Academic Senate Budget Committee Minutes January 24, 2022

Via Zoom

Time: 11 am – 12:30 pm

Members Present: Paul Beavers (chair), Leela Arava, Linda Beale, Stephen Calkins, Wei Chen, David Edelman, Wen Li, Santanu Mitra, Charles Parrish, Stella Resko, Wassim Tarraf, Ricardo Villarosa, William Volz, Lou Romano

Members absent with notice: Sean Peters

Liaisons: Danielle Aubert, AAUP-AAUP Local 6075; Lukis Bagdon, Student Senate; Kristen Chinery, AAUP-AFT; Karin Tarpenning Szadyr, Union of Pert-Time Faculty

Guests: David Massaron, Senior VP for Finance and Business Operations and Treasurer; Tamaka Butler, Senior Associate VP for Finance and Deputy Chief Financial Officer; Brelanda Mandija, Senior Director of Budget and Planning; Robert Davenport, Associate Vice President, Facilities, Planning and Management; Kenneth Doherty, AVP Procurement & Strategic Sourcing; Noreen Rossi, AS Policy Committee; Naida Simons, AS Policy Committee; Jennifer Lewis, AS Policy Committee

I. The chair announced that he would be making a video recording of the meeting and deriving the minutes from them.

II. The chair introduced Lukis Bagdon, the new liaison from the Student Senate. Zachary Thomas, who had been the Student Senate's liaison, has a schedule that prevents him from attending these meetings, so he graciously ceded the responsibilities to Lukis. Zachary remains the Student Senate's representative to the Board of Governors Budget and Finance Committee. The chair also introduced the three members of the Senate Policy Committee—Noreen Rossi, Naida Simons, and Jennifer Lewis—who were invited to join today's meeting. The chair also announced that the Budget Committee's long-term Non-Senate Member, Sudip Datta, has withdrawn from the committee. Paul expressed his thanks for Sudip's contributions to the committee.

III. The minutes of the November 8 and November 29, 2021, meetings were approved.

IV. Documents to be presented to the BoG Budget and Finance Committee on January 28, 2022

a. Contingency Reserve

$175,000 was transferred from the Contingency Reserve to support the search for a new Vice President and General Counsel. David Massaron added that Lou Lessem is now officially retired though he is still in the office assisting with some legal matters that remain open. This fund will cover a firm that will identify suitable candidates and encourage them to apply and to cover the cost of travel for those candidates who are chosen for airport interviews and campus visits. Ken Doherty added that the cost for the search for someone at this level was usually about 33% of the first-year total compensation for the position.

b. Cohort Pricing Model

The Cohort Pricing Model is a proposal being made jointly by Provost Mark Kornbluh and CFP Mark Massaron. The cohort pricing model is one that has been adopted by many universities across the state of Michigan. It will allow the flexibility required to increase enrolment and address WSU's structural deficit. Massaron explained the model would allow a company—Quicken Loans, for example—to contract for specific instruction it wants for its employees with cohort pricing, WSU will have the ability to quickly provide the company with pricing for this instruction and seal the agreement. WSU is already engaged in some cohort pricing. We have contracts with the City of Detroit and Wayne County allowing police officers to earn master's degrees at a cohort price. This proposal will help structure such agreements and establish procedures for reporting and reviewing such agreements regularly. The administration wants to be transparent about these programs both with the Board of Governors and the Academic Senate.

Massaron explained that Provost Kornbluh and VP for Academic Student Affairs Ahmad Ezzeddine are the experts on this proposal. Paul Beavers said that, on first reading, he was surprised that there were no provisions for Senate consultations about these offerings, but he now understands that they will involve classes and curriculums that are already set and have been reviewed, that the cohort pricing will not involve new classes. Massaron confirmed this. Companies may want particular classes, but not unique classes. If there were ever a request for the development of something new the provost would consult with the Academic Senate about the development of such a program.

Linda Beale added that this was a tuition discount program intended to attract tuition dollars that would otherwise go unspent or to universities offering more flexibility. David Massaron agreed completely. Cohort pricing will allow us to enroll students we would not otherwise attract, generate revenue, and more fully utilize our faculty and institution.

c. FY 2022 Budget Reform

The slides for this presentation were not posted to the web at the time of the Budget Committee meeting. They were posted to the Board of Governors site after the January 28 meeting of the Board.

