



Budget and Finance Committee

January 31, 2020

Minutes

The meeting was called to order at 10:03 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 Barnhill, Kelly, Kumar, Stancato, and Thompson; Paul Beavers as Faculty Representative, Naida Simon as Faculty Alternate Representative; Mazen Zamzam, Student Representative and Waleed Eliwat, Student Alternate Representative

Committee Members Absent: Linda Beale

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

APPROVAL OF MINUTES DECEMBER 6, 2019

ACTION: Upon motion made by Governor Barnhill and supported by Governor Stancato, the minutes of the December 6, 2019 meeting of the Budget and Finance Committee were approved as submitted. The motion carried.

CONTINGENCY RESERVE

Rebecca Cooke, Interim Vice President of Finance & Business Operations, advised that there had been no activity in the contingency reserve since the last meeting. The reserve has an unencumbered balance of \$500,000.

GORDON H. SCOTT HALL VIVARIUM RENOVATION PROJECT

Rob Davenport, AVP for Facilities, presented three projects for discussion. The first of these projects is the Vivarium Renovation in Scott Hall. Scott Hall is a 450,000 square foot building built in 1968. It includes a combination of classrooms, office space and research labs, including a 7,000 square foot vivarium. In 1985, the vivarium space was expanded and in 1997 the cage and bottle washing equipment was upgraded within that space. Existing challenges include the layout, problems with cage and bottle washing not

meeting current design standards, and that the unreliable HVAC system adversely affects the research mission. The proposed solution is to reconfigure the space to meet existing design standards while respecting accreditation requirements, enhance work flow and increase efficiencies. The project includes replacement of the cage and bottle wash equipment, redesign of the HVAC plan and controls to provide reliability and incorporate redundancy within the HVAC plan. Following completion of the design development and construction document phases are complete, the total project cost can be determined, and at that time, another request will be submitted to fund the complete solution for the vivarium. Governor Thompson asked for a timeline to develop the project's budget. AVP Davenport advised that they are in the design and development phase, and he believes this will be completed by April/May.

ACTION: Upon motion made by Governor Kumar 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 advance and complete design phase activities for the eventual construction of the Gordon H. Scott Hall Vivarium Renovation for an initial cost not to exceed \$550,000. Funding for this effort will be provided by the Division of Research and the School of Medicine. The motion carried.

PARKING LOT 22 MICHIGAN DEPARTMENT OF TRANSPORTATION CONSTRUCTION

Parking Lot 22 is located where Anthony Wayne Drive merges into Palmer. The Michigan Department of Transportation requested access and use of Lot 22 during the construction of the new Second Avenue bridge. MDOT will be leasing Lot 22 during the construction, and the bridge will be built on Lot 22 where, once completed, it will be moved by crane into place over the highway. Construction will be completed by November of 2020. There are 186 spaces available in Lot 22, with 50-75 spots used during the school year. This Lot is reserved for students only. Existing permit holders were relocated to adjacent structures without incident and without complaint. MDOT will pay for the improvements within the parking lot and those items include a new gate, new gate equipment, lighting, fencing, paving, new trees and landscaping. VP Staebler added that the state of Michigan applied for a federal grant for innovative infrastructure projects and received \$1 million for the bridge. It is going to be the first networked tiered arch bridge in the state of Michigan with higher clearance that allows for maintenance of current building standards without changing the grade. There will be publicity when the bridge is completed and moved into place. Governor Barnhill noted that freeways historically divided the community and he was pleased with the street-scape design and the effort to incorporate more walkability, and the positive impact on the University and the community. VP Staebler expanded on Governor Barnhill's comment and noted that it is part of a larger reconstruction of I-94, which will be followed with closing and rebuilding of the Cass Avenue bridge as well and they are making every effort possible to minimize disruption and displacement.

ACTION: Upon motion made by Governor Thompson and supported by Governor Stancato, the Budget and Finance Committee recommended that the Board of Governors authorize the President or his designee to award contracts to make various improvements to Parking Lot 22 for a project cost not to exceed \$522,000. The project will be fully funded by Michigan Department of Transportation (MDOT). The motion carried.

ARENA COST INCREASE AUTHORIZATION

AVP Davenport gave a brief overview of the initial project, a 3000 seat Arena to be built in partnership with the Detroit Pistons and their G-League. It will be home to the Wayne State University men's and women's basketball teams to practice and play. The board had previously authorized \$25 million for design and construction.

The increase in project costs is caused by three driving elements, construction cost of labor, materials, and soft costs. Construction costs have been impacted by the labor market in Detroit, in terms of labor availability and the amount of other ongoing and competing projects. This has driven construction cost up by 30%, as there is a smaller pool of more skilled workers available. The skilled tradesmen, while not as skilled as they used to be, need more time to complete projects, and the cost of extra time will be passed on to the market as a whole. Unemployment is down but is another driving factor influencing highly skilled workers. These workers can demand higher compensation to stay with the project. On the material side, there have been increases in materials, specifically aluminum, lumber and steel, as per the associated general contractors of America. They noted lumber was up 20%, aluminum up 18% and steel up 12%, all largely due to tariffs, all having a direct impact on the budget and the project.

