RESOURCES ALLOCATION MODEL TASKFORCE
AGENDA

February 24, 2017
1:00 p.m. to 4:00 p.m.
SJCC, T-112

1) Call to Order

2) Approval of Agenda

3) Approval of February 10, 2017 Meeting Minutes

4) EVC & SJCC CTE Program Enrollment and Cost

5) Total Cost of Ownership

6) Best Practices from reviewed models

7) Build Next Agenda

8) Check out

9) Adjournment

Parking Lot:
   a) 2016 Principles for Budget Development
Resource Allocation Model Taskforce
Meeting Minutes
February 10, 2017 – EVC, VPA-115

Present: Doug Smith, Andrea Alexander, Jorge Escobar, Peter Fitzsimmons, Eric Narveson, Danny Hawkins, Yesenia Ramirez, Barbara Hanfling, Eugenio Canoy, Chris Frazier, Mark Newton, Guillermo Castilla

Absent: Fabio Gonzalez, Jesus Covarrubias, Lauren McKee, Keiko Kimura, Phil Crawford, Paul Fong

Also Present: Sherri Brusseau, Jonathan Camacho, Linda Wilczewski, Kathy Tran, Debbie Budd

1) **Call to Order** – 1:10 p.m.

2) **Approval of Agenda** – M/S/P; Ayes- 12, Opposed-0, Abstentions-0, Absent- 6, a Motion to approve was made by Chris Frazier; Seconded by Barbara Hanfling. The agenda was approved as submitted.

3) **Approval of 01/26/17 Minutes**- M/S/P; Ayes- 10, Opposed-0, Abstentions-2, absent-6, A motion to approve was made by Eric Narveson; seconded by Dan Hawkins.

   a) Amendment to add Mark Newton as present. The minutes were approved as amended.

4) **Future Meeting Schedule:**
   a) The Committee reviewed the tentative list of meeting dates and agreed on the following dates, times, and locations:

<table>
<thead>
<tr>
<th>Date</th>
<th>Time</th>
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<tbody>
<tr>
<td>02/24/17</td>
<td>1:00 - 4:00</td>
<td>SJCC, Rm. T-112</td>
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<td>03/03/17</td>
<td>1:00 - 4:00</td>
<td>EVC, VPA-115</td>
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<td>03/30/17</td>
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<td>05/12/17</td>
<td>1:00 - 4:00</td>
<td>EVC, VPA-115</td>
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5) **Review of Simulations**
   a) Mr. Stutzman briefly reviews the SB 361 simulation provided during the 01/26/2017 meeting, noting that this is a very transparent model where the District assumes a growth-rate of 3.5%.
      i) The Committee questioned how the 3.5% is voted upon, and what the 10-year average is.
         (1) Mr. Smith clarifies that the 3.5% is a Board of Trustee established Budget Principle.
   b) Mr. Stutzman also notes to the committee that if certain costs to the colleges are viewed to be more of a District-wide expense, the committee should keep in mind that the percentage allocated to DW/DS will grow to accommodate those additional costs.
   c) Mr. Frazier notes that the model for the Colleges is set, whereas the model for the District is not, however if the Colleges require more services, they are then required to pay for those services. Mr. Frazier continues that the cost of District Services should be budgeted within the Colleges expenditures.
      i) Mr. Stutzman recommends that the colleges establish a specific expenditure percentage.
   d) Mr. Stutzman distributes Simulations #1-#5
      i) Mr. Stutzman points out the addition of a new line at the bottom of these simulations, “expenditures per FTES”.
         (1) **Simulation #1** does not include the discount factor and assumes all expenditures will be spent.
         (2) **Simulation #2** assumes DS/DW costs are less.
         (3) **Simulations #3 & #4** take the Faculty and Adjunct cost off the top (before revenue is allocated to the colleges). This is based on actual Faculty, enrollment goals, and productivity goals.
         (4) **Simulation #5** uses a 3-year rolling average.
   e) In closing, Mr. Stutzman notes that these types of models put more responsibility in the hands of the colleges as the decisions become more localized. Mr. Stutzman reminds the committee that the colleges are also responsible for covering any deficits that may be incurred.
   f) Mr. Smith poses the question, with knowing we won’t know the final property tax data point until May, do we augment along the way with each new data point, or do we set the final four data points aside, and deal with it in another way?

