Academic Senate Budget Committee Minutes March 7, 2022

Via Zoom

Time: 12:00 to 1:30 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

Members absent with notice: Sean Peters

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

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, Policy Committee; Jane Fitzgibbon, 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 minutes of the January 24, 2022, meeting of the Budget Committee will be submitted for approval at the April 25 meeting of the AS Budget Committee
III. Documents to be presented to the Board of Governors Budget and Finance Committee on March 11, 2022

David Massaron explained he would move through many of the items quickly so there could be fuller discussion of the more important items. He encouraged the committee to interrupt him and ask questions as they arose.

A) Contingency Reserve

There were no new expenditures from the contingency reserve to be reported. The reserve continues to hold $325,000.

B) Audited Financial Statements

David Massaron suggested that all the data on these slides did not need to be reviewed at this meeting. Instead, He asked Tamaka Butler, the Senior Associate VP for Finance and Deputy Chief Financial Officer, if she had points she would like to highlight. Tamaka said that there were indeed a few points to be made. First, she wanted to emphasize that Plante Moran issued an unmodified “Clean” opinion on the combined Wayne State University and Foundation FY 2021 Financial Statement. That is the highest level of assurance that we could receive, and all institutions do not earn it. It is something to be proud of.

Tamaka also pointed out that our net position improved from $9.5 million at the end of FY 2020 to $168.0 million at the end of FY 2021, and improvement of $158.5 million. Both the University and the Foundation did very well in FY 2021. The drivers for this improvement were Non-Operating and Other Revenues which increased from $357.1 million net in FY 2020 to $487.3 million in FY 2021. These are non-recurring, one-time activities. Our Operating Revenues only increased $2.4 million net while our Operating Expenses declined by $22.9 million net.

Tamaka cautioned that, while this is a really good financial statement, it does not account for our structural deficit. Having one-time funds to address deficits during the COVID epidemic helps us bridge the crisis but does not give us financial stability. We cannot let the strength of this report distract us from the work we will have to do to achieve stability. David Massaron added that the Federal Government is not going to provide us with special funding every year. That funding has, however, given us time to make investments to reduce costs and to make investments that we hope will drive revenue going forward.

Looking at the slide on Financial Statement Results, Paul Beavers asked about the line, “Other (+$12.1M): UPG Bankruptcy Support Loan – Fully reserved in FY20 (+$10.1M), Other (+$2.0M)” under the heading Non-operating and Other Revenues increased $130.2M. Paul thought this might suggest that we had received a $10.1 million payment from the UPG/ Wayne Health Practice Plan. David Massaron said know this did not indicate a payment. Tamaka Butler explained that in FY 2020 we paid out $10.1 million as part of the UPG bankruptcy loan agreement (for their creditors with a small portion as a loan to the practice plan itself). To be conservative, the university fully reserved that amount in FY 2020 so we basically took the hit last year and, as a result, our non-operating income side decreased. This decrease did not recur in FY 2021 because it was a one-time action. That is what this line reflects. Paul said that this was the explanation he had anticipated. He just wanted to get it on the table.

C) Annual Report on Long-Term Investment (Endowment)

David Massaron said he would speak to this report but the Investments, but the Investment Committee of the WSU Foundation is responsible for these funds. FY 2021 was a good year for our investments: it was a year of catching up for performance that had lagged behind our benchmarks. We are now at benchmark. Last year Standard & Poor’s increased 28% and the rest of the world rose with it. At this time, we are actively in the process of transitioning from our current investment manager (Sig) to a new investment manager (Common Fund). The process will be complete in about 60 days. This change was unanimously approved at the last meeting of the Foundation. Sig, the now outgoing investment manager, argued that they had invested using a value model, which takes time to show results, and the strategy has begun to pay off. David said this might be true but, in FY 2021, there was a rising tide lifting all ships. These issues can be analyzed from a number of perspectives and the Investment Committee gave due consideration and decided to recommend a change. After the transition to the new investment manager is completed Massaron will work with the Foundation Board to formulate a longer-term strategy, which he hopes will take hold and last into the future.

D) Treasury Update: Annual Investment and Debt Update

David Massaron began discussion of this update by stating the biggest, pleasant surprise he has had since coming to Wayne is discovering that we have probably the most sophisticated cash management system he has seen in state and local government and all the local governments he has supervised. Especially in light of current low interest rates, Marianne Cunningham, the Assistant VP for Cash Management & Investments, has managed this really well. Marianne has a strategy that minimizes our risk and provides a decent return, giving us budget flexibility. Because this question has been asked since the invasion of the Ukraine, David added that both funds we have been discussing have very little investment in Russia. We will probably have no investments in Russia at all be the end of the transition in investment managers. We had less than 1% of our funds invested in Russia before this and those investments came as part of investment in larger funds that invested in Russia and other emerging markets.

