

Minutes*

Senate Committee on Finance and Planning
Tuesday, August 29, 2006
2:30 – 4:15
238A Morrill Hall

Present: Judith Martin (chair), Rose Blixt, Steve Fitzgerald, Thomas Klein, Joseph Konstan, Michael Korth, Ian McMillan, Kathleen O'Brien, Kathryn Olson, Richard Pfitzenreuter, Justin Revenaugh, Karen Seashore, Charles Speaks, George Wilcox, Aks Zaheer, John Ziegenhagen

Absent: Daniel Feeney, Marcie Jefferys, Lincoln Kallsen, Terry Roe, Thomas Stinson, Michael Volna, Warren Warwick

Guests: Associate Vice President Michael Berthelsen

Other: none

[In these minutes: (1) update on changes in Facilities Management; (2) Biomedical Sciences Research Facilities Authority; (3) biennial request conceptual framework]

1. Update on Facilities Management

Professor Martin convened the meeting at 2:35; following a round of introductions, she noted that the Committee hears frequently from Vice Presidents O'Brien and Pfitzenreuter during the year and that the year would begin with Vice President O'Brien.

Vice President O'Brien started by observing that what was Physical Plant is now Facilities Management and that it has been undergoing change for about 20 years. She recognized when she became vice president four years ago that business process changes had been made but that the cultural change needed had not been achieved. With the start of strategic positioning, she focused on how to change Facilities Management from managing buildings to providing services for academic and other units that work in the buildings. At the same time, the development of the new budget model meant that units would see the costs of custodial services, utilities, and the like, so Facilities Management needed to be more transparent in order that people could see what they were getting for what they were paying. Strategic positioning (which suggests the University needs top-flight facilities if it is to be among the top three universities) and the budget model thus encouraged change. She called on Mr. Berthelsen to outline the changes.

Associate Vice President Berthelsen told the Committee that Facilities Management (FM) is trying to do a transformation. When they talk with FM employees, they realize that the last big change for many employees was when Physical Plant became FM. He said there are three reasons there is a window to make big changes again rather than continuous improvement. One, the President's leadership and the actual changes he has proposed and implemented suggest that they may be able to make changes now that others have been unable or unwilling to make before. Two, Vice President O'Brien decided that leadership changes were necessary, something unusual in the organization and not expected in FM. But

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the changes indicated that Vice President O'Brien was serious about change. Three, the new budget model is changing the relationship between the colleges and FM. Those three factors presented an opportunity to change the organizational culture and redesign the organization. They hired a group to help guide the change (a group that has worked with facilities management units across the country) and consulted extensively with FM employees and others.

After six months, they had a report with core ideas: "transform [FM] into a more customer-focused, accountable culture which delivers services in a cost effective and efficient manner." The first element means there will be more attention to people and not just the facility, although they clearly have stewardship responsibility, to those who provide the funding, to maintain the buildings. The third element does not necessarily mean doing things the cheapest way possible; they try to make the best decision about life-cycle costs, what provides the best service, and what meets the specific needs of a program (e.g., in some units it is imperative not to lose electrical power). Implementing the recommendations will be a multi-year effort and there will be implementation teams with "mile markers" to see how far they have gotten (e.g., by July 1, 2007).

Mr. Berthelsen reviewed the five points of the implementation: service delivery model, performance-based evaluation system and future workforce, service-level agreements and key performance indicators, process review, and leadership. The service delivery model will not just be a change in the organizational chart, although some changes are needed. Part of this review will include looking at every manager and supervisory position in terms of the skills expected, experience, etc., as well as staff ratios. Another element of the new delivery model will be teams dedicated to specific buildings (because the zones are very large). The performance-based evaluation system will involve setting clear expectations so people know what their jobs are and so they can be trained for success and held accountable. Service-level agreements are a communication tool and help set expectations between FM and the units. The key performance indicators will to measure expectations and hold FM accountable. The process review will focus initially on the work-order process. During this period Mr. Berthelsen will be Interim Associate Vice President and works with a leadership team of zone managers and FM directors; a national search has begun.

