

**Minutes of the Special Meeting of the Board of Regents of the University of
New Mexico
December 6, 2013
Roberts Room, Scholes Hall on Main Campus**

Members present

Jack L. Fortner, President
James H. Koch, Vice President
Bradley C. Hosmer, Secretary/Treasurer
Suzanne Quillen (joined the meeting by phone)
J.E. 'Gene' Gallegos
Conrad D. James
Heidi N. Overton

Administration Present

Robert G. Frank, President
David Harris, EVP for Administration and COO
Chaouki Abdallah, Provost and EVP for Academic Affairs
Elsa Cole, University Counsel
Jewel Washington, Interim VP for HR
Paul Krebs, VP for Athletics
Michael Dougher, Interim VP for Research
Ava Lovell, Sr. Exec. Officer of Finance and Administration, HSC
Chris Vallejos, AVP Business Planning & Services
Andrew Cullen, AVP Planning, Budgets & Analysis
Mark Saavedra, Director Government Affairs
Tom Neale, Interim Director Real Estate
Maureen McGuire, Associate University Counsel
Pamina Deutsche, Director University Policy and Administrative Planning

Regents' Advisors present

Isaac Romero, President ASUNM
Carl Alongi, Chair UNM Foundation

Guests in attendance

Dr. Jose Garcia, Secretary of NM Higher Education Department

Others in attendance

Members of the administration, faculty, staff, students, the media and others.

CALL TO ORDER

Regent Vice President Jamie Koch called the meeting to order at 8:00 a.m., a quorum was confirmed and the agenda was unanimously approved. Regent President Fortner arrived a couple minutes late due to weather conditions and chaired the rest of the meeting.

REPORT ON FY15 FUNDING FORMULA RECOMMENDATIONS

The meeting started with a presentation on Funding Formula from New Mexico's Secretary for Higher Education, Dr. Jose Garcia. Mark Chisolm, who works part time in Secretary Garcia's office and part time at UNM under

Provost Abdallah, opened up the presentation, addressing Dr. Garcia's PowerPoint slides and explained the differences between this year's formula put forth by the Department, and the formula used last year put forth by the Legislature.

The Department's formula has basically the same outcome measures, but the main difference from last year's formula is that the Department wants to put some money 'at-risk' and give it back based on performance so that it will be an incentive formula. The current formula took away 28% of all the new money that had been appropriated the year before and then allocated new money based on the performance in the current year, which caused the net effect on institutions to be almost the same.

The recommendation for FY15 is to start with what everybody got in FY14, then 10% of each institutions ING appropriations is taken and then given back based upon performance. Additionally, there are new dollars recommended based upon performance in the current set of years.

In the Department's formula, there are 3 outcome categories:

- 1) Individuals receiving degrees and certificate awards: this includes one of the main changes this year from last year's formula—last year funded every single degree granted, but this year they are counting each individual that gets an award and if they receive multiple awards, counting only the award that gives most points to the institution.
- 2) Identify awards that are in one of the STEM fields or in health (STEMH)
- 3) Recognize students that are at risk, based on financial need: If the expected family contribution is \$5,000 or less on FAFSA, they are identified as a needy student and are therefore at risk for completing, because for example they might have to work while they are in school, or cannot go full time or cannot continue in school.

Secretary Garcia said that the formula addresses three major needs within the state. First, the production of more degrees within New Mexico's higher education system is needed, degrees of all kinds; second, STEM and Health Science degrees are becoming higher demand degrees; and third, the state has a high proportion of at-risk population; therefore, the formula awards based on those three categories, number of degrees, number of STEMH degrees, and number of degrees awarded to at-risk students.

Regent James asked if a single student could be counted in more than one outcome category, for example a student who is an at-risk student and who also receives a degree in a STEM field. Mr. Chisolm said that particular student would be counted in all three of the outcome categories.

