Minutes of the Budget Committee of the Academic Senate
Meeting of Jan. 25, 2016

Present: Linda Beale (Chair), Victoria Dallas, Sudip Datta, Donald DeGracia, Ewa Golebiowska, Robert Kohrman***, Lawrence Lemke, Stephen Lerner, Christopher Lund, Lou Romano, Linea Rydstedt, Heather Sandlin, Richard Smith, James Sondheimer**, William Volz

Absent with Notice: Charles Parrish, Beena Sood

Absent without Notice: Nancy George, Bryan Morrow, Susil Putatunda, Laksmhi Nerusu*, Suzanne Brown*

Invited guests: Bill Decatur, Margaret Winters

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

The meeting began at 11:00am.

1. *Approval of Minutes*.

The minutes from the November 30, 2015 meeting were approved as drafted.

2. *Brief Overview of Budget Office Restructuring with VP Decatur.*

VP Decatur announced that the Budget Office is in a transition period towards a restructuring that will search for a new AVP for Budget and Planning and move that key budget position into a direct reporting line to the VP for Finance and Business Operations. The Budget Office staff will move with the Budget Director to VP Decatur's office. There has been some uncertainty about which staff were part of Institutional Research and which part of the Budget Office, so it will take some time to apportion the staff appropriately to the new reporting relationship. Mark Byrd, head of Institutional Research, and the Institutional Research staff will remain within the Provost's Office. There is a relatively new Data Coordination Committee that is discussing ways in which Institutional Research supports University-wide functions.

The current AVP Rob Kohrman will become Vice Dean for Fiscal Affairs in the School of Medicine, with joint reporting to central administration in some form. It is not anticipated that the new Vice Dean will have the same role as Ken Lee had in SOM, where his responsibility for all budgetary matters in SOM and UPG (and FMRE) caused some concern, but the Vice Dean will nonetheless have some interest in, and be informed about, budgetary matters in UPG and FMRE with closer oversight by VPs Decatur and Hefner.

VP Decatur plans to move towards a more transparent budget process with this shift to centralize budget officers and reporting under the administrative VP. In past years, budget proposals moved up through the Provost and VPs to the President's Budget Committee, an executive committee that included the President, Provost, VP for Administration and

Finance, the Budget Director and an Academic Senate representative (typically, Lou Romano as President). The process under consideration, already approved in general terms by President Wilson, would involve a Budget Planning Council that includes VPs, Deans, faculty and student representatives. It is not clear at this time whether the executive level Budget Committee would remain as a final step.

3. *Enrollment Report from AVP Kohrman.*

[Note from 11/30/15 budget minutes: AVP Kohrman had indicated that he would provide statistics--for the student body as a whole and for undergraduates--showing the number of students from outside Michigan and from outside the Great Lakes area. We have not yet received these statistics from VP Kohrman.]

AVP Kohrman reported that 2016 winter term enrollments show a slight increase in credit hours over budgeted numbers (275 thousand compared to budget of 272 thousand). In general, the result is better at the graduate and upper level undergraduates, but worse at the lower level undergraduates. It will not be possible to determine the exact impact on budget numbers until after the census is completed, but AVP Kohrman indicated he would have those numbers by the end of the week. [We have not yet received this budget information from VP Kohrman.]

AVP Kohrman noted "guarded optimism" about the overall projections for FY2017. At this point, the numbers for FITIAC enrollments for Fall 2016 are up—with an 11% increase in applications and an 8% increase in admissions. The University is using the Common Application, making it easier to apply and better students may be applying to Wayne as backup, so those increases may not hold when all is said and done. Based on comparisons with prior years, however, we would predict an increase in FITIAC enrollments to about 2700 for Fall 2016, over 2562 for Fall 2015. Graduate applications and admittances are also up, especially in Engineering and Business which are facing potential capacity limitations.

In response to a question about the CLAS dean's statement of a 40% 6-year graduation rate, AVP Kohrman noted those were preliminary data and stated that the University as a whole has a rate around 35%. Provost Winters added that if everyone in the pipeline currently eligible to graduate by August does so, the University would achieve a 42% rate.

A favorable factor for enrollments is Scholars Day. AVP Kohrman noted that the original date in early February was booked with 800 student attendees, leading the University to add another date later. There is potential for an Honors College class of 600, which raises further capacity questions regarding space for classes and appropriate lecturers to teach them. Vicki Dallas noted that not all manage to graduate with honors: they find themselves "catching up at the end" with not enough time to do it. In response to a question regarding the comparative success of those who enter the Honors College (e.g., how many of the class graduating last year and graduating five years ago qualified for graduation with honors), AVP Kohrman indicated he did not know but would provide that information later.

4. *Discussion of Board of Governors Budget Committee Documents with VP Decatur and AVP Kohrman.*

a. Housing Master Plan.

If we are able to continue this rate of growth in the student body, Wayne would have about 30,000 students by 2020: with a larger number of FITIACs, the University expects a need for more housing. Although historically we ran deficits in University housing from 2002-2012 due to vacancies, there is now significant demand and we are in a net income position. There was a wait-list this fall of at least 550 students. (We stopped adding names to the wait list after that point so do not know for sure how many students would have liked to have student housing if it were possible.) Next fall we are leasing an apartment complex at Second and Forest and considering others. [After the meeting, Tim Michael noted that there had been an error in the presentation to the Board of Governors: the waitlist this year was 350 and all students who were interested were added to the waitlist.]