There were some anticipated savings that did not work out as planned that also impact these numbers, and caused an increase in soft costs. The original design included plans to repurpose the seating from the Palace and its scoreboard, which did not work out. The new arena will be a prefab metal construction, and the existing scoreboard could not hang in that type of construction, and can't be used. The Palace seats will not fit in the configured space, and will not be able to be utilized. N. Simon asked why the Pistons were not sharing in these costs. Mr. Fournier advised that there are many negotiated issues and the Pistons felt strongly that they were paying the University a fair amount for the 24 dates that they will be using the facility, and they are not going to move from the lease agreement price. Governor O'Brien asked for a breakdown in the soft costs; AVP Davenport will provide those.

Mr. Zamzam noted that the Arena was supposed to pay for itself and asked about the time line for the Pistons to break even. Mr. Fournier noted the 30 year lease will raise about \$26.5 million dollars for what was originally thought was a \$25 million dollar building. Governor O'Brien asked Mr. Fournier about the change in the contingency from \$3 million to \$1.6 million and philanthropic contributions. Mr. Fournier noted the ability to secure some of the bids and some of the contingency was modified based on firm prices and he

felt confident that the contingency allocation is sufficient. He noted that he has been entrusted with raising over \$3 million of the \$25 million towards the building and thought the building would look better and have better sustainability with a brick façade as opposed to metal fabric. The money was raised for the brick façade and some of the other improvements to the look of the building.

Governor Thompson asked where the \$3 million in reallocated bond proceeds originated, and if the unknown underground conditions that posed a risk to the project budget until the excavation activities were complete would increase the costs and the budget.

AVP Davenport noted that regarding the underground conditions, if all goes as planned, there will be no need to come back to the Board for further funding. However, the ground has not yet been broken. On the bond issue, Bryan Dadey, Senior AVP for Finance, noted that the original budget for the project was \$25 million with \$3 million identified as philanthropy. It could take a 10 year period or even longer to get that money in. Treasury issued bonds for \$25 million to solve that cash flow problem. In this situation all the bond proceeds up to \$25 million will be used so the \$3 million will not be able to be reallocated to other projects. Governor Thompson asked how that impacts the other projects that would have received the funding. AVP Dadey advised that these funds would have been allocated for future projects; current projects have funding sources.

Governor Barnhill asked about the status of conversations with the Pistons regarding the operating deficit? His understanding is that each year the deficit will be filled through advertising and alternative events, and wondered about those discussions. Mr. Fournier advised that the University is working collaboratively with the Pistons' development group and hopes to leverage some of their advertising to the University's advantage. The naming rights belong to the University and it is anticipated that it will be a major funding source. While declining to discuss other leads publicly he noted that the interior will also have advertising in partnership with the Pistons.

Gov. Barnhill asked about the University's ability to operate in the black once construction was completed and whether the University will have to subsidize operations moving forward. Mr. Fournier could not speak to the operations piece but said that it could involve University personnel including custodial staff, groundspeople and the regular maintenance of buildings. Governor Barnhill asked Mr. Fournier for updates regarding operating expenses.

Governor Kelly advised that she hoped if there were added expenses due to unforeseen obstacles and construction that Mr. Fournier would push the point of cost sharing with our construction partner. Mr. Fournier noted ongoing work with the Pistons in terms of the arena. It is a very good partnership for the University, offering great opportunities for students and it is a great marketing benefit to the university to be associated with a professional basketball team.

ACTION: Upon motion made by Governor Barnhill and supported by Governor Thompson, the Budget and Finance Committee recommended that the Board of Governors authorize the President or his designee to execute contracts for the design and construction for a Wayne State/Detroit Pistons Arena. In May 2019, the Board of Governors authorized \$25,000, 000 for the design and construction of the project.

It is further recommended that the Board of Governors authorize additional spending up to \$3,800,000 to construct the Arena for a total project cost of \$28,800,000. Funding will be provided from bond proceeds and from philanthropy. A lease with the Pistons will partially fund the debt incurred. The motion carried.

ANNUAL INVESTMENT AND DEBT UPDATE

Ms. Cooke invited Marianne Cunningham, AVP, Cash Management to come forward for this annual report to the committee. Governor Thompson asked whether it was typical to have more debt than cash. Ms. Cunningham noted that it is typical and the ratings agency deemed the University's debt load and sources to service that debt to be extremely manageable. Gov. Thompson asked at what point the ratings agency would be concerned about the amount of debt. Ms. Cunningham noted that there is an annual review with the agencies before going to market, where the agencies are provided with metrics and reports on the university's performance. They review the University's financial position compared to the medians. There is also a debt study analysis performed before going to market each year to determine where the debt loads are and how additional debt would impact those underlying financial metrics that the rating agencies review. At that point, there is an indication of whether or not taking on incremental debt would harm the University's ratings, cause a downgrade or an outlook change.

