Finance & Operations Committee

March 2020

March 13, 2020

9:00 a.m.

Marshall Performing Arts Center

University of Minnesota Duluth

FIN - MAR 2020

Capital Budget Amendment

BOARD OF REGENTS
DOCKET ITEM SUMMARY

Finance & Operations **March 13, 2020**

AGENDA ITEM: FY 2021 Annual Operating Budget Framework Update

☐ **Review** ☐ **Review + Action** ☐ **Action** ☒ **Discussion**

☐ *This is a report required by Board policy.*

PRESENTERS: Brian D. Burnett, Senior Vice President
Julie Tonneson, Associate Vice President and Budget Director

PURPOSE & KEY POINTS

The purpose of this item is to revisit information from the February Finance & Operations Committee meeting related to the budget framework revenue and expense categories, and to discuss current estimates of incremental changes for FY 2021 related to those categories.

This is the final committee discussion on the FY 2021 budget variables before presentation of the President's Recommended Operating Budget for FY 2021 at the May meeting.

Budget Development

The budget development process includes an iterative process of asking and answering questions about what to plan as the incremental changes for each major resource and each major expenditure category. For example, answering questions about the goals for tuition rate changes and internal reallocations, coupled with goals for salary increases and addressing strategic initiatives and the development of the strategic plan may first lead to an imbalanced budget. If so, that will require going back to each question and making adjustments in the answers until the final plans balance the budget in a way that addresses University goals in the best way possible.

Resource Categories

To begin the budget development process, the first questions relate to resources. The resource assumptions for the framework include:

- Assumed or known changes in state appropriations.
- Planned changes in tuition revenue based on recommended rates and enrollment.
- Planned internal reallocations.

State appropriations

The recurring state appropriation increase to the University for FY 2021 is $1,740,000. It is an increase to the unrestricted Operations & Maintenance (O&M) appropriation for general

operations with no additional riders.

In addition, of the $20,880,000 incremental increase to the FY 2020 O&M appropriation, $8,000,000 was held uncommitted in the FY 2020 budget, allowing it to be combined with the incremental increase in law for FY 2021. The incremental "new" O&M appropriation available to address costs and investments in FY 2021 is $9,740,000.

Tuition

The decision for resident undergraduate rates in FY 2021 considers a variety of factors: trade-offs between stable or minimally increased rates and inflationary costs plus desired investments in excellence; rank by campus in their various comparison groups; availability of need-based financial aid for students; and financial burden placed on students and families.

For FY 2021, each 1% increase in resident undergraduate tuition is equivalent to the following in estimated incremental new tuition revenue:

- Twin Cities Campus = $3.2 million
- System Campuses combined = $1.2 million

In recent years, questions have been raised around the current pricing of tuition on the Crookston, Duluth, Morris and Rochester campuses. Concerns about tuition levels for these campuses in comparison to competitor schools contributed to decisions to implement minimal increases in the resident undergraduate tuition rates on these campuses in the last six years. The nonresident/non-reciprocity (NRNR) rates on these campuses, where they exist, have been stable or increased very little over this time frame.

The situation is slightly different for the Twin Cities campus, where high demand and a mid-level position in the resident undergraduate tuition rate compared to peers led to more frequent and sometimes slightly higher tuition rate increases. To be more consistent with the resident rate in reflecting the high quality academic experience for students, relatively significant increases (7-15%) have been made in the Twin Cities undergraduate NRNR tuition rate for incoming freshmen over the last five years. Discounting strategies, lower rates of increase for continuing students, and enhanced national recruiting efforts have been and will continue to be necessary to maintain NRNR enrollment. The strategy for NRNR tuition rates will be revisited each year to make adjustments based on enrollment patterns.

For FY 2021, each 1% increase in nonresident undergraduate tuition is equivalent to the following in estimated incremental new tuition revenue:

- Twin Cities Campus = $1.4 million (up to 5.5%; then $350,000 beyond that)
- System Campuses combined = $0.1 million

Graduate and professional tuition rates vary by school and program, often reflecting rates in their individual markets, unique program rankings and student demand, earnings potential for students and student debt load at graduation. These rates have generally increased in the 0%-3% range over the last several years. Each 1% increase in these tuition rates (if all were to be increased at the same rate) is equivalent to an estimated $3.6 million in new tuition revenue.

The docket includes tables of tuition rate comparisons for the current fiscal year (FY 2020).

Reallocations

Reallocation in the budget planning context means that decisions are made to reduce spending in some areas/activities in order to pay for cost increases and investments in other areas/activities. In each of the last six years, the budget framework incorporated planned reallocations at 1-2% of total unit allocations (state appropriation and tuition for academic units and general O&M for support units). The amount of reallocation required by unit was not implemented across the board, but varied based on the financial circumstances and needs of each unit. The amount incorporated into the budget was calculated as that needed to balance the budget in combination with the planned revenue increases and priority costs and investments.

As the University plans the budget for FY 2021 and beyond, reallocations will continue to be an important part of balancing the budget. The focus or goals may shift, but the need to reprioritize resources will remain. Opportunities to gain efficiencies and lower costs (or at least the growth in some costs) will continue, as will the expectation to find and implement those opportunities as a part of the budget process. While some amount of reprioritization of existing resources can be implemented annually in most units, significant expenditure reductions cannot continue each year without affecting programs and services. Reallocation expectations could reach a level where implementation would jeopardize the University's ability to maintain quality and remain competitive. Clear direction on the desired scope of programming and tactical goals associated with strategic plans will help determine the appropriate placement of those impacts.

Finding the appropriate level of reallocation is one of the tasks of budget development. A targeted reallocation of 1% on the traditional reallocation base yields approximately $20 million in available resources for the state and tuition funded activities.

Expenditure Categories

The next budget development questions relate to expenditures.

Compensation

Over the past 20 years, compensation has accounted for a 60-65% of annual University spending. Consistent with Board policy, compensation must be competitive relative to institutional peers and relevant labor markets, reward meritorious performance, and consider a faculty or staff member's work responsibilities, experience and expertise. Compensation must be delivered in a fair and equitable manner, and consider internal equity. These principles guide the initial salary for a faculty or staff member, and also future compensation increases.

The annual percentage change in the general compensation pool represents an average increase across all employees and is established as part of the budgeting process. The "pool" increase is determined by a variety of factors: the national/regional cost of living, average projected compensation increases in competitive industries or institutions, and the balance between available resources (including required internal reallocations), other framework costs and strategic investment plans.

For FY 2021 budget planning, the cost related to fringe benefits and each 1% increase in the general salary pool would be:

- Fringe with no salary increase framework funds = $10.0 million
- 1% salary increase (on top of the fringe $10.0m) framework funds = $12.8 million

- 2.25% salary increase (on top of the fringe $10.0m) framework funds = $28.7 million
- Fringe with no salary increase all funds = $19.9 million
- 1% salary increase (on top of the fringe $19.9m) all funds = $24.1 million

Facilities/operations/strategic choices

In all other categories of spending for FY 2021 there are costs the University must address and there are choices to be made from a longer-term, strategic perspective that will have immediate budgetary implications. Funding for items such as utilities, debt service, vendor licensing and maintenance contracts, hazardous material disposal, disability resources, etc. will be incorporated into the recommended budget based on known or estimated cost increases.

Recent experience in these costs has been as follows:

- Strategic choices = $10-20 million
- Facilities expenses = $3-5 million
- Operations = $1-3 million

Scenarios for the FY 2021 Budget

The act of building a budget framework for FY 2021 involves making choices among all the variables outlined above. It is a successful exercise to the extent that the resulting budget:

1. Reflects the priorities of University leadership.
2. Makes each unit as successful as possible given resource constraints.
3. Is responsible and balanced.

Estimated increases in revenues and expenditures for each variable (in the framework funds of state appropriation and tuition only as relevant) are summarized below to help think about different framework scenarios.

Incremental Resources - Examples

Tuition	0%	1%	2%
TC Resident Undergraduate	$0	$3.2m	$6.4m
Greater MN Campuses Undergraduate	$0	$1.2m	$2.4m
TC NRNR Undergraduate*	$0	$1.4m	$2.8m
Greater MN Campuses NRNR Undergraduate	$0	$0.1m	$0.2m
Resident Graduate & Professional	$0	$2.1m	$4.2m
NRNR Graduate & Professional	$0	$1.5m	$3.0m

*estimated revenue per 1% after a 5.5% increase = $350,000

State Appropriation

increase in law = $1.7 million
planned holdover from FY20 = $8.0 million
total new = $9.7 million

	0.5%	0.75%	1%
Internal Reallocation	$10.0m	$15.0m	$20.0m

Incremental Expenditures – Examples

Compensation	1.0%	2.0%	2.25%	Other
Fringe Alone				$10.0m
Salary Increase (+ associated fringe)	$12.8m	$25.6m	$28.7m	

Other Costs	Minimum	Invest	Advance
Facilities	$3.5m	$5.0m	$7.0m+
Technology	$1.2m	$3.5m	$5.0m+
Maintain/Strengthen Core	$6.0m	$10.0m	$15.0m+
Strategic Program Pool	$0	$5.0m	$10.0m+

TUITION RATE COMPARISONS

FY 2020 Resident Undergraduate Tuition – Twin Cities and Big 10

	% Tuition Increase Over Prior Year	Tuition & Fees	Total COA
Northwestern University	3.0%	$56,232	$78,684
Pennsylvania State University	0%	$19,150	$35,086
University of Michigan	1.9%	$16,540	$31,056
University of Illinois	0%	$16,210	$31,390
Michigan State University	0%	$15,707	$30,406
Rutgers University	2.9%	$15,249	$34,706
University of Minnesota	2.0%	$15,236	$29,028
Ohio State University	3.3%	$11,684	$27,912
Indiana University	2.5%	$10,948	$25,658
University of Maryland	2.0%	$10,778	$27,424
University of Wisconsin	0%	$10,556	$26,444
Purdue University	0%	$9,992	$22,812
University of Iowa	3.9%	$9,605	$25,030
University of Nebraska	2.75%	$9,522	$25,780

FY 2020 Nonresident Undergraduate Tuition – Twin Cities and Big 10

	Tuition & Fees	International Surcharge
Northwestern University	$56,232	
University of Michigan	$51,200	
Michigan State University	$39,630	+$1,500
University of Wisconsin	$37,615	+$1,000
University of Maryland	$36,890	
Indiana University	$36,512	+$410
Pennsylvania State University	$35,514	+$1,500
University of Minnesota	$33,534	+$500
University of Illinois	$33,352	+$875
Ohio State University	$32,061	+$2,928
Rutgers University	$31,709	
University of Iowa	$31,568	+$595
Purdue University	$28,794	+$2,000
University of Nebraska	$25,828	

FY 2020 Resident Undergraduate Tuition:
System Campuses and Regional Universities

University of Minnesota System Campuses

Campus	Tuition & Fees	Campus	Tuition & Fees
Crookston	$12,116	Morris	$13,578
Duluth	$13,680	Rochester	$12,944

MnSCU 4-year Universities

Campus	Tuition & Fees	Campus	Tuition & Fees
Bemidji	$8,940	St. Cloud	$8,656
Moorhead	$8,954	Southwest	$8,908
Mankato	$8,438	Winona	$8,698
Metro	$8,114		

Illustrative regional universities (tuition for MN residents)

Campus	Tuition & Fees	Campus	Tuition & Fees
North Dakota	$10,721	North Dakota State	$10,612
South Dakota	$9,693	South Dakota State	$9,554
UW -Eau Claire	$8,838	UW – La Crosse	$9,270
UW - Superior	$9,130	St. Thomas	$44,760

FY 2021 Annual Operating Budget Framework Update

Brian Burnett, Senior Vice President for Finance and Operations
Julie Tonneson, Associate Vice President and Budget Director

