

Minutes*

Senate Committee on Finance and Planning
Tuesday, May 19, 2009
2:00 – 3:45
238A Morrill Hall

Present: Judith Martin (chair), Jon Binks, Joao Boavida, David Chapman, Steen Erikson, Steve Fitzgerald, Lyndel King, Thomas Klein, Joseph Konstan, Russell Luepker, Kathleen O'Brien, Paul Olin, Richard Pfitzenreuter, Gwen Rudney, Terry Roe, Michael Rollefson, Michael Volna,

Absent: Lincoln Kallsen, Kara Kersteter, Karen Seashore, Madelon Sprengnether, Thomas Stinson, Warren Warwick, Aks Zaheer

Guests: Orlyn Miller, Monique MacKenzie (Capital Planning and Project Management)

[In these minutes: (1) purchasing and procurement; (2) East Gateway/Biomedical Discovery District; (3) budget update; (4) recognition]

1. Purchasing and Procurement

Professor Martin convened the meeting at 2:00 and turned to Mr. Volna for a report on purchasing and procurement.

Mr. Volna distributed a handout and began with an overview of the Strategic Purchasing Project. The President and Vice President Pfitzenreuter "have launched a project to identify opportunities for reducing the cost of goods and services purchased by University departments, through better purchasing policies and practices"—something that a lot of non-profits and higher-education institutions are doing, Mr. Volna said. The "deliverables" will be an assessment of short- and long-term savings opportunities, implementation plans for short-term savings opportunities, and "strategies for implementing long-term, transformational savings opportunities." The President has appointed a Strategic Purchasing Advisory Committee charged to carry out several tasks, including analysis of procurement practices with experts, benchmarking best practices in the public and private sectors, communicating with administrative and academic officials, faculty, and others, and endorsing a plan to drive culture change. "An external firm will perform a 'deep drill' spend analysis on the University's purchasing data"; the key, Mr. Volna said, is to have a lot of good data and a detailed analysis of spending. The firm will identify opportunities for savings through changes in practices and policies; the Advisory Committee "will provide guidance on the feasibility of implementing the opportunities that have been identified, to ensure that the most promising opportunities are implemented." The goal is to have a report on opportunities identified by September or October.

Professor Chapman asked for examples of dramatic things that could change. Mr. Volna referred the Committee to a page with a graphic developed by a company that has worked with the University on a number of occasions and that has considerable experience in higher education. The X axis indicated degree of difficulty/ease of implementation and the Y axis indicated savings opportunities. On various places on the grid were about two dozen purchasing areas and potential savings; examples include

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construction (\$34 million; high savings opportunities but difficult to implement), IT hardware (\$19.5 million, high savings and easy to implement; food-related products (\$13.1 million, moderate savings and moderately difficulty), and so on in such areas as office-related products, books and library services, utilities, pharmaceuticals, professional services, insurance and benefits, scientific supplies and equipment, travel and entertainment, furniture. The amount potentially saved varies widely, from about \$1 million up to over \$100 million.

Mr. Volna briefly described the analysis that would take place, identifying that part of the University's "addressable spend" out of its total spend; the latter totals somewhere between \$700 million and \$1 billion dollars. The University's total spending includes some areas which it cannot drive spending decisions as easily (e.g., grants, donations). He referred the Committee to a table identifying 14 other universities that have examined their purchasing practices. They saved on average about 11%, with amounts ranging from \$495,000 (at an institution that only examined about \$3.4 million in spending) to \$13.5 million (at an institution that examined \$137 million in spending). He reported that the expected range of savings for the University was between 8 and 15%, or approximately \$20 – 30 million annually.

Professor Konstan asked if they intend to look only at what is purchased from outside or also at things staffed internally that might provide an opportunity for savings if outsourced. Mr. Volna said the RFP asked for that expertise as well but he is not sure they will take on that question right now. They can ask questions about Internal Service Organizations (ISO) and whether or not they provide the lowest price, but cannot as easily determine if outside vendors could provide the same quality and service on certain ISO services.

