

Board of Governors

BUDGET AND FINANCE COMMITTEE

May 6, 2016

Minutes

The meeting was called to order at 10:41 a.m. by Governor Kelly in Room FGH of the McGregor Memorial Conference Center. Secretary Miller called the roll. A quorum was present.

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

Committee Members Absent: Linda Beale, Faculty Representative

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

APPROVAL OF MINUTES, April 1, 2016

ACTION — Upon motion by Governor Thompson and seconded by Governor Massaron, the Minutes of the April 1, 2016 meeting of the Budget and Finance Committee were approved as presented. The motion carried.

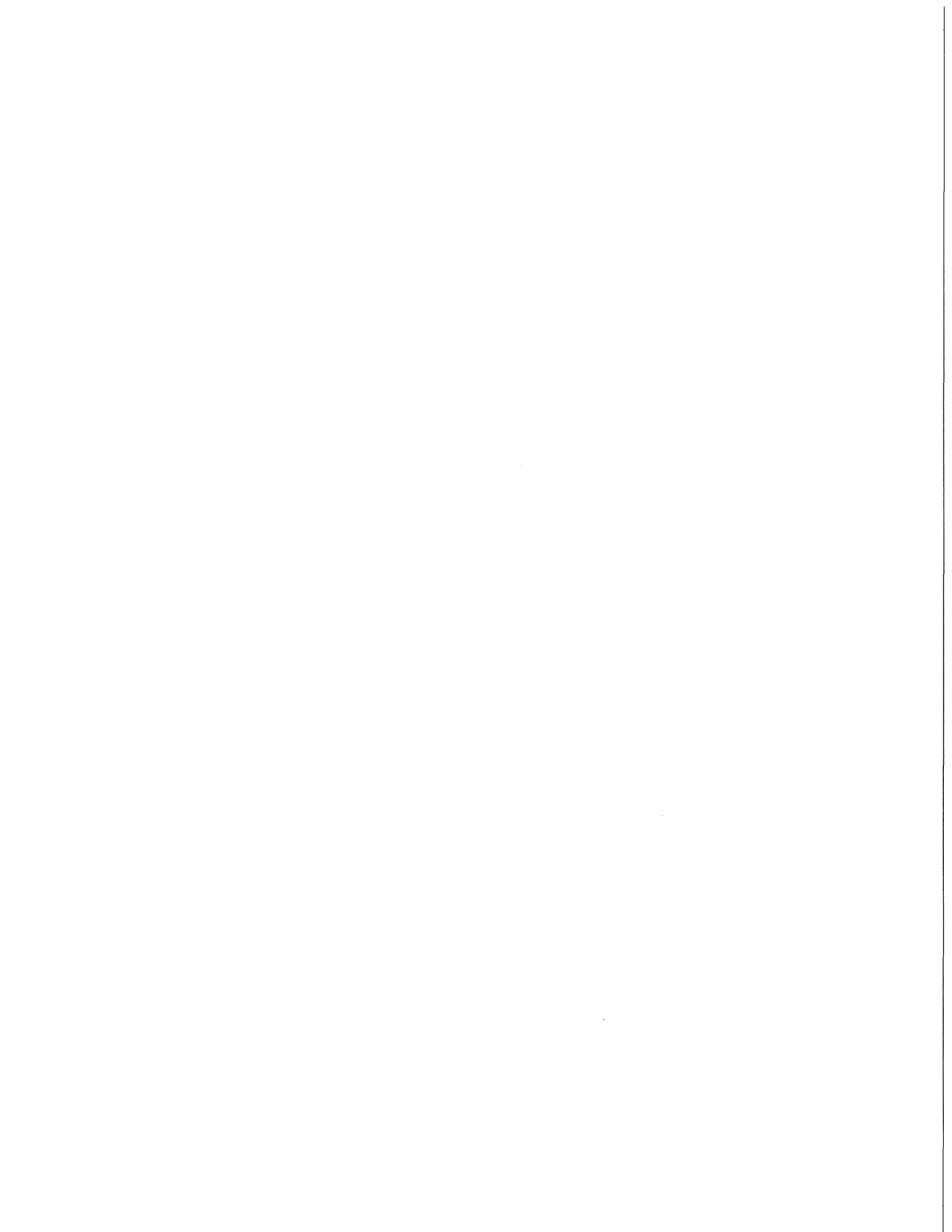
CONTINGENCY RESERVE

Associate Vice President Kohrman presented three requests to transfer a total of \$195,000 from the FY 2016 Contingency Reserve. The requests were for \$65,000 each, covering search expenses for Assistant Vice Presidents of Enrollment Management; Budget and Planning; and Facilities, Planning and Management. The balance remaining in the FY 2016 Contingency Reserve is \$290,643.