Secretary Garcia went on to say, there will be a comparing of number of degrees in period A with the number of degrees in period B. And since there are all types of degrees, the Department created 3 by 10 matrix of different categories of degrees with differing values for each type of degree. Every degree awarded would fit into the 30 cell point matrix and a total number of points for a total number of degrees awarded can be tallied and then comparisons of 2 periods made to see incremental changes. Included in the point values is an attempt to capture the costs that go in to providing the different types of degrees, research degrees cost more to the institution to provide than for example, certificates and therefore have higher points attributed to them.

The 10% at-risk money is allocated to each institution based on the performance of each institution relative to the rest of the system.

Dr. Garcia mentioned that there is a total of \$583,000,000 State dollars going in to Higher Education and 10% of that is reallocated to the institutions based on proportion of total points.

Regent Fortner asked that if a 1-year certificate is equivalent to about a 1/6 value of a 4-year degree, then is that implying we are competing with other research institutions and not competing with an institutions that award certificates?

Dr. Garcia said that a doctoral degree is worth 7 times what a BA is worth, and so the formula indicates to planners to recruit for Doctorate programs or to improve those programs so that more of those types of degrees will be awarded by the institution.

R. Gallegos brought up the issue of differing number of hours required by different institutions to award the same degree, for example one institution may require in the curriculum 128 hours and another only 90 hours for obtaining the same degree, and he does not see where a difference in requirements to earn degrees is captured in the formula. He asked if there is also a risk of grade inflation due to this.

Dr. Garcia said that Tennessee has 100% of the money at-risk every year, Louisiana is at 25%, Colorado at 15% and Illinois is moving to 25%, but he thinks accreditation should take care of any risk of grade inflation.

President Frank said the hardest issue is addressing the overall value of a degree. In terms of cost to the University, it currently costs the University about \$45,000 to give a degree, even in efficient conditions, and getting to a level of \$33,000 is not realistic at this time, but the President wants to visit this issue next year. President Frank said there are a couple of other issues, the first related to the creation of new degrees. Currently, the process for approving new degrees is very long involving a heavy amount of scrutiny. This is something that needs to be looked at. And second are some technical issues, one of them being where the base year is located to start making year to year comparisons. Numbers can look better depending upon which year is chosen as the base year.

Regent Hosmer said the conversation has missed a couple of key points, with the larger point of view being higher education and higher education in New Mexico. The trend for education in New Mexico desperately needs change, and this funding formula is a piece of that. The funding formula is a reasonable approximation now that can be improved through the years, and supporting the best funding formula right now is a good thing to do.

Regent James asked to have a conversation on the new money. Secretary Garcia said there is approximately \$8.3 Million of new money in the FY14 appropriation. He talked about awarding money based on credit hours. Mr. Chisolm addressed the years for comparing growth, and that those could be adjusted and a \$/point could be set for new money, giving an example of \$75/point. He said that last year funded change which wasn't very fair to larger institutions, but this year will fund all of the points taking a 3-year average. But if funding were based on credit hours, many would lose money, because credit hours have gone down.

Regent James commented that the overall outcome to institutions is being buffeted by the \$8 Million of new money and asked about looking down the road a couple years' time when there might not be that amount of new money. Regent James said that basically he likes the formula because it is rewarding the institutions on performance metrics, but he would like to see a worst case scenario depicting what would happen if there was no new money.

Secretary Garcia concluded his presentation by saying he thinks this is a formula that is good and solid, that it points in the direction the state needs to go. No formula is perfect and the stand ready to work with the institutions. The degree values given in the 3 X 10 matrix should be evaluated every year. One thing the formula points to is perhaps cutting down the number of hours which would improve efficiency. New Mexico ranks 48 in the nation in the efficiency and use of dollars going toward producing degrees. He is willing to sit down and talk but would prefer to have policy discussions, not in the context of an upcoming election where self-interest might get involved. The task will involve revisiting this every year to try to get a formula that is reliable. One last thing,

Dr. Garcia believes things will be a lot better if we start with something now rather than if we wait another year. He advocates staying with this formula that has thus far worked and has evolved, and with time it will be improved. Right now stability is important as we work toward generating for New Mexico, more degrees, more at-risk students, and more STEMH degrees.

