

**UNIVERSITY OF MINNESOTA  
BOARD OF REGENTS**

**Audit & Compliance Committee  
September 8, 2016**

A meeting of the Audit & Compliance Committee of the Board of Regents was held on Thursday, September 8, 2016, at 7:30 a.m. in the West Committee Room, 600 McNamara Alumni Center.

Regents present: Laura Brod, presiding; Richard Beeson, Michael Hsu, Peggy Lucas, Abdul Omari, and Patricia Simmons.

Staff present: President Eric Kaler; Chancellors Lendley Black and Fred Wood; Executive Vice President and Provost Karen Hanson; Vice President Brian Herman; Interim Vice Presidents Bernard Gulachek and Michael Volna; Executive Director Brian Steeves; and Associate Vice President Gail Klatt.

Student Representatives present: Connor Klemenhausen and Tareyn Stomberg.

**2016-17 COMMITTEE WORK PLAN**

Regent Brod and Associate Vice President Klatt reviewed the 2016-17 work plan for the Audit & Compliance Committee, as detailed in the docket. Regents discussed the proposed topics and by consensus agreed to the work plan. Brod emphasized the theme of compliance throughout the work plan.

**INTERNAL AUDIT UPDATE**

Associate Vice President Klatt presented the Internal Audit Update, as detailed in the docket.

Klatt reported that since the last update in June 2016, University departments implemented 39 percent of outstanding recommendations rated as “essential,” just below the goal of 40 percent. Regent Brod remarked on the improvement since the same update last year reported only 16 percent implementation.

Klatt shared that audits of the University’s Payment Card Industry (PCI) compliance, purchasing cards, and vendor payments – three significant business processes – were completed with exceptional results. She applauded David Laden for his work with Office of Information Technology to ensure the University’s PCI compliance.

**UPDATE ON REMEDIATION OF  
INTERCOLLEGIATE ATHLETICS AUDIT FINDINGS**

Regent Brod invited Interim Vice President & CFO Michael Volna and Director of Intercollegiate Athletics Mark Coyle to provide an update on the remediation of intercollegiate athletics audit findings, as detailed in the docket.

Volna presented background information and status updates on the implementation of “essential” recommendations. He outlined the work plan and status of a financial oversight committee that was charged by President Kaler in late 2015 to align Athletics policies with University policies. Volna noted that the committee has been meeting every three weeks and will continue to do so until the work plan is complete.

Coyle shared that the guiding principles of Athletics under his authority include sound fiscal management and a commitment to transparency. He emphasized the importance of intention and consistency in decision making across all levels of the department.

Regent Brod noted that in the short time Coyle has been at the University, Athletics has made significant progress.

In response to a comment from Regent Beeson, Coyle shared that he is focused on communication with his management team to ensure that accurate information is shared in a timely manner. He noted that the focus should be on the student athletes and that when the department is under scrutiny, it takes away from that focus.

In response to a question from Regent Omari, Volna clarified that the annual financial certification in Athletics is to ensure that staff across central and departmental finance functions understand the chain of authority and oversight responsibilities.

Omari inquired about the impact to student athletes. Coyle assured the committee that the audit findings have not impacted the work of student athletes in the classroom or in sports.

Volna responded to a question from Regent Hsu by confirming that time was the only barrier to implementing the outstanding recommendations. Associate Vice President Gail Klatt shared that in some cases, recommendations have been implemented but are not yet complete because there is no evidence of sustainability.

Regent Lucas and Regent Hsu complimented Coyle on what he has been able to accomplish in his short tenure. President Kaler added that enormous progress has been made.

### **UPDATE ON IMPLEMENTATION OF HUMAN PARTICIPANT RESEARCH PROTECTION PLAN**

Regent Brod invited Vice President Herman and David Strauss, Associate Professor of Psychiatry, Columbia University Medical Center and external reviewer for the Human Participant Research Protection Implementation to update the Board on progress made since June 2016 related to the Human Research Protection Program work plan implementation, as detailed in the docket.

Herman shared that since the committee was last updated in June, eight biomedical review panels have been added to the Institutional Review Board (IRB) and policies have been put into place to safeguard individuals with impaired decision-making capacity.

Strauss walked through a status report on progress of the Human Participant Research Protection Program work plan and applauded the University for its efforts thus far. He noted that although recommendations have been implemented, the work is never complete and gains must be sustained.

Regent Beeson recommended that the new chair of the Department of Psychiatry share an update at an upcoming meeting. In response to a comment from Beeson, Struss noted that he does not believe the University is spending too much money on essential structures that provide oversight in human subject research. He added that the University will continue to attract both talent and funding for future research.

In response to comments from Regent Simmons, Strauss agreed that mandatory research ethics education for investigators is critical. Herman added that oversight is collaborative, with investigators relying on their faculty chair and the IRB among other entities for guidance in conducting research.

Simmons wondered whether the research vice president should have ultimate responsibility for oversight of human subjects research, or if it was typical for the medical school dean to serve in that capacity. Herman responded that is not prudent for oversight and compliance responsibilities to sit with the position that ultimately benefits from the research, like the dean of the medical school would.

In response to a question from Regent Hsu, Herman assured the committee that progress was unaffected when the National Institutes of Health (NIH) did not renew funding for the Clinical and Translational Science Institute (CTSI). He noted that it is common for NIH not to renew funding, and the University will apply again next year. He added that the Medical School has committed to maintaining the CTSI during the transition period.

Regent Brod commented that she was pleased with the implementation rates, but concerned about how to measure accomplishments moving forward. Herman shared that there is a team focused on creating accountability metrics.

#### **REVIEW OF RFP PROCESS FOR EXTERNAL AUDIT CONTRACT**

Regent Brod invited Interim Vice President Michael Volna and Interim Controller Suzanne Paulson to review the Request for Proposal (RFP) process for hiring an external auditor, as detailed in the docket.

Paulson shared that the current agreement with Deloitte & Touche expires at the end of the fiscal year. She outlined the scope, criteria, and timeline of the RFP process.

In response to comments from Regent Beeson and Regent Omari, Volna assured the committee that the RFP would reach firms nationally and the turnaround time would be sufficient to produce an adequate pool.

In response to a question from Regent Hsu, Volna shared that the cost to the University is on the low end of all Big Ten schools. Hsu asked about the number of firms that have been contracted in the past. Volna responded that the previous five contracts were awarded to four different firms, each for a period of five to seven years.

Brod encouraged Volna to remain mindful of the timeline and scope throughout the process.

The meeting adjourned at 9:29 a.m.



**BRIAN R. STEEVES**  
**Executive Director and**  
**Corporate Secretary**

**UNIVERSITY OF MINNESOTA  
BOARD OF REGENTS**

**Facilities, Planning & Operations Committee  
September 8, 2016**

A meeting of the Facilities, Planning & Operations Committee of the Board of Regents was held on Thursday, September 8, 2016 at 9:45 a.m. in the West Committee Room, 600 McNamara Alumni Center.

Regents present: David McMillan, presiding; Thomas Anderson, Thomas Devine, Dean Johnson, Peggy Lucas, and Darrin Rosha.

Staff present: President Eric Kaler; Chancellor Fred Wood; Interim Vice Presidents Michael Berthelsen and Michael Volna; and Executive Director Brian Steeves.

**2016-2017 COMMITTEE WORK PLAN**

Regent McMillan and Interim Vice President Berthelsen reviewed the 2016-17 work plan for the Facilities, Planning, & Operations Committee, as detailed in the docket. Regents discussed the proposed topics and by consensus agreed to the work plan.

**ISSUES RELATED TO THE 2016 SIX-YEAR CAPITAL PLAN  
AND THE 2017 STATE CAPITAL REQUEST**

Regent McMillan invited Interim Vice President Berthelsen to present for review issues related to the 2016 Six-Year Capital Plan (Plan) and the 2017 State Capital Request, as detailed in the docket.

Berthelsen outlined the process for developing the Plan. He explained the portfolio planning process and how projects move through it. He detailed strategic considerations involved in adding projects to the Plan, with a main focus on renovating or removing buildings that have been identified as critical under the facilities condition assessment. Berthelsen reminded the committee that reducing poor and critical condition facilities is a component of the University Progress Card. He summarized those facilities that are or will soon become poor or critical, reporting that those buildings contain approximately 1.5 million square feet.

Berthelsen described the poor and critical needs by campus, including the estimated replacement value and projected 10-year needs. He described the building-by-building planning process that seeks to identify which buildings should be renovated, which should be decommissioned, and how those buildings align with the University's priorities given limited resources. He outlined the source of funds to address poor and critical facilities, including HEAPR, repair and replacement funds, and utility rates. Berthelsen described the process that is used to prioritize projects on each campus for HEAPR funding, noting that each campus defines its own priorities and submits a list of projects for central administration review to ensure those projects are statutorily eligible.

Berthelsen reviewed the 2017 State Capital Request. He reminded the committee that with no 2016 bonding bill, the 2017 request is a resubmittal of last year's request. He noted that project costs were adjusted for construction inflation. Design funds for the Collection and Contemporary Learning project for the Twin Cities campus was the one project added.

President Kaler commented that the Plan is the final product of a comprehensive review of space aligned with the priorities of the University. He noted that the University is requesting \$100 million in HEAPR funding, but that the need is larger. He described how the administration is identifying space to decommission and consolidate, including buildings like Mayo.

Regent Devine commented on the helpfulness of the comprehensive review of facility deficiencies. He agreed that the HEAPR request is a small portion of what is actually needed across the system to address minimum needs. He shared his view that the state request is aggressive given that Pillsbury Hall did not gain much traction last year, but noted that the historic significance of the building deserves greater legislative attention.

Regent Rosha wondered how the construction of new buildings or the renovation of others affects the decommissioning process. Berthelsen responded that a building-by-building strategy is used to identify candidates for decommissioning. He noted the need to be aggressive with space utilization and to find solutions that consolidate and remove space. Berthelsen added that the Plan guides consideration of when to decommission a building. He asserted that the University is unable to keep building new facilities without decommissioning others. Berthelsen stated that University Services is setting goals and measures for space utilization to help with the decommissioning process.

In response to a question from Rosha, Berthelsen explained that capital planning for projects ineligible for HEAPR funding follows the same process as those that are eligible. Unlike with HEAPR funding, those units need to raise one-third of the cost of the projects funded through state bonding. He indicated that this requirement impacts how quickly those projects move through the planning process. Rosha commented that it is important to highlight projects from across the state to gain broader legislative support.

In response to a question from Regent Johnson, Kaler noted that the legislature showed interest last session in funding HEAPR and that the largest amount included in a draft bill was \$55 million. The Chemistry and Advanced Materials Science building and Plant Growth Research Facility were also in draft bills. Kaler added that Governor Dayton expressed support for the Health Science Education Facility and made it a key component in negotiations for a special session.

Regent Anderson observed that relocating office space through decommissioning buildings like Masonic and Mayo eliminates a large portion of the poor and critical space. He suggested the administration explore replacing office space with public-private partnerships.

In response to a question from Regent Lucas, Berthelsen explained that the Washington Avenue Bridge is on the list for potential HEAPR funding, clarifying that the county owns the bridge but the University owns the pedestrian enclosure. Kaler expressed his support for using HEAPR funding for the bridge. He added that the Field House on the Twin Cities campus is also a project identified for HEAPR funding.

## **REAL ESTATE TRANSACTIONS**

### **A. Purchase of 2.47 Acres at 600, 600 ½, and 625 27<sup>th</sup> Avenue SE, Minneapolis (Twin Cities Campus)**

Susan Carlson Weinberg, Director of Real Estate, explained the real estate transaction as follows:

- The subject property consists of approximately 2.68 acres and is located at 600, 600½, and 602 27th Avenue SE, Minneapolis, directly adjacent and contiguous to the

University-owned property at 600 25th Avenue SE (formerly known as the Electric Steel Elevator property).

- The property is known as the Mathisen Elevator property (former Kurth Malting property), with two separate grain elevator facilities on two separate parcels that are bifurcated by part of an old, narrow rail spur owned by Union Pacific Railroad (formerly Chicago and Northwestern Railroad). The grain elevators are vacant and empty, and the University has been advised they have not been used for grain storage and distribution purposes for at least ten years. The property includes additional obsolete building structures totaling an estimated 11,323 square feet.
- Basis for the Request: The purchase of this property is an opportunity purchase. The current owner of the subject property, Mathisen Properties LLC, contacted the University to advise that the property is for sale.
- Details of Transaction: The purchase price for the subject property will be \$1,300,000 to be paid in cash at closing. The closing is expected to occur on or before October 31, 2016.