6) **District-wide/District Services/2016-17 Expenditure Budget Review**
   a) Mr. Fitzsimmons walks the committee through the FY16-17 District Services Fund 10 Adopted Budget document.
      i) The Committee requests clarification around “High Impact Program”. Mr. Smith notes that the high impact programs fund included Student Success, Redesign, etc. and was established by the Board during Chancellor Cepeda’s tenure, however until recently, those funds had not been assigned to any specific programs. Since FY2016-17, those funds have been dispersed to each of the Colleges for Open Educational Resource use (150k/College).
   b) Mr. Fitzsimmons reviews both FY 2016/17 District Services Adopted Budget Documents with the group.
      i) The Committee questions what “other” refers to in the document.
      ii) For clarification, Mr. Fitzsimmons directs the Committee to the larger document which lists the specific costs included in “other”.
      iii) The committee questioned the accuracy of the benefits costs of an employee being equal to, or sometimes more than the cost of an employee’s salary.
         (1) Mr. Fitzsimmons confirms that benefits can and will continue to increase.
         (2) The Committee notes that it would be helpful for the campuses to understand the full degree of cost for a new/replacement employee.
iv) The committee questions if there is a way that we can view the discount factor data over the last 10 years?
   (a) Mr. Smith clarifies for the group that the Discount Factor is established from an average of a set past number of years, and includes hundreds of line expenditure items are allocated, but not every line item is spent. Statistically, 1%-2% is unspent.

7) **District Wide / District Services Comparative Districts**
   a) Mr. Stutzman distributes the Comparative District Budgeted Expenditures 2016/17 District Services and District Wide Expense Document.
   i) Mr. Stutzman notes that this comparison is difficult to compare equally as every district is organized differently for example some are partially District Centralized, and others are not. Secondly, Districts tend to characterize their expenditures in different ways such as utilities being central vs. decentralized.
   ii) All information was taken from each districts published FY2016-17 budget reports and information.

8) **EVC & SJCC CTE Program Enrollment and Cost**
   a) Mr. Stutzman distributes the CTE Program Enrollment and Cost document with a request to the committee to review before the next RAM meeting on 02/24/17.
   b) The next step will be to analyze what this means in terms of allocation, and if there are material differences between the colleges that would justify providing additional dollars to one college over the other.

The meeting was adjourned at 4:15 PM
Total Cost of Ownership Plan

Los Angeles Community College District

Purpose

Understanding the actual cost of maintaining and operating a building is essential to the economic viability of an organization. This plan explores these costs and defines a process for establishing the true cost of additional space.

Background

In 2001 the Los Angeles Community College District launched a massive building program. The goal was to renovate, replace and add structures to the existing colleges, satellites and acquired properties.

Over the years, there have been several external factors that have had an influence on the direction of the program. Probably the most notable is the downturn in the economy. The recession has caused the State to drastically reduce the District’s operational funding and eliminate the Scheduled Maintenance Program (SMP) funding a.k.a. deferred maintenance funding. As a result the District has had to reduce its class offerings, creating a reduction in the number of Weekly Student Contact Hours (WSCH). This has a direct correlation to the amount of space needed. It reflected in the State’s Capacity-to-Load Ratios (CLR). The CLR is expressed as a percentage. CLRs of less than 100% support the justification for additional construction; CLRs over 100% indicate the capacity of space exceeds the amount needed.

Since the inception of the building program, the assumption based on the economic growth of the area, was that the District would need to add more square footage to serve more students. In 2011 the District decided to pause the starting of new construction projects pending a review of the funding available for the cost of owning and operation the proposed additional square footage. This would lead to the development of the District’s “Total Cost of Ownership Plan”.
Plan

The total cost of ownership is addressed by thoroughly reviewing the status of existing and proposed facilities, benchmarking of existing facilities operations, and developing processes to measure, monitor and control both facilities costs and utilization.

1. Review of the current building plans and existing square footage (Appendix A). Three major areas of concern were identified by the initial analysis. They are building program (capital) budget, space utilization requirements, and the maintenance and operations (operational) budget.
   a. Building program budget – Review of the current forecast for the bond program, focusing on potential shortfalls in capital project budgets.
   b. Space utilization requirements – Review of the size, quantity and type of remaining facilities that should be constructed. Examine the current Capacity-to-Load Ratios.
   c. Maintenance and operations budget – Develop staffing levels for both custodial and maintenance operations based on APPA (Association of Physical Plant Administrators) standards. Review the maintenance and operational budgets to insure there is adequate funding to support the additional square footage.

