Minutes[*]

Senate Committee on Finance and Planning
Tuesday, October 29, 2013
3:00 – 5:00
238A Morrill Hall

Present: Russell Luepker (chair), Dan Feeney, Samantha Jensen, Lincoln Kallsen, Kara Kersteter, Jill Merriam, Fred Morrison, Paul Olin, Richard Pfutzenreuter, Michael Rollefson, Terry Roe, Ann Sather, S. Charles Schulz, Michael Volna, Aks Zaheer

Absent: Gary Cohen, Mahogany Ellis, David Fisher, Jennifer Gunn, Karen Ho, Laura Kalambokidis, Jahon Rafian, Gwen Rudney, Arturo Schultz, Pamela Wheelock

Guests: Becky Malkerson, Kathleen Pickard, Sara Harris (University of Minnesota Foundation)

[In these minutes: (1) centralization versus decentralization (finance functions); (2) risk tolerance for transaction justification; (3) operational excellence implementation plan; (4) institutional risk tolerance; (5) UPlan changes and institutional savings; (6) University of Minnesota Foundation update]

1. Centralization Versus Decentralization (Finance Functions)

Professor Luepker called the meeting to order at 3:00 and turned to Vice President Pfutzenreuter to begin discussion of several items.

Mr. Pfutzenreuter told the Committee that he and Mr. Volna had made a presentation to the Board of Regents last May about centralization and decentralization in finance functions at the University; he asked Mr. Volna to present the report today. Mr. Volna recalled that the Board had asked for a report on the organization and staffing of the University's finance functions, so they provided the context and a high-level understanding of the financial operations.

Mr. Volna began by providing the context for finance and budget: 5 campuses, 21 research and outreach centers, 14 extension offices; 68,400+ students, 25,300+ employees; 2.2 million square feet of research and lab space, 1.4 million square feet of classroom space; $3.3 billion annual revenue budget; 108,000+ budgeted accounts; 8,000+ active sponsored projects; tracking over $750 million in sponsored research annually; track and bill ~$1 billion in student tuition and fees each year; process 4.5 million yearly financial transactions; complete 150,000 purchase orders for supplies and services each year, and so on. His point, Mr. Volna said, is there is a significant amount of financial activity at the University and that there is no "office" that manages it all.

The office of the chief financial officer and Treasurer (Vice President Pfutzenreuter), responsible for financial oversight, had (at the time of the report last May) 163 headcount employees, of whom about half (81) had financial job titles (accountant, etc.), 40% had other titles (e.g., IT-related), and 10% were in leadership/director positions. Professor Luepker asked if they all, directly or through supervisors, report to Mr. Pfutzenreuter; they do, Mr. Volna affirmed.

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[*] 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.

Mr. Volna then noted the headcount distribution of all employees at the University who have financial job titles (971) and pointed out that the 81 people in the office of the CFO/Treasurer account for only 8% of the total; 78 are in other central units and 812, or 84%, are in all other academic and support units. So, Mr. Volna observed, there are many people engaged in financial activities in many places across the University.

Mr. Volna next enumerated factors and considerations one can take into account when judging whether a financial activity should be centralized or decentralized. The factors that lead to some activities being centralized are:

-- institutional finance functions (e.g., debt issuance, treasury activities)
-- complex activities that occur infrequently
-- high-risk activities requiring extensive controls
-- activities where data integrity is critical
-- decision-making needs to be fast
-- reduces duplication and processing costs.

Professor Roe asked about college planning; Mr. Pfutzenreuter said that would not be a central function. Professor Roe commented that decision-making can be faster at the local level; if he needs something, his department can order and obtain it quickly. Mr. Volna agreed that local decision-making can be faster for certain activities, in particular those involving local knowledge or expertise. Professor Roe also commented that "reduces duplication" by centralizing can mean that faculty members must do more and wait longer to get a transaction completed; Mr. Volna agreed that can happen.

Factors and considerations to take into account that militate in favor of decentralization:

-- high levels of service needed
-- financial services are integral to local operations
-- geography is a barrier to central services
-- it is a complex operating environment (e.g., athletics is complex and highly regulated)
-- technology enables decentralization
-- decentralization supports local oversight and accountability.

