Minutes[*]

Senate Committee on Finance and Planning
Tuesday, February 2, 1999
3:15 – 5:00
Dale Shephard Room, Campus Club

Present: Stephen Gudeman (chair), Jean Bauer, Charles Campbell, Catherine French, Cynthia Gillett, Wendell Johnson, Gerald Klement, Eric Kruse, Terrence O'Connor, Jane Phillips, Terry Roe, Charles Speaks, Susan Carlson Weinberg

Regrets: Richard Pfutzenreuter

Absent: Peter Robinson, J. Peter Zetterberg

Guests: Vice President McKinley Boston, Associate Vice President Ron Campbell (Office of Student Development and Athletics)

Others: Several members of the Twin Cities Campus Assembly

[In these minutes: food service and the Aramark contract; capital projects (with a look at the South Mall)]

1. Food Service

Professor Gudeman convened the meeting at 3:15 and welcomed Dr. Boston and Mr. Campbell to discuss the food service provided by Aramark and the contract with Coca-Cola. He distributed copies of a 30+ page document containing email comments that the Committee had received in response to a request for opinions about the food service. He said the Committee was interested in the revenue stream, where the funds were going, and how better food service might be provided.

Dr. Boston thanked the Committee for the opportunity to join it and talk about the Aramark contract. He recalled that the partnership with Aramark had been approved in December, 1997, with the objectives of providing high quality food at affordable prices, to increase student participation in planning, and to provide a financial return to the University. He is still committed to achieving those objectives, he said.

The planning process has continued; they have met with students and faculty and received a lot of feedback. They have learned that food quality and hours of operation are issues; they have been told they want more healthy choices, more variety, and that price is an issue (which was true before the Aramark contract was signed). Surveys and letters have informed his office that all is not satisfactory with the food service. Dr. Boston said he is still optimistic that economies of scale and efficiencies that Aramark can bring to the food service will lead to finding the right price for the right quality. The University is also trying to be sure that Aramark understands these issues.

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The University has retained control over hours and prices, but the communication with Aramark has not been as good as it should be. He and Mr. Campbell are meeting with the president of Aramark, and will convey the concerns he has outlined. They will also provide copies of the comments sent to the Committee, in a meeting the day after this Committee meeting.

Dr. Boston said that there would be a transition period, and that while they had expected better performance, they also knew that there were issues that existed from when the University ran the food service that would not be resolved overnight. Things have not gotten worse--although some would disagree with that view--but there are still problems.

He is committed to making the partnership work, he told the Committee. He was absolutely sure the status quo ante was not the answer; the food service was losing about $1.6 million per year before the Aramark contract was signed, and reserves were nearly depleted. A change had to be made, and outsourcing still appears to have been the best option. The change, however, has been more difficult and stressful than he anticipated.

One Committee member recalled that before the Aramark contract, the food service revenues included soft drinks; those were removed, and then there began to be deficits? Dr. Boston said that was partly right. Mr. Campbell explained that there were problems before the Coke contract was signed in 1996. The Coke contract removed revenues from the food service but provided greater efficiencies to the larger University; the University would have to decide if it wished to put resources into a money-losing food service. They put $3 million into the food service over 3 years, in an attempt to upgrade it, but the deficits continued to increase.

The revenue from the Coke contract is about $900,000 per year. Of that, $480,000 goes to support University initiatives in campus life, community, scholarships, and so on. $240,000 goes to intercollegiate athletics. The rest of the money is used for other purposes, support expenses of machines. Whatever is left over goes to the food service.

The Aramark contract is for 10 years, but there is a provision that if not happy with it, either party can opt out with a year's notice. The effective date was 1/1/98.

One visitor to the meeting inquired how long the transition would last; the perception among many, he said, is that the food service has gotten significantly worse. Dr. Boston said the first six months of the contract saw no change, as Aramark learned about the campus; by summer of 1998, they expected changes, but some things had not happened. The transition, however, has only been about six months.

Asked what leverage the University has with Aramark, Dr. Boston said that they will communicate their serious concerns to the Aramark officers. The University will hold Aramark accountable for certain benchmarks that the University has identified; if there is no improvement, there will have to be an assessment about what to do next. He cautioned again that even before Aramark, the food was not great and food service was "not a smooth-sailing ship." Mr. Campbell added that they are trying to make the contract work. They must convince Aramark to listen to the communities the University serves, but at the same time this is not Aramark versus the University. The objectives of the two organizations is the same. He also pointed out that the history must be overcome, and that that there have been no capital expenditures.

