

UNIVERSITY OF MINNESOTA

BOARD OF REGENTS

Finance Committee

Thursday, September 12, 2013

9:30 - 11:30 a.m.

600 McNamara Alumni Center, West Committee Room

Board Members

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

Student Representatives

A G E N D A

1. Strategic Issues Related to the *Plan, Performance and Accountability Report* - R. Pfutzenreuter (pp. 2-5)
2. Financial Components of the 2013 State Capital Budget Request - R. Pfutzenreuter (pp. 6-9)
3. Annual Asset Management Report - R. Pfutzenreuter/S. Mason (pp. 10-40)
4. 2013-14 Committee Work Plan Discussion - D. McMillan/R. Pfutzenreuter (pp. 41-42)
5. Consent Report - Review/Action - R. Pfutzenreuter (pp. 43-55)
6. Information Items - R. Pfutzenreuter (pp. 56-83)



**UNIVERSITY OF MINNESOTA
BOARD OF REGENTS**

Finance Committee

September 12, 2013

Agenda Item: Strategic Issues Related to *University Plan, Performance and Accountability Report*

review review/action action discussion

Presenters: Vice President/CFO Richard Pfitzenreuter

Purpose:

policy background/context oversight strategic positioning

The Board of Regents will review the *University Plan, Performance and Accountability Report* on Friday, September 13, 2013. This discussion will highlight financial information contained in the report and provide additional supporting information on the University's financial strength.

Outline of Key Points/Policy Issues:

The fiscal realities resulting from the global economic downturn and budget challenges facing higher education make it increasingly important that the University of Minnesota establish clear financial measures to demonstrate its financial condition and ability to successfully manage its financial operations. The set of financial data and related ratios outlined in the *University Plan, Performance and Accountability Report* provides a means to evaluate the financial strength and direction of the institution. The ratios help analyze the financial solvency and viability of the University and are focused on the ability of the institution to meet current and future financial requirements.

Background Information:

The Board of Regents reviews the *University Plan, Performance and Accountability Report* annually.

Strategy: Ensure the University's Financial Strength

The global economic downturn and the new budget challenges facing higher education make it increasingly important that the University establish clear financial measures in order to demonstrate its financial condition and its ability to successfully manage its financial operations.

The set of financial data and related ratios outlined below provides a means to evaluate the financial strength and direction of the institution. The ratios help to analyze the financial solvency and viability of the University and focus on its ability to meet current and future financial requirements.

The first four ratios outlined below reflect the primary or most critical ratios used by Moody's Investors Services (Moody's) for the purpose of assigning a debt rating to the University. These four ratios paint a picture of the financial health of the organization. The resulting ratios are compared to the median ratio associated with the University's current Aa1 debt rating. This Aa1 debt rating is one notch below AAA, the top debt rating assigned by Moody's. The remaining two ratios have been developed to provide additional measures to evaluate financial viability. Financial ratios always consist of one number divided by another.

1. Total Financial Resources to Direct Debt

The first ratio compares total financial resources to direct debt. Total financial resources reflect the total financial wealth of the institution. The institution counts not only its total net assets but also the net assets of the key affiliated foundations, including assets held in permanent endowments. Non-financial resources, primarily the University's capital assets, are not included. The ratio measures the coverage of the direct obligations of the institution by all of the resources of the institution by dividing total financial resources by direct debt. The higher the ratio, the stronger the financial condition of the institution.

2. Expendable Financial Resources to Direct Debt

The second ratio measures expendable resources to direct debt. The ratio measures coverage of debt by financial resources that an institution can access in the intermediate term due to temporary spending restrictions. The amount includes unrestricted resources that are available for immediate expenditure. In the first ratio, the total financial resources including permanent endowments were divided by the total direct debt for the year; in the second ratio only "expendable" resources (financial resources that are expendable over the long run) are divided by direct debt. If expendable funds equal long-term debt, for example, the ratio would be 1.0. When expendable funds are twice the amount of long-term debt, the ratio is 2.0. Similar to the first ratio discussed above, the higher the ratio, the stronger the financial condition of the institution.

3. Actual Debt Service to Operations

The third ratio measures the debt service burden on the annual operating budget. To compute this ratio, actual annual debt service (principal plus interest) is divided by total operating expenses. A high ratio indicates a greater burden of debt service as part of the annual operating expenses of the institution which could compromise the ability of the institution to meet its mission activities. Certainly not all debt is bad, but it is important to ensure that the annual debt service payments are not consuming an increasing amount of the annual budget.

4. Expendable Financial Resources to Operations

This ratio is computed by dividing the total resources that an institution could spend on operations – the same numerator as in ratio #2 – by the total operating expenses for the year. As an example, if funds that could be spent were \$4 million and total operating expenses were \$2 million, the ratio would be 2.0 (\$4 divided by \$2). In this scenario, the institution could exist for two years with no new additional revenue before all the expendable resources were gone. If the situation was reversed and funds that could be spent were two million dollars and total expenses over the year were four million, the ratio would be 0.5 (\$2 divided by \$4). In this second scenario the institution could operate for only six months without new additional revenue. Relative to the Moody's benchmarks, the higher the ratio, the better the financial outlook.

5. Operating Margin

The point of the fifth ratio is to show the results of the institution's general operations – is the excess margin by which annual revenues cover operating expenses positive or negative and by how much, i.e., what is the surplus (or deficit) by which annual operating revenues exceed operating expenses? In business terms, is the institution making money or losing money in its basic mission activities? One understands immediately why this ratio is so important – if an institution is losing money in its basic operations over a period of time, eventually the institution will no longer be viable and will have to close. That point is more easily identified in retrospect than it is at the time, but one of the purposes of reviewing the operating margin each year is to provide a bellwether to warn of impending financial distress.

6. Return on Financial Resources

The sixth ratio, the return on financial resources, takes the change in total net assets, both restricted and unrestricted, from the beginning of the year to the end and divides that number by the total net assets at the beginning of the year. It might be helpful to compare this ratio to the operating margin. Whereas the calculation of the operating margin only includes the current year's operating results for the University, the change in net assets used in the calculation of the return on financial resources includes everything that happened over the year – expected, unexpected, the stock market, operations, and the affiliated foundations' net assets. Both unforeseen and planned events can and will affect the return on financial resources. As a result, decreases are not a cause for concern if the financial reason for the drop is understood and is a one-time financial event from which the institution can recover.

Table 3-27 highlights the ratios for the University for the three most recent fiscal years, compared with Moody's median for FY2012 for Aa1-rated institutions.