ACTION — Upon motion by Governor Massaron and seconded by Governor Nicholson, the transfer of \$195,000 from the FY 2016 Contingency Reserve was approved. The motion carried.

FY 2016-17 PROPOSED SCHOOL OF MEDICINE TUITION RATES

President Wilson and Associate Vice President Rob Kohrman presented a recommendation to increase the FY 2017 base tuition rate by 2.5% for incoming students only to the School of Medicine M.D. program. Year 2 students will remain at FY 2016 levels, and Year 3 and Year



4 students at FY 2015 levels. The Student Medical School support fee and the Student Service Fee for Year 1 students will also increase. There are no new adjustments to any other fees for M.D. students.

Governor Pollard noted that WSU's current annual tuition rate for M.D. students exceeds the national average and asked if the University is on track to meet the national average and when. Mr. Kahrman replied that the current national average for resident students is about \$33,000, and WSU now exceeds that by about a thousand. About five or six years ago WSU was about \$5,000 above the national average, and it should meet the average in FY 2017 or 2018 if the tuition restraint program continues.

Professor Romano indicated his intention to vote against the tuition increase. He also expressed an objection to the manner in which the tuition increase for the M.D. program has been implemented for the last four or five years. The Liaison Committee for Higher Education (LCME) has raised the issue of high levels of student debt because of high overall tuition levels, but Professor Romano believes the primary reason is the high out-of-state tuition. For example, the annual rate for residents is \$33,000 while for non-residents it is \$66,000. That rate is much higher than any of WSU's peers and is in fact \$16,000 higher than what the University of Michigan charges its out-of-state students. If the same percentage increase of 3% is applied equally for both in-state and out-state students, in 20 years the difference will be \$60,000. He noted that last year Mr. Kahrman provided data that suggested that the debt load for in-state students is about the national average. Professor Romano stressed that the way to lower the debt level is to lessen the difference between in-state and out-of-state students, not by charging less tuition to all the students. In addition, he noted that the University must increasingly rely on tuition revenue for its operations, and he feels it is unfair to the rest of the student body to pay a higher percentage increase than medical students who will eventually have higher incomes than average.

Mr. Kahrman agreed with Professor Romano's statement. He said the plan for next year and subsequent years is to implement a decrease in the non-resident tuition rate for the M.D. program and to increase the number of non-resident students. In response to Professor Romano's comment that this plan has been considered for the last four or five years, Mr. Kahrman said the proposed rate structures were put together before the new administration in the School of Medicine took over, and Dr. Baker and his staff will be implementing several changes for subsequent fiscal years.

President Wilson noted that Canadian students are not included in the student debt calculation used by the LCME. He asked what percentage of the non-resident students are Canadian students and what percentage are out-of-state. Mr. Kahrman replied that of the 1200 M.D. students, about 300 or 25% are non-resident. Of those 300, about 100 or a third are Canadian students. Professor Parrish said it is his understanding that Canadian students are limited to borrowing no more than \$50,000, and he feels this is a significant issue that must be addressed. Mr. Kahrman said that he and Associate Provost Ezzeddine, together with Dr. Baker and Dean Sobel of the Medical School, plan to meet with the Canadian Consul to see if the threshold for student borrowing can be increased because of the challenges with Canadian currency.

Governor Thompson asked whether the tuition increases will prevent a lowering of the debt levels for non-resident medical students. Mr. Kahrman replied that the freezing of tuition rates for the past two years has actually helped lower the debt level for WSU non-resident students compared to other public AAMC institutions. WSU's overall debt level five years

ago was about \$28,000 higher than the AAMC public average, whereas this year it has been reduced to \$9,000 more than the average. He believed that in two years Wayne will be at the overall national average. In terms of non-resident student debt, the process will be slower, but should be closer to the average for non-resident student debt within five years. Mr. Kohrman repeated that this will be the last year that resident and non-resident rates will be increased at the same percentage rate. In response to Governor Thompson's question regarding financial aid, he explained that when rate increases are approved, there is a corresponding increase in the financial aid amount that is approved as part of the budget package.