E) Debt Capacity Update

In discussing this update, David began by emphasizing that it was written before the full conflict between Russia and the Ukraine had developed.

Stephen Calkins noted that our average interest costs are 4.2% per annum. Stephen cannot understand why those costs are so high for WSU when the interests for an average home mortgage would be about 3%. He would have thought WSU's tax-exempt status would drive down such costs. David pointed out that some of components of our debt are not taxable and others <u>are</u> taxable. The Federal government prohibits doing certain types of activities related to refinancing tax exempt. Homeowners also frequently have mortgage that are federally guaranteed. That lowers the interest rates. Universities do not have such federal guarantees. It is also the case that a lot of our debt is older, meaning it was acquired before the rates were at their present levels. What we are looking at is a debt portfolio that goes back over 20 years. David Massaron does believe that there is a possibility, depending on what we do in terms of new money or new issuances for deferred maintenance, that we could refund out and drive the overall interest rate costs lower. He is, however, suggesting this with a big caveat. As a result of the Ukrainian conflict the market is destabilized and there seems to be a net outflow of investments. With rising inflation, the cost of debt may well increase. We may have had a very narrow window. David is hopeful that inflationary pressures will decrease toward the end of 2022.

Massaron returned to this Debt Capacity Update and reiterated that it was done before the global destabilization created by the invasion of the Ukraine and before the recent actions of the Federal Reserve. The Federal Reserve's actions were well within expectations though it was a bit more dovish on inflation than some expected. He waited to present this Debt Capacity Update until the transition from our current investment manager (Sig) to a new investment manager (Common Fund). He wanted the Board of Governors to understand that the transition was in progress and doing well before he presented. He also wanted to link the Debt Capacity Analysis and Financing Plan to the presentation of the Capital Analysis and Planning report that Rob Davenport is about to present. We must devise a strategy that links the budget to the plan for addressing differed maintenance. The fact is that there is

not enough resources to meet our needs for new facilities and our needs for differed maintenance and our other budgetary needs. When there is a scarcity of resources, it is best to present all the options at once. We have to make decisions that will align those needs collectively rather than independently. David also cautioned that we should take the numbers in these reports with a grain of salt because the world is changing very quickly. Today's financial environment seems more bizarre and mercurial than the environment leading to the last great recession. The regular indicators are not matching up with each other, and we are not seeing the relationships that we normally find. You couple the economic circumstance with all the other circumstances—the pandemic, the scarcity of resources, the global destabilization—and you have to say, "Here's our debt summary. I'm not sure that this numbers will be in the same magnitude in two months forward or two months back. The only thing I can say is that every time people predicted that these issues are going to dramatically change and go away, they've come back in a couple months." All we do know is that eventually we return to mean; it is just a question of how long the disruption lasts.

Results:

- Scenario 1: A1 w/ A2 Downgrade Pressure
  - BR estimates that **WSU can issue an additional $300M split between four $75M issues every two years (2023-2029)** before facing significant pressure for a downgrade to the A2 level.
  - In this scenario, balance sheet ratios generally remain relatively stable and improve slightly over time. The most stressed factors remain cashflow-impacted metrics such as Annual Debt Service Coverage.
  - When factoring in projected bond premium/discount and scheduled principal amortization, the University's net increase in total debt outstanding from FY 2021 to 2029 would be approximately $120M.
- Scenario 2: A2 w/ A3 Downgrade Pressure
- BR estimated that **WSU can issue an additional $460M of debt broken out between four $115M issues every 2 years (2023-2029)** before facing significant downgrade pressure to the A3 level.
  - This shows a rough estimate of $160M of additional incremental debt capacity between the A2 and A3 rating levels under "stable" growth assumptions, though other qualitative factors could come into play as well.
  - The University's cash flow remains under greater stress than WSU's balance sheet ratios. Total Debt to Operating Revenue and Debt Service to Operating Expenses also show greater strain here, with both falling into the A2/A3 indicative range over time.
  - When factoring in projected bond premium/discount and scheduled principal amortization, the University's net increase in total debt outstanding from FY 2021 to 2029 would be approximately $280M.

