Minutes*

Senate Committee on Finance and Planning
November 10, 1992

Present: Fred Morrison (chair pro tem), David Berg, Virginia Gray, Michael Hoey, Thomas Hoffmann, Julie Idelkope, Craig Kissock, Jeff von Munkwitz-Smith, Richard Pfutzenreuter, Doris Rubenstein, Thomas Scott, Jason Schmidt, Mary Sue Simmons, Susie Torgerson

Guests: Katherine Cram, Senior Vice President Robert Erickson, Associate Vice President Susan Markham, Acting Assistant Vice President Michael O'Connor, Mary Trandem, Harvey Turner

[In these minutes: cost savings task force; revised capital budgeting process; CUFS remediation]

[Note: Contrary to what the minutes of the last meeting might have implied, there was no miraculous transformation of the chair in mid-meeting from Professor Rubenstein to Professor Bognanno; Professor Rubenstein presided over the entire meeting.]

1. Cost Savings Task Force

Professor Morrison convened the meeting at 3:15 and welcomed Mary Trandem to discuss the cost-savings task force. She explained the genesis of the task force and what it has been doing since appointed in May of 1991. The task force concluded that the best way to proceed would be to establish tools and a mechanism for employees to measure costs and find ways to improve the way things are done.

New forms and a flow chart are being developed (based on the very successful University Hospital program) and will be publicized through University Relations. Employees suggestions will be routed to the appropriate unit or administrator and reviewed; the employee will be notified if the suggestion was implemented or not. There will also be an awards structure and annual recognition banquet. A steering committee will now be appointed, with representatives from all major groups on campus; it will decide how often to meet and how large it should be. The entire effort will be based in Senior Vice President Erickson's office.

Several Committee members commended the effort, especially as it seems to represent TQM in action. This kind of undertaking, one Committee member noted, can work well because people think of things management never does--but it does NOT work if it becomes over-bureaucratized with forms and committees. Mr. Erickson said they were trying to avoid bureaucracy; while it will be important to get the principles established and used throughout the University, the effort will have failed if it leads to a bureaucracy. For faculty representation on the steering committee, Ms. Trandem was directed to the Committee on Committees.

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2. Capital Budgeting Process

Mr. Erickson then told the Committee that the administration has been working for some time on development of a new capital budgeting process; he and Ms. Markham have worked to get a capital budgeting process--that includes all assets--in place for the entire University. This will be an iterative process, he cautioned, and will doubtless need improvement, but it is important to systematize the way the University budgets capital expenses.

Ms. Markham then explained that the Board of Regents directed that the administrative develop an all-funds six-year capital budget; the Governor's Office has also called for capital budget reform, with all agencies required to submit an all-funds capital budget.

With limited funds, the dollars must be leveraged, she said. Further, everyone should see all funds and all needs and priorities so that intelligent choices can be made--and not just about new buildings. The new capital budgeting calendar will be integrated with the operating budget; she affirmed that it will be an annual process.

The capital budgeting principles will be brought to the Board of Regents for adoption in January, 1993, and will serve as a guide to the Capital Improvement Advisory Committee (CIAC). Ms. Markham said they would like a representative from this Committee to serve on CIAC. Once the CIAC has made recommendations, they will be reviewed by the appropriate consultative bodies and then sent to the senior officers and finally to the Board of Regents for action in June. (CIAC consists of about 13 people, with representatives from each vice presidential area, the coordinate campuses, a student, and a representative from this Committee.)

The Committee has roles at two times in the process, it was emphasized: When the principles are being established, in the fall, and then again when the recommended capital projects are being considered--before they go the central officers and the Regents. It could also have a third role in especially reviewing requests from non-collegiate units, such as the libraries. Ms. Markham concurred. There is a question whether or not the calendar is too tight in the spring, although Ms. Markham said she hoped the process would become more routinized in future years.

Professor Morrison next turned to Mr. Pfutzenreuter for a review of the principles. Mr. Pfutzenreuter drew the attention of Committee members to the two revenue principles for capital expenditures:

-- revenue sources must be identified, requests to the State must take into account the requirement that one-third of the debt service be paid (which may in the future also be true for fire/life/safety improvements), state, federal, and non-University funds must be maximized, and funding from the Internal Loan Fund will be consistent with its rules.

