BOARD OF REGENTS
UNIVERSITY OF MINNESOTA

Finance Committee

October 2015

October 8, 2015

1:30 p.m. - 3:30 p.m.

West Committee Room, McNamara Alumni Center

FIN - OCT 2015

BOARD OF REGENTS
DOCKET ITEM SUMMARY

Finance **October 8, 2015**

AGENDA ITEM: Financial Components of the President's Recommended 2015 Six-Year Capital Plan, 2016 State Capital Request, and Debt Capacity Update

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

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

PRESENTERS: Richard Pfutzenreuter, Vice President & CFO

PURPOSE & KEY POINTS

The President's recommended Six-Year Capital Plan (Capital Plan) includes major capital improvements planned for fiscal years 2016 through 2021. The Capital Plan includes projects to be funded with state capital support, as well as projects funded by the University through a combination of University debt obligations, local unit resources, and fundraising. The Capital Plan totals $1,289,350,000. The Committee will also receive an updated debt capacity forecast that incorporates the proposed Capital Plan and other debt issuance projections.

Year 1 of the Six-Year Capital Plan (2016) outlines the projects that the University will be submitting to the State of Minnesota for consideration during the 2016 legislative session. The 2016 state capital request totals $304.3 million in project costs, with the State of Minnesota contributing $236.2 million and the University responsible for $68.1 million.

The Facilities, Planning and Operations Committee will review the Capital Plan principles and priorities. Additional information can be found in the Board docket.

BACKGROUND INFORMATION

Board policy requires a Six-Year Capital Plan that sets priorities and direction for ongoing academic and capital planning efforts. Board of Regents Policy: *Board Operations and Agenda Guidelines* directs the administration to conduct capital planning with a "six-year time horizon, updated annually." This annual capital planning process is completed in two parts, defined below.

- Part I is the six-year capital plan, which is updated annually and identifies capital projects approved to proceed with preliminary project planning but not authorized to proceed with design and construction.
- Part II is the annual capital improvement budget, which authorizes the completion of design and construction projects with approved financing and schematic design, consistent with Board policies.

PRESIDENT'S RECOMMENDATION

The President recommends approval of the University of Minnesota Six-Year Capital Plan and the 2016 State Capital Request.

UNIVERSITY OF MINNESOTA

Attachment 2

2015 Six Year Capital Plan
Project Funding Report

Definitions

Proposal: Projects in this stage represent preliminary conceptual ideas regarding program need and related capital requirements. Local units normally identify these ideas as part of the compact process. Projects do not have permission to begin predesign or fundraising without administrative approval from the Capital Oversight Group.

Planning and Feasibility: Projects in this stage have been determined to be an institutional priority and have been approved to begin predesign activities. Financial feasibility, including the completion of a fundraising feasibility study with the University of Minnesota Foundation, is assessed at this stage.

Resource Aquisition: Projects in this stage have an approved pre-design document and have been approved to actively seek funds.

Project Costs

Project costs included in the Six-Year Capital Plan are order-of-magnitude estimates. Projections are based on square foot costs recently experienced with comparable building and space types at the University, applied to the estimated square footage of each project. Programming and predesign studies are prepared for projects at the appropriate time to determine more accurate cost figures.

UNIVERSITY OF MINNESOTA

2015 Six Year Capital Plan - Project Funding Report

2016

Stage: Resource Acquisition

State Funded Projects

File	Project Title	Campus	Total	State Funds	University Funds
398	HEAPR	Systemwide	$100,000	$100,000	$0
410	Chemistry and Advance Materials Science	UMD	$40,750	$27,167	$13,583
408	AHC Phase I: Health Science Education Facility	UMTC	$100,000	$66,667	$33,333
447	Plant Growth Research Facility	UMTC	$6,600	$4,400	$2,200
466	Academic and Student Experience Investments	Systemwide	$24,000	$16,000	$8,000
411	Pillsbury Hall Renovation	UMTC	$33,000	$22,000	$11,000
			$304,350	$236,234	$68,116
		FY Total:	$304,350	$236,234	$68,116
		Running Total:	$304,350	$236,234	$68,116

dollars in thousands

UNIVERSITY OF MINNESOTA

2015 Six Year Capital Plan - Project Funding Report

2017

Stage: Planning & Feasibility

State Funded Projects

File	Project Title	Campus	Total	State Funds	University Funds
401	HEAPR	Systemwide	$50,000	$50,000	$0
415	Contemporary Learning and Collections	UMTC	$40,000	$26,700	$13,300
449	TBD	Systemwide	$36,000	$24,000	$12,000
			$126,000	$100,700	$25,300
		FY Total:	$126,000	$100,700	$25,300
		Running Total:	$430,350	$336,934	$93,416

dollars in thousands

2015 Six Year Capital Plan - Project Funding Report

2018

Stage: Planning & Feasibility

State Funded Projects

File	Project Title	Campus	Total	State Funds	University Funds
399	HEAPR	Systemwide	$100,000	$100,000	$0
403	St. Paul Interdisciplinary Laboratory	UMTC	$46,000	$30,667	$15,333
441	AHC Phase II: Clinical Science Facility	UMTC	$100,000	$66,667	$33,333
455	Child Development Replacement	UMTC	$21,000	$14,000	$7,000
452	Research and Outreach Center Investments	ROCs & Stations	$6,000	$4,000	$2,000
451	Undergraduate Teaching Laboratory Facility	UMTC	$42,000	$28,000	$14,000
			$315,000	$243,334	$71,666
		FY Total:	$315,000	$243,334	$71,666
		Running Total:	$745,350	$580,268	$165,082

dollars in thousands

UNIVERSITY OF MINNESOTA

2015 Six Year Capital Plan - Project Funding Report

2019

Stage: Proposal

State Funded Projects

File	Project Title	Campus	Total	State Funds	University Funds
402	HEAPR	Systemwide	$50,000	$50,000	$0
448	10 Church Street SE Repurposing	UMTC	$39,000	$26,000	$13,000
468	Critical Facilities Renewal	UMTC	$45,000	$30,000	$15,000
			$134,000	$106,000	$28,000
		FY Total:	$134,000	$106,000	$28,000
		Running Total:	$879,350	$686,268	$193,082

dollars in thousands

UNIVERSITY OF MINNESOTA

2015 Six Year Capital Plan - Project Funding Report

2020

Stage: Proposal

State Funded Projects

File	Project Title	Campus	Total	State Funds	University Funds
446	HEAPR	Systemwide	$100,000	$100,000	$0
414	Academic Priority	UMR	$45,000	$30,000	$15,000
454	AHC Phase III: Mayo	UMTC	$90,000	$60,000	$30,000
456	Chemistry Research Laboratory Investment	UMTC	$30,000	$20,000	$10,000
457	St. Paul Critical Building Renovation	UMTC	$50,000	$33,300	$16,700
			$315,000	$243,300	$71,700
		FY Total:	$315,000	$243,300	$71,700
		Running Total:	$1,194,350	$929,568	$264,782

dollars in thousands

UNIVERSITY OF MINNESOTA

2015 Six Year Capital Plan - Project Funding Report

2021

Stage: Proposal

State Funded Projects

File	Project Title	Campus	Total	State Funds	University Funds
467	HEAPR	Systemwide	$50,000	$50,000	$0
470	TBD	Systemwide	$45,000	$30,000	$15,000
			$95,000	$80,000	$15,000
		FY Total:	$95,000	$80,000	$15,000
		Running Total:	$1,289,350	$1,009,568	$279,782

dollars in thousands

UNIVERSITY OF MINNESOTA

2015 Six Year Capital Plan - Project Funding Report

Under Consideration / Evaluation

Stage: Proposal

University Funded Projects

File	Project Title	Campus	Total	State Funds	University Funds
461	Admissions Welcome Center	UMTC	$0	$0	$0
459	Pioneer Hall Renovation or Replacement	UMTC	$0	$0	$0
418	Superblock Dining Replacement	UMTC	$0	$0	$0
425	Washington Ave Bridge and Plaza	UMTC	$0	$0	$0
			$0	$0	$0
		FY Total:	$0	$0	$0
		Running Total:	$1,289,350	$1,009,568	$279,782

University of Minnesota

2016 State Capital Request
Project Summaries

Higher Education Asset Preservation and Replacement

At a Glance

Campus:	Systemwide	2016 Total Funds:	$100,000
Priority:	1	State Request Funds:	$100,000
Total Project Cost:	$100,000	University Funds:	$0

Project Summary: This request is for funds to renew existing campus facilities and infrastructure in accordance with Minnesota Statutes, section 135A.046.

Project Description

The purpose and use of Higher Education Asset Preservation and Replacement (HEAPR) funds is defined in statute 135A.046 Asset Preservation and Replacement. Funds are intended to preserve and renew existing campus facilities by funding five kinds of projects: Accessibility, Building Systems (e.g. exterior envelope, mechanical, and electrical systems), Energy Efficiency, Health and Safety (e.g. hazardous material abatement, building code compliance), and Infrastructure. HEAPR funds are used throughout the University of Minnesota system. Funds are allocated to campuses and research stations based on facility need and overall quantity of space. The University regularly reports on the status of its HEAPR funding to Minnesota Management and Budget and the Legislature.

Project Rationale

HEAPR funds are essential in supporting the teaching, research, and service mission of the University. The University’s mission will be compromised without continued, sustained reinvestment in buildings and infrastructure. The University's capital budget principles emphasize investment in existing facilities and infrastructure to extend useful life and to ensure the health, safety, and well-being of building occupants. Individual projects to be funded with HEAPR have been identified and prioritized through the University’s Facility Condition Assessment (FCA) process. The FCA is a comprehensive systemwide evaluation of the condition of the University of Minnesota's campus facilities and infrastructure portfolio. FCA data is used to triage existing buildings into those that need long-term investments, those that need short-term investments, and those where no investment is required, in alignment with academic priorities.

HEAPR funds are used throughout the University of Minnesota system and are allocated to campuses and research stations based on facility need and overall space. They are essential in supporting the teaching, research, and service mission of the University. Funds keep people safe and make the campuses accessible for all Minnesotans. The value of the State’s past investments is maximized by extending the functionality and useful life of existing buildings. HEAPR dollars are flexible, allowing the University to respond quickly to emergencies and to respond to unique opportunities. Regulatory compliance items, e.g. elevators, storm water and building codes, and other projects that are generally smaller than traditional capital request projects are funded with HEAPR allocations. These projects move faster, put people to work quicker, and provide different firms an opportunity to participate in design and construction at the University. HEAPR projects are green, since renewing an existing facility is more sustainable than new “green" construction.

Previous Appropriations for this Project

The University includes HEAPR in each capital request. The University received $50 million in 2012, no appropriation in 2013, $42.5 million in 2014 and no appropriation in 2015.

Current Project Status

Varies by project

dollars in thousands

Chemistry and Advanced Materials Science Building

At a Glance

Campus:	U of M - Duluth Campus	2016 Total Funds:	$40,750
Priority:	2	State Request Funds:	$27,167
Total Project Cost:	$43,000	University Funds:	$13,583

Project Summary: This request is for funds to construct, furnish and equip a new science and engineering laboratory building on the Duluth campus.

Project Description

This project will construct approximately 51,000 square feet of research laboratories, instructional laboratories, teaching space, offices, and meeting space for the Swenson College of Science and Engineering on the Duluth Campus. The building is conceived as three stories with a mechanical and electrical penthouse. The research laboratory space, consisting of flexible wet and dry labs with adequate utilities, environmental controls and modern safety accommodations, will serve the needs of evolving research and teaching pedagogy.

Project Rationale

The Duluth campus is committed to supporting programs that work to expand the State's Science, Technology, Engineering, and Math (STEM) workforce, in addition to creating an inclusive campus climate through curricula and programs that prepare all students to be successful contributing members of diverse and global communities. Scholarship and research, both basic and applied, are foundations for new discoveries and knowledge, and for economic growth.

The proposed new chemistry and materials science facility will provide much needed new facilities for the Department of Chemistry and Biochemistry and advance an emergent Material Science and Engineering program. The campus has a need for additional upper division or advanced instructional labs in which students receive training on modern instrumental, experimental, and computational techniques. To accomplish this, laboratories need to have both student work spaces and instructional support areas. As new faculty are hired due to retirements in the next 5-10 years, larger and more instrument-rich research programs will be established requiring more research space.

Attracting high quality students in the STEM fields, as well as excellent faculty, who seek a collaborative environment to conduct leading-edge research and teach in interdisciplinary areas, will lead to increased external funding, economic growth and competitiveness, and greater technology- and knowledge- transfer to the state and region. The new research and education programs in material science and engineering will certainly broaden the impact that UMD and the Swenson College of Science and Engineering have on regional and local industries. To achieve these outcomes the campus needs modern laboratory space and rooms with specialized uses (instrument rooms, cold rooms, autoclave room, etc).

The existing Chemistry building was the first building constructed at UMD in 1948, and was not designed to be dedicated to Chemistry. Utility infrastructure is outdated, frequently in need of repair, and cannot support 21st century science. This building has numerous deficiencies including a lack of adequate eyewashes and showers, lack of chemical storage space, rusty and poorly ventilated under the hood storage, very old and poorly designed labs, lack of adequate wall space for chemical storage cabinets and gas cylinders, lack of adequate supply of wall or bench mounted electrical outlets, and water leaks. In addition, assessments have noted corroded gas lines and gas valves, poor air handling systems, and an elevator which is often out of service. Many of these have the potential to compromise the health and safety of building occupants.

Previous Appropriations for this Project

The University received an appropriation of $1.5 million in 2014 to predesign and design a new facility to meet the research and undergraduate instruction needs of the Swenson

dollars in thousands

Chemistry and Advanced Materials Science Building

College of Science and Engineering on the Duluth campus. 2014 total funding was $2.25 million.

Current Project Status

Schematic Design In Progress

AHC Phase I: Health Sciences Education Facility

At a Glance

Campus:	U of M - Twin Cities Campus	2016 Total Funds:	$100,000
Priority:	3	State Request Funds:	$66,667
Total Project Cost:	$100,000	University Funds:	$33,333

Project Summary: This request is for funds to complete design, renovate, construct, furnish and equip education facilities to meet the needs of the Medical School and Academic Health Center on the Twin Cities campus.

Project Description

This project will renovate, modernize and expand the University's medical and health sciences learning facilities. Facility planning work funded during the 2015 session is underway and will guide the final facility solution to be presented during the 2016 session. Active learning environments and student-instructor interaction across disciplines, which are the future state of education in academic health, requires different space than what exists today. New education and learning facilities will include classrooms, simulation centers, small group rooms, an advanced technology-rich biomedical library and student services and community amenities .

The legislative and executive commitment in the 2015 session to address aging and obsolete facilities with a major new investment in health education facilities will increase utilization, flexibility and focus on the interdisciplinary approaches will help a renewed vibrant academic clinical environment, innovation and ground-breaking programs.

Project Rationale

The University is home to Minnesota's only public medical school in addition to health science schools for dentistry, public health, pharmacy, nursing and veterinary medicine. The University's Academic Health Center (AHC) offers 62 accredited professional degrees, educates 6,400 students, and plays a key role in educating Minnesota's health care workforce, with two-thirds of the state's health professionals educated in the AHC.The health of Minnesota families and the economic vitality of the state depend on access to well-trained health providers, innovative health discoveries, quality health care and accessible public health programs.

Today, as Minnesotans live longer and demand for care of an aging population increases and disparities persist in access and in the state's healthcare workforce, health care requires an interdisciplinary approach to care delivery along a full continuum of primary to specialized care. This change in health care delivery calls for a full integration of health education/training, research, and clinical care. In order to meet future workforce needs, inter-professional and team-based practices should be more integrated into the undergraduate, graduate and post graduate curricula.

Today's Medical School accreditation at the national level demands the school addresses the new model of care. The educational shift is reflected in a new curriculum, including an early introduction to the care of patients in the first and second year, as well as exposure to the health care "systems" of a clinic. Meeting these education and training obligations is increasingly difficult in aging and obsolete facilities built for a different era of health education. In order to assure that students and residents are prepared to meet Minnesota's future physician workforce needs investments must be made to strengthen and expand the Medical Center's educational programs and curriculum through the use of interprofessional team-based learning and care environments. Better and more integrated health professional education will lead to improved healthcare for all Minnesotans.

The poor condition of the University's educational facilities are undercutting the competitiveness of University programs. Almost all of the educational and training facilities for the

dollars in thousands

AHC Phase I: Health Sciences Education Facility

Medical School and other health professional schools are over 40 years old and are in need of major renovation and renewal or, simply, replacement. Accreditation bodies are citing deficient facilities in their reviews, student applicants are citing the poor educational facilities for their decision to enroll at other institutions, and student dissatisfaction with the educational facilities is high. Minnesota's situation is made worse by the fact that peer institutions have been making major investments in new and remodeled facilities.

Previous Appropriations for this Project

The University received $10 million in the 2015 session to plan two new facilities - an integrated health sciences education facility and a clinical research facility - and to predesign and start design on the integrated health sciences education facility.

Current Project Status

Predesign In Progress

Plant Growth Research Facility

At a Glance

Campus:	U of M - Twin Cities Campus	2016 Total Funds:	$6,600
Priority:	4	State Request Funds:	$4,400
Total Project Cost:	$6,600	University Funds:	$2,200

Project Summary: This request for funds to design, construct, furnish and equip an addition to the plant growth facilities on the St. Paul campus and to demolish the existing Biological Sciences greenhouse.

Project Description

This project will provide a new approximately 12,000 square foot greenhouse addition to the Plant Growth Facilities for the Biological Sciences Conservatory to replace and demolish the existing Biological Sciences Greenhouse on the St. Paul campus. While the existing Plant Growth Facilities are set up for agricultural experimentation, the CBS Conservatory greenhouse will be a specialized unit that serves the related educational missions necessary to ensure the State's agricultural future.

The total cost for this project is estimated to be $6,600,000. The new greenhouse will be located in the planned expansion area of the Plant Growth Facilities, as identified in the Predesign Study for Plant Growth Facilities Renovation, Replacement and Additions (1997). The new greenhouse will be built similar to the neighboring structures, but will include aspects specific to the plant collection requirements. The greenhouse for the Biological Sciences Conservatory will be furnished with modern temperature, humidity and lighting controls and monitored via the master greenhouse campus control system. Upon completion, plant specimens and program activities currently housed in the existing Biological Sciences Greenhouse will be moved to the new facility and the old greenhouse will be demolished.

Project Rationale

The College of Biological Sciences (CBS) offers an exceptional, nationally recognized educational experience. Replacement of the existing Biological Sciences Greenhouse is essential to meet increased demand for enrollment and to secure a strong return on investment in the rapidly growing life sciences. Today, 33 Faculty, 40 teaching assistants and four support staff teaching 13 courses, depend on the collections and services of the Biological Sciences Greenhouse. The annual enrollment for those courses is more than 1,600 students. The building has a strong outreach function as well, with regular visits from school groups, horticulture clubs, K-12 educators and the broader community.

The University of Minnesota's undergraduate biology program has garnered national attention due to its signature programs (e.g., Nature of Life), its leading edge curriculum, and its pioneering application and use of the active learning classroom. STEM education requires a living plant collection where extremes of diversity and adaptation are displayed and studied across a broad range of environments. A new and expanded conservatory will remove current constraints to increasing enrollment and enable students to conduct independently designed research. Student interest in the biological sciences is booming across the country. Currently, there are eighteen students who apply for every single seat in the CBS freshman class. Total student enrollment in CBS is anticipated to increase by up to 40% by the fall of 2018.

The Biological Sciences Conservatory is home to a biodiverse collection of plant species to assist current and future research, help preserve the Earth's plant diversity, as well as building an appreciation for the richness of plant life on our planet in both students and the public. Conservatory staff service the needs of classes, researchers, and the surrounding community through making both our plants and expertise available. The collection is one of the most diverse in the upper Midwestern United States, containing over 1,200 species of plants. The Conservatory cares for everything from rare and endangered plants, to invasive species, to plants that show developing economic potential, to clones of original genome

dollars in thousands

Plant Growth Research Facility

sequenced accessions. The material from this diverse living collection is leveraged for the maximum benefit for our students, scientists, and the public at large.

Through hands-on exposure to living plants within the Biological Sciences Conservatory, students in CBS, CFANS, and other colleges learn how opportunities for discovery and problem solving are rooted in the diversity of life. This education prepares university students to become the next generation of problem solvers in agriculture and food safety, environmental protection and restoration, as well as the production of natural and synthetic products for medical and non-medical uses.

The existing greenhouse is a fragile structure, costly to operate and rife with problems that are expensive to fix. Environmental, structural and functional deficiencies have resulted in escalating maintenance and repair costs, and serious safety issues. Failure of seals around large glass panes allows glass to shift and fall. High humidity levels, resulting in extensive cracking and spalling of the exterior concrete masonry unit kneewalls, and the freeze and thaw cycles have heightened the rate of deterioration of the greenhouse. This facility has the smallest footprint of any like buildings on the St. Paul campus but has the highest energy use and the second highest C02 emissions. Gaps in the structure's foundation further compromise the plant collections and student projects as a result of insect migration.

Diverse and dynamic greenhouse displays are a highly effective means of communicating the university mission to the broader public. The Biological Sciences Conservatory will demonstrate with living examples how fundamental discoveries are translated into economic and environmental solutions for Minnesota. A new facility will breathe new life into a diverse encyclopedia of rare and spectacular plants by replacing an isolated greenhouse already deteriorated beyond repair with one that is energy efficient and integrated with existing facilities for teaching and research.

Previous Appropriations for this Project

None

Current Project Status

Predesign

Academic and Student Experience Investments

At a Glance

Campus:	Systemwide	2016 Total Funds:	$24,000
Priority:	5	State Request Funds:	$16,000
Total Project Cost:	$24,000	University Funds:	$8,000

Project Summary: This request is for funds to predesign, design, renovate, furnish and equip existing teaching, student support and research facilities on the Duluth, Morris, Crookston and Twin Cities campus.

Project Description

This request is for funds to make targeted strategic investments in modernizing existing teaching, research, outreach and student support spaces on the University's Duluth, Morris, Crookston and Twin Cities campuses. Similar to appropriations for laboratory renovations in 2008 and 2010, this request is intended to update individual spaces that will not otherwise be improved through whole building renovations. Funds will be allocated to each campus to advance high priority projects focused on learning spaces, student support services and research laboratories.

Sample projects to be funded by the academic facility investment pool include:
- Renovation of obsolete biological sciences library space into modern laboratories
- Creation of new active learning classrooms, traditional clasrooms, and small group study spaces
- Conversion of an old teaching kitchen at UMC into modern teaching and research space

Project Rationale

Learning spaces are at the heart of the University's teaching mission. To meet the needs of faculty and the expectations of students, the University must provide modern, technology-rich classrooms in order to optimize teaching and learning. Improved, up-to-date classrooms, instructional laboratories, and collaboration spaces are essential to attract the best and brightest students and remain competitive with other regional universities. The overall student experience at the University of Minnesota will be improved by enhancing the physical environment and adding modern classroom learning technologies.

Active Learning Classrooms (ALCs), a component of the programmatic request, are designed to foster interactive, flexible, student-centered learning experiences, and to operate using central teaching stations and student-provided laptops. ALCs offer cooperative learning environments that encourage student collaboration and peer teaching, the ability for instructors to interactively coach students during activities and new options for student interaction and class structure.

Modern research facilities are essential to the University's nationally-ranked basic and applied research programs. Research funding and national competitiveness depend upon an institution's researchers, and state-of-the-art laboratories are the foundation of the solid research program at the University of Minnesota. Updated facilities are critical to attract and retain top faculty and students and to obtain competitively awarded sponsored research grants. Without state-of-the-art laboratories in which to conduct their research, faculty will choose other institutions with better facilities.