I) Report results highlighting the difference between scenarios of A1 w/A2 Downgrade Pressure versus A2 w/ A3 Downgrade Pressure

Summary of Results

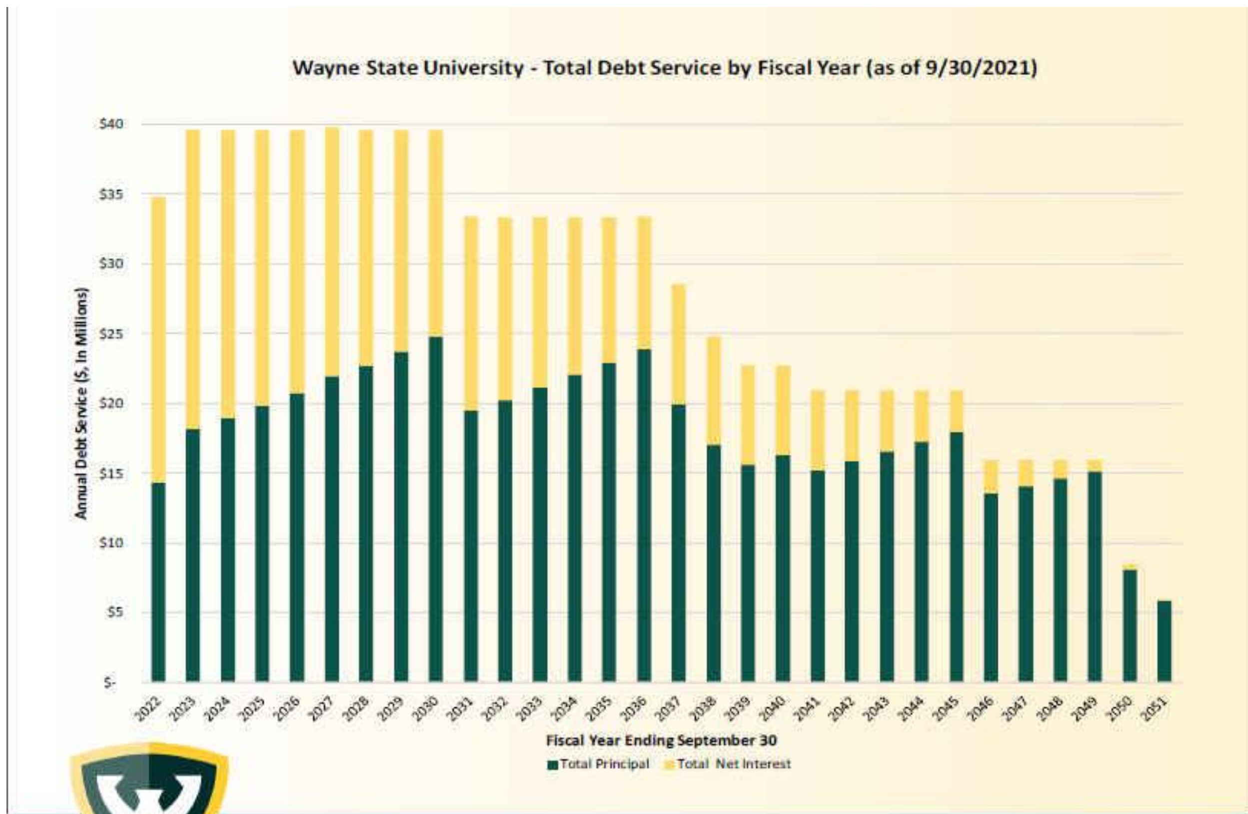
Rating Projection	
A1 (Negative)	A2 (Negative)
$300 million	$460 million
($75 million every 2 yrs x 4 yrs)	($115 million every 2 yrs x 4 yrs)

- Projected debt capacity levels for the scenarios considered are shown in the table above.
  - Each of these debt totals assume the University fully stresses its debt capacity at the A1 or A2 rating levels – as such, a negative rating outlook at the A1 or A2 level, respectively would be likely in each of these scenarios.
  - Debt totals assume four equal-sized issues of new debt every 2 years beginning in spring 2023.
- Moody's recently published a new rating methodology in August, and while the quantitative metrics in the model were updated where appropriate, some uncertainty remains as to how this change will impact their view of institutions' credit quality and debt capacity.
  - The increased weighting of qualitative factors creates some ambiguity with regard to how a school such as WSU will be scored on the new qualitative Moody's scorecard inputs.
- The assumptions in the model assume continuous compounding of growth or decline in key metrics over 5-11 years. This smooth and uninterrupted growth/decline can have significant impact on results over time.
  - The significant volatility created in the higher education sector by the COVID-19 pandemic means that future operating results and balance sheet growth will remain difficult to predict.

