



# Finance Committee

February 2016

February 11, 2016

7:45 a.m. - 10:00 a.m.

West Committee Room, McNamara Alumni Center

## FIN - FEB 2016

### 1. Twin Cities Athletics Finances

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### 2. Faculty Retirement Plan: Governance Review

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### 3. Fully Allocated Cost of Mission Activities: Unit Analysis

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### 4. Long-Range Financial Planning for Law School

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### 5. Consent Report - Review/Action

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# BOARD OF REGENTS DOCKET ITEM SUMMARY

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**Finance**

**February 11, 2016**

**AGENDA ITEM:** Twin Cities Athletics Finances

**Review**

**Review + Action**

**Action**

**Discussion**

*This is a report required by Board policy.*

**PRESENTERS:** Richard Pfutzenreuter, Vice President & CFO  
Tom McGinnis, Senior Associate Athletics Director & CFO

## **PURPOSE & KEY POINTS**

The purpose of this item is to provide a comprehensive review and discussion of how the Department of Intercollegiate Athletics on the Twin Cities campus is financed, and how the resources and expenses are distributed across the department.

The presentation will focus on the department’s major categories of revenues and expenditures. The discussion will include an outline of other major revenue; expenditures and allocations that do not directly flow through the department’s annual operating budget; and a history of University direct allocations to the department.

In the docket, Table 1 provides an overview of FY 2016 budgeted revenues by major category. Table 2 provides an overview of FY 2016 budgeted expenditures by major category.

## **BACKGROUND INFORMATION**

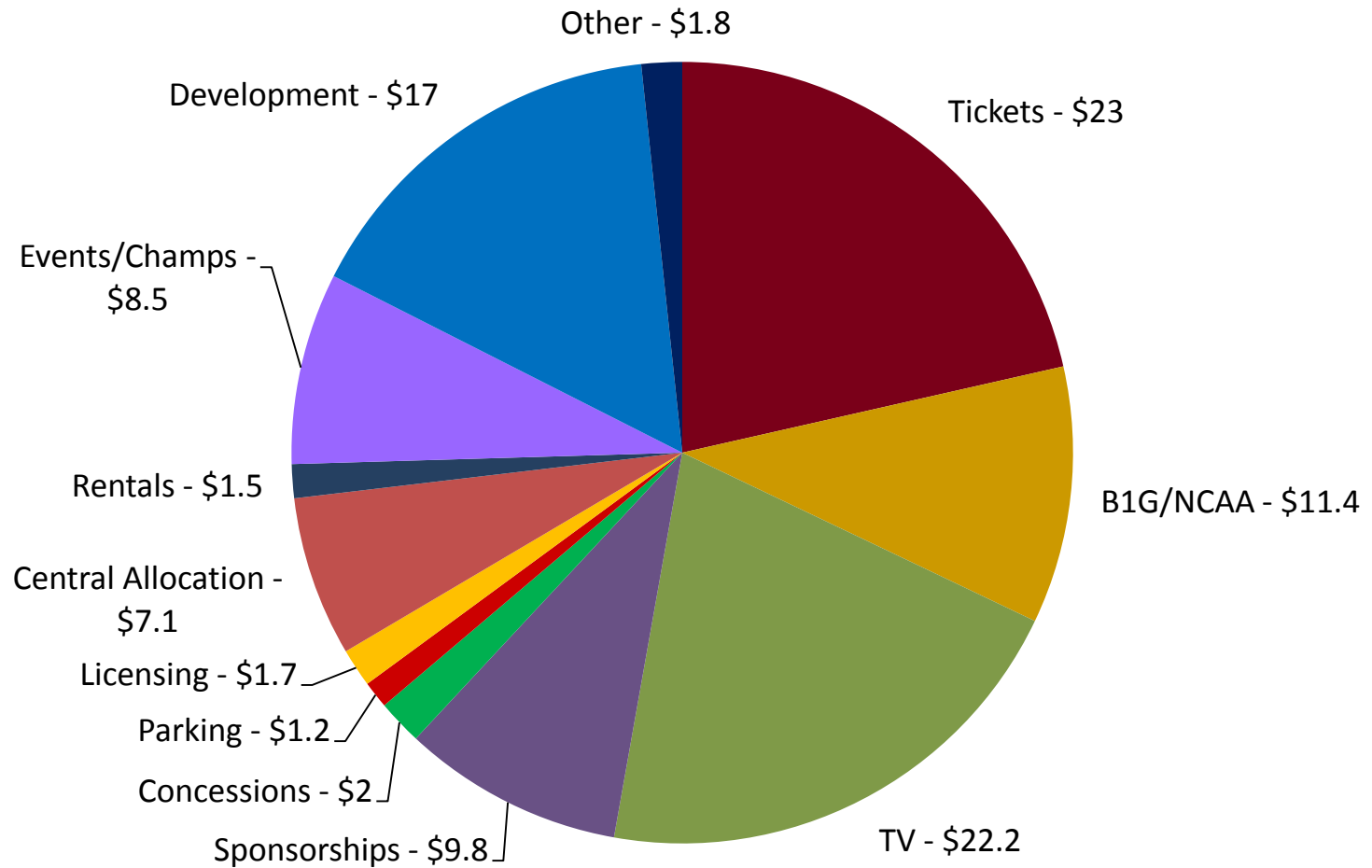
At its October 2012 meeting, the Board received a report published by the Association of Governing Boards of Colleges and Universities (AGB) entitled *Trust, Accountability, and Integrity: Board Responsibilities for Intercollegiate Athletics*. The report reflected survey data collected from NCAA Division I member institutions. Regent Linda Cohen, who was chair of the Board at the time, and President Kaler submitted data on behalf of the University.

In December 2012, at the direction of Chair Cohen, the Office of the Board of Regents (OBR) began a review of the University’s survey results and worked with the administration to identify gaps in the oversight policies, practices, or protocols. Over the next 14 months, OBR, the Office of the President, and the Office of the General Counsel worked to develop a comprehensive report addressing the oversight of Intercollegiate Athletics on the Twin Cities campus. This report was provided to the Board in February 2014.

One of the report's recommendations was a biennial educational review, by the chief financial officer of the Department of Intercollegiate Athletics on the Twin Cities campus, of the department's revenue and expenses. This agenda item implements that recommendation.

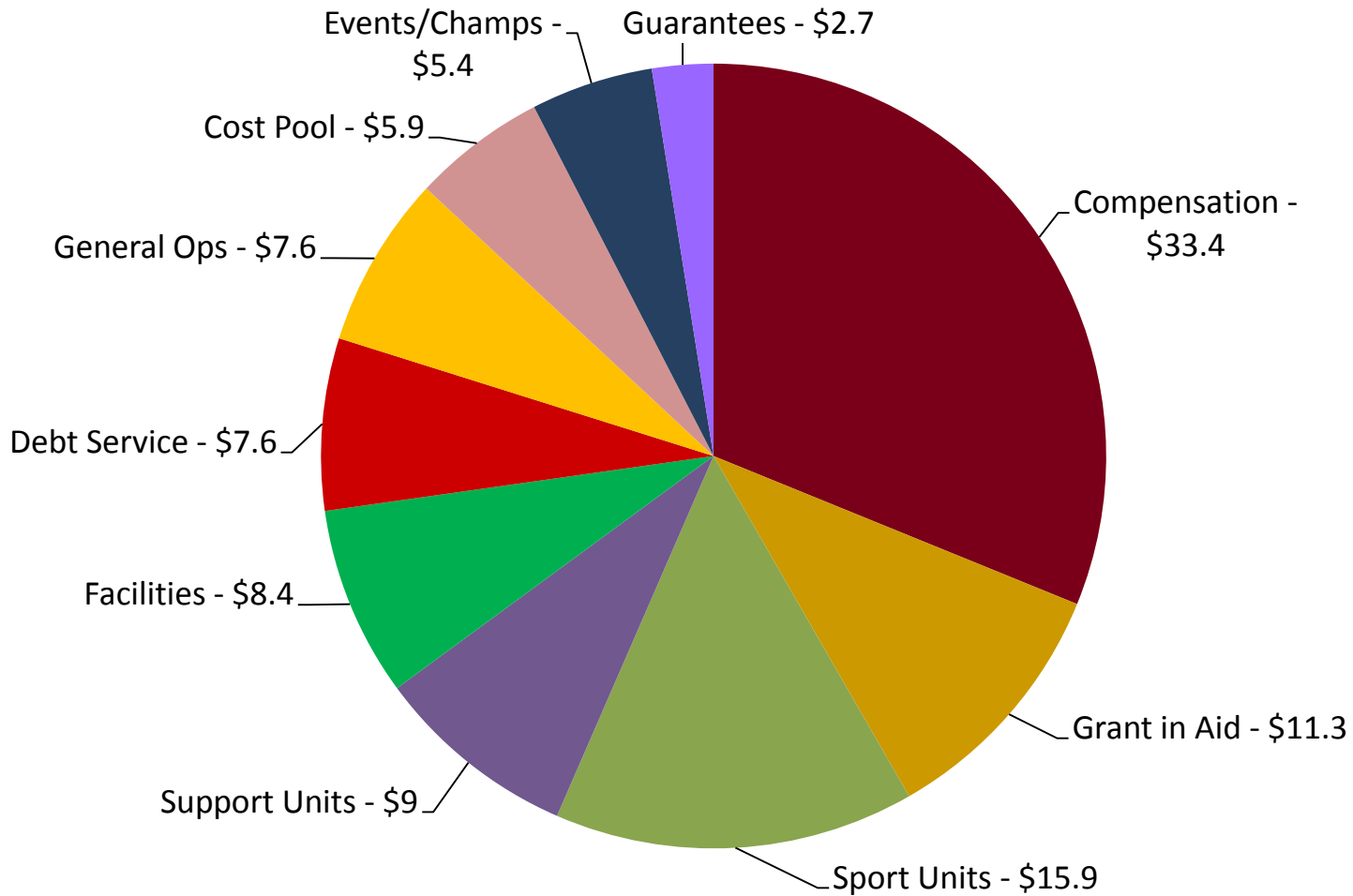
# Table 1

## University of Minnesota Twin Cities Athletics FY2016 Revenues / \$107.2M



# Table 2

## University of Minnesota Twin Cities Athletics FY2016 Expenses / \$107.2M



# Twin Cities Athletics Finances

Finance

February 11, 2016



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# University of Minnesota Athletics

Transforming Gopher Athletics by impacting the lives of our student-athletes, enhancing the reputation of the U, and bringing pride to all Minnesotans.

Invest-Lead-Win

Gopher Athletics Budget	\$107.3 Million
University Budget	\$ 3.7 Billion

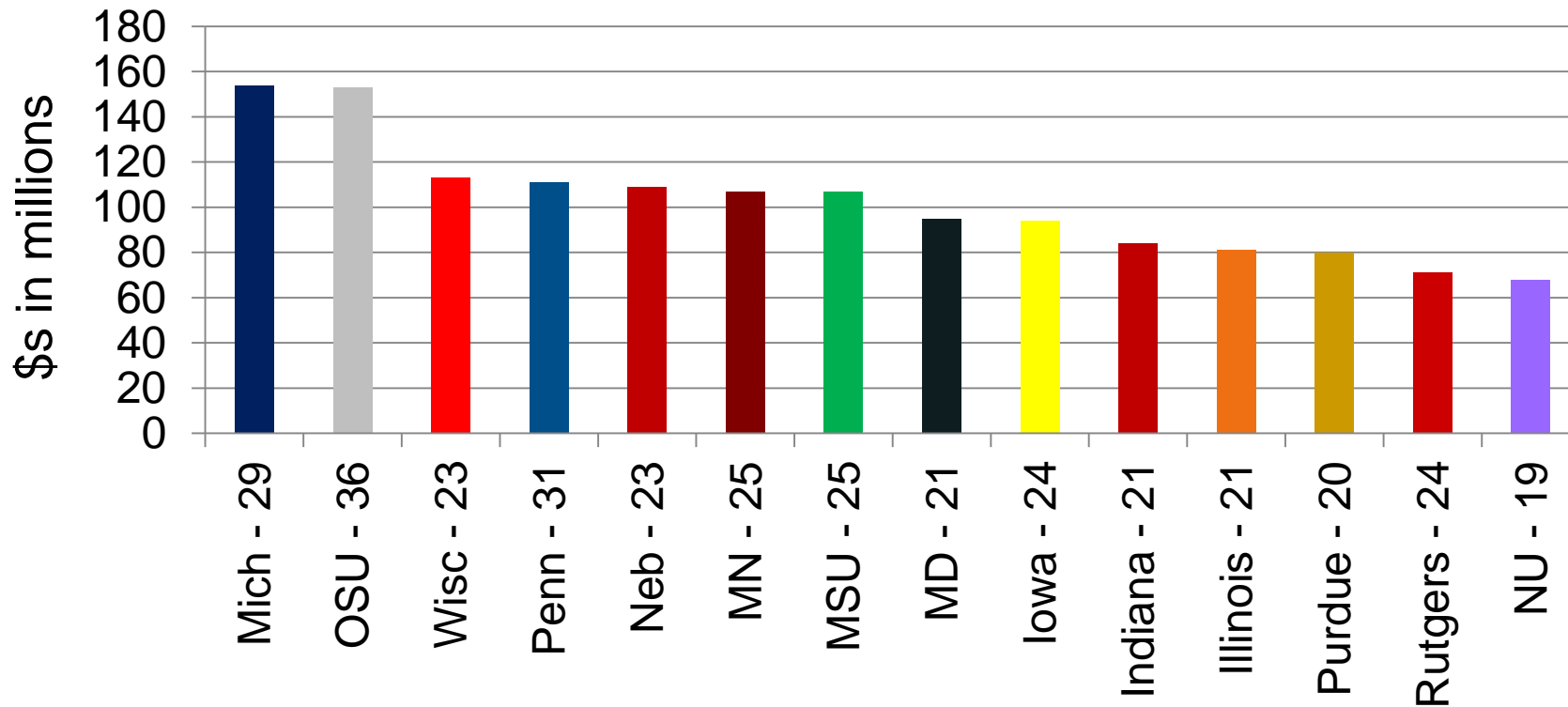
2.9% of the total University budget



# Gopher Athletics Key Facts

- 25 programs
- More than 725 student-athletes
- Department budget FY16 of \$107.3M
- Context within the B1G:
  - 4<sup>th</sup> highest number of sports programs (25)
  - 4<sup>th</sup> most student-athletes (725)
  - 5<sup>th</sup> place in Final 2014-15 Learfield Directors Cup within the conference (2<sup>nd</sup> after Fall 2015)
  - 6<sup>th</sup> highest budgeted revenue

# Big Ten Budgets and Teams FY2016



# FY2016 Budget / \$107.3M

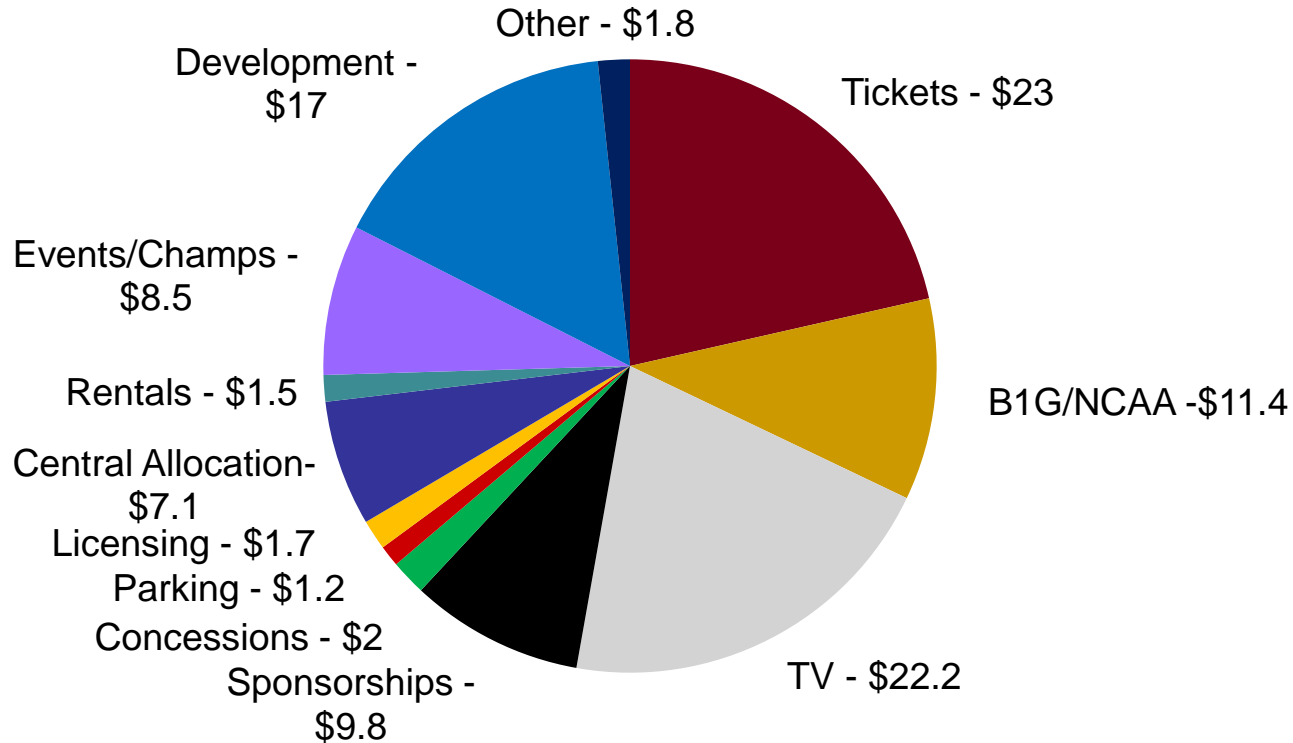
## – Major Expenses

- Compensation – \$33.4M
- Grant in Aid – \$11.3M (324 full scholarships)
- Sport Operations – \$15.9M
- Support Unit Operations – \$9.0M
- Facility Operation – \$8.3M
- Debt Service – \$7.6M

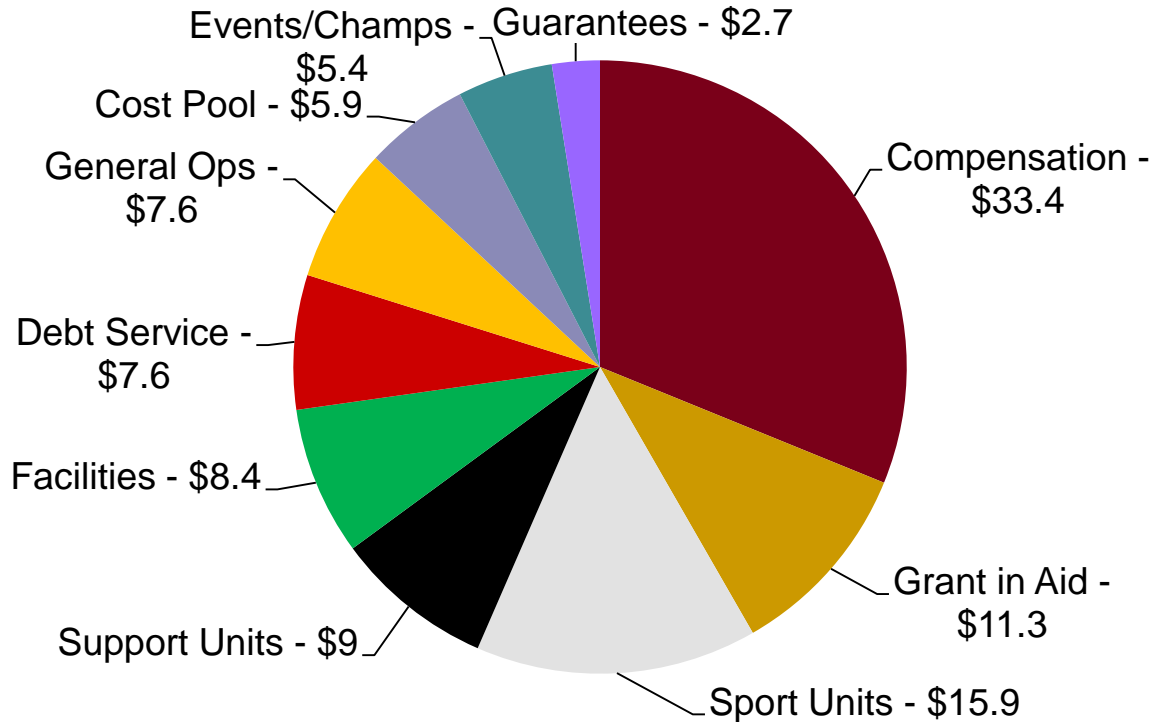
## – Major Revenues

- Ticket Sales – \$23M (\$22M from football, men's basketball and hockey)
- Television – \$22.2M
- NCAA and Conference Distributions – \$11.4M
- Development (realized) – \$17M
- Media/Sponsorships – \$9.8M

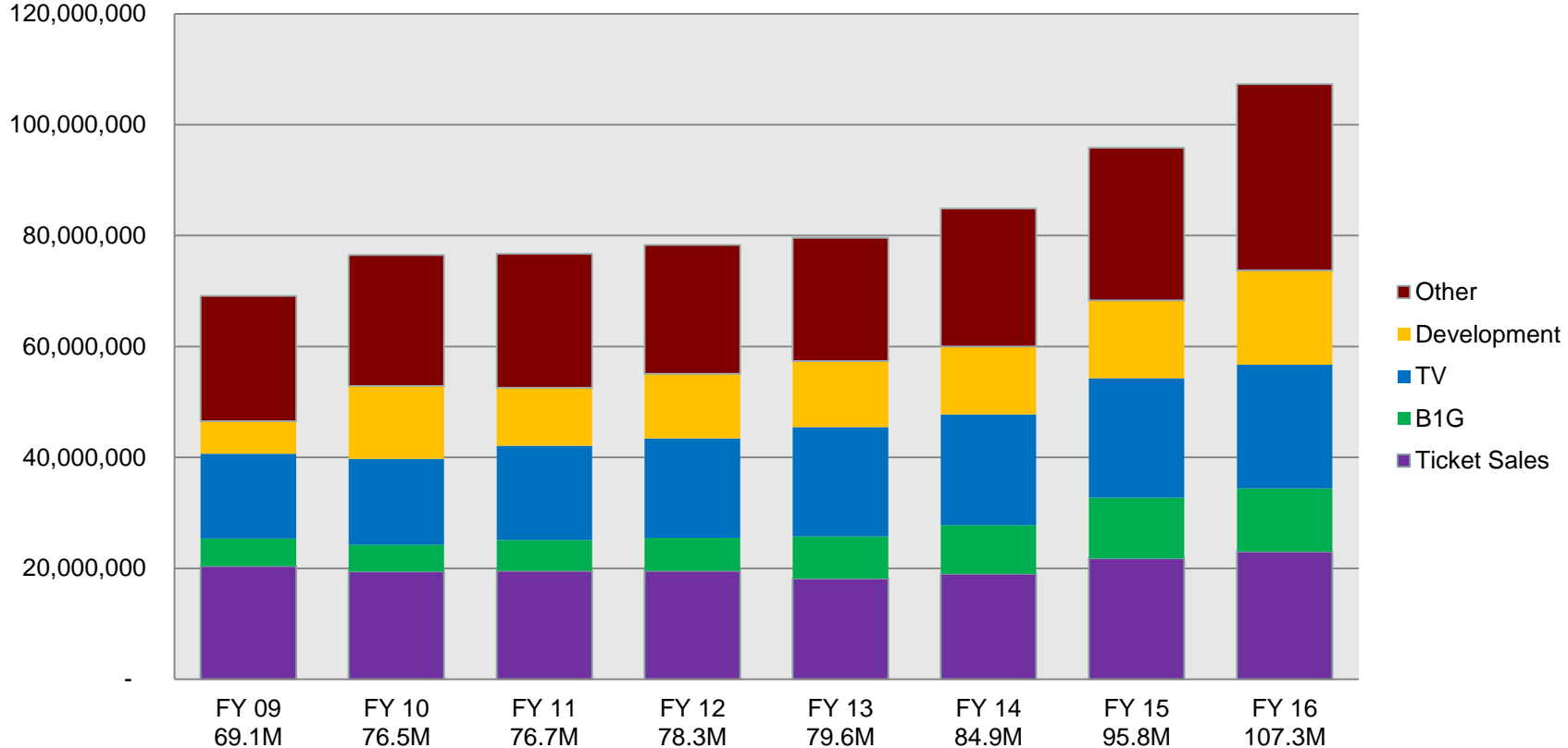
# University of Minnesota Twin Cities Athletics FY2016 Revenues / \$107.3M



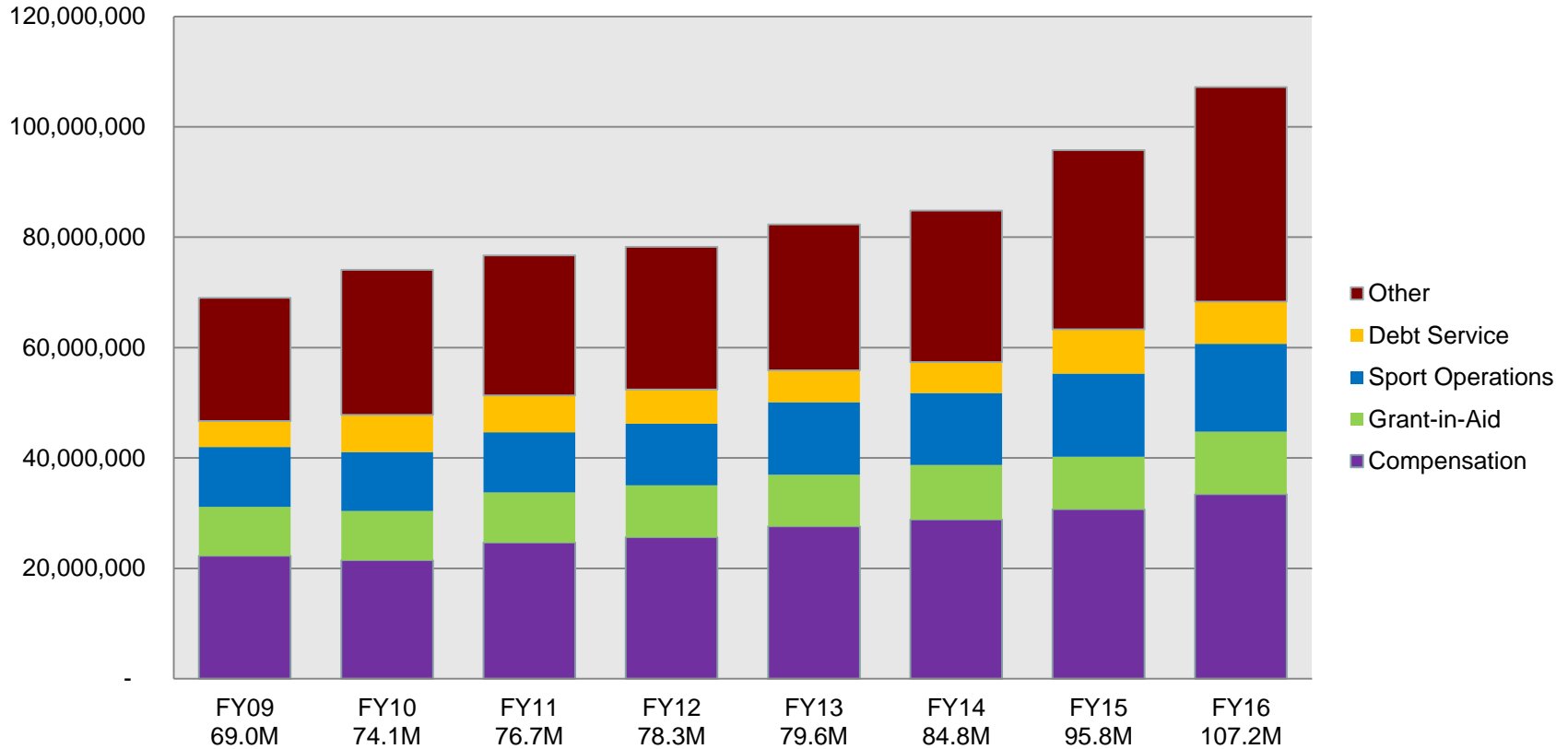
# University of Minnesota Twin Cities Athletics FY2016 Expenses / \$107.2M



