

## **Minutes of the Budget Committee of the Academic Senate Meeting of September 21, 2016**

Present: Linda Beale (Chair), Joe Artiss, Victoria Dallas, Bill Decatur\*\*\*; Anthony Eid\*, Donald DeGracia, Brian Edwards, Diana Goode\*\*\*, Mahendra Kavdia, Chris Lund, Santanu Mitra, Charles Parrish, Lou Romano, Heather Sandlin

Absent with Notice: Steve Lerner, Bryan Morrow, Richard Smith, James Sondheimer\*\*, Beena Sood, Bill Volz, Keith Whitfield

Absent without Notice: Nancy George, Ewa Golebiowska , Bryan Morrow, Lakshmi Nerusu\*, Susil Putatunda

Invited guests: David Hefner

\*Student Liaison

\*\*AAUP-AFT Liaison

\*\*\*Administration Liaison

The meeting began at 11:05 am.

*1. Approval of Minutes from June 20, 2016.*

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

*2. Discussion of the School of Medicine and its Budgetary Impact, with Vice President for Health Affairs David Hefner.*

VP Hefner provided an update from the prior discussions at the Budget Committee (including the March 28, 2016 meeting's detailed discussion) and outlined the administration's current view of the budgetary impact.

As discussed at prior sessions, the administration has moved forward on plans to (1) align chair and faculty expectations to set appropriate goals and metrics and encourage more grant activity; (2) continue the process of evaluating and talking with "underproductive faculty" with the expectation that the process may generate \$8 million in savings over the next 3-year period from a combination of retirements, separation packages and detenuing; (3) renegotiate the arrangement with DMC/Tenet with the ultimate goal of a more stable, longer-term partnership arrangement; and (4) bring cost savings into each area of the SoM's activities (including the affiliated practice plans) from which a hoped-for \$20 million may be saved over the long term.

We continue to expect a three-year transition to a fully solvent budgetary structure for each of SoM, FMRE, and UPG. VP Hefner noted that the ongoing investigation of these issues and attempt to raise expectations for faculty productivity have created significant pressure on the SoM chairs and Dean Sokol, as well as the faculty.

VP Hefner compared the FY 2016 year-end results (to be finalized Sept. 30) with the estimates at this time for FY 2017 (and some discussion of the expectations for FY 2018 and beyond) for UPG, FMRE and SoM/University.<sup>1</sup> The table below highlights the deficits for FY 2015 and expected for FY 2016

	UPG	FMRE	SoM	Total
FY2015 (actual)	<13M>	<13M>	<7M>	<32M>
FY2016 (estimated)	<3M>	<12M>	<3M>	<18m>

The main uncertainty for UPG for FY2016 stems from the Maple Surgery Center investor group, which should be responsible for a \$6 million capital call, but will likely declare bankruptcy instead, causing the UPG deficit (on a profit and loss basis) to soar to at least \$9 million for FY2016. (Hefner stated after the meeting that “actual cash will not be impacted since this is primarily a balance sheet transaction.”)

The main uncertainty for SoM for FY2016 stems from the ongoing negotiations between the University and those faculty who have been declared “unproductive” or “underproductive”. Some faculty have negotiated exits. Others have not yet signed paperwork on separation agreements and those potential settlements are not reflected in the \$3 million. Additional agreements and/or litigation of detenuing efforts may cost additional amounts.

In response to Vicki Dallas’ question, VP Hefner noted that the negotiation with Tenet is now moving forward again, with the most recent press stories about the stalemate in the negotiation in the past. VP Hefner indicated that date for a final decision is fast approaching.

Furthermore, the University has been focused primarily on UPG as the largest of the practice plans and has made considerable progress in restructuring that relationship and getting access to financial information and documents to assess current structural deficits and plans for moving forward. The University has not, however, made the same progress with the other practice plans, of which the Pediatrics practice plan (University Pediatricians or UP) is the most significant, with 280 faculty and likely a correspondingly large annual budget about 2/3 the size of UPG’s budget. At this point, those plans lack transparency and the University only has access to the audited financial statements, which do not provide sufficient information.

