Minutes of the Budget Committee of the Academic Senate
Meeting of Apr. 24, 2017

Present: Linda Beale (Chair), Thomas Anderson *****, Victoria Dallas, William Decatur***, Donald DeGracia, Brian Edwards, Diana Goode***, Mahendra Kavdia, Steve Lerner, Christopher Lund, Santanu Mitra, Charles Parrish, Louis Romano, Heather Sandlin, Richard Smith, Beena Sood, William Volz

Absent with Notice: Sudip Datta, Anthony Eid*, Ewa Golebiowska, Christine Chow****

Absent without Notice: Nancy George, Bryan Morrow, James Sondheimer**

Invited guest: Keith Whitfield

*Student Liaison
**AAUP-AFT Liaison
***Administration Liaison
****Graduate Council Liaison
*****UPTF Liaison

The meeting began at 11:36 am.

I. Minutes from the 1/23/17 and 3/23/17 and 3/27/17 meetings.

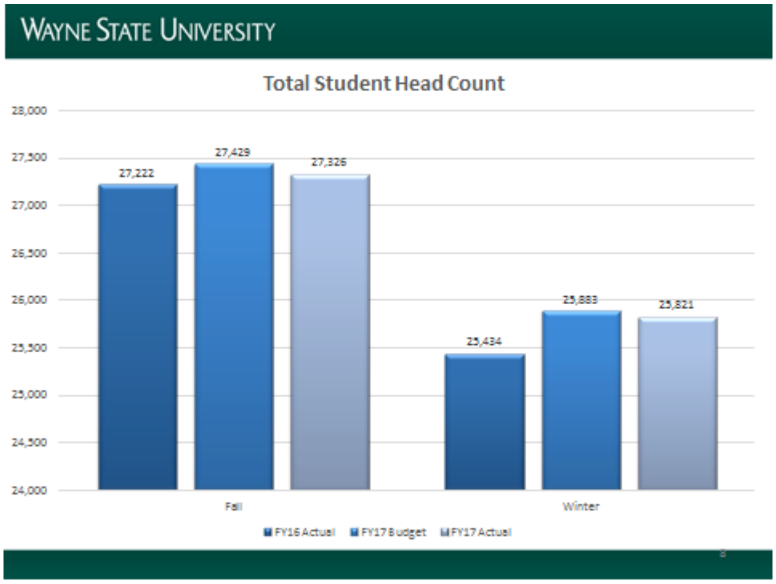
Members approved the minutes as drafted, with the exception of corrections to the attendance list for the January meeting. The minutes will be finalized with the attendance list corrected.

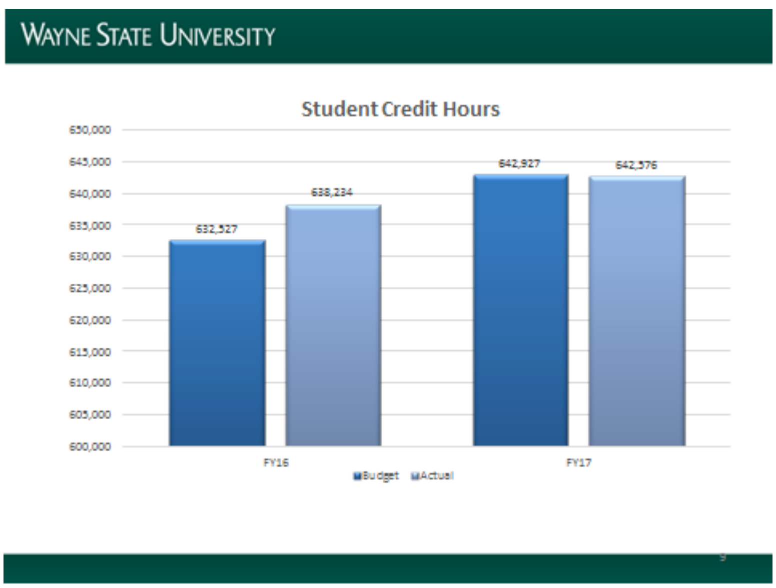
II. Enrollment and Budget Projections for FY 2018

The possible State allocation for higher education and Wayne State University remain undecided. The Governor's budget would increase Wayne's appropriation by 2% or $3.9 million, while the Senate would increase 1.6% or 3.1 million and the House 1.5% or 2.9 million (all numbers rounded).

