



BOARD OF GOVERNORS

BUDGET AND FINANCE COMMITTEE

December 7, 2018

Minutes

The meeting was called to order at 10:55 a.m. by Governor Kelly in Room BC at McGregor Memorial Conference Center. Secretary Miller called the roll. A quorum was present.

Committee Members Present: Governors Busuito, Kelly, Nicholson, Thompson, and O'Brien; Linda Beale, Faculty Representative, Richard Smith, Faculty Alternate Representative

Committee Members Absent: Anchita Sanam, Student Representative, and Mazen Zamzam, Student Alternate Representative

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

APPROVAL OF MINUTES, SEPTEMBER 21, 2018

ACTION: Upon motion made by Governor Nicholson and supported by Governor Busuito, the minutes of September 21, 2018 meeting of the Budget and Finance Committee were approved. The motion carried.

CONTINGENCY RESERVE

VP Decatur reviewed the report, which included a request for a transfer of \$7737 in additional funds for the CLAS Dean search. Governor Thompson asked for details on what was covered in these additional expenses. Provost Whitfield will review the expenses and provide that information at the next Board meeting. The request for funds transfer was tabled, and will be brought back at that meeting.

STEM INNOVATION LEARNING CENTER BUDGET REVISION

Vice President Decatur called on Associate Vice President Harry Wyatt, AVP for Facilities, Planning, and Management. AVP Wyatt noted that there had been several requests for approval before the Board for various stages of the project, including the original \$40M construction estimate. The project centers on renovation of an existing building, the Science Engineering Library. Costs increased during the design and development stage and it was determined that the project could not be delivered within a \$40 million budget in the current market. The state budget office agreed with this assessment, and the University began the process of seeking approval from the state appropriations office to increase the budget from \$40 million dollars to \$49.5 million dollars. While awaiting approval, the state appropriation remains at \$14,750,000 dollars. University bond funds will be used for the \$34,750,000.

Vice President Lindsey noted that it would not be feasible to ask the legislature to increase the appropriations for the project, as it could set the project back and hurt chances for authorization. Governor O'Brien asked whether appropriations were reimbursed as they were spent, or provided as upfront funds, whether soft costs and fees changed and what percentages of the costs were contingency. AVP Wyatt noted that the funds were reimbursements, that some costs and fees had changed and the contingency line decreased as uncertainty with the design was eliminated. At the construction stage, contingency was about 5% of the construction cost. The design stage contingency would have been 10% and at the programmatic stage, it would have been about 20%. Governors Nicholson and Thompson asked whether it is worth renovating the existing building for \$33 million dollars, versus building a new building. AVP Wyatt noted that the site was valuable and had advantageous proximity to a number of other STEM related facilities, including the chemistry and biology buildings. President Wilson agreed that the question was debatable but currently, it would be cost prohibitive to tear it down, lose \$15 million already spent, and restart the project. Governor O'Brien asked about renovating less than the planned seven floors covered in the project. President Wilson noted that the State legislature would have to approve the change, and there was risk that the project would not move forward. Vice President Decatur noted that \$9.5 million of the project will be from a future bond issue. AVP Wyatt noted that the current proposal is seeking revision to an approved state project.

ACTION: Upon motion made by Professor Beale and supported by Governor Nicholson, the Budget and Finance Committee recommended that the Board of Governors authorize the President or his designee to increase the current budget for the STEM Innovation Learning Center, contingent upon State of Michigan approval of the appropriation of the requested increased project budget. In June 2018, the Board authorized \$40M in construction spending. It is recommended that the Board of Governors authorize additional spending of up to \$9.5M, for a total project cost of \$49.5M. The project will be funded by two sources: \$14.75M by State of Michigan appropriation and \$34.75M by University bond funds. The motion carried.

FY2020-FY2024 FIVE-YEAR CAPITAL OUTLAY PLAN

AVP Wyatt began the discussion on the FY 2020-2024 Five-Year Capital Outlay Plan, an annual report submitted to the state which contains a list of projects in progress that were previously approved by the Board, future appropriation request staging and stressed ongoing master plan development.

Since the STEM project is still in progress, there is no accompanying State appropriation request, only the final informational report. Given the State's submission deadline, it was submitted in draft form, pending Board approval. Governor Kelly asked about the consequence of non-approval by the Board and whether the plan would have to be withdrawn if the Board does not approve it. She advised that it will be better in the future if the Board acts on the report before it is submitted. AVP Wyatt advised that once the campus master plan is completed this summer, it will identify the top priority future projects, and which would be most appropriate for state appropriation. The process will include an intensive study to make sure the project is well-scoped and costed, so that when the report is submitted, it will have been built by consensus, through the master plan, fully vetted via the faculty senate, Board, and others prior to the October submittal. He believes they will be in a good place within the next 6 months to be able to fully identify that project, and in the future, bring the approvals forward in appropriate order.

Governor O'Brien asked for a recap on when the campus master planning process began, and where it is at now. Mr. Wyatt advised that the campus master plan launched in August 2018, that the Board will be receiving an update on it from the consultants at its next meeting, and that Governor Thompson is a member of the master plan capital funding and priorities committee.

Governor Thompson asked for clarification about the process for the State's report - is it a 5-year report that is submitted every year? AVP Wyatt concurred - it is a 5-year report, updated every year. Although the STEM project this year precluded a request for another capital project this year, there is nothing that prevents a request going forward in future years, while the STEM project is underway.

ACTION: Upon motion made by Governor Nicholson and supported by Governor Busuito, the Budget and Finance Committee recommended that the Board of Governors approve the FY 2020-FY2024 Five Year Capital Outlay Plan as presented.

