

Board Meeting
January 19, 2006

POLICY FOR MANAGEMENT OF UNIVERSITY ENDOWMENT FARMS

Action: Approve Policy for Management of Endowment Farms

Funding: No Funding Required

INTRODUCTION

This policy concerns managing endowment farm real estate assets given as gifts to the University of Illinois. Endowment farm real estate is agricultural land and related buildings acquired by the University of Illinois through the generous gifts of donors. This policy does not apply to farms utilized by the College of Agricultural, Consumer and Environmental Sciences for research purposes.

FIDUCIARY RESPONSIBILITY AND AUTHORITY

The University of Illinois follows the State of Illinois Uniform Management of Institutional Funds Act, 760ILCS 50/1-10, (1998) when investing its endowment funds. The Board of Trustees of the University of Illinois fulfills its fiduciary responsibility for the management of all endowment assets, including endowment farm real estate, by adopting policies to maximize investment return with a prudent level of risk.

The Board of Trustees adopts policies on the management of all endowment assets and assigns the execution of such policies to the Comptroller of the University. Acting under the oversight of the Comptroller, the Office of Business and Financial Services oversees the development and management of investment programs.

GIFTS OF ENDOWMENT FARM REAL ESTATE

The Office of Business and Financial Services and the Office of University Counsel process prospective gifts of real estate, including farm real estate. For prospective farm real estate gifts, professionals from these offices review the proposed gift before acceptance to:

- Assure a complete understanding of the intentions of the donor and any donor restrictions that may detract from the potential value of the gift to the University and to the unit in the University supported by the gift and that may in any way prohibit or restrict the University from achieving the purpose of the gift and thus fulfilling the intentions of the donor.
- Assure any environmental or related issues are completely understood and are adjudicated as part of the prosecution of the gift.
- Obtain a current estimate of the fair market value of the farm real estate property.

ANNUAL EVALUATION OF ENDOWMENT FARM REAL ESTATE FOR RETENTION OR SALE

Endowment farm real estate, where sale is not restricted by the donor, will be evaluated at the time of the gift and annually thereafter to determine if selling one or more parcels would be the most appropriate strategy. Factors considered in the evaluation will include, but not be limited to, 1) the asset allocation of the investment portfolio under prudent investment management practices both from the perspective of the entire University endowment and from the perspective of units supported by endowments that include farm real estate assets; and 2) total long-term return on farm real estate.

Proceeds from the sale of any and all endowment farm real estate will be invested in the diversified University endowment pool. As with all assets in the endowment pool, the annual payout from the earnings on the assets resulting from the endowment farm real estate sale will support the proscribed purposes and intentions of the respective donor(s).

MANAGEMENT AND OVERSIGHT

When a gift of farm real estate is accepted and maintained as part of the endowment farm real estate under management, the management of such assets will include practices that will:

- Adhere to donor interests and intentions as prescribed in gift documents.
- Maximize returns by employing current market-based industry-tested commercial management practices.
- Ensure the long-term productivity and thus value of farm real estate assets by closely monitoring soil fertility, assuring soil conservation and so forth.
- Assure the employ of environmentally safe farming practices and the compliance with all environmental protection rules and regulations.
- Assure the highest level of professional farm management including appropriate use of external management and agricultural expertise from industry and academia.

- Obtain an estimate of the current market value of all endowment farm real estate assets at least bi-annually through professional appraisals.

FARM REAL ESTATE OPERATING AGREEMENTS

Endowment farm real estate will be leased by the University to operators under cash lease agreements unless dictated otherwise by the donor.

Under terms of cash leases, farm operators are contractually entitled to 100 percent of the revenue from the sale of all crops in exchange for a dollar amount of rent paid per acre leased annually and a commitment to maintain the long-term productivity and thus value of the property. Operators, under the terms of cash leases, are also the recipient of payments from the federal government associated with operating the University owned real estate for agricultural purposes under U.S. farm policies and associated programs. These and other details are codified annually in the terms of the lease agreement entered into by the operator and the University.

SELECTION OF OPERATORS FOR ENDOWMENT FARM REAL ESTATE

Operators to farm endowment farm real estate under an agreement with the University will be selected through competitive processes, unless dictated otherwise by the donor, to assure market-based practices and terms. The competitive process shall be open to the public and shall involve advertising in publications of general circulation in the county or counties where the property is located. Operating agreements will reflect market practices for the operation of similar private sector farm real estate properties.

REPORTING AND PERFORMANCE EVALUATION

The Office of Business and Financial Services will prepare a calendar year performance report on endowment farm real estate. Performance will be computed on a total return basis and compared with the NCREIF Corn Belt Index and the Chicago Federal Reserve Bank East-Central Illinois Farmland Index.

The report will also contain the current estimate of the market value of each parcel of farm real estate in the portfolio, details on any endowment farm real estate gifted to the University within the year and the results of the evaluation determining which, if any, endowment farm real estate parcels will be sold in the coming year, including the plan for sale of these parcel(s).

The Vice President for Administration recommends the adoption of the policy.

The board action recommended in this item complies in all material respects with applicable State and federal laws, University of Illinois *Statutes*, *The General Rules Concerning University Organization and Procedure*, and Board of Trustees policies and directives.

The President of the University concurs.