Minutes of the Budget Committee of the Academic Senate
Meeting of Sept. 21, 2015

Present: Linda Beale (Chair), Lawrence Lemke, Sudip Datta, Donald DeGracia, Nancy George, Ewa Golebiowska, Stephen Lerner, Christopher Lund, Richard Smith, Charles Parrish, Linea Rydstedt, Heather Sandlin, Lakshmi Nerusu*, William Volz, Robert Kohrman***

Absent with Notice: Vicki Dallas, Charles Parrish, Bryan Morrow, Beena Sood

Absent without Notice: Richard Needleman**

Invited guest: Bill Decatur, Margaret Winter

*Student Liaison
**AAUP-AFT Liaison
***Administration Liaison

The meeting began at 11:00am.

1. *BOG Budget Committee Documents for the Sept. 25 Meeting.*

   Bill Decatur reviewed the Budget Committee documents with the Committee and responded to questions.

   a. Contingency Reserve Report. The administration officials confirmed that (1) the FY 2015 balance remaining in the contingency reserve would be added to the University's annual FY 2016 allocation of $500,000 rather than being used to reduce the annual allocation for this reserve.
   b. Repurposing of Bond Proceeds. There was a substantial philanthropy shortfall of more than $24 million in the funds slated to be used for the iBio and Student Center building projects. The university covered the initial expenditures from its working capital cash reserves, essentially as a loan from those funds to the building projects. To repay that loan, the university plans to reallocate $21 million of existing Series 2013 and Series 2015 bond funds that were formerly designated for laboratory classrooms and research laboratory needs. In addition, a new bond issuance of $4.8 million will be needed to cover the full amount of the cash reserves loan. Those new bonds will not be tax-exempt, resulting in about $70,000 per year in additional debt service payments once issued.

      Members raised a number of questions about this reallocation to these projects resulting from failed philanthropy goals.

      i. Amount and procedures for borrowing from working capital cash reserves.

         Members noted their concern that the loans of funds from working capital reserves had not been discussed with this group prior to the presentation of the BoG documents on satisfying the shortfall in iBio funding with reallocation of bond proceeds.

In response to a question regarding the amount of working cash reserves retained by the Administration, VP Decatur noted that it was approximately $325 million (down from about $400 million several years ago). VP Decatur further explained that the cash pool includes various categories of unrestricted net assets such as indirect cost recovery funds carried forward, plant funds, contingency funds and rainy day funds. Our "primary reserve ratio", roughly the ratio of funds in the working capital cash pool compared to our General Fund budget, is not particularly large here (325 M / 570M).

Members asked whether there were established policies for using the cash reserve and whether this loan (and similar working capital loans) had been approved by the Board of Governors. VP Decatur said that the University should have a cash pool loan policy but does not at this time; nonetheless, Mr. Kohrman indicated that the transfers were discussed with the Board of Governors and added that other loans have been made in the past "to advance projects waiting for funds" and they have also "typically" been run by the Board of Governors.

ii. Funding sources for projects originally to be funded from the bond issues used for these purposes.

Several members reiterated the Academic Senate's longstanding concern that classroom renovations (and lab classroom renovations) are given too low a priority. This shift of funds left planned projects for the bond funds to rely on other funds. Lou Romano noted that the establishment of a Capital Expense Committee under Jim Sears is a real advance, since faculty will be involved in those discussions much earlier, as we have requested.

iii. Reasons for incorporating such high philanthropy estimates in the planning process when university fundraising for such projects has been substantially below peer universities.

The committee discussed the problem of including overly rosy forecasts of fundraising in budget plans for these projects, at a time when our fundraising efforts had not shown noteworthy success in raising such funds. This committee had in fact expressed concern about the assumption of $20 million in fundraising to support iBio at the outset, but had been told that it was realistic. Furthermore, there are real needs for start-up funds for faculty moving into iBio from other buildings and for new faculty being hired (as well as additional funding for parking, addressed below): both of these concerns about additional needed funding were raised in prior years by this committee.

