

A PRELIMINARY REVIEW OF SPACE RENTING
AT THE UNIVERSITY OF MINNESOTA

Office of Physical Planning & Physical Plant

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A Space Rental System (or Space Costing) is an alternative to the current distribution of funds for the maintenance and operation of University facilities. Potentially, the adoption of the system could result in an improvement in the management of space and the Physical Plant. In theory, this approach would appear to be an ideal way to encourage (ensure?) the most effective utilization of University space by allowing academic departments to make budgetary decisions on how much space they need for their programs. It assumes that University departments make the 'wisest' decisions on salaries and supplies, because they control the expenditure of funds for these categories. Therefore, the same would be true for space if departments were given an allocation for space in their budget and the authority to rent the amount of serviceable space, such as custodial care and utilities, from the Physical Plant Department.

This system would, also, allow Central Administration to allocate space as a form of program resource and weigh decisions on the future allocation of space or the reallocation of space for programs, in terms of cost benefits. It should be understood that a rental system may not save the University direct operating funds. It's primary purpose is to encourage economy and conservation and check the current tendency to plan for expansion.

The implementation of a Space Rental System would alter current resource allocation procedures as it affects the Physical Plant. It requires a change from 'centralized' control to a 'decentralized' method;

allowing academic units to control the resources that support the Physical Plant. Its success depends upon a commitment from Central Administration (including funding for start-up costs), broad consensus from the faculty and staff and the development and distribution of an accurate and consistent information base.

While there are benefits to be achieved from the adoption of this system, there are also potentially negative effects. Therefore, it is important that the University answer many questions (i.e., how would the system affect Legislative appropriations for space? Currently any savings in utilities revert to the State. On the other hand, the State picks up any deficits.) about the impact of the system on current operating policies and procedures and carefully assess the pros and cons before implementation.

Outlined in the following pages are (1) the current process for the distribution of the funds appropriated by the Legislature for the maintenance and operation of University space, (2) the steps involved in the 'purest' application of the rental approach referred to as 'Status Quo', (3) a modification of the system referred to as "Space Model" which essentially changes the method of determining the amount of budget allocation for rent and (4) a "Buy Back" alternative to the Space Rental approach.

This report is a preliminary investigation of the Space Rental concept for discussion purposes. There are many details to be examined and its possible that certain modifications or refinements to this concept

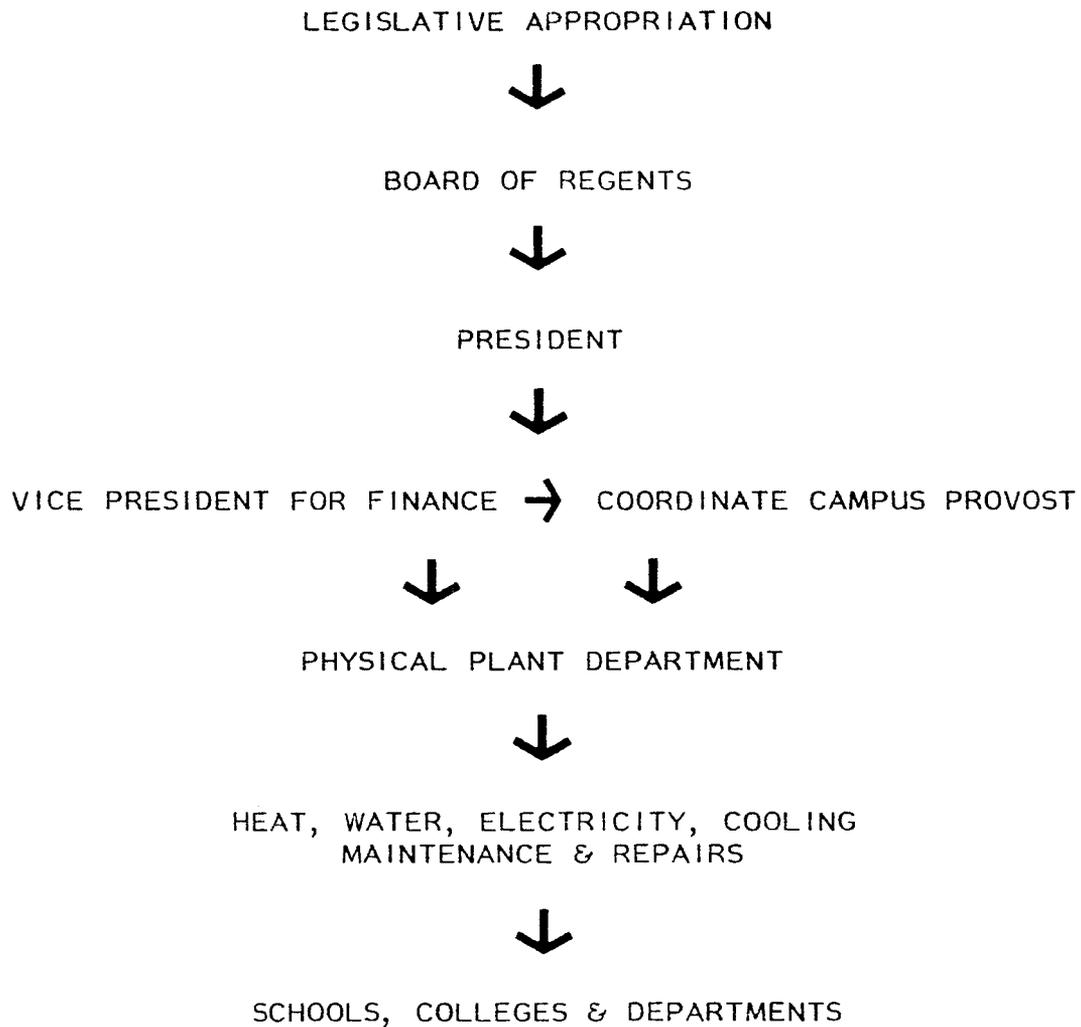
(such as making budget allocations only for operating costs and leaving maintenance funds with the Physical Plant Department) would make it a more useful method to employ at the University.