Professor Seashore asked how someone would know if the changes were successful. Mr. Berthelsen said she would know who to call if there were a problem (units will decide whether they want individual faculty members to know that name and number). He and zone managers will talk to each dean about service level for which FM is funded (which uses a campus-wide baseline) and it is important each unit know exactly what it can expect. Is the building cleaned to the University standard? She would know, Mr. Berthelsen assured her. For faculty it will be the same diffuse setting, within a college and with multiple departments in some buildings, Professor Seashore commented—and she added that she is not a dissatisfied customer. There are people who ARE dissatisfied, Vice President O'Brien observed, and one goal of the process is to achieve consistency in service delivery. Right now it is inconsistent and there is uneven productivity.

How much will the standards be input versus output based, Professor Konstan asked? For example, some buildings have bathrooms that are cleaned Monday through Friday evenings—but the buildings are used over the weekends, so Mondays are a problem. Will there be standards to meet unit needs? To what extent will output be a standard—a certain level of service will be maintained? Is that the goal of service-level agreements? The short answer is "yes," Mr. Berthelsen said, and it will depend on what people want. Overall they used a balanced-scorecard approach, looking at standards from multiple viewpoints (e.g., resources available, customer satisfaction)—they must use both inputs and outputs. Will the decision be at the zone level or must one go to him or Vice President O'Brien, Professor Konstan asked? They will at the same time try to improve productivity, both in the budget process and in

the campus-level standard, Mr. Berthelsen said. Units will be told they are funded to X level, however, so there is a limit to what they can accomplish. If there is a question about someone not doing their job, that becomes a customer satisfaction issue and quality of service issue.

Professor Martin suggested that talking to the deans might not always be the most productive avenue. In the case of large colleges (e.g., CLA), the dean may very well have little idea about the physical facilities. The dean of the new College of Design may not have much familiarity with facilities on the St. Paul campus. They may need to drill down below the level of the deans. Mr. Berthelsen said the University is looking for units with cost pools to establish collaboration groups to review their services and costs. They are establishing one but also intend to use them as an advisory group for the FM transformation. They will also ask deans for specific "facility" leads (individuals) from the colleges for FM to work with as a facility-focused group.

Ms. Blixt cautioned that they should not underestimate the human costs involved in reviewing positions, posting, and hiring. Will current employees be applying for their own jobs? They have thought a lot about that, Mr. Berthelsen said; right now they are focusing on supervisors and managers and trying to sort out what is expected of them. As they define service delivery and job expectations, they will have to look at how they match. Some positions could be new, some could disappear, and they are working with employees to prepare for changes in expectations. There will not changes before next spring, Vice President O'Brien added, so they are giving people time to prepare. Ms. Olson noted that such changes for civil service employees usually involve consultation.

Professor Wilcox inquired whether, if a department that receives chronically deficient performance, it could obtain a refund. Vice President O'Brien responded "no" but said that she would want to know about such deficiencies. Professor Speaks said he would be concerned, however, that an invitation to send complaints to FM or the vice president would open the floodgate for any faculty member who has a complaint about FM; "there are a lot of crackpot complaints" that do not need to take up the time of FM and the first stop should be within a department.

Professor Martin inquired if Mr. Berthelsen and Ms. O'Brien wished to return to the Committee later to follow up on the changes. Vice President O'Brien said they would like to do so.

2. Biomedical Sciences Research Facilities Authority

Professor Martin turned next to Vice President Pfitzenreuter to discuss the conceptual outline of the 07-09 biennial request and the Biomedical Sciences Research Facilities Authority (hereinafter BSRFA in these minutes). Mr. Pfitzenreuter started with the BSRFA.

Last winter, during the strategic positioning deliberations, when the University also came off the legislative session that enacted a bonding bill, there was thought inside the administration about how long it takes to get something in a bonding bill. When (1) the University's goal is to be among the top three, (2) the key to the goal is research, (3) one key to research is the AHC, (4) it is politically difficult for the state to exceed \$1 billion in a bonding bill, (5) the bonding bill has to divided among a number of projects spread around the state and the average size of a project is about \$5 million, (6) there are usually only one or two projects that exceed \$20-25 million, and (7) the last large science facility at the University cost \$70 million and appropriations for it were split over two legislative sessions, it becomes apparent that it is difficult to obtain support for big projects. The University's problem is how it is to plan for building big, expensive buildings, recruit faculty, and get research going when the average project size supported by state bonding is \$5 million. As a result of this hurdle, the University has proposed the BSRFA to the legislature. There was great enthusiasm for the proposal and it received a large bipartisan majority in the

Senate. The legislature did approve one of the five buildings that would be constructed under the BSRFA, but the proposal did not pass the House because it did not get through one committee. With retirements and political changes, the University is optimistic that the BSRFA will be approved next year. The Governor has endorsed the proposal.