Budget Development and Planning

In 2006-07, the University implemented a fully-allocated revenue and cost budget model. All revenues and all costs of the institution are attributed or charged to the units whose primary mission is teaching, research, or public service (primarily the colleges on the Twin Cities campus and each system campus). Most revenues flow directly to these units as they are generated; the state appropriation is allocated annually to them by the Board of Regents; and the costs of all support or administrative functions are charged to them through a series of allocation formulas that vary by cost "pool." These units are held accountable for the financial activities that occur within them, so they are responsible for understanding

and managing their diverse revenue streams and their costs of operation, including their direct cost of mission work and the indirect or support costs they are charged through the budget model. This type of financial model requires transparency in decision making by academic leadership and a concentrated effort on the part of all support and administrative units to provide value-added, excellent service. It promotes incentives for sound fiscal management and continuous improvement, as all units benefit from lowering costs and maximizing revenues.

In support of its financial and budgeting model, the University has recently developed two efforts that will guide planning and budgetary analysis into the future. The first is a long range financial planning model that projects revenues and costs for a desired number of years into the future based on a set of assumptions. The goal is to provide a tool for leadership to predict the budget challenge in any given year or years under a “current operations” assumption scenario and then to highlight revenue and expense options that can be pursued to address academic goals and budget challenges. The assumptions for defined revenue sources or cost categories can be adjusted throughout the year as new information is available, making this tool flexible for decision making.

The second effort is an in-depth analysis of the fully allocated costs and revenues for each of the University’s mission activities. Based initially on 2009-10 data, and updated for 2010-11 and 2011-12, the study identifies what the University spent on the direct and indirect (support) costs for instruction, research, public service, auxiliary operations, and student aid. Calculations are done at the all-University level and by college and campus. Using the cost data, the study includes a methodology to calculate the full instructional cost per full-year-equivalent student at the undergraduate, graduate and professional level – University averages, as well as calculated costs per college/campus. The study also identifies which revenue sources paid for each of those mission activities. The intention is to use the rich information uncovered in this study to better understand what drives costs in the different units and what the potential impact will be on these activities as revenues change over time. The data is meant to offer an internal comparison of results over time, rather than a way to measure against other institutions.

Table 3-27. University of Minnesota FY2010-FY2012 financial ratios compared with Moody’s 2012 medians for Aa1-rated institutions.

Ratio	June 30, 2010	June 30, 2011	June 30, 2012	Moody’s 2012 Aa1 Median
Total Financial Resources to Direct Debt	3.49	3.74	3.75	2.32
Expendable Financial Resources to Direct Debt	2.36	2.61	2.62	1.76
Actual Debt Service to Operations	2.63%	3.00%	3.00%	3.30%
Expendable Financial Resources to Operations	0.71	0.86	0.87	0.66
Operating Margin	1.95%	3.36%	2.63%	4.8%
Return on Financial Resources	8.43%	17.43%	-5.15% *	2.50%

*The negative ratio for 6/30/12 is due to a net decrease in total financial resources from 6/30/11 to 6/30/12, primarily caused by the decrease in net nonoperating revenues.

Source: Office of Budget and Finance, University of Minnesota; Moody’s Investors Service



**UNIVERSITY OF MINNESOTA
BOARD OF REGENTS**

Finance Committee

September 12, 2013

Agenda Item: Financial Components of 2014 State Capital Budget Request

review review/action action discussion

Presenters: Vice President/CFO Richard Pfitzenreuter

Purpose:

policy background/context oversight strategic positioning

The 2014 capital request is reflective of the project priorities outlined in the recently approved Six-Year Capital Plan.

The 2014 capital request continues to conform to the following principles and goals used in the development of the most recent Six-Year Capital Plan:

- Ensure student success
- Ensure research productivity and scholarly impact
- Fulfill our statewide mission
- Protect public assets and investment
- Responsibly managing the University's finances

Outline of Key Points/Policy Issues:

The 2014 capital request is built upon a combination of funds appropriated by the State of Minnesota (\$232.7 million) and resources committed by the University of Minnesota (\$66.3 million). The total cost of the capital plan is \$299.0 million.

The administration will outline individual project costs, highlight required University contributions to each project and identify the scope of debt financing to meet the required share of each capital project.

Background Information:

In June 2013, the Board of Regents approved the 2013 Six-Year Capital Plan for FY 2014-19. The projects in the 2013 capital request were included in the approved Six-Year Capital Plan for funding in future years.

In December 2012, the Board of Regents approved the 2013 State Capital Budget Request, which included HEAPR, the Tate Laboratory project, the UMC Wellness Center and the Research Laboratory Improvement Fund.

President's Recommendation for Action:

The President recommends approval of the 2012 State Capital Budget request.

Request Summary (Prioritized):

Location		Project	Total	State	U of MN
SYSTEM	HEAPR		\$ 100,000	\$ 100,000	\$ -
UMTC	Tate Science and Teaching Renovation		\$ 85,000	\$ 56,667	\$ 28,333
UMTC	Microbial Sciences Research Building		\$ 45,000	\$ 30,000	\$ 15,000
UMC	Campus Wellness Center		\$ 15,000	\$ 10,000	\$ 5,000
SYSTEM	Research Laboratory Improvement Fund		\$ 18,000	\$ 12,000	\$ 6,000
UMD	Chemical Sciences and Advanced Materials Building		\$ 36,000	\$ 24,000	\$ 12,000
Total:			\$ 299,000	\$ 232,667	\$ 66,333

Project Summaries:

1. *Higher Education Asset Preservation and Replacement (HEAPR)* – This request is for funds used system-wide to maximize and extend the life of the University’s existing physical plant. Individual projects will fall into one of four broad categories – Health and Safety, Building Systems, Energy Efficiency, and Utility Infrastructure. The system-wide HEAPR advisory committee makes recommendations on individual projects to the Vice President for University Services using data from the Facility Condition Assessment and Building Code Deficiency Report. HEAPR funds do not require a one-third University funding match.
2. *Tate Lab of Physics Rehabilitation* – This request is for funds to renovate the existing 200,000 square foot Tate Laboratory of Physics building after the Physics and Nanotechnology Building, funded in 2011, is completed. With the construction of the Physics and Nanotechnology building, Tate Laboratory of Physics will be a partially occupied building with obsolete labs, inflexible classrooms, and an antiquated infrastructure. This project will create vibrant, flexible spaces for the delivery of enhanced research and support services to the School of Physics and Astronomy and the School of Earth Sciences, while providing well-designed, modern, and flexible classrooms for physics and earth sciences instruction. In addition, the project will ensure that Tate remains a contributing component of the Northrop Mall Historic District.
3. *Microbiology Research Building* – This request is for funds to construct a new laboratory building for microbial research in the College of Biological Sciences (CBS), College of Food Agricultural and Natural Resource Sciences (CFANS), and College of Veterinary Medicine (CVM). The new facility will accommodate 25 – 35 principal investigators in microbiology-focused fields such as plant pathology, animal infectious diseases, microbial systems & synthetic biology, and fungal evolution. Two components of the MnDrive Initiative, (*Securing the Global Food Supply and Advancing industry and*

