

Board of Governors

BUDGET AND FINANCE COMMITTEE

March 24, 2017

Minutes

The meeting was called to order at 11:30 a.m. by Governor Kelly in the Room BC at the McGregor Memorial Conference Center. Secretary Miller called the roll. A quorum was present.

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

Committee Members Absent: Governor Nicholson; Aaron Szpytman, Student Alternate Representative

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

APPROVAL OF MINUTES, JANUARY 27, 2017

ACTION: A motion was made by Governor O'Brien and supported by Governor Busuito, to approve the minutes of the January 27, 2017 meeting of the Budget and Finance Committee.

Governor Kelly asked for comments on the minutes of the January 27, 2017 meeting of the Budget & Finance Committee. Professor Beale raised a question on a statement she thought was made by the faculty representatives at that meeting regarding the Five Year Capital Outlay Plan that the plan should come to the Academic Senate policy committee before it is submitted to the Board. Professor Beale also noted that there were some typographical errors that needed to be corrected. Secretary Miller indicated that she would need to review the transcript of the January 27th meeting and suggested that the minutes be brought back to the next meeting for adoption. Governor Kelly asked if there was agreement that the motion be tabled, and the committee members concurred.

Professor Romano asked about the status of other items on the agenda for the January 27th meeting that had been tabled. Vice President Decatur indicated that given the full agenda for today's meeting, the informational reports tabled on January 27th will be brought forward at the next meeting.

CONTINGENCY RESERVE

Vice President Decatur indicated there were no requests for funding from the FY Contingency Reserve, which remains at \$500,000.

CORVIAS HOUSING PARTNERSHIP UPDATE

AMENDMENT TO PHASE I OF THE CAMPUS HOUSING FACILITIES' MASTER PLAN

Diana Goode, Senior Associate Vice President for Finance and Budget and Tim Michael, Assistant Vice President for Auxiliary and Business Services provided an update on three related action items.

Mr. Michael advised that the Corvias Housing Partnership was part of the 10 Year Housing Master Plan and presented a PowerPoint and a three dimensional video, created by construction partner Gilbane Construction, of the housing renderings.

Phase 1 activities of the Master Plan and the new partnership would include construction of a new apartment complex on Anthony Wayne Drive and the demolition of the DeRoy Apartments. The new building would have two main entrances, 575 apartments and would house approximately 850 students. The south tower will be six stories, the center tower 11 stories, and the north tower 8 stories tall. The north tower will house Student Health Services when the DeRoy building is demolished in 2019. In addition, there will be a retail courtyard aligned with Williams Mall, a Fountain Court to strengthen the access through the center of campus, two West facing courtyards with green space and seating designated for student use. Where the south, middle and north towers meet, there will be an elevated pass-through to get to parking structure 2.

Mr. Rich asked how vehicles would access the parking deck. Mr. Michael noted that all of the entrances would be from the service drive, either along the west side, or a re-opened entrance on the north side of the structure. The current drive will become a pedestrian walkway and once construction begins, the east entrance to the parking structure will permanently close.

Governor O'Brien noted that she would have preferred to see the middle building facing the rest of the university as opposed to the parking garage. Mr. Michael advised that earlier designs had shown courtyards facing Anthony Wayne Drive. On further review, the project team determined that it was very important to have retail to create that impact desired on the street level. The team also wanted to keep as many of the room windows as possible away from the parking structure for privacy. The south tower will be closest

to the parking structure, and that area of the parking structure will have privacy screens for the protection of the residents.

Professor Romano asked about the metal façade on the buildings, noting that the aesthetics were different from other structures on campus, and asked how the lifetime durability compared with brick or concrete. Mr. Michael noted that fully brick buildings were cost prohibitive, and the metal paneling was industry standard with the same longevity as brick. The Anthony Wayne Drive portion would be mostly brick with colorations selected to compliment Chatsworth on the other end of the green space.

Governor O'Brien asked about screening and signage on the parking structure. Mr. Michael explained that the part of the parking structure facing the large courtyard would be painted to enliven that space.

Mr. Michael discussed the change in the footprint of the complex, noting that early versions of the building showed a fatter, shorter building. The initial goal was not to extend the building past the end of the parking structure. It has now been extended it an extra 30 or 40 feet.

