

# **Auxiliary Services Report: Financing Student Life**

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## Introduction

“Significant improvements to residential, dining and social facilities are necessary to provide a contemporary student life infrastructure – one that will foster faculty-student interaction, student self-governance and entertainment, and student inter-group interactions.”<sup>1</sup>

In the last five years, Duke University has released at least three major, self-reflective reports: *Making a Difference: The Strategic Plan for Duke University*, *The Women’s Initiative Report*, and *The Campus Culture Initiative Report*. Each document is an aspirational statement. Each attempts to define the core values of the university. While these reports’ policy prescriptions have not been received without criticism – most notably in the case of the CCI – we now have a rough approximation of what Duke University aspires to be.

The university strives to provide an excellent education – a goal which is increasingly satisfied outside of the classroom. The university seeks “to build a more integrated experience for an undergraduate that provides greater continuity between and among the various aspects of students’ lives at Duke.”<sup>2</sup> In short, the university’s mission goes beyond lectures. It extends to extracurricular pursuits, which are “a prime site for the teaching and learning of the new curriculum.”<sup>3</sup> Moreover, if we are to accept that development takes place in and outside of the classroom, “we must place institutional priority on community, on students’ connection to others as well as to the city in which they are located.”<sup>4</sup> The meaning of “institutional priority” must now be made concrete.

The university also strives to provide an education based on egalitarian and productive interactions between undergraduates, graduate students, and faculty. It is not merely excellent students, faculty, and administrators but “how their talents and energies work together that matters.”<sup>5</sup> The Campus Culture Initiative, for its part, refers to a “conversation”: “the University must work to recognize and empower those whose conduct of the conversation has been most enhancing for the community and those in whose lives and work the conversation has born the most fruit...”<sup>6</sup> Clarifying the language, student communities on campus should be fostered, as should positive interactions between these communities. The question is how. The answer is likely to be found outside of purely academic spheres.

We must ensure that the university’s financial allocations and policies are in line with its aspirations. As the strategic plan claims, “we must ... dedicate substantial attention and *resources* to assuring that campus culture supports the values we seek to promote”[emphasis added].<sup>7</sup> This report will focus on the limitations of the cost-recovery model as applied to Auxiliary Services. Auxiliary Services,

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<sup>1</sup> Campus Culture Initiative Report 18.

<sup>2</sup> Making a Difference 41.

<sup>3</sup> Ibid III.

<sup>4</sup> Ibid 41.

<sup>5</sup> Ibid 3.

<sup>6</sup> Campus Culture Initiative Report 4.

<sup>7</sup> Making a Difference 45.

for the purposes of the university's organizational chart, includes Dining Services, Event Management, Duke Stores, Duke Postal, Parking and Transportation, DukeCard, and University Housekeeping. University Housekeeping has little direct impact on the educational mission of the University. Duke Postal provides, in large part, services expected of a typical post office. DukeCard elicits few complaints from students. All three will be excluded from the analysis. Finally, Residence Life and Housing Services, while not technically an auxiliary service at Duke, is kept to cost recovery. The implications of this housing model will be addressed in this report, though many of the concerns about cross-subsidies and decentralized decision-making are not applicable to RLHS.

This report will conclude that moving Auxiliary Services off of the cost-recovery model – at least in the instance of capital improvement – would serve the ends of *The Strategic Plan*, *The Women's Initiative*, and *The Campus Culture Initiative*. Each of these services would also become both more affordable and effectual for students.<sup>8</sup>

### Why Auxiliaries?

Auxiliary Services is important for students' quality of life. On a basic level, it affects where students eat, how they move about campus, and what commercial goods they have access to. These concerns are not trivial, even if they are mundane. The availability of quality services adapted to students' schedules affects students' ability to take advantage of the university's academic offerings. An hour lost to an inefficient parking system is an hour that a student is neither pursuing academics nor interacting with other members of the University community. It is perhaps no surprise that the trend toward "helicopter parents" has witnessed corresponding pressure on universities to improve auxiliaries. In the words of the strategic plan, students and their parents "have heightened expectations for institutions not only to provide learning in the classroom but also to develop the 'whole' individual and offer an expanding array of personal services responsive to students' interests, aspirations, and development."<sup>9</sup>

On a deeper level, Auxiliary Services affects the quality of the university community. Dining can be calibrated to encourage or discourage interactions between students and faculty. Parking and transportation affects when and where the student body comes into contact with the community. The quality of Event Management may determine which campus subcommunities hold events.

