Minutes*

Senate Committee on Finance and Planning
Tuesday, June 2, 2009
2:00 – 3:45
238A Morrill Hall

Present: Judith Martin (chair), Jon Binks, Joao Boavida, David Chapman, Steen Erikson, Steve Fitzgerald, Kara Kersteter, Lyndel King, Russell Luepker, Kathleen O'Brien, Paul Olin, Richard Pfutzenreuter, Gwen Rudney, Terry Roe, Michael Rollefson, Karen Seashore, Warren Warwick

Absent: Lincoln Kallsen, Thomas Klein, Joseph Konstan, Thomas Stinson, Michael Volna, Aks Zaheer

Guests: Departmental staff

[In these minutes: (1) report from the Subcommittee on Twin Cities Facilities and Support Services; (2) preliminary state capital request; (3) external sales function; (4) annual operating budget for 2009-10; (5) Enterprise Financial System discussion]

1. Report from the Subcommittee on Twin Cities Facilities and Support Services (STCFSS)

Professor Martin convened the meeting at 2:00 and turned to Ms. King for a report on STCFSS activities during the year.

Ms. King noted several matters that STCFSS had dealt with.

-- The University's building code: the building code office is unique because it is its own jurisdiction, over five campuses and many other University sites around the state. There is no parallel office in the other Big Ten schools. The advantages of having a University office are that there is one building-code official and there are in-house experts to deal with buildings that in many cases are not common in most jurisdictions (e.g., labs, etc.). The building code office has 15 code experts, based in the Twin Cities but who move around the state to cover all University facilities. University standards go beyond other state codes. Facilities Management also tracks building conditions, but the building code and FM data are separate; they are working to align them because it appears there may be a duplication of effort.

-- Associate Vice President Berthelsen provided updates about Facilities Management and reported on efficiencies, operating costs, the structural deficit he is dealing with, and various aspects of operations (energy, parts/procurement, custodial standards, maintenance, contractor selection, and so on). One concern STCFSS expressed is about the process required for contractors and whether it should be different for small projects. There is little flexibility in the process, and it is also time-consuming. The intent is to protect the University, but is the protection excessive? Because the University is so risk-averse, does it end up paying more? It might be more cost-effective not to be quite so risk-averse, Ms. King suggested, but everyone wants to cover their backside so costs increase.

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Mr. Rollefson suggested that STCFSS could ask the building officials how they benchmark with other institutions (e.g., the Big Ten). He noted that the Hormel Institute used the same standards as the Mayo Clinic—and then found that they had not met University standards. Doing so increased the initial building costs and permanently increased operating costs. Ms. King said that STCFSS has pushed on why it costs more to do business at the University but has not received much of an answer, other than there are legislative mandates. Mr. Rollefson said that if all the Big Ten schools have standards like the University, that would be fine, but if the University is the only one that has more expensive standards, then one can question them. Professor Martin said that was a good point: in an environment where budgets are constrained, the University should not make rules for itself that mean higher costs. There was also a question about whether the strictness of the application of the standards might vary with the individuals involved in interpreting and applying them. Committee members agreed there is a concern that should be addressed.

Professor Luepker noted that this Committee is not expert on hiring contractors; what role should it play? Ms. King suggested that the STCFSS can ask questions about the process.

Mr. Fitzgerald noted that there is a related issue: A small project, with a small cost, can trip code requirements for an entire building, and the small project suddenly becomes a very expensive project. That is particularly a problem for classrooms, Professor Seashore said. They are scattered through buildings and some are getting worn; it is not good for the University to put off spending $50,000 on a classroom because improving it will mean spending $400,000 on meeting code requirements in the building.

Professor Roe said that the incentives in the budget model are at the college level. If the incentive is to use space and energy efficiently, they should receive part of the savings—but that takes away money from Facilities Management. Has the subcommittee discussed that issue? Not directly, Ms. King said, and there are some incentives, but many costs are not because they are measured and the units are charged for the use. Professor Roe said he would like to see some data on the cost shared of selected items in total support and facility costs to get a better notion of cost structure, and how it has varied over time.

