



BOARD OF GOVERNORS

BUDGET AND FINANCE COMMITTEE

September 21, 2018

Minutes

The meeting was called to order at 11:45 a.m. by Governor Kelly in Room BC at the 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; 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, Hefner, Lanier, Lessem, Lindsey, and Wright; and Secretary Miller

APPROVAL OF MINUTES, JUNE 22, 2018

Professor Beale advised that two corrections needed to be made, the correction of a spelling of a name, and a sentence which appeared twice. Secretary Miller will make these corrections.

ACTION: Upon motion made by Governor Nicholson and supported by Governor Busuito, the Minutes of the June 22, 2018 meeting of the Budget and Finance Committee were approved as corrected. The motion carried.

CONTINGENCY RESERVE

Vice President Decatur advised that there were no new requests for funding from the FY 2018 Contingency Reserve, and the balance remains at \$5,000.

RENOVATION OF CHATSWORTH RESIDENCE HALL- BUDGET REVISION

Vice President Decatur reported that changes to the project to renovate the Chatsworth apartment building previously approved by the Board in October 2017 have been recommended, and the original scope of work has been expanded to include demolition and replacement of 5 existing apartments on the mezzanine of the building. In the space created by the demolition, 7 new apartments will be built. Of these 7 new apartments, one will be slated for a community director, and the other 6 will be guest apartments. The recommendation is for an increase of \$860,000 in the total project cost for the Chatsworth renovation.

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 approve an increase in funding not to exceed \$860,000 for additional program improvements to the renovation of Chatsworth Residence Hall for a new total project budget not to exceed \$28,860,000. The project will be fully funded and completed by the Corvias Campus Living-WSU, LLC from bond proceeds available from debt issuance by the LLC. The motion carried.

ELLIMAN RESEARCH BUILDING- AIR HANDLING UNIT IMPROVEMENTS

Vice President Decatur advised that the Elliman building was renovated in 2015 to move the Karmanos Cancer Institute into the building. That renovation relocated all the research activity, but did not address the heating and cooling infrastructure, important in a research facility. The building depends on 3 air handling units that are 30 years old. The project will upgrade the current 3 air handling units, provide new control systems, modify deck work, and improve temperature and humidity control.

ACTION: Upon motion made by Governor Busuito and supported by Anchita Sanam, the Budget and Finance Committee recommended that the Board of Governors authorize the President, or his designee, to award contracts to upgrade the air handling units in the Elliman Building for a project cost not to exceed \$2,500,000. Funding for this project includes \$1,555,000 from the 2015 Elliman Research Building Renovation Project and \$945,000.00 from the Deferred Maintenance Reserve. The motion carried.

PRENTIS HEATING AND PIPE REPLACEMENT

Vice President Decatur summarized this project, to upgrade the heating and pipe system at the Prentis building, which was the former home of the School of Business. The current heating pipe system is 40 years old, and blocked with corrosion, which restricts water flow and compromises heating. A previous Board approved project replaced a small amount of pipe when space was renovated for the move of the computer lab to Prentis from the Science and Engineering Library building. Pipe replacement is necessary to provide consistent heat throughout the building. Governor Nicholson noted a preference for pipe

replacement to ensure the proper water chemistry was maintained, and encouraged preventative maintenance.

ACTION: Upon motion made by Governor Nicholson and supported by Governor Thompson, the Budget and Finance Committee recommended that the Board of Governors authorize the President, or his designee, to design, solicit bids and award contracts for the Prentis Heating Pipe Replacement project for a cost not to exceed \$1,300,000. Funding for this project will be provided from the Deferred Maintenance Reserve. The motion carried.

RACKHAM BUILDING RELOCATIONS TO PRENTIS AND RANDS BUILDINGS

This project is to relocate functions currently housed in the leased Rackham building to the Prentis and Rands buildings. The lease of the Rackham building from the University of Michigan will terminate in 2019, and the functions in the Departments of Psychology and Communication Sciences and Disorders housed in Rackham will move to Prentis and Rands. The renovation will provide for offices, clinical space, restroom upgrades, sound booth relocations, new video monitoring systems and upgrades to the fire alarm system. This will be the last building project for the Prentis Building.

ACTION: Upon motion made by Professor Beale and supported by Governor Busuito, the Budget and Finance Committee recommended that the Board of Governors authorize the President, or his designee, to design, solicit bids and awards contracts for the relocation of functions currently located in the leased Horace H. Rackham Educational Memorial Building to Prentis and Rands Buildings for a project cost not to exceed \$1,200,000. Funding for this project will be provided from the Plant Fund Reserve. The motion carried.