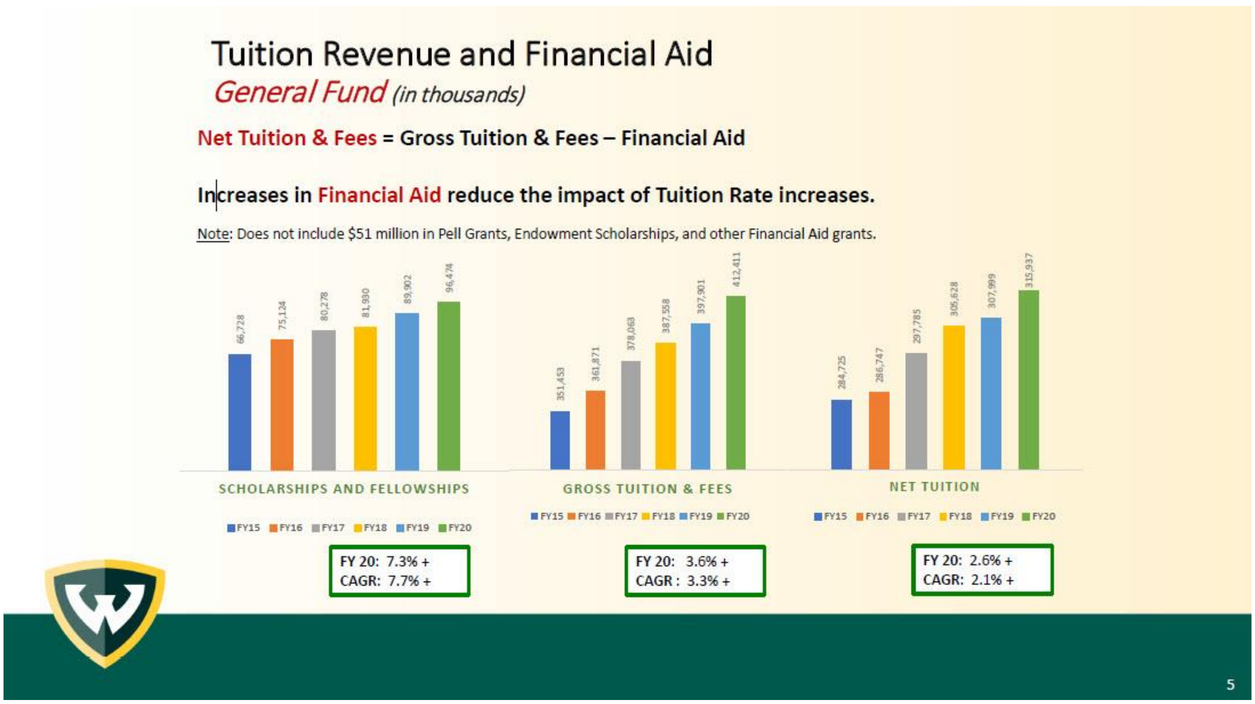
Board of Governors website with slides from presentation on budget reform:
https://bog.wayne.edu/meetings/353/28_Jan_2022_BFC_Agenda_Item_C.pdf

David Massaron began the presentation of these slides by explaining that this was not an action item for approval by the Board of Governors. It is instead the beginning of a conversation necessary to understand what drives the budget, the best practices for budget reform, and the reforms that must be in place before the university can transition to RCM or similar budgeting models.

One of the first issues that must be dealt with is the operating funds structural deficit. This year and in FY 2023, there are HEERF and other one-time funds to cover the annual shortfalls. But beyond that we need a strategy to address the structural deficit. Our current budgeting practices are very reactive rather than proactive and strategic. Annual cuts announced year by year put a great deal of pressure on deans and on those engaged in teaching, research, and frontline services. The manner in which cuts are addressed are very different if one announces each year that there will be a 4% cut or if one announces that 20% must be cut over five years. In either case, the cuts will be addressed more strategically, if those making the cuts are given a real understanding of what drives the budget and how to change those drivers.

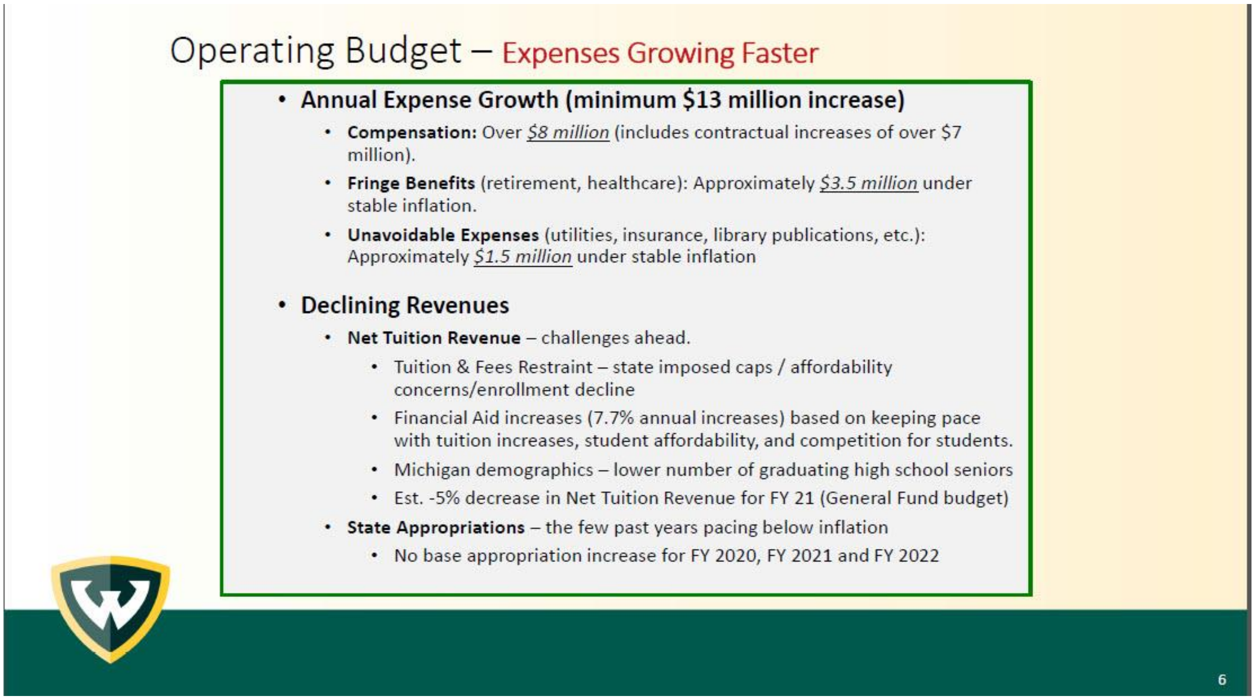
Massaron asserted that we need to have the planning built out, we need to have all funds built out, and we need to have transparent access to consistent financial reporting across the board. He believes the Budget Committee has long been aware of this, but this knowledge needs to be conveyed to the Board of Governors and the broader university community.