If the University reduces the number of vendors it uses, there will be winners and losers inside the institution, Professor Konstan said. Will there be a way to help the losers? Mr. Volna said he did not believe there would be a lot of winners and losers. Professor Konstan suggested an example: one shipper could require a lot more paperwork that would save money on grants—but that would cost the University more in time and effort. That is something the people in the project need to be aware of, Professor Martin agreed. They will do an analysis of implementation approaches, Mr. Volna promised. The analysis of the savings potentially to be achieved in each area will identify the largest internal consumers and they will rely on those consumers to select a vendor and approach—and the decision will not always be only on price but also on service and vendor relations.

Will the spending analysis include a quality metric, Mr. Fitzgerald asked? They will start with the data on costs, Mr. Volna said, and then look at benefits, deliverables, and quality indicators. This involves working with the users, Mr. Fitzgerald pointed out. Mr. Volna concurred. He said that about five firms have "deep-drill tools" that include databases and algorithms, and they compare your institution's data with theirs. That can tell the University more than it can tell itself.

The extent to which purchases can be centralized or harmonized depends on heterogeneity of demand, Professor Roe commented. Will there still be choices? The first issue is not centralization or standardization, Mr. Volna said; they will provide information to departments on choices, prices, and vendors. If it is possible to consolidate around a vendor, the University will go to it and seek a better deal. They do not plan to mandate a lot. What is centralized now, Professor Roe asked? UStores is preferred for supplies, Mr. Volna said, and Office Equipment Services for service on equipment; the fleet, printing, and some others are also centralized. There are also University-wide contracts with some vendors. He said he believed that if the University compares itself with others, it can do better.

Mr. Erikson asked what programs would be put in place to ensure continuous monitoring? The University can make the changes but someone has to pay attention over the long run to ensure that the

new programs continue to perform. A key strategy is to have data and tools for the long-term. They have negotiated long-term agreements for the analytical tools so the University can do its own analysis in the future, after the consultant teaches University staff how to do it.

Mr. Volna said, in response to a question, that they will factor in federal policies that encourage contracts with minority- and women-owned vendors; that is part of the quality and the negotiations. That gets to the point, Professor Martin observed, that this is a university with certain values, not a company, and that is part of the institution's value system. Mr. Volna agreed and said the analysis would look at the total picture, including values, and not just price. He repeated that people from the departments will be included in developing recommendations.

Will they have the ability to get down to the level of purchases that employees make on their own, Mr. Erikson asked? Use of purchasing cards and expense reimbursements will be part of the study. This is a thorny problem, he said, because people pay retail sales price and sales tax and sometimes shipping, which is an expensive way to purchase.

The point is to get the idea out there so people think differently about how they do things at a time when the University will likely have \$100 million less in funding, Professor Martin said. Communication and visibility will be important, Mr. Volna agreed, and to provide information to people on what they are doing.

Professor Konstan cautioned that anything that primarily saves money in sponsored research will actually make the university look less efficient (since sponsored dollars raised per faculty is a common measure of efficiency) and will cost the university in indirect cost recovery. It is not obvious that the incentives are right to streamline costs of sponsored research rather than those of teaching and other non-sponsored missions. There are transaction costs, Professor Roe agreed. They strive to get the indirect-cost-recovery rate as high as possible, Mr. Volna responded. Being more efficient could matter to funding agencies, Professor Martin said, so the University is not in this alone. And when the University is looking for increased tuition revenues and donor dollars, it helps to be able to say it is more efficient, Mr. Volna added.

Professor Martin thanked Mr. Volna for his report.

2. East Gateway District/Biomedical Discovery District (BMDD)

Professor Martin turned next to Vice President O'Brien, who introduced Orlyn Miller and Monique MacKenzie from Capital Planning and Project Management to discuss the Biomedical Discovery District (the East Gateway District) master plan. Committee members received a handout that included a number of slides illustrating current and future buildings and land use in the East Gateway District.

Vice President O'Brien noted that the last three years have seen the development of an updated campus master plan for the Twin Cities, approved by the Board of Regents. In the meantime, the University has also started the Biomedical Discovery District (BMDD), the largest expansion (75 acres) of the Twin Cities campus since the development of the West Bank in the 1960s. As they began work on the BMDD, they realized that they were developing a new part of the Twin Cities campus and that the University should not just build buildings but should instead build a campus. Mr. Miller and Ms. MacKenzie are presenting a draft plan that will be brought to the Board of Regents in fall, 2009.

