Academic Senate Budget Committee (ASBC) Minutes
Special Joint Meeting with the Academic Senate Policy Committee,
the RCM Steering Committee and the RCM Task Force Leads

Meeting of October 15, 2018

Monday 11:00 to 1:00 p.m.
Room 4339 FAB[1]

Present: Richard Smith (Chair), Leela Arava, Linda Beale, Paul Beavers, Stephen Calkins, Mahendra Kavdia, Santanu Mitra, Rayman Mohamed, Bryan Morrow, Charles Parrish**, Ricardo Villarosa, William Volz

Absent with Notice: Dante Dixson, Heather Sandlin, Sudip Datta

Absent without Notice: NA

Liaisons: Jeffrey Bolton***, Kristen Chinery**, Bill Decatur***, Jasmine Coles*, Thomas Anderson**, Lou Romano,

Invited guests: Rachel Beatty, Ramona Benkert, Rebecca Cooke, Victoria Dallas, Joan Ferguson, David Hefner, Peter Hoffmann, renee hoogland, Jeff Kentor, David Kessel, Cheryl Kollin, Ben Pogodzinski, Brad Roth, Naida Simon, Jack Sobel, Lara Trocchio, Celeste Leguch

*Student Liaison
**AAUP-AFT / UPT Liaison
***Administration Liaison

The meeting began at 11:00am.

I. Approval of Minutes for Sept. 21, 2018

II. School of Medicine Update on HFHS 11-11:30 with VP William Decatur; VP David Hefner

VP David Hefner elaborated on media accounts about the Letter of Intent (LOI) with Henry Ford Health System (HFHS). WSU and HFHS will form a Health Science Center (HSC). This will not be a physical building, but a business entity (i.e., LLC) with dotted line reporting to the two partner organizations. All WSU physicians will receive an offer to migrate out of the current practice plan into a new plan at HFHS. WSU physicians may choose to remain in their existing practice plan and affiliate with DMC. Other health sciences may also be involved, but the details are still being developed (e.g., Nursing, Social Work). The LOI is with the portion of HFHS called the "Henry Ford Network", which is the entity involved with clinical research on the Main Campus and West Bloomfield campus. The governance of the LLC will be appointed by the WSU BOG and HFHS Board. The HSC will touch undergraduate

[1] For both the 15th and 22nd.

medical education (e.g., public health, pre-med), graduate medical education, health programs, research, and support infrastructure.

Lou Romano asked about credit for Federal grants. VP Hefner replied that WSU would get all attribution. HFHS will retain credit for current grants, but renewals would be credited to WSU.

Rayman Mohamed asked what HFHS would get out of this deal. VP Hefner explained that HFHS realizes that they cannot be the kind of institution they want to be without us. They have had academic partners in the past, but the physical distance and other issues led to the dissolution of those partnerships.

Lou Romano added that he had been involved in meetings with the WSU BOG about replicating the Pittsburg Model to enhance clinical research by creating a virtual cycle from the partnerships between hospitals and academic institutions. This partnership reduced duplicate costs, creates new partnerships and brings higher margins and is now one of the top 10 in the world.

VP Hefner noted that HFHS does $100 million in clinical research of which about $70 million is clinical trials. They do virtually no basic science, so a partnership with WSU would be complementary. They are interested in team-based training and care delivery, for example.

Lou Romano asked where Karmonos fits into the new partnership. VP Hefner said that is to be determined. The status of the NIH/NIC projects are also to be determined. Linda Beale asked about the status of University Pediatrics and expressed concern about academic governance for the arrangement. VP Hefner said the nature of the relationship with Pediatrics is to be determined. There are currently 80 pediatricians at HFHS. Children's Hospital is currently managed by Tenant Health.

Lou Romano asked about how salaries would be handled. VP Hefner explained that HFHS would handle clinical reimbursements and then pay WSU for salaries.

Brian Morrow asked about opportunities for basic science cross appointments. This was taken under advisement. VP Hefner noted that the early 1990s was the last time WSU had an actual academic partnership that saw the beginning of the NIH Perinatal Research Branch. However, Tenant is responsible to its shareholders. The teaching contract will continue with the UPG.

Mahendra Kavdia asked for clarification on SOM salaries under the new LOI. VP Hefner explained that both research funding and clinical revenues would be governed under a funds flow agreement to make sure reimbursements for salaries and research expenses are made in a timely manner. This agreement will also articulate funding for academic support and support of the research mission.

