Minutes*

Senate Committee on Finance and Planning
Tuesday, September 9, 2008
2:00 – 3:45
238A Morrill Hall

Present: Judith Martin (chair), Steen Erikson, Adam Faitek, Steve Fitzgerald, Kara Kersteter, Lyndel King, Thomas Klein, Russell Luepker, Mikael Moseley, Kathleen O'Brien, Paul Olin, Justin Revenaugh, Terry Roe, Michael Rollefson, Karen Seashore, Michael Volna

Absent: Jon Binks, V. V. Chari, Lincoln Kallsen, Joseph Konstan, Richard Pfutzenreuter, Gwen Rudney, Thomas Stinson, Warren Warwick, Aks Zaheer

Guests: Julie Tonneson (Office of Budget and Finance); Associate Vice President Michael Berthelsen (Facilities Management), Sean Schuller (Facilities Management), Bernadine Fiske (University Services); representatives from several colleges and departments to discuss EFS

[In these minutes: (1) biennial budget request; (2) facilities condition assessment; (3) update on the Washington Avenue Bridge; (4) problems with the Enterprise Financial System]

Professor Martin convened the meeting at 2:00, welcomed everyone to the new academic year, and called for a round of introductions.

1. Biennial Budget Request

Professor Martin then turned to Ms. Tonneson to review the conceptual framework for the 2009-11 biennial budget request to the legislature.

Ms. Tonneson reviewed briefly the financial context for the state. Last year a projected budget deficit of about $1 billion for 2007-09 biennium was solved by cuts and use of one-time balances. The May, 2008, projections for 2009-11 included another deficit of about $1 billion—without inflation. If inflation is figured in, the potential deficit ranges from about $2 billion to close to $3 billion. The State is thus facing some financial trouble and the University will need to recognize that problem as it prepares its legislative request.

Ms. Tonneson then discussed the elements that make up the historical annual increase in the University's budget (about $80 million in new costs every year that are funded with state money, tuition, or internal reallocation). Of that, about 45% goes for compensation, about 22% for programmatic investments, about 15% for facility operations, 9% for infrastructure investments and support, 6% for student aid, and 3% for safety and contractual obligations. All but the programmatic investments and some of the infrastructure/support investments are really not discretionary, she said.

The proposed biennial request is divided into two parts: the state responsibility and the University responsibility. The state will be asked to pay for part of compensation increases (75% of the cost), a research enhancement fund, and increased student aid. The University will pay, from tuition and internal funds) for the remainder of the cost of compensation increases, core academic support (facilities,

* 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.

labs, etc.), and educational and instructional programs (investments and initiatives the institution wishes to fund). The focus of the state request is on three areas where the University must achieve in order to reach its goals.

Much of the research enhancement funding being requested from the state will be for equipment and people who support research endeavors, such as computational support, labs, and things generally used across the campuses. (The details of this portion of the request are available on the web in the materials provided to the Regents for their September discussion of the request.) The increased student aid will be for middle-income students and would vary by expected family contribution, up to $4000 at the lower end of the income range and perhaps $500 at the upper end. In combination with the Founders grants, student aid would cover about 65% of resident undergraduates; this specific request would increase the number of students receiving aid by about 4100, Ms. Tonneson said. Professor Martin noted that this is a substantial commitment to student aid and it lets the legislature know that the University takes seriously the concern about tuition increases. Professor Roe inquired if anyone understands that the University can afford this aid because some students pay full tuition. Ms. Tonneson said the Regents and the legislature know that and have asked about it. This request is 100% aid and does not draw on tuition paid by other students.

The projected University responsibility will include a tuition increase of 4.5% per year, generating about $28 million, and reallocation of internal funds to the tune of about $13.3 million. The "core academic support" includes facilities operation, additional funding for student aid (the Founders grants), infrastructure and core support, and safety and contractual obligations. These are mostly "must do's," Ms. Tonneson observed. Programmatic initiatives would include the compact investments and meeting collegiate financial needs. The money requested of the state and provided by the University for compensation would cover only salaries on O&M funds (which covers about 55% of the salaries at the University), not those funded by auxiliary units, sponsored research, sales, etc. If the state fully funds the 75% being requested, the University would fund the remaining 25% of the O&M cost plus the full increases on the other 45% of salaries.