Previous Appropriations for this Project

Academic and Student Experience Investments

None

Current Project Status

Varies by Project

Pillsbury Hall Renovation

At a Glance

Campus:	U of M - Twin Cities Campus	2016 Total Funds:	$33,000
Priority:	6	State Request Funds:	$22,000
Total Project Cost:	$33,000	University Funds:	$11,000

Project Summary: This request is for funds to predesign, design, renovate, furnish and equip historic Pillsbury Hall on the Minneapolis campus.

Project Description

This project will completely renovate Pillsbury Hall, replacing obsolete science facilities with modern, flexible non-laboratory teaching, learning, and research spaces for College of Liberal Arts' humanities programs including the Department of English (which teaches nearly 6,000 students per year). The renovated space is anticipated to be divided approximately equally between classroom- and assembly-type space to support multiple modes of learning and alternative workplace office space. At nearly 60,000 gross square feet, the renovation is expected to maintain an equivalent amount of space when complete. The rehabilitation of Pillsbury Hall is expected to be consistent with the Secretary of the Interior's Standards for Preservation.

Project Rationale

Pillsbury Hall is the second oldest and one of the most iconic building on campus and is a key component of a sequenced plan: (1) relocating the Department of Physics from Tate Laboratory to its new building, (2) relocating the Department of Earth Sciences (formerly Geology and Geophysics) from Pillsbury Hall to a renovated Tate Laboratory, (3) relocating the Department of English from Lind Hall to a renovated Pillsbury Hall, and (4) freeing up Lind Hall for other use.

While Pillsbury Hall is no longer adaptable to modern science research or teaching, it plays a significant role in the East Bank humanities district, which encompasses Folwell, Jones, Nicholson, Nolte, Pillsbury and Scott halls. Recent and planned investments in these buildings all built between 1889 and 1935 on the historic knoll – locate the humanities in proximity, thus creating synergies and collaborations among them, while preserving the University's historic assets for future generations. The renovated Pillsbury Hall is planned to house the Department of English (as the major tenant) and the College of Liberal Arts Minnesota Engagement Lab, focused on research teaching and public service.

English teaches nearly 6,000 students per year, generating about 20,000 student credit hours of non-English major instruction each year and teaching the core skills of liberal education – close reading, textual analysis, and scholarly and creative writing to
the entire undergraduate student body. In 2014, English had 627 undergraduate majors, 36 MFA students in the Creative Writing Program, and 77 MA/PhD students in the Literature Program. It is the most popular humanities major on campus with high national rankings.

The new Pillsbury Hall will also be home to the Minnesota Engagement Lab (MEL). MEL is planned to be an innovative and technologically equipped humanities engagement lab where scholars, students, and community members will address challenges facing Minnesota citizens through focused projects, such as rural and urban access to food resources, histories of Minnesota immigrant institutions and neighborhoods, and literature and literacy services to communities. The high-tech interactive spaces will advance the University's and CLA's goals of integrating research, teaching, and public service about the human condition, producing future leaders who will use the knowledge, skills, and collaboration they learned here to build vibrant communities.

dollars in thousands

Pillsbury Hall Renovation

The other feature of Pillsbury Hall will be spaces for production and presentation activities. Production spaces will be equipped with technologies that enable journal editing, video making, digital storytelling, website building, and web-based research. Flexible presentation spaces will host a wide variety of events convened annually by English and other humanities departments.

Previous Appropriations for this Project

None

Current Project Status

Predesign In Progress

Financial Components of the President's Six-Year Capital Plan, 2016 State Capital Request and Debt Capacity Update

Finance

October 8, 2015

University of Minnesota

Driven to Discover℠

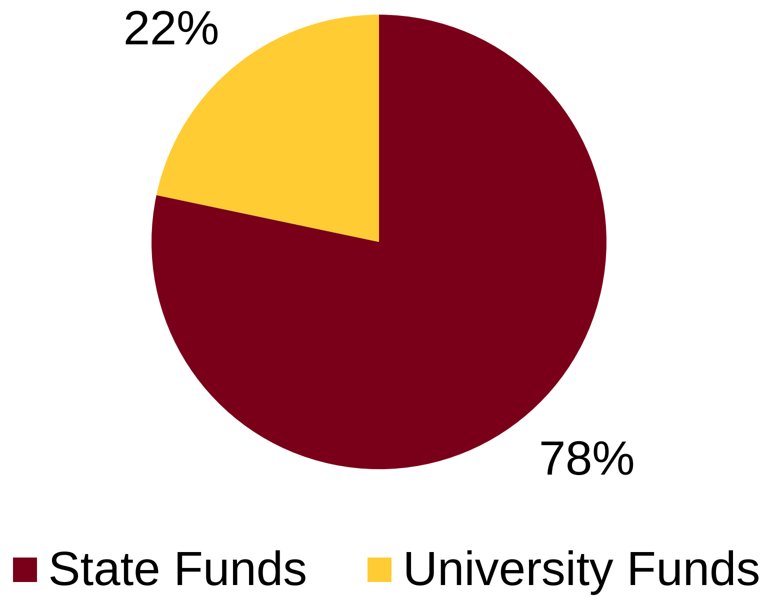
What is the Six-Year Capital Plan?

- Board of Regents Policy directs the administration to develop a capital budget with a "six-year time horizon, updated annually"

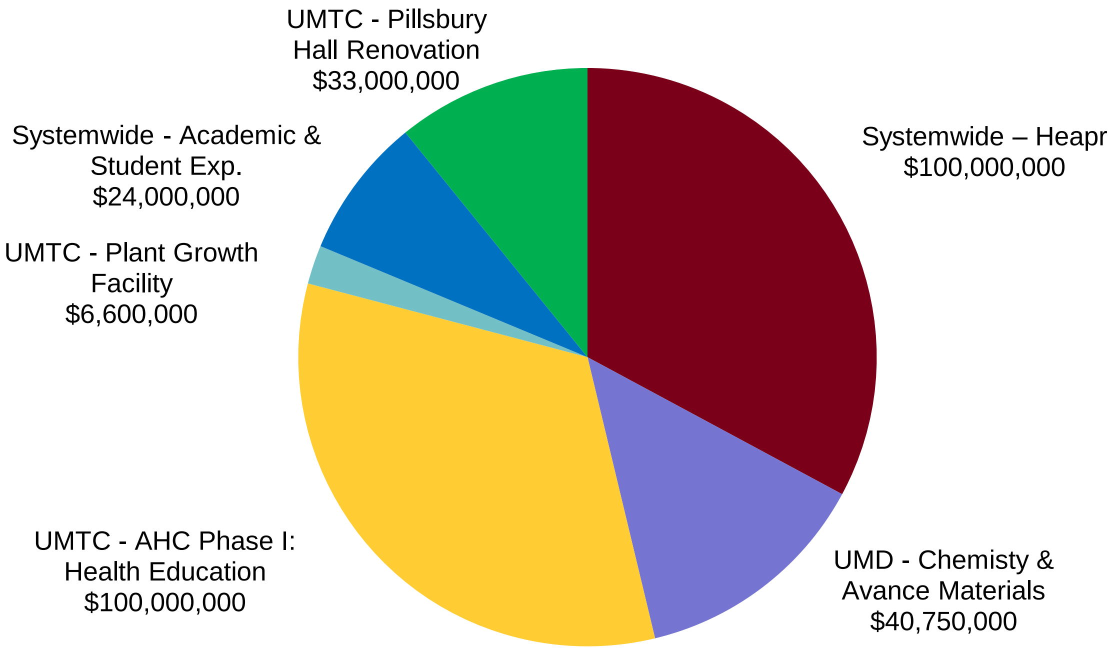
Six-Year Capital Plan

Part One	Part Two
Capital Improvement *Budget*	Capital *Plan*
Year 1	Years 2 - 6
2016	2017-2021

Six-Year Capital Improvement Plan: $1,289,350,000

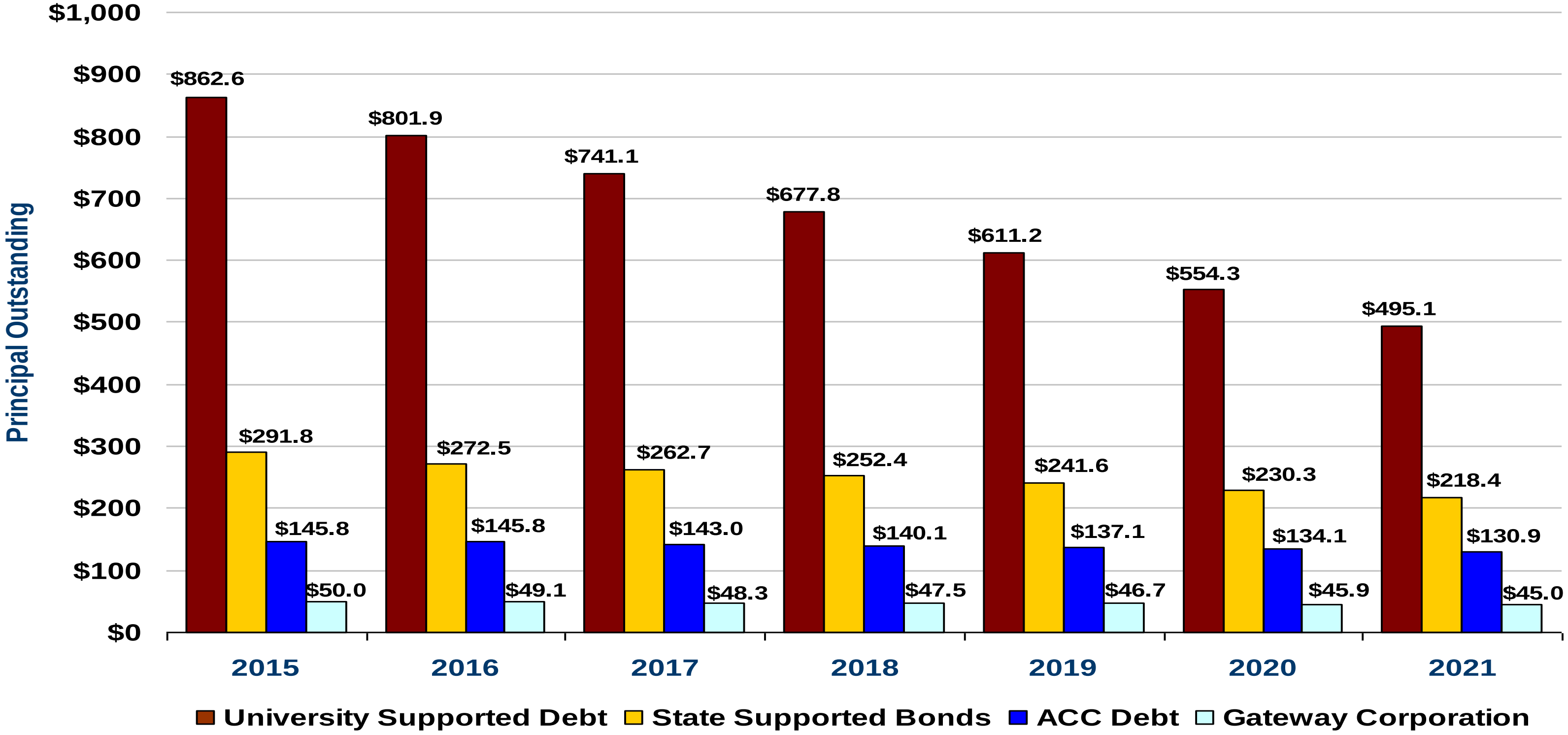


2016 State Capital Request: $304,350,000

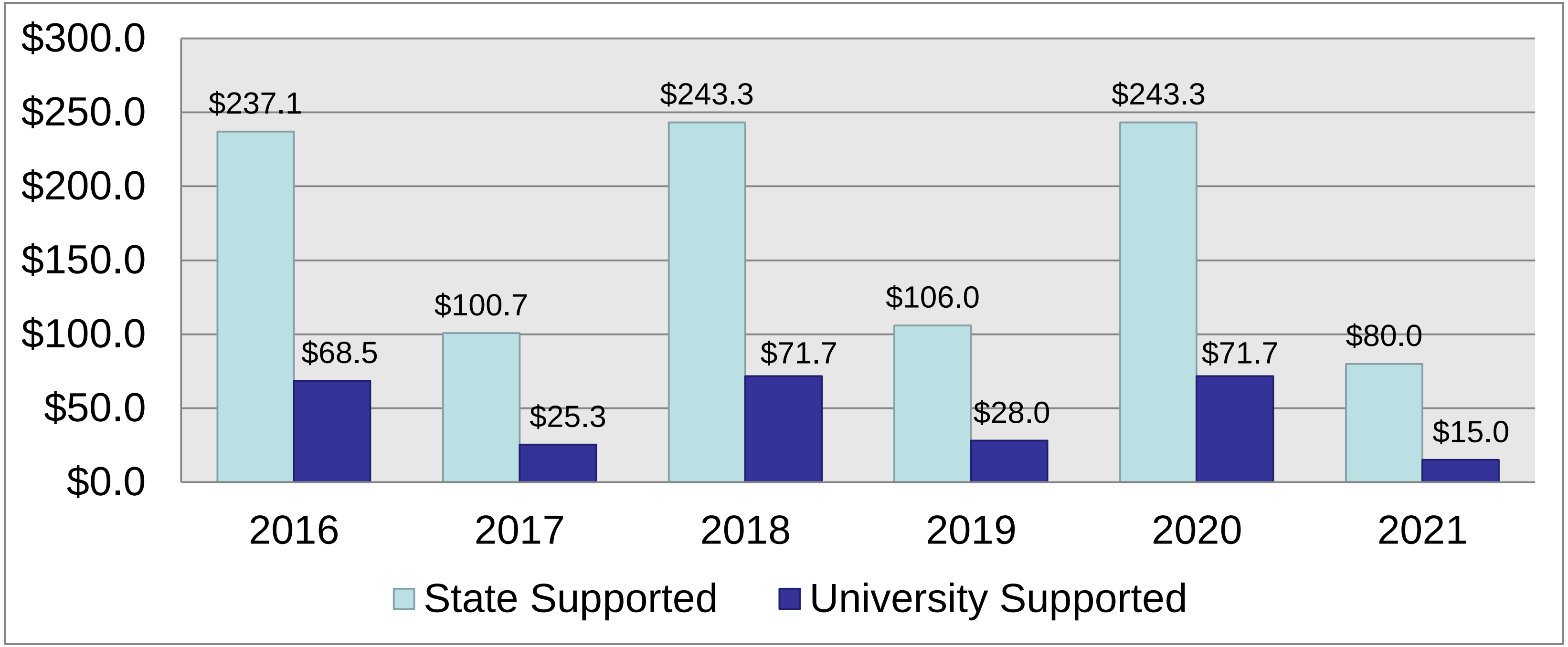


Current Amortization Structure *(in millions)*

6/30/15 Direct Debt Outstanding (at par)



Six-Year Capital Plan *(in millions)*



Projected Debt Issuances

(000s omitted)

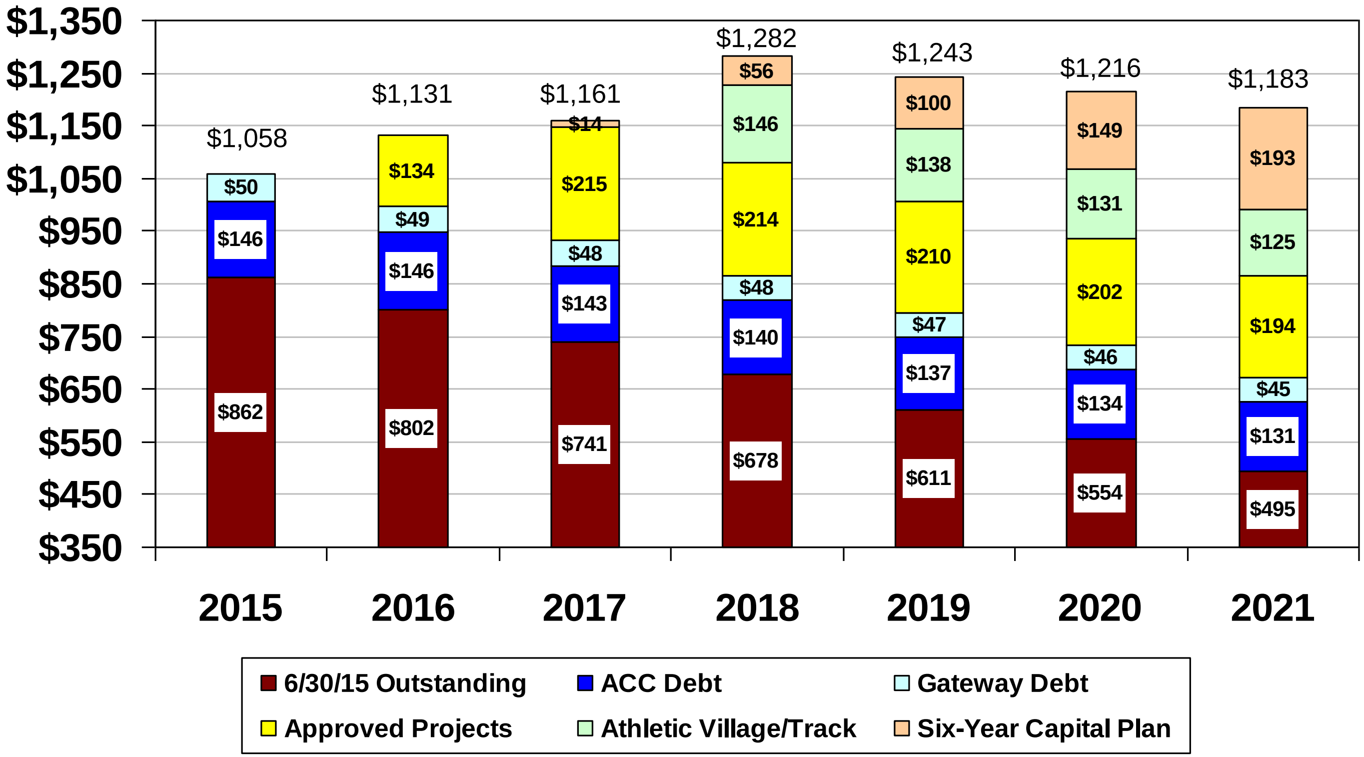
	Total Debt	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	Future years
Combined Heat & Power Plant (CHP)	$ 100,100	$ 50,100	$ 50,000					
2014 Bonding Bill	43,633	21,529	22,104					
2015 Bonding Bill	11,100		2,220	6,105	2,775			
Property Acquisitions	63,725	52,200	11,525	0	0			
Total Approved Projects	**218,558**	**123,829**	**85,849**	**6,105**	**2,775**			
Athletic Village – long-term Athletic Village – short-term	**89,470** **36,560**			**89,470** **36,560**				
Track/Title IX	**20,000**			**20,000**				
2016 State Capital Request	68,533		13,707	37,693	17,133			
Six-Year Capital Plan	211,666	0	0	5,060	28,248	51,341	47,657	79,360
Total Six-Year Capital Plan	**280,199**	**0**	**13,707**	**42,753**	**45,381**	**51,341**	**47,657**	**79,360**
Total	**$ 644,787**	**$ 123,829**	**$ 99,556**	**$ 194,888**	**$ 48,156**	**$ 51,341**	**$ 47,657**	**$ 79,360**

Assumptions:
University funding is 100% debt-funded
Issuance of six-year capital plan over 3 years – approximately 20%-55%-25%

Projected Outstanding Debt as of June 30

(in millions)

Direct Debt Supported by University Resources



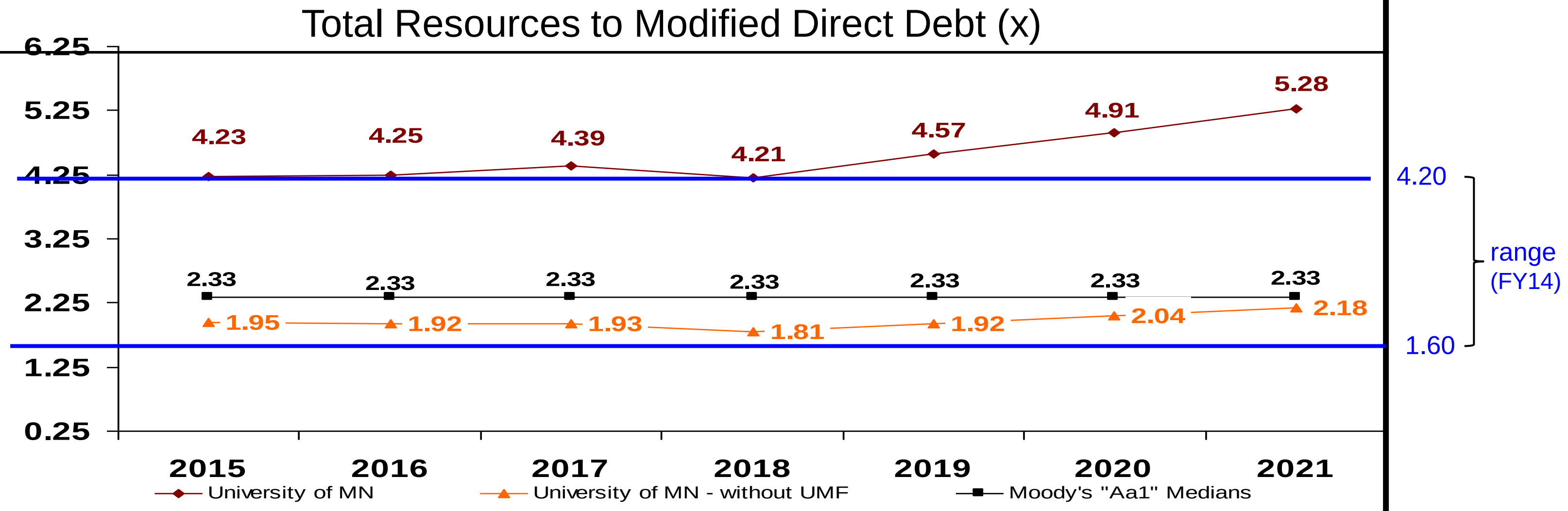
Key Financial Metrics

RATIO	KEY COMPONENT	DEFINITION
A - Total Resources to Modified Direct Debt	Total resources	Unrestricted net assets + restricted expendable net assets + restricted nonexpendable net assets + UMF* total net assets less UMF net investment in plant
B - Total Expendable Resources to Modified Direct Debt	Total expendable resources	Unrestricted net assets + restricted expendable net assets + UMF unrestricted/temporarily restricted net assets less UMF net investment in plant
	Modified direct debt	The sum of the University's outstanding debt as shown on the financials, plus Gateway debt, less net unamortized premium/discount on the bonds less the special purpose debt (i.e., state-supported stadium debt and 75% of the biomedical facilities bonds) **
C - Debt Service to Operations	Debt service	Sum of the principal and interest paid on capital debt by the University excluding principal and interest on the special purpose debt
	Operations	University operating expenses less scholarships & fellowships, plus interest on capital asset-related debt, excluding the interest on the special purpose debt

* UMF = University of Minnesota Foundation
** Stated another way: Modified direct debt = outstanding University-supported debt at par plus capital leases plus Gateway debt