INNOVATE ABQ EXAMINATION

OVERALL VISION

President Frank opened up the discussion on Innovate ABQ. He said along with the overall vision of the Innovate project encompassing two pieces, Innovate @ Downtown and Innovate @ Mesa Del Sol, Lisa Kuuttilla would present the academic and research vision and then there would be discussion on whether the case has been made about the financial readiness of the University to take this step. He said both of the pieces fit the academic mission of the University to train students for the 21st Century world, providing them with skills necessary to do so. Innovate ABQ also addresses the need for UNM as a public research university to enter in to and engage with the community as part of its mission and role as a public research institution. Across the nation, universities like UNM are partnering with their communities in hand to hand relationships creating the potential for great things to happen.

Lisa Kuuttilla mentioned an appendix provided to the Regents to with information on other projects around the country that are similar to Innovate ABQ, as well as information about the planning and design firm, Perkins + Will, who did the planning study thus far. Also in the appendix of information is a number of letters of support and interest from the UNM Community and from entrepreneurial and business community all supporting the Innovate ABQ project. Ms. Kuuttilla talked about why the University wants to do Innovate ABQ and the importance of innovation districts and why they require a different sort of actions to develop, including putting together financing sources. They are different from projects that have been looked at in the past. Ms. Kuuttilla mentioned that startups happening now within the city are decentralized and scattered throughout the city, and there is need for a more centralized place or network of places for incubation providing enhanced opportunities for people to work together and where talent can be easily accessed. The vision includes the headquarters of Innovate ABQ to be Innovate ABQ @ Downtown, which would be the core site for implementing and would include co-working spaces, acceleration spaces for events, prototypes and student incubation programs, and entrepreneurial training for students. There will be an interesting mix of students, large companies and small companies in the planned Innovation building. As students are an integral part of the Innovate ABQ vision, UNM's signature there would be an Innovation Academy where a student could get a 4-year innovation minor alongside any other degree.

Regent Fortner asked if students would apply to live in the planned onsite dorms. Ms. Kuuttilla said they would apply and describe their needs for mentorship and support and their entrepreneurial vision or business ideas.

Regent James asked how the Anderson School is tied in to the Innovation Academy concept and Ms. Kuuttilla said the Anderson School is very closely tied and that the concept would expand across the campus.

INNOVATE ABQ @ MESA DEL SOL – APERTURE BUILDING

Addressing the Mesa Del Sol project, Ms. Kuuttilla said there is a tremendous need for incubation space, because all spaces in town are full, and there is no place for STC's new-co.'s. In addition, there is also great need for co-working space.

Regent Koch asked if everything will be moved from the Aperture building to downtown when the downtown spaces are ready. Ms. Kuuttilla said probably not everything; some faculty and engineering would like to start zero-

based start-ups, and the digital media and energy enterprises that are already at Mesa Del Sol will probably stay there. Some organizations will prefer an urban environment and some will prefer more rural environment.

Regent Overton mentioned the scenario looking at 18-24 months in the future when Aperture could be filled and asked if there is demand for the space right now, and also what would happen if UNM doesn't have something like Aperture to move into sooner than later? Ms. Kuuttilla said she believed the demand is there now, it is difficult to predict, but yes, currently companies are dispersing all over the city, and the trend would probably just continue if UNM did not have something like the Aperture building soon.

President Frank mentioned that the Japanese are invested in Micro-grid project, headquartered at Aperture, which is a project of international interest. Dr. Frank asked Dean Roman if he wanted to comment. Dean Catalin Roman, of the School of Engineering, said Japanese company NEDO (New Energy and Industrial Development Organization), has invested \$20 Million into the micro-grid project.

President Frank said a cluster model is already happening at Mesa del Sol with the micro-grid and digital media there right now.

Regent Hosmer asked if other similar research projects that are listed in the handout material have all been successful. Ms. Kuuttilla said there were no real failures but many took longer to develop than originally expected. Regent Hosmer requested information on growth rate data of other similar innovation and research parks.

