BOARD OF GOVERNORS

BUDGET AND FINANCE COMMITTEE

April 1, 2016

Minutes

The meeting was called to order at 10:34 a.m. by Governor Kelly in the Garage Conference Room t TechTown, 440 Buroughs Street, Detroit, Michigan. Secretary Miller called the roll. A quorum was present.

Committee Members Present: Governors Kelly, Massaron, Nicholson, Pollard, and Thompson; Linda Beale, Faculty Representative, and Louis Romano, Faculty Alternate Representative; Zachary Rich, Student Representative

Committee Members Absent: Aaron Szpytman, Student Alternate Representative

Also Present: Governors Dunaskiss, O'Brien, and Trent, and President Wilson; Provost Winters, Vice Presidents Burns, Decatur, Hefner, Lessem, Lindsey, Staebler, and Wright; and Secretary Miller

APPROVAL OF MINUTES, January 29, 2016

This was Governor Kelly's first meeting as Chair of the Committee, and she thanked the faculty and student representatives for their hours of unpaid service.

> **ACTION** — Upon motion by Governor Massaron and seconded by Professor Beale, the Minutes of the January 29, 2016 meeting of the Budget and Finance Committee were approved as presented. The motion carried.

CONTINGENCY RESERVE

Associate Vice President Kohrman presented a request to transfer $14,357 from the FY 2016 Contingency Reserve to cover the final expenses for the search for the Dean of the Eugene Applebaum College of Pharmacy and Health Sciences. This would leave a balance in the FY 201 Reserve of $485,643.

> **ACTION** — Upon motion by Governor Nicholson and seconded by Governor Massaron, the transfer of $14,357 from the FY 2016 Contingency Reserve was approved. The motion carried.

FY 2016-17 PROPOSED HOUSING AND RESIDENTIAL LIFE ROOM AND BOARD RATES

Vice President Decatur presented the recommendation for the FY 2017 housing and room and board rates, and asked Mr. Tim Michaels, Associate Vice President of Auxiliary and Business Operations and Director of Housing, to give the presentation. Mr. Michaels reviewed the housing situation during the past year. A record number of students, 3,147, moved onto the campus, almost double the number prior to 2001 when the residence hall program began. Since about 2008, the residence halls and apartments have been full, with over 90% occupancy, showing that there is a steady demand on campus for student housing.

Mr. Michaels discussed the census data of students living on campus. Of the FTIACS (first time in any college) students, 979 or 38.2% chose to live on campus. Of these 29.3% were African American, adding to the diversity experience for students, and about 2% were international students. A chart illustrating campus housing as a whole, including undergraduates, graduates, apartments and residence halls, shows that about a third of the residents are international students. The average age of all resident students has been dropping, with about 73% being 19 years of age or younger.

WSU participates each year in a national benchmarking survey, where about 250,000 students ae questioned about their experience with on-campus housing. In almost all the categories except one, WSU results exceeded the national average. Mr. Michaels pointed out that over 90% of WSU resident students agreed that living on campus contributed to their academic performance and to learning. These results confirmed that the accommodations provided to students are supporting their academic success.

Mr. Michael then discussed the room and board rates and factors affecting the recommendation. In general, the typical freshman room and board cost for the current year (FY 2016) was $9,054, placing WSU's costs fifth among the 15 Michigan Public Universities. A chart of Housing's five-year operating statement showed that FY 2012 was the last year the housing system experienced deficits. Since then they have been successful in managing the expenses and growing revenues so that in the last four years the total deficit has been reduced by 40%. WSU does not have a freshman housing requirement for students but it does want to offer a bed to any student that would like to live on campus and also to provide the accompanying services and benefits. The University tries to be price-competitive in an increasingly expensive midtown market, and the Housing Department works closely with Financial Aid and the Admissions Office about the total cost of attendance.

The FY 2017 Housing budget will include implementation of the Ten-Year Master plan discussed at the January Board meeting. The division will continue investing in facilities to respond to customer demands, and will continue to maintain balanced budgets, positive cash flows, and reduction of the negative fund balance. Capital investments in the housing and dining facilities fall into three areas: 1) improvements in security consistent with recommendations and consultation with campus police; 2) maintenance of the building envelopes; and 3) regular updating of the dining facilities based on the franchise requirements. Funds have been set aside for the conversion of the Thompson Home into a learning community for the College of Fine, Performing, and Communication Arts.

