

Board of Governors

BUDGET AND FINANCE COMMITTEE

September 25, 2015

Minutes

The meeting was called to order at 11:11 a.m. by Governor Massaron in the Room FGH at the McGregor Memorial Conference Center. 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, and Aaron Szpytman, Student Alternate Representative

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

APPROVAL OF MINUTES, June 26, 2015

Professor Beale noted that the project budget of \$600,000 listed in the description of the Fountain Court renovation differed from the amount given in the action of \$500,000. Secretary Miller indicated she would check the figures, make the correction where needed and resubmit Minutes at the next meeting for approval.

CONTINGENCY RESERVE

Associate Vice President Kohrman presented a request for a transfer from the Contingency Reserve in the amount of \$150,000 for the purpose of conducting a search for a new Provost, leaving a balance of \$70,000 for FY 2015. In response to a question, Secretary Miller explained that the funds would be used for the hiring of a search consultant and the payment of expenses for the committee to bring candidates to campus throughout the course of the search, as well as for moving expenses and trips to campus for the candidate.

ACTION — Upon motion by Professor Beale and seconded by Governor Kelly, the transfer of \$150,000 from the Contingency Reserve was approved for the purpose of a search for a Provost. The motion carried.

REPURPOSING OF SERIES 2013 AND 2015 BOND PROCEEDS

The administration presented a recommendation to repurpose and allocate the proceeds of the series 2013 and 2015 bonds. Vice President Decatur explained that two very successful construction projects, the iBio and the Student Center, renovations are nearly completed, and both included significant private fundraising goals as part of their budgets. Unfortunately, those goals were not achieved. In the case of iBio, the project included \$20 million of private fundraising in the budget, with only \$1.3 million having been raised. The recommendation proposes to reallocate \$3.9 million of the series 2013 bond proceeds and the entire \$10 million of the series 2015 bond proceeds. The impact of the reallocation of the 2013 proceeds is that some work on engineering facilities will be delayed for further funding. However, there still remains a shortfall of \$4.8 million, which will be dealt with by a future bond issue. With respect to the Student Center, the \$25.7 million project included \$6.2 million of private fundraising, with only \$535,000 pledged and received. The recommendation proposes to reallocate \$6.1 million of the 2013 bond proceeds to this project.

In response to Governor Kelly's question regarding the philanthropy shortfall, Vice President Johnson said that a true feasibility study was not done at the time the project budgets were approved. Two factors that contributed to the fundraising problems would have come out in a feasibility study. One is that neither project had a base of alumni such as a school or college has. Second, the project was started before fundraising began. President Wilson noted that it has been his experience that until a certain percentage of funds is raised, the project should not be started because it is very difficult, particularly on a research building, to raise funds at that point. Ms. Johnson added that she and Vice President Decatur are now working very closely together on projects and will make certain there are enough prospects to complete the fundraising goals.

Professor Beale commented that the Faculty Senate expressed its concern about the fundraising target at the time the iBio project was approved and about the lack of transparency in how the

funds would be raised. She said that another more important point, however, is that when funds are reallocated from one project to another, projects that are supposed to be funded lose out, and usually those are classroom and laboratory renovations, the faculty's greatest concerns.

Mr. Rich asked what percentage of funds should be raised before a project is started. Vice President Johnson replied that it is good to have half of the target identified if not already signed before a project begins. This does not mean, however, that funds are not being raised for iBio and the Student Center. Ms. Johnson said the buildings are generating considerable interest, and any additional money that is raised will be put back to the general purpose.

Following up on Professor Beale's comments, Governor Thompson asked which projects will be impacted by the reallocation of funds. Mr. Jim Sears replied that the largest single impact is the STEM laboratory classroom building which would have been supported with the \$10 million of 2015 bond proceeds. Professor Romano said that the administration is currently developing a capital outlay plan, and he commended that they receive faculty input as well as that of appropriate department administrators. Since the \$10 million will no longer be available to match the state funds, he asked what the budget plans are for the new project.

