

Facilities Budgets

Issues with Recovery and Recharge in Higher Education

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[Ed. Note: This article is a summary of findings from the research project conducted by the authors as part of their Center for Facilities Research project #CFaR033-15. The full research report, which was vetted by an anonymous peer-review panel, can be found at https://www.appa.org/Research/CFaR/documents/Reynolds_Haubold_CFaR033_15_Recharge_and_Recovery_Final_Submitted.pdf. The authors will present their findings at the APPA 2018 conference August 3-5 in Washington, D.C.]

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It was not that long ago that the university physical plant department took care of every facilities need on campus. Starting in the late 1970s, public universities faced changing regulations that, along with tight budgets, drove changes in dealing with auxiliary organizations. Simultaneously, and guided by APPA, the campus facilities management developed into a professional organization that began charging for “non-maintenance work” to non-educational units such as Auxiliaries, Housing, and Athletics. As a result, definitions of services covered were developed with statements, communications, and publications of what constituted “billable” and “non-billable” work. This mechanism became informally known as “recharge” or “recovery,” because it “recharged” the budget.

In their excellent and in-depth 2004 article in *Facilities Manager*, “The Charge of the Rate Brigade: A Rate Template for In-House Construction Labor,” Donald J. Guckert and Jeri Ripley King wrote:

Determining rates that permit full cost recovery for in-house construction can provide your organization with the information it needs to decide how to manage its funds. Full cost recovery for in-house construction services may or may not be a goal of your institution. However, if less than full cost recovery has not been an informed decision, facilities management organizations may be unwittingly losing budgetary ground by subsidizing elective improvements.¹

We knew that many institutions—including ours, New Mexico State University and the University of North Texas—had implemented this recommendation. What was *not* clear was whether the financial model we were operating under was a well-managed process or one that had simply evolved over time. After posing the question to many of our peers, we found kindred minds thinking the same thing. We undertook our study to determine what impact this and other cost recovery models have had in the long term, because once a facilities unit begins using chargebacks to make up budgetary ground, anything less means that the department is operating in a deficit. Since a fully allocated mechanism of rate development captures overhead costs, there may be a tendency to gradually fund the expansion of organizational overhead versus truly recognizing its full cost to the university.

Since the recovery and recharge model is widely used, we wanted to study the issues and challenges involved, particularly in times of constrained and reduced budgets. Our goal is to broaden the knowledge base about chargebacks while generating a discussion regarding the advantages and disadvantages associ-

ated with different budgetary models for recapturing costs.

With the assistance of APPA, we created survey questions and sent them to each institutional representative. Eighty-six unique responses were received in addition to seven email conversations. One individual responded to us by phone in order to remain fully anonymous. All questions were not answered by every respondent.

The first question was whether the facilities organization had a chargeback system. As expected, most of the respondents (78 percent) answered affirmatively. Another question sought to determine if the chargebacks were only for elective improvements, and 35 out of 77 said they were not. Over half told us that they did not have a chargeback goal. After evaluating these responses, it is our opinion that if a unit has both a recharge system and a budget, by definition, there should be some internal goal for recharge, even if it is a “soft” one.

Forty-one of the 57 respondents answering the question have seen positive impacts from their recharge system, and 43 of 58 reported negative consequences; some had apparently experienced both. A representative example of a positive impact was, “The cost of project management is now captured to arrive at a true total project cost.” A negative example we received stated: “Budget cuts pushed a lot of overhead into the chargeback budget.”

When asked for the percentage of their operating budget made up by recharge, 50 percent said that they earned 0-10 percent of their budget; 18 percent needed to generate 10-25 percent; another 18 percent were required to earn 25-50 percent; and 13 percent said that recharge made up more than half of their budget.

We learned that there are many models used to bill for non-maintenance work, with advantages and disadvantages associated with each.

FULLY ALLOCATED

A fully allocated cost model based upon recovering overhead costs might be the most common, and this model benefits from budget stability. With this model, a labor rate is developed that recaptures or recharges the facilities department overhead. Note that where institutional policy allows a balance or deficit to be carried forward, a deficit will drive the rate up. In the same manner, additional funds can be added to the facilities budget simply by increasing the rate and working more hours of recharge instead of maintenance.

The fully loaded cost model may work well in times of stable or level budgets, but less so when revenue is a large percentage of an overall budget that is shrinking, particularly if an increase in overhead was funded through recharge. We learned that some schools have indeed increased the rate and added recharge hours to assist the facilities budget.

On the positive side, because the construction and small remodel workload varies, some institutions hedge against those fluctuations in construction by staffing to and targeting the “baseline” demand (versus the average or peak), and then relying

on outsourced options or scheduling practices over seasonal demand cycles in order to manage the recharge target.

FULLY OUTSOURCED

Some of the institutions we surveyed find it easier to simply outsource any non-maintenance work. After conducting this research and reading their responses, it becomes obvious why this may be attractive. This approach definitely protects the maintenance function and budget, although the costs may be higher for non-maintenance work. The term “may” is used here, because when *all* time and costs are fully allocated, the facilities unit is not always the lowest cost when compared to outside providers. The authors would contend that this may be the only way to accurately allocate the true costs of operations.