Construction surveys found that a city sewer pipe was buried in the alley in front of the parking structure and the decision was made not to build over the right of way for that pipe. The pipe is buried 50 foot below the surface, and is a major conduit for the city's water and sewage department, draining all of northern Wayne county and Oakland county. As a result of this change, the building became narrower, the street between the parking structure and the building became a little wider, and then to accomplish the targeted occupancy, the footprint of the building had to extend south, thus raising the cost.

Ms. Goode then discussed some of the changes in key terms on the transaction and the choice of a concessionaire model for the student housing project. The model will allow the University to eliminate the debt and add the asset creating a positive impact of about \$220 million dollars to the University's balance sheet. The University will also continue to own the buildings and realize all cash flows from the net-income.

Ms. Goode discussed some of the changes in the key terms initially proposed at the September 2016 meeting, and reviewed a chart listing a number of components of the project, and which components had changed. The initial transaction presented was \$296 million dollars, and it is now \$298 million. The project cost saw a \$5 million dollar change, impacted by factors include the increase in the construction materials, steel and concrete needed because of the change in the building footprint, and a rise in the city of Detroit labor rates. The debt defeasance will remain and the University will continue to repay the housing debt on the balance sheet.

The interest rate initially identified for this project was 5.3% - that rate has now risen to about 6%. Initially, Corvias had a 10% fee included in the transaction, which was later negotiated down.

Another factor related to savings from indirect costs. In the pro forma, the transaction was actually 2 transactions, the building of student housing, and the 40-year management of student housing. For those 40 years of managing student housing, Corvias had included some indirect costs that the University requested be removed, for a savings to the University of \$31 million dollars.

Ms. Goode concluded her discussion by summarizing the revised financial terms. With the changes in the agreement, compounded over the 40 years of the agreement, there will be \$650-million dollars going back to the University to be used for the deferred maintenance and the renovation of student housing.

In terms of housing rates, initially the Board was asked to give the bond buyers some comfort that they would be seeing at least inflation included every year in the pricing of the housing. They had asked for a 3% increase every year. The 3% rate is still in place, with the exception of the rate for this year, a one-time 5% increase.

Governor Thompson asked how the housing rate increase will impact students and whether there will be a corresponding increase in financial aid. Mr. Michael noted that the partnership provided a new scholarship program. In the initial years, there will be \$75,000 a year, administered through financial aid, to assist students who want to live on campus. There will be an additional portion endowed so that at the end of 10 years, there will be sufficient funds to support that scholarship program going forward. The program will be initially funded from operating funds and donations from the partnership and then from an endowment thereafter. The building is projected to open in fall 2018. Costs for the apartments are anticipated to be 20% below the market rate for nearby apartments.

Governor O'Brien asked what class levels were going to be housed in these 3 buildings. Mr. Michael noted that a market demand study showed that the least-best served group were sophomores. The new building would house anyone eligible, sophomore through graduate students.

Mr. Rich asked how Residential Life would be operated, in regards to staffing. Mr. Michael noted that from a peer/advisor standpoint, it will be the same as current ratios with a large number of RA's and two professional staff living in the building, with another professional staff person added in 2020. The staff will continue to grow with the housing needs.

Prof. Romano asked where the Graduate students would be moved with the demolition of the DeRoy building. Mr. Michael noted that graduate students would be eligible to live in the new building.

ACTION: Upon motion made by Zachary Rich and supported by Governor Thompson, the Budget and Finance Committee recommended that the Board of Governors approve an increase in the costs of Phase I activities

of the Campus Housing Facilities' Master Plan of 4.6% or \$5,179,695 for a new total for Phase I activities of \$119,109,695. The total cost of the master plan phase I activities will be funded and completed by the WSU-Corvias Campus Living Partnership from bond proceeds available from an April 2017 new debt issuance by the partnership. The motion carried.

AUTHORIZATION TO GUARANTEE A LINE OF CREDIT FOR CORVIAS CAMPUS LIVING – WSU, LLC

Ms. Goode discussed some options under consideration to deal with potential interest rate risk between this point in time and the close of this agreement. There are a number of options that could be used to deal with this risk. If interest rates do not increase, the transaction will work as is with a slight deficit monetary, about a million dollars deficit. Another option is a coupon bond sale, where there would be two interest rates. The first rate would cover the first 15 years of the transaction, and then would increase by 2% for the second 15 years saving about \$14 million. If interest rates dropped, the transaction would be refinanced at a lower rate. The third option is to establish a potential line of credit that would be taken out by the special purpose entity, guaranteed by the University.

