Academic Senate Budget Committee Minutes **March 8, 2021**

Via Zoom

Time: 11 am – 12:30 pm

Members Present: Paul Beavers (chair), Leela Arava, Linda Beale, Stephen Calkins, Wei Chen, Sudip Datta, Susan Davis, Brian Edwards, Mahendra Kavdia, Carol Miller, Santanu Mitra, Charles Parrish, William Volz

Members absent with notice: Faisal Almufarrej, David Edelman, Jennifer Stockdill, Ricardo Villarosa,

Liaisons: Kristen Chinery, AAUP-AFT; Jasmine Coles, Student Senate; Duke Debrah, GEOC; Karin Tarpenning Szadyr, Union of Pert-Time Faculty

The chair announced that he would be making a video recording of the meeting and deriving the minutes from them. The approval of minutes from the meetings of October 26 and November 16, 2020 and of January 25, 2021 was postponed until the March 22 meeting of the Budget Committee. Paul asked for the committee members to look specifically at the attendance for the January 25 meeting; he strongly suspects that it contains inaccuracies.

Paul welcomed Rebecca Cooke back to the Budget Committee meeting. Since the January 25 Budget Committee meeting, Rebecca once again postponed her retirement and agreed to continue as the Interim Vice President for Finance and Business Operations. Rebecca also announced that Tamaka Butler will be serving in Bryan Dadey's former position as Interim Senior Associate Vice President of Finance & Deputy Chief Financial Officer. Tamaka was present at the meeting and the Committee expressed its thanks for their service. Tamaka will continue in her position at least until the University has hired a new VP for Finance and Business Operations. Paul added that he was on the search committee for that position and that the search was continuing at a good pace.

Presentation of the Documents for the March 12 meeting of the Board of Governors

Contingency Reserve Report

Rebecca pointed out that there have been no expenditures from the Contingency Reserve in FY 2021. The entire $500,000 originally budgeted to the reserve remains available.

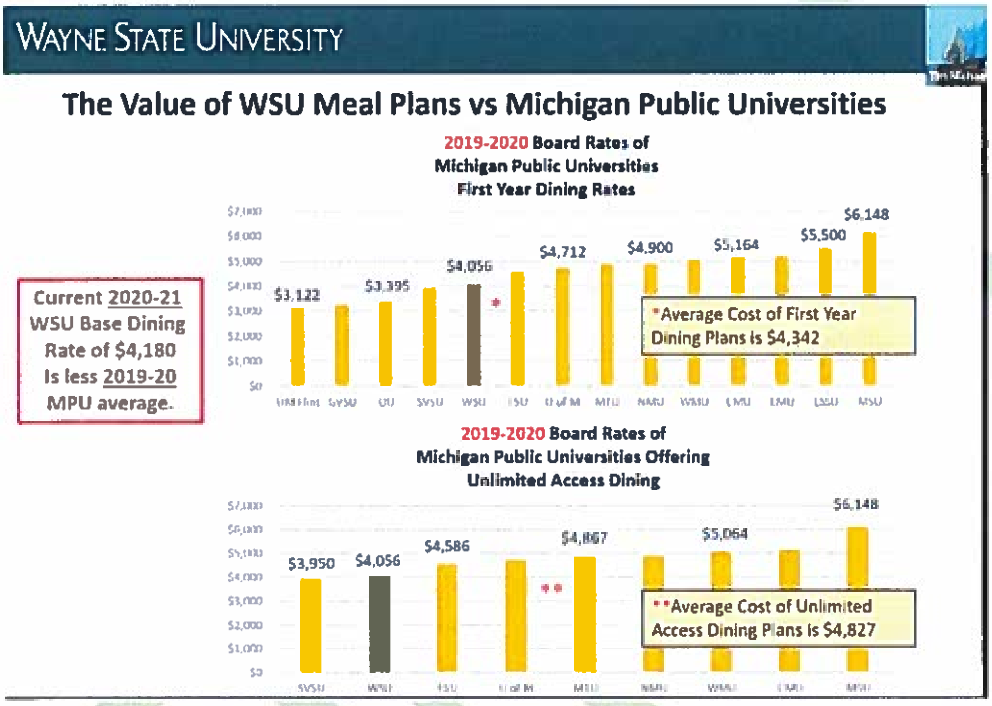
Campus Dining: Rate Setting and FY22 Board Rate Proposal

Timothy Michael, Associate Vice President for Student Auxiliary Services and Chief Housing Officer, made this presentation. Normally, both the campus dining rates and campus housing rates would be handled in a single meeting with the BoG. This year there will be an informational presentation on dining rates at the March 12 meeting of the Board and formal approval for dining and housing rates will be requested at the April 30 meeting of the Board.

The agreement with Corvias is that housing rates that are increased by 3% or less receive automatic Board approval. For several years now, this has shifted attention to the dining rates. Because of the COVID crisis and the emphasis on controlling student expenses, Tim wants the Board to have additional information on how dining rates are set. In FY 2021, they had a detailed look at campus dining plans and costs, which resulted in a significant revamping. For FY 2022, they will be building upon those changes. Affordability and demand are the two most important factors driving this planning.

