AGENDA

1. Capital Budget Amendment - Review/Action - K. O'Brien/R. Pfutzenreuter/J. Maturi (pp. 2-6)
   A. TCF Bank Stadium (Field Wall)

2. Facilities Condition Assessment Update - K. O'Brien/M. Berthelsen/S. Schuller (pp. 7)

3. Committee Workplan 2009-10 - S. Hunter/K. O'Brien (pp. 8-10)


5. Information Items - K. O'Brien (pp. 12-21)
Facilities Committee September 10, 2009

Agenda Item: Capital Budget Amendment

☐ review  ☒ review/action  ☐ action  ☐ discussion

Presenters: Vice President Kathleen O’Brien
Vice President Richard Pfützenreuter
Athletic Director Joel Maturi

Purpose:

☐ policy  ☐ background/context  ☒ oversight  ☐ strategic positioning

In accordance with Board of Regents Policy: Reservation and Delegation of Authority, and consistent with current practice for approving changes to major capital projects, act on the following Capital Budget Amendment:

• Amend the Fiscal Year 2010 Capital Budget to increase funding for the TCF Bank Stadium project located on the Twin Cities, Minneapolis, East Bank Campus.

Outline of Key Points/Policy Issues:

The field wall brick at TCF Bank Stadium, which had been deferred due to budget constraints and had originally been estimated to be less that $500,000, is now funded by a gift from a private donor with costs just over the $500,000. Review/action is requested for this capital budget amendment as the work was completed as a part of the construction when the contractor was still on site to achieve construction efficiencies and to ensure the brick was in place on opening day.

The following principles will guide the development of a football stadium on the Minneapolis campus for the use of the Gopher football team, and related athletic and academic purposes of the University:

• UNIVERSITY MISSION / We will advance the University's fundamental academic mission. The University of Minnesota's fundamental academic mission in teaching, research and public service is foremost and will be advanced. The mission of the institution will be preserved in all aspects of planning a multipurpose stadium. The future stadium development will not compromise the University’s fundamental academic mission, purpose or programs.

• FINANCIAL STRATEGY / We will improve the financial circumstances of the University and avoid financial risk to the academic mission. The primary funding goal will be to build
an on-campus University stadium from substantial private contributions and resources. The University will avoid financial risk to the University budget and its academic programs. The University will identify new funding sources to support the implementation of the campus stadium with the expectation that funds will not be diverted from other University purposes and resources. The University, recognizing its position as part of a larger sports market, will assure that its investment has reasonable assurances of adequate return.

- UNIVERSITY AND NEIGHBORHOOD COMMUNITY / We will promote physical and programmatic integration with the Twin Cities campus community and adjacent neighborhoods. A University on-campus stadium must enhance campus life, while maximizing opportunities to support the University's teaching, research and public service missions. Any stadium on campus will be designed, constructed and operated in a manner that is compatible with the University campus environment, master plan and the commercial and residential neighborhoods near the stadium site. The University will seek to accommodate and respect the community and neighborhood needs during the planning process.

- GOVERNANCE AND MANAGEMENT / We will control of all aspects of stadium development and management. The University will control all aspects of the governance, design, development and ongoing management of the stadium.

- STUDENT EXPERIENCE AND INTERCOLLEGIATE ATHLETICS / We will improve student life, increase community enthusiasm for the University and enhance the Gopher football game-day experience. A University on-campus stadium will enhance student life, create opportunities for University-wide events and celebrations, increase alumni and community support for the University and strengthen the sense of community. The stadium will improve the University and Gopher football experience for students, student-athletes and fans.

- PROJECT DEVELOPMENT / We will assure that project design and construction meet the highest standards of fairness, integrity and sound business practice. All planning and development of the stadium will meet the most stringent requirements and the highest standards of fairness, integrity and sound business practice. The University will draw on research of similar projects across the country to insure that stadium plans and construction are completed to quality standards within reasonable costs.

