



Budget and Finance Committee

October 21, 2021

Minutes

The meeting was called to order at 10:38 a.m. by Governor Barnhill. Secretary Miller called the roll. A quorum was present.

Committee Members Present: Governors Barnhill, Gaffney, Kelly, Stancato and Thompson; Paul Beavers, Faculty Representative, Linda Beale, Faculty Alternate Representative; Zachary Thomas, Student Representative and Tony DiMeglio, Student Alternate Representative

Also Present: Governors Busuito, Kumar, and Land (via video conference); and President Wilson; Provost Clabo; Vice Presidents Burns, Cooke, Lanier, Lessem, Lindsey, Massaron, Schweitzer, Staebler, and Wright; and Secretary Miller

APPROVAL OF MINUTES, JUNE 25, 2021

ACTION: Upon motion made by Governor Thompson and supported by Governor Stancato, the Budget and Finance Committee approved the minutes of the June 25, 2021 meeting as presented. The motion carried.

CONTINGENCY RESERVE

The administration submitted two requests, which were to fund searches for the Dean of the College of Engineering and the Dean of the Mike Ilitch School of Business. Governor Barnhill asked for a motion to approve the expenditures.

ACTION: Upon motion made by Governor Gaffney and supported by Governor Stancato, the Budget and Finance Committee approved the proposed transfer of \$150,000 to fund the search for the Dean of the College of Engineering, and \$150,000 to fund the search for the Dean of the Mike Ilitch School of Business. The motion carried.

FISCAL YEAR 2022 GENERAL AND AUXILIARY FUND BUDGETS

Ms. Tameka Butler, Interim Senior Associate Vice President of Finance and Business Operations, began by thanking the Budget Planning Council, exiting CEO, Rebecca Cooke, and staff. She also thanked the Board, the President and the President's Cabinet for their input, feedback and collaboration through the process.

Ms. Butler advised that the general fund revenues and expenses proposed for fiscal year 2022 would see a \$10.3 million dollar shortfall. The fiscal year 2021 had a shortfall of \$12.5 million dollars and the budget presented includes a decrease in revenues and

expenses of .4% and .8% respectively. State appropriations and tuition and fee revenue represent over 92% of the general fund revenue budget, with state appropriations projected at a 1%, one-time, non-base increase for the University. Indirect cost recovery revenue is projecting a decline of about \$2.5 million dollars compared to fiscal year 2021's budget. Fiscal year 2022's estimated enrollment compared to fiscal year 2021 showed a projected decline in both headcount and credit hours of approximately 5% and 4% respectively.

National trends indicate declines in undergraduate enrollment across the country with the Midwest experiencing a steeper decline. Graduate school projections saw significant decreases. State appropriations went from \$223 million in 2005 to approximately \$203 million in 2021. Making the adjustment for annual inflation of about 2.5%, the University would have experienced an increase of about \$330 million in 2021 as opposed to the decrease reflected.

The bar charts Ms. Butler provided showed that the state subsidy has decreased over time, which has increased the reliance on net tuition revenue from 2005 to 2019 to compensate for that decrease. Over a 15 year period, state appropriations decreased 0.7% and net tuition revenue increased 6.3%.

The fiscal year 2022 budget changes include a decrease in total revenues of about of \$3 million, which includes decreases in tuition and fees and indirect recovery revenue. This is partially offset by increases in state appropriations for the one-time 1% increase and an expected increase in investment income and other departmental revenue.

Expenses are projected to increase \$27 million, which includes the fiscal year 2021 deficit of \$12.5 million. Inflationary increases expected are for salaries and benefits and for debt service based on the debt service schedule for fiscal year 2022. There is a \$1.9 million dollar inflationary increase for unavoidable expenses including insurance and utilities. A \$5.9 million increase for initiatives includes \$2.8 million for a year 1 investment into the next Capital Campaign. There is a corresponding increase in revenue for approximately \$2 million with a proposed increase of the administration fee on endowment gifts to help offset the cost of the Capital Campaign. The initiatives also include \$2 million for new faculty hires and approximately \$900,000 for start-up operations for the new athletic arena.