Regent Devine expressed his appreciation to the neighborhood for providing input and shared his view that it was healthy to have those perspectives represented.

#### **B. Sale of 158.881 Acres at UMore Park (UMore Park)**

Weinberg explained the real estate transaction as follows:

- The subject property consists of approximately 158.881 acres located in the northeast corner of UMore Park, abutting Blaine Avenue on the west and County Highway #42 (145th Street E) on the north. The property is undeveloped, fairly level, and currently has an agricultural zoning.
- Basis for the Request: The University offered this property for sale for industrial-business park development by Request for Proposal (RFP) in August 2015. No acceptable proposals were received, and the property remained for sale for industrial-business park development. Opus Development Company LLC (“Opus”) has offered to purchase the property for industrial-business park development on a phased take-down basis, with take-down timing reflective of market demand and identification of end-use clients by Opus, over a term of up to 10 years, which may be extended at University’s sole discretion for an additional 5 years. Nothing in the agreement prevents Opus from acquiring all of the property in the first take-down or all of the remaining property in a successive take-down, if market opportunities so allow.
- Details of Transaction: The sale price for the subject property will be \$2.25 per square foot of net developable area, which is defined to exclude non-buildable areas subject to easements for roadways, a sewer line, and a gas line. The total net developable area for the 158.881 gross acres is estimated at 143.095 net developable acres, reflecting a total price of \$14,024,750 for the property (before needed expenditures for utility infrastructure, and relocation of a gas line, and removal of Ranney pipes impacting development of the property). Opus will have a 120-day Due Diligence Period to investigate the property, including its environmental and physical condition, the City of Rosemount processes for infrastructure improvements and development approvals, and the condition of title.

In response to a question from Regent Rosha, Weinberg indicated that the University has established a partnership with the City of Rosemount and that the city supports this action.

Weinberg told the committee that both items would return for action in October.

**CAPITAL BUDGET AMENDMENT: INTERCOLLEGIATE ATHLETICS TRACK AND FIELD FACILITY AND REC SPORTS FACILITIES RELOCATION - TWIN CITIES CAMPUS**

Regent McMillan invited Assistant Vice President Suzanne Smith, Director of Intercollegiate Athletics Mark Coyle, and Vice Provost and Dean of Students Danita Brown Young to review the capital budget amendment regarding the Intercollegiate Athletics track and field facility and recreational sports facilities relocation, as detailed in the docket.

Smith summarized the location of the proposed track and field and the relocation of the recreational sports bubble and softball field. Coyle explained the project rationale, offering that the track and field location maximizes the shared amenities of Athletes Village and creates an integrated intercollegiate athletic experience. Brown Young reported that the student advisory board to recreational sports expressed a higher priority for quality facilities over location, but noted that the new location has greater access to parking and transit, including the Stadium Village light rail stop. Smith outlined the project description and cost estimates.

In response to questions from Regent Johnson, Smith stated that there is parking directly to the west of the new recreational sports location. While a small amount of parking is located next to the proposed track and field location, the Fourth Street Ramp and other surface lots are nearby. Coyle noted that most Gopher Athletics staff park in the Fourth Street Ramp.

Regent Devine expressed his support for the role of recreational sports in the student experience and his concern that the facilities were relocated once already during his tenure on the Board. He suggested finding a more permanent home for the facilities given the potential future uses for the proposed site.

In response to a question from Regent Roshia, Coyle explained that using debt to fund the track and field is the fallback position, but the goal is fundraising the full cost. He indicated that Gopher Athletics would be aggressive in raising money both for the track and field and relocation of the recreational sports facilities, along with the Athletes Village.

**RESOLUTION RELATED TO DEMOLITION OF THE ELECTRIC STEEL ELEVATOR PROPERTY**

Regent McMillan invited Assistant Vice President Suzanne Smith and Director of Planning Monique MacKenzie to review the resolution related to demolition of the electric steel elevator property, as detailed in the docket.

Smith described the location of the property. MacKenzie identified the characteristics of the property and the electric steel elevators. She noted the purpose of the design and the lack of improvements made to the elevators.

MacKenzie outlined the timeline and analysis of the property. She reminded the committee that the Board approved the acquisition in June 2015 and that the purchase included demolition by the prior owner. She reported that the prior owner was unable to demolish the elevators due to historic concerns expressed by the City of Minneapolis. The University revised the purchase agreement and acquired the land with the elevators intact. MacKenzie summarized University engagement with the State Historic Preservation Office (SHPO) and the creation of the historic property record, noting stakeholder involvement meetings and the execution of an adaptive reuse study. She explained that the adaptive reuse study identified no alternatives for the elevators that are consistent with the University's needs, mission, or operational model. She added that in addition to the reuse study, the University spent \$15,000 to upgrade security around the structure given the safety hazard it poses to urban explorers. The administration recommends demolishing the electric steel elevators.

MacKenzie described mitigation measures to preserve unique historic items within the structure. The University has compiled archival documentation and oral histories from former workers to include in the SHPO-required historic property record. MacKenzie described how the University worked with the Mill City Museum to identify historic artifacts for salvage and donation, with items like a grain paddle and grain scale identified for salvage and donation to the museum for future display.

Regent Lucas offered that the oral histories and donation of historic artifacts were something to be proud of, but shared her regret that the Prospect Park neighborhood felt bypassed in the decision process. She wondered if these elevators are unique and if one or two silos could be kept on site as a sculpture, like the Mill City Museum. Smith responded that she believed these elevators are among the last of this type. She explained that the full site needs to be used for the sports field, making it difficult to retain any portion of the elevators, but agreed to review its potential. Lucas stated her belief that the University owes it to the Prospect Park neighborhood to consider that option.

Regent Rosha emphasized the competing values that make this type of decision challenging. He offered his appreciation for the presentation that highlighted the value that is not being selected given the recommendation and the significance of the historic site.

In response to questions from Student Representative Dice, Smith noted that with the exception of the materials donated to the Mill City Museum, the remaining metal would be salvaged by the demolition firm and its scrap value used to reduce demolition costs. She reported that dust and construction mitigation techniques would be used to limit the impact on nearby buildings. MacKenzie noted little need for lead or asbestos mitigation.

#### **CAPITAL BUDGET AMENDMENT: PIONEER HALL RENOVATION AND CONSOLIDATED SUPERBLOCK DINING FACILITY - TWIN CITIES CAMPUS**

Regent McMillan invited Interim Vice President Berthelsen, Assistant Vice President Suzanne Smith, and Director of Housing and Residential Life Laurie McLaughlin to present for action the capital budget amendment for the Pioneer Hall renovation and consolidated Superblock dining facility, as detailed in the docket.

Berthelsen defined the project's goals. He outlined the planning process for Pioneer, noting that the first major project evaluation started in 2009. He reviewed the project rationale and how that rationale seeks to address the Twin Cities campus enrollment strategy adopted by the Board. Berthelsen described how the use of existing residence halls, the expansion of apartment capacity through master leasing, the examination of potential acquisitions of facilities near campus, and planning for future residence halls along the riverfront would meet the enrollment targets. He detailed Pioneer's existing deficiencies and the significant investment required to address them.

Smith summarized the renovation options. She reminded the committee that the administration had recommended the maintain character and capacity option in July. She stated that the administration now recommends the maintain character and capacity plus option, which increases capacity by 60 beds. She summarized the differences between the two options.

McLaughlin stated that students displaced by a Pioneer renovation would be housed in Wilkins Hall. She noted that adding more beds per room would expand Wilkins Hall capacity. The same option is available in Yudof Hall, if needed. McLaughlin explained that the master leases approved by the Board would yield sufficient capacity to meet housing targets, but that opportunities would be limited for third- and fourth-year students to live in University-managed housing during the renovation.

In response to questions from Regent Rosha, McLaughlin stated that Wilkins has 142 beds but could be expanded to 212. She explained that for the two years Pioneer would be closed, approximately 150 to 250 beds would be needed to house first-year students beyond current capacity of the other residence halls. If enrollment is static, McLaughlin indicated that all first-year students would be accommodated within residence halls. She offered that residence halls would be reserved for first-year students with the exception of living and learning communities for second-year students like the honors program in Middlebrook Hall.

Rosha wondered about the additional per-bed cost in the recommended option. Berthelsen responded that the additional cost per bed was approximately \$91,666. Rosha noted the lower marginal cost per bed and wondered if it was possible to increase the total bed count beyond 60. Smith responded that additional beds could be added but that it would change the exterior look of the building.

In response to a question from McMillan, McLaughlin noted that the University has until September 13 to give notice to University Village if the University wishes to exercise the right to extend the master lease for two years. She added that the University would have the ability to negotiate beyond a two-year extension.

Regent Devine commented that the committee has spent nearly 20 months on housing and now has an enrollment plan that guides the discussion. He noted that during his tenure on the Board, the University has spent \$100 million to upgrade housing and respond to the Board's priority to enhance the student experience. Devine explained that his decision on Pioneer came down to investing an additional \$100 million to keep the same number of beds. He emphasized his concern that the cost of attendance remains reasonable. He advocated renovating Pioneer up to the level of the other Superblock residence halls and then building a new residence hall that would expand capacity.

Berthelsen responded that the option to extend useful life was not fully designed and does not have a full project cost. He explained that the extend useful life option would replace current structures with the same structures and not address ADA compliance, code issues, or student experience items, and would fail to add lounges or additional bathrooms. He summarized the option as being more functional, but with the same concerns as the current structure. Berthelsen stated that the recommended option would create a 17<sup>th</sup> Avenue-type experience for Pioneer and the consolidated dining facility.

Regent Anderson commented that student experience is the overriding factor in evaluating this proposal. He expressed concern at the high cost. He noted student surveys showing that Pioneer has a lower satisfaction rate and lower retention rate of second-year students who return to University housing. Anderson offered that most of the students who live in Pioneer did not choose to live there, but were assigned there.

Rosha commented that he is thrilled with the increase in residential housing and that the University is providing a better overall product than it has in the past. He noted that the University has given an artificial value to students by keeping housing costs low by providing a low quality product. He questioned the teardown estimate, stating that it is problematic. Rosha expressed his belief that additional time is available to make this decision. He stated that without a plan for a new residence hall, it is difficult to evaluate the bridging options presented for Pioneer. He reiterated the priority to increase the number of students living in residence halls, but noted that this option does not significantly add capacity. Rosha added that this renovation will displace students and limit second-year access to residence halls without having a new residence hall built first that could keep capacity stable and add capacity upon completion. He emphasized that he could not support removing internal access to dining from the north Superblock residence halls and wondered why a 17<sup>th</sup> Avenue dining experience could not be constructed in both Centennial and Pioneer to preserve that access.

A motion was made and seconded to recommend approval of the capital budget amendment for the Pioneer Hall renovation and consolidated Superblock dining facility.

On recommendation of the President and the Interim Vice President for University Services, the FY 2017 Capital Budget is amended to include the following project:

- Pioneer Hall renovation and consolidated Superblock dining facility - Twin Cities campus
- Scope of Project: The Pioneer Hall renovation will retain the character-defining features of the existing building, while strategically expanding the building footprint to 241,000 gross square feet to accommodate a comparable number of beds in the existing Pioneer Hall. The renovated facility includes approximately 756 beds and an 850 seat consolidated dining facility that will more effectively and efficiently serve all students living in the Superblock.
- Master Plan: The project is in compliance with the Twin Cities Campus Master Plan dated March 2009.
- Cost Estimate: \$104,500,000
- Capital Funding: University long-term debt

Rosha requested a roll call vote. McMillan ordered the roll be taken on the motion and the vote was as follows:

Regent Anderson	Yes
Regent Devine	No
Regent Johnson	Yes
Regent Lucas	Yes
Regent Rosha	No
Regent McMillan	Yes

The committee approved the motion on a vote of four to two.

### **INFORMATION ITEMS**

Interim Vice President Berthelsen referred the committee to the information items in the docket:

- FY 2016 Report on Real Estate Transactions Over \$1,250,000 and/or Over 10 Acres
- Request by Minnesota United to use TCF Bank Stadium for Major League Soccer
- Update on UMore Park Physical Hazards Mitigation

The meeting adjourned at 11:53 a.m.