**Background Information:**

TCF Bank Stadium was originally approved in the 2007 Annual Capital Budget. The Board of Regents approved amendments in January 2007, the 2009 Annual Capital Budget, and the 2010 Annual Capital Budget.

**President's Recommendation for Action:**

The President recommends approval of the amendment to the Fiscal Year 2010 Capital Budget to increase funding for the TCF Bank Stadium project on the Twin Cities, Minneapolis, East Bank campus.
TCF Bank Stadium
Twin Cities Campus
Project No. 297-05-1773
Capital Budget File No. 2820

1. Basis for Request:

The University of Minnesota is committed to designing and building a stadium that will best serve the long-term needs of the entire campus, including the Athletics Department, the marching band, recreational sports and other campus activities, as well as the State of Minnesota. The Board of Regents established early in the planning process a set of guiding principles for the project that the project team is working to achieve. These principles include advancing the University's fundamental academic mission, and promoting the physical and programmatic integration of the stadium with the Twin Cities campus, as well as improving student life, increasing community enthusiasm for the University and enhancing the Gopher football game-day experience.

2. Change in Project Since Last Approval:

This capital budget amendment addresses the addition of the brick on the field wall to the TCF Bank Stadium. The field wall brick has been a desired feature since the earliest phase of the design but was placed on a list of items that would be added at the end of the project if adequate funds were available. A private donor has stepped forward to add funds to the project to ensure that this feature was in place for opening day.

The original estimate for this project was below the $500,000 threshold for Board of Regents approval which is why this item was not included in the 2010 Annual Capital Budget.

3. Scope of Project:

The University is finishing the construction a new 50,000 seat open-air football stadium on the east bank of the Twin Cities campus. The new TCF Bank Stadium is located on the existing Huron Boulevard parking lots, in close proximity to Mariucci Arena and the Williams Arena/Sports Pavilion complex.

The project consists of two components:

- Site and District Improvements — The University made a number of improvements to the East Gateway District of the Twin Cities campus to accommodate the new stadium, academic buildings, transportation improvements, and other University activities. The Site and District component includes the stadium’s prorated share of these broader campus improvements including roads, parking, infrastructure, environmental clean-up, real estate purchases, and public space enhancements.

- Stadium — The University is completing construction of an open-air stadium with a horseshoe-shaped bowl and a traditional collegiate “look and feel.” The stadium will complement the campus environment and meet all of the revenue and fan amenity requirements of a modern Division I-A collegiate football stadium. The stadium has approximately 50,000 general seats, premium amenity seating, and all of the typical support services found in a modern stadium including but not limited to space for
home and visiting teams, media, food service and concessions, and the marching band.

The new TCF Bank Stadium is scheduled to open this month.

4. Environmental Issues:

The University of Minnesota completed an Environmental Impact Statement (EIS) for TCF Bank Stadium. The final EIS was approved by the Board of Regents in March 2006.

The University worked closely with the Minnesota Pollution Control Agency on a plan to address contamination left on the site by previous owners of the property. Costs to address environmental contamination are included in the overall project budget.

5. Cost Estimate:

<table>
<thead>
<tr>
<th>Approval</th>
<th>Previous</th>
<th>Current</th>
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<tr>
<td>Base Project Budget (as approved at Schematic Design)</td>
<td>$288,500,000</td>
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<tr>
<td>Food Service Build-out</td>
<td>$10,000</td>
<td></td>
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<tr>
<td>Veterans Tribute</td>
<td>$450,000</td>
<td></td>
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<tr>
<td>MN Tribal Nations Plaza</td>
<td>$2,000,000</td>
<td></td>
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<tr>
<td>Gold Country Store</td>
<td>$435,526</td>
<td></td>
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<tr>
<td>Hall of Fame</td>
<td>$1,448,252</td>
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<tr>
<td>Williams Arena Stairs</td>
<td>$45,061</td>
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</tr>
<tr>
<td>Brick on the Field Wall</td>
<td></td>
<td>$507,767</td>
</tr>
<tr>
<td><strong>Total:</strong></td>
<td><strong>$302,878,839</strong></td>
<td><strong>$507,767</strong></td>
</tr>
</tbody>
</table>

The total approved project budget for the TCF Bank Stadium (including the site and district improvements) is $303,386,606.