II) Debt Capacity Rating Projection for Scenarios A1 and A2

What we see here is the debt that is available to us if we borrow at the various rating categories. There is a five to ten basis points spread between the two. We have a policy choice: do we want to intentionally borrow a little more resulting in a rating action, but giving us more capacity over a few years? That is where the project Rob is about to present plays in. The strategy depends on what the state of Michigan will do with the School of Medicine. We have large amounts of need and varying degrees of capacity when it comes to debt. There is a hidden cost of having a reduced rating, but it is pretty small when it comes to lines of credit. We use lines of credit to maintain our investments on the cash side, so we don't have to liquidate investments a couple of times a year.

Stephen Calkins remarked on the slide showing Total Debt Service by Fiscal Year" from Treasury's Annual Investment and Debt Update. The slide suggests that if we do no further borrowing our debt service is going to rise in FY 2023 and stay at that level through FY 2030.



III) Graph showing the Total Debt Service by Fiscal Year for Wayne State University

David said that was correct. We had a bond issue about a year and a half ago to address deferred maintenance issues and the project Rob is going to discuss. Those account for a lot of increased coasts. Stephen suggested payments of roughly $40 million a year through FY 2030 and David agreed. David added that there might be an opportunity to refinance at a lower rate if rates stay stable.

Linda Beale pointed out that, if inflation rates rise, the spread in interest payments between borrowing with an A1 rating and borrowing with an A2 rating increase. The difference could be much higher than the five to ten basis points we have been discussing. David said, yes, but that is the spread we have now. Linda offered that the current low interest rates suggest that we should borrow substantially very soon. David Massaron said that the low interest rates coupled with the report on the status of our buildings certainly suggest we should borrow substantially. If we are going to do such borrowing, however, we need to be confident in our ability to repay the debt as well as the capacity of the construction and engineering market to bear the work and the capacity of FP&M to do the work. He admitted that there are a lot of factors that we have to work through, but he tends to agree with Linda’s suggestion. The unexpected costs associated without failing to do preventative maintenance will likely outstrip the cost of borrowing money to address our needs. David suggested that we have to work through these budget issues and then through the issues around the Medical School. Doing so will then allow us to formulate more comprehensive strategy. That is what he is committed to doing. If we borrow big, we will benefit by being able to address the things that need to be done but borrowing now does limit our ability to borrow in the future as other needs and projects arise.

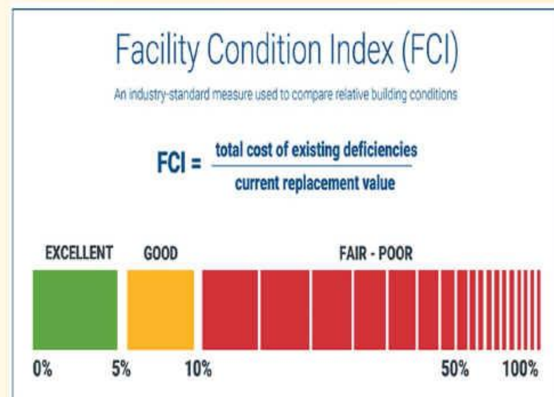
F) Capital Analysis and Planning

Rob Davenport took the floor to address Capital Analysis and Planning. He began by pointing out that, in 2018, we received a report from Gordian (now Sightlines) estimating that we had $1.2 billion in deferred maintenance. In reviewing the report, however, he and his office began to see that there was a lot of contingency and assumptions behind that figure. To address this, they directed Gordian to focus their efforts on providing a Facilities Conditions Index (FCI) score. After a year and a half, they now have this score. It provides a truer and more concrete understanding of our capital needs.

Capital Planning: Facility Condition Index (FCI)

Developing an FCI score takes many months (perhaps years depending on the size of the portfolio) and includes the following tasks:

- Field survey of all assets
- Categorizing assets in the following manner:
    - MEP (mechanical, electrical & plumbing)
    - Building envelope (windows, doors, exterior skin & roofs)
    - Elevator portfolio
    - Interior finishes
- Determine the age, condition and critical nature of all assets
- Assign scores to each asset
- Develop pricing associated with replacing assets
- **With more than $3b in replacement value and $436m in total capital deficiencies, our FCI score is 13%**



Our FCI Score is 13% - 15%

IV) Slides Outlining the Facility Condition Index and WSU's Score

The FCI score of 13% on a campus that has a replacement value of $3 billion means that our differed maintenance needs of $436 million. A couple of buildings have needed work—notably AAB and Old Main—since the report was written, so our FCI score is probably closer to 14% today. Nonetheless, the shift from $1.2 billion to approximately $436 million is significant.

