

Minutes*

Senate Committee on Finance and Planning
Tuesday, February 17, 2004
3:00 - 4:15
238A Morrill Hall

- Present: Charles Campbell (chair), David Chapman, Thomas Klein, Joseph Konstan, Yi Li, Cleon Melsa, Kathleen O'Brien, Charles Speaks, Alfred Sullivan, Kate VandenBosch, Susan Van Voorhis, Warren Warwick, Susan Carlson Weinberg
- Absent: Calvin Alexander, Brittany McCarthy Barnes, Stanley Bonnema, Daniel Feeney, Steve Fitzgerald, Michael Korth, Timothy Nantell, Richard Pfutzenreuter, Terry Roe, Rose Samuel, Thomas Stinson, Michael Volna
- Guests: Associate Vice President Michael Perkins (Capital Planning and Project Management); Associate Vice President Laurie Scheich (University Services), Bob Baker (Director of Parking and Transportation Services)
- Other: Michael Berthelson (University Services)

[In these minutes: (1) Capital Planning and Project Management workplan; (2) Parking and Transportation Services]

1. Capital Planning and Project Management Workplan

Professor Campbell convened the meeting at 3:05 and welcomed Associate Vice President Perkins.

Vice President O'Brien began the discussion. She related that the challenge given to her as Vice President for University Services by President Bruininks included restoring confidence in design and construction services at the University. One of the steps she took in that direction was to elevate the leadership of the capital planning and project management activities in order to increase confidence in the unit.

Associate Vice President Perkins distributed copies of a set of slides he used with the Board of Regents to explain the work plan for Capital Planning and Project Management (CPPM) 2003-07. He reviewed the purpose of current activities and its vision (restoration of credibility and trust with the internal customers, the Regents, the administration, the vendor community and the state, the latter of which includes the legislature, the taxpayers, and the students of the University). The restoration of confidence and trust is the overriding element of what he is doing, Mr. Perkins said, at the direction of the President and Vice President O'Brien. The mission of CPPM is to plan and define, design and specify, and construct the University's physical environment. He described the performance measures and provided information on capital spending 1999-2003. From July 1999 to June 2003, there were 734 projects with a total cost of \$1.36 billion; 15% of the projects accounted for 91% of the costs.

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Mr. Perkins reviewed the percentage of projects with budget amendments, the percentage over original budget, and the percentage that took longer than the schedule called for. There was a difference on all three measures between the "design-bid-build" process and the "design-build" process, with the latter showing lower percentages on all three measures. The majority of projects in both delivery methods, however, had budget amendments and were over-budget. In terms of schedule, 28% of the design-build projects were late, compared to 68% with design-bid-build. The changes accounted for 1/3 of the total \$1.36 billion cost of projects; Mr. Perkins provided a table with all of the reasons that changes were made and explained what causes them.

Mr. Perkins also outlined the areas for improvement and described the steps that he has taken thus far, including identification of priorities and the timing for implementing the changes.

Professor Konstan inquired about the distribution of changes in projects; Mr. Perkins said there is a larger dollar volume in the larger projects. He said that part of the problem is that he could not tell what the "other" causes for changes were, in response to a query from Professor Konstan. How many of the budget overruns are caused by trying to fix problems and how many because of changes, Professor Konstan asked? Probably more of the latter, Mr. Perkins replied; they need to define changes better. He said that they need to focus on process improvements as well as leadership and resources. Part of the process is knowing what the project is. Vice President O'Brien agreed, saying that the best cost-control is knowing what the building is before it is built. CPPM cannot do that alone, she said; it must be partners with units to set program objectives and adopt a budget--and stick to it.

Mr. Klein inquired if there are benchmarks from industry that can be used. Mr. Perkins said they can be obtained. At first they are measuring their performance against themselves to see if they are improving, and then they will look at benchmarks for peer institutions; ultimately they will also look at private sector standards. They are participating in a project database that has been compiled at Stanford that will be very helpful.