The request to the state totals an increase of $54.5 million in recurring funds for 2009-10 and an additional increase of $32.2 million for 2010-11, for an increase of 9.8% for the biennium. This breaks down to $36.5 and $22.2 for salaries, $8 million (no increase the second year) for middle-income scholarships, and $10 and $10 million for research. Professor Martin inquired how this request compared to what the University received two years ago; Ms. Tonneson said the University received just over 14% for the current biennium. Given the state's probably financial condition, the University wanted to be relatively modest and ask only for what it truly needs in order to stay on track and to continue to serve as the economic engine of the state. At the same time, the administration will do contingency planning between now and the end of May in order to respond to an adverse outcome from the legislative session. The University has three choices in the event it must make do with less: increase tuition, increase reallocation, or delay or cut investments; when this situation has arisen, all three usually come into play.

Mr. Rollefson recalled that in the past the state has suggested salary freezes. Ms. Tonneson said that is not the case this year; agencies have been told to plan for a 3% compensation increase. Professor Martin noted that the President has said a salary freeze would be unacceptable.

Professor Seashore asked if there has been any push from the legislature about the use of endowment funds, given the national publicity about endowments. Ms. Tonneson said not; the President will talk about what the University is doing with its endowment funds and also about the need for the University to increase other revenue sources. Much of the endowment income is going for student aid,

she noted. Professor Martin added that there has been an effort to let people know that a lot of the money in the endowment is committed, not money the University is free to use as it wishes.

The Committee discussed with Ms. Tonneson the likely effect of the state's financial condition on the University's request. She observed that higher education tends to be cut when the state is in financial trouble because it, unlike other agencies, has an outside source of income, but that higher education has been about 9% of the state's budget for a number of years.

Ms. Tonneson reviewed the biennial budget timeline (review by the Regents in September, adoption in October, and delivered to the State in November. The outcome of the request will not be known until the end of the legislative session in May, 2009.

Professor Martin thanked Ms. Tonneson for joining the meeting.

2. Facilities Condition Assessment

Professor Martin now welcomed Associate Vice President Berthelsen, Ms. Fiske, and Mr. Schuller.

Mr. Berthelsen said this is a "state of the buildings" discussion, something they do once per year for the Regents. Facilities Management keeps track of the overall condition of facilities; they exist to enable and support the University's mission. Mr. Berthelsen presented a series of slides explaining what Facilities Management (FM) does and the current state of affairs.

There are several "facilities condition strategies," Mr. Berthelsen explained: build new facilities, renovate existing spaces, demolish facilities, re-use existing space, and target individual system improvements. FM has a database to keep track of the condition of every building in the University system. The Facilities Condition Assessment (FCA) is intended to provide the most up-to-date information about existing buildings: components, fire safety, environmental safety, historical characteristics, past improvements, budgeted/planned improvements, and so on, and to ensure effective operation of facilities and to guide capital projects. It uses an independent, inspection-based system, it identifies and sets priorities for facilities renewal for the next ten years, and the database provides information to measure long-term facilities conditions against established metrics and against peers. Mr. Berthelsen explained how the FCA data play into capital planning and oversight. He explained that FM does not deal only with the top capital priorities; it must, for example, maintain building safety in all facilities.

As a whole, the University has about 28 million gross square feet of space on five unique campuses, seven research and outreach centers, and extension services. On the Twin Cities campus there close to 23 million gross square feet spread across unique programs, historical buildings, and technical facilities. The Twin Cities campus is one of the most diverse in the nation because it has among the greatest programmatic breadth, historic buildings, and high-technology facilities. Few universities try to do all that the University seeks to do on the Twin Cities campus.

The University's technical rating (building complexity) has increased 12% in the last five years, primarily due to renovation, Mr. Berthelsen reported, and it is now fourth-highest in its peer group (a group composed of institutions across the country that use the same measures of technical rating and that includes Cornell, Georgetown, Georgia Institute of Technology, MIT, Northwestern, NYU, Princeton, Purdue, Johns Hopkins, and others).