SCHOOL OF SOCIAL WORK ROOF REPLACEMENT

The School of Social Work building was acquired and partially renovated in 2015. The roof was not addressed at that time, and is currently leaking, causing damage to recent building improvements. Governor Thompson asked how much will remain in the deferred maintenance reserve following the projects under consideration. Vice President Decatur noted that the three projects going forward will use up all of the FY 2018 deferred maintenance funding. The new fiscal year begins October 1, and the deferred maintenance fund will be replenished at that time, with \$5.4 million dollars designated for FY 2019.

ACTION: Upon motion made by Governor Busuito and supported by Governor Thompson, the Budget and Finance Committee recommended that the Board of Governors authorize the President, or his designee, to approve spending to design, solicit bids and award contracts for the replacement of Social Work Building Roof with a project cost not to exceed \$950,000. Funding for this project will be provided from the Deferred Maintenance Reserve. The motion carried.

LEASE AUTHORIZATION REQUEST- TROPICAL SMOOTHIE CAFÉ

The lease authorization request on the Tropical Smoothie Café was removed from the agenda. That contract is still under negotiation and will be brought back for consideration at the Board's next meeting.

**NOVASEQ SHARE INSTRUMENTATION GRANT FOR WAYNE STATE UNIVERSITY-
NATIOAL INSTITUTES OF HEALTH S10 OD025170-01**

Vice President Decatur advised that the Vice President for Research, Steve Lanier, had submitted the Novae Share Instrumentation Grant for consideration at this meeting. The funding sources for this project include \$600,000 from NIH plus the matching funds from various institutional sources, including the VP of Research, Karmanos, the School of Medicine, and the PRB. VP Lanier noted that it is a competitive award and key to many University initiatives, including neuroscience, the perinatology research branch and environmental sciences. Professor Beale asked which VP for Research fund was utilized for support, and how much that fund will have next year. Vice President Lanier advised that support comes through the allocation of facilities and administration dollars that come in each year from grants. Each year, the F&A funds are replenished and the total indirect cost dollars that come into that funding mechanism is approximately \$34 to \$35 million. An increase in the awards over the past few years leads to projections of \$37 to \$38 million this next fiscal year, and a portion of those funds are allocated to different units of the University.

ACTION: Upon motion made by Professor Beale and supported by Governor Busuito, the Budget and Finance Committee recommended that the Board of Governors authorize the President, or his designee, to approve acceptance of an NIH grant/contract (\$600,000) in combination with institutional match for expenditures not to exceed \$1,286,169 to Illumina, Inc. for the purchase of the Illumina Novae 6000 DNA Sequencing System. The motion carried.

AMENDMENT TO UNIVERSITY STATUTE 2.73.03

Vice President Decatur summarized the rationale for the proposed changes to the University statute. The proposal's goal is to amend the university's portfolio management practices to add another level of investment for operating funds to allow opportunities to increase return on these funds. Under the current policy, University funds are in fixed income cash investments earning low interest rates and unable to be placed in long term investments. Marianne Cunningham, Assistant Vice President for Treasury and Investment then presented an overview of the changes that the administration is recommending. Currently, the University has two separate investment pools, the endowment portfolio, which is governed under another separate investment policy, and a cash pool that represents the cash reserves of the organization. The main objective of

this recommendation is to provide liquidity for working capital needs and generate income to support the budget. As of June, the cash pool was at \$363 million.

Under this recommendation, the portfolio will be segregated into three separate tiers, each with its own objectives and risk controls. Tier one and two will be all cash and fixed income. Tier three will introduce some incremental set classes aimed to generate income and growth for the University. With the addition of these new incremental growth assets, 20-25% of the current portfolio will move into this new third tier, which AVP Cunningham advises is a conservative change for the University, while still allowing new growth. Governor Kelly asked what amount of income will be generated under this new structure. Assistant Vice President Cunningham advised that, based on models using the risk and return correlation, expectations, and assumptions from investment consultants, current income will increase from \$8 to \$9 million to \$13 or \$14 million, over a 5 year planning horizon.

Professor Beale asked about the contract with the advisor per the change in the statute and their yearly fee for this part of the contract. AVP Cunningham noted that advisors are to be vetted and the advisors on the current portfolio will be contracted to advise on the new portfolio but that contract is not yet final. There was a mini RFP for the two current advisors, Strategic Investment Group, the advisor for the endowment portfolio and NAPC, the advisor for cash pool.

The fees are \$53,000 per year for the cash and fixed income portfolio. If the University moves to a discretionary OCIO model, the fees will be \$245,000 per year.

