Minutes*

Senate Committee on Finance and Planning
Tuesday, June 1, 2010
1:00 – 3:00
142 WBOB

Present: Russell Luepker (chair), Jon Binks, Sarah Chambers, Devin Driscoll, Steen Erikson, Thomas Klein, Joseph Konstan, Fred Morrison, Kathleen O'Brien, Paul Olin, Richard Pfutzenreuter, Gwen Rudney, Terry Roe, Michael Rollefson, Karen Seashore, Mandy Stahre, Michael Volna, John Worden, Aks Zaheer

Absent: David Chapman, Jennifer Dens, Lincoln Kallsen, Kara Kersteter, Lyndel King, Judith Martin, Thomas Stinson, Warren Warwick

Guests: Brian Swanson (University Services)

[In these minutes: (1) discussion with Vice President Pfutzenreuter (the financial situation); (2) space utilization initiative]

1. Discussion with Vice President Pfutzenreuter

Following lunch provided by Professor Luepker, he convened the meeting at 1:30 and turned to Vice President Pfutzenreuter for comments about the coming financial situation.

Mr. Pfutzenreuter offered a number of observations. The state will face a deficit of $5.8 billion, plus or minus a few hundred million depending on what one counts. The problem will be enormous and even if the Governor and legislature were inclined to do so, there are not enough taxes to raise to solve it, and he cannot see any silver lining in anything related to the 2012-13 biennium. There is likely to be a decrease in state funding for the University and an increase in its costs (salaries and fringe benefits, facilities, utilities, programmatic investments, and so on). The upshot is that the University will likely see a repeat in the next biennium (or more so) of what it faced in this one: Cuts that exceed $100 million in each year of the next biennium. The federal stimulus funds end on June 30, 2011, as does the tuition buy-down for Minnesota resident undergraduates.

Mr. Pfutzenreuter explained that the budget decisions for the next fiscal year (2010-11) are not across the board. The President will bring to the Board of Regents in June a broad range of "resource adjustments" across units. How the bottom line for each college is derived is based on a complicated set of variables that include tuition revenues, state support, and so on. Professor Konstan asked if it would be possible for the Committee to receive a short summary of what happened with each college. Mr. Pfutzenreuter observed that it is difficult to know what is going on inside the colleges, with revenue shifts, use of reserves, tuition changes, etc., and what happens is not usually one big thing but instead changes marbled throughout the college. Professor Seashore commented that much can change within programs that central administration—and perhaps even the dean—does not know about. One problem is that programs make changes that affect quality, but because they absorb cuts and continue to do their work, it appears that there were efficiency gains. More often there is a sacrifice in quality (e.g., larger or

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

fewer classes). Mr. Pfutzenreuter agreed that central administration will never know about many of the changes that occur within the units.

Mr. Klein echoed Professor Seashore: If no one can summarize the changes in the colleges, people will conclude that there were inefficiencies—and that they can be cut even more. Professor Konstan also alluded to Professor Seashore's comments: There is no evaluation of the impact of the cuts on quality. One could look at the numbers related to the student experience, but the institution has been unwilling to measure anything about the educational process except the graduation rate. So it is natural for people to say that if the University did something for $591 million in state funding, and cannot demonstrate what it did, then it can do the same with $491 million. Mr. Driscoll said the institution is reluctant to or does not know how to measure the effects of cuts on faculty and students.

Mr. Driscoll asked what tuition increases students will see in 2012 and 2013. Mr. Pfutzenreuter declined to predict what the increases would be, given the fiscal uncertainties. Professor Roe said the University needs a wise business model for tuition. If students still believe the University's education is a good buy, and it is, there will be pressure to put more money into increasing graduation rates, and if the University puts more resources and effort into helping graduates get placed in jobs for which they are trained, that will reduce pressure to keep tuition increases low. Mr. Pfutzenreuter said that the only place the University can raise tuition is for Twin Cities undergraduates, and that is such an important revenue stream for the University that if it does not invest in undergraduate education so it stays valuable, it will not keep its revenues up. So it must be a signature part of the University. If students decide there is little value to higher education, they will not continue to borrow for pay for their education, and the University will be in trouble. But for now they are still borrowing and the federal government (and the University) is increasing investments in financial aid.