The Master Plan for Housing (the development of which did not involve Academic Senate committees or faculty) is expected to be approved by the Board of Governors on Friday. An RFP process was originally underway for a public-private partnership and a new $12 million “skin” on DeRoy (rather than demolition, even though there would be at least $25 million more needed to renovate) but that was halted to make this more detailed consideration possible. (The plan now provides that DeRoy will be demolished, though there is as yet no definitive plan for placing anything in the DeRoy footprint). Thompson is being slated for conversion for less than it would take to build the same new capacity. Chatsworth is slated for a later renovation to create higher density (from 142 beds to 363). Planning for FITIAC housing—possibly two new residence halls on Anthony Wayne drive in what is currently surface parking lots—is for semi-suites rather than the typical “dormitory” corridors.

It is still unclear whether the best option will be a private equity partner or a concessionaire model. Under the private equity model, the private equity firm would put up the money and take out debt, getting an investment return from us in the range of 9-11% annually. In the concessionaire model (used by Georgia’s university system), the University does a sale of the housing with its debt and uses the sales proceeds to invest; a separate corporate entity owns the real estate with 4-5% annual management fees paid from the University to that entity. (This appears to bear some similarity to a sale-leaseback transaction.) Housing costs for students are negotiated as part of the contract. Certainly, the University’s credit rating (as discussed at the last meeting) is an issue: we would prefer to have the debt on a third party’s balance sheet rather than the University’s, if all other requirements can be satisfied.

In response to questions about the way that the University arrived at a determination of the housing need, AVP Kohrman noted that a consulting firm (Brailsford & Dunlavey) had done a report in early 2015. That report will be shared with the Budget Committee. [On February 2, the Housing Market Study was received and forwarded to Budget Committee members.]

b. Harwell Field Baseball Building.

A $1 million gift as part of the capital campaign will support a building on the Matthaei fields. The rest of the needed funds will come from Athletic Department fundraising.

c. Long-Term Investment Report

The University's endowment funds had a loss of 4% in FY2015, whereas most of our peers lost only about half that much. The reasons for the loss are primarily an overly conservative asset allocation with considerable amounts of bonds and other fixed income assets and underperformance by the fund managers. The Foundation's Investment Committee has revised the policy, providing for modest adjustments and more specific ranges for various assets with a longer view of the endowment goals. Assets will now include private equity funds. The Foundation is also putting out an RFP for an outsourced chief investment officer/investment adviser service and hopes to complete the arrangements by the October 2016 beginning of the next fiscal year.

In response to questions, VP Decatur noted that the Foundation's conservative position protected it from losing as much as some others lost in the depths of the financial crisis, but its lack of flexibility and movement meant that it missed out on the gains that most others enjoyed. The current investment manager does rebalance the investments, but nonetheless maintained a substantial liquidity reserve in fixed income so that a shift to equities was not made until the run-up in equity value had already slowed. The Foundation Board had followed a traditional model of quarterly adjustment after consultation with the committee, resulting in a slow and less flexible process. The newer model will allow the investment adviser to make changes without specific direction for each change from the Board, so long as the changes are in accord with the policies set by the Board.

d. Year-End Financials

AVP Kohrman noted that the FY2015 General Fund year-end financials show a $4.1 million decline resulting from a 2% increase in revenues from increased enrollments and a 2.7% increase in expenses, including in particular two large one-time items: (i) $8 million for the Early Retirement Plan and $4.6 million for a Pharmacy receivable for private funds expected in 2004 that never materialized. Other expenses that exceeded budget provisions included the use of General Fund monies for capital projects and the overspending of the maintenance budget to deal with HVAC problems (running about $600,000 in FY 2015).

There was some discussion about the extent of deferred maintenance on campus, as an older physical plant that includes older student residences must satisfy current needs. This led to a discussion of the impact of online education on these issues. Will the move to online classes result in less demand for student residences on campus? Provost Winter suggested that is unlikely, since students seem to want to be on campus and participate in online classes from their campus residences. VP Decatur noted that most studies of retention and student success suggest that having students on campus is a positive. Further, striving for geographic diversity requires housing to satisfy student needs, and student life has become a more important part of student learning (Business and Engineering "floors" in residence halls; faculty masters; living and learning communities). Members wondered whether there were other concerns about online learning and how much the University was focusing on student out-of-state recruitment. AVP Kohrman responded that funding for out-of-state marketing is a challenge, but the Common Application has made it easier and the Great Lakes tuition reduction program had provided a test. Provost Winter added that a small pilot is going on to reach out to California, where there is a large alumni base and a growing college-age demographic. Another member raised a question about regional transportation infrastructure and the perennial issue of parking as a deterrent to students: a policy of no cars for freshmen combined with zip cars may work well.

5. FY2017 Budget Planning and Prospects.

The group discussed briefly the budget prospects for FY2017. It is difficult to predict where the State budget will come out, although the need for State funding to remedy the water crisis in Flint will undoubtedly command a considerable portion of the budget and that is likely to come out of funds that might otherwise have gone to support public universities. Some legislative groups are clamoring for a 0% tuition cap and suggesting a clawback mechanism to punish any campus that raises tuition above whatever cap is mandated.

One member asked whether the University is still planning to move towards some kind of RCM model. VP Decatur answered that it is likely that some sort of RCM is on the horizon. He expects there will be a task force to consider a new budget model by the end of the semester, and that will likely result in a 3-year transition towards a version of RCM.

Another member asked about the importance of the internal audit function, especially to help track budget office planning and results. Wayne has the unusual structure of placing internal audit under the General Counsel's office, whereas in many universities it reports to the President. The problem with having it under the G.C. is that it becomes too compliance oriented, and less forward looking.

Another member suggested the importance of maintaining budget data in as transparent a form as possible, perhaps using an open data platform like Dashboard to make it available to many internal units. This aligns with a request that the Budget Committee has made for many years, that there be updates to the Budget Book as approved by the Board of Governors that shows any adjustments or other transfers that are made after the Budget Book is first approved, so that there is an accurate picture of the actual dollars allocated to different schools, departments, and programs.