

Minutes *

Senate Committee on Finance and Planning
Tuesday, March 7, 2006
2:30 – 4:15
238A Morrill Hall

Present: Fred Morrison (Chair), Daniel Feeney, Steve Fitzgerald, Joseph Konstan, Ian MacMillan, Judith Martin, Kathleen O'Brien, Kathryn Olson, Richard Pfitzenreuter, Karen Seashore, Charles Speaks, Kate VandenBosch, Sue Van Voorhis, Warren Warwick

Absent: Calvin Alexander, Charles Bachmeier, Rose Blixt, Charles Campbell, Arthur Erdman, Dan Hennen, Lincoln Kallsen, Thomas Klein, Michael Korth, Tim Nantell, Justin Revenaugh, Jacob Olson, Michael Sertich, Thomas Stinson, Alfred Sullivan, Michael Volna

Guests: Stuart Mason, Steve Spehn

Other: none

[In these minutes: (1) Consultants' Report on Investments Alternative Assets; (2) Financial comparisons with other universities; (3) Facilities Management Transformation; (4) Twin Cities Campus Transit and the Central Corridor]

Professor Morrison convened the meeting at 2:35 pm.

1. Consultants' Report on Investments Alternative Assets

Professor Morrison welcomed Stuart Mason, who discussed investments alternative assets. He distributed information which reported on asset allocation and top quartile performance. He talked about strategy and the portfolio, and said they wanted to change it to a more diverse portfolio. Mr. Mason cited a gradual but meaningful diversification process over recent years at the University, and noted the desire for a clean sheet approach to seek highest returns commensurate with lower risk. He discussed the assets in the profile, and said that they had looked for alternative investments, wanting to achieve a more optimal portfolio, and they had a particular interest in studying best practices at large endowments. In terms of the scope of the report, asset allocation trends from 1991-2005 trends were reviewed, as well as performance and risk-adjusted performance. Mr. Mason said they had asked Cambridge how to lower the volatility of the assets and common funds as well. Cambridge recommended shifting funds from conventional long-only equities to hard assets (inflation-hedging investments); strengthening deflationary hedge and dedicating a high-quality, intermediate long-duration bond portfolio; and broadening the scope of marketable and non-marketable alternative assets. Mr. Mason discussed the current portfolio performance and referred to the chart distributed. He pointed out that the five-year average of the total CEF was 3.5%. Mr. Mason said the returns had been less than interesting, and that the liquidity of public stocks was being traded for a more steady return. He referred to the chart which noted comparisons to other institutions. Professor Konstan asked if moving toward no volatility was the only direction to go. Mr. Mason said the only way they move to lower volatility is by diversification. Professor Konstan asked

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if these were historical deviations for the portfolio and Mr. Mason replied that these were the projected returns for the asset classes.

Mr. Mason went on to discuss the recommendations of Cambridge and noted meaningful changes in the allocations. He said that the plan was to approach the Board of Regents with intermediate steps. He referred to the Efficient Region Analysis graph, which displayed standard deviation and arithmetic average return. Professor Konstan asked for clarification in the charts, noting that they seemed to be based on different data. Mr. Mason acknowledged the "mismatch" in data but noted that the message was similar. Referring to the graph displaying the portfolio shortfall risk, which illustrated the probability of a cumulative decline greater than 25% in real market value and failing to recover within 15 years, Mr. Mason said that the proposed portfolio is a major change in the numbers. He said that the graph illustrating real ending market value at the end of a 50-year simulated period was a similar analysis. Professor Warwick asked how the University Foundation compared to the Medical School Foundation. Mr. Mason cited figures in the portfolio and clarified the differences between foundations and endowments. Professor Martin asked if the Board of Regents had followed the advice offered thus far, and Mr. Mason said that they were becoming more inclined to do so, and were becoming more educated. Mr. Pfutzenreuter said that there was also an external advisory committee who had helped tremendously, and Mr. Mason added that the Board of Regents very much trusts the advisory committee. Professor Konstan said that analysts do a very good job of predicting the past, and asked, if it was this easy moving forward, why wasn't there a fund that would allow buying into that strategy. Mr. Mason cited the Harvard Management Company, saying there are a couple of funds that are broadly diversified, and that they'd taken parts of what Common Funds does, hoping to enhance the end result. Professor Konstan asked if it was known what the cost in volatility was for higher gain, and Mr. Mason replied that they knew exactly on a month to month basis what the volatility was. He cited other examples of investment returns and niche strategies, and he highlighted the University's extraordinary return on the investment in Google. Professor Morrison thanked Mr. Mason and Mr. Pfutzenreuter for the information.