One subject that needs to be firmly addressed is the notion that increases in tuition directly translate to raises of revenue of the same magnitude. Every tuition increase comes with a corresponding increase to financial aid. So, the return in revenue from such increases is diminished. Massaron's slides showed that, in FY 2020, a compound annual growth rate of 3.3% in Gross Tuitions & Fees resulted in an increase of only 2.6% in net tuition and fees. The net tuition and fees are the product of the gross tuition and fees minus the 7.7% increase in financial aid.



I) Massaron's slide on the Relationship Between Tuition Revenue and Financial Aid

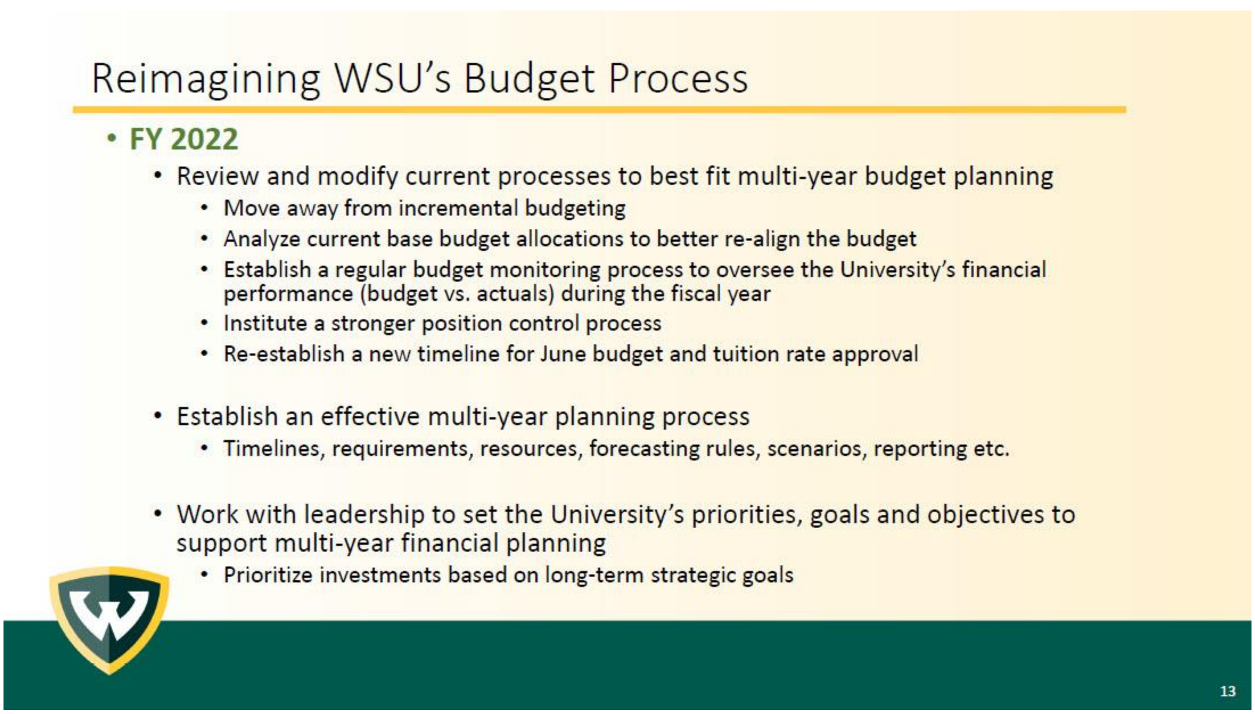
A second slide makes the drivers of our budget deficits clear. Increases in the cost of labor, benefits, and essentials necessarily add a minimum of $13 million. Tuition increases are capped by the state of Michigan, enrollment has declined, and higher education is facing the demographic cliff at which there will be a sharp decline in the number of high school graduating seniors. State appropriations for higher education have long been below the rate of inflation. David Massaron, however, believes that we may see an increase in the state of Michigan's support for higher education in the coming years.



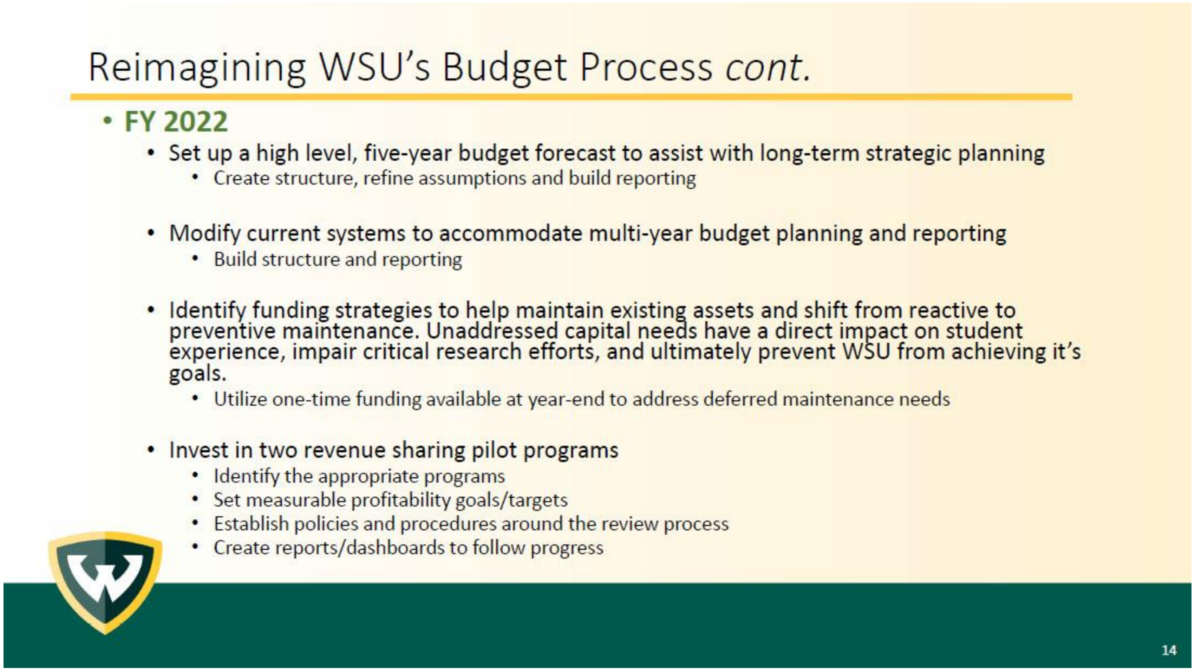
II) Wayne State University's Operating Budget Trends