President Wilson responded that the University still has bonding capacity, so that it could obtain the \$10 million when needed. However, the larger question is the University's bonding capacity and the Board's priorities. The University currently does not have a set policy on how much debt it wants to incur, and that is an issue that must be discussed with the Board. The University has significant capability to issue bonds at its current bond rating. If the University wants to borrow more, then the question is whether it is willing to decrease its bond rating. That is a Board decision, and President Wilson said the administration, led by Vice President Decatur, is studying scenarios of current and future debt capacity and will come to the Board for a policy decision.

ACTION — Upon motion by Governor Pollard and seconded by Governor Nicholson, the Budget and Finance Committee recommended that the Board of Governors authorize the re-allocation of Series 2013 and Series 2015 bond proceeds to fund a substantial portion of the philanthropy shortfall in the iBio building project budget and the entire philanthropy shortfall in the Student Center Building project budget. For the Student Center Building, this recommendation is to re-allocate \$6.1 million of Series 2013 bond

proceeds to the Student Center Building project budget. In the Series 2013 Bond resolution, these bond proceeds were originally authorized to fund a portion of the construction of new laboratory classrooms and renovation of research laboratories in certain buildings. For the iBio Building, this recommendation is to reallocate \$3.9 million of Series 2013 bond proceeds and the entire \$10 million of Series 2015 new money bond proceeds to the iBio building project budget. In the Series 2013 Bond resolution, these proceeds were originally authorized to fund a portion of the new laboratory classrooms and renovation of research laboratories in certain buildings. In the Series 2015 Bond resolution, the \$10 million in Series 2015 new money bond proceeds were originally authorized to fund research laboratory renovations and/or strategic acquisitions of buildings. The motion carried.

BANK LINE OF CREDIT

Vice President Decatur presented a recommendation to enter into a bank line of credit for \$35 million for six years. He explained that the University's cash is invested in order to maximize its return, and rather than divest and reinvest, the line of credit helps meet any fluctuations in the cash pool. Fifth Third Bank, the current provider, quoted a 1.5% borrowing rate, and the increase in the line of credit from \$25 to \$35 million will provide greater flexibility should cash be needed to move ahead with a capital project in advance of a bond issuance.

During the Committee discussion, Mr. Decatur responded that the line of credit will not be used to cover the shortfall for the iBio project. The funding for those expenditures came from the cash pools of the University. Therefore, the administration reallocated bond proceeds so that at fiscal year end, there would not be a drop in the cash or unrestricted net assets as a result of spending the cash on those projects. The terms of the credit line will be essentially the same as for the previous arrangement except for changes that were required because of federal bank regulations. Further, the increase of the line of credit will not have an impact on the University's credit rating.

Professor Romano asked if the University has written procedures for the use of the cash pool for different projects. His concern was that if the cash pool could be used without Board approval, the administration could easily bypass the Board and its Budget and Finance Committee for approval on certain projects. Vice President Decatur replied that the University does have a policy on the use of the cash pool that has been used several times, and those projects have come to the Board on a routine basis. Two outstanding projects currently are the Law School

project, which is almost completely paid, and the Parking and Transportation project, where repayment will begin later this year through parking revenues. Although the iBio and the Student Center did not formally come to the Board, any future project loans would be brought so in the future. Vice President Lessem added that Board statutes require that certain actions such as construction and building contracts over one million dollars come to the Board for approval, regardless of the funding source. Therefore, the administration cannot avoid getting Board approval by using the line of credit or the cash pool. Governor Massaron suggested that the pertinent policies could be provided to the Board and committee members.

Professor Romano asked how much interest is paid for cash pool loans and how is the interest determined. Mr. Roger Kemp replied that the interest rate depends on what was negotiated between the treasurer and the borrower. In general, the interest rate is established by the amount of time that the loan would be outstanding and a comparison to market rates. Currently, the largest loan is the parking loan and interest is charged over the five-year period. In response to Governor Nicholson question whether the University must comply with certain covenants, Mr. Kemp replied that the University need only keep a certain level of general revenues in order to maintain the line of credit.

