

UNIVERSITY OF MINNESOTA

BOARD OF REGENTS

Finance Committee

Thursday, October 10, 2013

2:45 - 4:45 p.m.

600 McNamara Alumni Center, West Committee Room

Board Members

David McMillan, Chair
John Frobenius, Vice Chair
Clyde Allen
Richard Beeson
Laura Brod
Dean Johnson

Student Representatives

Jesse Jennings
John Reichl

A G E N D A

1. Administrative Cost Definition and Benchmarking Report: Update - J. Tonneson/L. Kallsen (p. 2)
2. Annual Operating Budget Development Process - R. Pfutzenreuter/J. Tonneson (p. 3)
3. University Financial Risk Profile - R. Pfutzenreuter (pp. 4-5)
4. Consent Report - Review/Action - R. Pfutzenreuter (pp. 6-13)
5. Information Items - R. Pfutzenreuter (pp. 14-15)



**UNIVERSITY OF MINNESOTA
BOARD OF REGENTS**

Finance Committee

October 10, 2013

Agenda Item: Administrative Cost Definition and Benchmarking Report: Update

review **review/action** **action** **discussion**

Presenters: Associate Vice President Julie Tonneson
Lincoln Kallsen, Director of Financial Research

Purpose:

policy **background/context** **oversight** **strategic positioning**

The purpose of this discussion is to update the committee on the second year of results for the cost benchmarking analysis for the University: This is the study that identifies and benchmarks the University's expenditures into the categories of Mission, Student Aid, Mission Support & Facilities, and Administrative Oversight

Outline of Key Points/Policy Issues:

The discussion will include an overview of the methodology for defining personnel and non-personnel expenditure totals in the categories of Mission, Student Aid, Mission Support & Facilities and Administrative Oversight. Expenditure totals by category and their relative share of total expenditures will be identified for fiscal years 2011-12 and 2012-13, with an analysis of changes year over year. Explanations will be discussed for any significant increases or decreases between the two years.

Background Information:

The first year (fiscal year 2011-12) of this analysis was shared with the Board of Regents in the Finance and Operations Committee on October 11, 2012. This presentation builds on that information by reviewing the methodology and adding the second year of data, along with year-to-year comparisons.



**UNIVERSITY OF MINNESOTA
BOARD OF REGENTS**

Finance Committee

October 10, 2013

Agenda Item: Annual Operating Budget Development Process

review review/action action discussion

Presenters: Vice President/CFO Richard Pfutzenreuter
Associate Vice President Julie Tonneson

Purpose:

policy background/context oversight strategic positioning

The purpose of this discussion is to overview the annual operating budget development process including the preparation of an annual operating budget framework that guides development of the President's recommended annual operating budget. The budget reflects the labor and material resources required to fulfill the goals and objectives of the University of Minnesota.

Outline of Key Points/Policy Issues:

The University's annual operating budget development process begins in the fall of each academic year. The fall process is focused on non-academic units while the winter/spring process focuses on academic units. The Budget Office, under the direction of the CFO, supervises the development of the annual operating budget, which is a collaborative effort involving many stakeholders. The budget development process is the formal method through which the University establishes its program priorities, goals and service levels for the upcoming fiscal year. Through the budget development process, policy is set, programs are established, service levels are expressed, and resources are identified. The budget serves as an operational plan, stated in financial terms, for carrying out the goals of the institution.

The Board of Regents has reserved to itself the review and approval authority for the annual operating budget. Items highlighted in the budget include tuition and fee increases, annual budget allocations to academic and non-academic units, compensation plans and reallocation plans.

Background Information:

The Board of Regents reviews and approves the all funds operating budget on an annual basis. The President recommends the annual operating budget to the Board of Regents each year.