Are there efficiencies that could be achieved if the University were not a public institution, Professor Konstan asked? Will there be a point, once a useful database has been established, when he can estimate the added costs of capital projects due to constraints from the state? Some public institutions are being "freed" from the state; the University needs to be able to compare the amounts of money it receives from the state to the efficiencies, if they exist, because of state funding. Mr. Perkins said it will be necessary to identify what costs are caused by the state and what costs the University itself causes. The process of funding projects is very difficult; it takes more than a year to develop a project; by the end of the legislative process and action by the State Designer Selection Board, it can be 14-16 months. If there is any inflation in construction costs, that can add 5% to the cost that must then be cut out of the project. That is the University's biggest difficulty, but it probably won't change. So they will look at the University's processes to see what can be saved and put into the buildings.

Professor Konstan asked if there are metrics from other universities or other public institutions that could be used to tell how well the University is doing with respect to "on time" or "on budget." Does he have any sense how the University is doing compared to similar institutions? Was the situation as grim as he made it sound the last time he met with the Committee? And where will the University be in comparison with other institutions if it makes the changes that Mr. Perkins proposes? Mr. Perkins said he did not mean to sound grim; the University completed a lot of projects in the last five years, and has great buildings as a result, but it was not easy. If the processes can be sharpened up, the University can improve what it does. They will find benchmarks, but first want to measure against what the University itself has done in the past.

Professor Warwick commented that the stadium "could be a mountain ahead of us." Are they planning for that? Vice President O'Brien responded that they are; she is part of the project team and they have a subcommittee looking at the issues Mr. Perkins has referred to in this meeting. With a project of that size, the administration has created a separate team so that day-to-day processes at the University are not affected by the stadium.

If he can realize the goals he set forth, can he attach a dollar figure to the savings, Professor Speaks asked? Mr. Perkins said he could not. With the tight economy and smaller construction budgets, there will be far fewer dollars in construction. If they do more projects on time and in budget, Vice President O'Brien added, that will mean there is more money to do projects in a timely fashion. With an aged infrastructure, the sooner the University addresses a problem the lower the cost. Professor Speaks said it was not important to know the savings now, but with the database he expects to have by 2007, will he be able to identify savings at that point? Mr. Perkins said he would be able to get close, although not achieve absolute accuracy. Getting the starting statistics will be a challenge because they do not have totally accurate records given the University's financial system. Part of the original data set will have to be estimates. They need better numbers and are creating systems so they have a reliable database.

There are always funding surprises, Mr. Klein observed; have they talked about reserves to allow for them? Mr. Perkins said that Vice Presidents O'Brien and Pfitzenreuter are setting aside reserves for settlements against the University, and there could be settlements that bring money to the University as well.

Ms. VanVoorhis asked why the goal of 90% on time and on budget was not higher. If they are building a building, with faculty coming in, classes scheduled, and so on, they have to identify temporary solutions that cost departments money if the building is not completed. Mr. Perkins agreed that he would like to see 100%, but they have a difficult system in place and he does not want to over-commit now. There are a number variables in play that he may not yet recognize; the goal, however, is to reach 100%. And some of the projects that fall in the 10% that do not achieve the goal will be small. Vice President O'Brien concurred, saying that timing and budget will not be as critical in some projects as it might be in others.

Professor Campbell thanked Mr. Perkins for joining the meeting.

2. Parking and Transportation Services

Professor Campbell welcomed Associate Vice President Scheich and Mr. Baker, Director of Parking and Transportation Services. He recalled that the Committee was disappointed last year that it was not involved early enough in discussions to have an impact; while units have not yet received budget directions, the Committee will receive a report today on the budget outlook for Parking and Transportation and provide a response.

Mr. Baker distributed a one-page handout with four sections: the financial experience 2003-04, capital projects for this year and the next two, the financial objectives for 2004-05, and budget options. He reviewed each of them.

In general, the situation this year is positive: they implemented cuts and revenue enhancements, including a 10% reduction in full-time staff; they are projecting a slightly better "bottom line" than budgeted (event income was up, payroll costs were down because of the strike, and other factors); they will add \$2.5 million to the existing \$2 million in reserves to fund depreciation; parking spaces are

generally available except in a few select locations; and U-Pass/Metropass sales continue to increase. The number of transit riders has doubled since 2000.

