

Campus Club and SUA Background Paper

Background

The Campus Club was formed in 1911. In 1938, the Campus Club contributed to the construction of a new union building and invested in the development of the fourth, fifth and sixth floors of Coffman Memorial Union, which the Campus Club occupied in whole or in part from 1940 until 1999. Upon completion of the Coffman Memorial Union renovation, the University leased the fourth floor to the Campus Club starting in December of 2002 until now and has provided financial resources to cover debt service related to building infrastructure and the Campus Club buildout, facility operations and general support. The original subsidy was \$906,846 and has, over the years, been reduced to the FY23 level of \$491,000. The Provost has informed the Campus Club that the University subsidy will be \$245,500 in FY24 and \$0 in FY25.

Current University Funding

EVPP Support
FY23 - \$491,000
FY24 - \$245,500
FY25 - \$0

Current Campus Club Impact

The Campus Club is facing a deadline of July 1, 2023 when University support for the Club will be cut by 50%. With no long term solution for either reducing rent or maintaining current subsidy, the Club is projected to run short of operating income and might need to close and vacate the 4th floor by December 2023.

A brief history of of how we got to here

- The University has supported the Campus Club financially since at least 1978 and in 2002 the subsidy was reset and allocated to Provost's office to reflect debt service and operating costs associated with the remodeled Coffman Union.
- In February of 2021 Provost Croson informed the Campus Club Board that the annual subsidy to the Campus Club would end June 30, 2022 upon termination of a twenty-year lease agreement that guaranteed this subsidy
- Renewal Committee of the Board was formed to explore a path to zero subsidy through updated mission, business and membership models
- April 2022 Club presented Provost with plan to reduce subsidy over a three year period to \$300,000
- Plan rejected by Provost because it did not get to zero subsidy
- July 1, 2022 lease ends and Campus Club rents the 4th floor on a month to month basis.
- Club revenue far below pre-covid levels; subsidy stays in place to keep the Club from immediately going out of business
- November 2022 Board received verbal confirmation that subsidy would remain for FY 23, reduce by 50% for FY24, and zero for FY25.

The need for a "build-back" period

- Club restaurant revenue dropped to zero during the pandemic closure. Membership dropped by more than 200.
- Covid surges in 2022 in January, April, June caused further interruptions in business
- Steep and sudden inflation in labor and product plus disruptions to supply chains eliminated profits through 2022
- Sales revenue has not reached 2019 levels

Plans, programs and revenue streams that get the Campus Club to zero subsidy over three years

- Apply for a change in IRS status from a 501c7 social organization requiring 85% of sales to come from members, to a 501c3 charitable organization. Benefits include
 - No membership requirement allows for greater flexibility for sales. Membership would be voluntary e.g. public radio or a museum
 - Ability to engage in fundraising. Donations to a 501c3 are tax deductible and donations to a 501c7 are not
 - Charitable programs such as Campus Club work to feed food-insecure students become mission-related
- Increase onsite catering by using the main dining room for events during the day, rather than for lunch seating
- Establish a delivery service for department lunches and dinners
- Increase partnerships to promote University priorities such as research and scholarships through events at the Campus Club
- Capital investment to increase kitchen capacity, clean and improve FFE for efficiency and marketability
- Negotiate a long term lease with Coffman Union that works for both organizations

Comps Per Real Estate

- Tea House - University LLC owned - Tenant pays \$23.10/sq ft net (In addition to the base rent, they pay utilities, taxes, insurance, and all capital, maintenance, and operating expenses.)
- Loring - University LLC owned - appraisal was \$23/sq ft net blended (\$25/sf for 1st floor & \$20/sf for 2nd floor)
- Other Minneapolis restaurant comps coming in at \$20 - \$40/sq ft net. In addition to net rental rates, tenants would also be responsible for and pay utilities, taxes, insurance, repairs & maintenance and all operating expenses. These costs vary by building but based on information from the recent Loring appraisal, the low end for operating expenses and real estate taxes were \$9.66/sf and \$4.35/sf respectively which when added to a market net rent of \$23/sf would equate to a gross rent of approximately \$37/sf gross.
- Campus Club is separately metered and pays for its own gas, electricity, water and telecommunications.
- Campus Club FY23 rent per sq foot is \$19.90 gross (includes heating and cooling), which takes into consideration the reconciliation figure that compares estimated costs to actual costs.
- Campus Club's location on the 4th floor (not street level) and hours of operation subject to building hours makes it unique and difficult to compare to market rents.