Tim pointed out that, for the third year in a row, some of the basic commodities in dining have significantly increased in price:

The last year for which there is comparable information on the cost of dining plans for the Michigan Public Universities (MPU) is the 2019-2020 academic year. WSU ranked among the most affordable MPUs and even with the proposed 2020-2021 increases in cost would be less than the 2019-2020 average for the MPUs.



The increases for FY 2022 are just over 3% for most of the meal plans and block plans. The increases reflect inflation in the costs of commodities and labor. The Consumer Price Index (CPI) estimate for inflation on "Food Away from Home — Urban Areas" was 3.6% in 2020. Wages in "accommodation/food services" also increased by 4.9% in 2020. Tim checked these national figures against costs in the Detroit metropolitan area and strongly believes that they are representative of cost increase in WSU's immediate environment. Aramark labor rates, for example, went up over 6%. Additional wages often had to be paid to attract workers wiling to brave the dangers of the pandemic.

Dining Plan Rate Recommendations for 2021-22

Meal Plans (25% of dining $ indicated in each plan will be provided as One Card $)	2021-22 Semester	2021-22 Year	% Increase
Warrior Pass 200 (unlimited + $200/sem)	$ 2,155	$ 4,310	3.11%
Weekly 15 + 400 (Fifteen swipes/wk +$400/sem)	$ 2,155	$ 4,310	3.11%
Block 175 + 550 (175 blocks/sem + $550/sem)	$ 2,155	$ 4,310	3.11%
Block 110 + 550 (110 blocks/sem + $550/sem)	$ 1,650	$ 3,300	3.13%
Block 75 + 300 (75 blocks/sem +$300/sem)	$ 995	$ 1,980	3.11%
Block Plans			
15 Block Plan (fifteen swipes good fall & winter)	$ 115	$ 120	4.35%
30 Block Plan (thirty swipes good fall & winter)	$ 218	$ 225	3.21%
45 Block Plan (forty five swipes good fall & winter)	$ 320	$ 330	3.13%

Freshmen residents must choose from the top three meal plans; upperclass residents can choose from any of the five meal plans; commuters, faculty and staff can choose from any meal plan or block plan.

Cost drivers for campus dining are: CPI (Food Away From Home Urban Areas) which increased 3.6% in 2020, particularly in high-use commodities like meats (+4.6%), dairy (+4.4%) and beverages (+4.4%); Labor wage increases in accommodations/food service of 4.9% in 2020. (Source U.S. Bureau of Labor Statistics CPI and U.S. Bureau of Labor Statistics Employment Survey) (For Aramark nationally: market basket +1.75% and hourly wages +6.3%)

During the question period, Paul asked about the state of the businesses in WSU's commercial space and how many of them seemed likely to weather the financial stress of the COVID Crisis. The businesses on Anthony Wayne Drive have all received rent abatement and the University has been working with individual businesses to keep them solvent. We have lost a planned Tubby's franchise. So far, we have not lost any of the businesses actually on campus. Tim remains concerned about two of the businesses, but so far they intend to reopen. Midtown Detroit Inc has also been offering assistance to some of the restaurant businesses surroundings campus and some on campus so real efforts are being made to maintain services in the Detroit Cultural Center. There are new businesses opening. For example, there is now a bubble tea business in the basement of the Student Center. Rebecca believes the New Center and Cultural Center businesses will quickly recover post-pandemic. If there is not a substantial return to campus, many of the business hanging on by threads will fail.

Audited Financial Report for Fiscal Year 2020

Tamaka Butler gave this part of the presentation. The University's Combined Financial Statements for FY 2020 (ending on September 30, 2020) was audited by Plante Moran PLLC. The firm issued an unmodified "clean" opinion on the combined Wayne State University and Foundation financial statements, which is the highest level of assurance offered by an external auditing firm. The statement was presented to the Board of Governors' Audit Committee on February 15, 2021 and was approved.

This is the summary of revenue, expenses, and change in net position for September 30, 2020 as compared with September 30, 2019. Overall, the University had an improvement of net position of $6.8 million in FY 2020.

Consolidated Summary of Revenue, Expenses and Change in Net Position - FY 2020 compared with FY 2019:

(in millions)	Year ended September 30, 2019			Year ended September 30, 2020			Change
Fiscal Year	University	Foundation	Consolidated	University	Foundation	Consolidated	Consolidated
Operating Revenues	$585.6	$0.0	$585.6	$562.8	$0.0	$562.8	($22.8)
Nonoperating and Other Revenues	305.8	20.1	325.9	319.7	37.4	357.1	$31.2
Total Revenues	$891.4	$20.1	$911.5	$882.5	$37.4	$919.9	$8.4
Operating Expenses	$875.3	$0.0	$875.3	$869.2	$0.0	$869.2	($6.1)
Nonoperating and Other Expenses	21.0	12.5	33.5	25.2	16.0	41.2	7.7
Total Expenses	$896.3	$12.5	$908.8	$894.4	$16.0	$910.4	$1.6
Increase in Net Position	($4.9)	$7.6	$2.7	($11.9)	$21.4	$9.5	$6.8