2. Review and benchmark maintenance and operation expenditures (Appendix B).
   a. Review of salaries, benefits, utilities, equipment and supplies, vehicles and other expenditures for maintenance and operations.
   b. Cost Study Comparison between colleges.

3. Review APPA standards and quality expectations and compare with the custodial and maintenance staffing levels for each college (Appendix C).

4. Review the change in square footage per college per project for the next three years. Transform this information into projected maintenance and operation costs (Appendix D).

5. Review utility expenditures per square foot per college (Appendix E).
6. Develop deferred maintenance/scheduled maintenance fund to replace the now defunded State Scheduled Maintenance Program. In 2012 the Board of Trustees authorized a Deferred Maintenance Reserve Fund of up to 2% of the Unrestricted General Fund (Appendix F).
   a. Develop criteria for the newly developed deferred maintenance reserve.
   b. Prioritize college projects for the use of the deferred maintenance reserve.

7. Implement a new Computerized Maintenance Management System (CMMS). This system will allow for improved tracking of facilities expenses (Appendix G).
   a. Establish project goals and objectives for the CMMS.
   b. Review benefits of improved facilities tracking processes.

The combination of all of these elements will provide a comprehensive look at what it will cost the district to both own and operate district facilities.
THE TOTAL PACKAGE

Typically, the largest and most significant facilities' efforts are focused on getting a building up and running in the first place. However, these projects then take on a long and permanent life of their own—with costs that far exceed initial design and construction. Some colleges and universities are turning to a total cost of ownership (TCO) model that factors in the additional maintenance and replacement costs that make for more realistic plans and forecasts.

By Aplyt Motley

With the supply of physical space often too scarce, too plentiful, or incorrectly allocated, campus leaders take different views on ways to assign resources. There's the faculty chair, for example, who makes the case for constructing a state-of-the-art research lab; or the alum who specifically earmarks donated funds for a new recreation center; or the student who thinks all study areas should include Wi-Fi for every conceivable device; or the chief business officer who wonders if it's cost-effective to maintain older buildings with outdated heating and cooling systems.

Having no shortage of competing priorities with which to contend, some institutions have begun the search for a more precise answer to this question about the costs for constructing, maintaining, and renovating facilities over both the short- and long-term.

In a 2007 APPA publication, Buildings ... The Gifts That Keep on Taking, primary author Rodney Rose, strategic consultant, STRATUS—a Heery Company, and past president of the Society for College and University Planning (SCUP), states: "The common thread among all of these [facilities-related] issues is that facilities decisions must be cast in light of their value as an investment. Usually the discussion of facilities is focused primarily on costs, especially initial costs. And the lengthy and complex process of planning, designing, and building facilities—which can take many years for complex projects—results in unforeseen changes and frustration along with the anticipation of finally getting something new built. Thus, the cost of facilities blurs their value."

One workable solution for clarifying project investment over time is the total cost of ownership (TCO) model, which E. Lander Medin, executive vice president of APPA, says "takes into account all the costs of the facility and not just the first costs of construction, which institutions generally have a handle on." (For an overview of the total cost of ownership approach, see "Teaming Up on a Total Cost Model," in the November 2013 Business Officer.)

The approach focuses on disciplined management of three categories of costs: planning, designing, and construction; maintenance and operations; and renovation/recapitalization. According to Medin, these costs account for 27 percent, 40 percent, and 33 percent, respectively, of the total costs associated with building and managing a facility. (See sidebar, "TCO Components and Costs," for more detail.)

For colleges and universities, it's increasingly critical to monitor all facets of cost for maintenance, operations, and recapitalization. "TCO is the best tool for them to use to reduce overall maintenance costs and capital costs," says Doug Christensen, president of Christensen Facilities Group LLC. "It will help them to make better decisions about overall asset management. In general, higher ed over-maintains buildings," he explains. "You could have replaced them three times for what you were spending to maintain them."

Christensen retired from Brigham Young University (BYU), Provo, Utah, where he says TCO practices have been in place for almost 20 years. However, for most institutions, it is a relatively new concept that will require leaders to make significant shifts as well as foster more integrated approaches to facilities management.