CURRENT DISTRIBUTION OF FUNDING FOR
MAINTAINING SPACE

(See Illustration #1)

1. The Legislature Appropriates Funding for the maintenance and operation of space based on the University's request.
2. The amount of funding is described in a Legislative Bill to the Board of Regents.
3. The Board delegates authority to the President for the allocation of maintenance and operating funds.
4. The President assigns the responsibility for distribution of the funds to the Vice President for Finance.
5. The Vice President for Finance charges the Office of Physical Planning and Physical Plant with the responsibility to manage the funds for the Physical Environment of the Campus.
6. The Office of Physical Planning and Physical Plant allocates the funds to provide electricity, heat, water, cooling, maintenance, etc.
7. The Colleges and Departments utilize spaces assigned to them for their programs. The academic unit "controls" the space assigned

CURRENT DISTRIBUTION OF FUNDING FOR
MAINTAINING SPACE



to them but they do not pay for it. Therefore, it is viewed by the departmental unit as a "free" resource.

SPACE RENTAL - THE STATUS QUO APPROACH

(See Illustration #2)

Rationale:

Costs associated with the maintenance and operation (M & O) of University facilities would be identified for each department. The cost of facilities could then be added to salary and supply and expense budgets to obtain the total cost of each program or service. Space would then be viewed more as an economic rather than political asset and space reallocation or creation would be guided and limited by budgetary constraints.

1. The Legislature Appropriates funding for the maintenance and operation of space based on the University's request.
2. The amount of funding is described in a Legislative Bill to the Board of Regents.
3. The Board of Regents delegates authority to the President for the allocation of maintenance and operating funds.
4. The President assigns the responsibility for distribution of funds to the Vice President for Academic Affairs.

