



Budget and Finance Committee

January 28, 2022

Minutes

The meeting was called to order at 10:20 a.m. by Governor Barnhill via video conference. 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; and President Wilson; Provost Kornbluh; Vice Presidents Burns, Lanier, Johnston, Lindsey, Massaron, Schweitzer, Staebler, and Wright; and Secretary Miller

APPROVAL OF MINUTES, DECEMBER 3, 2021

ACTION: Upon motion made by Governor Stancato and supported by Governor Kelly, the minutes of the December 3, 2021, Budget and Finance Committee were approved as presented. The motion carried.

CONTINGENCY RESERVE

Senior Vice President Massaron submitted a request for a transfer from the Contingency Reserve:

ACTION: Upon motion made by Governor Kelly, and supported by Governor Stancato, the Budget and Finance Committee approved the request to transfer \$175,000 to fund search activities for the Vice President General Counsel. The motion carried.

COHORT PRICING MODEL

Provost Kornbluh and Senior Vice President Massaron made a joint recommendation regarding authorization to develop and implement cohort-based tuition pricing models. SVP Massaron advised that while the University has the authority to do this now, and has used that authority in the past, the goal is to formalize and broaden this effort. This will also provide VP Ahmad Ezzeddine and his team with the tools to work closely with partners across the state to offer a discounted tuition, where it makes financial sense, and particularly for certificate programs.

Wayne State's partnership with the City of Detroit, to provide the Detroit Police Department with additional education for their command staff, is an example of this type of formal approach and the model will allow the University to build on these efforts and quickly and flexibly respond to community opportunities. There are some peer institutions in Michigan that also have similar flexibility.

Governor Barnhill asked how the pricing model is aligned with the University's strategic priorities. VP Massaron advised that a key component of the strategic plan is achieving financial stability over time and being able to flexibly market faculty and programs in a way that is accessible to the employer community and drive revenue. The model will allow this, and improved partnerships with the broader business and employer community and is key to budget reform. It aligns with community impact and will support workforce development in the city and region.

VP Ezzeddine advised that around economic and social mobility, the model will allow students to get and earn credentials potentially faster, so they can get into the workforce more quickly, rather than waiting 2 or 4 years. Governor Thompson asked for an example of what the model would look like. VP Massaron noted that examples include efforts the University has undertaken with the City of Detroit in paying for their command staff, who then qualify to earn additional credentials along the way. VP Ezzeddine provided an example for the School of Social Work, where the University may come up with a certificate in Social Work that could be completed in 1 year, and that could be priced by program or by block. This will give the flexibility beyond the individual credit currently in place and that will make it easier and more appealing for both the employers and the students. Examples also include stackable credentials, and certificates that can lead to a master's degree, making the programs competitive. He noted that institutions, local and outside of Michigan, are offering these programs with these flexible pricing models.

President Wilson added that these models are already being done in an ad hoc fashion and those will continue in the future. The pandemic has shown that there now are different types of certificates, modes of learning and workforce needs which present opportunities for the University. Since this will become more popular in the future, it should be formalized rather than continue in an ad hoc manner. Governor Kelly agreed with President Wilson and advised that it was a good decision.

Mr. Thomas asked that since it appeared in the document that any budget and personnel implications will be reviewed by the Provost and CFO, what criteria would be used to determine whether a program should be approved and whether those programs would need to be revenue generating. VP Massaron advised that the formal model creates a workflow and preview to help in the review process. He does not believe the University would only do this for profitable opportunities, but it would be a driving factor. He added that the goal is not just for profit, as the institution also provides value to the community in many ways that may not result in direct profit but meets the needs of the institution. For example, the Wayne State DPD program is not a profit center but aligns with the University's mission. In that context, it is important to identify in the existing budget a source of funding if there is a shortfall in terms of what the tuition would generate. Provost

Kornbluh advised that there will be review for the academic integrity, quality and ability to work through all the regular academic channels to make sure that the faculty are comfortable with any such program. VP Massaron advised that it is also important to know programs will be reported to the Board on a quarterly basis and the Board will have supervisory oversight on how the program develops.

Professor Beale advised that the Faculty Senate is very supportive of this initiative. She noted that the University often has capacity that is not fully realized and if a program that meets academic and community needs can use that capacity, at a small discount, the community and the academic enterprise will be served, while generating revenue for the University.

ACTION: Upon motion made by Governor Stancato and supported by Governor Gaffney, the Budget and Finance Committee recommended that the Board of Governors authorize the Provost/SVP for Academic Affairs and the CFO/SVP for Finance and Business Operations to develop and implement cohort-based tuition pricing models applicable to for-credit courses, programs and certificates that include tuition and course materials, and course customization. The motion carried.