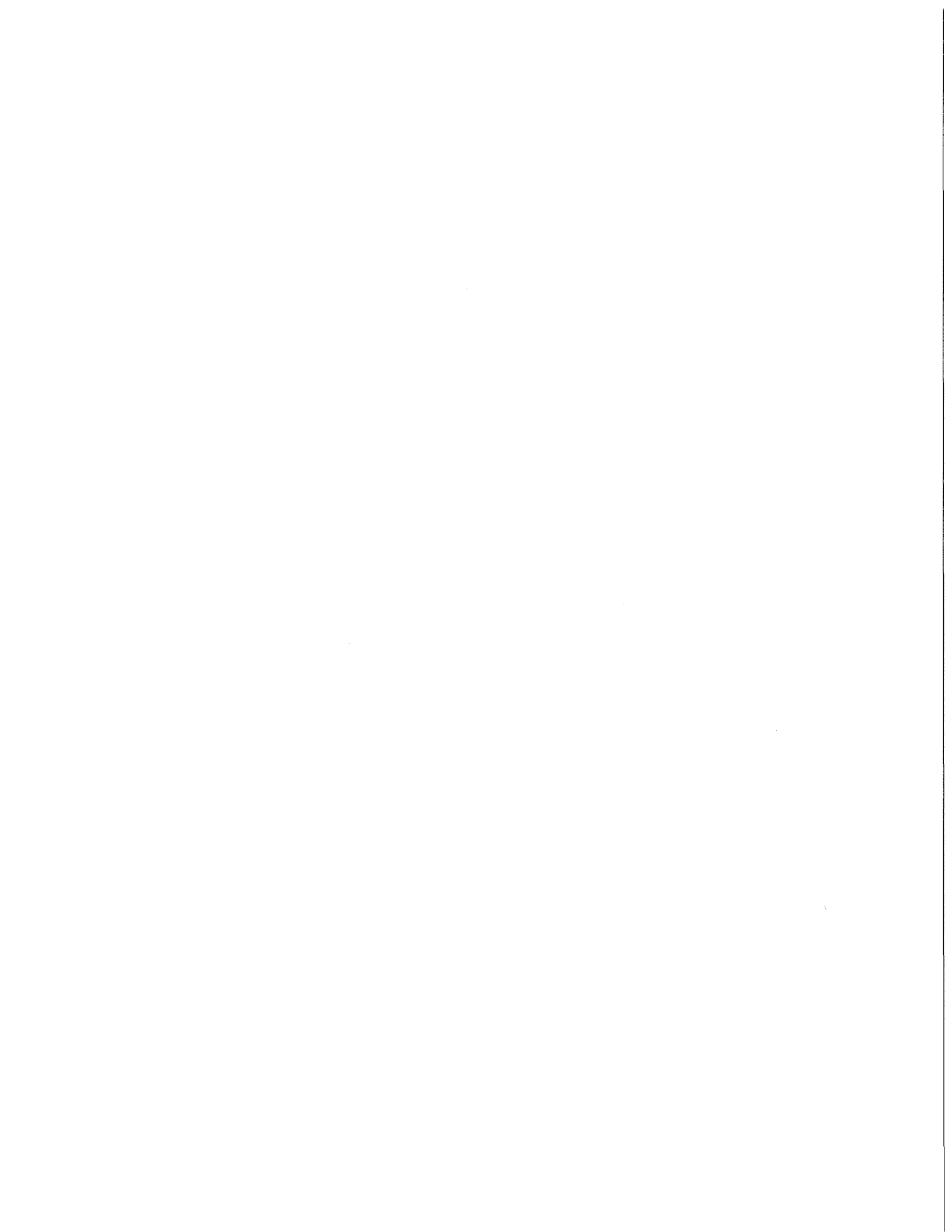
M. Rich asked about the credit hour requirements for medical students and expressed concern about tuition rates for those students surpassing the maximum. Provost Winters said that the medical school represents a different model of instruction and credit hours are counted differently than in other segments of the University. President Wilson explained that the curriculum for the first two years of medical school is fixed and the only flexibility comes in the clinicals taken in Years 3 and 4. He understands that the 200 credit hour limit is reached after four years. Mr. Kohrman further explained that students would go over the 200 credit hours if they fail a class and retake it. They would then have to pay a significant amount of additional tuition since the classes are often 8 credits or more. Therefore, tuition for repeated classes above the 200 credit hours was capped at \$2500 per class.