# Department of Athletics Revenue



# Department of Athletics Expenses



# History of University Central Allocation 2005 - 2016

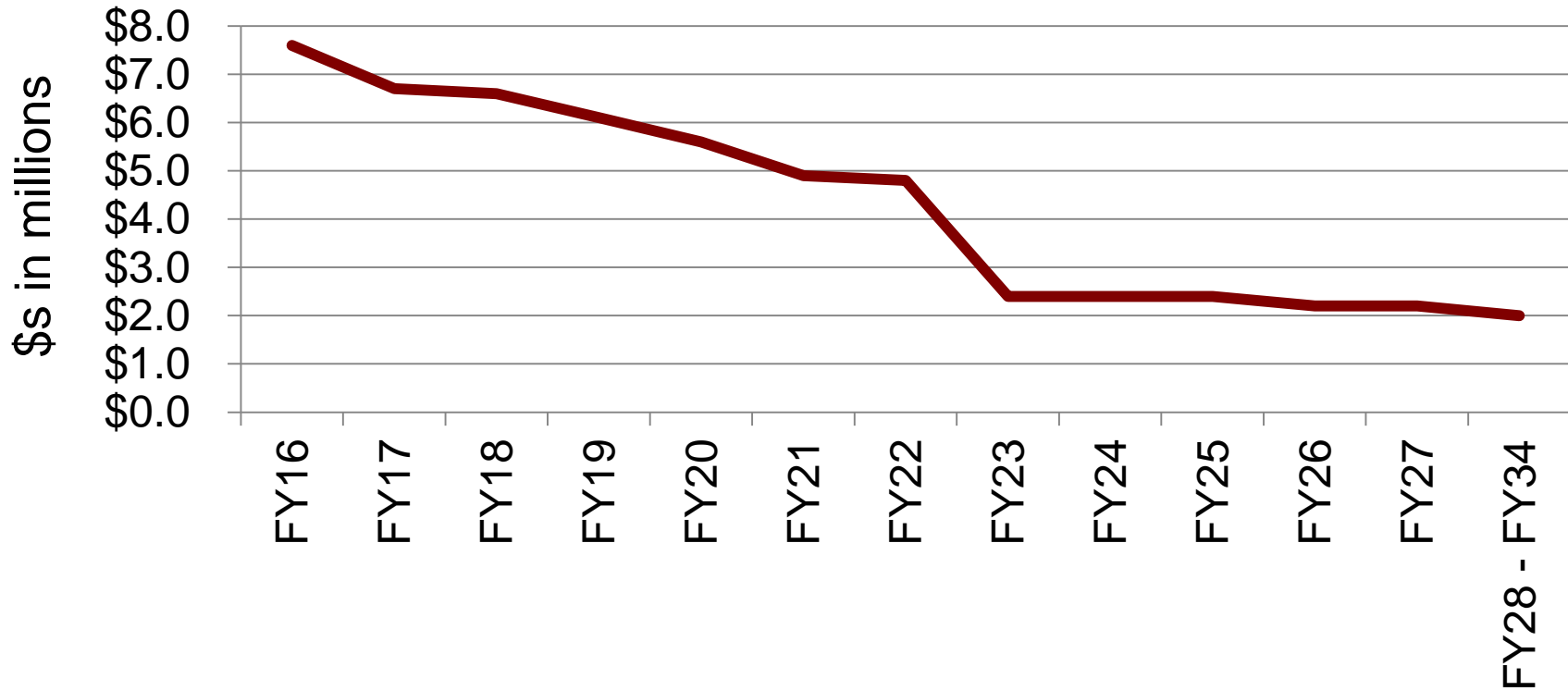
Fiscal Year	Annual O&M Allocation	
2005	\$ 7,185,895	← Annual O&M Allocation includes \$3,079,975 of State Special Funds rolled into O&M in 1998(Legislative Action)
2006	\$ 6,785,895	
2007	<b>\$ 9,456,331</b>	Allocation Change Due to Budget Model Implementation Net = \$2,970,436  <b>Net Total of:</b> <input type="checkbox"/> \$4,348,574 new cost pool charges <input type="checkbox"/> <b>(\$1,378,138)</b> elimination of IRS assessment
2008	\$ 8,965,851	
2009	\$ 8,715,851	
2010	\$ 8,018,851	
2011	\$ 7,778,861	
2012	\$ 6,961,066	
2013	\$ 7,011,066	
2014	\$ 7,011,066	
2015	\$ 6,919,096	
2016	<b>\$ 7,055,984</b>	



# Debt Payment Schedule for all Gopher Athletics Facilities Twin Cities Athletics, Institution, Other Funds

Source of Funding	FY16 Principal & Interest Total
• Twin Cities Athletics	• \$ 7,599,500
• Institution	• \$ 857,000
• Other	
– Statutory Appropriation	• \$ 9,601,600
– TCF Naming Agreement	• \$ 1,425,500
– Student Fees	• \$ 925,000
 TOTAL	 • \$20,408,600

# Current Projected Debt Service TC Athletics – Own Source Revenues (excluding Athletes Village Project)



# Expenses paid by Athletics to University

• Grant-in-Aid/Scholarships	\$10,181,424
• FY16 Cost Pool Charges	\$5,903,027
– A. Support Services	\$3,409,540
– B. Technology	\$232,947
– C. Facilities Op./Main.	\$1,011,617
– D. Library	\$23,044
– E. Debt/Leases	\$750,738
– F. Warehouses	\$56,379
– G. Utilities	\$418,762
• MAC Support	\$975,000
• UMPD/EMT's	\$732,113
• Enterprise Assessment	\$430,414
• Insurance	\$435,860
• UMP/Family Practice	\$124,646
• Marching Band Support	\$215,000
<b>Total</b>	<b>\$18,997,484</b>

# Revenues provided to Athletics by the University + Expenses paid by University on behalf of Athletics

## REVENUE

- O&M Allocation \$7,055,985
- UMF Support – Development Officers \$590,000

## EXPENSE

- Out of State Tuition \$1,000,000
- McNamara Academic Center \$953,786
- Facilities Debt Service \$856,944

Total \$10,456,715

# Financial Priorities

1. Providing resources for our broad-based program with 25 competitive teams
2. Athletes Village Capital Campaign
3. Facilities – Ongoing and deferred maintenance
4. Building a financial reserve

# Twin Cities Athletics Finances

Finance

February 11, 2016



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# BOARD OF REGENTS DOCKET ITEM SUMMARY

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**Finance**

**February 11, 2016**

**AGENDA ITEM:** Faculty Retirement Plan: Governance Review

**Review**

**Review + Action**

**Action**

**Discussion**

*This is a report required by Board policy.*

**PRESENTERS:** Kathryn Brown, Vice President for Human Resources  
Stuart Mason, Associate Vice President & Chief Investment Officer

## **PURPOSE & KEY POINTS**

The purpose of this item is to discuss recommendations related to the Faculty Retirement Plan.

The Office of Investments and Banking, the Office of Human Resources, and a local investment consulting firm reviewed the current retirement plan governance structure. The objective of the review was to determine whether modifications could be made to better align the governance framework with fiduciary best practices. The process resulted in a recommendation to establish a lean, cross-functional Retirement Plan Committee to serve a fiduciary role over the entire retirement program.

# Faculty Retirement Plan: Governance Review

Kathryn Brown, Vice President for Human Resources  
Stuart Mason, Associate Vice President & Chief Investment Officer



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# Genesis of the Modified Governance Structure Proposal

- The University's investments and human resources offices engaged a local investment consulting firm (Jeffrey Slocum & Associates) to review the current retirement plan governance structure and determine whether modifications could be made to better align the governance framework with fiduciary best practices.

## Key Takeaways / Recommendations

- Align retirement plan decisions with applicable industry best practices. Implement more defined and cohesive processes and procedures to oversee investments, administration, policies and fees
  - Result = Recommend establishment of cross-functional Retirement Plan Committee to serve a fiduciary role over the entire retirement program
- Continue to refine retirement plan objectives such as income replacement targets, savings goals, and investment lineup development
- Modify Investment Policy Statement and update delegations of authority as needed

# Applicable Board of Regents Policies

- **Board of Regents Policy: Reservation and Delegation of Authority**

*Section XI. Employment and Labor Relations. Subd. 3.* The Board reserves to itself authority to establish or discontinue retirement plans for University faculty and staff. For those plans sponsored by the University and governed by formal plan documents, the Board reserves to itself authority to approve amendments to those plans that significantly affect the cost structure of the plans. An amendment is considered to significantly affect the cost structure of the plan if the change causes a cost impact of more than \$250,000.

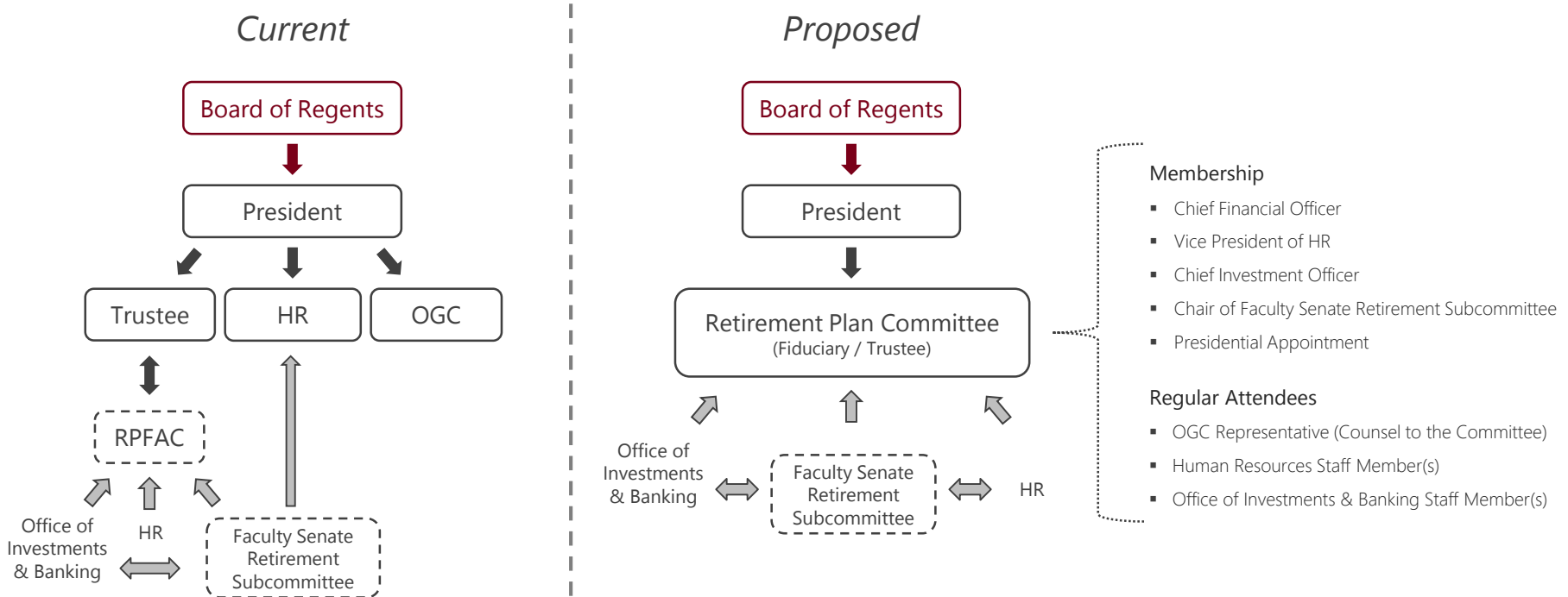
*Section II. Limitations Upon Presidential Authority. (d)* The authority delegated to the president is limited by following: the directive that the president shall notify the Board of any matter not otherwise addressed in this section that significantly involves the authority and role of the Board, including its fiduciary, oversight, and public accountability responsibilities.

- **Board of Regents Policy: Faculty and Staff Retirement**

*Subd. 4. Authority.* In accordance with Board of Regents Policy: Reservation and Delegation of Authority, the Board of Regents hereby delegates to the president those items not reserved, including the authority to implement these plans and programs.

# Proposed Retirement Plan Governance Structure

- Create a lean committee, comprised primarily of senior University officers, that would serve a fiduciary role over the entire retirement program








# Tentative Matrix of Roles & Responsibilities

- Recommend adoption of roles and responsibilities matrix to clarify decision making process and align with best practices

	Frequency of Activity (Best Practice)	Retirement Plan Committee	Faculty Senate Retirement Subcommittee	Human Resources	Investment Office
<b>GOVERNANCE</b>					
Investment Policy Statement	Annual	R	I	I	D / A / E
Service Provider Retention and Termination	3-5 years	R	A / I	D / A / E	D / A / E
<b>PLAN DESIGN</b>					
Plan Design Review and Benchmarking	Annual	R	A / I	D / A / E	D / A / E
Plan Design Changes	As needed	R	E	A / I	D / A / E
<b>INVESTMENTS</b>					
Plan Investment Structure	Annual	R	A / I	D / A / E	D / A / E
Manager Compliance Monitoring	Quarterly	R	I	I	D / A / E
Manager Selection / Termination	As needed	R	I	I	D / A / E
Manager Monitoring / Evaluation / Due Diligence	Ongoing	R	I	I	D / A / E
<b>ADMINISTRATIVE</b>					
Recordkeeper Service and Fee Evaluation	Annual	R	A / I	D / A / E	D / A / E
Procurement of Vendor Services	As needed	R	I	D / A / E	D / A / E
Oversight of Service Provider Relationships	Ongoing	I	I	R	R
Day-to-Day Plan Management	Ongoing	I	--	R	I

### Legend

-  Responsible (R) = Final approval or responsible for completion
-  Endorse (E) = Provide recommendation for the proper course of action
-  Develop (D) = Create materials and obtain information
-  Advise (A) = Use information to provide insight and analysis
-  Informed (I) = Provided information related to that step. Action may be required.



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# BOARD OF REGENTS DOCKET ITEM SUMMARY

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**Finance**

**February 11, 2016**

**AGENDA ITEM:** Fully Allocated Cost of Mission Activities: Unit Analysis

**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 of Institutional Analysis

## **PURPOSE & KEY POINTS**

This item will expand on the Fully Allocated Cost of Mission Activities analysis, highlighting unit-level examples of significant spending and resource support results. The presentation will include information on how much each individual college and campus spent in FY 2014 to instruct an undergraduate student, a graduate student, and a professional student. The information is the result of an analysis on the University's cost of mission activities by the Budget Office and the Office of Institutional Research based on FY 2014 financial data. This is the second time this analysis has been prepared (the first was based on FY 2010 financial data).

Before 2000, the University prepared an instructional cost study that identified how much the institution was spending on the direct costs of instruction and associated overhead. Before the FY 2010 analysis, it had not conducted a study of the fully allocated cost of each of the mission activities. This study will show how much the University spent on the direct costs of instruction, research, public service, auxiliary operations and student aid. It will show the full allocation of indirect/overhead costs associated with each of those activities, and will identify the unique funding sources for each. All data is based on FY 2014 financial activity and ties to the general ledger.

The presentation will include how much some individual units are dependent on different revenue sources for their mission activities. In addition, the variables that can influence costs and revenue, and how they differ by unit, will be discussed.

## **BACKGROUND INFORMATION**

The Finance Committee discussed the implemented methodology for this study as well as the University level results at its December 2015 meeting.

# Fully Allocated Cost of Mission Activities: Unit Analysis

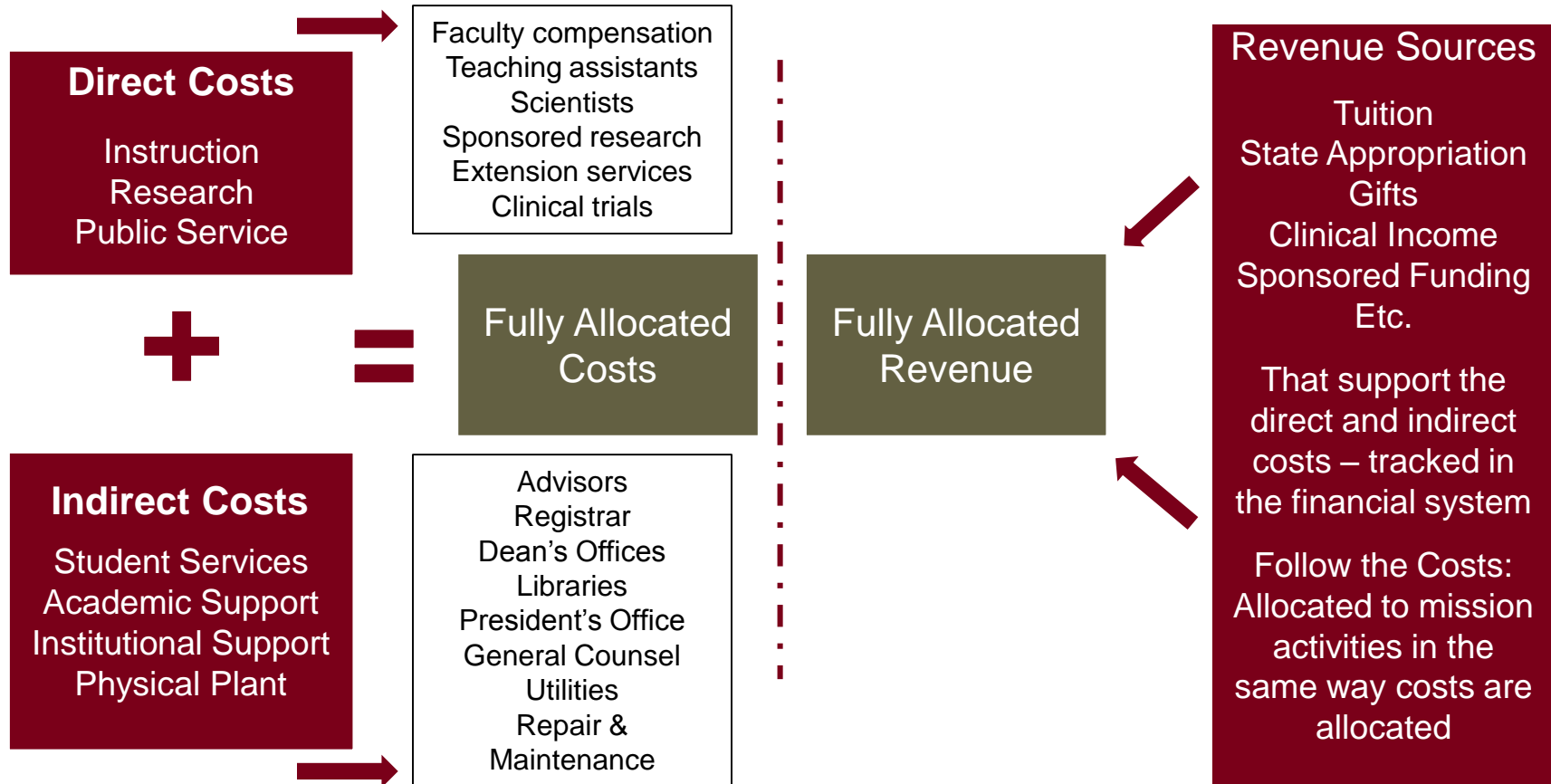
Julie Tonneson, Associate Vice President  
Lincoln Kallsen, Director



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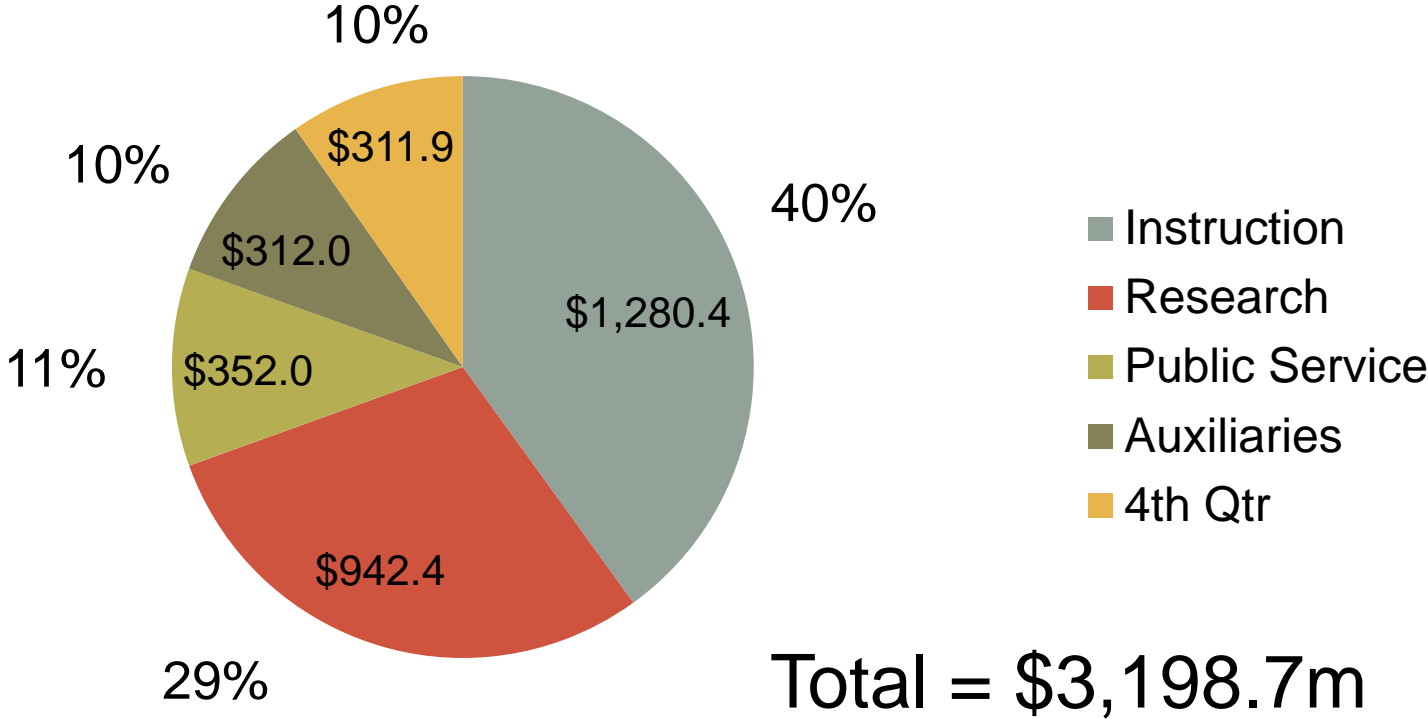
# Cost of Mission Analysis - General Methodology



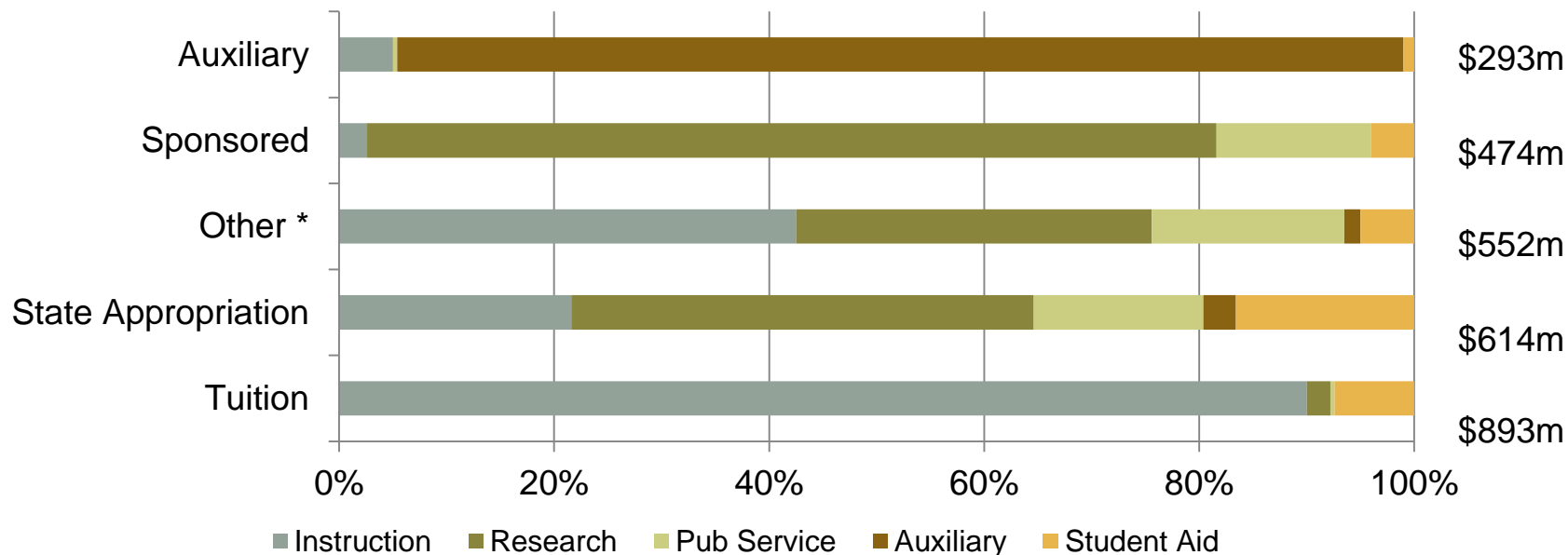


# FY14 Fully Allocated Mission Expenditures

(\$ in millions)



# FY14 Revenues – Relative Support of Mission Activities

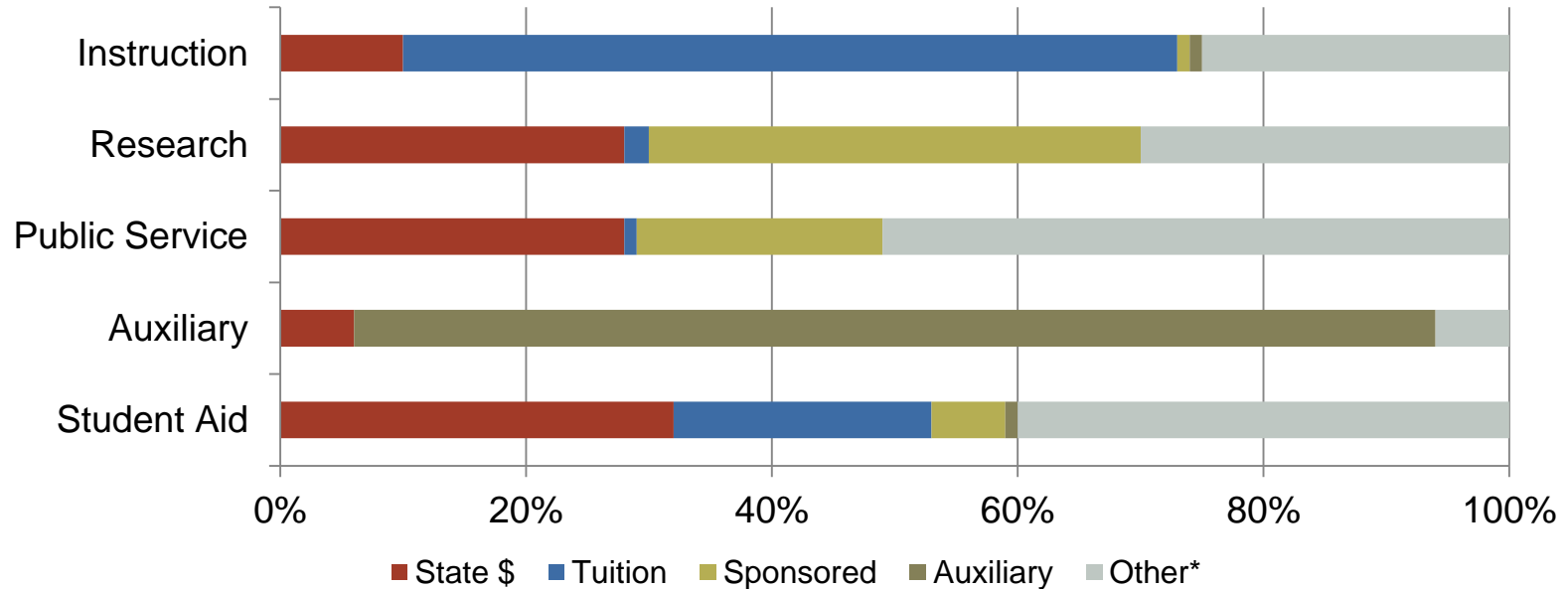


\*Other – for Instruction it is primarily affiliated hospital agreements, student fees (including study abroad), clinical income

\*Other – for Research it is primarily Indirect Cost Recovery, foundation/gift funds, external sales

\*Other – for Public Service it is primarily clinical income, external sales, foundation/gift funds

# FY14 Mission Activities – Relative Support by Source



\*Other – for Instruction it is primarily affiliated hospital agreements, student fees (including study abroad), clinical income

\*Other – for Research it is primarily Indirect Cost Recovery, foundation/gift funds, external sales

\*Other – for Public Service it is primarily clinical income, external sales, foundation/gift funds

\*Other – for Student Aid it is primarily federal, foundation/gift funds

# Unit Specific Findings: Support of Mission

**Each unit is quite unique in its dependence on specific revenue sources for mission activities - Examples:**

- Research
  - Public Health's primary source is Sponsored Funds – 57%
  - CFANS' primary source is State Appropriation – 43%
- Public Service
  - CEHD's primary source is Sponsored Funds – 48%
  - Vet Med's primary source is Clinical Income from VDL – 49%
- Instruction
  - CLA, CEHD, UMD - primary source is Tuition – 86%+
  - after tuition, CCE, Dentistry, Vet Med rely on clinical/other revenue – 20%+

**No surprises in the analysis – each unit manages activities and goals with an understanding of the “revenue risks” they face**

# Unit Specific Cost Findings: Context

- Goal is to better understand what influences costs in different colleges/campuses and contexts
- Understanding the methodology helps in understanding the results
- Results in smaller units may be unduly swayed by changes in a single variable
- Analyzing instructional costs at a research university is complicated by economies of scope
- These results say nothing about the quality of academic programs

# Unit Specific Findings: Cost of Mission Research & Public Service

< No common or standard metric of \$ spent per X - for comparison by unit >

## “Big Spenders” in Research:

Medical School - \$256m  
Science & Engineering - \$142m  
CFANS - \$123m  
Public Health - \$56m

## Highest % of Spending = Research:

CFANS – 68.2%  
Public Health – 62.6%  
Science & Engineering – 50.2%  
Biological Sciences – 49.1%

## Overall for Research:

66% of total spend was for “direct” costs  
9% of total spend was for facility costs  
25% of total spend was for support costs

## “Big Spenders” in Public Service:

MN Extension - \$59m  
Medical School - \$49m  
Ed. & Human Development - \$26m  
Veterinary Medicine - \$26m

## Highest % of Spending = Pub Service:

MN Extension – 97.2%  
Veterinary Medicine – 29.1%  
Ed. & Human Development – 20.0%  
Continuing Education – 17.7%

## Overall for Public Service:

69% of total spend was for “direct” costs  
3% of total spend was for facility costs  
28% of total spend was for support costs

# What might cause instructional costs to vary among colleges and campuses

- Faculty effort allocation among missions as shown in the ledger
- Market driven faculty salaries
- Curricular factors – section size, overall FYE per faculty, availability of TAs/adjuncts, curricular structures, etc.
- Volume of service teaching
- Amount spent on student services within colleges/campuses
- Cost and complexity of unique instructional space and equipment/materials
- Some programs are highly instructor intensive (e.g., Ph.D. work with faculty advisors, music programs)

# Cost of Instruction-2<sup>nd</sup> Level Analysis Undergraduate Education

## Cost per full year equivalent (FYE) student – FY14

Unit	Fully loaded cost per FYE
Biological Sciences	\$15,091
Continuing Education	\$8,214
Education & Hum Dev.	\$11,739
CFANS	\$14,418
Liberal Arts	\$14,044
Sci. & Engineering	\$13,955

Campus	2013-14 Resident Undergraduate Tuition Rate
Twin Cities	\$12,060
Duluth	\$11,720

Unit	Fully loaded cost per FYE
CSOM	\$16,408
Design	\$18,702
Nursing	\$16,878
Crookston	\$12,199
Duluth	\$12,702
Morris	\$15,703

Campus	2013-14 Resident Undergraduate Tuition Rate
Morris	\$11,720
Crookston	\$10,030



# Cost of Instruction-2<sup>nd</sup> Level Analysis

## Graduate and Professional Education – FY14

Unit	Fully loaded cost per FYE
Biological Sciences	\$40,230
Continuing Education	\$12,070
Education & Hum Dev.	\$17,157
CFANS	\$15,570
Liberal Arts	\$22,848
Sci. & Engineering	\$22,683
CSOM	\$20,795
Dentistry	\$53,310
Design	\$23,485

Unit	Fully loaded cost per FYE
Public Affairs	\$24,156
Law	\$43,240
Medical School	\$50,568
Nursing	\$28,930
Pharmacy	\$23,577
Public Health	\$20,570
Vet Med	\$46,153
Duluth	\$22,202

Note: Professional program costs are shown for Dentistry, Pharmacy, Veterinary Medicine, and the Medical School. These colleges also have graduate programs with costs of a similar magnitude. Medical School costs do not include cost of residency.