Mr. Berthelsen reviewed the construction and renovation ages of University facilities and instances where the choice has been renovation and where it has been demolition. In terms of where they are now, he said that Twin Cities buildings have now been through two full cycles of inspections; coordinate campuses have completed their first full inspections. Infrastructure inspections have also been completed (steam, water, etc.). In concert with their consultant, they are now looking at what they have learned. They have validated and benchmarked their data using a national facilities benchmarking firm, have linked FCA data to capital budget priorities, are tracking facilities condition as a strategic-positioning metric, have trained district project coordinators to maintain the data and become experts in helping keep facilities up to date, and engaged a customer group.

The updated FCA for 2008 reveals the University has about 26.2 million square feet of space (not including Rochester, the Experiment Stations, or Outreach Centers) with an estimated replacement value of $6.1 billion and projected 10-year needs of $2.5 billion. The Facilities Conditions Needs Index (FCNI) provides a measure of facilities condition: greater than 0.50 means facilities are in poor condition, 0.40 means they are fair, 0.30 indicates good, and less than 0.20 means they are world-class. Overall the University stands at 0.40: 0.41 for the Twin Cities (it has been 0.40 or 0.41 the last six years), 0.35 for Duluth, 0.38 for Morris, and 0.35 for Crookston. The lower the number, the better condition the facilities are in. By comparison, the average for clients of their consultant, Intelligent Systems and Engineering Services, was 0.32 (with an average building age of 42). The University may look worse than its peers, Mr. Berthelsen said, because the University has been more thorough and complete in its inspection, therefore finding more needs. People ask why facilities are not in better condition, but given the size of the Twin Cities campus, it shows real effort to be holding steady; a lot of institutions are unable to do even that.

Mr. Moseley asked how FM was able to keep the FCNI steady given (on a slide not yet covered) the need exceed the available funding? Mr. Berthelsen explained that to the extent they can extend the useful life of facilities, they can keep the FCNI steady, and although that does not eliminate the ultimate 10-year needs, it does extend the short-term life of buildings. Moreover, when the University builds new facilities, that changes the denominator in the FCNI and improves the ratio of need to replacement value (though it does not decrease the need).

Ms. Fiske next reviewed the funding for capital needs and the sources of funding. FM projects a required $160 million per year to maintain the 0.41 FCNI ratio on the Twin Cities campus; over the last two years it has received about $53 million per year. {Mr. Berthelsen later noted that after the meeting they did more research and would now say: "We have addressed nearly $90 M/annually of facility condition needs over the last two years through investments and taking down very poor buildings.") They target the funds to buildings with the greatest risks or concerns. She noted that repair-and-replacement funding, while increasing in nominal dollars since 1995, has actually declined noticeably in real dollars since 2002.

Mr. Berthelsen reviewed continuing and future strategies to address facilities needs, including increased reliance on FCA data to make appropriate capital decisions. Future strategies include grouping facilities of similar type and treat them as a whole, identify criteria to set priorities on buildings and systems within a group, complete inspections of priority buildings and systems and reduce the frequency of inspections on low-priority buildings, seek consistent funding streams, and allocate funding in a consistent manner to meet targets.

Mr. Berthelsen then noted the FCNI by categories of buildings: high-tech research (0.29), clinics (0.60), mixed use—education and research (0.44), office/administrative support (0.58), venue/specialty (athletics, concerts) (0.34), residential housing (0.53), and other (mostly parking ramps) (0.16). These

category FCNI results raise the question, Mr. Berthelsen said, about how scarce resources should be used. Some campuses set targets by classification of facility.

Professor Martin commented that it is disconcerting that resident housing and clinics are in worse shape than other facilities on the campus. Mr. Fitzgerald pointed out that the FCNI for buildings with classrooms is 0.51, which suggests that classroom buildings could be in a separate category.

Mr. Moseley asked if anything is being done to improve residential housing. Mr. Berthelsen said that for a long period, the University built no new residential housing on the Twin Cities campus, and then it built new facilities in a short period. Housing and Residential Life builds its own repair-and-replacement pool and doing work on facilities as they are able. They also have a six-year capital plan that is part of the University's six-year plan. Professor Roe asked if residential housing is self-financed (it is), so observed that it is not comparable to classrooms.

