Minutes[*]

Senate Committee on Finance and Planning
Tuesday, June 16, 2009
2:00 – 3:45
238A Morrill Hall

Present: Judith Martin (chair), Jon Binks, Joao Boavida, David Chapman, Steen Erikson, Kara Kersteter, Lyndel King, Joseph Konstan, Richard Pfutzenreuter, Michael Rollefson, Warren Warwick, Aks Zaheer

Absent: None counted for a summer meeting

Guests: Vice President Karen Himle, Jan Morlock, Wokie Freeman (University Relations); Doug Gorence (University of Minnesota Foundation), Cynthia Kaiser (Minnesota Medical Foundation), Stuart Mason (Asset Management); Karen Triplett (Purchasing)

[In these minutes: (1) The Alliance: A University-District partnership; (2) University foundations asset allocation and investment performance; (3) purchasing policy amendments; (4) resolutions and thanks]

1. The Alliance: A University-District Partnership

Professor Martin convened the meeting at 2:00 and welcomed Vice President Himle and Mss. Freeman and Morlock to discuss The Alliance. Committee members were provided a handout with information about The Alliance. [Given the context of the discussion, in these minutes, "the University" will refer primarily to the Minneapolis campus, both East and West Banks.]

Ms. Morlock began by noting that the Committee had an interest in what happened to the money from the legislature for University-neighborhood work. She recalled that when the stadium Environmental Impact State (EIS) was developed, there was a lot of discussion about the impact of the stadium on the surrounding community (economic, social, and so on). They had an advisory committee with representatives from local governments, business groups, and neighborhood groups, and the discussion became larger than the stadium; it considered the impact of the University on its neighbors. The group came to be called The Alliance. It was not possible to discuss the larger issues within the context of stadium issues, so Vice Presidents O'Brien and Pfutzenreuter worked with the groups to ask the legislature to provide funding for a report about the University's impact.

In 2007 the legislature charged the University District Alliance to "facilitate, initiate, or manage projects with the University, City, or other public or private entities that are intended to maintain the district as a viable place to study, research and live" and provided $750,000 (with the University as the fiscal agent) for demonstration projects and asked for a progress report in January, 2009. The legislature this year was impressed with the work that has been done but with funding constrained, it urged The Alliance to do as much as it can, and to build more enduring relationships, and return in the future for support.

[*] These minutes reflect discussion and debate at a meeting of a committee of the University of Minnesota Senate; none of the comments, conclusions, or actions reported in these minutes represents the views of, nor are they binding on, the Senate, the Administration, or the Board of Regents.

As the University and the legislature worked on the stadium, the legislature directed the University to set up a $1.5-million endowment fund, with the funds to be used to improve the neighborhoods surrounding the University.

Vice President Himle commented that the seeds planted in 2007, under Ms. Morlock's leadership, have grown into something far beyond initial expectations. When the economy begins to recover, they want to preserve what has been achieved and move ahead at a quicker pace to strengthen the district partnership.

The neighborhoods have their own plans, Ms. Morlock observed, and one question was how to recognize how interdependent they are. The campus master plan acknowledges that interdependence and the need for joint planning with the neighborhoods. In addition, the neighborhoods face challenges, and without attention from the University, they could reflect badly on the campus because they could be unhealthy and unsafe. She said that the neighborhoods around the St. Paul campus are just as interdependent and important to the University, but they are historically stable neighborhoods that have different characteristics from those around the Minneapolis campus.

The University district, which The Alliance represents, includes the neighborhoods surrounding the University: Cedar-Riverside, Marcy-Holmes, SE Como, and Prospect Park, in addition to the University itself. The Alliance is "dedicated to promoting and achieving a shared vision of the University District as a livable, sustainable, urban community and an innovative hub for education, research, health, business, and the arts."

Why this area, why an alliance, and why now? Mr. Morlock explained that a 2007 impact report and a CURA report confirmed what one's eyes reveal: the declining conditions in the neighborhoods surrounding the campus in housing, safety, and livability, and rental conversions and loss of a long-term commitment on the part of residents and property-owners. A number of properties are owned by people who do not reinvest in them and they rent to tenants who are apparently oblivious to the conditions, so many become mini-rooming houses. Addressing these challenges required working together because the University, the city, and the residents alone cannot do so.

Professor Martin said she believed there is a city ordinance that bars more than three unrelated adults from living in the same housing unit. Ms. Morlock said it is rarely enforced, is complaint-driven, and difficult to enforce. Another hurdle is that the problems in the University district are modest compared to problems in other parts of the city, so the district does not receive first attention from the city and its agencies.

