Minutes*

Senate Committee on Finance and Planning
Tuesday, October 19, 2010
2:00 – 4:00
238A Morrill Hall

Present: Judith Martin (chair pro tem), Jon Binks, Devin Driscoll, Steen Erikson, Lincoln Kallsen, Lyndel King, Fred Morrison, Kathleen O'Brien, Paul Olin, Shruti Patil, Gwen Rudney, Michael Rollefson, Karen Seashore, S. Charles Schulz, Mandy Stahre, Jeremy Todd, Lori-Anne Williams, John Worden

Absent: Russell Luepker, Sarah Chambers, Will Durfee, Kara Kersteter, Richard Pfutzenreuter, Terry Roe, Thomas Stinson, Michael Volna, Aks Zaheer

Guests: Senior Vice President Robert Jones, Charles Muscoplat, Carla Carlson (UMore Park); Vice President Tim Mulcahy, Associate Vice President Gail Klatt (Department of Audits)

[In these minutes: (1) Enterprise Financial System memo; (2) update on UMore Park; (3) institutional tolerance for risk]

1. Enterprise Financial System Memo

Professor Martin convened the meeting at 2:00, explained the Professor Luepker was out of town, and asked for a motion to close the meeting. The motion was made and the vote was unanimously in favor.

Professor Martin distributed copies of a draft memorandum from the chair and vice chair of the Faculty Consultative Committee (FCC; Professors VandenBosch and Cramer) to President Bruininks expressing grave concerns about the Enterprise Financial System (EFS). The memo was prepared following discussions with FCC members and a number of department chairs during the previous two weeks. She said she asked that the meeting be closed because Professors VandenBosch and Cramer asked for Committee comments on and reaction to the draft, which had not been sent as of the time of this meeting. She noted that this Committee has discussed EFS a number of times in the past several years, so the topic is not a new one.

There were universal concerns expressed about EFS problems that are not yet fixed and strongly-voiced views that definitive action is needed. The Committee endorsed the memo without dissent.

2. Update on UMore Park

Professor Martin now welcomed Senior Vice President Jones, Dr. Muscoplat, and Ms. Carlson to provide the Committee with an update on UMore Park.

Senior Vice President Jones began by noting that Ms. Carlson is Executive Director of the Office for UMore Park Academic Initiatives and that Dr. Muscoplat is President of UMore Development LLC. Both have been working on UMore Park since 2005—and the progress has been faster than many thought

* 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.

possible because of their efforts. It is clear that this project is unique among research universities in terms of the opportunity to generate additional revenue for the University—but it is not only about monetizing assets but also ensuring they are linked to the University's academic mission.

Dr. Jones noted that UMore Park consists of 5,000 acres in Dakota County about 25 miles southeast of the Twin Cities campus. The University has owned the land for 63 years, and before the UMore Park planning there was no long-term strategic plan for the land (it was used by various colleges and some of the land has been leased). He described the organizational structure, with Ms. Carlson reporting to his office; he also serves as the President's liaison to the limited-liability company that Dr. Muscoplat heads. The reporting structure is intended to ensure that the University's values and interests are protected; Dr. Jones said he believed it important there be University oversight of the two entities. The efforts around UMore Park are proceeding under the Board of Regents' concept master plan.

Senior Vice President Jones next reviewed the timeline of events related to UMore Park. He noted that the draft Environmental Impact Statement (EIS) for mining sand and gravel was published in June, 2010, and said that there are about 360 million tons of sand and gravel to be mined, which can provide a significant source of revenue for the next 25-30 years (approximately $4-5 million per year). The final Sand and Gravel EIS comes before the Board of Regents in November 2010.

Dr. Muscoplat noted the principles enunciated by the Board of Regents in February 2006, under which they have operated. These principles have worked well.

-- Protect and enhance the value of UMore Park
-- Advance the University's mission with physical and financial resources
-- Improve the long-term financial health of the University
-- Retain oversight of UMore Park's planning and development and remain accountable for the plan
-- Optimize the value with integrated short and long-term strategies
-- Utilize market value as benchmark
-- Ensure planning with highest integrity, fairness, and sound business practices
-- Respect needs of neighboring communities and local, regional, and state governments

The sustainable community will include 14,000 dwellings as well as commercial facilities, and these will produce additional revenue for the University. The University retains oversight through a wholly-owned LLC, but the 9-member Board of Governors of the LLC includes five outside experts. The Board of Regents has retained the right to dissolve the LLC. Dr. Muscoplat also commented that the Board of Regents resisted pressure to sell the land for a quick profit, which would have meant giving up the possibility of millions of dollars in research funding. He also reported that UMore Development LLC, which must draw on local governments for water, fire protection, and other services, has very good relationships with its neighbors and surrounding units of government.