Analysis of Key Credit

Resources and Leverage



Desired Trend

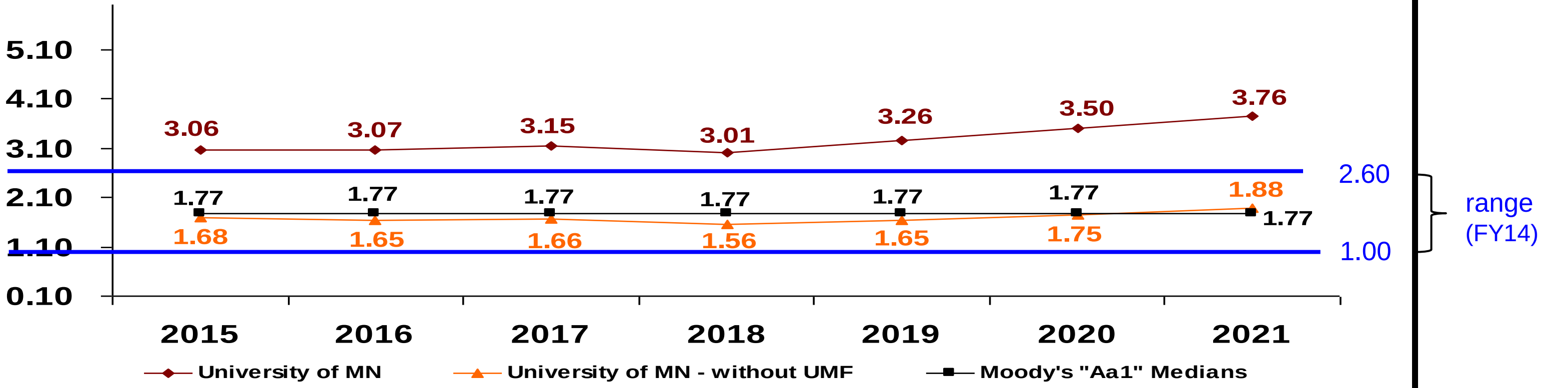
Unrestricted net assets + Restricted expendable net assets + Restricted non-expendable net assets + UMF total net assets – UMF net investment in plant

Divided by Modified Direct Debt

Analysis of Key Credit

Resources and Leverage

Total Expendable Resources to Modified Direct Debt (x)



Desired Trend

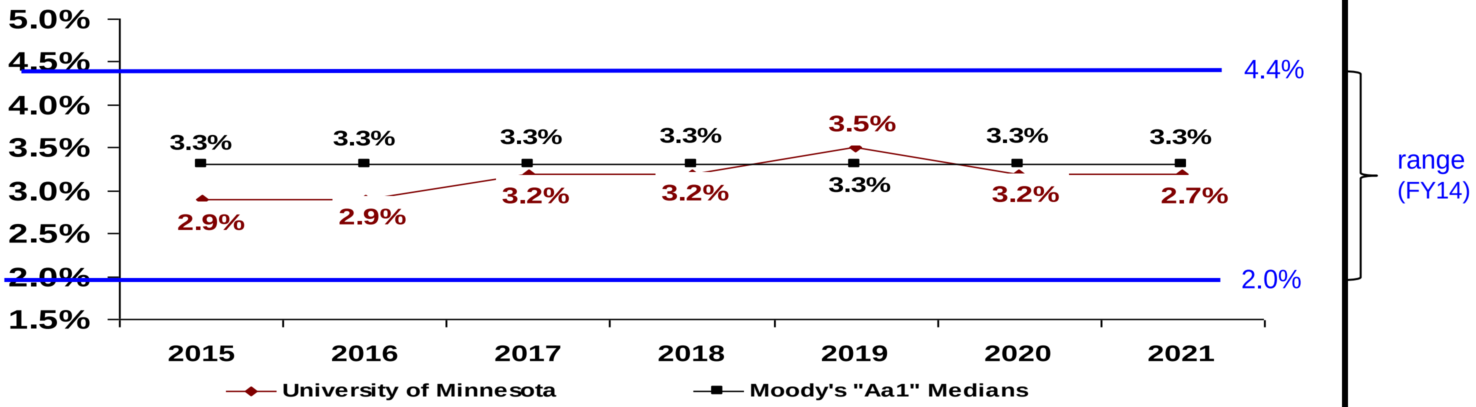
Unrestricted net assets + Restricted expendable net assets + UMF unrestricted net assets + UMF temporarily restricted net assets – UMF net investment in plant

Divided by Modified Direct Debt

Analysis of Key Credit Ratios

Resources and Leverage

Debt Service to Operations (%)



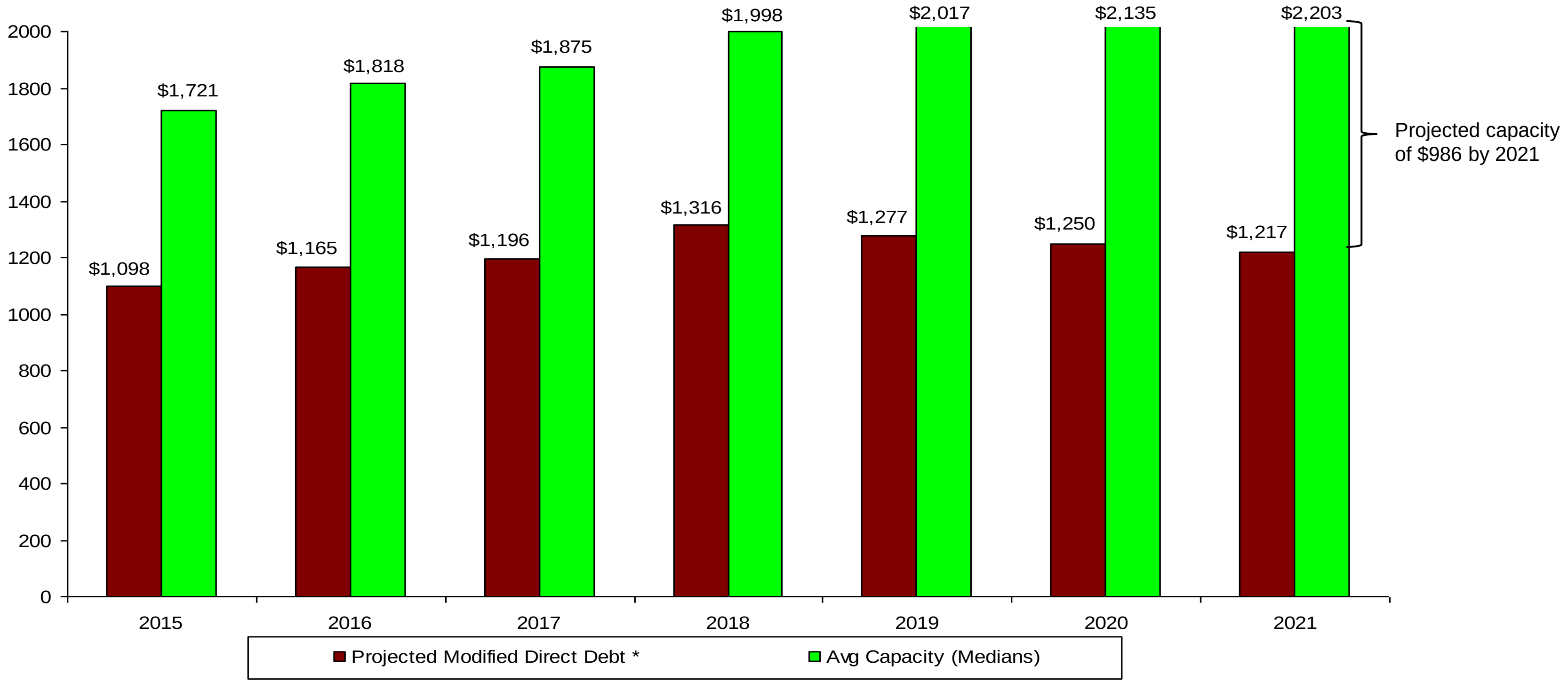
Desired Trend

Actual Annual Debt Service

Divided by Total Operating Expenses (as adjusted)

Theoretical Projected Debt Capacity– including UMF Resources

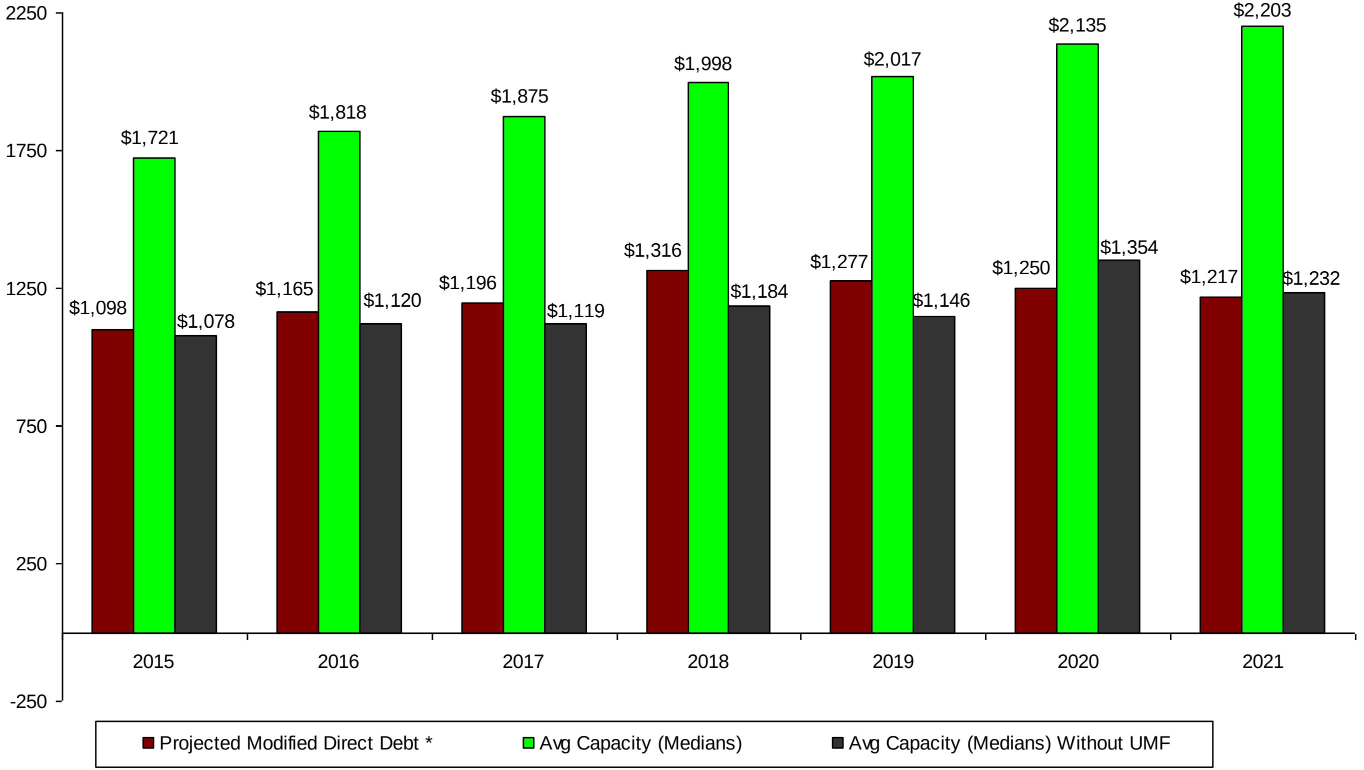
Based on Moodys "Aa1" Medians *(in millions)*



* Projected Modified Direct Debt excludes net unamortized premium/discount on the bonds and the state supported special purpose revenue bonds, both of which are included in long-term debt for financial reporting purposes.

Theoretical Projected Debt Capacity- without UMF Resources

Based on Moodys “Aa1” Medians *(in millions)*



* Projected Modified Direct Debt excludes net unamortized premium/discount on the bonds and the state supported special purpose revenue bonds, both of which are included in long-term debt for financial reporting purposes.

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BOARD OF REGENTS
DOCKET ITEM SUMMARY

Finance **October 8, 2015**

AGENDA ITEM: Administrative Cost Benchmarking/Reallocation Primer

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

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

PRESENTERS: Richard Pfutzenreuter, Vice President & CFO
Julie Tonneson, Associate Vice President & Budget Director
Lincoln Kallsen, Director, Institutional Analysis

PURPOSE & KEY POINTS

The purpose of this discussion is to update the committee on the fourth year of results for the administrative cost benchmarking analysis. The study identifies and benchmarks the University's expenditures into the categories of Mission, Student Aid, Mission Support & Facilities, and Leadership & Oversight.

The discussion will include an overview of the methodology for defining personnel and non-personnel expenditure totals in the categories. Expenditure totals by category and their relative share of total expenditures will be identified for fiscal years 2012-13, 2013-14, and 2014-15, with an analysis of changes year over year. Explanations will be discussed for any significant increases or decreases between years.

The discussion will also include a summary of reallocation at the University, including:

- the purpose of reallocation in annual budget development;
- its connections to the cost benchmarking exercise and the $90 million goal related specifically to administrative reallocations;
- the methodology and processes used; and
- recent results with examples from select units.

BACKGROUND INFORMATION

The Finance Committee received cost benchmarking results for the first three years (fiscal years 2011-12 to 2013-14) on October 11, 2012, October 10, 2013, and October 9, 2014. This presentation builds on that information by reviewing the methodology and focuses on the most recent three years of data, which will be used as the annual plan going forward. The addition of the reallocation primer this year is in response to requests for information from the Board, consistent with its annual work plan.

Administrative Cost Benchmarking/Reallocation Primer

Finance Committee | October 8, 2015

Vice President Richard Pfutzenreuter
Associate Vice President Julie Tonneson
Director of Planning & Analysis Lincoln Kallsen

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Original 2012 Goals for Cost Definition and Benchmarking Analysis

- Develop a shared understanding of University spending
- Promote a broader dialogue of our cost structure – where the money goes
- Identify gaps in processes, data and information
- Improve the University's ability to set its own spending benchmarks
- Establish a repeatable methodology to monitor changes or patterns in spending over time

2015 Analyses – Fourth Year "Snap Shot" (3rd yr. for comparisons)

Cost Definition & Benchmarking

Direct Mission Delivery

*The expenses of the **'doers'** of the mission*

Student Aid

Mission Support & Facilities

*The expenses to **'support'** the delivery of mission activities*

Leadership & Oversight

*The expenses for the **'leadership, direction, control and management'** of the mission*

Costs in all of these categories….

Occur throughout the organization

Have multiple funding sources

Methodology Updates

- Personnel expenses reflect FY15 job family placement going back to FY14 and FY13 for comparability – at the employee level
- Job family changes will still influence trends as new hires are made
- "Large" equipment purchases in non-mission function codes all reflected as mission support (none in Leadership & Oversight) going back to FY14 and FY13 for comparability
- These changes mean this version of data is comparable, but the results presented last Oct. cannot be compared to this Oct.

Expense Summary for Administrative Cost Benchmarking – FY15
University of Minnesota (with Enterprise Project) – Systemwide*

($$ in Thousands)

	a	b	c	d	e	d	e	f	g	h
1	**PERSONNEL**	**Mission**	Mission as % of Total	**Student Aid**	Student Aid as % of Total	**Mission Support & Facilities**	MS&F as % of Total	**Leadership & Oversight**	L&O as % of Total	**Total**
2	Direct Academic	889,371	99.0%					9,340	1.0%	898,711
3	Students **	238,444	85.1%			41,631	14.9%			280,075
4	Leadership							80,356	100.0%	80,356
5	Campus Operations ***					103,334	83.3%	20,713	16.7%	124,047
6	**Support:**									
7	*Audit/Finance/HR/Info Tech/Legal*					*178,720*	*82.8%*	*37,180*	*17.2%*	*215,900*
8	*Clerical Support*					*78,116*	*97.8%*	*1,770*	*2.2%*	*79,886*
9	*Coordinators*					*28,067*	*100.0%*			*28,067*
10	*Skilled Generalists*					*39,704*	*88.0%*	*5,412*	*12.0%*	*45,116*
11	*Other Support*					*162,669*	*79.2%*	*42,599*	*20.8%*	*205,268*
12	**Support Subtotal**	0	0.0%	0	0.0%	487,275	84.9%	86,961	15.1%	574,236
13	**Total Personnel**	**1,127,815**	57.6%	**0**	0.0%	**632,239**	32.3%	**197,371**	10.1%	**1,957,425**
14	**NON-PERSONNEL**	**Mission**	Mission as % of Total	**Student Aid**	MS&F as % of Total	**Mission Support & Facilities**	MS&F as % of Total	**Leadership & Oversight**	L&O as % of Total	**Total**
15	Direct Mission Subcontract/Participant	121,166	100.0%							121,166
16	Supply/Service/Misc	207,042	48.6%			187,063	43.9%	31,841	7.5%	425,946
17	Equipment/Other Capital Assets	45,006	43.5%			51,383	49.6%	7,159	6.9%	103,548
18	Consulting/Prof Services	77,481	54.0%			66,123	46.0%			143,604
19	Repair & Maintenance Supply					56,649	100.0%			56,649
20	Utilities					96,982	100.0%			96,982
21	Rents/Leases					30,096	100.0%			30,096
22	Student Aid			307,934	100.0%					307,934
23	**Total Non-Personnel**	**450,695**	35.0%	**307,934**	23.9%	**488,296**	38.0%	**39,000**	3.0%	**1,285,925**
24	**TOTAL EXPENSE**	**1,578,510**	48.7%	**307,934**	9.5%	**1,120,535**	34.5%	**236,371**	7.3%	**3,243,350**

* Excludes expenditures for direct construction activity, real estate acquisitions, debt, agency funds activities, cross-unit charges, and ISO Funds. Also excludes expenditures for University of Minnesota Foundation (and Minnesota Medical Foundation) which were previously excluded as Agency funds.

Expense Summary for Administrative Cost Benchmarking – FY15
University of Minnesota (without Enterprise Project) – Systemwide*

($$ in Thousands)

	a	b	c	d	e	d	e	f	g	h
1	**PERSONNEL**	**Mission**	Mission as % of Total	**Student Aid**	Student Aid as % of Total	**Mission Support & Facilities**	MS&F as % of Total	**Leadership & Oversight**	L&O as % of Total	**Total**
2	Direct Academic	889,371	99.0%					9,340	1.0%	898,711
3	Students **	238,444	85.2%			41,536	14.8%			279,980
4	Leadership							80,267	100.0%	80,267
5	Campus Operations ***					103,334	83.3%	20,709	16.7%	124,043
6	**Support:**									
7	*Audit/Finance/HR/Info Tech/Legal*					*175,659*	*82.5%*	*37,146*	*17.5%*	*212,806*
8	*Clerical Support*					*78,112*	*97.8%*	*1,770*	*2.2%*	*79,882*
9	*Coordinators*					*28,053*	*100.0%*			*28,053*
10	*Skilled Generalists*					*39,465*	*87.9%*	*5,412*	*12.1%*	*44,877*
11	*Other Support*					*162,315*	*79.2%*	*42,541*	*20.8%*	*204,856*
12	**Support Subtotal**	0	0.0%	0	0.0%	483,605	84.8%	86,869	15.2%	570,474
13	**Total Personnel**	**1,127,815**	57.7%	**0**	0.0%	**628,474**	32.2%	**197,187**	10.1%	**1,953,476**
14	**NON-PERSONNEL**	**Mission**	Mission as % of Total	**Student Aid**	MS&F as % of Total	**Mission Support & Facilities**	MS&F as % of Total	**Leadership & Oversight**	L&O as % of Total	**Total**
15	Direct Mission Subcontract/Participant	121,166	100.0%							121,166
16	Supply/Service/Misc	207,042	48.8%			184,633	43.5%	32,314	7.6%	423,989
17	Equipment/Other Capital Assets	45,006	43.5%			51,210	49.5%	7,331	7.1%	103,548
18	Consulting/Prof Services	77,481	66.4%			39,189	33.6%			116,671
19	Repair & Maintenance Supply					56,435	100.0%			56,435
20	Utilities					96,982	100.0%			96,982
21	Rents/Leases					30,093	100.0%			30,093
22	Student Aid			307,934	100.0%					307,934
23	**Total Non-Personnel**	**450,695**	35.9%	**307,934**	24.5%	**458,543**	36.5%	**39,645**	3.2%	**1,256,818**
24	**TOTAL EXPENSE**	**1,578,510**	49.2%	**307,934**	9.6%	**1,087,017**	33.9%	**236,832**	7.4%	**3,210,293**

* Excludes expenditures for Enterprise Systems Upgrade Project (RRC: Enterprise Resource Planning), direct construction activity, real estate acquisitions, debt, agency funds activities, cross-unit charges, and ISO Funds. Also excludes expenditures for University of Minnesota Foundation (and Minnesota Medical Foundation) which were previously excluded as Agency funds.

Cost Definition & Benchmarking

Direct Mission Delivery

*The expenses of the **<u>'doers'</u>** of the mission*

Student Aid

Mission Support & Facilities

*The expenses to **<u>'support'</u>** the delivery of mission activities*

Leadership & Oversight

*The expenses for the **<u>'leadership, direction, control and management'</u>** of the mission*

Personnel Expenses = Job Codes

Personnel Expenses = Job Codes

Personnel Expenses = Job Codes

Non-Personnel Expenses = Function Codes: Instruction, Research, Public Service
All Subcontract/Participant Expenses

Non-Personnel Expenses = Account Code

Non-Personnel Expenses = Function Codes: Academic Support, Student Services, Operations & Maintenance of Plant, Auxiliary Ops., & Institutional Support distributed proportional on job code(i.e., personnel expenses) except consulting & large equipment purchases which are assigned 100% to support.
All rents & leases, repairs & maintenance and utilities assigned to facilities.