In that context, Mr. Michaels presented the rate recommendations. Freshmen room and board rates would increase by 3.27% ($296) to $9,350, which represents the lowest percentage increase in five years, and the returning room rates will incease between 3 and 3.5%. The typical meal plan increase will be 3.83% and apartment rates would increase beween 2.8 and 5%. The cost-drivers are related to the start-up of the Master Plan. The University may need to lease some off-campus beds to help house the growing FTIAC class. Three floors of the DeRoy apartments will be converted to furnished rooms rented by the bed to encourage sophomores to leave the residence halls and make room for freshmen. There were no changes in the meal plan, but dining costs were driven by the CPI increase in food of between 2.5 to 3.5% and an upward pressure on staples such as beef, milk, and eggs related to difficulties in the supply chain. There will also be a significant wage increase for 170 students this year from $8.50 to $9.25, with an additional 5% increase in January, in an effort to stabilize student employment so that students stayed in their jobs as they were trained.

Having given the background information, Mr. Michaels presented the draft budget for FY 2017. He highlighted two figures. The General Fund subsidy will be reduced by a quarter million dollars, and the negative fund balance will continue to be reduced so that, if the budget performs as anticipated, it will be reduced to half of what it was in 2012. Mr. Michaels stated that they have tried to make the rate increases as reasonable as possible acknowledging the cost sensitivity of WSU students and the demand for housing on campus, and at the same time recognizing inflation and other cost drivers in the budget. The budget will reduce the deficit, thus putting more cash back into the University's cash pool, and the Division will continue to make investments in housing facilities to maintain the environment that students expect. Mr. Michaels concluded his presentation and asked if there were any questions.

Governor Kelly asked if the FY 2017 room and board rates will still place WSU in the lower third of the MPU rates. She also asked if the increases are driven by increased expenses and not by demand. Mr. Michaels responded that an informal benchmarking among the housing directors of the MPUs revealed that almost all will be raising their rates above 3.27%. In terms of what drives the increases, the division examines every expense line, reviews it over the past two or three years, and then projects the costs forward. Then it considers the revenue needed to pay for the costs and accomplish its goals, and that translates into the increases.

Professor Beale asked about the student wage increases in housing and dining, specifically whether there is a major difference in the amount that housing students are paid versus the dining students. Mr. Michaels replied that there is considerable competition for student employment on campus, and that both housing and dining already pay above the minimum wage average for the state. There is no major difference between the wages paid to the housing students versus the dining students. In housing there are probably eight or ten wage rates, depending on the job and ranging from $8.75 to $12 an hour. Most dining students are either serving or working in the kitchen, and most of them make about $9.25 an hour. Professor Beale's second question was about the General Fund subsidy of $1 million and at what point do they expect to eliminate it. Mr. Michael said the current Master

Plan calls for it to be reduced over ten years to zero, but they will try to accomplish that in the next five years.

Governor Pollard noted that more than 50% of FTIAC students in the residence halls are classified as belonging to various ethnic groups, and asked if this situation existed in any other university. Mr. Michaels replied that he was not aware of any such statistic at other public universities in Michigan. Governor Nicholson asked what kind of rent increases have occurred in Midtown over the years. Mr. Michael said that studies of about 50 apartment complexes were done in 2014 and compared to those done in 2010, and the average rate increases were about 6.5%. Currently new housing is being constructed, but it is at market rate and not student friendly. Rent is high, leases are for 12 months, and fees for electricity, cable, gas, and parking accumulate quickly. As a result, many students were living further from campus and commuting to campus from apartments they rented themselves.

Governor Thompson asked how the rates compare to the CPI, and whether students are being priced out of the housing options and negatively impacted in terms of being able to graduate or stay in school. Mr. Michaels acknowledged that the rates are higher than the CPI, due largely to the higher dining CPI, food away from home, which is the measure that is used. He added that the Housing Division talks at length with Financial Aid every year to coordinate with projected tuition increases. Students do not use grant money for housing; if they need funds for housing they take out a loan.

Governor Massaron moved adoption of the proposal before further discussion continued.

> Motion by Governor Massaron and seconded by Governor Pollard that the Budget and Finance Committee recommend that the Board of Governors approve the FY 2017 room and board rates as presented. In summary, the typical freshman resident room and board rate will increase 3.27% from $9,054 in 2015-16 to $9,350 in 2016-17. Room rates for a variety of accommodation types are proposed to increase varying amounts ranging from 3.00% to 3.51% and 2.80% to 4.98% for apartment rentals.

Mr. Rich noted that he had an issue with how the rates were presented as the lowest in recent years. The dollar amount of $296 is actually the second highest, with only the FY 2015 rates being higher. He said that as the prices go up, the percentages may be lower but the actual cost will be higher. He feels the presentation should be on the dollar amount rather than the percentage increase. Mr. Michaels replied that the rates have always been presented in both dollar amounts as well as percentages.