FY2022 BUDGET REFORM

Next, VP Massaron provided an overview of budget reform initiatives that are getting underway. He advised that setting expectations for a good budget process can help ensure alignment with the strategic plan, but it would not create revenue nor solve problems on its own. He thanked Linda Beale and Paul Beavers and the Senate's finance committee for their important feedback in terms of how better to implement the process, and explain the process so that it is widely understood across the University community.

The focus is to change from the current reactive budget process to more proactive planning, by building foundational expertise and excellence around best practices for budgeting. This will also enable the University to transition into a model, such as RCM, that allows for more incentive-based budget processes. Another important component is to enable transparent access to consistent financial reporting across the board.

In response to a question from Governor Barnhill about how the new program will align to the strategic plan, VP Massaron advised that the only way a budget can align to a strategic plan is to have a long term look at the implications of a current year budget and what the future will bring. He added that the University has had a structural deficit for many years and has solved it for each year instead of looking more into the future so that business, academic and non-academic units understand and can plan if assumptions are not met.

While raising tuition generates new revenue, the University has a mission in terms of social mobility and access to higher education that requires increasing financial aid. He added that raising tuition does not result in a dollar to dollar increase to the bottom line

and that is seen by the growing impact of the financial aid that the institution has been granted.

VP Massaron then reviewed several slides that highlighted these issues, noting that if the University remains at its current revenue picture, and makes no changes, expenses will always continue to grow. He provided examples of factors that cause budget deficits to grow, which include changes in compensation, unavoidable inflationary expenses around utilities and a decline in net tuition. The University is successfully graduating more students, partially because of current state demographics, and this reduces tuition revenue, and emphasizes the importance of efforts to increase enrollment. While State appropriations have not kept pace, there is hope that State leadership will increase the University's base appropriation.

VP Massaron described the rationale for looking ahead and building a 5-year forecast of enrollment tuition assumptions and how that translates to financial stability. He advised that the provost and he, and their respective teams, will present a chart this summer that shows the budget assumptions that the Board is aware of, what will happen if those assumptions fall short, and how the Board and both teams can be held to account to make further changes as needed to drive that financial sustainability.

The next chart reviewed with the committee showed projections for enrollment, and a decline in tuition and fees. The chart will provide an idea of what enrollment or tuition changes to expect with respect to the bottom line. The chart will be part and parcel to driving that 5-year financial sustainability by taking those strategies and translating them to dollars. The chart will also give the Board and the collective community an opportunity to comment on what the teams are providing with the goal of ensuring that at the end of that 5-year period, the University is operating sustainably in the black. VP Massaron will be bringing the budget forward for adoption in the summer, which will give budget teams time to work on making several technical changes. Those changes include analyzing the current base budget applications to better align the budget, and establishing a regularized centralized budget monitoring process, so every unit is operating from the same place. They will also be instituting a more transparent position control process and establish a timeline to be prepared for approval of the budget and tuition rates in June. The teams plan to build out this multi-year planning process, formalize it and make sure the budget over a 5-year horizon reflects the strategic plan, and establishes a current funds budget model.

These changes will add transparency and understanding of the enterprise and may be most reflective of the School of Medicine, where the general fund budget shows \$50 million but the actual operations of the school are more than \$290 million. The goal is to align that information so that when decisions on the general fund or otherwise are made, everyone understands how efficiently the University's resources are being used and that they reflect long-term needs.

Finally, the most important aspect, for all of the different budget reform models, are that the people who are making decisions understand the implications of those decisions and create accessible reports and dashboards that are provided consistently across the units. In 2023, the focus will be on the tuition and fees model and making sure that it is built into the budgeting process with a robust review that includes input from the provost and his team, and the faculty, ensure the tuition and fees model reflects the long-term strategic plan, financial sustainability and removes barriers to access that do not result in financial gain for the institution.

Governor Kelly commented that the presentation was interesting and encouraging. She then asked if the teams were anticipating a budget from the state government of less than the inflationary rate again next year. VP Massaron noted that they are being conservative, but he was hopeful that the institution will be able to achieve more. Governor Kelly believes that the general public should know that the University is being funded at less than the rate of inflation and that there should be a way to get that message out. Governor Kumar thanked VP Massaron for doing a fantastic job, both in terms of his role at the University, and in being able to explain this information through these presentations. He feels comfortable and confident with the budget that is coming and the work the committee is doing. VP Massaron noted the good work of his team members, including Brelanda Mandija and Tamaka Butler, as well as Provost Kornbluh and his team, who also provided a considerable amount of input.

Mr. Thomas thanked VP Massaron and agreed that the presentation was encouraging. He noted that the centralized budget monitoring was a very good idea. He suggested that VP Massaron include a review by the Budget Steering Committee in the process, and that the process also include a review of some of the strategic initiatives. He also suggested the role of the students be considered in this process, and that their input be part of the review. He stressed that students and their parents are particularly impacted by the University's budget and by tuition and fees which are a primary source of revenue, so their input is indispensable. President Wilson concurred and advised that the process always includes student input.