**BRIAN R. STEEVES**  
**Executive Director**  
**and Corporate Secretary**

**UNIVERSITY OF MINNESOTA  
BOARD OF REGENTS**

**Faculty & Staff Affairs Committee  
September 8, 2016**

A meeting of the Faculty & Staff Affairs Committee of the Board of Regents was held on Thursday, September 8, 2016 at 9:45 a.m. in the East Committee Room, 600 McNamara Alumni Center.

Regents present: Patricia Simmons, presiding; Richard Beeson, Laura Brod, Linda Cohen, Michael Hsu, and Abdul Omari.

Staff present: President Eric Kaler; Chancellors Lendley Black and Stephen Lehmkuhle; Vice President Kathryn Brown; Interim Vice President Bernard Gulachek; and Executive Director Brian Steeves.

Student Representatives present: Lauren Anderson and Lauren Mitchell.

**2016-17 COMMITTEE WORK PLAN**

Regent Simmons and Vice President Brown reviewed the 2016-17 work plan for the Faculty & Staff Affairs Committee, as detailed in the docket. Regents discussed the proposed topics and by consensus agreed to the work plan.

**COMPENSATION PLANNING: PHILOSOPHY AND PRACTICE**

Regent Simmons invited Vice President Brown along with Kenneth Horstman, Senior Director, Total Compensation, and Mary Rohman Kuhl, Director of Compensation, to discuss the philosophy and practice of compensation planning, as detailed in the docket.

Brown explained that with completion of the job family study, OHR can now utilize market comparison data in compensation planning. She highlighted relevant aspects of Board of Regents Policy: *Employee Compensation and Recognition*. Horstman shared that although salary and fringe account for 61 percent of the University's non-sponsored spending, any long-term strategy on compensation should view it as an investment in quality.

Rohman Kuhl reviewed the budget-based compensation model and explained the move to a model that is responsive to the market. She noted that the job family study and market research comparisons are critical components to a more competitive, market-responsive compensation model. She explained that salary is only part of the University's employee value proposition.

In response to a question from Regent Hsu, Brown explained that the 19 job families include Civil Service and Professional and Administrative (P&A) employee groups. She explained that faculty, graduate assistants, and labor-represented employees are not included in those job families. Brown clarified that of approximately 26,000 total employees, about 10,000-11,000 are Civil Service or P&A.

In response to comments from Hsu, Rohman Kuhl explained that employee performance is also an important measure in compensation. She noted that OHR has a piloted a compensation model that outlines criteria for low-, mid-, and high-level performers and rewards them appropriately.

In response to a question from Regent Brod, Horstman offered that with 26 percent of the University's staff under the age of 35, strategies must shift to messaging the value of benefits for current and prospective employees in order to remain competitive.

In response to a question from Regent Simmons, Brown conveyed that the Affordable Care Act has made health care benefits more costly and therefore the historical rationale that the University offers more robust benefits and somewhat lower salaries is no longer valid. She stated that the University continues to offer better-than-average health insurance but is shifting to offer a more competitive salary.

Regent Beeson commented that Board of Regents Policy: *Employee Compensation and Recognition* should be better aligned with the strategic plan and should include emphasis on excellence and merit-based pay. Simmons suggested the committee review the policy. Beeson expressed his satisfaction with the results of the job family study, specifically the differentiation in compensation ranges. He noted that each family now has different market comparisons.

Regent Omari expressed his concern with measures for merit-based increases, noting that some of the most important work is difficult to measure even though it may lead to student satisfaction and retention. He cited the work of staff in Student Unions and Activities as an example. Simmons added that with merit-based pay, measurements must be clear and decisions justifiable. Hortsman responded that the move to merit-based compensation comes as a culture shift for managers at the University and that the needed training is significant. He added that while significant training is available, it also takes time and effort from managers to have a successful merit-based compensation program.

Student Representative Mitchell echoed Regent Omari's comments, adding that faculty members of color are often doing work that is difficult to measure.

### **UPDATE ON EMPLOYEE ENGAGEMENT**

Regent Simmons invited Vice President Kathryn Brown and Brandon Sullivan, Director, Leadership and Talent Development, to deliver an update on employee engagement, as detailed in the docket.

Sullivan noted that employee participation in the annual engagement survey is a Gold Measure on the University Progress Card because employee engagement is critical for the University to have productive, innovative, and effective employees. He defined engagement as commitment and motivation to deliver quality work for the benefit of the institution. Sullivan added that scores have been improving in those colleges and units that have taken action as a result of their engagement survey results.

Sullivan shared that three recent panel discussions were held featuring University leaders who have used their survey results to improve engagement in their units. He noted that over 450 employees attended those sessions, and that a similar series will be offered in the coming year. Sullivan added that OHR is finalizing plans for the 2017-18 survey.

In response to a question from Regent Beeson, Sullivan stated that deans receive the survey data for their entire college, as do administrative vice presidents for their units. The President and Provost also see results. He explained that linking the engagement survey results to individual performance is not encouraged because it may lead to undesirable management practices. Brown added that the engagement survey is a developmental tool, not an evaluative one, and that other evaluation tools such as the 360 review and regular performance evaluations are more effective.

Regent Cohen commented that measuring the number of employees who take the survey is merely the beginning. She suggested the committee think about changing the progress card to include a measure of action taken to increase employee engagement. In response to a question from Cohen, Sullivan noted that at the recent workshops, leaders shared that employee feedback consistently includes a desire for more regular performance feedback and discussions about development. He added that those units have put in place more formal processes for both. Regent Hsu commented that he attended one of the workshops and offered that one panelist shared that their unit was planning to organize its efforts around the advancement of the progress card measures.

In response to comments from Regent Simmons, Sullivan reminded the committee that the University's participation rates are high compared to similar institutions. He added that the goal of 71 percent participation would nearly guarantee that each unit has a majority of its employees responding, which increases the validity of the data.

In response to a question from Regent Omari, Sullivan explained that to ensure validity of results and mitigate the risk of supervisor retaliation, a unit only receives its results when it has 10 or more employees.

In response to a question from Regent Brod, Sullivan noted that retention is one of the key reasons the University is focused on employee engagement; research shows that top talent will leave an institution if they feel disengaged. He shared that in the next couple years, the University will have enough data to determine if disengaged employees leave the University or become champions of engagement here.

### **CONSENT REPORT**

Vice President Brown invited President Kaler to join her in presenting for review and action the Consent Report, which included the following items:

- Appointment of Douglas Peterson as general counsel.
- Conferral of tenure for three outside hires.

President Kaler presented for approval the appointment of Douglas Peterson as general counsel. Brown walked through the other items. A motion was made and seconded and the committee voted unanimously to recommend approval of the Consent Report.

### **INFORMATION ITEMS**

Vice President Brown referred the committee to the information items contained in the docket materials, which included personnel highlights and faculty and staff activities and awards.

The meeting adjourned at 11:27 a.m.



**BRIAN R. STEEVES**  
**Executive Director and**  
**Corporate Secretary**

**UNIVERSITY OF MINNESOTA  
BOARD OF REGENTS**

**Board of Regents Work Session:  
FY 2018 Budget Assumptions**

**September 8, 2016**

A work session of the Board of Regents of the University of Minnesota was held on Thursday, September 8, 2016 at 1:15 p.m. in the West Committee Room, 600 McNamara Alumni Center.

Regents present: Dean Johnson, presiding; Thomas Anderson, Richard Beeson, Laura Brod, Linda Cohen, Thomas Devine, Michael Hsu, Peggy Lucas, David McMillian, Abdul Omari, Darrin Rosha, and Patricia Simmons.

Staff present: President Eric Kaler; Chancellors Lendley Black, Stephen Lehmkuhle, and Fred Wood; Executive Vice President and Provost Karen Hanson; Vice Presidents Katrice Albert and Kathryn Brown; Interim Vice Presidents Bernard Gulachek and Michael Volna; Executive Director Brian Steeves; and Associate Vice Presidents Gail Klatt, Stuart Mason, and Julie Tonneson.

Student Representatives present: Lauren Mitchell.

Chair Johnson invited President Kaler and Associate Vice President Tonneson to lead the Board in a discussion of FY 2018 operating budget assumptions, as detailed in the docket.

Kaler reminded the Board that an annual work session addressing priorities for the operating budget began last year. He commented that the addition of the work session provided increased transparency and helped facilitate Board consideration of the operating budget in the spring.

Tonneson proposed questions for the discussion and reviewed the budget development process. She noted the timeline for the biennial budget request, highlighting how the biennial request impacts the annual operating budget.

Kaler described his proposed FY 2018-19 biennial request. He offered three main areas for consideration and defined each:

- Investing in student success - \$8.5 million for FY18 and \$5 million for FY19
- MnDRIVE - \$8.5 million for FY18 and \$15 million for FY19
- Core mission support - \$22.6 million for FY18 and \$23 million for FY19

Kaler indicated that the proposed request also includes health training funding restoration and additional funding for Bell Museum operations. He explained that the three main initiatives for the biennium come to a total of \$122.2 million, or a 9.8 percent change from the current base appropriation. With health training and the Bell Museum, the increase totals \$143.2 million, or an 11.4 percent change from the current base appropriation. Kaler added that the University's increase to the base appropriation over the past eight biennia had averaged 9.8 percent. Given that data, he emphasized that this request was not unrealistic.

Tonneson outlined the timeline for development of the annual operating budget. She defined non-sponsored revenue by source and summarized the annual percent change in revenues and expenditures for all funds. She reminded the Board of the budget development process and the components of the budget framework. She noted the resource drivers for the University,

offering that funding from the state for FY 2017 remains below the pre-great recession peak in FY 2008, both adjusted and unadjusted for inflation. Tonneson summarized reallocations since FY 2012. She noted that the proposed budget assumption brings the total reductions in administrative costs to \$72.5 million, leaving \$17.5 million of the planned \$90 million to be implemented in the final two years.

Tonneson described trends in total tuition revenue from 2001 to 2017. She highlighted efforts to flatten the tuition cost curve from FY 2012 to FY 2017 by holding the average annual growth to \$19 million. She presented a breakdown of FY 2017 tuition revenue by campus. She noted that resident undergraduate tuition places the University in the middle of the Big Ten and non-resident, non-reciprocity (NRNR) tuition rates moved the University from last place to second to last place. She described the NRNR tuition trend since 2012 and reported on fall 2016 NRNR enrollment. She explained that NRNR enrollment is stable but pointed to a decrease in yield rates.

Tonneson compared FY 2017 annual merit increases for salary and benefits with local and education industry peers. She reminded the Board that fringe pool costs would bounce back in FY 2018 after being held down due to legal settlement proceeds in FY 2015. She noted the new Department of Labor regulations that increased the threshold for exempt staff, resulting in an estimated cost of \$5 million. She detailed the debt impact in the FY 2018 budget framework and defined the strategic choices faced by the Board and the budget levers available to them to balance the budget.

Regent Simmons wondered if policy around benefits and compensation creates challenges or requires revision. Tonneson responded that current policy provides useful guidance. Kaler noted that policy calls for competitive compensation and that the University competes with international and national markets for some positions, and a strong local market in other areas.

In response to a question from Regent Beeson, Kaler indicated that the original projects funded by MnDRIVE would continue and that the new request includes funds to start additional lines of research. He stressed that Vice President Herman tracks these funds closely and if the research proves unviable, money can be pulled back.

Regent McMillan observed that some of the new initiatives for MnDRIVE build on previous initiatives. Kaler agreed and noted that the water initiative was first focused on bioremediation while the new water initiative will focus more on agricultural use and mechanical and chemical ways to treat water.

In response to a question from Regent Devine about efforts to recruit students around the system, Tonneson explained that funds were set aside for each campus to target and set priorities for recruitment and retention. That program was started last year. Additional funding was added this year, with a focus on academic advising and programing to help retain students. Tonneson stressed that this funding is different from dollars spent to increase recruitment of NRNR students to the Twin Cities campus.

Simmons wondered how projects were selected for MnDRIVE given the many competing research priorities. Kaler responded that it is a challenge. He described how the administration takes input from the deans, provost, vice president for research, and faculty on potential areas. He described how the grand challenges have driven the focus on eliminating disparities. Kaler noted that Governor Dayton and legislators have expressed an interest in increased cancer care statewide. He reported that the University has strength in the area of big data and, with additional funding, it could be an area for the University to lead nationally.