Committee members offered several comments on the presentation. Mr. Klein complimented Mr. Berthelsen for organizing information so that it can be used effectively and said that Mr. Moseley's question was key: the intent is for the University to rely on these indicators. He asked about the apparent contradiction between the relatively stable FCNI ratio for the Twin Cities and the gap in funding? Is the FNCI an accurate indication of the condition of facilities and the work FM is doing or is the model missing something? Professor Seashore pointed out that some areas could be getting better while others could be getting worse. Professor Martin noted that even with 20 years of HEAPR funding, there is still a great deal of deferred maintenance. It seems that if there is a perpetual shortage of the funding required to maintain and repair facilities something must eventually fall down, Mr. Klein commented. Mr. Berthelsen said that the University has done a good job dealing with the worst buildings and has not let eyesores continue for a long time. Mr. Klein said the gap in funding may represent unusual resourcefulness on the part of FM that is not reflected in the numbers. It also helps, Vice President O'Brien commented, to decommission and demolish the worst buildings.

Mr. Fitzgerald asked if the legislature is impressed by the FCNI. Less so than by specific programmatic stories, Mr. Berthelsen said.

Professor Martin thanked Mr. Berthelsen and his colleagues

3. Update on the Washington Avenue Bridge

Professor Martin turned to Vice President O'Brien for an update on the Washington Avenue Bridge.

Vice President O'Brien recalled that the University was frustrated to learn from Hennepin County, in mid-August, that use of the Washington Avenue Bridge must be limited. The result of the work of the consulting engineers is that use on the pedestrian level is limited to 14 feet in the center of the bridge because of the risk. As a consequence, the University has asked bikers to walk their bikes across the bridge because of the density of use. Not all have complied, so her office has asked the University Police and student monitors to ask bikers to get off their bikes. Biking where it is prohibited is an offense that can be ticketed, under Regents policy, and they will announce next week that bikers will be ticketed for riding on the bridge. This situation will continue until April or May, when work on the bridge is completed.

Scooters and inline skates should also be walked across the bridge, Ms. O'Brien said. It is so crowded that there is a risk people will be injured if others are on bikes or skates.

Mr. Moseley said he appreciated the updates and asked if they would continue. Ms. O'Brien affirmed that they would.

4. Problems with the Enterprise Financial System

Professor Martin now welcomed several guests from different colleges and departments across the Twin Cities campus. The guests, each of whom deals with financial matters and with the new Enterprise Financial System (EFS) were invited by Committee members to join the meeting to identify problems they have experienced. The guests offered a number of observations.

-- There have been a lot of problems; the major one now is reporting. They cannot do reports with the system. They can piece them together, from various sources, but it is a lot of work. In one unit, there will be no more meetings with PIs until they can get the data they need to be able to work with them.

-- The system is rigid in organizational structure in terms of the roles staff can play; the system drives what people can do and does not allow backup staffing. If there are two people performing a function (e.g., vouchers) and one is gone, they have lost 50% of their capacity. One unit had three people devoted to procurement and two were lost to emergencies; with EFS, there is no way to fill those gaps.

-- The cluster reorganization has forced departments into groupings with other departments they share no activity with. It has also been insulting to departments with long-term staff because it assumes they do not know how to reorganize that staff. Clustering was not fully thought out and instead of resulting in less paper and more time for people to do their work; the result has been the opposite. (One guest said their cluster has worked fine and because the helpline people cannot answer questions, the people in their cluster play that helping role.)

-- Since 1989 they have seen new systems about every one and one-half years (financial, HR, sponsored projects, and so on), and with all of them central administration may be saving money but the costs to departments have increased.

-- What has worked is sharing information, and Sponsored Projects Administration has done really good things, has been clear and concise, and operates much better than the new EFS.

-- The financial helpline people have tried hard with a minimum of training and people in central units have gone out of their way to help. But the helpline people were trained with everyone else and it is as difficult for them as for the departments, but they often cannot get back with help until days later.

-- One guest surveyed EFS users in the college; they say there is extreme frustration, bad morale, and people threatening to leave. Not only is reporting bad, the data are not that good. It will take a long time for people to get their confidence back.

