

MEMORANDUM

TO: Dr. Tamara Machmut-Jhashi, Associate Provost

FROM: Dr. Gwendolyn Thompson McMillon, Chairperson
Senate Budget Review Committee

SUBJECT: Report on William Beaumont School of Medicine Doctor of Medicine Proposal

DATE: April 13, 2010

The Senate Budget Review Committee has unanimously approved the William Beaumont School of Medicine Doctor of Medicine Degree Proposal. A thorough investigation of questions and concerns raised by the SBRC was met with cooperation and willingness to provide full disclosure of all information. Results of the investigation are outlined below and supporting documents are attached.

SBRC asked Dean Folberg and Dr. Gillum to provide the following information:

1. List of OU faculty (and their OU departments) who will be teaching in the SOM

The list of faculty can be found in Appendix 1 (original list) and Appendix 2 (additional list forwarded via email).

2. List of OU department facilities that will be utilized to meet the needs of the SOM (eg. Labs, classrooms, etc.)

After reviewing the report, SBRC requested a report from Steve Shablin, OU Registrar (see Appendix 3), who stated that there is adequate classroom space for SOM courses. Department chairpersons are responsible for scheduling laboratory space and Varner Hall activities, therefore, SBRC requested information. Arthur Bull, Chair of the Department of Chemistry believed accommodating morning SOM classes would not be a problem (see Appendix 4). However, Arik Dvir, Chair of the Department of Biology considers it challenging to find additional space because they are using their space extensively (see Appendix 5). Jackie Wiggins, Chair of Music, Theatre and Dance has conversed with Dean Folberg concerning Varner Hall and explained the process to request its usage, and does not foresee any problems (Appendix 6). *It is important to reiterate that department chairs are responsible for scheduling laboratories and SOM must therefore work with them to establish dates and times that courses can be offered.*

3. Justification of fees

During the SBRC meeting with Dean Folberg and Dr. Gillum, an explanation was provided concerning tuition fees. SBRC agree that it is necessary for the SOM to separate tuition and fees in order for the SOM's tuition to be competitive with other medical schools. However, "health fees" will be included in tuition (see Appendix 7).

4. Concerns about the financial state of the School of Medicine

Numerous questions were asked and answered concerning the financial state of the School of Medicine. They are outlined below:

Summary paragraph from report stating that Oakland SOM is “financially sound

After responding to numerous questions about finances, Dean Folberg and Dr. Gillum explained that an outside agency reported that Oakland SOM is “financially sound” (see Appendix 8). The recent report from the Higher Learning Commission following the focused visit and review of the School of Medicine January 24-26, 2010 states:

“Overall budget planning is well documented, and the Focused Visit Team heard strong commitments from both Oakland University and the Beaumont Hospital System to maintain the necessary level of funding. The operating budget and commitment of ongoing financial resources appears adequate to meet the needs of the MD program into the foreseeable future.”

Associate Vice Provost Susan Awbrey has a complete copy of this report.

Explanation for the term “unrestricted gifts”

During the SBRC meeting with Provost Moudgil and Vice President Beaghan March 2, 2010 an explanation for the term “unrestricted gifts” was provided.

- In the School of Medicine’s proposed budget “unrestricted gifts” refers to gifts that are specifically donated to the School of Medicine without stipulations. They are undesignated funds that can be utilized to meet any need. “Unrestricted gifts that are donated to Oakland University will not be used to meet the financial obligations of the School of Medicine,” stated V.P. John Beaghan, during the meeting.

During the first 5 years anywhere from \$2 million to \$8 million of unrestricted gift funds will be used to annually cover your deficits. Do you have \$8 million in your gift fund account to cover that first year loss? If not, how much do you have? Do you have 90% of the figure raised? 50%? 10%?

If you are unable to raise the amounts claimed in this line item, how will you cover your deficits? Will you issue bonds? Will you "borrow" from the university general fund or from university gift funds? Will you rely on the OU Foundation? What is the contingency plan?

Vice President John Beaghan responded (see Appendix 9):

The Oakland University William Beaumont School of Medicine (SOM) is comprised of two components; basic science and clinical, with the clinical component being the most expensive. By contract with William Beaumont Hospital, we have permanently “fund raised” well over half of the cost of the SOM, with Beaumont completely covering the clinical component (i.e. clinical faculty, clinical administration, clinical facilities, etc.). In addition, Beaumont is funding half of the Dean’s and the Dean’s Assistant’s compensation.