Regent Rosha emphasized the need to complete a system-wide strategic plan in a timely manner. He expressed his belief that the University has a crisis of cost, not of quality, noting the continued creep of cost in higher education. He asked about how the University could

control the number of employees as a method to control costs. Rosha stressed that the state could be helpful in funding the academic health component of the University, which could result in significant savings to the University. He emphasized the need to continue to partner with the state on programs like MnDRIVE while seeking other areas to expand that relationship. Rosha noted that by building the relationship with the state, it would help the University in making budget requests that could reduce the cost to students.

Kaler commented that an NRNR tuition increase of 7.5 percent yielded a slight reduction in students, but netted roughly \$1.2 million in increased revenue. He recommended that the Board engage in further discussion of this strategy since there appears to be capacity for additional increases.

In response to a question from Student Representative Mitchell, Tonneson explained that the budget process is distributed across units, with priorities set at a local level. She recommended that students can have the greatest impact at the local level and can work to ensure that the unit understands student priorities.

Regent Hsu asked if the current model assumes an increase in enrollment based on the Board adopted enrollment strategy. Tonneson reported that the current model does not assume an increase in enrollment, but noted that a one percent increase in undergraduate enrollment would produce \$5.5 million in tuition revenue and a one percent increase in graduate or professional enrollment would produce \$3.2 million in tuition revenue.

Hsu explained that he examined the NRNR data and offered that 83 percent of those students did not submit a FAFSA form or had family income over \$110,000. He theorized that if the Board were to increase the NRNR tuition rate while discounting the rate for the remaining 17 percent, the rate could be increased to move the University to the midpoint of the Big Ten faster.

Simmons commented that additional data are needed to make a good decision regarding NRNR tuition rates. She emphasized the need for data that include not just revenue, but also student outcomes and whether graduates stay in Minnesota. She added that having that type of data could lead to a different decision.

Regent Anderson expressed his desire to continue the Operational Excellence (OpEx) initiative. He stated his belief that the University should charge residents as little as possible and create demand through quality.

Regent Brod agreed with the need to continue OpEx, but cautioned that those reductions cannot be at the expense of oversight and compliance. She offered that administrative optimization is needed more than reduction, to ensure a higher return on the resources being spent on administrative tasks. Kaler responded that \$90 million is a significant amount of money and that certain administrative tasks must be completed. He noted that mission support activities need adequate support, offering academic advising as an example. He agreed that more must be done to optimize administrative tasks. Brod wondered how the University's relationship with the state could help increase repair and replacement funding, seeking to find a larger resource pool.

In response to a question from Regent McMillan, Kaler agreed that a review of total compensation is timely as the University's workforce experiences a generational shift that requires the institution to be responsive and competitive with compensation and benefits.

Hsu expressed his desire that Gopher Athletics be able to contribute financially to the academic mission in the way that other Big Ten athletics departments do. Kaler responded that roughly a dozen athletic departments in the NCAA contribute funding to the academic mission of their institutions. He stated his expectation that Gopher Athletics should be able to do so with new media revenue. Kaler explained that there would always be funding to Athletics from

central administration, including the historic O&M allocation for Title IX, but emphasized that it is his goal to have a net positive flow of revenue from Gopher Athletics to central administration. Devine cautioned that the institutions in the Big Ten that return revenue have significantly larger revenue sources from stadiums and ticket fees and that it might not be a fair comparison.

The meeting adjourned at 2:28 p.m.

A handwritten signature in cursive script that reads "Brian R. Steeves".

**BRIAN R. STEEVES**  
**Executive Director**  
**and Corporate Secretary**

**UNIVERSITY OF MINNESOTA  
BOARD OF REGENTS**

**Academic & Student Affairs Committee  
September 8, 2016**

A meeting of the Academic & Student Affairs Committee of the Board of Regents was held on Thursday, September 8, 2016 at 3:00 p.m. in the East Committee Room, 600 McNamara Alumni Center.

Regents present: Linda Cohen, presiding; Thomas Anderson, Dean Johnson, Peggy Lucas, Patricia Simmons, and Darrin Rosha.

Staff present: Chancellor Stephen Lehmkuhle; Executive Vice President and Provost Karen Hanson; Vice President Brian Herman; Associate Vice Presidents Gail Klatt and Frances Lawrenz; and Executive Director Brian Steeves.

Student Representatives present: Phillip Guebert and Mina Kian.

**2016-17 COMMITTEE WORK PLAN**

Regent Cohen and Provost Hanson reviewed the 2016-17 work plan for the Academic & Student Affairs Committee, as detailed in the docket. Regents discussed the proposed topics and by consensus agreed to the work plan.

**ANNUAL REPORT ON UNDERGRADUATE, GRADUATE &  
PROFESSIONAL ACADEMIC PROGRAM CHANGES**

Regent Cohen invited Provost Hanson; Barbara Keinath, Vice Chancellor for Academic and Student Affairs, UMC; and Deborah Dillon, Associate Dean, College of Education and Human Development, to provide a summary of 2015-16 academic program changes and share examples of the process by which faculty and units develop proposals for new academic programs, as detailed in the docket.

Hanson outlined the review process academic program changes undergo prior to a recommendation to the Board. She emphasized that the process is highly consultative and engages participants at all levels. Hanson reported that over the last year, four baccalaureate degrees, four post-baccalaureate degrees, one joint degree program, five certificate programs, and eight minors were added. She noted that the number of degree programs remains relatively constant with additions and discontinuations each year.

Keinath highlighted two examples of new programs from the Crookston campus, both closely tied to the mission to deliver programs that are applied and career-focused. She explained that the addition of the baccalaureate English degree was fiercely contested on campus as contrary to that mission, but that it was designed to fit the mission and equip students with the writing skills that are highly valued by employers. Keinath described that a baccalaureate degree in agricultural education was developed in response to a high need for agriculture teachers in the state. She noted that there were no concerns from the campus community about the mission fit of the agriculture education program.

Dillon shared that new programs in the College of Education and Human Development (CEHD) are often developed in response to community need, and that the review process is rigorous. She shared three examples, including the school psychology post-baccalaureate that has been approved by the American Psychological Association. Dillon also noted that the Master of Social Work program recently underwent a two-year review to develop an innovative curriculum that would not only prepare students for licensure, but also for work in a wide variety of diverse settings. She offered a summary of the Minneapolis Residency Program, highlighting the partnership the University has with Minneapolis Public Schools to identify candidates, train, and employ educators through a 30-credit post-baccalaureate teacher license.

In response to a comment from Regent Lucas, Dillon noted that closing the achievement gap is a priority for CEHD, which is engaged through research and partnerships with the community. She noted that CEHD Professor Michael Rodriguez serves as special assistant to President Kaler on the achievement gap.

In response to a question from Regent Simmons, Keinath noted that Crookston offers almost exclusively bachelor of science degrees in keeping with its mission. Hanson added that bachelor of science degrees often have more required coursework in the major, while bachelor of arts degrees have fewer required courses, offering a greater breadth of knowledge in all disciplines.

In response to questions from Regent Anderson, Keinath explained that the University declined special legislative funding for agriculture education programs in order to retain autonomy in governance. Keinath noted that the Crookston campus collaborates with Extension and the Crookston Research and Outreach Center for teaching, internships, and guest lectures.

Regent Anderson and Student Representative Guebert commented about the evolution of minors over time. Hanson offered that minors traditionally round out coursework, but that role may be changing as students seek minors that are more related to their career path.

In response to a question from Regent Lucas, Dillon specified that students in the year-long Minneapolis Residency Program receive a stipend from Minneapolis Public Schools for co-teaching in the classroom and that CEHD was able to partner with a foundation that paid the program fee for all students in the program.

## **DEVELOPING AND PREPARING STUDENTS THROUGH A LIBERAL EDUCATION**

Regent Cohen invited Provost Hanson; John Coleman, Dean, College of Liberal Arts; and Kenneth Leopold, Chair, Council on Liberal Education and Professor, College of Science and Engineering, to discuss the value of a liberal education, as detailed in the docket.

Hanson explained that the value of liberal education, as well as higher education in general, is contested widely and frequently. She noted that skepticism emerges when degrees do not have obvious or direct career paths, adding that there is a difference between training and education. Hanson concluded that the products of liberal education prepare students for the jobs of tomorrow.

Leopold described that liberal education enriches students by going beyond their field of study to the full breadth of inquiry. He noted that through a liberal education curriculum, students seek to know the “how” and “why” as opposed to the “what.” He stressed that students learn different ways to approach problems in addition to becoming practitioners in their own fields, and that leads to students becoming sophisticated citizens.

Coleman noted that in addition to liberal education, the value of a liberal arts degree is often scrutinized. He shared that although liberal arts degrees are not always tied to a specific job title or career path, return on investment is high. He emphasized that skills most sought by employers – critical thinking, problem solving, and effective communication – are core to education in the liberal arts.

In response to a comment from Regent Lucas, Coleman agreed that students are interested in expanding their knowledge and taking courses in fields of study outside of their own. He noted that around the world, institutions of higher education are moving to liberal education models and away from vocational training.

Student Representative Guebert inquired about the upcoming evaluation of, and possible changes to, the University’s liberal education requirements. Provost Hanson explained that it is not in response to a perceived weakness, but rather because time warrants a review since the liberal education requirements were instituted 10 years ago. Coleman added that changes to the process for qualifying a course are more often called into question, rather than the requirements themselves.

In response to a question from Regent Johnson, Coleman assured the committee that the College of Liberal Arts is transparent in defining the liberal arts and liberal education to prospective students and again to first-year students during orientation. Leopold noted that in the review of courses to fulfill liberal education requirements, the course syllabus must clearly outline how the course fits that requirement.

Regent Cohen inquired about the specifics of the liberal education requirements. Leopold explained that students must take one course in each “core” area and one course in each “theme” area; when added together, they must equal more than 30 credits. He noted that some courses fulfill both a “core” and a “theme” requirement, and students generally have crossover with major courses.

### **BOARD OF REGENTS POLICY: *ANIMAL CARE AND USE***

Regent Cohen asked Frances Lawrenz, Director, Institutional Animal Care and Use Committee, and Ben Clark, Assistant Director, Institutional Animal Care and Use Committee, to present proposed amendments to Board of Regents Policy: *Animal Care and Use* for review and action, as detailed in the docket.

Lawrenz explained that the amendment includes a definition of service and display animals, noting that policies and oversight for those animals differ from those for research animals.

A motion was made and seconded, and the committee voted unanimously to recommend adoption of the proposed amendment to Board of Regents Policy: *Animal Care and Use*.

### **CONSENT REPORT**

A motion was made and seconded, and the committee voted unanimously to recommended approval of the following, as described in the Consent Report:

- **Request for Approval of New Academic Programs**
  - College of Liberal Arts (Twin Cities campus)—Create a B.A. degree in Ojibwe Language
  - Medical School (Twin Cities campus)—Create fellowship in Brain Injury Medicine
  - Medical School (Twin Cities campus)—Create fellowship in Family Planning

- **Request for Changes to Academic Programs**

- Crookston campus—Deliver the B.S. degrees in Early Childhood Education and Elementary Education at White Earth Tribal Community College
- College of Liberal Arts (Twin Cities campus)—Create sub-plan in Arabic within the B.A. degree in Asian Languages and Literatures
- College of Liberal Arts (Twin Cities campus)—Create sub-plan in Religions of Antiquity and discontinue sub-plans in Latin and Greek within the Ph.D. degree in Classical and Near Eastern Studies
- School of Public Health (Twin Cities campus)—Discontinue sub-plan for the partnership with Arizona State University within the Public Health Nutrition M.P.H. degree

- **Request for Approval of Discontinued Academic Programs**

- College of Education and Human Development (Twin Cities campus)—Discontinue the M.Ed. degree in Business and Industry Education
- College of Science and Engineering (Twin Cities campus)—Discontinue the B.S. degree in Statistics
- Medical School (Twin Cities campus)—Discontinue the M.S. degree and graduate minor in Experimental Surgery
- Medical School (Twin Cities campus)—Discontinue the M.S. and Ph.D. degrees in Surgery
- School of Nursing (Twin Cities campus)—Discontinue the M.S. degree in Nursing

The meeting adjourned at 4:47 p.m.



**BRIAN R. STEEVES**  
**Executive Director and**  
**Corporate Secretary**

**UNIVERSITY OF MINNESOTA  
BOARD OF REGENTS**

**Finance Committee  
September 8, 2016**

A meeting of the Finance Committee of the Board of Regents was held on Thursday, September 8, 2016 at 3:00 p.m. in the West Committee Room, 600 McNamara Alumni Center.