At Duke, Auxiliary Services is a particularly attractive angle to improve campus community because it affects all players. The Campus Culture Initiative focused almost exclusively on Trinity students. The Strategic Plan analyzes graduate students and undergraduates separately before calling for more interaction. The Women's Initiative does the same. The impact of Auxiliary Services is not inherently differential. It affects Pratt and Trinity students alike. It impacts both graduate and undergraduate students. It is, in short, an excellent lever to bring all subdivisions of the university together in an organic (rather than a programmed) way.

### The Cost-Recovery Model

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<sup>8</sup> **A note on process:** This report is the product of several bodies of information. First, it includes insights from a review of the difficulties and constraints faced by members of the DSG Executive Board when asking for improvements in campus services this year. Second, it includes information gleaned from readings of Women's Initiative, the Campus Culture Initiative, annual Financial Statements, and supporting documents. Third, both Executive Vice President Tallman Trask and Vice President of Campus Services Kemel Dawkins provided significant insights for this report. I thank both of them for taking time out of their days to meet with me.

**A note on method:** Unfortunately, the university Financial Statements prepared by independent auditors follow a national accounting convention which includes housing and telecommunications under the Auxiliary Services aggregate. The budgets of the services included under Auxiliaries for Duke's organizational purposes are not publicly available. As such, the analysis presented here is largely qualitative rather than quantitative. Where possible, I have included anecdotal examples of the impacts of the cost-recovery model taken from interviews with administrators.

<sup>9</sup> Making a Difference 14.

The distribution of an institution's spending is a concrete articulation of its priorities. Unfortunately, despite repeatedly recognizing in writing the importance of Auxiliary Services, the university has kept it on a cost-recovery model. Even if particular divisions of Auxiliary Services break from the cost-recovery model, the department as a whole remains revenue neutral. This financial structure ensures that decisions about auxiliaries are made by individuals within auxiliaries watching their bottom line. Decisions are not made by a university-wide administrator with influence on the distribution of the university's spending. Auxiliaries are not evaluated and managed based upon their contribution to the university but focus instead on breaking even.

The cost-recovery model is something of a relic. It was adopted when the university was not financially healthy enough to distribute university-wide revenues to Auxiliary Services.<sup>10</sup> In the words of the Campus Culture Initiative, "the current dining system was designed years ago to reflect managerial, financial and service assumptions that were then regarded as appropriate. These assumptions included expectations that undergraduate dining would generate university revenues as part of a larger array of auxiliary operations (including the bookstore, parking and housing operations), all expected to support institutional financial needs."<sup>11</sup> It is a model that must now be revisited with the backdrop of the university's financial health. In that context, it is useful to review some of the negative implications of the cost recovery model.

On the level of operational budgets, linking Auxiliary Services to a cost recovery model creates a bizarre system of cross-subsidies. Services that experience a shortfall in revenues from one year to the next – i.e. dining and parking and transportation – are often "bailed out" by Stores or DukeCard.<sup>12</sup> These interdependencies are problematic. As one service becomes dependent on another, fluctuations in costs and revenues become linked. The collapse of revenues in one service area can send a shockwave through other services, effectively forcing an increase in prices or a decrease in services offered. In short, rooting for the men's basketball team to win a national title so that cheeseburger prices hold constant is a suboptimal system.