Conserving the Environment) are heavily dependent upon expertise in the microbial sciences. This project will maximize investments in labs by providing only collaboration space and flexible work stations for office needs instead of traditional, assigned, individual offices. The project will allow the University to decommission one or possibly two existing obsolete facilities.

4. *Campus Wellness Center* – This request is for funds to renovate, and expand the existing campus wellness/recreation center at the Crookston campus. The current facility can no longer support the activities of students, athletes, and the Crookston community as a shared use facility. The purpose of the expansion is to support the academic mission of the University by providing a supportive facility that enriches campus life and fosters a sense of social integration and commitment to the campus. The project is anticipated to renovate existing space and provide newly constructed facilities. As a focal point for student and staff activity on campus, the center will provide a place to teach and learn behaviors that are conducive to a healthy lifestyle. Healthy lifestyle choices built on the seven dimensions of wellness will be the common thread of programming and services offered by the Center. In the early phases of project design, the project is also considering integrating an admissions/welcome center function, which would take advantage of proximity to the main entrance to receive prospective students and their families.
5. *Research Laboratory Improvement Fund* – This request is for funds to improve existing research facilities systemwide. Updated research facilities are critical to continuing the University's strong record of research discoveries. Funding will be used to replace the University's existing Bee research facility in the College of Food, Agricultural, and Natural Resource Sciences (CFANS), replace obsolete greenhouses in the College of Biological Sciences (CBS), and support continued improvements to the Aquatic Invasive Species research center. The remaining funds will be used system-wide for targeted, strategic investments in research laboratory space that will provide the margin-of-excellence that is needed to attract and retain top researchers or to obtain competitively awarded sponsored research grants.
6. *Chemical Sciences and Advanced Materials Building* – This request is for funds to construct a new laboratory / classroom building on the Duluth campus. The proposed building will house the research programs and advanced undergraduate instructional laboratories in the Department of Chemistry and Biochemistry. As the emphasis on and success in research and scholarship have increased, there has been growth in the number and productivity of research active faculty, the number of graduate and undergraduate research students, and success in attracting external research dollars. At the same time, enrollment growth in undergraduate chemistry courses and the number of majors in the department have contributed to the expansion of graduate programs and created a need for more advanced undergraduate instructional labs. The proposed building will also include a large flexible learning space, active learning classrooms and several traditional classrooms to address campus instructional space needs.



**UNIVERSITY OF MINNESOTA
BOARD OF REGENTS**

Finance Committee

September 12, 2013

Agenda Item: Annual Asset Management Report

review review/action action discussion

Presenters: Vice President/CFO Richard Pfitzenreuter
Chief Investment Officer Stuart Mason

Purpose:

policy background/context oversight strategic positioning

To report on the annual performance results for assets managed by the Office of Investments & Banking (OIB) for the fiscal year ended June 30, 2013. The OIB prepares this report, as required by Board policy, for review by the Investment Advisory Committee and the Board of Regents.

Outline of Key Points/Policy Issues:

Annual Asset Management Report

- The invested assets of the University totaled approximately \$2.3 billion on June 30, 2013.
- The Consolidated Endowment Fund (CEF) value as of June 30, 2013, was \$1,079.7 million, an increase \$102.1 million over the last year after distributions of \$45.2 million. The total investment return for CEF was up 12.8% over the last 12 months compared to a benchmark return of 8.9%.
- The investment return for CEF exceeded the benchmark through outperformance in all of the underlying asset classes except for Inflation Hedges. The primary contributor was the Private Capital portfolio, which was up 19.3% vs. its specific benchmark of 8.9%. This alone added 3.9% of outperformance vs. the CEF benchmark. Public equities, risk mitigating fixed income and return generating fixed income were minor contributors, adding, 0.5%, 0.8% and 0.3%, respectively, of outperformance to the fund. Inflation Hedges and other miscellaneous factors detracted from performance slightly, decreasing the outperformance by 0.6% and 0.7%, respectively.
- The market value of the short-term reserves (TIP) was \$1,031.4 million as of June 30, 2013. This was an increase of \$59.2 million over the year. The investment return on the portfolio over the last 12 months was -0.25% compared to a benchmark return of 0.26% due largely to the effect of a longer duration in the portfolio.

Annual Asset Management Report

June 30, 2013

UNIVERSITY OF MINNESOTA

Office of Investments & Banking

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- Overview – All Funds
- Highlights and Commentary
 - Consolidated Endowment Fund (CEF)
 - Temporary Investment Pool (TIP)
 - Group Income Pool (GIP)
 - RUMINCO
- New/Terminated Managers
- Targeted Investment Managers

Overview – All Funds

OIB Managed Funds (\$ millions)	June-13	June-12	June-11
Consolidated Endowment Fund (CEF) *	\$ 1,079.7	\$ 977.6	\$ 956.8
Long-Term Reserves (GIP)**	46.4	44.7	44.3
Short-Term Reserves (TIP)	1,031.4	972.2	824.9
RUMINCO Ltd.	35.8	32.6	32.3
Invested Assets Related to Indebtedness	<u>87.0</u>	<u>189.7</u>	<u>181.9</u>
Total	2,280.3	2,216.8	1,963.5

13

Other Funds Not Managed by OIB

U of M Foundation Fund

\$ 1,845.1 \$ 1,560.1 \$ 1,564.4

Faculty Retirement Plans

\$ 3,087.8 \$ 3,107.8 \$ 3,012.2

* Includes TIP, GIP and PUF investments, which as of 6/30/13 were \$123.6, \$12.2, and \$447.7 respectively
 ** GIP market value excludes the \$12.2 invested in CEF. Elsewhere in the presentation this value is included for purposes of calculating total fund performance

