

Minutes of the Budget Committee of the Academic Senate **Meeting of Nov. 2, 2015**

Present: Linda Beale (Chair), Victoria Dallas, Donald DeGracia, Ewa Golebiowska, Stephen Lerner, Christopher Lund, Heather Sandlin, Richard Smith, Lou Romano, Linea Rydstedt, Richard Smith, Beena Sood, William Volz, Sudip Datta

Absent with Notice: Lawrence Lemke, Charles Parrish, Robert Kohrman***

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

Invited guests: Bill Decatur, Jim Sears, Margaret Winters, Roy Muir, Tracey Utech, Chacona Johnson

*Student Liaison

**AAUP-AFT Liaison

***Administration Liaison

The meeting began at 11:00am.

1. *Update on Various Budget Matters with VP Decatur.*

- a. School of Medicine (SoM) Scholarships. The administration recently announced that 10 students would receive full scholarship funding for their undergraduate and medical school tuition. This program uses the pre-existing MedStart funding for the first four years, but the source for the additional years of funding has not yet been identified. Presumably some amount would come from fundraising, or the SoM budget. It is unlikely that FMRE funds will be sufficient since the University Physicians Group is already failing to pay over the full amount of the “Dean’s Tax”. The full annual budget amount would presumably be considerable to cover 10 students per year times the additional four years per student times four years of new 10-student groups covered before the first group is completed. VP Decatur indicated that he hoped to have more information for the Nov. 30 meeting of the committee.
- b. DeRoy Housing and Potential Debt Funding. The DeRoy apartments are not in good shape, and the university has concluded (with the aid of consulting firm DunLeavy) that it would be cheaper to tear them down and replace them with new construction. Nonetheless, this fall there has been considerable demand for on-campus housing, and the housing office has rented a hotel to accommodate the demand, with 200 students currently on a waiting list.

One of the questions about funding is the willingness of the university to take on more debt. This has been a discussion at the President’s Cabinet and with the BoG Finance Committee. Discussion has involved the “3 P” idea (public/private partnerships) or a mix of private equity and private debt. Whatever method is used, VP Decatur noted the importance of maintaining priority for academics in funding. There is an expectation that an RFP will go out in January for replacement and expansion. Many questions remain at this point, such as the size of the complex;

whether it should be one or several projects; how fast to expand and how it will be funded.

Members raised a number of questions about this issue, including whether the overflow demand is primarily undergraduate or graduate students. Overflow is at all levels.

Members noted that President Wilson had spoken briefly about this at a recent Policy Committee meeting, and seemed to be against using the "3 P" funding because we would lose control. VP Decatur noted that a major concern about 3P is that the debt would be on our books even though we would not control the complex. A member asked about the Forrest Avenue property and VP Decatur noted that could likely be done using 3P, since it is removed from the core campus, is for graduate students, and is apartment-style housing.

A private equity and private debt alternative may be better for DeRoy. Private equity group's debt would not appear on our balance sheet. To maximize private equity and avoid too high a rate, we would likely own a ground lease and it would be 25-40 years before the property would revert back to us. A member asked whether the University would still be able to set the rate charged students and provide appropriate student life experiences, which are especially important for freshman and sophomores. VP Decatur indicate those details would presumably be a part of the negotiation, but of course the private equity firm would want rates that provide a return on investment, pushing rates to competitive market rates. Another member suggested that using private equity and private debt financing would likely cost us more than just using debt. Or if we use private funding, we should negotiate for a fixed cost to students for the term of the period private equity controls. VP Decatur indicated that would likely work for graduate housing, where we would simply lease the land, but not for undergraduate. Provost Winters noted that there are Business School living and learning floors in the Towers, and these are important parts of student life.

Another member noted that there is nothing in the Strategic Plan about housing, but the target goal of 30,000 students suggests that it would be a real issue, since our current student body is around 27,000 and interest in campus housing seems to be growing.