VP Decatur noted that the leadership of Development had changed while iBio was moving forward, and that it is generally considered difficult to get donors to give for building projects on which construction has already begun because they are not convinced that the money is needed for the project. Construction had to begin by a date certain to avoid loss of the $30 million in State funds.

c. Bank Line of Credit. The university is renewing its bank line of credit used to meet liquidity needs, and increasing the total amount by $10 million, from $25 million to $35 million. The lender was selected through an RFP process, resulting in a borrowing cost of LIBOR plus 75 basis points. Administrators pointed out that using the line of credit is ultimately less costly than losing returns because of shifting funds in and out of short-term investments.

d. Rainy Day Fund Transfer. The university is transferring slightly more than $900,000 from its Rainy Day Fund to pay about one-ninth of the cost of renovating the Elliman Research Building to which the Karmanos Cancer Center will be relocated. (See next item.)

e. Elliman Research Building Renovation. The university is planning to renovate Elliman to house the Karmanos Cancer Institute (KCI) research at a cost of about $8.9 million. Members noted that KCI is providing only half a million of the $9 million renovation cost. Members suggested that the university should have insisted on a greater cost-sharing because KCI—which functions as a research arm of the university—retains 100% of the indirect cost recovery for its own uses. Further, members were concerned that OVPR is using half a million of its funds to support the renovation, when those funds are sorely needed to support research startups and other endeavors across the university. Members questioned why the Rainy Day Fund wasn't drawn on instead of OVPR for these costs.

f. Student Center Fifth and Seventh Floors. The university had previously agreed to renovate the upper floors of the Student Center where various administrative offices are located as well as two faith-based student organizations. The work is budgeted at $3.855 million, with $1.44 million coming from the Housing Maintenance Reserve. Administrators indicated that students will be coming to these offices, but did not know how many students use the student organization spaces on these floors. The committee noted that the total cost of the Student Center renovation was well over the original $20 million estimate, and that this expense—while resulting in an attractive building—made classroom repairs even more difficult to budget.

g. Fountain Court Renovation. The administration had projected using the campus enhancement fund for the fountain renovation, but the fund had less money than thought at the time the $600,000 renovation was approved. This item provides for about $87,000 to be taken out of the Deferred Maintenance Reserve (which receives an annual allocation of $6,255,500).

h. Freer House HVAC Upgrade. This is $810,000 of funding from Deferred Maintenance to upgrade the heating and cooling in an older building.

i. Parking Lot 12. This is a $600,000 project to improve a parking lot purchased near the iBio building to provide needed parking for the building

j. Administrative Fees for Development. The university is recommending extending through 2017 the authorization of a 0.5% administrative fee on the average fair market value of the endowment and the 2.0% fee on non-endowment cash gifts. The endowment fees generate about $1.6 million a year (which comes in to Central Administration and supports the General Fund budget allocation to Development). VP Decatur noted that these fees are significantly lower than the norm for most university development offices.

   Members had numerous questions about Development's budget, especially in light of the shortfall in fundraising for iBio and the Student Center project. The Chair briefly reviewed the Budget Committee's 2012 report on Development's budget, undertaken when the university asked the Board of Governors to approve a $5 million permanent increase to Development's base budget in conjunction with a consultant's report indicating a growing trend to de-centralization of Development functions. Productivity of staff and accountability are important issues. Most members considered the lack of real performance objectives that rely on increasing productivity a significant problem. Further, the fact that FMRE continues to be included in the totals for Development obscures the lower performance of fundraising staff. Even in the years of a capital campaign, the normal performance of fundraising at Wayne should be about $40 to $50 million a year. The campaign should result in significant numbers beyond that, with various "naming" opportunities, from existing buildings to endowed professorships.

k. Purchasing Exceptions. The administration noted that the Hyperion Critical Path Project had completed phase 1 (financial reporting) and went live at the end of March. It is the basis for the FY16 Budget Book. It has cut time for units to input information into Banner from one week to one day.

[Provost Winters and Vice President Decatur left at this point for another meeting.]