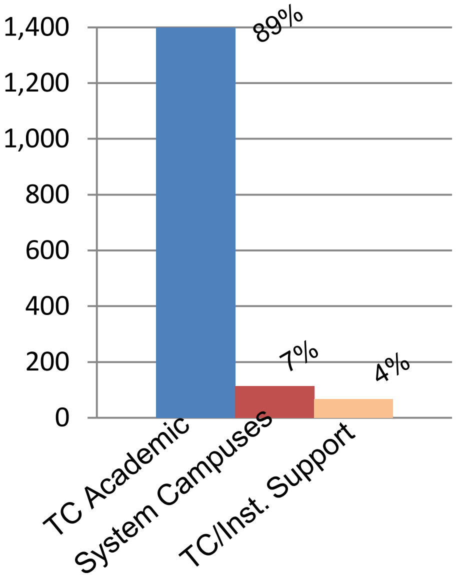
Note: "Expenses" include personnel and non-personnel costs
Expenses related to agency activity, direct construction, debt, ISOs, the Enterprise Systems Upgrade Project, and cross-unit charges have been eliminated

Costs Occur Throughout the Organization

Direct Mission Delivery

*The expenses of the **<u>'doers'</u>** of the mission*

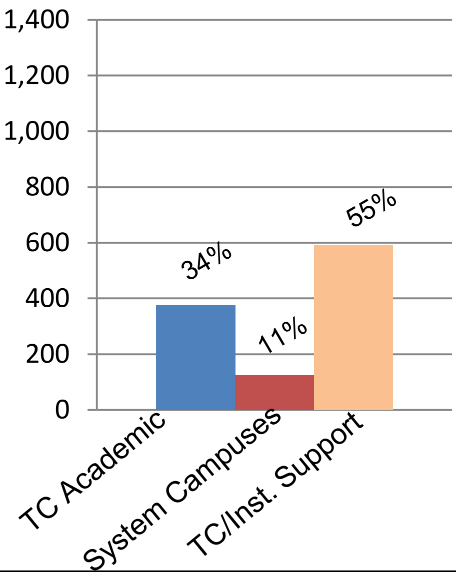
FY15 Costs – $1.6b total



Mission Support & Facilities

*The expenses to **<u>'support'</u>** the delivery of mission activities*

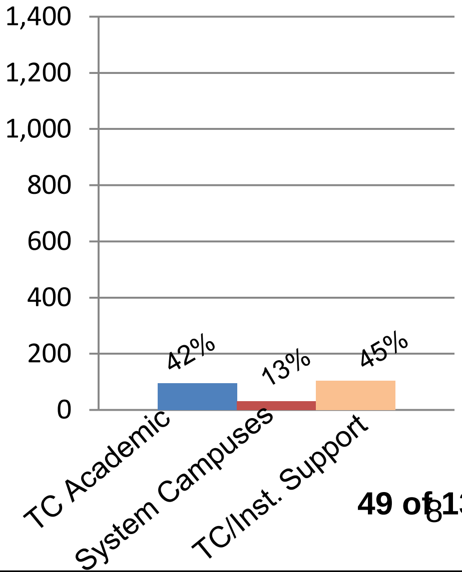
FY15 Costs – $1.1b total



Leadership & Oversight

*The expenses for the **<u>'leadership, direction, control and management'</u>** of the mission*

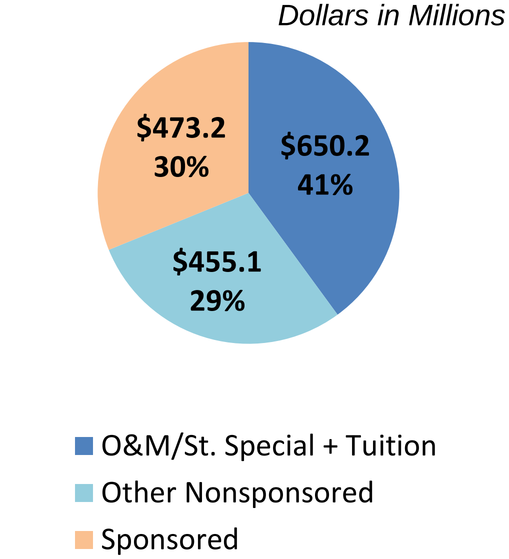
FY15 Costs – $.2b total



Costs Occur Across All Fund Groups

Direct Mission Delivery

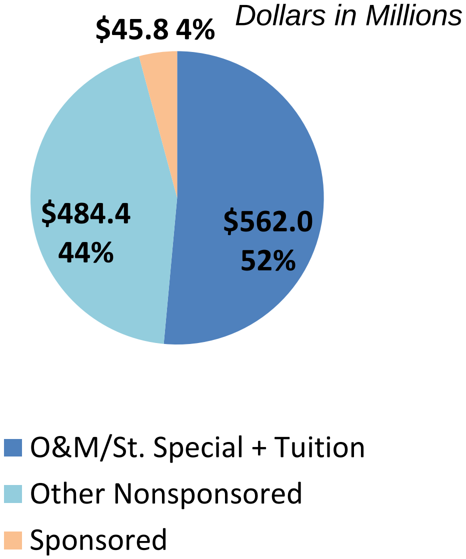
*The expenses of the **'doers'** of the mission*



$1.6b Total

Mission Support & Facilities

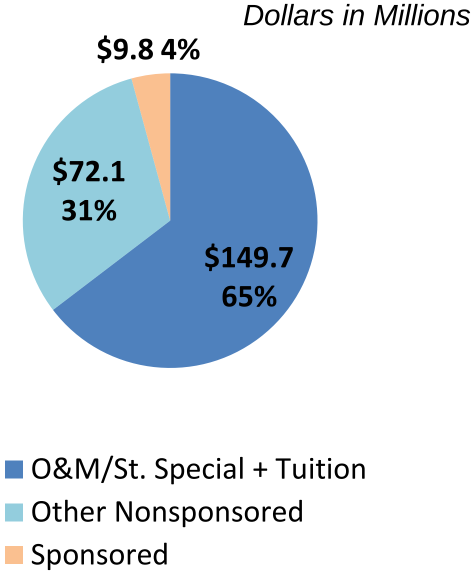
*The expenses to **'support'** the delivery of mission activities*



$1.1bTotal

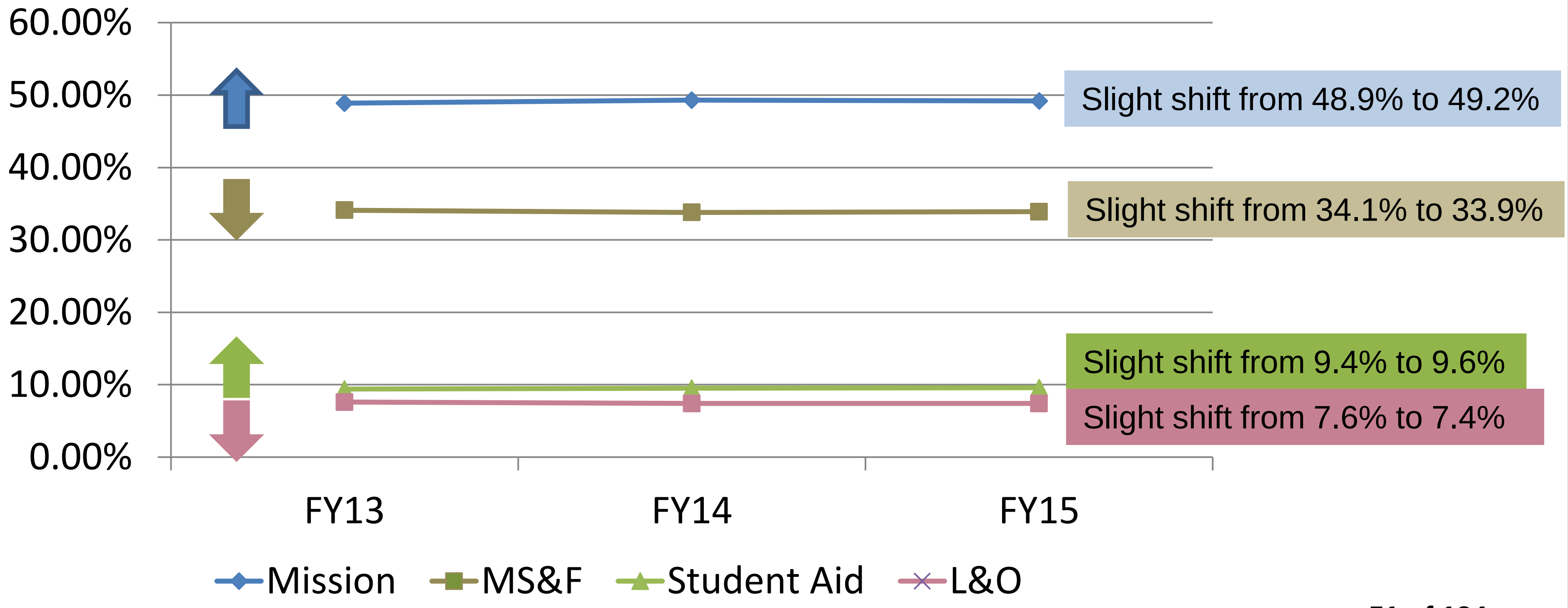
Leadership & Oversight

*The expenses for the **'leadership, direction, control and management'** of the mission*



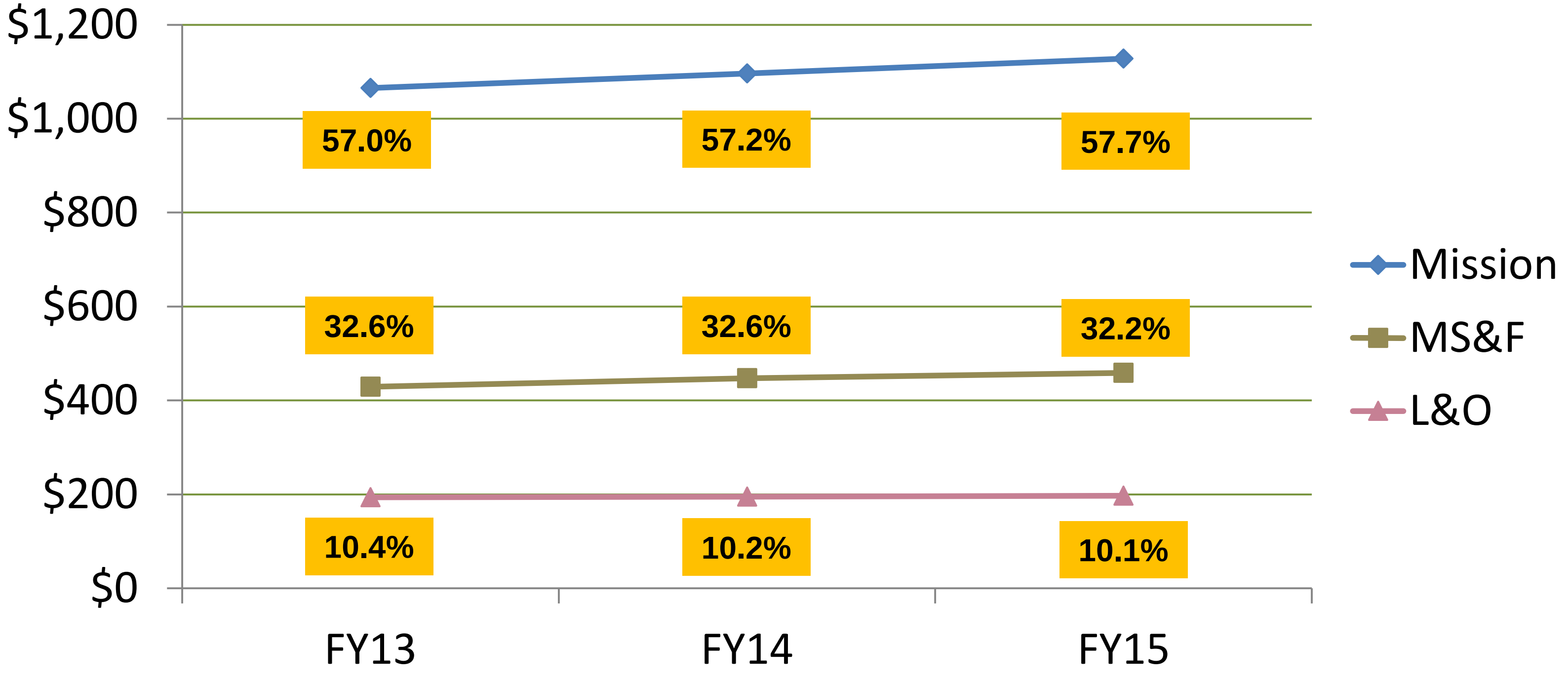
$.2b Total

Three Year Trend
Each Category as % of Total Expenditures



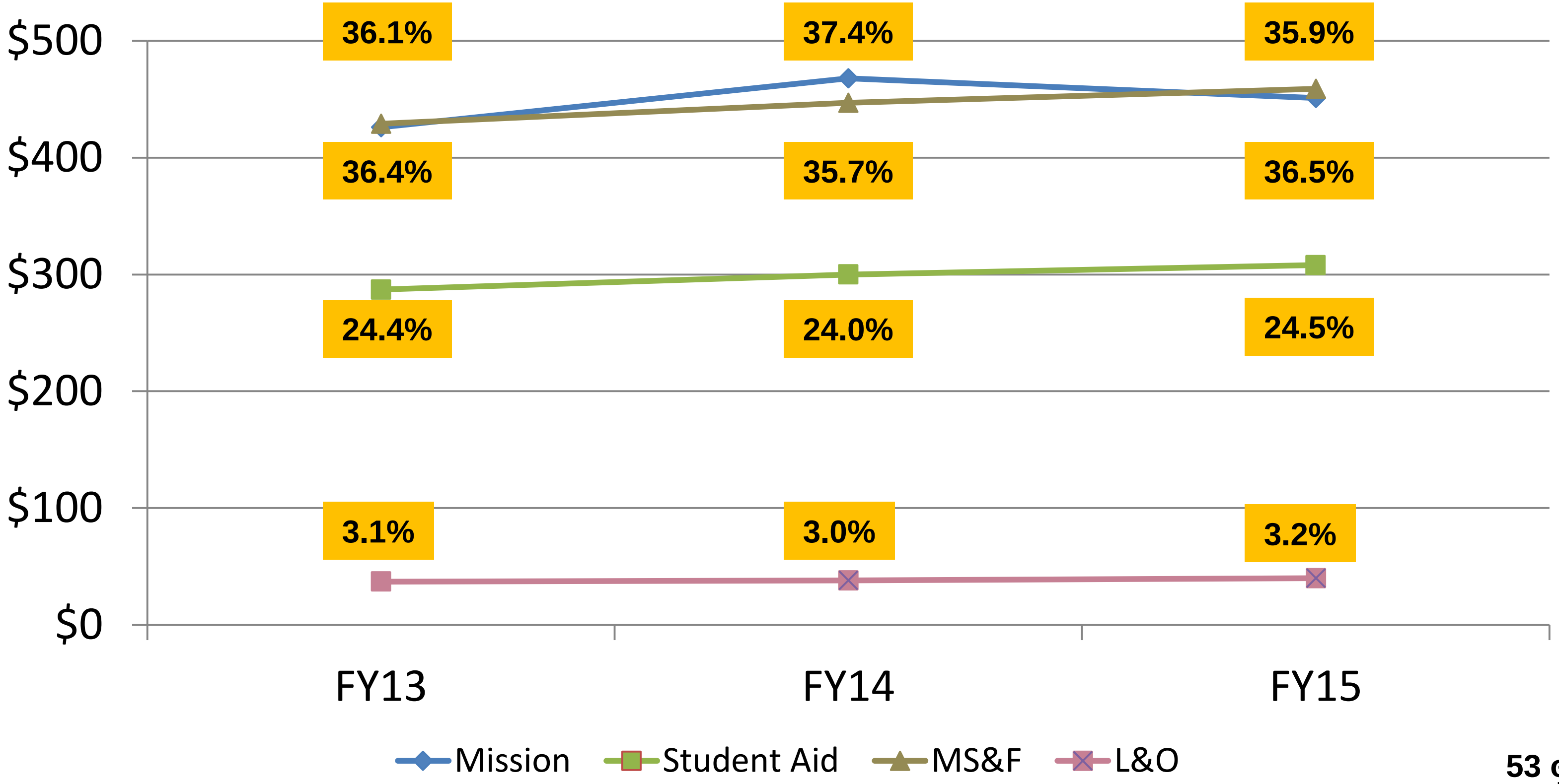
Three year trend – Personnel costs

%s = % of Total Personnel Expenditures – Shifts Over Time



Three year trend – Non-Personnel costs

%s = % of Total Non-Personnel Expenditures – Shifts Over Time



Three Year Trends

- Personnel costs for all three categories (in total) remain stable at 61% of overall spend
- The mix of personnel costs by category has shifted a bit, however: within total personnel costs, the portion in the Mission category has increased .7%, while the portion in the MS&F and L&O categories has decreased (.4% and .3% respectively) – slide 11
- As a % of overall spending, the totals for Mission and Student aid have gone up; while MS&F and L&O have decreased – slide 10
- Over the three comparison years, 66% of spending growth has been in Mission and Student Aid categories; 30% in mission support
- Lack of growth in available sponsored funding puts pressure on additional mission investment
- Program expansions often require mission support & facilities spending, as well as additional direct mission spending
- Non-personnel (particularly equipment) and sub-contract spending is quite variable year-to-year

FY15 Analysis – Summary of Results

- Total spend remains at $3.2 Billion (up $41.6m or 1.3% from FY14)

- Personnel costs increased 1.9% overall, less than general salary plan of 2.5%

- Non-personnel costs increased less than personnel costs
  - Reduced subcontract, professional services and significant supplies spending in the mission category

- Student aid had the largest year over year growth of any category – 2.7%

- As a % of Total – all categories relatively flat – Student Aid and Mission Support/Facilities are both up .1%; Leadership & Oversight is flat; Mission is down .1% (due to the decrease in non-personnel spending)

- Notable Findings by Category Following….

Direct Mission Delivery

The expenses of the ***‘doers’*** *of the mission*

Student Aid

Direct Mission Delivery

FY15

49.2% of overall spend

Types of Positions Included in this Category:

- Tenured and tenure-track professors
- Adjunct instructors, lecturers, clinical professors
- Extension educators
- Health science professionals
- Scientists and laboratory technicians
- Students in teaching assistant, research assistant, or fellowship roles

Plus all non-personnel expenses with instruction, research, or public service function codes (excluding utilities, rents, leases and repairs & maintenance – assigned to facilities)

Direct Mission Delivery

(Dollars in Thousands)		FY14	FY15	Change $$	Change %%
MISSION	**Mission Personnel**				
	Direct Academic	858,525	889,371	30,846	3.6%
	Students	237,181	238,444	1,263	0.5%
	Mission Nonpersonnel	467,917	450,695	(17,222)	-3.7%
	Mission Total	1,563,623	1,578,510	14,887	1.0%
	Mission - % of Total Spend	49.3%	49.2%	Decreased one tenth	

Notable Changes FY15 Compared to FY14:

Personnel:

- Beginning to see MnDRIVE investments in both direct academic and student categories – to the extent there was real growth in hiring – the majority of it was in this category
- In addition to the 2.5% general wage increase, compensation changed for promotional increases, exceptional retention or merit increases, and changes in the number of personnel hours

Non-personnel:

- Decrease in volatile categories tied largely to sponsored research in some cases: subcontracts in School of Public Health (-$8.5m) and lab related supplies in the Medical School (-$2.1m); Decrease in expense reimbursements related to MERC in the Academic Health Center (-$3.6m)

Mission Support & Facilities

*The expenses to '**support**' the delivery of mission activities*

Mission Support & Facilities

FY15
33.9% of overall spend

Types of Positions Included in this Category:

Support categories – **all non-supervisory**

- Audit/Finance/HR/Info Tech/Legal and Clerical Support
- Other specialized support - Examples: Advisors, librarians, curators, child care workers, coaches
- Non-descriptive job codes – Examples: Coordinators, "Skilled generalists" – analysts, associate to, administrative professional, etc.

Campus Operations – **all non-supervisory**

- Buildings and grounds workers
- Skilled trades, engineers, safety technicians, environmental health and safety workers, police

Plus prorated share of supplies and services etc. in non-mission functions
Plus large equipment purchases in non-mission functions
Plus all consulting in non-mission functions
Plus facilities costs -- utilities, repair & maintenance, rents & leases

Mission Support & Facilities

(Dollars in Thousands)

MISSION SUPPORT & FACILITIES

	FY14	FY15	Change $$	Change %%
Mission Support & Facilities Personnel				
Students	35,523	41,536	6,012	16.9%
Campus Operations	102,228	103,334	1,106	1.1%
Support	487,556	483,605	(3,951)	-0.8%
Mission Support & Facilities Nonpersonnel	446,725	458,543	11,818	2.6%
Mission Support & Facilities Total	1,072,0320	1,087,017	14,985	1.4%
Mission Support & Facilites-% of Total Spend	33.2%	33.0%	Down two tenths	

Notable Changes FY15 Compared to FY14:

Personnel:

- Compensation increases were $3.2m of the $15m increase (0.5%)
- The significant increase in student personnel costs is driven by an increase in undergraduate student employment (including sponsored accounts)
- The decrease in support personnel costs is the result of decreases in spending on coordinators, generalists, and clerical staff

Non-personnel:

- Supplies/Services/Misc. – prorated across this category and Leadership & Oversight – notable examples include increased insurance payments by the institution, software licensing and maintenance costs, equipment purchases, increased Vikings-related expenditures, and so on

Leadership & Oversight

The expenses for the ***'leadership, direction, control and management'*** *of the mission*

Leadership & Oversight

FY15
7.4% of overall spend

Types of Positions Included in this Category (Leadership & Management):

- **Executive leadership** – President, Vice Presidents, Chancellors, Provost & Vice Provosts
- **Academic leadership** – Deans & Associate Deans, Department chairs and heads
- **Directors** – program, department, campus, and system-wide (another "non-descriptive" set of job codes)
- **Supervisor and managerial titles** across the organization

Plus prorated share of supplies & services, small equipment, etc. in non-mission functions

Leadership & Oversight

(Dollars in Thousands)		FY14	FY15	Change $$	Change %%
LEADERSHIP & OVERSIGHT	**Leadership & Oversight**				
	Direct Academic	8,145	9,340	444	5.0%
	Leadership	85,595	80,267	(5,328)	-6.2%
	Operations & Support	100,929	107,578	6,649	6.6%
	Leadership & Oversight Nonpersonnel	37,635	39,645	2,011	5.3%
	Leadership & Oversight Total	233,055	236,832	3,777	1.6%
	Leadership & Oversight - % of Total Spend	7.4%	7.4%	no change	

Notable Changes FY15 Compared to FY14:

Personnel:

- Compensation increases were $1.8m of the $3.8m increase (.9%)
- Turnover/Reorganization resulting in appropriate classification of manager/supervisor positions from what would have been generic leadership positions in the past (e.g. associate director to now manager 1 or 2)
- Overall headcount in Leadership & Oversight personnel reduced from FY14 to FY15

Non-personnel:

- Supplies & Services, small equipment etc. (not coded instruction/research/public service) were prorated between Mission Support & Facilities & Leadership & Oversight – so items from prior category here too (see slide 19 for examples)

FY15 Analysis - Key Takeaways

- Growth in personnel expenditures (less than the 2.5% general salary plan increase) largely reflects decisions made in implementing reallocations – position eliminations & salary savings
- Most significant reductions in personnel were in support categories (coordinators, clerical, generalists)
- Significant increase in student compensation – number of positions
- Mission support spending will vary as investments in mission activities change and grow
- Major swings in spending related to research grants (equipment/subcontracts) significantly impacts the results for the Mission category
- Focus of the annual budget process – linked to reallocation exercises at the college and campus level

Board of Regents Finance Committee

Reallocation Primer

October 8, 2015

University of Minnesota

Driven to Discover℠

Agenda

- Purpose of Reallocation within the Budget
- Methodology/Process
- Recent Results – Examples

Reallocation as a "Resource" within the Budget Framework

Part 1: Available Resources

State Appropriation
Internal Reallocation
Tuition
Other Resources

Combined with other resource changes to pay cost increases

Part 2: Costs & Investments

Compensation
Strategic Choices
Facilities & Capital Expenses
Operations

Part 3: Balancing the Budget

Reallocation in Other Non-Sponsored Funds

Internal Reallocation
Other Revenues

Combined with other resource changes to pay cost increases

Compensation
Strategic Choices
Facilities & Capital Expenses
Operations

Reallocation Linked to $90m Goal and Cost Benchmarking Analysis

To Balance the Budget:		**To Achieve the $90m:**
Across all three Cost Benchmarking Categories:		Across Two Cost Benchmarking Categories:
1) Mission		1)
2) Mission Support & Facilities	→	2) Mission Support & Facilities
3) Leadership & Oversight	→	3) Leadership & Oversight
FY16 Budgeted Estimate: $30.5m	→	at least $13.4m toward the $90m (plus $4m from other funds)

Reallocation Methodology/Process

Budget Instructions – Unit Targets

- Total Reallocation from Framework - Proportional on Prior Year O&M/St. Special/Tuition Base – focus primarily on reducing administrative costs
- Other Non-Sponsored Funds – Portion of $90m Proportional on Spending in Two “Admin” Cost-Benchmarking Categories – reduce administrative costs

Response to Target

- Proposed action to cut recurring costs (FTE reductions if applicable)
- Projected impact on unit’s activities or service levels

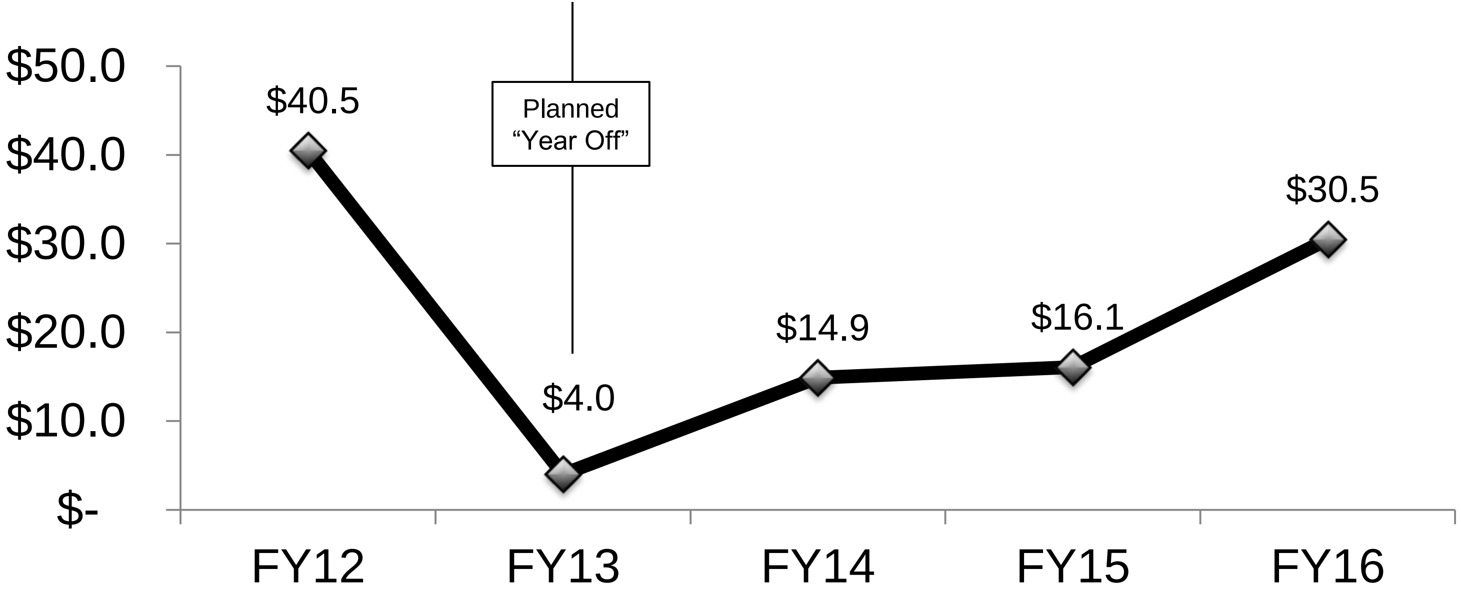
Decision Variables for Approval/Denial of Response

- Impact on unit’s activities, students, or other units
- Context of unit’s overall budget (structural balance)
- Impact on institutional priorities

Planned Reallocations Over Time

Framework Reallocations Included in President's Recommended Operating Budget ($ in million)

% of Approved Budget State O&M + Tuition	3.1%	0.3%	1.1%	1.2%	2.1%



* Note – excludes reallocations required in other "non-framework" funds.