To move to strategic budgeting, the administration, the faculty, and everyone else involved in the process must understand the assumptions on which the budget will be built. One of the most essential steps will be conveying to the Board of Governors the necessity of annual tuition increases and the impact on our revenue as such annual increases compound.

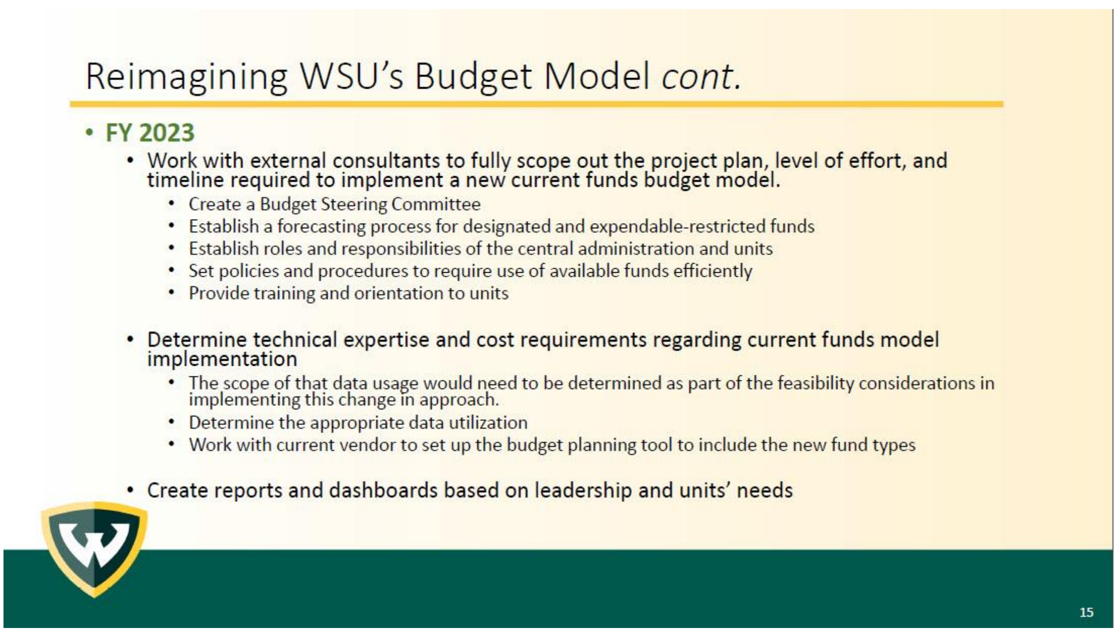
David Massaron summarized the process of reimaging the WSU budget process with four slides:



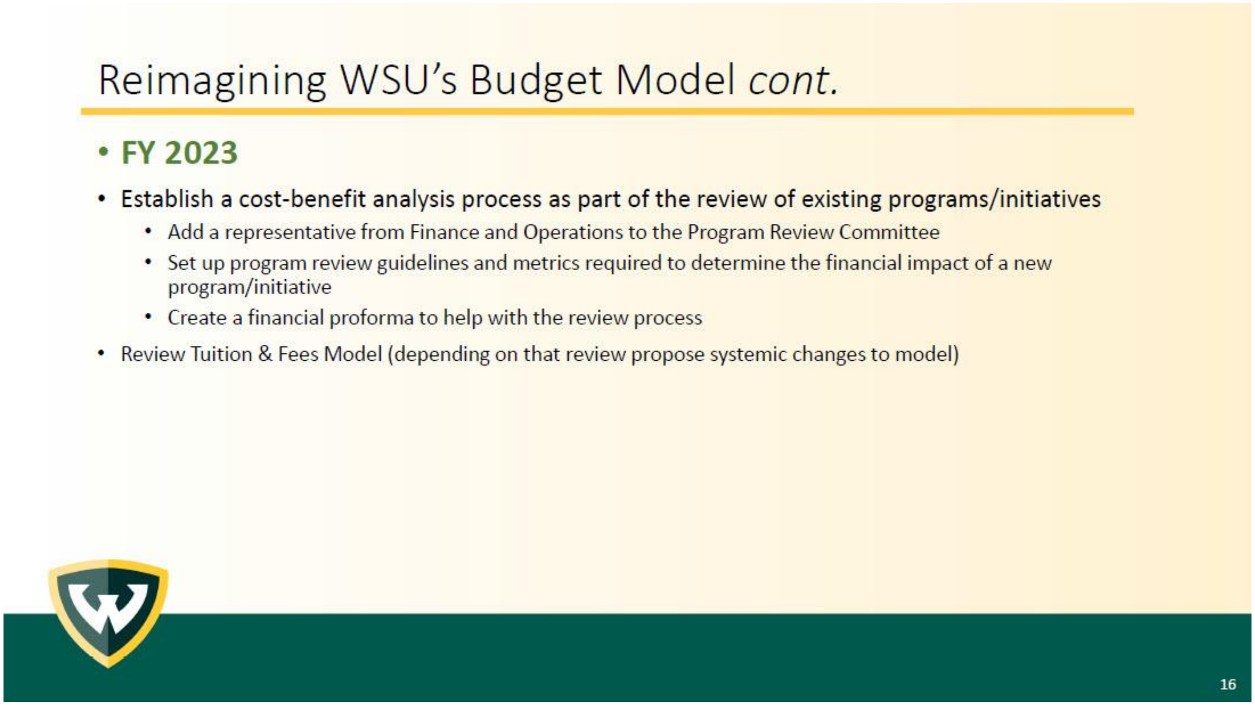
III) Slide 1 Detailing WSU's Reimagined Budget Process



