Minutes[•]

Senate Committee on Finance and Planning
April 9, 1991

Present: Burton L. Shapiro (chair), David Berg, Bill Chambers, Edward Foster, Virginia Gray, Craig Kissock, Nick LaFontaine, Fred Morrison, Jeff von Munkwitz-Smith, Charles Speaks, John Sullivan

Guests: Senior Vice President Robert Erickson, Geoff Gorvin (Footnote), Ken Janzen (Regents' Office), Assistant Vice President Susan Markham (Physical Plant), a Daily reporter

1. Discussion of Physical Plant Reorganization

Professor Shapiro welcomed Assistant Vice President Markham to the meeting to discuss the reorganization of Physical Plant.

She began by saying the reason her position exists is to serve the faculty and students of the University. She reminds Physical Plant employees of that reason on a daily basis as well. That is a major theme of the reorganization: Physical Plant is a service unit.

The real challenge she learned about when she asked employees to react to a reorganization plan she presented. She read an excerpt from a letter from a 20-year employee which perhaps typified the reaction:

> "Always remember you are dealing with people's lives. See for us, people like you come and go. To us all this new order stuff is just another way to foul up the system which will return. You can give it another name, put red polka dots on it, raise it up a flag pole, whatever, but there is a basic fundamental system here that we all return to. It was here when you arrived, it is here now, and it will be here when you are gone. No matter how you twist it, bleed it or mutilate it, it still will be the same. Why? Because its how things get accomplished at the University of Minnesota."

This appeared to be another example, one Committee member pointed out, of Mr. Middlebrook not letting us do things. Ms. Markham said this helped her to grasp the magnitude of the change necessary.

Physical Plant is a huge organization; she was told, when she was appointed to the job, that it is the largest operation of its nature in the Midwest. It is the largest in-house construction company and largest in-house property management in the region. There are eight units, each with its own hierarchy, and with a very narrow span of control--few people reporting to a supervisor and with a large middle management. Decision-making is very centralized and there is only a single point of accountability--the individual who occupies her position.

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They have concluded that problems can be talked about and there is a consensus among Physical Plant employees that it can improve and must improve. It is not necessarily the quality of the work--that, she said, often exceeds what can be purchased from the outside--but the units are definitely paying for it. The costs are not due to wage scales, which correspond to the prevailing rates in the area, but because of the overhead and how efficiently services are delivered.

One change being proposed is the name; Facilities Management better describes the mission of the unit. Physical Plant has been very reactive, relying on the customers to call in the problems, rather than trying to anticipate needs of programs. Many faculty have to spend too much time worrying about things that should simply be taken care of. Most of the rest of the world uses the term facilities management. There is, finally, confusion with Physical Planning; the name change should help differentiate the two units.

What has not driven the changes are individual needs, or functional unit needs, such as the custodians, or the auditor. The auditors' recommendations, most of which were very good, were nonetheless changes that had to be incorporated in the bigger picture of a better structure to deliver services. The auditors are again examining Physical Plant; they have had about 15 auditors scrutinizing their operation for the past month and there will be another report coming out in mid-June.

The new structure, Ms. Markham told the Committee, reflects their concern about the best way to serve the faculty and students, not how best to take care of Physical Plant. Although the model is only a concept right now, it is becoming more and more developed as time passes. It will take Physical Plant, throw it up in the air, and bring it down in a different way, with very specific points of accountability. It is driven by a desire for consistency, fairness, and equity for all of the customers and for the employees. There have been favored customers, Ms. Markham said; those that scream the loudest get the best and quickest service. There is no clear priority system. The question is how to provide everyone the same standard of service in a fair, timely, and cost-effective way.

A management team has been selected in Physical Plant, rather than having one individual responsible; the team represents expertise in all the areas in which they must provide service. Clear objectives and principles have been established to guide the process of change; the plan has been reviewed with all Physical Plant employees, who provided reactions. Information sessions have also been held with the union business agents; if this is to be successful, Ms. Markham said, it must be a partnership with labor. They support the plan. They have also conducted meetings with customer groups--anyone who will talk with them about Physical Plant services.

