Minutes[*]

Senate Committee on Finance and Planning
Tuesday, May 10, 2005
2:30 – 4:15
238A Morrill Hall

Present: Charles Campbell (chair), Rose Blixt, Arthur Erdman, Daniel Feeney, Lincoln Kallsen, Michael Korth, Ian McMillan, Kathleen O'Brien, Charles Speaks, Alfred Sullivan, Kate VandenBosch, Susan Van Voorhis, Warren Warwick

Absent: Calvin Alexander, Kendal Beer, David Chapman, Steve Fitzgerald, Thomas Klein, Joseph Konstan, Richard Pfutzenreuter, Terry Roe, Thomas Stinson, Michael Volna

Guests: Assistant Vice President Michael Berthelsen, Associate Vice President Stephen Spehn; Scott Martens, Director of the Office of Service and Continuous Improvement, Meredith Fox, OSCI

[In these minutes: (1) fuel choices; (2) Office of Service and Continuous Improvement; (3) various items]

1. Fuel Choices

Professor Campbell convened the meeting at 2:30 and welcomed Messrs. Berthelsen and Spehn to discuss fuel choices.

Vice President O'Brien began by commenting that University Services staff have been working very hard to understand how the University can control utility costs and deal with price volatility. The presentation made to the Committee at this meeting is one that was also provided to the Board of Regents earlier in the spring.

Mr. Spehn distributed copies of a set of PowerPoint slides. He spoke with the Board of Regents in November, 2003, about facilities and in February, 2005, about energy (management, principles, and issues, which included where the University should be in the energy market, how the University makes financial decisions about energy purchases, and what should be the standards for reliability and redundancy). The services provided by Energy Management include steam, electricity, chilled water, water, and sanitary and storm sewers. They also provide engineering (on both the capital projects and maintenance sides) and commissioning and recommissioning of buildings.

They are particularly proud that the energy consumption per gross square foot of space on the Twin Cities campus has declined markedly since 1988. Is this a result of global warming, Professor Campbell asked facetiously? Mr. Spehn said it was due to energy conservation, and even with new high-energy-use buildings, the trend line remains down. The TOTAL energy consumption is about the same as it has been in the past, but distributed across more space. Mr. Berthelsen explained that the steam plant produces heat more efficiently, distribution lines have been improved so there is less energy loss, and buildings have improved so there is more efficient distribution within them and with better controls.

[*] These minutes reflect discussion and debate at a meeting of a committee of the University of Minnesota Senate or Twin Cities Campus Assembly; none of the comments, conclusions, or actions reported in these minutes represents the views of, nor are they binding on, the Senate or Assembly, the Administration, or the Board of Regents.

What if the data were changed to graph expenditure per BTU, not per gross square foot, Professor Campbell asked? Then the line on the graph would go up, Mr. Spehn said. But that cost would have been substantially greater if the University had not made the improvements it has, Mr. Berthelsen pointed out.

Mr. Spehn noted the annual costs for energy ($75 million), $61 million of which is for steam and electric service. The numbers reflect full cost, including debt service, Mr. Berthelsen added. Professor Campbell observed that administrative costs appear to be about 2-3% of the total. Is that typical? Is it going down? It includes more than utilities support; it also includes engineering support, so it is difficult to tell how the numbers compare with other Big Ten schools.

Professor Erdman said the slides were impressive. It appears the University has picked the low-hanging fruit; is there more that can be done? Mr. Spehn agreed that the low-hanging fruit has been picked; much of what they have done has a payback of a year or less. Now they are doing things that have a 5-6-year payback. They still find projects with shorter payback periods, but the costs of making the changes are higher. As energy prices increase, however, it was said, the payback gets faster.