Governor Busuito thanked VP Massaron for his proactive approach and asked if there was a formula in place to determine what percentage of the general budget goes to the different schools and colleges in the University. VP Massaron advised that while not a formula, the institution's existing costs and budgets are built off the previous year's budget. Ms. Butler added that the budget is based on an incremental model and that decades ago there may have been some base formula used from year to year. Currently, the incremental model is the primary driver outside of any one-time needs that are identified as they move forward each year.

Professor Beale expressed, on behalf of the Academic Senate, their appreciation for the way that the CFO Massaron and Provost Kornbluh have worked on the concepts for reforming the budget. Funds budgets and multi-year planning are both issues that the Senate has considered important for budgeting and have pushed these concept for several years.

She stressed the importance that legislators and executives in the State understand the importance of higher education and in particular the role that the Wayne State faculty and University programs play in contributing to the State. She also commented that she believes there is not enough focus on the academic core of the enterprise in most of the university's marketing and hopes that it can be emphasized in the future during long-term planning.

VP Lindsey expressed appreciation for Professor Beale's comments and that it how education is valued by our Legislature is a very complex political issue. Her message is well taken and a high priority for the team in Lansing. He advised that VP Massaron will be joining the team in Lansing for an upcoming visit. Professor Beale asked VP Lindsey to also utilize the faculty and students as well so that legislators have a chance to meet the people that are the core of the academic enterprise. VP Lindsey agreed and advised that there are several day lobby activities that bring students and faculty to Lansing and he will look for additional opportunities to do so. VP Massaron also noted that VP Lindsey has brought and continues to bring legislators to campus, and he believes that it is one of the best ways for people to see what the University does. Mr. Beavers advised that he was pleased with the more analytical look that VP Massaron and Provost Kornbluh are going to be taking on tuition income.

Governor Stancato thanked VP Massaron for bringing forward a budgeting process that mirrors the University's strategic planning process.

INFORMATIONAL REPORT: MAJOR CAPITAL PROJECTS SUMMARY

Mr. Davenport advised that the State Hall design and development is complete, and construction documents are in development and will be coming forward in April. There will be another request for funding in March on long lead items such as HVAC equipment and roofing materials in particular and again in June for funding for the entire project.

The Gateway Hilberry project will be substantially complete in the middle of December this year. Regarding the Art Building, HVAC project and the Art Complex cooling restoration, the comprehensive mechanical design combining both initiatives is about 65% complete. Once that design is complete, the construction documents will be developed and those documents sent out to bid. A temporary cooling design for the upcoming cooling season has been determined and more information will be forthcoming on what that will look like for the Community Arts, Art and McGregor buildings. Regarding deferred maintenance projects in the pipeline, a comprehensive report will be presented to the Board in March.

Governor Gaffney asked that the Board be given the entire list in March, even items that are not into the planning stages so that the board has an idea of what the next year and anything new coming up will look like. Mr. Davenport agreed.

PURCHASING EXCEPTIONS

Mr. Doherty advised that the report includes 69 total purchase orders for about \$9.4 million. The first 11 items are medium sized consulting engagements, and are typical on every report. The report also includes items related to building maintenance and the June 2021 flood, and items related in the partnership section to Wayne Health.

Governor Thompson asked about numbers 43 and 44 for Allentown LLC. The previous PO's were much lower and she asked about the substantial increase. Mr. Doherty advised that this was a build out with some of the physical cage structures in the Department of Laboratory Animal Research, and represents renovations and upgrades. He advised that separate purchase orders are issued because the individual index being charged for the equipment is separate. He will ask for clarification and send that information to the Board. In response to a question from Governor Thompson on the usage of the equipment, Mr. Doherty advised that they are for the infrastructure including caging that is used to house the animals that are being used for research.

Governor Kelly asked if purchase orders that run over the end of the fiscal year must be reauthorized by the Board. Mr. Doherty apologized for any confusion. He advised that with way the University does its funding, if the same services are reused year after year, a new purchase order is issued each year so that it ties to the correct fiscal year funding. Long term contracts that are competitively bid are not on this report.

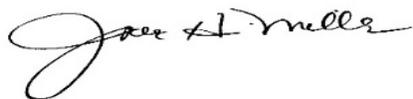
Governor Kelly asked how many purchase exceptions were there on the January report in 2021 and whether it was comparable to this report, as that information could be helpful as the board considers these projects. For clarification, VP Miller advised Governor Kelly that this is an informational report of transactions that have occurred and no vote is needed.

Governor Barnhill closed by noting that this was one of the best Finance Committee meetings he has participated in because of the engaged discussion around items that align with strategic priorities. It is very evident that there has been collaboration across the board and he thanked the students, staff and faculty, Cabinet, and the President for their hard work.

ADJOURNMENT

There being no further business, the meeting adjourned at 11:10 am.

Respectfully submitted,



Julie H. Miller
Secretary to the Board of Governors