Minutes*

Senate Committee on Finance and Planning
Tuesday, October 7, 2003
2:30 - 4:15
238A Morrill Hall

Present: Charles Campbell (chair), Calvin Alexander, Brittny McCarthy Barnes, Stanley Bonnema, David Brown, Daniel Feeney, Thomas Klein, Joseph Konstan, Yi Li, Kathleen O'Brien, Richard Pfutzenreuter, Terry Roe, Rose Samuel, Charles Speaks, Alfred Sullivan, Susan Van Voorhis, Warren Warwick, Susan Carlson Weinberg

Absent: David Chapman, Michael Frankosky, Michael Korth, Timothy Nantell, Thomas Stinson, Michael Volna

Guests: Associate Vice President Michael Perkins (Capital Planning and Project Management)

[In these minutes: (1) capital planning and project management; (2) the six-year capital plan; (3) service and productivity initiative]

1. Capital Planning and Project Management

Professor Campbell convened the meeting at 2:30 and welcomed Vice President O'Brien and Associate Vice President Perkins to discuss capital planning and project management.

Vice President O'Brien began by introducing Associate Vice President Perkins, recently hired by the University, and reviewed his background and role and responsibilities in University Services. Mr. Perkins brings experience in capital planning and projects at American Express, Medtronic, and Hennepin County--all large, complex organizations. She distributed copies of the University Services organizational chart, identified Mr. Perkins's place on it, and noted that it looked quite different from a year ago. She emphasized, however, that there were no new FTEs; University Services has eliminated about 150 positions in the last round of budget cuts, she assured the Committee.

Until last year, Capital Planning and Project Management (CPPM) was a division of Facilities Management. When she reorganized University Services last year, Vice President O'Brien related, she pulled CPPM out of Facilities Management in order that it could focus more effectively on capital project planning and development. She envisions bringing Space Management into CPPM as well; it is at present distributed throughout the organization. Now, however, the focus is on improving the ability of the University to manage and deliver construction projects.

Her objectives, in reorganizing University Services, were to control costs, to build healthy business partnerships, to install leaders with the knowledge and experience to get the job done well, and "to continuously improve what we do." It is a tall order and the University is fortunate to have recruited Mr. Perkins to help, Ms. O'Brien concluded.

Mr. Perkins said it was a pleasure to be at the University, the school where he obtained his degree and where he participated on the swimming team. He said he hoped to be able to speak with this Committee many times in both the short and the longer term.

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Over the next two months he intends to develop a work plan for the next three years, including the issues to be tackled, the goals, and how to reach best practices. There will be changes; CPPM exists in a complex environment with complex facilities. There will be a need to assemble several work teams to implement the envisioned change and achieve CPPM goals.

In order to provide some context, Mr. Perkins distributed a handout with brief statistical summaries. For the period 1997-2003:

Projects closed	3,504
Project value	$815 million
Value range	$75 - $71.5 million
Large projects	108 (over $1 million)
Small projects	3,396 (under $1 million)

For fiscal year 2003, there were 406 projects closed, at a value of $279 million. There were 29 large projects (> $1 million) and 377 small ones (< $1 million).

The projects for fiscal year 2004 show somewhat smaller numbers: 58 projects, with a value of $101 million, of which 16 will be over $1 million and 42 less. The smaller numbers reflect the times and the fact that the University is coming off one of the largest capital project phases of any university anywhere.

What defines a project close, Professor Speaks asked? The financial and accounting system is closed, the bills are paid, and no one can attach the project. Not closing project accounts has been a problem at the University, Mr. Perkins said, and he will try to change that. It will be a task to revamp the accounting system and give clients a complete financial account each month of what has been done with the money. But it is absolutely required, he said. He added that he was pleased that the trend line in capital projects was down or the problems would be overwhelming.

Is there a list of projects currently open, Professor Alexander asked? There is, Mr. Perkins said, but it is difficult to assemble because it comes from different databases, which is also a problem.

