

Minutes of the Budget Committee of the Academic Senate Meeting of November 28, 2016

Present: Linda Beale (Chair), Thomas Anderson *****, Joseph Artiss, Victoria Dallas, William Decatur***, Anthony Eid*, Brian Edwards, Ewa Golebiowska, Diana Goode***, Mahendra Kavdia, Christopher Lund, Santanu Mitra, Louis Romano, Heather Sandlin, Richard Smith, Beena Sood, William Volz

Absent with Notice: Christine Chow****, Donald DeGracia, Steve Lerner, Charles Parrish, James Sondheimer**

Absent without Notice: Nancy George, Bryan Morrow

Invited guests: Provost Keith Whitfield

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

The meeting began at 11:05 am.

1. Approval of Minutes from November 14, 2016.

A motion to approve was made and seconded. There being no corrections, the minutes were approved as drafted.

2. Update on University Budget Matters and Review of Board Documents, with Vice President William Decatur and Associate Vice President Diana Goode.

a. Update on Current University Budget Matters

- i. Fall Enrollments and Budget Planning. AVP Goode reported new information regarding the decline in professional enrollments mentioned at the last (Nov. 14) meeting. Both Law and Pharmacy increased enrollments by 8 students, while the School of Medicine suffered a 42 student overall decline from last year. Pending verification, that includes both retention declines (apparently 22 students) and a lower first-year enrollment than anticipated.

Several members voiced concern about this significant shift in enrollments in SoM, where there is generally a waiting list of students and where loss of students from first into second year is rare, with at most one or two students falling out. AVP Goode indicated that the office is triple-checking this information, which was first cast as entirely a retention issue but has now been interpreted as both retention and first year enrollments. The budgetary impact is mitigated by the increases in Law and Pharmacy, but, as Prof. Romano noted, it represents at least a \$2 million cost to the campus (roughly 40 X \$50,000 each). There was some speculation about the probable causes. One member noted the push from LCME to increase minority enrollments and the expected increase from one to 40 African American students: it is possible that those students were siphoned off by the University of Michigan. Another questioned whether the current budgetary situation in the SoM and the public discussion of

the detouring of faculty could have had an impact on enrollments, but members from SoM did not think that would be likely to impact students.

ACTION: AVP Goode will provide an update of this information as soon as possible, with specifics regarding SoM retention and first-year enrollment losses.

- ii. Budget Planning Council and Transition towards a New All Funds Budget Model. The Budget Planning Council will establish two sub-groups, one on tuition and related issues, the other on policy and procedures. The goal of the tuition group is to develop a new tuition policy that is 'revenue neutral' but less complex than our current policy that has different rates for lower and upper level undergraduate courses and a complicated fee structure. It has been observed that the dropoff in student retention occurs at the transition from sophomore to junior year when the tuition increases significantly without any related increase in financial aid. The policy group will consider how to move the University towards a more transparent budget process. VP Decatur noted his desire to eliminate the carryforward and tax mechanisms that currently act as disincentives to the schools and colleges, since they are not allowed to set aside funds for future needs under the current system.

In the past, presentations to the Board of Governors have focused on the General Funds accounts, and to a lesser extent on Auxiliary budgets. Because money is generally fungible and some funds could be in surplus while others run short, it is important that the University develop an All Funds Budget process. The goal is to have a full All Funds budget for the next fiscal year.

Members asked various questions related to this discussion. Would the tuition policy likely revert to a flat rate for undergraduates? VP Decatur was reluctant to speculate prior to the Budget Planning Council review process. Would the tuition proposal, whatever it is, be revenue neutral? VP Decatur indicated that it should be, but that it might require working with the State to allow some changes in policy regarding the relationship between fees and tuition, as done at another institution at which he worked. Is the State supportive of this move and what do we know about other institutions in the State moving towards different tuition models? VP Decatur indicated that he had not yet held any discussions with State officials on this issue and expected to consult with our governmental relations office as the first step in that process.

The larger change will be to move towards "responsibility centered management" (RCM). This has been a goal of the President but it is a major undertaking that will require considerable benchmarking, development of models, planning and "buy-in" from the University community. Most schools that move to RCM do so over a three-year period because there is danger of problems if the transition is rushed. VP Decatur noted the current model's Budget Steering Committee (with 5-6 people including one Academic Senate representative) was likely too small for this kind of process. He expects that a 25-30 member Task Force will be established. VP Decatur expects to ask the Academic Senate, Deans, and VPs for representatives, to include BAOs, faculty, and academic administrators such as chairs and associate deans. The Task Force would have a number of sub-groups to consider topics such as revenue allocation, cost allocation, strategic fundings, incentive and performance funding, infrastructure support, implementation support, commercialization, and school & college communications.