Rick Smith asked about the status of Scott Hall. It will be considered as part of the broader master planning process and all options are on the table (e.g., renovation, sale, demolition).

III. <u>RCM Task Force Recommendations</u>

A. Revenue Allocations and Subvention 11:30-12:30, with RCM task force chairs, Jeff Kentor & Lara Trocchio; and VP William Decatur, additional members of RCM steering committee TBD.

VP Decatur began with an overview that the recommendations were the result of a two-year process in response to a charge from the University President. The task forces benchmarked their recommendations against other universities' experiences with RCM, with many considerations derived from Temple University's changing model for RCM. They explored different ways of doing RCM and different choices. The RCM steering committee and task forces met for 11 – 12 times over the last 18 months.

RCM task force chairs for Revenue Allocations and Subvention Jeff Kentor & Lara Trocchio stated two key ideas behind their decisions: 1) a desire for simple calculations and data collection; 2) the assumption that RCM would devolve to VP/Deans and it would be up to each VP/Dean whether and how to use RCM within their units. The schools and colleges (other than the Honors College and Graduate School) are considered revenue generating units and the remainder are non-revenue generating units. The task force recommended initially that the state appropriation flow to the non-revenue generating units because the budget for administration is approximately equal to the state appropriation. However, the RCM steering committee rejected this recommendation. Thus, the current recommendation is to allocate certain amounts from the State appropriation for Presidential strategic initiatives and subventions, and then allocate the remaining State appropriation to the revenue-generating units using a proportionality ratio (number of credit hours generated in the unit over total number of credit hours at the University). Each revenue generating unit will then be charged "cost allocation" amounts (based on various drivers) for administration units (including OVPR). ICR will flow directly to the units of the Principal Investigators..

Revenue allocations will be based on tuition revenues. For undergraduate instruction, the current plan is to allocate 75% to the School/College offering the course and 25% to the School/College of the student's major. This is the split used by the majority of schools on RCM (usually 75-25 but sometimes also 80-20). The Task Force examined other splits (e.g., 60/40) and concluded that it did not make much difference. Differential tuition will go to the School/College of the major that charges a differential tuition amount (at both the undergraduate and graduate/professional level). Graduate tuition goes to the School/College of the major. Lou Romano asked for clarification on the undergraduate tuition split and AVP Bolton clarified that a portion of base tuition still goes to the unit offering the course, only the differential portion goes 100% to the major for those that have a differential.

Brian Morrow asked what university is most similar to Wayne State that uses RCM and Jeff Kantor said they had relied most closely on Temple University.

Ricardo Villarosa asked when we would get a pro forma for RCM and AVP Jeff Bolton replied that the 2017 proforma would be ready in one week.

Lou Romano asked about how auxiliaries will be treated in RCM. AVP Jeff Bolton noted that auxiliaries like parking are already "self-sufficient" so they are already like an RCM model.

Charles Parrish, Lou Romano, Linda Beale, William Volz, and Victoria Dallas each raised questions and concerns about how RCM would impact the allocation of financial aid at different levels. VP Decatur pointed out that most financial aid is a tuition discount, so there are no funds to disperse. Under the current model, the $16 million currently being dispersed by the Graduate School to fund GRAs/GTAs will simply be an expense coming out of school/college tuition revenues. Charlie Parrish asked what the Graduate School would be left with? Lou Romano noted that responsibility for GRAs/GTAs have flowed back and forth and previously been invisible. One concern of RCM is that Deans may use GTA/GRA funds to cover administrative or lecturer/part-time faculty lines, resulting in less support for Ph.D. programs and ultimate loss of quality. Linda Beale stated that she understood that the recommendation was only to decentralize GRAs/GTAs and not the fellowships or training opportunities currently handled by the Graduate School. Bill Volz asked why we would not decentralize undergraduate financial aid and have equal funding based on need. Linda Beale suggested that some units might want the freedom in their recruitment efforts to provide more merit-based aid, but that centralization of the discount would apparently allow only need-based aid across all University undergraduate programs. Victoria Dallas suggested that financial aid via tuition reduction was a significant budgetary matter whose dispersal needed more consideration in RCM.

Jeff Kantor moved onto a discussion about <u>subvention</u>. It is clear that some revenue-generating units are currently operating at a deficit. Those deficits may be structural deficits (i.e., due to external factors, such as accreditation requirements or market-based competition for student enrollments, expanding tuition discount requirements) or non-structural deficits (i.e., due to internal inefficiencies such as inappropriate administrative overhead or poor allocation of instructional or research resources). Subvention is the process whereby the university supports units with a structural deficit in furtherance of the mission of the university as a whole. VP Decatur added that each revenue generating unit with a deficit will be expected to develop a deficit reduction plan with the goal of eliminating non-structural deficits rapidly once RCM takes effect.

