



Budget and Finance Committee

December 6, 2019

Minutes

The meeting was called to order at 9:55 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 Barnhill, Kelly, Kumar, Thompson, and Trent; Linda Beale, Faculty Representative, Paul Beavers, Faculty Alternate Representative; Mazen Zamzam, Student Representative and Stuart Baum as Student Alternate Representative

Committee Members Absent: Waleed Eliwat, Student Alternate Representative

Also Present: Governors Busuito, Gaffney, and O'Brien; and President Wilson; Provost Whitfield; Vice Presidents Burns, Decatur, Lessem, Lindsey, Staebler, and Wright; and Secretary Miller

APPROVAL OF MINUTES SEPTEMBER 20, 2019

ACTION: Upon motion made by Governor Barnhill, and supported by Governor Trent, the minutes of the September 20, 2019 meeting of the Budget and Finance Committee were approved as submitted. The motion carried.

CONTINGENCY RESERVE

Vice President Decatur noted that a previously approved search for the Graduate Dean was now going to be done in-house, and the funding allocated was no longer needed. Those funds have been restored, and the balance in the contingency reserve stands at \$500,000. Governor Thompson asked how the search would be different than previous searches. Provost Whitfield advised that search firms had not been used for previous Graduate Dean searches, and the search committee is confident they can build the pool using sources such as *Inside Higher Education*, the *Chronicle* and some other specialty journals.

COHN BUILDING STUDENT COMMONS

Vice President Decatur explained that the project for the College of Nursing will develop a student commons area from two coexisting classrooms on the third floor. There is currently no informal learning and study space for the students and the remodel will provide various types of seating, collaboration spaces with the latest technology, new audio-visual equipment, furniture and interior finishes.

Mr. Baum asked if students were involved in design process. Dean Clabo advised that the project was initiated at the request of students. They were involved in the design process and raised more than \$10,000 for this project with bake sales, selling water bottles, lunch bags and backpacks. There will be a donor wall as part of the project noting every donation of \$1,000 or more and a competition was held between various student groups to get their names on the largest plaque of the donor wall. More than 60% of the faculty and staff in the college contributed funds towards the project.

Governor Thomson asked for clarification of the College carry-forward funding. Dean Clabo noted that carry-forward funds are funds from previous years brought forward and were used to cover the required contingency.

VP Decatur noted that this is a good model - where faculty staff and students collaborate with the university departments and colleges and schools to fundraise for big projects.

ACTION: Upon motion made by Professor Beale 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 conversion of two classrooms into a Student Commons area for a project cost not to exceed \$750,000. Funding for this project will be provided through philanthropic support (a successfully completed effort from alumni, friends, faculty, and staff). Reserve carryforward funds will be utilized to cover contingency costs.

GORDON SCOTT HALL ELEVATOR MODERNIZATION PROJECT

VP Decatur advised that the Gordon Scott Hall modernization project will involve five elevators, which are erratic and undependable. The project authorizes the design, solicitation of bids and the award of contracts for the work at a cost not to exceed \$2.5 million. Funding will be provided from the last bond issue and the Project Reserve Fund. VP Decatur noted that parts for the five existing elevators are scarce to source and the proposed improvements will outfit the five elevators with new machinery, controllers and bring them up to code. A feasibility study will be completed to determine the most pressing needs and priorities for elevator maintenance across the campus.

Professor Beale asked whether it is possible to use the freight elevator with its key when the elevators are not working. She suggested posting staff to facilitate operation and to ensure the key does not get stolen. VP Decatur will talk to his staff about this suggestion.

Governor Busuito noted that students told him that over the past year there have been more than 120 elevator entrapments and long wait times and that he is happy the issues are being addressed.

Governor Thompson noted that the bonds are from the last bond issue and asked whether the feasibility study will determine the most economical solution. Steve Pecic, Director, Facilities Operations & Maintenance, advised that the costs were compiled based on current modernization projects in place. The feasibility study will address overall elevator designs and the total picture across the University, the master plan and building use. Governor Thompson asked if costs will increase after the feasibility study is completed. Mr. Pecic hopes that the feasibility study will drive those numbers down.

Professor Beale and Governor O'Brien both wondered if completion of the feasibility study will cause any delays in the work needed at Scott Hall. Mr. Pecic noted that while the study will drive efficiencies once completed, there may be a delay in having the design drawings completed. Fran Ahern, Senior Director of Design and Construction Services, believes the feasibility study may actually speed up the process. It is a long process, and it can take 10 weeks for drawings to be fabricated. Their hope is to identify two elevators for renovation and then onto a maintenance contract while they are waiting to determine how many of the remaining elevators to replace/construct based on the results of the study.

