



**Academic Senate 2022 - 2023
Budget Committee**

Academic Senate Budget Committee Minutes

Date Monday, January 23, 2023
Time 11:00 AM – 12:30
Location FAB Room 4339

Members L. Arava, L. Beale, S. Calkins, W. Chen, D. Donahue, D. Edleman, D. Goldberg, R. Harr, C. Jackson, S. Kaur, D. Massaron, K. Tarpenning, W. Tarraf, R. Villarosa, W. Volz.

Via Zoom: B. Edwards, K. Tarpenning, S. Tong

Absent: I. Ahmad, .

Guests: K. Doherty, B. Gielczyk, B. Mandija

1. The meeting was called to order.
2. It was announced that two members were joining via Zoom and the meeting would be recorded.
3. The agenda was adopted.
4. After a little bit of confusion, the minutes from the November 28 meeting were approved (William Volz), Linda Beal seconded the motion. Stephen Caulkins pointed out that we had not voted. This was rectified.
5. Documents to be presented to the Board of Governors Budget and Finance Committee on January 26, 2023.
6. David Massaron noted that there is an item that will come up in the executive session. Which will end up with a building that the university owns being sold sometime in the future.
7. Contingency Reserve from David Massaron.
 - a. The balance is zero.
8. State of Michigan School of Medicine Funding Agreement
9. Bond Authorization Resolution
 - a. Massaron told the meeting that he was going to cover these two items together. (Shown on the BOG Power Point as items B. &C.)
 - b. State of Michigan School of Medicine Funding Agreement is for 100-million that they will give us for a new School of Medicine & Karmanos Cancer Institute (KCI) building, and the second is the authorization to sell bonds. We are committing in the Grant agreement to build a building at least 250,000 square feet, which we cannot build for 100 million and we haven't, raised enough to build it without selling bonds. By virtue of the relationship the University has with the State, I two things go together.

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The authorization is for us to execute an agreement from the State to receive a 100 million (50 upfront 50 after we spend the first 50), and then an authorization to sell bonds. The bond amount is more which you'll also see, and that's to give us additional funds for campus improvements. This would be related to general physical facilities included in that would be the match if we were to get a capital outlay project for the new Law school building, which was in our capital, submission to the State. Included in this would be improvements to the undergraduate library to create student related center around academic activities.

He further noted that he would like to discuss with the committee where they were making the deferred maintenance decisions and what those projects should be. He noted that on the smaller projects there was not a capital process. Having a system in place for a real capital plan will allow them to manage it in an effective way. There is also the likelihood that there will be a saving on our 2013 balance. Our borrowing is different than the average consumer. When and that long term rates here are not a subjective to short term. So, when we borrow over 30 years, just because short term rates are high doesn't mean our long term rate follows the course.

Stephen Calkins noted that is not just for us. That is the same for lots of people. Massaron stated that our credit quality makes that spread a lot lower. Like others our risk goes up as you get further away from the loan date. The idea of us (the University) being around forever allows us to compress that spread to US Treasuries. The stronger your credit is same with consumers, if you have a really bad credit rating your long-term rights are way higher than if you have a good rating, and so there is some savings there. It is not an overwhelming number, but it is real, and it is significant. So, the likelihood of us issuing the bonds before the August September timeline is pretty low. Beale asked what the Rate was. Massaron indicated that we were in the high three/low fours (%). He indicated that he would have a firmer number later, but it was tax free. Part in due to our relationship with KCI and McLaren.

The process has already started in that we held a public hearing (TEFERA) which no body attended. Beale asked if it was announced to Campus. He noted that it was advertised on the Governors public notice page and on the BOG web page. Volz asked what would a weighted average of our existing debt portfolio look like? If we assume high 3 (%) is low where are we. Beale noted that we use to be provided with a chart that showed the debt service. Massaron showed that on page 15 of the AUTHORIZATION TO SELL BONDS Pro Forma Total Debt Service by Fiscal Year which shows where the debt ends overall. Calkins noted that the chart starts in 2023 and asked when would it look like five years prior. According to Massaron, it we up with the transactions related to State Hall and the Hillberry Gateway, about 4-5 million. Beale noted that at one point it was as high as 13. But only for a brief time.

