Minutes[*]

Joint Meeting
Senate Committee on Finance and Planning
Subcommittee on Facilities Management
Tuesday, May 18, 1993
3:15 - 4:00
Room 238 Morrill Hall

Present: (SCFP) Irwin Rubenstein (chair), David Berg, William Gerberich, Karen Geronime, Julie Idelkope, Karen Karni, Craig Kissock, Fred Morrison, Jeff von Munkwitz-Smith, Roger Paschke, Richard Pfutzenreuter, Doris Rubenstein, Jason Schmidt, Mary Sue Simmons, Susan Torgerson

Present: (FM) Mary Sue Simmons (chair), Mark Davison, Ginger DeRosier, Elizabeth Grundner, Susan Markham, Aric Nissen, Nathan Rich, Fay Thompson, Vilis Vikmanis

Regrets: Martin Gwinup, David Kittelson, Russell Menard, Paul Sackett, Mary Walser

Absent: Carl Adams, Virginia Gray, Michael Hoey, Thomas Hoffmann, Thomas Scott

Guests: Associate Vice President Mark Brenner, Senior Vice President Robert Erickson, Acting Assistant Vice President Michael O'Connor, Robert Schenkel (Facilities Management)

Others: Ken Janzen (Regents' Office)

[In these minutes: draft report on paying facilities charges and maintenance; legislative update; tuition shortfall; status report on CUFS]

1. Operation and Maintenance of Facilities

Professor Rubenstein convened the meeting at 3:15 and welcomed Associate Vice President Brenner to discuss the report on "Operation and Maintenance of Facilities at the University of Minnesota: Recommended Principles and Practices." Dr. Brenner recalled that inquiries began coming to administrators about the costs of facilities maintenance, and department financial administrators were approached by Facilities Management about covering costs for research facilities such as fume hoods. There was a justified concern on the part of Facilities Management, which was being squeezed for funds, but also a concern about life safety issues: who should be responsible? As a result, Dr. Brenner said, he was asked to chair a group to develop a white paper on how to handle facilities operating costs.

The paper represents the clear consensus of the committee, Dr. Brenner reported. In one sense it is not complete: the recommendations were to be reviewed by central officers before being brought to the

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Committee, but the schedule did not permit that, so this is its first public review. The report may need fine-tuning, and must be viewed as a draft.

The committee needed to address a number of issues, Dr. Brenner told the Committee. First, of the 21 million gross square feet of University space, who's responsible for which parts? The terms "supported" and "non-supported" space have been used, but have gotten confused over time. The committee concluded that to avoid a quagmire, it would identify space associated with the core activities or programs of the University (teaching, research, service) as supported space. Other space, occupied by auxiliary services, falls into categories and is classified as
non-supported space:

-- Space occupied by a service that is available for purchase from non-University sources; the market should dictate prices and the units should pay for their space (e.g., Central Duplicating).

-- Activities for individuals, who can purchase it, should pay for their space (e.g., dormitories, parking).

The recommendations of the committee, Dr. Brenner said, have the potential to put some units out of business if they were to be implemented tomorrow, so the recommendations should be seen as goals to be worked toward, perhaps over the next five years. It may be that some of the units will never be able to pay their own way.

Another question the committee had to answer was "what support does supported space receive?" It clearly includes such items as heat and light; the general conclusion was that if a function was part of the building structure, it would be centrally supported. Fire and life safety expenses will also be supported centrally, rather than left to the discretion of departments. If a laboratory building, it will be operated and paid for centrally as a laboratory building--but again, for BUILDING support only. Unique equipment within labs that are locally installed will be the responsibility of the department or the principal investigator. (An example discussed at the meeting was air conditioning: if a window unit is placed in an office, it will be the responsibility of the department; if the building has central air conditioning, it will be centrally funded and maintained.)

Dr. Brenner then went on to explain that the report also recommends greatly increased financial responsibility for Facilities Management; how to accomplish it is a question. They are currently working on numbers, but the data are not yet assembled. The report recommends increased maintenance and custodial services--the latter of which has been considerably reduced by past retrenchments. The report recommends restoring service to the standards of the area (that is, to provide custodial services equivalent to what one would find in commercial or governmental buildings) and would probably cost, for the entire University, about $4-5 million per year. The committee believes this should occur to protect the University's assets (such as repair of broken equipment and day-to-day maintenance).