TAKING ON TCO

"Our model looked at expenses separately, whereas TCO integrates all costs," says Steve Peary, former associate director for facilities management at the University of Maine, Orono. Currently serving as assistant director of innovation at the University of Vermont, Burlington, Peary says, "Traditionally the way organizations work is to focus on funds to build—but not maintain and renew—physical assets, which typically end up costing twice as much as the original cost of the facilities."

Last year, the University of Maine, with an enrollment of more than 11,000 undergraduate and graduate students, began work to implement TCO as a part of its overall strategic planning process, which will mean thinking differently about budgeting for new facilities. "If we're going
to ask for funds to build a new $20 million building, for example, we need to raise at least $40 million more to account for maintenance and renewal of that asset. This approach hasn't always been practiced at public institutions," Peary says, "but total cost of ownership is changing our perspective about facilities master planning."

Ana K. Thiemer, renovation and renewal project manager at the University of Texas, Austin, understands the shift in thinking. "Facilities professionals are often driven to maintain a system at all costs, keeping it working for as long possible," she says. "You have to look at whether that's the best way to manage that asset's performance. You may think that you've saved a ton of money, when you've actually spent more money than if you'd replaced the building."

During the past four years, Thiemer and others at the university have put processes in place to implement TCO. Medlin says such processes are imperative. "It's important that higher education institutions get better at TCO, because as space planning and utilization become increasingly significant, leaders will need to make data-driven decisions based on how effectively they are using their facilities."

FULL CIRCLE

"You really want to know the total costs, from the birth of the building to its death," Medlin asserts. "TCO goes beyond an inventory of your space," she continues. "It involves developing and using a more sophisticated set of metrics to determine how the facility is being used and whether it's being used effectively."

"You're tracking data," Randy Ledbetter, president of R. Ledbetter & Associates, says. "For example, an asset was supposed to last 20 years, but it's deteriorating at 10 years. If you're reviewing data on a regular basis, you'll know something is off track, and you will be able to take appropriate action so that your overall costs will go down over time."

"In reality you've got an ongoing look at what it is really costing you to maintain that asset as you do your daily work," says Christensen. "However, TCO requires ongoing discussion of long-term needs and costs to maintain assets. The senior facilities director collects data and shares it with the CFO. Those two should then sit at the table with the institution's administration and board on a regular basis."

Effectively managing both people and processes is critical to successfully implementing a total cost of ownership approach. Here's a closer look at the progress the University of Maine and the University of Texas, Austin, have made in applying this cost model on their campuses.

PLANNING STRATEGICALLY

"Our catalyst for going into TCO at the University of Maine was the preliminary discussion of the university's new strategic planning effort, which began late last year," Peary says. "One aspect of the plan is dedicated to the revitalization of buildings and physical spaces."

In fact, the five-year strategic plan, "The Blue Sky Project: Reaffirming Public Higher Education at Maine's Flagship University," specifically references "a total cost of ownership approach to managing UMaine's $1 billion dollar infrastructure and real estate," and the university is in the process of developing plans to incorporate TCO into the management of the university's asset portfolio to ensure a comprehensive and aligned framework for facilities management.

The university got a boost last summer, when the estate of Thomas P. Hosmer, who graduated from the university in 1958, gave the University of Maine Foundation a $7.9 million gift to primarily support maintenance projects at the university. More than 90 percent of the gift is designated for the Thomas P. Hosmer Fund, an endowed fund established at the foundation in 2005 to provide supplemental income for maintenance and repairs that would not otherwise be completed due to budget limitations.

While university leadership and financial resources are both behind TCO, Peary notes that institutions need more time to realize measurable benefits. "Since it's fairly early in the process and involves buildings with longer life cycles, there are few significant fiscal benefits yet," he says, "but bringing clarity and awareness to facilities management decision making will lay the foundation for a more sustainable future."
MANAGING MAINTENANCE

"Our campus is aging," Thiemer says. "Most of our buildings were built in the 1970s, but we have a very strong recapitalization program. We've really excelled in that area."

However, the university has not been as effective in monitoring maintenance costs. "We didn't have the tools to do predictive modeling for maintenance," Thiemer says. "Information wasn't being passed between or among departments, and we didn't have the necessary business processes in place to facilitate this."

"Recapitalization can be housed in one area, but maintenance is much bigger and broader and more difficult to reel in," she continues. "However, the bottom line was we were under budget constraints, and we were trying to decide how to fund and manage all our assets."