Calkins made the point that included in the material it noted that the money would be used for but not limited to roof replacements, Elevator and H. Back road, walk, way of parking improvements. He noted that in organizations he is on the board this type of spending is out of 'current' monies. That these are normal expenses. He was in favor of borrowing and spending for the good of people at the university now. As a good citizen of the university, he questioned why we have to borrow to fix items that should be

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included in normal budget. What is the reason on why we are doing this with borrowed money. Massaron responded one is obviously that is prioritized first for the match. If we get a Capital project, and because we have the authorization for 150 does not mean we do 150 million. A second reason relates to the tax code. That allows the university to expend bond funds for capital projects, and the weighted average maturity of the capital project has to exceed the borrowing. For the same reason you borrow on the front end to buy a building. You can buy improvements to a building, and you would look and say, I have to pay for this as I consume it, which is the weighted average life of the project. Spending money on a capital improvement I need to make sure that that capital improvement has a duration that is relatively equal to the length of the borrowing. If I borrow for 3 years to do something, what I am paying for all the last 3 years, so that I am paying an annual basis for the consumption. The other point is that we are historically behind. In the past we have not made the investment. We lost money when the state dramatically cut our funding, we made the decision that we would put off those physical components. As an institution we made a historic decision not to invest. And we are starting to feel real consequences from it so this helps us catch up. He also noted that the cost of construction is going up. The faster we can fix these problems sooner we save cost in the long run. We also know that it will provide us with a more competitive environment, enhancing our ability to attract students. New need to proactive with our buildings, the next 5 – 7 years we are going to be in direct competition with other public universities to attract students. It does not meet all our needs but it will allow us to make the campus more attractive for faculty, students and potential students.

Massaron noted that they have tried to look at other ways such as using investment earnings on project funds, to drive more money into the capital. As an institution we have to minimize cuts in the budget that impact faculty and staff. Figure out how to invest in our institution. This money gave us a marginal amount to make some of those investments. Included in this is the first year's interest in the deal, \$200,000 a year, we are spending in debt service, at the same time adding 9-10 million dollars of budget costs in 2024/25 which he did not think we are ready to do. He mentioned that if they bring 10 million dollars forward, that there will be a need to make a 10 million adjustment quicker. They are being more rational with the investing of the cash reserves than they have in the past. Volz wanted to know how we are becoming more rational because in the past we have tended toward the sleepier investments. We have become more rational in our investment choices. Beale mentioned that we have changed advisors, as we had not done well in the foundation side. Massaron mentioned that we have an investor that has been providing direction. We were holding more cash than we needed. We have been able to invest in short term treasuries rather than long term equities. We were down in the foundation side about 13%. On the general fund side we are down single digits. They have talked to our underwriters on investment opportunities in short term taxable investments, with the same risk as our tax-exempt investments. Wassim Tarraf asked what impact this has this planning have on the presidential transition. Massaron stated that there has been less attention. There is a concern as we are making a bet on the future of what the medial school will look like. He was not sure if we know what that entity will be. Wayne Health, where does it position itself. How much research space do need. What is the productivity of this space is going to need. Will there be productivity requirements for the use of the space. These are the elements

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that the rating agencies may focus on. Wassim asked that Massaron had stated that the timeline for the project was August September and did he think that a new President will be hired by then and would they want to have input on the borrowing. Massaron stated that unless there was a real public discord or if the board made an irrational hire, people would focus on as long as it looks contained and orderly it will not impact the search. Beale said that a new president cannot change what the board has already approved. Wassim noted that the big issue is the Medical School where most of the money is going and he felt that a new president would want to have a vision for that problem and how to solve it.