EVP David Harris introduced former dean of the UNM School of Architecture and Planning, Dr. Roger Schluntz, who presented the results of student projects that were academic exercises looking at the development of the First Baptist Church focusing on the best use of the land based on the University's goals and also how the site could physically integrate the University with the City's downtown area and how this might impact the downtown.

PHASE I ESTIMATED EXPENDITURES

Regent Koch asked Andrew Cullen if the \$14 Million estimated expenditure in Phase 1 (2014/2015), under Tab 1C, includes the estimated initial investment of \$7.136 Million in the downtown property. Mr. Cullen said no, the initial expenditures on the First Baptist Church property are not included in the \$14 Million, and that Tab C was an exercise to look at what the costs might be.

APERTURE BUILDING

Regent Fortner asked why the value of the Aperture building has gone down to \$4.6 Million from its original cost to build which was around \$ 12 Million or more. Tom Neale answered the question saying the diminishment in value is a result of market conditions, costs don't equal the value, and the cost to build improvements can't be supported by the rents they could achieve. Andrew Cullen verified the theoretical value of the building could be over \$15 Million if the total 78,000 sq. ft. of the building were valued at \$200/sq. ft.

Regent Gallegos asked who owns the Aperture building. Tom Neale said that Forrest City owns the improvements; a Mesa del Sol LLC is the technical owner of the building.

Regent Overton referred to Tab 1a and the \$1.2 Million estimate in tenant improvements and asked if the plan is to spend the \$1.2 right away for tenant improvements. Tom Neale answered yes, once the building is acquired, build out for improvements of the space would occur immediately.

REGENTS ENDOWMENT FUND

Regent Koch said that when UNM transferred the land from Cochiti to Mesa del Sol, there was about \$9 Million received which is now down to \$6.4 in Regents' Endowment due to investments, but there was a requirement on

those funds that they were to be the Regents' money to spend the way they wanted. This is a little bit different from the other endowment money. When the Regents agreed on that land deal, they wanted to have some money for development like what we are looking at here. The Regents wanted to make sure they could use that money for investment if they so desired.

Mr. Harder said the specific use of the Mesa Del Sol proceeds, reading from a document the Foundation has regarding how the funds are to be spent, "The endowment to be funded from the sale of University land, the proceeds from the land transactions will be used to enhance the University by providing funds for special programs and activities in addition to funding normally provided from other sources, such special programs will include: 1) Regents' professorships, 2) Student financial aid, and 3) further development of UNM real estate." So the entire Regents' Endowment, currently \$28 Million, can be used for those three purposes.

Regent Gallegos asked why the Regents Endowment - Mesa Del Sol is now valued at \$6.4 Million when it was showing a value of \$4.6 Million at the end of June 2013. Rod Harder said there were two (2) purchases in 2005 and 2006, Gibson Mulberry property for \$1.6 Million and campus properties of \$250,000, and those 2 purchases came out of Mesa Del Sol funds; however, reviewing the minutes of the meetings where those purchases were approved showed there was no specification the funds should come out of the Mesa Del Sol portion, so those dollars have been transferred back into the Mesa Del Sol part of the endowment. There occurred a reclassification of funds, funds went back into the Mesa Del Sol proceeds and out of the Regents endowment which does encompass the Mesa Del Sol proceeds.

Regent Gallegos said that from time to time, when Regents have wanted to draw funds from the endowment fund, Regents have been told it's a unified fund, a CIF (consolidated investment fund), with investments in various types of securities, hedge funds, and equities, and so if funds were to be taken out, they would have to come out based on the share that is each of the different type of investments. Regent Gallegos asked if Regents wish to spend \$1 or \$5 Million dollars, would Regents be able to receive the full amount. Mr. Harder said the Regents would be entitled to receive the full amount in cash, and since it is a quasi-endowment, Regents could withdraw principal and also the income. The Foundation, as investor of the funds, is required to have enough liquidity in the investment fund to handle calls or demands on the account.