UNIVERSITY OF MINNESOTA BOARD OF REGENTS

Finance Committee

October 10, 2013

Agenda Item: University Financial Risk Profile

review review/action action discussion

Presenters: Vice President/CFO Richard Pfutzenreuter

Purpose:

policy background/context oversight strategic positioning

The FY 2013-2014 Audit Committee work plan was structured around a series of discussions of risks associated with each of the major operational components of the University. These discussions provided the Audit Committee with the administration leadership's views on the risks facing the University and those risks deemed by the administration to be significant to the achievement of the University's strategic goals. The Finance Committee has a similar interest in discussing areas of financial risk from the perspective of the Chief Financial Officer of the University.

Outline of Key Points/Policy Issues:

The presentation will provide an overview and discussion of strategic financial risks in 5 broad categories:

1. Maintaining key financial relationships
2. Financing the mission
3. Financing operations
4. Financing capital assets
5. Emerging trends

The accompanying "strategic financial heat map" depicts the administration's assessment of the risks associated with those activities in terms of the likelihood of an unfavorable outcome, and resulting impact of an unfavorable outcome. The discussion will highlight the most significant strategic financial activities and risks, touch on trends and emerging themes, and review strategic opportunities for risk mitigation.

Background Information:

The Finance Committee of the Board of Regents has previously discussed financial risks of the institution.

Strategic Financial Risk Profile

<p>High</p>	<ul style="list-style-type: none"> <input type="checkbox"/> Facility conditions <input type="checkbox"/> Keeping capital assets relevant / up-to-date given the rate of change in research facility 	<ul style="list-style-type: none"> ☆ Sustainability of professional schools' business models ☆ Federal research funding ☆ Financing graduate education ❖ Teaching and learning in the digital age
<p>Moderate</p>	<ul style="list-style-type: none"> ☆ Research competitiveness and productivity ☆ Generating new revenue streams ☆ Role & Sustainability of Auxiliary Operations ☆ Enrollment fluctuations ○ Technology & data infrastructure ○ Doing business globally 	<ul style="list-style-type: none"> ➤ State of Minnesota ➤ Fairview – Integrated Structure – ACC ☆ Undergraduate Tuition – Cost of Attendance ☆ Financial Aid ☆ Medical School business model ☆ Long term financial model for fundraising ☆ Instructional efficiency ☆ Endowment & Investment Management ○ Compensation ○ Health care / benefits costs ○ Administrative efficiency, operational excellence, cost containment <input type="checkbox"/> IRS “private use” compliance
<p>Low</p>	<ul style="list-style-type: none"> ➤ Donors ○ Utility costs <input type="checkbox"/> Debt capacity <input type="checkbox"/> Debt rating ❖ Public-private partnerships 	<p>High</p>

Moderate
Impact

Low

➤ Maintaining Key Financial Relationships	☆ Financing the Mission	<input type="checkbox"/> Financing Operations	<input type="checkbox"/> Financing Capital Assets	❖ Emerging Trends
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**UNIVERSITY OF MINNESOTA
BOARD OF REGENTS**

Finance Committee

October 10, 2013

Agenda Item: Consent Report

review review/action action discussion

Presenters: Vice President/CFO Richard Pfitzenreuter

Purpose:

policy background/context oversight strategic positioning

General Contingency

To seek approval for allocations from General Contingency greater than \$250,000.

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

To seek approval for purchases of goods and services of \$1,000,000 and over.

Outline of Key Points/Policy Issues:

General Contingency

There are no items in the General Contingency report requiring Board approval.

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

- To Cardinal Health for an estimated \$3,500,000 for the purchase of pharmaceuticals and related supplies for the period of November 1, 2013 through October 31, 2014, for Boynton Health Service Pharmacy. This purchase will be paid for from the sale of prescriptions and other items to patients and from payments by U of M departments for pharmaceuticals. Vendor was selected through a competitive process.
- To Harlan Laboratories, Inc. (Teklad) for an estimated \$2,000,000 for laboratory research diets as needed for the period of November 1, 2013, through October 31, 2018, for the department of Research Animal Resources (RAR). The laboratory research diets will be purchased with centralized departmental funds currently available for these purchases. See enclosed documentation regarding basis for vendor selection.
- To Surdyk's Inc. for a contract value of approximately \$8,000,000 for café, concession and catering food service and alcohol sales as needed for a five-year contract beginning approximately April 1, 2014, through June 30, 2019, and two additional three-year renewal options for the Northrup Auditorium. Estimated revenue through commissions to the University is \$480,000 for the full 11 years. Northrop will receive commission revenues based upon business volume. Vendor was selected through a competitive process.