# Next Steps

- Discussions with colleges and campuses for further insight
- Additional sub-analyses at the college/campus level
- Analysis and understanding of changes between FY10 and FY14 data
- Work with senior academic leadership to incorporate this information into planning processes
- Next update would be planned when FY17 data become available



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# BOARD OF REGENTS DOCKET ITEM SUMMARY

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**Finance**

**February 11, 2016**

**AGENDA ITEM:** Long-Range Financial Planning for Law School

**Review**

**Review + Action**

**Action**

**Discussion**

*This is a report required by Board policy.*

**PRESENTERS:** David Wippman, Dean, Law School  
Richard Pfitzenreuter, Vice President & CFO  
Julie Tonneson, Associate Vice President & Budget Director

## **PURPOSE & KEY POINTS**

The purpose of this item is to provide the committee with an overview of recent national trends impacting the legal profession and in particular the University of Minnesota Law School. The discussion will focus on national enrollment trends, the job market for lawyers, recent trends in revenues and expenditures for the Law School, and strategies employed by the University and the Law School to address financial pressures while ensuring academic excellence.

## **BACKGROUND INFORMATION**

The number of American Bar Association law schools has increased steadily from the 1960s to present, at a rate of about 1 percent per year. Over the same period, the number of lawyers has grown exponentially, at a rate of over 6 percent per year. Since the supply of lawyers outweighs the current demand, the number of applicants to law schools across the nation has decreased by more than 40 percent over the last 10 years.

This nationwide trend has impacted the Law School's enrollment and therefore its budget. The number of applicants to the Law School has decreased by 49 percent in the last six years, and the number of students enrolled during that timeframe has dropped by 32 percent. Since this is a nationwide trend and higher ranked schools have fared better during this downturn in enrollment, solving the Law School's budget imbalance cannot be achieved solely by increasing the number of applicants accepted. The number of applications received impacts national rankings.

As enrollment has decreased and non-tuition revenues have either stagnated or declined, expenditures have continued to grow but at significantly different rates over time. Spending increases have been primarily in student aid, which has been necessary to continue to attract the best students. Other non-student aid costs have been restrained through reallocations, operational reductions, and salary freezes. In addition, the Law School has utilized fundraising efforts, increases

in enrollment in specialty programs, other new revenue measures, balances from prior years, and University support (both recurring and nonrecurring) to bridge its budgetary gap.

The docket includes tables depicting the Law School's resource and expenditure trends from 2009-2016.

## Long-Range Financial Planning for Law School

Tables 1 and 2 below depict the Law School's resource and expenditure trends from 2009 through 2016.

**Table 1: Law School Resources**

Table 1 below provides a summary of actual resources by primary funding category from fiscal year 2009–2015 and the approved budget for fiscal year 2016 for current nonsponsored funds for the University of Minnesota Law School.

<b>Table 1: Law School Resources (Current Nonsponsored Funds)</b>	<b>Actual FY09</b>	<b>Actual FY10</b>	<b>Actual FY11</b>	<b>Actual FY12</b>	<b>Actual FY13</b>	<b>Actual FY14</b>	<b>Actual FY15</b>	<b>Budget FY16</b>
O & M	9,106,642	6,523,790	5,556,130	3,614,170	3,610,420	4,591,762	6,384,002	7,503,503
Tuition	21,835,880	23,207,979	25,549,172	29,258,221	30,704,387	32,623,467	32,357,497	33,028,375
Sales, Fees, & Misc.	3,217,016	2,336,606	2,349,607	2,042,119	3,076,374	2,225,731	1,744,987	1,426,954
Gifts and Endowments	7,872,434	7,280,852	11,161,157	9,522,763	10,063,102	11,778,615	10,255,866	9,525,509
Carry Forward	2,964,581	4,838,383	4,071,411	4,065,210	1,267,357	101,773	461,713	386,327
<b>Total Annual Resources</b>	<b>44,996,554</b>	<b>44,187,610</b>	<b>48,687,477</b>	<b>48,502,482</b>	<b>48,721,640</b>	<b>51,321,347</b>	<b>51,204,066</b>	<b>51,870,668</b>

## Long-Range Financial Planning for Law School

### Table 2: Law School Expenditures

Table 2 below highlights by major expense category the annual operating expenses of the University of Minnesota Law School for fiscal year 2009 through budgeted fiscal year 2016 for current nonsponsored funds.

<b>Table 2: Law School Expenditures (Current Nonsponsored Funds)</b>	<b>Actual FY09</b>	<b>Actual FY10</b>	<b>Actual FY11</b>	<b>Actual FY12</b>	<b>Actual FY13</b>	<b>Actual FY14</b>	<b>Actual FY15</b>	<b>Budget FY16</b>
Salaries & Fringe	23,495,742	23,402,763	25,198,084	26,526,758	27,126,310	27,934,367	26,992,319	25,105,243
Student Aid	4,050,893	5,322,331	7,647,655	10,506,828	12,376,200	14,001,257	14,953,477	16,310,105
Cost Pools and Utilities	5,589,823	5,484,044	5,674,521	5,606,001	5,742,967	5,838,598	5,890,112	6,035,206
Other Operating Costs	7,243,997	6,719,854	6,818,848	6,753,767	6,523,323	7,346,604	7,009,952	6,602,793
<b>Total Annual Expenditures</b>	<b>40,380,455</b>	<b>40,928,992</b>	<b>45,339,108</b>	<b>49,393,353</b>	<b>51,768,800</b>	<b>55,120,825</b>	<b>54,845,860</b>	<b>54,053,347</b>

# Law School

## Long Range Financial Planning

David Wippman, Dean

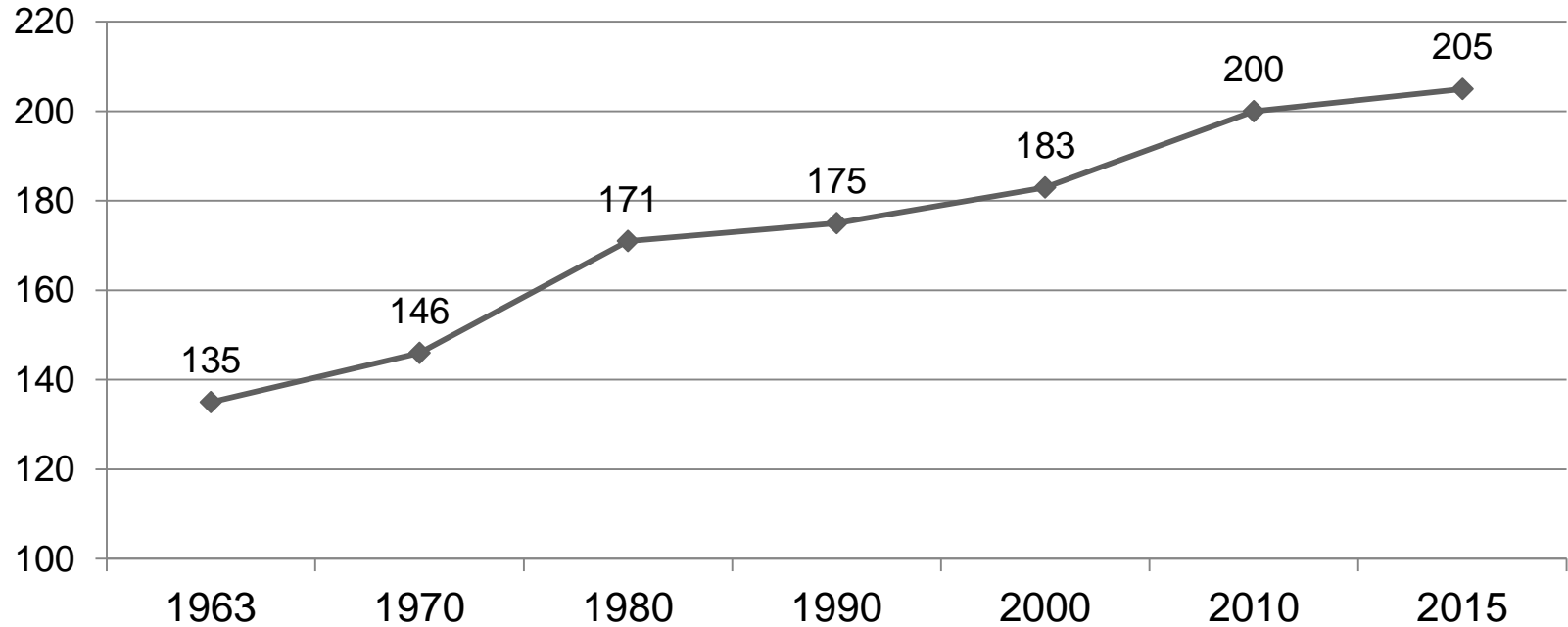


UNIVERSITY OF MINNESOTA

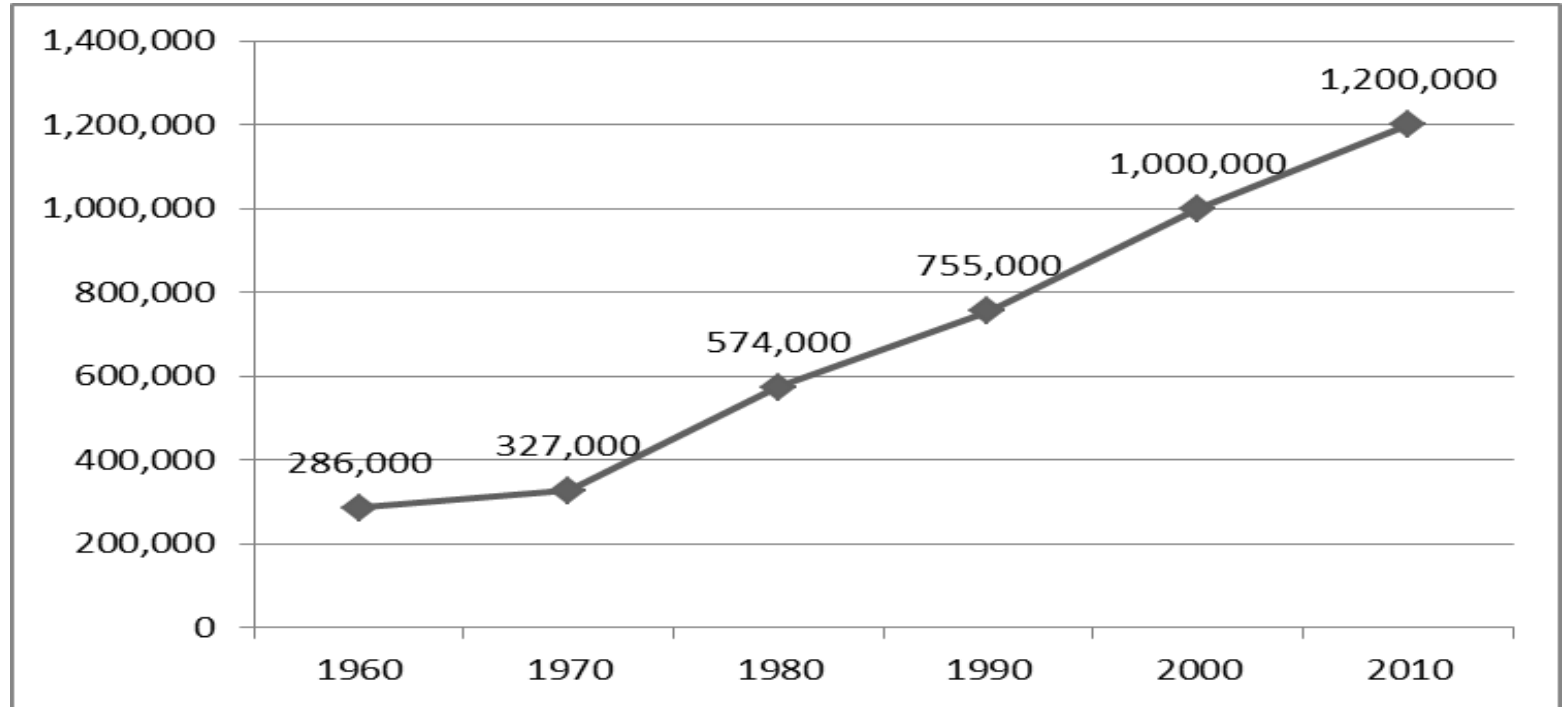
**Driven to Discover<sup>SM</sup>**



# Number of ABA Approved Schools

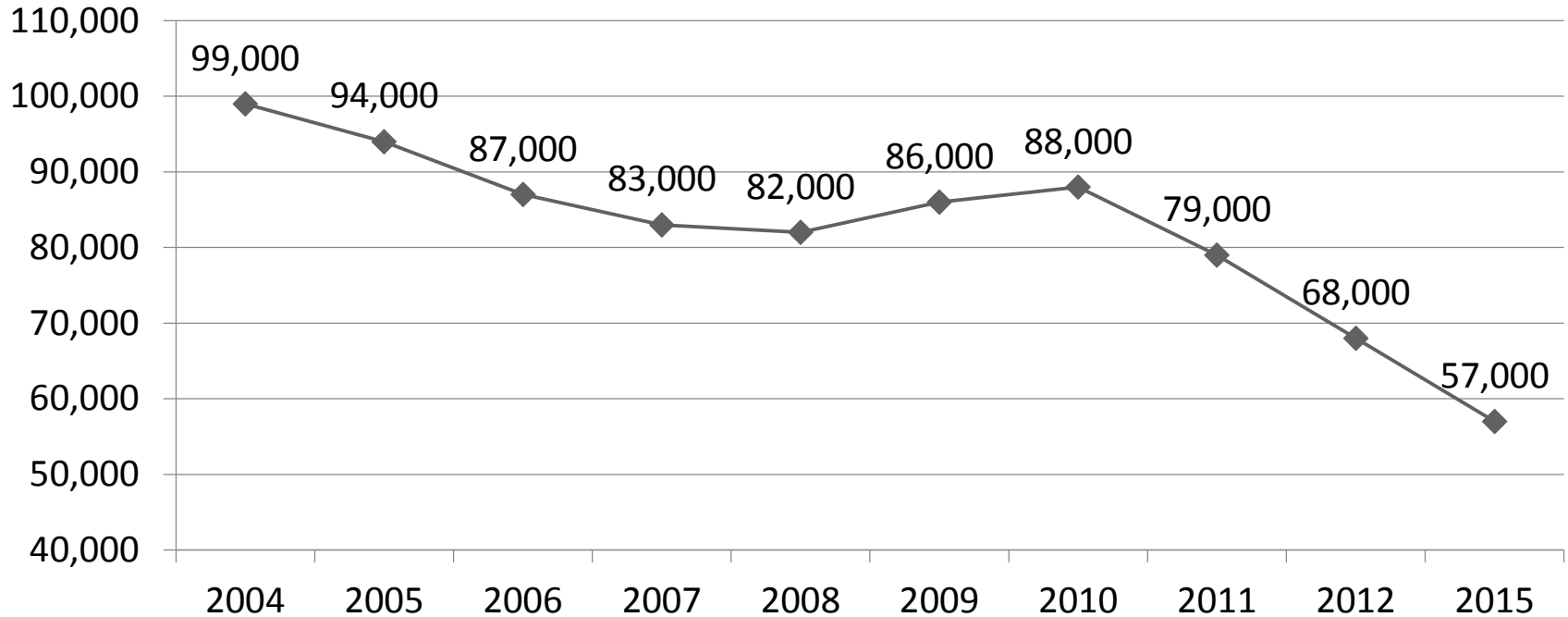


# Total Licensed Lawyers



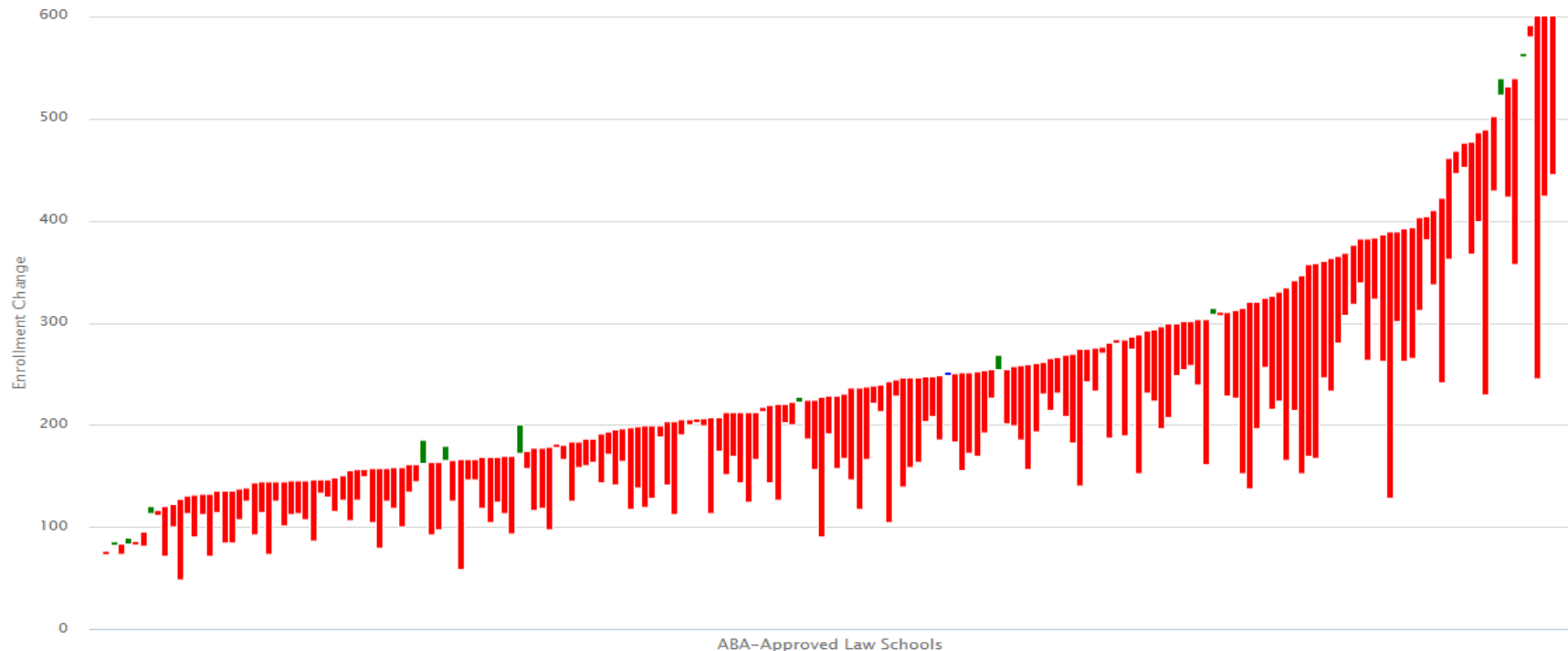
Source: ABA Market Research 2013

# ABA Applicants



# Law School Enrollment

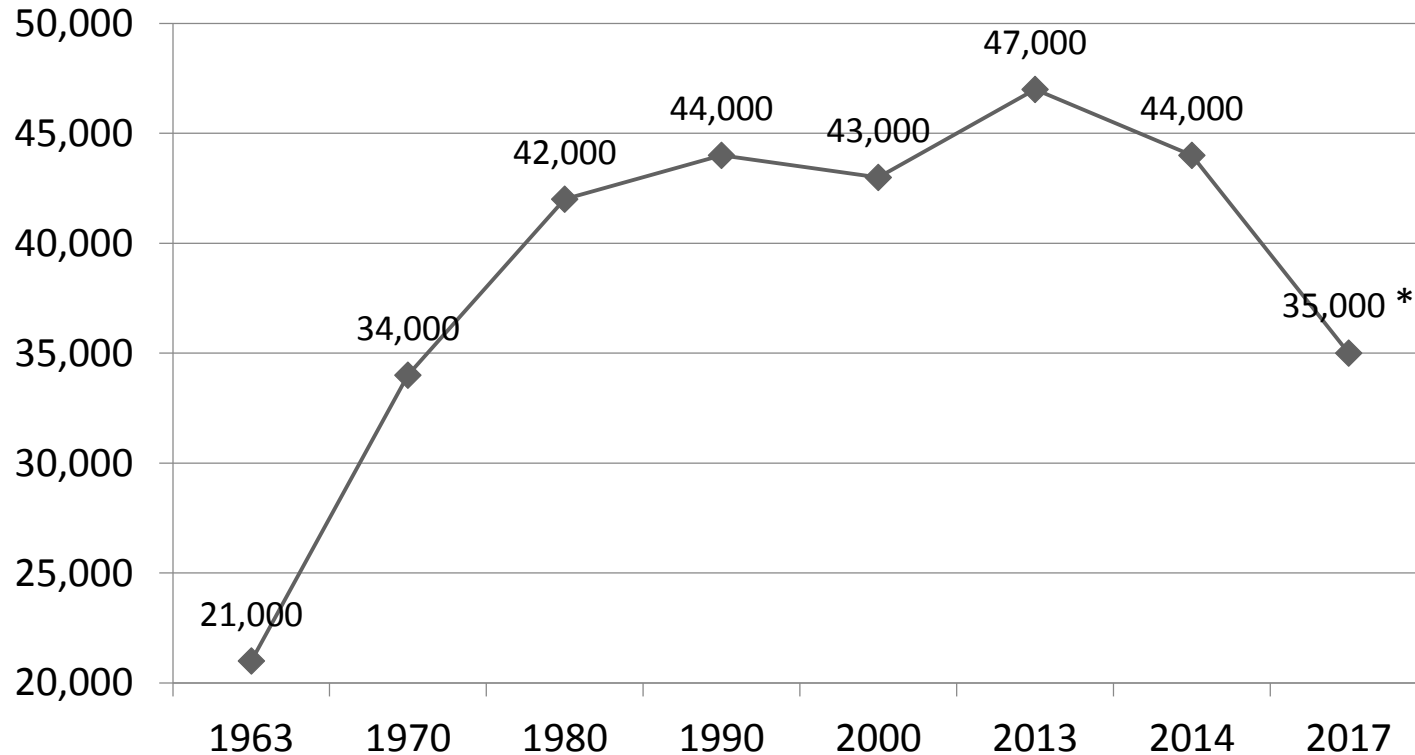
Enrollment Change From 2010 to 2014



# Applications/Enrollment

- Applied/Enrolled
- 2010: 3865 / 260
- 2011: 3546 / 246
- 2012: 3205 / 205
- 2013: 2946 / 221
- 2014: 2204 / 195
- 2015: 1984 / 176

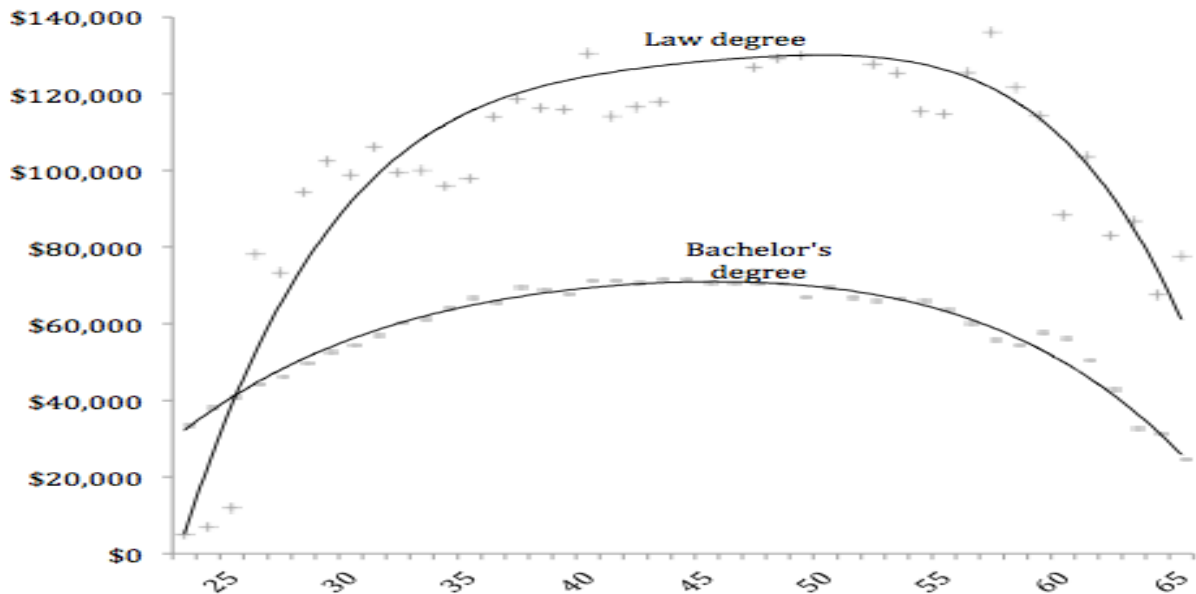
# Number of Degrees Awarded



\* estimated

**Figure 4: Law degree holders' annual earnings grow faster and peak later than bachelor degree holders'**

**Annual mean earnings by degree type and age, age 23-65**  
*Real 2012 USD*

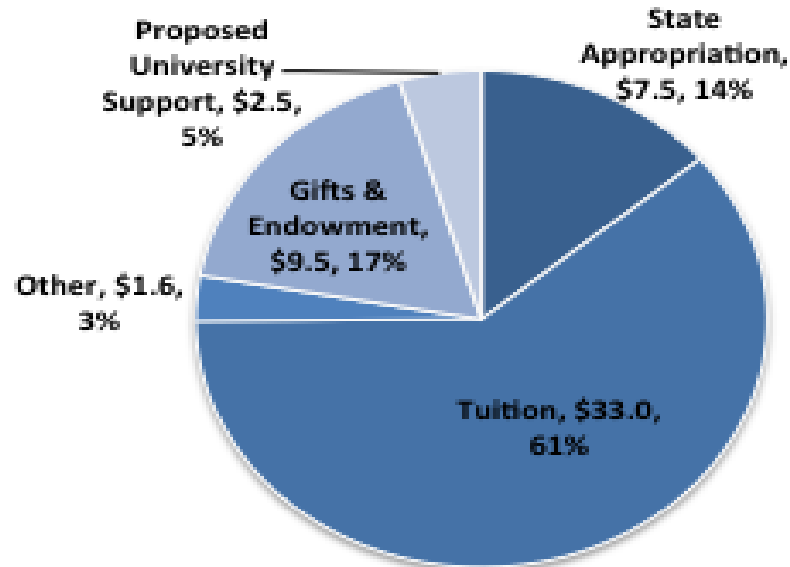


Source: Survey of Income Program and Participation; Authors' calculations.  
Note: Includes degree holders who are working, unemployed, or disabled.