Lou Romano asked for clarification about the continuing inclusion of UPG deficits when University budgetary matters are discussed. Romano agreed that FMRE is relevant, since the University has already paid amounts (mostly salaries of clinical faculty) that were supposed to be covered by the amounts that it bills to FMRE for the so-called “Dean’s Tax”: that creates a receivable owed to the University and if it is not paid, the

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<sup>1</sup> Hefner noted that these numbers cannot be firmed up definitively until December, because of the different accounting systems used by the different entities: the University and SoM use a typical GASB (Government Accounting Standards Board) fund-based accounting method (focused on the General Fund, Auxiliary Funds and Restricted Funds), whereas FMRE (a separate, 501(c)(3) corporation) uses a hybrid cash/accrual method and the practice plans (also separate corporations) operate under FASB (Financial Accounting Standards Board) accrual accounting.

cash reserves tapped to pay the original faculty salary amounts do not get replenished. As we understand it, UPG's relationship is different, because UPG hires and pays clinical faculty out of its own proceeds. VPs Hefner and Decatur responded that UPG's finances (as well as the finances of the other practice plans) nonetheless matter significantly for the University, because insolvency of UPG would likely result in a loss of clinical faculty that are supported by UPG, leading to a decline in the SoM's reputation and ability to carry out its mission.

As for FMRE, that deficit reflects expenditures of University cash that haven't been replenished by payment of the FMRE receivable, so it negatively impacts the University's net assets. In response to the Chair's question, VP Hefner indicated that for FY 2017 (not reflected in the table above), the FMRE situation may be fully worked out but there could be an unpaid FMRE receivable in the range of \$2-3 million. (Following the meeting, VP Hefner indicated that the FMRE charges would be reallocated to either UPG or SoM depending upon the individual and the correct cost center and there would be no deficit in FY 2017. Further, it is hoped that FMRE will generate an investment fund of \$1-3 million that the Dean could use for targeted investments.) The Chair also questioned whether the University would attempt to claw back those unpaid receivable amounts over the next few years from FMRE. VPs Hefner and Decatur indicated that issue had not yet been decided, but rested currently with the President (and, ultimately, the Board of Governors). VP Hefner also noted that the FMRE monies for "subsidy condition clinical faculty" will be eliminated as part of the restructuring that is underway, with those costs being moved to UPG or SoM as appropriate. In other words, that change will not affect the total costs, but will move the costs to the appropriate entity, which should result in more appropriate and accountable management of those costs. Relatedly, the "Dean's Tax" supporting FMRE will be reset to between 4 and 5% (instead of the current 8.7%). The upside is that the entire Dean's Tax will ultimately be used by the Dean for the medical research and education purposes originally intended. Historically, only about one-third of the current Dean's Tax actually went to the Dean for such uses; about two-thirds of the Dean's Tax was cycled back to the clinical departments, likely to support clinical faculty rather than aligning with SoM priorities.

If the aggregate deficit remains around \$10 million in FY 2017, the Chair asked how the University expected to deal with that: there will come a time when the University can no longer sustain that impact on its resources. VP Decatur answered that this is perhaps an even bigger problem than appears, because of the way we have allowed units to spend carryforwards, which also come out of unrestricted net assets. *In short, there is more spending authority on the books than there are assets to cover that spending authority.* This is one of the reasons for the Budget Planning Council and discussion of moving to multi-year all-funds budgeting so that there are definitive plans and reasonable accountability for spending.

In light of the new information about the Pediatric practice plan, Lou Romano asked whether there existed at this time a similar role for the SoM Dean or other University officials in the practice plan's governance. The answer, in brief, is "no." The Dean is not on the UP's board, and the UP is even less closely affiliated with the University than UPG. (Charlie Parrish noted that this is likely because of UP's protectiveness of its cash reserves.) The University receives audited financial statements, but those are insufficient, as noted above, to come to any reasonable conclusions about overall finances and provide no basis for long-term planning. Recently, the SoM Dean replaced

the Chair of Pediatrics, after a long series of discussions and several activities that were of concern. [After the meeting it was learned that the former Chair of Pediatrics, remains as head of the Pediatrics practice plan.] This, combined with the tense negotiations with Tenet and the concerns about faculty expectations, has created considerable stress among SoM faculty.

Joe Artiss asked whether the projected \$20 million or so in cost savings had materialized from improved billing practices. VP Hefner responded that improved billing has led to \$2-3 million of improved UPG collections for FY 2016, but that there remains much to do.