The changes in operating revenue, non-operating and other revenue, and operating expenses underlying this summary are as follows:

WAYNE STATE UNIVERSITY FY 2020 Financial Statements

Financial Statement Results

Combined University and Foundation

- **Operating Revenues decreased $22.8M**
  - Net Tuition and Fees increased (+$8.2M)
  - Grants and Contracts (-$20.5M): Nongovernmental (-$14.6M), Federal (-$6.7M), State & Local (+$0.8M)
  - Department, Auxiliaries, and Other (-$10.5M): Auxiliaries (-$6.5M), Department (-$4.4M), Other (+$0.4M)
- **Non-operating and Other Revenues increased $31.2M**
  - State Appropriations (+$7.9): Operating (-$21.7M), CARES (+$22.8M), Capital (+$6.8)
  - Federal Economic Relief Funds (+$10.8M)
  - Lower Investment Income (-$3.2M) : Unrealized Gain (+$0.8M), Derivatives (-$0.2M), Realized (-$3.8M)
  - Other (-$1.6M)
  - Foundation revenues increased (+$17.3M) : Investment income (+$21.5M), Gifts (-$4.2M)
- **Operating Expenses decreased $6.1M**
  - Increased compensation and benefits (+$6.9M)
  - Increase in Scholarships (+$5.8M)
  - Decrease in Supplies, Services, and Other (-$21.6M)
  - Other (+$2.8M)

Total net position increased by $9.5 million in 2020. The Foundation's net position increased $21.4M, while the University's net position decreased by $11.9M.

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Linda Beale asked about the Peppap revenue for FY 2020. Tamaka stated that total Peppap for th e year was a net of $22.9 million compared with the net of $22.5 million in FY 2019. The original gross after adjustment was down $12.8 million. IN FY 2020, they had adjustments that went to the Henry Ford Hospital System. The state decreased the university's match, which increased the amounts going to business units.

Stephen Calkins asked about the two statements about investment income on the above slide. The third bullet under "Non-operating and Other Revenues" describes lower investment income while the fifth bullet describes increased investment income. Tamaka pointed out that a distinction is being made between the university's investment income and the foundation's investment income. Rebecca added that Marianne Cunningham will be reporting on this in the next agenda item.

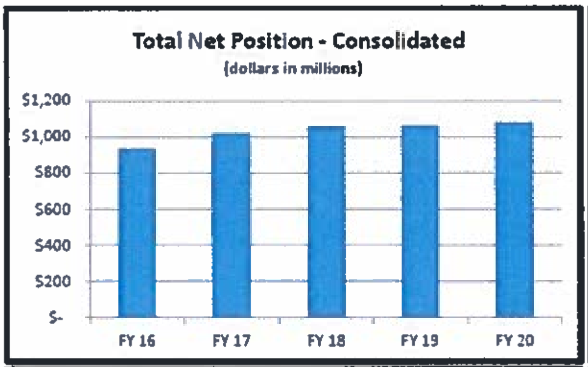
The total position increase of $9.5 million in FY 2020 is attributable to the foundation's net position increasing $21.4 million while the university's net position decreased $11.9 million.

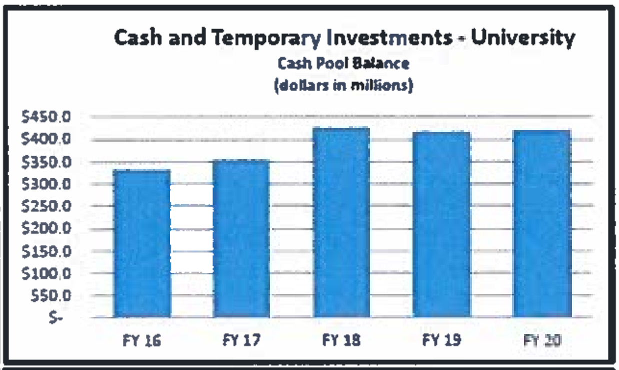
In the question period at the end, Stephen Calkins returned to the table showing the changes in operating revenue, non-operating and other revenue. He was interested in the increase from $12.5 million to $16.0 million in non-operating and other expenses for the foundation. Neither Tamaka nor Marianne knew the reason for this increase. Rebecca will look into this and get back to us.

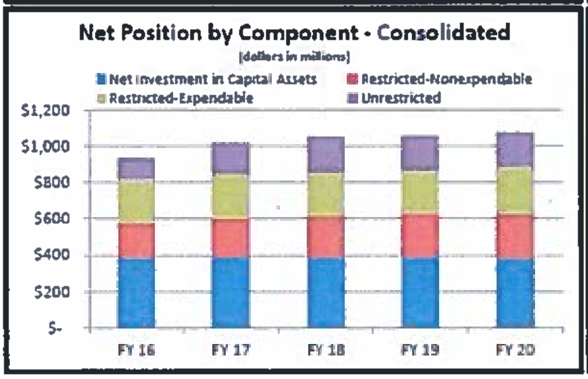
Santanu Mitra asked about the drop in investment income and realized gain from FY 2019 to FY 2020 described in the lower right had graph on the slide below. Marianne offered that this cash pool is largely invested in cash and fixed income assets. When the COVID crisis hit, these fixed income assets took a considerable hit. Marianne, however, added that this graph concerns realize d gains. In her presentation, we will see that there were unrealized gains in this pool of over $10 million. These are, of course, paper profits.