Thiemeer offers this example to illustrate why it's imperative to monitor maintenance costs more closely: "I have a system that has a life cycle of 10 years, and the first cost of the system is $50,000. In 10 years, I need to spend another $50,000 to replace it.

"If you're not tracking maintenance calls and in year two of the system you have spent 60 percent of that replacement amount on maintenance, then you have overspent. That's where TCO comes in. You can monitor and track what's happening in maintenance and operations [M&O] and compare it to what you planned to spend. This kind of tracking should drive just-in-time replacement for that asset, and you're able to see if you need to replace it much sooner."

Three years ago, the university began requiring that all work orders be tied to an asset. Thiemer believes making changes like that has created "greater awareness of costs" and helped "maximize our budget to the fullest. Instead of making guesses about things, our decision making is smarter and more data-driven," she says. "For instance, in terms of M&O, there's substantial data that shows that we've moved to an 80/20 split between preventive maintenance and trouble calls."

Getting data and putting processes in place for departments to share that information has been at the heart of the university's TCO effort. "We don't have a formal TCO program per se. It's more of an internal grassroots effort, which has been a more effective approach," Thiemer says. "In this way, implementing TCO is more from the bottom up in terms of sharing information and understanding how others use it."

A FOUNDATION FOR THE FUTURE

"In terms of long-range planning for the institution, having a seat at the table in asset management will be important for facilities managers and CBOs, as well as having access to accurate information to provide to various stakeholders," Thiemer says.

"Not all facilities are created equal," adds Medlin. "For example, if I am going to focus on developing academic programs for five specific majors, I would consider the appropriate facilities as well, and put my money there."

While the benefits of implementing the total cost approach seem evident, Ledbetter acknowledges that "it's a little overwhelming to get started." He suggests breaking the process down into manageable pieces: "Start with your new buildings or most valuable assets. Once you have your data warehouse set up, you can expand it."

"Institutions have the data they need to implement TCO, but it's in a lot of different places," Ledbetter says, "which may be more cumbersome and slow, but I wouldn't let that stop me from getting started. If necessary, TCO can be done on an Excel spreadsheet."

Whether your technology tools are basic or more sophisticated, Christensen says, "your whole facilities department will become an asset management group. They start becoming the critical factor in what assets are maintained and replaced."

APRVL MOTLEY, Columbia, Maryland, covers higher education business issues for Business Officer.

TCO COMPONENTS AND COSTS

"The ultimate question for CBOs is this," says E. Lander Medlin, executive director of APPA. "Are we getting full value from the investments we make in our facilities portfolio? The answer resides in a greater institutional understanding of the expenditures throughout the facilities life cycle."
TCO Proposal Help Notes

Step 1: TCO Proposal Cover Sheet

Please fill out the narrative Cover Sheet.

Step 2: TCO Budget Estimator Worksheet (Expenses Tab)

To calculate your expenses, you need to do the following: Please insert the cost of personnel (salaries and benefits) from rows 4 through 19.

For Classified Personnel:

A. For classified personnel, go to the FC Classified Titles and FC Classified Salary Schedule. As an example, we are using the mid-range salary for Range 37 or $3,273. Multiply the salary ($3,273) by 12 to determine the annual salary of $39,276.

B. Under the “Benefits” tab, you will look for the FR-TOT and multiply the annual salary of $39,276 by the Classified FR-TOT or .494 = $19,402 total benefits.

C. Add the salary of $39,276 and the benefits of $19,402 to get the total cost. $39,276 + $19,402 = $58,678 total cost.

D. Under the “TCO Estimate” Tab, insert cost and benefits.

For Faculty:

A. Determine the Faculty Step (which is based on semester units). Please see the tab “FC FT Faculty Sal Schedule.”

B. As an example, we will use Step 7-D or $70,375.

C. See the “Benefit” Tab and use the FR-TOT for Faculty of 0.285.

D. Multiply the salary of $70,375 times the benefit of 0.285 to get the total benefits of $20,057.

E. Add the $70,375 salary and the total benefits of $20,057 to equal $90,432 total cost.

F. Under the “TCO Estimate” tab, enter cost and benefits.

Step 3: TCO Priority Sheet (Priority Tab of TCO Budget Estimator Worksheet)

Complete