Minutes[*]

Senate Committee on Finance and Planning
Tuesday, March 12, 2013
2:00 – 4:00
238A Morrill Hall

Present: Will Durfee (chair), Catherine Fitch, Susan Hupp, Kara Kersteter, Ruth Lane, Russell Luepker, Jill Merriam, Fred Morrison, Paul Olin, Richard Pfutzenreuter, Jahon Rafian, Ann Sather, Arturo Schultz, S. Charles Schulz, Aks Zaheer

Absent: Gary Cohen, Dan Feeney, Lincoln Kallsen, Talha Khan, Gwen Rudney, Terry Roe, Michael Rollefson, Kyle Smyth, Thomas Stinson, Michael Volna, Pamela Wheelock

Guests: Tom McGinnis, Norwood Teague (Department of Intercollegiate Athletics); Roy Gaddey, Christopher Hawthorne (Advisory Committee on Athletics); Associate Vice President Michael Berthelsen (Facilities Management)

Other: Jon Steadland (Office of the President); Brad Hoff (Facilities Management)

[In these minutes: (1) intercollegiate athletics finances; (2) overview of Facilities Management]

1. Intercollegiate Athletics Finances

Professor Durfee convened the meeting at 2:00 and welcomed Messrs. McGinnis and Teague to discuss the finances of the Department of Intercollegiate Athletics. He said that the guests were present primarily because they represent "the state's only institution with a comprehensive Division I athletics program " Overall, the budget of intercollegiate athletics, about $80 million, is only a small part of the University's $3-billion budget, but any unit that is so heavily publicized reflects on the rest of the University, so Athletic Director Teague and Associate Director and CFO McGinnis joined the Committee to talk about athletic finances and connections between athletics and the rest of the University.

Mr. McGinnis distributed copies of a few slides and reviewed them for the Committee; he began with revenues. (All amounts in millions of dollars.)

18.2	Tickets (roughly $9 million from football and $5 million each from men's basketball and hockey)
27.3	Big Ten/NCAA
10.6	Multi-media sponsors
11.9	Fundraising (about $9 million from preferred seating plans)
7.0	University allocation
1.7	Facility rentals
1.5	Merchandising and licensing
1.4	Miscellaneous
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79.6	Total

[*] These minutes reflect discussion and debate at a meeting of a committee of the University of Minnesota Senate; none of the comments, conclusions, or actions reported in these minutes represents the views of, nor are they binding on, the Senate, the Administration, or the Board of Regents.

They have several partners they work with, such as Learfield/Gopher Sports Properties, Aspire, UDS/Aramark, Nike, Coca-Cola, TCF Bank, etc., that bring in money to the department. The money from the Big Ten Conference comes from television, bowl games (after participating team expenses are paid, the money is divided equally among the conference schools, unlike some athletic conferences), the NCAA basketball tournament, and Big Ten championship events (from which the revenue is also evenly divided).

The expenses of the department break out this way (in millions of dollars):

28.2	salaries and fringe benefits (all other items below exclude salaries and fringes)
12.2	sport operations
9.3	grants in aid
7.7	support operations (about one-third to run football games)
8.4	administration
6.8	facilities
6.9	debt service
79.5	Total

The athletics facilities master plan will come out this spring, Mr. McGinnis related, and the major capital items on the list will be for an academics/dining facility, a football support facility, and a basketball/gymnastics practice facility.

Professor Zaheer noted that the revenues and expenses were very close; what is the balancing figure? When revenues are more than expenses, where do those revenues go? Mr. McGinnis said he would let the Committee know if that ever happens, and explained that they use a zero-based budgeting approach where units develop budgets, they identify revenues, and the budgets are balanced to the revenues. They also have endowments they can use, Mr. Teague added, and they need to increase fund-raising in the future.

Professor Shultz asked if the department has sufficient funds to recruit the student-athletes the coaches seek. Mr. Teague said the operational budgets are fine; they are weak in capital projects. They are way behind in facilities, second to last in the Big Ten, which affects practices, class time missed, and so on. Showing a student around the current facilities causes some trouble when recruiting.