Mr. Perkins summarized the 2004 capital request in the same way he presented previous years' information: There are 130 projects valued at $188.7 million, of which 117 are traditional HEAPR (Higher Education Asset Preservation and Replacement, projects on which the University does not pay one-third of the debt service), 8 are HEAPR projects that include building renewal, and 5 new construction projects.

He gave to the Board of Regents a report on projects for the last quarter of fiscal year 2003 (i.e., April to June, 2003), Mr. Perkins told the Committee, and is trying to improve the reporting system. He would like to give Vice President O'Brien and the Board regular reports on all the projects that are open, that are old, and that are over or under budget.

Will the tracking of projects include content issues with contractors, such as specs not filled, Professor Brown asked, and will projects not be closed until they are resolved? Mr. Perkins said that projects will be kept open when construction has failed in some way (whether it was the contractor's fault or not) so the University will have a record in case litigation becomes necessary.

What is the minimum size of a project that it is worth having go through the CPPM process, Professor Konstan asked? Not $75; that is petty cash. Is $15,000 efficient? (No, said Mr. Perkins.) Can the process be split so that some projects go into a "lightweight" process? (Yes, said Mr. Perkins.) Mr. Perkins said his preliminary thoughts, which will not pre-empt the process of considering the issue, are that he wants to involve everyone so there is buy-in and so they put their equity in the CPPM process. From the outside the University is viewed with suspicion because it is a different environment; there are differences but also similarities. He would like to lay out the process and get support for it. The CPPM group was taken out of Facilities Management and will now be run as a facilities development organization rather than as a facilities management organization.

How does his office relate to the finance office, Professor Roe asked? University Services has about 2500 employees, Vice President O'Brien said, and about a $290 million budget. Before this year, each unit had its own finance staff and her office did not. She created a finance office that reports to her and that is responsible for financial strategy and budget throughout University Services. The office was established through reallocation, she pointed out.

About two-thirds of the problems are problems contractors have with the University and about one-third are problems the University has with contractors, Professor Alexander said. Has there been any progress in looking at patterns of what went wrong or right so they can be prevented? Not up to now, Mr. Perkins replied. He is trying to diagnose problems and collect documentation. He will bring a plan to benchmark and measure the University's performance as well as that of contractors, through a project, and evaluate performance at the end. They will keep report cards, both on the University and key vendors, that they can use in a low-bid environment.

Mr. Perkins turned next to another set of slides and reviewed his vision for CPPM, which includes re-establishing its credibility in the eyes of the customers (i.e., those at the University who use its services), the administration, the Regents, the public, and the vendor community. He said he would like to keep the process as simple as possible, such as when to do revisions, guidelines, and so on, but retain enough to do the job. He has found that so many people are involved and there is so much process that it is easy to disappear and for no one to take responsibility. The process must focus on those who manage projects. CPPM has had a variable record on projects; he would like to turn that around. He said he wanted CPPM to be the vendor of choice for units. He said they must have good relations with vendors because they rely on the vendors to get the job done.

Mr. Perkins reviewed briefly what must be done to improve CPPM. The elements of improvement include ensuring they have the right organizational structure (which they largely have), they have the right leadership within the structure (some changes need to be made, slowly and over time, because they affect a lot of people), resources need adjustment (the quantity is adequate but the quality needs adjustment), the business processes need improvement (the University has done a good job in putting a lot of real estate in place over the last five years, but it could have been done better, and they need to improve the elegance of the delivery process, including its simplification). All of this will "be like changing the tires and tuning up a car without interrupting the trip."

At present CPPM is spending little time on future planning; Mr. Perkins said he wants to change that. They are making progress and he feels good about a lot of what is happening. They have not changed a lot of processes or people but they are changing attitudes and making people responsible and accountable.

They are also building a three-year work plan in consultation with customers, the administration, the staff, vendors, experts, other universities, and others. The work plan will emulate that of Stanford University, which Mr. Perkins explained briefly to the Committee. One of the final products will be a one-page project delivery process that follows what has been developed at Stanford. They did excellent work and spent years on the process, he said, and they propose to use it here with University elements incorporated as needed.