Mr. Worden commented, apropos of measuring, that one cannot measure different fields the same way. One cannot measure the success of the English Department by the number of graduates who get jobs; perhaps one can measure the success of engineering programs by the salaries its graduates receive. Colleges use different metrics.

Professor Luepker commented that Senior Vice President Cerra reports that the School of Public Health is the only college in the Academic Health Center to have a balanced budget. But it achieved that distinction by nearly tripling enrollment while increasing the size of the faculty by about 30%--which means that the size of classes has increased. He had two questions: Why not post online the budget presentation to the Regents? (They do, Mr. Pfutzenreuter said.) What will happen to undergraduate tuition? Graduate students have seen 7.5% increases but undergraduates have not because the rate increases have been held down by federal stimulus funds. Mr. Pfutzenreuter said a returning Minnesota undergraduate will see a $744 increase plus whatever the percentage increase is; the buy-down is worth $744 in 2009-10. But that also varies with the students; Pell-eligible students will see no increase.

Professor Luepker thanked Mr. Pfutzenreuter for his remarks.

<u>2. Space Utilization Initiative</u>

Professor Luepker now welcomed Vice President O'Brien and Mr. Swanson to provide information about the space-utilization initiative.

Mr. Swanson distributed copies of a set of slides and walked Committee members through them.

There is a space-utilization executive committee, composed of Senior Vice President Jones, Vice President O'Brien, and Vice President Pfutzenreuter, with additional team members drawn from Space Management, Facilities Management, the Budget Office, Capital Planning and Project Management, AHC Facilities, and Real Estate. The charge to the group is to "improve the utilization of University space to decrease operating and lease costs on the Twin Cities Campus by $10M annually and to reduce the University's space inventory and demand for leased space [and to] develop system-wide processes and metrics to claim back space with or without major program cuts.

The principles of space utilization are these:

-- **Sustainable**: The University should not have more space than it can afford to operate, maintain, and support.
-- **Aligned**: The University should provide the correct type, quality, and quantity of space required for programs to function effectively.
-- **Managed**: The University should provide tools and incentives for maximizing the efficiency and effectiveness of its space resources.

Mr. Swanson reviewed a timeline of space changes 1999-2009 and observed that during that period the University added a lot more space than it took off line. While it razed some buildings (Owre, Millard, Lions, Art, Poucher, etc.), it also added (construction or purchase) Andersen, Plant Growth, Ridder Arena, Yudof Hall, 717 Delaware, MCB, U Office Plaza, Equine Center, Hanson Hall, UROC, TCF Bank Stadium, 1701 University, and a few others. It increased the number of "supported" gross square feet by 11.2% ("supported" is space for academic programs and administrative support). It increased the non-supported gross square feet by 25.3% ("non-supported" is space used by athletics, parking, dorms, student unions, etc.—space that is supported by unit revenues, not by other institutional funds). The number of leased square feet has increased by 35% (453,000 to 612,000). The overall increase in gross square footage during the decade was 15.8%, from about 20.7 million to about 24 million GSF. Moreover, what has been taken off line was "cheap, crappy space" while the new space was higher-quality and more-expensive space. With more sophisticated technical and mechanical systems, Vice President O'Brien added. (Mr. Swanson explained that the Brenner Committee report in the early 1990s defined "supported" and "non-supported" space.)

Does all of that mean a more efficient operation, Mr. Driscoll asked? Vice President O'Brien said it depends on the building. Labs are more expensive. Mr. Pfutzenreuter said that Folwell, for example, will cost more to operate than before remodeling because it had no air-handling system.