Professor Zaheer said that many of these factors are changing over time—this is not a static situation and the decisions about centralization or decentralization should be evaluated. He suggested they think about which factors are changing in what directions and why (e.g., technology). Mr. Volna said they understand that and as they evaluate business processes, they look at when changes are appropriate.

Mr. Volna provided examples of highly-centralized finance functions at the University: strategic budget development; investments/cash management/banking (units are not to have separate bank accounts); debt management (units may not issue debt on behalf of the University); real estate management; institutional financial accounting (so there is only one set of books to audit); sponsored projects billing/collections/reporting; and risk management and insurance (property and liability insurance—the University has a good process, gets good rates, and units could not do better on their own).

Decentralized finance functions include budgeting and budget management, shopping, purchasing, paying vendors/suppliers/contractors (through the clusters), travel bookings and employee reimbursements, selling goods and services, and financial reporting and oversight. Mr. Volna reviewed the number of staff members involved in various finance functions; some activities involve 5,000 or more staff; others involve very few. Some are decentralized, some are regionalized in clusters, and some are restricted to senior administrators.

Mr. Volna looked at recent trends at Minnesota as well as other schools. The clustered financial service model has been in place for about five years and serves to limit the distribution of complex, high-risk services, ensures distribution of some services outside central administration, reduces duplication and consolidates low-volume activities, and it is not a full-service model. They recognize that the model has limitations, Mr. Volna said, and they are working to overcome them. More recently there has been a move to a shared service model, a full-service organization that provides a range of administrative services to many units; it creates a critical mass of activities for developing staff proficiencies and cross-training for back-up and serves as a "single point of contact" for all services. Mr. Volna provided illustrations of the cluster and shared service models. In the case of the latter, one example is Ms. Merriam's office, which provides services (payroll, budgeting, professional services contracts, travel/employee expenses, purchasing cards, general accounting, and report) to seven central administrative units: ~13 FTEs provide services to ~630 FTEs and 400 student employees. The shared service model can be an efficient way to provide services.

Mr. Volna reviewed next steps, which include clarifying roles, improving coordination and communication, promoting consistency and best practices, and development of oversight tools and shared agreements. They also seek to refine and expand clusters and shared service models.

Professor Feeney asked who decides on the number of people in these cluster and shared-service units: the dean or CFO? Who decides that they will be dense in order to provide quick service versus lean and provide slower service? Mr. Volna said it is the deans in the academic units.

Professor Roe asked what pushback they have received about the cluster system. Mr. Volna said he holds quarterly meetings with the cluster leaders to see what changes are needed. Pushback is usually from the local level and revolves around using tools and technology in ways that do not conform to University policy. Ms. Merriam said that in her experience, there is sometimes pushback on response time, but that tends to be more on the human resources side, and generally units appear to be happy with the shared service arrangement. She cautioned, however, that it takes time to get to that position and can involve changing unit cultures.

What about from the colleges, Professor Roe asked? There are now about 50 clusters, Mr. Volna said, and they are on a continuum. They sought to have at least one cluster for every college, support unit, and campus and provided the units with a number of models and examples to choose from. The units had flexibility in designing them.

Professor Zaheer asked if there is a system to provide feedback on how the clusters are working. Mr. Volna said there is, through the quarterly meetings with cluster directors, at which there is always time provided to hear from them. Professor Zaheer asked about feedback from the users; Mr. Volna said they could do better in that area. Mr. Pfutzenreuter said they have to rely on the cluster directors to tell them what their customers are saying. Professor Zaheer suggested developing a system to ask the deans and faculty members how the clusters are working. Mr. Volna agreed that there are opportunities in that direction, and before they made any organizational changes they would seek such feedback and would look at the service level agreements and what is expected.

Professor Luepker asked how the University compares with similarly-sized institutions in the use of clusters and shared services. That speaks to the issue of how robust human resources comparisons can be, Mr. Pfutzenreuter said, and since institutions vary on that score, comparisons are difficult to make. Mr. Volna said that when he talks to his counterparts in the CIC schools, only one of them has good data and most have nothing like what the University has, so they lack data on who is doing what kind of jobs.