6. Capital Funding:

The total budget for construction of TCF Bank Stadium has increased by $507,000. This additional scope is being funded by a private donation.

7. Capital Budget Approvals:

TCF Bank Stadium was originally approved in the 2007 Annual Capital Budget. The Board of Regents approved amendments in January 2007, the 2009 Annual Capital Budget, and the 2010 Annual Capital Budget.

8. Time Schedule:

The design and construction for the brick field wall have already been completed.

12. Architect (and/or Engineer, Design / Builder, Construction Manager):

Architect of Record: Populous (Formerly HOK Sport Venue Event)
General Contractor: Mortenson Construction
13. Recommendation:

The above described project scope of work, cost, funding, and schedule is appropriate:

Richard Pfutzenreuter, Vice President and Chief Financial Officer

Joel Maturi, Athletic Director

Kathleen O'Brien, Vice President for University Services
Facilities Committee

September 10, 2009

Agenda Item: Facilities Condition Assessment Update

☐ review ☐ review/action ☐ action ☑ discussion

Presenters: Vice President Kathleen O'Brien
Associate Vice President Mike Berthelsen
Sean Schuller, Assistant Director, Facilities Management

Purpose:

☐ policy ☑ background/context ☐ oversight ☐ strategic positioning

To review the Facilities Condition Assessment and discuss the use of the information provided by the Facilities Condition Assessment as a capital and financial planning tool.

Outline of Key Points/Policy Issues:

The Facilities Condition Assessment is a comprehensive evaluation of the condition of the University of Minnesota's campus facilities and infrastructure portfolio.

Because owning and operating the University's physical plant is critical to supporting the University's mission of teaching, research, and outreach, the University has instituted the Facilities Condition Assessment to:

• Move the facilities condition assessment from a depreciation model to an inspection-based process.
• Create a central repository of facilities needs information.
• Provide the University with a tool for master planning, facilities programming and capital planning, and financial planning and budget forecasting.
• Improve processes, which will assist the administration and the Board of Regents with their stewardship responsibilities for the University's physical assets.

The presentation will include an update on the FCA program, a review of recent investments to address facilities needs, and a review of next steps.

Background Information:

The Facilities Condition Assessment has been discussed annually with the Board of Regents facilities committee since 2003.

Reviewing the Facilities Condition Assessment provides a framework for the upcoming review of the Six Year Capital Plan.
Facilities Committee

September 10, 2009

Agenda Item: Committee Workplan 2009-10

[ ] review [ ] review/action [ ] action [X] discussion

Presenters: Regent Steven Hunter
               Vice President Kathleen O’Brien

Purpose:

[ ] policy [ ] background/context [X] oversight [ ] strategic positioning

According to Board of Regents Policy: Board Operations and Agenda Guidelines, Section II, Subdivision 7: Workplans, “Each year the Board and its committees develop workplans with the advice of the president or delegate.”

This discussion is intended to focus on major issues the committee may wish to address in FY 2009-10.

Outline of Key Points/Policy Issues:

The Facilities Committee oversees the University’s physical assets (e.g., land, buildings, infrastructure, and equipment). This committee considers the general adequacy, condition, and use of existing facilities; oversees policy related to physical planning, reviews renewal, replacement, and new construction decisions; and recommends the financing of capital projects.

Specifically, this committee recommends:
  o capital budget amendments;
  o schematic plans;
  o real estate transactions;
  o disposition of historic resources; and
  o district and campus master plans.

This committee also:
  o reviews semi-annual capital improvement reports; and
  o receives miscellaneous facilities management reports and notification of significant issues.