IV) Slide 2 Detailing WSU's Reimagined Budget Process



V) Slide 3 Detailing WSU's Reimagined Budget Process



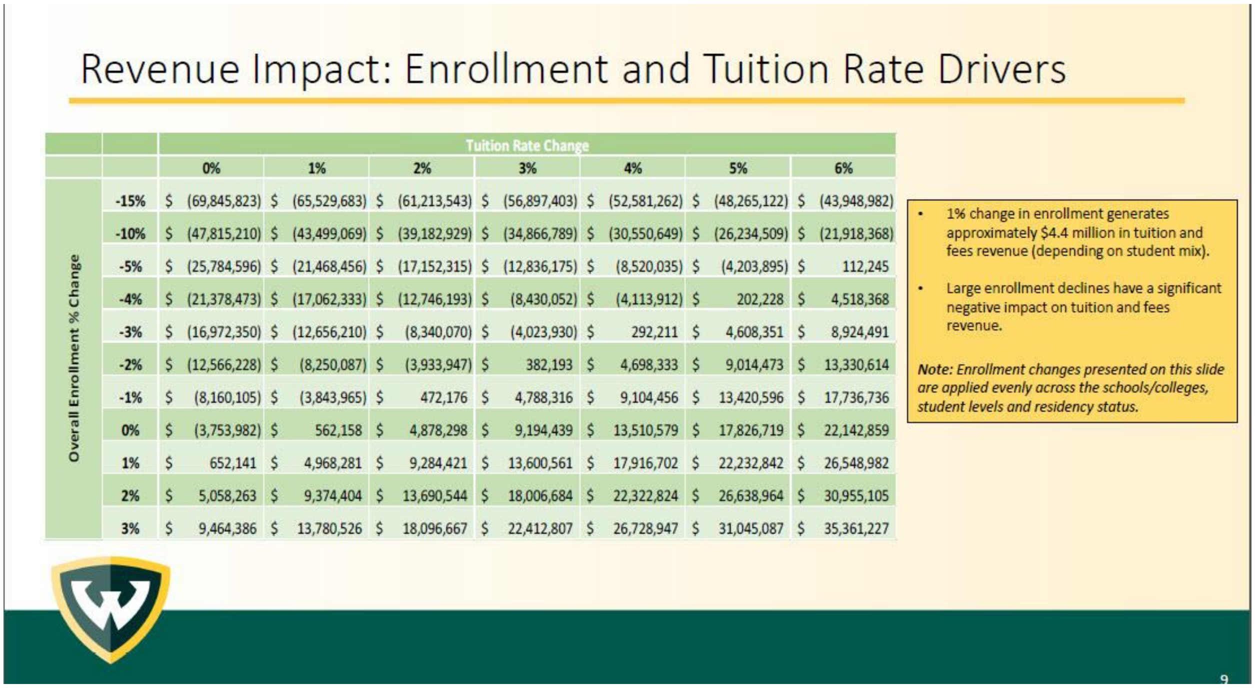
VI) Slide 4 Detailing WSU's Reimagined Budget Process

Linda Beale raised the question of instituting a stronger position control process; that is to say controlling the filling of vacated positions and growth in new positions. David Massaron said one sort of position control would be a hiring freeze, but that is not practical or strategic. We need to continue to fill essential positions. But there is no mechanism to plug essential positions back into the budget. Massaron knows that there are a number of positions in the units that no one intends to fill. The positions are left vacant so the funding can be used elsewhere in the budgets. If those positions are filled or taken, the units will not have funds to support other aspects of their missions. This needs to be rectified—probably at a slow pace—so that if a unit is carrying a position on its budget it is actually a position to be filled. Making sure that positions reflect an actual need for personnel is part of creating transparency. Such transparency will be required if we are to transition to an RCM model for budgeting.

The revenue sharing pilot programs mentioned on the second of these slides is a way of testing out our plans for one or two units engaged in significant work to build new revenue and allow them to retain a portion of those revenues. This will allow us to determine the measures, policies and procedures, and dashboards needed to monitor and control the process. Massaron also commented that, in some ways, differential tuition is a modified form of such a program.