They have slowed down the growth of capital projects because demand is down and transit is up, Mr. Baker said. They are now focusing on maintaining good stewardship of existing facilities; they want to maintain safe facilities that they hope will exceed the period of investment that is expected.

Their financial objectives for the next year include continuing to encourage transit use, although the U-Pass grant expires, the contract for service with Metro Transit expires, the U-Pass fee has not increased in four years, the student transportation fee has not increased in two years, and they expect a modest increase in the pass costs and the student transportation fee. They expect to continue to fund depreciation and the capital plan, a modest inflation in parking and transit operating costs, and a slight increase in parking rates to fund increased costs (e.g., the 2.5% salary increases, fringe benefit costs, utility and snow removal costs). The cost of the passes has to go up because they need to replace the expired grant dollars; transit remains a very good deal. The student transportation fee, Mr. Baker explained, is used to help underwrite the U-Pass program and the intercampus bus service (which handles about 20,000 people per day, the same number that is expected for the new light-rail service between downtown and the Mall of America).

The budget options include revenue enhancements (adjusting pass fees, student fee, and parking rates) and program/expense reductions (eliminate free night/weekend parking, eliminate free event parking for contract customers, eliminate the St. Paul circulator bus route, eliminate late-night (10 p.m. to 12 a.m.) and weekend intercampus bus service, and eliminate the Washington Avenue circulator route). The students appear to understand the need for the increase in the cost of the passes; they would rather pay more than lose the program. There are only three free night/weekend parking locations now; contract parking does not typically cover events in the real world, the St. Paul campus circulator has the smallest number of riders; while eliminating the late-night service runs contrary to what MSA is trying to accomplish, those routes have a low ridership; and the transit manager is an advocate of transit, biking, and WALKING, so they might consider eliminating the Washington Avenue circulator in favor of letting people walk across the bridge.

Are there any reference numbers in terms of overhead costs, such as overhead expense per parking space or administrative expenses as a percentage of parking revenue that might indicate where Parking Services believes they can achieve additional efficiencies, Mr. Klein asked? They do a lot of internal benchmarking, Mr. Baker replied, but there are so many variables involved that comparing data with other organizations is not useful (do they pay their own enforcement costs--and keep the revenues? are they in a northern, snow, climate? what are their labor costs? are they near a metropolitan area?). They try to do comparisons but they are tough, he said. Based on day-to-day interactions, he said they are "thin" on administrative costs. The stress level for his staff has increased; they have invested a lot in technology so they can reduce staff.

What is the range of a slight increase in parking rates, Ms. Weinberg asked? And how successful is the reserved contract parking program? Any proposed increase in rates would probably be less than 2%, or less than \$2 per month, Mr. Baker said. There are 373 reserved contract parking spots (they had agreed with the President to limit the number to 500) and will survey their customers about the program to determine whether to recommend to Vice President O'Brien that the program be continued.

In terms of the cost of U-Pass, Mr. Baker said he would not suggest raising the cost more than about \$5 per term. If they make it too high, ridership will decrease and they will be back where they were

3-4 years ago, with students in cars waiting in line for parking spots (which does not happen now). In terms of the size of the East River Road ramp, Mr. Baker agreed that it is larger than what might now be required, but they had spoken with the Academic Health Center and tried to get it the right size at the beginning because with a building on top of it they would not be able to change the size later.

Ms. Li said that the reductions in service (night/weekends and intercampus bus service on weekends) were important for students; the weekend service is the only option that some students have. Vice President O'Brien said these are only options and that they will reflect on them.

Mr. Klein relayed a question from Professor Konstan, who had had to leave the meeting: How do the University rates compare with the rates in the ramp on Seven Corners on the West Bank? Minneapolis conducts an annual parking rate survey for the central business district and surrounding areas, Mr. Baker said. They review the findings and compare them to University rates in different kinds of facilities. The University's rates are significantly below the city averages.

Given the time, Professor Campbell suggested the Committee return to this subject at the next meeting to think about what recommendations it might wish to make; he thanked Mr. Baker and Associate Vice President Scheich for joining the meeting. He adjourned the meeting at 4:40.

-- Gary Engstrand

University of Minnesota