- c. Capital Outlay (This item was discussed after the discussion of the Development topic, but is included here to avoid separating out from the general budgetary discussions with VP Decatur. Jim Sears was present for this discussion.)

The main item in the Capital Outlay proposal is the renovation of the Engineering Library to form a STEM Innovation Learning Center. The request is for \$30 million with half of the cost from the State and half from fundraising and a new bond issuance. This project originated 3 years ago as a new construction proposal. With the decision to close the library, the administration focused on the possibility of renovating the space for instruction. The Capital Outlay proposal was refocused on the benefits of job creation and existing building utilization, and the team is fairly confident that this proposal has a good chance of winning State support in this round. We should hear in early spring.

VP Decatur noted that much of the discussion in the report is required responses to a series of questions about facilities. Members asked about the ranking of items in the 5-Year Plan, and were told that student housing, State Hall, and \$8-10 million for renovation of Manooghian remain high priorities. A new Facilities Planning Council will begin functioning in early winter to develop a Master Plan, since the last update was in 2001. The Council will consider how to handle deferred maintenance (with upwards of \$500 million in projects already existing) and prioritization of other projects. Members asked who would be on the Council and were told it would include representatives from the Academic Senate, Deans, Chairs, Students—essentially a cross-section of the University community. The Chair urged that the group include enough faculty voices to get a cross-section of disciplines involved in the discussion.

There was some discussion about the University's current debt capacity. Wayne debt is currently rated at AA-, while many universities are at A1. To maintain our current rating, we can take on about 125 million of additional debt and pay off about 15 million a year on principal. The question under consideration is whether we are willing to take on more debt, even though it means a downgrade in the debt rating. Our peers—e.g., the University of Cincinnati—have certainly done so.

Another member noted that the competition with Oakland in Macomb County has intensified and requires us to increase efforts to have an integrated budget that provides for appropriate enrollments and facilities planning in that area. Provost Winters noted that ATEC has drawn increasing numbers of students, as testimony to the importance of the area.

2. Development Budget Growth, Performance, and Expectations.

VP Chacona Johnson and Associate VP for Individual Giving and Campaign Director Tracey Utech with Roy Muir from Marts & Lundy shepherded a discussion of the changes in the Development Division since the 2012 decision by the BoG to increase its budget, primarily to hire a number of new Development professionals.

VP Johnson noted that the special events planning that had been located in Development had been moved to Marketing, and the responsibility for alumni events and interactions had been shifted back to the schools and colleges (S&C). Development had purchased a database in 2011 that is intended to provide strong support to alumni contacts and fundraising for S&Cs—that project (which required considerable work) was completed in 2014 and the database is in use.

VP Johnson went through a powerpoint presentation (copied to the Committee). Since the 2012 report, Development has hired an Assistant VP for Advancement, various staff in Communications, and various project research staff. Communication staff handles such things as the Engineering School's Dinner video and over 300 media, video, proposals and information sheets for fundraising purposes. Additionally, the Division restructured its Corporate Foundation office, adding a couple of people there. The Division has focused on Major Gift goals, and identifying the prospect potential for each unit. New Major Gift fundraisers are at various S&Cs, and there has been good collaboration with the Deans,

including an emphasis on training in development activities. The Principal Gifts office has also expanded with new personnel.

In response to a question, VP Johnson noted that there was no internal Development Policy Advisory Group with deans and faculty; instead, the Development personnel meet frequently with Deans to help with training, and reaching out to prospects. Responding to another question about the high salaries paid in Development and the earlier statement from former VP for Development David Riddle that, for competitive purposes, Development salaries were being raised across the board (including for new hires and for existing Development staff) to within 15% of Michigan's salaries for development personnel in similar positions, VP Johnson stated that the new Development salaries are "nowhere near Michigan's Development salaries."

Further changes in Development include removal of FMRE from all calculations of staff productivity (though FMRE still appears in the University's budget document as a boost to Development numbers). And in line with a recommendation in the Academic Senate committee's report, the Division has focused on providing adequate training sessions for new and existing staff.