Due to the increase in space from the construction of new buildings that has occurred on the various campuses since 1986 (during which time the University has received not additional funding to operate the space), there is a significant shortfall in funding for Facilities Management. Sources of funding will have to be found to cover the needs that have been identified. These could include reallocation, ICR funds, and perhaps some as a result of seeking ICR-type funds where the University does not now receive them (e.g., privately-funded activities, new State Specials). The University will have to be more aggressive in obtaining ICR-type funds in the last category, Dr. Brenner noted.

The question of "what space should the University support?" led, during the course of the committee's work, to "what ACTIVITIES will the University support?" both Dr. Brenner and Ms. Markham told the Committee; that change in approach got the deliberations "off the dime." The question of toxic substances in a fume hood used by a number of investigators was posed; Dr. Brenner responded that while they do not recommend supporting scientific equipment, fume hood repair and maintenance expenses would be paid centrally because it is a question of safety.

Dr. Brenner then told the Committee that if the Research Support Fund budget for 1993-94 (which consists of ICR funds) is endorsed, there will be a real increase in the Facilities Management budget. The lack of funding to maintain research-related equipment like fume hoods and building water distillation systems has been a significant problem. This is one of the reasons faculty members have wanted some ICR funds returned directly to them--because they have been charged many costs that should have been paid by the University with the ICR or other funds.

One Committee member observed that overall, the document advocates shifting O+M and general University funds TO dollar-intensive research operations and AWAY from CLA kinds of activities; this is, in effect, a transfer from CLA to IT and the Health Sciences. The transfer may be justified, but it should be recognized for what it is.

Why, it was also asked, is carpeting ALWAYS a department responsibility--when it is chosen and installed by central offices, often against the advice of the department? Carpeting can be a safety question as well. This recommendation redistributes a cost from central to departmental budgets without explanation.

Dr. Brenner responded to the questions as follows:

-- With respect to the shift in dollars, the committee concluded the University will operate as a community, and if it is to have a chemistry department, for example, it must have a building in which the chemistry department can do its research. (If that is so, it was responded, then the governance system needs more of a say about the size of the chemistry department.) Moreover, it is often the more laboratory-intensive units that generate external funding. (There is broad support for using ICR funds for the purpose for which they are intended.)

-- With respect to carpeting, the recommendation perhaps needs to be refined. The issue received a lot of discussion, Ms. Markham noted, and often the University has not purchased good quality carpeting. It was suggested that a distinction should be made between carpeting purchased by the University to reduce maintenance costs compared to carpeting purchased to enhance the appearance of an area. The University should be responsible for replacement when the original carpeting purchase was a University decision.

It might be helpful, suggested one Committee member, if the committee were to incorporate in its recommendations some kind of simple mechanism for adjudicating differences of opinion when there is a dispute about who should pay an expense.

This is a critical document for Facilities Management, Ms. Markham told the Committee. The size of the chemistry department must be decided by the University, and it must include the cost of the space assigned to it. Facilities Management, however, just wants to know the rules and wants to be able to apply them across the Twin Cities campus consistently. The University community must tell them what it wants.

The development of information and data is partly for the legislature and partly for ourselves, Dr. Brenner explained in response to a question. The University MUST understand its real costs, including the management of space. It is to be hoped that as part of the budgeting process, the costs of a unit's space will be included. As part of the process, presumably, there will be scrutiny of the efficiency with which that space is being used--and the space should be budgeted, just as are funds. Dr Brenner added that this comment reflects his own opinion, not necessarily that of all committee members, since this issue is beyond the specific charge given to the committee.

Other suggestions made about the report were that attention needed to be given to furnishings for student space that is not classrooms or for study and that there is confusion about furnishings and maintenance and repairs for classrooms and instructional laboratories. Dr. Brenner agreed to attend to these issues, and noted that some committee members were "shocked" at the gross underfunding for classroom maintenance.

Asked whether full implementation of these recommendations would preclude the recurrence of a $200 million backlog in deferred maintenance, both Dr. Brenner and Ms. Markham were emphatic in stating they would NOT. This report speaks only to day-to-day operations, not investment in major replacements or "system renewal" (such as roofs), nor does it address depreciation. Major replacements are capital expenditures and appear in the budget that will be submitted to the Board of Regents. As one Committee member observed, if the University has a $3-billion physical plant with an average building life of 50 years, the University has on average a $60-million annual potential "replacement" expense that is not covered by this report.

One Committee member offered several observations about the recommendations. First, it suggests that maintenance funds for privately-funded buildings be built in to the funding plan--but there is no timeline for requiring it. Second, the language of the report seems to assume that the services to be provided can be most efficiently provided by Facilities Management--what assurance is there that that is true? On the last point, Dr. Brenner said it is linked to the proposal to transfer funds to Facilities Management--people must be convinced it is a good idea, and is part of the accountability the report calls for. The recommendations will allow the University to define the scope of the problem and to analyze whether or not it is getting a good deal on the services being provided.