Mr. Miller reviewed the purpose of the plans for the East Gateway District and noted that is an elaboration of the campus master plan and that it applied the master-plan principles and guidelines. He reported that a campus-master-plan consultant was retained to develop the plan and that leadership and oversight is being provided by the East Gateway Executive Committee (Senior Vice Presidents Cerra and Sullivan and Vice Presidents Mulcahy, O'Brien, and Pfitzenreuter). They are also working with the City of Minneapolis, adjoining neighborhoods, and the business associations. The vision for the East Gateway District is to "develop [it] as a cohesive complex of research, support, and athletic facilities that has its own identity and is integrated with the existing campus." The last part of the vision, Mr. Miller commented, has been a challenge.

The principles for the district include providing a supportive academic and research environment, creating an image of architectural distinction, optimizing the use of land, maximizing flexibility for future development, strengthening the multi-modal transportation system in the area, creating an attractive, functional, and safe environment for pedestrians and cyclists, integrating into the campus and surrounding area, building a sense of community and place, creating a cohesive and memorable set of public spaces, and developing a district that is environmentally and operationally sustainable.

There is nothing about teaching, Professor Konstan pointed out; would that change the way they identify space? Mr. Miller said that teaching will be at the graduate level and that it does have impact on the use of space. Vice President O'Brien said the topic of public versus private space has also been discussed at the executive level; since most of the activity in the BMDD facilities will be research, the University will not want to encourage public circulation. There will not be any large classrooms in the facilities, she noted.

Professor Luepker followed up on Professor Konstan's point. Teaching is part of and a driver of research, he said. These are 20th-Century wet-lab research buildings, but the 21st Century does not think that way. Will clinicians bring patients there? In leading European institutions, they combine teaching, lab research, clinical research and public health in one space. Proximity facilitates collaboration. That is where the world is going. Vice President O'Brien said that the new clinical facility has been planned for Fulton Street, not in the East Gateway District.

The broader question, Professor Konstan said, is related to the fact that the University's asset is its people. The BMDD will have amazing people, but if the BMDD is designed to keep students away, that will be a bad decision. If that attitude is built into the buildings, it will not make them flexible and will be a mistake. Professor Luepker said he was struck by the enormous support for proximity by basic scientists on the space design committee on which he serves.

Vice President O'Brien said the state financial support was not to replace existing research facilities, but to expand the University's research space. At the same time, it is important to not repeat past mistakes. When the University built the West Bank, it abandoned the East Bank and left behind buildings that the University is only now restoring. The University cannot build the BMDD and abandon the current Academic Health Center facilities. She said she understood the potential problems of separating the research, teaching, and clinical enterprise, but the University must approach these concerns from a sense of stewardship: the University should not build a new AHC campus at the expense of existing space.

Mr. Miller next reviewed the planning framework. The challenges for this piece of land is that there will be funded growth in academic and research activity, there is limited land available for expansion (this is the last major piece available and such expansion will not happen again on the Twin

Cities campus), the expansion must focus on building a coherent campus rather than individual sites, and the physical distance between the BMDD and the existing AHC facilities must be managed. The plans now call for about 300,000 square feet of research space and about 1000 people working in it. He reviewed the planned land use and prospective facilities, noting that it includes an extension of the Scholars Walk and a mall similar to the Northrop Mall (although not as wide). One complaint about the current AHC facilities is that they are an impenetrable monolith; in the BMDD they plan for green space to break apart the facilities so that one can penetrate the area. It is expected that the bulk of the traffic will be pedestrian or bicycle, and Parking and Transportation is working with the City of Minneapolis on bike routes.

As for timeline, the expansion of CMRR will be underway during fall, 2009. Coordination of the site design, planning, and programming of BMDD facilities will take place during 2009-2010, stadium events start fall, 2009, the Central Corridor light-rail service will start in 2014, and planning and design of a multimodal parking, transit, and bike facilities adjacent to Stadium Village will begin by late 2009. Phase I of the BMDD, the expansion of the Center for Magnetic Resonance Research, will begin construction in the fall of 2009. Phase II will be constructed in the next five years.

In terms of the private land adjacent to the BMDD, no one is bound to respect University guidelines. Ms. MacKenzie reported that they had met with City of Minneapolis staff about the University's intentions. Zoning in the area does not preclude any particular design because the area is all industrial. While there is nothing that compels meeting University guidelines, it does expect to be consulted, Mr. Miller added.