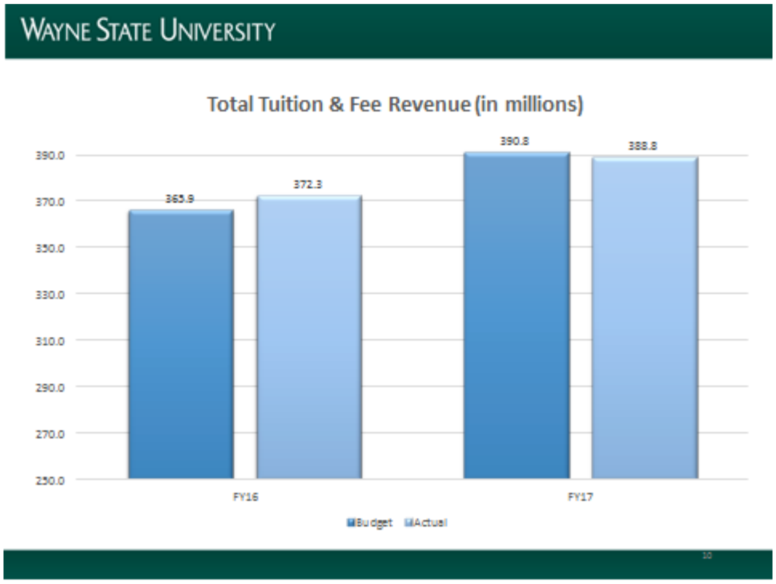
A notable fact: higher education is projected as 3% of the State's budget, while Corrections (prisons) is projected at 4%. That relative priority in budget revenues says a great deal about the lack of support for public education in Michigan. The projected tuition cap is 3.8%, but the rate remains to be chosen by the Board of Governors (BoG) at its June meeting.

Given the many different changes that can affect enrollment—including higher retention rates, slightly better graduation rates, increased FTIAC and transfer applications, decreased masters applications (especially international), different weighting of merit and need-based financial aid for undergraduates (to favor need)—it is especially hard to predict the resulting tuition revenues for the next fiscal year. Although student enrollment headcount "actual 2017" numbers at this point are higher than they were for the "actual 2016" at the same time, they are below the "budgeted 2017" numbers. Our Winter 2017 budget faced a $1.5 million 'hole' because our projections had been too high by about 60 students.