Mr. Spehn reviewed the cost of various fuel costs and the volatility of commodity prices. The price of natural gas since January 2001, for example, has varied between $2 and $10 per million BTUs. Mr. Berthelsen explained the facilities cost modeling they do and noted that fluctuations in energy prices have a substantial impact. He said the University has established purchasing objectives to help control its expenditures. They have established a fuel advisory group to identify the tools the University is willing to use to achieve financial risk control, which includes using the financial markets as tools. They develop an Annual Energy Purchasing Plan, developed in the offices of the Vice President for Finance and Vice President for University Services, that provides an assessment of market conditions, authorized purchasing tools, purchasing authorities and approvals, fuel mix and timing, risk limits, purchase points to take advantage of the market, and a price ceiling for energy for 1-2 fiscal years in advance. Implementation issues with respect to risk and cost management include environmental permits, how to establish contracts for fuel pricing and biomass materials, and energy purchasing plans. The system, Mr. Berthelsen concluded, is thoughtful and planful in approaching what to buy, how to buy it, and how to manage costs.

The Committee discussed briefly the possibilities for using biomass as an energy source.

This report is about the Twin Cities campus, Vice President O'Brien commented, but it has implications for the UMM biomass project approved in the 2005 capital bill—and for UMC in the long term if it upgrades its heating plant. There are policy questions about what biomass is (agricultural products) and what waste is (i.e., the latter requires a garbage-burning permit). As one envisions the University as a leader in renewable energy use, issues such as these will need to be addressed. She noted that she and Professor VandenBosch were at the dedication of the Morris wind turbine, which will generate about one-half the electricity needed on the UMM campus.

Professor Campbell thanked Messrs. Berthelsen and Spehn for an interesting presentation.

<u>2. Office of Service and Continuous Improvement</u>

Professor Campbell now welcomed Mr. Martens from the Office of Service and Continuous Improvement (OSCI) to talk about his office and what they are doing. Mr. Martens began by introducing Meredith Fox from his office; she formerly worked for the State of Minnesota. Additionally, Matt Larson recently joined his staff from Price Waterhouse Coopers. He has been at the University since April of 2005.

Mr. Martens distributed copies of a set of slides he presented to the Executive Committee about a month earlier.

OSCI serves as an internal resource and consulting group, Mr. Martens explained, and helps University leaders within compact areas fulfill their management goals. They services include:

-- opportunity identification (how service to the University can be improved, the clients they serve, cost structure/productivity, revenues)

-- knowledge dissemination (this is a large organization across campuses and the state; it is necessary to be aware of what is going on in different departments that can be highlighted to foster innovation)

-- culture building (how to build a culture of continuous improvement)

-- project support coaching

-- communications (getting the word out; there are two constituents, within the University and without, for information about the University as a good steward of resources)

-- metrics (key indicators the University looks at to manage operations).

The point of these activities is to free up resources to reinvest in core University activities.

Mr. Martens used a slide with boxes to illustrate the relationship of his office with a number of activities around the institution (with the most impact in enhancing and using effectively resources and infrastructure and promoting "an effective organizational culture that is committed to excellence and responsive to change"). These goals, within the strategic positioning process, include cultural transformation, operational transformation, and financial transformation. Cultural transformation includes promoting an organizational culture committed to excellence and responsive to change; operational transformation means identifying key indices, how to capture information, and providing feedback; financial transformation includes doing projects to improve service and productivity and increase revenue. The point is to free up funds to reinvest in core University activities.

Mr. Martens reported on the progress to date in the three areas. In cultural transformation, they set up a website that provides project profiles and how-to's—tips and techniques on building a business case. They are working with Vice President Carrier on employee training to take them to the next level in skills. They are putting improvement spotlights in BRIEF and developing the liaison group (the first meeting of which will be June 21). With respect to operational transformation, they are piloting an electronic scorecard and strategy mapping system (Duluth Academic Life & Student Support, Vet Med Clinic) and worked with the Provost's office in revising 2006 compact instructions (specifically requesting goals be measurable and time-bound and requesting that units which have performance indicators list them). In financial transformation, they have hired an improvement leader, using Carlson School MBA interns (working with Purchasing and Facilities Management), and working on both a space revenue and space utilization project.

They have an advisory committee that meets bi-monthly composed of individuals half from inside the University and half from the corporate world; those from inside the University include faculty members, Mr. Martens told the Committee. The corporate leaders (e.g., from Cargill, 3M, etc.) have been through transformational efforts and can help the University navigate the speed bumps.