Reallocations Planned in the Annual Budget
Tuition & State $ Equivalencies

	Planned Reallocation	Equal to What % On Tuition Rate* & $/student	Equal to What % Increase in State $
FY12	$40.5m	9.2% - Avg. $1,055	7.1%
FY13	$4.0m	.9% - Avg. $106	.7%
FY14	$14.9m	3.4% - Avg. $403	2.5%
FY15	$16.1m	3.7% - Avg.$442	2.6%
FY16	$30.5m	7.0% - Avg. $838	4.7%

* Resident undergraduate tuition rate – avg. across all campuses

Reallocations – Expenses Cut

Primarily People

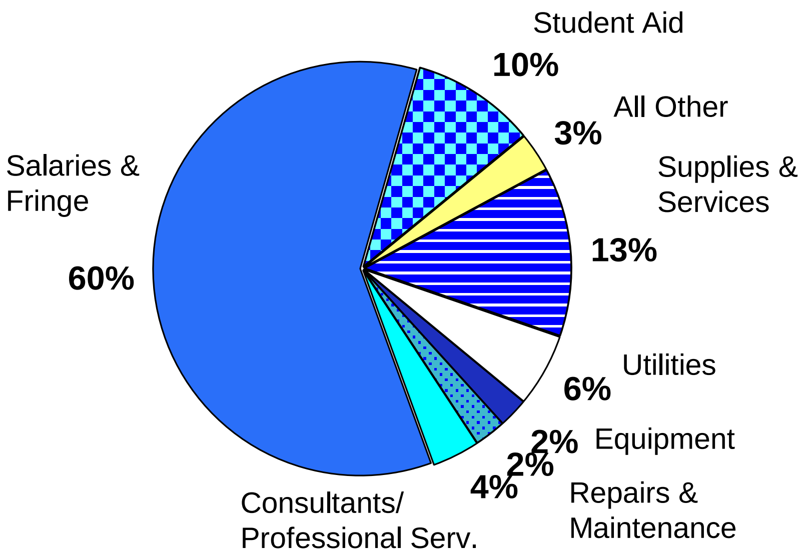
- Position Eliminations – Across All Employee Groups
- Salary Savings from Filling Open Positions at Lower Salaries

Operations

- Reductions to Recurring Budgets for Supplies, Travel, Food, Professional Development, Equipment, etc.
- Some Enabled Through Centralization of Services or Central Vendor Contracts etc. – savings marbled throughout

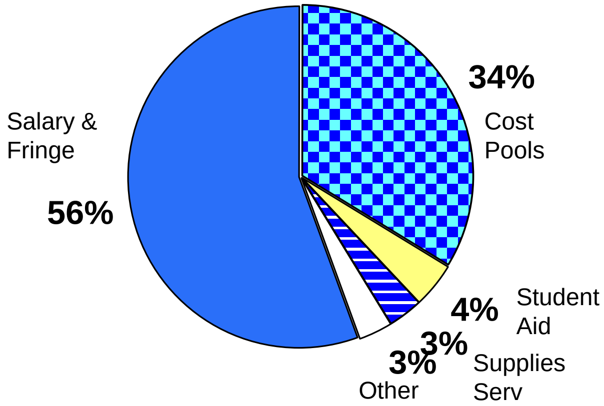
Unit Examples on Following Slides

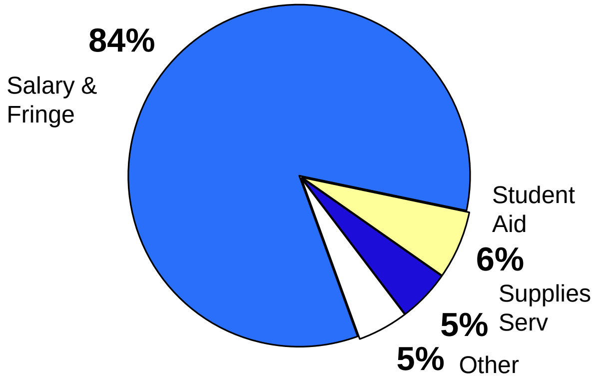
Total University – Nonsponsored Expenditures



Academic Unit – College of Liberal Arts – FY15

Actual Expenditures - $256.9m





Actual W/O Cost Pools - $170.3m

CLA - College of Liberal Arts - Budget Framework	
Change in Incremental Resources:	
Framework Tuition Revenue Change	($710,533)
FY14 Tuition Over Budget - Uncommitted	806,497
Approved Reallocation	1,024,000
O&M in Lieu of Tuition	3,435,799
O&M Reduction - Balance University Budget	(900,000)
Total Change in Recognized Resources	**$3,655,763**
Costs and Investments Funded from Above Resources:	
Compensation Increase-O&M/State Specials	$1,980,000
Cost Pool Increase	720,698
Undergraduate Eco-System Proposal	500,000
Faculty Positions-Social Sciences Strengths	355,065
Geography Faculty Line	100,000
Total Costs & Investments	**$3,655,763**

Reallocation Decisions:

- Eliminated Info-Tech Positions
- Eliminated Admin. Support Positions
- Reduced TA/Instructional Support
- Reduced General Operating Expenses

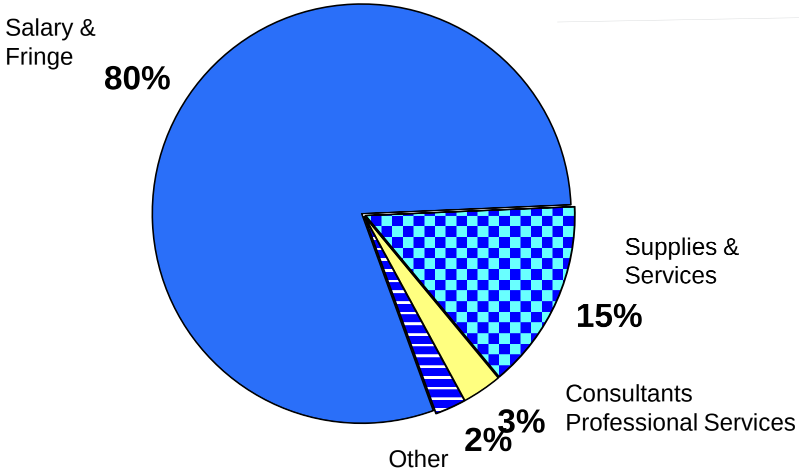
Support Unit – Sr. VP Academic Affairs & Provost – FY15

Academic Aff/Provost - Changes to Cost Pool Allocation	
Compensation Increase	$126,400
Reciprocal Engagement/UROC Assistant	85,000
Approved Reallocation	(204,232)
Final Change in Cost Pool Allocation	**$7,168**

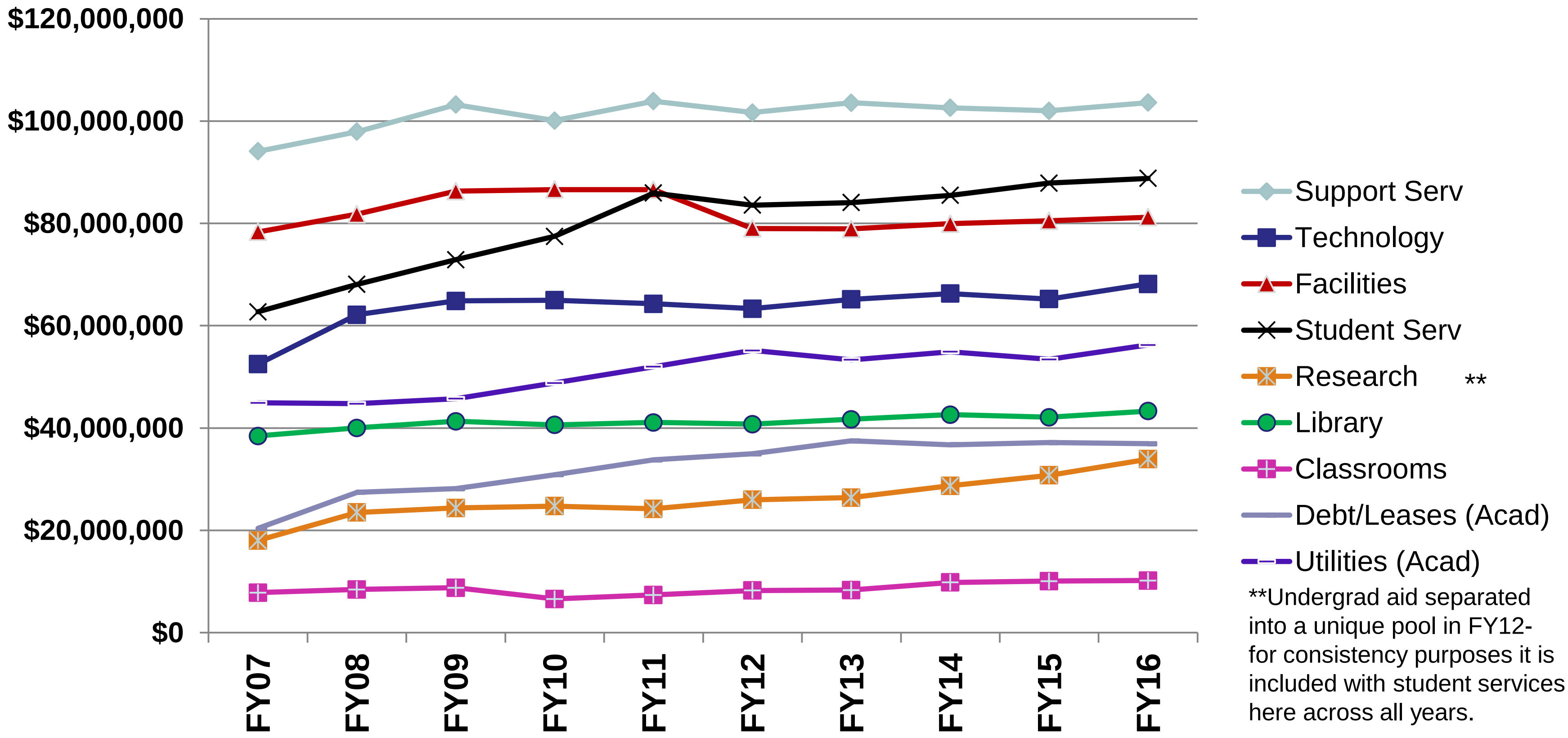
Reallocation Decisions:

- Eliminated P&A Position
- Recognized Salary Savings
- Reduced General Operating Expenses

Actual Expenditures - $11.9m



Change in Cost Pool Charges by Major Pool FY07 – FY16



**Undergrad aid separated into a unique pool in FY12- for consistency purposes it is included with student services here across all years.

President's Goal – $90m Reduction in Admin Costs Over 6 Years FY14 - FY16 and "balance" (Framework +)

Four components to date:	Progress to Date:
1. Appropriation law from the 2013 session (S.F. 1236) made 5% of the University's FY15 appropriation (or $26.5m) contingent on meeting three of five performance goals, one of which was to decrease administrative costs by $15,000,000 in FY14 *(Final list compiled & communicated 2015 session)*	$18.8m
2. The FY15 approved budget included unit level reallocations to support the costs and investments in the O&M/Tuition/State Specials portion of the budget and cost increases in the other non-sponsored funds – *(Final list to be reported after close of the fiscal year)*	$21.6m
3. The FY16 proposed budget includes unit level reallocations to support the costs and investments in the O&M/Tuition/State Specials portion of the budget a portion of the $30.5m on previous slide	$13.4m
4. The FY16 proposed budget also includes unit level reallocations in the other non-sponsored funds to reduce administrative costs – pay for cost increases and reduce the pressure on increased revenues in those funds (sales, fees, etc.)	$4.0m
Total to Date:	$57.8m
Total Remaining:	$32.2m

Reallocations for the FY17 Budget

- Reallocations will continue at pace of recent years
- At least $15m in administrative reallocation will be achieved across all funds
- Overall there will be reallocations impacting mission activities, as well as the administrative activities
- Reallocations will be considered a resource to pay for cost increases and investment

BOARD OF REGENTS
DOCKET ITEM SUMMARY

Finance **October 8, 2015**

AGENDA ITEM: GASB 68: GASB's New Standards on Accounting and Financial Reporting for Pensions

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

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

PRESENTERS: Richard Pfutzenreuter, Vice President & CFO
Michael Volna, Associate Vice President, Finance & Controller

PURPOSE & KEY POINTS

The Governmental Accounting Standards Board (GASB) has issued GASB Statement #68 and a companion implementation standard, GASB Statement #71. These new standards will apply to all governmental entities in Minnesota that participate in cost-sharing, multi-employer pension plans offered by the state. The University participates in such plans through the Minnesota State Retirement System and Public Employees Retirement System, and is required to adopt these new standards for its fiscal year 2015 annual financial statements.

The presentation will provide the Finance Committee with an understanding and awareness of the impact of these new standards on the University's financial statements. The presentation will also provide information on the implications for the ratings assigned to the University's debt.

The new standards apply only to the way the University must account for and report this activity. They have no impact on the underlying plan documents, plan governance, or the benefits provided to employees under the plans.

BACKGROUND INFORMATION

The Audit Committee has received regular updates on these new GASB standards since their issuance in June 2012.

University of Minnesota
Discussion of GASB Statements 68 & 71

GASB Statement No. 68 (GASB 68), *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, was issued with the objective of improving the accounting and financial reporting for pensions, along with improving information regarding financial support for pensions provided by other entities. The provisions of this Statement are effective for fiscal year 2015.

GASB Statement No. 71 (GASB 71), *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68,* addresses an issue regarding application of the transition provisions of GASB 68. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions of this Statement are effective for fiscal year 2015, in tandem with GASB 68.

These two standards together collectively set new accounting and financial reporting requirements for employer pension plans administered through trusts or equivalent arrangements. The University is impacted by these two standards due to its participation in the State Employees Retirement Fund (SERF), and the Public Employee Police and Fire Fund (PEPFF) which are managed by the Minnesota State Retirement System (MSRS) and the Public Employees Retirement Association (PERA), respectively—both of which are cost-sharing multiple-employer pension plans. As such, the University expects to include its proportionate share of the total long-term liability for benefits in its statement of net position and statement of revenues, expenses, and changes in net position for the fiscal year ending June 30, 2015.

According to the SERF portion and PEPFF portion of the MSRS and PERA 2014 Comprehensive Annual Financial Reports as of June 30, 2014, respectively, an actuarial calculation of the combined Net Pension Liability (NPL) of $2.7 billion was recorded. The University's proportionate share of the combined NPL is currently estimated at approximately $266.5 million (unaudited). In addition, GASB 68 requires the reporting of changes in actuarial assumptions and other actuarial factors to be categorized as deferred inflows of resources or deferred outflows of resources, both of which are to be amortized over a five-year period. Also, due to the actuarial valuation measurement date being July 1, 2014, GASB 71 requires any subsequent contributions related to fiscal year 2015 be recorded as a deferred outflow of resources, which are not amortized. Currently, the estimated deferred outflows of resources to be recorded in the University's financial statements are approximately $23.0 million (unaudited) and the estimated deferred inflows of resources are approximately $368.2 million (unaudited).

MSRS' employer and employee contribution rates (based on "covered payroll") for SERF are currently 5.5% for both employer and employee, and PERA's contribution rates for PEPFF are 16.2% for employer and 10.8% for employee, respectively. Contribution rates are set by the Minnesota State Legislature, not by GASB. Therefore, the issuance of GASB 68 and 71 and the University's adoption of them will have no direct impact on changes to plan documents, the legal obligation to fund the plans through employer and employee contributions, or the payment of participant benefits. Any additional cash flow impacts would be a direct result of the Legislature making future changes to the contribution rates associated with the plans.

GASB 68: New Standards on Accounting and Financial Reporting for Pensions

Michael Volna
Associate Vice President, Finance & Controller

University of Minnesota
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"New from accounting, sir. Two and two is four again."

GASB 68

- Adopted by GASB in 2012; effective FY 2015
- Intended to improve financial reporting for public pensions by:
  - Providing a broader picture of the activity and expected liabilities applicable to public pensions
  - Create more consistency among all employers associated with pension transactions

GASB 68 Applicability

- Multi-employer, cost sharing, defined benefit pension plans, with the following characteristics:
  - Contributions, and earnings on contributions, are irrevocable
  - Plan assets are dedicated to pension benefits
  - Plan assets are legally protected from creditors of employers, plan administrators, plan members

University Retirement Plans

Defined Benefit Plans

- ✓ Public Employee Police and Fire Fund (PEPFF - PERA)
- ✓ State Employees' Retirement Fund (SERF - MSRS)
- ✕ Federal retirement plans – CSRS, CSRS Offset, FERS
- ✕ Single employer plan – U of M Supplemental Benefit Plan

Defined Contribution Plans

- ✕ Faculty Retirement Plan
- ✕ Optional Retirement Plan
- ✕ 457 Deferred Compensation Plan
- ✕ 415(m) Retirement Plan

✓ GASB 68 applicable
✕ Not applicable/immaterial

Current Accounting Method

University of Minnesota
(FY 14)

Employee Contributions ($20.9M)
Employer Contributions ($21.2M)

Audited Financial Statements

MSRS & PERA

Plan contributions
Plan investments
Investment income
Benefits payments
Pension plan liabilities

Audited Financial Statements

New Requirements – GASB 68

- Participant employers must report in their financial statements, their proportionate share of certain amounts for each plan:
  - Net pension liability
  - Current year pension expenses
  - Deferred inflows and outflows due to changes in various actuarial assumptions, timing of payments

New Requirements – GASB 68

Participating Employers

State of Minnesota

University of Minnesota

Met Council

MN Sports Facilities Authority

MN Historical Society

Other Participating Public Employers

MSRS & PERA

Net Pension Liability
Other financial activity "allocated" among all employers participating in the plans

FY 15 Accounting & Reporting

University of Minnesota

Employee Contributions
Employer Contributions

MSRS & PERA

Participants/Beneficiaries
Actuarial Assumptions
Revenues & Expenses
Net Pension Liability

Audited Financial Rpt
- *Pension Expenses*
- *Deferred Inflows & Outflows*
- *Net Pension Liability*
- *Net Asset Position*

U 's proportionate share MSRS & PERA = 16.03 %

FY 15 Financial Statement Impact

Net Position

- $266.5 million net pension liability ⬇
- $368.2 million deferred inflows ⬇
- $25.1 million deferred outflows (FY 15 adjustments) ⬆
- Total decrease in Net Position $609.6 million ⬇

Expenses

- $682.5 million nonoperating expenses ("change in accounting principle") ⬆
- $72.9 million in FY 15 operating expenses (timing adjustments) ⬇
- Net expense increase $609.6 million ⬆

Deferred Inflows

- The inflow of net assets in the current reporting period, for activities applicable to a future reporting period.
- *Example – pension plan actual investment returns exceeding projected investment returns.*

Deferred Outflows

- The outflow of net assets in the current reporting period, for activities applicable to a future reporting period.
- *Example – employer contributions to pension plans subsequent to actuarial report date.*

Minimal Impact to Debt Ratings

- Moody's Special Commentary on GASB 68:
  - No expected ratings impact to majority of issuers
  - Moody's has previously factored net pension liabilities into ratings of public sector issuers for some time
- GASB 68 <u>not a factor</u> in ratings assigned to 2015A & 2015B debt by S&P and Moody's

Unaffected by GASB 68

- Required contributions by employees and employers
- Participant benefits
- Management of pension plan operations or investments
- University’s budget or cash flows

Questions?

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BOARD OF REGENTS

DOCKET ITEM SUMMARY

Finance **October 8, 2015**

AGENDA ITEM: Operational Excellence Initiative: Travel

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

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

PRESENTERS: Richard Pfutzenreuter, Vice President & CFO
Michael Volna, Associate Vice President, Finance & Controller

PURPOSE & KEY POINTS

The University spends significant amounts of administrative time and money each year on business travel. The current tools and processes used by University staff and travelers do not provide an efficient, seamless process for all aspects of business travel. The 2013 *Huron Administrative Services Benchmarking and Diagnostic Study* highlighted a number of process deficiencies and opportunities. The study recommended that the University implement new tools and processes that adopt leading practices and leverage mobile technology. The University chose to defer action on those recommendations until after completion of the Enterprise Systems Upgrade Project.