Beale mentioned the continuing use of Scott Hall. Massaron from a philanthropic point do you start with a smaller building and continue with the lower four floors of Scott Hall. (Scott Hall has a split system, which would enable us to mothball the upper floors and utilize the lower level. Initially it was believed that there would be 100/200 million philanthropic dollars. But he did not believe that that was realistic. By the time a new president arrives the building process will have started, the location will have been decided but there will be room with the building when it comes to programming. If you build X space there is an expectation that you would recruit Y. Is that the right balance, the new president believes will work. That is where they will want to have the influence. That conversation has yet to take place.

Beale asked if they had raised any external funds and if there were any expectations. Massaron was not aware of any significant funds, but that question should be address to David Ripple or Susan Burns. There is also the question of how much Peter Karmanos is going to donate. All of which could affect size. Fitzgibbon asked if he knew if they had in mind potential donors who could give a 20/30 million dollar gift. He felt that they might have a number of targets in that category. The response was that they have a long list, 5-10 people who could write a check for 100 million.

Volz ask the committee if it would be of value to have someone from the Medical School giving their sense of value of the future of academic medical research. To provide an idea of the type clinical practice the possibility in this market of Wayne Health. Instead of being 250 MDs could Wayne Health grow to a 1000 MD's? We are not of the size of Hopkins, Wei Chen responded that there is a need, students can do this once they finish the degree. It is a very attractive program and competitive. There have been some issues with Detroit Medical Center (DMC). Lots of residents were not able to get enough practice. DMC has had different leadership and ownership. That becomes a limitation, pediatrics left, so there are internal issues. We are competitive all the way up to the Fellowships. We have many fellowship program for the oncology, hematology, oncology, gynecology. We received lots of applications, and our program was really recognized very well. On top of that our KCI cancer center is one of only two in Michigan that are NIH designated a comprehensive cancer center. Chen, further state that we are getting external grants for NIH and DOD. Two terms ago then the outgoing dean left behind a poor structure. Now, we are more focused and working well. The promotion of a faculty member to dean has done a lot for the school. He has been proactive with the faculty members,, keeping us updated. To show how she noted that in her community Northville, WSU is a first choice for medical school. Beale, concurred, but pointed out that is not the research aspect. The loss of the pediatricians and the

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size of Wayne Health, and research facility is not the size we need. Chen. pointed out that they are still collaborating, even before the move the CMU. They are applying jointly for funding.

Caulkins asked about patients being a source of charitable donations. Henry Ford is very competitive in the area. Chen, pointed out that this a problem as we are looking faculty to Henry Ford. They have openings that they cannot fill. Santinder Kaur, pointed out that she (OBG) has lost a lot of colleagues. And that she has positions that she cannot fill. The need a lot of faculty from epidemiology to family medicine. We are so centered in the downtown area, and we are so dependent on DMC. We literally have not gone to the suburbs. I am probably the only Obgyn from Wayne Health in Troy area. So, I think we first. We need to start thinking outside the box. We need to Stop relying on the one institution. She has brought this up multiple times in our faculty meetings. We need to start exploring other health care systems to make our presence felt. Now in terms of research, losing PRB, was a big source of funding. But we do have the CS Mott Center, with Dr. Gil Mor in charge and when he started three years ago, despite Covid he has managed at least nine or ten grants. She believed that we need to hold people accountable and let them know what number of grants we are expecting. We need to explore other opportunities. Maybe not Beaumont, because of their relationship with Oakland, but there is Ascension. Open a multi-specialty practice. Chen added that Henry Ford has a 15 to 30 contract with Michigan State. Volz wanted to know if grant money could be used to buy leases in the suburbs. Massaron mentioned the building in Troy and another in Dearborn. During Covid Centers for Medicare & Medicaid Services (CMS) changed their billing codes and the about that could be billed as an outpatient. There were a number of hospitals that had built their economic model on idea of in hospital treatment. Now, they are Ambulatory surgery Centers (ASC's) which have a lower billing rate. So, hospitals are no longer the profit centers they once were. He felt that over the next two years there was going to a lot of disruption in the health care industry. At the same time the Federal Government put money into these hospitals but that is now gone. The patients they use to treat are now gone... Massaron noted that the health care economic model is strange because clinics do not make money. For example, they do not make money on that initial visit or consultation. Money is made when a patient shows up at DMC for surgery.

