Minutes*

Senate Committee on Finance and Planning
Tuesday, May 4, 1999
3:15 – 5:00
Room 238 Morrill Hall

Present: Stephen Gudeman (chair), Jean Bauer, Charles Campbell, Wendell Johnson, Eric Kruse, Richard Pfutzenreuter, Jane Phillips, Susan Carlson Weinberg

Regrets: Catherine French, Gerald Klement, J. P. Maier, Peter Robinson, Terry Roe, Charles Speaks

Absent: Cynthia Gillett, Terrence O'Connor, J. Peter Zetterberg

[In these minutes: disposition of recommendations about funding building capital and operating costs; Aramark and the food service; precinct planning and the capital budgeting process; overview of Facilities Management]

1. Rules Change

Professor Gudeman convened the meeting at 3:15. The Committee first took up a change in the Rules of the Senate, which would permit members of this Committee to serve two 4-year terms, rather than be limited to 6 years (as is the case with all other committees). The terms on this Committee were changed to 4 years, in order that Committee members serve through two biennial sessions; appointment for a second term would thus run an additional 4 years.

The Committee unanimously approved the recommendation and voted to forward it to the Business and Rules Committee. [Business and Rules subsequently decided to refer it to the Committee on Committees for review.]

2. Building Recommendations

The Committee turned next to the recommendations concerning building costs from the Subcommittee on Twin Cities Facilities and Support Services that it had reviewed at its meeting of April 20.

One Committee member inquired about recommendation number 1 (to use the University's bonding capacity for infrastructure needs rather than for proceeding with unfunded projects): is the University's bonding capacity used only for items that produce a revenue stream? No, explained others; it is used for many things. A problem arises when it is used for items that do not produce a revenue stream, observed one Committee member, because the debt service must then be paid from the operating budget.

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It was agreed that the building recommendations would be forwarded to the Faculty Consultative Committee and to the being-appointed budget review task force for consideration. Professor Gudeman again thanked Ms. Phillips and the Subcommittee for its work.

One Committee member inquired if this Committee would have a say in who would be appointed to the budget review task force. It was explained that Professors Evans and Morrison had developed a list of proposed members (faculty, deans, central administrators), and that that list had then been reviewed with Professors Gudeman and Martin and with Executive Vice President Bruininks. It was recalled that in the past, decisions about task force or working group membership had been made without consultation with the Faculty Consultative Committee, and that practice had proven to be unwise. The appointment process, in this case, was not the subject of further protest.

3. Aramark and the Food Service

Professor Gudeman next reported on a meeting that he, Professor Campbell, and Ms. Weinberg (and a number of other faculty) had attended with Associate Vice President Campbell and two Aramark executives. He recalled that the Committee had started out with the intention of looking at the financial issues surrounding the Aramark and Coke contracts, but then ran into the problems of food quality, service, price, diversity, environment, and so on. These issues were brought to the Aramark representatives; they had also been provided copies of all the email messages that were sent concerning the food service.

In the recent meeting, the Aramark representatives said that (1) the University was a VERY large contract for them, and (2) contract performance had been inadequate. Where was the oversight, Professor Gudeman inquired rhetorically? Aramark has promised to do certain things, but there will still need to be follow-up; how will that be accomplished?

One issue that was clarified, reported Ms. Weinberg, is that siphoning off beverage revenue (as occurs with the separate Coke contract here) is not unique, and that Aramark has encountered that same practice at other places.

Professor Campbell said he believed the Aramark people were quite forthcoming, noted that they had brought in a number of national executives, and they are clearly working on the problems. They distributed at the meeting a booklet outlining their strategic plan, but the contents were very similar to what they promised originally, so the question is why the plans were not implemented.

Professor Gudeman suggested that the University administration may not have been overseeing Aramark's performance as closely as it might have been. The Aramark people themselves were impressive, and while all there is so far is words, they seemed to be serious about their intentions.

It was agreed that follow-up on the Aramark issues would be the responsibility of the Subcommittee on Twin Cities Facilities and Support Services. The Subcommittee should arrange to have periodic meetings with Associate Vice President Campbell (preferably beginning this spring) and make reports to this Committee. The question of how to deal with the financial issues remains unclear, Professor Gudeman said; the revenue flows should be transparent--and the governance system should have been more involved in the decisions made about those revenues. In addition, it was said, reporting of income and expenses should be in a form that can be understood, with standard terminology.

It was agreed that Professor Gudeman would thank Mr. Campbell for his help, ask that he join the Committee again in the fall, and ask that there be more regular reporting of the budgetary details of the Coke and Aramark contracts. An annual report from the Aramark arrangement should also be provided in the fall, after the completion of the first year of the contract.