Overall, an operating shortfall of about \$30 million is projected. This amount is prior to a proposed reduction plan that will be implemented for the schools, colleges, and divisions, which has been approved by their leadership and the President. Adjusting for the reduction plan, the projected shortfall will be \$10 million, which the administration hopes to fund with one-time funds from pandemic related lost revenue, from the HERFF grant. Professor Beale asked about the compensation numbers for represented and unrepresented employees, which noted layoffs and shifting of some occupied positions, and whether it was appropriate to increase the structural deficit for salary increases. VP Cooke advised that there were significant position eliminations in the budget, but there was no plan to use layoffs to balance the budget. The position eliminations would occur through attrition, and most of them had already occurred. There will be additional attrition

over the next year resulting in the ability to cover the salary savings anticipated through position elimination. Regarding salary increases, many employees are covered by unions and their compensation is dictated by those union contracts. The non-represented employees are not covered by union contracts. Compensation for those employees has been reduced by more than \$4 million in the last 18 months, by pay reductions for executive leadership, furloughs for staff making over \$100,000 per year and forgoing pay increases for 1 year for all non-represented employees and 2 years for non-represented employees who make over the average compensation in that class. There has been attrition in that class and part of the reason is because the University is not competitive from a salary point of view, and she believes it is urgent that the University provide a salary increase for the coming year, so that those employees do not go three years without an increase. The represented employees have all received increases over past 2 years when these non-represented employees have not.

Professor Beavers asked whether those increases would be received in April 2022, as April had been the general time frame for such increases. VP Cooke advised that, if the Board adopts the budget, the plan would be to implement in October. President Wilson noted that part of the reason for that is the University is trying to get all factors aligned with the beginning of the budget. VP Cooke added that the April timeframe had been implemented as a budget saving mechanism done in 2008 or 2009, and those employees lost about a half a year of their pay increase. This proposal would be a return to the historic schedule that begins October 1.

Governor Thompson asked whether the \$10 million plus budget shortfall covered by Covid-19 relief funds is expected to be reimbursed. AVP Butler advised that the University is expected to receive over \$100 million in HERFF funds, with half of those funds directly for students. The remaining is for institutional use. With the federal restrictions, the University has to meet certain eligibility requirements in order to order to draw down the funds. The new guidance allows for expenses related to defraying costs related to the coronavirus, and for reimbursement for lost revenue in certain areas.

Mr. Thomas asked for clarification of the \$50 million for student direct use. AVP Butler advised that there are emergency grants to students, and any related costs from the cost of attendance. The students have the right to decide if they want to apply it to their student balance or have it paid out directly to them. The University has no control over that.

Governor Kelly asked for clarification on issues related to personnel, first whether it is correct that the budget did not contain layoffs. AVP Butler confirmed that was correct. Secondly, Governor Kelly asked if it is correct that the administration will make every effort to find work for people whose jobs are discontinued in the course of this fiscal year, and that the Board's policy of delegating to the administration the right to lay people off is unaffected by the budget. AVP Butler advised that was correct.

Next, AVP Butler discussed the Auxiliary funds budgets. She advised that the University has 13 auxiliary operating units, and that these units are intended to be self-sustaining. A new unit established this year is for the Athletics Arena, newly constructed and opening this fall, in conjunction with the Pistons organization.

She presented a summary of the fiscal year 2022 auxiliary fund budget and included the fiscal year 2021 approved budget and the projected actual for reference. The fiscal year 2021 had a budget deficit of \$3.2 million with a projected actual at \$4.3 million for fiscal year 2021. The proposed budget for fiscal year 2022 includes increases for total revenues up to \$35.7 million.

There are increases in housing, parking and many of the auxiliary operations with a corresponding increase in total expenditures in transfers. The overall operating deficit proposed for fiscal year 2022 for the auxiliary fund is about \$91,000, ending the year with a positive net asset balance of \$331,000.

In summary, there is an expected operating shortfall of about \$10.3 million for fiscal year 2022 including about \$91,000 for auxiliary funds and the remaining \$10.3 million for the general fund. There is a proposal to implement a plan of about \$19.6 million to address the University's overall shortfall with the intention to use Covid related relief funds to the extent possible to offset pandemic related revenue losses.

Governor Gaffney expressed interest in how the auxiliary funds have performed historically and asked that the Board be provided with an 8-year historical overview of auxiliary budget. AVP Butler agreed to forward the information. VP Cooke advised that the historical information by year is also available online.

Governor Barnhill asked for a motion to approve the budgets presented, in one motion, covering both the general funds budget and the auxiliary funds budget.