> **ACTION –** The above motion carried.

AUDITED FINANCIAL REPORT FOR FY 2015

Vice President Decatur presented the University's audited financial report and financial statements for the 2015 fiscal year. The documents were presented to and approved by the Board's Audit Subcommittee on February 1, and the auditors have issued an unmodified opinion that the financial statements present fairly the financial position of the University on

September 30, 2015 and its financial operations for the year then ended. Mr. Decatur recognized Associate Vice President Jim Barbret and Controller Tamaka Butler who prepared the financial statements and ensured that they resulted in clean opinions for the last four or more years.

Reviewing several highlights of the report, Mr. Decatur noted the increased revenues of $22 million, with tuition and fees accounting for $12 million of the increase. State appropriations increased by $34 million, of which $26.9 million was the capital appropriation for the iBio building, and $7.1 million the state general operating appropriations. The Capital Campaign has been successful, with increased university gifts of $9.8 million. On the downside, investment income was down $37.4 million. Operating expenses increased by $18.7 million due to the expected increased compensation and benefits, appreciation expense, and fellowships and scholarships. For the third year in a row, the overall net position for the combined university and foundation suffered a decline, decreasing by $8.1 million in FY 2015. Looking at the balance sheet, cash and assets decreased by $14.5 million, receivables increased by $25 million and capital assets by $37 million, reflecting the completion of iBio, the spending of the state capital appropriation and other capital projects funded by the University. Current liability remained constant, but changes in the non-current liability reflected the Faculty Early Retirement Incentive Program, Henry Ford's prepayment of their iBio lease, and the unearned value of Aramark financial investments. Unfortunately and more importantly, the Unrestricted Net Position decreased by $31.7 million, this field consisting of the General Fund, Plant Fund, Designated Fund, Expendable Restricted, and Other.

Mr. Decatur then discussed a few key financial ratios to help understand the trends and give more meaning to the financial statements. Each of the charts gave a recommended target and the Peer Group Median, with the Peer Group including urban institutions such as the University of Cincinnati, Georgia State, and St. Louis University, and WSU's trend from FY 2010 to FY 2015. The *Primary Reserve Ratio* measures the financial strength of the institution by comparing expendable net assets to total expenses, providing a snapshot of how long an institution could function using its expendable reserves without relying on additional net assets from operations. WSU's number declined from .5 to .37 over the six-year period. The *Viability Ratio* measures the expendable net assets against the long-term debt. Here also WSU's status declined from close to the recommended 1.0 to .65. WSU issued debt during this period to accomplish strategic goals and objectives, renovate and construct facilities, and also suffered a decline in expendable net assets. The *Return on Net Assets Ratio* measures total economic return and determines if the institution is financially stronger than in previous years. WSU's numbers varied significantly year to year, but have been negative four out of the six years. Finally, the *Net Operating Revenue Ratio* indicates how a surplus or deficit from operating activities impacts three other core ratios. If this ratio was positive, it would have a positive effect on all the other ratios. He noted the significant decline for FY 2015 to a –5.48%, reflecting the decline in investments for that year.

Vice President Decatur reported some conclusions, among them the strong need to reverse the current negative trends, and strengthen the balance sheet through innovative strategies. The University may want to review the currrent budget carry forward policy, saving one-time funds for long-term strategic investments, allowing general fund investments and Quasi-Endowments to support strategic academic programs, providing adequate base and one-time contingencies, possibly eliminating the yearly one-time tax on divisions, and establishing a mandatory fee for funding deferred maintenance in the annual operating budget. The last recommendation is something many universities have been forced to consider as a result of significantly declining state capital support for public universities. The University should continue to strengthen enrollment through targeted and focused enrollment strategies. Finally, a new budget methodology should be developed that would incentivize and reward desired performance and outcomes, provide transparency of revenues and cost structures, include all funds to provide a compehensive picture of all finances, provide for strategic investments, and engage the university community in the process. The goal is to incentivize good business practices and ensure an effective financial control environment, and to increase investment performance through changes in the investment policy that maximize opportunities but maintain an acceptable level of risk. Mr. Decatur completed his presentation and asked for questions.

Governor Kelly asked Mr. Decatur if he planned to report to the Board the progress being made on the initiatives. He replied that his goal is to begin bringing regular interim reports of the finances, investments, and capital projects to the Board, and he hopes to have the first report ready for the next meeting.