Massaron also drew attention to the point "identify funding strategies to help maintain existing assets and shift from reactive to preventive maintenance." The cuts made over the years all too often fell to the funding for preventative maintenance required to preserve our infrastructure. That has resulted in situations where such things as elevators and heating and cooling often fail and necessitate costly repairs. If preventative maintenance had been performed these systems would have been less expensive over the long run. The cuts to the maintenance budget felt like savings but were in fact no savings at all. We are going to have to make a major investment to address these issues over the coming years.

William Volz commented about a slide on Revenue Impact: Enrollment and Tuition Rate Drivers that indicates that, if there are no tuition increase and no growth in enrollment, the university will lose $3,753,982. Bill believes that, if there is no tuition increase and no growth in enrollment, the university is simply continuing status quo with about the same amount of revenue as the year before. He wonders if there is some sort of bias in these figures:



Revenue Impact: Enrollment and Tuition Rate Drivers

Overall Enrollment % Change	Tuition Rate Change 0%	1%	2%	3%	4%	5%	6%
-15%	$ (69,845,823)	$ (65,529,683)	$ (61,213,543)	$ (56,897,403)	$ (52,581,262)	$ (48,265,122)	$ (43,948,982)
-10%	$ (47,815,210)	$ (43,499,069)	$ (39,182,929)	$ (34,866,789)	$ (30,550,649)	$ (26,234,509)	$ (21,918,368)
-5%	$ (25,784,596)	$ (21,468,456)	$ (17,152,315)	$ (12,836,175)	$ (8,520,035)	$ (4,203,895)	$ 112,245
-4%	$ (21,378,473)	$ (17,062,333)	$ (12,746,193)	$ (8,430,052)	$ (4,113,912)	$ 202,228	$ 4,518,368
-3%	$ (16,972,350)	$ (12,656,210)	$ (8,340,070)	$ (4,023,930)	$ 292,211	$ 4,608,351	$ 8,924,491
-2%	$ (12,566,228)	$ (8,250,087)	$ (3,933,947)	$ 382,193	$ 4,698,333	$ 9,014,473	$ 13,330,614
-1%	$ (8,160,105)	$ (3,843,965)	$ 472,176	$ 4,788,316	$ 9,104,456	$ 13,420,596	$ 17,736,736
0%	$ (3,753,982)	$ 562,158	$ 4,878,298	$ 9,194,439	$ 13,510,579	$ 17,826,719	$ 22,142,859
1%	$ 652,141	$ 4,968,281	$ 9,284,421	$ 13,600,561	$ 17,916,702	$ 22,232,842	$ 26,548,982
2%	$ 5,058,263	$ 9,374,404	$ 13,690,544	$ 18,006,684	$ 22,322,824	$ 26,638,964	$ 30,955,105
3%	$ 9,464,386	$ 13,780,526	$ 18,096,667	$ 22,412,807	$ 26,728,947	$ 31,045,087	$ 35,361,227

- 1% change in enrollment generates approximately $4.4 million in tuition and fees revenue (depending on student mix).
- Large enrollment declines have a significant negative impact on tuition and fees revenue.

Note: Enrollment changes presented on this slide are applied evenly across the schools/colleges, student levels and residency status.

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VII) Massaron's Slide on the Revenue Impact of Enrollment and Tuition

Tamaka Butler explained that, though she would have to look into this, these figures are also exacerbated by the fact that we begin the year with the base for the previous year that already had a deficit. Massaron agreed we start behind the ball because of an $8 to $12 million structural deficit and then fail to reach enrollment projections. Linda Beale also suggested that this $3.75 million reflected the factors described in the slide entitled "Operating Budget –Expenses Growing Faster." Bill explained that he was concerned that there was a built-in bias to the figures before we addressed the structural deficit and inflation. David Massaron said he would look into Bill Volz's concern and check the background data to check for bias.

