BOARD OF GOVERNORS

BUDGET AND FINANCE COMMITTEE

April 28, 2017

Minutes

The meeting was called to order at 10:45 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, Nicholson, 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 Whitfield; Vice Presidents Decatur, Hefner, Lessem, Staebler, and Wright; and Secretary Miller

APPROVAL OF MINUTES, JANUARY 27, 2017 AND MARCH 24, 2017

ACTION: Upon motion made by Governor Thompson and supported by Governor Busuito, the Minutes of the January 27, 2017 and March 24, 2017 meeting of the Budget and Finance Committee were approved as submitted. The motion carried.

CONTINGENCY RESERVE REPORT FISCAL YEAR 2017

Vice President Decatur presented a request to transfer $150,000 from the FY 2017 Contingency Reserve to cover the expenses for the search for the Dean, Law School. This would leave a balance in the FY 2017 Reserve of $350,000.

ACTION: Upon motion by Chair O'Brien and seconded by Governor Nicholson, the transfer or $150,000 from the FY 2017 Contingency Reserve was approved. The motion carried.

FY 2018 PROPOSED TUITION AND FEE RATES FOR THE SCHOOL OF MEDICINE MD PROGRAM

Vice President Decatur presented a recommendation to adopt a base tuition rate that will hold tuition rates for Year 1, 2, 3 and 4 students at the Fiscal Year 17 level for all School of Medicine Programs for FY 18, except for the non-resident tuition rates for the M1 class, for which the Board earlier approved a decrease of 13%. The student Medical School support fees and Student Service fees would also remain at their 2017 level. For all students taking 40 or more credit hours, a flat tuition charge will be implemented. All future MD student rates would be subject to rate increases as approved by the Board of Governors in that fiscal year.

Vice President Decatur noted that the proposal is part of a strategy to make medical tuition more affordable and competitive. Professor Romano asked for an expansion on the effects of this new strategy. Vice President Hefner responded and noted the current ratio of 75%/25% in-state students to out-of-state students will become 60% in-state to 40% out-of-state. This new ratio compares to other Michigan public universities in terms of their acceptance and aggregate numbers. VP Hefner noted that the University will remain the top producer of medical school graduates in the state of Michigan, even with the new ratios. Governor Busuito asked if the University would be obliged to accept a 40% of out of state student ratio. Vice President Hefner noted that this was the intention. Governor Busuito expressed reservations about the reduction in in state students, and asked how he should respond to Michigan constituents concerned about the effect of the increase in out of state students. President Wilson responded, indicating that three new Medical Schools have opened in the state of Michigan in the past 10 years, without legislative oversight, creating competition for quality students. President Wilson noted that the School of Medicine's class is one of the largest in the nation, and 60% of Wayne's graduating class will represent more medical students than any other school in the state of Michigan.

> ACTION: Upon motion by Mr. Zachary Rich, student representative, and seconded by Governor Nicholson, the Budget and Finance Committee recommended that the Board of Governors adopt a base tuition rate increase that freezes tuition rates at the FY 2017 level for all School of Medicine programs for FY 2018, except for the non-resident tuition M1 class. The rates for the M1 non-resident class were approved by the BOG at its January 2017 meeting, and were decreased by 13%.
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> The recommendation also included the following provisions:
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> That all Student Medical School Support fees (annual fee) remain at their FY 2017 respective levels and the Student Service Fee (per credit hour) remain at its FY 2017 respective level.
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> That for all students, a flat tuition charge be implemented for all students taking 40 or more credit hours on an annual basis.

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 6-1.

AUTHORIZATION FOR THE CONDITIONAL REIMBURSEMENT OF CERTAIN EXPENDITURES TO BE INCURRED BY CORVIAS CAMPUS LIVING, LLC FOR THE CONSTRUCTION OF ON-CAMPUS STUDENT HOUSING FACILITIES

Vice President Decatur noted that Corvias partnership negotiations are ongoing, with a target for financial close on June 20th. In order to move ahead with a Fall of 2018 construction completion, Corvias agreed to cover the costs to date, and up until the financial closing, with reimbursement guaranteed to them from the closing's proceeds. If the closing were not to occur, Corvias proposed to share the cost of half the advanced funds with the University. Vice President Decatur presented the formal proposal to enter into an agreement to guarantee to reimburse Corvias Campus Living, LLC, for 50% of construction cost incurred during the time prior to the date of financial close in the event that the initial project indebtedness is not obtained. University exposure would not exceed $10 million.

Governor Kelly asked if the original agreement was that Corvias would pay the cost of construction. VP Decatur noted that the original agreement proposed private placement financing with the bond proceeds to be directed to a special purpose entity, a Corvias entity, which would cover the costs for the Anthony Wayne Drive Project, the renovation of Chatsworth and the demolition of DeRoy. He noted that with the finance closing delay, Corvias proposed to advance the funds. If the project does not move forward, Corvias will assume 50% of the risk and the University will reimburse them the other 50% of the fronted funds. In response to a question from Governor Busuito, Vice President Decatur confirmed that $10 million is the worst case scenario.