In the subsequent slide, Rob summarized the backlog in mechanical, electrical, and plumbing (MEP) needs, the building envelope needs, and elevator modernization needs as costing a combined $144 million over the next ten years. The backlog in interior finishes (furniture, fixtures, and equipment) will be another $54 million. He treats these two backlogs separately because the costs and needs of interior finishes are more subjective. Hazardous interior finishes must be addressed; dated interior finishes do not have the same immediacy.

Rob showed an image of the impressive dashboard Gordian created to provide his office full access to this data. Rod pointed out that he had captured a dashboard that demonstrates that 50% of the WSU buildings are more than 50 years old. The age of our buildings is clearly a driver of the need for deferred and preventative maintenance. Rob showed a second display that demonstrated that the two buildings with the greatest needs are Maccabees (5057 Woodward) and Scott Hall with a combined differed maintenance need of a bit more than $40 million. If we look at Maccabees' needs over the next ten years, it will require a total of almost $46 million.

Macabees 5057: Behind the $46m

Categories	Backlog	A (1-3 Years)	B (4-7 Years)	C (8-10 Years)	Grand Total
B - Shell	$ 546,769.97		$ 23,269,467.61		$ 23,816,237.58
B20 - Exterior Enclosure	$ 546,769.97		$ 23,144,844.54		$ 23,691,614.51
B30 - Roofing			$ 124,623.07		$ 124,623.07
C - Interiors	$ 486,832.19	$ 1,767,763.99	$ 5,667,562.60		$ 7,922,158.78
C30 - Interior Finishes	$ 486,832.19	$ 1,767,763.99	$ 5,667,562.60		$ 7,922,158.78
D - Services	$ 10,709,402.10	$ 1,661,749.36	$ 1,368,000.00	$ 438,753.14	$ 14,177,904.60
D20 - Plumbing	$ 2,350,717.69		$ 1,368,000.00	$ 36,000.00	$ 3,754,717.69
D30 - HVAC	$ 3,172,722.64	$ 1,661,749.36		$ 289,492.12	$ 5,123,964.12
D50 - Electrical	$ 5,185,961.77			$ 113,261.02	$ 5,299,222.79
E - Equipment & Furnishings				$ 9,132.87	$ 9,132.87
E10 - Equipment				$ 9,132.87	$ 9,132.87
Grand Total	$ 11,743,004.27	$ 3,429,513.35	$ 30,305,030.21	$ 447,886.01	$ 45,925,433.83

Immediate Needs

• Electrical Infrastructure	$5m
• HVAC	$3m
• Plumbing	$2m
• Building Envelope	$0.5m
	$10.5m

Long-Term Needs

• Building Envelope	$24m
• HVAC	$2m
• Plumbing	$1.5m
• Interiors	$8m
	$35.5m

V) Projected maintenance costs for the Maccabees Building

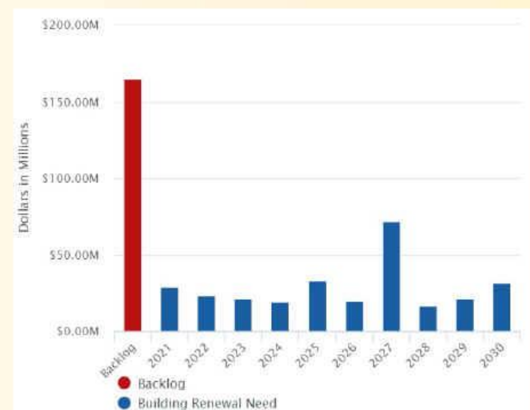
The Maccabees Building's immediate needs are largely mechanical, electrical, and plumbing while its long-term needs are more focused on the building exterior. Half of the exterior work is stonework. The comparable display on Scott Hall demonstrates that about $46 million will need to be spent there over the next ten years.