Mr. Perkins then described how they will measure the success of their efforts. They will:

- Meet or exceed expected scope commitments
- Meet or improve upon budget
- Meet or improve upon schedule
- Exceed University quality expectations (in the past, the University has looked at projects a year after they were occupied to assess how much additional work was needed in order to get the project to where everyone expected it to be to meet all scope requirements)
- Give customers a process they understand and are satisfied with
- Close projects on a timely basis without claims or lawsuits.

He will provide more information in the future on the planning process, Mr. Perkins said. Much of the work now being done in CPPM is from past projects so they are not out of the woods yet.

Professor Konstan commented that a one-year look-back is not sufficient to ascertain quality; problems with quality can sometimes be discovered three or more years later. He suggested an additional 5-year look-back.

Professor Konstan also posed a question: Where in the process do University academic priorities come in? Everyone can agree with what Mr. Perkins has suggested, but the processes seem to have little to do with a university. Vice President O'Brien said that there is an academic planning and decision-making process that comes to them; her job is to execute those plans, not make decisions about them. Even in the execution, however, there is a need to be in alignment with the needs of academic programs, she agreed. They exist to fulfill the needs and aspirations of the academic enterprise.

That should be visible in the process, Professor Konstan responded. As a "trivial" example, he pointed out that all construction at Harvard is invisible during commencement and reunions. There is a central decision there to create an atmosphere that meets a higher university goal, even if that adds to the expense or delay in project execution. At Minnesota, he said that in the past he has taught in buildings where construction was taking place; there had been no attempt to reconcile teaching and remodeling. This hasn't been the case recently, but he doesn't know if that is a process improvement, or just luck.

Vice President O'Brien said she hoped to return to the Committee later when the CPPM work plan was developed.

Professor Campbell thanked Mr. Perkins and Vice President O'Brien for their presentation.

2. The Six-Year Capital Plan

Professor Campbell turned next to Associate Vice President Pfutzenreuter to review the six-year capital plan.

The capital plan is consistent with the 2004 capital request, Mr. Pfutzenreuter said; it aims to take care of what the University has, but there is some new construction in the 2006 request. The six-year plan consists of two parts: the Capital Improvement BUDGET for 2003-04 and the Capital Improvement PLAN for 2004-05 to 2008-09. In the case of items on the former, they have gone through the process of predesign, raised the money, and will be completed. The PLAN includes the next five years of projects, and is comprised of the 2004 capital request, the 2006 and 2008 capital requests, and University-funded projects 2004-09.

Mr. Pfutzenreuter described how a project goes from "concept through occupancy." Potential projects, proposed by chancellors, vice presidents, deans, departments, faculty, and business units, are on a list that is over $2 billion; there is no shortage of ideas for new facilities. Academic and finance staff review and analyze the proposals and make recommendations to the President and the Executive Vice President and Provost based on academic priorities, facility conditions, legal issues, logistics, and so on. (With respect to logistics, for example, renovating Pillsbury Hall for English waits on a new facility for Geology. In many cases, a lot of dominoes have to fall because the University does not have much swing space.) The President ultimately makes the decision on priorities; he is influence by what the Board of Regents tells him, by the compact process, by the strategic directions of units, and so on. Kolthoff Hall, for example, was on a longer list, but the condition of the building made it apparent that it had to have major renovation soon.

Once an item has gone through the analysis and review and is approved by the President and recommended to (and approved by) the Board of Regents, it is moved on to the six-year capital plan. The unit is then allowed to do a predesign; the predesign must be completed before fund-raising can begin and the item becomes part of a capital request. The University gets in trouble when units start fund-raising before the cost of a project is known, where it will be located is not identified, and whether it is a University priority has not been determined. Once a project has gone through predesign and funds have been raised, it becomes part of the capital budget.

The all-funds Capital Improvement Plan (2004-09) totals approximately $735 million, 86% of which consists of state-requested funds ($637 million). About $98 million will come from the University, mostly through fund-raising. Of those non-state capital plans, $69 million will come from fund-raising and the rest from general obligation debt, auxiliary debt, and short-term bridge financing. Of the $637 in requests to the state, $507 will come from the state, and the remainder from University debt, fund-raising, bridge financing, and a small portion from public-private partnerships. The latter elements (beyond the $507 million from the state) make up the University's obligation to pay for one-third of the cost of state capital projects.