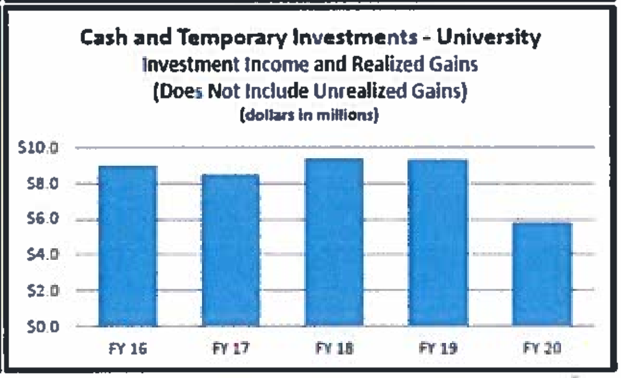
Santanu also pointed out that the cash pool balance—see in the upper right graph on the slide below) remained at almost the level of the previous two years. He found that remarkable. Both Rebecca and Marianne suggested that in the end the market performed well. Marianne added that in this portfolio investments are kept very liquid and they are not invested in risky assets. We intend to keep the university's working capital very stable. She also pointed out that the bond proceeds are not reflected in this presentation of the cash pool.

➢ **Financial Performance Summary**



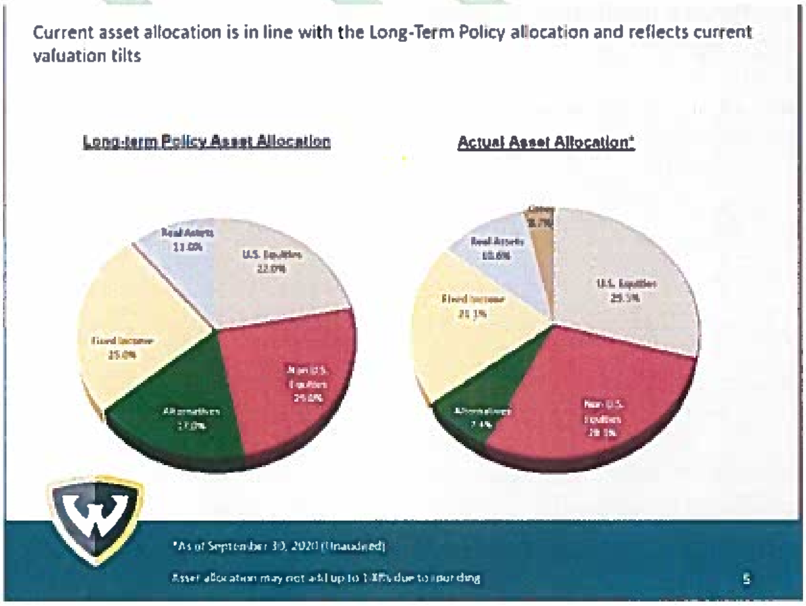






Treasury Update: Annual Investment and Debt Update Fiscal Year end-2020

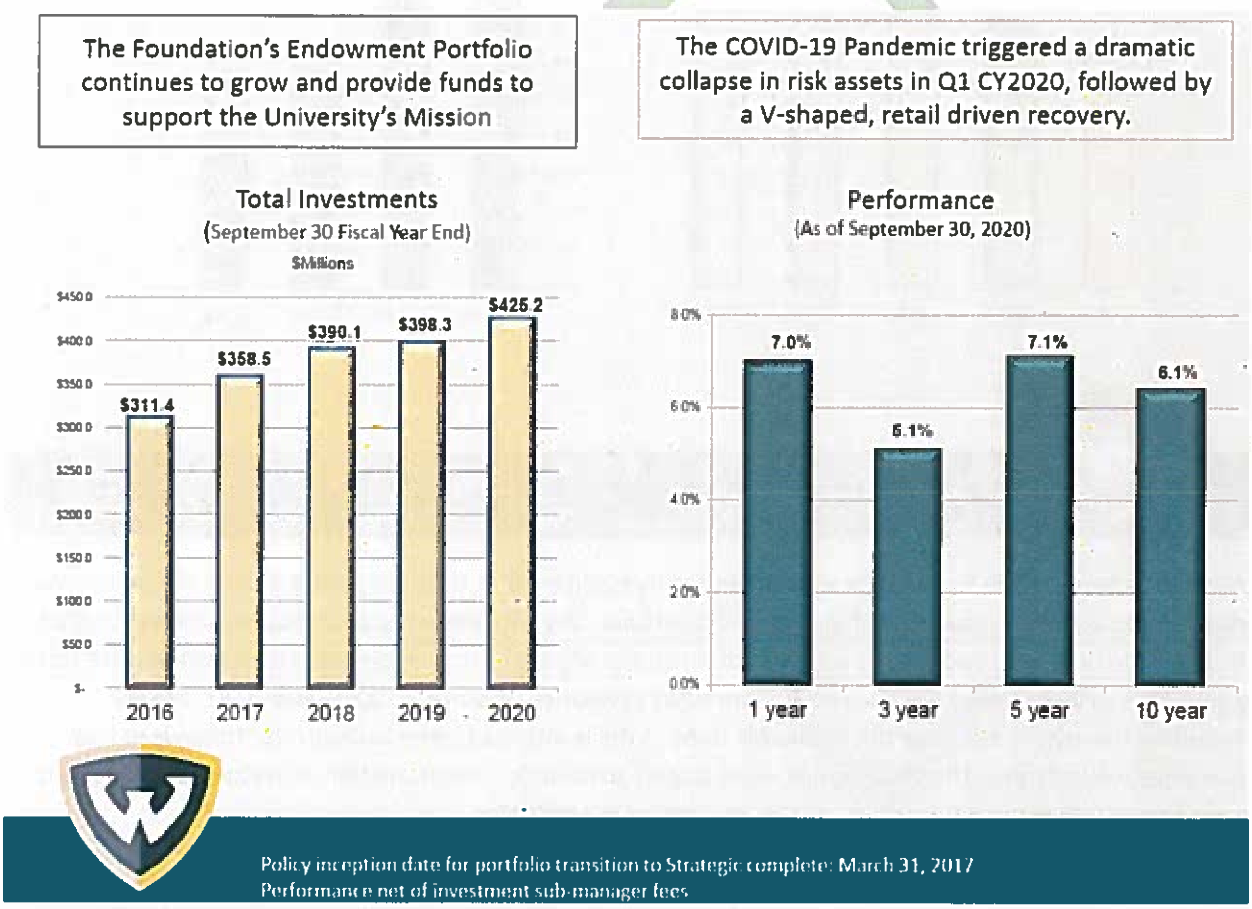
Marianne Cunningham made this part of the presentation. She wanted to focus on three subjects; the endowment portfolio, the cash portfolio, and the debt program.