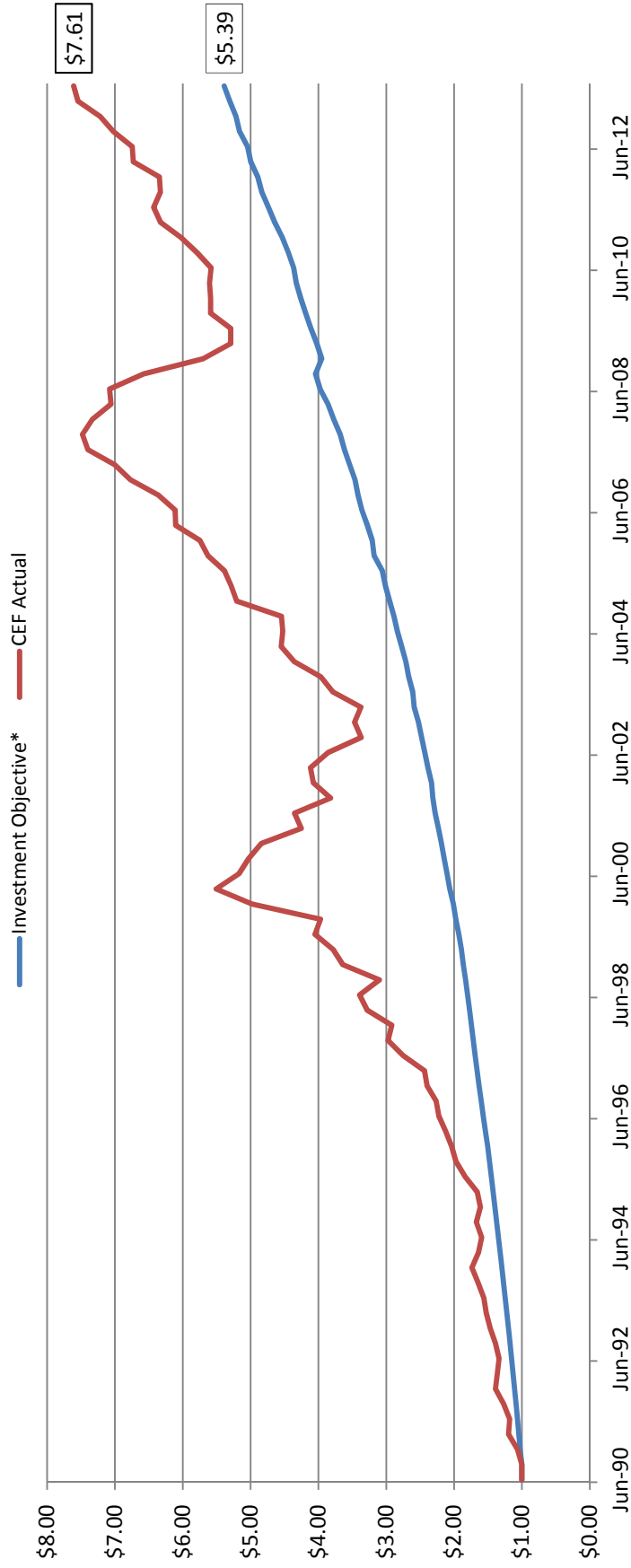
CEF Review

Investment Policy Objectives:

- 1) Maintain Inflation Adj. Endowment Value
- 2) Acceptable Risk Parameters
- 3) Stable Distributions

Maintain Inflation-Adj. Endowment Value

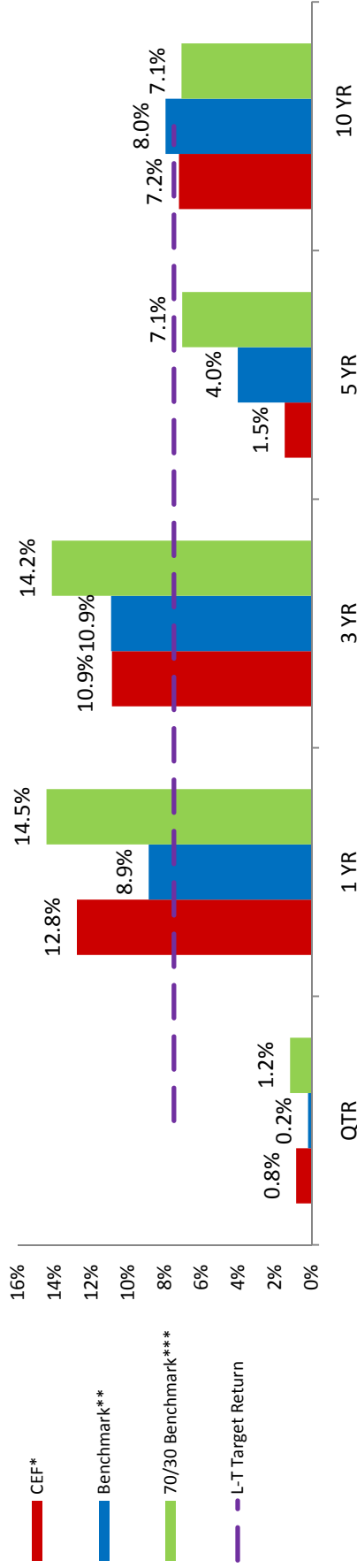
CEF Endowment Performance Growth of \$1 since June 30, 1990



*CPI plus payout plus actual expenses (calculated quarterly)

Maintain Inflation-Adj. Endowment Value

CEF Performance vs. Benchmarks



- **One year outperformance driven primarily by the following:**

- Strategic overweight and significant outperformance by private capital managers, especially in venture and distressed debt
- Tactical overweight to MBS and other non- US Treasury securities in risk mitigating fixed income
- Outperformance (112 bps) by public equity managers
- Outperformance (516 bps) by return generating fixed income managers
- Fund Value \$1,080MM****