Finance & Operations Committee

March 13, 2020

SENIOR VICE PRESIDENT FOR FINANCE AND OPERATIONS

World Class Services for a World Class University

UNIVERSITY BUDGET

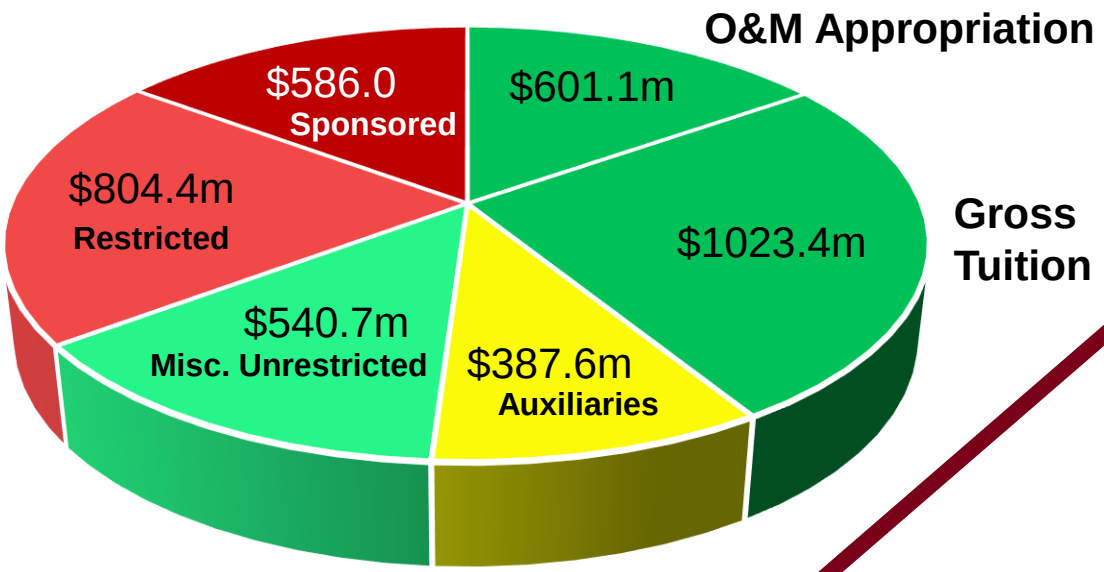
UNIVERSITY OF MINNESOTA

FY 2021 is a transition year budget:

- Year two of the current biennium
- General framework developed over a year ago – updates and adjustments as necessary
- Links to the developing strategic plan - 2022-2023 biennial request to the state and beginning with the FY 2022 annual budget

Today – Highlight and Update Pieces of February's Discussion of the FY 2021 Framework

Revenue Focus for Budget Framework: $1.6B in Tuition and State Support (FY20 Budget)



Supplemented by Internal Reallocations

Resource Options and Planning: Constrained by Available Resources

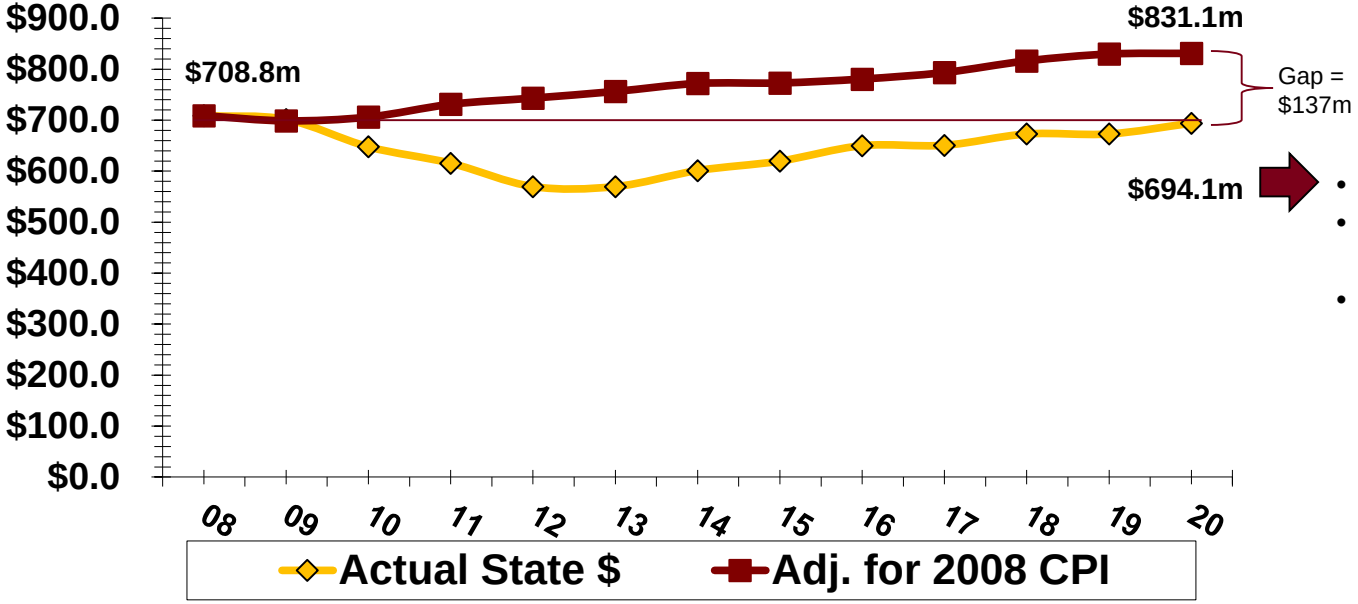
State $$

Tuition

Reallocations

The actual $708.8m appropriation* in 2008, if adjusted for CPI, would equal $831.1m in 2020.

The actual appropriation in 2020 is $694.1m



- Increase for FY21 = $1.7m
- Plus shifted $8.0m from FY20 to FY21
- Incremental growth for next year for budget planning = $9.7m

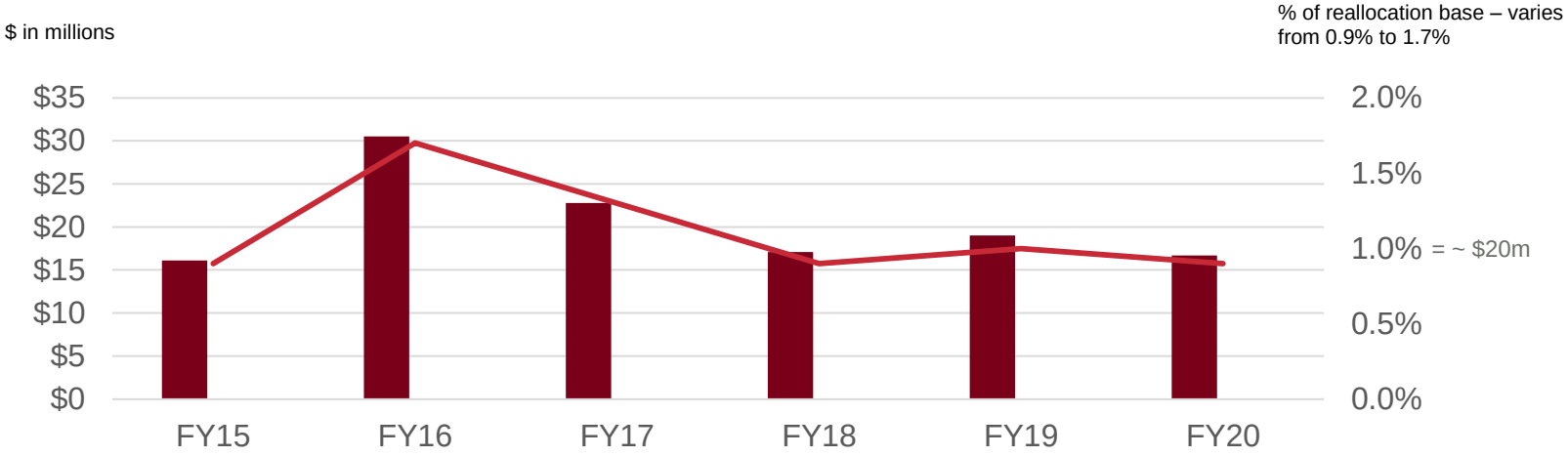
*Includes Cigarette Tax and MnCare – excludes nonrecurring project appropriations

Tuition Goals

	Estimate/Potential for FY21
• Resident undergraduate TC – *under inflation*	$3.2m per 1%
• NRNR undergraduate TC – *increase but remain in middle of Big10 for new freshmen*	$1.4m per 1% (to 5.5%/then $350k)
• Resident and NRNR undergraduate system campuses – *small increases or remain flat*	$1.3m per 1%
• Graduate and professional – *keep within inflation*	$3.6m per 1%

Repurposing Existing Resources

"Reallocations" approved in the budget (state and tuition funds):



Note: FY16 included an $8m separate reallocation pool for the TC campus to fund strategic plan initiatives

Goal – continue responsible efforts to reduce costs where possible and gain efficiencies, while remaining competitive nationally and internationally.

Expenditure Estimates and Planning

Maintain the Core

	Estimate/Potential for FY21 ***Framework Funds***
• Base compensation (benefits alone)	$10.0m
• Base compensation (salary)	$28.7m for 2.25%
• Facility operations and maintenance	$3.5m
• Technology maintenance	$1.5m
• Compliance with federal and state regulations	~$7.0m
• Safety – for students, employees, and the public	
• Negative fluctuations in units' revenue/cost balance	

Address Strategic Goals

Academic and support units

- Enhance/strengthen programs and services statewide
- Take advantage of opportunities
- Move in new directions

"Typical" investment pool goal = $10.0m to $20.0m
Less when resources are constrained

Pulling it all together:

It's possible to bring the budget together in different ways based on overarching goals

Framework Funds

Incremental Resources - Examples			
Tuition	0%	1%	2%
TC Resident Undergrad	$0.0m	$3.2m	$6.4m
Other Resident Undergrad	$0.0m	$1.2m	$2.4m
TC NRNR Undergrad*	$0.0m	$1.4m	$2.8m
Other NRNR Undergrad	$0.0m	$0.1m	$0.2m
Resident Grad Professional	$0.0m	$2.1m	$4.2m
NRNR Grad & Professiona	$0.0m	$1.5m	$3.0m
* $1.4m/% up to 5.5%; then $350k/%			
State Appropriation	**increase in law = $1.7m**		
	planned holdover from FY20 = $8.0m		
	0.50%	0.75%	1.00%
Internal Reallocation	$10.0m	$15.0m	$20.0m
	Low	Medium	High
Other Revenues	$1.0m	$3.0m	$5.0m

Incremental Expenditures - Examples				
Compensation	1.0%	2.0%	**2.25%**	**Other**
Fringe Alone				**$10.0m**
Salary Increase (assoc. fringe)	$12.8m	$25.6m	**$28.7m**	
Other Costs	Minimum	Invest	Advance	
Facilities	$3.5m	$5.0m	$7.0m+	
Technology	$1.2m	$3.5m	$5.0m+	
Maintain/Strengthen Core	$6.0m	$10.0m	$15.0m+	
Strategic Program Pool	$0.0m	$5.0m	$10.0m+	

Example – State and Tuition Funds Only:

Incremental Changes from Prior Year	
Known Revenue Increase:	
New State Appropriation	**1,700,000**
Decision to Lag FY20 New Appropriation	**8,000,000**
Against "Inflation" Level Costs:	
Fringe - No Salary Increase	10,000,000
Salary Increase of 2.25%	28,700,000
Facility/Technology Needs	4,700,000
Other Compliance/Safety	6,000,000
Subtotal Shortfall	(47,700,000)
Tuition Rate Increase Not Higher Than 2%	19,000,000
Other Revenues - "Medium" Level	3,000,000
Revised Shortfall	**(25,700,000)**

No program investment

Required "Spending Cuts" (otherwise known as reallocations) to balance the budget

A reallocation of this level ($25.7m or 1.3% as in this example) would translate to significant targets at the unit level. For our largest units:

• TC – CLA	$3.2m	• CSOM	$1.2m
• TC – CSENG	$2.7m	• CFANS	$1.2m
• Medical School	$2.0m	• Facilities Mgmt	$1.0m
• UMD Campus	$2.0m	• OIT	$1.0m

Every year - requires decisions to:

- reduce the cost of employees – position eliminations or salary savings
- reduce the cost of general operations – contracts, travel, purchases etc.