Professor Luepker said that comment provided a segue to:

2. Risk Tolerance for Transaction Justification

Professor Luepker related that in a discussion between members of the Faculty Consultative Committee and department heads, one made the point that she had to write by hand a justification for an expense, which in turn had to be keyed into a report. How many staff members are performing tasks like that?

Mr. Volna said they have had discussions recently with the Financial Management Advisory Committee about risk tolerance for transaction justification, and there is wide variation across the University. They struggle to achieve alignment on documenting justification. Professor Luepker said that the people who fill out the forms fear for their jobs more than do those who submit the expenses; the people filling out the forms do not want to see mistakes going to the Controller's Office. Mr. Volna said they try to reassure people that that is not a risk.

Professor Zaheer related that he was questioned about the purchase of an academic book (!). Is there a system to coach people on justification? Mr. Volna said they are limited in the extent to which they can coach or train 800 people outside the central administration who are performing financial functions; they are always willing to depend on local judgments by people in the units—but some will always be more risk-averse. What faculty members want is the best possible service with the minimum amount of pain, Professor Luepker said, and it may be that more decentralization means more risk.

Mr. Volna agreed and said that he does not, for example, advocate centralization of all vendor payments (although most Big Ten schools do decentralize them because they worry about losing money). They have an outside auditor look at accounts and errors and learned that of $1.3 billion in accounts payable, there were mistakes amounting to about $120,000—or about .01% of the total. He said he believes the University's risk is fully mitigated without returning to a centralized system. The question is how to maintain the highest level of service at the lowest cost and lowest risk.

Professor Luepker thanked Mr. Volna for the discussion.

3. Operational Excellence Implementation Plan

Vice President Pfutzenreuter next reported on implementation of the president's Operational Excellence plan, drawing from a presentation made to the Board of Regents last month.

Mr. Pfutzenreuter reminded the Committee that the legislature had asked the University to do the reports provided by the Sibson and Huron firms; those reports have been submitted to the legislature and are now part of the president's Operational Excellence initiative. The president has been clear that he wants to lower the levels of administrative spending and redirect the resources to mission activities. Mr. Pfutzenreuter reviewed the "what" and "why" of the Operational Excellence initiative:

What:

-- Long-term commitment to work smarter, reduce costs, enhance services, and increase revenues throughout the University system

-- Use our resources—people, money, time, facilities—to the highest purpose possible.

Why:

-- To lower our administrative spend and redirect resources to our mission: teaching, research, and public engagement.

Mr. Pfutzenreuter noted a number of cases where savings have been achieved, totaling $34 million thus far (e.g., strategic sourcing (purchasing), energy conservation, re-design of facility preventive maintenance program, sole medical plan administrator).

Next steps on administrative cost savings 2014-2019 include reducing administrative costs $15 million in FY14, consistent with the performance measure established by the legislature. The University will achieve savings that exceed the $15 million, Mr. Pfutzenreuter reported. In addition, the president laid down another marker by promising that the University would reallocate an additional $15 million per year over the next five years, beginning in FY15. Those resources will be redirected to mission activities, stemming the growth in the net cost of attendance, and meeting inflationary cost pressures.

The president's commitment is to reducing administrative expenditures by $90 million over the next five years, Mr. Pfutzenreuter noted. It is not intended that the $15 million each year will come only from the tuition/O&M portion of the budget—it will include all spending categories at the University, including fee-supported organizations, sales, and so on. The expectation is that if the $90-million goal is achieved earlier, that will be great, and it will be done—but that does not mean there will be no reallocation after that. $26 million will be reallocated this year alone, Mr. Pfutzenreuter said.

Professor Luepker made the point that this commitment does not mean cutting $15 million per year from the University budget, it means redirecting that money. That is correct, Mr. Pfutzenreuter said; it will be invested in mission activities, lowering the net cost of attendance, and dealing with inflationary pressures (e.g., the cost of library journals, health care, and compensation increases). Professor Luepker and Mr. Pfutzenreuter discussed the example of the School of Public Health reduction in administrative expenses and where the money saved would go; it could be used to meet the school's reallocation target, it could be used to pay compensation or cost-pool expenses, or it could be taken centrally and redeployed; these decisions are made each year, Mr. Pfutzenreuter said. Or the dean might do something else to meet the reallocation target and use the saved money for other college purposes.