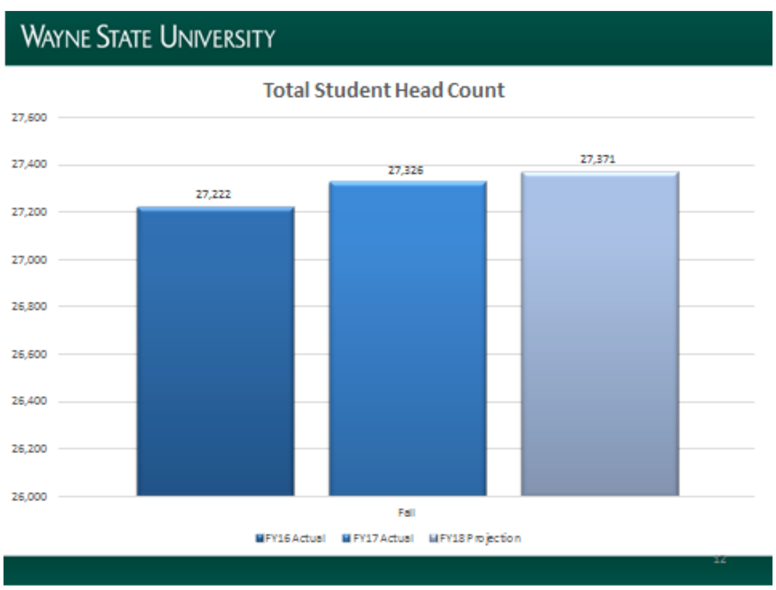


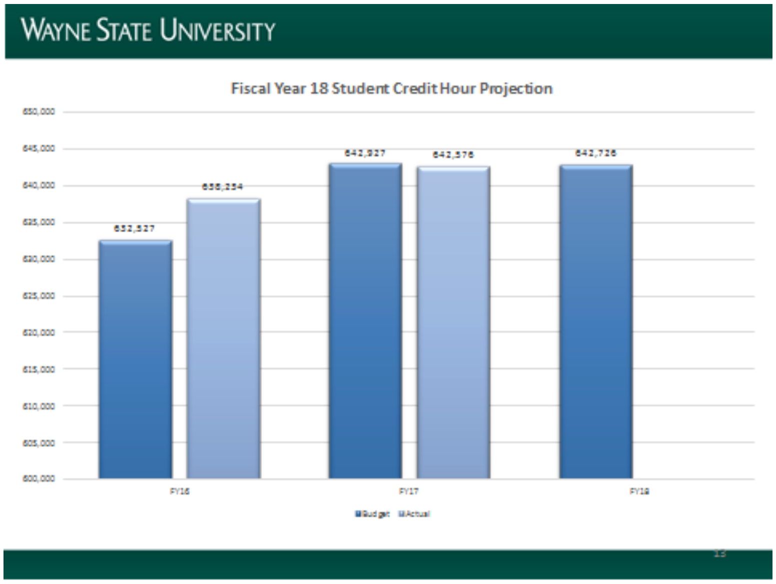


At this point, the FY2017 actual credit hour results are higher than the budget projections, which is a plus. That is, in respect of enrollment projections for FY 2017, we are coming out overall slightly behind in head count but slightly ahead in credit hours. That may be a result of the advising push to encourage students to take 15 credit hours of classes rather than 12, and/or it may relate to the attempt to identify at-risk students earlier in the process.



These variances and the many changes in policies that drive the ultimate numbers make predictions for FY2018 revenues from tuition and fees challenging. The following two charts show the current projections for FY 2018 headcount and credit hours.





A few trends are clearly important. The masters student enrollments—especially in Engineering—face a significant decline (in Engineering, about 160 or more students), which may be a direct result of fewer international applications because of the political situation and the greater difficulty in securing an H-1B visa. While graduate numbers are down, the FTIAC and transfer application and admit numbers are up, though until we know for sure what kind of yield we will get it is difficult to say whether that will be sufficient to offset the decline in revenues from the (higher tuition) graduate student population.

Bill Volz asked about the progress on identifying at-risk students at earlier points in order to retain and graduate them. VP Decatur responded that the EAB project should make a difference there. The Chair asked what the worst-case funding scenario looked like—i.e., taking into account the worst State appropriation and the tuition cap. VP Decatur responded that it would likely be a 2% increase in revenue, which would amount to a 1% cut because of the 3% inflation in costs (especially built-in compensation and fringe costs). Lou Romano asked if we had calculated the revenue impact of the increase in the 6-year graduation rate. VP Decatur noted that it was "on the agenda" for a deeper understanding. Provost Whitfield noted that not all students are full time, and that it generally costs more for students to extend their graduation date. If we succeed in compressing the time to graduation, we will need a larger influx of new students to compensate. The EAB/Royal "Deposit IQ" is predicting lower enrollments, but it is not clear why yield would be down when applications and deposits are indeed increasing.

III. BoG Documents

A. *School of Medicine (SoM) Tuition Rates*

The SoM tuition rates proposed for adoption on Friday continue the "zero percent" increase for all students other than the first-year out-of-state students for which a 13% reduction was approved at the last BoG meeting. The reduction in out-of-state tuition is intended to be phased in for each entering class until all are paying the lower tuition amount. The SoM tuition proposal also provides that all students will play a flat tuition rate if they take 40 or more credit hours on an annual basis. Note that this means that second-year nonresident students will still pay $68,345 or more than double the $33,928 paid by second-year Michigan-resident students.