The Physical Plant Department currently maintains records of M & O costs for each University building. These costs include fuel,

SPACE RENTAL - THE STATUS QUO APPROACH

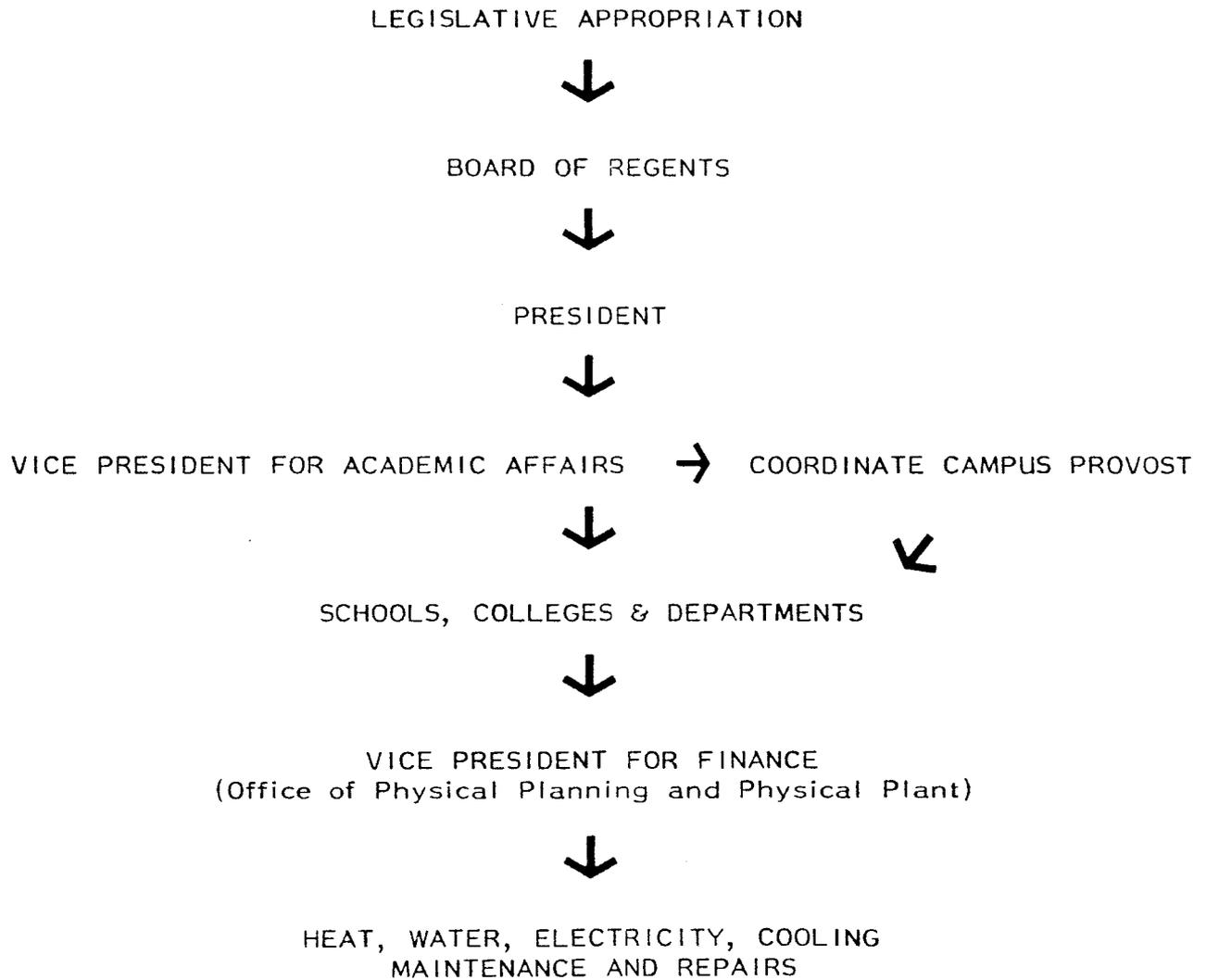


ILLUSTRATION #2

electricity, water, maintenance, custodial labor and supplies and miscellaneous expenses. The Space Management Office maintains the inventory of space area, assignment and use for each building. Matching these two information files will produce relatively accurate departmental space costs for all University units.

M & O costs for individual buildings can range from \$2.00 per gross square feet to over \$6.00, depending on the building's condition, size, age, use, presence of air-conditioning and/or fume hoods, etc. Departments housed in several buildings (e.g. Music) would be budgeted for space at several different rates.

5. The Vice President for Academic Affairs allocates the cost of space to the operating budget of the academic unit.

6. The academic unit negotiates a contract with the Office of the Vice President for Finance (Office of Physical Planning and Physical Plant) for heat, water, etc. as well as custodial care and maintenance.