Dr. Muscoplat described the overarching vision for UMore Park. It will eventually have a $5-6-billion impact on the community, and constructing the buildings will alone create a lot of jobs. The vision for UMore Park, as of 2006 (and it has not changed), is this:

-- Where 20,000 to 30,000 people live, work, and play in 8 square miles (about the size of St. Louis Park)
-- Enhanced quality of life influenced by the knowledge and broad experience of the University
-- Environmentally sensitive and energy efficient. Sustainable development as a national & international model (the intent is to have a light environmental impact)
-- Partnered with the community and the citizens.

UMore Development LLC:

-- Established in October 2009
-- Nimble management, market-driven decisions
-- Generates revenue for University legacy fund
-- 9-member Board of Governors: market, financial and academic skills (including, from the University, Vice President Kathryn Brown, Dean Thomas Fisher (College of Design), Vice President Timothy Mulcahy, and Vice President Pfutzenreuter).

Dr. Muscoplat summarized the current activities of UMore Development LLC:

-- Transportation study – Dakota County, Empire Township, City of Rosemount, U of M, Department of Natural Resources (this is very favorable to all the players and is on the Dakota County website)
-- Sand & Gravel Final EIS (they are near the end of an 18-20-month highly technical process and hope to proceed soon)
-- Dakota Aggregates leasing agreement (a company will open 60 acres at a time, mine it, and restore it ; it will take 40 years to mine all the sand and gravel on the western side of the property.)
-- Alternative Urban Area wide Review, City of Rosemount

As part of the development, they will create a lake of 377 acres, about the size of Lake Calhoun.

Dr. Muscoplat next presented revenue data and projections. The project was initially supported by an internal loan of just under $10 million. The project is on track to pay back the internal loans in 2011.

The development timeline is as follows:

-- AUAR process kick off, Sept 2010
-- Approve athletic fields, City, October 2010 (Regents, Nov 2010)*
-- Distribute developer asset package, Nov 2010
-- Schedule comprehensive plans amendment process, Nov 2010
-- Post RFQ for Master Developer(s), Feb 2011**
-- Review recommendations for Master Developer(s), May 2011**
-- Approve Master Developer(s), June 2011 – Dec 2011**
-- AUAR and comprehensive plans completed, Dec 2011
-- Local governments' zoning amendments completed, March 2012
-- Large PUD (Phase I) planning launched, March 2012
-- Large PUD plan, permits completed, Oct 2012
-- First sub-division plan completed, Dec 2012
-- Construction begins, Summer 2013

Dr. Muscoplat commented that the summer, 2013, construction date is best case.

Ms. Carlson now noted that the Preamble to the Regents' principles provides that the goal for UMore Park is "to develop UMore Park in a manner that furthers the University's mission. . . ." The Board has seen UMore Park anchored in the academic mission from the beginning, she told the Committee. She said that the project differentiates the new community from all other master planned communities, it adds value, quality of life, economic development, and creates new opportunities that support the University's strategic positioning goals. She recalled that there were six task forces about various aspects of UMore Park, the membership on which included some members of this Committee. They brought those reports to the consultants who helped develop the concept master plan.

The Office for UMore Park Academic Initiatives was established in July of this year and engages faculty, staff, and students in academic activities. There are a few master planned communities that have relationships with universities, Ms. Carlson related, but none have the academic involvement that hers does. The UMore Park Academic Mission Advisory Board is chaired by Professor Deborah Swackhamer (Water Resources Center).

Ms. Carlson itemized the goals of her office:

-- Creates awareness within the University community of the research and education opportunities that exist for faculty members, students and staff members during all phases of planning and development at UMore Park.
-- Supports the creativity of faculty research and discovery that pursues unanswered questions and creates new knowledge, through both disciplinary and interdisciplinary research.
-- Optimizes opportunities to foster student projects, new curricula and models for experiential learning that contribute to learning opportunities for students during planning and development and in the community setting.
-- Encourages research collaborations and partnerships that extend into the private and nonprofit sectors as well as across University departments and campuses -- and the community and region.
-- Engages citizens and surrounding communities in discussions of potential research contributions and the creation of opportunities for research and education that bring innovation and distinctiveness to the new community and the region.
-- Coordinates the process for research and education endeavors to best facilitate faculty, student and community interactions around research projects and teaching and learning experiences.
-- Ensures that engaged research, education and outreach enhance planning and development and dovetail with real estate development time lines and the dictates of the market.