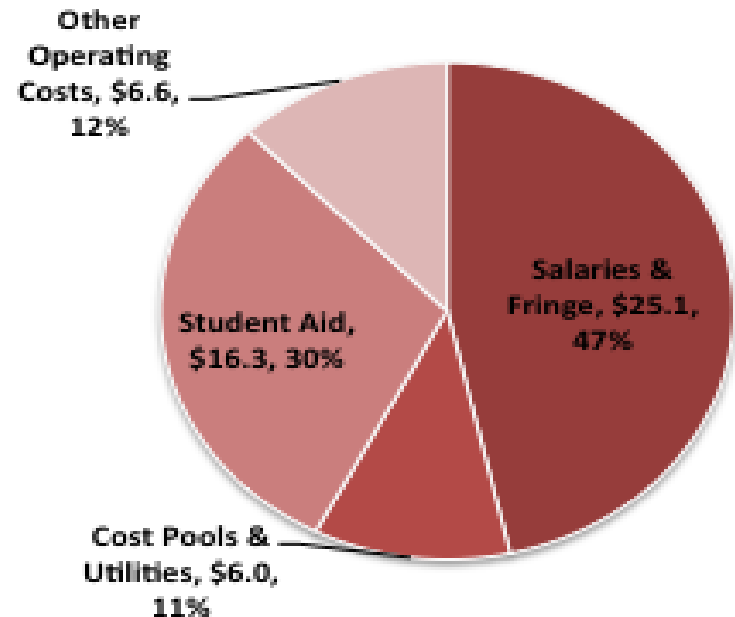
Source: Simkovic & McIntyre, Economic Value of a Law Degree

# FY 2016 Law School Budget \$54M

## Budgeted Revenues (millions)



## Budgeted Expenditures (millions)





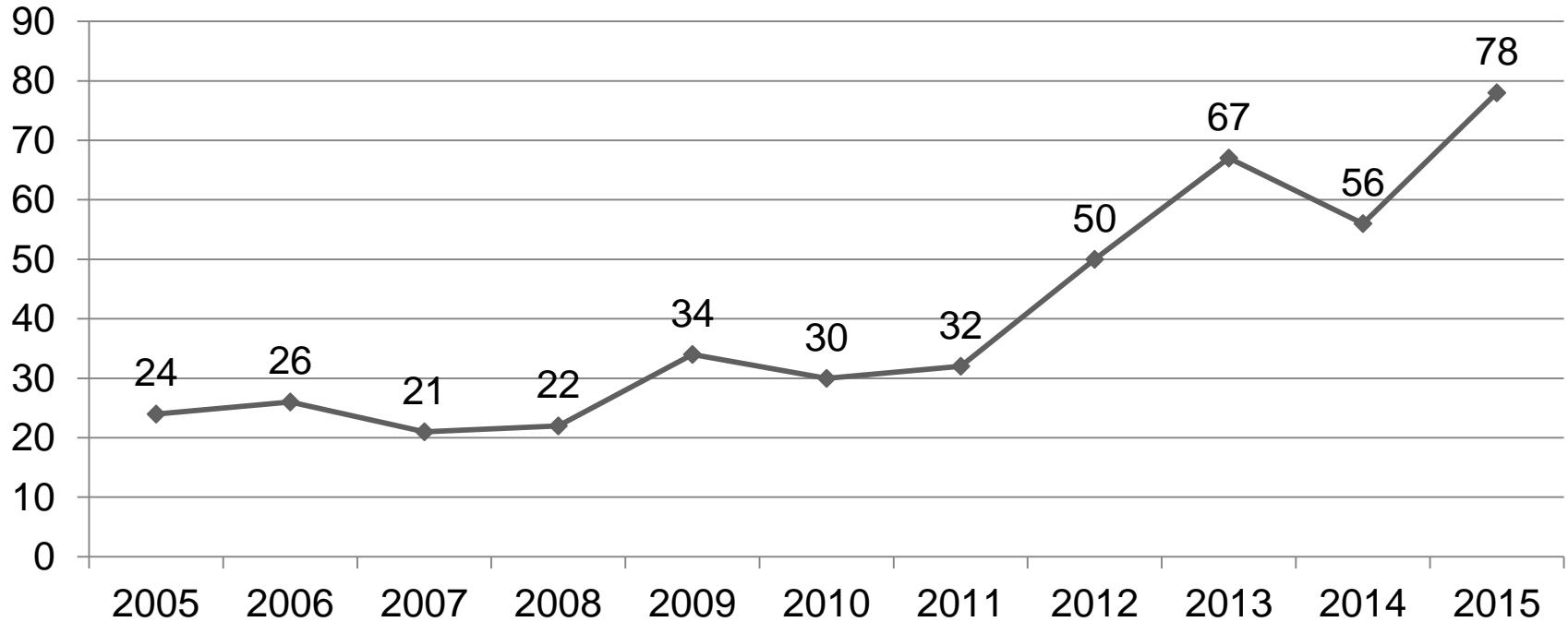
# Responses

- Spending constraints
- Fundraising and new revenue measures
- Marketing and recruitment
- Right sizing
- Enhanced University support

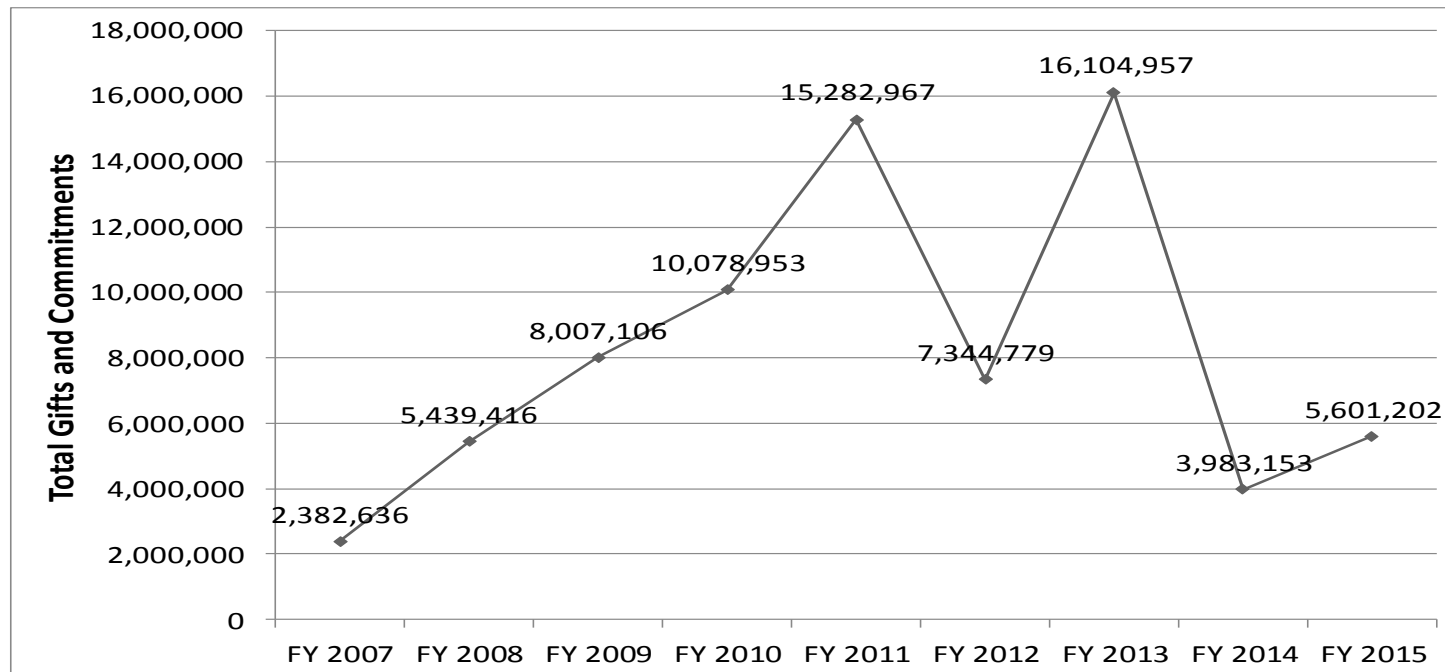
# Reallocations & Cost Avoidance

	FY15	FY16 (year to date)
3 Mid-career Faculty Departures	1,008,512	
Reduced Faculty Research Support 15%	58,000	146,902
Staff Reductions and Re-structuring	435,250	
Reduce Number of Adjuncts	50,000	
Reduce Supplies Budget	31,000	
Convert Two Journals to Digital Format	35,000	
Move Law School IT Support to Central OIT		150,000
Staff Reductions		217,761
Reduce Temporary/Casual Staff Budget		11,000
Limited Salary Increases: Law School 1%, Overall University 2.5% (cost avoidance)	284,631	
Salary Freeze: Law School 0%, Overall University 2% (cost avoidance)		272,337
<b>Total Reallocations and Cost Avoidance</b>	<b>\$1,902,393</b>	<b>\$798,000</b>

# LLM Enrollment

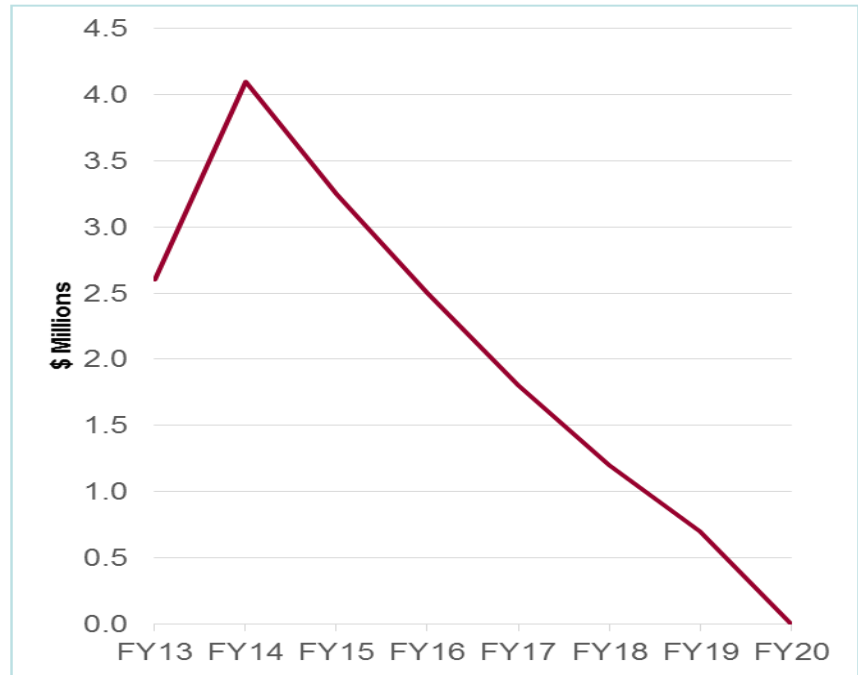


# Law School Gifts & Commitments by Fiscal Year



# Non-recurring Year-End Transfers

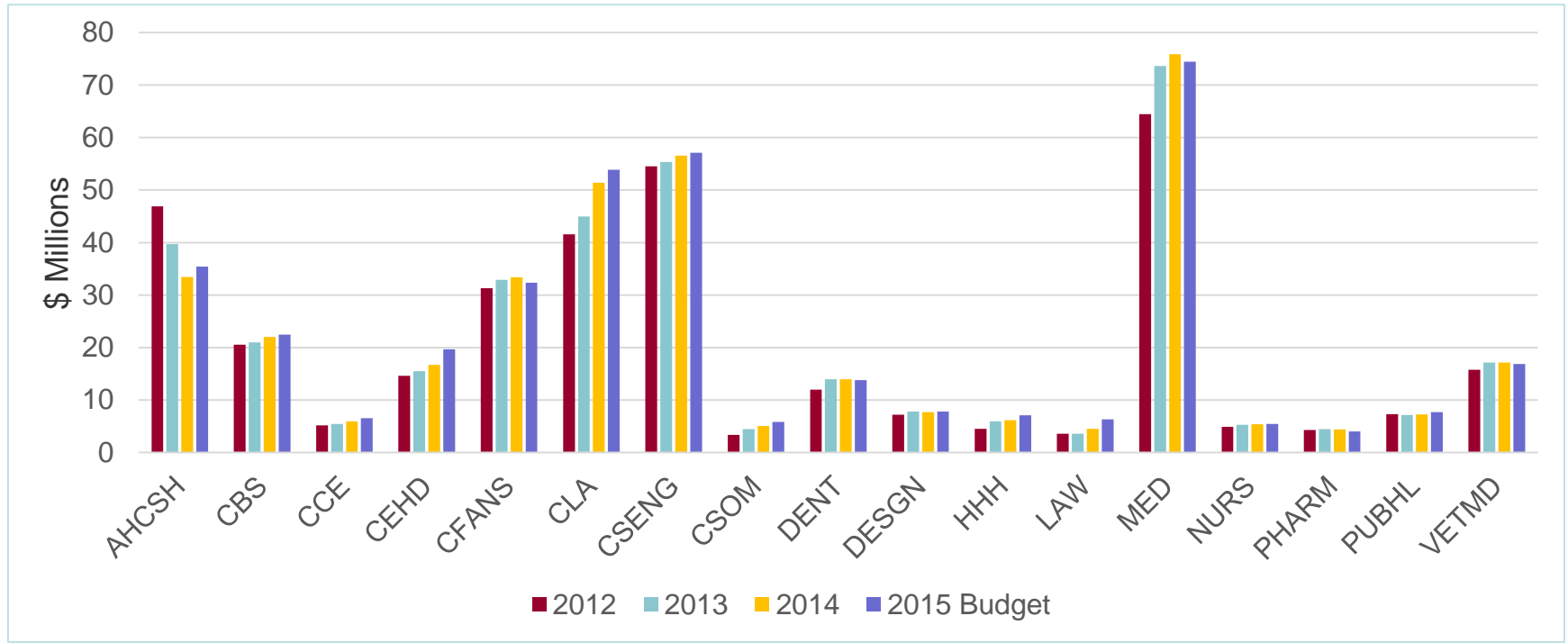
FY 2012-13	\$2,600,000
FY 2013-14	\$4,100,000
FY 2014-15	\$3,250,000
FY2015-16	\$2,500,000
FY2016-17	\$1,800,000
FY2017-18	\$1,200,000
FY2018-19	\$683,000
FY2019-20	\$0



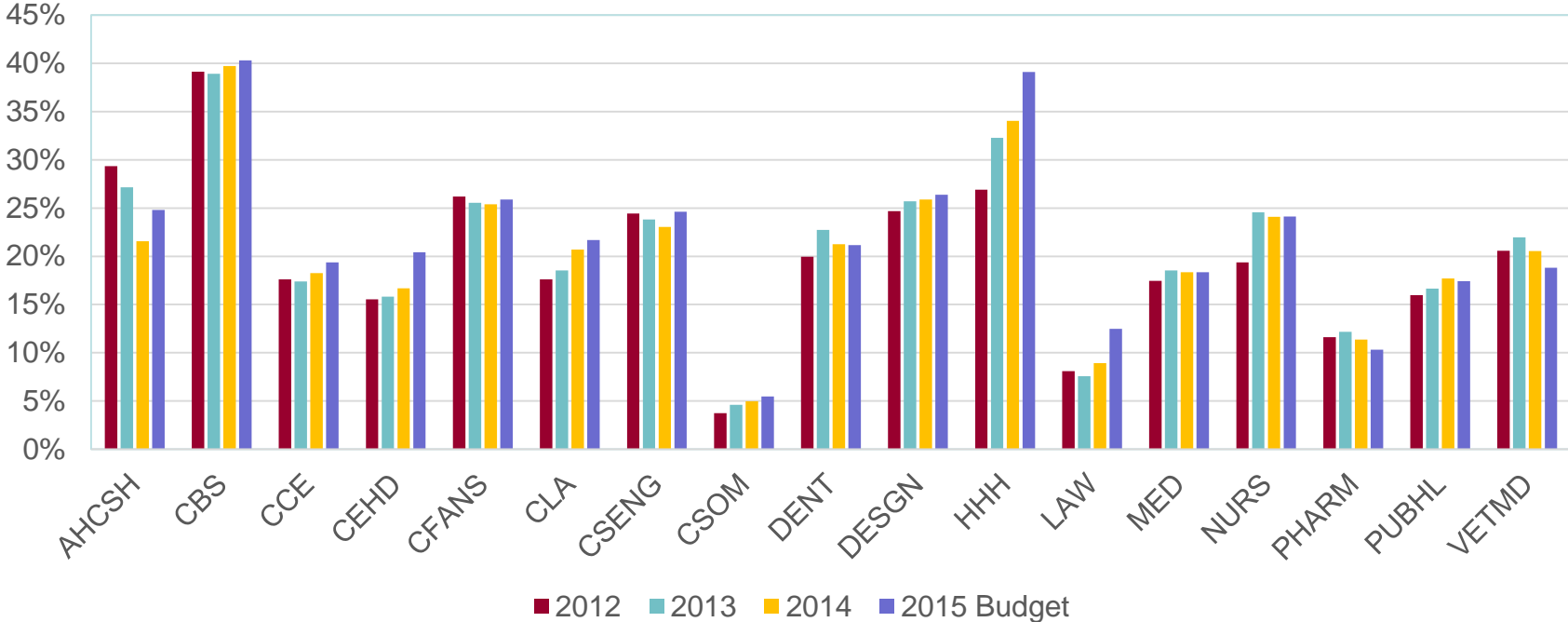
# Planning Assumptions

- ❑ 1 Faculty Terminal Agreement (FY17)
- ❑ 5 Faculty Retirements by 2020
- ❑ Tuition Increases at University Plan FY17 2.5% R/NR
- ❑ J.D. Enrollments stable at FY16 Level
- ❑ LL.M. Enrollments stable at FY16 Level
- ❑ Salary and Fringe Increase 2%

# O&M in Absolute Dollars



# O&M as a % of Total Non-sponsored Revenue







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UMNews



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# BOARD OF REGENTS DOCKET ITEM SUMMARY

Finance

February 11, 2016

**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 Identity Works LLC for an estimated \$2,163,150 for implementation of Oracle Identity Manager (OIM) for the Office of Information Technology (OIT) for the period February 15, 2016, through June 30, 2017. OIT will make this purchase with O&M funds. Vendor was selected through a competitive process.
- To LKO Enterprises, Inc. and Ulland Brothers Inc. for an estimated \$5,000,000 of contract machine work labor, materials, and equipment services as needed for the Department of Facilities Management on the Duluth campus for the period of March 1, 2016, through February 28, 2017, and with contract extensions through February 28, 2021. This purchase of contract labor and equipment services by Facilities Management has been budgeted for FY17. It will be funded through individual R&R projects and O&M funds. Vendors were selected through a competitive process.
- To Siemens Medical Solutions USA, Inc. for \$3,024,525 for purchase of a 3T Magnetom Prism MRI Scanner and for a five-year service contract on the scanner for the Center for Magnetic Resonance Research, Department of Radiology. A University Plant Fund will be set up to fund the 3T Scanner purchase, and the service contract will be paid annually for five years (renewable after initial period expires). The revenue generated by usage charges of the scanner will pay back the University Plant Fund; and pay for the service contract and other miscellaneous operating costs. This is included in the financial forecasts for this facility. See enclosed documentation regarding basis for vendor selection.

## **Purchasing Bid Threshold**

Board of Regents Policy: *Purchasing* requires that purchasing bid thresholds be established by the administration and reviewed and approved by the Board biennially. The policy is included in the docket for reference.

Bid thresholds are used to specify when a formal, competitive bidding process must be used. The thresholds are determined based on a number of factors, including financial, reputational risk, the volume and materiality of purchases, efficiency and effectiveness, compliance requirements, and other factors relating to institutional goals and objectives. The current bid threshold for the purchase of goods and standard services is set at \$50,000; professional services is set at \$50,000; construction services, excluding architects and engineers, is set at \$250,000; and construction purchases for architects and engineers is set at \$100,000.

The administration recommends no changes in the current bid thresholds.

## **Approval for Underwriting/Investment Banking Services**

The purpose of this item is to seek approval of firms for underwriting and investment banking services for the University's debt transactions.

The University issued a RFP to identify a group of investment banking firms that have the capabilities, experience, and qualifications to be part of a "Senior Manager Pool." These firms will be pre-qualified to serve as a book-running senior manager for the University's future capital financing transactions to occur during fiscal years 2016 through 2020.

Until this time, RFPs had been issued for each individual negotiated bond sale. By having a qualified pool identified through a competitive process now, the selection of a senior manager can be focused at the time of each bond sale based on the specific project(s) being financed in relation to the relative strengths of each firm in the pool.

Given the length of time the pool is to be used (FY 2016-2020), the pool will include five highly rated firms to provide the most flexibility and options for the University. For any transaction during the five-year period, the University may also choose to utilize competitive sales or a separate RFP process.

The following is being presented for approval:

- To Barclays, RBC Capital Markets, LLC, Bank of America Merrill Lynch, Wells Fargo Securities, and Goldman Sachs to be considered prequalified for a "Senior Manager Pool" to serve as a book-running senior manager for the University's future financing transactions to occur during FY 2016 through FY 2020. The vendors were chosen through a competitive bidding process.
- To Barclays as senior manager, and Piper Jaffray as co-manager, for underwriting and investment banking services for the issuance and sale of bonds during FY 2016 providing proceeds of approximately \$148,000,000 to fund a number of capital projects. The vendors were chosen through a competitive bidding process.

## University of Minnesota Off-Cycle Tuition Rates

In an effort to accommodate industry-driven schedules for working professionals, some specialized post-baccalaureate programs operate on an academic year of summer-fall-spring rather than the traditional fall-spring-summer. For communication and implementation purposes, final tuition rates for these programs must be set prior to the May/June presentation of rates in the operating budget for the next fiscal year.

The President recommends approval of tuition rates for the following programs for Summer 2016, Fall 2016, and Spring 2017:

	2015-16		2016-17		% Increase	
	Resident	Nonresident	Resident	Nonresident	Resident	Nonresident
<b>Twin Cities</b>						
<b>Carlson School of Management</b>						
<b>Master of Science in Business Analytics (MSBA)</b>						
Per Credit	\$916.67	\$1,266.67	\$940.00	\$1,300.00	2.55%	2.63%
15+ Credits	\$13,750.00	\$19,000.00	(No Tuition Band)			
<b>MS in Business Analytics Part-Time Program</b>						
Per Credit	\$1,200.00	\$1,200.00	\$1,230.00	\$1,230.00	2.50%	2.50%
Per Credit - 12 or more credits	\$1,200.00	\$1,515.00	\$1,230.00	\$1,550.00	2.50%	2.31%
<b>Industry MBA (IMBA)</b>						
Per Credit	New	New	\$1,545.00	\$1,545.00	New	New
<b>Master of Finance (MSFIN)</b>						
Per Credit	New	New	\$940.00	\$1,300.00	New	New
<b>College of Science and Engineering</b>						
<b>Master of Security Technology</b>						
Per Credit	\$1,097.00	\$1,097.00	\$1,097.00	\$1,097.00	0.00%	0.00%
<b>Medical Device Innovation Masters</b>						
Per Credit	\$1,142.00	\$1,142.00	\$1,142.00	\$1,142.00	0.00%	0.00%

The 2.5 percent increase for the MSBA program brings the total cost for the 45-credit program to \$42,300 at the resident rate. This price point puts the University in the middle of the range for similar programs.

The Technological Leadership Institute's programs in the College of Science and Engineering are designed for full-time working professionals who base enrollment decisions on both program tuition cost and employer support. Tuition rates were increased by 3.5 percent for FY 2016, and this continues to be an appropriate market-based rate for these programs. Based on past experience, a further increase in FY 2017 would risk a negative response from the target market.

The IMBA program was approved within the last year and the tuition rate of \$1,545.00 per credit is priced for market competitiveness in the Washington DC area: local peers University of Maryland and George Washington University rates are \$1,610.00 per credit.

The MSFIN program was approved within the last year and tuition rates of \$940.00 per credit (resident) and \$1,300.00 per credit (nonresident) are proposed to be consistent with the rates for the MSBA program. The total program cost will be less because MSFIN is 39 credits and MSBA is 45 credits.

## **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
- Purchasing Competitive Threshold: *Purchasing*
- Approval of Investment Banker: *Debt Transactions*, Sec. III, Subd. 2

## **PRESIDENT'S RECOMMENDATION**

The President recommends approval of the Consent Report.

# General Contingency

Fiscal Year 2015-16

Recipient	Amount	Balance	Purpose
1 <b>FY2016 General Contingency</b>		<b>\$1,000,000</b>	
2 Carryforward from FY15 to FY16	8,496	1,008,496	
3 UM Crookston	186,000	822,496	Offset UMC FY15 tuition shortfall
4 Reversal of JE0000702057 from FY15	(132,000)	954,496	Transfer in FY15 did not post properly and was deleted
5 Office of Real Estate	132,000	822,496	Purchase of 120 acres in Isanti County for Cedar Creek
6 University Services	11,500	810,996	Reconstruction of Eastcliff Event Lawn space
7 CFANS	166,400	644,596	Beef Feedlot relocation and renovation in Rosemount
8 Small Project Balances Returned to General Contingency	(18,762)	663,358	
9 <b>New items this reporting period:</b>			
10 CPPM	75,000	588,358	Rare Books Relocation Predesign
11 <b>FY 2015-16 Ending Balance</b>		<b>588,358</b>	

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

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

To Identity Works LLC for an estimated \$2,163,150 for implementation of Oracle Identity Manager (OIM) for the Office of Information Technology (OIT) for the period February 15, 2016 through June 30, 2017.

*This purchase is for professional services, including travel costs, for the implementation of Oracle Identity Manager (OIM) 11Rg2. Identity Works will provide consultants who will work alongside University resources to implement this new solution. OIM, as an off-the-shelf, standards based identity management system, will replace the University's custom X.500 identity management provisioning system. The legacy X.500 system is implemented on out-of-date technologies with fewer and fewer staff knowledgeable with these technologies as time goes by.*

*Implementation of OIM will mitigate the substantial institutional risk of having an internally developed legacy application with very narrow, internal-only support. OIM, once installed, will support numerous augmented capabilities:*

- *Automation of access requests*
- *More flexible (and potentially stronger) password policies*
- *Periodic certifications of access*
- *Additional automated provisioning and de-provisioning*

*The vendor was selected as a result of a competitive bid process.*

*OIT will make this purchase with O&M funds.*

Submitted by: Ron White  
Purchasing, OIT Business Office  
Phone: (612) 625-2333  
Fax: (612) 625-3521

Approval of this Item is requested by:

  
\_\_\_\_\_  
Vice President and CIO

01-20-16

\_\_\_\_\_  
Date

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

To LKO Enterprises, Inc. and Ulland Brothers Inc. for an estimated \$5,000,000 of contract machine work labor, materials, and equipment services as needed for the Department of Facilities Management on the Duluth campus for the period of March 1, 2016 through February 28, 2017 and with contract extensions through February 28, 2021.