Governor Massaron asked for the definition of a Quasi-Endowment. Mr. Decatur replied that unlike a true endowment where the funds are restricted by the donor, a Quasi-endowment is unrestricted money that has been invested in an account that functions like an endowment. Some universities have encouraged deans to put aside one-time funds and invest them, providing an additional income stream for targeted programs. It is a strategy that can increase the university's wealth, letting it grow through investments, and putting a return into the academic programs. Vice President Lessem said an example would be the Limen Fund's donation several years ago to the Kresge Eye Institute of about half a million dollars. Rather than spend it at one time, K.E.I. invested $300,000 as a Quasi-Endowment and kept the other $200,000 as start-up money for the purpose of the grant. Governor Kelly asked if the funds can be spent once they are placed in a Quasi-Endowment. Mr. Decatur said they can, noting that is one of the key differences. In the industry it is called "Board Endowed", so that the quasi-endowment approved by the Board can be reversed, also by Board approval.

Professor Romano asked about the current carry forward policy, how would it be changed, and how much money is carried forward year to year for the schools and colleges. Mr. Kohrman replied that the current policy allows all entities to carry forward all their balances at 100%. However, a 1.5% tax is allocated against every school, college, and division operating budget. The current budget modeling system has areas with central accounts, for example, tuition and legal fees, and if there are pluses and minuses at the end of the year, they are collected in a central account. The intent of the 1.5% is to help with those variations. Mr. Kohrman said that when tuition revenues dropped significantly a couple of years ago, there was a negative amount in the central account where tuition is collected. There was no way to offset that situation because the carry forward policy did not provide enough money to cover that deficit. Therefore, the 1.5% tax allows the central accounts to make up for the deficits when they do occur. Several models of the policy exist, including one allowing units to keep their carry forwards, but taxing a portion. Other entities take all year-end savings and capture all the funds into the accounts at the end of the year, such as at the University of Colorado. At WSU, most of the schools and colleges ended up in a negative position because of the Early Retirement Plan and accompanying liabilities, so there was no carry forward for FY 2015. Professor Romano asked if the Quasi-Endowment policy was established as an incentive for schools and colleges to save money, would the tax of 1.5% continue? Mr. Kohrman said that the elimination of the tax would be a possibility. However, the last several years have seen declining budgets where the schools and colleges had to use one-time funds to operate. Quasi-endowments are a good idea when there are positive budgets and positive enrollment, but the last five years have been challenging, and the units need every penny they have.

Governor Thompson asked if the University has a debt policy and if periodic reports would be made to the Board, especially of any new debt the University intends to take on. Mr. Decatur said the University currently does not have an explicit debt policy, but his staff is working on such a policy that would describe the types of debt and the level of debt. He added that he is considering a periodic report on debt and risk management, investment performance, endowment, cash, and debt structure. Future debt issuances come forward primarily through capital budget planning and the identification of the need for a debt issuance.

Governor Pollard asked if there is any way of telling how many Quasi-endowments might be set up, and what would be the policy of how or where they invest. Mr. Decatur said it would be difficult to answer that question. In his experience, if incentives are created through budget models, units who are managing their money respond to the incentives. So providing an opportunity for deans to look at Quasi-endowments is another path for them to strengthen their unit's finances. But once created, they would reside in foundation accounts and be invested according to their policy. The discussion on the Audited Reports was completed.

DTE-PLD ELECTRICAL INFRASTRUCTURE CONVERSION DESIGN AUTHORIZATION

The administration presented a recommendation to authorize design phase activities for the eventual construction of electrical infastructure upgrade projects to support the conversion from the Detroit Public Lighting Department (PLD) to the Detroit Edison Company (DTE). Vice President Decatur explained that this is an extremely important project for the University, given the number of campus-wide power outages in recent years that have had a detrimental impact on University operations and research projects. He detailed the $11 million project cost for work inside five buildings that currently do not have back-up power generators. DTE will pay for all the work outside the buildings which will involve digging and channeling throughout the campus as part of the conduit pathway construction. Construction will begin in 2016 and should be completed by 2018.

> **ACTION** — Upon motion by Governor Pollard and seconded by Governor Nicholson, the Budget and Finance Committee recommended that the Board of Governors authorize the President, or his designee, to award contracts to begin design phase activities for the eventual construction of several building electrical infrastructure upgrade projects to support converting buildings that were formerly fed from the Detroit Public Lighting Department (PLD) to Detroit Edison Company (DTE), and to provide additional electrical capacity for an initial cost not to exceed $800,000. Funding for this effort will be provided by borrowing from the Cash Pool, with

repayment provided by future bond proceeds that would be secured for the purpose of implementing this project. The motion carried.