Professor Beale raised some concerns she has about the impact of the language establishing tier three, related to elimination of term limits, a decrease in flexibility during a financial crisis, and the amount of discretion given to the investment manager. She believes some of these items should be addressed in the statute. AVP Cunningham noted that the investment consultant will not have unlimited discretion, but will have clearly defined roles and concentration limits. Concentration limits are designed primarily for larger portfolios like the Tier two fixed income portfolio and the amounts allocated to each manager is so small, it will negate any need for concentration limits. Managers cannot be changed without University agreement. Professor Beale believes these changes impact the Board's oversight responsibility, and expressed concern about potential scenarios where such oversight would be needed. Governor Kelly noted that per previous discussion by the Board, Vice President Decatur will be delivering a regular financial report and the audit committee will also review that report and the University's financial performance. AVP Cunningham noted that an investment advisory committee of the CFO, the senior associate Vice President, the Assistant Vice President for Treasury and Investment, and other qualified members as determined by the treasurer will be added to the statute, in addition to the investment committee, and in addition to a quarterly performance report to the Board. Governor Kelly asked why the Board could not retain its present responsibility in addition to the role of the advisory committee. AVP Cunningham noted that Board will retain accountability, in addition to having another

group with eyes monitoring the portfolio, providing increased risk control. Professor Beale reiterated her concern about the lack of concentration limits in the statute.

President Wilson added that this the proposed structure includes involvement of a group with expertise in finance and investments. A question for the Board is whether it wants more involvement in investment decisions rather than having a general overall policy allowing experts to make the best determination with appropriate oversight. Governor Nicholson does not believe that it's the role of the Board, and that the advisory committee will be involved with the day to day operations, review the funds and report to the auditors in the audit committee. He agreed that there is more risk while hoping for more reward on tier three of the portfolio.

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 revise the University's cash pool investment policy in order to have the flexibility to implement the portfolio in a more efficient manner, and consistent with the precepts of modern portfolio management practices. Adding incremental asset classes and strategies to the portfolio can add to the income of the portfolio as well as grow the value of the assets to improve reserves and the overall financial condition of the University. Adding incremental asset classes also diversifies the portfolio which has the additional benefits of different sources of income streams, and risk reduction. Given the challenging fixed income environment, this provides the flexibility to position the portfolio to obtain a more attractive long-term return for the targeted risk level; this will in turn support the needs of the University going forward. The motion carried, with a vote of 4-2, with 1 abstention

INFORMATIONAL REPORT: MAJOR CAPITAL AND REAL ESTATE PROJECTS AND FY2018 DEFERRED MAINTENANCE PLAN

Vice President Decatur had no comment on the specifics of the report, but noted the formal kickoff of the University's Campus and Facilities master planning effort with an update planned for the December meeting, along with an update on Deferred Maintenance. The Board regularly approves projects related to defer maintenance and the presentation will help quantify those needs.

Professor Beale raised a concern about faculty parking at the Business School and main campus, which involved paying twice, despite the availability of a shuttle. Governor Kelly suggested that this issue could be discussed at a future meeting.

PURCHASING EXCEPTIONS

Professor Beale raised questions about the additional contract for a consultant working with VP Hefner, and asked about the extent of contracts of this nature. Vice President

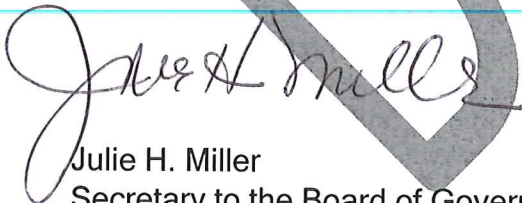
Hefner advised that this consultant has worked on a series of different assignments with deliverables and additional oversight, and that there is also negotiation in terms of both deliverables and time with caps on expenses. President Wilson asked Vice President Hefner for an overview of the consultant's responsibilities. Vice President Hefner advised that there are two consultants who have been working closely with him at the SOM. Ms. Lisa Keane began as a consultant following conclusion of her responsibilities with UPG. Her work includes various strategic partnership analysis and review, including a day to day role with the office of the General Counsel. She also works with strategic partners and manages those relationships in congruence with clinical faculty and the graduate medical education process, while interfacing on research with Vice President Lanier's office. The second consultant, Mr. Dwight Monson's performance is reviewed quarterly. He has a 3 or 4 page letter of assignments vetted by Dean Sobel as a number of them are School of Medicine projects that require specific knowledge of the education mission. Mr. Monson has been involved with mission-based management, and assisting Dr. Baker and the education office on how to revise the curriculum.

In response to Governor Busuito's request for further clarification of the payment structure, Vice President Hefner noted that there was a base contract in place and the exceptions are amendments to those with a three or four person review of the deliverables and expectations. Each bid waiver in and of itself was contained and assignments were in three to four-month blocks with the total of \$650,000 for the year, plus expenses. Governor O'Brien noted that the contracts had already been executed and were for a three or four-month period of time for consultants Monson and Keane, and that this was the fourth extension of the initial contract. President Wilson, citing time constraints, suggested that this topic could be reviewed at the upcoming Health Affairs Committee meeting with Dr. Baker and Dean Sobel's input.

ADJOURNMENT

There being no further business, the meeting adjourned at 12:35 p.m.

Respectfully submitted,



Julie H. Miller
Secretary to the Board of Governors