2. *Report on State Budget and University Budget Process.*

Rob Kohrman reported on the enrollment status as of this date. Graduate enrollments are up considerably, as are first year undergraduates, while continuing undergraduate numbers are down. This resulted in an overall decline of about 1.2%. These numbers are slightly better than the numbers used as the basis for the FY16 budget, although the full budget implications are not yet available.

A member mentioned the Governor's convening of a higher education forum to take place on October 7, which will include the President and members of the Board of Governors of each institution. There is a movement to use an umbrella group (i.e., a Board of Regents) to structure capacity and oversee university programs to avoid unneeded duplications and redundancies. Although Wayne State may be constitutionally different, it might not be advisable to remain outside such a group if formed.

The Chair asked Mr. Kohrman about the current view on whether the university would shift to a responsibility-centered management (RCM) budget model. He responded that it is still under study, but that the "profitability" statement and emphasis on enrollment increases to support new faculty reflects an RCM perspective.

There is approximately $102,000 more in State appropriations than the Budget Book anticipated. And there were net revenues from the new summer program incentive (a discount of 30% on tuition if a course is taken in the summer), which resulted in greater number of students enrolling in summer courses.

The Chair asked whether the Budget Book would be regularly updated to reflect whatever adjustments and modifications are made in unit's actual budget allocations. The committee has often noted in the past that the budgets as described in the Budget Book do not exactly comport with the funds available to the different units. VP Nork had agreed some time ago to reflect every adjustment to units' budgets with a footnote noting the transfer and source of the funds, but we have not seen it. Mr. Kohrman said that the Budget Book is accurate.

2. Charge to the Committee and Agenda for Next Meeting.

The Chair asked for input on issues the committee members wanted to address this year. (A list of items suggested by the Policy Committee was included with the agenda.) Items mentioned include:

a. <u>Development</u>.

The problem with the iBio funding is illustrative, even though there was a transition in leadership from VP Ripple to VP Johnson and the fundraising was begun after the State appropriation was in place, making it harder to 'sell' the naming of the building. Nonetheless, the committee is concerned with the lack of transparency about funding sources and uses, and the continuing concerns about overexpenditures on high-salaried , centralized development personnel. The Chair reminded the committee of the report done by the Development Budget Review Committee in 2012, when we concluded that the Development staff was underperforming relative to most of our peer institutions. The Development division—counting FMRE and not counting expenditures supporting development within School and College budgets—was achieving at the national average but at a substantially lower ratio than our closest peer institutions. If FMRE were not counted for this purpose, and if the expenditures of Schools and Colleges were counted, the Development office's ratio would have been even worse. The report concluded that we should insist on better funds raised/Development budget ratios. Other members reiterated the concern about the need for Development to be accountable.

The Chair reported that she had already invited VP Johnson to come to a future meeting of the committee. Based on the members' interest, she will try to find a schedule so that we can focus on Development in our next meeting.

b. <u>Dorms</u>.

Members noted that no one had mentioned the new residential housing project that President Wilson had talked about at the Senate meeting. Since debt connected with a public-private partnership would remain on our balance sheet, the university has considered that those arrangements probably would not be wise. It is not clear what sources of funding may exist to pay for new residence halls/residence apartments, since the State does not appropriate funds for these projects. It seems clear, however, that there is a trend towards increased demand for on-campus housing, and we likely need to find a solution.

c. Budget models.

The committee likely should pursue the topic of budget models and what version of RCM is or should be adopted.

d. School of Medicine and UPG (and other separate corporate practice plans).

The committee briefly discussed the perennial issue of understanding the budgets as reflected in the School of Medicine and UPG. President Wilson has brought on a "temporary" Vice President for Health Sciences and embedded him in the board of UPG. It is expected that this will open the budgets –at least to the Board of Governors—and provide a means of appropriately allocating lines and funding. Further discussion of the 8% "Dean's Tax" (tax on revenues of practice plans that runs through Development but is allocated 100% back to School of Medicine) will also be important.