Departments with growing enrollments and/or increasing levels of research activities could obtain additional space by reallocating salary or supply and expense funds for additional space if available. Units with declining students, staff or research activity levels would relinquish space and be reimbursed with funds generated from units acquiring additional space.

Advantages:

1. Departments would become more aware of costs associated with physical space and facilities.
2. The reallocation of space would become a more economic rather than political decision.
3. The ability to determine the total cost (including space) of individual University programs would be enhanced.
4. Department heads would have increased flexibility in allocating funds, particularly during a retrenchment period.
5. M & O dollars remain with the space for which they were originally allocated.
6. Central Administration could develop a more accurate base for recovering overhead costs for research funded by outside agencies.

Disadvantages;

1. If one accepts the concept of allocating space based primarily on demonstrated and justifiable programmatic need, space renting does virtually nothing to contribute to that objective.
2. Departments with current space surpluses could gain an economic windfall.

3. Funds may not be available to reimburse departments relinquishing space.
4. Appropriate space may not be available to departments seeking additional area.
5. The "quality" of space is not factored into the equation. An old, inefficient, poorly insulated structure may "rent" for more money than a newer, more attractive facility due to higher maintenance and operations costs on the older building.
6. Maintenance of space may become uneven. Departments are likely to allocate resources to people rather than upkeep of facilities. This would create future maintenance and repair problems.
7. May require departments to hire additional staff to manage space and provide liaison with Office of Finance (Office of Physical Planning and Physical Plant).

SPACE RENTAL - THE SPACE MODEL APPROACH

(See Illustration #3)

Concept:

Each department's budget is increased to include the Maintenance and Operating (M & O) costs of its space in addition to salaries and supplies and expenses. The level of M & O funding would be determined by comparing each department's space allocation with