The model itself calls for decentralized provision of services. The organization will be structured around the customer--which, since it is not clearly defined at the University, they have defined as the building. Their focus will be on building management. This will include changing their budget structure; they will identify what it takes to operate each building in terms of both current operation and preventive maintenance. They will develop a budget for the building and, with the occupants, define what the priorities for that building are. Physical Plant will hold the budget.

There will be seven zones of the University: Health Sciences, St. Paul, West Bank, the off-campus and non-support units, and three zones on the remainder of the Minneapolis campus. Each zone will have a facilities supervisor; that individual will be the point of contact and accountability for the customers.

All services that Physical Plant provides will, in each zone, report to that individual--custodial, building trades, Teamsters, etc. They are also proposing a second-shift maintenance function because it is often inconvenient for units to have maintenance work done during the normal working day. The labor unions have accepted the proposal, and it should be more cost-effective than having to work around people during the day.

This proposal, Ms. Markham told the Committee, is nothing new; it is done this way in most of the rest of the world. Labor representatives noted that right away. One point is to achieve more of an industry standard with the model.

Another important point is that employees will be assigned permanently to buildings and zones, which is not the case now. Calls will no longer be taken centrally and employees then required to walk across campus--which should also help reduce the overhead. This will also be better for Physical Plant employees.

The biggest barrier to the plan is the fear of change, including on the part of employees. Working in favor of the plan, however, is that Physical Plant employees are very tired of being in the public eye. They know they can improve and be more cost-effective and believe this plan will help to accomplish those ends.

Ms. Markham affirmed that she has reviewed the report of the Task Force on Support and Service Units. One major problem that the University has is a huge deferred maintenance budget; the plan calls for Physical Plant to begin chipping away at that backlog.

There are space implications of the plan, she agreed. Physical Plant will maintain the Shops building for the "bench shops," which could not effectively be decentralized--carpentry, sheet metal fabrication, etc. In the zones Physical Plant already has space; it is being inventoried and services are being consolidated into that space. The biggest problem with space is on the East Bank campus; the managers tell her they are sorting out the problems.

There were some individual union business agents who expressed dismay that they were not contacted. Ms. Markham explained that she works with 21 business agents, and could not consult with all of them, but that she worked very closely with the building trades council. Ultimately, she said, the University must make the decisions on how to manage its facilities; while they want to obtain the viewpoint of labor, the University must have the final responsibility. Labor will be productive under any scenario they devise, she assured the Committee.

Ms. Markham said, in response to a question about data on the necessary numbers of different types of maintenance people required for each zone, that she has preliminary information. They are starting with the West Bank, and working with the customer/user committee--something that each zone will have and which will meet monthly. They have no intention of reducing the number of employees who are delivering services. The biggest impact of the plan will be on middle management.

She also affirmed that people will be able to cross zones to meet needs. They are looking seriously at the scheduling of work. At present there are 500 different planning and scheduling structures; one is the three-pile system: Never do this one, maybe we'll do this one, and we have to do this one. Another is the one-pile system: first in, last out. They are developing a standard scheduling system. Right now the system is also very reactive; people want service immediately. With the user committees, priorities will be established. There is a huge number of customers Physical Plant must deal with, each one of which calls Physical Plant employees and orders work. Physical Plant would like to know who can authorize charges on department budgets; right now they do not.

One Committee member recalled that the representative of his unit on the user committee has complained about its ineffectiveness as a communications device. That may be inevitable, in the beginning, but it is a cause for concern over time; the committees must be effective communications tools.

One reason people insist on immediate service, it was noted, is because of the three-pile system; if you don't insist, you don't get service. That is a problem that performance will alleviate; if there is no performance, people will continue to demand immediate service.