-- the University's credit rating will be preserved, general obligation bonds will not be issued in amounts less than $10,000,000 (the cost of issuance makes doing so unwise) and use of revenue bonds will be limited, indebtedness will not be incurred for projects with a life expectancy less than the maturity of the bonds, and bonds will not be used for operating and maintenance costs.

Mr. Erickson agreed that even though the University may issue general obligation bonds, it can nonetheless (internally) dedicate payment from revenue streams (e.g., so parking improvements can be paid with general obligation bonds but paid with parking revenues). Doing so saves the University money because revenue bond interest is higher.

The Committee discussed with Ms. Markham which projects are considered capital. They include building rehabilitation (e.g., Wilson Library structure, chiller, and elevators) and will be part of the capital budget process. Academic improvements would mean combined use of repairs and replacement funds along with program funds. It was pointed out that repairs and replacement funds can come from the state through the operating budget--although the projects upon which they are spent are still capital.

There are a series of expenditure principles that will be followed; they include, briefly: 1) contractual obligations will be honored; 2) fire and life safety improvements will be the highest rated priority; 3) hazard abatement; 4) accessibility for the mobility impaired; 5) academic priorities; 6) energy conservation; 7) priority will be given to use of existing facilities rather than new construction; 8) operating and life cycle costs of a facility must be identified and priority given where a reduction in expenditures will result; 9) flexibility for the future; 10) feasibility studies. The first four principles come before everything else, Mr. Erickson commented; in a time of scarce resources, legal obligations and health and safety will come first.

This is impressive, said one Committee member, but is there not a risk that the rich will get richer and the poor poorer? Programs with access to a revenue stream will get capital improvements; those which are budgetarily equal but without a revenue stream will lose (although that may also be the case at present). This seems to operate as a for-profit structure. Mr. Erickson pointed out that academic priorities are the first principle after legal and health obligations have been met. It is true that if receipt of a grant requires capital improvements, and the funding is available, the improvements will be allowed. And long-term operating costs must be taken care of through the grant; the two decisions (to build and to operate/maintain) must both be dealt with.

Another consideration in addition to those two, said one Committee member, is that when a decision is made to build and maintain a structure (for about 100 years on this campus), an implicit decision is also made to operate the program in the structure even after the external funding is gone. The commitment is not a firm one, but the program becomes an academic priority. Two principles might be suggested, it was said:

-- Non-state capital projects must be undertaken with the understanding of their real ranking in University priorities--and if they are not important, the University might wish to turn away the funds because they require an implicit long-term commitment to programmatic operating expenses in addition to an explicit long-term commitment to building maintenance that the University may not wish to bear. (A project might advance a few steps on the priority list if "free" money were available, but not from the bottom to the top of the list.)

-- Maintenance cost funding issues should be more clearly identified in the principles; for example, if the Art Museum were proposed today, it should have--before being built--an additional major endowment for operating costs. If it does not, those costs come out of instructional programs.

It was also agreed that it would be helpful to more explicitly identify the decommissioning of space as a useful principle.

Asked about capital investments in projects other than buildings, Mr. Turner noted that there are parts of the infrastructure identified, such as streets, electrical lines, plazas, etc. As for major equipment purchases, Mr. Erickson said, that requires a different set of principles; the intent is to get this piece done and move forward on it.

Mr. Erickson then explained, in response to a question, that the University's total capital indebtedness now is approximately $400 million. The University should always take advantage of state funding for a facility rather than fund a project itself--because the University must pay 100% of the costs when it funds a building itself, in contrast to the one-third it must pay with state-funded buildings. The University had some excess debt capacity and has used it on high-priority projects (primarily the steam plant and athletic facilities, the latter of which will be paid from revenues they generate). The state has guidelines on its own debt capacity, Mr. Pfutzenreuter told the Committee (debt service no greater than 3% of revenues), and a great deal of capacity will become available in 1996, so there could be a large capital appropriation that year. The University's debt capacity, meantime, is nearly tapped out; there will be none available until about 2000.

Is this capital budget process intended to lay foundations for the 1996 session? asked one Committee member. It is not, said Ms. Markham and Mr. Turner; the University needs to focus internally for awhile and get its house in order. It has many new buildings and needs to direct its funds to high priority items; it is difficult to think of additional new construction when there are so many smaller needs--needs that nonetheless amount to millions of dollars.

It was suggested by one Committee member that the evaluation criteria contained in the document (to assist the CIAC in considering and ranking projects) should be more directly tied to the principles set forth at the beginning. Ms. Markham agreed; she also pointed out that the Board of Regents will be asked to adopt the principles but not the evaluation criteria, which may change over time.