Professor Zaheer said that the process would be more attractive if the colleges were allowed to retain the savings. Mr. Pfutzenreuter agreed but pointed out that there is always the institutional budget to balance so they cannot make that promise to the colleges. The administration does redeploy resources across units in order to make investments. But they do not want to create perverse incentives, Professor Zaheer observed. Mr. Pfutzenreuter again agreed but also reiterated the point that the University's budget must be balanced and the president has the authority to make investments.

Professor Morrison said the discussion about the School of Public Health had involved around eliminating an associate dean position; where will the work go? Mr. Pfutzenreuter said that one would like to believe it would just go away—but it doesn't, and everyone is working harder. This trend will not end, he predicted; the state will not have much additional money to help the University and the era of doubling tuition every decade is over. So, Professor Morrison concluded, the University must talk about reductions in the amount and quality of services. Mr. Pfutzenreuter agreed that they may be degraded.

Professor Schulz commented that departments have felt significant impacts over the last 6-7 years as a result of financial challenges to the University; the question is how they can be addressed. Departments, for example, have seen reductions in O&M funding or told to provide compensation increases without being provided additional funds. Can those problems be addressed at some point? Can those problems be addressed at some point? Professor Luepker said the Committee would discuss this topic.

Mr. Pfutzenreuter said his recommendation is that that topic needs discussion with the deans. The central administration makes an allocation to the colleges; what they do after that, how they distribute the resources, is a decision made by the deans. He said he cannot provide insight into how those decisions are made; he can inform the Committee whether a college has more or fewer resources but not how they are allocated.

Mr. Pfutzenreuter turned next to the "spans and layers" report delivered to the Regents and the legislature. The consultant looked at four administrative units (finance, IT, procurement, and HR) and the final report was completed last summer (2013). He said that any extended discussion of the report should be held with Vice President Brown.

Mr. Pfutzenreuter returned to and reviewed the shared services model, both its description and how it is conceptualized (as in between a centralized model and a decentralized model). They have a number of people working on defining the term; there are people in departments, people who are shared by departments, people who are shared between colleges, clusters, shared services, and centralized services. What is meant by each of those? Shared services is a more recent concept that they are working on defining—as they are on what it means to say that a service will be centralized or decentralized. Implementation will take some time and he expressed concern about the time and resources available to do the implementation.

Mr. Rollefson asked if the consultants need to come back to the University. They do not, Mr. Pfutzenreuter said.

4. Institutional Risk Tolerance

Vice President Pfutzenreuter turned next to the issue of risk tolerance and reported that the Board of Regents Audit Committee is systematically reviewing parts of the University and talking about the risk portfolio.

Professor Luepker said the Committee has talked about this topic for a long time and has the sense that the University is very risk-averse, which is why so many people have to sign off on documents. The threshold for approvals for large purchases has been moved from $2,500 to $5,000 but there are still many signatures required for small things. At the same time, Mr. Volna now tells the Committee that the auditors found $120,000 of mistakes in a $3.3-billion budget. That means the University must have a very tight system.

Mr. Pfutzenreuter agreed that as a general observation, the University is overly risk-averse in various functions and activities. The president has made it a priority to address that problem and they are going through a number of policies to recalibrate the institution's tolerance for risk, and they will publicize the changes and train people about them. Then it will be necessary to convince people at the end of the line that they need not fear for their jobs if they make a mistake (e.g., in purchasing).

Professor Morrison recalled a story from the Law School from a number of years ago. They used to charge 25 cents for transcripts and put the money in a cigar box to use for student events during the year; they collected perhaps $100 per year. The auditors said this was completely inappropriate and prescribed systems that would have cost $500. At that point the Law School decided to just give away the transcripts.