Background Information:

The Facilities Committee had a preliminary discussion of its work plan at its July 2008 meeting.
Board of Regents Facilities Committee  
2009-10 Work Plan

September 2009

The Facilities Committee oversees the University’s physical assets (e.g., land, buildings, infrastructure, and equipment). This committee considers the general adequacy, condition, and use of existing facilities; oversees policy related to physical planning, utilities and energy management; reviews renewal, replacement, and new construction decisions; and recommends the financing of capital projects.

Specifically, this committee recommends:
- capital budget amendments;
- schematic plans;
- real estate transactions;
- disposition of historic resources; and
- district and campus master plans.

The following issues will be considered by the committee in addition to the normal business items:

<table>
<thead>
<tr>
<th>Date</th>
<th>Facilities Committee Agenda Items</th>
<th>Facilities-related Agenda Items for the Full Board</th>
</tr>
</thead>
<tbody>
<tr>
<td>September</td>
<td>• Update Report: Higher Education Asset Preservation &amp; Replacement, Repair &amp; Replacement and Facilities Condition Assessment</td>
<td>• 2010 State Capital Request (Review)</td>
</tr>
<tr>
<td>October</td>
<td>• Issues related to 2010 Six Year Capital Plan</td>
<td>• 2010 State Capital Request (Action)</td>
</tr>
<tr>
<td></td>
<td>• Report on Sustainability and Energy Efficiency Policy and University Sustainability Goals</td>
<td>• 2010 Six Year Capital Plan (Review)</td>
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<tr>
<td>November</td>
<td>No Facilities Committee meeting</td>
<td>• 2010 Six Year Capital Plan (Action)</td>
</tr>
<tr>
<td>December</td>
<td>• Morris Campus Master Plan (Review)</td>
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<tr>
<td></td>
<td>• East Gateway District Plan update</td>
<td></td>
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<tr>
<td></td>
<td>• Biosciences Discover District / Medical Biosciences Facilities update</td>
<td></td>
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<tr>
<td></td>
<td>• Capital Planning and Project Management Semi-Annual Project Report</td>
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Board of Regents Facilities Committee  
2009-10 Work Plan

<table>
<thead>
<tr>
<th>Date</th>
<th>Facilities Committee Agenda Items</th>
<th>Facilities-related Agenda Items for the Full Board</th>
</tr>
</thead>
<tbody>
<tr>
<td>January</td>
<td>No Facilities Committee meeting</td>
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</tbody>
</table>
| February| • Morris Campus Master Plan (Action)  
         | • Crookston Campus Master Plan (Review)  
         | • Utilities and Energy Management annual report |
| March   | • Crookston Campus Master Plan (Action)   |
| April   | No Facilities Committee meeting?      |                                                  |
| May     | • Issues related to Annual Capital Budget  | • Annual Capital Budget (Review) |
| June    |                                                  | • Annual Capital Budget (Action)               |

Additional Items for consideration by Facilities Committee:
• Policy Review: Monumental Works of Art

**Additional items for consideration by the Board:**
• University Neighborhood Alliance
• University Northside Partnership/ Urban Research and Outreach Center
• CCLRT Updates and MOU
Facilities Committee

September 10, 2009

Agenda Item:  Consent Report

☐ review  ☒ review/action  ☐ action  ☐ discussion

Presenters:  Vice President Kathleen O'Brien

Purpose:

☐ policy  ☐ background/context  ☒ oversight  ☐ strategic positioning

There are no consent items for the September Facilities Committee meeting.

Outline of Key Points/Policy Issues:

Background Information:
Facilities Committee

September 10, 2009

Agenda Item: Information Items

☐ review   ☐ review/action   ☐ action   ☒ discussion

Presenters: Vice President Kathleen O’Brien

Purpose:

☐ policy   ☒ background/context   ☐ oversight   ☐ strategic positioning

To update the Board of Regents regarding the following information items:

A. Emergency Approval Purchase of 1701 University Avenue SE, Minneapolis
B. Update: UM Morris Biomass Heating Plant Addition
C. Update: McNamara Alumni Center, Addition

Outline of Key Points/Policy Issues:

A. Emergency Approval on August 11, 2009 of the Purchase of 1701 University Avenue SE, Minneapolis (Twin Cities Campus)

In accordance with Board of Regents Policy: Board Operations and Agenda Guidelines, the President requested emergency action for the approval of the purchase of 1701 University Avenue SE, Minneapolis. The emergency approval was requested in order to close on the purchase of the property from The Newman Center and Chapel on or before the August 31, 2009, which is the date the University’s current lease of the property will end. A closing by the lease end date will allow the University’s current uses of the property to continue. The price for the property is $2.5 million. Information on the purchase of the property was included as an Information Item in the July, 2009 Facilities Committee meeting agenda.

