation is no longer appropriate. The Board reviewed a suggested model whereby the core network is funded first, and the remainder is split 95% TNP / 5% MERC. Applying this percentage split to the new cost allocation model and budget, TNP would exceed their historical 40% HB 3 allocation. Klimczak suggested that an 85 % TNP / 15% MERC percentage split is consistent with previous years' budgets.

Other House Bill 3 scenarios: If House Bill 3 is not sufficient to cover costs of the core network, the 85% TNP / 15% MERC split shall be used to recuperate funds. If House Bill 3 exceeds current budget with the addition of the possible one million dollars, the overage will be distributed at the 85% TNP / 15% MERC split.

Shepherd moved that the MERC Board recommend a philosophical shift in the treatment of House Bill 3 to make the core network the highest precedence, with any deficits or remainder funds split 85% TNP / 15% MERC. Palmer seconded the motion. Hearing no discussion, the Board voted, and the motion passed unanimously.

Wrap Up

Mabe asked the Board if there were any other topics for discussion. Hearing none, the meeting was adjourned at 12:30 p.m.

Submitted by Rebekah Enzler, Program Assistant (MOREnet)