ACTION: Upon motion made by Governor Kelly and supported by Professor Beavers, the Budget and Finance Committee recommended that the Board of Governors approve the proposed budgets as follows:

FY 2022 General Fund Budget, its projected revenues and expenditures, and the budgets for individual university units and specifically funded programs as summarized. With this approval, the Board of Governors authorizes the President to implement the budget management procedures, and budget-related policies, with such modifications as may be deemed necessary during the fiscal year.

FY 2022 budgets for the auxiliary activity units summarized in this document and detailed in the FY2022 Current Funds Budget materials.

The motion carried.

**General Fund Budget
 SUMMARY REVENUES AND EXPENDITURES**

**Fiscal Year 2022
 (In Dollars)**

	FY 2021 Restated Budget	FY 2022 Recommended Budget	Variance Dollars	%
Revenues				
State Appropriations	203,210,900	205,248,400	2,037,500	1%
Net Tuition and Fee Revenues	416,076,336	410,677,396	(5,398,941)	-1%
Indirect Cost Recovery	36,500,000	34,000,000	(2,500,000)	-7%
Investment Income	4,100,000	5,100,000	1,000,000	24%
Other Revenues	10,759,025	12,636,902	1,877,877	17%
Total Revenue	670,646,261	667,662,698	(2,983,563)	0%
Expenditures				
Schools and Colleges	228,809,765	217,907,624	(10,902,141)	-5%
Divisions	169,133,228	166,931,789	(2,201,440)	-1%
Student Financial Aid	95,993,121	96,015,360	22,239	0%
Central Accounts	181,715,048	189,661,457	7,946,409	4%
Other Expenses	7,497,975	7,448,673	(49,302)	-1%
Total Expenditures	683,149,137	677,964,902	(5,184,235)	-1%
Net Budget Surplus (Shortfall)	(12,502,876)	(10,302,204)	2,200,672	-18%
Use of One-Time Funding	<u>12,502,876</u>	<u>10,302,204</u>	<u>(2,200,672)</u>	
Final Budget Surplus (Shortfall)	0	0	0	

Category	FY 2021 Approved Budget	FY 2021 Projected Actual	FY 2022 Proposed Budget
REVENUES			
Beginning Net Assets Operating Revenue	\$4,159.5	\$4,712.1	\$423.0
Student Tuition and Fees	\$6,056.5	\$7,247.9	\$7,250.3
Auxiliary Revenues	\$17,523.3	\$12,309.5	\$22,343.9
Total Operating Revenue	\$23,579.8	\$19,557.4	\$29,594.2
Non-Operating Revenues			
Gifts	\$2,540.0	\$2,524.0	\$2,640.0
Other	\$1,569.8	\$2,220.8	\$3,515.2
Total Non-Operating Revenues	\$4,109.8	\$4,744.8	\$6,155.2
TOTAL REVENUES	\$27,689.6	\$24,302.2	\$35,749.4
EXPENDITURES AND TRANSFERS			
Auxiliary Enterprises			
Compensation	\$11,228.9	\$10,088.2	\$12,500.2
Operating Expenses	\$13,125.8	\$12,169.3	\$16,893.9
Expenditures	\$24,354.6	\$22,257.5	\$29,394.2
Transfers Out/(In)			
Debt Service	\$6,918.0	\$6,918.0	\$7,754.6
Plant & Other	\$1,376.9	\$1,218.9	\$1,341.6
General Fund Support	(\$1,803.1)	(\$1,803.1)	(\$2,649.6)
Subtotal Transfers	\$6,491.8	\$6,333.8	\$6,446.6
TOTAL EXPENDITURES AND TRANSFERS	\$30,846.4	\$28,591.4	\$35,840.7
Operating Surplus / (Deficit)	(\$3,156.8)	(\$4,289.1)	(\$91.4)
Ending Net Assets	\$1,002.7	\$423.0	\$331.6

ART BUILDING HVAC RENOVATION

AVP Davenport advised that a study of the Art building HVAC systems discovered a need to overhaul the complete AC plant. The Art building was built in 1956 without air conditioning or cooling. While the building's air handling equipment meets fresh air standards, it has difficulty meeting temperature and humidity standards.

This project will address the deficiency and provide reliable and sustaining means of maintaining temperature, humidity and pressures within each space. In doing so, a central AC plant will be installed on top of the roof with two new air handlers, heating and cooling components. Duct work will be installed throughout the building and the existing boiler plant will be modified to support the new configuration. Dry cooling will be employed rather than a traditional cooling tower chiller.