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 proceed with the design, solicitation of bids, and the award of contracts for the modernization of elevators at a cost not to exceed \$2,500,000. Funding for this project will be provided from bonds (\$900,000) and the Project Reserve Fund (\$1.6M). The motion carried.

TOWERS RESIDENTIAL SUITES AND CAFÉ DINING ADDITION -CONSTRUCTION COST AUTHORIZATION INCREASE.

The Towers Residential Suites and Café Dining addition project/construction cost had been previously reviewed and approved by the Board, and is being brought forward today for an increase in the project budget due to cost increases in the marketplace. VP Decatur advised that increases in the market were 5% in 2018 and were trending towards 6% in 2019, and are impacted by increases in construction costs and a shortage of skilled trade workers. The lowest bid the university received was \$685,000 higher than the estimated cost was determined to be. Authorization is requested to increase the project budget, award the contracts and proceed with construction.

As a recap, the project will increase the capacity in the dining hall, with the planned construction to be completed prior to the opening of the Chatsworth apartments.

Governor Thompson asked for a specific breakdown of the cost of the increase compared to the original expenditure plan. VP Decatur noted that the additional funds are specifically for the construction line item. Tim Michael, Associate Vice President for housing and other auxiliaries, added that the increase is across all of the trade areas in every category of construction. Ms. Ahern added that there is a slight percentage increase in construction and project management fees. There is a 5-10% construction contingency in case additional items are found during the construction. There are some increases within the electrical and mechanical areas, and on material costs. There is a shortage of labor, and Detroit has the busiest and fastest rising escalation in construction in the country. Governor Thompson noted that it would be helpful in the future to have specific information so that a well informed decision can be made. Governor O'Brien agreed. VP Decatur advised that a side by side comparison of costs will be provided in the future if a project comes back to the Board for a budget adjustment. Governor O'Brien asked if the RFP was issued not to exceed a certain dollar amount? VP Decatur responded that the specifications are identified, along with the design, and then put out for bids. Governor Barnhill asked if the increase will allow the project to be in line with the lowest bid, or is it the minimum qualified bid? Or does this vary project to project. VP Decatur indicated that this can vary between projects, but that this is usually the lowest. In general, the university does not have unqualified bidders bidding on projects. The proposals are evaluated by both Facilities and Procurement, and if a bid proposal has left something out or incorrectly accounted for in that evaluation, then they would go to the next lowest bidder.

Mr. Baum asked about the type of revenue that comprises the residential dining operating fund, what kind of expenses it is used for and whether the dining hall is connected to the Corvias partnership. Tim Michael noted that prior to the Corvias housing partnership, housing and dining funds were centralized in one operating fund. In anticipation of the partnership, the funds were separated. The residential dining fund has been in existence for about two years. The funds deposited there are the amount that the university charges over and above the cost of the meal plans charged to the university by the provider. Those funds were meant to pay contractual obligations like utilities on the dining halls, maintenance and upgrades such as the one under consideration. The annual amount contributed to the fund is about \$1 million a year. There was money left residually when the fund was initially split. Spending of the funds had been conservative. In the Corvias Partnership, the dining facilities were specifically excluded and noted in the contract as excluded space and square footage. The university retained control and responsibility for those costs along with the Aramark partner.

ACTION: Upon motion made by Governor Trent, and supported by Mr. Zamzam, the Budget and Finance Committee recommended that the Board of Governors authorize the President or his designee, to increase the current budget for the Towers Residential Suites and Café Dining Facility Addition for a project cost not to exceed \$2,835,000. In March 2019, the Board authorized \$2,150,000 in construction spending. It is recommended that the Board of Governors authorize

additional spending of up to \$685,000 for a total of \$2,835,000. Funding will be provided from the Residential Dining Operating Fund. The motion carried.