Questions when faced with a framework like this:

- Is the reallocation amount appropriate?
- Can “inflation” costs be trimmed?
- Are there required/desired programmatic investments?
- Should tuition rate increases be less or more?
- DOES THE FRAMEWORK REFLECT PRIORITIES?

Tweak and Repeat

Questions
Thoughts
Input

UNIVERSITY OF MINNESOTA

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BOARD OF REGENTS
DOCKET ITEM SUMMARY

Finance & Operations **March 13, 2020**

AGENDA ITEM: Resolution Related to Sale of KUMD to Duluth-Superior Area Educational Television Corporation

☐ **Review** ☐ **Review + Action** ☒ **Action** ☐ **Discussion**

☐ *This is a report required by Board policy.*

PRESENTERS: Lendley C. Black, Chancellor, University of Minnesota Duluth

PURPOSE & KEY POINTS

The purpose of this item is to act on the proposed sale of KUMD-FM radio, its assets, and licenses to the Duluth-Superior Area Educational Television Corporation (DSAETC). The FM broadcast station license with the Federal Communications Commission (FCC) to operate this station is owned by the University.

There have been no changes to the proposed sale since the committee's review at the February meeting.

BACKGROUND

KUMD is the Duluth alternative radio station, broadcasting music and local information 24 hours a day, 365 days a year, reaching listeners in an 80-mile radius at 103.3 FM and worldwide at kumd.org. The station is part of the local arts and music community, providing music and sponsoring local concerts and cultural events such as the Duluth Homegrown Music Festival.

UMD's current financial challenges do not allow for the allocation of O&M funds to support the ongoing operation of KUMD or the maintenance of its broadcasting equipment and studios. KUMD does not operate as either a solely student-run station, such as KUOM (Radio K) on the Twin Cities campus, nor as a laboratory experience for a broadcast journalism program since UMD does not offer such an academic program. Staff have been reduced to a minimal level of five, and critical, expensive broadcasting equipment is well beyond the end of its useful life.

Given those challenges, in August 2018 an external media broker was engaged. The broker provided the University with a high-level estimated fair market value for the sale of KUMD, which was approximately $350,000. If the University used a media broker the commission on a sale to an external party would be 25 percent, leaving a net return to the University of approximately $262,000. There is no guarantee that any purchaser of KUMD station would pay $350,000 or continue to operate a public radio station in northeast Minnesota, given the license would also permit commercial broadcasting.

Patty Mester, President and General Manager of DSAETC, first approached UMD approximately two and a half years ago about exploring the possibility of DSAETC purchasing KUMD. DSAETC is a longstanding local public television station whose vision is to be essential to the communities it serves. DSAETC operates the northeastern Minnesota station WDSE, and is located on the Duluth campus. Negotiation for the sale of the station license and equipment took place over the past two years and resulted in a letter of intent (LOI) that describes the terms of the sale and the benefits of the station operation that will be provide to the UMD community. The LOI is included in the docket materials.

Although the negotiated price of $175,000 is less than the estimated net proceeds provided in the August 2018 analysis, sale to DSAETC does not require a media broker, saving the University from paying a commission. This transaction also retains a public radio presence in northeast Minnesota that will broadcast from the Duluth campus. DSAETC understands and honors the community commitment that has been such a long-standing tradition for KUMD. Key points of the transaction as agreed to within the LOI include:

- The cash purchase price of the station is $175,000. Proceeds will be retained in the Chancellor's unit to cover employee severance costs, expenses associated with closing and transfer of grants, costs related to finalizing the sale, and facility renovation needs.
- KUMD staff will be offered similar positions with DSAETC operating the station.
- KUMD will continue to operate in its current facilities on the Duluth campus until renovations and/or additions to DSAETC's facilities, also located on the Duluth campus, are complete.
- An FCC hearing on the transfer of the license is required and that process will be initiated once the Board and DSAETC have approved the sale and transfer of the license.
- The current lease that DSAETC has with the University will be reviewed and amended or re-issued to align with the revised operating conditions.
- UMD staff will work with DSAETC staff to inventory assets and review any KUMD grants and contracts with the granting entity and DSAETC staff to assure transfer is appropriate, and whether DSAETC is interested in continuing the grant or contract work. In any situation where DSEAETC does not wish to continue those agreements, UMD will work with the granting agency to bring them to a close.

Estimated Savings to UMD

KUMD's operating budget includes Student Services Fees, donor funds, grants from the Minnesota Department of Administration, and matching funds from the Corporation for Public Broadcasting (CPB). CPB funds were initially proposed for elimination in the last federal budget but were restored by Congress; these will decline as the prior fund balances used to match the CPB funds are exhausted.

It is difficult to put a firm dollar amount on the total savings this sale will yield to the University. Costs directly attributed to KUMD operations and other items of financial significance include the following:

- Over the past few years, UMD eliminated the $150,000 of O&M budget allocated to KUMD to help address its structural imbalance. KUMD staffing has been reduced from 8.75 FTE to 5.75 FTE, which is just above the minimum for a public radio station to qualify for matching funds from the Corporation for Public Broadcasting. Currently, the University provides $0 in direct O&M funding to KUMD.
- Much of KUMD's administrative workload has been assumed by the UMD Controller's Office, Office of Budget and Analysis, and Human Resources Division, effectively replacing the

station's departed business officer position. In-kind administrative support provided by shared services at UMD (not noted on financial statements) is approximately $100,000, or the equivalent of 1 FTE salary and fringe benefits.

- In-kind institutional support (per audited financial statements) for FY 2019 was $88,000.
- Equipment necessary to keep the radio station operational, such as the primary transmitter, is well past the end of its useful life. The station requires an investment of at least $250,000 to remain operational.
- $92,400 from Student Services Fees (SSF) would have been allocated to KUMD for FY 2021. These SSF dollars will be prorated to the station based upon the final date of the sale and/or placed in SSF Reserves for the coming fiscal year.
- At the end of the DSAETC office space lease, this space of approximately 2,500 square feet will become available for campus use.

PRESIDENT'S RECOMMENDATION

The President recommends approval of the resolution related to the sale of KUMD to Duluth-Superior Area Educational Television Corporation.

REGENTS OF THE UNIVERSITY OF MINNESOTA

RESOLUTION RELATED TO

Sale of KUMD to Duluth-Superior Area Educational Television Corporation

WHEREAS, the University of Minnesota (University) owns KUMD, a Federal Communications Commission (FCC) licensed radio station, operating out of the Duluth campus (UMD); and

WHEREAS, the University and Duluth-Superior Area Educational Television Corporation (DSAETC) have entered into a non-binding letter of intent, which describes the terms under which the University will sell and transfer to DSAETC and DSAETC will purchase certain of the property, licenses and rights used by the University to operate KUMD, subject to the approval of the Board of Regents (the Proposed Transaction); and

WHEREAS, DSAETC operates television studios located on the Duluth campus; and

WHEREAS, under the Proposed Transaction, among other things, DSAETC will agree to (i) pay to the University an agreed upon amount for the transferred property, licenses, and rights, (ii) operate KUMD, and (iii) offer employment to all University employees working at KUMD on a specified date.

NOW, THEREFORE, BE IT RESOLVED that the Board of Regents (Board) hereby approves the Proposed Transaction as defined in the non-binding letter of intent.

BE IT FURTHER RESOLVED that the Board hereby authorizes and directs the President or delegate to execute and deliver all agreements, instruments and other documents, in the name of the University, to consummate and perform the Proposed Transaction.

BE IT FURTHER RESOLVED that the Board hereby authorizes and directs the President or delegate to execute and deliver to the FCC all agreements, instruments, or other documents, in the name of the University, necessary or desirable to cause the transfer of the FCC license as contemplated in the Proposed Transaction.

January 17, 2020

Chancellor Lendley C. Black
University of Minnesota, Duluth
515 Administration Building
1049 University Drive
Duluth, MN 55812-3011

Re: Duluth-Superior Area Educational Television Corporation and Regents of the University of Minnesota Letter of Intent Regarding KUMD

Dear Chancellor Black;

This letter, if accepted by Regents of the University of Minnesota (herein, "UMD"), to constitute a non-binding agreement in principle with respect to the proposal made by Duluth-Superior Area Educational Television Corporation (herein, "DSAETC") to acquire all the assets of UMD licensed radio station KUMD (herein, "KUMD")(herein collectively, the "Parties"). To that end, this letter sets forth DSAETC's proposal for the business terms for the transaction to acquire KUMD's assets (herein, the "Transaction").

WDSE•WRPT expects to invest between $1.6 Million and $3.0 Million to integrate KUMD into WDSE•WRPT's programming and building. This includes investments in a new transmitter, studio and editing suites, strategic plan, marketing, roll out, and integration costs.

The Parties intend that the Transaction described in this letter below will be memorialized by further negotiation, preparation and execution of one or more long-form definitive agreements between the Parties, or with certain of their affiliates or other relevant parties (herein, the "Asset Purchase Agreement").

Except for paragraph 11 and the exclusivity terms of this paragraph, the Parties agree that this letter does not create a legally binding obligation upon either Party. The Parties will nevertheless endeavor to reach a fully definitive agreement within sixty days of the date of approval of the proposed terms set forth herein. Notwithstanding anything in this letter to the contrary, the UMD agrees that, for a period of one hundred twenty (120) days from the delivery of a countersigned copy of this letter to SDAETC, the parties shall work exclusively with each other to conclude the definitive agreement and UMD shall not during such one hundred twenty (120) day period hold any discussions concerning the sale or transfer of the Station with any other party or parties.

Proposed Transaction Terms

1. Transaction Description/Purpose

DSAETC, upon payment of the Purchase Price (*viz.*, Cash Purchase Price and Additional Purchase Price), shall acquire certain mutually agreed UMD-owned tangible or intangible assets used to operate KUMD, expressly including all licensed broadcasting rights, contract rights and intellectual property rights, but excluding all of KUMD's cash and cash equivalents, receivables, and collection of vinyl records and other recorded media. For purposes of clarity, all liabilities of KUMD as of the date of the Transaction, shall remain liabilities of UMD.

2. Purchase Price

(a) The Cash Purchase Price shall be $175,000.00, to be paid by DSAETC to UMD in full at the Closing.

(b) The Cash Purchase Price shall be deemed inclusive of all base rental attributable to the occupancy of the current KUMD facility for a period of 36 months, commencing on the date of the Closing.

3. Transaction Closing Date/Location

The Parties acknowledge that UMD's consummation of the Transaction is subject to review and approval by the Board of Regents of the University of Minnesota in two public meetings. Following such approval, the Transaction shall close (the "Closing") on the later of 120 days following FCC approval of the broadcasting license transfer, or the completion of the due diligence review period, unless otherwise requested by DSAETC to occur at an earlier date. Closing shall occur at a location to be determined.

4. Due Diligence Review Period

Commencing with the consummation of an Asset Purchase Agreement, DSAETC shall have no less than 90 days to perform a due diligence review of the business of KUMD, inclusive of reasonable document and contract review verification.

5. FCC Approval Contingency

Consummation of the Transaction shall be contingent upon approval by the Federal Communications Commission of the transfer of the current licensed broadcasting rights of KUMD to DSAETC. UMD shall, take all necessary actions to facilitate the transfer of the licensing rights to DSAETC, expressly including all FCC-required public notice and review requirements.