This plan will probably work, observed one Committee member. There used to be zones, and people now look back on earlier days as a time when things got done. Ms. Markham agreed. She noted both that the campus has grown substantially in recent years; she also pointed out that the University was <u>funded</u> to provide services--something that is not true now for Physical Plant.

Ms. Markham said she would appreciate the support of the Committee but that more importantly she wanted any questions referred to her.

Professor Shapiro thanked Ms. Markham for the presentation.

2. Discussion of Budget Principles

Professor Shapiro next welcomed Senior Vice President Erickson to the Committee. He also explained that Mr. Erickson and Mr. LaFontaine had met earlier with the Senate Consultative Committee to explain the 1990-91 budget principles.

[Note: Inasmuch as this presentation was nearly identical to the one made to the Senate Consultative Committee on April 4, readers are referred to those SCC minutes. The only points reported here are those which differed from the SCC presentation and ensuing discussion; the two sets of minutes should be read in sequence. Some of the figures reported here also vary slightly from the SCC minutes.]

-- Particularly important is the statement that "over time, we strive to match current period revenues with current period expense." Mr. Erickson noted that the University has central reserves, which permits it--when forced to make changes--to modify the timing of the changes. This lets the institution act "with a knife rather than a meat axe."

-- Following the $8.8 million reduction in reserves this year, the plan is to replenish those reserves in future years.

-- In addition to the central reserves of $37 million, there are $430 million in departmental reserves unavailable for central allocation; these are the dedicated funds mentioned during the SCC discussion.

-- The total expected 1991-92 revenues will be $640 million. The Governor's budget recommendation is slightly improved but still represents a substantial cut from the existing base budget. Instead of a $27 million net cut--which the University did not fully accept as accurate because of the non-resident, non-reciprocity tuition increases and because there is no provision for uncontrollable inflationary increases (quite apart from a lack of salary increases).

-- There is $660 million in continuing programs in the 1990-91 budget (without salary increases), plus about $6 million in uncontrollable cost increases, and $640 million in expected revenues. The deficit is thus at least $26 million without salary increases.

-- There appears to be virtual unanimity in preferring program reductions rather than "object" reductions.

-- Of the University's total budget of $1.7 billion, about $1 billion is the education and general budget. Of that, about 75% is personnel.

-- The salary objective is now qualified with the term "financial parameters."

-- Mr. Erickson said he was shocked at the failure of the deferred maintenance budget to keep pace with the needs.

-- Of the $1 billion spent annually in education and general funds, about 40% is for instruction, 25% on research, 6% on service (such as Extension), 25% on support (such as Physical Plant), and 4% on financial aid. The University has been talking a lot about the research function, Mr. Erickson said, because it is a very significant aspect of the institution which has probably not received the recognition that it should in terms of being an engine of the economy. In the last fiscal year the research activities provided between 6,000 and 7,000 jobs in Minnesota; SuperValu, by comparison, has about 7 - 8,000 employees in Minnesota and is the sixth or seventh largest in the State. The University's research activities are huge and add tremendously to the economic growth of the State--and this does not take into account the multiplier or spin-off effects. The University has emphasized this function as a strong reason why the base budget should be maintained--because the State funds are so important.

-- Because of the damage that can be caused by discussions of program reductions, the administration is reluctant to engage in public deliberation about programs which might have to be cut.

-- Mr. Erickson affirmed that the examination of dedicated unit balances would only consider interest on the balances, not the principal amounts. Many of the balances, Dr. Foster noted, are plant funds or funds put aside for new faculty set-ups. Mr. Erickson promised that the Committee would hear more about any plan to change the treatment of unit balances. The only thing being said now is that if the University faces a $20+ million deficit, treatment of these balances will have to be considered.

-- Would it be possible to save money by contracting out more services, Mr. Erickson was asked. He said he did not know the answer but agreed the question needed consideration. Other universities, it was said by one Committee member, appear to do much more outside contracting. Ms. Markham said there probably were some economies that could be achieved, although she pointed out there is a value to having in-house employees; the question is whether or not the differential is worth it and what the University obtains from it. On a philosophical basis, Mr. Erickson commented, the University should not do anything internally unless it can do so more cheaply and better than what could be purchased externally. Ms. Markham added that that is certainly the standard that will be used by Physical Plant.