BANK LINE OF CREDIT- RENEWAL AND INCREASE REQUEST

Vice President Decatur called on Marianne Cunningham, Assistant Treasurer, to present the request. Miss Cunningham noted that the University's existing credit line of \$35 million was put in place and approved by the Board in September of 2015 and it expires in December 2018. Operations are now under short-term extension to get through the RFP process for a new credit line, receive approval, and complete the contract process with the banks. The proposal before the board is to secure a line of credit and to increase the

maximum borrowing amount from \$35 million to \$50 million. The \$15 million increase will provide flexibility to meet short term needs without using any invested funds that could instead be earning incremental returns. It can also serve as a temporary source of funding if there are upcoming projects to be funded with bond proceeds and there are undesirable market rates. It can also provide bank and credit diversification.

In terms of process, an RFP was conducted including both pricing and terms and conditions. As a result of competitive bids solicited from 9 banks, the pricing of the letter of credit on the drawn portion of the facilities spread was reduced by 35 basis points. The letter of credit contains two fees including liable, which is a floating rate, plus a spread, and on the unused portion of the line, a facility fee. The one that has decreased by 35 basis points is on the drawn portion. On the undrawn portion, the rate was decreased by 23 basis points. If the University remains consistent on the amount of credit used in previous years with the same amount outstanding, the university should realize approximately a \$70,000 savings, under these new terms.

Governor Kelly asked if the request was a direct result of the Board's previous action to invest more aggressively. Ms. Cunningham notes that it was not. The University is maintaining the same amount of cash balances under the new asset allocation model, and the expanded role of the investment manager, but she noted that a larger line of credit will provide a certain amount of flexibility.

ACTION: Upon motion made by Governor Busuito and supported by Professor Beale, the Budget and Finance Committee recommended that the Board of Governors adopt the resolution 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 \$35 million to \$50 million. The motion carried.

INFORMATIONAL REPORT: MAJOR CAPITAL AND REAL ESTATE PROJECTS

Vice President Decatur asked for questions on the informational report summarizing major capital and real estate projects. Governor Thompson asked for the status of the Cass and Canfield project. President Wilson noted that it and other real estate projects were on the executive session agenda for discussion.

PURCHASING EXCEPTIONS

Vice President Decatur presented the informational report on Purchasing Exceptions. Professor Beale reiterated her concerns about part-time consulting contracts for Dwight Monson and Lisa Keane connected with the school of medicine and health affairs. The contract amounts for the consultants could have supported a wide variety of faculty and academic staff needs. Professor Beale asked whether the Board received detailed reporting prior to accepting each contract renewal, and assessments showing to what extent and at what cost expected outcomes had been achieved.

Governor Gaffney advised that the Health Affairs Committee shared some of the same concerns. Mr. Monson is nearing the conclusion of his work and Ms. Keane is working on the relationship with Henry Ford. While Mr. Monson's contract will end first it will be harder to say on Ms. Keane but both are part time. Governor O'Brien commented that Mr. Hefner is also part time, and asked about Mr. Monson's salary and contract terms. President Wilson noted Mr. Hefner, even though considered part time, works many hours and on specialized areas that required very specialized knowledge and skills. He added that in the past there were negative financial consequences for not having the right hires in place with those skills and it is essential going forward to make sure that expertise is in place. While the salary amounts are significant, the end of the period is coming and there is a plan in place for the future.

Governor Busuito asked about the process utilized to identify and hire consultants, whether there is a limit on salary level, and whether they need to be approved by the Board. He expressed frustration with the problems that the medical school has gone through and the deterioration he sees in the physician's practice group and at the School of Medicine. He believes there has not been improvement at the School under the Health Affairs leadership structure, and does not have confidence that the plans underway will reach fruition. He believes the health of the Medical School is paramount for the University.

Governor O'Brien asked General Counsel Lessem at what dollar value a contract must be approved by the Board? He advised that it has more to do with the nature of the contract than the amount. He referenced affiliation agreements as an example - certain types need to be approved and others don't, regardless of the amount. The hiring of consultants is not normally something that comes before the Board. To his knowledge, there is not a hard cap on purchasing exceptions. Governor O'Brien expressed her concerns and believes that the Board should review whether there should be a policy in place which would require contracts of a certain \$\$ value come to the Board for review/approval.

Professor Beale gave her perspective on the University's history of working with consultants. She reflected on the past decade, where she commented that considerable funds were allocated to consultants who were brought in to work on a variety of efficiency and cost cutting programs, which have not necessarily come to fruition in the manner expected. She is also concerned that the circle of decision-making with a number of consultants used by the University does not necessarily have academic representation, and encouraged the Board to take a stronger oversight role.

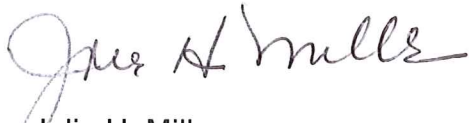
Governor Thompson and Governor Busuito asked whether or not there is a document that outlines delegation of authority, and if yes, whether or not there is a financial threshold that follows. VP Lessem will distribute the document he referred to earlier explaining the delegation of authority. He advised that there are financial thresholds in some areas, and will include that with the distribution of that material. Governor Busuito asked whether or not the Board could put limits on the contracts issued to consultants; Vice President Lessem advised that the Board has that authority.

President Wilson added that he understands the Board's concerns and interest in controls, and that he will continue this discussion with the Board and the administration for options to address these concerns.

ADJOURNMENT

With no further business, the meeting adjourned at 11:56 a.m.

Respectfully submitted,



Julie H. Miller
Secretary to the Board of Governors