Major Gifts are housed in the S&Cs, though they report to Tracey Utech and do not directly report to the Deans. Nonetheless, the S&Cs are reviewed during the budget allocation process for their success in philanthropy. A member noted that the review process doesn't seem fair, since it holds S&Cs accountable for Development success (or failure) and misses the Academic Senate Committee's point about accountability (and the importance of responsibility with accountability resting in a decentralized arrangement). Provost Winter indicated that the intent is that the deans' increases in salary be tied strictly to their success in fundraising—both through the salary process and the budget review of the schools.

Committee members asked whether salaries are being effectively linked to performance and increased productivity. The Chair reminded VP Johnson of the Academic Senate Committee's concern that staff had not performed any better than the "average" and that statistics on calls and emails seemed to be sufficient for productivity, even when actual fundraising success was only half as successful as most of our peers. For that reason, the Committee had urged a goal of doubling productivity (using the dollars raised per dollars spent ratio) within 3 years and then increasing again within another 2 years. VP Johnson indicated that Development looked at these statistics on a pool basis rather than applying those kinds of productivity targets to individual Development staff. Assoc. VP Utech noted that schools had raised significant gifts, citing the School of Nursing's recent major gift. Members asked for some information about the way that Development pushes Major Gifts officers to produce—such as whether there have been officers let go for failure to raise money at the targeted rate. Since Major Gifts officers were apparently not functioning well two years ago, what changes have there been, if any, in those officers. Were salary increases denied to unproductive staff? Are funds being raised at a higher productivity rate? [It was not clear whether the Division has improved "on a pool basis" in its productivity since the report (capital campaign fundraising and extra resource allocations also have to be taken into account in calculating a funds-raised-per-dollar-expended ratio).]

Roy Muir, who has an ongoing consulting contract with Development, answered that there are two aspects of account and performance management: whether the team as a whole is meeting the goals set, and whether individual staffers are identifying prospects,

appropriately contacting those prospects, and soliciting gifts. Muir claimed that productivity statistics (dollars raised per dollar expended) are appropriate to set as targets at the “team” level, but that it is not appropriate to impose a productivity goal on individual fundraisers. If fundraisers increase the number of identified prospects and the number of phone and email contacts and the number of “asks”, then you “know the result will be an increased number of gifts.”

Slides 11 -13 show the decline in budget increases compared to the 2012 BoG approved amounts, resulting in approximately 4 million of new funding by FY2018 instead of 5 million. A total of 31.5 new positions have been added from FY 12 to FY 15 (including some in S&Cs supported by an additional \$675,000 in S&C funding beyond the increases to the Development Division).

The amount of funding from FMRE has declined as a contributor to the “total dollars raised, including FMRE” statistic, indicating greater fundraising success with the capital campaign underway. The “return on investment” (ROI) ratio (total \$ pledged/total Division budget) has moved from 6/54 in 2013 to 7.76 in 2015 as the budget has moved from just under \$8 million to \$10.5 million. These numbers don’t include the \$40M Ilitch gift for the School of Business, which will be in FY16. (This is a \$40 million gift for construction, which will cost an estimated \$50 million, and a \$5 million endowment gift. This is more than typical building gifts, according to Muir, which run about 50% of total construction cost.)

Members asked what the comparable ROI is at our benchmark institutions now: presumably it has gone up in the intervening years since the mid-summer 2011 Marts & Lundy report. Muir answered that is a “dicey issue.” Clearly, Muir said, Wayne’s campaign is in progress; and the productivity is not up to the level it should be yet. It is hard to come up with a meaningful ROI figure to target; a lead in time is required for changes to take effect. Nonetheless, he estimated that a comparable benchmark to the 9.8 average among our peer institutions in 2011 would be at least around 10.8 in 2015 or possibly more, with the result that the Division is still performing considerably behind our peer institutions.