*Facilities Management requires supplemental contract services in order to complete various grounds and earthwork repairs and renovation projects across the Duluth campus and coordinate properties.*

*UMD Facilities Management maintains, repairs and restores grounds, roads, walks, parking lots and underground utilities on UMD's primary 244 acre campus and other UMD facilities including the Research and Field Studies Center on 280 acres, Glensheen Mansion on 7.6 acres, Lower Campus on 3 acres, the Limnological Research Center and the Natural Resources Research Institute.*

*These contractors are needed to provide the expertise and variety of heavy equipment types that are required for specific repairs and small restoration projects. It would not be financially feasible for UMD Facilities Management to employ expert operators nor to own, maintain and store all of the equipment needed. Without these services the University would not be able to respond quickly to water-line breaks or street repairs; or to complete small projects such as sidewalks without the added delay and cost of preparing individual bids and drawings.*

*These contractors have been valued contractors who have held this contract for many years prior and were selected again as the result of a competitive RFP issued in December 2016 which rated them highly in available equipment, response time and price. This is a multiple award contract so a sufficient number of vendors will be available for various projects during the year. One vendor would not have the capacity to perform the work to the UMD standards expected in the timelines required.*

*This purchase of contract labor and equipment services by Facilities Management has been budgeted for FY17. It will be funded through individual R&R projects and O&M funds.*

Submitted by: John Rashid, Facilities Management Director  
241 Darland Administration Building  
1049 University Drive  
Duluth, MN 55812  
Phone: 218-726-6930  
Fax: 218-726-8127

Approval for this item requested by:

  
\_\_\_\_\_  
Chancellor University of MN Duluth

1/25/16  
\_\_\_\_\_  
Date



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

To Siemens Medical Solutions USA, Inc. for \$3,024,525 for purchase of a 3T Magnetom Prisma MRI Scanner and for a five-year service contract on the scanner for the Center for Magnetic Resonance Research, Department of Radiology.


*The Center for Magnetic Resonance Research (CMRR) is requesting approval to purchase a 3 Tesla (3T) MRI scanner to support a significant increase in forecasted scanning hours over the next 5 years. This new 3T MRI will complement the two existing 3T MRI scanners in operation at CMRR and will expand annual MRI scanning capacity from 4,000 to 6,000 hours. The one-time cost for this scanner is \$2,224,525, coupled with a five-year service contract commitment totaling \$800,000 over 5 years. The combined total purchase price of the equipment and service contract will be \$3,024,525.*

*The first two 3T Siemens MRI Scanners were purchased for CMRR in 2003 and 2012. Since 2012, the number of funded research projects utilizing 3T MRI scanner capabilities has nearly doubled from 108 funded projects in FY13 to 196 in FY15. Currently, the two existing 3T MRI scanners are at 80% capacity weekdays between 7am – 5pm. This capacity is viewed as ideal to allow flexibility in scheduling and fluctuation in workflows. Increasing 3T-scanning capability at CMRR will support previous University investments in neurosciences and cardiology; as well as the two new significant grants that were recently awarded to University researchers from Psychology and Radiology/CMRR. These collectively will increase 3T MRI scanner demand by nearly 1,430 scanning hours/year over the next five years. The addition of this 3T Scanner is imperative to support these and other critical research efforts and sustain scanning availability across the University.*

*A University Plant Fund will be set up to fund the 3T Scanner purchase, and the service contract will be paid annually for five years (renewable after initial period expires). The revenue generated by usage charges of the magnet will pay back the University Plant Fund; and pay for the service contract and other miscellaneous operating costs. This is included in the financial forecasts for this facility.*

Submitted by: Michael McDaniel, CMRR/CCIR Operations Director  
2021 6<sup>th</sup> Street SE, MPLS Campus  
Phone: (612) 625-5539  
Email: mcdan042@umn.edu

Approval for this item requested by:

  
VP or Exec. VP Signature

  
Date

## Rationale for Exception to Competitive Bidding

This purchase has not been competitively bid because the current infrastructure for 3T MRI scanning at CMRR consists of two 3T Magnetom Prisma scanners acquired from Siemens Medical Solutions, USA. To coordinate logistics of hardware, software, needs of existing and future users, as well as robustness of MR procedures and the quality of resulting images this specific 3T MRI system from Siemens Medical Solutions, USA is required. The need for this 3T system was created from the demand generated by two new grants that were funded with specific needs for a 3T platform compatible within the existing infrastructure offered by Siemens Medical Solutions, USA.

The quoted price from Siemens Medical Solutions, USA was negotiated based upon the specific requirements for how we will be using the system, as well as the bundled packages and existing past purchasing relationship that CMRR has had with Siemens Medical Solutions, USA. An across the board 26% discount was given to CMRR based upon the listed price for the items included in the quote, as well as component add-ons at a discount of 50.5% of list price. This discount is slightly higher than the last 3T system that was purchased by CMRR from Siemens in 2012.

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



UNIVERSITY OF MINNESOTA

# BOARD OF REGENTS POLICY

Page 1 of 1

Financial

## PURCHASING

**Adopted:** July 7, 1978

**Amended:** October 12, 1979; November 9, 1979;  
April 13, 1984; September 14, 1990; April 10, 1992;  
July 14, 1995; March 11, 2005; July 9, 2008

## PURCHASING

Purchasing activities at the University of Minnesota (University) shall include goods and service, professional services, and design and construction services.

### **SECTION I. GUIDING PRINCIPLES**

The following principles shall guide the University's purchasing process:

- (a) purchasing activities shall comply with all applicable laws and policies of the Board of Regents (Board), including, but not limited to, Board of Regents Policy: *Targeted Business, Urban Community Economic Development, and Small Business Programs*;
- (b) purchasing activities shall be conducted in a manner that promotes integrity, stewardship, diversity, and sustainability;
- (c) purchasing activities shall provide goods and services, professional services, and design services at the best value and appropriate standards of quality, considering total cost of ownership;
- (d) purchasing procedures shall be efficient, timely, and transparent; and
- (e) purchasing activities shall promote the use of businesses owned and operated by minorities, women, and disabled persons.

### **SECTION II. COMPETITIVE PROCESSES.**

**Subd. 1. Competitive threshold.** Except as provided in this policy, vendors shall be selected by a competitive process for purchases above a dollar threshold determined by the administration. This threshold shall be reviewed and approved by the Board biennially.

**Subd. 2. Vendor Selection.** The University reserves the right to establish competitive and non-competitive negotiated agreements with vendors when it is in the best interest of the University. Vendor selections shall be made using an objective process and may be based on total benefits to the University, considering price, level of service, and other variables as appropriate.

**Subd. 3. Bid/Proposal Rejection.** The University may reject any bid/proposal when it determines in the exercise of its sole discretion that such bid/proposal is not in the best interest of the University. A bid/proposal shall be rejected when it is determined that a vendor or bid/proposal does not comply with required specifications or with applicable federal/state laws and University policies relating to equal opportunity. Records of such rejections shall be maintained and available for review. For bids/proposals over a threshold determined by administrative policy, vendors shall be notified in writing of the reasons for rejection.

**Subd. 4. Exceptions to Competitive Process.** If a competitive process is not in the best interest of the University, the president or delegate may except a purchase from the required competitive process referenced in Subd. 1 of this section. Such exceptions shall be reported to the Board, consistent with Board policies.

### Purchase of Underwriting/Investment Banking Services

- To Barclays, RBC Capital Markets, LLC, Bank of America Merrill Lynch, Wells Fargo Securities, and Goldman Sachs to be considered prequalified for a "Senior Manager Pool" to serve as a book-running senior manager for the University's future financing transactions to occur during fiscal 2016 and through fiscal 2020.

Given the length of time the pool is to be used (FY 2016 - 2020) we justify that the pool include five highly rated firms to provide the most flexibility and options for the University over the next few years. The University reserves its right to select from the pool, to issue competitively, or to issue a separate RFP for one or more specific issuances during the contract period.

- To Barclays as senior manager, and Piper Jaffray as co-manager, for underwriting and investment banking services for the issuance and sale of bonds during fiscal 2016 providing proceeds of approximately \$148,000,000 to fund a number of capital projects in progress.

Barclays is recommended as senior manager due to their strength in communication with the rating agencies on the University's behalf. It is important that the University has a strong advocate on its behalf to insure clear understanding of the University's profile for the next ratings review because of the August 2015 downgrade of the University's outlook to negative by S&P, the new rating methodologies recently implemented by both Moodys and S&P for rating future transactions, and the ratings implications of the potential joint venture between University of Minnesota Physicians and Fairview Health Services.

Co-managers are used to ensure the bonds are being marketed as broadly as possible. With multiple firms marketing the bonds, the investor base tapped should be greater, ideally leading to higher subscriptions and a lower likelihood of having unsold bonds on the date of our sale. Piper Jaffray is recommended as co-manager due to their local presence and strength in the Minnesota investor market.

The vendors were chosen through a competitive bidding process, with responses evaluated against specific weighted criteria as outlined in the RFP.

Cost for the services (referred to as "underwriter's discount") is estimated at approximately \$330,000. Underwriter's discount is considered a "cost of issuance" which is paid for with bond proceeds received. The addition of one or more co-managers to the transaction does not increase the cost to the University as the total cost is split among all parties involved.

Submitted by: Carole J Fleck, Director of Debt Management

Approval is requested by:

 1/29/16  
Richard H. Pfitzenreuter, Vice President, CFO & Treasurer



# BOARD OF REGENTS DOCKET ITEM SUMMARY

Finance

February 11, 2016

**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

### Central Reserves Update

The purpose of this item is to report on the status of the University's Central Reserves.

The Central Reserves fund refers to resources that are recorded in a central account in the University's general ledger. These funds are then allocated out in small, targeted amounts to specific units as part of the annual budget; transferred to O&M to support the O&M allocations in the annual budget; or held as a reserve. The primary revenue sources for the Central Reserves fund include investment earnings, realized gains or losses in market value from the Temporary Investment Pool (TIP), realized gains in market value related to TIP funds invested in the Consolidated Endowment Fund (CEF), legal settlements, and other miscellaneous revenues.

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.

Under normal circumstances, Board of Regents Policy: *Central Reserves Fund* requires that the fund not fall below 4 percent of state appropriations, or \$25,000,000, whichever is greater.

The approved amended budget plan for FY 2016, set before the FY 2015 year-end balance was finalized, included a planned beginning balance of \$31,345,025; net revenues totaling \$13,644,750; a transfer to O&M of \$5,732,000; and transfers/payments out of \$16,258,000. This results in an ending balance of \$22,999,775. At this point in the year, those estimates have been updated as follows:

- The beginning balance has decreased slightly to reflect the actual amount carried forward from FY15 – \$31,091,266 or \$253,759 less than the approved budget. The carry-forward from FY15 is less than anticipated due to final FY15 investment and miscellaneous income being less than estimated (\$1,082,218) and only partially offset by fees and expenses also being less than estimated (\$828,489).
- Net revenues for the year are currently projected to be \$34,261,600, which is \$20,616,850 more than the approved budget due to the following:
  - An increase of \$22,461,850 from a stock sale associated with the MD Anderson legal settlement.
  - A decrease of \$1,845,000 in estimated investment income due to a lower than anticipated yield (0.76% vs. 0.87%) on a lower invested base (balances, which collectively make up the Temporary Investment Pool, have been averaging approximately \$90 million less than previously anticipated over the last six months).
- The expected transfers out/payments have increased \$22,461,850 as the initial income from the MD Anderson legal settlement stock sale will be dispersed to the recipients during FY16 as follows (per Board of Regents Policy: *Commercialization of Intellectual Property Rights*, which directs the distribution of royalty revenues):
  - \$561,546 to the Beckman Foundation
  - \$72,000 to the Office of Technology Commercialization for patent expenses
  - \$1,597,707 to the Office of Technology Commercialization
  - \$6,744,881 to the Inventors
  - \$6,649,313 to the College of Biological Sciences (college & department)
  - \$93,545 to the Medical School (college and department)
  - \$6,742,858 to the Office of the VP for Research

The amount distributed reflects the income to date from the sale of stock associated with this legal settlement. The Office of Investments & Banking (OIB) has not sold shares since early January, and at this time, OIB has paused the sale of remaining shares. The administration has communicated this hold to all parties and is monitoring the market daily for signs that the unusually high volatility in the stock has moderated somewhat, so that its pricing in the market reflects a “normalized” value for the shares.

The combined impact of these updated estimates leaves the projected balance in the central reserves fund for June 30, 2016 at \$20,901,016 – \$2,098,759 less than in the approved budget and \$5,097,224 less than the policy goal of \$25,998,240. The original FY16 budget for Central Reserves and the updated estimates for FY16, with the calculated variance, are displayed below:

	Approved FY16 Budget	Updated FY16 Estimates	Updated Estimates vs. Approved Budget
Carryforward	\$31,345,025	\$31,091,266	(\$253,759)
Net Investment Earnings	\$13,644,750	\$11,799,750	(\$1,845,000)
Legal Settlements	\$0	\$22,461,850	\$22,461,850
Transfers to O&M	(\$5,732,000)	(\$5,732,000)	\$0
Total Net Revenues	\$7,912,750	\$28,529,600	\$20,616,850
Operating Allocations	\$7,258,000	\$7,258,000	\$0
Legal Settlement Transfers	\$9,000,000	\$31,461,850	\$22,461,850
Total Allocations/Transfers	\$16,258,000	\$38,719,850	\$22,461,850
Ending Balance	\$22,999,775	\$20,901,016	(\$2,098,759)

## **Central Reserves Legal Settlements Update**

Board of Regents Policy: *Legal Claims and Settlements* 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 subsequently reported to the LRC when final.

The Board requested information on legal settlements dating back to 2002. The Board previously received a listing of all legal settlements dating back to 2005, pulled from reports provided to the LRC by the Office of the General Counsel (OGC). The Board requested information regarding the disposition of these legal settlements.

Table 1 provides updated information on the disposition of funds received from 14 miscellaneous contracts, tax, and employment and construction settlements dating back to 2005. The settlements were previously reported to the Board but the disposition of the proceeds was not available at that time. The settlements ranged from a low of \$2,794.16 to a high of \$200,000.

OGC has collected additional information for 2002, 2003 and 2004; the disposition of these settlements will be made available in the near future. Table 2 provides a listing of an additional 10 miscellaneous contract, tax, and employment and construction settlements received by the University during those years.

## **Quarterly Purchasing Report**

The purpose of this item is to provide a quarterly report of purchasing activity, including detailed reports with brief discussion on the following activity in the 1st and 2nd Quarters of FY 2016:

- Summary of Purchasing Activity
- Purchases made as Approved Exceptions to Competitive Process
- Purchases made as Preapproved Exceptions to Competitive Process
- Regents Purchasing Policy Violations

## **Debt Management Advisory Committee Update**

The purpose of this item is to provide a report on the quarterly meeting of the Debt Management Advisory Committee (DMAC) held on January 14, 2016. The agenda for the meeting included the following:

- Annual Capital Financing and Debt Management Report
- FY16 Debt Issuance Plans
- Status of the RFP for Investment Banking/Underwriting Services
- University Policy on the Mix of Variable/Fixed Rate Debt

## **Annual Capital Financing & Debt Management Report**

At June 30, 2015, the University's total long-term debt outstanding was \$1,421,428,000, consisting of general obligation (GO) bonds, special purpose revenue bonds supported by state appropriations, commercial paper (CP) notes, infrastructure development bond (IDB) obligations, capital leases, and the related remaining unamortized premium/discount.

Ratio calculations are based on the par amount of the debt outstanding, excluding the special purpose revenue bonds, but including capital leases. The balance outstanding at June 30, 2015, of University-supported debt (at par) plus capital leases, was approximately \$1,047,800,000.

During FY 2015, GO Bonds Series 2014B in the par amount of \$145,760,000 was issued. Proceeds, including premium of approximately \$13,778,000, will be used for the costs of construction of an Ambulatory Care Center, to pay capitalized interest during construction, and costs of issuance. Annual lease payments will cover the annual debt service on these bonds. In addition, Taxable CP Notes, Series E, in the amount of \$51,620,000 was issued for the costs of construction of a new James Ford Bell Museum of Natural History and Planetarium. The State of Minnesota has provided a \$3,500,000 increase in the general operating appropriation for fiscal years 2016 – 2041 for this purpose.

### **Annual Investment Performance: Peer Comparisons**

The purpose of this report is to update the committee on investment performance and asset allocation data related to peer institutions for the fiscal year ending June 30, 2015:

- Endowment Fund investment performance of 5.7 percent ranked in the top quartile among all peer institutions in the country.
- Drivers of performance included Venture Capital managers, who produced greater than 28 percent returns.
- Increased portfolio liquidity and an enhanced asset allocation framework position the Endowment Fund for continued success in coming years.

### **M Health Status Report**

In December 2015 the Finance Committee received an M Health status report on the external engagements that would be necessary to define next steps and to organize work needed to compete the definitive agreement. A provider was not determined on one of the engagements at that point because an RFP was in process by Fairview Health Services with continuing input from the University and University of Minnesota Physicians (UMP). The contract has since been awarded to ECG Consulting:

- Engagement of ECG Consulting to provide consulting services and pre- and post-integration issues and upfront project management to assist the University, Fairview Health Services, and UMP in organizing the joint work teams and to facilitate the development of the definitive agreement. The cost of the engagement is estimated at \$900,000, which the University is obligated to pay 50 percent.

### **Exception to Bid: Electric Steel Elevator Demolition Contract**

The University elected to purchase the property at 600 25th Avenue SE and 649 26th Avenue SE (the former Electric Steel Elevator site) from Riverland Ag in its current condition. The purchase included the assignment of a demolition contract that the seller had entered into with Veit Company valued at \$1,022,467. The University will be contracting with Veit Company for the demolition.

The Director of Purchasing and the University Controller reviewed the arrangement, including the bid process used by the seller. Riverland Ag effectively bid the demolition contract, and Veit Company was selected based on qualifications and cost. The University concluded that the process



use by the seller resulted in a fair and reasonable price to the University. Therefore, the University has elected not to rebid the contract.

## **BACKGROUND INFORMATION**

The annual report on Central Reserves is submitted as an information item to the Finance Committee of the Board of Regents every February. Estimated revenues, transfers and allocations in Central Reserves for the current and coming fiscal years are included in the President's annual Operating Budget submitted to the Board of Regents for review and approval in May and/or June of each year.

Other information items are presented in accordance with Board of Regents policy as follows:

- Quarterly Purchasing Report: *Purchasing and Board Operations and Agenda Guidelines*
- Annual Capital Financing and Debt Management Report: *Debt Transactions*
- Annual Investment Performance: Peer Comparisons: *Board Operations and Agenda Guidelines*, Sec. II, subd. 3(5), following review by the Investment Advisory Committee (IAC).

TABLE 1

## Settlements Paid to the University: FY 2005 to 2013

Contract/Employment/Construction Settlements	Date	Description	Amount	Disposition of Proceeds	Account String for Originating Deposit
IHB, CUHCC, Southside, Hennepin County	09/23/2004	Contract	\$ 74,166.67	Provided to CUHCC	CUFS Fund / Area / Org / Revenue Account: 1021-811-1500-4500-20
Schnitzer Iron & Metal Co.	09/03/2004	Tax	\$ 39,486.55	Provided to Parking Services	CUFS Fund 1158; Balance Sheet Account 1158; RepCat 5922001
Moore, Stephen	08/10/2005	Employment	\$ 2,794.16	Unknown at this time.	Similar to other employees, likely a payment via payroll check reduction.
DentalPure Corporation	04/2007	License Agreement	\$ 17,000.00	Provided to OTC	CUFS Fund / Area / Org / Object Code: 1198-866-1380-20-7201-45
Morris Retaining Wall	07/29/2009	Property Damage	\$ 68,000.00	Provided to Morris campus	1026-10621-20694-780199
RJM Construction	06/14/2010	Contract/Civil	\$ 200,000.00	Provided to CPPM	7400-12007-21075-480301-P342081680
Rochester BioMed, et. al.	11/09/2010	Contract	\$ 3,000.00	Provided to OGC	1000-10079-20004-520299
Visa Check / MasterMoney	03/07/2011	Class Action	\$ 12,139.00	Central Reserves - not allocated to any unit	1026-11977-20132-590299-1000008495
Police Officers (13 Total)	09/21/2011	Employment	\$ 11,000.00	Provided to UMPD	Payment via payroll check reduction (DeptID 10311 is Twin Cities Police Department DeptID)
John Doe	11/16/2011	Employment	\$ 9,810.20	Provided to UMC Athletics	Payment via payroll check reduction (DeptID 10655 is Crookston's Football DeptID)
John Doe	04/26/2012	Employment	\$ 50,000.00	Provided to TC Athletics	1100-12160-20450-520607
CCLRT	10/19/2012	Construction Claims	\$ 200,000.00	Provided to U Services	1026-10239-20162-480203-1000006546
Clipper Turbine Works, Inc. and Clipper Fleet Services, Inc.	01/29/2013	Warranty	\$ 16,854.00	Provided to College of Science & Engineering	1000-11107-20090-750107-1000013242
CCLRT	11/01/2013	Construction Claims	\$ 80,000.00	Provided to U Services	1000-10239-20162-590299-1000006546
		<b>Total</b>	<b>\$ 784,250.58</b>		

**TABLE 2**

**Settlements Paid to the University: FY 2002, 2003 & 2004**

**Reported to LRC**

**Source: Office of General Counsel**

	<b>Contract/Employment/Construction Settlements</b>	<b>Date</b>	<b>Description</b>	<b>Amount</b>
1	UMM Basic Scienc Building	2/6/2002	Building Services	\$ 62,823.13
2	John Doe	2/7/2002	Pre-litigation	\$ 77,500.00
3	MnVAP	10/31/2002	Payment Dispute	\$ 518,000.00
4	Dow Chemical Contract	1/17/2003	Contract	\$ 75,000.00
5	FICA Refund	3/1/2003	Employment	\$ 269,400.00
6	Bio-Rad Laboratories	4/27/2004	Contract	\$ 937,500.00
7	Campus Publishers	4/29/2004	Contract	\$ 53,500.00
8	John Doe	11/3/2003	Merger/License Agreement	\$ 501,000.00
9	Helios Nutrition	10/1/2003	Fee Collection	\$ 4,500.00
10	Stageberg Beyer Sachs	4/15/2004	Contract	\$ 400,000.00
<b>Total</b>				<b>\$ 2,899,223.13</b>

February 11, 2016

The Honorable Richard Beeson, Chair, Finance Committee  
The Honorable Abdul Omari, Vice Chair, Finance Committee  
The Honorable Laura Brod  
The Honorable Thomas Devine  
The Honorable Michael Hsu  
The Honorable David McMillan

Committee Members:

Enclosed are Purchasing Services' reports on purchasing activity for the first and second quarters, fiscal year '16. Regents policy requires that purchasing activity, including exceptions to competitive purchases, be reported to the Board of Regents. This letter provides explanatory background and brief analysis of the report and attachments that follow.

## **Background**

The enclosed reports and attachments provide statistics, graphics and some detail on four categories of purchasing activity for the two quarters:

- Summary of Purchasing Activity
- Purchases made as Approved Exceptions to the competitive purchasing process
- Purchases made as Preapproved Exceptions to the competitive purchasing process
- Regents Purchasing Policy Violations

“Total Purchasing Activity” represents the total amount of goods and services purchased for the quarter and year-to-date across all funding sources, including construction projects.

“Approved Exceptions” refers to purchases where, following proper protocol, the vendor was not selected through a Request for Bid or Request for Proposal process. All of the approved exceptions were justified in writing by the requisitioning department, with the justification reviewed and approved by the Director of Purchasing before the purchase took place. Additionally, the appropriate Vice President and the University Controller approved all exceptions of \$250,000 and over, except pre-approved exceptions. Section II provides a listing of the transactions that followed this process and were approved as exceptions.

“Pre-approved Exceptions” are also purchases where the vendor has not been selected through a competitive process. However, they are exceptions that occur routinely with consistent reasons, so that the approval of the justification has become standardized. Refer to Section III of the report for a listing of transactions processed as pre-approved exceptions during the quarter.

“Regents Purchasing Policy Violations” refers to purchase transactions which bypassed the competitive process without following proper protocol and without the necessary approvals. Section IV provides a listing of purchasing violations.

The reports compare dollars spent on purchases in the respective quarter of the current year to dollars spent on purchases in same quarter of the two previous years. The same quarter-to-quarter comparison is made for approved exceptions and for preapproved exceptions. With that in mind, the following observations are worth noting:

First Quarter:

- Quarterly purchasing activity and quarterly exceptions tracked very closely to FY15 numbers.
- There were no Regents Purchasing Policy Violations in the first quarter of FY16.

Second Quarter:

- Quarterly exceptions and dollars were significantly below FY15 numbers.
- There were no Regents Purchasing Policy Violations in the second quarter of FY16.

If you have any questions on the report, please do not hesitate to contact Tim Bray, Director of Purchasing, or me.

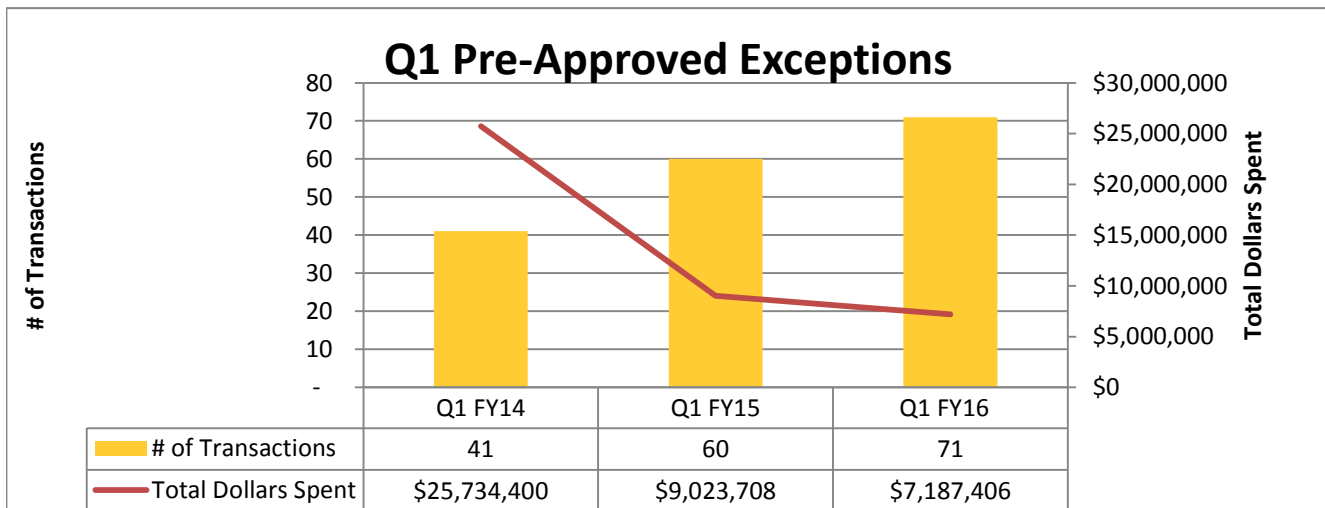
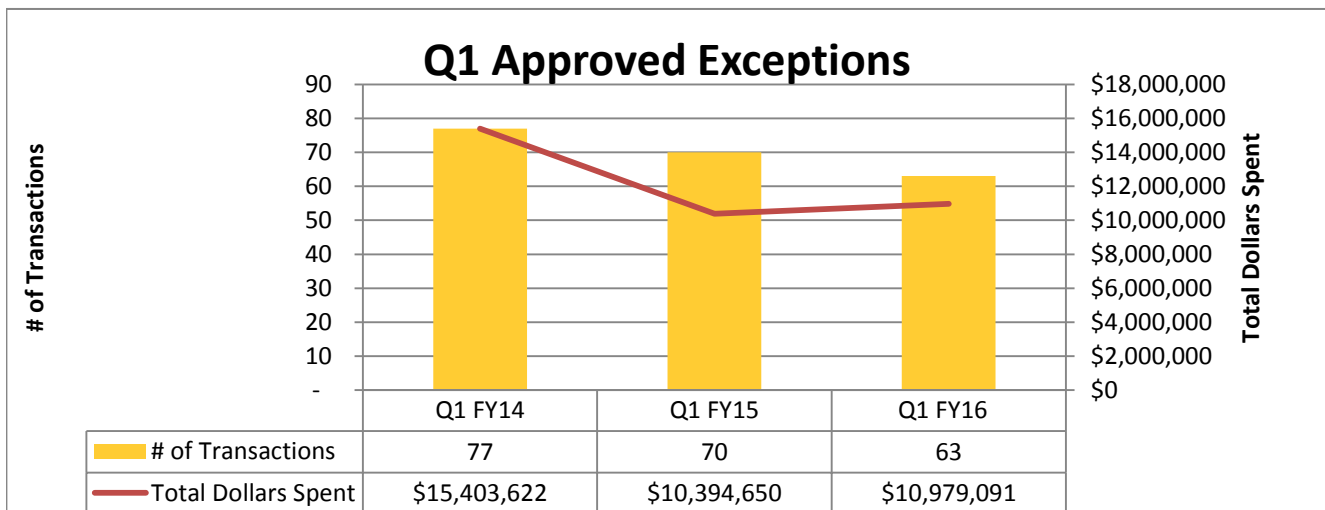
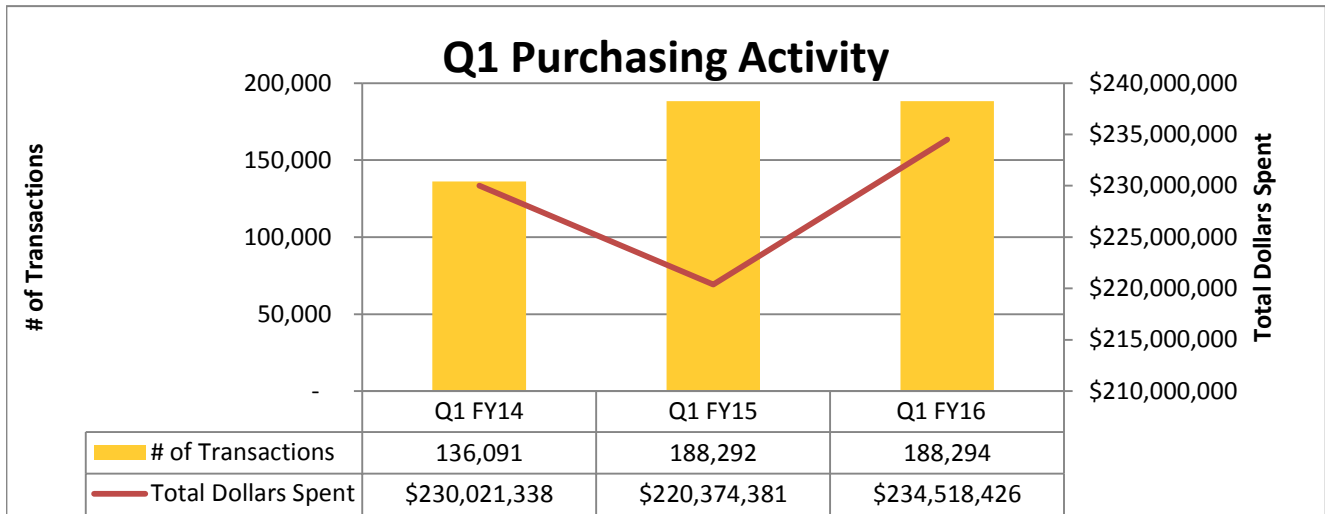
Sincerely,