Governor Kelly asked how the money was to be used. Ms. Goode noted that student housing was included in the revenue pro forma. If interest rates were to increase, the funds would be put toward ensuring the renovation of Chatsworth and satisfying the bond holders.

ACTION: Upon motion made by Governor Busuito and supported by Professor Beale, the Budget and Finance Committee recommended that the Board of Governors authorize the President, or his designee, to enter into an agreement to guarantee a line of credit not to exceed \$20,000,000. This line of credit may be used to provide additional funds to support the public-private partnership for the construction of the Anthony Wayne Drive student housing project. The motion carried.

PRESENTATION AND RECOMMENDATION: FY2017-2018 HOUSING AND RESIDENTIAL LIFE ROOM AND BOARD RATES

Vice President Decatur called on Tim Michael for a presentation on the FY2017-2018 Housing and Residential Life Room and Board rates. Mr. Michael reviewed housing for the past year and began the discussion of board rates with the factors affecting the proposed recommendation. With the new Corvias partnership reached last fall, room rate increases at or below 3% would not need Board approval in the future. Any new rates would be noted in future housing reports but if the partnership needed a rate in excess of 3% in any year, the Board would be asked to approve.

Mr. Michael discussed a chart illustrating what was happening on campus for the year including housing occupancy. He noted that September of 2005 was the first year that all the current residence halls were open, and there has been a steady progression of increasing demand and occupancy since that time.

This year, there were 3,131 students in the housing system at fall census, with the conversion of more of DeRoy apartments to undergraduate furnished housing. All triple rooms were converted to quads, with 3 and 4 freshmen living together. Undergraduate lounges in the Towers were used for temporary housing and 40 students were placed at the St. Regis Hotel.

The campus housing system has been full for about 8-9 years with anything above 90% defining full occupancy. Of the 3,131 in the housing system this fall, 83% were 19 years of age or younger with about 1,000 freshmen, and 800 upperclassmen, predominantly sophomores and juniors. Older students were primarily living in University apartments. About 35% of students were white, 25% international students, mostly graduate students, and the rest were students of color.

WSU participates each year in a national benchmarking survey where 300,000 U.S. college students are asked about their on-campus experience. The University either matched or increased its scores from the previous year.

The current freshmen room and board rate of \$9,350 was about \$100 below the average for Michigan public universities. The University room increase last year was 3.27%, in line with other MPUs. That occupancy supported the Housing budget approved last year. This new Corvias partnership begins on July 1, after which all revenues from student housing and all operational expenses and facility expenses will be managed by the partnership.

Mr. Michael described a number of improvement projects underway. A certified Halal dining option was added in the Towers dining room and was well received by students. Under renovation was the Starbucks on Anthony Wayne Drive and a new Convenience Store will be opened in the Undergraduate Library. The One Card site functionality was enhanced so that students could buy Warrior Dollars online and use them immediately. A renovation project is currently underway for the Thompson Home, formerly the School of Social Work. That project is noted as on time and on budget with a projected opening in August 2017 as a new learning community for CFPCA. The fire alarm system at University Towers is also being worked on. Mr. Michael extended an invitation to the ground breaking for the new building, on April 21, with more information forthcoming.

The proposed budget reflected the elimination of the \$3.7 million deficit and the elimination of the \$1 million General Fund subsidy for Housing. The new scholarships, and the ongoing work with Financial Aid will focus on affordability, with the total cost of attendance for students a factor for setting rates.

Mr. Michael discussed the recommendation for next year and noted that the typical room and board package for freshmen will increase by 2.27% to \$9,562 based on a semi-suite and a new meal plan offering.

The Housing Office Advisory Board, a leadership group for students in housing, previously asked that a new meal plan be created for students that would give them more flexibility in both cost and the use of Warrior dollars. This was accomplished with the lower priced meal plan reflected in the combined rate for freshmen.

The typical upper class room and board package increase is \$450, to an academic year cost of \$10,854; a 4.32% increase looking at the meal plan selected by most upper class students Warrior 12 plus Warrior dollars.

A typical meal plan increase for a commuter student or other students living in apartments who were not required to buy a meal plan, is about 3.18%. The typical apartment increase for students who were only buying housing would be 5%. The average increase for the last five years for this category had been about 3.2%, so the request is for that average plus an additional 1.8% to get to the 5% needed to kick start the pro forma in the 40-year partnership.