The most significant issues, however, relate to capital improvements. When PG4 – the parking deck behind the Bryan Center – was built, the university took out a private loan and then re-loaned the money internally to Parking and Transportation. Parking and Transportation has since serviced the debt through its general revenues.<sup>13</sup> Although interest arbitrage is a major source of centrally allocated, unrestricted funding, it deprives Auxiliary operations of necessary resources. The same issues are salient for dining. Dining continues to service debt – to the tune of \$360,000 per year – from an East Campus renovation done 11 years ago. Dining is also servicing debt from two renovations to the Great Hall at about \$100,000 per year. The implications for the operating budgets of these auxiliaries are obvious. In the short term, this system curtails the quality and quantity of services offered. In a longer timeframe, this system discourages the kind of capital investments that would be optimal given the university's overall financial health.<sup>14</sup> The university is compartmentalizing debt in a way that puts an extraordinary burden on subdivisions that cannot effectively balance debt and other organizational prerogatives. Rather than coordinating net debt, the university is atomizing decisions about capital investments within Auxiliary Services. A more optimal system would rely on a decision maker with a bird's-eye-view of auxiliaries and university revenues.

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<sup>10</sup> Interview with VP of Student Affairs Larry Moneta (03/27/07).

<sup>11</sup> Campus Culture Initiative Report 17.

<sup>12</sup> Interview with VP of Campus Services Kemel Dawkins (01/26/07).

<sup>13</sup> Interview with Executive VP Tallman Trask (02/08/06).

<sup>14</sup> Campus Culture Initiative Report 17, and email exchange with Dining Director Jim Wulfhorst (03/27/07).

Beyond constraining Auxiliary Services' operational budgets, this system creates poor incentives. Individual decision makers – particularly vendors – will not make the capital investments which would be optimal from a university-wide perspective. A dining vendor or the Parking and Transportation subdivision might invest in improving a dining space or a new bus. However, the mode of operations will be attracting customers or fulfilling contractual obligations to the university rather than contributing to the university mission.

Finally, it should be noted that there are occasional, ad hoc subsidies to Auxiliary Services. These subsidies are executed within the discretionary budgets of one or more administrators as a result of acute service failures. This ad hoc system does not lend itself to efficient, anticipatory spending or to an optimal overall distribution of funds. When these subsidies are not sustained, service improvements prove to be intermittent.

### **The Potential of Each Service**

Each auxiliary service could pursue goals laid out in the CCI, Strategic Plan, and Women's Initiative. The policy changes below would be possible given either subsidies to operating budgets or capital projects. It's important to recognize, however, that university subsidies for capital improvements would take pressure off of Auxiliary Service's operating budgets by freeing up funds currently devoted to debt service. In some sense, operating and capital subsidies are one in the same, though capital subsidies would only indirectly affect operating budgets after old debt is serviced.

#### *Parking and Transportation*

Student governments and other interested parties have intermittently pushed for bus routes into Durham, but these routes inevitably run up against funding constraints. *The Strategic Plan* quotes James B. Duke saying the university should be “a place of real leadership” – leadership that involves “harnessing the power of higher learning for the larger social good to meet the world's great needs.”<sup>15</sup> The report goes on to make the claim more explicit: “we must increasingly focus on creating opportunities for experiential learning, such as service learning, internships, field-work, and research service learning.”<sup>16</sup> Duke University has followed through on this vision, most notably with the creation of DukeEngage. However, this program will only succeed with student buy-in, and student buy-in will require practical, convenient access to Durham and the surrounding community. If Parking and Transportation continues to devote parking ticket and permit revenue to servicing debt, this convenient access is unlikely.

On-campus bus routes have also burdened Parking and Transportation. Many students were interested in a bus route running from West Campus to Central Campus and back without a stop on East Campus. Student Government was able to secure this route, but tradeoffs in P&T's operational budget made it necessary to cut back on the C2 busses that take students from West to Central to East. Student Government received complaints from students on Central who needed to travel to East for student group meetings and social events. In theory, Safe Rides should be sufficient to serve these students' needs. In reality, the budgetary constraints on Safe Rides result in significant wait times at inopportune hours and in unsavory locations. Time spent waiting for a bus or Safe Rides makes it less likely that students will take advantage of the academic and extracurricular opportunities offered by the university,

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<sup>15</sup> Making a Difference 16.