The conversation returned to the proposed new facility The questions is what are or should be the cost of per square foot for lab space. Historically at \$280 per square foot. He was concerned if we could achieve that. These decisions affect the size and scope for the new building. He wants to know how much faculty have been involved in the conversations with Dr. Sacker and the leadership team. These are conversations that are yet to take place. If we build research space then it meets the need from a faculty perspective.

Chen asked if that included office space. Massaron stated that office space was the same cost either at the Medical or Law Schools. Lab space was quite different because of the ecosystem and health and safety requirements. This is very nuanced conversation that has yet to take place. Both Beale and Volz note that this was an opportunity. If we do build space of certain type, that assumes an additional 20 researchers, at 2 million, that would be 20 million expenditure in addition to the space. Up to this point the focus has been on location. How much can we raise

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philanthropically! We cannot just rely on DMC. Their productivity has decreased. Their staffing is low, they have not kept up. He restated that Wayne Health is down to 10% at DMC. As a practice group you cannot make money if they do not have a hospital that can provide surgery time. Kaur agreed that we should partner with them, but we need to provide patients with more choices. We have patients that would rather go to Beaumont or Henry Ford. Massaron added that he planned to talk to Dean Sacker in terms of the building as both the Medical School and faculty need to be able to be part of these decisions.

Beale asked about the Capital Planning committee. Massaron, said that he would talk to the provost. Beale noted that material on these types of plans comes too late. Kaur noted that Ashley Flintoff was the staff person at some of the meetings. Beale restated that there needs to be Senate consultation on capital projects. They would come from Facilities, Policy and then Budget. The last one was received after it was sent to the State. Massaron agreed, as he only got the report on the week that it was sent. He assured Beale that he would talk the provost to see how he wants to handle this for the future. As the building is going to one of the largest projects, he felt that it is important that faculty provide input. Chen asked what was the timing on the project. Massaron responded that we will not get the State money until we sign the agreement, we will not have Board authority till March. A building of this type will probably take four to five years to build. So, six years from now. Chen asked if we have to set up a deadline, for when we break ground, otherwise we do not get the money. Massaron explained that we have to sign the Grant agreement and the Legislature need to approve. We create a work project, then we have four years to spend the money. The plan is to have for the fiscal year that starts September 13.

Fitzgibbon asked if we have a sight. Massaron said there are two locations under consideration. The I-94 sight, at Woodward and I-94, and Lot 75 (Brush near Scott Hall). Chen noted if the faculty has a say in that they will choose the one already close to the medical facility. Massaron state given where the current scoping is financially. That might be the one you have to do, because if we're going to have to keep part of Scott Hall occupied. You are not going to want to divide the campus by a mile.

Calkins asked on the pages with the Bond presentation it shows leverage, total adjusted debt. WSU is at 4.2, U of Michigan is at 0.5. It would appear that they have less leverage than us. Michigan State (MSU) is at 1.5 and Central is at 4.2. He wanted to know where we will be when we borrow this money. We look less robust than Michigan State. Massaron responded that MSU is AAA and has more money coming out of their foundation than the Sate gives them. We cannot compare us to them. It is more appropriate to say that this is an investment that the institution needs. If we do not make the investment, do we think that it will fundamentally change the way Wayne State and the Wayne Sate Medical School functions. Those are questions for Dean Sacker, Dr. Schweitzer and the President to answer. As an R1, we need that facility. As of now we are struggling to recruit KCI and Faculty and that is in part due to the facilities. There are a lot of question that need to be addressed. Wassim stated that it was disheartening to hear that so much money was going to be invested in something that is fundamental to the survival of the institution. And yet we know little nothing about the design. Massaron noted that Dean Sacker, Dr. Schweitzer have plans, they have been working with faculty, and Wayne Health. This is a long-term project. Massaron assured

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us that this project was mentioned three times in the strategic plan. That it is one of the key KPI's for that plan. Beale pointed out that it was a 300-to-350-million-dollar building, which would be a huge space. In the discussion it was more optimistic and broader than we have determined to be possible now. The underlying assumption was that the money would come from philanthropy, and as usual it failed. Another example was the Hillberry. Massaron said that it was originally to replace Scott Hall, which would be preferable as that would reduce the operation burden. The difficulty is that Scott Hall is hard to maintain. And it not efficient building.