The BSRFA would be created by statute and be composed of individuals who have already been identified. To qualify to submit proposals to the Authority, an institution must have \$70 million in NIH funding; the University is the only such organization in the state. The BSRFA would not use the funding formula the state uses in capital bonding (one-third paid by the University, two-thirds paid by the state); instead, the state would provide 90% of the funding and the University would provide a 10% match. The cash flow for these buildings is not sufficient to support a one-third contribution from the University, and the University will have to pay operating expenses for the buildings because it will not receive enough in indirect cost funds to do so.

The BSRFA would fund projects (four, now that the legislature approved one of the five originally sought) totaling \$310 million, of which the University would contribute \$31 million. There is no geographic restriction on where the buildings might be located, so they would not have to be near the new translational research facility. The buildings would total about 600,000 gross square feet, house 160 new faculty and about 480 research support personnel, strengthen the University's market share of NIH, foundation, and private support, and add sponsored research funds of about \$80 million per year. Presumably this activity would help keep Minnesota competitive. The legislation contains both criteria for building projects and accountability and reporting requirements.

Professor Konstan asked if anything had been done to reach out to the building and trades organizations. There has been, Mr. Pfitzenreuter said. They supported the proposal. Professor Konstan wondered if the Committee should discuss the risks to the University in the future that come with having a significantly leveraged faculty. Seeking a lot of NIH money to fund faculty increases the University's exposure if the federal government cuts NIH funding. Is this being set up for disaster? The modeling they have done for 40 new faculty assumes one-half their salaries would come from grants and one-half from clinical income, Mr. Pfitzenreuter reported. Professor Martin suggested that the Committee invite Senior Vice President Cerra to discuss the issue further. Professor Konstan inquired if the President or Provost would be willing to talk about the circumstances of a very large unit of the University leveraged when the rest of the University is not leveraged.

3. Biennial Request Conceptual Framework

Mr. Pfitzenreuter next distributed copies of a handout with preliminary thoughts about the 07-09 biennial request. (For the benefit of new Committee members, he explained that in odd-numbered years the University seeks a biennial appropriation for operating costs while even-numbered years are when capital appropriations are typically made. At present the University receives about \$620 million in annual appropriations from the state for operating costs, which it will try to increase.) He said that the Board of Regents will discuss the request three times, first in September and then twice again before it must be submitted to the state.

The financial and investment strategies must be aligned with the goal of becoming one of the top three public research universities in the world, Mr. Pfitzenreuter said, and there are similar high aspirations for the coordinate campuses. The four key elements to achieving that goal are exceptional students, exceptional faculty and staff, an exceptional organization, and exceptional innovation. The focus at the September Board meeting will be on what it will take to achieve those "exceptional" goals. The central questions have to do with the investments needed to maintain excellence, types of resources

available to meet strategic positioning goals, resources needed to meet those goals, and what the role of the state should be in supporting excellence at the University.

Mr. Pfutzenreuter reviewed the structure of policy and oversight in strategic positioning and the role of the Board of Regents. He also discussed the need for alignment between the operating and capital budgets and strategic positioning. The President will talk to the Board about investment needs at the 30,000-foot level in September; the exceptional goals will guide the development of more specific numbers in the request later.

The President will also tell the Board that on average the University faces an \$80-million budget challenge. The University had a big problem in 2004 with a large cut in state appropriations. The University solved part of the problem over the following years by tuition increases, reallocation, a salary freeze and benefit restructuring, and cuts. There will not be another wage/salary freeze, so it becomes a question of state appropriation, tuition, and reallocation. The President will present numbers in October about assumptions with respect to those three factors as well as how to pay for strategic positioning.

Professor Martin asked about the contribution of the University of Minnesota Foundation. The Foundation makes a contribution, Mr. Pfutzenreuter agreed, but it takes a lot of donations to generate annual operating revenue. It requires a \$1 billion endowment to generate \$45 million in annual funds. That source will not help in the short term, so there are really only three buckets of money the University can rely on.