Professor Zaheer asked if they are distressed by the lack of seats occupied at football games, where do they stand in attendance in the Big Ten, and how will they fix the problem. Student attendance is a problem, Mr. Teague agreed, one they are confronting in the off-season and they are attacking it aggressively with a marketing firm hired to help. They received a study from Carlson School students that was great that told them they need to make the game day experience more attractive. One big issue is that there is no game day tailgating lot, someplace students can hang out and eat food.

How does the lack of student attendance affect revenues, Professor Durfee asked—those tickets are discounted. It is a matter of image, Mr. Teague said; the alumni want students in the seats.

Professor Schultz asked about the financial impact of the Vikings playing in TCF Bank Stadium would be and the dissolution of the Western Collegiate Hockey Association (WCHA). Mr. Teague said that the Vikings games in the stadium would provide $3 million to the department, which will be put into a facilities reserve fund. Mr. McGinnis noted that it is nearly the ten-year anniversary of the stadium and thus time to replace a number of things. As for dissolution of the WCHA, Mr. McGinnis reported that there will be a loss of revenue but more games with Big Ten schools, less coverage on Fox Sports, and more expense in getting to events because they will need to fly to games more than in the past (e.g., to Penn State versus to Mankato). But that is part of the partnership with the Big Ten, which is very beneficial for the University.

Professor Gaddey asked about football starting times: It seems like the University has more 11:00 a.m. starts, which affects a lot of students, who may be inclined to get up late on Saturday mornings. Who decides the game starting times? Mr. Teague said the Big Ten decides; some of the games start at noon EDT, which is 11:00 here, and Iowa and Nebraska have the same problem. Minnesota will have fewer 11:00 starts as the program improves, and they have said Minnesota is willing to host a prime-time game (8:00 p.m. EDT), which Michigan State and Ohio State (for example) will not. To the extent they are able, they will try to avoid 11:00 starts.

Professor Olin asked if the determination of the game time can be a problem because of the short notice provided by the television networks. They must give a two-week notice, Mr. Teague said. Mr. McGinnis noted that $17 million of the department's income is from the television contracts; at least the football games are on Saturdays rather than Wednesdays or Thursdays. Mr. Teague pointed out that the University has agreed to one Thursday football game, the Thursday before Labor Day.

One of the good things about intercollegiate athletics at Minnesota is that it supports 25 sports, Professor Durfee said. As they think about finances and strategy, how do they think about the number of sports? There are three sports that are major revenue drivers; how do they think about the opportunities for the other sports? It is a difficult problem across the country, Mr. Teague said, to provide opportunities to students in other sports. They try to balance demands as best they can and people must understand that financial success in football, men's basketball, and men's hockey are central for the department.

Professor Zaheer asked where Minnesota stands vis-à-vis the Big Ten schools in terms of ticket revenues and attendance. Mr. McGinnis pointed out that Minnesota has one of the smallest football stadiums in the conference and attendance is not at the top of the league—but there are many competitors in the Twin Cities. Mr. Teague observed that few sports are building large stadiums in order that people feel they have a valuable ticket in a smaller arena/stadium. He noted also that TCF Bank Stadium can be expanded if the demand exists.

Professor Shultz commented that many institutions have 20-25 sports in their athletic program that recruit really good people (e.g., someone who could win Wimbledon) who can add luster to an institution. That has a good impact on the athletic program and improves the culture. Mr. Teague agreed and said that there are 3-4 Olympic sports that draw well, such as women's gymnastics, wrestling, and volleyball. It is a tradition in the Big Ten to support a broad array of sports.

Professor Durfee asked about synergies in fund-raising, noting that donations to undergraduate scholarships increased during the fund-raising for TCF Bank Stadium. One has a sense that there may be several new athletic facilities in the near future; would the same synergy happen as they raise funds for new facilities? Mr. Teague said they want to raise funds for the three capital projects mentioned earlier, and the idea is to raise as much as they can so they borrow as little as possible. They will need to borrow some money in any case because some of the pledges are over five years. But he agreed that the more fund-raising activity they have, the more that should help fund-raising in other areas. They have hired someone from the University of Minnesota Foundation and they hope for the synergies Professor Durfee mentioned. They are in the midst of developing their strategy. Part of process is the passion of the donor, Mr. McGinnis said.