SPACE RENTAL - THE SPACE MODEL APPROACH

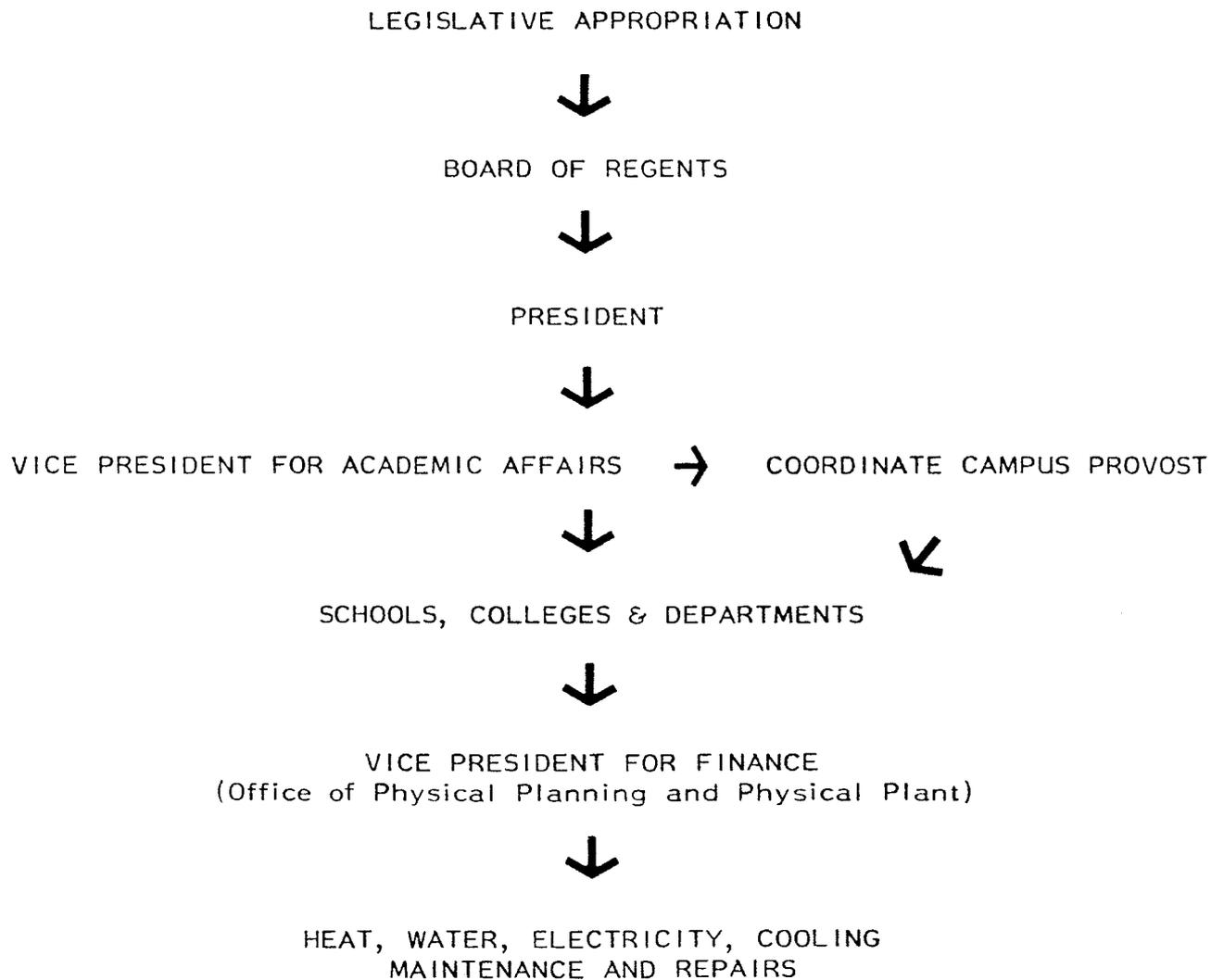


ILLUSTRATION #3

University standards. Departments with space surpluses would not have sufficient funds to maintain and operate excess space and would be forced to either relinquish space or use salary and supply monies to subsidize space costs. Departments lacking space would gain additional funds to either acquire more space or to redirect funds to meet programmatic needs.

1-4. Same as for the Status Quo Approach

5. The Vice President for Academic Affairs allocates the cost of space to the operating budget of the academic unit.

Implementation:

The amount of space required for each department would first be determined by applying University space standards and guidelines. M & O costs would then be calculated and sufficient funds transferred into departmental budgets.

6. Each department would determine the amount of funds it feels appropriate to direct toward space. Subsequently, each department would negotiate with the Office of Physical Planning and Physical Plant, (1) the amount of space to be allocated, (2) its M & O cost, (3) the disposition of any surplus space or additional space requirements and finally (4) a rental agreement.

Advantages:

1. Departments would become more aware of costs associated with physical space and facilities.

2. The reallocation of space would become a more economic rather than political decision.
3. The ability to determine the total cost (including space) of individual University programs would be enhanced.
4. Department heads would have increased flexibility in allocating funds, particularly during a retrenchment period.
5. Central Administration could develop a more accurate base for recovering overhead costs for research funded by outside agencies.

Disadvantages:

1. Implementation of such a program would be a bureaucratic nightmare. Negotiations with over 300 departments would be required on an annual basis.
2. University standards and space models are not sufficiently precise to justify transfer of funds from one department to another. Departments in old, inefficient buildings could be penalized.
3. Additional funds may be required centrally if the space model projects more space than currently exists.
4. Maintenance of space may become uneven. Departments are likely to allocate resources to people rather than upkeep of facilities. This would create future maintenance and repair problems.

THE CENTRAL ADMINISTRATION "BUY BACK" APPROACH

(See Illustration #4)

Concept:

A fund would be established by Central Administration to "purchase" excess space from departments who, in turn, could redirect such monies for its own programs and personnel.

- 1-7. Same as current distribution of funding for maintaining space.