2. Preliminary State Capital Request

Professor Martin turned to Vice Presidents O'Brien and Pfutzenreuter to report on the preliminary state capital request.

Vice President O'Brien noted that every two years there is a major bonding bill; the University is asked to prepare a preliminary request for legislators to review during the summer; the preliminary request will go to the Regents in June and July and legislators will likely begin touring facilities toward the end of July. They usually also update the six-year capital plan at this time, but because of the volatility of the budget and state finances, they have put the update on hold. They have, however, had discussions about it and the preliminary request reflects those discussions. The request is this (in millions of dollars):

100 HEAPR (system)
36.5 Folwell Hall renovation (Twin Cities)
10 American Indian Learning Resource Center (Duluth)
10 Contingency/General Laboratory Renovation (system)
80 Physics and Nanotechnology

236.5 Total

Much of the request is for repair of space that exists rather than adding new space, Vice President O'Brien said, and there is more emphasis on HEAPR funds and taking care of space the University already has. The lab renovation funds are similar to HEAPR but help increase understanding of the mission as well as upgrade laboratories. Professor Roe commented that what happens to old space is important; it seems to be easier to obtain money to build new space than to get HEAPR funds for renovation. That is true, Vice President O'Brien said. In the case of Physics, the building cannot be effectively renovated because it was built in stages over decades and would be difficult to renovate to accommodate new equipment, so the University is proposing a new facility and rehabilitation of the existing building for other uses—but the existing building will not be abandoned, Ms. O'Brien assured the Committee

Mr. Rollefson commented that it seems, on average, that capital and operating costs for new buildings seem higher than for existing facilities. Ms. O'Brien said that fact has not kept the University from building facilities it needed—but it could in the future. Mr. Pfutzenreuter said the new physics building will add a lot of square feet, and typically that amount and kind of space will cost about $1 million annually to operate. In general the University is being more disciplined, Ms. O'Brien said, and has torn down and replaced rather than added space.

This is a relatively small request, Mr. Pfutzenreuter said, and reflects the state's budget situation. It only includes three buildings, Professor Martin observed, and even if fully funded, would likely not bring the University close to its bonding limit. The University's obligation would be about $45 million, Mr. Pfutzenreuter said. They do not expect very much debt on the Duluth facility or the new physics building, and they are dampening debt expectations because of the economic situation and the effect that debt has on the balance sheet.

Mr. Erikson inquired if they had considered a phased remodeling of Physics to accommodate new needs. It would be painful during a relocation but staying in the building could save operating costs. The problem is the technical requirements, Vice President O'Brien said; if they decide to leave the School of Physics and Astronomy where it is, they would tear down the building (leaving only the façade in place) and build anew. They have done that analysis and it is more costly than simply building a new facility.

One Committee member told Vice President O'Brien that a question had arisen earlier in the meeting about whether the University's building code is stricter than it needs to be. Ms. O'Brien said the University has had a building code office since 1972 and that it is beneficial because people can rely on the University's building-code official rather than trying to comply with local codes. The University uses the International Building Code. Concerns usually are about University standards, she said. University standards are in place to address requirements of federal and state statutes and regulations, such as OSHA, Centers for Disease Control, NIH, Department of Homeland Security, and also to ensure uniform operations and durability. They seem stricter but the complexity of research and regulation are going in the same direction: more. NHS or CDC can appear at any time to check on the University's compliance with their standards. Many of the cost incurred as a result of these standards are outside the University's control.

Professor Martin asked if there was a possibility the state would not adopt a bonding bill because the economy is so awful? Mr. Pfutzenreuter said the bonding bill will likely depend on the state of the economy, but the debt level the state would take on could depend on whether or not the legislature and governor can fix the fiscal problems coming in 2012-13.