Professor Rubenstein thanked Dr. Brenner for his report and promised that the issue would be brought back to the Committee in the near future.

Ms. Simmons informed the members of the Facilities Management Subcommittee that there will be a meeting in early June to discuss the steam plant; she also announced that Aric Nissen, a student member of the Subcommittee, had been nominated for and received a student leadership award, which elicited a round of applause.

The meeting was adjourned at 4:00.

Senate Committee on Finance and Planning
Tuesday, May 18, 1993
4:00 - 5:00
Room 238 Morrill Hall

1. Legislative Update

Professor Rubenstein convened the Finance and Planning Committee meeting at 4:00, after the Facilities Subcommittee members departed, and turned to Mr. Berg for a legislative update. He noted that there are two parts to it: first, the Governor's veto of the higher education bill (so nothing is definite) and second, a projected tuition shortfall during this fiscal year.

1) The situation from the capitol. Mr. Berg began by commenting that the Governor vetoed the two bills (appropriations for higher education and for health and human services) because they were the ones on his desk at the time; he had to take action to make it necessary to call a special session. The real dispute is about how much power the Governor should have to arbitrarily reduce budgets. It is probable that the one-day session will be called with everything pre-arranged. It is possible that the higher education bill could be subject to reduction if it necessary to cut spending; it is above the Governor's target by $10 million; if reduced, the University's portion could be as much as $4-5 million.

The conference committee position provided an appropriation of $2.043 million to higher education, an increase of about 5.3%; most of the increase went to HECB for additional financial aid. The University previously had received 45.5% of the higher education base budget; the conference committee position gives it 44.4%--but all the systems declined because financial aid increased from 9.7% to 11.9% of higher education state funding. The legislature has thus shifted slightly the funding from institutional subsidies to subsidies for students.

The total University appropriation is slightly over $911 million, an increase of 4.14%. Legislative intent is that tuition increase no more than 5%, and if it increases more than 3%, the institutions must demonstrate that the money raised went for improvement of instructional quality. For the University, that 2% would amount to about $10 million; it is not clear what the University will do. There were no funds for salary increases and the legislative committees assumed there would be none, at least in the first year of the biennium.

The biggest difference in the appropriation was in student aid. State work-study is increased by $4.5 million--one of the largest increases in recent years--and the legislature said it should be used to employ students in settings that enhance their academic activities. The limit on allowable costs for students at private colleges was lowered by $702 per student, which releases $14 million from private school students for public school students. The public institutions sought this change, and obtained most of what they sought; while the private institutions enroll 17% of undergraduates in Minnesota, their undergraduates were receiving over 50% of the state aid. There are reasons why students in private colleges should receive some more than their actual numbers, but this was seen as too much.

Asked to elaborate what the additional 2% increase in tuition might be used for, Mr. Berg said things such as library acquisitions, reduction in class size, availability of classes, reduction in the student-advisor ratio, purchase of instructional equipment. Student members of the Committee appeared to believe these would be desirable improvements and worth a slight additional tuition increase; they also suggested, however, that the quality improvements should first be sought from reductions in administrative expenditures and increases in efficiency. Mr. Berg clarified that revenues from any tuition increase above 3% could NOT be used for faculty salary increases. When the decision on tuition will be made is unclear; after consultation, in any event.

2) The tuition shortfall. The budgeted enrollment for 1992-93 was 50,205; the actual enrollment was 48,994. Because of this and other reasons, tuition revenues, as a result, are down substantially, about $5-6 million. The tuition structure was changed last year, and changes, along with increased rates, do not always bring in more revenues; in one case, it is clear, the rates were increased and the revenues declined.

Mr. Berg reviewed the possible reasons for the shortfall and then pointed out that the money will have to be recovered from somewhere, because it did cause a budget shortfall. Asked if there are any reserves that could be used to cover the shortfall, Mr. Berg noted that there is supposed to be $40 million in Central Reserves. Mr. Pfutzenreuter reported, however, that on June 30 there will be about $23 million in the Reserves, and by June 30, 1994, there should be about $25 or 26 million. If no other sources are found, however, the shortfall will end up being charged against those Reserves, Mr. Berg pointed out.

One Committee member inquired if any thought had been given to auditing CEE registration to determine if non-resident students are enrolling in CEE courses to avoid paying non-resident tuition. Mr. Berg told the Committee that audits had not been conducted because there had been no announcement that they would be; such audits will be conducted next year, however, and if the University finds that non-resident students are taking CEE courses at resident tuition rates, those students will be billed.