The University's strategy for addressing the Huron recommendations for improving travel and expense management processes has three components:

1. Implement a new, integrated travel and expense management system.
2. Strive for greater adoption of the University's preferred travel contracts with airlines, hotels and travel agencies, to leverage the University's purchasing power.
3. Convert the University's existing "personal liability" travel card program to a "corporate liability" card, similar to the University's purchasing card program.

The presentation will provide the committee with an overview of this initiative, including the expected benefits, potential implementation challenges, and approximate timeline.

BACKGROUND INFORMATION

The Board heard the *Huron Administrative Services Benchmarking and Diagnostic Study* at its June 14, 2013 meeting. The Board also has received periodic updates on activities that address the study recommendations, as part of President Kaler's ongoing Operational Excellence Initiatives.

Operational Excellence Initiative: Travel

Michael Volna, Associate Vice President, Finance & Controller
Beth Tapp, Manager, University Travel Program

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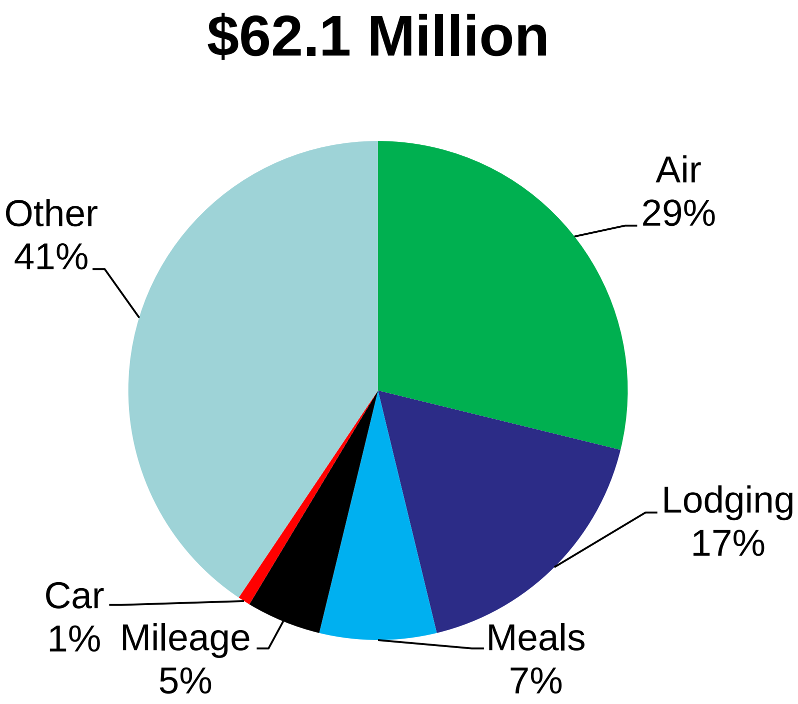
2013 Huron Administrative Services Benchmarking & Diagnostic Study

Procurement Recommendations	**Status**
Implement a contract management solution	Completed
Expand use of ACH and ePayables	Ongoing
Consolidate invoicing via use of e-procurement	Completed
Consolidate travel management authority	Completed
Fully automate travel and expense process	On deck
Increase traveler adoption of Travel & Expense tools	On deck
Enhance procure-to-pay performance metrics	Ongoing

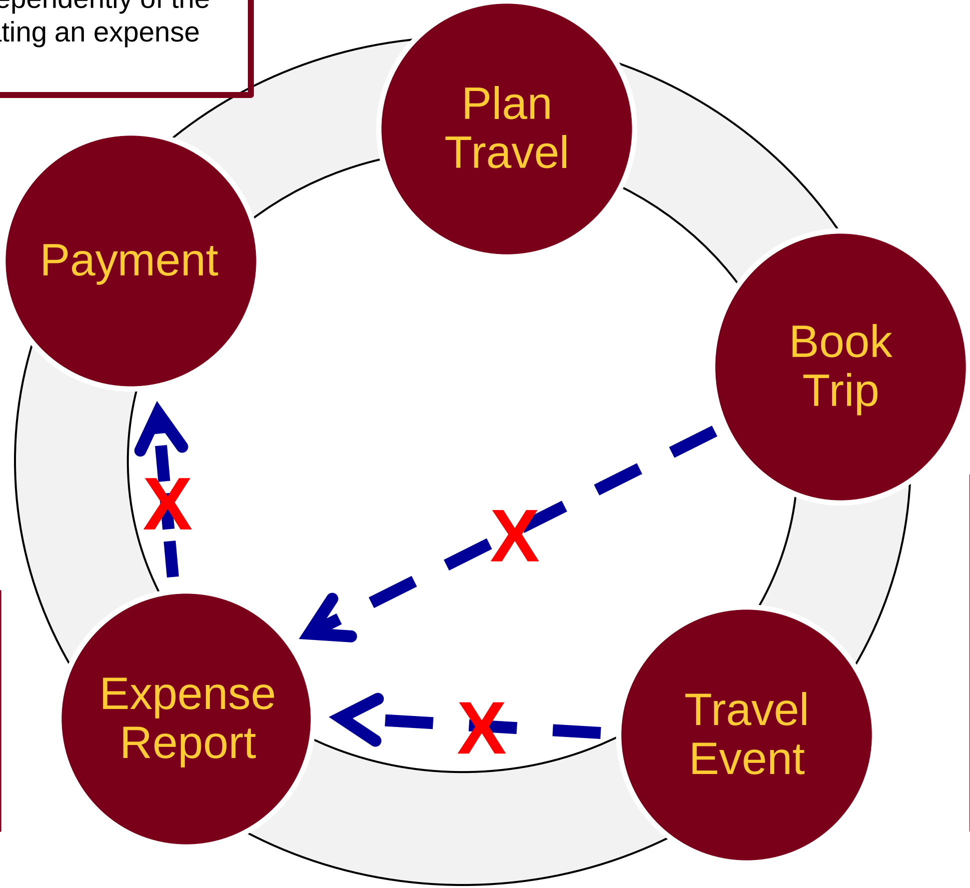
Travel Data 2015



Current Travel Process

Each step of the process acts independently of the others and does not assist in creating an expense report for the traveler.*

Reimbursement Process
- Information from EEW is entered into EFS
- Copy of receipts must be attached
- ER is approved in EFS



Preferred Methods
- U Wide Travel Agency
- UMN Delta.com site

Other Options
- Airline websites
- Other Travel Agencies
- Online Booking (Expedia, Kayak, etc.)
- Conference websites

Employee Expense Worksheet
- Excel document
- Per diem must be looked up and calculated manually
- EEW must be signed by employee and supervisor
- Receipts must be retained and submitted with EEW

PCard (Corporate Liability)
- Can be used for airfare, car rental and conference registration only
- ** Only payment method that populates an Expense Report*

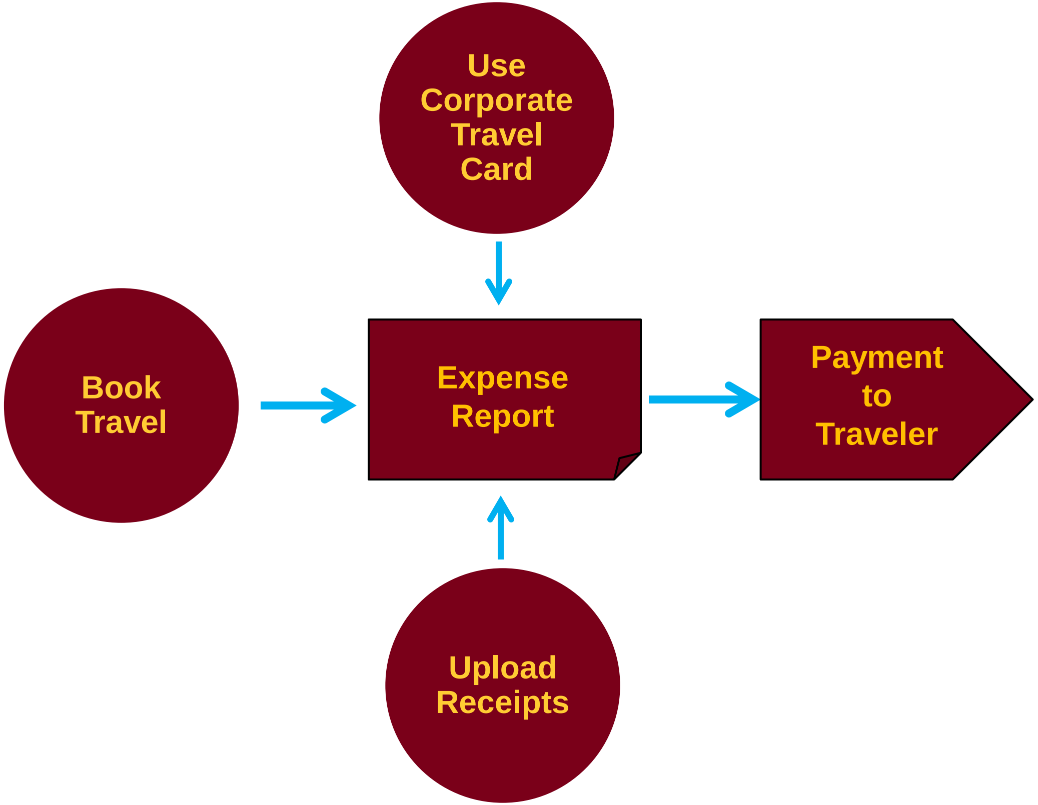
Travel Card (Personal Liability)
- Can be used for all travel related expenses
- Cardholder must seek out of pocket reimbursement and pay balance in full each month

Out of Pocket
- Most common method

Strategy

- Implement new technology to fully automate and integrate travel processes (“book to reimbursement”)
- Drive broader adoption of contract travel agencies
- Convert current “personal liability” travel card to corporate liability card

Integrated Solution



- Data from several sources fed directly to Expense Report
  - Contracted Travel Agency
  - Corporate Travel Card
  - Ability to upload receipts
  - Mobile Technology

Cost Savings / Benefits

- ~ $4M of Delta spend is not going through designated agencies or UMN Delta.com site
  - Potential savings: $120,000
- Transform current travel card into a corporate liability card (approximately $31M)
  - Expand availability to all travelers
  - Potential rebate up to 2% of spending on new card

Cost Savings / Benefits

- Potential Process Improvements
  - Most documentation will auto-populate the expense report
  - Per diems and out of pocket can be added
  - Receipts will be attached electronically
  - Capture all approvals electronically
  - Enabled by mobile technology

Cost Savings / Benefits

- Track Spending
  - Today we have limited insight as to where our travel dollars are being spent (Delta, National, Hilton, etc.)
  - New tool will be able to provide better supplier data

Other Benefits

- Duty of Care on International Travel - International Travel Registration
  - Currently UMN requires employees traveling to international locations must pre-register their trip
    - – Medical Insurance/Medical Care
    - – Evacuation
  - Adoption of new tools will integrate registration
    - – Eliminates the need for a separate step

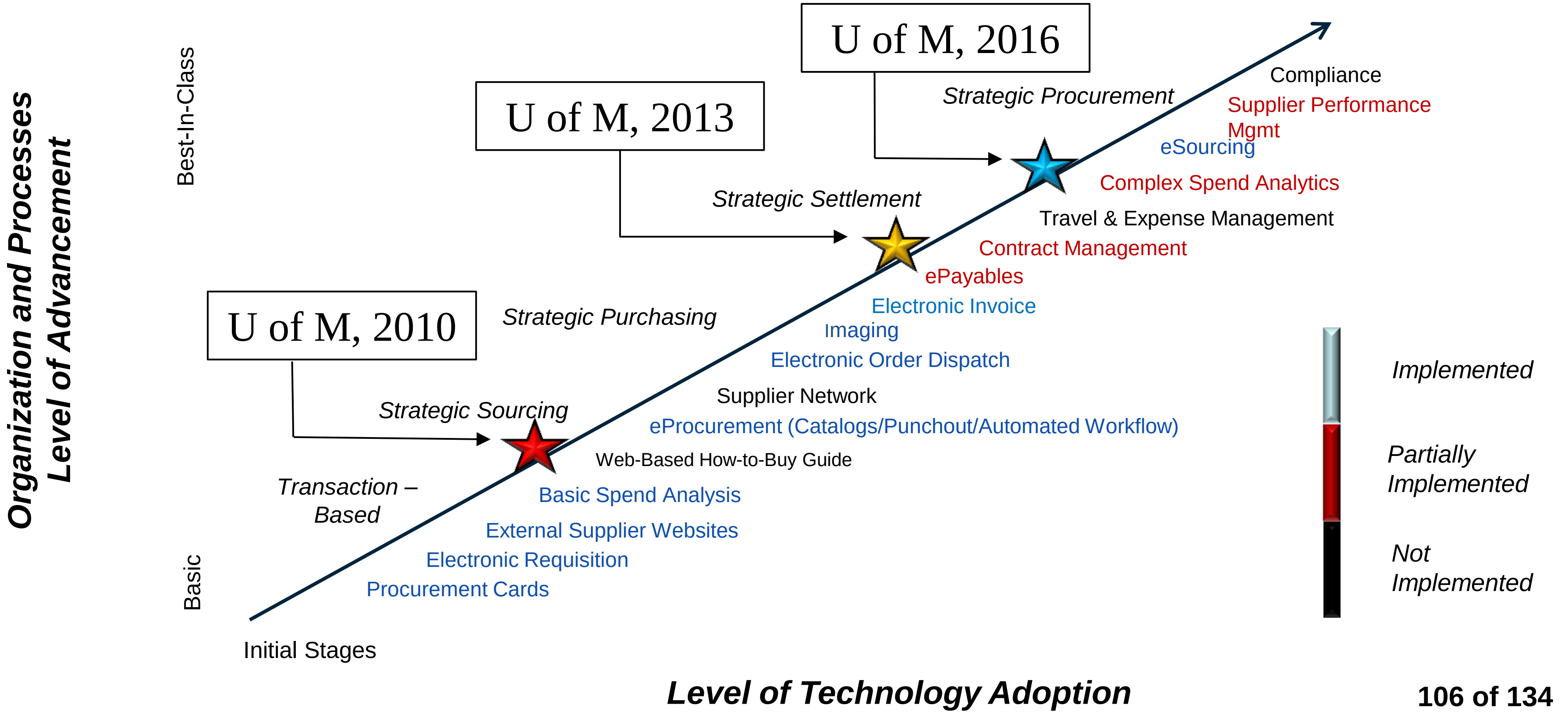
Challenges

- International Travel Registration
- Adoption of Travel Card
- Adoption of Contracted Travel Agencies
- Tool most effective when employees create and submit their own Expense Reports

Timeline

- RFP was issued in August, 2015
- Evaluation Committee is currently reviewing proposals
- Demos will be held in November, 2015
- Usability Testing will be held in December, 2015
- Final Decision and Award will be made in January, 2016
- Implementation to begin March, 2016
- Roll out to University Fall/Winter, 2016

Procurement Technology Roadmap



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BOARD OF REGENTS
DOCKET ITEM SUMMARY

Finance **October 8, 2015**

AGENDA ITEM: Legal Settlements Spending Plan

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

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

PRESENTERS: Richard Pfutzenreuter, Vice President & CFO

PURPOSE & KEY POINTS

The purpose of this item is to review Board of Regents Policy: *Central Reserves Fund* as it relates to legal settlements, and to approve the spending plan for legal settlements received in fiscal year 2015.

Litigation Review Committee: Legal Settlements

Board policy delegates to the President, with certain exceptions, authority to initiate, appeal or settle legal claims after consultation with the general counsel. In certain instances, the Board's Litigation Review Committee (LRC) must approve settlements above $500,000. It does so either through direct approval or by establishing parameters for settlements. If not directly approved, the resulting legal settlement is reported to the LRC when final.

At the request of the Board, the docket includes a listing (below) of all legal settlements dating back to 2005 in which a payment was made directly to the University. This information was pulled directly from reports provided to the Litigation Review Committee by the Office of the General Counsel (OGC). (Note: Additional paid settlements from 2002, 2003 and 2004 were also requested and are being researched, but were not available at the time October docket materials were published. These additional settlements paid to the University, if any, will be made available as soon as possible.)

The table shows 14 miscellaneous contract, tax, employment and construction settlements dating back to 2005. They range from a low of $2,794.16 to a high of $200,000. The average settlement in this category was $56,732. Given the nature of the settlements in this category, it is highly likely that the funds were returned to the unit that bore the original expense. University Finance is collecting information on the disposition of these settlements, which will be provided as soon as possible.

In addition, information provided to the Board by OGC regarding legal settlements "paid to the University" during this time period included 3 estate related settlements, which totaled $4,295,591.21. While these are shown as "paid to the university" on documents provided to the LRC, the settlements were actually paid to the University of Minnesota Foundation. OGC performed the work regarding these estate settlements.

The remaining category involves large institutional settlements. Three such settlements were made, totaling $26,400,000. The actual total amount of funds is $24,897,591.68 net of legal costs of $1,502,408.32. As is described below, two of these settlements should have been treated in accordance with current Board policy. The remaining settlement labeled as "Union Pacific and Vertellus" received in fiscal year 2011 in the amount of $4,800,000 was deposited into central reserves. No unit-specific allocations were made from these resources.

List of Legal Settlements Reported to Litigation Review Committee
2005 to Present*

Settlements Paid to the University(Includes Estate/Probate Paid to UMF): FY 2005 to Present
Reported to LRC
Source: Office of General Counsel

	Contract/Employment/Construction Settlements	Date	Description	Amount
1	IHB, CUHCC, Southside, Hennepin County	09/23/2004	Contract	$ 74,166.67
2	Schnitzer Iron & Metal Co.	09/03/2004	Tax	$ 39,486.55
3	John Doe	08/10/2005	Employment	$ 2,794.16
4	DentalPure Corporation	04/2007	License Agreement	$ 17,000.00
5	Morris Retaining Wall	07/29/2009	Property Damage	$ 68,000.00
6	RJM Construction	06/14/2010	Contract/Civil	$ 200,000.00
7	Rochester BioMed, et. al.	11/09/2010	Contract	$ 3,000.00
8	Visa Check / MasterMoney	03/07/2011	Class Action	$ 12,139.00
9	Police Officers (13 Total)	09/21/2011	Employment	$ 11,000.00
10	John Doe	11/16/2011	Employment	$ 9,810.20
11	John Doe	04/26/2012	Employment	$ 60,000.00
12	CCLRT	10/19/2012	Construction Claims	$ 200,000.00
13	Clipper Turbine Works, Inc. and Clipper Fleet Services, Inc.	01/29/2013	Warranty	$ 16,854.00
14	CCLRT	11/01/2013	Construction Claims	$ 80,000.00
			Total	**$ 794,250.58**

	Institutional Settlements	Date	Description	Amount
1	Union Pacific and Vertellus	06/16/2011	Environmental Contamination	$ 4,800,000.00
2	University of Minnesota v. CenterPoint Energy	12/29/2014	Environmental	$ 9,100,000.00
3	University of Minnesota v. Health Care	10/16/2014	Contract	$ 12,500,000.00
			Total	**$ 26,400,000.00**

	Estate Related Settlements	Date	Description	Amount
1	Turbis, Syvilla Rev Tr U/A	11/01/2005	Estate Dispute	$ 1,800,000.00
2	Wanda Lou Bailey Estate	01/22/2013	Settlement of Bequest	$ 44,230.14
3	Hedwige Rosen Estate	04/30/2009	Probate	$ 1,752,254.00
	Hedwige Rosen Estate	06/15/2010	Probate	$ 695,666.07
	Hedwige Rosen Estate	11/19/2010	Probate	$ 4,441.00
			Total	**$ 4,296,591.21**

*Note: Additional paid settlements from 2002, 2003 and 2004 were also requested and are being researched, but were not available at the time October docket materials were published. These additional settlements paid to the University, if any, will be made available as soon as possible.

Central Reserves Fund

The central reserves fund refers to a set of resources that are held in a central account within the University's financial system, the majority of which are not allocated to any specific unit of the University. The primary revenue sources for the central reserves fund include investment earnings and realized and unrealized gains or losses in market value from the Temporary Investment Pool (TIP), funds invested in the Consolidated Endowment Fund from TIP, and other miscellaneous revenues and legal settlements.

The purpose of the central reserves fund is to insulate the University from potential major financial risks including: unanticipated or uninsured catastrophic events; temporary institutional revenue declines or expenditure gaps; unforeseen legal obligations and costs; and failures in central infrastructure or failures of major business systems. A central reserves budget is prepared annually and submitted to the Board for approval as part of the president's recommended annual operating budget.

The central reserves fund may be allocated for:

1. expenses that are fixed term in nature (usually 3 years or less);
2. transfer to other centrally allocated funds to support expenditures that should be funded from sources other than tuition or state appropriations;
3. a general contingency for unplanned or unexpected financial needs that routinely arise during the fiscal year; or
4. other various miscellaneous expenditures as determined by the president and approved by the Board.

Board approval is required for all expenditures from the central reserves contingency account of $250,000 or more. Expenditures under $250,000 are reported to the Board at its next regular meeting.

Under normal circumstances, the central reserves fund should not fall below 4% of state appropriations, or $25,000,000, whichever is greater. However, Board policy also states that determining the appropriate level of the central reserves fund requires judgment and consideration of a variety of factors.

The central reserves budget is presented as part of the president's annual operating budget and is highlighted and discussed with the Finance Committee during presentation of that budget. An update to the central reserves budget is provided to the Board midway through the fiscal year as well.

FY 2015 Settlements

Board of Regents Policy: *Central Reserves Fund* contains a phrase in the definition section that states the revenues to the fund include "legal settlements." This provision was added to Board policy in October 2002.

During FY 2015, the University received income from two large legal settlements. These settlements were authorized by the LRC, reported to the LRC when final, and deposited into a central unrestricted account in the general ledger of the University pending final decisions by the President regarding their use.

Page 28 of the President's Recommended FY 2016 Operating Budget (Operating Budget) highlighted revenue and expenditures for the central reserves fund. To be in compliance with Board policy, the appropriate treatment would have been to update the central reserves budget for FY 2015, the year the settlements occurred and funds were received, and then to show an allocation out of the central reserves fund pursuant to the President's recommended use. Attachment 10 in the Operating Budget provided both prospective (FY 2016) and retrospective (FY 2015) budget information. Attachment 10 should have included the legal settlement revenue and related spending plan as part of an updated central reserves budget for FY 2015. In particular, the spending plan should have included these allocations on Attachment 10 under the section "special allocations."

As communicated to the Board on September 10, 2015, large legal settlements are very infrequent and the required treatment outlined in Board policy was simply forgotten.

Below is an itemization of the decisions made regarding those two large legal settlements:

Health Related Settlement: $12,500,000

Allocated to:

Settlement Costs/Legal Expenses	$ 585,904.32
Reimbursement to Medical Fringe Pool Account	$11,914,095.68

<u>Why does the health care related settlement need to be moved to the fringe benefit pool?</u>

The University's fringe benefit pool is an accounting mechanism for efficiently charging the employer portion of fringe benefit costs to over 100,000 individual accounts, including research projects and other activities funded by the federal government. Very specific accounting rules apply to charging costs to federal funds, which require that the University's accounting practices ensure that:

- Federal accounts are not overcharged, or charged for costs that are not applicable to federally-funded activities.
- Costs are charged consistently to both federal and non-federal activities, when the circumstances are comparable or substantially similar.
- All discounts, rebates, refunds, credits and settlements applicable to federally-funded activities are credited back to the federal government.