6. Contract/Sponsorship Assignment

UMD shall make reasonable efforts in cooperation with DSAETC to facilitate the assignment and/or transfer of any contract rights related to the on-going operation and sponsorship of KUMD's business activities. In particular, the Parties will review jointly KUMD's current grants and contracts to determine if further discussions with granting organizations, e.g., Corporation for

Public Broadcasting and the Minnesota Department of Administration, should be initiated to determine if these grants/contracts and required related services should or could be assigned to DSAETC in connection with the Transaction. Also, the Parties will review jointly broadcasting equipment and any programming or software licenses owned or held by UMD as of the date hereof and DSAETC shall decide which, if any, of such assets shall be transferred as part of the Transaction.

7. Maintenance of Operation Pending Closing

Through Closing, UMD shall continue to operate KUMD's business and affairs in a like manner to that as of the date of this letter, without material change except as may be expressly communicated to and discussed with DSAETC. UMD shall exercise reasonable care to preserve the value of all assets and contract rights inclusive of any sponsorship and advertising income streams.

8. Asset Purchase Agreement

The Asset Purchase Agreement shall have standard provisions as are normally included with regard to business purchase agreements, including, but not limited to, cross-indemnification, reconciliation of transition operational expenses, warranties and representations as to corporate transactional authority.

9. Lease Agreements

(a) In connection with the Transaction, the Parties expect to enter into a new or an amendment to that certain Ground Lease, dated January 2, 1976. Such new lease or amendment shall continue the current land lease rental of $1 per year and, among other provisions, shall provide that:

(i) DSAETC, at its expense, may build up to an 8 new parking spaces within the Leased Premises. At DSAETC's written request, UMD will offer up to five DSAETC employees an opportunity to purchase annual parking maroon lot permits for the three-year period commencing on the date of the Closing. The Parties will review available parking at the end of such period. UMD will provide DSAETC the opportunity to purchase five (5) bus passes from DTA at the same yearly rate as UMD employees." These are yearly passes that run from July1 to June 30 each year.

(ii) UMD shall provide snow removal services for the Leased Premises and DSAETC shall pay for such services in monthly billings throughout the period ending 36 months after the date of the Closing in an annual amount not to exceed $1,000.

(iii) In connection with the Transaction, the Parties may enter into a Facility Use Agreement or similar office space lease. Such agreement, among other things, shall provide that the amount of base rent shall be at no cost for the thirty-six-month period commencing on the date of the Closing and for a lease term thereafter, base rent shall be billed at all-inclusive rental cost of approximately $12.00 per square foot.

10. Post-Closing Operation of KUMD

(a) DSAETC shall have full direction and control of all affairs of KUMD, provided however representing the following to be its intentions with respect to operation for the period following the Transaction:

- DSAETC will offer employment to all employees of KUMD as of the date of the Transaction, provided however, DSAETC shall have no obligation to satisfy, undertake or pay any entitlements, benefits or unpaid leave benefits earned or accrued prior to the Closing.

(b) In connection with the Transaction, UMD shall agree to perform the following (i) deliver to DSAETC a list of KUMD members, subject to UMD's compliance with applicable privacy rules.

11. Communications/ Publicity

DSAETC will develop a communications plan in conjunction with UMD's University Marketing and Public Relations, concerning the acquisition of KUMD, and future format and programming. Until such time as the Parties execute a long-form definitive agreement in place of this letter, this letter and the information exchanged by the Parties pursuant to the transactions contemplated herein, shall be deemed confidential, not to be disclosed except as may be necessary for consideration of the terms hereof on a need-to-know basis.

No Party will make any public announcement regarding the existence of this letter, or the status of any negotiations between the Parties, without the prior approval of the other Party.

12. General Provisions

(a) Amendment. This letter may be amended only by a written instrument signed by the Parties.

(b) Liability. Each Party shall be solely responsible and liable for its and its employees', agents' and contractors' acts and omissions.

(c) Damage Remedies. **EVEN IF ADVISED OF THE POSSIBILITY OF SUCH DAMAGES, A PARTY SHALL NOT BE LIABLE FOR (A) PERSONAL INJURY OR PROPERTY DAMAGES (EXCEPT TO THE EXTENT OF THE PARTY'S WILLFUL, WANTON, OR INTENTIONAL ACTS) OR (B) LOST PROFITS, LOST BUSINESS OPPORTUNITY, INVENTORY LOSS, WORK STOPPAGE, LOST DATA OR ANY OTHER RELIANCE OR EXPECTANCY, DIRECT OR INDIRECT, SPECIAL, INCIDENTAL OR CONSEQUENTIAL DAMAGES, OF ANY KIND.**

(d) This letter shall have no force or effect if the Transaction has not closed by December 31, 2020.

Please indicate agreement with the terms of this letter by the signatures below.

DULUTH-SUPERIOR AREA EDUCATIONAL TELEVISION CORPORATION, by

Patricia Mester

Patricia Mester
President and General Manager

Dated: January 17, 2020

REGENTS OF THE UNIVERSITY OF MINNESOTA, by

Lendley C. Black

Chancellor Lendley Black
Chancellor, University of Minnesota Duluth

Dated: 1/17/20

10096919

BOARD OF REGENTS
DOCKET ITEM SUMMARY

Finance & Operations **March 13, 2020**

AGENDA ITEM: Real Estate Transactions

☐ **Review** ☐ **Review + Action** ☒ **Action** ☐ **Discussion**

☐ *This is a report required by Board policy.*

PRESENTERS: Leslie Krueger, Assistant Vice President, Planning, Space, and Real Estate

PURPOSE & KEY POINTS

The purpose of this item is to act on the following real estate transaction:

A. Sale of Murphy Warehouse - 701 24th Avenue Southeast, Minneapolis, Minnesota (Twin Cities campus)

The President's recommendation is informed by third-party assessments conducted by:

- Barr Engineering (Bloomington)
- Braun Intertec (Minneapolis)
- BWBR Architects (Saint Paul)
- Central Roofing Company (Minneapolis)
- ISES Corporation (Duluth, GA)
- Legend Technical Services Inc (Saint Paul)
- NV5 (Saint Paul)
- Pierce Pini and Associates Inc (Blaine)
- Terracon (Plymouth). In addition to their own assessment, Terracon also provided a comprehensive review of all prior reports.
- Viking Automatic Sprinkler Company (Saint Paul)

BACKGROUND INFORMATION

Board of Regents Policy: *Reservation and Delegation of Authority* states that "[t]he Board reserves to itself authority to approve the purchase or sale of real property (a) with a value greater than $1,000,000; (b) located on or within 2 miles of a University campus; or (c) larger than 10 acres."

PRESIDENT'S RECOMMENDATION

The President recommends approval of the following Real Estate Transaction:

A. Sale of 701 24th Avenue Southeast, Minneapolis, Minnesota (Twin Cities campus)

SALE OF 701 24TH 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 sale of 21.76 acres and buildings thereon at 701 24th Avenue SE, Minneapolis.

2. Property To Be Sold

The property proposed for sale is 701 24th Avenue SE (secondary address 2222 Elm Street SE), Minneapolis, otherwise known as Murphy Warehouse. It consists of 21.76 acres and 38 inter-connected building sections totaling 706,029 square feet, constructed between 1902 and 1977. The property is located south of Elm Street and west of 24th Avenue SE. The legal description of the property is Lot 8 and the East 75 feet of Lot 7, Auditor Subdivision No. 200, Hennepin County, Minnesota.

The property was purchased from the Murphy Warehouse Company on December 21, 2015, for $17,975,000.00. At close, the University and Murphy Warehouse Company entered into a ten-year leaseback initially covering 663,630 square feet of building space. The site continues to serve as the headquarters for the Murphy Warehouse Company, a full-service public warehousing and contract logistics-services company. The site also houses the University Bookstore warehouse operations and some departmental storage. The older brick buildings that front along Elm Street are vacant.

3. Basis for Request

Despite purchasing the property four years ago, a number of factors now lead the University to propose the sale of the property:

1) The property requires significant capital investment. Since acquisition, the University has invested almost $1 million to address known fire code issues. Additional investments are required to make sprinkler system improvements, roof repairs, and structural improvements to the older buildings at the front of the complex.

2) The University initially considered this purchase as an opportunity to land bank the property for the future. However, since 2015, the University further refined its Twin Cities Campus master planning efforts through creation of *The Development Framework*. *The Development Framework* focuses our long-term efforts on the reinvestment in the campus core as needed and where expansion is required, to focus such expansion efforts on the Southeast Gateway Area.

3) One potential use of the property was the Library Collections facility. During predesign for facility, it was determined that the existing warehouses were not suitable. The structural capacity and the climate controls required for the storage of books would have

necessitated the construction of essentially a new building within one of the current structures. This was both cost prohibitive and not a wise investment for a forty-plus year old building.

4) Recent changes in the federal tax laws have created a unique opportunity for reinvestment in the property by the private sector. This property is located within a designated Opportunity Zone. Investors who develop real estate in Opportunity Zones are now allowed to defer capital gains on profits earned elsewhere and to eliminate capital gains on new investments within the Zone. New companies that locate in Opportunity Zones may also benefit from the federal tax laws.

4. Details of Transaction

The University offered the property for sale through an RFP process. Five proposals were received. After careful evaluation by the University and per the process identified in the Request for Proposal (RFP), Element, Inc./Ryan Companies US, Inc. has been selected as the preferred buyer.

The Purchase and Sale Agreement will be with Ryan Companies US, Inc. and/or its assigns. The purchase / sale price is $22,000,000, including $250,000.00 Earnest Money. The buyer is to assume the existing Lease with Murphy Warehouse Company, and the sale is conditioned upon the buyer and the University executing a new lease for the University to occupy space in the facility at $7.50/square foot gross rent, with an initial six year term, with options for renewal.

The due diligence period will be 180 days with closing is to occur the first business day after the expiration of the due diligence period.

5. Use of Proceeds

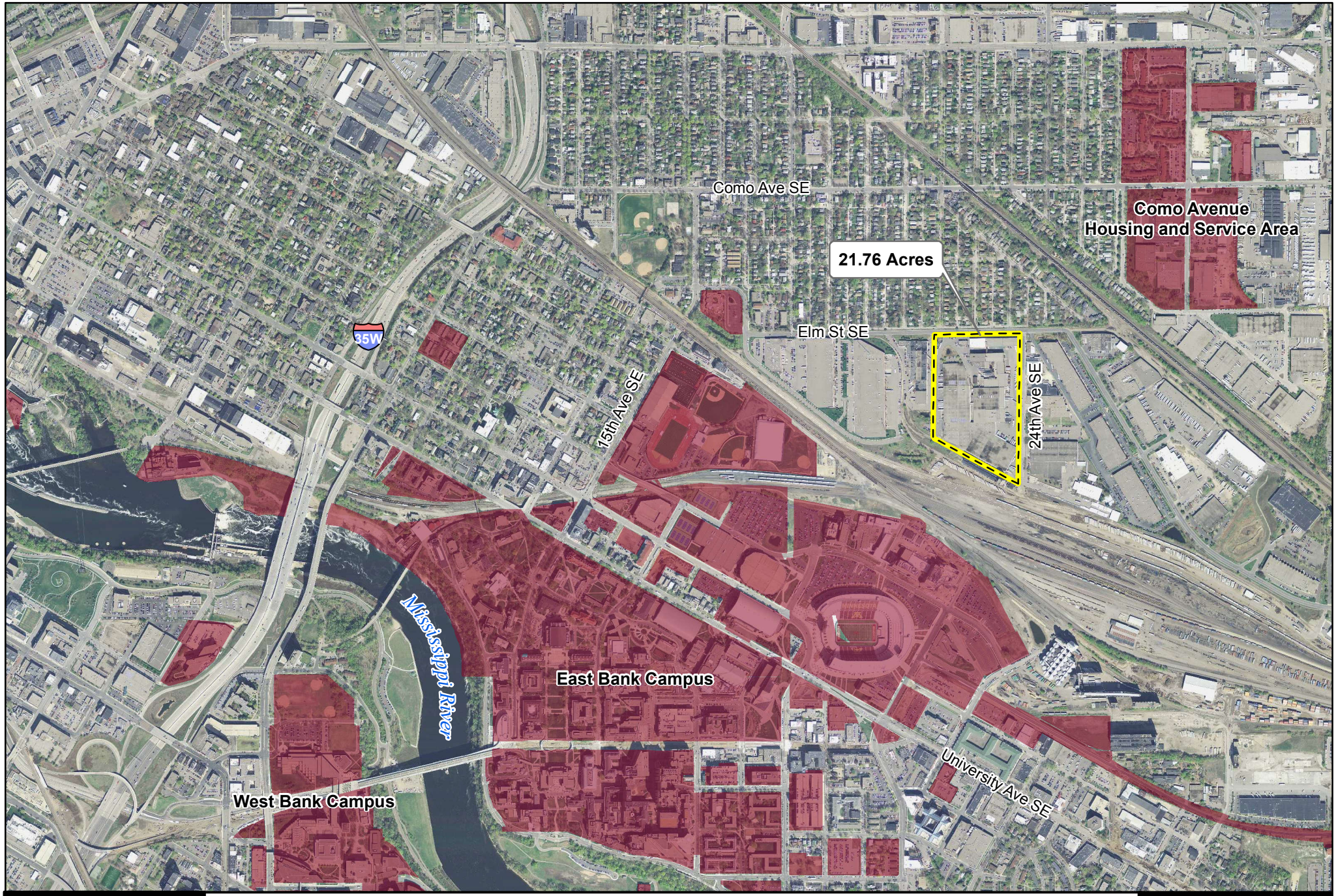
The sale proceeds would free up debt capacity for other strategic capital investments.