Professor Luepker, considering a "heat map" handout from Mr. Pfutzenreuter with nine cells, "Impact" on the X axis (low, moderate, and high) and "Likelihood" on the Y axis (low, moderate, high), with various University activities in different cells (e.g., high impact, high likelihood or moderate impact, low likelihood), noticed that there were no entries in the entire "Low Impact" column. That could be symptomatic of the problem, he commented.

This is a "heat map" view, which is what the Audit Committee requested, Mr. Pfutzenreuter said. They told him they wanted to know what keeps him up at night, which is what the heat map is. Some do not believe he should worry about the items on the heat map, but those are his "top 30" areas of worry.

Professor Morrison referred to the box in the upper right, the high impact/high likelihood items, and said that some of them are getting worse rapidly and that the Committee should think about them. For example, federal research sequestration will likely continue (perhaps with a different name) so research grants are likely to keep falling.

Professor Zaheer asked about "State of Minnesota" (funding), placed in the "high impact, moderate likelihood" box. There is a high impact any time there is a change in funding from the state, Mr. Pfutzenreuter said, and the level can change because a downturn in the economy or because of reputational issues; the placement in this case is through the lens of a possible economic downturn. The University has a good relationship with the state, and when its economy is doing well, the University does reasonable well. He observed that his chart is only intended to look a few years out.

Professor Schulz said, apropos of the federal sequester, that many universities, in response to the sequester, are looking at what could be high-risk ventures, such as obtaining funds from non-NIH sources. Some institutions get their grant applications in sooner and obtain funding while others are more conservative and do not. Mr. Pfutzenreuter agreed and pointed out that one strategy was the MnDRIVE request to the legislature (which was funded). The University is expected to return every two years to renew the funding—but that cannot be the only strategy.

Professor Luepker asked if the college leaders are thinking about these questions and what the Committee can do to be helpful. It appears, for example, that the Law School could be facing long-term financial stress, and perhaps the Carlson School as well. Who is thinking about these things? Is this part of the president's strategic-planning process? Professor Morrison said the University needs to think about what is sustainable, and if elements of it are not, it must identify how to make them so.

Mr. Rollefson said the strategic-planning process is the logical place to have the discussion about how the University will address the questions. Perhaps the Committee could participate in a conversation about them. This is high on the list for the strategic planning process in the Office of the Vice President for Research but there has to be faculty involvement and support.

Professor Luepker said that he has read the Medical School strategic plan and it seems to contain many high and laudable goals—but the questions that Vice President Pfutzenreuter has talked about are not addressed. How will the Medical School achieve their ambitions in an evolving University?

Professor Zaheer reported that the strategic-planning process is currently at the stage of seeking views and engagement from the University community, including identifying the University's strengths, issues to tackle, and the values to use to guide the University. It is a broad-based process at this point and will take a while to get to specific issues and priorities. Professor Luepker said the Committee might make recommendations because the issues Mr. Pfutzenreuter has raised are serious. Professor Feeney said the Committee started that discussion in 2012 and asked if the University is becoming less and less sustainable. Tuition is tapped out, state support is tapped out, so there's a need to start strategic discussions about what the University is doing and what it can afford to do. He suggested revisiting the earlier discussions.

Professor Feeney commented that as chair of the institutional conflict-of-interest committee, he asks what the institution's risk tolerance is for external scrutiny. There has been an ebb and flow in risk tolerance, particularly with regard to publicly-funded research and institutionally-licensed start-up companies. His concern is that depending how high the risk tolerance becomes, some (including him) who have been involved in earlier problems should perhaps step aside to let the University re-evaluate its tolerance. The institution needs do what it can to seek new sources of revenue as spin-offs from its research endeavors, but a balance is necessary to avoid the problems experienced in the mid-1990s.

Mr. Rollefson said that some may not believe that the sequester will continue—but they are not accepting the reality of change. This Committee could help people accept reality. Mr. Pfutzenreuter said the University has been talking about change for the 20 years he has been here—and it has made enormous changes. But the next 20 years could be awful and the institution will need to make tough choices unlike those it has had to make in the past. He said he was worried about the sources of money to pay the bills. Or it must do less, Professor Luepker commented.