In the health care case, the settlement stems from the University being overcharged for costs that were part of the employer-paid employee benefits. Since those costs were originally paid for via the fringe benefit pool, all University accounts – including the federally funded accounts – were overcharged for benefit costs during that time period. The settlement would therefore be applicable to all, including the federally funded accounts. The federal government has previously recognized the use of an institution's fringe pool methodology as an acceptable way to efficiently and fairly credit applicable refunds, credits, rebates, and settlements back to various affected accounts in situations such as this. Therefore, the University deposited the settlement into the fringe benefit pool, which will have the impact of distributing it to all accounts eligible for refund of the settlement, including federally funded accounts.

The impact of returning the funds to the medical fringe benefit pool resulted in an over-recovery of costs in FY 2015, the year of the settlement payment. The result is a reduction in the costs of the employer paid medical fringe benefits in FY 2017. This two-year lag is a direct result of the fringe benefit rate-setting methodology mandated by the federal government. The federal government approves the University's fringe rates annually and ties that approval back to the most recent actual fiscal year costs.

West Bank Contamination Settlement: $9,100,000

Allocated to:

Settlement Costs/Legal Expenses	$ 916,504
Future Horizontal Well Replacement Fund	$1,500,000
Law School FY2015 Year End Deficit	$3,250,000
UMD Strategic Enrollment Mgmt. Plan	$1,900,000
CBS – New Dean Commitment	$ 960,000
Sch Public Health – Health Equity Position Start Up	$ 473,496
Office of General Counsel – Professional Develop.	$ 100,000

The last item (professional development activities for OGC) was allocated in FY 2015. All of the remaining allocations stemming from the West Bank Contamination are for FY 2016.

Recommended Accounting Treatment

At the request of the Board, the President has requested that adjustments be made to the general ledger and restatements be made to key components of the prior Board-approved operating budget document. The following information provides an explanation of those adjustments.

Correcting accounting entries previously made to deposit the settlements

Accounting entries will be processed to correct the original entries made when the settlements were received and deposited. The correcting entries will record the settlements into the central reserve accounts in accordance with Board policy. Because the entries will be made in FY 2015 before the books are closed, the affected accounts will have corrected balances in the general ledger (EFS) at the end of FY 2015. Processing the entries in this manner will also leave an audit trail for both the original entries and the corrections.

Once the corrections are made, a second set of entries will be made to move the settlement amounts to the accounts from which they will be spent. For compliance reasons, the University must move the health care-related settlement into the fringe benefit pool, and use the settlement proceeds to offset future fringe benefit costs. The rationale for this treatment is outlined above.

Restatement of Attachment 10: Fund Forecast – Centrally Distributed and Attributed Funds

As a consequence of the general ledger adjustments noted above, included in the docket is a restatement of Attachment 10: Fund Forecast – Centrally Distributed and Attributed Funds.

As noted in the restatement, the central reserves fund revenue has been adjusted to include both legal settlements received in FY 2015. A new line has been added to reflect the inclusion of $21,600,000. The addition of a unique line in the Fund Forecast document will enhance revenue transparency for the Board and ensure that the administration is cognizant of the need to include these legal settlement funds on a going-forward basis. In addition, the allocations recommended by the President are also uniquely displayed within the category of “special allocations” within the central reserves fund for both FY 2015 and FY 2016.

BACKGROUND INFORMATION

The Regents approved the President’s Recommended FY 2016 Operating Budget on June 24, 2015. The Board of Regents received a letter from the Chief Financial Officer regarding the appropriate accounting for legal settlements on September 10, 2015.

PRESIDENT’S RECOMMENDATION

The President recommends approval of the Resolution Related to Legal Settlements & Central Reserves Fund.

REGENTS OF THE UNIVERSITY OF MINNESOTA

RESOLUTION RELATED TO

Legal Settlements & Central Reserves Fund

WHEREAS, the Board of Regents has established a board-designated fund called Central Reserves Fund; and

WHEREAS, the majority of resources in Central Reserves Fund are not allocated to any specific unit of the University and the fund includes resources from a variety of sources, including legal settlements; and

WHEREAS, the University of Minnesota periodically receives payments related to legal claims made by the University; and

WHEREAS, during fiscal year 2015 the University received two significant legal settlements ($9,100,000 related to the West Bank Contamination Settlement and $12,500,000 from a Health Related Settlement) both of which reflect totals prior to payment of legal costs and were deposited into an unrestricted account in the general ledger of the university but were itemized as part of the central reserves fund during fiscal year 2015 as required by board policy; and

WHEREAS, the allocation of these legal settlement resources was not specifically called out as part of the President's Recommended FY 2016 Operating Budget (Operating Budget) in Attachment 10: Fund Forecast – Centrally Distributed and Attributed Funds.

NOW, THEREFORE, BE IT RESOLVED that the administration is directed to undertake the necessary accounting entries to correct the original entries made when the settlements were received and deposited.

BE IT FURTHER RESOLVED that the following specific allocations relating to legal settlements, not previously called out in the Operating Budget, are approved as follows:

A	Health Care Settlement	$\boxed{12,500,000.00}$
	Allocated to:	
	Settlement Legal Costs	585,904.32
	Reimbursement to Medical Fringe Pool Account	11,914,095.68
		12,500,000.00
B	West Bank Contamination	$\boxed{9,100,000.00}$
	OGC Professional Development	100,000.00
	Settlement Legal Costs	916,504.00
	LAW – FY15 Year End Deficit	3,250,000.00
	Future Well Replacement	1,500,000.00
	CBS – New Dean Commitment (over 4 years)	960,000.00
	PUBHL – Hlth Equity Position Start Up (partial)	473,496.00
	UMD – Strategic Enrollment Mgmt Plan	1,900,000.00
		9,100,000.00

BE IT FURTHER RESOLVED that the attached revise Attachment 10: Fund Forecast - Centrally Allocated and Attributed Funds is approved.

	Updated Estimates with Carryforward F.Y. 2015								Approved Budget F.Y. 2016							
U of M SUMMARY	O & M	Tuition	State Special	I C R	Central Reserves	Total	Support Unit Pools	Budgeted Allocations	O & M	Tuition	State Special	I C R	Central Reserves	Total	Support Unit Pools	Budgeted Allocations
Resources																
Balance Forward - Systemwide	319,165	-1,212,252	0	0	18,665,275	17,772,188	0	17,772,188	319,165	0	0	0	31,345,025	31,664,190	0	31,664,190
Annual Revenue:																
State Legislative Appropriations	529,511,000	0	94,895,000	0	0	624,406,000	0	624,406,000	559,111,000	0	90,845,000	0	0	649,956,000	0	649,956,000
Tuition and Fees	3,600,000	849,226,179	0	0	0	852,826,179	0	852,826,179	3,600,000	863,157,458	0	0	0	866,757,458	0	866,757,458
Indirect Cost Recovery	0	0	0	137,517,348	0	137,517,348	0	137,517,348	0	0	0	133,015,763	0	133,015,763	0	133,015,763
Investment Income (net)	0	0	0	0	15,469,750	15,469,750	0	15,469,750	0	0	0	0	13,644,750	13,644,750	0	13,644,750
Enterprise Assessment	17,750,000	0	0	0	0	17,750,000	0	17,750,000	19,800,000	0	0	0	0	19,800,000	0	19,800,000
Other	0	0	0	0	21,600,000	21,600,000	500,981,492	522,581,492	500,000	0	0	0	0	500,000	513,309,820	513,809,820
Subtotal - Annual Revenue	550,861,000	849,226,179	94,895,000	137,517,348	37,069,750	1,669,569,277	500,981,492	2,170,550,769	583,011,000	863,157,458	90,845,000	133,015,763	13,644,750	1,683,673,971	513,309,820	2,196,983,791
Net Interfund Transfers	9,400,000	0	0	0	-9,400,000	0	0	0	5,732,000	0	0	0	-5,732,000	0	0	0
Total Resources Available	**560,580,165**	**848,013,927**	**94,895,000**	**137,517,348**	**46,335,025**	**1,687,341,465**	**500,981,492**	**2,188,322,957**	**589,062,165**	**863,157,458**	**90,845,000**	**133,015,763**	**39,257,775**	**1,715,338,161**	**513,309,820**	**2,228,647,981**
Allocations																
Board of Regents	0	0	0	0	90,000	90,000	879,537	969,537	0	0	0	0	90,000	90,000	885,537	975,537
President's Office	399,919	0	0	0	50,000	449,919	5,938,629	6,388,548	399,919	0	0	0	50,000	449,919	6,013,629	6,463,548
Athletics	6,919,096	0	0	0	0	6,919,096	0	6,919,096	7,055,984	0	0	0	0	7,055,984	0	7,055,984
University Relations	3,420,000	0	0	0	0	3,420,000	6,109,532	9,529,532	0	0	0	0	4,768,000	4,768,000	4,426,477	9,194,477
General Counsel	0	0	0	0	0	0	5,214,341	5,214,341	0	0	0	0	0	0	5,285,341	5,285,341
Audits	0	0	0	0	0	0	1,942,434	1,942,434	0	0	0	0	0	0	1,962,434	1,962,434
Chief Financial Officer	0	0	0	0	0	0	24,130,550	24,130,550	0	0	0	0	0	0	24,761,278	24,761,278
University Services	99,191	0	0	0	1,000,000	1,099,191	167,587,809	168,687,000	239,260	0	0	0	1,000,000	1,239,260	173,408,068	174,647,328
Debt Service	8,061,736	0	0	0	0	8,061,736	33,655,594	41,717,330	11,824,141	0	0	0	0	11,824,141	32,641,320	44,465,461
Senior VP/Provost Acadmic Affairs	249,649,342	552,156,051	44,758,986	52,762,470	0	899,326,849	150,492,890	1,049,819,739	252,452,339	562,318,848	44,758,986	53,937,972	0	913,468,145	153,427,948	1,066,896,093
Senior VP/System Academic Adm	0	0	0	45,903	0	45,903	0	0	0	0	0	31,778	0	31,778	0	6,938,793
Senior VP Health Sciences	157,714,746	146,138,326	34,638,385	77,514,658	0	416,006,115	11,740,531	427,746,646	172,417,744	149,135,123	34,488,385	72,123,579	0	428,164,831	11,841,531	440,006,362
Human Resources	0	0	0	0	0	0	6,672,678	6,672,678	0	0	0	0	0	0	6,938,793	6,938,793
Information Technology	0	0	0	0	0	0	62,901,883	62,901,883	0	0	0	0	0	0	65,766,880	65,766,880
Research	16,593,061	0	703,683	5,196,000	0	22,492,744	19,592,084	42,084,828	17,835,803	0	703,683	4,895,000	0	23,434,486	21,590,584	45,025,070
Duluth	36,303,422	110,305,774	2,452,946	1,909,194	250,000	151,221,336	0	151,221,336	38,613,550	111,817,875	2,452,946	1,947,378	350,000	155,181,749	0	155,181,749
Morris	19,502,982	16,848,000	0	54,915	0	36,405,897	0	36,405,897	20,038,851	17,089,437	0	56,014	0	37,184,302	0	37,184,302
Crookston	9,607,005	16,298,419	0	23,570	0	25,928,994	0	25,928,994	10,151,889	16,491,441	0	24,042	0	26,667,372	0	26,667,372
Rochester	7,383,605	6,267,357	450,000	10,638	0	14,111,600	0	14,111,600	7,464,101	6,304,734	450,000	0	0	14,218,835	0	14,218,835
Contingencies and Reserves	0	0	0	0	1,000,000	1,000,000	0	1,000,000	0	0	0	0	1,000,000	1,000,000	0	1,000,000
Special Allocations	44,606,895	0	11,891,000	0	12,600,000	69,097,895	4,123,000	73,220,895	50,148,551	0	7,991,000	0	9,000,000	67,139,551	4,360,000	71,499,551
Subtotal - Allocations	560,261,000	848,013,927	94,895,000	137,517,348	14,990,000	1,655,677,275	500,981,492	2,156,612,864	588,642,132	863,157,458	90,845,000	133,015,763	16,258,000	1,691,918,353	513,309,820	2,212,135,188
Total Allocations	**560,261,000**	**848,013,927**	**94,895,000**	**137,517,348**	**14,990,000**	**1,655,677,275**	**500,981,492**	**2,156,612,864**	**588,642,132**	**863,157,458**	**90,845,000**	**133,015,763**	**16,258,000**	**1,691,918,353**	**513,309,820**	**2,212,135,188**
Change in allocations/Transfers																
Ending Balance	**319,165**	**0**	**0**	**0**	**31,345,025**	**31,664,190**	**0**	**31,710,093**	**420,033**	**0**	**0**	**0**	**22,999,775**	**23,419,808**	**0**	**16,512,793**
ANNUAL RESOURCES																
State Legislative Appropriations																
General Appropriation	529,511,000	0	0	0	0	529,511,000	0	529,511,000	559,111,000	0	0	0	0	559,111,000	0	559,111,000
MinnesotaCare	0	0	2,157,000	0	0	2,157,000	0	2,157,000	0	0	2,157,000	0	0	2,157,000	0	2,157,000
Cigarette Tax	0	0	22,250,000	0	0	22,250,000	0	22,250,000	0	0	22,250,000	0	0	22,250,000	0	22,250,000
Miscellaneous Special	0	0	11,891,000	0	0	11,891,000	0	11,891,000	0	0	7,991,000	0	0	7,991,000	0	7,991,000
Agriculture Special	0	0	42,922,000	0	0	42,922,000	0	42,922,000	0	0	42,922,000	0	0	42,922,000	0	42,922,000
Health Sciences Special	0	0	9,354,000	0	0	9,354,000	0	9,354,000	0	0	9,204,000	0	0	9,204,000	0	9,204,000
Technology Special	0	0	1,140,000	0	0	1,140,000	0	1,140,000	0	0	1,140,000	0	0	1,140,000	0	1,140,000
System Special	0	0	5,181,000	0	0	5,181,000	0	5,181,000	0	0	5,181,000	0	0	5,181,000	0	5,181,000
Subtotal - State Appropriations	529,511,000	0	94,895,000	0	0	624,406,000	0	624,406,000	559,111,000	0	90,845,000	0	0	649,956,000	0	649,956,000
Tuition																
Tuition/U Fee - Twin Cities	0	698,294,377	0	0	0	698,294,377	0	698,294,377	0	711,453,971	0	0	0	711,453,971	0	711,453,971
Tuition/U Fee - Duluth	0	110,305,774	0	0	0	110,305,774	0	110,305,774	0	111,817,875	0	0	0	111,817,875	0	111,817,875
Tuition/U Fee - Morris	0	16,848,000	0	0	0	16,848,000	0	16,848,000	0	17,089,437	0	0	0	17,089,437	0	17,089,437
Tuition/U Fee - Rochester	0	6,267,357	0	0	0	6,267,357	0	6,267,357	0	6,304,734	0	0	0	6,304,734	0	6,304,734
Tuition/U Fee - Crookston	0	16,298,419	0	0	0	16,298,419	0	16,298,419	0	16,491,441	0	0	0	16,491,441	0	16,491,441
Subtotal - Tuition/U Fee	0	848,013,927	0	0	0	848,013,927	0	848,013,927	0	863,157,458	0	0	0	863,157,458	0	863,157,458

	Updated Estimates with Carryforward F.Y. 2015								Approved Budget F.Y. 2016							
	O & M	Tuition	State Special	I C R	Central Reserves	Total	Support Unit Pools	Budgeted Allocations	O & M	Tuition	State Special	I C R	Central Reserves	Total	Support Unit Pools	Budgeted Allocations
Tuition Adjustment	0	1,212,252	0	0	0	1,212,252	0	1,212,252	0	0	0	0	0	0	0	0
Application/Bursar Fees	3,600,000	0	0	0	0	3,600,000	0	3,600,000	3,600,000	0	0	0	0	3,600,000	0	3,600,000
Subtotal - Tuition and Fees	3,600,000	1,212,252	0	0	0	4,812,252	0	4,812,252	3,600,000	0	0	0	0	3,600,000	0	3,600,000
Indirect Cost Recovery	0	0	0	137,517,348	0	137,517,348	0	137,517,348	0	0	0	133,015,763	0	133,015,763	0	133,015,763
Investment Income (net)																
Gross Investment Income	0	0	0	0	17,875,000	17,875,000	0	17,875,000	0	0	0	0	18,075,000	18,075,000	0	18,075,000
Realized Capital Gains/Loss	0	0	0	0	175,000	175,000	0	175,000	0	0	0	0	-1,525,000	-1,525,000	0	-1,525,000
Fees & Operating Deduction	0	0	0	0	-2,450,250	-2,450,250	0	-2,450,250	0	0	0	0	-2,775,250	-2,775,250	0	-2,775,250
Inv. Income - To Participants	0	0	0	0	-130,000	-130,000	0	-130,000	0	0	0	0	-130,000	-130,000	0	-130,000
Subtotal - Investment Income (net)	0	0	0	0	15,469,750	15,469,750	0	15,469,750	0	0	0	0	13,644,750	13,644,750	0	13,644,750
Other																
Internal Cost Pool Receipts	0	0	0	0	0	0	500,981,492	500,981,492	0	0	0	0	0	0	513,309,820	513,309,820
Legal Settlements	0	0	0	0	21,600,000											
Enterprise Assessment	17,750,000	0	0	0	0	17,750,000	0	17,750,000	19,800,000	0	0	0	0	19,800,000	0	19,800,000
Other Income	0	0	0	0	0	0	0	0	500,000	0	0	0	0	500,000	0	500,000
Subtotal - Other	17,750,000	0	0	0	21,600,000	17,750,000	500,981,492	518,731,492	20,300,000	0	0	0	0	20,300,000	513,309,820	533,609,820
Annual Revenue	550,861,000	849,226,179	94,895,000	137,517,348	37,069,750	1,669,569,277	500,981,492	2,170,550,769	583,011,000	863,157,458	90,845,000	133,015,763	13,644,750	1,683,673,971	513,309,820	2,196,983,791
Net Interfund Transfers		43%	1,494,982,179													
Into O&M from Central Reserves	9,400,000	0	0	0	-9,400,000	0	0	0	5,732,000	0	0	0	-5,732,000	0	0	0
	0	0	0	0	0	0	0	0		0	0	0	0	0	0	0
Subtotal - Net Transfers	9,400,000	0	0	0	-9,400,000	0	0	0	5,732,000	0	0	0	-5,732,000	0	0	0
ALLOCATIONS																
Board of Regents	0	0	0	0	90,000	90,000	879,537	969,537	0	0	0	0	90,000	90,000	885,537	975,537
President's Office	399,919	0	0	0	50,000	449,919	5,938,629	6,388,548	399,919	0	0	0	50,000	449,919	6,013,629	6,463,548
General Counsel	0	0	0	0	0	0	5,214,341	5,214,341	0	0	0	0	0	0	5,285,341	5,285,341
Audits	0	0	0	0	0	0	1,942,434	1,942,434	0	0	0	0	0	0	1,962,434	1,962,434
Chief Financial Officer																
Budget and Finance	0	0	0	0	0	0	12,981,562	12,981,562	0	0	0	0	0	0	13,682,290	13,682,290
Controller	0	0	0	0	0	0	11,148,988	11,148,988	0	0	0	0	0	0	11,078,988	11,078,988
Total - Chief Financial Officer	0	0	0	0	0	0	24,130,550	24,130,550	0	0	0	0	0	0	24,761,278	24,761,278
University Services																
University Services - VP	0	0	0	0	0	0	5,297,717	5,297,717	0	0	0	0	0	0	5,822,371	5,822,371
Facilities Management	0	0	0	0	1,000,000	1,000,000	142,814,360	143,814,360	0	0	0	0	1,000,000	1,000,000	146,908,654	147,908,654
Capital Planning/Project Mgmt	0	0	0	0	0	0	1,828,298	1,828,298	0	0	0	0	0	0	1,751,780	1,751,780
University Health & Safety	0	0	0	0	0	0	5,035,462	5,035,462	0	0	0	0	0	0	6,488,395	6,488,395
Public Safety	0	0	0	0	0	0	10,065,389	10,065,389	0	0	0	0	0	0	9,871,285	9,871,285
Auxiliary Services	99,191	0	0	0	0	99,191	2,546,583	2,645,774	239,260	0	0	0	0	239,260	2,565,583	2,804,843
Total - University Services	99,191	0	0	0	1,000,000	1,099,191	167,587,809	168,687,000	239,260	0	0	0	1,000,000	1,239,260	173,408,068	174,647,328
Debt Service	8,061,736	0	0	0	0	8,061,736	33,655,594	41,717,330	11,824,141	0	0	0	0	11,824,141	32,641,320	44,465,461
Human Resources	0	0	0	0	0	0	6,672,678	6,672,678	0	0	0	0	0	0	6,938,793	6,938,793
Information Technology	0	0	0	0	0	0	62,901,883	62,901,883	0	0	0	0	0	0	65,766,880	65,766,880
University Relations	3,420,000	0	0	0	0	3,420,000	6,109,532	9,529,532	0	0	0	0	4,768,000	4,768,000	4,426,477	9,194,477
Sr. VP System Administration	0	0	0	45,903	0	45,903	0	45,903	0	0	0	31,778	0	31,778	0	31,778
Athletics	6,919,096	0	0	0	0	6,919,096	0	6,919,096	7,055,984	0	0	0	0	7,055,984	0	7,055,984
Research	16,593,061	0	703,683	5,196,000	0	22,492,744	19,592,084	42,084,828	17,835,803	0	703,683	4,895,000	0	23,434,486	21,590,584	45,025,070
Sr. VP Academic Affairs																
Sr. Vice President / Provost	9,638,307	0	985,497	22,705	0	10,646,509	11,528,938	22,175,447	11,332,391	0	985,497	23,159	0	12,341,047	12,597,334	24,938,381
Undergraduate Education	3,098,627	1,068,813	0	0	0	4,167,440	67,952,291	72,119,731	3,071,258	1,093,765	0	0	0	4,165,023	68,420,119	72,585,142
Equity & Diversity	1,120,500	0	0	0	0	1,120,500	11,055,939	12,176,439	1,120,500	0	0	0	0	1,120,500	11,178,939	12,299,439
Global Prog Strategy Alliance	356,466	136,651	0	65,000	0	558,117	4,649,487	5,207,604	358,863	140,477	0	59,799	0	559,139	4,786,487	5,345,626
Graduate School	0	417,819	0	0	0	417,819	13,420,495	13,838,314	0	423,200	0	0	0	423,200	13,733,495	14,156,695
Student Affairs	1,786,583	0	0	76,364	0	1,862,947	4,187,798	6,050,745	2,374,089	0	0	38,182	0	2,412,271	3,869,182	6,281,453
University Libraries	0	0	0	21,472	0	21,472	37,697,942	37,719,414	0	0	0	27,000	0	27,000	38,842,392	38,869,392
Total - Sr. Vice President	16,000,483	1,623,283	985,497	185,541	0	18,794,804	150,492,890	169,287,694	18,257,101	1,657,442	985,497	148,140	0	21,048,180	153,427,948	174,476,128
Provost																
Education & Human Dev.	19,666,057	61,750,856	987,657	5,596,155	0	88,000,725	0	88,000,725	20,598,279	61,118,439	987,657	5,596,155	0	88,300,530	0	88,300,530
Carlson School of Management	5,809,657	73,459,756	806,526	159,704	0	80,235,643	0	80,235,643	6,639,077	76,333,457	806,526	131,600	0	83,910,660	0	83,910,660
Humphrey Inst. of Public Affairs	7,073,168	7,177,544	91,942	783,289	0	15,125,943	0	15,125,943	5,925,702	7,506,056	91,942	934,309	0	14,458,009	0	14,458,009
Law School	6,314,522	32,033,131	0	124,079	0	38,471,732	0	38,471,732	7,503,503	33,028,375	0	126,560	0	40,658,438	0	40,658,438