Refer to the attached documentation.

B. An update regarding UM Morris Biomass Heating Plant Addition will be provided at the meeting.

Refer to the attached documentation.
C. Update regarding McNamara Alumni Center Addition

The University Gateway Corporation approved proceeding with the four story addition on July 29, 2009. The corporation is in the process of arranging financing for the project and anticipates completing the financing plan in October 2009. It is considering an early start to take advantage of reduced construction costs; however that decision have been not made at this time. It hopes to start the relocation of the utilities to facilitate construction in the next couple of weeks.

The financing plan has been reviewed by Vice President Pfitzenreuter and he is participating in completing the arrangements. The project has a footing and foundation permit and is completing the permitting process.

**Background Information:**

Information items are intended to provide the Board of Regents with information needed for them to provide their oversight responsibilities.
UNIVERSITY OF MINNESOTA
Office of the Board of Regents
600 McNamara Alumni Center
200 Oak Street S.E.
Minneapolis, MN 55455-2020
612-625-6300 (phone)
612-624-3318 (fax)

August 11, 2009

FACSIMILE

To: President Robert Bruininks

From: Ann Cieslak, Executive Director

Re: Emergency Approval

Pages: 2 (including cover)

By email and telephone on August 7 & 8, 2009, Chair Allen, Vice Chair Cohen, and Facilities Committee Chair Hunter each reviewed and approved the request from you for emergency approval of the following real estate transaction (as described in the attached letter):

- Purchase of 1701 University Avenue SE, Minneapolis (Twin Cities campus).

I understand that this information will be reported to the Board of Regents at the September 2009 meetings, as required by Board Policy.

c: Kathleen O'Brien, Vice President (w/o attachments)
   Kathryn Brown, Vice President (w/o attachments)
   Ann Cieslak, Executive Director (w/o attachments)
August 5, 2009

The Honorable Clyde Allen
The Honorable Steve Hunter
The Honorable Linda Cohen

Dear Members of the Board:

The Board of Regents’ Board Operations and Agenda Guidelines allow for an emergency procedure if an emergency situation exists as defined in the Guidelines. Specifically, in Section II, Subd. 10, the policy reads as follows:

Upon the recommendation of the president, the Board chair, vice chair, and the respective committee chair may act on behalf of the Board when delay for Board approval poses a significant health, safety, or financial risk to the University. Any such emergency approvals will be brought to the next meeting of the Board, consistent with Board policy.

I am recommending use of this emergency process for Board approval of the following item, to prevent delay that could pose a financial risk to the institution:

Real Estate Transaction – Review/Action:
A. Purchase of 1701 University Avenue SE,
   Minneapolis (Twin Cities Campus)

Upon Board approval of this real estate transaction, the University will be able to close on the purchase of the above-described property from The Newman Center and Chapel. The University's current lease of the property at 1701 University Avenue SE, Minneapolis will end August 31, 2009. A closing on or before August 31, 2009 will allow the current University uses of the property to continue.

Information on the purchase of this property was included as an Information Item in the July, 2009 Facilities Committee meeting agendas.

Thank you for your attention to this request. Additional information regarding this item is enclosed.

