



BOARD OF GOVERNORS

Budget and Finance Committee

February 2, 2018

Minutes

The meeting was called to order at 11:21 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, Kelly, Nicholson, O'Brien and Thompson; Linda Beale, Faculty Representative, and Louis Romano, Faculty Alternate Representative; Aaron Szpytman, Student Representative and Anthony Eid, Student Representative

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

APPROVAL OF MINUTES, December 1, 2017

ACTION: Upon motion made by Governor Thompson and supported by Governor Nicholson, the Minutes of the December 1, 2017 meeting of the Budget and Finance Committee were approved as submitted. The motion carried.

CONTINGENCY RESERVE

Vice President Decatur reported that there were no requests for funding from the FY 2018 Contingency Reserve which remains at \$430,000.

NURSING DISTANCE LEARNING CLASSROOM RENOVATION

Vice President Decatur advised that the project for the renovation of the Nursing Distance Learning Classrooms was currently underway. The project was originally budgeted at \$455,000, below the \$500,000 threshold requiring Board Approval. A series of issues has raised the cost of this project to the level required for board approval. The lowest bid for the audio visual

component of the project was received at three times the cost of the original estimate. Unforeseen conditions with infrastructure, also added to the increase, all of which raised the budget to \$650,000. The College of Nursing will fund the overage from the general fund savings carry-over, \$350,000 from technology fee, \$150,000 from the Nursing designated fund, and \$10,000 plant fund reserve for capital improvements.

Governor Thompson asked whether another cost increase was anticipated and if so, would the College of Nursing cover the overage. Vice President Decatur noted that another cost increase was not anticipated, but if it did occur, the College of Nursing would cover it.

ACTION: Upon motion made by Governor Nicholson and supported by Governor Busuito, the Budget and Finance Committee recommended that the Board of Governors authorize the President, or his designee, to award contracts for the renovation of the Nursing Distance Learning Classroom Renovation. It is further recommended that the Board of Governors authorize spending up to \$650,000 to design and construct the project. Funding for this project will be provided by the College of Nursing.

WEIGHT ROOM ADDITION- MATTHAEI PHYSICAL EDUCATION CENTER

Vice President Decatur advised that the project to construct a weight room on the west side of the Matthaei building as addition to the existing athletic facility was approved at \$2.3 million by the Board in March of 2017. Cost over runs, unanticipated fiber relocation energy code modifications, an increase in the capacity of the electrical panel and exterior building cladding collectively increased the total cost of the project by more than 10%, requiring Board approval of the revised budget, which has now increased to \$2,621,860. Funding for this project will come from bond proceeds, with a portion, \$91,860, from gift funds.

Governor Kelly asked whether, if approved, the funds from the bond issuance would in part be used to reimburse the general fund money already spent. Vice President Decatur confirmed. Professor Romano noted that the construction cost per square footage seemed high. Harry Wyatt, associate VP of facilities, responded by noting that the cost per square foot was a total project cost including athletic equipment, and did not just represent construction costs.

In response to a question about bidding for the project, Mr. Wyatt noted that this project was a design build with a competitive selection. The chosen design build provider then accepted at least

three bids for each individual trade. There was also a competitive selection for the design build contractor with request for proposals received and interviews conducted.

ACTION: Upon motion made by Chair O'Brien and supported by Governor Thompson, 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 Matthaei Physical Education Center. It is further recommended that the Board of Governors increase authorization for spending from \$2,300,000 to \$2,621,860 to construct the facility. Funding for this project is provided temporarily from the University cash and permanently from the next university bond issuance, and \$91,860 of gift funding as identified in the new budget summary. The motion carried.

AUTHORIZATION TO SELL BONDS

Vice President Decatur presented materials outlining the proposal to sell bonds. The Administration recommended the Board of Governors adopt the legal resolution authorizing the issuance of up to \$138.7 million for various projects for the term of 31 years, with \$129 million to fund specific projects and \$9.7 million for bond closing costs, capitalized interest and contingencies. Vice President Decatur presented a list of all the projects and their total projected expenditures and funding sources at \$128,585,000.

Professor Beale asked whether the board should first vote on the Hilberry project before it approved the bond proposal. President Wilson noted that the bond issuance did not obligate the board to use the bond funds specifically for Hilberry and that there would be a separate request for approval for the Hilberry project at the Board's next meeting. The issuance of the bond would allow the University to enter the market and take advantage current low interest rates. He noted that the even if the Board were to decide not to go forward with the Hilberry, to have those funds available at the current interest rates would be advantageous to the University.

ACTION: Upon motion made by Governor Nicholson and supported by Governor Thompson, the Administration recommended that the Board of Governors adopt the Resolution authorizing the issuance of up to \$138.7 million of Wayne State University general revenue bonds, with a term of up to 31 years. This amount includes \$129 million to fund specific projects and \$9.7 million for bonding closing costs, capitalized interest and contingencies. The motion carried.