She began by displaying the slide that illustrates the long-term policy assets allocations for the endowment portfolio and the actual assets allocations.

The greatest difference between our long term intent and our current allocations is allocation to private equities. That is an asset that takes a period of time to fully fund. We make the commitment and then slowly shift our investments as the current investments earn capital gets called. To assure that these funds are still producing earning, we invest them in the asset class that most closely resembles private equity. In this case, that is US equity. As we move ahead, US equity investments will decrease and private equity will increase.

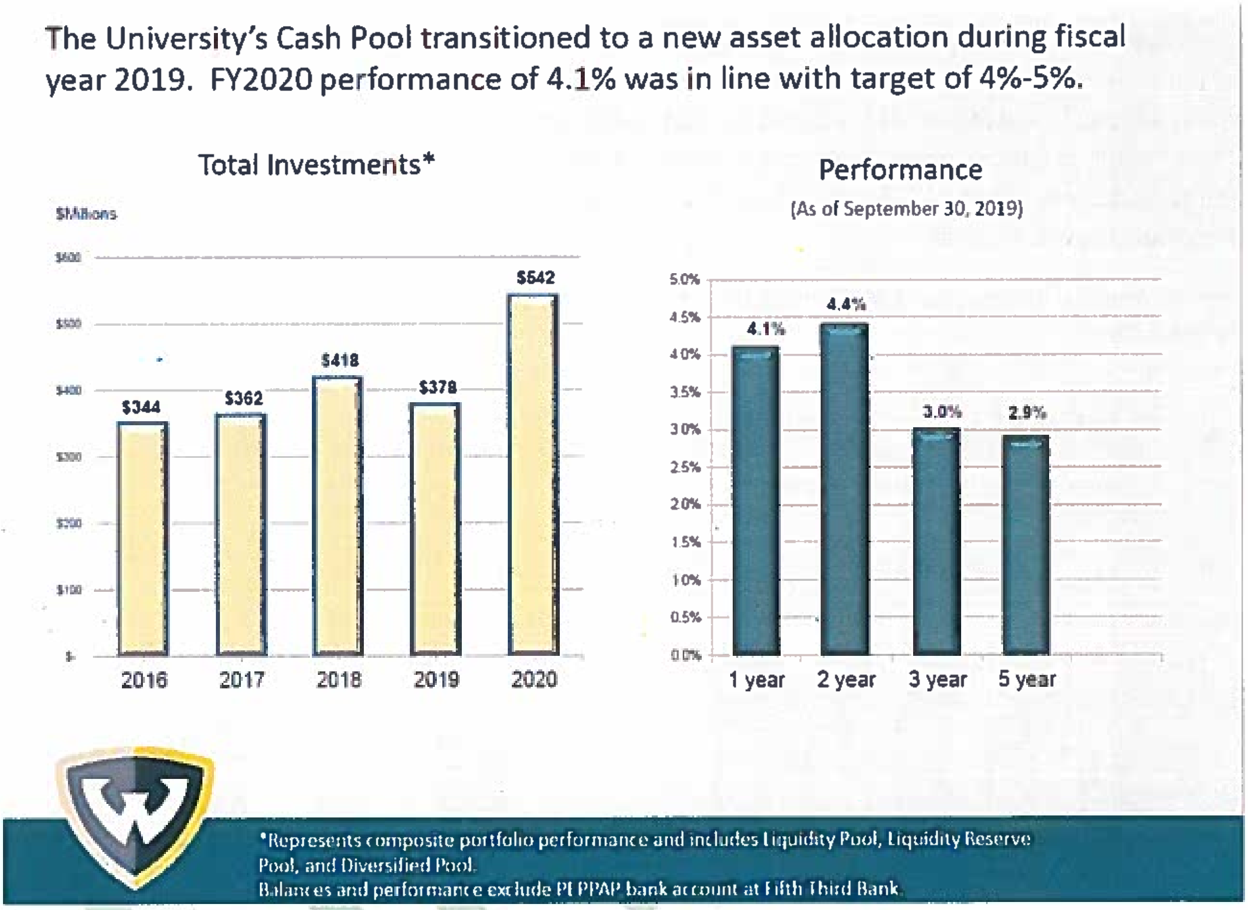
The Foundation's investment portfolio continues to show growth despite the impact of the COVID crisis on risk assets.