Governor Barnhill noted the cash pool portfolio returns are below the allocation index by almost a percent and asked what that meant in terms of actual dollars and why there is a gap? Ms. Cunningham explained that the cash pool transitioned to a new asset allocation model approved last September.

The cash pool was moved in January with transition completed in March with the funding of the equity portion, and fixed income in October. That first transition year came very close to benchmark, which was actually considered good for a transition year.

Gov. Barnhill asked about the performance of the previous allocation. Ms. Cunningham stated that the fiscal year performance was .2% in the prior fiscal year and currently 4.8%.

ANNUAL REPORT ON LONG-TERM INVESTMENT

. Governor Barnhill asked about the long-term investment program and noted that the endowment manager performed below policy benchmark. He asked for the reason behind

the poor performance and the plan going forward. Ms. Cunningham noted that the Board of Directors of Wayne State University Foundation had oversight over the endowment portfolio and authorized the use of the chief investment officer, which is a strategic investment group, to manage the endowments on a discretionary basis. They made decisions based on hiring, firing and vetting managers but the staff manages the portfolio on a day to day basis. The Foundation Investment Committee has the detailed oversight of the OCIO and the endowment portfolio. As part of the responsibilities, the Investment Committee reviews the portfolio's performance quarterly and has a quarterly meeting with the OCIO.

The performance was disappointing this fiscal year. The main detractor was a nose dive in the equity market, between October and December, which is the 1st quarter in the University's fiscal year. It rebounded the next quarter. There is a large allocation to equities in that portfolio. If the portfolio is examined by calendar year, which does not include the quarter with the poor performance, the portfolio had a 17% increase. The committee had a detailed conversation with the OCIO on January 22nd to review options, and a full policy review is performed every three years. That will occur in May.

MAJOR CAPITAL AND REAL ESTATE PROJECTS OVERVIEW

Governor Gaffney asked if there was a plan to give an update on elevator reconstruction, perhaps at the next meeting. Mr. Davenport advised that there is a live link available on the facilities website that provides a daily update and he can share that link. There are 10 buildings right now where elevator renovation is either contemplated or underway. Funding has been secured in many of those cases and the elevator assessment process will be completed in April. At that time it will be known exactly what is needed in terms of capital. That analysis will tie into capital planning included in the master plan.

Professor Beaver asked about items 24 and 25 that referenced the private/public partnership on energy. Mr. Davenport noted that it is the Ernst and Young analysis and energy audit that is being conducted in order to understand the University's capital needs.

PURCHASING EXCEPTIONS

Ms. Simon noted that she enjoyed the Martin Luther King, Jr. event Tribute 2020 and asked whether the funds that paid for the speaker, W. Kamau Bell, originated from general funds, or from fund raising. VP Lindsey advised that the amount paid to the speaker was on par with what has been paid for speakers for the last several years, and that division raises funds for this program.

Ms. Simon raised an additional question on consultant hiring, and whether or not the consultants are performing work that could be done by divisional VPs. VP Lindsey

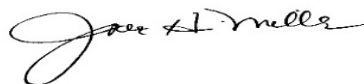
responded that with regard to Washington consultant hiring, research universities have a presence in both Lansing and D.C. The scope of legislative regulatory research funding is large and needs one person on the ground that works for the university to help identify funding, monitor legislation, and relationship building, among others. Comparably Michigan State University has five and University of Michigan has six individuals performing this work, and the investment in University federal operations is worthwhile. Governor Kelly asked if it was the same contract from past years. VP Lindsey responded that this is a four year contract and noted that other consultants are a third to twice the cost, and wouldn't deliver much more. Governor O'Brien requested a summary, within a week, on the University return on investment for the funds for item 33 and for item 17, a breakdown of the funds raised for the Martin Luther King, Jr. event. VP Lindsey agreed to provide the information.

Professor Beaver asked about item 45 regarding acquiring genomic core services from the University of Michigan and Vanderbilt University. The Academic Senate Budget Committee was concerned that the University did not have genomic core capabilities on campus and that this has a negative effect on applications to NIH for grants. VP Lanier noted that two and a half years ago the University initiated a rigorous review of all individual cores supported on campus through external subject matter experts and internal user surveys, etc. There is also the challenge of external commercial competitors with cutting edge equipment. The University's instrumentation is outdated. External reviews noted that the core resource was not customer friendly and the breadth of services provided expanded beyond the real need. VP Lanier made some changes. The administration of the core was restructured with a new Director. He reduced staff by 50%, and invested in new state of the art instrumentation which became operational about a year ago. The University received a shared instrumentation grant from the National Institute of Health for advanced sequences. Based on the need across campus, there is additional focus on a core suite of services offered in a cost competitive way. VP Lanier noted that he is also meeting with the staff every week rebuilding any loss of trust in the quality of services delivered which had resulted in an increase use of external resources.

ADJOURNMENT

There being no further business, the meeting adjourned at 10:54 a.m.

Respectfully submitted,



Julie H. Miller
Secretary of the Board