* Net of Manager Fees

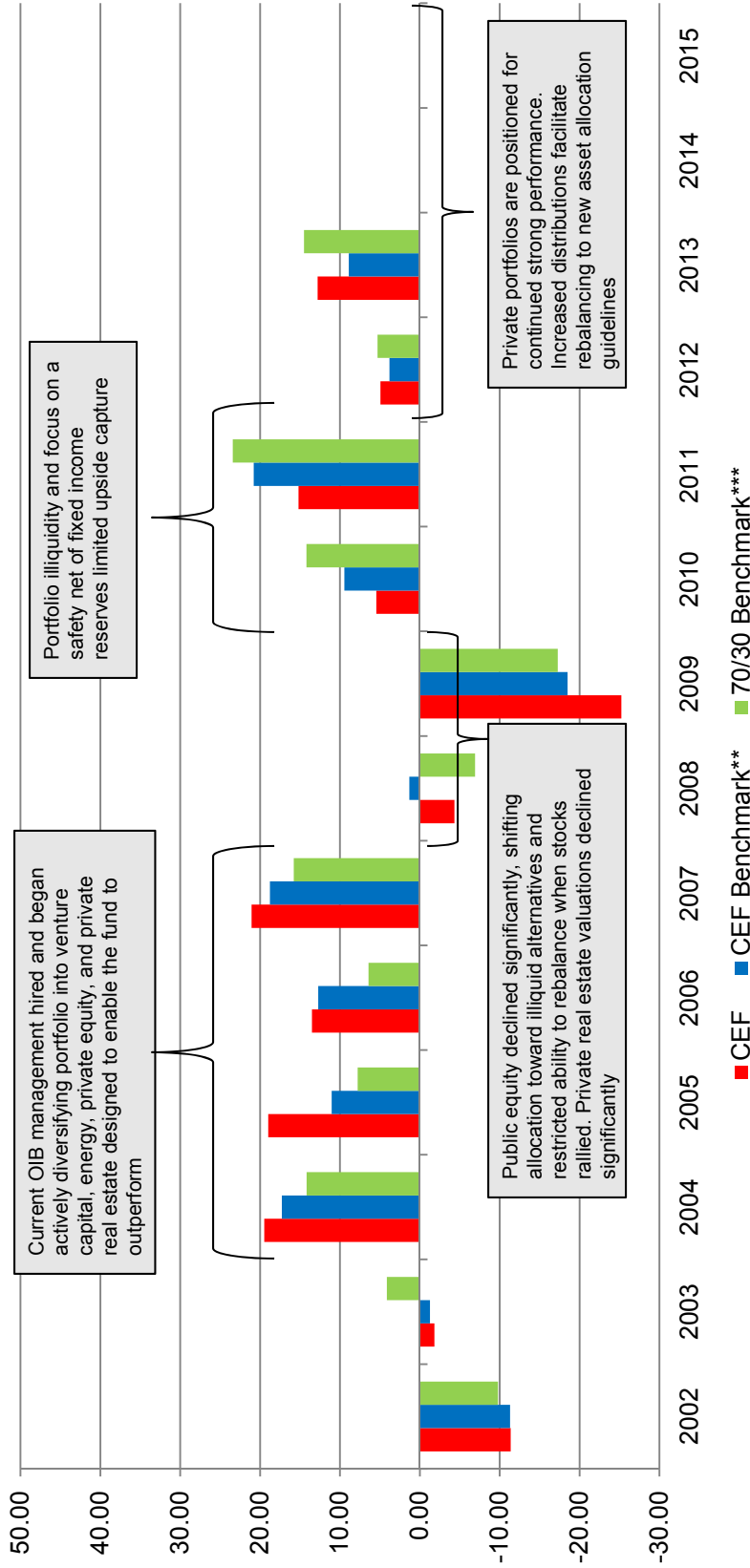
** Benchmark: CEF Custom Index

*** Benchmark: 70% Russell 3000, 30% Barclays Capital Aggregate

**** Total CEF Market Value includes \$123.6 of TIP and \$12.2 of GIP investments

Maintain Inflation-Adj. Endowment Value

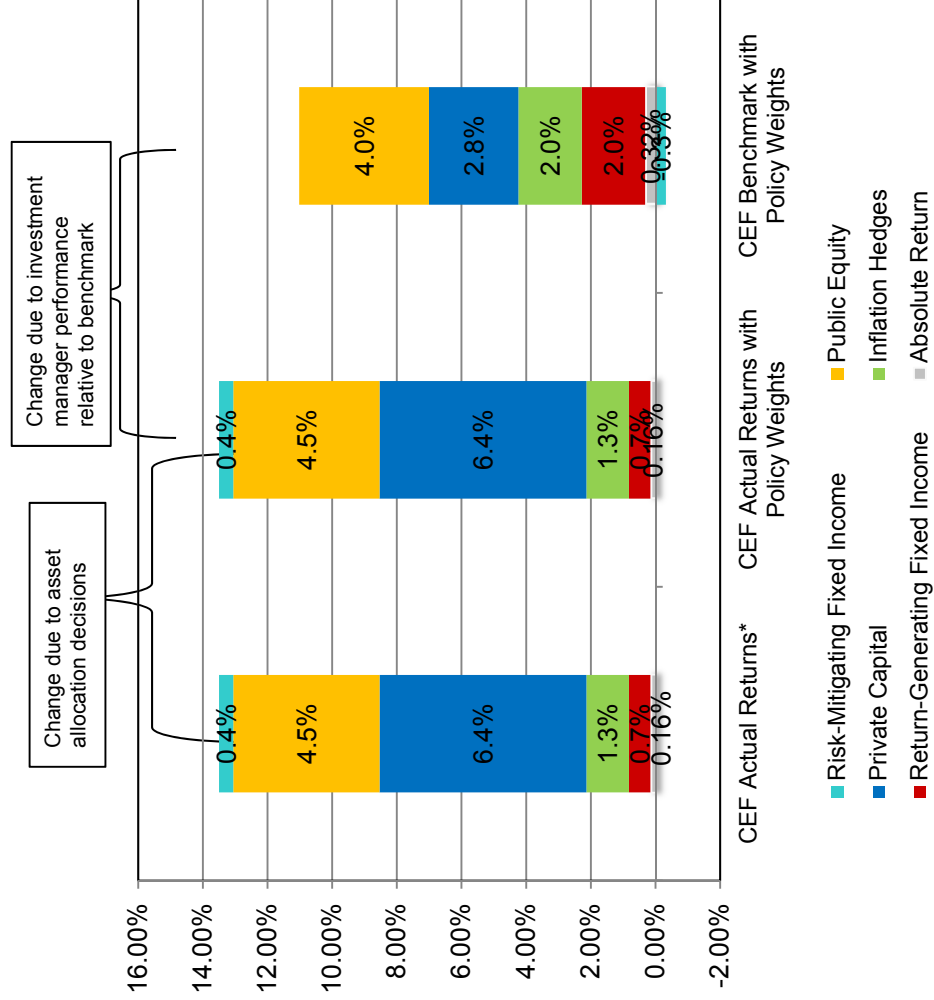
Fiscal Year Performance* Comparison



* Net of Manager Fees
 ** Benchmark: CEF Custom Index
 *** Benchmark: 70% Russell 3000, 30% Barclays Capital Aggregate