Regent Gallegos asked if the foundation will have to liquidate some securities. Mr. Harder said some investments are in equity mutual funds which can be liquidated within 24 to 48 hours; the Foundation may have to liquidate some of the very liquid securities, because typically balances are not carried in cash.

SITE SELECTION AND SOUTH CAMPUS

Regent Gallegos asked how much land the University owns that is adjacent to UNM's present Science & Technology Park, southwest of campus and east of I-25. Mr. Neale said there is approximately 14 acres. Regent Gallegos asked why spend over \$6 Million dollars on property downtown when UNM already owns the land. Mr. Neale talked about the Perkins + Will study and recommendations for the downtown site over other sites that were considered.

FIRST BAPTIST CHURCH PROPERTY DOWNTOWN

Regent Gallegos asked of the plan for the First Baptist Church building and if there are plans to raze it. Mr. Neale said it would be prudent to not do anything for a while in order to preserve the value of the site. Regent Gallegos asked the cost to raze the building; Mr. Neale said it would be in the order of magnitude of \$500,000.

Regent Gallegos asked if any environmental issues are known about the downtown site. Mr. Neale said there used to be a diesel fuelling facility across the street and as a result, migration of diesel fuel contaminants occurred and there have been found some contaminants in the soil. The railroad and First Baptist Church have applied for

volunteer remediation program, and the Railroad has said they will indemnify UNM in the case contaminants are found after breaking ground. Mr. Neale said there is also some asbestos in the floor tiles and that UNM is doing follow-up studies to verify there is no lead-based paint and also reconfirm the occurrence of the asbestos.

Regent James asked why the voluntary remediation program wasn't addressed years ago. He also asked for a worst case scenario with cost estimates including an environmental clean-up. Mr. Neale said there is currently not an estimate, and UNM would look to the railroad to pay for that.

Regent Overton asked that UNM get the indemnification in writing and asked for the current timeline. Mr. Neale said it typically takes 90 days. Regent Overton asked if there is an option for an extension on the contract with the First Baptist Church. Mr. Neale said UNM will ask the First Baptist Church to extend it until the environmental issues are closed.

Regent Gallegos asked if any mechanical issues have been found with the First Baptist Church building since it is such an old building. Mr. Neale said there have been no assessments done on the mechanical systems of the Church building.

Regent Quillen referred to the appraisal done of the First Baptist Church property, and the note that a full environmental impact study was beyond the scope of the analysis. Regent Quillen asked if there are any reports that have been done by any other entities on the property that could be of use. Mr. Neale said there are available Phase 1 and Phase 2 environmental assessments. Regent Quillen asked if it was an overall environmental study of the building including contents and mechanical systems. Mr. Neale said there has not been a study of the mechanical systems, that the appraisal of the building takes into account that it is old and there will need to be considerable investment dollars to get the building up to useable conditions, and those funds would come from private investors.

Andrew Cullen said the plan is for private developers to spend the money to improve the First Baptist Church building. Regent Gallegos asked if there are any private developers who are interested and Ms. Kuuttilla said there are 3 out of state and 7-8 in state who have expressed interest.

FIRST BAPTIST CHURCH PROPERTY – LEGAL STRUCTURE, TITLE AND GOVERNANCE STRUCTURE

Maureen McGuire spoke about the preferred legal structure of the First Baptist Church site being a For-Profit Limited Liability Company with two (2) members, Lobo Development and STC, which are solely owned by the Regents, so the equity in the property would come down to the Regents.

Regent Gallegos asked if the title would have to be in the name of the Regents, and Ms. McGuire said the newly formed LLC would take title. Regent Gallegos questioned whether state funds could be spent on the land and the title would not be in the name of the Regents.

Ms. McGuire also said the city originally talked about being an equity owner, but now there is discussion that they would like for there to be certain benchmarks and the City would possibly like to have input in development plans, but it is not pushing for equity ownership at this time.

Regent Fortner asked how this legal entity setup would avoid the anti-donation clause. Tracy Sprouls, of Rodey Law Firm, said that if all parties are state agencies, then there will be no anti-donation clause concern.