Student Unions and Activities Impact

Campus Club's rent paid to SUA is close to \$500,000 annually. If Campus Club vacates the 4th floor, SUA will need to replace that rent in one of the following ways:

- Offer the lease to Chartwells
 - Campus Club space was offered to Contract Administration in August of 2022 and Chartwells was not interested given their focus on residential and retail offerings
 - Staffing levels are challenging for Chartwells and may strain existing resources if they were to operate the Club.
 - Chartwells currently pays considerably lower rent per square foot than the Campus Club and may not be interested in paying the current Campus Club rate for the space.
- Find a new tenant via RFP
 - May be limited by existing University contract with Chartwells unless there is a right of first refusal clause

- Coffman Union's building hours may not work for many commercial tenants, especially bar/restaurants.
 - Considerable capital improvements may need to be made to the space which could limit potential responses or be very expensive for SUA
 - May need to look at a different solution other than restaurant/bar options which would impact faculty/staff/student access to an on-campus bar and eliminate food options other than grab and go in Coffman Memorial Union.
- SUA assumes responsibility for Club operations and tries to generate revenue from food, alcohol, and room rental sales
 - SUA would need to develop a proforma of capital and operating expenses/revenues to determine feasibility
- Other options to be explored
 - If SUA is unable to recover all of the rent that Campus Club currently pays via one of the above methods, SUA may need to request an increase in Student Service Fees in order to cover the balance.
- Timing
 - Funding for the Campus Club will be cut by 50% in July 2023. Campus Club estimates that they will have to vacate the 4th floor by December if this happens.
 - SUA does not have time to develop and implement one of the methods listed above

Proposed Solutions

- A 3 year commitment of funding to provide one of the following options:
 - Campus Club has time to implement a sustainable business plan that minimizes financial support from the University.
 - SUA develops a sustainable business plan for replacing Campus Club that minimizes the impact of Student Service Fees.
- Lower rent and provide tenant allowances such that the Campus Club can operate successfully with lower/no subsidy, as we have done with UDS in the past.
- Transfer current subsidy to CFO, OSA, or another unit currently more closely with the operation of the Club.
- Combinations of the above or other ideas.

Options/Solutions/Next Steps

- What rent would the Campus Club need to succeed
- Lease termination
- Will need to develop a communication strategy and plan and figure out an end date

Potential Ramifications

- SUA will need to decide what to do with the space and will lose, at least in the short term, the rental income. Could become a student fee issue which may mean backlash from students
- Backlash from faculty and staff
- Take away a food resource for food insecurity issues - students
- Impact on campus community and belonging, and a space to gather for meals and events

Board Mtg Minutes FY23 Regarding UMRA & Campus Club Venue Issues

September 26, 2022

Campus Club: Frank said that as liaison to the Campus Club he attends the club board meetings. In short, the provost has stated the UMN subsidy will stop at the end of November. The subsidy of roughly \$400,000 basically covers rent for the space. Some other entities in the building do get a deal on rent. The new food service contractor has been asked for a proposal to take over the space but no response yet. Bill asked if that means the Campus Club could shut down operations in December, and Frank said yes. The club presented a plan which would eliminate the subsidy over 3 years but it was rejected by the provost. There is a board meeting this Wednesday (September 28) which will consider severance packages, in part to hold staff through November. Jan asked if UMRA's November meeting was at risk, and Frank said no, since the provost committed support through November. Campus Club has adequate cash reserves, but staff departures could affect operations. Diane asked if the Foundation had been contacted, since development offices use the club frequently. Frank said yes, several times.

The discussion moved to alternatives for events beginning in March. Ron asked about reconstituting the committee Frank led, and Frank questioned whether his role as liaison was a conflict with participation on a committee looking for alternatives. Ron suggested we book a new location in March regardless of the Campus Club status, because some of UMRA's less mobile members find the hike from parking through Coffman to be strenuous or even prohibitive. Frank asked if we were planning a holiday party for December, and Ron said that the Executive Committee advised no. Several members noted that Midland Country Club had been a good host of other events, and Kris said they had current cost information. Bill moved that Ron be authorized to appoint a committee and report back in October. Jerry and Diane seconded, and all voted in favor. Eric then said Diane should be on the committee due to her role on the host committee, and Diane said she volunteered to do so. Kate Maple also volunteered to be on the committee. Diane said we can cancel at Campus Club 60 days prior. Jan asked if we should consider a change in format (e.g., other than luncheons), but Ron, Bill and Diane agreed it is beyond the current challenge. Eric agreed in the short term but thought it was worth considering in the long term. Diane said we might consider social activities such as the boat cruise as an alternative to the workshop in some months. Ron said we need to do a member survey before making any of those changes. He asked for a chair for this committee and Bill volunteered. Bill, Diane and Kate will report back in October.