-- The system is cumbersome and it takes a lot of time to reconcile accounts, so there is no time to manage funds responsibly.

-- Morale is the lowest it has been in ten years and the frustration level the highest. In some cases, they have identified a problem and the "business process owner" says it is the first time they've heard about it.

-- A lot of time has been taken away from jobs in order to deal with email messages with the helpline, with HR, etc.

-- The manuals and job aids are incomplete.

-- Internal Service Organizations do some external billing but cannot send bills so are not receiving the money they need.

-- Invoices used to go to departments; now they go to the clusters. It was easy to deal with an invoice in a department if there were questions; now there are a lot more steps involved.

-- The University needed a new system, and there would be problems with any new system, but the question is whether anything is easier or better with the new system. No one can see where it will be, even in the long term. The new database will allow new things, but one hopes that someone will get something out of this system.

-- Forms Nirvana was so much more flexible, but it probably would have cost millions of dollars to incorporate it in EFS. One feels like the University is testing the new system live, and that is painful. One big concern is that everything takes longer; does that mean units will have to hire more people? One hopes not, but it is an open question.

-- The system is not flexible. "What I could do before I can't do now and must hand off my work to other people." Professor Seashore commented this all sounds like a job-design problem; people were used to doing a lot of tasks and could solve problems but now there are narrow definitions. This is reminiscent of how firms treated employees in the 1920s, she said. One guest agreed: people cannot follow through on problems and because of clusters, approval authority has been removed (in one case, a principal accountant is now inputting data). Employees cannot even see the approval lines.

-- Some people have begun saying they no longer look forward to coming to work, they worry about their health, and one worries the University is losing excellent staff.

-- There is a group of people working with Mr. Volna to see if there are common issues across the system.

-- One guest commented that staff are getting yelled at a lot more. Professor Seashore said that if she were getting close to the end of her grant and did not know how much money there was left, she might be angry, too.

-- The transition was very rough, there was incomplete information, and the system was opaque. They cannot get information, so in some cases people are purposely doing things the wrong way in order to be called out and obtain instruction on how to do it correctly.

-- The system seems to double the work. Before it could be done in the department; now it must be cone in the department and in the cluster. Now people must hand write on invoices, which they did not have to do before.

-- Professor Luepker said that from a faculty perspective, with someone who has grants that pay $400,000 to $500,000 per month, he has been semi-panicked with the system. He could learn that he has overspent by $150,000 and will be asked what plan he has to deal with the problem. He said in that case he will yell in a number of offices. This is a transition, to be sure, but faculty investigators have to know where they stand every month.

-- There was discussion about whether the rules of the new system (which in some cases cannot be made to work) are because of the new system or if the University is using them as an excuse to lay down the law. It appears that sometimes the University says the system requires something when in fact the system allows flexibility.

-- The narrowness of jobs creates dissatisfaction with jobs. People were more in control and more capable, but the new system has created problems. Professor Martin said she has heard that the new system took a lot of professionals doing good jobs and made them into less. That is not a good idea from a human-resources standpoint

Mr. Klein thanked people for coming to the meeting. He said he was glad that Mr. Volna had been willing to sit in on this meeting and hoped that the users group could deal with many of these problems.

Professor Martin thanked the guests and said the Committee would do what it could to pursue changes. She adjourned the meeting at 4:00.

-- Gary Engstrand

University of Minnesota

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Written Comments Received after the meeting:

1. We have had a number of problems with employee reimbursements. Some have just stalled in the system for no reason. We spend time on the phone calling our cluster, the help line; it gets referred to the SWAT team. Everything looks fine to everyone, then someone centrally does something and all of a sudden it pays!

2. We are continuing to have problems with account codes (similar to object codes in the CUFS system) on our grant. SPA has created a form to get them set up in case where the conversion did not work or when things change. SPA is so backlogged, that nothing gets done. In some cases, we can see the account code is set up, but we still are unable to process documents with it. I've not had the time to sit and figure this out. We just put expenses somewhere else to get them done.

3. We find it very frustrating to write up things on forms that go to the Cluster for entry into the system. What a waste of time! This system has really created meaningless busywork for departments.