Lou Romano asked where subvention comes from? AVP Bolton answered that it will come from the State appropriation. There was further discussion about the drivers for the allocation of State appropriation revenues. Linda Beale suggested that real transparency would require factoring in real market differences among the schools/colleges as drivers in determining the allocation of State appropriations to those units, such as average faculty compensation within a school over average University-wide faculty compensation, and other market drivers. Similarly, the cost allocations should be more sophisticated, which can be done without sacrificing understandability and transparency while achieving much greater fairness. For example, schools should be charged a "direct" expense for space that actually relates to the costs of their space—

specialized spaces such as labs and technologically advanced rooms should be charged more than non-specialized spaces such as offices and classrooms. Similarly, it seems inappropriate to charge graduate and professional programs for the many undergraduate student services, as the "general fund expenditure" driver does for Student Success, Enrollment Management, Undergraduate Student Affairs and other administrative services dedicated to undergraduate students.

Jeff Kantor responded that the revenue generating units will have to justify their subventions each year to the Budget Planning Council and prepare a deficit reduction plan and project changes over a 3-5 year period. Charlie Parrish asked how this is really going to be any different than what we do already? Linda Beale asked about perverse incentives—if all new revenues go to eliminate a structural deficit caused by external forces, a school/college would be disincentivized to be innovative. Kantor responded that with RCM units can keep revenue from growth. Linda Beal responded that it was not clear in a system that requires subvention reduction no matter what the cause of the subvention.

Naida Simon asked how the university would prevent schools/colleges from cutting revenue because they know they can just get more subvention? Lara Trocchio responded that you can't because that is one of the drivers of revenue allocation.

Mahendra Kavdia asked how units can increase revenues or reduce costs under RCM? Lara Trocchio answered that you can increase research and indirect cost recoveries to increase revenues and look at salaries for costs. [Note that only STEM disciplines get much external funding and ICR, while Trocchio's suggestion amounts to saying that you can just cut TT/tenured faculty and use lecturers to save money—Linda Beale] About half of revenue generating units need subvention.

B. <u>Cost Allocations 12:30-1:00, with</u> RCM task force chairs Peter Hoffmann & Rachel Beatty; and VP William Decatur, additional members of RCM steering committee TBD.

The co-chairs of this task force explained that the cost allocation method proposed is a hybrid system. Each revenue-generating unit will be charged fees based on three cost drivers: 1) credit hours, 2) square footage of usable space; 3) net general fund direct expenditures (e.g., salaries, travel, office, miscellaneous). Lou Romano and Linda Beale questioned the net direct expenditures as a driver. Linda Beale pointed out that 90-95% of a unit budget is compensation. She asked that future briefing documents itemize the cost drivers as well as what they fund so that faculty across the campus can understand how these drivers are working. The concern is that undergraduate student services costs are allocated disproportionately to schools with high graduate/professional enrollments through the credit-hour cost driver, thus non-transparently reflecting the actual costs of undergraduate education. Similarly, research costs (both start-up funding and other types of STEMdirected funding through OVPR and STEM departments and schools' laboratory and other specialized space costs) are allocated disproportionately to non-STEM schools and departments through the general expenditure percentage funding for OVPR and through the flat space funding for facilities (and for the direct expense item). AVP Bolton verbally reviewed some of the items in each. For example, the cost allocation based on percent of University credit hours funds undergraduate student services (~$95 million); the cost allocation based on general fund expenditures funds most administrative offices such as the President, Provost, OEO, contracts, OVPR, libraries, and community affairs (~$91 million), and the cost allocation based on space funds facilities (including debt service) and grounds (~$76 million).

Stephen Calkins asked about the tax rates and Peter Hoffman explained that the tax rates are TBD based on how much money is needed for non-revenue generating units in a given year. Lou Romano followed up for clarification and VP Decatur emphasized that the cost allocation is based on budget, not expenditures. He noted that as VP he would hold divisions accountable for controlling costs and that the budgets would be set in the annual budget planning process. Thus, they have stopped using the term "tax" because it is not a flat tax, it is an allocation of the costs of the budget set for non-revenue generating units based on the three 'drivers' of the amount each school/college must give up to support particular types of non-revenue-generating units.