6. Recommendations

The above-described real estate transaction is appropriate:

Karen Hanson, Executive Vice President and Provost

Brian Burnett, Senior Vice President for Finance and Operations



PLANNING, SPACE, AND REAL ESTATE

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Location of Murphy Warehouse Property
701-24th Avenue SE, Minneapolis
(Twin Cities Campus)

Other University Property
Murphy WH Property

N
0 0.25 Miles

This map is intended to be used for planning purposes only and should not be relied upon where a survey is required.

Base Data: Real Estate Office, MnGEO, Hennepin County

11/30/2015

Real Estate Transaction: Sale of Murphy Warehouse - 701 24th Avenue SE, Minneapolis

(Twin Cities Campus)

Leslie Krueger, Assistant Vice President for Planning, Space, and Real Estate

Finance & Operations Committee

March 13, 2020

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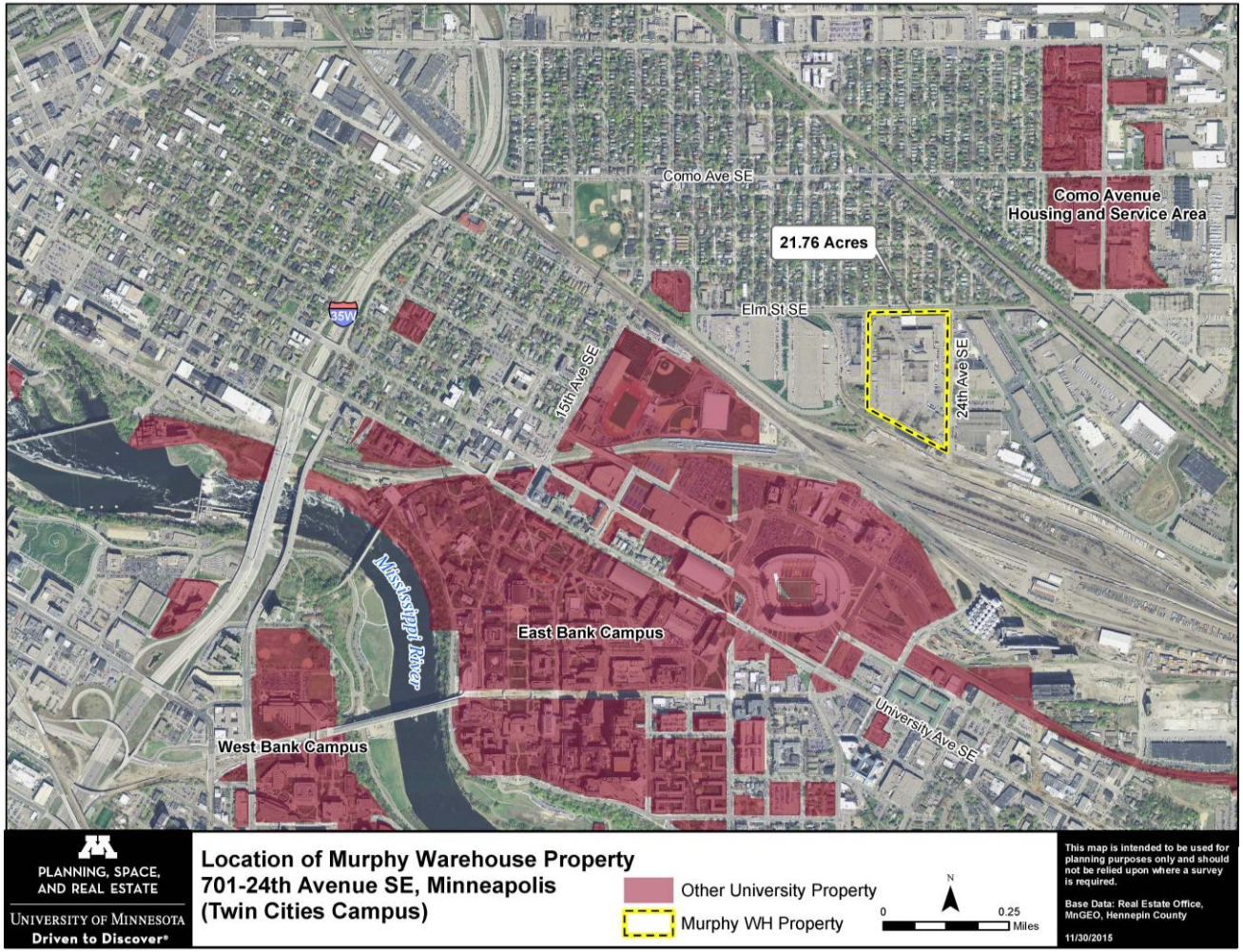
Como Ave SE
Como Avenue
Housing and Service Area
21.76 Acres
Elm St SE
35W
15th Ave SE
24th Ave SE
Mississippi River
East Bank Campus
West Bank Campus
University Ave SE
PLANNING, SPACE,
AND REAL ESTATE
UNIVERSITY OF MINNESOTA
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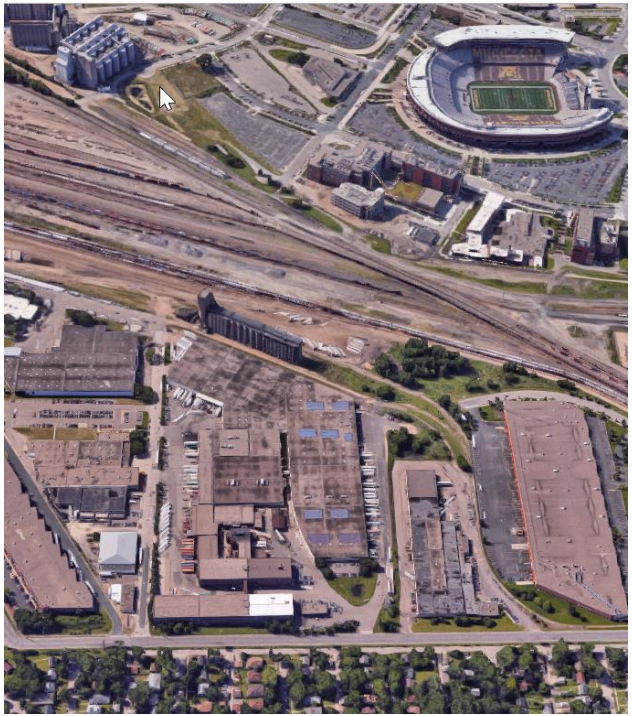
Location of Murphy Warehouse Property
701-24th Avenue SE, Minneapolis
(Twin Cities Campus)
Other University Property
Murphy WH Property
N
0
0.25
Miles
This map is intended to be used for planning purposes only and should not be relied upon where a survey is required.
Base Data: Real Estate Office, MnGEO, Hennepin County
11/30/2015

Property Overview

- University acquired property in December 2015
- Purchase price: $17,975,000 and a donation of the remaining property's value the seller estimated at $2,000,000
- The property includes 706,029 square feet of space located in 38 inter-connected industrial/ warehouse building sections constructed between 1902 and 1977

Property Overview



Current uses of the property include:

- Murphy Warehouse Lease
- University of Minnesota Bookstore warehouse
- Other University of Minnesota departmental storage
- Some buildings are vacant

What is the strategic reason that the University is proposing to dispose of this property?

- *Use of U's Debt Capacity for more strategic land acquisitions*
- *Use of property for Library Collections facility is not cost-effective*
- *Avoids significant investments in building systems*
- *Allows for private sector reinvestment through use of Opportunity Zone tax benefits*

Transaction Overview

- Purchaser is Ryan Companies US, Inc.
- $22 million sale price
- $250,000 earnest money
- Assumption of Murphy Warehouse Lease – through December 2025
- Successful negotiation of a lease with the University to occupy space in the facility - $7.50/sq ft

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BOARD OF REGENTS
DOCKET ITEM SUMMARY

Finance & Operations **March 13, 2020**

AGENDA ITEM: Real Estate Transactions

☐ **Review** ☒ **Review + Action** ☐ **Action** ☐ **Discussion**

☐ *This is a report required by Board policy.*

PRESENTERS: Leslie Krueger, Assistant Vice President, Planning, Space, and Real Estate

PURPOSE & KEY POINTS

The purpose of this item is to review and act on the following real estate transactions:

A. Purchase of 414 Erie Street SE, Minneapolis (Twin Cities campus)
B. Purchase of 2829 University Avenue SE and 2721 4th Street SE, Minneapolis (Twin Cities campus)

Capital projects and real estate purchases are typically financed with multiple funding sources. In the case of 2829 University Avenue and the adjacent parking lot, the purchase will be financed with University debt, cash, and revenues generated from tenant leases. The exact mix and dollar amounts for each funding source will not be finalized until completion of due diligence and pro forma analysis.

BACKGROUND INFORMATION

Board of Regents Policy: *Reservation and Delegation of Authority* states that "[t]he Board reserves to itself authority to approve the purchase or sale of real property (a) with a value greater than $1,000,000; (b) located on or within 2 miles of a University campus; or (c) larger than 10 acres."

PRESIDENT'S RECOMMENDATION

The President recommends approval of the following real estate transactions:

A. Purchase of 414 Erie Street SE, Minneapolis, Minnesota (Twin Cities campus)
B. Purchase of 2829 University Avenue Southeast and 2721 4th Street SE, Minneapolis, Minnesota (Twin Cities campus)

PURCHASE OF THE PROPERTY AT 414 ERIE ST SE, MINNEAPOLIS (TWIN CITIES CAMPUS)

1. Recommended Action

The President recommends that the appropriate administrative officers receive authorization to purchase the property at 414 Erie Street SE, Minneapolis, Hennepin County, Minnesota.

2. Location and Description of the Property

The subject property consists of a two and one half story walk up apartment building constructed in 1969, containing five (5) one-bedroom and twelve (12) two-bedroom rental units, with twenty (22) surface parking stalls, situated on 16,870 square feet of land. The property is located on the west side of Erie St SE between Delaware St SE and Essex St SE, bordered on the north, west, and south by Dinnaken Properties Argyle House, which is owned by the University of Minnesota Foundation.