The slide summarizing the deferred maintenance strategy demonstrates that we begin with a $168 million backlog, and, in the next ten years, additional costs continue to build:

Deferred Maintenance Strategy

In an effort to bring order and clarity to our deferred maintenance we will focus our attention on buildings with the following attributes:

- Immediate mechanical, electrical and plumbing (MEP) needs
- Roof replacements
- Elevators modernizations
- Building envelope
  - Water infiltration issues
- Structural concerns
  - Parking structures
  - Below grade water infiltration
- Emergency items which become critical in nature



VI) Clarification of WSU's Deferred Maintenance Strategy

Linda Beale noted that the university is endeavoring to get state funding for a new medical education and research facility. She knows the backlog of maintenance needs to be addressed right now, but does

the prospect of a new facility enter into these calculations for the next ten years? Rob Davenport said there are indeed immediate needs in Scott Hall, particularly for work on the HVAC system. If we do build a new faculty for medical education and research, we will want to adjust this analysis. Perhaps adjust it to focus on only another five years of use. If a new facility is built, we will demolish Scott Hall and save a bundle on our operating and maintenance costs. Scott Hall represents quite an expense annually and its space utilization is poor: we are lucky to be able to use 60 to 70% of the building. New financial modeling will be done with the construction of such a new building. Noreen Rossi asked if, in addition to the financial modeling, there was planning to assure that the research enterprise would continue as we transition from one building to another. Rob answered that that would of course be part of the planning. A great deal of work needs to be done if there is to be a new medical education and research facility and they are still at the early stage. As long as Scott Hall is occupied, it will be maintained in order to avoid disruption of research.

Rob showed a slide reinforcing David Massaron's assertion that there are costs involved in postponing taking action. We are now seeing something in the neighborhood of an 8% increase in construction costs nationally and are having to estimate these increases in planning future projects. Indeed, the Christmas Company's Local Analysis of Detroit shows a 10.2% increase in the last year. Detroit contractors are unwilling to hold their prices for more than a month; some will only hold prices for a couple of weeks. These increases are being driven by both supply chain issues and the rising costs of labor.

Rob Davenport then showed a slide demonstrating the benefits of addressing our differed maintenance and establishing a program of preventative maintenance. For every dollar we spend on preventative maintenance we avoid almost three dollars in differed maintenance costs.

As far as the Campus Master Plan is concerned, Rob emphasized that the first step will be consolidating some spaces and right sizing campus. The first focus will be on office areas. They have done considerable analysis on FAB, AAB, and Maccabees. Moving academic programs out of the Maccabees Building will allow administrative offices to be consolidated there. This could allow select buildings to be demoed.

Paul Beavers asked about a number of classroom buildings that had been discussed in earlier presentations as candidates for demolition. Rob said they were still on the table, but that right now we are focused on completing the State Hall renovation. That will probably be followed by a project to consolidate the libraries in which he has engaged the Dean of Libraries. The demolition and renovation of other classroom buildings will probably carry on from there.

G) State Hall Renovation – Phase II of III

This provided an easy transition to Rob Davenport presenting the second and third phases of the State Hall renovation. The first phase of the State Hall project, a $6 million dollar request for design and pre-construction services, was approved by the Board of Governors on January 29, 2021. The second phase request for funding will go before the Board of Governors on March 11. It will be a request for $8 million to covers the cost for demolition, abatement, and purchasing long lead-time equipment. We need to move this project forward or we will lose time and fail to meet our completion date. The third phase of the State Hall project, which will be a request for construction authorization funding, will come to the

Board of Governors at their June 24 meeting. The entire project will ultimately cost in the neighborhood of $70 million, perhaps a bit more.

Stella Resko asked if Rob Davenport was tracking rising maintenance and repair costs. Rob had been very explicit about tracking rising construction costs and hopes he is doing the same for these expenditures. She also wondered if the FCI estimates we have been discussing takes those rises into account when making those estimates of expense. Rob said the rise in maintenance and repair costs have been and will continue to be notable. We are in competition with other organizations in the area to secure labor for our construction projects. He learned just recently that the Detroit Public Schools has secured $100 million for work across the city and there are additional construction projects downtown. Work like our elevator project have typically been six to eight month projects they are now twelve to eighteen month projects. The delivery of materials is delayed and labor is scarce. The quicker we get projects on the books and underway the greater our chance of completing the projects in a timely and cost effective manner.

H) Community Art Complex HVAC Improvements Supplement

We have learned that FM Global our insurance carrier will be covering the costs of restoring the cooling plant for the Art Complex project, which spans the Art Building, Community Arts, Music, McGregor, and Alumni House. FP&M is using this as an opportunity to really treat those five buildings as a complex and address their needs holistically. They are using the project as their first crack at a Performance Contracting arrangement in which we have a guaranteed savings of at least $1.4 million in utility cost avoidance. Rob's calculations suggest the savings should actually be more than $1.4 million. This will move us ahead in energy sustainability strategies and programming. Not just the Art Building but the entire $5 billion complex will be analyzed from an energy sustainability perspective, including building envelope, lighting, building automated controls for HVC, and the rest. David Massaron added that he is also excited that we will begin Performance Contracting that will guarantee savings. More efficient buildings both save money and provide better environments for the faculty and students using the buildings. Of course, nothing is ever perfect, but this will bring noticeable improvement. Linda Beale asked what the time span for measuring the $1.4 million in savings. Rob explained that the $1.4 million is savings per year on utility spend. In the case of the Art Building, much of the savings will come in more efficient heating of the building. Typically, the Art Building has been overheated during the cold months to the point at which windows are propped open during the winter.