ANNUAL REPORT ON THE CASH POOL INVESTMENTS AND DEBT PROGRAMS FOR THE FISCAL YEAR ENDING SEPTEMBER 30, 2018**ANNUAL REPORT ON THE LONG-TERM INVESTMENTS PROGRAMS FOR THE FISCAL YEAR ENDING SEPTEMBER 30, 2018**

Vice President Decatur presented several reports for the board's information including the annual report on cash pool and debt, the long-term investment program and a provided a few high points on the Michigan Universities insurance program (MUSIC). The annual long-term investment report was prepared by Wayne State University's investment consultants, NEPC, LLC.

Regarding long term investments or endowed funds, the University moved to an outsourced chief investment officer in October of 2016. A new asset allocation policy was developed and ultimately approved by the investment committee of the Foundation, and the full Foundation. The implementation of the new asset allocation was substantially complete as of March 31st, except for a new allocation to private equity, which the University will be stepping into over a three-year period. Charts presented showed the change in asset allocation, an increase in non-U.S. equity, increases in alternatives and real assets, and an increase in total investments from \$311 million to \$358 million dollars from 2016 to 2017.

Regarding the cash pool investment program or working capital, the University has a \$35-million-dollar line of credit to support liquidity and avoid liquidating any securities before their maturity. As of September 2017, the cash pool was approximately \$362 million dollars. Cash pool portfolio investment returns were 1.7% for the fiscal year ending September 30, 2017. Three-year returns were 2.3% and five year returns were 2.1%. Charts presented showed portfolio average yield, credit quality, average effective maturity and duration.

The University debt is currently at \$300.2 million dollars, reflecting the defeasance of \$103 million dollars in debt through the Corvias partnership. The University was amortizing debt at approximately \$12 million dollars per year, and average interest cost of 3.7%. In terms of credit ratings, the University is currently rated by Standard and Poor's at A+ with a stable outlook, and by Moody's at Aa3, with a negative outlook. The administration expects improved ratings after a recent meeting with both agencies. Governor Kelly noted that improved ratings would be a significant step for the University.

MICHIGAN UNIVERSITIES SELF-INSURANCE CORPORATION (M.U.S.I.C) ANNUAL REPORT

Vice President Decatur introduced Ms. Angela Moss, Senior Director of Risk Management, to present the annual report and highlights of the Michigan University self-insurance corporation (MUSIC). Ms. Moss sits on the MUSIC Board.

M.U.S.I.C was formed in 1987, and includes every public university in the State of Michigan, with the exception of University of Michigan, and Michigan State University, which was a member until 2000. M.U.S.I.C provides coverage in several areas including general liability, errors and omissions liability, auto physical damage, and auto liability. To date, M.U.S.I.C has returned to Wayne State University \$5.6 million dollars in dividends. Regarding property insurance, the University moved to FM Global to take advantage of better rates and has since received more than \$250,000 dollars in dividends. Regarding general liability, there is the deductible, M.U.S.I.C. and excess insurance totaling \$100 million in coverage. M.U.S.I.C pays approximately \$1.5 million dollars in insurance coverages every year. Governor Busuito asked if there was any liability for the current issues at Michigan State University. Ms. Moss noted that M.U.S.I.C is currently involved in the litigation.

General Counsel Lessem noted that Michigan State University was covered for some period of the time, of the proposed claim period, by M.U.S.I.C. With the issues of statute of limitations, he did not think that M.U.S.I.C or Michigan State University yet has a sense of potential scope of that liability. Ms. Moss noted that a contract specialist had been hired to evaluate M.U.S.I.C's contracts.

Governor Kelly commented on the University's investment portfolio returns. Vice President Decatur identified a 10.9 % return last year with the new outsource chief investment officer, which was very good news. Professor Beale asked about the type of private equity investments being made. Vice President Decatur stated that there were no investments as yet but was they are looking to the outsource CIO for recommendations and there would be a full vetting and review of those recommendations.

INFORMATIONAL REPORT: MAJOR CAPITAL AND REAL ESTATE PROJECTS

Vice President Decatur presented a report on major capital and real estate projects, noting that everything was in good shape. The Cass and Canfield development had however, not moved ahead as anticipated. Governor Thompson asked about other current smaller projects.

Vice President Decatur noted that for projects under \$500,000, there is approximately \$5 million budgeted each year for deferred maintenance projects across campus.

Professor Romano asked about the status of the renovation of the Science and Engineering library. Vice President Decatur advised that the project was in the design stage with a report due to the state March 30th. The next phase is the actual appropriation. Mr. Wyatt noted that state appropriation was not guaranteed, however, Vice President Decatur advised that historically anything that had received approval for design had been funded.

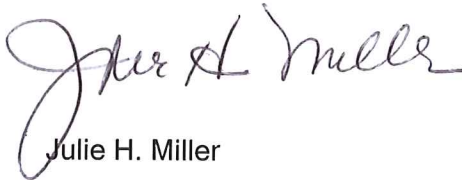
PURCHASING EXCEPTIONS

Vice President Decatur presented a report summarizing purchase orders (PO's) greater than \$25,000 that were issued during November and December 2017 without soliciting competitive bids. Per previous request of the committee, the report now identifies the basis for every exception.

ADJORNMENT

There being no further business, the meeting adjourned at 11:53 a.m.

Respectfully submitted,



Julie H. Miller

Secretary to the Board of Governors