ACTION — Upon motion by Governor Pollard and seconded by Governor Nicholson, the Budget and Finance Committee recommended that the Board of Governors adopt the resolution as presented authorizing the President or his designee to secure a bank line of credit for up to six years and to increase the maximum line of credit borrowing amount from \$25 million to \$35 million. The motion carried.

TRANSFER OF FUNDS ELLIMAN RESEARCH BUILDING RENOVATIONS

Vice President Decatur presented two related recommendations. The transfer of \$904,157 from the Rainy Day Fund would provide funds to partially renovate the Elliman Building, relocate the Karmanos Cancer Institute (KCI) research operations, and enable closure of the Prentis Building at 110 East Warren. The project scope in the Elliman Building includes selective minor demolition and reconstruction, laboratory improvements, shared lab equipment support space, electrical upgrades, and installation of a state-of-the-art HVAC system. Mr. Decatur called attention to the project budget given in the documents. He added that he will be providing this

type of information on all projects, listing the amounts allocated, their source and whether they are coming from a reserve account, and the current balance in those accounts. Governor Massaron appreciated the new format, saying such a detailed budget on each project will be helpful to Board members.

Professor Beale said that the Academic Senate has expressed a concern with the KCI laboratory renovations. She understands that KCI is associated with the University and its grants are counted in the University's research total. The faculty, however, noted that KCI is allowed to retain 100% of the indirect cost recovery funds for itself, and wondered why the University is funding the cost of the laboratory renovations for KCI researchers. President Wilson explained that in October 2014, Wayne State University negotiated a new agreement with KCI, where 100% of the indirect cost recovery funds revert to WSU. It is, therefore, WSU's responsibility to provide laboratory space to KCI.

ACTION — Upon motion by Governor Thompson and seconded by Governor Pollard, the Budget and Finance Committee recommended that the Board of Governors approve a transfer during FY 2016 from the Rainy Day Fund totaling \$904,157 to fund partial renovation of the Elliman Research Building and relocation of the Karmanos Cancer Institute research operations from 110 East Warren to Elliman for a project cost not to exceed \$8,940,000. The motion carried.

ACTION — Upon motion by Governor Thompson and seconded by Governor Pollard, the Budget and Finance Committee recommended that the Board of Governors authorize the President, or his designee, to award contracts to partially renovate the Elliman Research Building and relocate the Karmanos Cancer Institute research operations from 110 East Warren to Elliman for a project cost not to exceed \$8,940,000. Funding for this project will be from several sources including \$500,000 from the Karmanos Cancer Institute, \$1,170,843 from the Fund for Laboratory Enhancement, \$904,157 from the Rainy Day Fund, \$350,000 from Series 2013 Bond Proceeds, \$500,000 from the Office of the Vice President of Research, \$500,000 from the FY 2016 allocation to the Deferred Maintenance Reserve, \$1,650,000 from the Facility/Equipment Non-General Fund Reserve, \$1,965,000 from various previous bond issue balances, and \$1,400,000 from savings associated with the Electrical Reliability Project. The current balances in our reserve funds are as follows: Fund for Laboratory Enhancement Reserve \$1,170,843, Rainy Day Fund \$17,079,686, FY 2016 Deferred Maintenance Reserve \$6,255,500, Facility/Equipment Non-General Fund Reserve \$3,331,232, and various Previous Bond Issue Balances \$1,965,848. The motion carried.

STUDENT CENTER 5TH AND 7TH FLOOR RENOVATIONS

The next recommendation proposed to renovate the fifth and seventh floors of the Student Center Building. The fifth floor includes the Office of Housing and Residential Life and a New Student Orientation Center, and the seventh floor houses the Ombudsperson Office and faith-based organizations such as the Newman Catholic Center. The renovation work includes interior demolition work, removal of hazardous materials, and infrastructure upgrades. Vice President Decatur presented a detailed budget and funding sources not to exceed \$3,855,000. Governor Massaron asked for further information on two of the funding sources. Mr. Decatur explained that the Pouring Rights Sponsorship Reserve is related to WSU's contract with Pepsi, which provides annual funds of about \$300,000 that go into the Auxiliary Reserves. The Fire Life Safety Reserve represents funds that are returned to the University from MUSIC, the Michigan Insurance Consortium, and are put into a reserve to help with risk management. Since the proposed project includes a significant component of fire safety improvements, the administration felt the reserve was a valid source of funds for the project.