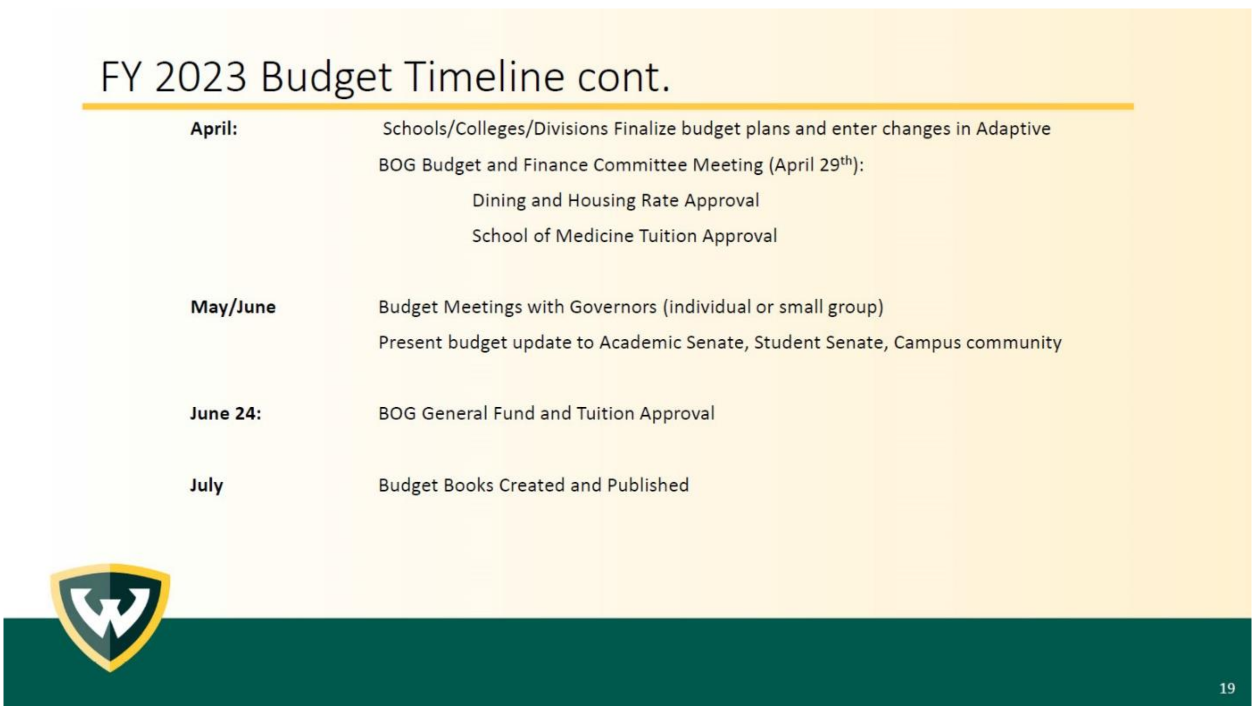
David Massaron then shifted to discussing the current funds (all funds) budgeting model. The best illustration of the necessity of this switch is the medical school. A description of the medical school's budget restricted to the general funds, does not accurately describe the $290 million enterprise that the medical school truly is. It misses the larger part of the institution, the part that is essential from the perspective of the school itself. Only about a quarter of the medical school's budget is in general funds. Finance and Business Operations is working through the process to get all of this data centralized. One of the problems is that currently it simply is not centralized. The full development of the process will probably take a fiscal year. The consultant on RCM last year made it clear that the university would not be ready for RCM until this was done. Having all of these funds under the purview of the Finance and Business Operations Office is the safest practice for the university as a whole. Otherwise, a deficit or some other financial issue could develop in some of these funds without Budget and Finance being aware. Such an all-funds view of our operations will also allow us to do an accurate cost-benefits analysis. In order to justify continuing or investing in a program, the university must determine its cost-benefits ratio. For example, the cohort pricing model that we just discussed is not justified simply by the number of students enrolled or the tuition paid, but by the ratio between the cost of instruction and tuition paid. Programs must drive revenue. Obviously, in some instances, we proceed because a program is important to the visibility of the university or essential to student learning or to research, but the majority of programs must be revenue driven.

David Massaron pointed out that the WSU tuition and fees model is one of the most complicated tuitions and fees models of any higher education institution and certainly the most complicated in the state of Michigan. We need to carefully consider what goes into our model. Should we for example be including the applications fee? 90% of the time this fee is waived. Nonetheless, we budget for that revenue and then budget financial aid for the cost of the waivers. He does not want to blow this example out of proportion. It is, however, emblematic of the need to really think about these models. There is simply a lot of noise in our budget data. Paul Beavers commented on the slide on Tuition Revenue and Financial Aid that indicated that financial aid was growing at a higher rate than tuition. He emphasized that he was not advocating rolling back financial aid but does want the Board of Governors to carefully consider this as they make changes to both tuition and financial aid. Massaron emphasized that making WSU accessible to students with limited financial resources was an essential part of the university's mission. He also added that financial aid can also drive revenue if used thoughtfully. Scholarships can draw better to do students to WSU who will ultimately end up paying 90% of their tuition as opposed to the higher tuition discount received by our average students. Massaron just wants the university community to understand that a 5% increase in tuition does not translate into a 5% increase in tuition revenues. Beavers agreed and added that, over the years, budget has recorded tuition income as though the university were receiving 100% of the tuition revenue and then recorded our discounts as though financial aid removed the money from our coffers. Massaron replied we have to build greater sophistication in reading budget documents. Linda Beale pointed out that the increase in financial aid associated with increases in tuition used to be called Board of Governors Financial Aid. David Massaron thought this was a practice that might be resumed.

David Massaron also suggested that the manner in which the pricing of programs may need to be adjusted. We sometimes price programs with an eye to producing a specific amount of revenue rather than determining what the market will bear and then seeing whether the program can produce the desired level of revenues. Pharmacy, for example, is doing a pilot program in which they are reducing their out-of-state tuition slightly in order to make themselves more competitive. If they can increase from having 95 students to having 100 students, the reduction will result in a net increase in revenue.

Massaron then transitioned to the timeline for developing the FY 2023 budget, which he summarized in two slides:

VIII) Slide on the 2023 Fiscal Year's Budget Timeline



IX) Slide 2 on the 2023 Fiscal Year's Budget Timeline

David Massaron emphasized that he cannot guarantee that the budget process will stick to this timeline. The Board of Governors ultimately makes the decisions and sets the pace. He is, however, hopeful that the budget can be finalized over the summer, that we will not once again have to wait until October. It is unfair to inform everyone about their budget for FY 2023 on the first day of FY 2023.

Wei Chen commented that, having seen these slides, it is clear that increasing enrollment doesn't have a straightforward impact on revenue. In addition to financial aid, there are additional costs like the impact on our buildings. Massaron said it's true that some enrollment will drive revenue, and some won't. We need to be clear about this in setting budgets. He is not, however, suggesting that we have to abandon important parts of the university's mission—which often involves providing access to higher education to the disadvantaged and pursuing research that does not lead to profits—simply because it does not increase revenue. Revenue generating efforts can be balanced with other efforts that do not increase revenue. Wei Chen suggested that the chart that detailed Revenue Impact: Enrollment and Tuition Rate Drivers be modified to show the net revenue increases.