At the same time, on the Twin Cities campus, the total number of full-time degree-seeking undergraduates increased from 21,599 to 28,539, the number of full-time degree-seeking graduate students increased from 4,850 to 9,555, and the total employee headcount increased from 20,690 to 22,995. Sponsored research spending (all campuses) increased from $495.5 million to $583.5 million; total institutional spending increased from $2.331 billion to $2.534 billion (HEPI-adjusted). So the University added about 3.3 million GSF and increased the number of students and employees. Overall, supported space and people have increased at about the same rate, Mr. Swanson concluded. If the University adds more people, it will likely add more space; if it decreases the number of people, presumably the amount of space required could decrease as well. Professor Konstan demurred and said that the University has kept the growth in space below the amount of education it is delivering, given the increase in the number of students. Over the last ten years the University has increased the amount of education and research it is providing on a per-square-foot basis.

Mr. Swanson noted that on the Twin Cities campus there has been less money devoted to repair and replacement beginning in about 2002 (in real dollars). At the same time, the University has received, on average, about $44 million per year for the last five years in HEAPR funds, an amount that is considerably greater than what the University received in the preceding five years. The required capital to maintain an industry standard (FCNI) of quality is $160 million per year; the University has been investing about $83 million per year. The University is not spending anywhere near enough to maintain the quality of its space.

Mr. Swanson next explained that the goal of saving $10 million on the Twin Cities campus is actually focused on about 7.1 million square feet. While there are about 22 million GSF of space on the campus, the assignable square footage is about 13.1 million (after subtracting the structural and non-assignable square footage, or ASF), and when the non-supported square footage is removed, there is about 7.1 million ASF remaining. Mr. Swanson provided a table indicating how the ASF on the Twin Cities campus is used (offices, labs, residential, support, general use, etc.).

The premises are that the "University has more space than it can afford to operate, maintain and support, with limited options for new funding sources [,] attempting to operate and maintain the current inventory with insufficient resources results in a lower overall space quality and a poor alignment with purpose [, and] there is little incentive at the present to maximize the efficient use of space, limit the addition of new space, or control cost." Everyone suffers, Mr. Swanson concluded.

There are four cost-drivers for space: construction, operation, renewal, and debt service. Costs of operation vary widely between facilities (e.g., MCB is $26.62 per ASF, the Magrath Library is $7.35 per ASF).

The goal of saving $10 million equates to about one million supported GSF, which is approximately two-thirds of all the supported space added since 1999, or an average 8% reduction in space for all supported units on the campus. Their thoughts, Mr. Swanson reported, are that achieving the goal "will require a broad culture/attitude change about space use, and it will not be free. It will cost money to save money. [It] will not be fast or easy (if we want to minimize chaos), but it will not be anything new. Other organizations and institutions have successfully made these kinds of changes." It is, he said, worth pursuing.

There are several approaches that can be taken: decommission entire buildings, terminate off-campus leases, charge full costs for non-University tenants, and consistently apply the supported/non-supported designations. Off-campus leases incur much higher space costs than operating in University space (the owner needs to make a profit and must pay taxes on the space). There are a limited number of cases of tenants in University space paying less than full cost (e.g., Fairview).

Professor Seashore noted that some of the slides refer to the Twin Cities campus and others to the system; are they doing similar analyses for the coordinate campuses? They have not started such studies, Vice President O'Brien said, because the Facilities Condition Assessments of coordinate-campus buildings are better, there are fewer buildings, and there have been more investments in those buildings.

Mr. Swanson reviewed a page-long list of specific "buildings to evaluate" that provided data on their GSF, operating costs, and capital needs over the next ten years. They used several criteria, from the Facilities Condition Assessment data, to evaluate them: "Significant facility condition deficiencies, cost to renovate near to or exceeds cost to replace, current facility does not allow efficient space utilization, not a major historical significance for University, [and] current building does not provide flexibility of use. Using those criteria, they sorted questionable buildings into Tier 1 (could be vacated more easily) and Tier 2 (would require more extensive investment, planning, and coordination)." One would have to go quite away down the list into Tier 2 to reach one million ASF, Mr. Swanson observed.

Mr. Swanson also reviewed leases that need evaluation (with a total annual cost of $2.5 million), space use by non-University tenants, and supported versus non-supported space. With respect to the last, cost pools have blurred the distinction between them. Questions are appropriate: What is the appropriate billing model for facility costs? What space belongs in the pool and what should be direct billed? What rate differentiation should occur within the pool?