How early could this shortfall have been seen, asked another Committee member. In theory, Mr. Berg replied, by last Fall Quarter; the original estimate then was a $12 million overage in tuition income, which his office questioned at the time. It is clear that that estimate was wrong. It should be understood, however, that the shortfall amounts to a 3.5% error in revenue estimation; the University has not made an error larger than 1% in over ten years, and this mistake is a BIG amount because the University "budgets every dime it receives."

The problem could be fixed in 1994, Mr. Berg said, but doing so may depend on whether there are additional changes in tuition policy or charges; if there are, it is possible that mis-estimates could again lead to a tuition shortfall or surplus.

2. Report on CUFS

Professor Rubenstein next called on Acting Assistant Vice President O'Connor for a status report on CUFS. Mr. O'Connor distributed two handouts to Committee members and briefly explained their contents.

The genesis of the reports, Mr. O'Connor told the Committee, was questions from the Board of Regents about the status of CUFS. He said he reported to the Board in February and April and will do so again in June. He has told the Board that the SYSTEM itself is sound; the troubles have arisen because of the manner in which it was implemented. The system has been stabilized--which was itself a significant accomplishment--but problems remain.

At the April Regents' meeting, asked what it would take to "get CUFS done," Mr. O'Connor said it would require $2-4 million. His question to the Board was how fast should it be completed and were they willing to pay for it? He said he is not cheerful about needing that much money, but the choices are not appetizing. The University could return to its old system, but that would cost about $10 million, so CUFS needs to be finished--with better project management.

If the full implementation is accomplished at a slower rate (over 24 months), the benefits accrue at a slower rate, but at less risk. If at a faster rate (in 12 months), there is a greater risk that the mistakes of the past will be repeated. The Board's advice was to go as fast as is prudent. Mr. O'Connor told the Committee that he advised the Board that his numbers were not firm and that he wanted to check them very carefully. The credibility of his unit is very low, he acknowledged, and he wants to be sure they can deliver what they promise--and win back the lost credibility.

By June, he reported, he intends to provide the Board of Regents with dates and milestones--but underpinnings to prepare such a report are not yet complete. Mr. Erickson explained that the plans being laid out are a tool to reduce risk and that the projects have been broken into small pieces so they can be managed. Mr. O'Connor recalled that he had been widely quoted as saying the University could not handle big projects very well; he also said, at the same time, that as a result the big project is being broken into smaller projects--a $20 million effort is very different from 100 $200,000 projects. Moreover, Mr. Erickson observed, the Spencer Commission--the group that recommended the University replace its accounting system--originally estimated the cost at $18 million, so for all that has happened, the total cost is close to the Spencer Commission estimate.

Mr. O'Connor then reviewed the strategies that will be used to complete CUFS and assured the Committee that financial reporting will improve markedly in the near future.

One Committee member exclaimed that this issue had come up in November, with a chart of progress, came back in February with a chart, and it is now back in May, with another chart--and yet there has not been ONE improvement. Mr. O'Connor demurred, noting that significant improvements have been made that are largely unseen--they have dealt with disasters and fixed them and have been trying to bring CUFS up to the standards of the other systems. As for closing and opening balances that do not match, Mr. O'Connor said the system was not structured to create balances at the org level (only funds and areas) and they have been extremely frustrated because of that. It has taken a long time, but they have created balance sheets at the org level; doing so requires mimicking balance sheet accounting that CUFS does not support. Asked why those balances were not built into the system originally, Mr. O'Connor said he was as amazed as anyone that they were not and he did not understand why the University would have chosen a system that does not give the needed balances. This is not the company's fault, he added; the University's choice was bad--and the team is very close to creating the needed programs. And Mr. O'Connor emphatically denied the charge that there had been no improvement in the provision of balances since last September.

The question of the purchase of software upgrades was raised. The advantage of doing so, Mr. O'Connor said, is that the company helps with the transition and the costs are spread across the systems of many users. Inasmuch as the University has considerably modified CUFS, however, it may not be worth it. The University, rather than the company, has become the developer if sufficient changes are made, said one Committee member. Another question is whether or not the software improvements are worth the cost of transition. Time and time again, for example, in the case of word processing, some of the upgrades being added are so far beyond what he will ever need, Mr. O'Connor said, that he doesn't bother to get upgrades any more. The cost of the software is minimal; the expense comes from the need to train people to use the new software.

Mr. O'Connor agreed to return to the Committee for further reports in the near future.

The Committee adjourned at 5:00.

-- Gary Engstrand

University of Minnesota