4. Precinct Planning

Professor Gudeman next welcomed Messrs. Kruse and Pfutzenreuter, who presented information to the Committee on the precinct planning process.

The presentation started with a handout entitled "How A Capital Project Becomes a Reality," and is intended to address the missing piece between the campus master plan and the capital development process. Mr. Pfutzenreuter explained that there has been a problem in the consultation on capital projects, and in looking at the process, they tried to identify how a project becomes reality. Once they did that, they asked how the project fit with the master plan. There is typically "scope creep" in projects, but usually to a good end.

The campus master plan is a vision at 40,000 feet; it is land use but not programs. They found that there is frustration in fitting the campus master plan with the budget process. The missing piece between the master plan and the budget process is precinct planning. Precinct planning is intended to answer questions about how a project fits in its location. Most people think about their own building (quite naturally), but not about its relationship to the ground, to other buildings, the impact on parking, transportation, the community, debt service, and so on. Precinct planning is intended to ensure those questions are addressed.

Precincts are geographic (sort of): St. Paul is a precinct, the West Bank is a precinct, while Recreational Sports is a functional precinct. The Knoll and the Mall are precincts; so is the South Mall. They also look at program area, and consolidation in buildings. The goal is to develop precinct plans, but unfortunately they cannot be drawn up as fast as people dream up buildings.

One Committee member inquired if the notion of precincts assumed a relationship between geography and function. Are departments assumed to be within one precinct? Does it matter which functions are in which precinct? It does not; Mr. Pfutzenreuter pointed out that the South Mall has parking, housing, food, and is more geographic. Mr. Kruse added that another part of the process is to try to get appropriate departments adjacent to each other.

The flow of decisions in the precinct planning process was outlined on one page, from priorities established in the compact and budget process through regental review of the precinct plans. One place where difficulties arise, Mr. Pfutzenreuter related, is when a unit decides it wants a building and it raises all the money itself: there is often no or little consultation on how it relates to other buildings, the area, traffic, electrical demand, food service needs, etc.

The capital development process was also reviewed, including highlighting of points when the regents and the community are consulted. They emphasize the importance of the predesign, Mr. Pfutzenreuter said--the dean's and others' concept of the project, not about the details. ALMOST EVERY problem the University has had with a capital project has been because there was no predesign process.

State law requires it in the capital request, and Mr. Pfutzenreuter said they want to see it used with EVERY University project. It is their intent to require a predesign before any project will be taken to the Regents and put into the capital plan.

Ms. Phillips noted that the Subcommittee report on buildings had noted that the predesign costs money, but is required before funds are available, so it is in some part "guesstimates," and does not include work with architects or engineers. Mr. Kruse noted that Facilities Management hires experts to help provide estimates, and while the result is not a "true" predesign, "it can get pretty close," Mr. Pfutzenreuter observed. The biggest problem is a change in the scope of the project, Mr. Kruse said. Another, Ms. Phillips added, is the imposition of a dollar cap on a project before the program is known; this process does not respond to that question, and it causes many problems.

The process also calls for consultation with the community on the predesign, which is one area in which the process has been quite weak. One Committee member expressed concern that the University seek community views and discuss projects with it, without conceding a right of veto.

By Regents' policy, Mr. Pfutzenreuter reported, there will be prepared a one-year capital budget and a 5-year capital plan. The one-year budget will be taken to the Regents in May; the 5-year plan will be deferred because it has a large number of projects. One problem the University has is independent activities--it does not tell the community about them because it does not KNOW about them. That damages the relationship with the surrounding community, and the President has made it clear he wants good relationships with the neighborhoods.

By the same token, Mr. Kruse observed, the University will ask the communities what they are planning, because what they do can have a significant impact on the University.

One Committee member inquired where budgets and decisions feed into the process. The pivotal point is in the predesign, Mr. Pfutzenreuter said. What determines if money is available for a project? Whether the state appropriates money, or if the University decides to issue bonds, or if the department comes up with the money. At the end of the predesign process, both operating and capital costs are to be identified.

When should this Committee be involved? It was not clear, but there was agreement that the Committee did not want to be involved in looking at individual projects. Where the Committee is involved depends on the goal, Mr. Pfutzenreuter commented; if it is to constrain debt and operating costs of new buildings, then it should be at a high level. These costs take funds from elsewhere in the budget, Professor Gudeman observed. But if a department has the money, the CIAC approves it if the administrators say it has priority, and the funds are available, who is going to say "no"? Mr. Pfutzenreuter asked? There is a difference if the facility is funded without a commitment from the University for debt service, it was said, but another Committee member observed that there are still sewage, steam, power, and other costs.