Professor Romano asked what the average debt was for an undergraduate and the average salary made after graduation; he asked for similar figures for medical students and the average salary after the residency is completed. Mr. Kohrman said the average debt for a medical student is \$160,000 and for undergraduates it is about \$19,000. The average salary for undergraduates is \$41,500, while a doctor's salary varies greatly depending on the practice, locality, and specialty. For example, a pediatrician can earn anywhere from \$120,000 to \$300,000, depending on locality.

Governor Nicholson questioned how much it costs to educate a medical student. President Wilson replied that a study done at Creighton University in 2003 determined that the actual cost to train a medical student was about \$70,000 a year. Governor Nicholson further asked whether the 2.5% increase in tuition helps cover annual increases in costs for the medical school. Mr. Kohrman said that the General Fund accounts for the largest portion of the School's budget, about \$56 million. About 77% is tied up in compensation, which increases about 2% per year. Therefore the 2.5% increase for Year 1 students does not cover the total increase for the compensation structure for the School. Vice President Hefner indicated that this is a structural deficit that will be remedied.

Governor Kelly indicated that she is also concerned about the rate increase for non-residents. If it were not for the structural crisis within the medical school and the attempts to effect major changes, she would be voting against the proposal.

Governor Massaron declared that he would vote for the recommendation given the financial situation within the medical school. He argued, however, that a balance must be achieved on the question of resident and non-resident tuition. In determining appropriations, the Legislature has imposed certain criteria on the University and disregards the fact that it produces doctors every year, an important contribution to the State of Michigan. Governor Massaron said that non-residents do not vote for the Board or any of the local institutions, and the Board must take care of Michigan residents as best it can. He believes the 2.5%



recommendation should be approved, and that discussions should be held how to deal with the balance in the future.

Professor Romano clarified that he didn't feel the tuition percentage should be lessened, he felt that the percentage increase for medical students should be the same as for the University's undergraduates. The constraint should be with the dollar amount of out-of-state tuition so that the differences between resident and non-resident do not continue to diverge and contribute to the LCME discussion in the future. Eventually, the university will resume regular tuition increases, but if an across-the-board increase on both resident and non-resident rates continues, the problem of exorbitant non-resident rates and student debt will return in 20 years.

ACTION — Upon motion by Governor Massaron and seconded by Governor Pollard, the Budget and Finance Committee recommended that the Board of Governors adopt a base tuition rate increase of 2.5% for the School of Medicine M.D. program for FY 2017 for incoming students only.

Further, that the Year 1 level Student Medical School Support fee (annual fee) increase from \$839.50 to \$860.50 and the Year 1 level Student Service Fee (per credit hour) increase from \$24.00 to \$24.60.

Further, that the tuition stability program initiated in FY 2016 will remain in effect. For the Medical School term starting July 2016, Year 2 students will retain the tuition and fee rate paid at the approved FY 2016 rate. Year 3 and 4 students will retain the rates paid at the approved FY 2016 rate, adjusted for the incorporation of the RFC Maintenance Fee into the Student Services Fee.