VP Johnson reviewed the success of the campaign (slide 17). Members asked about the use of the database (mentioned at outset), and VP Johnson indicated that it went live in 2014 but the “second phase” should come online in December of this year, with the “third phase” in 2016.

The slides (slide 18) note 26 new endowed faculty positions and 151 new student support endowments. VP Johnson indicated that asking for support to endow faculty is “the hardest ask to make.” Members Romano and Beale noted the importance of creating a variety of faculty endowment possibilities and successfully raising these funds. Endowments are reflected in faculty titles, and a comparison of our faculty with other schools shows a veritable dearth of such titles. It has an enormous impact on reputation, both for individual departments and schools and for the University at large. Asked what Development was doing to make different faculty endowments more possible to raise, VP Johnson noted that it can’t be done without a prospect who wants to do it, and that the deans will need to make that a priority, which they haven’t in the past. Currently, it requires \$1.5 million to endow a chair and \$750,000 to endow a professor title. Beale again suggested that the University needs to create a variety of possibilities at a lower dollar amount. VP Johnson said the University does have some but that the discussion simply hasn’t been given high priority.

The endowment has increased from \$248 million in 2012 to \$303 million in 2015 and is managed by the Foundation's Investment Committee, which has a very conservative asset allocation, resulting in fairly low returns during high return eras.

The group discussed the facilities fundraising failures in connection with the iBio building and the Student Center building, both of which were presented to the Academic Senate in early discussions as to be supported by significant Development funds that did not pan out. VP Johnson noted that the fundraising goal was set without consultation with Development and after the project was underway, when it is very hard to create an appropriate study or find a natural consistency to support the project.

A member asked why the SoM has not been able to take advantage of its size and significant number of alumni to raise considerable funds to support innovative programs and needs. VP Johnson answered that the School has raised a significant litch gift supporting surgery and several 'seven-figure gifts'. A member noted that the Karmanos Institute has had a very successful "Grateful Patient" initiative and wondered why the SoM cannot do something similar. VP Johnson answered that it is harder when the University does not own the hospital, but we are looking at that option.

Another member asked about the effectiveness of the new database and whether all alumni contacts were included. VP Johnson was enthusiastic about the database, but did not provide much details about what information is included.

Time being short, the Chair asked VP Johnson to circulate the slides to the committee, and to provide some additional information as followup.

The slides have been distributed to committee members since the meeting. Set out below is the information provided by PV Johnson on November 6 in response to specific questions from the Chair.

How much money was invested to restructure the vacant corporate/foundation office to focus on each unique discipline?

In FY12, during the first year of the restructure there was actual salary savings of \$22,994 due to a reassignment of a current team member to corporate relations and the hiring a new foundation director at a lower rate than the previous director. In order to increase the productivity of these offices and to provide the needed support to schools, colleges and units, we have invested additional support totaling \$ 271,460 (\$63,000 corporate; \$208,460 foundation) to these operations during the last three fiscal years (FY13-FY15).

There has been significant return on this investment as you can see in the chart below:

Year	Corporate Dollars Raised	Foundation Dollars Raised
2012	\$ 798,000	\$ 2,443,214
2013	\$ 5,123,023	\$ 8,779,222
2014	\$ 5,591,676	\$ 7,763,480
2015	\$ 7,728,832	\$ 15,449,773

How much is the ongoing Marts & Lundy contract?

We expect Marts & Lundy campaign counsel to cost us \$114,000 during FY16. It is an estimate depending on the number of onsite visits to campus including ongoing counsel with Deans and Directors and their fundraising teams.

What were the salary costs for the staff growth of 31.5 positions from FY12 to FY15 outlined on page 14 on the presentation?

\$2,961,136

As I mentioned I will be presenting to the Academic Senate Research Committee on December 9 and I'm currently preparing detailed information on the 26 new endowed faculty positions and support funds mentioned on page 18 of Monday's presentation. I will forward you this detailed information following my presentation to the Research Committee.