This is a people business, Mr. Pfutzenreuter commented as he drew the attention of Committee members to a pie chart illustrating the average annual budget needs and investments of about \$80 million. Close to half is for compensation and another large portion for academic support and infrastructure (classrooms, labs, technology, etc.). Facilities, utilities, and debt are a smaller portion, as are targeted academic investments (e.g., Presidential initiatives). The latter could include personnel, who would later become part of the compensation portion. Mr. Pfutzenreuter noted that the pie chart does not include sponsored research.

Professor Speaks inquired how much the numbers in Mr. Pfutzenreuter's tables would change if the aspiration were changed from being in the top three in the world to being in the top20-25. He said he did not know what it means to be in the top three; it is as if the administration says it often enough, the University can get there and will know it when they do. He said he would feel better about the numbers if he knew how they were tied to the goal. Mr. Pfutzenreuter said he did not know what it would cost to get to the top three, but the \$80 million needed for the next biennium is probably not enough.

Professor Konstan said that one could measure, for the top five universities, the average size of the faculty, the average salaries, the number of support staff, and so on. The University could then identify the number of people it needed to hire, and in the long run it would get into the top three. Has anyone done that calculation? Is the University \$200 million away from reaching it? Some other amount? Mr. Pfutzenreuter said there are people looking at such things, those who are working with metrics and measurements. Achieving the goal, however, is about more than just dollars. Mr. Ziegenhagen said he is not aware of anyone doing these kinds of calculations.

There is the assumption that the University knows where it is now, Professor Speaks said. It is #4? #40? There may also be an assumption that others will not move while this university does. Mr. Pfutzenreuter said that aiming for the top three is a good aspirational goal. Professor Martin commented that she has heard the President say that since the goal was announced, even if one disagrees with it, it is enthusiastically supported by the legislature and the business community. It is aspirational, Mr. Klein

agreed, and said it could be supported, and even without the math one can know that \$80 million will not be enough. One can support the goal without numbers but without being blindly naïve as well. Professor Hendel said there is a danger that one could assume that if all the numbers in the later slides were achieved, then the goal of being in the top three would follow.

Professor Konstan referred to the "exceptional" factors involved in reaching the top three. If he were a legislator or Regent, he said, he would notice that they do not speak to the state—the aspirations need to be coupled with economic development, training professionals, business development, and so on. This seems divorced from the mission; most top universities are thought of as engaged in their state.

Professor Seashore said that when one looks at Michigan and Berkeley, they have been better at serious efforts to restructure. They closed weak schools of education because they said they were not good enough for their universities and needed to start over again. This University has not done anything like that since it closed the Waseca campus. Professor Martin said one can imagine there are conversations taking place that are not aired, and the political realities are different in California. Professor Seashore said she arrived at the University the year the report recommending that Dentistry and Veterinary Medicine be closed, and that is her point: if one wants to get to the top three, restructuring would have long-term positive effects on the quality of the University.

One problem is that the University tries to do things that are politically appealing, Professor Konstan said. So when it has a choice between something new and strengthening what it has, it does something new. One can strengthen what one has that way, but doing so creates a lot of "new stuff" and the institution is handicapped in its ability to strengthen what it has because it must provide support for the new things. Professor Martin said she has seen that in CLA: the departments ranked in the top five or top ten are not necessarily the ones to receive new resources and are also not the ones obviously helped by the newly-formed or proposed institutes. Mr. Klein said he would be interested to know if the Committee could learn that Professor Konstan's point is a function of the way the University works or if it is trying to please its stakeholders. It is not clear why the University cannot improve strong departments. It is because it is easier to get money for a new center than it is to get new lines for a department, Professor Martin responded. Professor Konstan observed that NSF creates new centers and receives Congressional support, but then only provides small increases for the rest of science. One should not be surprised the legislature reacts the same way. The legislature may sometimes cut HEAPR funding in order to fund a new building, Mr. Pfutzenreuter observed.

What is the impact of increasing efficiency in the process of adding new buildings, Professor Wilcox inquired? He said he has been involved in a lot of building projects over the years and has seen a lot of problems. Partly it is a low-bidder phenomenon, partly it is the University not getting what it paid for. If that process were perfect, would it make a significant difference? Mr. Pfutzenreuter said that was a question that should be addressed to Vice President O'Brien.

Professor Martin thanked everyone and adjourned the meeting at 4:05.

Gary Engstrand

University of Minnesota