Professor Morrison thanked Ms. Markham and Mr. Turner for joining the Committee.

3. CUFS Stabilization

Professor Morrison next welcomed Ms. Cram and Mr. O'Connor to the meeting to discuss the CUFS system. Mr. O'Connor began by explaining that the "CUFS Action Plan" presented to the Committee today is the result of a plea for help from the CUFS team, late last summer, in the face of the problems they confronted. The team pointed out that the project ended before it should have, that it was declared over when it wasn't, and there were too few team members and too many problems. The solutions involve going forward on four fronts, with four teams; the strategy now is to recognize that much was left undone and solving them requires working backwards. Two major efforts, Mr. O'Connor told the Committee, will be to support use (a team headed by Ms. Cram) and to move into production (a team he will head). This approach was approved in September by Senior Vice President Erickson.

The "Action Plan" consists of five parts, each with two halves (system stabilization and knowledge and ownership transfer). System stabilization for the first part, "Goals," consists of dealing with the production problems of a system that is being operated as if it is still in a developmental state. Much which could be automated and standardized is still done "by hand," which is unusual for a legacy system. (A "legacy" system is any computer system required by a large organization to perform basic functions, such as paying employees, paying vendors, accounting, etc.) The aim of AIS is to bring CUFS to the same standards of performance and reliability applied to all the other legacy systems and to eliminate unforeseen changes. The knowledge and ownership transfer portion means increasing the knowledge base; right now there are two "stressed out" people (compared to about 100 a year ago, all but a handful from outside the University) who know the system well--which is insufficient for a system with over 2,000 users.

The second part of the "Action Plan," "Methods," consists of a series of twelve improvements in system stabilization which address three major themes. One theme is problem prevention (such as the loss of an entire day's transactions; in any other system there would have been backups), and remedies will include the purchase of data recovery software not obtained during the project. Another is better handling of problems; the third is fine-tuning the system. Knowledge and ownership transfer includes building a knowledge base beyond grants administration to payables, accounting, purchasing, budgeting, etc. Some people, Ms. Cram observed, do not like the chart of accounts, but before it can be changed the assumptions that underlie it must be understood; small changes could have a major impact. The focus, in this part of the plan, will be to identify the causes of so many errors.

One cause, contended one Committee member, is the design of the system itself. Design decisions made a year ago are responsible, and these problems are not being solved. The objective was to simplify the system, Ms. Cram responded, but trying to meet all needs ended up complicating it. There are no easy fixes, it was said, given the structure of the present system.

The additional resources required to stabilize the system, Mr. O'Connor then noted, would be about $475,000. The AIS team today has seven people, which might be sufficient if the system were stable and if there were an orderly process for making changes. Those "if" statements are not true now, however, so there is a need for additional staff. It will take six to eight months to stabilize the system, if the funds are made available, but the system will have a more solid foundation from which it can respond to needs and deliver results. The CUFS team will not add a lot of people, however; originally, there were a lot of outsiders who worked very hard--and then disappeared, taking their knowledge with them. In addition, the kind of work to be done, and the need for coordination, means that too many people would slow progress rather than speed it up.

Too often, Mr. Erickson commented, the University has tried for quick fixes; in this case, it must follow through, in a way that is not glamorous, and work for long-term improvement. There MUST also be a build-up of internal expertise. The problems are now on the table, he observed, and long-term solutions will be found.

Knowledge and ownership transfer funds, Ms. Cram told the Committee, will be used to allow key people in each area to work on system stabilization--they will be freed up so their time can be dedicated to the project. These funds will NOT be used, Mr. O'Connor assured the Committee, to hire outside consultants to work on CUFS--part of the reason for that is a concern about the possible impact of doing so.

Mr. O'Connor also pointed out that the CUFS team has accomplished a great deal and should take pride in the fact that accounts have been closed every month, every quarter, and--with trouble--at the end of the year. That is a sizeable accomplishment, and their victories should also be recognized. Another Committee member pointed out that closings every month, quarter, and year were accomplished before CUFS; what needs to be shown is that there are things that can be done with CUFS that could not be done before.

One Committee member asserted that it is widely believed that what the University has now is a system that provides less information than before at a greater cost, for a number of reasons. There have also been repeated promises that the system would be fixed shortly. What is needed is realism about the solutions--if communicated widely, people will not expect things that will not happen. For example, units were told there would be local data input early (last May), so some of them reorganized; it is now astounding to discover that it never happened. It would be far better to tell units that it will be a year before things will be available, rather then telling them "soon"; the units can then accommodate themselves in the meantime.