Professor Morrison inquired about the financial projections: Were they prepared before the housing bubble collapsed? Dr. Muscoplat said the projections are only related to sand and gravel but that they were prepared after the crash. The numbers were prepared in April, 2009, and the gravel business is down 60% since 2006-07, but the numbers are realistic because they reflect the market as it is now.

Is the money that comes to the University discretionary or earmarked, Professor Schulz asked? Proceeds from activities on the property will be captured in a legacy fund, per Regents resolution, to be used for things not adequately funded by state dollars or tuition, Dr. Muscoplat said—so it can be used for almost anything. The Board of Regents wanted great discretion in how the money would be used—and the University decides that, not the LLC. Senior Vice President Jones added that there have been no commitments made. Professor Schulz said that there appears to be an opportunity for a Framingham-like public-health study (that took place over decades), and if so, it needs to start now. Ms. Carlson said they are emphasizing community engagement. There is an element of pride in the community with the University as its partner. People may indeed wish to be part of longitudinal studies in health and other areas. The U of Colorado—Denver partnered with the Stapleton community in Colorado and received a $76-million grant for clinical and translational research. Dr. Muscoplat said there is enormous potential for research and training grants.

Professor Martin asked if there will be any work on solar energy. Ms. Carlson said that it is more complicated than wind and geothermal energy, but they are looking for ways to blend those research efforts.

Mr. Rollefson asked if the $4-5 million annually from gravel mining is gross. Dr. Muscoplat explained that the University will be paid about $1 per ton, and there will be expenses involved, but that there will also be income from real estate and other sources—about a half a dozen sources in all.

Professor Morrison asked why they are selling the land rather that offering long-term leases. They talked about that with developers, Dr. Muscoplat said, and the developers did not believe that Minnesota home buyers would favor long-term leases.

Professor Martin thanked Senior Vice President Jones, Ms. Carlson, and Dr. Muscoplat for joining the Committee and providing the report.

3. Institutional Tolerance for Risk

Professor Martin now welcomed Vice President Mulcahy and Auditor Gail Klatt to discuss the University's tolerance for risk and how it might change.

[Note: The presentation that Vice President Mulcahy made at this meeting is the same one that he made to the Senate Research Committee on September 13, 2010; these minutes will not recapitulate that presentation but will include points made in discussion with Finance and Planning Committee members. The Research Committee 9/13/10 minutes can be found at http://conservancy.umn.edu/bitstream/95514/1/10_09_13SRC.pdf]

Professor Martin recalled that this Committee started talking about a year ago about risk tolerance, at about the same time that Vice President Mulcahy and Ms. Klatt volunteered to look at the issue, so there has been a collaboration on approaching it.

Vice President Mulcahy added to Professor Martin's comments. For many who looked at the issue of tolerance for risk, the University of Minnesota seemed more conservative than institutions they had previously worked at, but most saw that characteristic only in their own areas of endeavor. They have now come to see it as a characteristic across the institution. The statement from this Committee last year was instrumental in providing momentum for thinking about change. A small group got together and thought about recalibrating the University's risk tolerance; the group included Professors Balas, Kahn, and Martin. The group's work was presented to the Board of Regents in June.

Following the presentation, Vice President Mulcahy related that this Committee is perhaps the 12th or 13th group with which he has spoken on the topic, and he has not encountered one single disagreement with the general premise. That alone speaks volumes, he commented.

Ms. Klatt said one should recognize that the need to recalibrate risk tolerance is on the minds of the members of the Board of Regents. The University faces a "new normal" financial environment and it may no longer be able to afford all it now does to ratchet down every possible risk, so may be more amenable to or tolerant of reasonable risks. Vice President Mulcahy said that if the institution's executives and the Board of Regents don't endorse an increased tolerance for risk, it won't happen. The President needs to carry the matter to the Board. Ms. Klatt agreed that the Board must concur, because the administrators, faculty, and staff can't have a different risk tolerance than the Board.