1 Year Contribution to Return by Asset Class

Fiscal Year 2013

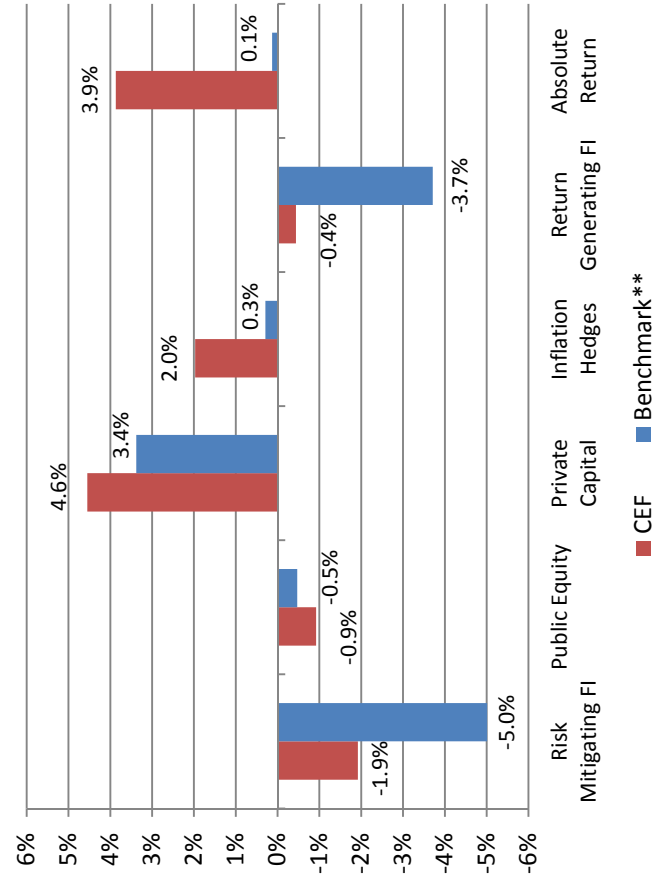


Asset Allocation Decisions	Effect (%)
As we have been transitioning to the recently approved asset allocation guidelines, we have used a dynamically weighted benchmark which removes the effect of allocation decisions	N/A
Individual Manager Performance	Effect (%)
Outperformance by risk-mitigating fixed income managers	0.8
Outperformance by return-generating fixed income managers	0.3
Outperformance by public equity managers	0.5
Outperformance by private capital managers	3.6
Underperformance by inflation hedge managers	(0.6)
Outperformance by absolute return managers	0.0
Other	(0.7)
Total	3.9