I) Major Capital Projects Summary

Rob Davenport said there was nothing noteworthy in this report. All projects are on track and going well. No questions were asked.

J) Purchasing Exceptions

Ken Doherty offered to discuss any of the items on the 30-page exceptions report that the committee would care to discuss. He pointed out that each report begins with a quick summary statement about what that report covers. This report states, "Attached is a summary report of purchase orders (POs) greater than $25,000 that were issued during October and November 2021 without soliciting competitive bids." No questions were asked.

Paul Beavers thanked David Massaron and his team for attending. He knows it was difficult because the Budget Planning Council meetings have been so time consuming and demanding. He asked if David would summarize the statement he usually makes before a dean or division head makes their presentation. He found the statement both hopeful and sobering. David said that we say that we have a year [FY 2023] that perhaps does not reflect the future reality but gives us resources to manage through this year. He is focusing on and the provost is asking the deans to focus on what are the types of investments we can make that will lead to revenue growth and more efficient utilization of our resources so in future years we are more fiscally solvent and balanced. We are all bullish that such planning can lead to positive results. We could get to sustainability by making strategic investments in international students and other areas. Every college and unit has brought different ideas to bear on this question. The risk associated with this approach is the longer we wait to make cuts, the bigger those cuts have to be. As we adopt this budget, we are going to layout our base-level assumptions over a five-year period. If we do not hit the goals from these assumptions, we will have to react to the fact that they were not met. If we do hit them, we can react to the good news instead. A lot of our assumptions are not based on such things as the Governor of Michigan's proposal for a recurring 5% increase the base will occur. If that happens, it is obviously a very good step toward sustainability. If it does not happen, our planning will have to address that. What we have been trying to communicate to everyone involved in this is let us bring our best strategies to bear for adapting to the way the world is changing and has changed and let's see if we can fix this problem through strategic growth. If we cannot, we will have to act in a different way in the future. It is hopeful because, in the near term, we will not have as much economic pain. It is scary because, in the long term, it could potentially be a little more painful.

Paul asked if David was concerned that the Michigan legislature may be looking more closely at our state aid per student and how focusing on this ratio might impact us? David explained that this is not a matter of "may." They have done so. Funding will be coming to us on a per pupil basis, and there is a four-year period in which the state will attempt to establish a floor. He believes we have been pretty successful in asserting that there are two different types of universities (though there are more than two different types). There are R1s and those that aren't. This should result in two different types of cost equations. We spend a tremendous amount of money on research. That is who we are and it brings a lot of value to the state. When you throw a per pupil number on top of that, it makes WSU look particularly bad. Wayne vis à vis the other R1 universities looks bad because we do not have the same ability to control tuition that the other two R1s have. We also do not have the same ability to control donors and funding in that way. That is really what drives those items. But the state is very focused on per pupil aid. That is why part of the budget conversation is focused on faculty utilization driving efficiency. If we increase enrollment, we can make our per pupil number more comparable to our peers. Right now, we are the least efficient university on a per pupil basis.

Paul thanked him for this discussion, which puts the work of the Budget Planning Council in perspective.

IV. Joint meeting of the Budget Advisory Committees in the schools, colleges, and divisions and the Academic Senate Budget Committee

Paul Beavers announced that there will be a joint meeting between the AS Budget Committee and the BACs in the schools, colleges, and divisions on March 22, 2022, from 11:00 a.m. to noon. The meeting will be held via Zoom. Paul has been revising the handouts from two-years ago. He intends the handouts to be the sort of documents that might be profitably shared with those that do not attend the meeting itself.

Paul said that the more positive tone of this year's Budget Planning Council has him rethinking the focus of the meeting. Because the Budget Planning Council is not strongly focused on cuts, the joint meeting does not need to have the issue of cuts dominate the discussion. It can focus on helping the BACs to understand what David Massaron just said. The Council wants to hear the deans and unit head's proposals for the types of investments we can make that will lead to revenue growth and more efficient utilization of our resources. The BACs in the schools and colleges can aide their deans to understand and evaluate opportunities, whether they are proposals to increase enrollment and income, to increase research and grant support, or to benefit the unit and university in some other way.