Sincerely,

[Signature]
Robert H. Bruininks
President

Enclosures

cc: Ann Cieslak, Executive Director, Board of Regents
    Richard H. Pfutzenreuter, III, Vice President and CFO
    Kathleen O’Brien, Vice President, University Services
    Susan Carlson Weinberg, Director of Real Estate
PURCHASE OF 1701 UNIVERSITY AVENUE SE, MINNEAPOLIS
(TWIN CITIES CAMPUS)

1. Recommended Action

The President recommends that the appropriate administrative officers receive authorization to execute the appropriate documents providing for the purchase of the property at 1701 University Avenue SE, Minneapolis.

2. Location and Description of the Property

The property at 1701 University Avenue SE is located at the northeast corner of the intersection of 17th Avenue SE and University Avenue SE, contiguous to University-owned property on the north side, across University Avenue SE from the Armory Building and kitty-corner from the Bell Museum.

The property consists of 0.49 acre of land improved with a two-story plus basement brick building constructed in 1952 totaling approximately 36,167 square feet.

The legal description of the property:

All of Lot 6 and parts of Lots 4, 5 and 7, Block G, Tuttle's Addition to St. Anthony, Minneapolis, Hennepin County, Minnesota.

3. Basis for Request

The University has been leasing the property since August 17, 1999 for classroom and office purposes. The lease will terminate August 31, 2009.

The acquisition of this property provides an opportunity to continue serving a number of University needs in the current building and a potential development site for various campus activities in the future.

4. Details of Transaction

The University would pay $2.5 million in cash for the property. Closing would occur on or before August 31, 2009. The seller is The Newman Center and Chapel.
5. Use of Property

Because of location, this property is viewed as an important opportunity purchase, providing a very attractive site for a future building. In the interim, the current building could serve a number of University needs.

6. Environmental

The University has completed a Phase I and Phase II environmental assessment of the property. Due to DROs (diesel range organics) that were detected at the location of a former underground storage tank and the need to dispose of ash from the fireplace and incinerator located within the building as industrial waste, the property will be submitted into the Minnesota Pollution Control Agency’s Voluntary Investigation and Cleanup (VIC) Program and Petroleum Brownfields (PB) Program, to obtain all appropriate MPCA liability assurances. However, the property is generally in acceptable environmental condition.

7. Source of Funding

The purchase of the property will be funded with University debt.

8. Recommendations

The above-described real estate transaction is appropriate:

Richard H. Pfutzenreuter III, Vice President for Finance and CFO

E. Thomas Sullivan, Senior Vice President for Academic Affairs and Provost

Kathleen O’Brien, Vice President for University Services
Background: Original Funding 2005-2007

The University received funding for this project in the 2005 Bonding Appropriation and has worked to identify technology that will provide renewable energy for up to 80% of the campus heating needs using local agricultural crops and plant materials that are grown in the region. This includes wood waste, corn stover, distiller’s grains, wheat straw, and native grasses. These fuel stocks are all carbon neutral. It is estimated the operation of the biomass plant will redirect up to $500,000 annually into the local economy that would have been used for fossil fuel purchases in the past.

In 2006 WCROC (West Central Research and Outreach Center) and UMM applied for and received one of twelve national USDA/DOE biomass demonstration grants for $1,890,000 to conduct research in biomass collection of fuel stocks, economic impact and sustainable agricultural practices associated with the gasification of plant materials. Included in this grant is $631,000 for the purchase of biomass plant equipment. This grant pairs UMM, WCROC, the Federal Soils Lab and private industry to determine best practices for biomass energy production.

1. Cost Estimate:

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<tr>
<td>Non Construction Cost</td>
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<td>Total Project Cost</td>
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2. Capital Funding:

<table>
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<tr>
<th>Funding Source</th>
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<tbody>
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<td>Legislative Appropriation 2005</td>
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<tr>
<td>Initiative for Renewable Energy &amp; the Environment Grant</td>
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<tr>
<td>University Debt</td>
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<tr>
<td>University of Minnesota Morris</td>
<td>600,000</td>
</tr>
<tr>
<td>Corn Growers Association</td>
<td>20,000</td>
</tr>
<tr>
<td>Agricultural Utilization Research Institute grant</td>
<td>5,000</td>
</tr>
<tr>
<td>USDA/DOE Grant (Equipment)</td>
<td>631,000</td>
</tr>
<tr>
<td>Institutional Resources</td>
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<tr>
<td>Total</td>
<td>$8,956,000</td>
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</table>