MATERIALS ONLY

Another approach is to simply charge for materials when performing non-maintenance work. This leads to challenges in deciding what work is performed and does little to protect the maintenance hours. On the other hand, this methodology is certainly customer-centric, as the requesting unit receives “free labor.” This can be a workaround in those states that prohibit state-funded employees from charging labor against bond issuances or other appropriations under the logic that the employees are already being paid.

INCREMENTAL STAFFING

This approach simply assumes that the overhead already exists and that the additional positions funded through recharge are layered on top of the existing organizational overhead. The rate then would be calculated using direct hourly labor costs, consumables, and fringe, but not overhead. This would “leave some money on the table” during good times, but protects overhead during periods of retrenchment. Most notably, converting to this methodology from a fully allocated recharge model would require additional institutional funds.

ICING ON THE CAKE

Based on our survey, it became apparent that a number of facilities units simply treat recharge as “icing on the (budget)

cake.” The rates are developed without an hourly target, sometimes by comparing internal rates to local contractor wage rates. The volume of recharge is relatively small, and chargebacks are used in a positive manner (i.e., departments receive the benefit of readily available labor; employees get a break from the monotony of maintenance, and the facilities department supplements the budget). Other than the fact that rates should be calculated in a consistent and systematic way, there are many advantages to this model. The percentage of the facilities budget that is funded “centrally” would



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be higher when compared to the fully allocated cost model.

During our research, we received a number of comments pointing out that any model other than the fully allocated model essentially subsidizes the non-maintenance and/or remodel work. The counterpoint is that while this approach advocates for recovering all of the costs incurred by the facilities organization, those costs still may not be all the expenses necessary to conduct organizational business. While a few facilities groups may pay the true cost of institutional support for items such as legal counsel or advertising for request for proposals (RFPs), most institutions provide some unreimbursed services to their facilities operation.

Thus, the question perhaps is not so much whether or not to subsidize, but to what degree.

It appears that more institutions than not feel there is value to having a workforce available to do small remodels quickly, and thus are willing to subsidize these costs to some extent because the in-house group often brings institutional knowledge, as well as a willingness to work around campus activities.

In any event, when all costs are fully allocated or close to it, the in-house facilities staff may not be less expensive than private contractors, and there are actually many reasons why higher education administrative operations may well never be as efficient as their counterparts in private industry. If lowest cost is the goal, the institution must choose to place a value on having in-house staff, begin comparing costs to external vendors in search of the lowest price, or find a midpoint with workload balancing. Outsourcing becomes extremely attractive to those only looking at the bottom line.

We concluded that there are significant issues with respect to recovery and recharge mechanisms as practiced by many institutions in higher education, primarily because there is no standard approach. The specific model is a management decision, but adequate maintenance may be at risk at institutions while the facilities unit pursues recharge work, unless specific emphasis is placed upon best practices associated with the process.

In addition, there are numerous models available to bill for non-maintenance work, with advantages and disadvantages associated with each. With many universities experiencing enrollment declines, corresponding loss of revenue, and dwindling state support, it is important that the model selected support the institution's goals. A clear understanding of the overall impact to facilities and the university budget is critical to making an informed decision.

Finally, a common understanding of the subject should also be a goal. A lack of consistent terminology, definitions, and methods as well as reliance on past historical practices at many universities cast doubt on the efficiency of the recharge methods in place; and the lack of common definitions disrupts benchmark-

ing efforts. [Ed. note: The APPA Standards and Codes Council is in the process of creating a standard set of terms and definitions used by facilities organizations.]

APPA and member institutions would benefit from additional research into the overall impact of recharge and recovery, both on institutional and facilities budgets and on the frequently used benchmarks in the APPA Facilities Performance Indicators (FPI) survey and report. A section on recharge and recovery that included definitions and rate preparation methodologies could be considered for inclusion in the APPA Body of Knowledge.

The authors concluded the information gathering for this study at the APPA 2017 Annual Conference in San Francisco by having conversations with Mike Johnson, associate vice president for facilities at the University of Arkansas, and Matt Adams, president of FM². They told us about the reorganization of the University of Arkansas Facilities Department that began in 2000, and stated that one of the drivers of that reorganization was a dependence on recharge to the detriment of maintenance.²

Their analysis provided a comprehensive understanding of the issues and illustrated the contrast of solutions available to excessive institutional dependence on recharge: lower the recovery goal, or raise the rates to accomplish the goal with fewer hours.

As a result of their study, the University of Arkansas moved to zone maintenance in order to distinctly separate the maintenance function from the construction personnel, while at the same time recalculating rates upwards to fully allocate costs. It should be noted that increasing rates allows for additional costs to be recaptured and/or the number of hours devoted to the task to be reduced.

In other words, an over-reliance on recharge hours can be remedied by adding institutional funding to the budget or by simply charging more.

Labor rates must be well understood and managed as a component of the overall facilities budget; the decision as to which of the multiple models available will be used should be an *informed decision* by university leadership based upon the proven viability of the methodology over many years—but it is important to note that having a meaningful conversation on these issues will also require a common dictionary of terms. ☛

ENDNOTES

- 1 Donald J. Guckert and Jeri Ripley King, "The Charge of the Rate Brigade: A Rate Template for In-House Construction Labor," *Facilities Manager* (July/August 2004).
- 2 Draper and Associates, "University of Arkansas—Physical Plant Operations Reorganization/Reengineering," draperandassociates.com/engagements/uark_reeng.html (2000).

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