Mr. Rich asked about the relocation of the offices during renovation and notification of their move. Vice President Decatur replied that Auxiliary Services will send communications out to the campus community regarding the moves. The Ombudsperson Office will move to the second floor of the Student Center, and Housing and Residential Life to the lower level. Counseling and Psychological Services will move to the Thompson House and the Newman Center will move to the first floor of the Science and Engineering Library. All will return to their original locations after renovations are complete.

Professor Beale questioned the use of the Housing Maintenance Reserve as a funding source for a project that will renovate administrative offices. She was concerned that housing projects would be delayed because the Reserve will be depleted. Vice President Decatur replied that the Reserve was being tapped because a significant portion of the space on the fifth floor supports the Office of Housing and Residential Life. Responding to Professor Romano's comment that there will not be any funds left for housing maintenance, Mr. Decatur said that the Reserve is actually for capital improvements; ongoing daily maintenance activities in housing are paid for through the operating budget in Housing and Residential Life. In addition, the Reserve will be

depleted only for FY 2015. Beginning with FY 2016, another one million dollars will be budgeted to replenish the Reserve. Mr. Rich asked about the costs of daily maintenance that are taken out of housing's operational budget. Mr. Decatur replied that he does not know the exact amount but will forward the information to members of the Committee. Governor Nicholson asked why renovation of the two floors was not part of the renewal of the Student Center that was recently completed. President Wilson explained that when renovations of the sixth floor were approved in March of 2014, the project included space for the Hillel Center, and the University has received considerable positive feedback from the entire Jewish community. He felt that space for other faith-based groups should also undergo renovation, and it was decided to proceed with renovation of the fifth and seventh floors as funding becomes available.

Professor Beale indicated her intent to vote No on the recommendation. She was very concerned about the use of more than one year's allocation of the Housing Maintenance Reserve to renovate administrative offices, and the budgetary impact that use will have on other capital projects.

MOTION by Governor Pollard and seconded by Governor Massaron that the Budget and Finance Committee recommend that the Board of Governors authorize the President, or his designee, to award contracts to renovate the Student Center Building's fifth and seventh floors for a project cost not to exceed \$3,855,000. Funding for this project will be provided from several sources including \$1,550,000 from the Non-General Fund Capital Project Reserve, \$1,130,000 from the Housing Maintenance Reserve, and \$545,000 from the Fire Life Safety Reserve. A roll call vote was taken:

Governor Massaron — Yes
Governor Kelly — Yes
Governor Nicholson — No
Governor Thompson — No

Governor Pollard — Yes
Professor Beale — No
Zachary Rich — No

The motion failed.

FOUNTAIN COURT

Vice President Decatur explained that the funding for the Fountain Court had been approved at the June Board meeting, and that the project is complete with an operating fountain. There was an error, however, in the original funding proposal. It was mistakenly believed that the Campus Enhancement Fund totaled \$600,000, but further checking revealed a shortfall of \$86,802.

Therefore, the administration proposes to replace those funds from FY 2015 Deferred Maintenance Reserves.

Professor Beale brought up the discrepancy in the Minutes of the previous meeting regarding the total project budget. After some discussion, it was decided to approve the current recommendation since the money had already been spent and it was relatively certain that there was a typographical error in the Minutes.

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 amend the funding sources approved for this project. The project budget remains unchanged at \$600,000. Funding for this project will now be \$513,198 from the Campus Enhancement Fund that was established by President Gilmour in 2010, and \$86,802 from the Deferred Maintenance Reserve. Following the authorization of this funding source amendment, the Campus Enhancement Fund will be fully depleted, and the 2015 Deferred Maintenance Reserve balance will be \$310,570.65. The motion carried.