Professor Rudney asked if whether asking for a building, and not receiving the funding, hurt its chances for being funded later. Both Vice Presidents O'Brien and Pfutzenreuter said it does not.

Later in the meeting, Committee members discussed the building code and costs, including the number of personnel in the office, how the University's costs compare with other Big Ten institutions, and concluded it wished to return to the topic in the fall.

3. External Sales Function

Professor Chapman said he had heard that the University had dismantled its external sales function; where did it go? Mr. Pfutzenreuter said it was not true; the office had cuts and positions were eliminated, but the external sales function will not devolve to the colleges and the office remains in place, doing what it has always done. The office cannot be cut any further without having consequences for service. He pointed out that the University cannot take $95 million out of its budget and see no impact as a result.

Professor Seashore commented that some services faculty rely on bring in money to the institution (such as external sales). She said she could not imagine cutting services that are a source of revenue without damaging the institution. Mr. Pfutzenreuter said that if the decision bogs down the service and getting things done, it will be reversed. Professor Seashore said she wanted to be sure that services important to keeping the University working are retained.

4. Annual Operating Budget for 2009-2010 (FY10)

Mr. Pfutzenreuter provided the Committee with copies of the cover for the FY10 operating budget docket item for the June Regents' meeting, which contained the brief outline of next year's budget. In brief:

-- The University's base funding (FY09) going into FY10 is $702.6 million; the enacted appropriation provides for $623.4 million, a reduction of $79.2 million. There is also a $2.6 million cut left over from actions by the 2008 legislature, so the total reduction is $81.8 million for FY10. It is possible that the Governor's action to unallot funds will reduce state funding even further.

-- The resources for FY10 will total an additional $139.8 million, which results from the following arithmetic (amounts are in millions of dollars):

-81.8 (state funds)
+94.9 (University budget reductions)
-3.6 (one-time reallocations)
+41.0 (tuition revenue)
+89.3 (federal stimulus funds)

139.8 Total

The University budget reduction is about 5.2%; some units saw greater reductions while others saw smaller ones. The one-time reallocation is because there will be less money from Central Reserves (because they have fallen below the level at which they are to be maintained). Tuition revenues are predicated on a 7.5% increase that is bought down for Minnesota resident undergraduates to 3.125%.

-- The expenditure plan for FY10 will increase expenditures as follows (in millions of dollars):

20.2 required fringe-benefit costs (because of changes in federal law governing fringe rates)
3.6 Founders Scholarship Program
10.1 facility operation (new buildings, utilities, debt, leases)
16.0 contractual obligations/investments
51.0 federal stimulus funds (mostly for tuition mitigation and the middle-income scholarship program, which will create a problem for 2012 that will need to be revisited during next year)

101.5 Total

38.3 Balance forward

For FY11 there is an enacted appropriation of $677.3 million, but there is a possibility the Governor will unallot some of the funds. The result could be that there will be less state funding than what the University has currently built its budget around, so it may be necessary to raise tuition. Even then, there still may be need for a $20 million reallocation (1%).

Professor Chapman inquired if the federal stimulus funds will be gone after FY11 (they will); if so, tuition increases covered with stimulus funds will reappear. Mr. Pfutzenreuter agreed. Like the stimulus-funded scholarships, they are not permanent. But the federal government directed that the funds be used for tuition mitigation. There will be a huge communication problem with students when those funds are gone, Professor Martin observed.

Mr. Pfutzenreuter said, in response to a query from Professor Luepker, that the stimulus funds will be used only for tuition mitigation for Minnesota resident undergraduates, not graduate or professional students. There was not enough money available to pay for tuition remission and the middle-income scholarships as well as tuition mitigation for post-baccalaureate education. $39 million of the stimulus funds will be used as bridge funds to keep people employed, but those funds run out in two years as well. They will help, however, because they will let the University made reductions by attrition rather than by letting dozens of people go, Ms. O'Brien commented.