Professor Durfee observed that last year the University allocated $7 million to athletics; what is projected for the future? Athletics receives an O&M Allocation of approximately $7.0 million this year. $5.1 of that amount is then paid back to the University's cost pools. The department then uses the remaining amount for direct costs including utilities, facility operations and debt service. The amount decreases each year, Mr. McGinnis reported, and they assume that trend will continue, as with all other units. They are proud that the amount is down significantly from what it was in the past.

Professor Olin asked if the preferred-seating plan, requiring donations for better seating, has met expectations and revenue projections. In hockey it has, Mr. McGinnis said. In basketball there is capacity to increase the number of preferred-seat donors. In the latter case, people paid the higher amounts to obtain the better seats so what remains available are the seats with a lower donation requirement.

Professor Durfee said that the public and press tend to tie financial decisions made by the athletic department with financial decisions made by the University (e.g., the extension of Coach Borton's contract, the cancellation of the football game with North Carolina). Is this inevitable or are there strategies where those decisions can be isolated in the mind of the public from other decisions made by the university. ? Mr. Teague said he doubted that would be possible; when they make bad decisions, the rest of the University suffers because there is such media appetite for athletics news. They believe they will make good decisions that will help the rest of the institution. (As for the Borton contract, he added, it simply got lost in the transition from Mr. Maturi to him and nothing malicious was intended.) Does this same situation occur at other institutions, Professor Durfee asked? Absolutely it does, Mr. Teague said, for better or worse, because of the interest in what they do. Athletics can be a boon for the rest of the institution, which is what they want to be. Mr. McGinnis reported that he has worked at Ohio State, where the athletic department provides money to the university, but there is still a perception that the Ohio State athletic department is using taxpayer dollars.

Professor Gaddey said that money from the University for athletics is decreasing here but the amounts are going up at other institutions. Minnesota must be doing things right.

Professor Luepker said that the athletic department lists cost pool funds as revenue while most units at the University see cost pools as an expense. Do the cost pools pay athletics? They receive an allocation from the University, Mr. McGinnis said, and then spend it back to the University. Do they share in all the cost pools, Professor Luepker asked? Not all, Mr. McGinnis said, and only the Bierman Building is maintained by the University; the athletic department pays for the maintenance of all other athletic facilities, including paying the utilities. They only have control over $2.4 million of the cost-pool funds; the remainder goes right back to the University.

Professor Durfee thanked Messrs. McGinnis and Teague for joining the Committee and providing their report.

2. Overview of Facilities Management (FM)

Professor Durfee now welcomed Associate Vice President Berthelsen to the meeting to provide an overview of Facilities Management (FM).

Mr. Berthelsen distributed copies of a set of slides and reviewed them with the Committee members. He began by noting that the University's Twin Cities campus (for which FM is responsible) has about 24 million square feet in 250 buildings spread over 1,180 acres. FM employees are responsible for maintenance, custodial services, energy management, land care, construction, the Building Systems Automation Center, the FM Call Center, business operations, and process development.

Mr. Berthelsen turned to University Services, headed by Vice President Wheelock, which has an operating budget (FY13) of $401.7 million and a capital budget of $1.049 billion. University Services has 2,258 employees (FTEs) and a headcount of 3,760. Of that budget, FM accounts for $205.5 million; it has 1,099 FTEs. The revenues to FM are (in millions of dollars):

57.0 Internal Service Organization (what they bill for services that are not covered by the cost pool)
73.3 O&M cost pool
65.7 Utilities cost pool
6.4 Balances
3.1 ASU cost pool

Professor Luepker asked if FM pays cost-pool charges. Mr. Berthelsen said that they do not pay these costs directly but the Office of Budget and Finance accounts for the charges through its "double step-down" process. FM space costs are included in its cost pool and in this way FM's full cost, including space, are part of the cost billed to University colleges and units. Professor Luepker observed that the colleges are interested in reducing their square footage in order to cut facilities costs. Is FM under similar pressure? Mr. Berthelsen said that any unit not paying direct costs is not under that pressure. What if they have more space, Professor Durfee asked? Mr. Berthelsen said their goal is to manage their costs assessed to colleges, so they do not want to occupy more space. If they use more space, it does not affect their budget. He said he understood the point of the question: How does the University create incentives for support units? The budget model committee considered creating such incentives and decided against doing so at present.