- To Taher, Inc. for a contract value of approximately \$10,000,000 for café and catering food service as needed for a five-year contract beginning approximately April 1, 2014, through June 30, 2019, and two additional three-year renewal options for the University Recreation and Wellness Center (URWC). Estimated revenue through commissions to the University is \$900,000 for the full eleven years. The Recreation and Wellness Center will receive commission revenues based upon business volume. Vendor was selected through a competitive process.

Background Information:

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

- General Contingency: *Reservation and Delegation of Authority, Sec.VII, Subd. 1.*
- Purchase of Goods and Services \$1,000,000 and Over: *Reservation and Delegation of Authority, Sec.VII, Subd. 6*

President's Recommendation for Action:

The President recommends approval of the Consent Report.

General Contingency

2013-14 General Contingency:

Recipient	Allocation	Balance	Purpose
FY2014 General Contingency			
Carryforward from FY2013 into FY2014	1,406,141	2,406,141	
1 Dean of the College of Liberal Arts	20,000	2,386,141	Consultant to negotiate Showboat management agreement
2 Vice President for University Services	*	2,136,141	U Stores sprinkler upgrade
3			
4 New items this reporting period:			
5			
6 No new items this reporting period			
7			
8 FY 2013-14 Ending Balance		2,136,141	
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10 * Subject to Board approval			
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Purchase of Goods and Services \$1,000,000 and over

To Cardinal Health for an estimated \$3,500,000 for the purchase of pharmaceuticals and related supplies for the period of November 1, 2013 through October 31, 2014 for Boynton Health Service Pharmacy.

The pharmaceuticals purchased by the Boynton Pharmacy are used to fill prescriptions for U of M students, staff, dependents and retirees; to stock various clinics at Boynton Health Service; or wholesaled to other U of M departments.

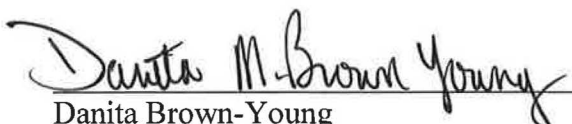
Cardinal Health was selected through a competitive process led by the State of Minnesota, Department of Administration, Materials Management Division, on behalf of the Minnesota Multi-State Contracting Alliance for Pharmacy (MMCAP). Total MMCAP purchases are over 1 billion dollars annually.

MMCAP has been in existence for 25 years. Over 5,000 facilities from 43 states participate in this buying group. Because of the large purchasing volume, members are able to get the most advantageous pricing available and next-day delivery for most items, thus enabling prompt service to Boynton's patients and other University departments.

This purchase will be paid for from the sale of prescriptions and other items to patients and from payments by U of M departments for pharmaceuticals.

Submitted by: Steve Cain
PharmD Supervisor
Boynton Health Service Pharmacy
Phone: (612) 624-2193

Approval of the item requested by:



Danita Brown-Young
Vice Provost for Student Affairs & Dean of Students

9-24-13
Date

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

To Harlan Laboratories, Inc. (Teklad) for an estimated \$2,000,000 for laboratory research diets as needed for the period of November 1, 2013 through October 31, 2018 for the department of Research Animal Resources (RAR).

RAR is the centralized Specialized Service Facility (SSF) providing veterinary service and support, along with the centralized procurement for all laboratory research animals on the Twin Cities campus. RAR procures all of the standard diets and bedding used to feed and house the research animals.