	Updated Estimates with Carryforward F.Y. 2015								Approved Budget F.Y. 2016							
	O & M	Tuition	State Special	I C R	Central Reserves	Total	Support Unit Pools	Budgeted Allocations	O & M	Tuition	State Special	I C R	Central Reserves	Total	Support Unit Pools	Budgeted Allocations
Design	7,831,291	17,487,520	451,444	169,325	0	25,939,580	0	25,939,580	7,080,285	17,903,783	451,444	167,703	0	25,603,215	0	25,603,215
Food., Ag., Nat. Res. Sciences	32,346,623	27,316,561	21,993,054	6,565,263	0	88,221,501	0	88,221,501	32,886,335	27,980,574	21,993,054	6,500,000	0	89,359,963	0	89,359,963
Ag Experiment Station	3,354,149	0	2,107,329	0	0	5,461,478	0	5,461,478	3,318,087	0	2,107,329	0	0	5,425,416	0	5,425,416
MN Extension Service	11,303,221	0	15,835,736	1,280,000	0	28,418,957	0	28,418,957	11,197,566	0	15,835,736	1,700,000	0	28,733,302	0	28,733,302
Continuing Education	6,540,943	13,686,976	0	3,008	0	20,230,927	0	20,230,927	6,217,995	13,698,064	0	0	0	19,916,059	0	19,916,059
Biological Sciences	22,451,849	23,149,571	359,801	5,582,128	0	51,543,349	0	51,543,349	23,148,755	24,124,933	359,801	5,693,771	0	53,327,260	0	53,327,260
Liberal Arts	53,872,329	174,768,125	0	2,667,180	0	231,307,634	0	231,307,634	52,795,820	176,154,925	0	2,700,000	0	231,650,745	0	231,650,745
Science & Engineering	57,085,050	119,702,728	1,140,000	29,646,798	0	207,574,576	0	207,574,576	56,883,834	122,812,800	1,140,000	30,239,734	0	211,076,368	0	211,076,368
Total - Provost	233,648,859	550,532,768	43,773,489	52,576,929	0	880,532,045	0	880,532,045	234,195,238	560,661,406	43,773,489	53,789,832	0	892,419,965	0	892,419,965
Academic Health Center																
Dentistry	13,779,482	22,600,000	244,000	1,500,000	0	38,123,482	0	38,123,482	13,593,567	23,836,402	244,000	1,400,000	0	39,073,969	0	39,073,969
Senior VP-Hlth Sciences	0	0	0	0	0	0	11,740,531	11,740,531	0	0	0	0	0	0	11,841,531	11,841,531
Academic Hlth Center - Shared	35,440,255	6,229,878	11,134,373	12,000,000	0	64,804,506	0	64,804,506	35,163,123	6,055,247	10,984,373	10,353,587	0	62,556,330	0	62,556,330
Medical School	74,440,611	45,383,540	17,670,644	44,855,588	0	182,350,383	0	182,350,383	89,539,769	45,843,973	17,670,644	41,574,170	0	194,628,556	0	194,628,556
Nursing	5,438,852	12,176,340	444,000	926,250	0	18,985,442	0	18,985,442	5,336,141	12,246,944	444,000	844,775	0	18,871,860	0	18,871,860
Pharmacy	4,019,493	22,996,012	1,444,000	3,086,320	0	31,545,825	0	31,545,825	3,934,781	23,610,359	1,444,000	3,148,047	0	32,137,187	0	32,137,187
Public Health	7,721,088	19,332,356	340,743	12,715,000	0	40,109,187	0	40,109,187	7,925,080	19,707,180	340,743	12,050,000	0	40,023,003	0	40,023,003
Veterinary Medicine	16,874,965	17,420,200	3,360,625	2,431,500	0	40,087,290	0	40,087,290	16,925,283	17,835,018	3,360,625	2,753,000	0	40,873,926	0	40,873,926
Total - Academic Health Center	157,714,746	146,138,326	34,638,385	77,514,658	0	416,006,115	11,740,531	427,746,646	172,417,744	149,135,123	34,488,385	72,123,579	0	428,164,831	11,841,531	440,006,362
Duluth	36,303,422	110,305,774	2,452,946	1,909,194	250,000	151,221,336	0	151,221,336	38,613,550	111,817,875	2,452,946	1,947,378	350,000	155,181,749	0	155,181,749
Morris	19,502,982	16,848,000	0	54,915	0	36,405,897	0	36,405,897	20,038,851	17,089,437	0	56,014	0	37,184,302	0	37,184,302
Crookston	9,607,005	16,298,419	0	23,570	0	25,928,994	0	25,928,994	10,151,889	16,491,441	0	24,042	0	26,667,372	0	26,667,372
Rochester	7,383,605	6,267,357	450,000	10,638	0	14,111,600	0	14,111,600	7,464,101	6,304,734	450,000	0	0	14,218,835	0	14,218,835
Contingencies and Reserves																
General Contingency	0	0	0	0	1,000,000	1,000,000	0	1,000,000	0	0	0	0	1,000,000	1,000,000	0	1,000,000
Total - Contingencies & Reserves	0	0	0	0	1,000,000	1,000,000	0	1,000,000	0	0	0	0	1,000,000	1,000,000	0	1,000,000
Special Allocations (TINA)																
Reserve - Initiatives	2,653,341	0	0	0	0	2,653,341	0	2,653,341	2,043,663	0	0	0	0	2,043,663	0	2,043,663
Strategic Planning	1,200,000	0	0	0	0	1,200,000	0	1,200,000	8,801,000	0	0	0	0	8,801,000	0	8,801,000
MnDRIVE	16,610,543	0	0	0	0	16,610,543	0	16,610,543	12,492,208	0	0	0	0	12,492,208	0	12,492,208
08-09 Biennial Initiatives	1,211,855	0	0	0	0	1,211,855	0	1,211,855	667,524	0	0	0	0	667,524	0	667,524
Strategic Investment Pool	0	0	0	0	0	0	0	0	1,400,000	0	0	0	0	1,400,000	0	1,400,000
Graduate Assistant Support	3,600,000	0	0	0	0	3,600,000	0	3,600,000	3,600,000	0	0	0	0	3,600,000	0	3,600,000
Enterprise Project	15,712,818	0	0	0	0	15,712,818	0	15,712,818	17,762,818	0	0	0	0	17,762,818	0	17,762,818
Extension Severance/Bridge	260,000	0	0	0	0	260,000	0	260,000	260,000	0	0	0	0	260,000	0	260,000
Promise Scholarship	0	0	0	0	0	0	3,280,000	3,280,000	0	0	0	0	0	0	3,280,000	3,280,000
Interdisciplinary Pool	237,000	0	0	0	0	237,000	843,000	1,080,000	0	0	0	0	0	0	1,080,000	1,080,000
Utility Reserve	1,000,000	0	0	0	0	1,000,000	0	1,000,000	1,000,000	0	0	0	0	1,000,000	0	1,000,000
Holding Debt Balance	1,167,578	0	0	0	0	1,167,578	0	1,167,578	1,167,578	0	0	0	0	1,167,578	0	1,167,578
New Bldg Operations	584,487	0	0	0	0	584,487	0	584,487	584,487	0	0	0	0	584,487	0	584,487
Rochester/Mayo Appropriation	0	0	7,491,000	0	0	7,491,000	0	7,491,000	0	0	7,991,000	0	0	7,991,000	0	7,991,000
NR Investment Pool	369,273	0	4,400,000	0	0	4,769,273	0	4,769,273	369,273	0	0	0	0	369,273	0	369,273
Legal Costs-Settlements-NR	0	0	0	0	585,904	585,904	0	585,904	0	0	0	0	916,504	916,504	0	916,504
Reimburse Med Fringe Acct.-NR	0	0	0	0	11,914,096	11,914,096	0	11,914,096	0	0	0	0	0	0	0	0
OGC Professional Dev.-NR	0	0	0	0	100,000	100,000	0	100,000	0	0	0	0	0	0	0	0
LAW-FY15 Year End-NR	0	0	0	0	0	0	0	0	0	0	0	0	3,250,000	3,250,000	0	3,250,000
Future Well Replacement-NR	0	0	0	0	0	0	0	0	0	0	0	0	1,500,000	1,500,000	0	1,500,000
CBS-Dean Commitment-NR	0	0	0	0	0	0	0	0	0	0	0	0	960,000	960,000	0	960,000
PUBHL-Hlth Equity-NR	0	0	0	0	0	0	0	0	0	0	0	0	473,496	473,496	0	473,496
UMD-Strategic Enrollmnt-NR	0	0	0	0	0	0	0	0	0	0	0	0	1,900,000	1,900,000	0	1,900,000
						0										
Total - Special Allocations	44,606,895	0	11,891,000	0	12,600,000	69,097,895	4,123,000	73,220,895	50,148,551	0	7,991,000	0	9,000,000	67,139,551	4,360,000	71,499,551
ALLOCATIONS	**560,261,000**	**848,013,927**	**94,895,000**	**137,517,348**	**14,990,000**	**1,655,677,275**	**500,981,492**	**2,156,658,767**	**588,642,132**	**863,157,458**	**90,845,000**	**133,015,763**	**16,258,000**	**1,691,918,353**	**513,309,820**	**2,205,228,173**

Legal Settlements Spending Plan

Finance

October 8, 2015

UNIVERSITY OF MINNESOTA

Driven to Discover℠

Board Policy on Legal Settlements

- Board policy delegates to the President, with certain exceptions, authority to initiate, appeal or settle legal claims after consultation with general counsel
- Litigation Review Committee (LRC) of Board of Regents must approve settlements above $500,000.
- LRC either directly approves or establishes parameters for settlements.
- If not directly approved the resulting legal settlement is reported to the LRC when final

What is Central Reserves?

✓ The central reserves fund refers to resources that are not allocated to any specific unit of the University, but are held in a central account within the University’s financial system.

✓ The primary revenue sources for the central reserves fund include investment earnings and realized and unrealized gains or losses in market value from the Temporary Investment Pool(TIP), funds invested in the Consolidated Endowment Fund from TIP and other miscellaneous revenues ***and legal settlements***.

Legal Settlements Spending Plan

1	A	Health Care Settlement	12,500,000.00
2		Allocated to:	
3		Settlement Legal Costs	585,904.32
4		Reimbursement to Medical Fringe Pool Account	11,914,095.68
5			12,500,000.00
6	B	West Bank Contamination	9,100,000.00
7		OGC Professional Development	100,000.00
8		Settlement Legal Costs	916,504.00
9		LAW - FY15 Year End Deficit	3,250,000.00
10		Future Well Replacement	1,500,000.00
11		CBS - New Dean Commitment (over 4 years)	960,000.00
12		PUBHL - Hlth Equity Position Start Up (partial)	473,496.00
13		UMD - Strategic Enrollment Mgmt Plan	1,900,000.00
14			9,100,000.00

Why does the health care related settlement need to be moved to the fringe benefit pool?

The University's fringe benefit pool is an accounting mechanism for efficiently charging the employer portion of fringe benefit costs to over 100,000 individual accounts, including research projects and other activities funded by the federal government.

There are very specific accounting rules applicable to charging costs to federal funds, which require that the University's accounting practices ensure that:

- Federal accounts are not overcharged, or charged for costs that are not applicable to federally-funded activities.
- Costs are charged consistently to both federal and non-federal activities, when the circumstances are comparable or substantially similar.
- All discounts, rebates, refunds, credits and settlements applicable to federally-funded activities are credited back to the federal government.

How will the accounting entries previously made to deposit the settlements be corrected?

- Accounting entries will be processed to correct the original entries made when the settlements were received and deposited.

- The correcting entries will record the settlements into the central reserve accounts in accordance with Board of Regents policy.

- Because the entries will be made in FY 2015 before the books are closed, the affected accounts will have corrected balances in the general ledger (EFS) at the end of FY 2015.

- Processing the entries in this manner will also leave an audit trail for both the original entries and the corrections.

- Once the corrections are made, a second set of entries will be made to move the settlement amounts to the accounts from which they will be spent.

Resolution

- Existing Board of Regents policy regarding legal settlements and central reserves were not appropriately adhered to.
- Corrections to FY2015 accounting entries, Board approval of spending plan and revisions to Attachment 10: Fund Forecast FY16 Operating Budget will appropriately align central reserves budget and the FY15 settlements paid to University.

BOARD OF REGENTS

DOCKET ITEM SUMMARY

Finance **October 8, 2015**

AGENDA ITEM: Consent Report

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

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

PRESENTERS: Richard Pfutzenreuter, Vice President & CFO

PURPOSE & KEY POINTS

General Contingency

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

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

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

- To Air Charter Services for an estimated $7,500,000 for air charter services for Athletic team travel for the Department of Intercollegiate Athletics for the period of August 1, 2015, through July 31, 2016, with contract extensions through July 31, 2020. Air charter services will be purchased with funds from department operating budgets. Vendors were selected through a competitive process.

- To Huron Consulting Group for an estimated $2,432,905 for Click Institutional Research Board (IRB) Solution and Huron's human research protection program (HRPP) Toolkit for the Office of the Vice President for Research for the period October 15, 2015, through October 14, 2020. Funding for this initiative has been allocated through the Office of the Vice President for Research. See attached documentation for basis of vendor selection.

- To Mega Farms for $5,000,000 for snow removal for the University of Minnesota Minneapolis campus for the Facilities Management Landcare Department for the period of November 1, 2015, through October 31, 2016, with contract extensions through October 31,

2020. The funds required for this contract will be paid for by the Facilities Management Landcare Department. 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

The President recommends approval of the Consent Report.

General Contingency

Fiscal Year 2015-16

	Recipient	Amount	Balance	Purpose
1	**FY2016 General Contingency**		**$1,000,000**	
2	Carryforward from FY15 to FY16	8,496	1,008,496	
4	UM Crookston	186,000	822,496	Offset UMC FY15 tuition shortfall
5	Reversal of JE0000702057 from FY15	(132,000)	954,496	Transfer in FY15 did not post properly and was deleted
6	Office of Real Estate	132,000	822,496	Purchase of 120 acres in Isanti County for Cedar Creek
7	**New items this reporting period:**			
8	University Services	11,500	810,996	Reconstruction of Eastcliff Event Lawn space
9	**FY 2015-16 Ending Balance**		**810,996**	

* Subject to Board approval due to cost of $250,000 or more

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

To Air Charter Services for an estimated $7,500,000 for air charter services for Athletic team travel for the Department of Intercollegiate Athletics for the period of August 1, 2015 through July 31, 2016 with contract extensions through July 31, 2020.

Each year the Department of Intercollegiate Athletics uses air charters to transport the athletics teams and staff to away games. Air charter services are provided primarily for football, basketball, and for select trips for volleyball, hockey and baseball.

In the past a Request for Bid (RFB) was issued several times a year to request bids for air charter services for team travel to away games. In order to streamline the process a decision was made to issue a Request for Proposal (RFP) and award all team travel air charter services for the entire academic year to specific suppliers. As a result of the RFP process Sun Country Airlines was awarded football team travel and Air Charter Services was awarded all other team travel needs.

Air charter services will be purchased with funds from department operational budgets.

Submitted by: Tom McGinnis
Senior Associate Athletics Director/Chief Financial Officer
Intercollegiate Athletics
250 Bierman Field Athletic Building
Minneapolis, MN 55455
612-624-7411

Approval of this Item is request by:

Beth Goetz
VP or Exec. VP Signature

9/25/15
Date

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

To Huron Consulting Group for an estimated $2,432,905 for Click Institutional Research Board (IRB) Solution and Huron's human research protection program (HRPP) Toolkit for the Office of the Vice President for Research for the period October 15, 2015 through October 14, 2020.

The Advancing Human Research Protections Implementation Plan notes that, "the adoption of an electronic IRB system will better facilitate communication and processes." The Click software and Toolkit provide a complete business solution (business process and technology) for supporting our HRPP activities. The base Toolkit provides forms, policies, checklists, templates, etc. that have been proven to comply with both federal regulations and the standards of our accrediting body, the Association for the Accreditation of Human Research Protection Programs (AAHRPP). Also included with this purchase are implementation and project management services, a five year subscription to annual HRPP Toolkit updates and five years of technical user support, software maintenance and upgrades.

Prior to implementation of the software and the toolkit, Huron consulting will provide customization services to adapt the Huron HRPP Toolkit for the University, review of existing policies and procedures to identify customizations, provide training and education for staff, committee and researchers, evaluate IRB staffing as well as provide change management planning.

Funding for this initiative has been allocated through the Office of the Vice President for Research.

Contingency, staff augmentation, and miscellaneous expenses will add additional costs to the project.

Submitted by: Anujani Aluwihare
Finance Director
Office of the Vice President of Research
612-626-8284

Approval of this Item is requested by:

Brian Herman

VP or Exec. VP Signature

9/24/15

Date

Rationale for Exception to Competitive Bidding

This purchase has not been competitively bid because in our judgment Huron Consulting Group is the only vendor that completely aligns with the critical success criteria for the IRB Renew project:

- Possesses a complete business solution (business process and technology) for supporting the human research protection program (HRPP) with expansion capacity to other research regulatory parts of the university
- Has expertise with HRPP-IRB business transformation and technology implementation in a higher-education environment with large and complex research portfolios including both medical and social behavioral research
- Solution supports and facilitates accreditation of the Association for the Accreditation of Human Research Protection Programs (AAHRPP).
- Offers experienced consulting and implementation services that have a good reputation.
- This is in response to an external request and recommendations to improve the HRPP program

The Huron Consulting Group is the only vendor that offers a mature and proven business package that blends process and technology for meeting the requirements of UMN and AAHRPP. Their process includes an established, comprehensive, subscription-based HRPP toolkit that provides proprietary best practice business processes, forms, policies, checklists, and ongoing federal regulatory updates related to HRPP. These business processes have been proven successful at other institutions, and they are complemented and supported by a technology platform called Click Software, the Huron Consulting Group's software application. Huron consulting is a proven partner with the University of Minnesota, and utilizing their expertise will help support the success of the IRB Renew Project which is mission-critical.

Approximately eighty (80) percent of the out-of-the-box functionality and business processes required by the University's Office of the Vice President for Research is provided through Click IRB and the Huron Consulting Group's HRPP Toolkit. This solution meets the requirements of AAHRPP which is essential to the University of Minnesota. Huron's Click IRB software has a proven history of success. Over 250 Click Software solutions have been deployed at over 100 institutions, including seven of the Big 10 and eight of the CIC institutions, including deployments in excess of 10,000 protocols and 30,000 users.

In the absence of an RFP, reasonableness of price was evaluated by a team of University professionals whose collective experience included IRB activities, research compliance, and information technology. The team obtained the prices that other institutions have paid for the vendor's software, including Penn State, Harvard, the University of Michigan, and Carnegie Mellon. Using those results, the University negotiated a price with the vendor that was 28.1% below the published price, and is in line with other institutions' pricing arrangements.

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 Mega Farms for $5,000,000 for snow removal for the University of Minnesota Minneapolis campus for the Facilities Management Landcare Department for the period of November 1, 2015 through October 31, 2016 with contract extensions through October 31, 2020.

> *The current contract to provide snow removal services for the Minneapolis campus will end on October 31, 2015. With an average seasonal snowfall in the Twin Cities of 56 inches, a snow removal contract is vital to the safe and efficient operation of the campus. The Minneapolis campus currently has 111 locations that require snow removal services. Parking lots, ramps and loading docks are the responsibility of our supplier, and Facilities Management is responsible for streets, building entry ways, stairs, sidewalks, etc.*
>
> *The snow removal services for the 111 locations is vital for providing safe and reliable roadways for the University community and also maximize available parking locations. Contracting for snow removal services allows the University to efficiently manage roadways and parking locations in the most cost effective way possible, allowing for efficient movement across campus. In addition, the contract will create uniform snow removal standard (vendor activation at a two inch snow accumulation) across the Minneapolis campus.*
>
> *Through a competitive process, Mega Farms provided the best value based on available equipment, staffing and pricing based on the cost of fuel and volume of work.*
>
> *The funds required for this contract will be paid for by the Facilities Management Landcare Department.*

Submitted by: Mike Berthelsen, Facilities Management Associate Vice President
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Approval for this item requested by:

Pamela Wheelock

Pamela Wheelock
Vice President of University Services

9/22/15
Date

BOARD OF REGENTS
DOCKET ITEM SUMMARY

Finance **October 8, 2015**

AGENDA ITEM: Information Items

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

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

PRESENTERS: Richard Pfutzenreuter, Vice President & CFO

PURPOSE & KEY POINTS

Quarterly Investment Advisory Committee Update

This item provides the Board of Regents with a summary of the quarterly meeting of the Investment Advisory Committee (IAC) held on August 26, 2015.

Associate Vice President Stuart Mason indicated that the market value of the Consolidated Endowment Fund (CEF) had increased over the last quarter by $8.1 million to $1,293.5 million as of June 30, 2015, after a quarterly distribution to the University of $11.7 million. He noted that the quarterly performance was 1.94%, outperforming its benchmark by 0.76% and the 12-month performance was 5.74% exceeding its benchmark by 3.68%. The outperformance in the quarter was driven largely by strong performance of private capital investments and strong performance by the inflation hedges portfolio as well.

Mason indicated that the Return Generating Fixed Income (RGFI) portfolio had a target asset allocation of 12% and has been under-weight that allocation for some time. By design it is intended to be a loosely constrained, eclectic collection of higher return seeking fixed income strategies. Mr. Parks, who serves as the portfolio manager for RGFI, led the discussion of the details of how OIB proposes to proceed in reconfiguring the portfolio and building it toward the asset allocation target midpoint. The committee members expressed support for the key elements of the strategy.

Office of Investments and Banking (OIB) Portfolio Manager Andrew Parks presented the discussion materials supporting the OIB recommendation to invest $25 million in the Golub Capital Partners 10 fund. Golub manages portfolios of senior secured middle market commercial loans. They employ a modest amount of leverage, and have a very consistent track record of solid net returns to investors. The committee members expressed support for the recommendation.

Parks presented the discussion materials for committing $15 million to Gramercy, highlighting that the firm has been managing distressed assets in emerging markets, and playing a key role in major sovereign and corporate restructurings since 1998. One of the attractive characteristics of this strategy is the robust hedging strategy they employ to isolate a specific risk in a fixed income security, so the outcome is independent of currency fluctuations, EM beta in general, and other exogenous factors. The committee members expressed support for the recommendation.

Mason presented summary remarks regarding the OIB recommendation to commit $20 million to the Crow Holdings Realty Partners VII Fund. He underscored the fact that the University had a long, very successful history of investing in Crow funds, having committed to three previous funds. He pointed out that they consistently rank in the higher levels of the second quartile of peer firms, with Fund III having been the highest performing fund in the 2003 vintage year. Mason stated that the strong team and highly diversified nature of recent funds made positioned it well as a central, "core" manager and justified a commitment level that is somewhat larger than we have historically made to real estate managers. The committee members expressed support for the recommendation.

Mason commented briefly on the Quarterly Asset Management Report, noting that other portfolios such as TIP, GIP, and RUMINCO all outperformed their respective benchmarks for the past 12 months and for longer term periods, and all portfolios were very much in balance relative to their specific asset allocation guidelines.

Debt Management Advisory Committee Update

The purpose of this item is to provide a report on the meeting of the Debt Management Advisory Committee (DMAC) held on October 7, 2015. The agenda for the meeting included:

- Issuance of Series 2015A & Series 2015B
    - Pricing results
    - Rating reports

- Financial Components of the President's Recommended Six-Year Capital Plan, 2016 State Capital Request, and Debt Capacity Update