The performance of these investments, however, was below the benchmark of 7%. Our Outsource Chief Investment Officer (OCIO) has an investment philosophy that is valuation driven rather than focused on growth stocks. The current bull market is driven by tech stock, but tech stocks play a more prominent role in growth oriented investments rather than valuation oriented. Our OCIO firm believes very strongly in the long term success of a valuation strategy. In the first quarter of FY 2021 (October to December 2020), this portfolio returned 11% (our benchmark is 10%) driven by a reversion to value stock.

The Foundation Investment Committee has, however, been dissatisfied with performance for quite some time and is looking for a new OCIO. An RFP has been written to evaluate alternative OCIO firms. As part of this search process, the reliance on value over growth is under consideration.

These are the cash pool allocations:



Any funds beyond the liquidity threshold can be invested in what they are calling a diversity pool, which does introduce some growth in the cash pool portfolio. The allocations to such equities are very small, but they do help increase the return. The total returns shown here include both realized and unrealized gains. This cash pool also has the funds from WSU's issuance of bonds in 2019 and 2020. We are including them here because this is taxable debt. If the bonds had been tax exempt, they would not have been listed here. The 2020 bonds were largely to finance the renovation of State Hall. We wish to earn money with these funds until it is expended on construction.

Linda asked about Peppap money. Marianne said Peppap does not contribute to these displays. There was about $24 million in Peppap funds that are not reflected in these graphs. If it is earning, it is probably earning only 0.1%. Our banking accounts do not earn very much.

Stephen offered that he was stunned to read that the cash pool, which is liquid, had earned 4.1% in the last year and 4.4% in the last two. He examined the Treasury Update, which showed the WSU cash pool in detail and did not seem to show these levels of earnings. This slide shows total performance; it includes both realized and unrealized gains. A third of the cash pool is in assets other than cash.

Marianne also suggested that we are working with some income managers who are doing very, very well.

Bill Volz said he believed the cash pool also included tuition revenues. He would like to know whether, when we chart total investments, it includes the funds that roll in at the beginning of every semester and is spent in the course of each semester. Marianne stated that the cash pool is just that. It includes revenues as they come in including tuition and fees, sponsored programs, and state appropriations. These funds are regularly spent so this slide displays the net in-flow / out-flow. This slide provides a balance sheet look including a large amount of bond proceeds. Bill pointed out that the balance calculation on September 30 falls at a point of the academic year at which the university is cash rich. These numbers may suggest that there is more cash available than is actually the case.

Marianne also explained that the 2020 number of $542 million would be roughly $400 million without the bond proceeds.

The WSU Debt Portfolio reflects all outstanding bonds;

Wayne State University's Debt Portfolio

LONG-TERM DEBT OUTSTANDING (par amount)