Mr. Swanson concluded with a series of questions to the Committee, posed in parallel to the questions University Services posed earlier to the Committee about related issues.

1. Should the University place restrictions on its net growth in total square footage? If so, what measures/criteria should it consider in establishing a limit?
2. Should the University work to quickly consolidate its existing programs into less space to allow buildings to be decommissioned and leases terminated?
3. Should the University more effectively incent innovative and efficient space use at the department level? What information would be useful to aid department level space decisions?
4. Should the University’s space standards be adjusted to reflect changes in how people work?
5. What impediments exist that prevent faculty and staff from working from home, working off-hours or taking advantage of other innovative office arrangements?

Professor Konstan commended Vice President O'Brien and Mr. Swanson for providing a very useful overview. The idea that the University should close buildings and move people sounds great at this level; on the ground, people see space as hard to come by and guard it jealously. He said he does not know how scarce space is, but if there is a perception of scarcity, people will hoard it. So accomplishing the goal will be more difficult than may be thought. To close offices or labs, the University will have to adopt a draconian charging method or make a major cultural change.

Vice President O'Brien said she did not disagree with Professor Konstan. If they were building the University today, they would not build the buildings that it has. What needs to be demonstrated is that if people or departments keep using the space as it is, it will be at a cost, such as the loss of faculty positions. Space has been a free good; they need to demonstrate that it is not and would like the Committee's help.

Mr. Driscoll asked about space in the cost pools. Vice President Pfutzenreuter explained that the cost-pool charges are only at the college level, and Mr. Swanson explained that only two colleges carry the charges to the department level, so departments generally do not see the costs of space. Professor Olin asked how much space is leased to Fairview; Mr. Swanson he did not know but that it is a lot; Mr. Pfutzenreuter explained that the space arrangements are linked to the sale of the hospital to Fairview.

Professor Morrison wondered if the questions do not go to the question of controlling the number of tails rather than the number of dogs in the park. Their project is geared to controlling the number of tails, he said, and expressed doubt that it would work because what drives the demand for space is personnel. The University needs to get a handle on the number of people and the amount of space per employee. There is also the phenomenon whereby a department believes that six new professorships are just around the corner—so it must keep six offices and/or labs available for them. They must realize that will not happen, he said.

As long as there is a culture permitting individual ability to negotiate what they want, Professor Seashore said, it makes sense to hold space ("this dean does not like us but the next one will give us more positions, so we need to keep the space"). That does happen.

The proposal also just feels wrong, Professor Konstan said. The University would not say "we should start using 21 million gallons of water instead of 23 million." If the mission is teaching and research, deans and department heads should not be spending time squeezing out 150 ASF. The University should have systems that lead to efficient use of space.

They do not underestimate the complexity of the problem, Mr. Swanson assured the Committee. The three most-important things at the University are parking, salaries, and space, and not necessarily in that order, he joked; space reflects status and what one has achieved and is personal. But how many people could work from home? It may be that the University could do more with less space, but that will require changes in human-resources and training, but it could also save some employees the hassle of transit and could be more efficient.

Professor Chambers contemplated the lease data. Leased space is much more expensive, she observed, and with the talk about the challenges to moving people around, leases might be a better target for saving money. The problem is where to put people when they move out of the leased space, Mr. Swanson responded, but it is more efficient to do that than to get people out of the University's own space. It is not either/or, Vice President O'Brien said, it's "and." There are some buildings the University should decommission and in which it should not invest more money. There are some old but stable buildings that can be made useful for many more years. They need to look at the Facilities Condition Assessment in each case to make a judgment.

Vice President O'Brien recalled that about a month ago, three faculty members challenged the Committee to examine administrative spending. University Services faces an 8.65% cut next year, and they are trying to be as efficient as possible with every square foot of space they take care of. But there are costs for every square foot and space cannot continue to be a free good.