Professor Schulz said, apropos of Mr. Rollefson's comment, that the Committee could look at the high-risk issue of future research funding. It is getting to the point where faculty members spend an inordinate amount of their time writing grant proposals—and do not have the time to do research, seek patents, and so on. Ms. Kersteter pointed out that his problem is also tied to graduate education and grant funding for graduate students.

Professor Luepker thanked Vice President Pfutzenreuter for his comments.

<u>5. UPlan Changes and University Savings</u>

Professor Luepker reported that he had asked Professor Morrison about how the "savings" from the introduction of the Accountable Care Organizations and from other changes to the UPlan (the deductible and higher co-pays) would be used, because he has learned that there are rumors floating around.

Professor Morrison said he understood the question to be how savings from the Accountable Care Organizations would be used. The premiums for those who enroll in them will go down; the decreases are only estimates for the first and second years but by the third year they will have data. The Affordable Care Organizations would have the same deductions as the basic University plans but would have a narrower range of providers. In 2013 the money that the University saves from imposing the deductible and higher co-pays will be spent on cushioning the impact of the elimination of the "employee + spouse/partner" tier, on a one-time reduction of premium for all employees, and on a special program of premium relief for low-income employees. The University administration has not addressed how these savings will be deployed in subsequent years.

<u>6. University of Minnesota Foundation (UMF) Update</u>

Professor Luepker now welcomed Msses. Malkerson, Pickard, and Harris to the meeting to provide an update from the University of Minnesota Foundation (UMF) and to inform the Committee about its involvement in real estate and residential housing.

Ms. Malkerson began by noting that she is the former CEO of the Minnesota Medical Foundation, which in February merged with UMF, and she is currently serving as the interim CEO of the combined unit. They are in the final stages of the search for a CEO, after which appointment is made she will become chief development officer. Ms. Pickard is the Chief Financial Officer of UMF; Ms. Harris is the managing director of real estate for UMF.

The two foundations formally merged on February 1 of this year, Ms. Malkerson reported, and Minnesota Medical Foundation assets were moved to UMF Investment Advisors, so there is now one asset-management group, not two. They have established a new budgeting process and tried to keep the best of both systems; in the process they identified about $2 million in annually-recurring cost savings. They will continue to evaluate whether they need to fill positions or reallocate development resources. She provided a brief overview of the merger steps that had occurred.

Professor Zaheer asked what the assets of UMF are. Ms. Malkerson said about $1.7 billion in the investment portfolio, $1.4 billion in UMF and $300 million from the Medical foundation. They have about $0.7 billion in current funds, receivables, property, etc.

As for how the foundation has done, Ms. Malkerson said with a merger it would be possible to lose momentum. That didn't happen in this case; the combined foundation raised $236 million in FY13, about 3% less than the previous year—but still one of the top five years in the history of the foundations. They also received a $10-million gift shortly after the close of FY13, which would have meant they raised more than in FY12, which was an all-time high. Of that $236 million, 45 donors gave $1 million or more (for $117 million), and of those, 5 donors gave more than $5 million. UMF distributed $165 million to the University in FY13.

For the year to date, they are over 90% ahead of last year, so the first full year of the merged foundation has been great so far. Ms. Malkerson said she believes that bringing the two organizations together has been better for the University and for donors.

Mr. Rollefson asked if there is a plan for the smaller Arboretum and 4H foundations to come under the umbrella at some point. Ms. Malkerson said those are separate foundations for which UMF manages the investments; at this point they are just working on making the merger of the two large foundations work well.

Professor Schulz asked about the UMF return on investment for the last couple of years. Ms. Pickard said they have had two operational priorities in addition to help in maximizing fund-raising with the merger, and they are getting the financial policies aligned and combining the investment portfolios to minimize fees and maximize returns. In the last two years UMF has done very well; the return in FY12 was 13%. The five-year average is 4% while the ten-year average is 8%. She noted that the UMF portfolio is structured for the long term. Ms. Malkerson commented that the last ten years have been a rollercoaster; they have had a more conservative philosophy than some institutions, so they have seen lower returns, but in some years UMF had positive returns even when many other foundations were seeing negative returns. Ms. Pickard explained that UMF does not have a traditional investment portfolio so that it does not see as much volatility as one sees in the stock market.