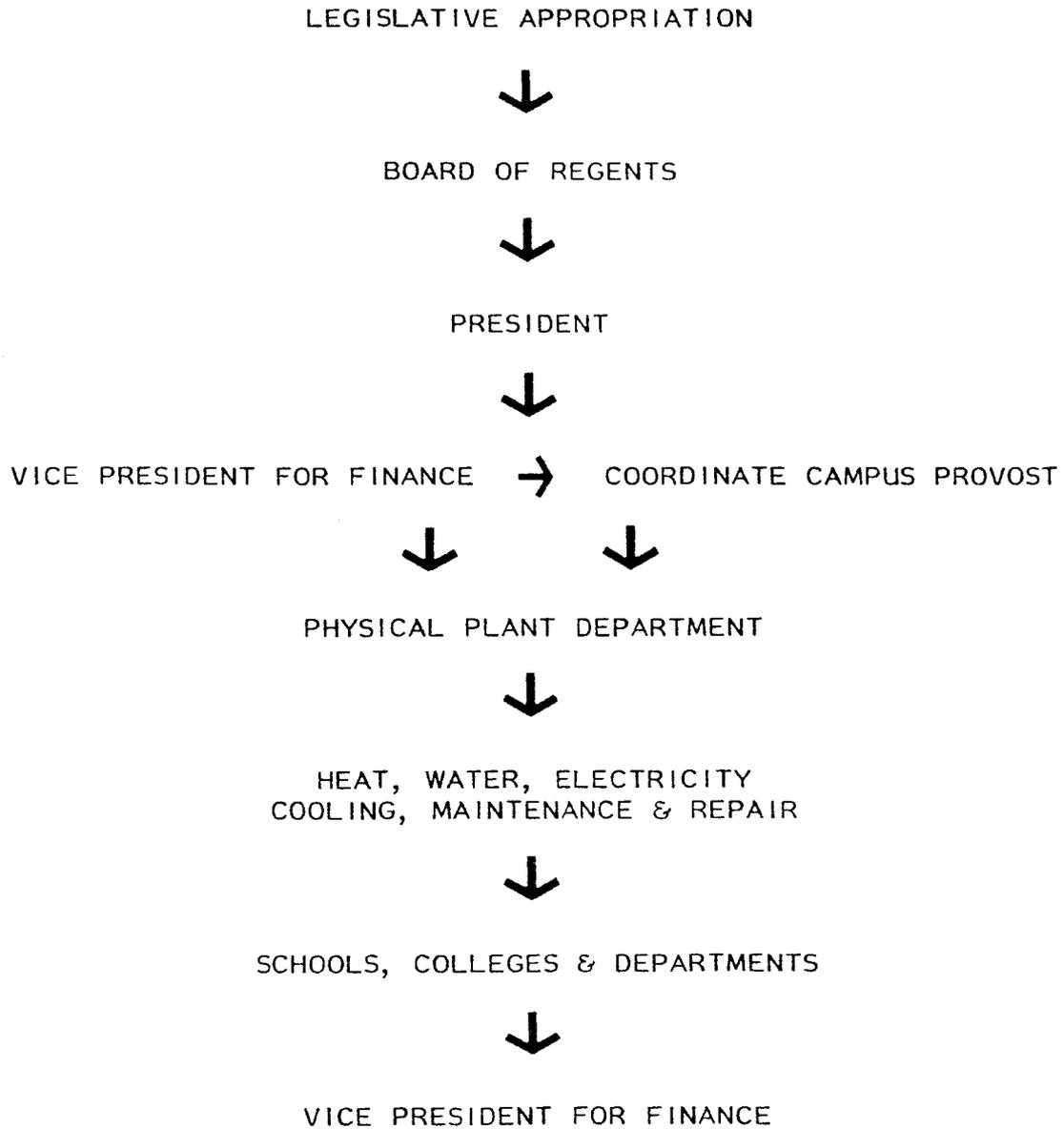
8. Departments would determine the amount of space required for their programs and offer 'excess' space to the Office of the Vice President for Finance (Office of Physical Planning and Physical Plant) for a price determined on the basis of type, location and condition of the space.

Advantages:

1. This option would provide an immediate and easily managed incentive for departments to turn in unused or underutilized space.

2. During periods of retrenchment, departments would have additional flexibility by minimizing reductions in services and staff with space reductions.

CENTRAL ADMINISTRATION 'BUY BACK' APPROACH



Disadvantages;

1. Departments which currently have excess space could relinquish some with no negative impact on programs and also enjoy an economic windfall. Departments which currently are short of space may gain additional facilities but not receive any monetary gain.
2. It can be anticipated that space "purchased" under this plan would be the least desirable of a department's allocation. The reuse of this space for other units or other purposes may prove difficult and costly.
3. The comparative worth of different spaces may be difficult to determine and justify. How much less is the value of an office in the basement of Eddy Hall compared to an office in the Law Center?