Mr. Martens explained the concept of an "improvement liaison." His office will develop a network of individuals in order to bring people together to talk about their experiences (e.g., how to overcome resistance to change). The network can magnify OSCI's contributions and increase the probability of success in the strategic positioning effort. It can also provide support to units by sharing knowledge about quality and service improvement tools, lessons learned, and so on, by allowing units to identify opportunities and facilitate partnerships, and refine skills and connect units to improvement resources. The liaisons will focus on continuous operational and service improvement, will have quarterly meetings, and provide ongoing communication.

On the horizon, Mr. Martens said, are scorecard system demo, first liaison quarterly meeting, executive leadership sponsorship of BRIEF features, improvement recognition program, a quality fair (to showcase the great work that units are doing), an improvement project database, and aligning University metric requirements.

Professor Korth said it was not clear how projects were chosen; who brings them forward? To date, projects have come through members of the President's team, Mr. Martens said. Going forward, the work of the office will be in direct support of strategic positioning initiatives—both academic and administrative. There are seven themes in the administrative strategic positioning recommendations; his office should be working on all of them. Are senior administrators designating projects, Professor Korth asked? Through the President's office staff, Mr. Martens said.

Ms. Blixt asked if Mr. Martens's office would be involved if academic program changes are adopted by the Board of Regents. There will be implementation task forces; would he be involved with them? The academic changes will not happen in isolation, Mr. Martens said, and will also affect the administrative side. He said his office would be a resource to help drive the academic changes.

Do other universities have an office similar to his, Professor Campbell asked? Penn State and Wisconsin do, Mr. Martens said, and have been working along these lines for 10-15 years. There is also a national organization for continuous improvement. What would be the consequences for the University if his office did not exist, Professor Speaks inquired. Without OSCI, the overview of work just discussed as it relates to cultural, operational, and financial transformation along with the thought leadership provided by his office regarding strategic positioning would not have occurred.

Vice President O'Brien recalled that President Yudof started the service and productivity initiative; President Bruininks has expanded it to OSCI, which was something the report from Vice Presidents Carrier and Muscoplat discussed. It talked about strengthening the service focus and achieving cost savings, and those preparing the report realized it would be helpful to have an internal consulting office rather than having administrators go outside. This provides inside expertise for the entire University, she said.

Professor Campbell thanked Mr. Martens for joining the meeting.

3. Committee Business

Professor Campbell reported that several items bore mention.

1. Did the Committee have a statement on strategic planning that it wished to submit to the Regents forum?

   Most of the reports have dealt with the academic side of the process and few have responded to the administrative recommendations. Professor Feeney was not sure the Committee should say anything, unless there is a danger that the administrative recommendations would not be adopted. Professor VandenBosch said she had requested time to comment positively on the effort and the involvement of faculty in the process. Professor Campbell said it would be a good idea if, as she suggested, she spoke for the Committee. Professor Speaks said the Committee should endorse the recommendations; Professor McMillan concurred.

   Ms. Blixt said that civil service employees are not sure what the recommendations mean. If someone is in a unit that is merged or closed, and must look for a job, will the functions in the old unit be eliminated in the new one? It is unclear how the changes will affect people.

   Professor Korth said that from the perspective of a coordinate campus, the process and the perspective is wholly unsatisfactory and he would not be thrilled about supporting the recommendations. He said he had no specific objection, but it is not at all clear what the recommendations mean for coordinate campuses. They appear to have the status of an afterthought.

   Professor Warwick moved that the Committee endorse the administrative strategic planning recommendations. The Committee voted 5-1 in favor of the motion; there was one abstention.

2. The question of the stadium fee keeps arising. Professor Campbell noted that Professor Speaks had written to the President asking about the fee support; he asked that a small group of Committee members be authorized to draft a statement to submit to the President.