3. Construction Status

- Knutson Construction Services (KCS) is the general contractor for the University of Minnesota, Morris’ biomass facility.
- English Boiler and KMW are subcontractors to KCS.
- The fuel density was not consistent in contract documents.
UMM has worked over the course of the past 10 months with UMN facilities, project management, finance, and OGC as well as with the contractor, the architect (HGA) and the subcontractors to make the plant work.

There is consensus from all parties within the University that we need to make this plant work and that the main problem is matching fuel density with gasification technology.

There is also consensus within the university that we have an obligation to mitigate our damages.

We believe we have reached a strategy that will get us back on track.

Options:
   a. Replace the gasifier and start over.
   b. Fix it at some additional expense.
   c. Engage in litigation with the architect and general Contractor—likely to be lengthy and costly.

Where we are as of August 28, 2009:
   Knutson Construction Services (KCS) is holding $500,000 in contract funds related to this project and indicates that there are additional back charges associated with the project—in the amount of $200,000-$300,000.
   These back charges are not due to fuel quality or density issues, but solely to the inability of English Boiler/KMW (subcontractors) to be able to deliver the project in the agreed time frame.
   English Boiler believes that KMW has some exposure on this project and will work to secure an exact amount that could be less than the $200-300,000.
   KCS indicates that they want a functioning gasifier and that they want their out of pocket expenses covered. They have terminated their contract with English Boiler/KMW.
   The project cannot continue without the resolution of this financial issue with the general contractor and the subcontractors.
   English Boiler has provided a schedule for completion of the project, which tentatively has a fall, 2009 commissioning date.
   Initiating the schedule is contingent on the confirmation by the University that $500,000 is available to complete the original terms of their contract. The U of MN Morris has a utility reserve balance of $1.3M. Morris intends to transfer not more than $300,000 to allow English Boiler to complete the plant and conduct commissioning tests.
   English Boiler, a third party gasification company, and a gasification expert from Germany have all reviewed the new densified fuel composition and believe that it will work in the KMW platform.

English Boiler has:
   o Agreed to complete the plant under their original contract terms and conditions, once they have received assurance that the $500,000 referenced above is available.
   o Agreed to change the fuel infeed system as part of their contract.
   o Proposed a third party process engineer to oversee the completion of the project at their cost. (This is a non-binding process engineer who has seen the plant and knows the situation—he spent three days in Morris earlier this summer).
• UMM has:
  o prepared 80 tons of densified cornstover for a commissioning test
  o Over $4 million in research grants waiting for this plant to start running—the research is not dependent on fuel density and if we are not able to test fuel stocks by this winter we will put in jeopardy over $2M worth of grants.
  o In addition, a new USDA biofuels incentive program (BCAP) provides a 50% subsidy for all cornstover purchased in the next two years. An operating plant is required to take advantage of this incentive program and it could reduce fuel costs for Morris by as much as $400,000/year for two years.

Next Steps:

• On the advice of General Counsel, Morris is initiating the following:
  • The $500,000 in contract funds will be placed in an escrow account. The additional amount of “back charges” claimed by Knutson (exact amount still to be determined but likely between $200-300,000) will be covered by the U of MN Morris contribution.
  • A new contract will be executed between Knutson, English Boiler, and UMN/UMM, that will include a payment structure (with payments drawn from this escrow fund) with payment dependent on the plant performing in a way that is satisfactory to the University (so that we won’t be out of pocket additional money if the plant still doesn’t work after adjustments are made to it).
  • By providing fuel density that meets or exceeds the stated fuel density in KMW’s contract, the responsibility is now KMW’s to demonstrate that they can manage the fuel.

Lowell Rasmussen
Vice Chancellor Finance and Facilities
U of MN Morris

Sept 1, 2009