Regents present: Richard Beeson, presiding; Thomas Devine, Michael Hsu, David McMillan, and Abdul Omari.

Staff present: President Eric Kaler; Chancellors Lendley Black and Fred Wood; Vice President Katrice Albert; Interim Vice Presidents Michael Berthelsen, Bernard Gulachek, and Michael Volna; Executive Director Brian Steeves; and Associate Vice Presidents Stuart Mason and Julie Tonneson.

Student Representatives present: Mike Kenyanya and Tareyn Stomberg.

**2016-17 COMMITTEE WORK PLAN**

Regent Beeson and Interim Vice President Volna reviewed the 2016-17 work plan for the Finance Committee, as detailed in the docket. Regents discussed the proposed topics and by consensus agreed to the work plan.

**ANNUAL ASSET MANAGEMENT REPORT**

Regent Beeson invited Associate Vice President Mason to provide an overview of the Annual Asset Management Report, as detailed in the docket.

Mason reported that the invested assets of the University totaled approximately \$2.56 billion on June 30, 2016. The Consolidated Endowment Fund (CEF) value as of June 30, 2016, was \$1,258 million, a decrease of \$35.6 million over last year after quarterly distributions of \$52.1 million. The total investment return for CEF was up 0.3 percent over the last 12 months, compared to a benchmark return of 0.7 percent. Mason offered that the benchmarks currently in place are aggressive, adding that early estimates showed many of the University's peers with negative returns for the year.

Andrew Parks, director and portfolio manager with the Office of Investments and Banking (OIB), explained that the investment return for CEF and the slight underperformance compared to the benchmark was driven by public equity investments and underperformance by riskier fixed-income managers. He reminded the committee that stable distributions are a key policy objective for CEF.

Mason discussed the Temporary Investment Pool, Group Income Pool, and Regents of the University of Minnesota Insurance Company (RUMINCO) fund performance. He outlined investment manager changes, and steps being taken to invest with targeted investment managers and the consideration of social responsibility when making investment decisions.

In response to a question from Regent McMillan, Mason explained that the Investment Advisory Committee sets the benchmarks against which OIB is evaluated. He described how the benchmarks used to be more simplistic, but have moved to a complex matrix that has set aggressive goals for OIB to achieve.

In response to a question from Regent Hsu, Mason explained that OIB considers a variety of social concerns when looking at potential investments and weighs those concerns against the need to grow the endowment to provide additional academic support to students and units. He reminded the committee that the student group that was active a year and half ago advocated for the University to divest from oil, coal, and other fossil fuels. Mason noted that in response, the University made a \$50 million investment into a low-carbon fund that reduces exposure to public companies with high carbon emissions. Mason suggested that while it is not a perfect solution, it marked a significant move for the University, and that other social concerns are addressed on a case-by-case basis.

Regent Devine wondered how OIB has been able to achieve constant performance in private capital. Mason responded that more than half the time spent by OIB in this area is dedicated to identifying potential managers and performing due diligence on those managers. He described how OIB seeks managers in small-market private equity, while continuing to focus on the venture portfolio.

Student Representative Kenya asked why OIB had moved from more illiquid investments to a larger portion of liquid funds. Mason commented that the move was based on experience from the great recession, during which time the University was overweight in illiquid private funds as compared to the benchmark. He noted that this made it difficult for the University to be responsive to the recession. He added that in response to that experience, the University has moved back within the benchmark range.

#### **BOARD OF REGENTS POLICY: INVESTMENT OF RESERVES**

Regent Beeson invited Associate Vice President Mason to present proposed amendments to Board of Regents Policy: *Investment of Reserves*, as detailed in the docket.

Mason explained that the current policy limits the Office of Investments and Banking (OIB) from investing University reserves in illiquid investments. The proposed amendments would allow OIB to make limited illiquid investments managed by external investment managers. These investments would follow guidelines already in policy.

Mason indicated that OIB has already identified a manager, Golub, and a fund that invests in high-grade loans that have resulted in a 15-year average return of 10 to 11 percent. He added that the University already has well-performing investments with Golub.

Interim Vice President Volna reported that the University has a significant amount of liquidity and that the proposed amendments would allow the administration to invest a portion of those assets and receive a higher return. He explained that some of the returns could be used to finance a portion of the upcoming network upgrade. Volna indicated that the administration could think more broadly about how to use those returns in the future.

In response to a question from Regent McMillan, Mason explained that the current cap of 30 percent for this type of investment required by Board policy puts a limit on the amount of money that can be invested. He noted that of the 30 percent, roughly 12 percent is already invested. He expressed that there is not a desire to change that percentage.

Regent Hsu asked how the proceeds would move through the University. Mason responded that the proceeds would be budgeted through central reserves. He stressed that any future use of proceeds would come for approval through the annual operating budget or as an amendment to the central reserves budget.

In response to a question from Beeson, Mason stated that the loans being made by Golub are investment-grade, senior-secured loans to smaller corporations. He added that banks are not lending in this area, which offers a very low default rate with consistent returns.

A motion was made and seconded, and the committee voted unanimously to recommend adoption of the proposed amendments to Board of Regents Policy: *Investment of Reserves*.

### **FINANCIAL COMPONENTS OF THE PRESIDENT'S RECOMMENDED FY 2018-19 BIENNIAL BUDGET REQUEST**

Interim Vice President Volna and Associate Vice President Tonneson presented for review the financial components of the President's recommended FY 2018-19 biennial budget request, as detailed in the docket.

Tonneson reviewed state appropriations to the University in FY 2016-17, including operations and maintenance funding and special appropriations. Using these numbers, Tonneson explained how the state would calculate the beginning base for funding in FY 2018-19. She also reviewed the timeline for the biennial budget request.

Tonneson outlined the goals of the biennial budget request as:

- Student success.
- MnDRIVE.
- Core mission.
- Health training restoration.
- Bell Museum funding.

The total request for all five programs for the biennium is \$143.2 million, a change from base of 11.4 percent. Tonneson stated that this is a healthy request and put it in context with past state appropriations since 2008.

In response to a question from Regent Hsu, Tonneson explained that the state appropriation for the increased debt service for the Bell Museum is held centrally. She indicated that this request is for additional operating funding given the large building and additional programs the new facility will house. Tonneson noted that the additional funding would flow directly to the College of Food, Agricultural, and Natural Resource Sciences (CFANS) to cover those operating costs. She added that the University already receives a small amount of funding from the state for the Bell Museum, but characterized that funding as under \$1 million. Hsu asked if the funding in both years of the biennium is needed. Tonneson responded that the request includes \$2 million in the first year and an additional \$3 million in the second, to increase recurring funding by \$5 million per year moving forward.

Regent Devine added that there is willingness from the Minnesota Legislature to add funding for the Bell Museum. He expressed hope that the University would be aggressive in seeking the additional funds.

### **FINANCIAL COMPONENTS OF THE PRESIDENT'S RECOMMENDED 2016 SIX-YEAR CAPITAL PLAN AND 2017 STATE CAPITAL REQUEST**

Interim Vice President Volna presented for review the financial components of the President's Recommended 2016 Six-Year Capital Plan (Plan) and 2017 state capital request, as detailed in the docket.

Volna explained that the Plan includes major capital improvements planned for fiscal years 2017-2022. Year 1 of the Plan (2017) outlines the projects that the University will be submitting to the State of Minnesota for consideration during the 2017 legislative session. The 2017 state capital request totals \$317.6 million in project costs, with the State of Minnesota contributing \$245 million and the University responsible for \$72.5 million. He reminded the committee that with no bonding bill passed last session, the University's request is nearly identical to the one approved by the Board last year, noting slight changes to project costs and the addition of the

Collections and Contemporary Learning project for the Twin Cities campus. He added that the Plan totals \$1.6 billion.

Volna outlined a preliminary analysis of how the University's debt capacity will be affected by the Plan. He walked through the projected debt issuances and the amount of outstanding debt by project over the course of the Plan. Volna stressed that the University pays down a significant amount of debt each year, and provided the theoretical debt capacity. He concluded by noting that the full debt capacity update would be presented in October.

Beeson asked for an update on the Athletes Village project. President Kaler responded that the total cost for Athletes Village is \$166 million. With the addition of the track and field project, that brings the project total to \$185 million. Kaler reported that roughly \$80 million has been raised and expressed his confidence that the full amount is still reachable through fundraising.

In response to a question from Regent Hsu, Kaler indicated that while there is debt capacity to add the Lineman's Building to the Athletes Village project, there has to be a source to fund the additional debt service. He offered that more work needs to be done to understand where that funding would come from, but emphasized that he understands the desire to complete it with the rest of the project. Kaler stated that the first focus is to ensure the completion of the new track and field given Title IX considerations. Interim Vice President Berthelsen reported that design and planning for the Lineman's Building are underway and that he would update the Board on when a decision must be made to take advantage of building the facility with the rest of Athletes Village.

Regent Devine asked about the skyways for Athletes Village. Berthelsen responded that they are following the same approach as they are for the Lineman's Building to determine if those will be added.

Hsu wondered how much debt capacity exists for a major project in 2021. Volna responded that given initial projections, approximately \$985 million of capacity would be available with the reduction of the Pioneer Hall project if that were approved. He again stressed that debt capacity is not only the capacity itself, but also the funding needed to cover the debt service. Hsu asked if the University could spend up to the limit. Volna responded that he would never recommend spending to the maximum and that the Board and President would need to decide how much additional capacity should be set aside to ensure funding for projects that suddenly arise. Hsu wondered about the debt capacity needed to maintain the University's credit rating. Volna offered that some of that is dependent upon the project and additional analysis would need to be done.

#### **RESOLUTION RELATED TO SALT SPRINGS LAND FUND INCOME DISTRIBUTION**

Interim Vice President Volna presented for review and action a resolution related to Salt Springs Land Fund income distribution, as detailed in the docket.

Volna explained that the Board approved a sale of Salt Springs Land in June 2016. Under previous Board action, income from Salt Springs Land sales is distributed across the system to support American Indian students. Volna stated that the resolution directs the proceeds from the June 2016 sale to be used to establish a new endowment fund directed entirely to the Morris campus, which has the highest percentage of American Indian students.

A motion was made and seconded, and the committee voted unanimously to recommend adoption of the resolution related to Salt Springs Land Fund income distribution.

## CONSENT REPORT

Interim Vice President Volna presented the Consent Report, as detailed in the docket:

### General Contingency:

- Two revisions of previous reports were offered:
  - FY 2016 Fiscal Year End: A transfer of \$150,000 to Capital Planning & Project Management for a stadium security project was made in the final period of FY16 after the July docket was prepared. This transfer, along with a slight adjustment for rounding errors, changed the FYE balance for FY 2016 from \$172,501 to \$22,500.
  - FY 2017 July: The revised report notes the change in the carry forward noted above, along with funds transferred in July after the docket deadline.

### Purchase of Goods and Services \$1,000,000 and Over:

- To ARI for an estimated \$17,500,000 for vehicle financing and leases initiated during the contract period from October 1, 2016, to September 30, 2021, with contract extensions through September 30, 2022, for Parking and Transportation Services – Fleet Services. Financing costs will be paid by internally-generated departmental funds. Supplier was selected through a competitive process and is a replacement of the request for EMKAY that was approved by the Board of Regents in June 2016.
- To Elsevier, Inc. for an estimated \$3,454,200 for subscription to Elsevier ScienceDirect as needed for the period of January 1, 2017, through December 31, 2017, for Minitex. Minitex is a division of the University of Minnesota Libraries; it reports to the University of Minnesota Libraries and is an information and resource sharing program of the Minnesota Office of Higher Education and the University of Minnesota Libraries. Minitex, on behalf of a group of 18 libraries, will purchase this resource. Minitex pays \$300,000 and the 18 libraries pay the remaining amount, \$3,154,200. The \$300,000 allotted as payment for Elsevier ScienceDirect is included in Minitex's 2017 budget. Supplier was selected by University Libraries under authority granted by the Board of Regents Policy: *Libraries and Archives* and Board of Regents Policy: *Purchasing*.
- To Illumina, Inc. for \$8,000,000 for manufacturer reagents and instrumentation service agreements as needed for the Genomics Department core facility, the University of Minnesota Genomics Center (UMGC) for the period of September 9, 2016, through September 8, 2019. The reagents from Illumina will be purchased with departmental funds. As an ISO, the University of Minnesota Genomics Center will order reagents as needed for expression, genotyping, and next-generation sequencing projects provided to University researchers. See docket for documentation of basis for vendor selection.
- To Sciquest Inc. for an estimated \$2,441,000 to provide 6 year licensing costs for our U Market eProcurement software delivered and supported through a collaboration between Purchasing Services and U Market Services for the period October 1, 2016, through December 31, 2022. Funding for this licensing will be provided by Purchasing Services' operating budget. Supplier was selected through a competitive process.