HILBERRY GATEWAY PERFORMANCE COMPLEX PROJECT AUTHORIZATION

VP Decatur provided similar information on construction market costs as what impacted the Dining Hall addition, including increases in costs, shortage of skilled labor, and other issues. With the Hilberry project, the University conducted value engineering sessions, incorporated a change of the design of the building, and a change to less expensive materials. The specifications were changed to standard products instead of custom products and the construction manager was changed in order to save \$7 million. As background on that change, a construction management company was retained and worked with the architectural firm on the initial design. They worked on all of the specifications, and the plan to move the house, which has now been completed. There were some concerns with the construction manager (CM), and a third party was brought in to evaluate the CM, and the CM's project delivery, and from that evaluation, a change in CM was recommended. Another RFP was developed and issued, and 9 proposals were received, all of which were over budget. VP Decatur believes that this project can be completed with the additional funding proposed with this recommendation. He recapped that this project started partly as a replacement and sale of the Bonstelle Theater, and using the proceeds from that sale. In working more closely with the developer interested in the Bonstelle, they are now looking at a long-term ground lease, with a present value of that project of \$5 million. While those funds are not in hand, the stream of revenue will cover the increase in this project. The Bonstelle development agreement is just about at the point of executable agreements.

Governor Thompson asked if the developer would handle the deferred maintenance on the Bonstelle. VP Decatur noted that the developer will renovate the Bonstelle and restore it to its historic status. Governor Trent asked about the length of the ground lease. VP Decatur noted that the ground lease will be 40 years with option to extend. Governor Barnhill asked that since the net present value of the ground lease is roughly equivalent to the increase in the construction cost for the Hilberry project, whether the lease term coincides with the amortization schedule for the bonds. VP Decatur noted that they do not coincide entirely, as the debt service on the bonds is already funded. Governor Barnhill asked about the impact on the overall budget of changing from an outright sale of the Bonstelle to the ground lease. President Wilson advised that whether there was a sale or lease of the Bonstelle, the proceeds will be used to offset whatever costs are incurred for the Hilberry project, considering the move of the programming from the Bonstelle to the Hilberry. VP Decatur noted that in terms of magnitude, the developer will be putting millions into the renovation of the Bonstelle.

Governor Thompson asked whether bond funding will be increased to cover the costs. VP Decatur responded that there is no increase in bond funding. The additional costs will

come from the designated fund account for non-recurring projects, a reserve the university uses for renovation projects, which is replenished every year. Professor Beale indicated it was her understanding that the Bonstelle could continue to be used while the Hilberry construction was underway, but with a lease agreement, that may not be possible. She asked about the instructional impact of these combined projects. VP Decatur called on Dean Matt Seeger and John Wolf, Chair of the Maggie Allessee Department of Theater and Dance, for a response.

Chair Wolf advised that there is much work going on to coordinate production scheduling and instructional programming between the two buildings. Construction going on around the Bonstelle is a factor, and parking is also an issue. The department elected to complete productions in the Bonstelle at the end of 2019 and created a schedule allowing continued use of the underground theatre and the Hilberry theatre through 2020. The intent is not to occupy the Bonstelle next year and the faculty voted unanimously on a schedule that would maintain production value and the opportunities for students accordingly. Governor Barnhill praised the good work and efforts.

ACTION: Upon motion made by Governor Trent, and supported by Governor Barnhill, the Budget and Finance Committee recommended that the Board of Governors authorize the President or his designee, to increase the current budget for the renovation and construction of the Hilberry Gateway Performance Complex. In March 2018, the Board of Governors authorized \$65,000,000 in construction spending. It is recommended that the Board of Governors authorize additional spending up to \$4,500,000 for a project cost of \$69,500,000. Funding will be provided from philanthropic gift contributions, Designated Fund Account for Nonrecurring Projects, and bond proceeds secured for the purpose for the purpose of implementing this project. The motion carried.

UPDATE ON RCM

Jeff Bolton, Assistant Vice President for Budget and Planning, presented the report on the university's initiative to move to an updated budget model. He began the presentation with a review of the incremental model and what it does. An incremental budget model results in incremental budget changes for a unit from one year to the next and provides little incentive for leaders to grow revenue or become efficient in their spending. To look at ways to tie budgets together to increasing revenues, efficiency and spending, alternative budget models were reviewed. The RCM or Responsibility Center Management is an incentive based budget model providing financial management philosophy focusing on operational decentralization. Putting the decisions in the hands of the leaders that are closest to the situation enables units to have greater control over the revenue generated and costs incurred, creating incentives for both revenue generation and cost effectiveness.