The average capital request to the state (2004, 06, 08) is $169.3 million; the average University obligation for those three years is $43.1 million. The University's portion is not one-third because any HEAPR funding does not carry the requirement of a one-third contribution from the University.

The intent of the Six-Year Capital Plan is to improve what the University has; 73% of the funds are for renovation and renewal and only 27% for new construction. Mr. Pfutzenreuter identified some of the items in the six-year plan and how they would meet goals that the President will set out for the Regents.

Finally, Mr. Pfutzenreuter explained a graph showing when the University's debt obligation (current and expected) would decline to the point it would not exist (about 2035). Professor Konstan said the graph was wishful thinking and unrealistic, because new debt would certainly be added, even though the graph shows none after 2008. Mr. Pfutzenreuter agreed that there would be more debt and the line will never go down as it does on the graph. But one should start to ask questions if the line begins to go up. It was suggested that in order to avoid a reaction that the graph is foolish, it should be marked to indicate that the slope of the line after a certain point will depend on decisions made in the future.

The question is where is the steady state, Professor Roe said. Mr. Pfutzenreuter said he is providing that information in an asset management report to the Board of Regents. The report shows the University has more debt capacity that would not endanger its ratings, but his policy is not to drive the debt amounts up and instead to hold it steady. Whether or not that will happen depends on two big projects: the stadium and clinics.

Mr. Klein said he would like to see a chart to be sure that the line is not going up, which would preclude future flexibility. As well as information about what in recent decades led the line to go up, Professor Alexander added. In 1995-96 the University had about $300 million in debt, Mr. Pfutzenreuter said; what drove it up to the current level (over $700 million) was the massive capital building effort under President Yudof. About one-half of the principal was paid by auxiliary units, about one-half by central allocation.

Professor Brown said he would also like to see information about building operating costs, historically and what is projected for the future, perhaps broken down by classification (e.g., auxiliary, indirect costs, etc.).

Professor Brown also inquired if the requirement of the one-third debt service was the same for educational and research space (it is). Since the University goes to the legislature to fund the costs of education, the University should take the position that the one-third requirement for classrooms--part of the educational mission--is wrong. The decision about the one-third, Mr. Pfutzenreuter responded, was based on the need for money rather than a policy decision. The legislature should reconsider it, Professor Brown asserted; if a facility is built only for educational purposes, the legislature should pay for it.

Mr. Pfutzenreuter said he would return to the Committee later with the annual debt management report. Professor Campbell thanked him for his report.

3. Service and Productivity Initiative

Professor Campbell next welcomed Vice Presidents Carol Carrier and Charles Muscoplat to the meeting to discuss the President's Service and Productivity Initiative. Committee members were provided copies of the presentation made to the Board of Regents last March, which Dr. Muscoplat said remained timely for the Committee.

Vice President Carrier began by noting that she and Vice President Muscoplat were asked to lead the effort, launched by the President last fall, but many people have been involved. It is an effort by faculty, staff, and students to recommit the University to the highest levels of service and productivity and to achieve at least $5 million in revenue increases and cost reductions.

Vice President Muscoplat said the initiative is aimed at trying to improve service and do things in a more cost-effective way. They are looking at changing business practices to be more efficient--for example, how can the University do email so it better serves students? Service and productivity is related to return on investment; some initiatives will need a start-up investment but will have a positive return. Whatever is done must be rational and generate a return for the institution. Certain things a university must have--for instance, it cannot compete without a first-class email system and the hospital needs the best MRI equipment.

The factors driving the initiative are these: declining levels of state support for higher education, increasing tuition rates and student expectations, greater calls for accountability, increasing competition for top students, faculty, and staff, and continued momentum of the University's cost-containment efforts. With respect to accountability, Dr. Muscoplat said, there appears to be an inverse correlation between the amount of money states provide to higher education and state demands for accountability.