Regent Gallegos asked if the research park would then be a state agency, to which Mr. Sprouls answered, yes.

Regent Overton asked about the governance structure, if it would be subject to negotiations of members, and would those donating like to have governance representation. Ms. McGuire said they appear to be willing to make

a contribution under a grant or contract with benchmarks. The City is not asking for formal governance participation, but it would like to be involved in the design.

FINANCIAL RISK AND CONTINGENCIES

Regent Koch wanted to know the total amount of money the University would be out if the project got to the point of raising \$14 Million private investor funds but found the project would not get off the ground. Andrew Cullen said the true money at-risk is \$638,107, which includes the \$175,000 for master planning.

Regent Gallegos corrected and said in a worst case scenario the City and EDA would want their money back.

Regent Koch said he would like some language in Regents' approval that says, 'if the project is not going to get off the ground by such and such a time, a Plan B would be implemented.'

Regent Fortner said the proposal is to spend public money to inspire private development, and for what UNM is looking at, there is not a great amount of risk compared to the amount of potential in the project.

President Frank said there is not a Plan B outlined yet, but there will be one with the City.

Regent Koch said that somewhere along the timeline, if the project doesn't go, there's got to be some time limit when a Plan B or Plan C takes effect.

REGENTS' QUESTIONS

Regent Gallegos said there is a great deal of merit in public-private collaboration, and they can be successful. The idea of Innovate ABQ is an excellent idea and it shows the imagination that can be found in academic setting, but academic institutions are not the greatest at the business process. We have questions about environmental issues; questions about whether the building will be used or will be razed; questions about the legal entity and about our obligations if it the project doesn't get off the ground; obligations to the EDA and to the City at least, and perhaps the credit union. Regent Gallegos recommended not approving or rejecting the project during this meeting, but to table it until the Regents' questions are answered.

Regent Fortner said he sensed the majority of the Regents had Regent Gallegos' sentiment.

EDA OBLIGATIONS

Regent Overton asked to know what the Credit Union obligations would be.

Mr. Sprouls spoke in regards to EDA obligations, in the event of a future sale, the EDA would want a proportional share of the proceeds proportional to the amount of money the EDA grant contributed to the purchase. If the EDA grant contributes 1/3 on the purchase price, it would get 1/3 on any future sale.

REGENTS' PLAN SUBSEQUENT MEETING TO HEAR MORE

President Frank said the Regents are not meeting in January so they would be tabling the Innovate ABQ initiative until February.

Regent Fortner said the Regents could have a special meeting in January and if approved, the initiative would then go before the NM Legislative Board of Finance.

Regent Gallegos made a motion to table the Innovate ABQ initiative.

Regent Fortner asked for a second, but the motion died for lack of a second.

Regent Koch said that if the Regents table the initiative they could put a time factor on when they get back together and if we need to meet in January, they'll set up a Special Regent session.

Regent Fortner said Regents could meet the 3rd week in January after President Frank's Japan trip.

Regent Gallegos moved to table the Innovate ABQ initiative until a meeting could be set in the latter part of January, 2014. Student Regent Overton seconded the motion. The motion passed by unanimous vote with a quorum of Regents present and voting.

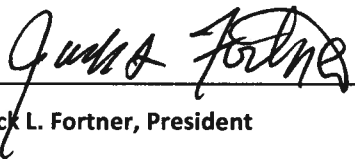
ADJOURNMENT

Regent Koch moved to adjourn the meeting. Regent Overton seconded the motion. The motion passed unanimously.

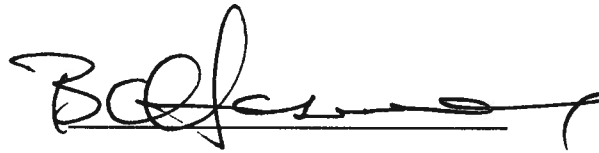
The meeting adjourned at 10:33 AM.

Approved:

Attest:



Jack L. Fortner, President



Bradley C. Hosmer, Secretary/Treasure