A motion was made and seconded, and the committee voted unanimously to recommend approval of the Consent Report.

## **INFORMATION ITEMS**

Interim Vice President Volna referred the committee to the information items in the docket:

- Quarterly Purchasing Reports
- Investment Advisory Committee Update
- Debt Management Advisory Committee Update

The meeting adjourned at 4:51 p.m.



**BRIAN R. STEEVES**  
**Executive Director and**  
**Corporate Secretary**

**UNIVERSITY OF MINNESOTA  
BOARD OF REGENTS**

**Board of Regents  
September 9, 2016**

A meeting of the Board of Regents was held on Friday, September 9, 2016 at 7:30 a.m. in the Gateway Room, McNamara Alumni Center.

Regents present: Dean Johnson, presiding; Thomas Anderson, Richard Beeson, Laura Brod, Linda Cohen, Thomas Devine, Michael Hsu, Peggy Lucas, David McMillian, Abdul Omari, Darrin Rosha, and Patricia Simmons.

Staff present: President Eric Kaler; Vice President Kathy Brown; Interim General Counsel Greg Brown; and Executive Director Brian Steeves.

Others present: Amy Phenix.

**RESOLUTION TO CONDUCT NON-PUBLIC MEETING  
OF THE BOARD OF REGENTS**

A motion was made and seconded that the following resolution be adopted:

BE IT RESOLVED, that in accordance with Minnesota Statutes § 13D.01, Subd. 3 and 13D.03 Subd. 1, a non-public meeting of Board of Regents will be held on Friday, September 9, 2016 at 7:30 a.m. in the Gateway Room, 600 McNamara Alumni Center, 200 Oak Street, SE, Minneapolis, Minnesota for the purpose of discussing labor negotiations strategy.

The Board voted unanimously to adopt the resolution. The public portion of the meeting ended at 7:53 a.m., at which time the Board discussed labor negotiations.

The meeting adjourned at 8:16 a.m.



**BRIAN R. STEEVES  
Executive Director and  
Corporate Secretary**

**UNIVERSITY OF MINNESOTA  
BOARD OF REGENTS**

**Board of Regents  
September 9, 2016**

A meeting of the Board of Regents of the University of Minnesota was held on Friday, September 9, 2016 at 8:45 a.m. in the Boardroom, 600 McNamara Alumni Center.

Regents present: Dean Johnson, presiding; Thomas Anderson, Richard Beeson, Laura Brod, Linda Cohen, Thomas Devine, Michael Hsu, Peggy Lucas, David McMillian, Abdul Omari, Darrin Rosha, and Patricia Simmons.

Staff present: President Eric Kaler; Chancellor Lendley Black, Stephen Lehmkuhle, Fred Wood; Executive Vice President and Provost Karen Hanson; Vice Presidents Katrice Albert and Kathy Brown; Interim Vice Presidents Michael Berthelsen, Bernard Gulachek, and Michael Volna; Interim General Counsel Gregory Brown; Executive Director Brian Steeves; and Associate Vice Presidents Stuart Mason and Julie Tonneson.

**INTRODUCTIONS**

**Dean, College of Science and Engineering**

President Kaler and Provost Karen Hanson introduced Samuel Mukasa, Dean of the College of Science and Engineering, who began his appointment on August 31, 2016. Mukasa holds a Ph.D. in geochemistry from the University of California, Santa Barbara, an M.S. in geology from Ohio State University, and a B.S. in geology from University of New Hampshire. He completed a postdoctoral fellowship at Lamont-Doherty Earth Observatory of Columbia University in New York. He also received a D.Sc. honorary degree from Nkumba University, Entebbe, Uganda, in 2008. Mukasa briefly addressed the Board.

**Dean, Law School**

President Kaler and Provost Karen Hanson introduced Gerry Jenkins, Dean of the Law School, who began his appointment on July 31, 2016. Jenkins earned his J.D. from Harvard University Law School, where he was editor-in-chief of the *Harvard Civil Rights-Civil Liberties Law Review*. He earned an M.P.P. from the Kennedy School of Government at Harvard University, and his B.A. is in political science, from Haverford College. Jenkins briefly addressed the Board.

**RECOGNITION OF REGENTS PROFESSOR**

Recognition was given to Christopher Uggen, newly appointed Regents Professor. A Regents Professorship is the highest honor the University bestows on its faculty. The individual holds the title as long as he or she retains a full-time, tenured appointment as a faculty member of the University. Uggen is a Distinguished McKnight Professor and Martindale Chair in the Department of Sociology, College of Liberal Arts. Uggen briefly addressed the Board.

**APPROVAL OF MINUTES**

A motion was made and seconded, and the Board of Regents voted unanimously to approve the minutes of the following meetings:

Presidential Performance Review Committee – June 26, 2016  
Presidential Performance Review Committee – July 5, 2016  
Facilities, Planning & Operations Committee – July 6, 2016  
Board of Regents Meeting – July 6, 2016  
Litigation Review Committee – August 8, 2016

### **REPORT OF THE PRESIDENT**

President Kaler reported on the start of the new academic year, highlighting new student convocation and welcoming the class of 2020. He emphasized the importance of the system campuses and discussed his commitment to developing a system-wide strategic plan. He reported changes in senior leadership, including the search for a Senior Vice President for Finance and Operations, the hiring of two new deans, and the pending approval of a new general counsel.

Kaler reported on summer outreach activities, such as FarmFest, several county fairs, and the Minnesota State Fair. He noted the accomplishments of University students and alumni at the 2016 Olympic games. He reviewed the status of efforts to establish an integrated academic health system, emphasizing the University's commitment to advancing the medical school and the health sciences.

A copy of the Report of the President is on file in the Board Office.

### **REPORT OF THE CHAIR**

Chair Johnson called on Regent Simmons to provide an update on the status of the integrated academic health system. Simmons reported that the Board work group remains committed to finding solutions to advance the reputation of the medical school and the health sciences. She emphasized the importance of maintaining a productive relationship with Fairview, and noted that Regent Cohen has joined the work group.

Johnson reported on the Board retreat held July 6-7, 2016, during which the following priorities were developed for 2016-17:

- Raise the national profile of the University's academic health sciences and guide strategic evolution of the Medical School and its affiliated clinical practice.
- Establish standards for excellence in the student experience at each campus, including admissions principles, sound academic advising, meaningful opportunities for reciprocal community engagement, and learning outcomes that prepare graduates for life.
- Develop a system-wide strategic plan that illuminates and embraces the 21st Century land grant mission and its impact on the people of Minnesota.
- Examine options to further operational excellence and create a long-range plan to secure the University's financial future.

Johnson noted that these priorities guide the Board's agenda planning and development throughout the year and assist the president and senior leaders in advancing their work.

A copy of the Report of the Chair is on file in the Board Office.

## **RECEIVE AND FILE REPORTS**

Chair Johnson noted the receipt and filing of the Annual Report on Legal Matters, the Annual Asset Management Report, and the Quarterly Report on Grant & Contract Activity.

## **CONSENT REPORT**

Chair Johnson presented for review and action the Consent Report as described in the docket materials, including:

- Summary of Gifts through July 31, 2016
- Summary of Expenditures

A motion was made and seconded, and the Board of Regents voted unanimously to approve the Consent Report.

## **ANNUAL INTERCOLLEGIATE ATHLETICS REPORT**

Chair Johnson invited President Kaler to introduce Intercollegiate Athletics Director Mark Coyle for the annual report on intercollegiate athletics. Kaler commended Coyle for the work he has done in the first few months he has been in his position.

Coyle reported that Athletics has 25 programs with more than 700 student-athletes, and a budget of \$105 million. He highlighted the past year's academic and athletic accomplishments, noting several national recognitions and awards. He explained that staff have been added to help oversee the department's compliance efforts. Coyle described facilities updates, provided an overview of projects underway, and outlined goals for future projects. He discussed the department's financial status, detailing major expenses and sources of revenue, and offered a projection of spending and revenue for the coming year.

Coyle explained that the department's guiding principles are actions, integrity, transparency, humility, and innovation. He emphasized the need to be intentional and consistent when communicating with internal and external audiences.

In response to a question from Regent Lucas, Coyle noted he has reviewed all athletic facilities and agrees that the men's and women's gymnastics facilities need improvement. He emphasized the importance of all Gopher athletics programs and the need to provide each team with adequate support.

Regent Omari asked how the University's revenue compares to other institutions. Coyle replied that the University's revenue is on par with its peers, noting that while the actual dollar amount may be smaller, the percentages are comparable.

Regent Brod remarked that success in athletics is not measured only by wins, but by behaviors and principle. She commended Coyle on the progress he has made in a short time at the University.

Regent Anderson remarked that he is impressed by the guiding principles and thinks they will be beneficial to the department.

Regent Rosha expressed interest in learning about additional areas of revenue growth. He suggested that the department should be viewed as a resource to manage, rather than a service to the University. He added that it might be beneficial to evaluate individual programs against the guiding principles, not just the department as a whole.

Regent Devine asked about the academic development of student-athletes and Coyle's plans for continued success. Coyle replied that he meets with each recruit and stresses the importance of academics. He recognized the work of McNamara Academic Center and emphasized the importance of creating strong students, not just strong athletes.

In response to a question from Regent Hsu, Coyle explained that he did not yet have a timeline for walkways connecting Athlete's Village and the Lineman's Facility. He reported that his staff is gathering data and that he would provide an update to the Board.

Omari emphasized the hard work and dedication of student-athletes, without whom there would be no athletics program.

### **ANNUAL REPORT ON PRIVATE GIVING**

Chair Johnson invited Kathy Schmidlkofer, President and CEO, and Becky Malkerson, Executive Vice President and Chief Advancement Officer, UMF, to present an annual review of fundraising highlights, as detailed in the docket.

Schmidlkofer reported that for FY 2016, more than 72,000 donors made commitments of \$312 million in current and future gifts – the second highest amount in the history of UMF. Malkerson discussed progress of the Vision 2017 medicine and health campaign, which surpassed its intended goal a year early. The campaign has raised more than \$1 billion over nine years, resulting in the creation of 248 new scholarships and fellowships and 36 new faculty chairs and professorships.

Schmidlkofer reported that a record \$214 million was distributed to the University community in scholarships, fellowships, academic programs, faculty support, and research. She noted UMF's efficiency, spending 13 cents to raise one dollar. Malkerson reported on historical gift production, emphasizing a steady upward trajectory over 30 years. She reviewed total private giving from the past five years, which has resulted in over \$1.9 billion in support through grants and philanthropy. Schmidlkofer and Malkerson also highlighted several specific accomplishments made possible by gifts to the University and discussed future philanthropic goals.

Regent Cohen applauded UMF for its level of giving across all system campuses.

Regent Brod commented on the positive alignment of priorities between UMF and the University. She emphasized the importance of the longer-term legacy and endowed funds.

Regent Simmons noted that the large number of non-alumni donors is a clear example of the University's impact on the extended community. She added that one does not need to have attended the University to benefit from its services and impact.

Regent Devine remarked on the accomplishments of the 2017 Vision campaign.

Regent Rosha asked that UMF keep the Board informed of future ideas for donor relations and campaign efforts. He expressed hope for a continued strong partnership between the two entities.

### **CAPITAL BUDGET AMENDMENT: PIONEER HALL & SUPERBLOCK DINING FACILITY (TWIN CITIES CAMPUS)**

Chair Johnson invited Interim Vice President Mike Berthelsen, Assistant Vice President Suzanne Smith, and Laurie McLaughlin, Director of Housing and Residential Life, to present

for action a proposed capital budget amendment for renovation of Pioneer Hall and a consolidated Superblock dining facility, as detailed in the docket.

Berthelsen reviewed the proposal's goals, which include expanding capacity, enhancing the student experience, and improving the dining experience in the Superblock. He discussed the project's rationale to help meet first-year housing needs, align with the Twin Cities campus enrollment plan and strategies, and address facility deficiencies. He reported on the projected capacity and demand of University properties and master lease facilities.