Professor Zaheer said that what is needed is a combination of education, incentives, and an assurance that units will receive space if they need it. The Carlson School has done something imaginative: They used to have offices for emeriti/ae faculty (two per office), but now all have been moved into temporary cubes that the emeritus/a faculty occupy when they are in; the cubes are used on a rotating basis. They expected an adverse reaction from the emerti/ae faculty, but they like it, and the change freed up a lot of offices for college use. Mr. Swanson said they would like to find such initiatives across the University.

If one looks at the big dollars, Professor Roe said, one is related to using space the University already has versus building new space. There was a report to this Committee on classroom and other space, he recalled, that showed the University had a lot of unused, what was called "obsolete" space. It was also pointed out that the addition of new space, which has been rather substantial, helps to create unused albeit to some degree obsolete space. Careful planning to minimize the addition of new space, and careful evaluation of renovating and updating obsolete space, could swamp any savings that might be obtained from controls on heating, lighting, and closing down buildings on weekends.

Professor Luepker noted that the last time Vice President O'Brien came to the Committee with questions, it adopted a statement regarding space and energy use that was then approved by the Faculty Senate without dissent. It was a clear statement from the Committee that represents faculty, staff, and students. Mr. Swanson has provided the Committee with another set of questions to consider.

Mr. Klein commented that the first four questions make the case well. If one takes all that has been said, and not reach the conclusion embodied in those questions, then he did not understand what was going on. Instead of asking "Should the University. . . ." the questions ought to be "How should the University. . . ." To respond as they have been posed just sets up another round of discussion. Mr. Swanson said they did not know if everyone would agree that there need to be restrictions on space, so he did not presume to write the questions beginning with a "how." Professor Konstan said he agreed: He could support the questions if they began with "how." If they start with "should," he would not support them. If they began with "should," the University would never have built TCF Bank Stadium (but there would always be exceptions). "How" raises questions about what the University is doing and about sensible policies that are needed. Professor Morrison said that he was not happy with the notion that the University should do space planning because it must do academic planning, which is what drives the use of space. If a program can derive a revenue stream to support the space, it can build. He concurred that "how" is more important than "should," but said that space planning is not central.

Professor Seashore commented on the list of buildings. Some are outmoded, inadequate space that no one would want to move into while waiting for new space—but doing so would not change what one is doing. In some cases, however, if a program is moved into the wrong space, it could not do its work. In others, they could. Units could use Peik Hall on an interim basis; the Institute for Child Development has to have child-care space and could not move as easily. The criteria for moving are not here, but one of them cannot be that the program does not desire to move.

Vice President O'Brien said the comments have been very helpful and that they would make no decisions without consulting with the academic community. There are no criteria, she said to Professor Seashore, because the information they provided only report the Facilities Condition Assessment. Professor Seashore said that there also needs to be an assessment of the effect on the program if it must move or its space eliminated. They would hope that academic planning would respond to that kind of question, Ms. O'Brien said.

Professor Morrison said there should be a more fundamental opening question: How should space costs be integrated into academic planning? Mr. Pfutzenreuter agreed and said if someone has an idea for a new project, and the dean supports it and central academic leaders signal support, the project begins capital planning and often fund-raising starts, and there is often little or no evaluation of the cost of new space versus use of existing space or sharing other space, particularly if it involves a different academic unit. Professor Seashore said that one criterion for adding something to the list is that a decision does not belong to one unit, but that other units get to participate as well.

Professor Luepker thanked Mr. Swanson and Vice President O'Brien for bringing the information to the Committee; he promised it would discuss it again. He commented that Vice President Pfutzenreuter has indicated there will be more financial problems, space costs money, and whoever yells the loudest gets a building, Professor Konstan and others are right, Professor Luepker said, the issues are interlocked. It would worthwhile for the Committee to make a statement. He said he would think about what the Committee might say but that he has a sense for the Committee's views. The Committee will meet this summer and these issues will be on the agenda.

Professor Morrison said that the Committee had this discussion ten years ago, and what he said then is still applicable: Alfred Nobel invented the solution to the space problem. On that note, Professor Luepker adjourned the meeting at 3:15.

-- Gary Engstrand

University of Minnesota