Mr. Berthelsen identified the way FM uses its funds, in broad categories:

105.1 utilities
25.3 custodial services
53.2 maintenance and small construction
11.9 support services (land care, waste, elevators, recycling, business systems)
6.6 repairs and replacement
2.3 facilities investment fund
1.2 administration

The Vision for FM is to "become world class in delivering Customer-focused and Cost-effective service while promoting a culture of accountability." Their Mission is "to provide a safe, functional, clean and welcoming campus." Mr. Berthelsen reviewed a "strategy map" identifying how they achieve their goals and a business plan listing the primary services provided by District Services, Central Services, and Utilities and Engineering. He noted the custodial principles (clean, consistent, cost-effective), maintenance principles (reliable, safe, cost-effective), central services principles (welcoming, safe, cost-effective), and energy principles (reliable, sustainable, and cost-effective).

Mr. Berthelsen outlined FM's Operational Excellence steps.

-- Created a New Property Services Organization Model

-- Reduced Expenses $18 million between FY09 Budget and FY12 (operations, ISOs, energy)
-- FY10 Implemented a new Custodial staffing model with revised standards that prioritize public spaces reducing staffing by 63 through attrition and a voluntary severance plan
-- FY12 Implemented team cleaning, improving efficiency, reducing custodial staff by 52 while maintaining service levels without any involuntary layoffs.
-- Streamlined and reduced Preventive Maintenance Program to target critical equipment and programs
-- Initiated an Energy Conservation Program saving $5.6M in 2 years
-- Reduced Administrative expenses 10%, including consolidating from 5 to 3 districts
-- Conducted business reviews for elevator, fire alarm and waste operations

In the case of the last item, the operations for elevators and fire alarms were contracted out while waste operations continue to be done internally; Mr. Berthelsen said they do whichever the data suggest will be the best value for the University.

Professor Durfee observed that FM is continually brought up as an example of operational excellence because of the money it has saved and the streamlining it has accomplished, as this list of accomplishments exemplifies. He asked what drives these efforts—the president? It is impressive that FM programs can become more efficient; what can other units learn? Mr. Berthelsen said it has been accomplished by a combination of both financial requirements (budget targets) and being very strategic in our business planning and looking for ways to reduce costs without sacrificing service standards. For example; FM is has been working to reduce energy use in buildings while also making buildings more comfortable for the users. FM also discovered that their Worker's Comp costs were too high, and while savings do not directly stay with their department, they made changes because they wanted University workers to be safe and healthy and have saved the University about $1 million annually in lower cost. The overall goal is to reduce spending while retaining and improving service.

Professor Durfee asked about cleanliness: The higher the standard for cleanliness, the greater the cost; did FM cut services until the units started objecting? How do they decide what to do? Mr. Berthelsen said they pay attention to national standards and track where FM is and what the goal is. Standards have been advanced with team cleaning and they hope it has also improved productivity standards. The target is to do what is required to maintain a stewardship level acceptable to the University; they then allow programs to say they want additional services or a higher standard, which they can pay for. FM does not have the same standards for all locations (e.g., there are different regulations for the public spaces in clinics). Mr. Berthelsen noted a new quality-assurance tool being used for custodial services to monitor the quality of the work being done.

The Committee next looked at two different cost analyses for the Twin Cities campus. In the first, a bar graph illustrated non-utilities building costs per square foot for the last five years; the cost per assignable square foot (measurement of program space—labs/offices/classrooms) has declined from $8.74 to $6.60 (not adjusted for inflation). Mr. Berthelsen also presented data on total building operating costs per gross square foot (total space in the building including hallways, mechanical, etc.) in FY12 was $7.84 per gross square foot including utilities. He also presented this cost broken down by category (e.g., custodial $1.55, maintenance $1.74, waste $0.10, electric $1.65, steam $1.67, natural gas $0.05). They track costs by component and use the data to benchmark with other organizations and other institutions of higher education.