-- The incentives imbedded in the current rate of interest paid on unit balances, and the failure to charge interest on deficits on 0100 funds, should be reconsidered.

-- Any tuition surcharge would probably be across-the-board.

One Committee member said he had read these budget principles at about the same time he had received information from the state AAUP on faculty compensation. One chart plotted average salaries for peer institutions, by rank, as well as average quality rankings of the institutions, both for ten years ago and for the present. Minnesota's position on the quality ranking slipped over the period--and so did its faculty salaries. The point about no salary increases has been repeated since last Fall, and the fiscal situation which drives the recommendation is understandable, but the decision does represent an institutional choice to let the quality rankings continue to slip. Is that the intention of the institution? Or are there alternatives?

Perhaps further program reductions should be considered to provide salary increases. Perhaps tuition rate increases, or surcharges, should be considered. Several questions arise: Is this a conscious choice to lower quality, what can be done to avoid it, and how will the question be approached? It may not be appropriate to talk about this now, with various proposals being considered by the legislature, but it may be appropriate to talk about the subject in late May if the eventuality of no salary increases occurs. If the choice to reduce quality is to be made, it should be made with full knowledge of what the University is doing.

Mr. Erickson responded that he is probably not the best individual to reply to these points; Academic Affairs would be more appropriate. He did say it was his view that the University should do whatever is necessary, over time, to maintain the quality of the faculty.

The difference between projected revenues and expenditures, without adjustment for other expenses, is $20 million. Another $6 million will be required for cost increases. Will there be another $7.5 million required for replenishment of central reserves, Mr. Erickson was asked; some money will be required, but the amount is not clear. So the deficit, it was concluded by one Committee member, is about $33 - $35 million, without salary increases. Mr. Erickson concurred.

This is a massive amount of money, it was pointed out. The administration recommends not touching the non-personnel expenditure base--which means that not only will programs be cut but a number of people will also be let go. Mr. Erickson said that if significant programs must be cut, and something must be done at the level of $33 - $35 million, the action will be quite drastic. That is the message the administration has been trying to present.

Mr. Erickson was asked if there is there a plan, or notions of what programs would be cut. He said the administration has been looking carefully at many things; no one has reached any conclusions because there is still hope that the legislature will treat the University better than has been proposed in the Governor's budget. A cut of this order of magnitude, said the Committee member, would represent serious decline in the institution. Mr. Erickson assented; the University has pointed out that it would have been easier to make the cuts if it had not just gone through a $60 million reallocation plan. To even contemplate changes of this sort, on the heels of such a program, is very, very difficult.

There was brief discussion of the impact of the admission of Penn State to the Big Ten on the "third place rule" for professional school tuition rates.

Unless something changes, one Committee member suggested, the Committee may wish to discuss whether there should be all program cuts and no across-the-board cuts. If the cuts turn out to be of this magnitude, the University cannot make up the required amount of money with program cuts without seriously impairing it in the long run. It may be necessary to talk about some balance of program and across-the-board cuts. Dr. Foster pointed out that program cuts do not produce money quickly, and require bridge funding--which might include some cuts that one would rather not make, including across-the-board. Replenishing the reserves, rather than using them for bridge funding, it was pointed out, would make the situation even worse. What must be emphasized also, it was said, is that programs spared from cuts must continue to improve efficiencies.

Mr. LaFontaine pointed out that these are guidelines; when the actual budget must be set, there may be trade-offs. Maintenance of the reserves at $37 million may not be possible, or that three pay-less days would be worse than using the reserves. At present these are targets.

Professor Shapiro thanked Mr. Erickson for his presentation.

The Committee adjourned at 4:45.

-- Gary Engstrand

University of Minnesota