The legal description of the property is: All that part of Lot 4, Block 9, lying west of the East 94.5 feet thereof; All of Lot 5, Block 9; and the North 1/3 of Lot 8, Block 9; All in Bakers Addition to Saint Anthony.

3. Basis for Request

The University has identified this area as a future growth area for the clinical campus in the long term. The Argyle House apartment complex is currently owned by the University of Minnesota Foundation and was one of the parcels approved at the February Board Meeting as part of the East Gateway Land Transaction. Acquiring 414 Erie St. SE would allow for the future ownership of the entire block by the University

4. Details of Transaction

The University will purchase the property from Richard J. Ruppert, who has owned and operated the building since 1969. The total purchase price for subject property will $3,795,000, which is consistent with the appraisals conducted as part of the due diligence process.

The $35,000 earnest money will become non-refundable 60 days after the Effective Date of the Purchase Agreement. The Closing shall occur 30 days following the expiration of this due diligence period.

5. Use of Properties

The University has no immediate use for the property for direct mission-related purposes. As a result, the University intends to either continue operating the building as student apartment rentals with a third party property manager or demolish the structure for future additional surface parking.

A facility condition assessment is being conducted during the due diligence period to determine the level of deferred maintenance associated with the building, and whether the building can effectively continue to be operated for student apartment rentals with a third party property manager on behalf of the University. If the facility condition assessment reveals extensive deferred maintenance or the building has reached the end of its useful life, the University will opt to demolish the property and utilize the land for additional surface parking until needed for a future use.

6. Environmental

During the 60 day due diligence period, the University will complete a Phase I environmental assessment of the subject property to confirm the property is in acceptable environment condition prior to close.

7. Source of Funding

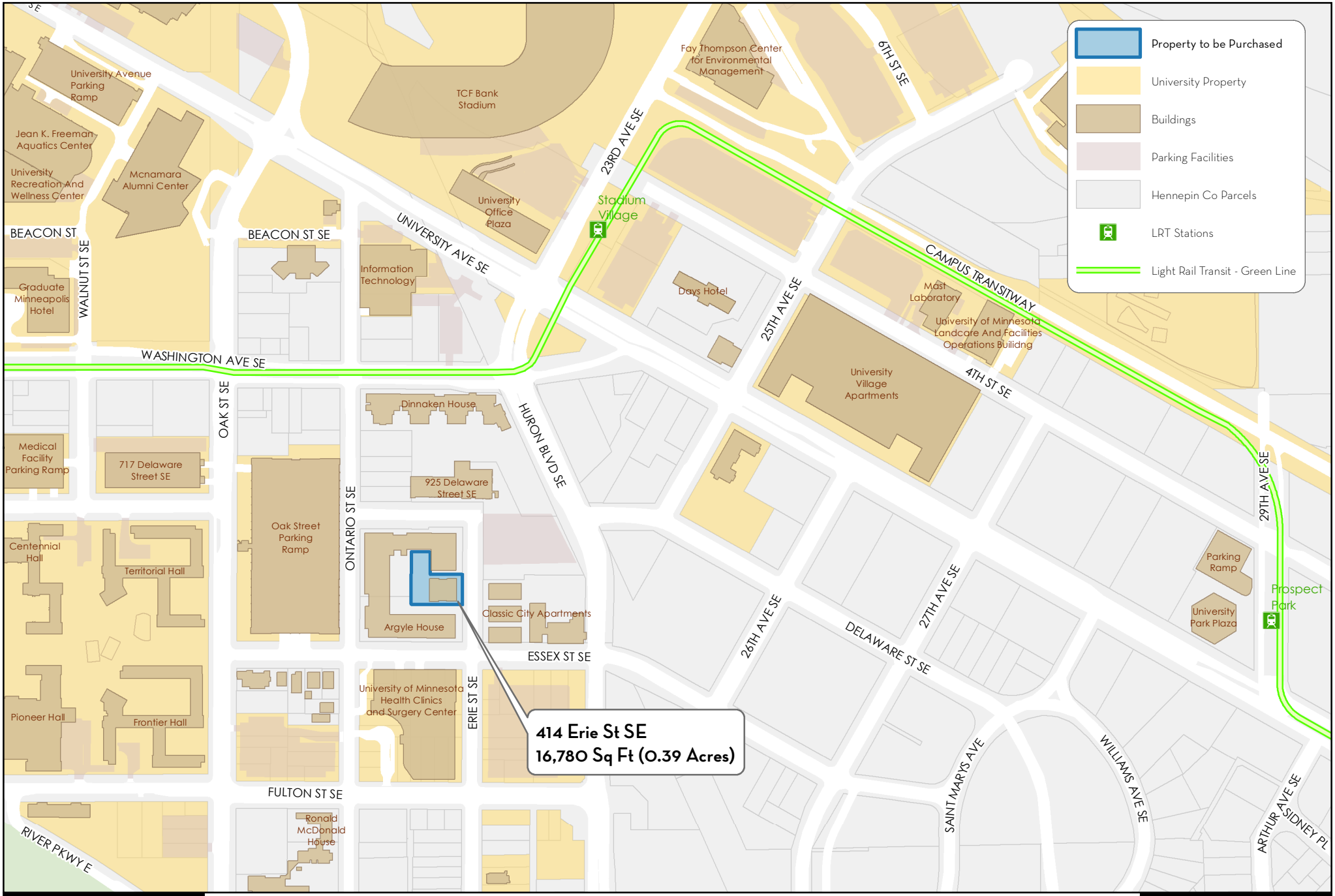
The University will issue debt to purchase the subject property.

8. Recommendations

The above-described real estate transaction is appropriate:

Brian Burnett, Senior Vice President for Finance and Operations

Karen Hanson, Executive Vice President and Provost



Planning, Space, and Real Estate

University Services
University of Minnesota

Purchase of 414 Erie St SE
Minneapolis, Twin Cities Campus

N

0 800 Ft

This map is intended to be used for planning purposes only and should not be relied upon where a survey is required.

Base Data: Real Estate Office MNDNR, MNDOT, MetCouncil, U Services GIS

2/19/2020

Real Estate Transaction: Purchase of 414 Erie Street SE, Minneapolis (Twin Cities campus)

Leslie Krueger, Assistant Vice President, Planning, Space, and Real Estate

Finance & Operations Committee

March 13, 2020

SENIOR VICE PRESIDENT FOR FINANCE AND OPERATIONS

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Property Overview

- 414 Erie Street SE
- Two and a half story walk-up apartment building
- Constructed in 1969, single owner
- The building is situated on 16,780 square feet (.39 acres) of land

Property Overview

- Five (5) one-bedroom and twelve (12) two-bedroom rental units
- Twenty-two (22) surface parking stalls
- Bordered on three sides by Dinnaken Properties Argyle House (owned by the UMN Foundation)


414


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1&2 BEDROOM APARTMENTS
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952.884.7494

What is the strategic value to the University in acquiring this property?

The University has identified this area as a future growth area for the clinical campus in the long term. Acquiring 414 Erie St. SE would allow for the future ownership of the entire block by the University.

Transaction Overview

- Total purchase price will be $3,795,000
- $35,000 earnest money
- University will purchase the property from Richard J Ruppert, who has owned and operated the building since 1969.
- The university will issue debt to purchase the subject property.

Due Diligence

- 60 days due diligence
- Facility condition assessment will be conducted to determine the level of deferred maintenance
- Phase I environmental assessment
- Closing shall occur 30 days following the expiration of the due diligence period
- Proforma to determine carrying costs if continued operation as apartments versus parking

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PURCHASE OF 2829 UNIVERSITY AVENUE SE AND 2721 4th STREET SE, MINNEAPOLIS (TWIN CITIES CAMPUS)

1. Recommended Action

The President recommends that the appropriate administrative officers receive authorization to purchase 2829 University Avenue SE and 2721 4th Street SE, Minneapolis, Hennepin County, Minnesota.

2. Location and Description of the Property

The subject properties are located at 2829 University Avenue SE and 2721 4th Street SE, in Minneapolis. The 2829 University Avenue SE parcel is 64,836 square feet (1.49 acres) and improved with a nine story, multi-tenant office building, constructed in 1972 with 141,440 gross square feet, and a five level, 350-stall parking ramp. The property is adjacent to the Prospect Park Light Rail Station, which is one stop east of the Stadium Village Station. The 2721 4th Street SE parcel is 20,879 square feet (.48 acres) and improved with a 57-space parking lot that supports the office building.

The legal description of the properties are: 1) All of Lot 23, Auditor's Subdivision No. 21, Hennepin County, Minnesota, and also Lots 12, 13, and 14, Block 2, Cook's Rearrangement of Lots 16 and 17, Auditor's Subdivision No. 21, Hennepin County, Minnesota; and 2) Lot 2, Block 1, Parten Addition, Hennepin County, Minnesota.

3. Basis for Request

The University has identified the need for additional office space on the East Bank of the Twin Cities Campus to accommodate a number of planned developments over the next several years. These include: swing space for major construction projects on the East Bank, the displacement of administrative units from Fraser Hall to accommodate the proposed new Chemistry Teaching Facility, the 2022 expiration of the University's lease of the Dinnaken Office Building, the potential displacement of staff from the IT Building at 2018 University Ave SE, and the eventual decomissioning of the Mayo Building.

Construction of a separate new administrative office building is cost prohibitive, and in the past, the University has opted to buy an existing office building on the edge of campus or near campus to accommodate these needs (e.g. University Office Plaza or West Bank Office Building). This particular property is attractive because of its location adjacent to the light rail, recent capital investments made by the seller, the University's history of renting space in the building, and the existing leases in the building that will expire as the University's needs for the space are realized.

Details of Transaction

The total purchase price for subject properties will be $20,710,000. This is higher than the appraised value of the property from a land value and income value based approach, but lower than the replacement value based approach. The University will assume the existing leases upon closing.

4. Environmental

The University has completed a Phase I and Phase II environmental assessment of the 2829 University Ave SE parcel to confirm the property is in acceptable environmental condition prior to close. As a result of the Phase I assessment, Phase II Sub Slab Vapor Sampling was conducted. Based on the results of the sub-slab sampling, no indications of soil vapor contaminants at concentrations that would indicate a vapor intrusion concern have been found. The University will enroll the property in the Minnesota Pollution Control Agency's VIC program. The University will conduct an environmental assessment of the 2721 4th Street SE Parcel prior to closing.

The University also has completed a third party facilities condition assessment in order to identify future capital investment requirements.