2. Financial comparisons with other universities

Mr. Pfutzenreuter went on to discuss financial comparisons with other institutions. He distributed a document with comparisons, and noted that peer institutions were divided into tiers. These statistics indicate how the University of Minnesota compares in key financial statistics, in areas such as capital ratios, balance sheet ratios, operating ratios and contributing ratios. Professor Martin observed that if the University of Minnesota wanted to be a top three institution, it needed more money. Professor VandenBosch pointed out that the two weren't always corollary. Professor Morrison noted that in the figures for the University of Michigan, two-fifths of it is hospitals. Mr. Pfutzenreuter noted that it is taking away things classified as restricted. Professor Konstan said it seemed to indicate that there isn't much flexibility in the University's budget, and suggested that the Board of Regents may want to pay special attention to that. Professor Martin suggested that the new budget model may correct this. She asked what "age of plant" meant in the spreadsheet, and Mr. Pfutzenreuter said he thought it meant the average age of the facilities. Professor Morrison said that there must be a definition as the numbers seemed odd to him. Professor Konstan referred to the percentage of state appropriations, and said there didn't seem to be a strong case for it. Professor Martin noted that the University did better in "gifts" than she would have thought, and Mr. Pfutzenreuter said that that probably included capital gifts. Professor Seashore noted that the numbers regarding patient care would have to be removed to see how it accurately impacts the numbers.

Mr. Pfutzenreuter continued by discussing the Minnesota Biomedical Sciences Research Facilities Authority. He distributed a chart illustrating the proposal and said that it had come out of a discussion of strategic positioning. In the next ten years, the goal was to bring on five new bio-medical

buildings, and Mr. Pfitzenreuter said that they had wanted to jumpstart the process in planning facilities. A bill had been drafted to ask the legislature to create a biomedical sciences research facilities authority and establish a specific program. This included establishing a biomedical sciences research facilities program, authorizing \$330 million G.O. debt and establish bond fund in state treasury; and enact a statutory transfer of incremental percent of state tax revenue to service bonds. Mr. Pfitzenreuter said that they were trying to make up the difference in money by increasing tuition or cutting budgets. He went on to say that there was built-in accountability for the proposal, and the first building would be the one that the legislature approved planning funds for. In terms of accountability, it would have to be demonstrated that what was set out to be accomplished was being accomplished. Professor Konstan asked if the governor would appoint people to the Authority. Mr. Pfitzenreuter said that it would be comprised as noted in the proposal, with various appointees by governor and the legislature. Professor Seashore said that there is competition for such faculty and she asked if anyone had done any projections on where these faculty would be coming from. Mr. Pfitzenreuter said that the financial model called for forty researchers in each building, 200 faculty (principle investigators) and 600 support staff, all within ten years, and he acknowledged that it was an aggressive plan. Professor VandenBosch pointed out that it may depend on how "biomedical" is defined, and the committee discussed necessary faculty for the facility. Professor Seashore stressed that this was a very competitive arena and said she would like to see projections for faculty acquisition. Professor Martin said she supposed Senior Vice President Frank Cerra had considered this, and Mr. Pfitzenreuter said that recruiting couldn't begin until the building was finished. Professor Warwick cited the idea that the pediatric hospital may be moved across the river and how he felt that would undermine the proposal. Professor Konstan said it seemed to be an intensive initiative which makes the University less diversified. He asked what this meant to the future of funding and how academic portfolios would be balanced. He said he'd like to see the same thought and consideration for the academic portfolio as the financial portfolio.

3. Facilities Management Transformation Project

Vice President O'Brien and Associate Vice President Steve Spehn, Facilities Management, presented information about the Facilities Management Transformation Project. Mr. Spehn gave a brief overview and distributed information. He quoted President Bruininks, "The University of Minnesota will be known as much for its services and business innovation as for its high quality research, education and outreach". Mr. Spehn said that this inspired and engaged people to help the University advance. He reviewed the transformation project, describing it as a six-month process in which Facilities Management identified ways it could become a more customer focused organization, create a strategy to deliver services more efficiently and effectively, and provide services that its customers value. Among the questions asked in the process were: is facilities management supporting academic need and are they providing the right services. The intent was to be ahead of the curve as the budget model is implemented and to make them the service provider of choice. Associate Vice President Spehn reviewed the timeline and noted that teams were in place to implement the transformation. He said that they would have recommendations from the action teams by May. Professor VandenBosch asked what the response was from employees to the initiatives. Mr. Spehn said that everyone was excited and open to the changes, and in fact, most were eager to participate in the focus groups. Vice President O'Brien said that the employees' focus group had noted that it needed to be a more performance-based organization. Last spring and summer, they had talked with people about what strategic positioning had to do with Facilities Management. Mr. Spehn added that they were trying to communicate with employees about every angle. Professor Konstan said that there should be a communication plan between stakeholders. Professor Seashore acknowledged that they were still in the research stage, and asked for an example of an endeavor that might come out of it, both large and small. Associate Vice President Spehn discussed zones and how zones worked. The questions had become if they wanted to change that and where the interface was. He added that they'd be looking at efficiency and productivity, and how work flows as

well. Ms. Van Voorhis said that they were looking at the feedback loop too. Vice President O'Brien referred to what Mr. Spehn had said about providing services valued by the customer. She said they were trying to bear that in mind if they are doing things their customers don't care about. Mr. Spehn said that action teams were doing a stakeholder analysis and that he would update the committee at a later date.