Professor Roe said he was interested to hear Vice President O'Brien say that this project will not create slums elsewhere on the campus, but one can hear sucking sounds because it will take money to refurbish the existing buildings. That has to be an important part of this plan. Professor Martin said the AHC precinct plan has many details on how that will be accomplished. They will also consider how to aggregate space left open as well as space that can be decommissioned and facilities that can be demolished.

Mr. Klein said, apropos Professor Luepker's point, that he has heard different visions about the types of lab space needed in a 21st century university. Where does the synthesis and hearing occur so that there is enough information available to decide on the vision? What venue will provide an adequate hearing? Not everyone will agree on the vision or the decisions, but it seems reasonable to let people see the discussions that took place. Facility planning starts with a determination by the researchers of the type of research that will be conducted and the facility requirements to support that research. The process has not been as broad as Senior Vice President Cerra believes, Professor Luepker said. If one builds high-tech lab space and great space for offices, some are upset. He added that some people currently working in cancer, for example, will not move. The academic mission drives buildings, Vice President O'Brien said; the need for more research space led to creation of the Biomedical Bonding Authority to build the new space. What shape that space will take is being discussed. She suggested the Committee may wish to have a talk with Dr. Cerra about how they have designed programs and laboratories.

There is a need to think about where biomedical research is going in the 21st Century, Professor Luepker said, and interiors are important. Whether people move may not be relevant; the question is how to put the University in the forefront of research. Mr. Miller said the facilities will have wet labs, but he concluded that Professor Luepker is taking the position that 21st-Century research is moving beyond them. It matters if clinicians are talking to rat- and mouse-researchers, Professor Luepker said, and that people in Public Health are talking to both of them.

Professor Konstan said that it appears this new campus is being built without private services available. There will be amenities in the research facilities, Vice President O'Brien said, such as coffee shops; when the light-rail station opens, there will be migration of private service and retail businesses in that direction. Will there be space in the BMDD that vendors can rent out? There will not, Ms. O'Brien said, because space is too limited. Professor Konstan said the University should not attempt to compete with the free market—dining is not its expertise. The West Bank is a good example of how design can have an impact on community, Ms. O'Brien said. Thirty years ago there were many establishments and the area was vibrant; the construction of the Washington Avenue trench, the freeway-style construction of the 19th-Avenue bridge, and the design of the Cedar Avenue ramps on and off Washington Avenue all took an urban place and inserted suburban road design. The result was the division of the West Bank campus (north from south) and a barrier between the University and community. If the East Gateway District is designed as a campus, with pedestrian, cyclist, and community connections in mind, it will serve the area well.

Professor Martin thanked Ms. MacKenzie, Mr. Miller, and Vice President O'Brien for the report.

3. Budget Update

Mr. Pfutzenreuter next reported to the Committee on the outcome of the legislative process. The outcome for the University was not positive and the state left a \$2.7 billion problem on the table. He explained the options open to the Governor and the likely numbers that will come out of the Governor's decisions. There is little doubt that even if the economy improves in the next two years, there will be enormous budget problems in 2012 and 2013, so the administration will be very careful about the four-year budget framework it prepares for the Regents.

The University will likely receive about \$89 million in federal stimulus funds, of which about \$50 million will go to tuition mitigation. The conference committee did not set tuition caps but did require the University to buy down tuition for Minnesota residents to no more than a \$300 increase in 2010 and \$450 in 2011. The other \$39 million will be used as bridge funding to deal with budget problems.

Professor Konstan said it will be important to show students that tuition went up by X% but that federal stimulus funds reduced the increase.

Decisions about cuts were made college by college, Mr. Pfutzenreuter said, and there will be worksheets for each unit notifying them of the funding they have and decisions that have been made. He said, in response to a question from Professor Roe, that the difference in cuts across colleges is not explained by the proportion of state funds each receives. The three senior vice presidents spent hours going line by line through the budgets and made decisions.

The plan for the second year of the biennium still includes a 2% compensation increase and \$21 million for academic investments.

4. Recognition

Professor Martin recognized Mr. Moseley, a student member of the Committee, who was traveling but who served several years on the Committee and contributed a great deal.

Committee members gave Professor Martin a round of applause for winning the Outstanding Service Award.

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Professor Martin adjourned the meeting at 3:45.

-- Gary Engstrand

University of Minnesota