Governor Kelly asked if the delay in getting the contract completed had been because of this negotiation or for other reasons. VP Decatur noted that the five week delay was due to the University exercising due diligence. Governor Thompson asked if there was any concern about not getting the financing. VP Decatur noted that after preliminary reviews with the ratings agency, and interest rates improving, everything looked solid. If all goes according to schedule, cash out through June 20 should not exceed $5-10 million, with up to $20 million dollars in commitments made to contractors during that time.

ACTION: Upon motion by Professor Linda Beale and seconded by Governor Nicholson, the Budget and Finance Committee recommended that the Board of Governors authorize the President, or his designee, to enter into an agreement to guarantee reimbursement of Corvias Campus Living, LLC for fifty percent (50%) of construction costs incurred during the time prior to the date of financial close in the event that the initial project indebtedness is not obtained. The motion carried.

MAJOR CAPITAL PROJECTS OVERVIEW AND MAJOR REAL ESTATE PROJECTS OVERVIEW

Vice President Decatur provided an informational report on Major Capital Projects and Real Estate Projects, noting that all of the projects highlighted were moving forward on schedule and within budgets. There were no questions or discussion regarding the report.

FY 2016 BUDGET VS. ACUTAL YEAR END REPORT

Vice President Decatur presented two reports that were originally scheduled for presentation at the January 2017 Board meeting, but were rescheduled due to time constraints. The first report was the FY 2016 year-end report comparing the General Fund approved budget with the actual results. Overall, the General Fund ended the year with a decrease in net position of approximately $23 million, mainly resulting from negative activity with the School of Medicine's Fund for Medical Research and Education. Excluding the FMRE, general fund operating results had a $16.9 million positive balance. Revenues were on target totaling $607 million on a budget of $602 million. Tuition slightly increased over a budget of $2 million, and Investment and Endowment income increased by $1 million. Expenses were nearly 2% less than budgeted with savings found in fringe benefits and utilities with both ending the year at $5 million below budget. Financial aid was $7 million above budget but across all other expense categories, the actuals were $9 million below budget. The Designated fund ended the year with an increase in net position of $18 million. Auxiliary and Independent Operations funds including Housing and Food Services, Parking and Student Center operations ended the year with a decrease in net position of slightly more than $1 million. The Expendable Restricted Fund ended the year with a decrease in net position of approximately $494 thousand. Vice President Decatur went on to present the FY 2018 budget calendar and charts showing Financial Ratio trends compared to peer institutions. The composite financial indicator score jumped from 1 to 2.49, below the target of 3, but an improvement. Investment returns went from negative to positive, reflecting the importance of the Foundation and the efforts of development. Future strategies will be focused on improving ratios, developing a multi-year financial plan and budget, quantifying and understanding deferred maintenance across the campus and launching the master planning process at the beginning of the Fall semester. The Foundation decided to go with an OCIO financial investment model and has selected Strategic Investment Group.

Governor Thompson asked about the plan to address the unrestricted net position decline. Vice President Decatur advised that having complete budgets, allowing 100% carry forwards of positive balances at the end of the year, robust interim reporting and more internal monitoring that improves financial controls will help to strengthen the University's financial picture. All Deans and Vice Presidents have been asked to put a 3 year spending plan together. The President implemented a dotted line from all business affairs officers in the university to Vice President Decatur's office. Key drivers in terms of the University's overall operating budget are tuition and fee rates and enrollment, and recommendations will be brought forward to the Board in June. Governor Nicholson asked about Physical Asset Ratios and what drives the number down. Vice President Decatur advised that the benchmark was established by KPMG and was a relative measure. For the University, building new buildings, and a significant lack of investments in addressing deferred maintenance on the majority of buildings, are drivers on this ratio. There is a plan to implement a new responsibility centered management budget model with a two-year timetable.

ANNUAL REPORT ON THE LONG-TERM INVESTMENT PROGRAM FOR THE FISCAL YEAR ENDING SEPTEMBER 30, 2016.

Vice President Decatur also presented the informational report on the long-term investment program that was prepared by his staff and New England Pension Consultants, the University's financial advisor. The endowment value was $327 million at the end of FY 2016.

UNIVERSITY TREASURY UPDATE

Vice President Decatur presented the University Treasury update, noting that University cash balances excluding the Foundation had dropped by $19 million on average since 2014. The cash invested earned 3.8% in FY16. Credit quality was good and the duration, a measure of sensitivity to interest rates, was 2.7 years. There were no bond issues for new capital projects. Bond debt, outstanding as of the end of the fiscal year, was $427 million. New bonds were issued to refinance some outstanding bonds and with annual debt service, $14-$16 million of principal is paid off every year. Governor Gaffney asked if the Corvias arrangement addressed some of the bond debt. Vice President Decatur noted that at the financial close, the bond issue would be approximately $300 million and part of that would be used to decrease all of the University's current housing debt of approximately $100 million. That debt would be taken off the books, and become part of the debt in the special purpose entity.

PURCHASING EXCEPTIONS

The administration presented a report of purchase orders greater than $25 000 that were issued between December 2016 and February 2017 without soliciting competitive bids. Governor Thompson asked if a certain amount of money was budgeted for the exceptions. Vice President Decatur noted no, but that funding was sourced from college, school, division and departmental operating budgets, and grants and contracts.

ADJOURNMENT

There being no further business, the meeting adjourned at 11:32 a.m.

Respectfully submitted

Julie H. Miller