Professor Konstan said that if one question relates to student renting rooms, and if the University is creating tremendous demand, any fix just pushes the problem around. Ms. Morlock observed that the University, a number of years ago, made the decision to try to attract more students to live on campus. Now 85% of freshmen live in University-managed housing—and then move out, but want to say close to the campus and want cheap housing. She agreed that the University has created the demand. Professor Konstan commented that one never hears it said that the University should by a couple of blocks, raze the existing buildings, and offer high-density student housing that would compete with area landlords. Professor Martin suggested the neighborhoods might not support such a plan. Ms. Himle said that any plans cannot include driving students away from campus.

Before the economy went into the tank, Ms. Morlock said, the private sector produced a lot of housing. There are four projects with hundreds of units that are ready to go once the economy revives.

Undergraduate enrollment is flat and not likely to increase very much, so it is probable that demand will not change while the supply of housing will increase. It will be a healthier situation once that happens.

The Alliance has been working to rebalance home ownership and seeking to attract long-term residents through efforts such as preserving 22 homes that were threatened with conversion to rental unit for options to purchase and re-sell to owner-occupants. Vice President Himle said it is important to want to make the District an attractive area for people to return to—and to send a shot across the bow of those who are thinking about investing in order to provide substandard student housing. The Alliance is offering home-buyer incentives, such as down payment and closing-cost assistance. One problem they face is that property values are driven up because of the high-demand rental market. The Alliance is also working on property standards and conditions and zoning, planning, and regulatory review, developing a vision for the University District, promoting it as a place to live, and engaging student residents.

One question is how close commercial reinvestment in the District is, Ms. Himle said. They are working to create a legal structure for the Alliance so the University can participate but not lead, and they want to go back to the legislature for funding for the independent entity, not the University.

Professor Martin asked if University Relations still provides information to University employees about housing around the University. They do, Ms. Morlock said, and also have a website, LiveNearYourWork.net.

Ms. Himle said that the Spring Jam disturbance provided a test of the Alliance; it served as a logical point to talk about what happened and what the University can do differently with respect to student personal responsibility and student understanding of their obligations.

Professor Konstan asked what percentage of District residents are students; they do not have good data, Ms. Morlock responded. He observed that most conversations focus on students as the source of the problem and students have questioned whether they are welcome in the discussion. To what extent would students support The Alliance agenda? Would they like the area more stable, with families? Or do they want more bars and more people like them? If it is a democratic organization, will University representatives put enough effort into representing the best interests of students? Spring Jam has led to an increased number of students from the area who are concerned, Vice President Himle said. But they do not know they have rights and don't know where to turn. On the other hand, she knows that students want to be around students.

Professor Warwick suggested that the fraternities and sororities are organized and could be of help. Ms. Himle agreed and said they have provided leadership, and 200 Greek students showed up at a forum The Alliance held. They are a key group, Ms. Morlock said—they are transient but some of the Greek houses have a 100-year investment in their location and they are good allies. They also provide an opportunity to bring alumni back to campus, alumni who might provide help to improve the housing stock.

Professor Martin thanked Vice President Himle and Mss. Freeman and Morlock for joining the meeting.

2. University Foundations Asset Allocation and Investment Performance

Professor Martin next welcomed Associate Vice President Stuart Mason (Asset Management; Consolidated Endowment Fund), Cynthia Kaiser (Chief Financial Officer, Minnesota Medical

Foundation), and Doug Gorence (Chief Financial Officer, University of Minnesota Foundation) to discuss the performance of the two foundations and the endowment fund.

Mr. Mason began by saying that they would provide a different approach than they have in the past with the Committee. The Board of Regents asked for a presentation of metrics for a combined entity (the two foundations and the endowment). While the Regents do not have direct responsibility for these assets, they asked for information about them to learn if there are areas they should be attentive to or concerned about. Mr. Mason distributed copies of a handout with a number of graphs and tables.

The total assets of the three were about $2.7 billion on 3/31/08; they were about $2.1 billion on 3/31/09. (And about $1.4 billion on 3/31/99.) The bar graph of the assets shows steady increases in the value beginning in 2004 and then a noticeable drop in 2009; Mr. Mason said it was a typical pattern for foundations. Each of the three uses a five-year rolling average to determine its spending rate (providing money to the University); there are a range of practices around the country but most have a pay-out rate of 4.5 – 5% and a three-to-five-year rolling average. The 2009 drop in asset value will affect the 5-year rolling average but they anticipate that the value of the assets will level off.

At present the $2.1 billion in assets is divided between the U of M Foundation (~$1.1 billion), the Consolidated Endowment Fund (~900 million), and the Minnesota Medical Foundation (~200 million).