<sup>16</sup> Ibid 42.

particularly in the evenings. The cost-recovery model essentially prevents Parking and Transportation from quickly and effectively distributing students to resources on campus.

Finally, Parking and Transportation has a role to play in student safety. The Women's Initiative and the CCI both repeatedly stress safety concerns – particularly for women – while socializing on and off campus. Safe Rides has the potential to mitigate these concerns. However, due to budgetary limitations, Safe Rides will not pick students up off campus – a service almost tautologically linked to preventing drunk driving and assault. Students are forced to walk through Durham neighborhoods to East Campus for a ride. Moreover, significant wait times often leave students – inebriated and not – standing in exposed areas of campus at night. From both a safety and a liability standpoint, Safe Rides needs to come off of parking revenue and on to a university subsidy motivated by safety rather than cost.

### *Dining*

Dining has the potential to foster community, but it cannot do so if capital improvements are prohibitively expensive. As it stands, the dining model is based on efficiency rather than community, despite excellent leadership in Dining Services. This model is the only plausible outcome of the cost recovery system. The CCI, faculty, and senior staff have recognized this reality.<sup>17</sup> If the university wants anything from more 24-hour eateries to restaurant-style dining, the financial model will have to change.

In particular, dining can foster interactions between students and faculty. The CCI, the Women's Initiative, and the Strategic Plan have all recommended tighter links between our remarkable faculty and our students. As the strategic plan put it, “we want faculty who care deeply about teaching and the lives of their students ... both inside and outside the classroom.”<sup>18</sup> This will require, among other things, spaces in which students and faculty are comfortable interacting. The Faculty Commons is both closed to students without a faculty member and rather formal. Current student dining facilities are too hectic and informal to attract faculty members. The Von der Heyden Pavilion has proven a successful meeting place for students and faculty members, but it is often crowded precisely for this reason. If dining could expand on this model using university subsidies, student faculty interaction could be improved without chronic repercussions for dining's operating budget.

Dining can also foster interaction between students. In the CCI's language, “Duke's opportunity is to provide a campus culture in which openness and engagement with difference of all types – intellectual, cultural, social, religious, and socioeconomic – are expected and supported...”<sup>19</sup> Improvements in dining facilities will require that support. Academic and obligatory attempts to foster engagement with difference will not be nearly as effective as organic interaction. Dining spaces in which this interaction can take place, as opposed to grab and go eateries, would certainly help, but the current model discourages investment in these relatively expensive facilities.

The strategic plan argues that “the arts are ... fundamental to Duke's teaching and research mission, providing historical and cultural insight, offering diverse perspectives on human behavior and concerns, and affording students opportunities to experience artistic creation and production.” Dining improvements could create spaces in which both student and faculty art – performed or displayed – would be a part of the dining experience. Instead of taking time away from students' social or academic endeavors, art performed or displayed in dining spaces could be a part of daily life at Duke. Relatively small investments, such as stages and clean wall space, are hard to justify within the operating budgets

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<sup>17</sup> Interview with Executive VP Tallman Trask (02/08/06).

<sup>18</sup> Making a Difference 4.

<sup>19</sup> Campus Culture Initiative Report 10.

of contracted dining establishments. However, with university subsidies, these spaces could be available within a year.

The culture of alcohol consumption at Duke is at issue in both *The Campus Culture Initiative Report* and *The Women's Initiative Report*. Punitive efforts to stem abusive drinking have met mediocre results and unintended side effects. Dining can influence the culture of alcohol consumption through positive pressure, drawing students to venues which offer a safe drinking environment. The bar in the Armadillo Grill is serviceable, but dining could create a much more appealing space if given additional resources. Improving the campus bar scene would have the added benefit of drawing undergraduate seniors – a notoriously absent population – back to campus and away from the Durham bar scene.