Charles Parrish commented that the characterization of Ph.D. students as expensive and unlikely to contribute to increased revenue could have unintended consequences. A dean might well decide to focus on increasing the number of masters students at the cost of Ph.D. enrollment because masters' students are a source of revenue. Parrish added that he came to Wayne because he wanted to be part of an institution that expanded the availability of doctoral education and pursued academic excellence. When he hears discussion of the expense of Ph.D. education, he is afraid that leaders will use this fact without nuance or understanding of the university's mission. Massaron said he is pursuing and will continue to pursue encouraging a nuanced understanding of our finances and of our mission. The reason for wanting to drive revenue is to afford academic excellence. All of our missions are dependent on our being a financially sustainable institution. Wei Chen and Linda Beale made a number of suggestions about ways in which the impact on revenue of undergraduate, masters, and Ph.D. students could be analyzed and presented in tables. David Massaron replied that he and the provost are currently working on presentations on enrollment strategies and will take these suggestions into consideration.

d. Informational Report: Major Capital Projects Summary

Robert Davenport presented the Major Capital Project Summary. He suggested that the list was rather self-explanatory and very similar to the previous report. The exception is the data on the Hilberry Gateway Performance Complex. As he explained at the December Board of Governors meeting, though we had anticipated opening the Hilberry Theatre in August 2022, it is now scheduled to open in December 2022. If it opens in December, the first performance at the theatre should be in February 2023. Immediately upon completing this work, they will begin on the renovation of the Gretchen Valade Jazz Center. Unfortunately, that means the Jazz Center will not open in time for the 2023 Jazz Festival. The delays are largely the effect of having to relocate fiber and sewage lines that were discover in the building site in early 2021. It took some time to decide how this relocation could be accomplished. This was in turn followed by flooding further complicating problems. Linda Beale asked if these delays had increased the cost of the project. Davenport replied that fortunately they had not.

David Massaron expressed his pleasure at this but added that he anticipated other construction projects becoming more expensive due to delays. The cost of materials and labor are rising. Davenport pointed out that they had purchased the steel required for this project and the State Hall renovations well ahead of time, allowing them to avoid the inflation in those costs. In March, he will be going before the Board of Governors to request similar anticipatory purchases of components for State Hall. He will then return to the Board in June for approval of the entire project. David Massaron added that beating delays in the supply chain and avoiding inflation will be much more complex in the foreseeable future.

e. Purchasing Exceptions

Ken Doherty then presented the Purchasing Exception Report for October and November 2021. He explained that this was a large report because the end of the fiscal year in September drives end of your expenditures and leads to higher expenditures in the first two months of the new fiscal year. A number of the expenditures continue to be related to the COVID crisis. Bill Volz asked if the supply chain problems were resulting in increased costs for scientific equipment. Doherty said he did not believe the supply chain problems had had this effect. The supply chain issues affected household items and construction materials. Of course, there are indirect effects. For example, if there is a problem in obtaining lenses, there will be a scarcity of items employing those lenses like microscopes. He added that, having said this aloud, he is now worried his words will come back to haunt him. But currently, he is not having the problems in obtaining materials that he had a year ago when purchasing such things as sanitizer was difficult.

Paul Beavers asked about the item concerning pop up food service for Scott Hall. Ken Doherty quickly explained that the funds were a guarantee against the profits from the service. If the firm made the anticipated level of sales, the money would not be spent. There was ample reason to anticipate that those sales levels would be met and exceeded.

V. Discussion of the Strategic Plan and the Economic Impact Strategic Plan

The PowerPoint presentation, Wayne State 2022-2027 Economic Impact Strategy, will also be made to the Board of Governors on January 28. Though it will not go before the Board's Budget and Finance Committee, it should be on interest to many of the Senate Budget Committee members. It details the efforts of the WSU Office of Economic Development and the university's real impact on life in the city of Detroit. Paul Beavers suggested that the Budget Committee might invite Ned Staebler, Vice President for Economic Development to present to the Senate Budget Committee. Alternatively, we might invite the Vice President for Research Stephen Lanier to speak with us.

Stephen Calkins pointed out that the Office of Economic Development slides indicate that the university is going to "ensure all Wayne State jobs are household-supporting jobs," which is defined as ensuring "all full-time employees earn at least $15/hour." If this is indeed the university's policy, it is very significant, well beyond Ned Staebler's presentation. Bill Volz pointed out that his graduate assistants make considerably less than $15 per hour and that increasing their wages to that level would likely mean employing fewer graduate assistants. Paul Beavers added that the devil is in the detail The Budget Committee and the university need to see the specific proposals behind these bullet points.

VI. Discussion of the Senate Statement on the Future of Higher Education

Paul Beavers had distributed to the Budget Committee an early draft of the Senate Statement on the Future of Higher Education. He emphasized that this was an early draft of the document. He offered to display on Zoom the parts of the draft that touched on budget. Linda Beale asked him not to do so. The draft had not yet been discussed by the Senate Policy Committee and she would rather show the Budget Committee the draft emerging from that discussion.

A discussion ensued that the Committee hoped would contribute to the Policy Committee discussion when it occurred. Fortunately, several Policy Committee members who are not members of the Budget Committee were in attendance. Much of the discussion returned to points David Massaron had raised in his presentation on Budget Reform. The question of the modalities of instruction—classroom, online, hybrid—and the likely preferences of students post-pandemic were also prominent topics. The question of how ICR Funds could be best deployed was also emphasized.

VII. The meeting adjourned at 1:40 p.m.