Provost Whitfield noted that the high tuition rate for nonresident students does not prevent us from bringing in students from out of state. The primary reason for reducing the out-of-state rate is an ethical one regarding the striking differential. It also is the main driver of the high average debt rate of our medical students. A member noted that there is a problem for Canadian students who face a currency rate problem and are limited on the amount they can borrow. Lou Romano asked why the in-state tuition was not increased, and Provost Whitfield responded that this change is intended to be revenue neutral: Provost Whitfield also indicated that one way that the SoM expected to deal with revenue generation this year was to increase the percentage of the entering student body that is out of state (it will be increased to 40%).

B. *Parking Structure Improvement Funding*

There was some discussion about the winding down of major expenditures on parking structure improvements. The Chair noted that parking rates have been increased regularly over the last eight or so years. The justification was that this was needed to undertake key modernization projects. Former VP Nork also claimed that the administration was merely increasing charges to the going "market rate" in the University vicinity. The Budget Committee had objected, however, for two reasons: 1) the rate would quickly rise to much higher than the rate for paid parking on the edges of the campus and 2) once the planned projects were completed, there would be a continuous surplus generated unless the rates were moved back down to a market rate. VP Decatur was not familiar with that history and indicated that he would need to study the issue. It was suggested that Tim Michael come to a meeting in the future to discuss these concerns.

Members also discussed the impact of the new Anthony Wayne Apartments and other construction that will eliminate parking slots. VP Decatur noted that purchasing vacant land for lots is considerably cheaper than building new parking structures. There is plenty of capacity even with the removal of parking (we actually lease parking to businesses), but the problem is convenience. The Chair suggested that the use of outlying lots with a good shuttle system could actually relieve congestion while still satisfying needs for convenience, if the shuttles worked on student-and faculty-friendly schedules.

C. *Capital Projects Update*

1. <u>Hilberry Gateway Project</u>

The Chair noted that the Capital Projects report indicates that the requested study reviewing the cost for the Hilberry Gateway Complex was due in Spring 2017 and asked about the status. VP Decatur noted that the study had been received but no final decision had been reached by the President. Although it has not been shared with the Academic Senate (neither Policy nor Budget), it does project an increased cost to $65 million (as the Budget Committee members had predicted). Only about $7 million of donor funds have been raised of the original $10 million target (set when the overall project cost was $50 million). VP Decatur indicated that they are reassessing private giving potential for this project and other construction, including a possible sale of the Bonstelle Theater complex (which has no nearby parking). It is expected that the University will do the project and will use debt to finance whatever is not raised from donors.

2. Cass and Canfield/The Vernor

The Chair noted that the report also includes a project at Cass and Canfield and asked whether there would be any budgetary impacts of that project. VP Decatur responded that the project was approved in 2013 for development on Wayne State University land. No University funds are to be used for the development, which is a combination of apartments, boutique hotel, and retail space.

D. *Audited Financial Report for FY 2016*

As discussed at the A.S.B.C.'s January meeting, the financial report would show an increase in the General Fund (including the $29 million plant funds from the Ilitch gift) were it not for the SoM deficit. FMRE will show no further expenses: its loss was $3.2 million and that is scheduled to be repaid over three years.

The audit for FY 2016 shows total operating revenues of $943 million, with $607 million General Fund (tuition, fees, ICR, State appropriations), $72M Designated Funds (e.g., fees, donor), $47 million Auxiliary Funds (Housing, Parking, and others), and $272 million Restricted Funds. General Fund expenditures exceeded revenues, Auxiliary Funds had a $1 million loss, but Designated Funds had a surplus (with actual revenue coming in over budgeted amounts).