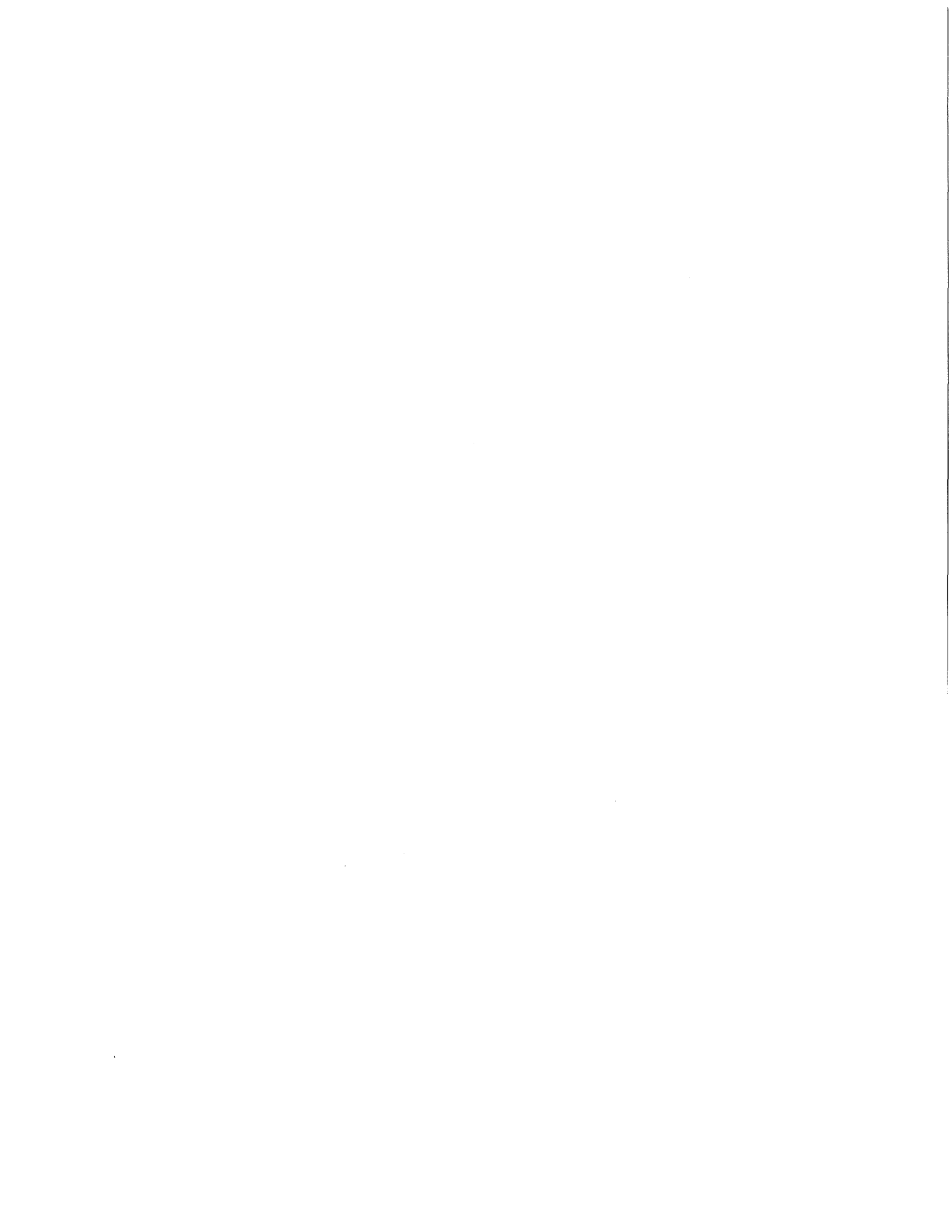
Further, that the Board of Governors authorize the President or his designee to make adjustments to the rates for special programs or where otherwise appropriate.

The motion carried, with a vote of 4 - 3.

PHYSICS BUILDING AIR HANDLERS 1 AND 7 RENOVATIONS

Vice President Decatur presented four capital project recommendations and project budgets to the Committee for its consideration. The first dealt with the replacement of the air handler units in the Physics Building. They are original to the building, which was constructed in 1965, and can no longer provide adequate heat. Governor Thompson noted that funding will come from the Deferred Maintenance Fund and asked if there are sufficient funds to cover future projects. Mr. Decatur explained that the fund is part of the operating budget, with a \$6 million allocation each year. The administration develops a long list of capital projects, and those that exceed \$500,000 require Board approval. He added that he tries to reserve \$2 million from the Fund for use towards the end of the fiscal year in the event of emergencies.

ACTION — Upon motion by Governor Massaron 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 make various improvements to the Physics Building air handler units 1 and 7 for a project cost not to exceed \$680,000. Funding for this project will be provided from Deferred Maintenance funds. The motion carried.



PARKING STRUCTURE NO. 1 — 2016 RENOVATIONS

The second recommendation is the continuation of structural repairs to Parking Structure No. 1. This is a multi-phase project which has been worked on every summer for the past four years, and is consistent with the Five-Year Business Plan adopted in 2012. Governor Pollard commented that when the project was first started four years ago, there were no businesses on Cass. Since then several businesses have opened, one of which is a restaurant that also provides outdoor seating. He suggested that the University notify them of the planned construction, and Mr. Decatur agreed. Mr. Mark Allen, Interim Associate Vice President for Facilities, explained that the contractors use protective screening and employ a wet-work process to minimize the dust. He noted that the work done in 2015 was on the side of the structure closest to Cass, while the planned 2016 work is located further away from the businesses. In response to President Wilson's question, Mr. Decatur said this is the final year of renovations to P.S. #1.