In addition, it was pointed out, the goals of knowledge and ownership transfer appear to be confined to CENTRAL departments--if understanding of CUFS is not transferred out of Morrill Hall, knowledge and ownership will NOT have been transferred. Stabilization must come first, Ms. Cram responded. If so, it was said, then units should be told that as well--and told not to expect much useful from CUFS for a year or so. The credibility of the entire project declines when promises are made and not kept. The CUFS team must also tell units what will NOT be done. The reluctance to rely on temporary people is understandable; the question is whether or not the problems can be solved. Funds are needed not only for stabilization but also for implementation--a large concern is whether or not the $475,000 will be SUFFICIENT. Mr. Erickson said it was intended to be the first installment. The Board of Regents, he reported, supports funding to do what is needed, and he agreed that there must be realistic timeframes. Communication, he was told, needs to go beyond business officers.

Mr. O'Connor explained that the plan proposed will provide the team with the leverage it needs to do what is needed. Developing the plan itself took a long time, but it will now permit the team to get back on solid ground and keep an eye on milestones. The reason for the focus on central measures of success is because of the knowledge possessed by the team and central departments--but this is only the first step. The next step will be to train the trainers, but for now they are focussing on what can reliably be delivered.

One member of the Committee declared he would love to have $500,000, in an underfunded department--this will be a major public relations problem for the CUFS project. This has become a black hole that was over-budget at the beginning and is now consuming even more funds. This meeting started with a discussion of the cost savings task force, then discussed ways to make better use of capital funds, and is now discussing a huge expenditure with no savings. In a department that is repaying a loan to central administration, where they have no money for anything, they are also working with CUFS, which forces them to rely on shadow budgets. The system has increased paperwork requirements by nearly an order of magnitude (which includes increased costs for forms and reports that go into the recycling bin).

If the project is to have any credibility, people must be told why they should have confidence in it.

It is for that reason that the knowledge and ownership transfer steps are being taken, Ms. Cram responded. She pointed out that last year there were major reductions in business services, which saved $1.8 million, but it may be that the cuts were too deep--and that may be contributing to the problems.

The chilling question, observed one Committee member, is whether or not the old system could or should be brought back up. Mr. Erickson said that for all of the reasons outlined in the Spencer Commission report, the University must have a system that allows it to track expenses. This is a massive legacy system, he said, and the University did not have the luxury of putting it in on a unit-by-unit basis. If the selection process were to start over again, the University would very likely end up with the same two systems, he concluded. The old system was here too long, he said, and cannot be changed overnight, but it included a collection of fiefdoms that did what they wished. (One question that can be asked, he said, is if the coordinate campuses need a system that is this complex.) The University has been questioned in the press, with some justification, about its lack of oversight; this system, he affirmed, will provide it.

Asked if CUFS COULD provide the oversight, Mr. Erickson insisted that it MUST--and it will. He said he felt bad about all of the problems but is glad to see that they've all been put on the table. One of the problems of the University, he observed, has been its unwillingness to get issues into the open. He said he wants no sugar-coating of the situation and that there must be dedication to solving the problems. He is committed, he said, to ensuring that time is spent with users--if it isn't, the shadow systems will continue.

It is not the SYSTEM that is the source of the problem, Mr. O'Connor explained; it is the way the system was installed. The need for implementation is at the heart of this discussion. He agreed that it has taken a long time to reach this point, but said he felt the ultimate objective, a useful system, can be accomplished.

How can the University be sure that what it has learned from the CUFS project can be transferred to other projects? inquired one Committee member. Ms. Cram replied that the list of things to be learned was long; one was that system decisions need to be made by the colleges and departments rather than by a core group in central administration. Mr. O'Connor pointed out that the methods of implementing large legacy systems need not be reinvented--they have been installed in organizations before, but the lessons were not applied when CUFS was brought into the University. (The framework for such decisions, he reflected, was once in place but seems to have atrophied; it needs to be restored.)

The Committee discussed ways in which the information about the project could be more widely publicized in the University. One Committee member maintained that more newsletters were not the answer; the best public relations for CUFS would be satisfied users.

The Committee adjourned at 5:15.

-- Gary Engstrand

University of Minnesota