Mr. Mason reviewed the categories of investment the funds have made. It is very diversified within each and in total. About 44% is in private structures (natural resources, real estate, private capital) that are largely illiquid for a number of years (which are liquidated after a number of years to maximize the return). The slow-down in the economy has meant the funds are not realizing as much from these investments as they had expected. Another 37% is invested in liquid assets (cash, equity funds), and about 19% in assets with intermediate liquidity, such as hedge funds. Mr. Mason said that all three funds have made changes in asset allocation with the drop in the markets and the economy. The asset allocation of 15% in public equities (stocks) is down dramatically, Mr. Mason commented; part of the reason is that the assets have evaporated and part is a reduction in the investments. (The target percentage for investment in public equities is 40%.) Fixed-income investments, in contrast, have increased. Mr. Gorence observed that there is equity exposure in other categories of investment as well, and he went on to note that the Foundation sees enormous opportunities for investment right now but does not have a great deal of liquidity with which to take advantage of them. They are, however, trying to take advantage of them as they are able. Ms. Kaiser said it important to note that all of the funds have investments they can go to if they need liquidity (which they need in part for payouts to the University), but the University's funds did not face the problems a number of others did because of their investments.

Mr. Mason noted the different patterns of asset allocation among the three funds, reflecting different objectives. Ms. Kaiser said the Medical Foundation allocation would be changing with the transition to Commonfund and will look more like the other two funds.

Mr. Mason then identified the exposure of the three funds by investment firm, something the Board had asked for. The top 10 firms are all high-quality and the funds have no outlandish exposures in any of them.

Finally, Mr. Mason reviewed the 1-year, 3-year, 5-year, and 10-year performance of the three funds. The 1-year loss for the three was 23.25%, less than the average for endowment funds; they have fared reasonably well. Professor Konstan asked if the ten-year average would look different if one had the numbers for three years ago. He also commented that an investor would put money in the University of Minnesota Foundation, which over ten years did significantly better than the other two. There is a big range in the numbers; is that because of short-term issues? The numbers move around a lot, Mr. Mason said, especially when there are big movements in one year. Such changes affect the 3- and 5-year performance data and even the 10-year data to a surprising extent. Mr. Rollefson asked if ANY university foundation showed a positive return in the last year; Mr. Gorence said he did not believe any organization with a long-term investment pool did.

Ms. King asked what the rationale is for having the funds divided among three organizations. Is it an historical artifact or an advantage for the University? It is partly historical artifact, Mr. Mason said, and noted that the Consolidated Endowment Fund is inside the University and has funds because the University is a land-grant institution and has a number of limitations. The two foundations are not inside, and all three have different missions, distribution amounts, and fund different activities. There are also legal reasons, Ms. Kaiser said; they have separate boards in addition to more diversity and different objectives.

Professor Martin thanked Mr. Gorence, Ms. Kaiser, and Mr. Mason for their report.

3. Purchasing Policy Amendments

Professor Martin turned next to Mr. Volna and welcomed Ms. Triplett, Director of Purchasing Services, to explain a proposed revision to the purchasing policy.

Ms. Triplett explained they are proposing two additions—exceptions—to the existing policy: Emergency Purchase Provisions and Purchasing during a University Emergency. The first allows an employee to be reimbursed for an out-of-pocket purchase of up to $500 in case of an emergency; the second allow suspension of normal processes for purchases related to the emergency. The first is not new but is slightly expanded; the second is the result of lessons from the University of Iowa's flooding (they had no emergency purchasing provisions so FEMA insisted they use their regular procedures).

The proposal begs the question, "what is a true emergency," Professor Zaheer commented. They leave that up to departments, Ms. Triplett said. She agreed that the word "true" could be deleted.

Professor Konstan suggested that in some cases, an emergency purchase might exceed $500 (e.g., repairing a heating system for a lab with animals). He suggested there needs to be a provision for legitimate, urgent, unplanned purchases. Ms. Triplett explained that there is another way to deal with such exceptions to the normal bidding process, which is to act immediately and then obtain approval afterward as an exception because of a threat to human or animal life or prevention of a loss to the University. Professor Zaheer suggested summarizing that provision and including it this policy. Professor Martin agreed and pointed out that in an emergency situation, people are not going to go the policy website.

Mr. Erikson suggested they make it clearer that the authority to make decisions about emergencies belongs to the colleges and departments.

The Committee agreed that the new provisions were a good idea.

Professor Martin thanked Ms. Triplett and Mr. Volna for bringing the proposal to the Committee for review.

4. Resolutions and Thanks

Professor Martin proposed the Committee adopt a resolution thanking Vice President O'Brien for using internal expertise for the campus master-planning process and for the work on sustainability. The Committee voted unanimously to approve the resolution.

Professor Zaheer thanked Professor Martin for her exemplary service as chair of the Committee for the last three years. Committee members chimed in in support of the sentiment.

Professor Martin adjourned the meeting at 3:45.

-- Gary Engstrand

University of Minnesota