ACTION — Upon motion by Professor Romano 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 implement structural repairs and improvements to Parking Structure #1 for a project cost not to exceed \$1,575,000. Funding for this project will be provided from the Parking Operations Budget. The motion carried.

PARKING STRUCTURE NO. 2 — 2016 RENOVATIONS

A recommendation was also presented for structural repairs and renovations to Parking Structure No. 2, consistent with the Five-Year Business Plan. Mr. Decatur said the multi-phase project is expected to be completed this year. Mr. Rich asked whether elevator repairs are included in the project scope. He said there are two sets of elevators, one on each side of the Structure, and they are often broken for days at a time. This creates serious problems for handicapped students who are unable to use the stairs and must go down the ramps of the structure. Vice President Decatur said he was unaware of the problem, which he deemed unacceptable, and will certainly investigate the situation.

ACTION — Upon motion by Mr. Rich and seconded by Governor Massaron, the Budget and Finance Committee recommended that the Board of Governors authorize the President, or his designee, to award contracts to implement structural repairs and improvements to Parking Structure #2 for a project cost not to exceed \$981,000. Funding for this project will be provided from the Parking Operations Budget. The motion carried.

THE MICHAEL & MARIAN ILITCH SCHOOL OF BUSINESS — BUDGET INCREASE REQUEST



The final recommendation was to increase the project budget for the construction of the Ilitch School of Business. First, Mr. Decatur explained that the design development phase of the project has been finalized after extensive consultation both within the University and with the donor, and he presented several slides illustrating the exterior design from various angles. A good deal of attention has also been paid to developing and planning gathering spaces for students outside the formal classroom setting. There are multiple options for break-out space for students and staff, office and administration space, and a small food service component.

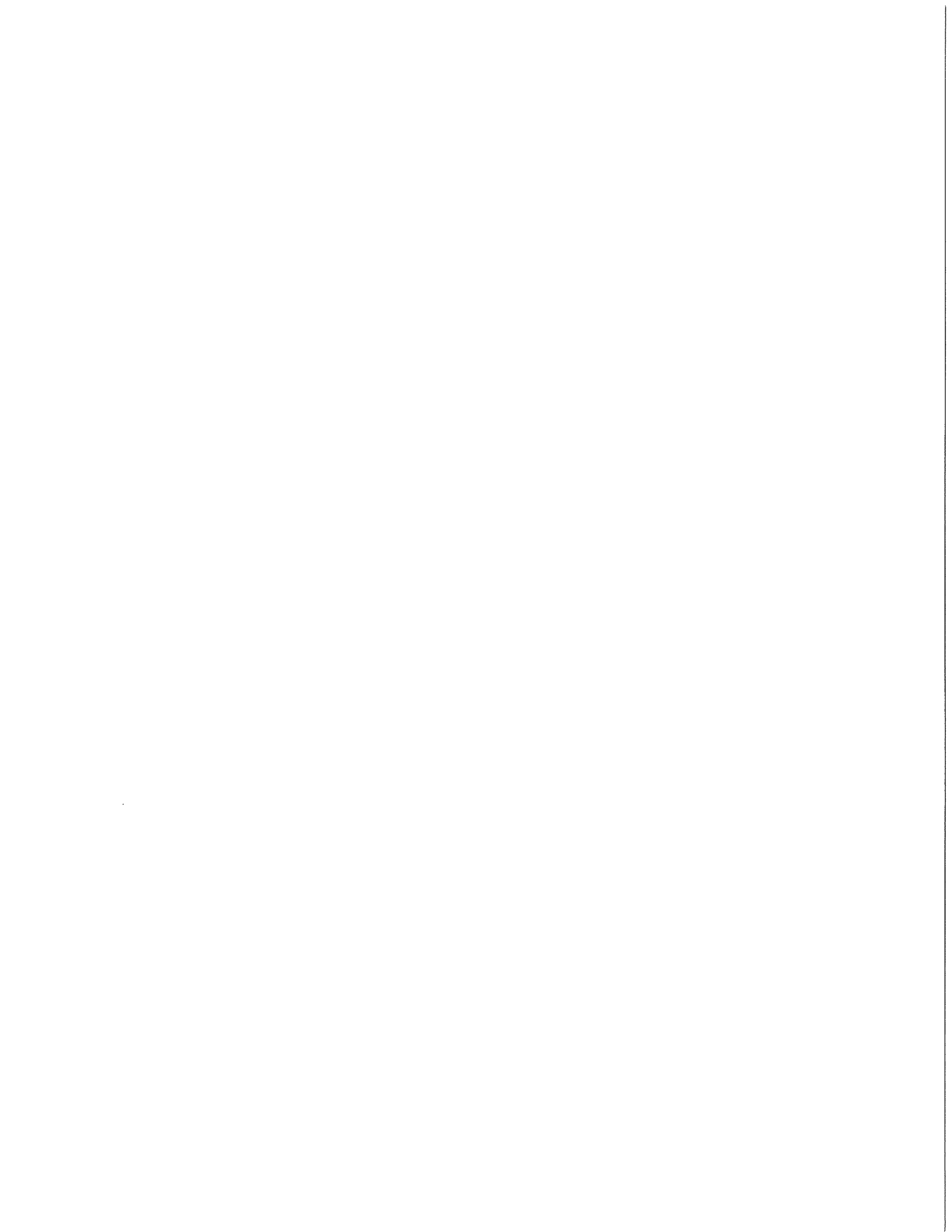
Several factors have contributed to the increased project cost. The most significant driver is the fierce competition in the current construction market in Detroit, resulting in significant inflation for skilled trades and costing the University a 10-15% premium in the construction market. There are additional costs for the exterior design finishes, enhanced learning technology, unexpected soil conditions, and overtime costs to help meet the desired construction deadline. The increase in funding will be provided by repurposing an existing \$5 million endowment pledge, and an additional \$4 million in philanthropic fundraising, a goal that has already been achieved. Mr. Decatur stressed that the goal is to restore the \$5 million facility endowment with additional philanthropic fundraising.