The basic science component, including non-clinical administration and half of the Dean's and Dean's Assistant's compensation, is being funded by medical student tuition, SOM gifts (of which over \$24 million has been received or contractually pledged), SOM grants, SOM contracts, and SOM indirect cost. There seems to have been some confusion by those who have reviewed the LCME database budget which notes "Unrestricted Gifts" as a revenue source. "Unrestricted Gifts" in the budget refers to SOM unrestricted gifts, not University unrestricted gifts. No University unrestricted gifts, state appropriation or undergraduate tuition are being used to fund the SOM. As part of the SOM budget we also identified "in-kind" expenses and reflected them in the SOM budget as University support (e.g. accounts payable, payroll, UHR). These are expenses the University is already incurring with no incremental cost related to the SOM.

In the first few years of operation, the SOM is heavily reliant on gifts, until students are admitted and tuition revenues are realized. As enrollment increases (year 1 cohort of 50 students, year 2 cohort of 75 students, year 3 cohort of 100 students, year 4 cohort, and beyond, 125 students) the dependency on gifts evaporates; in year 5 the SOM is expected to be solvent without gifts. As of March 26, 2010, the SOM gift fund has a \$16.8 million fund balance consisting of cash and contractual unrestricted gift pledges, approximately equal to the gift budget for the first two operational years. In addition, we have permanently fund raised half of the scholarship expense line, equal to 7.5% of tuition costs. A vigorous fund raising effort is underway. We anticipate no problems with raising the additional gifts needed to fund the early stages of the SOM.

Bonds will not be issued to fund SOM operations. There is no anticipated need to "borrow" funds from the University's general fund or gift funds. There are no current plans to involve the OU Foundation in SOM fundraising. With the entire clinical component fund raised, over \$24 million in gifts and contractual pledges raised to date, the anticipation of full enrollment and student tuition to begin flowing in FY2012, no further financial contingency plans are necessary.

VP Beaghan cites \$16.8 million in "cash and contractual gift pledges." How much is "cash" and how much is "contractual gift pledges?" What is a contractual gift pledge? How binding is the contract, etc? (see Appendix 10)

- The \$16.8M consists of \$800k cash and \$16M contractual pledges. Of the \$16M in pledges, \$2M in cash is due July 1.
- The term "contractual pledges" is meant to denote that these pledges are 100% collectible due to agreements made between OU and certain anonymous donors.

SOM falls short by \$11.5 million in years 3-5. Furthermore, year 5 shows a \$2 million deficit contradicting the statement that the "SOM is expected to be solvent without gifts" in year 5. Also, provide an explanation for the statement: "There is no anticipated need to borrow funds from the university general fund or gift funds." Does this mean if an unanticipated need arises, then those funds are fair game? (see Appendix 10)

- We have 3-5 years to raise the \$11.5M gifts noted in budget years 3-5.
- The year 5 budget shows a bottom line of +\$3.9M. If you eliminate the \$2M gift revenue from the year 5 budget, the SOM has a bottom line of +\$1.9M, operational revenues exceed operational expenses, thus solvency. My statement that “in year 5 the SOM is expected to be solvent without gifts” is accurate.
- Because of success to date in SOM fund raising (i.e. 100% of the clinical component has been secured plus the previously described \$24M) and considering the SOM becomes solvent in year 5, we don’t anticipate the SOM needing to “borrow” from the University. However, to ease SBRC concerns, if for some unanticipated reason the SOM does need to “borrow” from the University, we would carefully account for such a transaction and guarantee that the SOM would pay the University back all funds borrowed, in a timely fashion.

Also cited in this paragraph is: "over \$24 million in gifts and contractual pledges raised to date..." Please explain why this number stands in contrast to the \$16.8 figure from earlier in the memo. (see Appendix 10)

- The \$24M is gross, cumulative gifts/pledges raised to date. The \$16.8M is equal to the \$24M less expenditures to date and less an accounting discount for net present value of future gifts. The two numbers tie and have been confirmed by auditors as represented in the University’s June 30, 2009 audited financial statements.

In conclusion, after thorough investigation the Senate Budget Review Committee unanimously supports the William Beaumont School of Medicine Doctor of Medicine Proposal.