Finally, the strategic plan articulates the need to make Duke more affordable and accessible for all members of the population. It's unfortunate that the nicest eateries on campus may be prohibitively expensive for some students – yet more prohibitively expensive than these same establishments might be off campus. Moving away from an auxiliaries model based on cost recovery could level the campus playing field if increased resources are reflected in lower prices.

### *Stores*

Stores must ultimately operate on a profit model, particularly off-campus. However, the cross-subsidies between auxiliaries often make stores the benefactor of other services.<sup>20</sup> Unfortunately, this system puts undue pressure on campus stores to generate revenue from a captive campus audience. Even beyond the cross-subsidies argument, the university has a vested interest in affordable, service-oriented stores.

First, with regard to affordability, the university has an interest in subsidizing the costs of textbooks and other academic materials. While students from a lower socioeconomic background may receive financial aid that directly defrays housing and tuition costs, they must decide whether or not to procure academic materials within a given aid package. Price schedules that bias students toward rather than away from primary and supplementary academic materials are well within the university's mandate. Moreover, Duke may have an interest in subsidizing memorabilia. Pricing less fortunate students out of the market for spirit wear is a uniquely terrible message that is well worth mitigating.

Second, with regard to service, the university has an interest in ensuring that students can quickly and conveniently access the items they need. Relatively small university subsidies would make it possible to expand the hours of existing stores. On a longer time frame, changing the capital projects model would make it possible to place stores in locations where individual vendors would not voluntarily invest. Students on central and in the Edens dormitories are essentially excluded from the current stores model – particularly later in the day, but this state of affairs is unlikely to change without subsidy.

### *Event Management*

Event Management, if taken off of the cost recovery model, could reduce the rental and equipment fees currently charged to students using university space. This would encourage the formation of affinity groups – particularly those without housing sections – and engagement with diversity through art, cultural events, and forums. The Women's Initiative repeatedly argues that on-campus space is inequitably distributed.<sup>21</sup> Making the rentable spaces that we have both more affordable

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<sup>20</sup> Interview with VP of Campus Services Kemel Dawkins (01/26/07).

<sup>21</sup> Women's Initiative 13.

and convenient is a logical remedy, but this will be difficult task if Event Management must continue to generate the revenue to support itself.

Event Management also has the potential to cultivate the student and faculty arts scene. *The Strategic Plan* recognizes this goal: “outside the classroom, we will increase support for student-directed and student-initiated activities. Such investment not only shows the university’s support for students giving expression to their cultural experience, but also helps create future traditions that will contribute to making for a more richly varied student scene.”<sup>22</sup> The report goes on to argue that the university should develop a “new and substantial” faculty in the arts, which will require, among other things, support services and viable facilities for performance and display. The insistent focus on “support” and “investment” in these excerpts makes clear that an arts scene is not a purely organic entity. It requires institutional support, and Event Management has the experience and facilities to provide this support.

### *Residence Life and Housing Services*

As noted above, RLHS is not under the purview of Auxiliary Services at Duke. However, while RLHS reports directly to Student Affairs, it still functions within its own cost-recovery microcosm.

The facilities under RLHS have more of an impact on students’ quality of life than any other facet of the university. Students live, work, sleep, and socialize in their dorms. Unlike many of the auxiliary services, the link between the quality of housing and the academic mission of the university is not tangential. Students’ ability to perform in academics is a function of the quality of their residences.

Unfortunately, fully one third of RLHS’ budget is devoted to debt service. Partly due to poor management and partly as a result of the cost recovery model, housing’s depreciation reserves are depleted. Many of the campus dormitories are in need of updates that are not possible within the current system. In this environment, deliberate capital improvements are difficult if not impossible. Subsidizing both upkeep and full-scale improvements in dorms offers a number of opportunities to improve campus life.