AUTHORIZATION TO SELL BONDS

Vice President Decatur presented a recommendation to refinance all or substantial portions of the Series 2007A, Series 2008, and 2009A bonds. Current interest rates are at an all-time low, and efinancing would achieve a significant interest rate savings of approximately $16 million, which in turn wold ultimately reduce the debt service payments.

ACTION — Upon motion by Governor Massaron and seconded by Professor Beale, the Budget and Finance Committee recommended that the Board of Governors adopt the attached Resolution authorizing the issuance of Wayne State University general revenue bonds. The bonds will be issued for refinancing of prior outstanding debt to achieve interest rate savings. The bond proceeds would be used to refund all or a substantial portion of the outstanding Series 2007A bonds ($25,500,000 par bond outstanding), Series 2008 bonds ($151,665,000 par bonds outstanding) and Series 2009A bonds ($88,255,000 par bonds outstanding). The total par amount of the refinancing bonds is dependent on market conditions. The motion carried.

PARKING LOT 12 IMPROVEMENTS

The next recommendation was to increase the project budget for improvements to Parking Lot 12. The Board approved the original budget at its meeting of September 25, 2015, but the bids came in much higher than the approved amount. The administration delayed the project and recently rebid it, so that the figures can be considered solid. In response to Governor Thompson's question, Vice President Decatur said it was difficult to pinpoint any specific reason for the higher bids other than that the construction market is currently experiencing huge cost increases, partly due to the substantial construction in Detroit such as the new Ilitch arena district. He stated, and Governor Kelly concurred, that this has resulted in a tremendous demand for skilled labor and an increase in prices. Responding to Governor Pollard, Mr. Decatur said that WSU will not see any increase in sewage rates because that is already included in the overall acreage.

ACTION — Upon motion by Governor Massaron and seconded by Professor Beale, the Budget and Finance Committee recommended that the Board of Governors authorize the President, or his designee, to increase the project budget from $600,00 to $850,000 to complete improvements to the parking lot located at 6000 Woodward Avenue (Parking Lot 12). Funding for this $250,000 increase will be provided by Parking and Transportation Services. The motion carried.

PURCHASING EXCEPTIONS

The administration presented a summary report of purchase orders greater than $25,000 that were issued during December 2015 and January 2016 without soliciting competitive bids. Committee members posed several questions regarding consulting contracts. Governor Nicholson asked whether there is a scope for each project awarded to Huron

Consulting, and who has the power to hire the consultants. President Wilson replied that Huron Consulting was hired by the prior University president, and the University continues to use them because they provide a significant discount for their services. In the medical school, they have worked on the enrollment system, and they have also helped with the Hyperion project.

Governor Thompson asked for specifics on the Monson Consulting project. President Wilson replied that they are doing all the data analytics for determining performance in the medical school. Vice President Hefner added that Mr. Monson has also set up the program management office for the purpose of rigorously tracking the many program initiatives. Eventually he will also help rebuild the University Physicians Group (UPG). Mr. Hefner added that Monson Consulting is the only external consultant; all other personnel are internal.

With regard to Huron Consulting, Governor Massaron said it would be useful to have a list of their projects, a description of what they did, what they were paid, and what projects are left. Vice President Decatur replied that when he first came to the University, he reviewed several reports to the Board that dealt with business process improvement, implementing e-commerce, and strategic procurement. President Wilson said that most of the projects have been completed, and the only new projects are the medical school and nursing enrollment and the Hyperion project, for which WSU got a steep discount. Mr. Kohrman further explained that there are no current Huron projects. The consultants helped with the transformation of Human Resources, the enrollment management structure within the School of Medicine, a scholarship plan within the Law School, the implementation of Hyperion, and enrollment within the College of Nursing, all projects which have been completed and for which WSU received substantial discounts.

Governor Massaron added that it would be helpful if the report would identify the dates that the Huron reports were submitted to the Board or Committee. Governor Kelly said she is not familiar with the policies used to evaluate bid waivers and would appreciate a copy. Secretary Miller replied that she would include the policy along with the complete list of projects. Governor O'Brien asked if the purchases have already been made or if they require approval before they are made. Governor Kelly replied that apparently they have already been made according to the policies set in the past. Secretary Miller added that it is a statutory report to the Board that does not require approval.

ADJOURNMENT

There being no further business, the meeting adjourned at 12:53 p.m.

Respectfully submitted,

Julie H. Miller

Julie H. Miller
Secretary to the Board of Governors