Charles Parrish asked about the status of the noncompete agreements. VP Hefner responded that these have been temporarily tabled, because of the anxieties around the Tenet negotiation, the implementation of a new FY 2017 all-funds integrated budget process, negotiations regarding faculty separations, and other issues. This was never a "Chair must sign or leave" situation, because the UPG Board, which includes six of the Chairs, affirmatively voted for noncompetes, with the implementation to occur in waves (Chairs, then Chiefs, then Departments), with a December completion date. Following that vote, however, the Board did not take the necessary steps to develop a plan for implementation and for handling problems in negotiations.

Student liaison Anthony Eid asked whether the SoM deficit had played a big role in the vote in June for a significant tuition increase. The response was that it played a part, but that students can expect that tuition will need to increase annually at or near the cap permitted by the State in order to fund the many needs of the University, since tuition accounts for about 65% of the operating budget.

Action Item: Share powerpoint presented at committee to be included with minutes (VP Hefner).

Action Item: Keep A.S.B.C. informed of developments with respect to Pediatric, Radiology, Emergency and other (non-UPG) practice plans (VP Hefner).

3. *Updates on Various Budgetary Items Not Included in BoG Documents, with VP Decatur and Interim AVP Goode*
  - a. *Fall Enrollments (see attached charts).* AVP Goode distributed a chart comparing Fall 2015 actual enrollments to Fall 2016 actual enrollments (overall gain of 104 students or 0.382%) and Fall 2016 budgeted enrollments to Fall 2016 actual enrollments (overall deficit of 103 students). In spite of the headcount shortfall compared to Fall 2016 budgeted headcounts, revenues should exceed the budgeted revenues, since the higher graduate count results in higher tuition payments, thus counterbalancing the lower undergraduate / lower tuition.
  - b. *Budget Planning Council (see attached charge to Council).* VP Decatur has established a new Budget Planning Council to advise the President on current and multi-year budget issues. The Council will necessarily take some "deep dives" into key budget issues, including tuition and financial aid. It is expected that the Council will meet twice monthly this semester and weekly during much of the winter term. Lou Romano questioned how setting of priorities for

spending will be decided, since the Strategic Plan is much too broad to provide much guidance. VP Decatur responded that this is under discussion at the President's Cabinet, but no decisions have been reached.

- c. *New All Funds Budget Model.* VP Decatur said that the new All Funds model would be in place by next year, replacing our "current funds" model (that includes the General Fund, Designated Fund and Auxiliary Fund, totaling a little over \$450 million) with the entire operating funds available (also including Plant, Restricted (from grants and contracts), Restricted Expenditure (from endowments), totaling about \$900 million). This kind of modeling is necessary to allow the University to plan ahead and think in multi-year increments. The goal is to make the University budgeting process holistic and transparent. A member asked whether the University is using "best practices" and AVP Goode responded that it is something that we are looking into and hope to improve upon.
- d. *Banner Assessment Project.* VP Decatur noted that the University implemented Banner as our ERP several years ago but did a poor job because we essentially forced the Banner system to work with many of our old systems, including the old Chart of Accounts, which limited or even defeated the functionality advantages that Banner should have brought to the University. Accordingly, VP Decatur appointed a group (on which the A.S.B.C. Chair served) to consider the best way to move forward to use Banner functionality more efficiently. The outcome of that process was a Request for Proposals for firms to assist us with identifying gaps between what Banner offers and how we use it and move towards best practices in the various areas (Human Resources, Finance, Student Information). The group was unanimous in concluding that Strata Strategic Group was the best choice, and the University has contracted with them at \$125 thousand for what will likely be a three-year project to bring the use of Banner into much more efficient functionality. Most of the work will be done by us, with the firm assisting us in identifying gaps we should address and developing implementation plans.
- e. *Business School Construction and Operation Budget Impact.* VP Decatur noted that the construction plan has been increased from \$50 million to \$59 million, which will be funded with a \$35 million gift from the Illitch family, an additional \$10 million of development funding (of which a significant portion has already been raised) and approximately \$14 million of bonds (perhaps less if philanthropic sums are greater). The Division is calculating the expected increase in operating costs, but does not yet have that calculated.

*Action item: Share calculation of increased building operating costs when determined. (VP Decatur)*

4. *Discussion of Selected September 23, 2016 Board of Governors (BoG) Budget and Finance Committee Documents with VP Decatur*

- a. *New Data Center.* The Committee reviewed the plan for construction of a new data center (in the parking lot opening onto Cass behind the current structure). The BoG is being asked to approve \$840 thousand for design phase contracts. VP Decatur

noted that the current structure had numerous problems, including roof problems and inadequate infrastructure. To renovate adequately would be more costly than new construction, and the new construction is timely given the change from PTL to DTE and the new transformer station. The construction is expected to cost between \$13 and 15 million and to be financed with bonds.