Asked if the food service is now breaking even, rather than losing over $1 million per year, Mr. Campbell said there should be a financial return to the University to use for other objectives. Another Committee member inquired with some frustration why the University is trying to make money from the food service; another added that if the worry is about price and quality, and one goes up while the other goes down, is that because profits are being siphoned off rather than put back in? The food service is defined as an auxiliary service, which means it is to provide funds to the University to support the academic mission. There are commitments to the St. Paul Student Center and Coffman Union.

It was suggested that this is a FUNDAMENTAL service to the University, that “auxiliary” is simply a term, and that the food service should not be viewed that way. Mr. O’Connor affirmed the definition, and said that a financial management group looks at what the objectives of auxiliaries should be. It was also observed that if the food service is now a financial success, when it was not before, one cannot be surprised to see a decline in quality. It was said that with Aramark the University would have better food at the same or lower price; instead, it has worse food at a higher price, and has become a lose-lose situation. (Dr. Boston pointed out that the price for food this year was set before Aramark arrived on campus, but agreed that quality, consistency, and service are legitimate complaints.)

If the food service were not defined as an auxiliary, any subsidies required would have to come from the O&M budget, Dr. Boston pointed out. Mr. O’Connor said that the $400,000 profit it generates is very nominal when considered in the context of the total revenues.

One visitor to the meeting recalled that there had been assurances that the impact on the waste stream would be minimized with the change to Aramark, but what has happened is that there are MANY more disposable products used, and the dumpsters are overflowing. An Environmental Quality Board report to the Governor has called for state agencies to set an example of best practices; the University is not providing a good example to students or others.

Mr. Campbell said that labor shortages are a problem, as is the lack of new equipment. They are looking at recycling programs, and are ready to deal with safety and sanitary conditions. They are trying to meet University policies and procedures, and encouraging Aramark to bring to Minnesota the best practices from other campuses. He said he could not deny that there is a problem. He noted that they had not been told to tell Aramark what to do in this regard.

Another difficulty with Aramark, it was said, is that there is no way to provide feedback to Aramark. When the food service was run by the University, customers and employees could deal with the University. Now, some employees have gone to litigation, and there is no opportunity for providing feedback. Dr. Boston said he had not heard that, and that in the residence halls, there has been communication and regular dialogue with Aramark. Mr. Campbell agreed that there are some labor-management inflexibilities, but they are being worked on.

Relatedly, it was said, there are fewer student employees, because they do not like to work for Aramark, and there is the perception on the other side that students are not good employees. Mr. Campbell agreed that the number of student employees has declined (from about 500 to about 400), but that is because it is difficult to get employees--a problem that is not confined to the University or to Aramark. Employees are being paid above-average wages, which practice must then also be incorporated into the price structure.

One Committee member said it was his impression that food services on peer institution campuses are subsidized, not self-sustaining. If price and quality suffer, and the University still expects to make a profit, one cannot be surprised that there are not enough employees, declining quality, and skimpy choices. This is not what the University wanted, Mr. Campbell responded, and it will not tolerate that situation.

Asked about the number of users, Mr. Campbell said that before the Aramark contract, the University had about 19% of the market, and it hoped to get up to 25%. They are now trying to measure usage; it appears that sales have stayed relatively constant. There has been an increase in catering and the number of residential students served, but the real work will come with winning new customers on the two campuses.

There are serious issues, Dr. Boston concluded. As they explored the possibility of outsourcing, they did a thorough analysis of whether the University could make the food service work internally, and decided it could not. They are not ready to give up on Aramark yet, but they are disappointed in the results thus far. Six months is not a long time for them to acculturate their activities to the campus, and he noted again that there have been no capital improvements to date.

Professor Gudeman thanked Dr. Boston and Mr. Campbell for joining the meeting.

Committee members made a number of observations about the discussion following the departure of Dr. Boston and Mr. Campbell.

-- This is not all Aramark's problem; to go from a deficit to a profit means something had to give.

