

Brief Statement of Program:

The financial environment on The University of Texas at Austin campus is changing rapidly. This has led Facilities Services to explore innovative and creative alternatives to maximize university assets.

Every year, millions of dollars in university property passes through Facilities Services' surplus property warehouse. Using current methods, Facilities Services is only able to recover approximately \$250,000 per year through three auctions. All IT equipment is donated to either Texas independent school districts or the Department of Criminal justice for recycling.

Current income falls short of covering the operating costs of the nine-person Surplus Property operation by \$34,000. This shortfall occurs as a result of surplus property inventory being offered at no cost and on a continual basis to the public school and prison systems and the university community--a practice we are not required to follow. We are missing an opportunity to capitalize on the valuable resources the university owns.

However, this does not *have* to continue to be the case!

Approximately two years ago, Ben Reid, manager of the Central Services branch of Facilities Services, embarked on a mission to create a Surplus Property Retail Store (or S.M.A.R.T. Store – Surplus Management Asset Recovery Team Store). The SMART Store program will significantly increase income by as much as six fold, up to \$1.5 million per year.



Narrative:

Institutional Benefits

Facilities Services has created an opportunity for a self-supporting and revenue-producing source of funds for The University of Texas at Austin. The SMART program will allow Facilities Services to convert Surplus Property into a self-supporting organization, and return as much as **\$1,000,000** per year to Facilities Services. These dollars will be used to supplement waning operational budgets.

This store program proposes a 7,000 square foot retail operation located adjacent to main campus that will offer university-owned surplus property for sale to the university community and the general public. Concurrently, free access to Surplus Property's inventory for school systems will be discontinued and the university community's access will be more closely managed.

The Surplus Store will offer students easy access to a university-run store close to campus that would allow them to outfit their dorms/apartments with chairs, tables, and desks at an affordable cost. One group of students suggested we brand items sold in the store with a small longhorn or "UT," making them more prized as a university collectible. This program would also allow retiring faculty to purchase their beloved office furnishings upon retirement.

This retail store program will also include repurposing the Surplus Property warehouse at the university's Pickle Research Campus (PRC), converting approximately 27,000 of its 54,000 square feet into rentable storage space available to the university community for at-cost short- or long-term storage. More than 10,000 square feet have already been rented on a three-year contract, bringing in over \$5,000 monthly.

Selling surplus items in a retail environment will create employment opportunities on campus, allow UT to realize far better returns on surplus items (versus auctioning them in bulk), and create opportunities for more interaction between Facilities Services and the university community.

Characteristics or Qualities that Make this Program Different or Innovative

There are many surplus stores at other universities across the country. However, because of complex state codes, Regents Rules (specific to UT System universities), and local policies, state university surplus stores do not exist in Texas.

Through great effort and in-depth research, we have discovered a way to make a surplus store work, while complying with the spirit and intent of the law and other rules and policies.

Perhaps the biggest hurdle, and one of the more innovative workarounds, was a Board of Regents’ requirement that items be sold at auction – there is no provision in the rules for pricing items and selling them in a retail environment. After researching this issue, the solution identified was the Dutch Auction, a type of auction in which the auctioneer begins with a high asking price which is lowered until some participant is willing to accept the auctioneer’s price. (Interestingly, the Dutch Auction was created and given its name as a result of the Dutch Tulip Craze of 1637, to complete more auctions, faster.)



A sample Dutch Auction price tag is shown at right. As you can see, the shoppers in the SMART Store will pay different prices depending on the date they are shopping. The price of the item comes down over time; someone making a purchase constitutes the first and final bid. We feel this was not only an innovative solution to administrative requirements, but will also encourage repeat shoppers, as this method will entice customers to come back the next week for a potentially better deal.

We have also discovered a way to sell used IT equipment legally, something that has not been previously possible. This will be accomplished by using a series of staging areas and public notices at the surplus warehouse to meet legal “offer and refusal” requirements.

How This Practice Can Be Used by Others

This initiative has been evaluated by the university's Office of Legal Affairs, and the University of Texas System Office of General Counsel. Both legal groups stated that this program should be viewed as a pilot for all UT System institutions and, if successful, should be implemented System-wide.

In addition to UT System schools, the methods being used by our university could easily be used by any state university. In fact, we recently met with facilities staff members from Tarleton State University, who contacted us after hearing about our surplus store initiative.

We are more than happy to share our research findings, successes, failures, lessons learned, business plan, or any other materials or knowledge that could be used by another university to open a similar operation.