   Professor McMillan noted that Senator Marty had written a letter concerning the stadium; it struck him that building the stadium would cost roughly $1 million per game but there has been no description of potential benefits. Is that true? It is not, Vice President O'Brien said. The Committee has had several discussions over several years about the costs and benefits; Senator Marty was equating the $7 million in annual debt service to funding 7 home football games per year. The point would have been more accurate if it also noted that that it would cost $7-10 million per year to operate the Metrodome. The question could be seen as whether the University pays the operating costs of the Metrodome or the state helps fund the debt to bring football back to the campus, she said. The costs are there regardless, unless the University abandons football. While the stadium will be primarily for football, it will also accommodate soccer and the marching band. There will also be facilities on the inside, on one side of the stadium, that can be put to other uses.

   Professor Speaks said that he was not arguing either against or for an on-campus football stadium but that he did wish to note a few points. Some things are not being reported in a completely accurate way; the state will not put in $94 million versus the University's $___ million. Part of the numbers are construction cost, part is debt. Second, there has been much said about the cost of staying in the Metrodome; staying there or building the new stadium could be a financial wash. But if it costs $7 million to operate the Metrodome, the legislature is not going to give the University that money; it would have to come from intercollegiate athletics. Third, other uses of the stadium are not relevant; the University would not spend $235 million for a soccer stadium;

this will be an on-campus stadium for football. His concern is transparency. All that is required is a simple statement from the President to the Committee; he said he did not know what to believe about what he reads in the newspapers. He said he remains concerned that student support for the new stadium will be folded into the University fee, and thus part of costs for graduate students on grants or receiving financial aid. He said he also wants it called a stadium fee so that students know what they are paying for—it should be open and not folded into the University Fee. He said he would like the President to tell the Committee that is what would happen.

Professor VandenBosch agreed, particularly with the concern about rolling the stadium contribution into the University Fee. She said it would be inappropriate to include stadium costs in fringe benefit rates. She said she was also worried about passing the cost on to graduate students because it would erode their compensation at a time they have been losing graduate students due to uncompetitive compensation. The stadium would not benefit graduate students as much as undergraduates.

Professor McMillan added that if the fee were to be incorporated in the rates charged for graduate students, that would possibly provoke a reaction from NSF and NIH.

The solution is simple, Professor Speaks said, and that is to levy a fee that is not folded into other University charges so it would not create problems.

Where would the Committee express its views, Professor VandenBosch inquired? To the President, Professor Campbell said. Vice President O'Brien said the decision will be made when the project is approved; for next year, only planning money has been approved. There will be no fee money involved until the legislation providing state assistance is passed.

Professor Speaks said that the discussion of this issue has fluctuated considerably. He first heard about the fee from Vice President Pfutzenreuter; it would be/would not be part of the University Fee, it might be $50, or more, or less. He sent a letter expressing concern about use of the University Fee and was told the question was answered in the newspaper. The amount of the fee has gone from less than $50 to $50 to more than $50 and seems to have settled at $50. The DAILY reports incorporating it in the University Fee is still an option. But Vice President Pfutzenreuter says that no academic dollars will flow to the stadium. The only source of information, however, is the newspaper.

It was agreed by unanimous vote that the Committee should make inquiries of the President.

[Subsequent to the meeting, Vice President Pfutzenreuter affirmed that the fee would not be part of the University Fee but would be a stand-alone fee. It may not be called a "stadium" fee per se, as it could be a fee that also has non-stadium/non-athletic benefits (cultural events) associated with it in terms of 'benefits.' "I assure you that the fee supporting the stadium will not be buried within the existing University Fee. It will have its own title and be reviewed and approved by the Board of Regents after consultation with students and the University community."]

3. There was a good discussion with the Provost about the priority of salaries, especially when the University is aspiring to lofty heights. The Committee needs to consider again the goal that should be set.

4. The Committee has had no report on the budget for the next fiscal year.

5. The Committee on Educational Policy is concerned about a proposed policy on the rental of University space by outsiders and the possible impact on classroom availability should the policy be enacted.

Professor Campbell asked Committee members to think about what the University's faculty salary objective should be, and adjourned the meeting at 4:25.

-- Gary Engstrand

University of Minnesota