October 24, 2022

Venue Committee: Ron first asked Frank for any updates on the Campus Club. Frank reported that as of yesterday U Dining Services is not interested in using the 4th floor, and the provost still does not want to subsidize the Campus Club. He will report back any news from Wednesday's Campus Club board meeting. Bill summarized **the recommendation of the Venue Committee, which is to use the Midland Hills Country Club due to its easy access and roughly**

equivalent pricing. Diane said they had considered the Graduate Hotel but they will only reserve 60 days in advance if no hotel rooms are booked, and the Bell Museum, which has a \$1500 room charge as well as pricey caterers. Kate said the St. Paul Student Center is scheduled to be replaced and does not have a good room for speakers, plus very limited parking. **Bill moved approval of the report and to authorize the president to reserve space for March, April and May.** Jan Morlock recognized UMRA's priority is quality space for programs but was concerned about the collateral impact on the Campus Club if we pulled out too soon. Frank said the 'drop dead' decision date on closure is still the end of November, and Bill said the club was not taking reservations for March and beyond, which relieved Jan's concern. Cherie asked about Midland's capacity for the May annual meeting, and Bill said it was sufficient. Jan McCulloch hoped the easier access at Midland would bring a few people back.

Diane said she followed up with the 12 'no shows' from September and of the 8 responses, 3 cited parking and 5 forgot or had a conflict arise. She will check with any no shows at the October Forum as well. Ron asked about tech support. Kris confirmed that when they looked at Midland previously, they had a projector, podium, sound, etc. but no staff. Frank thought that if we were considering hybrid meetings, it might be hard to do. Cathy Lee thought that a hybrid meeting was doable. Ron noted they charge \$100 for a projector so it might be worth buying one instead. Bill encouraged the board to approve the motion to reserve the dates and let the committee figure out the technical needs afterwards. Jan seconded the motion with a friendly amendment asking the committee to figure out technology. Bill noted we can still cancel, and Jerry asked that we evaluate the site after each event. Cherie wanted the site evaluation before buying equipment. **The motion, as seconded, was to authorize the president to reserve 3 dates, further evaluate Midland's technical capacity and evaluate whether Midland was meeting UMRA needs after each event. All voted in favor.**

December 12, 2022

UMRA Board of Directors Special Meeting (Zoom)

Approved Minutes In attendance (virtual): John Bantle, Frank Cerra, Will Craig, Kristy Frost-Griep, Cathy Lee Gierke, Cherie Hamilton, Eric Hockert, Laurie Koch, Russell Luepker, Ron Matross, Jan Morlock, Kris Mortensen, Jerry Rinehart, Barb Shiels, Julie Sweitzer, KaiMay Terry, Cathrine Wambach, Diane Young

Ron Matross opened the meeting just after 1:00 p.m., **noting that the sole item on the agenda was the location of the March, April and May meetings.** He reminded members that in October the board had decided on Midland Hills for the spring meetings, but that was before the Campus Club received a reprieve on funding. Ron then summarized the significant findings among the responses to the Program Survey. There was a good response of 346 members. The majority of respondents said that Covid, schedule conflicts and parking were major or minor obstacles to attending. A majority of non-attendees responded that not knowing people was an obstacle, with 16% saying it was a major obstacle, something UMRA needs to continue to work

on. As to format, the two lunch formats (hot and a lighter option) were the favorite of 46% with only 19% preferring one of the coffee options, but when offered a mix of luncheons and coffees 35% said that was their top choice. Ron felt the responses indicated an openness to new options but a preference for lunch. Holding events on campus was very or somewhat important to 54% of respondents. Regular attendees were strongly in favor of a campus location while non-attendees registered as slightly favoring campus or no preference.