Asked if budgetary implications for the rest of the University should be raised about a project in the predesign process, Mr. Kruse said that was too late; by that time, the process is quite a ways down the road, and projects tend to acquire a momentum that is difficult to stop. There needs to be some checkpoint, Professor Gudeman suggested. The Committee can have more of an impact on the long-term, and less on the near-term, Mr. Pfutzenreuter said. They are also trying to establish a process whereby the predesign comes a few years before the funds are available, Mr. Kruse said.

One Committee member remarked that much of the process relies on cooperation between the faculty and the administration, and the current level of cooperation is much higher than it has been in the past. That helps develop trust. It would be sufficient if information is provided to appropriate Senate committees (and consultation initiated where deemed desirable), and let the committees decide if they wish to step in. Even in the case where things move fast, when the University wants to strike while the iron is hot, faculty leadership can be consulted. Mr. Pfutzenreuter recalled that the last 4-year capital plan was on a fast track, by the President's decision; the next one needs more consultation and needs to be grounded in the prevailing financial realities.

Professor Gudeman thanked Mr. Pfutzenreuter for his presentation.

5. Overview of Facilities Management

Professor Gudeman now asked Mr. Kruse to provide to the Committee the overview of Facilities Management that he had earlier presented to the Board of Regents. Mr. Kruse distributed copies of a series of slides and walked the Committee through their contents.

-- He reviewed the vision, values, and mission, which includes being customer-centered, provide service with quality and integrity (including honoring all legal and ethical obligations), and never compromising safety.

-- He reviewed the goals, which include basing services on industry standards, adapted for programs, providing cost-competitive service with quality (they have an obligation to be good stewards, and must get beyond an acceptance of mediocrity).

-- He reviewed the profile of the Twin Cities campus:

- -- responsible for about 14 million square feet, with an additional 5 million in auxiliaries, unions, leased space, etc. (roughly equivalent to the amount of office space in downtown Minneapolis)
- -- replacement value of about $2.6 billion; there are about 250 buildings on the campus, and they are the most diverse group of buildings of any organization in the state; laboratory space is roughly equivalent to the retail space in the Mall of America
- -- facility expenditures are about 8% of institutional expenditures, or $2936 per student
- -- Facilities Management maintains about 1000 acres, 14 miles of streets, 46 miles of sidewalks, and 58,000 windows
- -- campus utilities tend to be a higher percentage of facilities expense than that in Twin Cities office buildings (40% versus 33%), but not all campus buildings are for offices; maintenance and custodial run about the same, repair and replacement is higher, administrative expenses are much lower (4.5% versus 18% in Twin Cities office buildings), and other costs are negligible in comparison. The East Bank, minus the Academic Health Center, consumes about the same amount of electricity as the city of Hutchinson.

-- Major service offerings fall into three categories: utilities, routine maintenance and repair and replacement, and custodial. There are external partnerships for steam production, facility design and construction, and about 10% of maintenance tasks (e.g., recharging fire extinguishers). Services are delivered through six offices across campus, and the priority order of service is: safety; liability/risk/exposure; academic program needs; environmental system repairs; long-range/future plan for the facility; intensity of building use.

-- He reviewed various factors that make up the $46 million utilities costs, the $28 million in maintenance costs, and custodial costs. Mr. Kruse noted that they spend about $3 million per year in roof replacement, but should be spending about $5 - 6 million. If there were a depreciation schedule, and funds set aside, maintenance such as this would be done the right way. The institution, however, has decided not to depreciate buildings. Neither maintenance nor custodial costs are funded up to the standard deemed appropriate, so they must allocate resources as best they can. The current labor market also makes it difficult to hire and retain custodial staff.

-- The outlook is that new and renovated facilities are not cheaper, there will be more regulation (especially of indoor air quality), and there is a continued challenge to pay for the increasing facilities costs.

The numbers, Professor Gudeman observed, are staggering.

One Committee member inquired if thought had been given to more outsourcing. Mr. Kruse said they continuously look for ways to do things faster, better, and cheaper, but he is not a big proponent of outsourcing. Building service companies are having a hard time keeping employees, and one loses that sense of loyalty and being part of the University and wanting to provide care. Outsourcing does not avoid relationships with labor unions, and the University seems to have very good relationships with the unions, so there is limited pressure to outsource.

Mr. Kruse reported briefly on the search for the Facilities Management vice president, after which Professor Gudeman thanked him for an impressive presentation, and adjourned the meeting at 5:00.

-- Gary Engstrand

University of Minnesota