In 2017 there was an in-depth conversation with the Board of Governors outlining the budgetary concerns across higher education and noting recent trends in higher education budget modeling including alternative models. A project to kick-off these discussions began, with over 70 stakeholders in various roles and responsibilities. The project included seven task forces. Four of these supported the design elements of a new budget model and three supported the infrastructure of the model. Throughout 2017 and into 2018 much of the research and benchmarking was completed. The task forces looked at other RCM based or incentive based institutions across the country and learned what worked and did not. Comparisons of models used at institutions including Temple, Arizona, U of M, Iowa State, and New Hampshire were made with the goal of creating a model to fit the needs of the university. The task forces spoke with representatives at these institutions and then presented their proposals in terms of what they believed the model should look like at Wayne State. A preliminary pro forma budget was built using FY2017 data which along with the presentation of the proposed full funds model was taken out to all the schools and colleges on campus to get feedback. A side by side version of the FY20 general fund budget model was created using the RCM principles with detailed data that would be soon shared with all the schools and colleges. In addition, the work also included planned ongoing conversations and discussions with stakeholders and a go-live date of October 2021. The annual budget hearing processes will continue with the budget planning council to discuss expectations around what the model should do, including encouraging and rewarding revenue generation and cost effectiveness and provide additional transparency into the budget process and flow of funds.

The model will not create more revenue immediately but will create incentives to grow revenue. It will not provide an all-encompassing solution to higher education funding concerns. The University will remain in an allocation methodology that provides resources to units. Going forward, there will be a large focus on training initiatives starting with deans, business officers, chairs, faculty and stakeholders, with the opportunity to continuously revise and update the model as internal and external factors change within a 3, 4, 5 year time frame.

Governor Kumar commended Mr. Bolton on the work done on the RCM model, but he wondered why the implementation period is so long. Mr. Bolton advised that a good deal of time has been spent on the details, and in working with the stakeholders on acceptance of the new model. Governor Barnhill asked about the type of evaluation metrics that will be used for the RCM. Mr. Bolton noted they would look at revenue growth for schools and colleges, credit hours, new programming, in-depth conversations about ideas and strategies around the model to come up with new cost efficiencies and increase of resources. Governor Barnhill is interested in how the interaction with the budget as members of the Board would change with the increased transparency. Prof. Beale noted that as a member of the budget planning council and the Academic Senate, the most difficult and/or controversial part of the RCM were the cost allocation methods, i.e., the way that schools and colleges, the revenue generating units, were taxed to support

various administrative processes. Mr. Bolton agreed and noted that the RCM will not officially roll out until the next fiscal year. Mr. Zamzam asked for an example of the incentives for schools and colleges. Mr. Bolton used the School of Business, under Dean Forsythe, as an example. There has been incredible growth in the School over the past few years, almost exponential growth - more students, more credit hours, which require more faculty and academic advisors, and more resources for student support. However, the current incremental budget model does not tie increased revenue generated to the resources needed to support the School. One of the ideas behind an incentive based model is that as you grow or bring in more students, you have the resources that come along with revenue growth.

Mr. Zamzam asked what type of support the budget model would provide for some of the schools/colleges or programs that are perhaps not as successful as the example given, to ensure they continue. Mr. Bolton concurred that there are units and programs that are costly, but are ones important to the university. There are methods built into the model to ensure that Wayne will remain a comprehensive university under this budget model. VP Decatur noted that the RCM model was evaluated on a college and school level, not department level. Subvention is a concept about how to balance these efforts across the university. There will be self-supporting schools and colleges. VP Decatur noted that there was a participatory and transparent process intentionally to educate, gain support and get input on the model. Governor Kelly praised the time and effort taken to implement the policy with agreement and cooperation across the University. Governor Barnhill asked about the phases of implementation and whether those responsible for managing budgets would be able to make better informed decisions. VP Decatur noted yes, but that it would be a continuing process beginning with an entirely new budget software package that went live in 2018. Provost Whitfield advised that information sharing across the colleges was important to the process and added that an annual review of the kinds of services that are to be provided will occur.

Mr. Baum noted there was no presentation of RCM to the Student Senate, and asked if there could be some more intentional inclusion because they do have a role in the budgeting process. VP Decatur noted that he would be happy to make a presentation to the Student Senate.