How does the University compare, Professor Zaheer asked? Quite well, Mr. Berthelsen said. In comparison with comparable research institutions of higher education, Minnesota's costs are low. For any given part of FM's cost they look at both the operational needs that are unique at this campus and implications for how they provide the service to the campus. For example, the University has had higher custodial costs in comparison with the private sector, which is a combination of both the type of spaces which are being cleaned and the cost of fringe benefits for University employees; however, custodial costs are competitive within the higher education sector.

Mr. Berthelsen noted the differences in average operating costs by building type. The total cost per square foot in health/chemical/biological labs is $10.61; in offices it is $5.61; in physical/natural science labs it is $7.40; in classrooms it is $5.38; in medical clinics it is $9.91, and in libraries it is $6.45. Adding the new cancer-cardio building will have a significant impact on facility costs. Professor Luepker asked what the operating costs for cancer-cardio will be; the Committee has been told it is the most sophisticated building in the Twin Cities. Mr. Berthelsen agreed and said he would provide the costs to the Committee; they are higher than average for health/chemical/biological labs. [Note: FM is projecting the full operating cost for Cancer-Cardio to be $14.32 per gross square foot (gsf).]

In the years since FY06 the facilities operating budget (dollars per square foot) at the University has decreased by 23%. At the University's peer institutions, it has increased by 7% since FY06. The University's costs are now below those of its peers. Professor Zaheer asked what the difference is between the University and its peers. The University has been exceedingly focused on driving down operating costs, Mr. Berthelsen said, perhaps more so than its peers, and perhaps because the University of Minnesota took a bigger financial hit than many of its peers during the last several years. It may also be that the University has been more innovative than many of its peers, he concluded.

Energy consumption on the Twin Cities campus has declined 19% since FY03; and though peer institutions have dropped similarly during this time period, the University has continued to manage to a lower energy consumption per foot of space than its peers.

In an analysis by a facilities benchmarking group called Sightlines, Facilities Management's actual cost over the last 11 years were compared to projected cost with normal cost inflation. This analysis showed that over this time, FM operating costs were approximately $146 million lower than what they would have been with normal cost inflation—a significant cost avoidance, Mr. Berthelsen reported.

Mr. Berthelsen provided a graph with FM headcount history (FY98 – FY13) by employee group e.g., people working in energy, trades, teamsters, students, civil service, and AFSCME. The number of employees has increased slightly over these 15 years, from about 1050 to about 1100, while the amount of supported academic and administrative gross square feet has increased from about 13.5 million to about 15.5 million (the latter number does not include cancer-cardio or physics and nanotechnology, which will add about 450,000 additional square feet).

In energy conservation, FM has saved about $5.6 million from FY10 – FY12 and reduced CO_2 emissions by about 60,000 tons.

Mr. Berthelsen provided data on age distribution of the gross square footage—GSF—(that is, under 10 years old, 10-25 years old, 25-50 years old, and over 50 years old) in 2002, 2012, and 2015. The percentage of the GSF under 10 years old falls from 25% to 12%; the percentage that is 10-25 and over 50 years old both increase; the percentage that is 25-50 years old remains the same. He noted that Nicholson Hall, for example, falls in the "under 10" category because the building was completely renovated, and there will be new "under 10" space added. As a general rule, facility life cycle planning assumptions project that interiors need renovation/replacement every 10 years, HVAC/plumbing every 25 years and the structure every 50 years.

Professor Zaheer asked how Minnesota compares with its Big Ten peers. Minnesota is not a lot different, Mr. Berthelsen said. Minnesota is a little older and the buildings are a little more complex and more varied (there are more labs, for example), but there are no dramatic or meaningful differences.

Mr. Berthelsen reviewed the campus average Facilities Condition Assessment for the four campuses with significant physical plants. FM maintains a database called the Facility Condition Assessment that tracks the age and condition of each building component. Independent assessments are made of each building based on actual inspections and this information is used to help guide facility renewal projects. A metric developed to gauge the overall facility 'health' is called the Facility Condition Needs Index (FCNI) which equals the overall projected 10 year needed facility renewal investment divided by the current estimated replacement value. The lower the number—the lower the relative need and the better the campus condition. The Twin Cities FCNI is 0.36, which means that the overall building condition average is on the lower end of 'Fair.' (Duluth is 0.29, Morris is 0.38, and Crookston is 0.35). The Twin Cities FCNI is higher (worse) than that of most of its major research university peers.