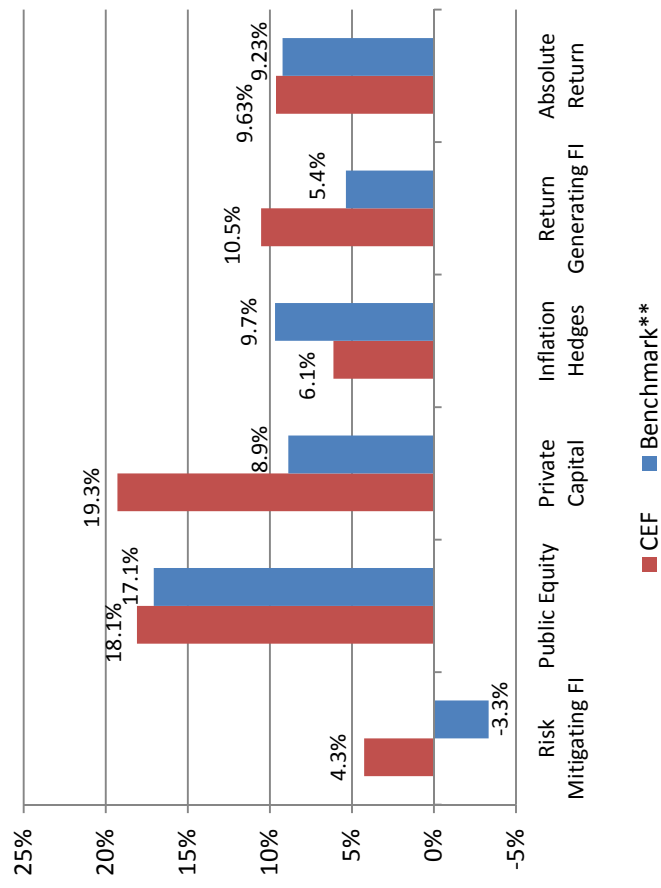
Maintain Inflation-Adj. Endowment Value

Sector vs. Benchmark Returns

1 Quarter



1 Year

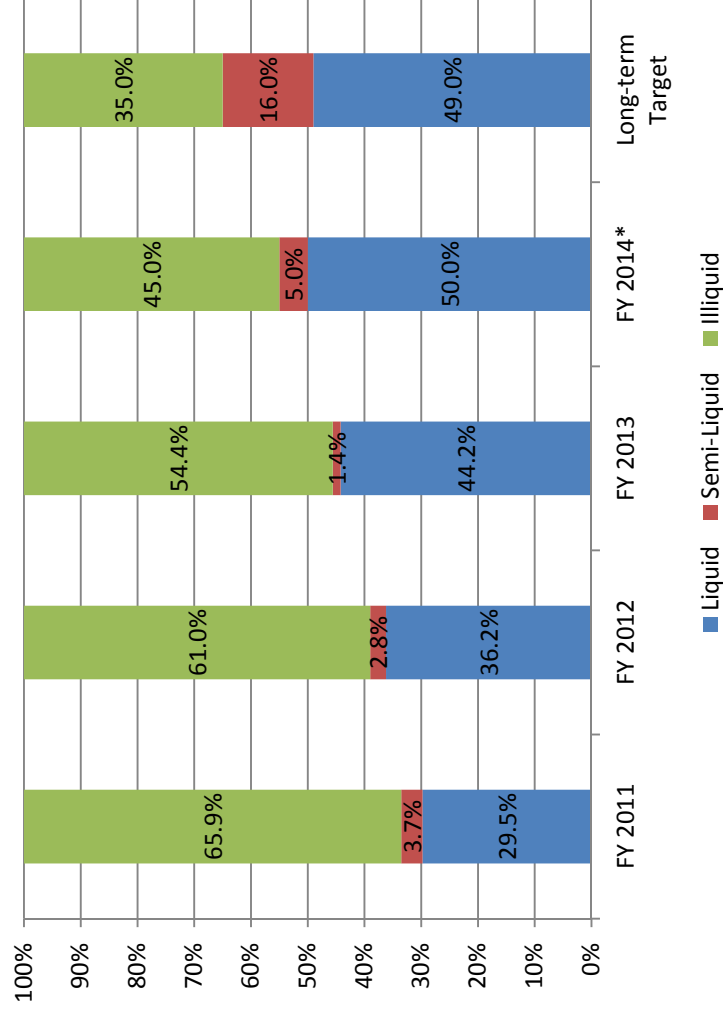


* Net of Manager Fees

** Components of CEF Custom Index

Acceptable Risk Parameters

Liquidity Transition Plan



Definition: Liquidity is a measure of assets that can be sold at reasonable prices within one year. Higher levels of liquidity enable timely rebalancing and responses to new opportunities

Target: Within a target range of 30 to 40% invested in illiquid assets. Illiquid assets market value plus unfunded commitments should not exceed 55%

Strategy: Reduce illiquid investments to 35-40% of the overall portfolio over the next 2 years

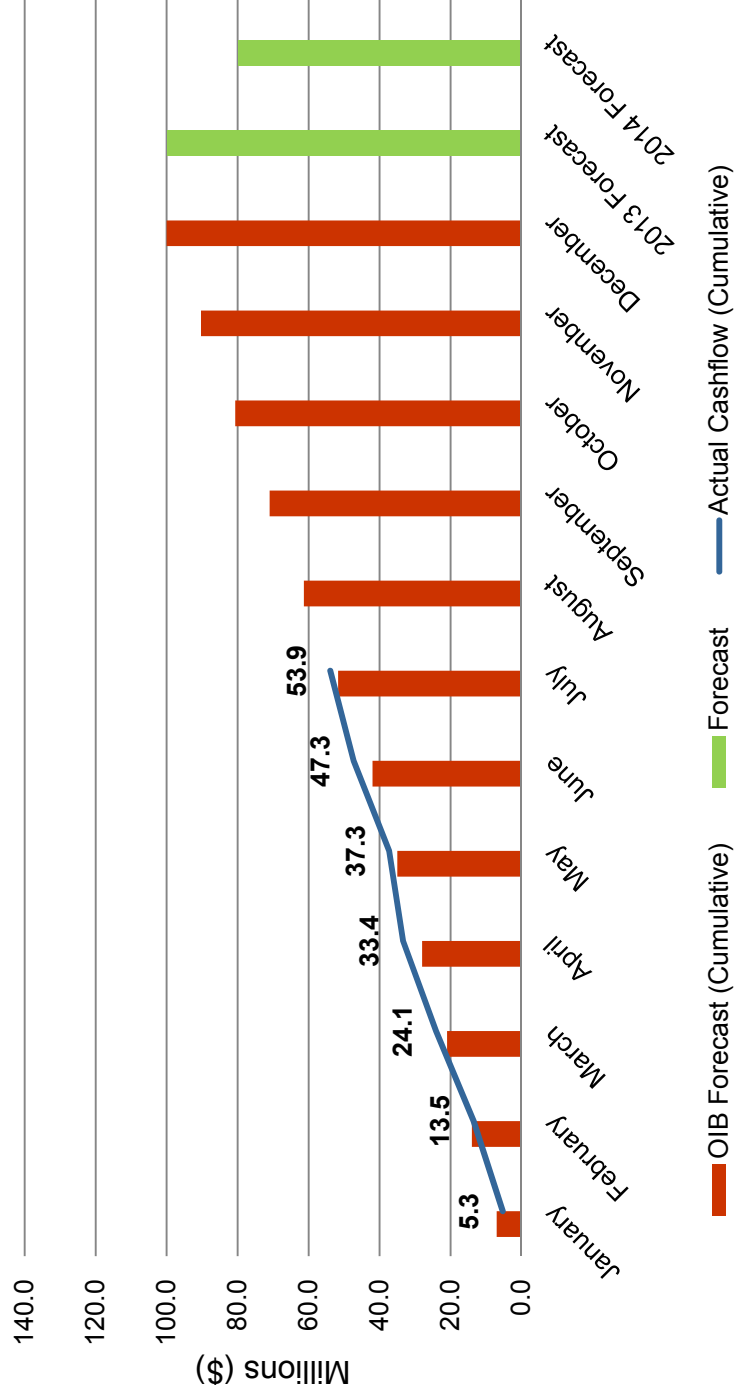
* Forecast

Portfolio Exposures vs. Policy

Exposure	2012 Portfolio	2013 Portfolio	Long-Term Policy	Ranges
Risk Mitigating Fixed Income	7.1	9.2	12.0	8 - 15
Public Equity	23.4	30.3	30.0	25 - 35
Private Capital	36.0	31.1	20.0	15 - 25
Inflation Hedges	23.2	20.0	15.0	10 - 20
Return Generating Fixed Income	7.5	8.6	12.0	10 - 15
Absolute Return	2.8	0.8	11.0	8 - 15
Total	100.0	100.0	100.0	

Acceptable Risk Parameters

**Net Cash Flows from Illiquid Portfolio
Actual vs. Forecast**



Acceptable Risk Parameters

Top 10 Managers

Manager	Total Market Value (\$M)	% of Total Fund
Blackrock*	182.9	16.9
TCW	86.0	8.0
Goldman Sachs	51.9	4.8
Acadian	40.0	3.7
PineBridge	36.3	3.5
Vontobel	27.2	2.5
Pembroke	27.2	2.5
Insight	26.8	2.5
MHR	26.7	2.4
Oaktree	26.6	2.4

Definition: Maintain concentration in managers and funds at appropriate levels

Target: No individual fund > 10%, no manager > 20%

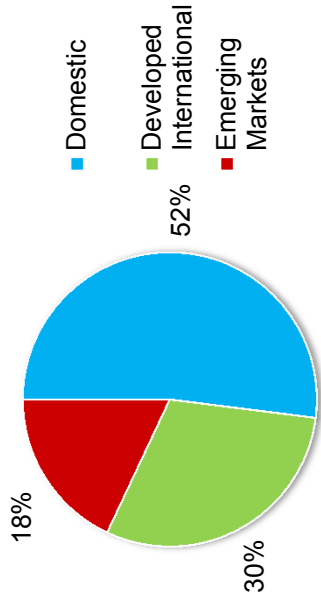
Strategy: Closely monitor large core positions and adjust holding size to maintain compliance with targets