A variety of meal plans, and the changes in those plans, were discussed. The new meal rates plus expected occupancy will support the new proposed budget. With the creation of the partnership, a new budget has been created for dining, which was previously combined with the housing system.

Mr. Rich asked whether the newly renovated Starbucks at the Anthony Wayne location could increase its hours of operation. Mr. Michael responded that there will be a review of the hours.

Professor Romano asked if the University had any data to support the fact that students may or may not do better if they lived in the dorms, noting that the Senate had been very concerned about the difference in graduation rates between White and African American Students. The Senate has been studying this issue and looked at a number of contributing factors, finding that GPA averages for African American students in the dorms was lower than those not living on campus. Mr. Michael noted, that from the latest review, students currently living on campus had about the same GPA as those who did not. The hope was that with the new residential curriculum implemented in the fall, that there will be a positive impact on GPA.

President Wilson noted that there is significant national research data showing that students did better when they lived on campus. Mr. Michael noted previous work with Monica Brockmeyer on a student success review and that students were being challenged by affordability.

Governor O'Brien asked for an explanation of the new freshman meal plan and the Warrior dollars and also asked about the hours of operation at the Student Center. Mr.

Michael noted that the additional Warrior dollar amounts are a lump sum received at the beginning of the semester which can be spent across the semester. Students can also purchase more Warrior dollars. In the current meal plan, freshman are required to buy a Warrior pass with unlimited access. The student center is open Monday to Friday from 7-2 am with shorter hours on Saturdays and Sundays.

Governor Thompson asked Professor Romano for additional information on the study conducted by the Senate regarding the difference in graduation rates between White and African American Students. Professor Romano noted that he would share that information, and suggested that if students living on campus are not doing better, perhaps the manner of interaction with students may need to change, given success shown nationally. Governor Trent asked if the data was referring to GPA or graduation rates. Professor Romano noted that the data looked specifically at GPA.

Governor Kelly asked whether students are able to upgrade meal plans. Mr. Michael noted that the meal plan change period allows for adjustments after class registration and Warrior dollars could be purchased at any time in increments of \$5.

ACTION: Upon motion made by Governor Busuito and supported by Governor O'Brien, the Budget and Finance Committee recommended that the Board of Governors approve the FY 2018 room and board rates as presented. In summary, the typical freshman resident room and board rate will increase 2.27% from \$9,350 in 2016-17 to \$9,562 in 2017-18. Room rates for all accommodation types are proposed to increase 5.0% including an increase of 5.0% for all apartment rentals. The motion carried.

WEIGHT ROOM ADDITION TO THE FREDERICK C. MATTHAEI PHYSICAL EDUCATION CENTER

Vice President Decatur presented a proposal for a project for a new weight room for athletics and discussed a diagram of the proposed addition. The weight room, currently located in old racquetball courts, would be a \$2.3 million dollar design and build project.

Governor O'Brien asked about the new weight room's orientation inside the building. Harry Wyatt, Associate Vice President for Facilities noted that the addition would extend out on the end of Matthaei towards the softball field.

Governor Gaffney asked if there was an additional university bond issued planned. Vice President Decatur noted that there was one planned, which covered a number of other projects including the DTE/ POD conversion, the balance of funding for the Ilitch School of Business and the data center.

Professor Beale asked about the basis of the project's increase from \$2 to \$2.3 million. Vice President Decatur noted that the increase was needed to ensure quality of the

space, especially in term of future recruiting efforts. President Wilson they would try to stay as close to \$2 million as possible.

Governor O'Brien noted that she considered the new weight room and the athletic program as one of the best learning communities on campus.

Professor Beale asked if there were any long term fundraising plans for future facilities improvements and deferred maintenance. Vice President Susan Burns noted that fundraising is ongoing but no current plans are in place that would cover deferred maintenance.

ACTION: Upon motion made by Governor Busuito and supported by Governor O'Brien the Budget and Finance Committee recommended that the Board of Governors authorize the President, or his designee, to award contracts to design and construct a weight room addition to the Matthaehi Physical Education Center. It is further recommended that the Board of Governors authorize spending up to \$2,300,000 to design and construct the facility. Funding for this project will be provided temporarily from university cash and permanently from the next university bond issuance. The motion carried.

MAJOR REAL ESTATE PROJECTS OVERVIEW AND MAJOR CAPITAL PROJECTS OVERVIEW

Vice President Decatur presented two informational reports on major capital projects and provided highlights on major improvement projects on campus. He discussed the progress in the new real estate ventures previously presented to the Board of Governors and asked if there were any questions on either topic.