Harlan Laboratories diets are in compliance with the Guide for the Care and Use of Laboratory Animals and the Association for Assessment and Accreditation of Laboratory Animal Care International (AAALAC) recommendations. Their diets also meet all USDA requirements and Institutional Animal Care & Use Committee (IACUC) guidelines. Furthermore, Harlan Laboratories minimizes nutritional degradation and contamination of its feeds by storing them in its own climate and pest controlled feed warehouse and using its own climate-controlled trucks for delivery to the University. Other vendors use commercial trucking companies to deliver the feed to local vendors which store the feed in warehouses along with their other products.


Without continuity of a consistent supply of laboratory research diets with fixed formulas and verified quality control, certain project models and results will be jeopardized.

Harlan Laboratories provided competitive discounted prices and availability of laboratory research diets for the contract period. This contract will allow firm pricing for a year with limited future price adjustments based upon verifiable combined commodity price increases, as agreed to between both buyer and seller.

The laboratory research diets will be purchased with centralized departmental funds currently available for these purchases.

Submitted by: Todd Goerke, Senior Administrative Director
PWB 1-525
MMC 69
Mpls. Campus
Phone: (612) 626-4401
Fax: (612) 624-8149

Approval for these items requested by:



Brian Herman – Vice President of Research

9/23/13

Date

Rationale for Exception to Competitive Bidding

This purchase has not been competitively bid because Harlan Teklad currently provides about 95% of Research Animal Resource's laboratory diets for research animals. Without a consistent supply of laboratory diets, certain projects and results would be jeopardized. It is very important for the animals to receive the same diet throughout the study.

Procedures undertaken to ensure reasonableness of price included obtaining pricing from several other distributors. Harlan Teklad's prices are competitive.

The Director of Purchasing and the University Controller concluded that the process used resulted in a fair and reasonable price to the University.

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

To Surdyk's Inc. for a contract value of approximately \$8,000,000 for café, concession, and catering food service and alcohol sales as needed for a 5-year contract beginning approximately April 1, 2014 through June 30, 2019 and two additional 3-year renewal options for Northrop. Estimated revenue through commissions to the University is \$480,000 for the full eleven years.

Northrop has been a part of the University of Minnesota since 1928 and is currently undergoing a transformation that will allow it to perform for the next 100-years as a world-class venue. It is located at the center of the Twin Cities Minneapolis campus and enjoys significant pedestrian traffic during the daytime with nearby parking and access to light rail for evening events.


Northrop will become a hub of activity throughout the day and evening. Food service must help advance the vision and objectives of Northrop. A small café is seen as an essential element for attracting students, faculty, staff, and visitors during daytime hours; well executed catering is needed to support evening and/or event functions and concessions to provide a needed amenity for performances. Northrop's liquor license will allow Surdyk's to support concessions and catering with alcohol sales and service.

Through a competitive Request for Proposal process completed in September 2013, Surdyk's Inc. was selected to be the most qualified Food Service provider for Northrop based upon the selection criteria established as a part of the Request for Proposal process.

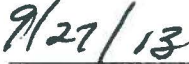
Northrop will receive commission revenues based upon business volume.

Submitted by: Leslie Bowman
Director, Contract Administration (Auxiliary Services)
Phone: 612-624-0010

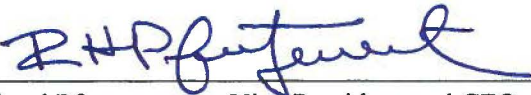
Approval for this item requested by:




Pamela Wheelock, Vice President, University Services



Date



Richard Pfitzenreuter, Vice President and CFO



Date

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

To Taher, Inc. for a contract value of approximately \$10,000,000 for café and catering food service for the University Recreation and Wellness Center (URWC) as needed for a 5-year contract beginning approximately April 1, 2014 through June 30, 2019 and two additional 3-year renewal options.

Estimated revenue through commissions to the University is \$900,000 for the full eleven years.

The new University Recreation and Wellness Center (URWC) is built adjacent to the existing and nationally renowned Aquatic Center on the Twin Cities Minneapolis campus. The URWC not only provides a venue for physical activity, the facility has also become a popular site for gathering and social interaction for the University community. The expanded facility will serve approximately 8,000 to 10,000 people per day and is in need of a high quality food service offering healthy food at reasonable prices.