4. Twin Cities Campus Transit and the Central Corridor

Vice President O'Brien introduced Bob Baker, Parking and Transportation Services, to review the presentation that would be given to the Board of Regents. The purpose of the presentation was to update the Board of Regents and get input regarding the University's efforts to advance transit and other alternative forms of transportation on the Twin Cities Campus; upcoming milestones related to the Central Corridor transit line and issues related to its movement along Washington Avenue; and to draft LRT design principles to guide the University's input into the environmental review and preliminary engineering process. Mr. Baker noted that the success of transportation is crucial to the University of Minnesota. He distributed the presentation which outlined the transportation initiatives. Mr. Baker noted highlights on the presentation, including the University of Minnesota Twin Cities being the 3rd largest trip generator in the metro area, and that 66% of students, staff and faculty currently use transportation alternatives. Commitment to transportation alternatives includes a car sharing program, and a van pool program in partnership with the Met Council. Mr. Baker pointed out that the University was selected as one of the Best Workplaces for Commuters by the Environmental Protection Agency and the U.S. Department of Transportation, and it is also the largest user of E85 (ethanol) in the U.S. The Central Corridor transit line includes project estimates of 11,000-12,000 of the projected daily riders in 2030 will be generated by the University. Vice President O'Brien said that these figures may be adjusted because the number of Hiawatha riders has exceeded projections. Professor Konstan asked if that was assuming the U-pass will be continued, and Mr. Baker replied that it would be continued: in fact, they were trying to step up the program. He continued on to the map which illustrated the Central Corridor alignment and proposed routing. Mr. Baker noted that in July 2001, the Board of Regents passed a resolution recommending that the Central Corridor LRT operate in a tunnel through the East Bank campus, if an alignment along Washington Avenue is selected. In June of 2004 and 2005, the Facilities Committee received updates as to the University's work with the Central Corridor partners to align the proposed LRT route, the station locations and station access with campus planning priorities and the proposed stadium site.

Mr. Baker went on to highlight the transportation planning principles and the Central Corridor project status, which included the Federal Transit Administration determining if the project meets the thresholds to move to the next stage. Professor Martin asked if the Central Corridor project was high on their list. Mr. Baker said that his understanding was it was, and he went on to cite the steps in moving forward. Professor Konstan asked if campus buses would no longer be needed with light rail. The committee discussed the continued need for buses to move people from stations to various points across campus. Mr. Baker discussed the timeline, by which, after preliminary engineering, construction begins within 4-5 years. He discussed at-grade and below-grade alternatives and showed the committee various renderings of proposed alignments through campus. Professor Martin asked why station 19 had to be purchased if it was below-grade. Vice President O'Brien said that station 19 was not related to the University, nor have there been policy decisions made regarding its acquisition.

Mr. Baker outlined critical LRT design issues and principles. Professor VandenBosch asked how the plan affected the St. Paul campus and asked if transit buses would have to be rerouted. Mr. Baker said that the transit buses were a tremendous asset to the University's transit system, and he predicted they would still be used. Professor VandenBosch asked about transportation from the LRT to the bus routes, and Mr. Baker said they hadn't gotten that far yet. Professor Konstan asked if anyone had looked at the

possibility of additional landings for shuttle buses, and the possibility of Stadium Village as a transit hub. He also pointed out that a tunnel is hard to expand once it is completed and that extra trains would not be able to run if the lines are shared with the Minneapolis lines. Vice President O'Brien said that there were multiple plans and that the Central Corridor was meant to be the first. Mr. Baker added that they were working on three cars rather than two cars to increase capacity, and he stressed that they were not going to throw out existing transportation at the University. Professor Seashore asked if the inter-campus bus system had been included in the 66% percent using transportation alternatives. Mr. Baker replied yes and cited several things that had gotten the University to that level. Parking prices had been raised, alternative strategies were developed, and more students were living closer to campus, all of which affect the statistic. Professor Feeney asked if there were infrastructure issues in digging a tunnel. Vice President O'Brien said that utilities relocation costs were included in the budget.

The meeting concluded at 4:35 pm.

---Mary Jo Pehl

University of Minnesota