The School of Medicine (SoM) situation continued to impact the results for FY 2016. There was a Fund for Medical Research and Education (FMRE) loss because of the $39.6 million receivable that has not been paid. Last year, the University had written off part of the receivable but kept $10 million as a receivable on the books. That amount plus a further amount from this year resulted in the $39.6 million write-down (not yet a "write-off" as originally noted in the March 23 minutes, because there is some hope that the University can recoup some of these funds). The deficits in FMRE arose because SoM (and UPG) absorbed budget cuts by shifting personnel to FMRE. Salaries purportedly to be paid by FMRE were paid by the University, generating a receivable from FMRE. This appeared to work until VP Decatur arrived and found the negative FY 2015 position. The sale of the building in Troy was used to pay some of the FY 2015 receivable, but was not sufficient to pay the entire bill. Accordingly, $29 million deficit was generated in FY 2016 (in addition to the $10 million from FY 2015). All costs were moved out as of October 1, 2016, either to SoM or to UPG. In addition, there was a $5 million loss in SoM for FY 2016.

Brian Edwards noted that the Dean has said he expects a $6 million surplus that can be spent on investments. VP Decatur responded that there will not likely be such funds available until next fiscal year. For FY 2016, there is a deficit for year-end because of FMRE, but the impact for FY 2017 is on net assets.

The University's unrestricted net assets have declined from $190.9 million at FY 2013 year-end to $115 million at FY 2016 year-end. Expenditures by Schools & Colleges of carryforward amounts come out of the University's unrestricted funds. Deans have plans for General Fund carryforwards amounting to $99 million, but the net position in General

Fund carryforward funds for FY 2016 is only $61 million. If all of the carryforward amounts and ICR amounts promised were paid out, there would have been a negative balance this year. That is clearly unsustainable.

Charlie Parrish asked whether the Plant Fund was still being used as a way to sequester discretionary funds, since in the past administrations had sometimes transferred funds to the Plant Fund for projects without expending them and then used them there to provide administrative discretion. VP Decatur responded that this is not currently being done, but the need for reserves is real. We need reserves, but they shouldn't be achieved by 'hiding' funds. The Chair asked how well the Development Division is working to generate funds in a timely manner, as expected, for capital projects. VP Decatur responded that the policy is that (i) fundraising targets be set based on a feasibility study and (ii) no project should begin until the targeted pledges are in hand.

Our "*age of facility" ratio* is high, reflecting the fact that we spend large amounts on new buildings but put very little investment into older facilities. Our *endowment "return on investment"* was a relatively high 9.3% (in the top 35%) this year, mainly because "we got lucky." Our investments allocation was not consistent with policy and had more in international emerging markets, which ended up performing exceptionally well. We have now moved to Strategic Investment Group (SIG) as an investment manager with a less conservative investment policy. Our *debt capacity* is increasing in part because of the rapid amortization schedule for our current debt. We are repaying approximately $15 million in principal annually. This means we could service more debt with longer payout terms for principal in the future.

Deferred maintenance is a central concern amounting to upwards of $500 million. The amount allocated annually to address this need is only $6 million. One solution under consideration is a "century bond" (one-hundred year term for debt). Part of the proceeds of such bonds can be invested and used to repay principal, while the remainder is used for infrastructure investments.

We do not yet know whether the State budget will include 50% of the funding for the STEM building ($29.5 million). If it does not, we will likely continue to resubmit it as our top priority.

Members asked whether a new Master Plan with a representative Master Plan Committee would be initiated soon. VP Decatur agreed that this is an important step. Work is already underway on planning for next fall's capital project submission and for a Master Plan process to get underway as soon as possible when the faculty return in the fall. Preparatory to that, AVP Wyatt is doing a study on deferred maintenance and attempting to build an accurate database on space and space utilization. The Chair suggested that VP Decatur send Policy Committee a charge for the Master Planning Committee and a request for nominees, so that the Committee can be named before the Fall semester begins.

Action Items remaining from earlier meetings:

- Slides from AVP Goode from January meeting.
- Fiscal 2016 slides from March meeting.
- Response on delay in posting endowment earnings to beneficiary accounts.
- Amount paid by SoM for consultants in FY 2016.