The benefits and contribution of recreational sports facilities and programs in higher education are documented and recognized across the country. They play a significant role in attracting and retaining outstanding students, faculty, and staff. Recreational sports facilities and programs will continue to greatly enhance the campus experience and contribute to individual development at institutions like the University of Minnesota. A quality food service provider is a needed amenity for the University Recreation and Wellness Center.

Through a competitive Request for Proposal process completed in September 2013, Taher Inc. was selected to be the most qualified Food Service provider for the University Recreation and Wellness Center based upon the selection criteria established as a part of the Request for Proposal process.

The Recreation and Wellness Center will receive commission revenues based upon business volume.

Submitted by: Leslie Bowman
Director, Contract Administration (Auxiliary Services)
Phone: 612-624-0010


Approval for this item requested by:



Pamela Wheelock, Vice President, University Services

9/27/13

Date



Richard Pfutzenreuter, Vice President and CFO

9/26/13

Date



UNIVERSITY OF MINNESOTA BOARD OF REGENTS

Finance Committee

October 10, 2013

Agenda Item: Information Items

review review/action action discussion

Presenters: Vice President/CFO Richard Pfutzenreuter

Purpose:

policy background/context oversight strategic positioning

To provide the Board of Regents with a summary of the quarterly meeting of the Investment Advisory Committee (IAC) held on August 28, 2013.

Outline of Key Points/Policy Issues:

Quarterly Investment Advisory Committee Update

Stuart Mason, Chief Investment Officer, reviewed the investment performance for the Consolidated Endowment Fund (CEF) for the quarter and the 12 months ending June 30, 2012. The overall portfolio value rose in the quarter by \$8.9 million, or 0.84%, versus the custom benchmark, which was 0.19% and the passive benchmark of 70/30, which was 1.17%. For the last 12 months, CEF increased in value by \$102.1 million with investment performance of 12.79% versus the custom benchmark of 8.88% and the passive benchmark of 14.45%.

The outperformance relative to custom benchmarks for the quarter and the strong performance for the year were driven primarily by two factors:

- a) The risk mitigating fixed income sub-portfolio was down only 1.92% for the quarter and was up 4.25% for the 12-month period versus benchmarks that were -5.01% and -3.33% respectively.
- b) The private capital sub-portfolio continued its strong relative performance, up 4.55% for the quarter and 19.29% for the past 12 months.

The 12-month fiscal year performance exceeded the Cambridge Associates Endowment survey median of 10.7% by 209 basis points, and positioned the University's investment performance in the upper decile of higher education institutions participating in their survey.

Liquidity continued to improve as private partnerships made net cash distributions back to the University totaling \$63 million for the calendar year to date. The forecast level of distributions, net of capital calls, for calendar 2013 is \$100 million. This improving liquidity is

being used to rebalance the portfolio closer to strategic asset allocation ranges in accordance with the three-year rebalancing plan.

Mason and Anthony Quill, Investment Analyst, presented a detailed review of Westwood Global Investments, an emerging markets equity manager that was approved via conference calls in June and funded during the summer. They also reviewed the underwriting process for the emerging market debt portfolio that has been under way for the last six months. The conclusion of a very extensive internal review is that the existing EMD manager, TCW, would continue to be the only manager utilized and the allocation to that manager would be increased over the coming months as the market stabilized.

Mason and Quill presented data supporting a recommendation to engage Goldman Sachs to manage a Global Lower Beta Equity strategy which involves the use of derivatives to provide an element of equity market exposure with a degree of downside protection. The IAC recommended approval and the President subsequently reviewed and approved engaging the manager.

Mason then reviewed highlights of the Annual Asset Management Report for CEF, and other managed assets including Regents of the University of Minnesota Insurance Company (RUMINCO), Temporary Investment Fund (TIP), and Group Income Pool (GIP) for the fiscal year ending June 30, 2013.