Professor Morrison said he endorsed the analysis. He noted that there was a recent article in *The Economist* that argued American universities are functioning like General Motors before it went bankrupt; this issue is part of that phenomenon. Professor Morrison went on to comment that the University has had administrations over the years that have been reluctant to interfere with a low-level decision unless there is a rule about it. Whenever there was a problem, the University wrote a rule—and enforced it strictly. And audited for compliance, Ms. Klatt added. Professor Morrison recalled an incident in the Law School where application of a rule would have required them to spend $500 on a cash register to collect $23 in receipts. As interim dean, he decided to just give away what they had been charging for. But many units might have purchased the cash register because that's what the rule required. There needs to be education of senior and middle management so they can talk to lower management about doing things differently. The culture change required is at the upper and supervisory level. Finally, Professor Morrison said, the new conflict-of-interest policy was a step in the right direction, but there was tremendous "sturm und drang" to move off the no-tolerance-for-risk approach, and said he was still not certain that the University's compliance offices accept such a change in attitude. Someone must talk about this with those responsible for compliance if they want the University to survive.

That is why they believe it important that the Board of Regents and institutional executives set the tone, Vice President Mulcahy responded to Professor Morrison's last point. If they say that the University has been too risk averse, other will follow suit; if they do not, people will not take risks. That is why they are targeting the Board of Regents and senior officers. They need also to target the policy owners, Ms. Klatt said, because they need to examine whether things should be done the way they have been and the amount of risk that should be assumed. The point is not to create a culture where people do not follow the policies; the assessment of risk tolerance needs to be operationalized through work with the policy owners and what they will direct people to do.

A number of people have talked about this subject for a number of years, Vice President O'Brien said, and she strongly supports the effort. She emphasized, however, how difficult it will be to accomplish. If one accepts more risks, one must recognize there will be mistakes. An engineer can spend endless dollars to build an earthquake-proof building. The question, what will the bosses and faculty governance do when people make mistakes? Or is this just rhetoric? The University has accumulated a large number of rules and is now thinking about how to recalibrate them. In no event is the idea to convey the impression that the University will be reckless, Ms. Klatt added.

But there will be costs, Vice President O'Brien repeated. The costs will be lower if the institution is not over-regulated, Ms. Klatt said. The best way to discuss this, she said, is to ask "how good is good enough?" She related an exchange that occurred at the Board of Regents a number of years ago about payments to the University; the Controller reported a 96% compliance rate, said they were happy with it, but were going to go after that last 4%. The chair of the Board at the time observed that perfection is very expensive and said they should not waste money on it. The University now lets transactions of $100 or less flow through without overview; it is expensive to track everything

If the worry is about an employee managing risk, Vice President Mulcahy said, either the person should not have the responsibility or should be provided guidance. Right now the guidance is not provided and the right questions about the gray areas are not asked. The University needs to be willing to take risks because there can be tremendous losses if it does not. But it is not a clear road, Vice President O'Brien cautioned, and people will fall off it on occasion.

Professor Schulz said this was a great presentation. With respect to clinical research, to manage risk going forward (they want to bring safe treatments to patients), the problem is redundancy in compliance can be tough for faculty in translational and clinical research. In terms of performing "good enough" in clinical research, clarity of the strategic plan is important because there can be different messages being sent (e.g., to junior faculty). Vice President Mulcahy agreed. What is missing is the imposition of the University's mission on some of these activities. There is a University mandate, from his office, to do technology transfer—but some University activities inhibit it. Those two forces have to be reconciled.

There is not zero risk, Vice President Mulcahy said, but as soon as the boundaries are set, the institution can move forward. In every corner of the University, people are trying to set boundaries without guidance. The University must follow the law, but when there are degrees of freedom in making decisions, the mission must be brought to bear on them. Even with the law there can be liberal and conservative interpretations, Ms. Klatt observed. If one makes a reasoned attempt to interpret the law, that is not a violation. There are degrees of interpretation.

With respect to start-ups, intellectual property, and technology transfer, it would be helpful to have a set of statements about mission-based risk, Professor Olin suggested. Faculty do start-up companies and continue to work on their intellectual property.

Professor Martin inquired if Vice President Mulcahy's work represents the Committee's concerns and if it wished to endorse the effort. There was no disagreement with the proposition that the work should be endorsed.

Professor Martin thanked Vice President Mulcahy and adjourned the meeting at 4:05.

-- Gary Engstrand

University of Minnesota