Members had a number of questions about the process. Brian Edwards asked whether there are Michigan schools with such models. AVP Goode answered that Michigan and Central Michigan have such models. Edwards cautioned that faculty time is precious, and that these types of committees are costly to faculty productivity in other areas. Brian Edwards also asked whether there is any part of the budget that is allocated by faculty as a group rather than by administrators. Lou Romano noted that the Academic Senate has no budget, but when it needs equipment, it makes a request to the Provost and generally finds support. The Chair noted that each academic unit (schools and colleges and departments within departmentalized schools) have Budget Advisory Committees established under the collective bargaining agreement that are elected by the faculty to have a voice in use of funds within the unit. VP Decatur noted that the establishment of the Budget Planning Council, with several faculty and the President of the Academic Senate as well as the Chair of the Senate's Budget Committee was intended to move from decision making by a single administrator with limited input from faculty at the executive-level steering committee to more transparent and broad based consultation on budgeting. Bill Volz noted that the Business School departmental committees have a strong voice on travel funding, graduate assistant allocation and similar budgetary issues. As we move to RCM, VP Decatur noted, more responsibility will devolve onto the deans and they will necessarily discuss these issues with their faculties. Richard Smith asked what role consultants would be likely to play in the development of new budget processes. VP Decatur indicated that he saw only a limited role for consultants, at best: higher education institutions tend to share information freely, and there is a considerable amount of experience with movement to RCM. At most, he might use a low-cost, as-needed consultant for specific issues.

b. Discussion of Board of Governors Budget Committee Documents

- i. Major Capital Projects (see chart in Board of Governors documents).
 - a) VP Decatur noted that the Thompson conversion, which had faced some delays, was now in progress.
 - b) The electrical infrastructure conversion from PLD to DTE is facing considerable delays from DTE's end, with a target completion date that could be as far out as 2020 now. The Chair asked whether that delay was likely to result in increased costs, due to the need for more temporary or transitional repairs and equipment replacement. VP Decatur indicated that it is hard to know, though that is a possibility.
 - c) The Hilberry performance complex reassessment is currently in progress, with hopes that the study will be completed in the winter (perhaps in March) so that the results can be taken into account in further planning for Board approval.
 - d) The Anthony Wayne housing project is underway, with a summer 2019 planned completion date.

Various members asked about the planning for a day-care center, noting that the Housing director was not a strong supporter and that it might be easily dropped without sufficient attention from above. Joe Artiss and AVP Goode noted that the day care group has discussed three possible locations for the University's first day care center, each

of which has advantages and drawbacks, and that no definite decision had been reached. The three locations are: Anthony Wayne housing project, older home near the Welcome Center, and the Towers residential area. Lou Romano expressed concern that remodeling the older home would take about \$3 million and might make the project undoable. AVP Goode noted that it does have potential as an ideal drop-off site and protected playground area. In response to a question about the capacity planned at this stage, AVP Goode responded that the plan is for 10 to 12 thousand square feet. It is expected that faculty and staff as well as students will be able to utilize the facility, although it likely will not satisfy the full day care needs on campus.

Further questions arose about the prioritizing of undergraduate housing when the University in the past used the availability of graduate housing as a recruitment tool. Lou Romano asked why not reserve a part of the Anthony Wayne complex for graduate students, including families? VP Decatur agreed that might be a need, but noted the immediate demand for undergraduate housing and the sense that the undergraduates subsidize the rest of the University. Lou Romano questioned that conclusion, noting that in years past, the graduate student enrollment exceeded the undergraduate enrollment, and they generally pay higher tuition. DeRoy was once a graduate student facility and the departments used that in recruiting graduate students. Richard Smith asked whether graduate apartments were in the pipeline. VP Decatur noted that the five-year plan included graduate housing, but that there were no specific plans at this point. Historically, most campuses leave that to the off-campus market. One of the peculiarities of the current Detroit market is the increase in rental rates for housing near campus, resulting in a relatively high market rate for both undergraduate and graduate students who live off campus. Others agreed, providing anecdotes of graduate students searching for housing and staying in a variety of temporary situations while trying to find a place that was both safe and affordable.

There was a brief discussion about the movement of current Wayne State residential facility custodial and maintenance employees to Corvias in connection with the new project management, while retaining Wayne State residential life employees (directors and RAs) in all the buildings. The shifted custodial and maintenance employees will maintain their union (though it will now be under the rules for private rather than public and will have a different pension plan, but employer contributions will be equal to or greater than Wayne State's.)

- e) The Academic Senate has asked that the Capital Market Planning Document be reviewed with the Academic Senate Budget Committee before being submitted, but apparently that was not done this year. VP Decatur indicated that he thought the new committee that had been set up had served that purpose, but Lou Romano, who serves on that committee, noted that it did not meet. VP Decatur indicated that the stem project was again put forward. That project had been highly rated by both legislative houses and the Governor in the last budget cycle, but the conference committee jettisoned those projects to support "pork barrel" projects for their own districts, so the Division made a number of minor modifications to address issues like space utilization that had scored less well and submitted. The Chair noted that perhaps we

should lobby to get a representative favorable to southeast Michigan on the conference committee.