The goal is to ensure delivery of indoor air quality standards, provide proper comfort for occupants during all seasons and compliment academic programs. Funding for this project will be covered by the HERFF program.

Professor Beavers asked if there were other buildings on campus in similar condition. AVP Davenport advised that the two others include the Beecher House where construction is scheduled to begin, and at Matthaei, in the gymnasium and some select office areas, where a program is being developed to address those issues.

ACTION: Upon motion made by Governor Thompson, and supported by Mr. Thomas, 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 Art Building HVAC Improvements located on 5400 Gullen Mall with a project cost not to exceed \$8,500,000. Funding for this project will be initially provided by HEERF funding. The motion carried.

MATTHAEI OFFICE ADDITION

This project is a 1300 square foot addition to the north side of Matthaei, developed in response to the need for the coaches to have dedicated office space in a central location, per Title IX requirements. Funding is 100% philanthropic. The project was originally approved in September 2019 and construction began the following October. After several months of construction, the building was damaged by a massive flood as a result of a severed underground conductor. Since the conclusion of the root cause of the investigation and the development of a restoration plan, there have been negotiations with the architect, engineer and contractor of record to gain a consensus on responsibility and a settlement. The project is bonded and the building will be secured before the winter. The requested \$400,000 will come from the deferred maintenance fund and will be reimbursed in some percentage upon the agreement of the construction parties. Governor Thompson asked about the amount of the remaining balance of the deferred maintenance, after the funds are used. AVP Davenport advised it will not directly impact the deferred maintenance fund because the funds will be reimbursed by insurance.

ACTION: Upon motion made by Governor Gaffney, and supported by Governor Thompson, the Budget and Finance Committee recommended that the Board of Governors authorize additional spending up to \$400,000 to complete repairs to the addition. Funding will be provided from the deferred maintenance budget and reimbursed via funds to be received from the contractor's insurance carrier. All contracts for this project will be awarded in accordance with University policies and procedures. The motion carried.

Governor Gaffney commended Mr. Davenport and the custodial, planning and building engineers and staff for the incredible work done to bring 68 flood damaged buildings back to up to speed by the start of classes. Governor Kelly seconded the sentiment and President Wilson added his thanks and appreciation.

INFORMATIONAL REPORT: MAJOR CAPITAL PROJECTS SUMMARY

Building on Governor Gaffney's comments, AVP Davenport summarized that 68 buildings were affected in some form by water infiltration from the June flood, and after 10 weeks of remediation and restoration efforts, all the affected classrooms are back on-line. Four buildings remain with issues, including Community Arts, Music, McGregor, and Alumni House.

AVP Davenport noted a successful meeting with the Chief Operating Officer of the City of Detroit, Hakim Berry and Palencia Mobley, Deputy Chief Engineer at Detroit Water and Sewerage Depart. A further meeting with FM Global also gave a good idea of the claim amount, which could be somewhere in the \$12 to15 million range. Bringing the campus back on-line was a team effort, and he will pass the Board's accolades onto the team.

The arena is nearly complete and there have been ongoing meetings with the faculty and students regarding State Hall to confirm programming. Students were engaged at the FestiFall event with a fun survey activity to obtain their feedback. There is also a cost modeling effort undertaken to match the scope of design elements to the cost of the project. There will be future requests brought to the Board regarding State Hall in March and June, with construction expected to begin May 22.

Governor Thompson asked if insurance funds were used for the 68 damaged buildings. AVP Davenport advised that was correct. FM Global forwarded a first round of \$5 million and another one will be coming shortly. Governor Kelly asked if the University had renegotiated its insurance premiums just before the flood. AVP Davenport advised that was correct and thanked Angela Moss, Senior Director, Risk Management. VP Cooke thanked both Ms. Moss and Mr. Davenport for their efforts regarding the University's successful relationship with the insurance company. Governor Kelly also offered Ms. Moss her thanks.

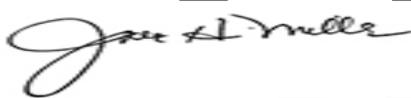
PURCHASING EXPCEPTIONS

The informational report on purchasing exceptions was presented. Mr. Doherty noted that this was one of the largest reports ever submitted. The report mentions the tremendous response that Facilities did with respect to the flood and emergency requirements and notes a total of 20 purchase orders primarily related to that flood for about \$1.3 million.

ADJOURNMENT

There being no further business, the meeting adjourned at 11:15 am.

Respectfully submitted,



Julie H. Miller
Secretary to the Board of Governors