5. Source of Funding

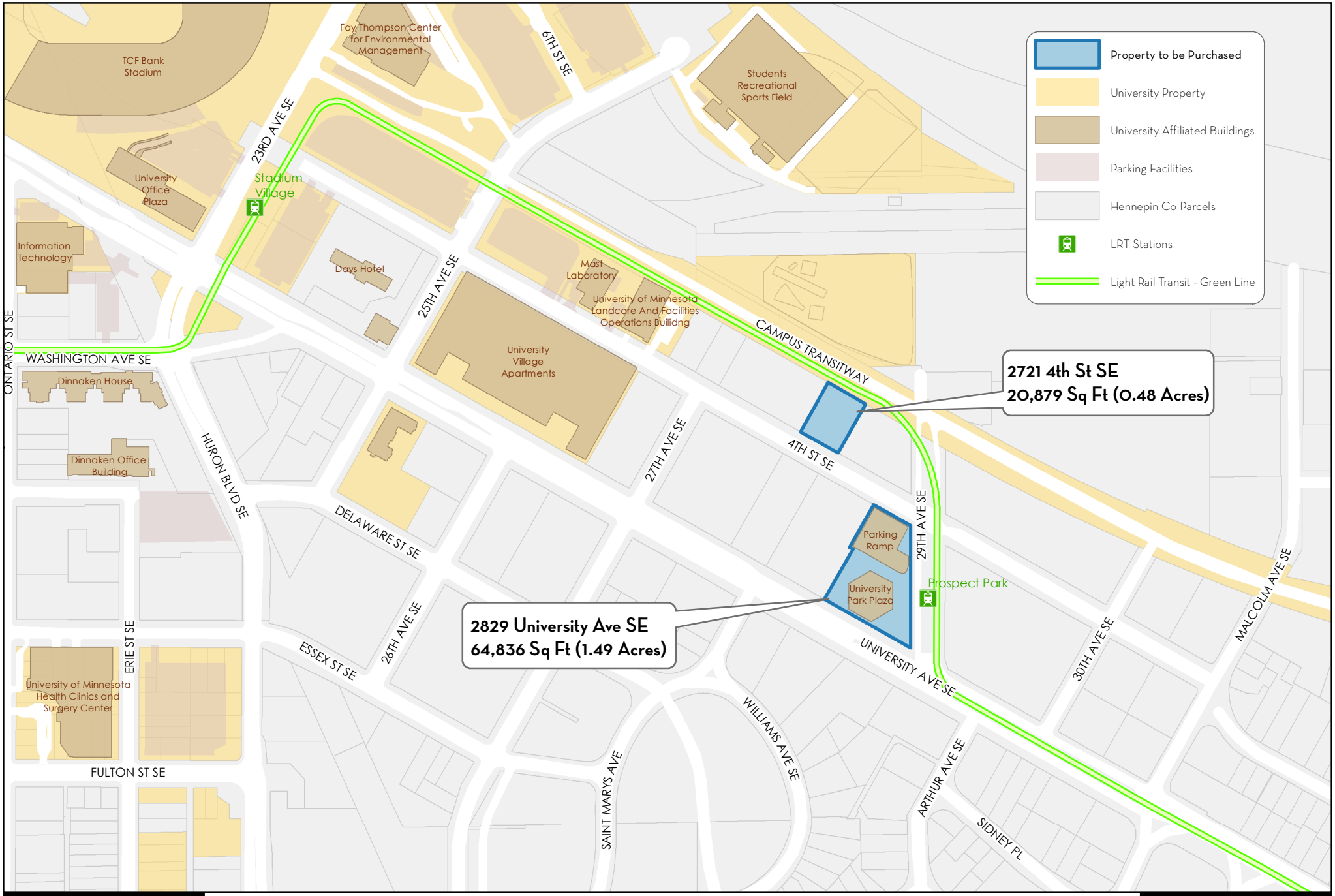
The purchase will be financed with a combination of University debt, cash, and revenues generated from existing tenant leases. The exact mix and dollar amounts for each of these funding sources will not be finalized until the completion of due diligence, pro forma analysis, and consideration of options.

6. Recommendations

The above-described real estate transaction is appropriate:

Brian D. Burnett, Senior Vice President for Finance and Operations

Karen Hanson, Executive Vice President and Provost



Planning, Space, and Real Estate

University Services
University of Minnesota

Purchase of 2829 University Ave SE and 2721 4th St SE Minneapolis (Twin Cities Campus)

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This map is intended to be used for planning purposes only and should not be relied upon where a survey is required.

Base Data: Real Estate Office MNDNR, MNDOT, MetCouncil, U Services GIS

2/19/2020

Real Estate Transaction: Purchase of 2829 University Avenue SE and 2721 4th Street SE, Minneapolis (Twin Cities campus)

Leslie Krueger, Assistant Vice President for Planning, Space, and Real Estate

Finance & Operations Committee

March 13, 2020

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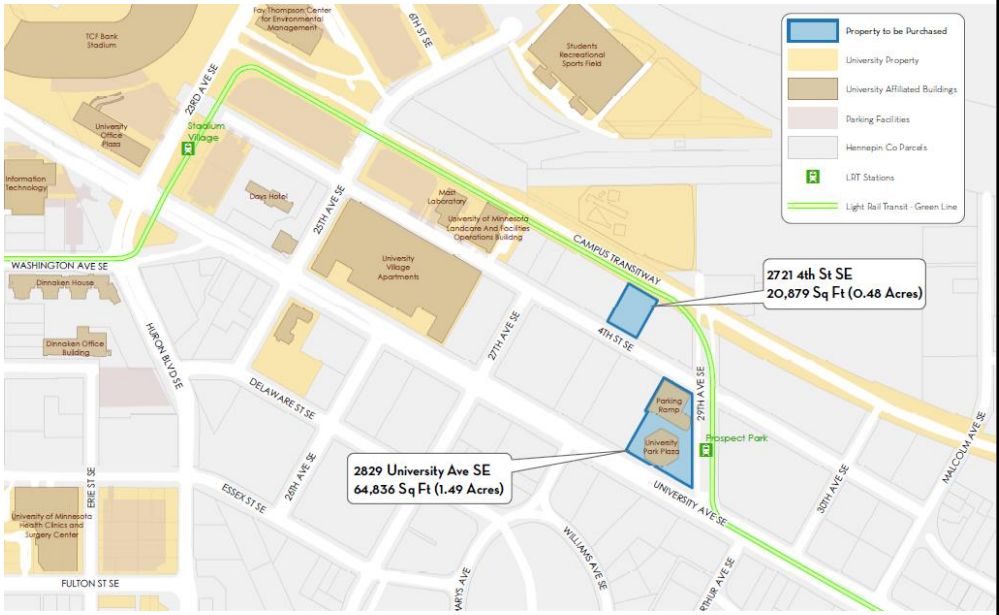
Property Overview

- 2829 University Ave SE and 2721 4th St SE
- 64,836 sq ft lot (1.49 acres) + 20,879 sq ft (.48 acres)
- Nine story, multi-tenant office building
- Constructed in 1972
- 141,440 square feet of gross floor area



Property Overview

- Property includes a five level, 350-stall parking ramp
- Additional 57 stalls in detached parking lot
- Location adjacent to the Prospect Park Light Rail Station, one stop east of Stadium Village Station


EXIT
NOT A
PUBLIC RAMP
ENTER

What is the strategic value to the University in acquiring this property?

The University requires additional East Bank office space to accommodate several planned developments in upcoming years. Building a new administrative office space is cost prohibitive.

2829 University Avenue SE has a desirable location, recent capital investments made by the seller, a rental history with the University, and existing leases that expire as the University's needs for the space are realized.

Transaction Overview

- $20,710,000 purchase price
- Closing on or before April 30, 2020
- The University will assume existing leases upon closing
- University will issue debt to purchase the property

Due Diligence

- Facility Condition Assessment
  - Recent improvements by seller include new roof, chillers, boiler, exterior envelope
  - Need for elevator upgrades and parking ramp repairs
- Phase I and Phase II Environmental Assessment
  - No indications of vapor intrusion
  - Will enroll in MPCA VIC program

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BOARD OF REGENTS
DOCKET ITEM SUMMARY

Finance & Operations **March 13, 2020**

AGENDA ITEM: Collective Bargaining Agreements

☐ **Review** ☒ **Review + Action** ☐ **Action** ☐ **Discussion**

☐ *This is a report required by Board policy.*

PRESENTER: Brian D. Burnett, Senior Vice President

PURPOSE & KEY POINTS

The purpose of this item is to review and act on the following collective bargaining agreements (CBA) between the Regents of the University of Minnesota and:

A. Law Enforcement Labor Services, Law Enforcement Unit Local #196
B. Teamsters Local 320, Service, Maintenance and Labor Unit

Following is a description of the covered employees, economic provisions, and financial impact of each agreement.

A. Law Enforcement Labor Services, Law Enforcement Unit Local #196

Covered Employees

The employees covered by this CBA are law enforcement patrol officers and sergeants employed in the Twin Cities (48), Duluth (10) and Morris (2). The total number of employees is 60.

Summary Economic Highlights

During the contract year January 1, 2020 through December 31, 2020, the University will increase the top patrol rate to match the average top patrol rate paid to officers in a salary comparison group of suburban cities in the seven-county Twin Cities metro area. The University will pay the same percentage increase to all classification levels (2.67 percent).

During the contract year January 1, 2021 through December 31, 2021, the University will increase the top patrol rate to match the average top patrol rate paid to officers in a salary comparison group of suburban cities in the seven-county Twin Cities metro area (estimated at 3 percent).

During the contract year January 1, 2022 through December 31, 2022, the University will increase the top patrol rate to match the average top patrol rate paid to officers in a salary

comparison group of suburban cities in the seven-county Twin Cities metro area (estimated at 3 percent).

Financial Impact

This is a three-year agreement, from January 1, 2020 through December 31, 2022.

Year 1 Recurring Costs:

Base annual Payroll	$5,222,455.35
Base Salary Adjustments	$ 139,439.56
Total Recurring Cost	$5,361,894.56

Year 2 Estimated Recurring Costs:

Base annual Payroll	$5,361,894.56
Base Salary Adjustments	$ 160,856.84
Total Recurring Cost	$5,522,751.40

Year 3 Estimated Recurring Costs:

Base annual Payroll	$5,522,751.40
Base Salary Adjustments	$ 165,682.53
Total Recurring Cost	$5,688,433.94

Negotiation Timeline

Negotiations began on November 11, 2019. On February 18, 2020, the Union agreed to present the University's final offer to its membership for a vote. The Union's contract ratification process was completed on March 4, 2020.

B. Teamsters Local 320, Service, Maintenance and Labor Unit

Covered Employees

The employees covered by this CBA are building and grounds, maintenance, mechanic and food service employees. The total number of employees is 1,448.

Summary Economic Highlights

During the contract year June 10, 2019 (first pay period) through June 30, 2020, employees in all classifications will receive a 2.25 percent salary range adjustment effective on September 30, 2019.

During the contract year June 8, 2020 (first pay period) through June 30, 2021, employees in all classifications will receive a 2.25 percent salary range adjustment effective June 8, 2020.

Financial Impact

This is a two-year agreement, from July 1, 2019 through June 30, 2021.

Year 1 Recurring Costs:

Base annual Payroll	$58,931,413.43
Base Salary Adjustments	$ 917,970.10
Total Recurring Cost	$59,849,383.50

Year 2 Recurring Costs:

Base annual Payroll	$59,849,383.50
Base Salary Adjustments	$ 1,763,777.50
Total Recurring Cost	$61,613,161.00

Negotiation Timeline

Negotiations began on May 24, 2019. On January 27, 2020, the Union agreed to present the University's final offer to its membership for a vote. The Union's contract ratification process was completed on February 24, 2020.

BACKGROUND INFORMATION

Board of Regents Policy: *Reservation and Delegation of Authority* reserves to the Board authority to approve collective bargaining agreements.

PRESIDENT'S RECOMMENDATION

The President recommends approval of the following collective bargaining agreements:

A. Law Enforcement Labor Services Law Enforcement Unit Local #196
B. Teamsters Local 320, Service, Maintenance and Labor Unit

REGENTS OF THE UNIVERSITY OF MINNESOTA

RESOLUTION RELATED TO

The Proposed Labor Agreement with Law Enforcement Labor Services, Law Enforcement Unit Local 196

WHEREAS, the parties have met and negotiated over the course of the past several months and have reached agreement regarding terms and conditions of employment for the employees of this bargaining unit; and

WHEREAS, Law Enforcement Labor Services (LELS), Law Enforcement Unit Local 196 has ratified acceptance of this agreement; and

WHEREAS, according to Board of Regents Policy: Reservation and Delegation of Authority, approval of labor agreements by the Board of Regents is required.

NOW, THEREFORE, BE IT RESOLVED that on the recommendation of the President, the Board of Regents approves this labor agreement as outlined in the Finance & Operations Committee docket for March 13, 2020.