Smith summarized the renovations, detailing the projected cost estimates and the increased capacity following improvements. She explained project benefits, such as retaining the historic features of Pioneer Hall and expanding the footprint to increase the number of beds. She reviewed plans for new dining and residential spaces and reported on the total project costs. Smith explained that the project would be funded from University debt and has an anticipated completion date of September 2019.

McLaughlin outlined housing options during construction, which would include designation of new first-year student housing and use of apartment facilities.

Regent McMillan, Chair of the Facilities, Planning & Operations Committee, reported that the committee reviewed the proposal and voted 4-2 to recommend approval of the capital budget amendment. He moved its approval. The motion was seconded.

President Kaler remarked on feedback regarding the lack of climate controlled connections between the Superblock buildings and the proposed dining facility. He committed to launching an investigation into the costs and feasibility of adding walkways – whether above or below ground – to the project.

Regent Rosha suggested that the proposed plan does not necessarily increase capacity, which is one of the main goals of the project. He remarked that the use of apartment-style facilities during construction means other students could be displaced. He voiced concern about funding the project from debt, noting that this could limit future projects that might rely on the debt capacity. Rosha stated his lack of support for the specific amendment, but clarified that he is not opposed to other possibilities for housing expansion. He suggested more student input into the project.

Berthelsen agreed with the importance of considering the whole housing market, not just University-owned facilities, when evaluating student capacity. He noted that with so much apartment-style housing on or near campus, it is possible that no students will be displaced during construction.

Regent Devine stated that he would not support the specific proposal for three reasons: cost, especially if walkways are included; lack of clarity on whether the expansion adds capacity; and use of student money to support the project. He stressed the importance of enhancing the student experience, but suggested that this is not the best plan for accomplishing this goal.

Regent Brod thanked the President for his commitment to investigate options for walkways, noting that they would improve the overall student experience. She emphasized the importance of having both non- and for-profit housing on campus. She suggested identifying more ways to leverage the relationship between those in the for-profit market, such as is being done with the master lease plan.

Regent Hsu also expressed appreciation for consideration of walkways. He voiced concern about the increase in room and board costs, especially given the overall cost of attendance. He noted that Pioneer is not the lowest ranked dorm on campus, expressing support for improvements to the facility but not the proposed plan. He suggested that overall cost of

attendance could be mitigated by variable pricing for room and board, based on the desirability of a given facility.

Regent Beeson remarked on the progress made in housing and noted that the master planning process is complicated. He commented that he does not favor modest renovations, despite the high cost of complete renovations. He noted the rarity of pushback against the high costs of building or renovating other facilities, such as those for academic or athletic uses. He acknowledged that housing facilities are more expensive overall, but that they also generate revenue and significantly impact the student experience.

The Board of Regents voted 9-3 to approve the capital budget amendment for Pioneer Hall and the Superblock Dining Facility. Regents Devine, Hsu, and Rosha voted no.

### **PRESIDENT'S RECOMMENDED FY 2018-19 BIENNIAL BUDGET REQUEST**

Chair Johnson invited President Kaler to present the President's Recommended FY 2018-19 Biennial Budget Request (Budget Request) as detailed in the docket materials.

Kaler reported that the Budget Request includes three FY 2018-19 initiatives:

1. Student Success
2. MnDRIVE
3. Core Mission

Kaler explained that the goal of the student success initiative is to improve students' long-term success and reduce student debt system-wide. He detailed several intended outcomes, including graduating more students in STEM fields to help support the state's workforce needs, and increasing enrollment and retention for students of color. He detailed new components of the MnDRIVE initiative, explaining that these goals will help the University and the state be more competitive in areas of discovery. Kaler emphasized that the core mission initiative will support academic and operational excellence on all campuses and across all facets of the institution's mission.

Kaler reported that the Budget Request also includes two initiatives related to the past legislative session:

1. Replacement of UCare funding.
2. Bell Museum and Planetarium operations.

He explained that health training restoration is necessary to continue providing critical health training and services statewide. He added that outcomes of the initiative will support core clinical training education and research programs, fund the Mobile Dental Clinic, and enhance access to care in greater Minnesota. Kaler noted that funding for the Bell Museum will support operations of the new museum, classroom spaces, and increase to educational programs.

The total request for all five initiatives for the biennium is \$143.2 million, a change from base of 11.4 percent. The President's Recommended FY 2018-19 Biennial Budget Request will return for action at the Board's October 2016 meeting.

Regent Simmons remarked that the request strikes a good balance between the needs and priorities of the University and of the state.

Regent Omari expressed appreciation for the alignment of the budget initiatives with the strategic goals. He suggested that transparency will be important in the use of funds for the Bell Museum.

In response to a question from Regent Hsu, Kaler explained that the proposed operating budget for the Bell Museum is adequate. He added that there may be future changes to account for factors such as inflation or opportunity costs. Kaler emphasized that the museum belongs to the state and it is the state's responsibility to fund it; the University has merely been entrusted with its operations.

### **PRESIDENT'S RECOMMENDED 2016 SIX-YEAR CAPITAL PLAN & PRESIDENT'S RECOMMENDED 2017 STATE CAPITAL REQUEST**

Chair Johnson invited Executive Vice President and Provost Hanson and Interim Vice Presidents Michael Berthelsen and Michael Volna to present the 2016 six-year capital plan (Capital Plan) and 2017 state capital request (Capital Request).

Berthelsen reported on the portfolio planning process for the Capital Plan and Capital Request, highlighting the distinctions between the two. He discussed the objectives of the Capital Plan and detailed each of its strategic emphases, which include renovation or removal of critical buildings, advancing the health sciences, modernizing labs and research facilities on the St. Paul campus, expanding STEM program facilities, and investing in improvements to the University's libraries.

Hanson discussed the importance of the libraries to the institution and the state. She observed that modernization has shifted demands on the library system but emphasized the importance of preserving older collections and archives. She detailed renovation plans for facilities on the Twin Cities and Morris campuses.

Volna explained the financial components of the Capital Plan.

Berthelsen reviewed the timeline and financial summary of the Capital Request, noting that it is the same as that made in 2016, with the addition of the library projects. He explained that in addition to Higher Education Asset Preservation and Renovation (HEAPR) funds, the request includes three renovation and design projects on the Twin Cities campus, construction of a new building on the Duluth campus, and system-wide investments in the academic and student experience.

In response to several questions from Regent Hsu, Berthelsen replied that \$10 million from a 2015 state appropriation was allocated for the design and preliminary construction of the health sciences education and clinical sciences buildings. Associate Vice President Suzanne Smith added that a contract for design had been awarded and design is underway. She noted that \$1.5 million of that amount was allocated for a feasibility study on the clinical sciences facility.

Berthelsen explained that the health sciences building would be constructed on the current site of the Masonic Memorial Building and VFW Cancer Center. Initial plans are in place for relocation of the departments in those facilities. He added that the location was chosen because it was the best option given its close proximity to other health sciences buildings. He explained that since medical faculty serve multiple roles, it is important for them to be close to clinical, research, and classroom facilities.

Berthelsen explained that a new chemistry building is scheduled to be constructed on the Twin Cities campus. The new facility will house primarily lab spaces and will allow for additional renovations to Smith Hall, which will be converted to research spaces.

In response to a question from Regent Anderson, Berthelsen reported that demolition costs were included in the total request.

Regent Brod remarked on the importance of evaluating the University's relationship with the legislature and being creative in seeking repair and replacement funds. She suggested partnering with other state higher education agencies and institutions to yield greater results. Kaler replied that the University has considered different approaches in its requests to the state in the past, without significant gain. He noted he is open to finding new ways to partner with the state and to consider options for other requests for funding.

Regent Devine agreed about consideration of other sources of funding. He remarked on the importance of emphasizing to the legislature the long-term goals of the health sciences. He noted that this emphasis will provide perspective for the incremental investments that will be made along the way.

Regent Rosha commented that the aspirational goals for critical facilities should be viewed from a perspective of access to excellence. He suggested that eliminating those facilities that are a drain on the institution's resources could improve the campus experience and help with funding requests to the legislature.

Regent Omari asked if the shift in library services to primarily online delivery has affected operations, and if there are variations between graduate and undergraduate needs. Hanson responded that the demand for services is still for both digital and hard copy materials, and that there has been a greater shift in student expectations for study spaces. She noted that the inclusion of Murphy Hall addressed the demand for both types of materials, noting the need to maintain older methods of operation while being highly modern.

Regent Simmons remarked on the health sciences and provided clarification for the comparisons to the Destination Medical Center. She commented on strategic planning around the health sciences and medical facilities.

## **REPORT OF THE ACADEMIC & STUDENT AFFAIRS COMMITTEE**

Regent Cohen, Chair of the committee, reported that the committee voted unanimously to recommend:

- 1) Approval of the Consent Report for the Academic & Student Affairs Committee as presented to the committee and described in the September 8, 2016 committee minutes.
- 2) Adoption of amendments to Board of Regents Policy: *Animal Care and Use*, as follows:

### SECTION I. SCOPE.

This policy governs University of Minnesota (University) research, teaching, display, and service activities involving animals when conducted by, or on the behalf of, University faculty, staff, or students or when using University facilities or equipment.

### SECTION II. COMMITMENT.

The Board of Regents (Board) of the University affirms the appropriate use of animals in research, teaching, display, and service activities and is committed to the highest standards for their humane care and use. The president shall support and protect the officially sanctioned use of animals covered pursuant to this policy.

### SECTION III. GUIDING PRINCIPLES.

In performing their duties, University faculty, staff, and students shall adhere to the following recognized principles:

- (a) procedures involving animals shall be designed and performed with due consideration for their relevance to human or animal health, the advancement of knowledge, or the good of society; and
- (b) the proper use of animals requires avoidance or minimization of discomfort, distress, and pain.

#### SECTION IV. DEFINITIONS.

Subd. 1. Institutional Animal Care and Use Committee. *Institutional Animal Care and Use Committee* (IACUC) shall mean the committee established by the president or delegate in accordance with federal regulations to review University animal care and use protocols, animal facilities, and the overall animal program.

Subd. 2. Institutional Official. *Institutional official* shall mean the individual appointed by the president to oversee all aspects of the University's animal care and use programs. The institutional official shall be an individual with the authority to allocate resources needed to maintain a smoothly functioning animal care and use program based on recommendations and advice received from the IACUC and the attending veterinarian. The institutional official shall be authorized to legally commit on behalf of the University that the requirements of the Public Health Service *Policy on the Humane Care and Use of Animals* (PHS Policy) and the USDA *Animal Welfare Act* (AWA) and its regulations (AWAR) will be met.

Subd. 3. Attending Veterinarian. *Attending veterinarian* shall mean an individual qualified by virtue of appropriate postgraduate training and/or experience in laboratory animal science and medicine who has the appropriate authority to execute the duties inherent in assuring the adequacy of veterinary care and overseeing other aspects of animal care and use to ensure that the program meets applicable standards.

Subd. 4. Research Animal Resources. *Research Animal Resources* (RAR) shall mean the program established by the president or delegate to provide veterinary services and support for activities covered under this policy.

Subd. 5. Service or Display Activities Involving Animals. *Service or display activities involving animals* shall mean activities that include animals housed at the University but do not involve research or teaching. Care for these animals is governed by best practice in animal care as specified by the persons in charge of the animals and approved by the IACUC. These animals do not include privately owned animals such as personal pets, service animals performing tasks for individuals with disabilities, or office fish tanks.

#### SECTION V. COMPLIANCE WITH FEDERAL AND STATE LAW.

Subd. 1. Federal and University Responsibilities. As required by federal law, the president or delegate shall appoint an IACUC to ensure that activities covered under this policy meet federal requirements. The president or delegate is responsible for overseeing the IACUC. University officials may not approve an activity covered under this policy if it has not been approved by the IACUC. Activities approved by the IACUC nevertheless may be subject to further review and approval by University officials.

Subd. 2. Regulatory Compliance. All activities covered by this policy must comply with applicable federal and state regulations and guidelines, including, but not limited to, the PHS Policy, the National Research Council *Guide for the Care and Use of Laboratory Animals*, the USDA AWARs, and the *Guide for the Care and Use of Agricultural Animals*.

SECTION VI. UNIVERSITY COMPLIANCE PROVISIONS.

Subd. 1. President. The president shall:

- (a) ensure that activities covered under this policy meet federal requirements; and
- (b) oversee the institutional official.