FREER HOUSE HVAC UPGRADE

The next recommendation proposes an HVAC renovation for the Freer House, which houses the Merrill Palmer Skillman Institute for Child and Family Development. The project involves replacing existing heating pumps, adding new units, modifying duct work and upgrading the controls to monitor performance. In response to questions, it was revealed that although the administration does not expect any significant energy savings as a result of the project, there will be fewer maintenance issues.

ACTION — Upon motion by Professor Beale and seconded by Governor Kelly, the Budget and Finance Committee recommended that the Board of Governors authorize the President, or his designee, to award contracts to upgrade the heating and cooling systems of the Freer House for a project cost not to exceed \$810,000. Funding for this project will be provided from the FY 2016 allocation to the Deferred Maintenance Reserve. The Deferred Maintenance Reserve receives annual funding of \$6,255,500. This project will use a portion of the FY 2016 allocation. The motion carried.

PARKING LOT 12 IMPROVEMENTS

Vice President Decatur presented a recommendation to update, renovate, and improve Lot 12, located on the east side of Woodward across the street from iBio. The project would bring the parking lot up to the University's standard for surface parking facilities, and will contribute to the parking availability for those working in iBio. Funding will come from Parking & Transportation and from the iBio Non-reimbursable Account Savings.

ACTION — Upon motion by Governor Nicholson and seconded by Governor Thompson, the Budget and Finance Committee recommended that the Board of Governors authorize the President, or his designee, to award contracts to construct improvements to Parking Lot 12 for a project cost not to exceed \$600,000. Funding for this project will be provided from two sources, including \$200,000 in cost savings from the iBio Non-Reimbursable Cost and Demolition Account, and \$400,000 from Parking and Transportation Services. The motion carried.

RENEWAL OF DEVELOPMENT FEES

The administration presented a recommendation to extend administrative fees for the Division of Development and Alumni Affairs through FY 2017. Vice President Decatur explained this is simply a renewal of the current policy of a 0.5% administrative fee on the average fair market value of endowment funds and the 2% administrative fee on non-endowed cash gifts.

Professor Romano asked about the purpose of the fees and how much revenue they generate. Vice President Johnson responded that fundraising in higher education institutions is generally done with some assessment of fees, and it is especially needed at this time with the decrease in state funding. At WSU the funds go back to the General Fund and then are pulled into the Division's budget. Mr. Kohrman added that for FY 2014 the 2% fee generated \$270,000 and the 0.5% fee generated \$1.2 million. President Wilson thought that the fees were low compared to other universities. However, the administration decided it would not be prudent to increase the fees in the middle of a capital campaign. Mr. Decatur added that benchmarking was done using CASE data and the National Association of Advancement Officers, and in both instances WSU's fees are in the bottom quartile.

ACTION — Upon motion by Governor Thompson and seconded by Governor Pollard, the Budget and Finance Committee recommended that the Board of Governors approve the following two-part proposal to support ongoing costs of the Division of Development and Alumni Affairs:

1. Authorize the extension of the current 0.5 percent administrative fee through FY 2017 on the average fair market value (FMV) of endowment funds as defined in the Board of Governors Common Trust Fund statute governing the University endowments, unless prohibited by an existing Memorandum of Agreement with a donor;
2. Authorize the extension of the current 2.0 percent administrative fee on non-endowment cash gifts through FY 2017.

The motion carried.

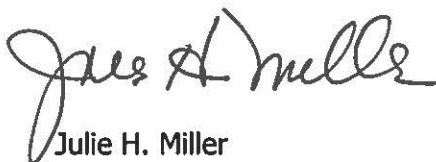
PURCHASING EXCEPTIONS

Vice President Decatur presented a report summarizing purchases greater than \$25,000 that were issued during the second quarter of FY 2015 without competitive bids. There were no questions from the Committee.

ADJOURNMENT

There being no further business, the meeting adjourned at 12:03 p.m.

Respectfully submitted,



Julie H. Miller
Secretary to the Board of Governors