Dr. Muscoplat noted a graph with data on tuition revenues as a percentage of expenditures for instruction at the University. The percentage has risen (quite steadily) from slightly over 30% in 1982 to about 65% in 2003. Instructional costs do not cover things that do not have an instructional component, such as the Minnesota Extension Service, he observed; the state is in essence telling the University that its most reliable source of increased income is tuition.

The goals of the initiative, Dr. Carrier explained, are four-fold and they need deliverables. One, improve service and service culture for students, faculty, and staff. Two, identify and implement ways to generate revenue and contain/reduce costs. Three, leverage enterprise technology systems to enhance service and reduce costs (e.g., paperless student financial aid system). Four, provide for the regular assessment of service-and-support units across the University. Four groups studied the four areas intensively and there are many proposal coming from their work; there are hopeful signs, she said, both for the long-term and the short-term. (The four groups and chairs were: service, Wayne Sigler and Tim Delmont; financial modeling, Charles Muscoplat; bolstering the internal economy, Sandra Gardebring and Mary Nichols; assessment of service and support units, Kathleen O'Brien and Tom Clayton.)

Vice President Muscoplat described some of the efforts underway, such as web-based service enhancements. Ms. Samuels expressed a concern about non-traditional students; many are not computer-proficient and may not be able to check email. Is the goal to bring them on board and help them be technologically proficient? Dr. Carrier said they have interviewed a lot of students; many use technology but want help from people, so they are working with staff on dealing with "customers." Ms. VanVoorhis said that since much is done on the web, staff can spend more time with students who come into offices. Professor Alexander commented that often the University uses a one-size-fits-all approach when students come with a variety of talents.

Where are there true savings and where is the workload just being redistributed, Professor Konstan asked? Some of these efforts will result in true savings but others will just move the work elsewhere. E-tickets are savings. But the administration has a history of pushing tasks down to departments. It is easy to find things to push on departments; it is more difficult to identify things that can be pushed onto students. That is an excellent question, Dr. Muscoplat said; someone must analyze what happens to the cost. Is it being shifted with unintended consequences?

The challenges to the effort include the need (perhaps) to change the existing University culture, policy barriers and implications, budget constraints, the capacity of existing staff levels to drive these efforts, and collaboration and cooperation between support and service units. They have discovered a wealth of talent at the University during this process, however, and did not need to use consultants. They are proposing an internal team of outstanding individuals to rank proposals/process ideas (that will save thousands of dollars) that are big and small, fast and longer-term, expensive and cheap.

Where do savings reside, Dr. Muscoplat asked? They could be at the department level, in the college, or in central administration. There could be a formula devised to share the savings. And to provide great service, Dr. Carrier said, staff have to be prepared to give it and units have to understand their role. They have looked at the training of staff; the quality of people is tremendous. There are also a range of ideas to bolster the University's internal economy (e.g., making it easier to have meetings at a University facility without having to call 20 places to get things arranged).

Professor Konstan made several points. There must be policies that deal with conflicting incentives. There is the central-versus-autonomy issue: it is easier to get a person in the department to waive an email disk quota, and units will not want to see those decisions centrally-imposed. If this is to succeed in the long term, there needs to be a mechanism to redistribute the money (if a meeting on campus costs 20% more than off campus, but campus units receive enough money as a result to make it worthwhile to the University as a whole, then the unit holding the meeting should receive money back so the price is the same). It would be wonderful to have a huge initiative to make small things cheap and easy (e.g., so one does not have to have approval for a $5 expenditure). There should be a rule that when the price of the paperwork is ten times the cost of the transaction, the paperwork is optional. It is important to identify bottlenecks (e.g., read files in parallel so that graduate admissions can be completed quickly enough to be competitive). Dr. Muscoplat agreed. But when one gets into discussions, people do not want to change their email. The University will not tell someone they cannot buy an Apple or a PC. But the University needs to save money somewhere, and all must make incremental choices.

Dr. Carrier said they learned one primary lesson: When one can make a change without harm, one learns there are a lot of definitions of "harm."

Professor Campbell thanked Drs. Carrier and Muscoplat for joining the Committee and adjourned the meeting at 4:35.

-- Gary Engstrand

University of Minnesota