INFORMATIONAL REPORT: MAJOR CAPITAL AND REAL ESTATE PROJECTS

Governor Thompson asked about the hold on the Biological Science Building's infrastructure improvement. VP Decatur noted that they were exploring opportunities to address energy conservation across campus and potentially a public private partnership to address energy projects without deferred maintenance. Governor O'Brien asked about the Criminal Justice building, noting that the owner of the building wanted to move away from their original plan and asked whether that is a breach of the agreement. VP Decatur noted that the original plan was to build condos first and the developer determined that did not work, but they are reassessing. The developer has moved ahead with the

renovation of the Criminal Justice building itself and that project is near completion, and fully leased. Governor O'Brien inquired about the progress of the art gallery, and if the \$2.4 million was still a good cost estimate for it. VP Decatur noted that the gallery had been moved to a new and better location in the building. The initial location was in the back of the building and the new location will be behind the restaurants, with connections into the restaurants on the street. Ashley Flintoff, Director of Planning and Space Management provided some additional background about the gallery. Design for the space will begin in January 2020. There are connections to the I2C building, IBIO, and Development, and the university art curator and other stakeholders have had an opportunity to walk through the space. Governor Thompson asked when the budget for the Highland Park building project will be developed, and about the plan for transportation for students. VP Decatur noted that this is a small engineering building that was donated to the College of Engineering. Provost Whitfield advised that the building will be focused on material science, with equipment and capabilities to be able to advance methods of construction. Civil and Chemical engineering will use the building. Ms. Flintoff noted that the space was donated for research purposes, not for student space, and no classes will be taught there.

The building will provide space and equipment for researchers that the University does not currently have the capacity for and allow them to perform additional research in those areas with up to date and cutting edge equipment. Provost Whitfield noted that since graduate students will participate in that research, he will speak with Dean Fotouhi about plans for transportation. Governor Thompson for an update on this project for the Board when those plans are finalized.

Governor O'Brien asked about the architectural rendering of the hotel attached to the Bonstelle project. VP Decatur noted that the developer is proceeding.

PURCHASING EXCEPTIONS

Governor O'Brien asked about the item approved by Mat Lockwood from McConnell Communications. VP Decatur noted that it was a consulting service related to presidential community engagement. VP Wright advised that Darcy McConnell was hired from a communications company connected to Detroit neighborhoods to identify meet and greet opportunities for president and provost in those neighborhoods. Governor Thompson asked for information on the group providing media consulting services for WDET. M. Wright will check on that information. Governor O'Brien asked about the University Press book, "The Queen Next Door", and how she could get a copy. Ken Doherty will check on that for Governor O'Brien.

Some questions were raised about the criteria for hiring of consultants in lieu of using University talent for the same jobs. VP Decatur noted that this is a decentralized decision

making process coming up through vice presidents and then to procurement and is a judgement call by the hiring managers.

Professor Beale noted that the Academic Senate was concerned to see spending on consultants who are sometimes not nationally prominent in their fields. Governor Kelly asked if Professor Beale is recommending there be more information provided to the board on consulting items. Professor Beale concurred. Governor Thompson asked to have some specific explanation from the college or the department using consultants about the work and why a consultant was needed. VP Decatur noted that a form is completed that provides such information, including a justification, and he will look to add more detail to the report. Governor Gaffney added that a copy of the form should be provided. Governor O'Brien agreed and asked Mr. Wright as an approver, about the process. Mr. Wright noted that applicants submit a bid waiver because either they don't have the capacity, the needs were timely, or the expertise or machinery did not exist at the University. The most important component is why it was going to be done, why it could not be done in-house, whether procurement has been consulted, and whether the services could only be provided from that particular person.

Governor O'Brien noted that there is also a question regarding whether the funds have already been allocated in the budget for such services or whether new funding being requested. VP Decatur advised that this is not a request for new funds. Mr. Wright concurred, and noted that part of this process assumes the request is within the budget of the person requesting the exception.

Professor Beale asked if the form specifically asks why the consultant work could not be done in house and without hiring of a consultant. Mr. Wright noted no, and that it was on a project by project basis and the rationale is part of the discussion. Governor O'Brien asked about the project being completed by Raise Labs - she would be interested in having a demonstration of the product for the Board. VP Decatur will talk with Dawn Medley about scheduling that. Mr. Zamzam asked for more information about the MCAN project. Dawn Medley advised that MCAN is the state-wide Michigan College Access Network and is part of University sponsorship of three counselors to go into local high schools. There were several colleges within the state participating and they serve to support college advising. Of the \$22,000 bid waver, \$10,000 was spent per high school counselor. The high school itself spends \$10,000 and then MCAN as part of Americore spends \$10,000. The additional funds will be used for on campus training and support of travel for those counselors.

Governor Kelly noted that this was the last meeting where the board would have the services of Vice President William Decatur and thanked him for his service to the University.

ADJOURNMENT

There being no further business, the meeting adjourned at 11:23 p.m.

Respectfully submitted,



Julie H. Miller
Secretary of the Board

DRAFT