Michael D. Volna  
Associate Vice President-Finance & Controller

Cc: Richard Pfitzenreuter, CFO, Treasurer and Vice President for Budget & Finance  
Brian Steeves, Deputy Director, Board of Regents  
Tim Bray, Director, Purchasing Services

## I. Summary of Purchasing Activity for Q1 FY16



	Q1 FY14	Q1 FY15	Q1 FY16
Q1 Exceptions	118	130	134
Q1 Exception Dollars	\$41,138,022	\$19,418,358	\$18,166,497

Q1 FY16

II. **Purchases made as Approved Exceptions to Competitive Purchasing Process**

<b>Exception #1:</b>	<b>Total # of Exceptions</b>	<b>Total Dollars</b>
Purchasing of research products (animal feed, serum, test equip/supplies) for clinical trials. Also purchasing from a previous supplier to ensure consistency of research results.	16	\$2,523,613

<b>Exception #2:</b>	<b>Total # of Exceptions</b>	<b>Total Dollars</b>
Equipment that requires brand compatibility with existing equipment and is available only from manufacturer or sole source authorized distributor.	10	\$1,181,312

<b>Exception #3:</b>	<b>Total # of Exceptions</b>	<b>Total Dollars</b>
Funding source or granting agency specified a single supplier.	4	\$644,130

<b>Exception #4:</b>	<b>Total # of Exceptions</b>	<b>Total Dollars</b>
Other	31	\$5,367,031

<b>Emergency Exception #1:</b>	<b>Total # of Exceptions</b>	<b>Total Dollars</b>
A threat to health, welfare, safety.	0	\$0

<b>Emergency Exception #2:</b>	<b>Total # of Exceptions</b>	<b>Total Dollars</b>
A significant loss to the University.	1	\$6,624

<b>Emergency Exception #3:</b>	<b>Total # of Exceptions</b>	<b>Total Dollars</b>
A failure to provide core services to University students/faculty/staff.	1	\$1,256,381

<b>Emergency Exception #4:</b>	<b>Total # of Exceptions</b>	<b>Total Dollars</b>
Emergency equipment repairs and parts or emergency facility repairs and parts under \$100,000.	0	\$0

**TOTAL Approved Exceptions** **63** **\$10,979,091**

Q1 FY16

**III. Pre-Approved Exceptions to Competitive Purchasing**

<b>Exception #2:</b>	<b>Total # of Exceptions</b>	<b>Total Dollars</b>
Media advertising, purchase or access to uniquely compiled database information.	8	\$583,050
<b>Exception #3:</b>	<b>Total # of Exceptions</b>	<b>Total Dollars</b>
Farm commodities such as grain or livestock.	1	\$55,000
<b>Exception #5:</b>	<b>Total # of Exceptions</b>	<b>Total Dollars</b>
Subcontractors previously arranged by Sponsored Projects Administration (SPA).	3	\$224,596
<b>Exception #6:</b>	<b>Total # of Exceptions</b>	<b>Total Dollars</b>
Service (1) available only from another governmental agency or public entity or (2) required by law to be provided by another governmental entity.	17	\$1,422,556
<b>Exception #7:</b>	<b>Total # of Exceptions</b>	<b>Total Dollars</b>
Service/maintenance agreements with the original manufacturer/ developer for equipment and software.	11	\$1,135,370
<b>Exception #9:</b>	<b>Total # of Exceptions</b>	<b>Total Dollars</b>
Software license renewals and software upgrades available only from developer. This includes adding licenses to an existing license agreement.	5	\$313,460
<b>Exception #10:</b>	<b>Total # of Exceptions</b>	<b>Total Dollars</b>
Development, design and/or creation of original artwork.	1	\$82,688
<b>Exception #11:</b>	<b>Total # of Exceptions</b>	<b>Total Dollars</b>
Fairview purchases related to research projects.	4	\$649,447
<b>Exception #12:</b>	<b>Total # of Exceptions</b>	<b>Total Dollars</b>
Entertainers, lecturers, speakers and honoraria.	15	\$2,204,733
<b>Exception #14:</b>	<b>Total # of Exceptions</b>	<b>Total Dollars</b>
Study Abroad Administrators (Does not include group airfares).	6	\$516,506

**TOTAL Approved Exceptions** **71** **\$** **7,187,406**

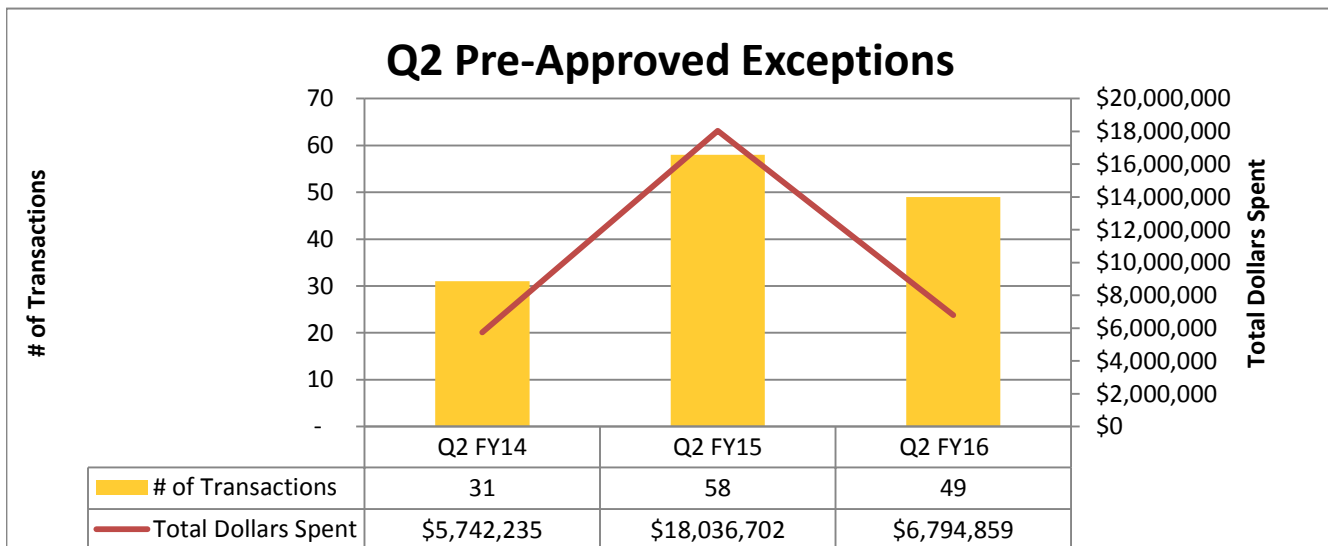
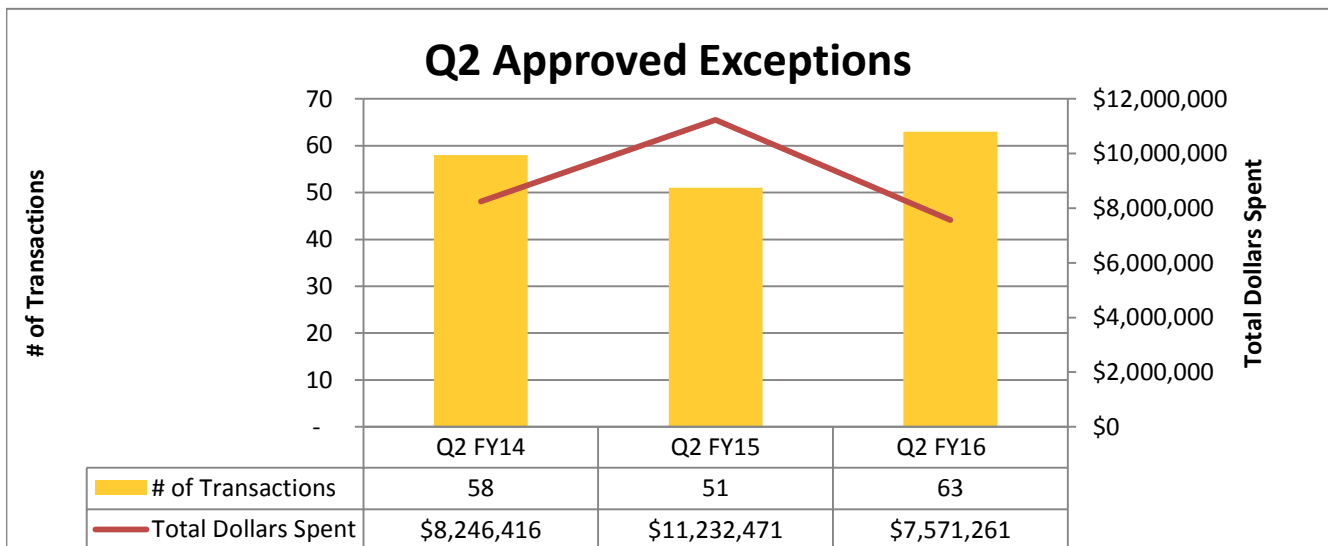
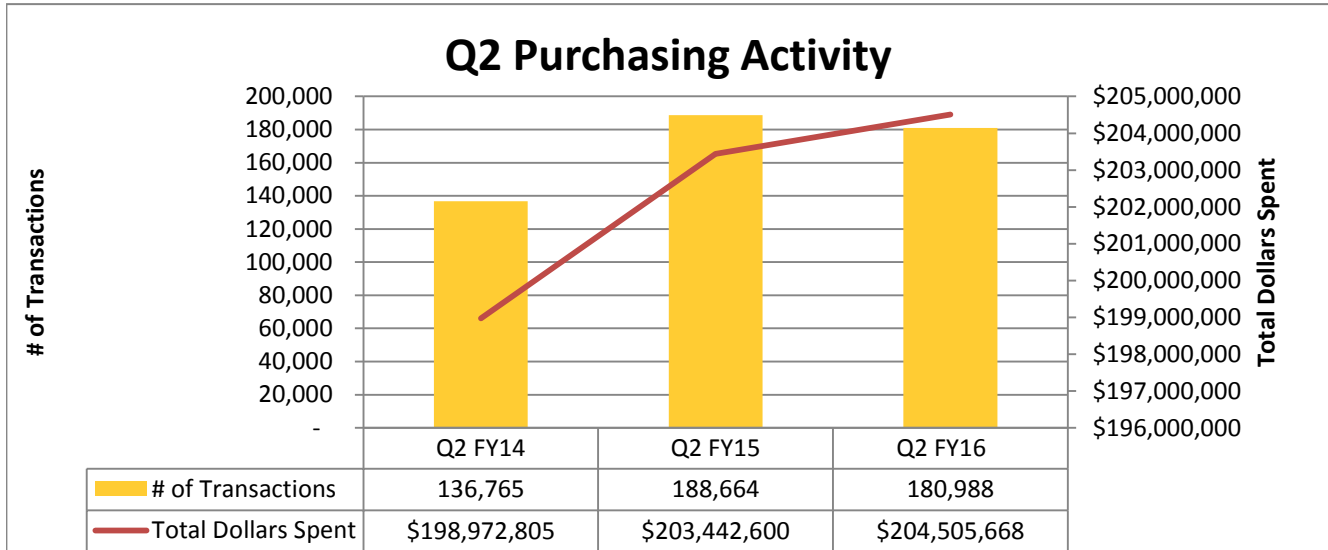
There are 25 categories of Pre-Approved Exceptions. Only those categories which had qualifying transactions are reported above.

**IV. Regents Policy Violations**

There are no Regents Policy Violations to report.

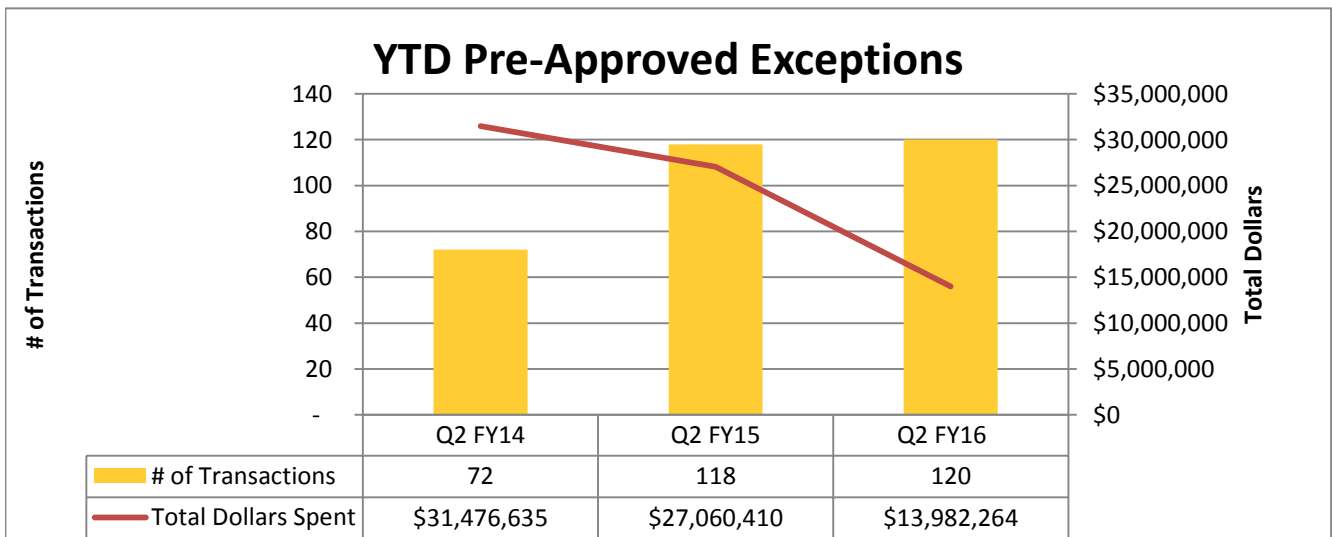
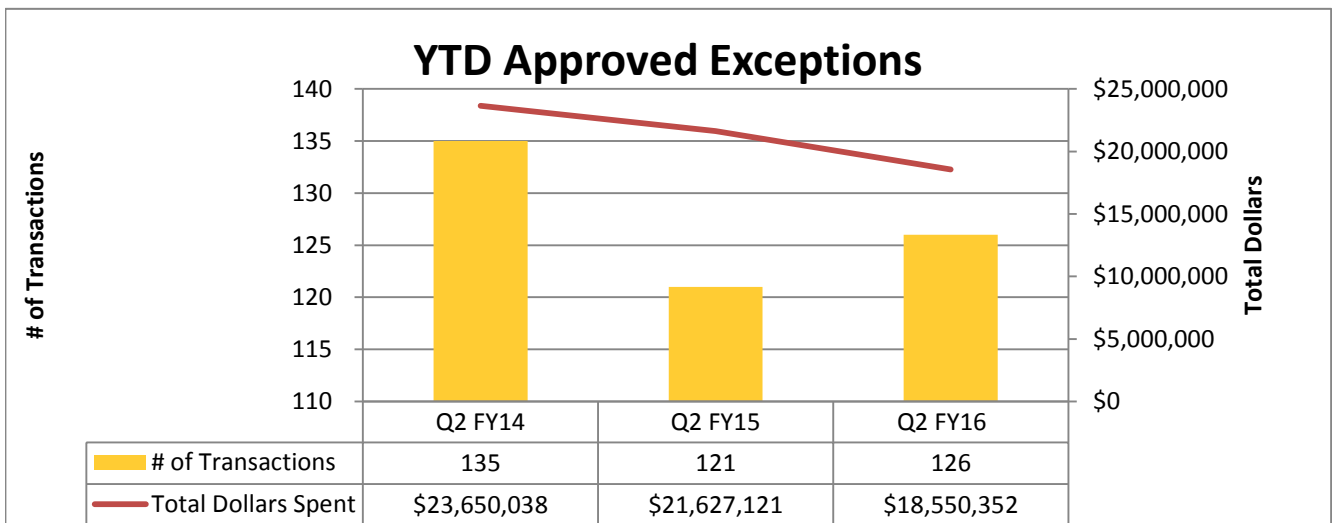
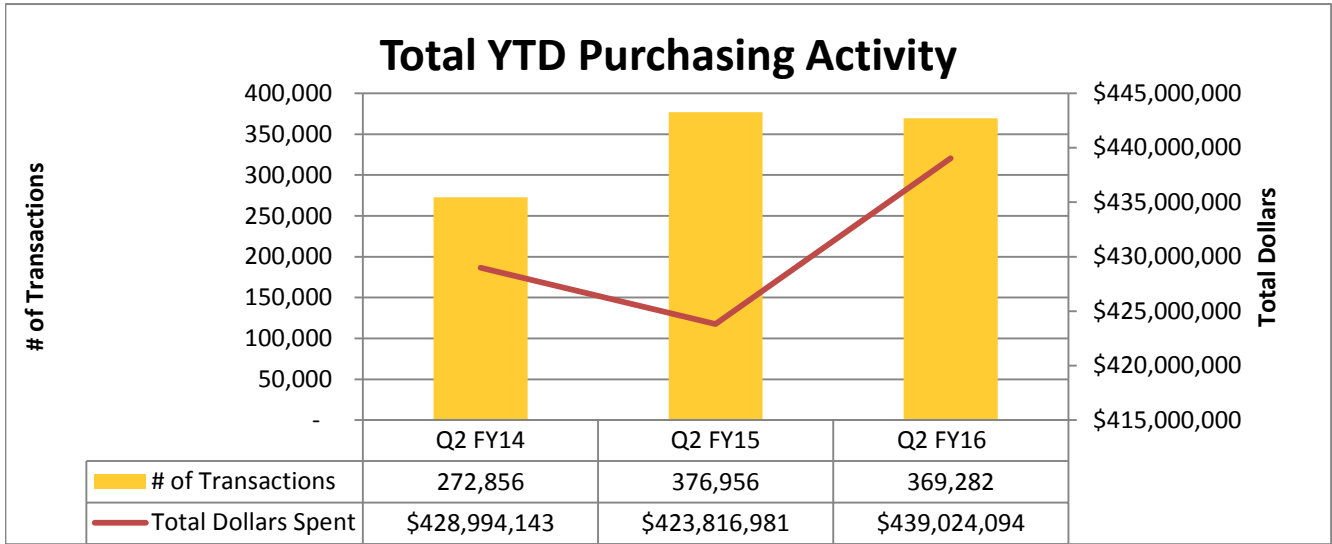


## I. Summary of Purchasing Activity for Q2 FY16



Q3 Exceptions	89	109	112
Q3 Exception Dollars	\$13,988,651	\$29,269,173	\$14,366,120

## Summary of Purchasing Activity YTD FY16



	Q2 FY14	Q2 FY15	Q2 FY16
YTD Exceptions	207	239	246
YTD Exception Dollars	\$55,126,673	\$48,687,531	\$32,532,616

Q2 FY16

II. **Purchases made as Approved Exceptions to Competitive Purchasing Process**

<b>Exception #1:</b>	<b>Total # of Exceptions</b>	<b>Total Dollars</b>
Purchasing of research products (animal feed, serum, test equip/supplies) for clinical trials. Also purchasing from a previous supplier to ensure consistency of research results.	13	\$1,277,202

<b>Exception #2:</b>	<b>Total # of Exceptions</b>	<b>Total Dollars</b>
Equipment that requires brand compatibility with existing equipment and is available only from manufacturer or sole source authorized distributor.	25	\$3,329,660

<b>Exception #3:</b>	<b>Total # of Exceptions</b>	<b>Total Dollars</b>
Funding source or granting agency specified a single supplier.	8	\$891,937

<b>Exception #4:</b>	<b>Total # of Exceptions</b>	<b>Total Dollars</b>
Other	15	\$1,557,462

<b>Emergency Exception #1:</b>	<b>Total # of Exceptions</b>	<b>Total Dollars</b>
A threat to health, welfare, safety.	0	\$0

<b>Emergency Exception #2:</b>	<b>Total # of Exceptions</b>	<b>Total Dollars</b>
A significant loss to the University.	2	\$515,000

<b>Emergency Exception #3:</b>	<b>Total # of Exceptions</b>	<b>Total Dollars</b>
A failure to provide core services to University students/faculty/staff.	0	\$0

<b>Emergency Exception #4:</b>	<b>Total # of Exceptions</b>	<b>Total Dollars</b>
Emergency equipment repairs and parts or emergency facility repairs and parts under \$100,000.	0	\$0

**TOTAL Approved Exceptions** **63** **\$7,571,261**

Q2 FY16

**III. Pre-Approved Exceptions to Competitive Purchasing**

Exception #1:	Total # of Exceptions	Total Dollars
Lodging, travel (does not include group airfare or charter air).	1	\$104,320

Exception #2:	Total # of Exceptions	Total Dollars
Media advertising, purchase or access to uniquely compiled database information.	5	\$369,400

Exception #5:	Total # of Exceptions	Total Dollars
Subcontractors previously arranged by Sponsored Projects Administration (SPA).	1	\$74,602

Exception #6:	Total # of Exceptions	Total Dollars
Service (1) available only from another governmental agency or public entity or (2) required by law to be provided by another governmental entity.	10	\$1,614,756

Exception #7:	Total # of Exceptions	Total Dollars
Service/maintenance agreements with the original manufacturer/ developer for equipment and software.	12	\$2,452,727

Exception #9:	Total # of Exceptions	Total Dollars
Software license renewals and software upgrades available only from developer. This includes adding licenses to an existing license agreement.	3	\$509,853

Exception #11:	Total # of Exceptions	Total Dollars
Fairview purchases related to research projects.	1	\$75,000

Exception #12:	Total # of Exceptions	Total Dollars
Entertainers, lecturers, speakers and honoraria.	3	\$324,981

Exception #14:	Total # of Exceptions	Total Dollars
Study Abroad Administrators (Does not include group airfares).	13	\$1,269,220

**TOTAL Approved Exceptions** **49** **\$** **6,794,859**

There are 25 categories of Pre-Approved Exceptions. Only those categories which had qualifying transactions are reported above.

**IV. Regents Policy Violations**

There are no Regents Policy Violations to report.

# Annual Capital Financing and Debt Management Report

*Finance Committee  
February 11, 2016*



UNIVERSITY OF MINNESOTA

**Driven to Discover<sup>SM</sup>**

# ***Outline of Presentation***

- *Guiding Principles of Debt Issuance*
- *University's Capital Structure*
- *Credit Rating*
- *Key Financial Indicators*
- *Peer Group Analysis*

# *Issuance of Debt – Guiding Principles*

- Cannot use debt transactions to fund operating costs
- Use taxable debt when financial considerations indicate its use is in the best interest of the University
- Preserve core long-term debt ratings at Aa/AA category and short-term core debt rating of A-1/P-1
- Receive an investment grade credit rating for special purpose debt
- Maintain key financial metrics to assure continued access to capital markets
- Minimize borrowing costs at acceptable levels of risk over life of the issue
- Maintain portfolio of variable and fixed-rate debt that is in the long-term best interest of the University.

# CAPITAL STRUCTURE



# Long-Term Debt As of June 30, 2015

(000s omitted)

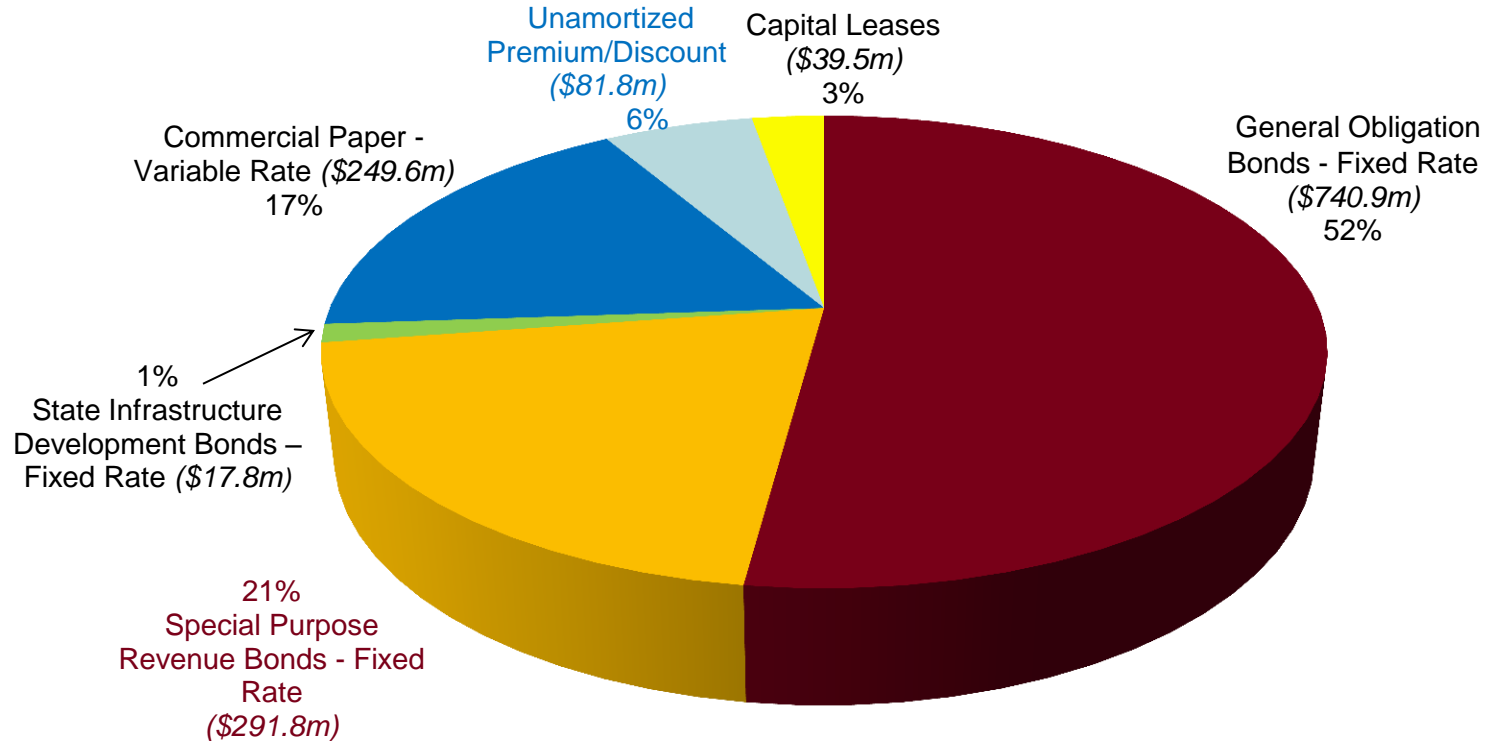
	Final payment due in fiscal year	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Bonds Series 2014A	2044		\$ 145,760		\$ 145,760
* General Obligation Taxable Bonds Series 2013D, 2011C, 2010B	2039	69,465		2,085	67,380
General Obligation Bonds Series 2013A&B	2038	85,255		2,250	83,005
General Obligation Bonds Series 2011D	2037	51,255		1,230	50,025
General Obligation Bonds Series 2011A	2037	275,590		22,615	252,975
General Obligation Taxable Bonds Series 2010D	2030	27,200			27,200
General Obligation Bonds Series 2010C	2016	3,015		1,485	1,530
General Obligation Taxable Bonds Series 2009D	2029	37,330			37,330
General Obligation Bonds Series 2009C	2022	30,580		3,280	27,300
General Obligation Taxable Bonds Series 2009B	2029	14,145		660	13,485
General Obligation Bonds Series 2009A	2034	36,060		1,140	34,920
Commercial Paper Notes Series A, B, C, D, E	2029	214,800	51,620	16,800	249,620
Obligations to the State of Minnesota pursuant to Infrastructure Development Bonds (IDB)	2026	21,511		3,667	17,844
* Special Purpose Bonds – Series 2013C, 2011B, 2010A	2039	191,835		4,415	187,420
Special Purpose Revenue Bonds – Series 2006	2030	109,300		4,915	104,385
Unamortized premiums and discounts	2039	72,525	13,778	4,493	81,810
Capital leases and other	2025	42,641	2,656	5,858	39,439
<b>TOTAL PER FINANCIALS</b>		<b>\$ 1,282,507</b>	<b>\$ 213,814</b>	<b>\$ 74,893</b>	<b>\$ 1,421,428</b>