Subd. 2. Institutional Official. The institutional official shall:

- (a) ensure compliance with applicable laws, guidelines, and policies;
- (b) appoint IACUC members, in consultation with the leadership of the IACUC;
- (c) perform all necessary reporting requirements, including reports to the appropriate federal governmental and University officials any serious or continuing noncompliance with applicable laws and policies and any corrective action taken; and
- (d) consult with the Office of the General Counsel in carrying out these responsibilities as appropriate.; and
- (e) oversee the attending veterinarian.

Subd. 3. Attending Veterinarian. The attending veterinarian shall:

- (a) be a voting member of the IACUC; and
- (b) have direct or delegated authority and responsibility to ensure the provision of adequate veterinary care and to oversee the adequacy of other aspects of the animal care program.

Subd. 4. Research Animal Resources. The veterinary services and support provided by RAR shall include husbandry programs and facilities; veterinary medical services; and consultation on the selection, care, and use of University animals consistent with the recommendations in the Guide for the Care and Use of Laboratory Animals.

Subd. 5. IACUC. The IACUC shall have the authority and responsibility to:

- (a) review and approve, require modifications to, or withhold approval of all University activities involving animals prior to the start of the activity;
- (b) conduct semi-annual inspections of facilities where animals are being housed or used;
- (c) conduct semi-annual evaluations of the University's animal care and use program;
- (d) conduct continuing review of previously approved activities at appropriate intervals as determined by applicable regulations;
- (e) review and investigate complaints of noncompliance; and
- (f) promptly report to the institutional official:
  - (1) any alleged serious or continuing noncompliance with federal or state laws or University policies or procedures; and
  - (2) any corrective actions taken in response to noncompliance.
- (g) gain access to all facilities used for the care and research of animals;
- (h) obtain University records and other relevant information related to the use of animals; and
- (i) take any actions, including suspending an activity, that are in its judgment necessary to ensure compliance with applicable federal, state, or University policies and procedures.

Subd. 6. University Faculty, Staff, and Students. University faculty, staff, and students involved in the care and use of animals shall:

- (a) be appropriately qualified or supervised for conducting procedures on animals;
- (b) satisfy all required training;
- (c) enroll and participate in an occupational health program as required; and
- (d) abide by and carry out the decisions of the IACUC.

#### SECTION VII. ADMINISTRATIVE PROCEDURES.

The IACUC, with responsible oversight by the president or delegate, shall maintain appropriate administrative policies and procedures to implement this policy.

The Board of Regents voted unanimously to approve the recommendations of the Academic & Student Affairs Committee.

Regent Cohen reported that the committee also reviewed the its annual work plan; received an annual report on academic program changes; and discussed developing and preparing students through a liberal education.

#### **REPORT OF THE AUDIT & COMPLIANCE COMMITTEE**

Regent Brod, Chair of the committee, reported that the committee reviewed its annual work plan; received an update on the internal audit; discussed the remediation of intercollegiate athletics audit findings; received an update on the human participant research protection plan implementation; and reviewed the RFP process for external audit contract.

#### **REPORT OF THE FACILITIES, PLANNING & OPERATIONS COMMITTEE**

Regent McMillan, Chair of the committee, reported that the committee discussed its annual work plan; reviewed issues related to the President's recommended 2016 six-year capital plan and 2017 state capital request; reviewed real estate transactions; discussed a resolution related to the demolition of the electric steel elevator property; reviewed a capital budget amendment which addressed the intercollegiate track facility and relocation of the rec sports bubble; and received information items outlined in the docket materials.

#### **REPORT OF THE FACULTY & STAFF AFFAIRS COMMITTEE**

Regent Simmons, Chair of the committee, reported that the committee voted unanimously to recommend:

- 1) Approval of the Consent Report for the Faculty & Staff Affairs Committee as presented to the committee and described in the September 8, 2016 committee minutes.

The Board of Regents voted unanimously to approve the recommendations of the Faculty & Staff Affairs Committee.

Regent Simmons reported that the committee also reviewed the committee's annual work plan; discussed compensation planning; received an update on employee engagement; and reviewed information items outlined in the docket materials.

#### **REPORT OF THE FINANCE COMMITTEE**

Regent Beeson, Chair of the committee, reported that the committee voted unanimously to recommend:

- 1) Approval of the Consent Report for the Finance Committee as presented to the committee and described in the September 8, 2016 committee minutes.
- 2) Adoption of amendments to Board of Regents Policy: *Investment of Reserves*, as follows:

#### SECTION I. SCOPE.

This policy governs the investment of short-term and long-term reserves of the University of Minnesota (University).

#### SECTION II. SHORT-TERM RESERVES.

Subd. 1. Investment Objective. The primary investment objective for the University's short-term reserves, known throughout Section II of this policy as the Temporary Investment Pool (TIP), is current income and capital preservation. In addition, the following are priorities for the investment of short-term reserves:

- (a) maintaining sufficient liquidity to meet the near term funding and operations requirements of the University;
- (b) maximizing current income and investment returns on these reserves; and
- (c) providing backup liquidity for certain of the University's short-term or variable rate debt obligations.

Subd. 2. Overall Portfolio Characteristics. A majority of TIP funds are to be invested in high quality, relatively short-term interest bearing securities not exposed to significant market risk while a portion may be invested in the University's Consolidated Endowment Fund (CEF). The following percentages of annual operating revenues, as measured at the completion of each fiscal year, shall be retained in TIP:

- (a) at least 8% for the purpose of debt service reserves and related liquidity requirements;
- (b) at least 6% for the purpose of providing cash flow for operations; and
- (c) at least 5% for the purpose of providing core operating reserves.

A portion of the remaining balance of TIP may be invested in CEF. The investment in CEF, combined with private and/or illiquid securities, should not exceed 30% of total TIP funds at time of investment. Annually, when determining the amount of TIP to be invested in CEF, consideration shall be given to market conditions and other financial circumstances. TIP investments in CEF shall be reported periodically to the Board of Regents (Board).

The interest bearing portion of TIP investments shall be guided by the following:

- (a) Average duration shall be four years or less for the entire portfolio with a maximum duration of seven years for any individual holding.
- (b) Average credit quality shall be A1/A+ or better.
- (c) Individual securities owned shall maintain a rating of investment grade (defined as Baa3/BBB- rating or better by Moody's or Standard & Poor's) unless the president or delegate specifically approves retention of a lower rated security. The Board must be notified of such approvals.

Subd. 3. Investment Managers. While TIP funds may be invested directly by University personnel, the use of investment managers also is permissible. Investment managers shall not be subject to the prohibitions described in parts (3), (4), (5), (6), (7), and (8) of Section II, Subd. 5(b) as long as overall portfolio averages are in compliance with the guidelines described in this section.

Subd. 4. Investment Guidelines for Specific Types of Securities. The following investment guidelines shall apply to investments made directly by the University:

- (a) Federal Government Securities - Investments in federal government securities shall be limited to U.S. Treasury obligations, federal agency securities, and obligations guaranteed or insured by an agency of the federal government, with no limitation on amount per agency or percent of overall portfolio.
- (b) Money Market Investments - Investments in money market instruments shall be limited to money market funds or fixed income mutual funds designed to maintain a stable unit value, with no limitation on percent of overall portfolio.
- (c) Corporate Obligations - Investments in corporate obligations shall be limited to commercial paper, intermediate or long-term bonds, bank paper, and master notes. In aggregate, corporate obligations shall not exceed 50% of the portfolio, with a maximum limitation of 5% for any single issuer, and shall be guided by the following:
  - (1) Commercial Paper - Investments in commercial paper shall be limited to U.S. dollar denominated obligations of U.S.-based or foreign issuers whose commercial paper is rated A-1+, A-1, or A-2 by Standard & Poor's or P-1 or P-2 by Moody's.
  - (2) Intermediate or Long-Term Bonds — Investments in intermediate or long-term bonds shall be limited to bonds and flexible rate securities that are U.S. dollar denominated.
  - (3) Bank Paper - Investments in bank paper shall be limited to U.S. dollar denominated certificates of deposit, time deposits, bankers acceptances, letters of credit, and documented discount notes from U.S. or foreign issuers.
  - (4) Master Notes - Investments in master notes shall be limited to notes issued by U.S. corporations, with a maximum limitation of 10% of the portfolio.

Subd. 5. Prohibitions. Except for investments made in CEF or by investment managers in accordance with Section II, Subd. 3 of this policy:

- (a) leverage shall not be used in investing TIP funds; and
- (b) the following investments are prohibited:
  - (1) equity and equity related alternatives;
  - (2) securities convertible into equity;
  - (3) non-investment grade high yield securities;
  - (4) unrated securities;
  - (5) private and/or illiquid securities;
  - (6) securities not traded on a major exchange;
  - (7) any securities issued by a foreign government or corporation domiciled in a country that is not part of the Europe, Australasia, and Far East (EAFE) Index, or Canada; and
  - (8) derivative securities.

### SECTION III. LONG-TERM RESERVES.

Subd. 1. Investment Objective. The primary investment objective for the University's long-term reserves, known throughout Section III of this policy as the Group Income Pool (GIP), is to maximize the total investment return while preserving capital balances until such time as the principal is required to fund the intended use. Because of the potential for higher levels of volatility, the GIP portfolio shall be invested by investment managers or in CEF.

Subd. 2. Investment Guidelines. GIP funds shall be invested on a total return basis. The following investment guidelines shall apply for GIP:

- (a) Interest Bearing Securities - Up to 100% of the portfolio may be invested in interest bearing securities that may include:
  - (1) bonds, convertible bonds, mortgage-backed and/or asset-backed securities that are issued by governments, government agencies, or corporations in developed market countries;
  - (2) securities, denominated in foreign currencies or U.S. dollars;
  - (3) securities rated below investment grade up to a maximum 20% allocation; and
  - (4) emerging market debt, up to a maximum 10% allocation.
- (b) Equity - Up to 50% of the overall portfolio may be invested in diversified equity and equity-related securities and/or in CEF.
- (c) Mutual Funds - Consistent in quality with these investment guidelines.
- (d) Money Market Funds - To the extent that money market funds are used in the portfolio, underlying assets in the fund shall have a minimum commercial paper rating of A2/P2 as rated by Standard & Poor's and Moody's.

Subd. 3. Prohibitions. Except for investments made in CEF:

- (a) leverage shall not be used in investing GIP funds; and
- (b) investments in derivative securities are prohibited.

3) Approval of a Resolution Related to Distribution of Funds from Sale of Salt Springs Lands, as follows:

WHEREAS, the University of Minnesota (University) has been directed through Minnesota Statutes, section 92.05, that proceeds from the sales of the Salt Springs Lands be devoted to further support American Indian education at the system campuses of the University; and

WHEREAS, the Board of Regents (Board) adopted a resolution on January 8, 1993 to allocate the proceeds from sales of Salt Springs Lands, with 80 percent of proceeds directed to the Duluth campus, 15 percent to the Morris campus, and 5 percent to the Crookston campus; and

WHEREAS, the Board approved a sale of Salt Springs Lands to the State of Minnesota on June 10, 2016; and

WHEREAS, the University of Minnesota, Morris has had significant growth in the number of American Indian Students studying on campus, now 17 percent of full-time students, and also has the unique obligation as a campus established on the site of an American Indian boarding school (1887-1910), and a Federal and State mandated tuition waiver for American Indian students.

NOW, THEREFORE, BE IT RESOLVED that the Board of Regents directs that the proceeds from the sale of Salt Springs Lands on June 10, 2016 be set up as a new endowment fund, separate and distinct from existing Salt Springs Land endowment accounts, and that 100 percent of the income distributed from the new endowment fund be allocated to the University of Minnesota, Morris for programs and activities that further American Indian Education.

The Board of Regents voted unanimously to approve the recommendations of the Finance Committee.

Beeson reported that the committee also reviewed its annual work plan; received the annual asset management report; reviewed financial components of the President's recommended

biennial budget request, 2016 six-year capital plan, and 2017 state capital request; and received information items outlined in the docket materials.

**REPORT OF THE GOVERNANCE & POLICY COMMITTEE**

Regent Cohen, Chair of the committee, reported that the committee did not meet this month.

**REPORT OF THE LITIGATION REVIEW COMMITTEE**

Regent Devine, Chair of the committee, reported that the committee did not meet this month.

The meeting adjourned at 12:02 p.m.

A handwritten signature in black ink that reads "Brian R. Steeves". The signature is written in a cursive, flowing style.

**BRIAN R. STEEVES**  
**Executive Director**  
**and Corporate Secretary**