Professor Seashore commented that there has been talk about moving Masters programs out of the Graduate School, and as the professional Masters program move out, they have charged different tuition rates. The Graduate School kept tuition similar. Some have gone up, some have gone down. Has anyone looked at these tuition rates and determined whether the University will have more or less money? Whether or not there will be more money varies by college, Professor Martin said; the University could end up with less in total, Professor Seashore responded. Mr. Pfutzenreuter said he did not know if anyone had considered the issue and said it was a fair question. No will decide unilaterally, he added.

Professor Roe observed that there will be about a 14% tuition increase over the next two years for graduate students, which will mean a significant jump in Research-Assistant research costs.

Professor Martin thanked Vice President Pfutzenreuter for the report.

5. Enterprise Financial System (EFS)

Professor Martin now welcomed staff members from three different colleges to discuss how things are going with EFS. She recalled that last September they informed the Committee about problems with EFS; the Committee invited them back to report on whether things are better and how they are going.

Things are better but they are still suffering from decisions that were made. There was no accounting for how work was done in departments and they were sometimes forced into clusters, into structures that would not have evolved naturally. Some may work well, but not all of them do. It would help if there were some loosening of the rules, and they are still suffering because reports are not provided to departments (it is insufficient to say that departments can get information they need from the data warehouse); departments must create their own reports, which costs them a lot of time and money. It also means staff cannot get their regular work done; in one case, they have not reconciled payroll since the change from CUFS.

Another staff member reported that it is not that the system has gotten better, it is that they have learned to work with the system. The administration has spent a lot of money to keep the system going and deal with glitches. The separation of duties is very rigid and very inefficient. The Chart of Accounts is poor and leads to errors. Mr. Volna is taking the right approach in improving the system and dealing with problems that have been identified by users. Things may be better in December.

Professor Roe inquired about the nature of solutions. One response was to change the policy about separation of duties; another was to change the thresholds. They could also change the EFS programming, but that would be expensive.

Mr. Rollefson said he talks to people at national meetings about PeopleSoft financials (EFS); those PeopleSoft users who seem most happy are users who have a front-end system to work with and a back-end system to receive reports. They do their work in another system that is easier to work in. That is expensive but it is the way to solve the problem.

Professor Martin asked if they find things are not getting done because of the required approvals and someone is not available. They do and there is no allowance for emergency approvers. The system could allow each college to have an emergency approver (although it is not clear how that would be programmed in EFS).

Professor Luepker said he has not seen any problems lately so he asked the accountant in his department and said that things must be working out. They are working out for faculty, he was told, because they are running a shadow system.

Staff morale is low, it was reported. Things are working for Professor Luepker because the staff has gone way beyond what is required. But there is a worry that staff will be identified as the source of the problem.

One guest read excerpts from an email message he had received from a user.

> I am writing a long email. I have the time because I am unable to perform any of my actual job responsibilities due to the slowness of the system. I have four screens open and I am not able to complete any of the processes. I am probably making the system even slower by trying to do the four things at once. I have spoken with another person this morning who has twelve screens open, trying to get any one of her processes to work. What is our option . . . go away from 10:00 a.m. until 4:00 p.m. and work 2nd or 3rd shifts so we can do our work?