\$291.8

\* These 6 series relate to the Biomedical Science Research Facilities Funding Program

# Debt Profile as of June 30, 2015

***\$1.3 billion par outstanding; \$1.0 billion University-supported***



# Long Term Debt Analysis – Five Year Comparison

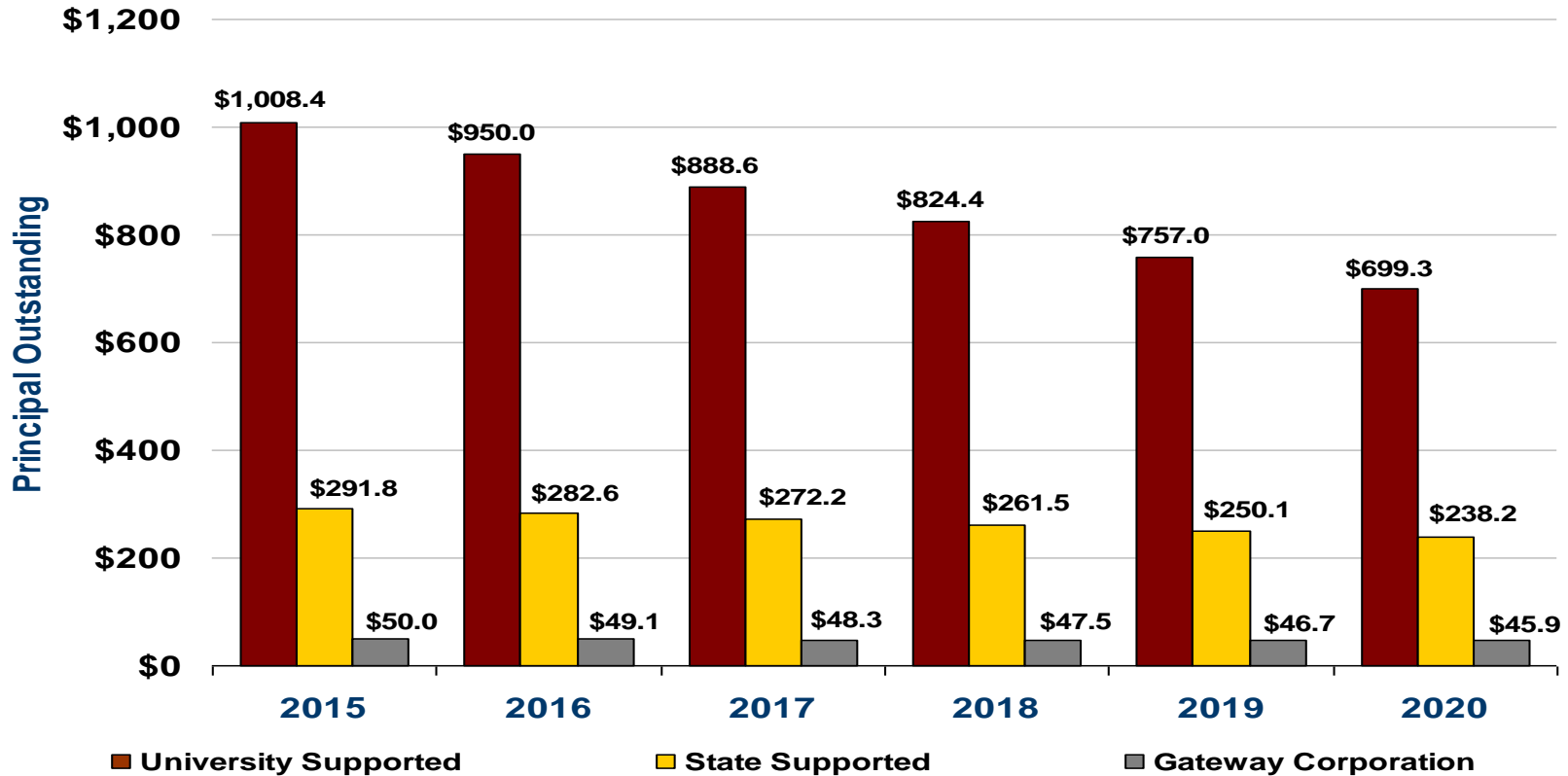
(in millions)

	<u>6/30/11</u>	<u>6/30/12</u>	<u>6/30/13</u>	<u>6/30/14</u>	<u>6/30/15</u>
Total Outstanding per financials	\$ 1,145.4	\$ 1,226.4	\$ 1,300.7	\$ 1,282.5	\$ 1,421.4
Less: Capital leases and other	(6.0)	(6.0)	(46.3)	(42.7)	(39.4)
Less: Unamortized premiums/discounts	(59.0)	(68.3)	(73.7)	(72.5)	(81.8)
<b>University Bonds and Commercial Paper</b>	<b>\$ 1,080.4</b>	<b>\$ 1,152.1</b>	<b>\$ 1,180.7</b>	<b>\$ 1,167.3</b>	<b>\$ 1,300.2</b>
University Supported	\$ 846.2	\$ 870.4	\$ 906.4	\$ 866.2	\$ 1,008.4
State Supported	\$ 234.2	\$ 281.7	\$ 274.3	\$ 301.1	\$ 291.8
Fixed Rate* / Variable Rate	89% / 11%	91% / 9%	86% / 14%	88% / 12%	87% / 13%
University Issued / State Issued	97% / 3%	97% / 3%	98% / 2%	98% / 2%	99% / 1%
Weighted Average University Debt	3.63%	3.65%	3.55%	3.40%	3.33%
<b>Annual debt service (principal paid + interest expense)</b>	<b>\$ 98.3</b>	<b>\$ 101.0</b>	<b>\$ 107.8</b>	<b>\$ 112.8</b>	<b>\$ 115.7</b>

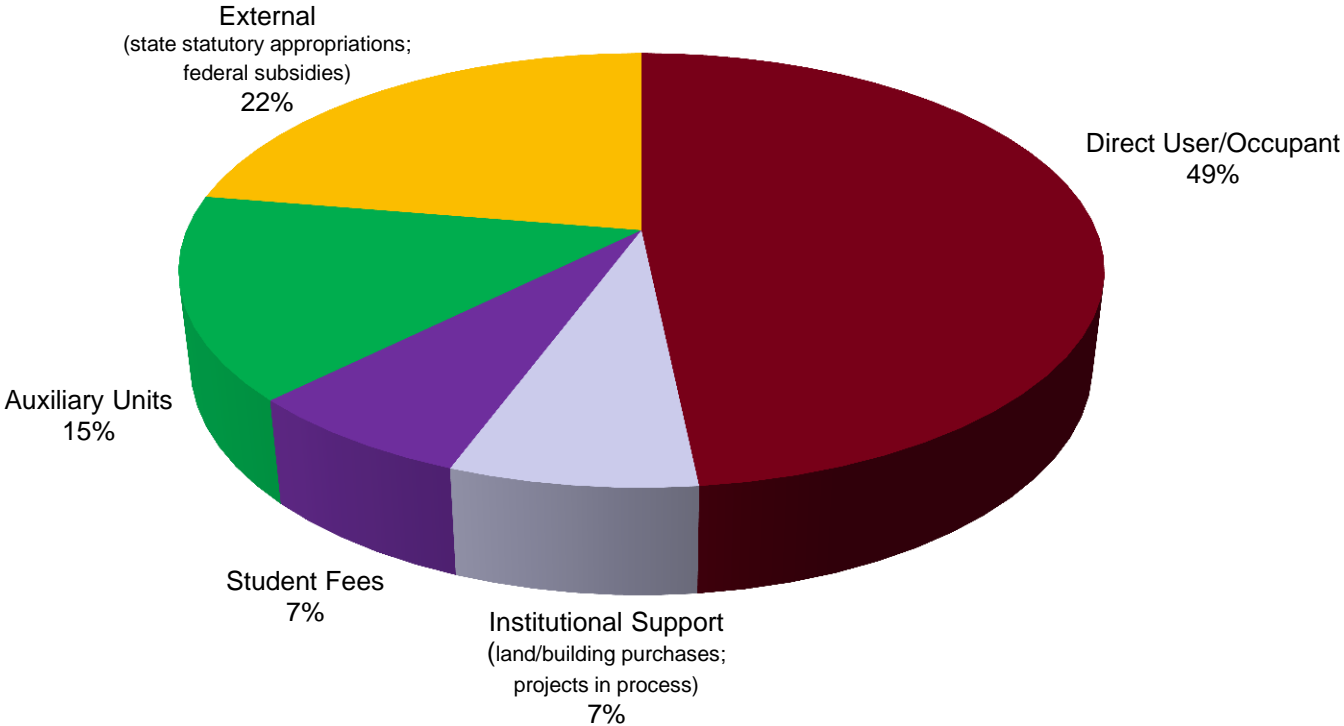
\* Includes impact of synthetically fixed swaps

# Current Amortization Structure – Par (in millions)

6/30/15 Outstanding Debt Plus FY16 Issuances to date



# *Funding of External Debt Service*



# Projected Long Term Debt as of June 30, 2016

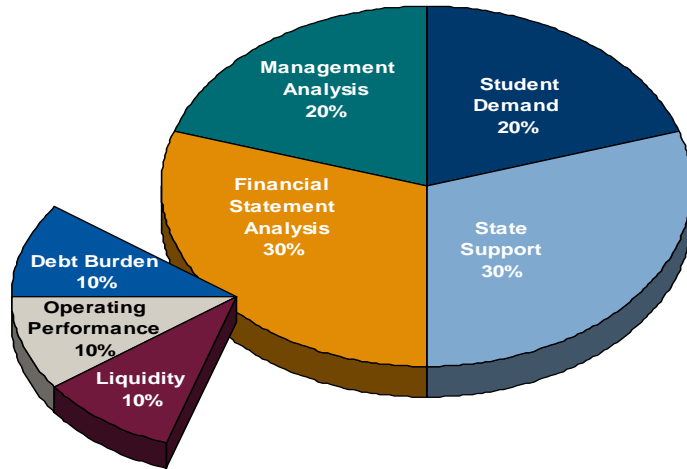
(in millions)

	<u>University Supported</u>	<u>State Supported</u>	<u>Total</u>
Balance June 30, 2015 <i>(at par)</i>	\$ 1,008.4	\$ 291.8	\$ 1,300.2
Series 2006 (Stadium Debt) – <i>(defeased 8/26/15)</i>		(99.2)	(99.2)
Refunding Bonds Series 2015A – <i>(issued 8/26/15)</i>		90.1	90.1
GO Bonds Series 2015B * – <i>(issued 8/26/15)</i>		10.1	10.1
Scheduled principal reductions	<u>(58.3)</u>	<u>(10.2)</u>	<u>(68.5)</u>
Subtotal <i>(at par)</i>	950.1	282.6	1,232.7
Projected additional FY16 issuance	148.0		148.0
Unamortized premium/discount <i>(projected at 6/30/16)</i>	54.4	30.1	84.5
Capital leases <i>(projected at 6/30/16)</i>	<u>36.6</u>	<u>0</u>	<u>36.6</u>
<b>Projected balance June 30, 2016</b>	<b>\$ 1,189.1</b>	<b>\$ 312.7</b>	<b>\$ 1,501.8</b>

\* Though the Series 2015B bonds were issued as General Obligation (GO) bonds, the debt service is funded by the statutory capital appropriation that funds the debt service on the Series 2015A Special Purpose Revenue Refunding Bonds.

# CREDIT RATING

# Credit Rating and Debt Capacity Determinants



## Student Demand - **Strong “Aa”**

- Solid student market position

## Financial Statement Analysis - **Strong “Aa”**

- Strength of General Obligation pledge
- Solid financial resources— particularly relative to debt and enrollment
- Debt per student in line with peers
- Debt service as a percentage of budget is moderate

## State Support - **State of Minnesota “Aa1/AA+”**

- History of strong appropriations, but budget pressures continue

## Management Analysis - **Strong “Aa”**

- Analyst’s assessment of University management strength
- Research position and strategy

An analysis of student demand, market position and financial indicators places the University of Minnesota solidly in the strong “Aa” category. Debt capacity and credit ratings are not a function of ratios alone, but are highly dependent on other factors such as debt strategy, essentiality of debt, future fundraising, revenue producing capability and debt structure.



# Letter Ratings to Designate University Credit Quality

Moody's Investors Service Rating
Aaa
<b>Aa1</b> , Aa2, Aa3
A1, A2, A3
Baa1, Baa2, Baa3
Ba1, Ba2, Ba3
B1, B2, B3
Caa to C

Financial Security Evaluation
Exceptional
Excellent
Good
Adequate
Moderate
Weak
Default

Standard and Poor's Rating
AAA
AA+, <b>AA</b> , AA-
A+, A, A-
BBB+, BBB, BBB-
BB+, BB, BB-
B+, B, B-
CCC to D

The University of Minnesota is currently rated Aa1 by Moody's, and AA by Standard and Poor's.

# University of Minnesota – Ratings Evaluation \*

## Moodys Investors Services – Aa1

- Strong student and research market positions
- Ample financial resources and liquidity
- Good capital support in the form of debt service on \$333 million of debt
- Strong fund-raising

### Offset by

- Weakening operating performance
- Expected additional debt issuance

## Standard & Poor's - AA

- Strong enterprise profile
- Solid demand metrics
- Positive operations on a cash basis
- Financial resources to expenses that remain average for the rating category

### Offset by

- Increase in debt over the past few years
- Modest unrestricted financial resources for a public flagship institution

### Stable Outlook

Reflects continued favorable student demand and research trends, growing tuition revenues, stable to improving operating cash flow and debt service coverage despite additional debt plans.

### Negative Outlook

Reflects University's growth in total debt over time, combined with recent weakness in financial operations, could pressure the rating during the outlook period.

\* Comments from rating reports dated August 2015 for General Obligation Series 2015B issuance

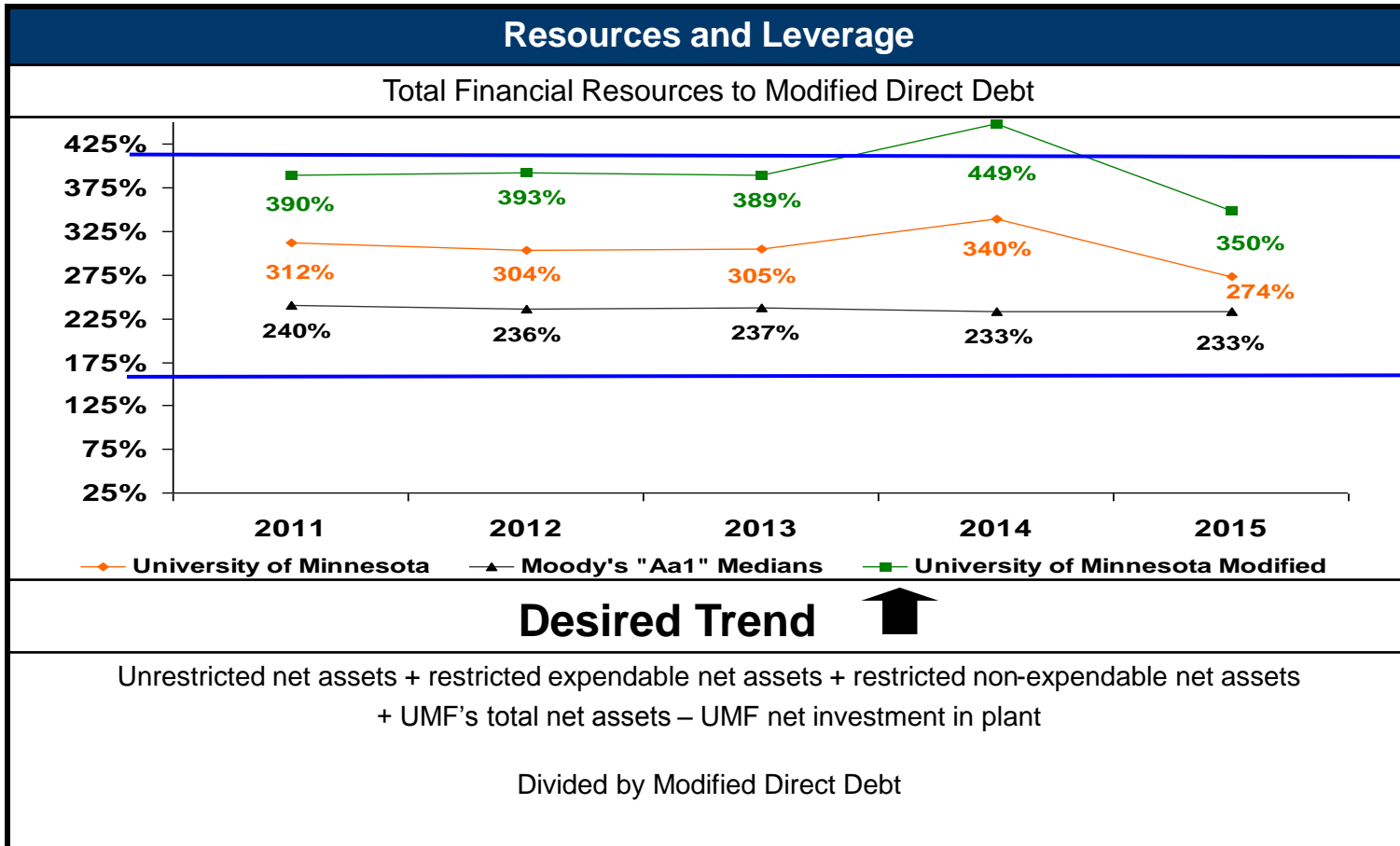
# KEY FINANCIAL INDICATORS

# Key Financial Metrics

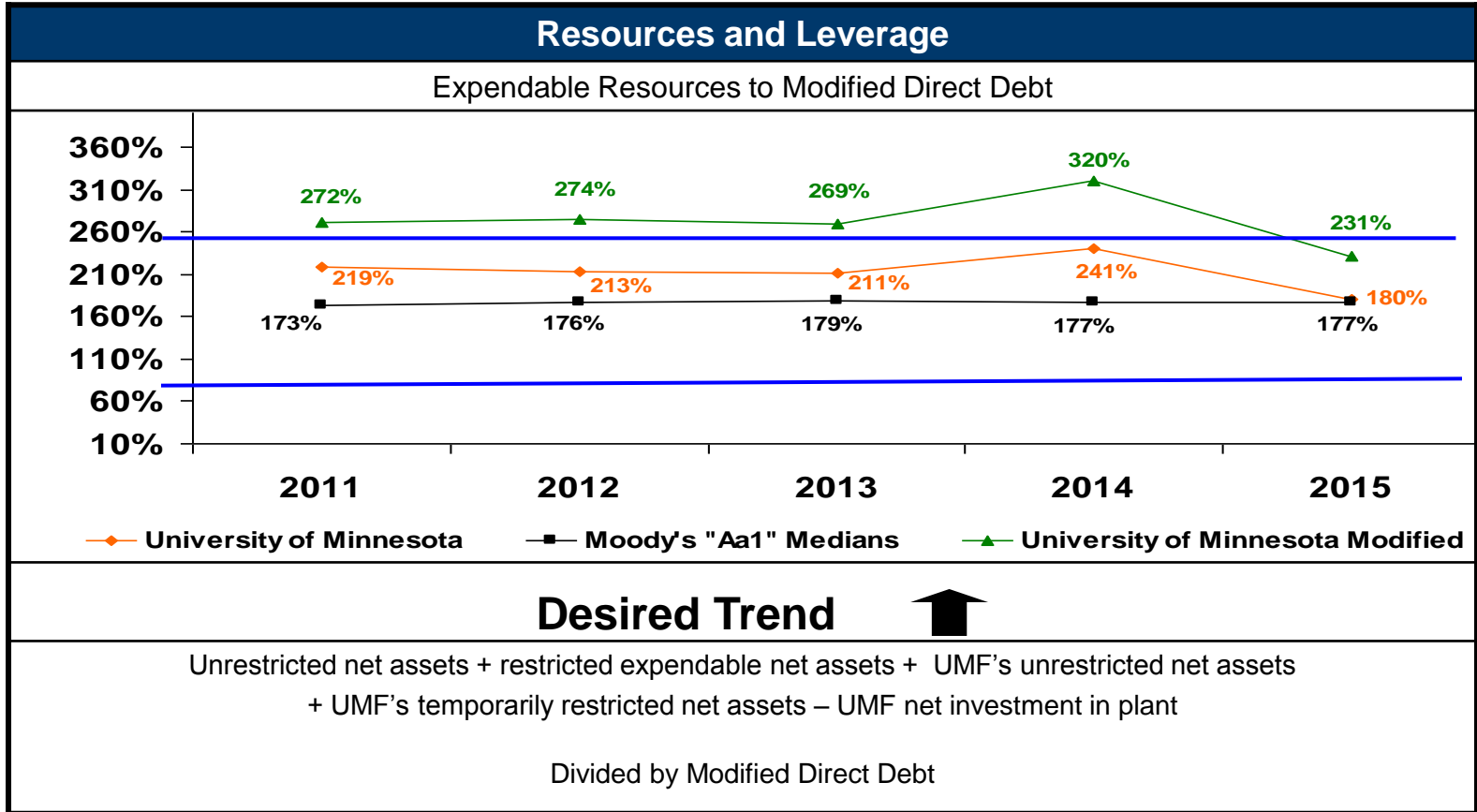
RATIO	KEY COMPONENT	DEFINITION
A - Total Financial Resources to Modified Direct Debt	Total financial resources  <i>Measure of the total financial wealth of the institution</i>	University unrestricted net assets + restricted expendable net assets + restricted nonexpendable net assets + University of Minnesota Foundation (UMF) total net assets less UMF net investment in plant
B - Expendable Resources to Modified Direct Debt	Expendable resources  <i>Measure of financial resources that are ultimately expendable</i>	University unrestricted net assets + restricted expendable net assets + UMF's unrestricted/temporarily restricted net assets less UMF net investment in plant
	Modified direct debt *  <i>Measure of the direct obligations of the institution</i>	The sum of the University's outstanding debt at par plus capital leases, plus Gateway debt, 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 *  <i>Actual principal &amp; interest paid</i>	Sum of the principal paid and interest expense on capital debt by the University excluding principal and interest on the special purpose debt
	Operations  <i>Measures size of operating budget</i>	University operating expenses less scholarships & fellowships, plus interest on capital asset-related debt, excluding the interest on the special purpose debt

- Moodys computes the U of MN ratios and the medians with the special purpose revenue bonds (SPRBs) included – the orange and black lines, respectively, on the next three slides. The green lines reflects the ratios for the U of MN with the deduction for the SPRBs, i.e, U of MN Modified.

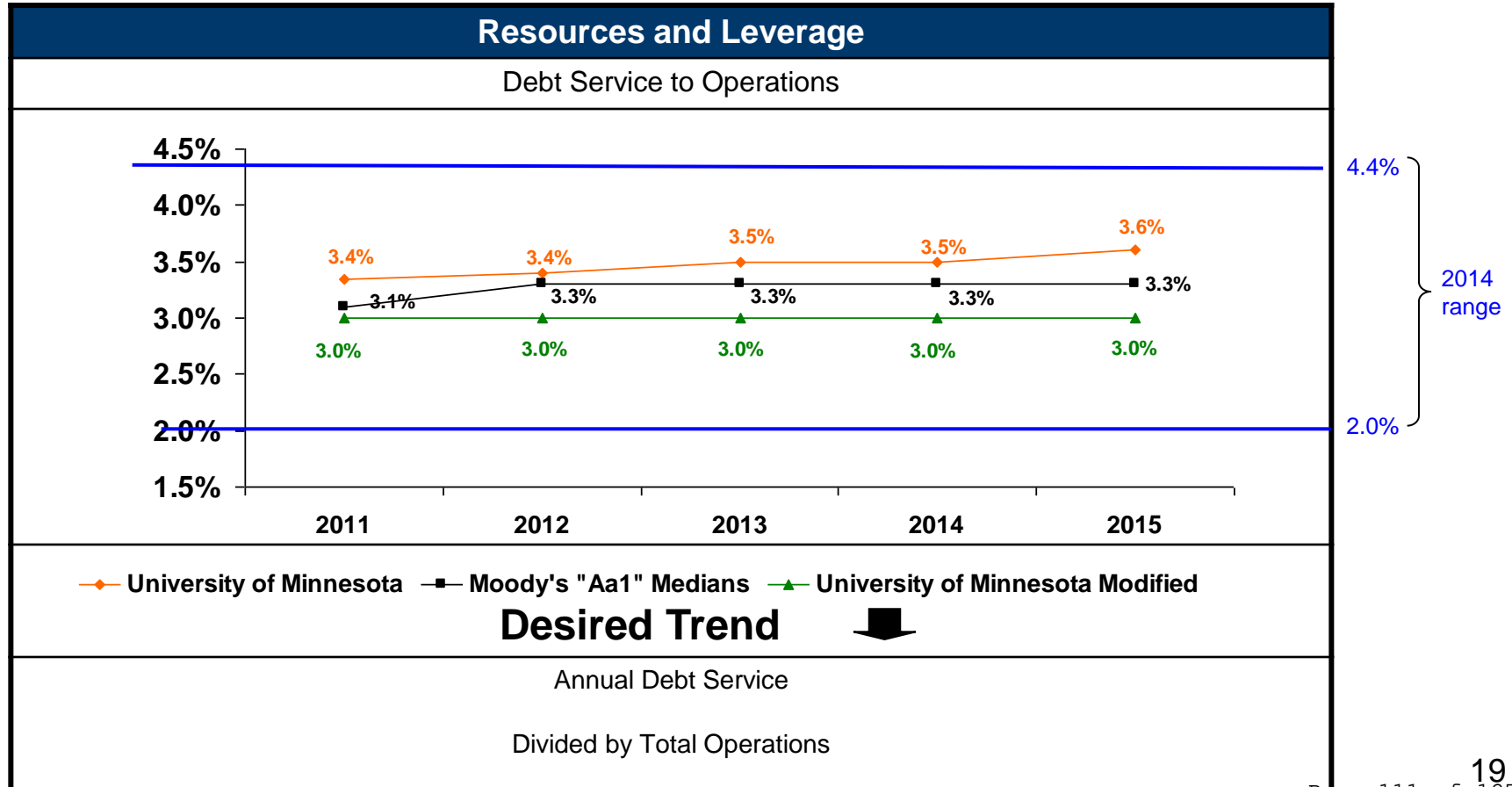
# University of Minnesota: Analysis of Key Credit Ratios



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# University of Minnesota: Analysis of Key Credit Ratios