Governor Kelly asked if the project is on schedule, given the contract with the Ilitch company. Mr. Decatur replied that they are slightly behind due to the exterior design work, but he anticipates that the project will be completed on time. He said the Board will receive a regular update at every meeting regarding schedule versus actual construction.

Professor Romano asked how the per-square-foot cost of the building compares to other buildings downtown and at other universities. Mr. Decatur replied that the cost is approximately \$450 per square foot, equivalent to what was paid for iBio. He does not have details on the cost of buildings downtown, but understands they are also dealing with a tight construction labor market. Professor Romano was surprised that an office and classroom building would have the same cost as a specialized laboratory building. Mr. Decatur said he is also surprised to see these cost escalations, but the estimates come from very outstanding architectural and construction firms.

Governor Thompson expressed concern that the administration might have to ask the Board for more increases in the project budget. Mr. Decatur responded that the administration is at a point in design development where it feels it has very reliable cost estimates. Mr. Allen added that they have progressed to a very high level of detailed design and are working with a construction management company that is involved with the estimating and design process as well. Governor Kelly also expressed concern about bids coming in far over the estimates. Governor Massaron cautioned that everyone should understand that it may not only be difficult to come back for a project increase, but perhaps impossible.

ACTION — Upon motion by Governor Pollard and seconded by Professor Romano, the Budget and Finance Committee recommended that the Board of Governors authorize the President, or his designee, to increase the current project budget for the Michael & Marian Ilitch School of Business by \$9 million for a total project cost not to exceed \$59 million. The project is currently funded for \$50 million; funding has been provided from a \$35 million philanthropic gift from the Ilitch family specifically provided for this purpose; and \$15 million from Series 2017 Bond Proceeds. Board authorization to issue long-term debt for this purpose will be requested at a later date. The motion carried.



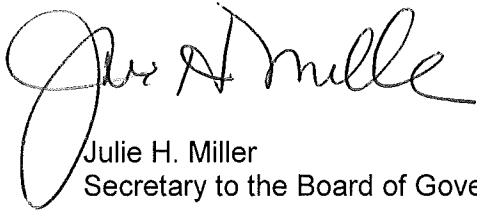
PURCHASING EXCEPTIONS

The administration presented a summary report of purchase orders greater than \$25,000 that were issued in February 2016 without soliciting competitive bids. Governor Kelly noted that the report provided more detailed information, as requested by committee members at the previous meeting.

ADJOURNMENT

There being no further business, the meeting adjourned at 11:33 a.m.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Julie H. Miller". The signature is written in a cursive style with a large initial "J".

Julie H. Miller
Secretary to the Board of Governors

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