> This email is going to sound angry—that seems to be what people hear when we call the helpline. It is not an anger issue. It is about a desire to put in an honest eight hour day accomplishing the work of the University and providing help and financial support to the departments assigned to me. . . .
>
> This is supposed to be a robust, efficient, resource saving solution to our financial needs. Where is any of that after almost a year up and running?
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> I do not want an answer to this email—I have heard all the excuses. I do not want a "ticket," which will be either ignored, answered incorrectly in two or three weeks, or closed because the "system is working." It would do me a world of good to find out that money has been spent on consultants or employees who actually know why the system is not performing in a way that supports the workforce, and can fix the problems.
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> We are all conscientious workers who are trying desperately to get all the activities of the current fiscal year closed out so the 2nd year of EFS/PeopleSoft can be opened cleanly. I retire in seven business days, so it is not for myself that I have written this email. It is out of dedication to this university and admiration for the educational and research goals of this University. I sincerely hope that someone will take this situation seriously, invest as necessary to fix it, acknowledge that the purchase and implementation were not properly planned for and it is not the users who are to blame for the system problems. If this could be accomplished before another year passes with the same problems unresolved, that would be a dream come true.

Mr. Erikson reported that he has talked with people about EFS and they have nothing good to say. Processes take up to twice as long to complete, that the system is wasteful, and that some processes are extremely cumbersome and non-intuitive. The system is wasting people's time. Or they have problems with follow-up, Ms. Kersteter said, such as trying to get information on balances; when they cannot, they do not spend money, thus reducing the quality of customer service.

Professor Seashore said one of the least-appealing research findings she has come across in her career is that executives who make a bad decision continue to invest in that decision because they do not want to admit they made a mistake. One question is whether the University should go back to what it had before, which would be very expensive, but it would cost less than not receiving information that is needed in a timely manner. There was no longer vendor support for the system, Professor Martin recalled Mr. Pfutzenreuter saying. Everyone wishes for do-overs, Professor Seashore said; who in the University will look at the system and say "enough, it is not worth the money to make it work inadequately forever"? The University cannot go on and put in another year with a system it cannot fix. This is like corporate executives who make the same mistakes over and over.

One staff member distributed copies of changes that have been made in the financial system since 1989. In these cases, it was said, things were made better as a result of the changes and jobs were made easier. That has not been the case with the conversion to EFS.

Where is PeopleSoft in all this, Mr. Erikson asked? This is supposedly a mature system, not in a beta version; why don't they have a team here on a daily basis helping the University work through the problems it is having with their software? Aren't there performance metrics built into the contract with PeopleSoft? Professor Seashore recalled that Mr. Volna had told the Committee that the University made local adaptations to the system that PeopleSoft had not approved. Couldn't he reverse those decisions, Mr. Erikson asked? That is a good question, Professor Martin said; the University bought a product with warranties. But the warranty is broken if one changes the product, Professor Seashore observed. Mr.

Rollefson said Mr. Volna had to make the changes—or try to change the University's culture. He noted that the University's system is different from most others in that it is not a centralized system where funds revert to the central treasury.

The Committee discussed what could have been done with EFS. What they have learned, Professor Martin concluded, is that the system works, but at great cost in staff time, who have problems getting it to work. What needs to be done to make it work better? One guest said that if the University is going forward with EFS, it needs to commit the funds to doing what needs to be done. Does everyone have a list of things that need to be done, Professor Seashore asked? They do, it was said. Professor Seashore said there is a need to set priorities, which should be developed by a broad user group, not a narrowly-drawn committee. When the University installed CUFS, it acknowledged there was a problem and spend the money to fix it, Mr. Rollefson said. The uncomfortable reality now is that the University has spent $50 million on EFS and may need to spend more to get it to work the way the University needs—and that could require a lot more money. This Committee needs to know, Professor Seashore said, not two people sitting in an office discussing the problems.

Professor Martin said it is a reasonable question to ask Mr. Volna. He has teams working on EFS problems; when will the system work? One guest said he suspected it will take until August because of the need to prepare budgets. It was suggested that Mr. Pfutzenreuter has directed that the system must be made to work without major problems by December.

For morale purposes, people need to receive information on how long it will take to create accurate information, Professor Seashore said. When the system is fixed, the beatings will stop. The morale problem is directly related to the fact that people cannot get their jobs done.

Professor Martin thanked the guests for their comments and adjourned the meeting at 4:00.

-- Gary Engstrand

University of Minnesota