REGENTS OF THE UNIVERSITY OF MINNESOTA

RESOLUTION RELATED TO

The Proposed Labor Agreement with Teamsters Local 320, Services, Maintenance and Labor Unit

WHEREAS, the parties have met and negotiated over the course of the past several months and have reached agreement regarding terms and conditions of employment for the employees of this bargaining unit; and

WHEREAS, Teamsters Local 320, Service, Maintenance and Labor Unit has ratified acceptance of this agreement; and

WHEREAS, according to Board of Regents Policy: Reservation and Delegation of Authority, approval of labor agreements by the Board of Regents is required.

NOW, THEREFORE, BE IT RESOLVED that on the recommendation of the President, the Board of Regents approves this labor agreement as outlined in the Finance & Operations Committee docket for March 13, 2020.

BOARD OF REGENTS
DOCKET ITEM SUMMARY

Finance & Operations **March 13, 2020**

AGENDA ITEM: Consent Report

☐ **Review** ☒ **Review + Action** ☐ **Action** ☐ **Discussion**

☐ *This is a report required by Board policy.*

PRESENTERS: Brian D. Burnett, Senior Vice President

PURPOSE & KEY POINTS

Central Reserves General Contingency Allocations

The purpose of this item is to seek approval for allocations from the Central Reserves General Contingency greater than $250,000. There are no items requiring approval this period.

Purchase of Goods and Services $1,000,000 and Over

The purpose of this item is to seek approval for purchases of goods and services of $1,000,000 and over.

- To PIER Group for an estimated $3,000,000 for research data storage for the Office of Information Technology (OIT) and the Polar Geospatial Center (PGC) for the period of approximately March 20, 2020 through March 19, 2025. This requirement is currently budgeted and the OIT portion of $1,550,000 will be funded utilizing O&M funds. The PGC portion of the system will be funded from designated NSF grant funds. PIER Group, a new supplier, was selected as a result of a competitive Request for Proposal (RFP) process conducted by Purchasing Services. Fourteen suppliers responded to the RFP.

Capital Budget Amendment

The purpose of this item is to review and act on an amendment to the FY 2020 Annual Capital Improvement Budget for the following project:

- Larson Football Performance Center Recovery Suite (Twin Cities campus)

A project data sheet is in the docket and addresses the basis for request, project scope, cost estimate, funding, and schedule for this project. A site map locating the project on the Twin Cities campus is also in the docket.

BACKGROUND INFORMATION

Approvals are sought in compliance with Board of Regents policy as follows:

- General Contingency: *Reservation and Delegation of Authority*, Article I, Section VII, Subd. 1.
- Purchase of Goods and Services $1,000,000 and Over: *Reservation and Delegation of Authority*, Article I, Section VII, Subd. 6.
- Capital Budget Amendments: *Reservation and Delegation of Authority,* Article I, Section VIII, Subd. 8

PRESIDENT'S RECOMMENDATION

The President recommends approval of the Consent Report.

General Contingency

Fiscal Year 2020
(7/1/2019-6/30/2020)

Current Activity:

	Recipient	Amount	Balance	Purpose
1	**FY20 General Contingency Allocation**		**1,000,000**	
2	Carryforward from FY19 to FY20	1,912,966	2,912,966	
3	Office of the General Counsel	(228,918)	2,684,048	Support for Board-requested Athletics review. (posted in FY19 adjustment period)
4	Capital Project Management	(150,000)	2,534,048	Partial support for St Paul Campus Strategic Facilities Plan.
6	University Relations	(116,938)	2,417,110	University President inauguration activities, final. $250,000 budget authority approved June, 2019.
6	Office of the Board of Regents	(361,635)	2,055,475	University President search & transition activities, final. $350,000 budget authority approved October, 2018. Additional $11,635 budget authority approved December, 2019.
5	**New items this reporting period:**			
6	None		2,055,475	
7	**Current Balance**		**2,055,475**	

* Items $250,000 or more subject to Board approval.

Purchase of Goods and Services $1,000,000 and over

To PIER Group for an estimated $3,000,000 for research data storage for the Office of Information Technology (OIT) and the Polar Geospatial Center (PGC) for the period of approximately March 20, 2020 through March 19, 2025.

This purchase will provide a place to store data generated by and used for University researchers, some of which currently exist on a storage system approaching end-of-life. The existing data storage system has been in production for 7 years—well beyond the original anticipated lifespan of 5-6 years. The Research Data Storage solution is a critical component of the University's information technology infrastructure, and will be used to store data generated by the research community, in direct support of the University's Research Mission. In addition to the University's general research storage, the Polar Geospatial Center (PGC), a National Science Foundation (NSF) funded unit within the College of Science & Engineering has an immediate need to purchase additional storage dedicated to support its research. PGC has decided to partner with OIT on the new storage solution in order to unify on a common platform, increase economies of scale, & potentially increase purchase leverage with vendors based on the size of the purchase.

PIER Group, selling a Qumulo and HPe-based solution, was selected as the result of a competitive Request for Proposal (RFP) process conducted in accordance with Board of Regents purchasing policy. Fourteen suppliers responded to the RFP. The finalist was selected for their ability to meet the technological and user requirements, cost efficiencies, compliance with University security policies, and vendor responsibilities.

This requirement is currently budgeted and the OIT portion of $1,550,000 will be funded utilizing O&M funds. The PGC portion of the system will be funded from designated NSF grant funds.

Submitted by:

Nicolle Peterson
Contracts Mgr, OIT Finance
1300 S 2nd St.
Minneapolis, MN 55455
612-301-2172

Approval for this item requested by:

Bernard Gulachek
Vice President and Chief Information Officer

Feb 17, 2020
Date

Mos Kaveh
Dean, College of Science and Engineering

2/18/2020
Date

Capital Budget Amendment: Larson Football Performance Center Recovery Suite
Twin Cities Campus
Project No. 01-137-20-2105

1. **Basis for Project**
   The purpose of the project is to create a new recovery suite for all student athletes. The Athletics Department sees a need for a space that can facilitate different methods of body injury recovery and the promotion of physical and mental health. To continue the success of of Gopher Athletics, including the football program, more progressive facilities for both current athletes and new recruits are an important addition to athletic support.

2. **Scope of Project**
   The Recovery Suite will be created by renovating approximately 1,400 SF of the existing second floor mezzanine in the Larson Football Performance Center within Athletes Village. Interior renovation of this mezzanine allows the University to maximize open floor space and amenities while introducing new program requirements: sauna room, float tank suites, sleep pod suite, and wellness recovery equipment. Project scope includes minimal demolition, and construction of new rooms and finishes.

3. **Master Plan**

   The project is consistent with the 2009 Campus Master Plan.

4. **Environmental Issues**

   There are no anticipated environmental issues.

5. **Cost Estimate**

Construction Cost	$750,000
Non-Construction Cost	$750,000
Total Project (Renovation) Cost	$1,500,000

6. **Capital Funding**

Donor Funds*	$1,500,000
Total Capital Funding	$1,500,000

   * Funding for this renovation project includes University debt to bridge donor pledges.

7. **Capital Budget Approvals**

   This project was not included in the FY2020 Annual Capital Budget. In response to the generosity of donors, a Capital Budget Amendment is requested to the FY2020 Annual Capital Budget to allow this project to proceed immediately.

8. Annual Operating and Maintenance Cost

The project will not have a significant impact on the annual operating and maintenance costs for the Larson Football Performance Center.

9. Project Schedule

Proposed Design Completion:	May 2020
Target Occupancy:	August 2020

10. Project Team

The project delivery method will be Design-Build.

Designer:	TBD
Contractor:	TBD

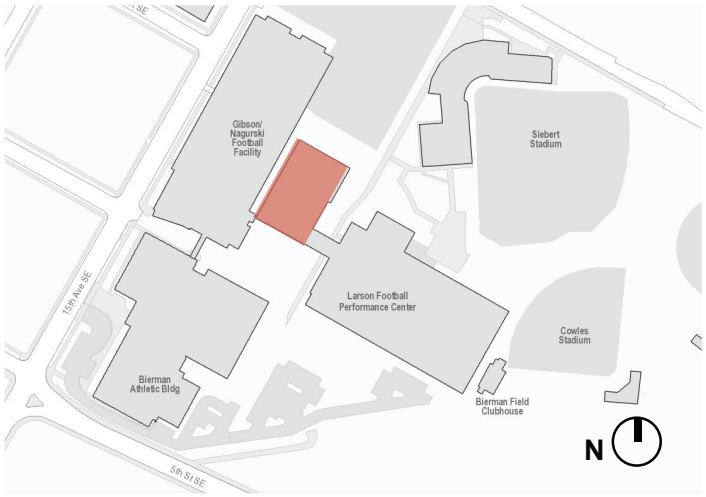
11. Recommendation

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

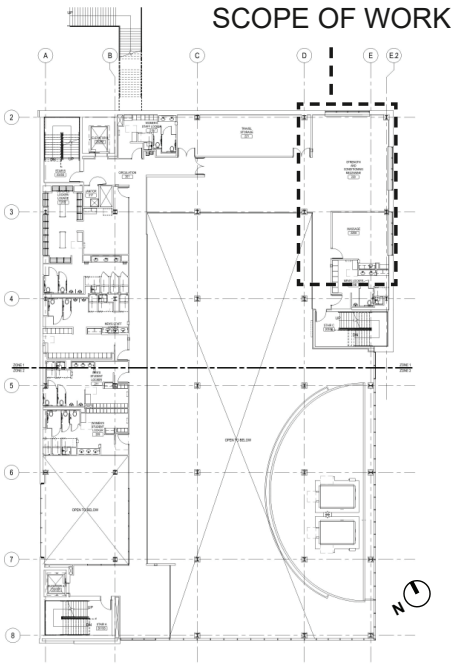
Mark Coyle

Mark Coyle, Director of Athletics

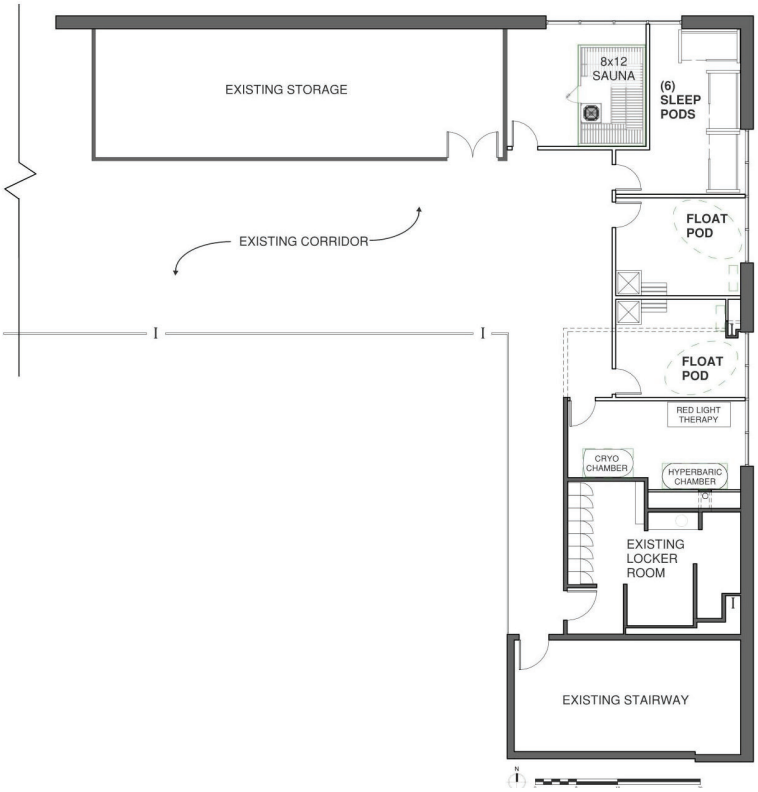
Brian Burnett, Senior Vice President for Finance and Operations



LOCATION MAP



LOCATION PLAN - 2ND FLOOR



RENOVATION PLAN