Professor Zaheer asked what the impetus for the merger was and if the merger goals have been achieved. Ms. Malkerson said they believed the two foundations would be better off vis-à-vis donors because they could speak with one voice. Way in the past there was competition between the two; there has not been in recent years, but they are stronger speaking as one. The prime impetus came from the donors, who had told them that there was a lot of "noise" and it was confusing to have two foundations; they said it would be better if the two were put together and to be more holistic in its approach. They also saved money in the process. Ms. Pickard said they are also more aligned with policies and have lower investment fees, better performance, and lower administrative costs. So there should be more money available to provide to the University.

Professor Olin asked if any UMF money has been used for start-ups or other ventures. It has not, Ms. Malkerson said.

Mr. Rollefson asked if there is a UMF team working on the EFS upgrades so that UMF is in synch with the University. There is, Ms. Pickard said.

Ms. Harris next informed the Committee about the Dinnaken properties that UMF has been given. They are a series of primarily student-housing buildings built by Jim Cargill to help students have quality, affordable housing while pursuing school. In planning his estate, Mr. Cargill decided that the best way to ensure that the housing remained affordable and available was to give them to UMF, so in 2008 they all came to UMF—at the time, the largest gift in the history of UMF. They have, together, about 1000 beds, and in terms of performance, they rent at about 30% below market, which provides about $1.7-1.8 million to students in the form of lower rent. They are using some of the revenue to set up scholarships, Ms. Harris said. (The buildings are all in the area around Stadium Village.)

By bringing these facilities in to the Foundation, and because UMF is also majority owner of the McNamara Alumni Center, UMF has set up a real estate subsidiary to manage properties and to ensure that they serve the University for the long term. The subsidiary also allows UMF to focus more on gifts of real estate and brings expertise to UMF in this area.

Ms. Kersteter asked if student rentals are need based or if they take any applicant. Ms. Harris said the rentals are not need-based but the scholarships are.

Mr. Kallsen asked if, as UMF receives income-producing real estate, it is getting into the development business. Ms. Harris said that involvement with real estate is so new that they are exploring such questions with UMF, Vice President Pfutzenreuter, and others, including President Kaler. It may be that development is not their role and that they would bring in private developers. It may be that development is not their role and that they would bring in private developers. Ms. Pickard added that UMF does, however, see the potential of gifts of property that UMF could develop or not. They can at least now manage income-producing properties, which UMF could not do before, Ms. Harris said. Ms. Pickard noted that Ms. Harris has an advisory committee that helps her evaluate properties.

Mr. Rollefson asked if there is a conflict with developers of new residential buildings around the campus. They have money on the line and are competing for students; the University is competing with them and offering cheaper rates. Is that a problem? Ms. Harris said what they are providing is mission-related, housing for students, and it is no different than if Mr. Cargill had sold the properties to someone else, who would also be competing for students. Everything they do in real estate must provide a return to the University so it can support students. Professor Zaheer said that if they are renting at below-market rates, that could be seen as undercutting others. Ms. Harris pointed out that they are tax-exempt for purposes of property taxes and must prove to the city that its activities are mission-related; the lower rents support students. Professor Morrison said that it helps that the properties are owned by UMF, not the University. Mr. Rollefson said he would see UMF as a competitor, but Ms. Harris said it is actually less than might be thought because the developers have newer buildings with additional facilities.

Ms. Kersteter asked if they are limited to renting to students. They are not, Ms. Harris said, but students account for about 97% of the rentals. They also lease units in one of the buildings to the hospital for patients and their families.

Professor Luepker pointed out, with respect to competition with the private sector, that the University already has residence halls that it rents to students all the time.

Professor Olin asked what percentage of the rental revenue is for scholarships. Ms. Harris said they have established a $25,000 scholarship and will contribute that amount each year going forward.

Professor Luepker said that it sounds like the merger has gone well and he thanked Msses. Malkerson, Pickard, and Harris for joining the Committee. He adjourned the meeting at 5:05.

-- Gary Engstrand

University of Minnesota