Linda Beale added that she believes it is really important to have this meeting with the budget advisory committees because that is one of the best ways for them to get information about budgets that they may not have gotten through their meetings with their dean or director. She hopes things are improving at the Budget Planning Council. They seem to be: in the presentations, we are hearing more about how the faculty have contributed to the planning.

Paul explained that he attempted to schedule the joint meeting for the slot typically used for AS Budget Committee meetings: 11:00 a.m. to 12:30 p.m. on Mondays. David Massaron, however, could not be available and his participation will be a very important element of the meeting. He also added that determining who to invite as members of the BACs in the schools, colleges, and divisions remains daunting. He hopes that at some point the Union or the Provost's Office will set up some scheme to regularly update membership lists for the contractually mandated committees.

V. Comments on the Budget Planning Council

The faculty and academic staff representatives on this year's Budget Planning Council are Linda Beale, Santanu Mitra, Christine Chow, and Paul Beavers.

Paul believes that it is pretty evident from what he has been saying that he is pleased by what a different experience the Budget Planning Council has been this year. We are asking for a proposed set of cuts for a 3% reduction in budget this year and next year. David Massaron is also making it clear that HERF funding will probably allow us to avoid cutting this year. Last year, in contrast, we asked each presenter to propose two sets of cuts: one of 5% and another cut of 5% bringing the total to 10%, and we followed through with cuts.

Linda Beale commented that the request that the deans and unit heads focus on their priorities and how they relate to universities priorities has led to a productive sense of what each school can do, what their strengths are, and how their strengths and capabilities relate to the university's enrollment. Some of the presenters are a little bit long winded and others are more focused. Some are looking for low hanging fruit and others are thinking more innovatively and entrepreneurially. But it is more pleasant this year.

Santanu Mitra commented that he found the Planning Council unsettling. As Linda commented, the presentations have gone on very smoothly so far. But he is concerned when they are going to execute that cut of 3%. Cut after cut after cut for so many years means the schools, colleges, and divisions have already experienced significant cuts. In addition to that, the Planning Council has asked for plans for a 3% cut and on top of that an additional 3% cut. He wonders how the units can be operational and cut 3 to 6%. It is very challenging. David has made it very clear that if we do not make cuts, we will in the medium-term face serious problems. Because of one-time funds the university is receiving this year, the immediate situation is not that dire, but, if a compelling situation develops, the 3% cut will happen. Some units said they had little they could cut except eliminating line after line of unfilled positions or not filling positions when vacated. Can we properly move forward with cuts every year?

Santanu asked Paul to comment on this. Paul suggested that David's intention to develop a five-year budget is supposed to save us from a world in which we suffer death from a million cuts, in which every year we show up and see what the percentage of cuts is going to be. Dean after dean, vice president after vice president comes in and says all my money is tied up in personnel and they need personnel in order to bring in income. Cutting personnel is almost the equivalent of cutting income. Santanu added that it was a Catch 22. He strongly feels that the cuts to Business School faculty have resulted in his school losing students.

Paul said he did not believe a 3% cut was definite for FY 2023. He asked Linda for her impression. Linda said she understand that a 3% cut is not definite for FY 2023. David said that he thought in FY 2023 we could move forward essentially without cuts. That does not mean that the provost will not make reallocations from one unit to another, but the ideal expressed at the Budget Planning Council has been using one-time funds to make up for structural deficit amounts this year. If we do not meet our revenue target, if the newly proposed programs do not produce the revenue expected, there may well be a 3% cut next year (FY 2024). It all depends on programs for cost efficiency and proposals for increase enrollment to pan out.

Santanu asked then why require plans for a 3% cut with an additional 3% cut. Linda replied it is partly two things. First, we want to know what each unit believes it could cut if the necessity arises. Second, such calculations focus thinking about revenue. If you only ask, "How would you spend more money?" you get pie in the sky scenarios. By combining questions about additional revenue with questions about cuts, you get more grounded replies.

Ricardo Villarosa pointed out that, in past years, mass nonrenewal notices going out to lecturers were common as budget cuts for the fallowing fall were contemplated. The nonrenewal notices served as a sort of canary in the coal mine. We have not seen these sorts of nonrenewal notices this year. The words and the actions seem to be supporting each other this year.

VI. Other business

There was no other business. The meeting was adjourned.