Given that the University in recent years has been spending less money than required to sustain the value of its assets (it has been below what is required for every year since 2002 except for 2003 and 2006, and it was at the minimum required in 2011), FM faces "opportunities and challenges":

> We need to reduce our requirements for, and maximize the benefits from, our investments in physical space. We are doing this by:
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> -- Reducing overall space (Work +, selective demolition)
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> -- Making space more cost effective (Smart Labs, Combined Heat & Power) (labs are about 20% of the space but use about 2/3 of the energy, so the question is how to make them better; it is both electricity and heat primarily because of the high level of air exchanges required; they are trying to drive the costs down with improved technology and better operational processes.
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> -- Maximizing asset life cycles (Enterprise Asset Management – predictive maintenance) (they are the fourth enterprise system, in terms of tracking building life and maintenance and how space is used, which drives both cost-pool charges and F&A—indirect cost—rates)
>
> -- Reducing fixed costs (Standardize Team Cleaning, Standardize Maintenance Operations including centralizing TC Maintenance)
>
> -- Improving the quality of our facilities (Strategic investment in campus renewal creating higher functioning space while reducing overall space).

Professor Shultz commented that energy use in academic space is also affected by the presence of NMRI equipment. There are also issues that arise in clinical areas. Mr. Berthelsen concurred.

Ms. Kersteter asked what the customer response to team cleaning has been. Mixed, Mr. Berthelsen said; some have said it is the best cleaning they've had and others have said it is terrible, especially at the beginning of the change. The approach is expanding rapidly in higher education and is the industry standard. The revised custodial program made a broad set of changes, including team cleaning plus new equipment, new chemicals, new training, and re-bidding to new areas. This broad set of changes was required by the budget challenge to be implemented in a very short time period and would be a challenge to anyone, so the initial stress was not surprising, though he now receives little feedback about it. FM has nearly 450 custodians who work with departments and staff. He said he believes that most of the wrinkles can be worked out and they will continue to talk with customer groups so that they know where the problems are.

Professor Luepker, drawing on one of the tables that Mr. Berthelsen presented, noticed that the projected 10-year facility needs for the University (all campuses) is about $2.7 billion. Most industries put money aside for depreciation; the University does not and instead waits for HEAPR money from the state. Mr. Berthelsen said that Vice President Pfutzenreuter has developed draft proposals to fund depreciation over time, but it is difficult to set aside money when everything at the University is being cut. Some of the auxiliary services do fund depreciation (Housing and Residential Life does the best job). The University has made HEAPR funds an increasing part of its capital request, and those have made a big difference in tackling big projects (e.g., Civil Engineering, Mechanical Engineering).

Ms. Sather asked if any buildings beyond WBOB were served outside the team cleaning coverage. Mr. Berthelsen said that several are, including WBOB, UROC, University Office Plaza, and the athletic department handles athletic facilities for events. They continued contracts when they acquired buildings because they determined that FM could not provide the service at a lower cost—and they provided an opportunity to see how a contractor on site provides the service compared to the way that FM does.

Professor Durfee asked if the University plans to move into single-sort recycling. Mr. Berthelsen said that there has been an industry movement to dump everything into one container. In the city, it is all about labor costs—single-site recycling is dramatically faster and leads to a larger percentage of waste being recycled. But the quality of what is obtained from single-sort recycling is degraded. Their analysis suggests that it makes sense some times and others not, depending upon the market price for recyclables. There are not the same kind of labor savings at the University because employees do the sorting as they put material in the proper bin; and therefore the University receives a higher price while also maximizing the quality of its higher-quality recycling. Institutions have gone to single-sort recycling because they want financial stability. FM has talked about making the change but at present there is not a big enough financial reason to shift.

Professor Durfee thanked Mr. Berthelsen for his informative presentation and commended him for the work that FM is doing. He adjourned the meeting at 4:00.

-- Gary Engstrand

University of Minnesota