The Chair asked what plans were for the current structure and for replacing the lost parking (also an issue with respect to the Anthony Wayne housing construction). VP Decatur indicated that there was no decision yet on either of these issues. The Parking personnel insist that we have sufficient parking, but it is not as convenient or close as people desire. These issues likely need discussion in connection with updating the University's Master Plan.

The Chair also asked, on behalf of Richard Smith, whether the University had considered cloud rental as an alternative to construction. VP Decatur indicated that Daren Hubbard, our Information Technology VP, had investigated but concluded that would not be satisfactory.

- b. *Hilberry Gateway Project.* The Chair began by thanking VP Decatur (and the BoG) for listening to the faculty's concerns about the Hilberry project as initially planned for an earlier BoG meeting. We were pleased to see this decision to fund a renewed study of expected costs given the six-year delay from the original study and the likely impact on planning and costs because of the Valade Jazz Center gift and timetable. We also believe that more of the funding should be raised from donors, rather than relying to such an extent on bonding, since that limits the ability of the University to undertake other high-priority projects (such as classroom renovations). This new study is expected to report to the BoG at their March meeting.

The Chair asked whether it was still expected that the MacKenzie House would be relocated to provide part of the new workshop space. VP Decatur indicated that was one of the specific matters that this study would review.

- c. *Thompson Home Conversion.* VP Decatur pointed out that this project (expected to cost about \$5.4 million) could become part of the overall housing projects covered by the Corvias partnership (see below). It will renovate the Thompson Home to provide about 57 student beds and a living-learning community for the College of Fine and Performing Arts. Other schools already have such communities, including CLAS, Honors College, and Engineering.
- d. *Corvias Private/Public Partnership.* VP Decatur noted that the University had spent some time considering how to increase housing on campus within a structure that would keep new construction debt off the University's books. We ultimately went through an RFP and had two main contenders, EdR and Corvias.

EdR's REIT model was a more usual privatization model, but would have demanded a 9.5% return and a 75-year term, with all funds for the first 40 years going to EdR. Corvias's concessionaire model is somewhat different, and they are more experienced in military settings and relatively new to higher education, having contracted to apply this model, for example, for the entire University of Georgia

system and for Howard University. (This gave us a negotiating advantage, since they are eager to build on their initial contracts and consider us a prime client candidate.)

Under the plan, Corvias would create a Special Purpose Entity (SPE) that will issue bonds to investors (already identified at this time), with the bonds underwritten by Goldman Sachs. These bonds will be nonrecourse to the University and secured by housing revenue flows after funds for operating costs and reserves. Corvias is demanding only a 5% annual return (after the upfront payment), compared to EdR's 9.5%. (Half of that is due only if Corvias satisfies key performance indicators.) The SPE debt issuance would be used to defease the University's current housing debt (\$102 million), pay an upfront lump sum to Corvias, fund the new AnthonyWayne housing units, raze DeRoy, and renovate Chatworth (and possibly renovate Thompson House). Rent increases would be capped at 3% unless special approvals were granted, and the cash flow would pay the management fee to Corvias and provide funding for upgrades and deferred maintenance. They have agreed that their management will retain the custodial union benefits. The University will continue to run the Residential Life programs.

The term is 40 years, but there are various termination provisions. The University can terminate the management contract (with potential payment of up to \$1 million, depending on contracts), can terminate the relationship with Corvias as concessionaire in the first 10 years for cause and later for any reason, and can unwind the SPE and the concessionaire setup but only with a (modified?) make-whole payment to the bondholders.

The meeting adjourned at 12:40.

APPENDICES: Hefner Health Affairs Presentation; Decatur Budget Planning Council Charge Document

NEXT MEETINGS:

We have scheduled a special meeting, on Monday, November 14 at our regular time in FAB 3339, with Vice President for Development Susan Burns to discuss the Development priorities and performance, as well as the Business School, Hilberry and other philanthropic concerns. This is in line with our initial meeting last year with Development and conclusion that we should meet each fall with Development officers to discuss priorities and performance and any projects of particular interest.

The next regularly scheduled meeting will be on Monday, November 28 at our regular time to review materials for the December 2 BoG meeting.