Volz asked would it be feasible to create a capital project with a partner, share space. Massaron mentioned that Ascension has a foundation fund balance of twenty-four billion. They had been approached for a five-million-dollar gift. Volz felt that there might be an opportunity to partner with a health care concern that seeks a larger presence in Michigan or where are the government short list for Medicaid or Medicare. He stated that we need to reach out to these organizations. He further noted that the largest gift we have received was from the Ilitch family, and that we have had nothing close to that. There is an economic malaise with state of healthcare in general, Massaron believed that the industry was going to be facing a downturn over the next two years or so. Corewell, and Henry Ford have had rough years. Labor costs are not going down. He specifically addressed Beal to her point, that this is a smaller than the original plan. He felt that there were Medical School alumni that might be potential donors but not to that amount.

Kenneth Doherty pointed out that the original I-Bio complex was supposed to be in partnership with the Henry Ford. When that fell though the complex ended up being smaller. Volz added not all are going to be interested, or few of them will be interested in academic research. He hoped that the University and the Medical School Leadership Trust were out there negotiating. Telling people that we are willing... Massaron believed it was going on. But it is not public. He felt that those were questions for Schweitzer and Saker. And that we (Policy & Budget) should consider asking them to discuss their vision.

Chen asked about the space (size), as they had a high end machine and because of its size it was located in an area away from the Radiology Department. (They tend to have a lot of expensive and large machines). Having high end radiation equipment attracts patients, because of the pression, will attract more patients. She asked for clarification on lab and clinical space. Massaron said that at this point there was no plan for clinical space, but this should be asked of the dean.

Kudos was given to Tim Stemmler and the radiology team on the purchase of the 3T PRISMA scanner (MRI). He has been able to sell the old equipment to DMC and has had them agree to out use (3-4 hours) of the old machine so that existing work can be complete on it.

There was discussion on the role of research vs clinical in the medical school. The consensus was that as we are an R1 research institution, without that research it would be difficult to maintain that rating.

Massaron said he would take questions on any of the other regular report.

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10. Major Capital Reports

Hilberry Gateway: Calkins, pointed out that on the he noted that the complex was "energized". Massaron stated that faculty and students now have limited access to the complex as the fire systems had not been tested.

Scott Hall: The renovation move in has been delayed due to issues with the duct work on the new exhaust fans. Massaron told the meeting that the vendor is paying for part of it as there were engineering issues.

State Hall Renovation: Fitzgibbon asked if there was any update from Thompson on the equipment for the hybrid classroom. Massaron said that he would get this. Major reason for the delay is that due to so many organizations moving to a virtual environment they has been a slack in the supply chain. The building is on supply.

11. Major Consulting Reports

None

12. Other Items

A question was asked on major purchases, when shown as a replacement, what happens to the old equipment. They are handled on a case-by-case basis, usually by the property office. They are many different options.

Beale asked about the BRB contract with DMC. Massaron state that he did not anticipate this would be resolved until the January 30,, but the move was scheduled. Chen stated that there will be some equipment left behind and that they have been taking to DMC. Edwards noted that they have a faculty member who had been part of PRB, who has been able to bring back his equipment to continue his research.

Christine Jackson asked if he would talk a little about the time line for regular budget cycle. Brelanda Mandija said that they would be first and third week of March and they were in the process developing the schedule. Providing the deans with a template. Existing deans are collaborating with new deans to explain the process. They have adjusted times by college. Divisions have a slightly different template to schools and colleges. They are being asked for a prioritization schedule. They will be providing data on enrollment, faculty, staff and other information.

Jackson asked about the focus, some focus on students enrollment and other focus on credit hours. From a budget aspect credit hours tend to be a reflection on revenue generated by any college. Next year will be different because of block tuition. But we will still be able to track credit hours.

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JEF
February 27, 2023