Ron then asked for other observations. Laurie was impressed by the large number who were willing to complete the survey. Eric noted what didn't rise to the top, which is cost. It allayed some of his fears of cost as a barrier. Jan agreed with Laurie, noting the respondents were roughly half the membership, and agreed price is not a serious issue. Ron noted his concern that small obstacles can add up to become barriers, and price may not be a major barrier on its own, but possibly a small obstacle we should be mindful of. Will agreed the price itself is not a problem but perhaps a sense of little value for the price. A salad or cookie could help. Russ said we need to facilitate the needs of those who are attending, and location is a testable question. Julie agreed, saying it is why she like the proposal to hold two events at Midland Hills with the promise of the return to Campus Club in May. She also noted that people who liked the Zoom option apparently didn't know that the January and February meetings would be on Zoom, so we need to communicate that clearly. Cathrine and Cathy Lee agreed it was worth a try.

Ron then reported on the meeting he and Diane had with the Campus Club. The club is fully staffed with occasional morning shortages of student employees but does not have enough staff for plated lunches. The price for the West Wing will increase from \$600 to \$800 in fall, plus the charge for technology. Diane noted that the charge for non-U renters is \$2,000, so the increases reflect what things cost today. Food (buffet lunch) will remain at \$25 until UMN increases the amount departments are permitted to spend on food. Morning coffees would cost \$18.50, so if we charge \$20 it isn't much cheaper than lunches. The Campus Club wishes us to know that they provide good pay and benefits to employees, and hope that is a factor we consider. UMRA is an important customer among many. The club has a more philanthropic vision of the future focusing on feeding the U community. Currently they provide some free student meals but a possible switch to 501(c)(3) tax status could allow them to accept donations and provide more support to food shelves in the area. Russ asked if that model is feasible. Frank said they are receiving good legal advice but there is no market study. **Frank noted that the provost has told the Campus Club that she will continue their funding for this fiscal year and provide half that amount for fiscal 2023-24, but nothing is in writing. The club is to negotiate with the real estate office regarding rent in 2024-25.**

Ron then asked for consideration of the proposal (made by Ron and Bill) to hold the March and April luncheons at Midland Hills Country Club and return to the Campus Club for the May annual meeting. Frank said it was tenuous to put all our eggs in the Campus Club basket and we need to try other venues even though our allegiance might be to the U. Jerry agreed, noting the financial strain was not a new situation for the Campus Club. He values the club but feels reality caught up with the club during the pandemic. Kristy also favored the proposal. She does not want to give up on the idea of coffees and suggested using free or inexpensive campus space

such as Hasselmo Hall's foyer or Mayo Auditorium, with cookies and coffee from the current university dining services provider. Ron noted the added benefit of not being 'required' to eat and thus remove a mask at such events. He wants to vary one variable at a time in spring, however, specifically location. Jan asked if we were ready for a motion? ***Ron said the proposal is to hold the march and April luncheons at Midland Hills Country Club, and the May annual meeting at the Campus Club. Eric moved approval of the proposal, and Will seconded it. Ron asked for discussion, to which Barb said she favored approval but it was important to communicate clearly and emphasize the May return. Frank said 'ditto that' and we need to provide a clear decision to the Campus Club. Ron said Kris was holding the January newsletter for an article on this decision, which he was drafting. Diane said we also need to reconfirm with Midland Hills. Ron asked who was responsible for that. Diane said the president should confirm with the schedule with both locations on behalf of the organization. Jean Kinsey is the member contact for the Midland reservation. The Host Committee will take it from there to work out the event details. There was general agreement, and Ron said he would handle it. He called for a vote which was unanimous in approval.***

As a final note, Eric wanted to recognize the quality of the work done by Ron, Will and Cathrine in drafting and analyzing the survey. Cherie recommended a bulleted list for communicating the schedule and locations, including Zoom, for January through May. Kris asked about a previous idea to hold a board meeting at Midland to develop familiarity. Ron suggested that instead a few members could go look at the location informally.

Ron **adjourned** the meeting at approximately 2:00 p.m.

2/27/23

Campus Club: Frank reported the club is working on the 501(c)3 status but has had no success negotiating with real estate over rent. Budget projections for next year, with the reduced subsidy, show a deficit roughly the same as the subsidy. Membership is up by about 200 people, however. Ron asked if there is any news on rates for next year, and Frank said he has not heard any such discussion. Jan Morlock said she heard one person question the Midland Hills location for March, but no one else had heard concerns.

3/27/23

Campus Club: Frank reported the club is drafting a letter to President Gabel explain their situation and asking to meet. The real estate office is not communicating. If the efforts fail, the Campus Club is likely to operate until December 2023.