Again, the most impressive and important aspect of the SMART Store, especially at this time of heightened financial accountability, is the store's ability to pay for itself plus generate a profit of \$300,000 to \$1,000,000 per year.

This is a forecasted income based on benchmarks from other campuses following a similar model to the one we've created. Certainly this opportunity exists across the State of Texas at other institutions, and we have created an administrative path for those institutions to follow.



Demonstration of Management Involvement and Employee Commitment

Employee commitment can be demonstrated by Mr. Reid's devotion to this initiative. He has been working for more than two years to get this program approved at all levels within the university.

This has included giving presentations, meeting with university attorneys, conducting benchmarking exercises, writing business plans, planning the logistics of the store, meeting ADA requirements, staffing planning, creating budgets, budget forecasting, conducting and reviewing marketing studies and more. He accomplished this while managing his five operational units and 50 employees.

Management input and involvement on this project has also been high. Because this is a far-reaching program that involves surplus materials coming from all entities across the campus, all levels of the university up to the President were briefed. Formal presentations were given to Pat Clubb, Vice President of University Operations, Kevin Hegarty, Chief Financial Officer, Jeff Graves, Vice President for Legal Affairs, Steve Kraal, Senior Associate Vice President for Campus Planning and Facilities Management, and Mike Miller, Director of Facilities Services.

In some instances, questions arose that required additional research and repeat presentations. Upper management remained open, optimistic and excited about this program, even at times when administrative and organizational challenges made the program seem unattainable.



Results, Analysis, Customer Feedback, Benchmarks

Market analysis shows us that with 50,000 students enrolled and 24,000 faculty and staff employed at any given time, innumerable Longhorn sports fans, a supportive and adoring community, and more than 450,000 living alumni, our market is vast.

The Austin community is a one-of-a-kind marketplace that's not just unique to Texas, but to the whole country. Austin is progressive and pro-environment; residents will welcome a store that reuses and offers the opportunity to repurpose items from the university. In fact, they already do; according to yellowpages.com there are 87 resale/thrift shops within Austin's city limits. Additionally, 158 new residents move here *every day!* Add this to an existing greater Austin population of 1.7 million residents, and we have a significant potential customer base.

A nearby state agency, The Texas Facilities Commission, currently successfully operates three surplus property storefronts in Austin, San Antonio, and Fort Worth. Our university falls under far less stringent laws and guidelines than the State of Texas. If they can do it, we know we can too.

Many public school districts in Texas also operate successful surplus storefronts. As an example, Round Rock ISD (a community adjacent to Austin, Texas) operates a surplus storefront. Round Rock ISD offers computers for sale ranging from \$50-\$200, as well as computer monitors, laptop bags, AV carts, TVs, calculators, radios, overhead projectors, furniture, maps, screens, printers and more.

This is actually somewhat alarming considering that many public school districts in the state, including Round Rock ISD, get items at no cost from our surplus operation and are able to sell those items for their own profit. As we open our own store, we will be indirectly mitigating this potential abuse risk, and increasing our return on capital investments made by the university.

On campus, staff and students have been polled about this business idea and have unanimously agreed it will be a win-win for the university. Aside from our three annual auctions, there is currently no process in place to allow faculty, staff, or students to purchase or own property belonging to the university. Even at the auctions, items are sold in lots too large for those customers looking for something small such as a single chair or desk.

We have benchmarked the following universities (and others) during our research:

- The University of Wisconsin (enrollment 42,595) makes approximately \$1,350,000 (gross) annually at their surplus retail store, *\$31.69 per student*.
- Colorado State University (enrollment 25,413) makes approximately \$471,000 (gross) annually at their surplus retail store, *\$18.53 per student*.
- Penn State University Park and surrounding Dubois, Altoona, Harrisburg, and Hazleton campuses (enrollment 55,907) makes approximately \$1,900,000 (gross) annually, *\$33.99 per student*.

Using an averaged multiplier of \$30.03/student/year, UT Austin could gross as much as **\$1,531,530** annually.

Summary:

From its inception, the SMART Store idea has generated a great deal of excitement and interest at all levels and from all departments within the university.

This will be the first University of Texas System surplus store. To our knowledge, there are no state universities at all in Texas operating surplus property retail stores.

As of August, 2014, this program has been vetted and approved by University Legal Affairs, the University of Texas System Office of General Counsel, and all levels of administration within our university.

As this submission is being written, space is being prepared for the store, a store manager position is about to be posted and filled, and many other wheels are in motion.

The University of Texas at Austin is excited about the progress that has been made on this program over the last two years and is optimistic that it will benefit Facilities Services, the University, and possibly the entire University of Texas System.