- ii. Development of Criminal Justice Building and Lot 11. The Board of Governors is expected to approve a series of transactions relating to sales or ground leases of several properties on Cass—the old Cadillac building (opposite the police building) and parking lot 11. Peter Cummings, a real estate developer, will buy the Cadillac Building (itself bought by the University about 10 years ago) for \$2 million and will contract for a 70-year ground lease for surface Lot 11 (currently providing 220 spaces for University parking) with options for three renewals for an additional 30-year total. The building will be restored, with appropriate utility and road infrastructure, for 12,000 square feet of retail space and 181 residential apartments (and, possibly, condos), with the University having a perpetual lease of about 6000 square feet for a ground floor Art Gallery (with \$2.4 million of University-financed renovations, which Dean Seeger claims he can raise \$2 million in donations to finance). The parking lot will permit the construction by the developer of a parking structure, in which the University will have a perpetual lease for 220 parking spaces. In return for the perpetual leases, the developer will make no payments on the ground lease for 20 years. The University will pay its pro rata share of operating expenses for the parking garage annually. [Bill, what is the cost in time value of money to the University for the delay in payments on the ground lease, or is the amount of the deferred payment grossed up sufficiently to cover the delay?] The developer will also have an option to buy part of Lot 11 if he does include condos in the plans, because financing organizations will not support condos where the developer only has a ground lease.

[Board documents indicate¹ that funds from the sale and the ground lease will be used for the following purposes: relocation of Geology's rock collection to Western University and to Holden warehouse; relocation of the salt bin currently located on Lot 11; the University's outside legal expenses associated with the sale and lease arrangements; and the University's share of the construction cost of the Art Gallery space.]

The members of the committee noted their surprise at the inclusion of this item, since none other than Bill Volz recalled receiving any information about it in the last 3-5 years, although the Board documents indicate a nonbinding MOU was signed with the developer in April of 2015. VP Decatur indicated that he had understood that this had been well vetted, since the discussion had been ongoing for some time. Bill Volz noted that he had been invited to a meeting with the President and the developer and thus he personally had knowledge of the transaction.

Committee members generally noted that they understood that the Cadillac Building was in need of considerable investment to succeed and that the University had apparently been unable to come up with appropriate plans, so the Cummings plan seemed a good idea, on the whole. Further, they appreciated the idea of having the University's art collection moved from the basement of Old Main to a street-level address that could attract more visitors. The main concerns are primarily, the fundraising promise for handling the

¹ The information in this bracketed paragraph was not discussed at the meeting but in the relevant documents.

renovations for the Art Gallery space and secondarily, the financing of the deal (the deferment of the ground lease payment and, possibly, the adequacy of the price compared to the relatively recent purchase of the building by the University).

The Chair noted that Dean Seeger has stated on numerous occasions to this group and to the Policy Committee that the reason fundraising for the Hilberry complex has been slow and less than we thought appropriate was because the DIA fundraising in connection with the Detroit bankruptcy and threat to the DIA's collections had "drained" the area's arts donors of fundraising potential and thus imposed a strong barrier to fundraising for the arts that was likely to last quite a while. VP Burns has verified that claim, noting that it is improbable that additional donations could be raised to support the Hilberry project, even though that project is likely to cost considerably more than originally projected almost a decade ago. Yet now we see that another project to support the School is planned, with the suggestion that an additional \$2 million can be raised. We find those statements contradictory, and thus are concerned that either the Hilberry fundraising will fall short or that the Art Gallery fundraising will fall short, or that neither will meet its goals. Further, because the Cadillac project will go forward based on the developer's timetable and not ours, it will be necessary to raise the \$2 million very quickly, or the University will have to use its own funds. VP Burns has made clear that fundraising for construction projects is generally unsuccessful once construction is underway. These facts leave us dubious about the source of funds for the Art Gallery project.

Heather Sandlin asked whether the residential complex planned would provide additional housing for students. VP Decatur answered that this housing would not be accessible to students since it was planned at market rate (\$2.15 per square foot) and would likely rent for considerably more than University housing.

Anthony Eid asked whether we had an estimate of the investment the developer planned to make. VP Decatur answered that the developer has not shared that information with us, and is not required to. Joe Artiss asked whether the building would be renovated or razed. VP Decatur answered that the building will be saved. The second floor was a showcase for Cadillac with high ceilings and elegant fixtures, so the developer hopes to find a programmatic use for that space, with residential apartments being a second choice if it does not pan out.

- iii. The Committee discussed the status of establishment of a Master Planning Committee that would deal with these sorts of issues. VP Decatur noted that he had hoped that the new AVP for facilities would lead the master planning process, but the highly qualified candidate to whom the offer was made in the second search just turned the position down to accept a west coast VP of Operations position. Thus, we have extended the interim AVP and will delay renewing the search. That likely means a delay in the master planning process for some time.

There being no additional business, the meeting adjourned at 12:25.

NEXT REGULAR MEETING: JANUARY 23 at 11 am, preceding the January 27 meeting of the Board of Governors.