Housing serves as a social space, perhaps the primary social space. On East Campus, the sense of community within each dorm is palpable, and it is partly this sense of community that maintains the mental health and academic performance of students. The *Campus Culture Initiative Report* noted that “there is compelling and long-recognized need for social spaces on West Campus that can accommodate large group activities.”<sup>23</sup> These spaces could and, in some cases, do exist in the form of quads and common rooms. These spaces are appealing because they are linked to particular residences and groups of students. However, common rooms on West do not offer the same amenities that common rooms on East do. Beyond the common rooms, the dorms have little in the way of recreational facilities, and the Bryan Student Center is hardly a communal alternative. Basic updates are enough reason to invest in housing, but a great deal could also be done to improve the social spaces in dorms.

Moving housing off of a cost recovery model would also decrease housing fees. This is not only an issue of affordability. The *Campus Culture Initiative Report* claims that “one of the motivations to close Trent Hall, build the West-Edens Link, and require all sophomores to live on West campus was to create more West Campus residential space to address perceived inequities in assignment and to have West Campus and Central Campus better reflect the racial composition of the undergraduate population.”<sup>24</sup> Simply put, the housing costs on West drive less fortunate students off campus or to central campus, and it is a reality of our society that less fortunate students are more likely to be

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<sup>22</sup> Making a Difference 48.

<sup>23</sup> Campus Culture Initiative Report 19.

<sup>24</sup> Ibid 19.

minority students. The costs of living on West Campus separate students along socioeconomic and racial lines, and lowering the cost of housing on West is therefore clearly within university priorities.

### **Possible Strategies**

Increasing the university support of Auxiliary Services will obviously require diverting or increasing spending. Alterations in the university financial structure will have to be discussed at length by the senior staff and trustees, but as student government, we would hope to be involved in those conversations.

Before reviewing potential strategies, three things should be noted. First, increasing the total revenue spent on Auxiliary Services would require relatively minimal changes in outlays. Auxiliary Services is undervalued by the existent financial system, and the marginal product of dollars spent within this division will be high. Second, centralizing capital investments and even operational subsidies for auxiliaries will increase efficiency. The ad hoc system of financing these services through administrative discretionary budgets and extreme debt burdens is far from optimal. Moreover, increasing the revenue spent on auxiliaries will improve the returns to academic dollars as students are better able to access and use resources. Third, Duke is not what it once was; it's better. Duke's endowment and undergraduate experience have improved significantly since the cost recovery model was implemented. Improving the undergraduate experience will now require realigning funding priorities to reflect Duke's newfound status and resources.

Possible ways forward:

- The university could shift off of the cost recovery model for auxiliaries and centralize both operational and capital spending. The right incentives would have to be designed to encourage service providers to reduce costs where necessary, but efficiencies would be gained in the way projects are anticipated and funded.
- The university could maintain the cost recovery model for operational budgets but take on partial or total responsibility for capital improvements. It's important to stress that this would still significantly improve operational budgets as debt service would no longer consume revenues.
- The university could fundraise from donors specifically for Auxiliary Services' capital or operational budgets. Earmarked donations are obviously more complex than donations into the general fund, but improvements in auxiliaries have an appealing "this is specifically for the purpose of making student life better" pitch.

### **Conclusion**

Duke is not the place it once was. The university is now a better funded and more prestigious place than the university that adopted the cost recovery model for Auxiliary Services. We have at least three substantial and recent reports outlining the mission and values of the university. Each recognizes that the lived experiences of students must be a component of our undergraduate education and university mission. Each also recognizes that more resources must be devoted to these experiences.

Auxiliary Services is in a unique position to both improve the undergraduate educational experience and foster a sense of community across the university. This report has detailed the areas in which moving away from a cost recovery model would do so. It is not obvious which of the potential strategies for each subdivision of auxiliaries would be best, nor is it obvious which alternative financial relationship between auxiliaries and the university is ideal. However, it is clear that reforms in university

subsidies to Auxiliary Services and particularly changes in the strategies for financing capital investment could substantially improve student life and Duke's undergraduate educational experience.