-- Should the Coke contract have split the revenues from the food service, and then expect the food service to make a profit?

-- Questions about the Coke contract still need to be answered.

-- Dr. Boston and Mr. Campbell should be invited back to the Committee in the spring, after their conversations with Aramark officials have taken place and some effect might be seen.

-- It is not clear where the decision is made to consider the food service an auxiliary; that may be a question that has to be taken up with the President.

2. Paratransit Resolution

Professor Gudeman noted the resolution concerning funding for the paratransit service on the Twin Cities campus. Professor Speaks moved that it be approved; the Committee voted unanimously to do so.

3. Capital Projects

Professor Gudeman next welcomed Interim Vice President Eric Kruse to provide the Committee with an update on capital projects underway or planned. Mr. Kruse distributed handouts and campus maps with information on the many projects in progress or soon to begin.

As of September, 1998, the University had $733 million in capital projects in process, consisting of well over 300 projects. This does not include an additional $23 million for roofs, walls, and windows, another 43 projects. Approximately $200 million has been spent, another $465 million is in the process of being spent, and the total amount of capital projects is increasing continuously. In February the Regents will be asked to approve another $58 million in capital projects, primarily Phase I of the South Mall. In the last fiscal year, the University moved $200 million in projects to completion, which is more than twice as much as it had ever accomplished before.

Mr. Kruse then reviewed some of the various projects on the map. He also explained in greater depth the South Mall project, including renovation of Coffman Union, construction of new parking spaces (about 2000), construction of new dorms, and the possibility that Washington Avenue will be lowered and the mall will run from Coffman to Northrop without a street interruption and with a transportation hub underneath it. He also mentioned that there could be, at some point, underground connections between the north and south ends of the mall, although that is a future phase of the project for which there is no funding at present.

A number of points were made in the ensuing discussion.

-- There is support for each department that must move during construction. This support is not provided to fee-receiving organizations.

-- The impact of semesters and the construction projects on the availability of classrooms has not been worked out. Any problems with classrooms will have no effect on the construction schedule.

-- Haecker Hall on the St. Paul campus is a tremendous example of what can be done with older buildings.

-- The controversy with the women's soccer field has become one about where to relocate the recreation fields.

-- For all these projects, 55% of the money comes from state funds, 25% from University debt, 9% from departments, and the remainder from gifts and a variety of other sources. There is a legislative rider concerning completion of 4 of the projects (Molecular and Cellular Biology, Architecture, Ford Hall, and Murphy Hall); if not done by 6/30/02, the University must pay additional debt service on them to the state. The projects are at present on time. In general, for all of these, the projects are on time and within budget; some may be completed 4-6 months early. How is this accomplished? By setting stringent standards, establishing expectations, and not letting the design or construction folks tell the University what it should want.

-- The repairs to roofs, walls, and windows may not stay on schedule because the University is having difficulty finding enough contractors to do the work.

-- The south mall in total is a $200-250 million investment, a development project, that is primarily student-centered. It has been broken into three phases in order to find ways to finance it. One of biggest challenges will be to waterproof the underground buildings.

-- Coffman Union will receive a $45 million remodeling, depending on whether or not there is fee support needed. One Committee member argued that in comparison with student unions at other major universities, Coffman ranks as one of the worst, and it is not clear how it can be made to work in the current structure. There is no adequate place for commuting students, either. The union is dead on nights and weekends, and how that can be changed with the current structure is not at all clear. To say that the plans are following student wishes is not a good answer, because most students only know Coffman, not how other unions work--their vision is limited, and perhaps should be taken on a trip to other campuses in the Big Ten.

One Committee member inquired why this generation of students should possibly pay for all costs (one financing option available) when future students will enjoy the benefits. One reason is that students are very solvent, and can get a good rate; another is that past generations of students have paid for improvements being used now, so current students can do the same.

-- Accessibility and cost are issues for students; parking proposals are not seen as supportive for students.

-- These projects are not expected to be part of any capital campaign.

-- The University has about $60-80 million per year in depreciation costs, but does not have that much money to spend, so must choose carefully what it will do.

Professor Gudeman thanked Mr. Kruse for his presentation, and adjourned the meeting at 5:00.

-- Gary Engstrand

University of Minnesota