Governor Thompson asked if the new weight room will be included in the report. Vice President Decatur said yes, and advised that all projects above \$500,000 would be added to the list.

AUDITED FINANCIAL REPORT FOR FISCAL YEAR 2016*

Vice President Decatur presented the University's audited financial report for fiscal year 2016. The documents were presented and approved by the Board's Audit Subcommittee. The external auditors issued an unmodified opinion that the financial statements presented fairly the financial position of the University. Controller Tamaka Butler gave a short presentation to provide highlights.

Ms. Butler noted that total combined Revenues for the University and Foundation were \$918.5 million dollars in 2016 compared to \$859 million in 2015. Total Expenses were \$856.7 million dollars in 2016 compared to \$867.1 million dollars in 2015. This was an

increase in net position in 2016 of \$61.8 million dollars compared to a decline in that position of \$8.1 million dollars in 2015.

Operating revenues decreased \$7.9 million dollars in 2016, including an increase in net tuition and fees of approximately \$6.3 million dollars attributable to the fall 2015 undergraduate and graduate tuition increase. This was offset by a decline in undergraduate enrollment, grants and contract revenue of \$13.6 million dollars in 2016, in State and Local grants and contracts of \$2.3 million and \$11.3 million dollars in non-governmental grants and contracts revenue. The decrease in non-governmental grants and contracts revenue was attributable to decline in FMRE Revenue of \$15 million dollars, offset by an increase in Psych training grant revenue of \$3.9 million dollars.

University gifts increased by \$37.5 million in 2016, driven by the Mike Ilitch pledge of \$35 million dollars. University investment income increased \$7.8 million dollars in 2016, driven by an unrealized gain of \$9.2 million dollars. Foundation revenues increased \$46.9 million dollars in 2016. Investment income had a large increase of \$38.4 million dollars.

Operational expenses decreased in 2016 to \$11.6 million dollars including a decrease in compensation and benefits of \$5.5 million dollars attributable to the 2015 academic retirement incentive program and the related 2016 reduction and head count as a result of that program. This was offset partially by inflationary increases in compensation cost including a decrease in supplies, services and other expenses of \$6.4 million dollars in 2016. There was a decline in uncapped project expenses of \$1.9 million dollars, and a decrease in Aramark costs of \$2.1 million dollars.

University and Foundation saw total net position increase of \$61.8 million dollars in 2016. That included an increase in the Foundation's net position of \$32.2 million dollars and an increase in the University's net position of \$29.6 million dollars.

Ms. Butler spent some time discussing the unrestricted net position for the combined University and the Foundation broken out by fund type over the most recent 4 fiscal years. The unrestricted net assets balance of \$190.9 million dollars in 2013 was down to \$114.9 million dollars in 2016, a cumulative decrease of \$76 million dollars over the four-year period.

Governor Thompson asked if there was anticipation that they would see further reductions in the net assets balance next year. Vice President Decatur noted that there was a good chance of a positive outcome.

President Wilson noted that looking forward, the university does not know legislators' intentions in terms of the budget for higher education.

Ms. Butler completed her presentation with a discussion on the total net worth position of the combined University and Foundation. The total net position was \$892 million dollars in FY12, was flat in FY13, and FY 14 and FY 15 saw reductions of \$11 million dollars

and \$8 million dollars, respectively. In 2016, there was an increase of \$62 million dollars, attributable to an increase in restricted expendable net assets of 54 million dollars, increases in investment and capital assets and restricted expendables of \$11 million and \$15 million, respectively. This was offset by the decline in unrestricted net assets attributable to the Mike Ilitch School of Business pledge.

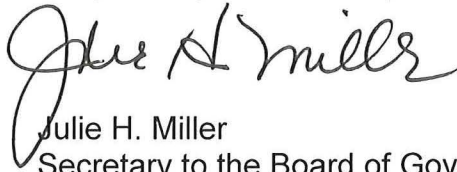
The university's cash balance of \$392.3 million in FY12 was reduced down to \$334.3 million in FY16, a cumulative decrease over the 5-year period of \$58 million dollars.

There were no further questions for Ms. Butler.

ADJOURNMENT

There being no further business, the meeting adjourned at 12:54 p.m.

Respectfully submitted by



Julie H. Miller
Secretary to the Board of Governors