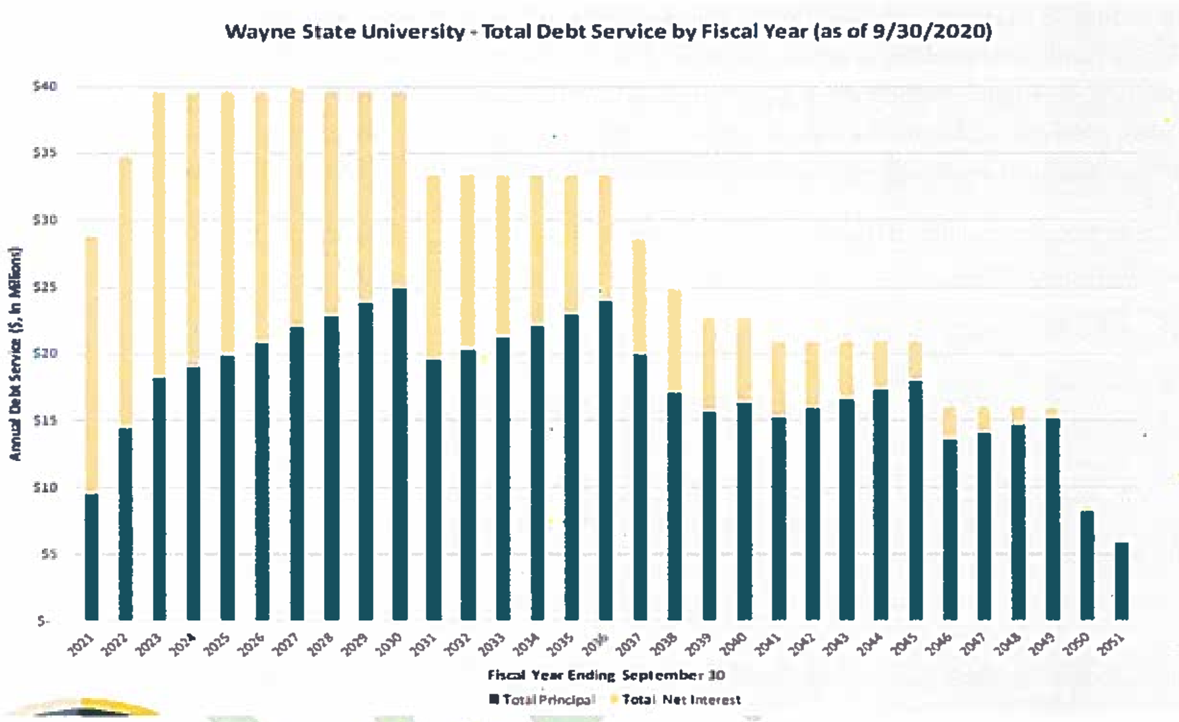
	Balance 9/30/2020	Balance 11/30/2020 (after Princ Payment & Defeasement & New debt)	Final Maturity	Type of Bond
Series 2020	114,985,000	114,985,000	2050	Taxable
Series 2019A	62,450,000	61,750,000	2039	Tax-exempt
Series 2019B	25,685,000	25,685,000	2049	Taxable
Series 2018A	120,370,000	118,415,000	2049	Tax-exempt
Series 2016A	89,620,000	86,730,000	2037	Tax-exempt
Series 2016B	9,715,000	9,255,000	2037	Taxable
Series 2015A	45,030,000	43,270,000	2036	Tax-exempt
Series 2013A	76,150,000	74,425,000	2044	Tax-exempt
Series 2007B	4,220,000	4,220,000	2030	Taxable
	$ 548,225,000	$ 538,735,000		

Principal payments every November

Interest payments every May & November

The rating agencies see this as a very manageable debt pool, meaning they see no impediments to servicing the debt. About $14 million of it is amortized off each year. Stephen asked, if the rating agencies are so happy with this debt pool, why is WSU's rating negative? The rating agencies gave the entire public higher-education sector a negative outlook. This is due to the COVID crisis and the effect it will ultimately have on universities and their finances in general. We also got negative outlooks because the rating agencies also thought we had challenging partnerships between our Medical School and clinical care provider. They also cited continuing Board of Governors tensions at the time we received the ratings and they were concerned about significant cuts in state support for 2021.

Linda asked what the total debt service was annually. She knows we pay off about $14 million of the principal annually. The total is about $25 to $30 million annually. Bill said that this would seem to be about a 5.7% to 6.0% interest on our debt. Do we have to pay such a high amount to sell our debt? Marianne replied that he overall average interest costs on the portfolio was just over 4%. This slide shows the amount of interest and principal we are scheduled to pay annually:



Marianne asserted that roughly 4% over the entire portfolio was very good. We were able to access the last two years of the market at a very, very, very low interest rate.

Bill Volz commented that he was worried about interest rates mounting in the future. We are not going to be able to refinance our debt as well as we have in the last few years. The $25 to $30 million annual debt service could be very much higher in the future. Marianne said they are always looking for opportunities to refinance debt at lower rates. There is a 10-year call feature on debt. We seeks to refinance our debt in anticipation of those dates. Last year we were able to refund the 2009 A and B bonds; we save $8.3 million on that.

In response to a question from Santanu, Marianne stated that WSU does have sufficient liquidity to service its debt. Rebecca pointed out that the above slide was a snapshot of the present moment. This describes our present commitments; it does not project our commitments in subsequent years. The University will continue to use its debt capacity in the years to come.

Major Capital Projects

This document is substantially the same as the document reviewed at the Budget Committee's January meeting.

Purchasing Exceptions: December 2020 and January 2021

As she was about to comment, Rebecca realized that a draft of the purchasing exceptions report had been placed on the BoG site. She arranged for the final version to be posted well before Friday's meeting.

Rebecca said the final version will have no additions, but will correct some of the jumbled text and other errors committee members have noted.