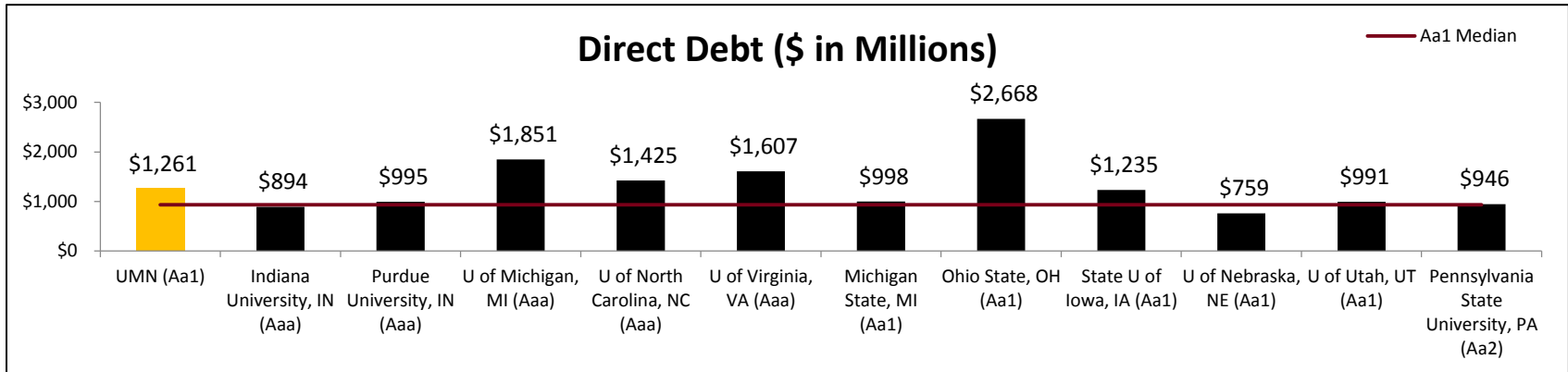
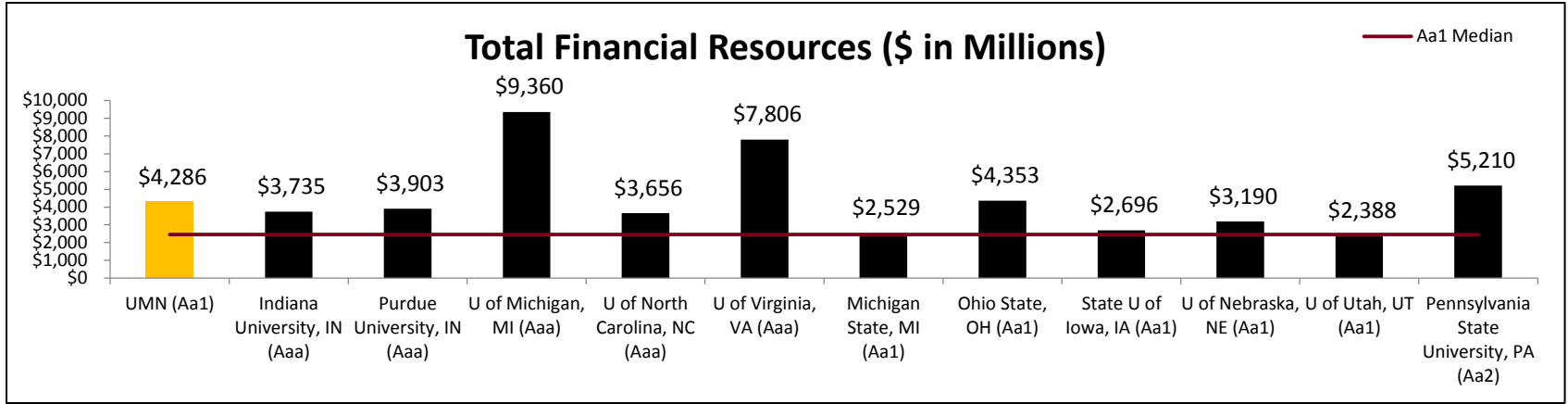
# PEER GROUP ANALYSIS



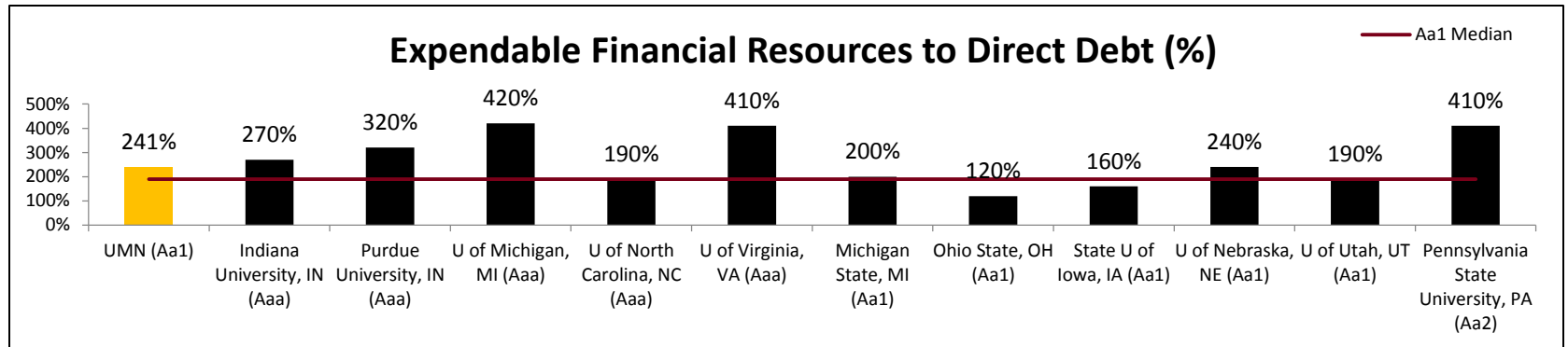
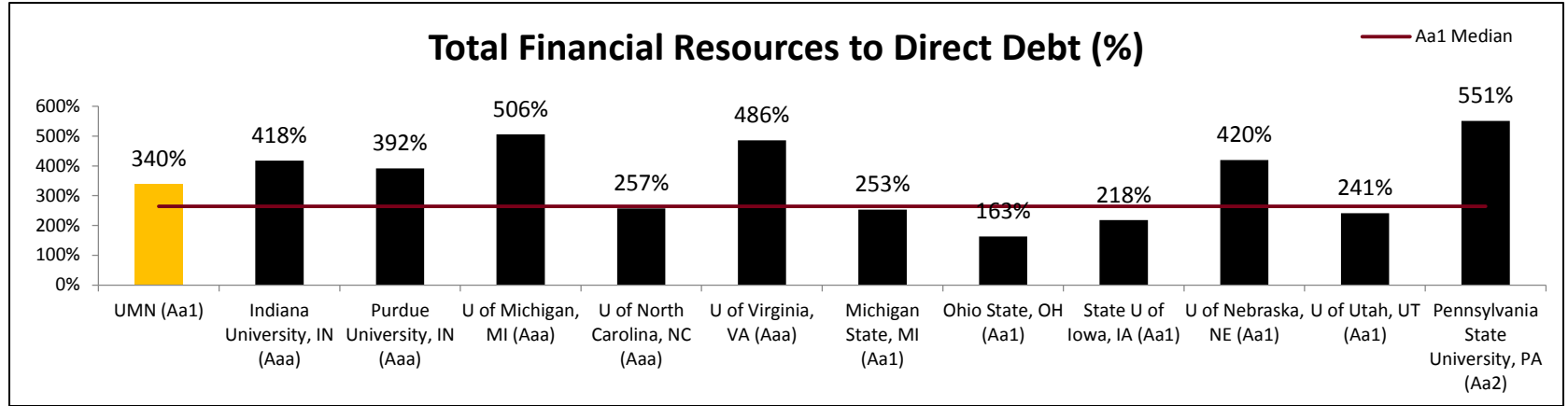
# ***Peer Group Analysis – Data as of 6/30/14***

- *Total Financial Resources*
- *Direct Debt*
- *Total Financial Resources to Direct Debt*
- *Expendable Financial Resources to Direct Debt*
- *Debt Service as a % of Operations*
- *Expendable Financial Resources to Operations*

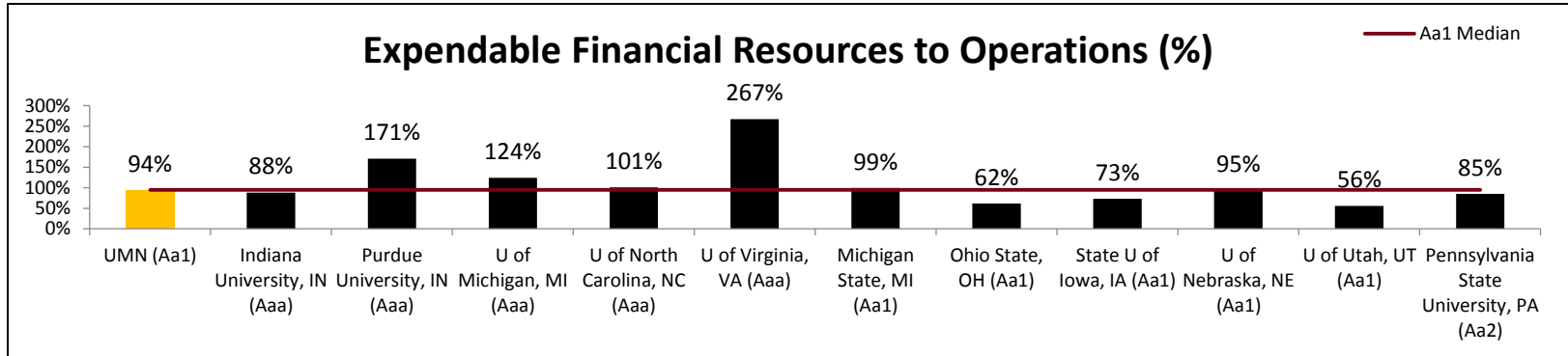
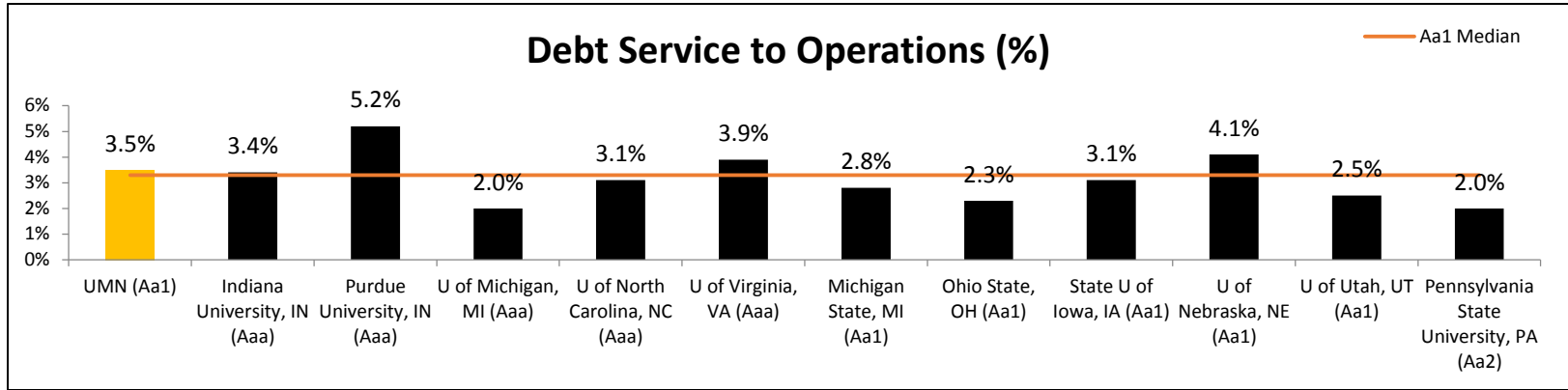
# University of Minnesota Peer Group Analysis – 6/30/14

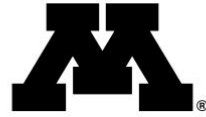


# University of Minnesota Peer Group Analysis – 6/30/14



# University of Minnesota Peer Group Analysis – 6/30/14





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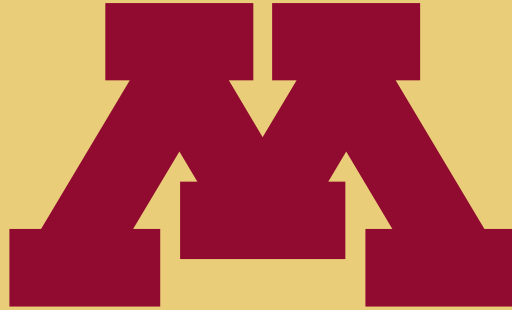
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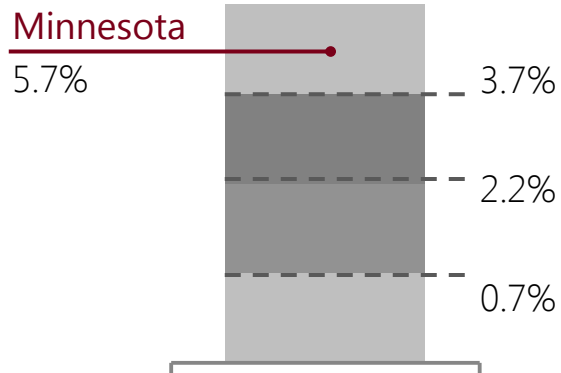
# 2015 Annual Peer Benchmarking

## Office of Investments & Banking

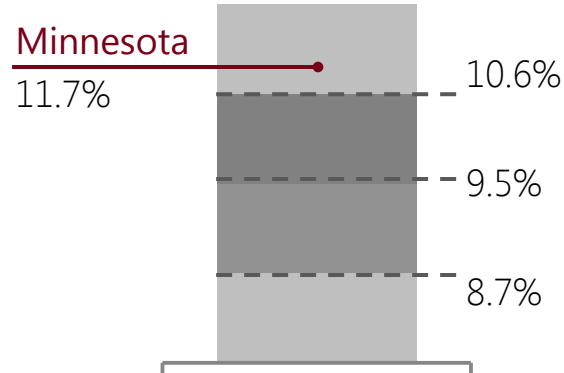
# NACUBO/Commonfund Study

- Conducted jointly by National Association of College and University Business Officers (NABUCO) and Commonfund Institute
- 2015 Study had 812 participating institutions ranging in size from under \$25 million to over \$20 billion
- All data as of University's fiscal year: June 30<sup>th</sup>, 2015

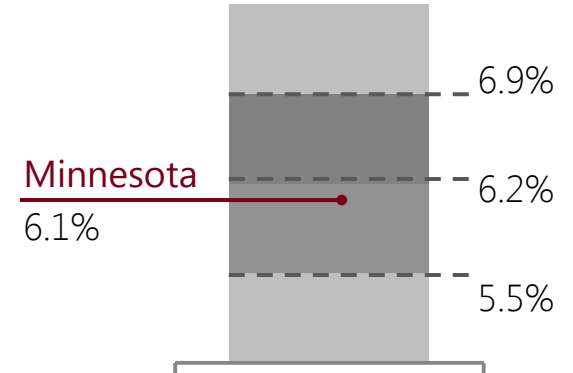
## 1yr Quartile Ranking



## 5yr Quartile Ranking



## 10yr Quartile Ranking



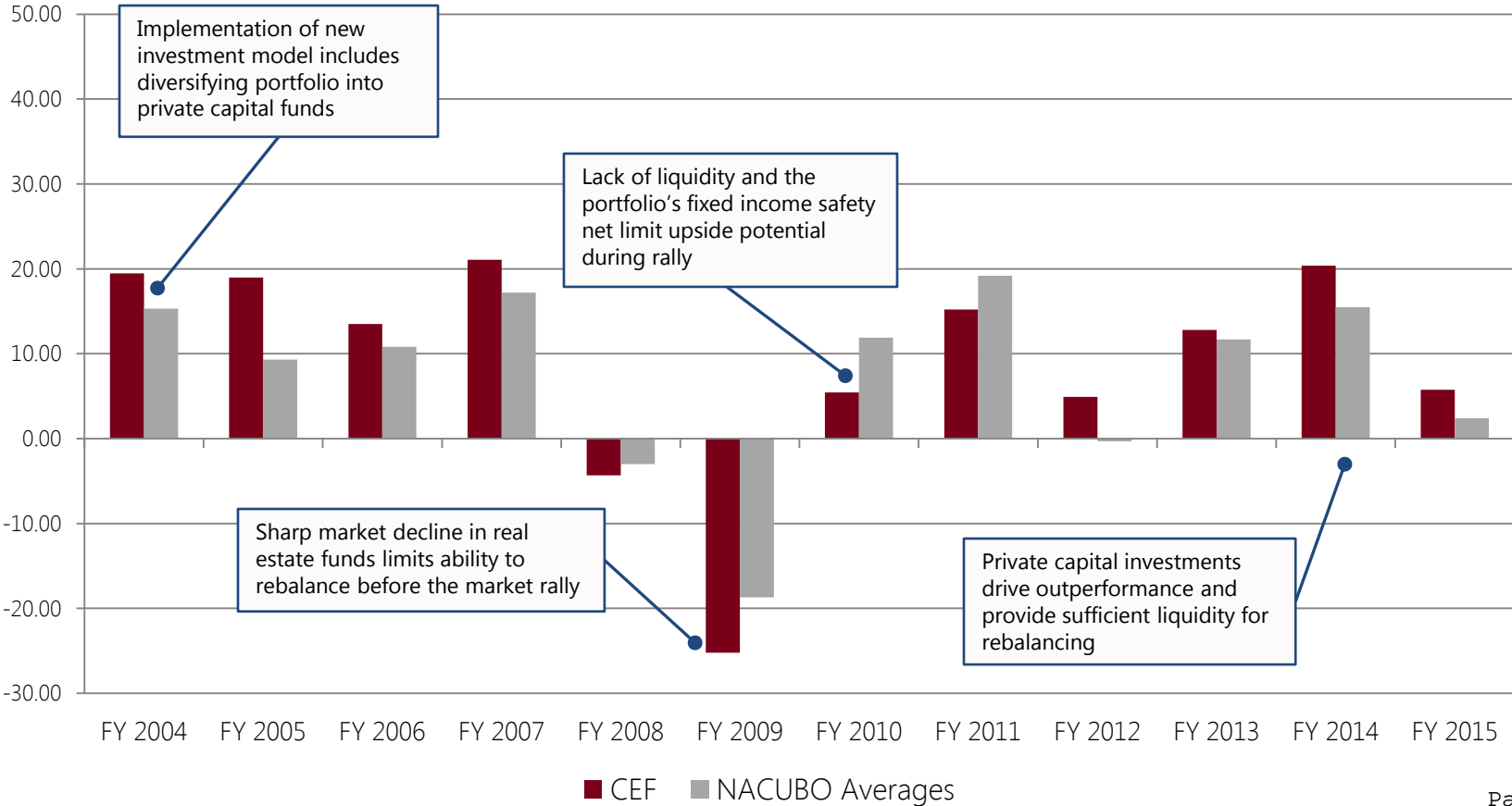
# Effective Spending Rates

- The effective spending rate is the percentage of the beginning market value of the endowment pool that is available annually for spending as defined by each institution.

Size of Endowment	2015 (%)	2014 (%)	2013 (%)	2012 (%)	2011 (%)	2010 (%)	2009 (%)	2008 (%)	2007 (%)	2006 (%)
Over \$1 Billion	4.3	4.6	4.8	4.7	5.2	5.6	4.6	4.2	4.4	4.6
\$501 Million to \$1 Billion	4.1	4.3	4.6	4.7	5.2	5.7	4.9	4.5	4.4	4.5
\$101 Million to \$500 Million	4.1	4.3	4.4	4.3	5.0	4.9	4.4	4.2	4.5	4.6
\$51 Million to \$100 Million	4.4	4.4	4.4	4.3	4.5	4.6	4.7	4.6	4.8	4.7
\$25 Million to \$50 Million	4.0	4.2	4.3	3.8	4.0	4.1	4.3	4.3	4.8	4.8
Under \$25 Million	4.5	4.6	4.1	3.7	3.7	3.5	3.9	4.1	4.6	4.6
<b>University of Minnesota</b>	<b>3.9</b>	<b>4.5</b>	<b>4.8</b>	<b>4.8</b>	<b>5.0</b>	<b>5.1</b>	<b>5.3</b>	<b>4.7</b>	<b>5.1</b>	<b>5.4</b>



# Endowment Annual Performance

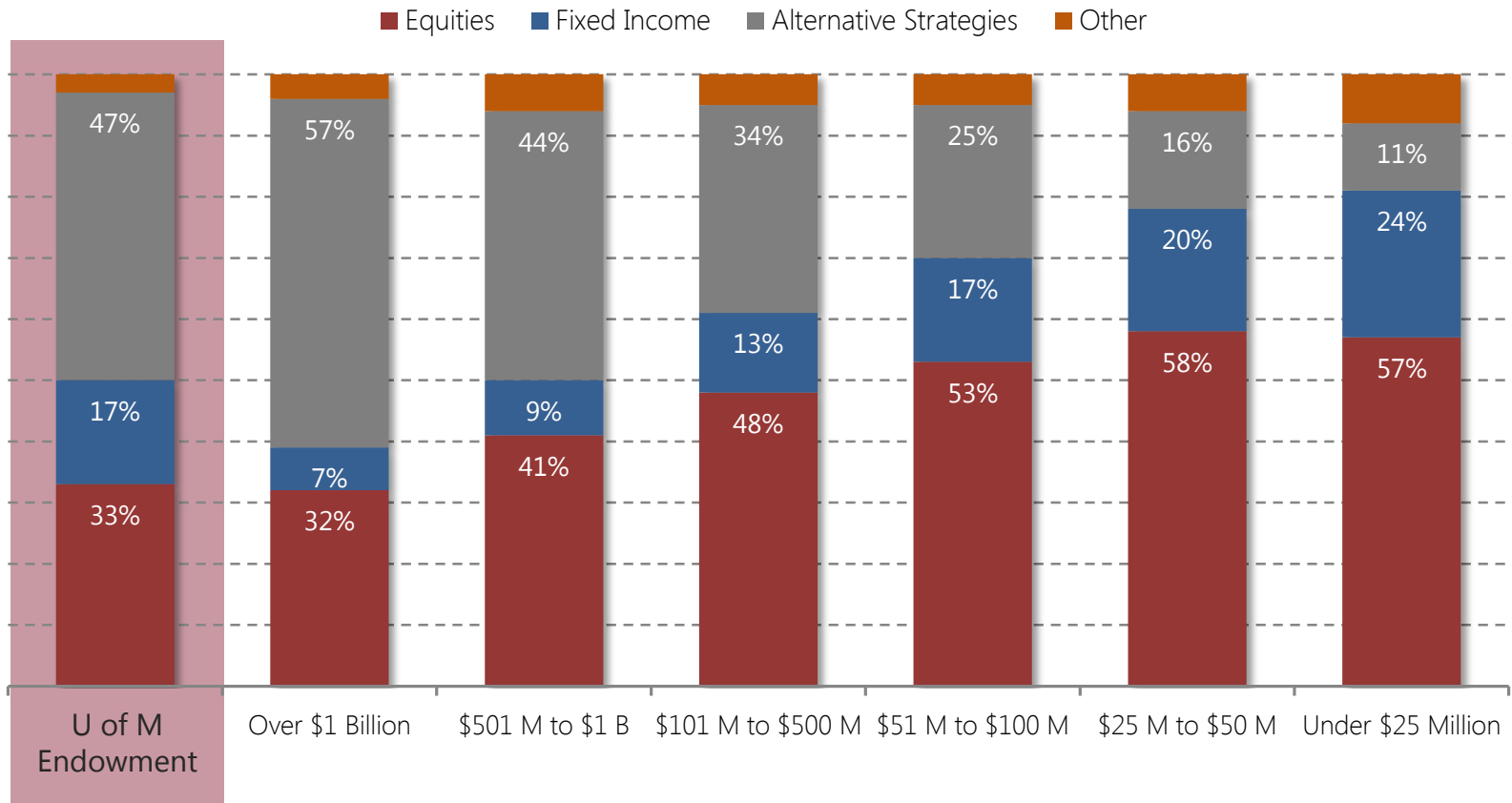


# NACUBO Comparison

Rank	Institution	State	Type	2015 Market Value (in millions)	2014 Market Value (in millions)	Change in Mkt Value <sup>1</sup> (%)
1	Harvard University	MA	Private	36,449	35,884	1.6
2	Yale University	CT	Private	25,572	23,895	7.0
3	The University of Texas System	TX	Public	24,083	25,426	-5.3
4	Princeton University	NJ	Private	22,723	20,996	8.2
5	Stanford University	CA	Private	22,223	21,446	3.6
6	Massachusetts Institute of Technology	MA	Private	13,475	12,425	8.4
7	Texas A&M University System	TX	Public	10,477	11,104	-5.6
8	Northwestern University	IL	Private	10,193	9,778	4.2
9	University of Pennsylvania	PA	Public	10,134	9,582	5.8
10	University of Michigan	MI	Public	9,952	9,731	2.3
...						
24	The Pennsylvania State University	PA	Public	3,636	3,446	5.5
25	The Ohio State University	OH	Public	3,634	3,548	2.4
26	University of Pittsburgh	PA	Private	3,589	3,493	2.7
27	New York University	NY	Public	3,576	3,422	4.5
28	Johns Hopkins University	MD	Private	3,413	3,452	-1.1
<b>29</b>	<b>University of Minnesota &amp; Foundation</b>	<b>MN</b>	<b>Public</b>	<b>3,297</b>	<b>3,176</b>	<b>3.8</b>

<sup>1</sup> Reflects the net impact of contributions, withdrawals, fees, and investment gains/losses.

# NACUBO Asset Allocation



# NACUBO Asset Allocation Detail

<i>numbers in percent (%)</i>	University of Minnesota	Over \$1 Billion	\$500 Million - \$1 Billion
<b>Number of Institutions</b>	-	90	77
Domestic Equity	16	17	21
International Equity	17	19	20
Fixed Income	17	8	9
Alternative Strategies	46	50	43
Private Equity	7	9	7
Marketable Alternatives	9	21	21
Venture Capital	14	5	3
Global Real Estate	7	5	4
Natural Resources	4	5	4
Commodities	0	1	1
Distressed Debt	5	2	1
Other	0	3	2
Short Term Securities	4	5	7

# Big Ten Performance

Institution	Market Value (in millions)	Total Returns (%)			
		1 Year	3 Years	5 Years	10 Years
<b>University of Minnesota Endowment</b>	<b>1,294</b>	<b>5.7</b>	<b>12.8</b>	<b>11.7</b>	<b>6.1</b>
University of Minnesota Foundation	2,004	5.5	10.5	10.6	7.1
Northwestern University	10,193	5.4			
The University of Maryland Foundation	986	4.0	7.7	8.2	5.4
The Ohio State University	3,634	3.8	9.9	9.1	5.1
Indiana University and Foundation	1,974	3.5	11.3	11.1	6.5
Michigan State University	2,275	3.5	10.6	9.7	7.3
University of Michigan	9,952	3.5	10.8	11.0	<b>8.4</b>
The Pennsylvania State University	3,636	3.1	10.6	11.5	7.8
Rutgers	1,002	2.9	10.0	9.4	6.6
University of Illinois	1,605	2.7	10.1	10.4	6.1
University of Illinois Foundation	783	2.5	10.7	<b>12.4</b>	7.0
Purdue University	2,398	2.4	10.4	10.2	6.7
University of Iowa and Foundation	1,263	2.2	10.0	10.6	5.9
University of Wisconsin Foundation	2,465	0.8	10.0	9.5	6.4
University of Nebraska	1,538	0.3	10.1	9.8	6.2
<b>NACUBO Over \$1 Billion (average)</b>	<b>4,270</b>	<b>4.3</b>	<b>10.8</b>	<b>10.4</b>	<b>7.2</b>

# Big Ten Asset Allocation

## Asset Allocation

Institution	US Equity	Fixed Income	Ex-US Equity	Real Estate	Venture Capital	Private Equity	Energy	Commodities	Hedge Funds	Distressed Debt	Cash/Other
University of Minnesota Endowment	15.7	17.2	16.9	7.2	14.1	6.8	4.4	0.0	8.9	5.3	3.5
University of Minnesota Foundation	19.4	24.0	5.7	3.1	12.0	5.7	6.1	0.0	22.3	2.6	-0.9
Northwestern University	13.2	10.1	16.4	7.1	13.6	7.5	7.1	2.1	20.8	1.7	0.4
The University of Maryland Foundation	27.9	4.9	15.2	9.3	0.0	9.0	5.7	0.0	24.9	3.1	0.0
The Ohio State University	8.8	5.4	9.1	5.0	0.6	13.6	7.2	0.0	45.6	4.1	0.7
Indiana University and Foundation	23.7	7.0	17.4	3.7	8.5	8.1	6.9	2.1	21.6	0.0	1.0
Michigan State University	21.8	4.7	22.1	1.7	4.3	8.3	2.6	1.3	29.4	1.3	2.6
University of Michigan	10.4	9.9	17.8	9.0	13.4	12.2	6.0	0.0	16.9	0.0	4.4
The Pennsylvania State University	31.9	10.8	20.4	2.7	7.0	6.0	3.1	3.4	7.7	2.1	4.9
Rutgers	17.7	10.7	17.9	5.6	4.0	3.9	4.8	2.8	23.4	0.7	8.5
University of Illinois	17.7	5.3	26.0	2.0	1.9	4.8	1.9	0.0	17.8	0.0	22.5
University of Illinois Foundation	33.3	18.6	24.2	4.0	0.2	3.8	0.0	0.0	9.3	0.0	6.6
Purdue University	24.9	10.0	20.0	3.1	5.8	5.9	4.6	0.0	24.4	0.0	1.3
University of Iowa and Foundation	14.5	15.6	20.9	4.6	0.1	11.1	6.3	5.2	2.2	19.6	0.0
University of Wisconsin Foundation	31.4	12.0	28.8	2.2	1.2	3.9	4.4	0.0	2.3	9.1	4.8
University of Nebraska	32.0	16.5	25.0	3.1	0.3	1.4	2.2	1.3	17.5	0.0	0.7
<b>NACUBO Over \$1 Billion (average)</b>	<b>16.7</b>	<b>8.4</b>	<b>19.4</b>	<b>4.6</b>	<b>5.4</b>	<b>9.3</b>	<b>4.9</b>	<b>0.7</b>	<b>20.6</b>	<b>2.3</b>	<b>2.6</b>



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