Linda Beale asked about Item 20, the purchase of a Daktronics electronic scoring display system for the new Basketball Arena. She asked why the Detroit Pistons were not paying for the score board. Rebecca explained that the project was really being funded off future revenue from the arena. In a way, the Pistons will be paying for it. Linda suggested we had agreed to pay something like $25 thousand for this. Paul Beavers added that our original plan was to reuse a scoreboard Wayne already owned; the ceiling or the beams would not bear the weight of that scoreboard. This sparked Rebecca's memory and she said this was indeed the case. Rebecca also said that she thinks there will be additional revenue associated with the scoreboard because it can be used for advertising.

Brian Edwards suggested that the purchasing exception report would provide an excellent foundation for creating a census of research equipment on campus. Rebecca suggested that Ken Doherty who has this document in spreadsheet form might be able to help Brian extract such information from these files. Paul suggested that compiling and maintaining a census of research equipment should be the responsibility of the OVPR.

Linda asked about Item 30, S.A.T Prep instruction for 100 student participants enrolled in the Federal TRIO Program. She was concerned because the price of $59,750 indicated that we would be paying $6,000 per student. Rebecca suggested that this may have been a line item in the grant that is providing these funds. She will look into this.

Linda commented on Item 38, assistance in recruiting for positions in DLAR for the Office of the Vice President, OVPR, for Research from McCooe and Associates. The fee of $ 191,375 seemed excessive. Rebecca said she believed this was an amount over several years.

Linda asked about Item 30, service Agreement with Nursing Practice Corporation (NPC) to carry out the United Way of Southeastern Michigan Grant to Wayne State University (WSU). Linda wondered about how the appropriateness of such fees were evaluated. Rebecca suggested that this was grant funded and the expenditure was in the grant application. Rebecca also pointed out that the Nursing Practice Corporation was separate from the University so she has no insight in its functioning. The grant giving organization—in this case the United Way—must evaluate the application for reasonableness.

Discussion of the newly-formed ad hoc Academic Senate Diversity, Equity, and Inclusion Committee

Paul asked if there were members of the Budget Committee who would like to volunteer to be considered for membership in the ad hoc Senate DEI Committee. He said that he believed that this will be not only an important committee, but one that will prove very interesting. Both Linda and Paul serve on the Policy Committee and would be happy to answer any questions Budget Committee members have about this newly forming committee.

Linda suggested that Budget Committee members might consider nominating other members of our committee for service on the DEI Committee. We would, of course, only consider members who consented to actually be nominated, but encouragement could be very beneficial.

Paul supported this and re-emphasized that the ad hoc DEI Committee will do important and rewarding work.

Linda emphasized that the Policy Committee really does want to create a diverse committee: people of color, people of different genders, LGBTQ+, and differently abled. Our goal is to bring in as many perspectives on these issues as possible.

Preliminary discussion of the Budget Committee's contribution to the Post-Pandemic Future of Higher Education at Wayne State University project

Paul hopes Budget Committee members will look at the document, "Wayne. Post Pandemic Education. 020821," and consider the ways in which the concerns of the Budget Committee relate to this broad array of issues and challenges. He emphasized that Interim Provost Clabo strongly encouraged the Senate to pursue this project> it will be an important contribution to strategic planning across campus. This will be something worth working on and worth working on over the summer.

Paul suggested that the issue of bringing in additional funds through projects like badging might be something our committee would like to address. Paul understands the desire to establish additional certificate programs, but the badging programs seem to be something quite distinct and their purposes and outcomes—other than bringing in additional funds—must be much better defined. He also believes the Budget Committee should contribute perspectives on Responsibility Centered Management (RCM) to this project. Paul is also reminded of the "demographic cliff" that Rebecca, Bryan, Bill Decatur and others have so frequently referenced and the fact that we will be at cliff's edge just shortly after we recover from the COVID crisis. Certainly our planning should consider that factor.

Linda added that it was really important to have discussions and probably come up with working groups to address topics. She supports the suggestion that we consider Responsibility Centered Management and how it has gone up until now and how it will affect decisions in the future. We have been devoting considerable resources to undergraduate recruitment and part of the demographic cliff is that those numbers will be going down. Our enrollment, instead of growing to 30,000, has shrunk from 28,000 to 27,000 to 26,000 to 25,000. Thinking about RCM should probably include thought about adult non-matriculators and graduate and professional education. Linda believes the current plan for RCM will tax graduate and professional organization to pay for undergraduate education. Linda is also concerned with online education and online degree programs, programs that are divided into components that students can later put together for a degree. Such developments will surely have impact on revenues.

Linda believes several working groups could be formed out of the Budget Committee.

Paul suggested that this is a situation in which ideas and threads need to be pulled out before we form working groups. The more we can expire committee members to do so the better. Linda and Paul have limited perspectives and the perspectives of the group as a whole are something we very much wish to draw upon.

Brian Edwards discussed the 2+2 programs being pursued by the University of Windsor: students spend two years in the Canadian equivalent of a community college and then spend two years at UW finishing their degrees. The degrees are in very specific majors. For example, students could get preliminary basic chemistry is community college and then come to UW to get a full bachelor's degree. Linda suggested that the state of Michigan is doing this in a way and our admissions office has a couple of programs to support students transferring from community colleges. Linda believe that WSU is not as good at defining pathways from community college to Wayne as they are in Windsor.