* Blackrock investment consists of three funds, the largest of which is a Russell 1000 index fund at 9.9% of the endowment

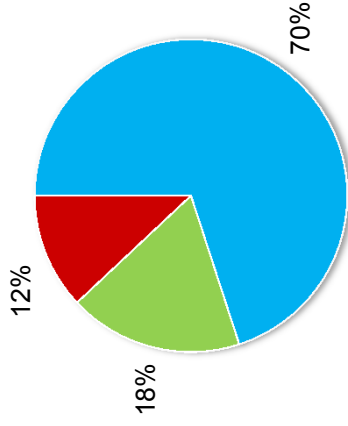
Acceptable Risk Parameters

Geographic Diversification

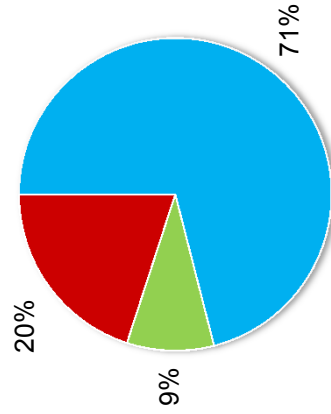
Public Equity



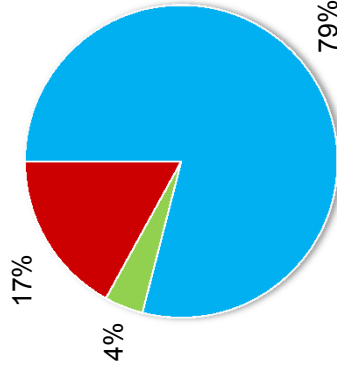
Private Capital



Real Assets



Fixed Income



Definition: Geographic concentration limits opportunity and exposes the portfolio to unnecessary risk of regional cycles

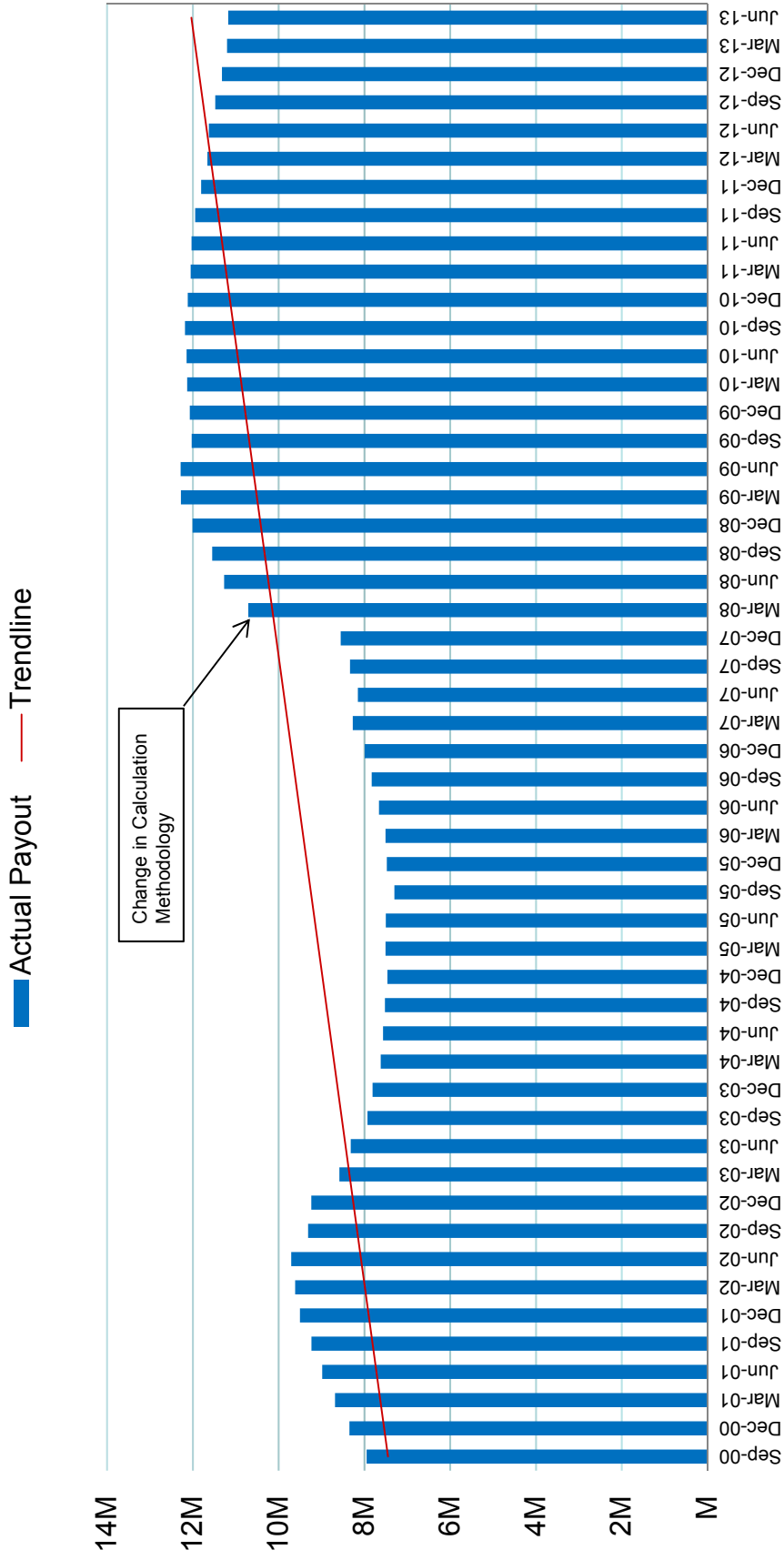
Target: Diversified geographic exposure for each asset class

Strategy: Diversify geographic and non-US Dollar exposure

Region	Percent	Market Value
Domestic	67%	\$717
Developed Int'l	17%	\$186
Emerging Markets	16%	\$177

Stable Distributions

Actual CEF Distribution (gross of reinvestment)



FY 2013 Investment Strategy Update

Liquidity - Allocated private partnership distributions to public equity and return generating fixed income portfolios

Asset Allocation - Executed rebalancing plan towards new asset allocation target ranges in effect July 1, 2012

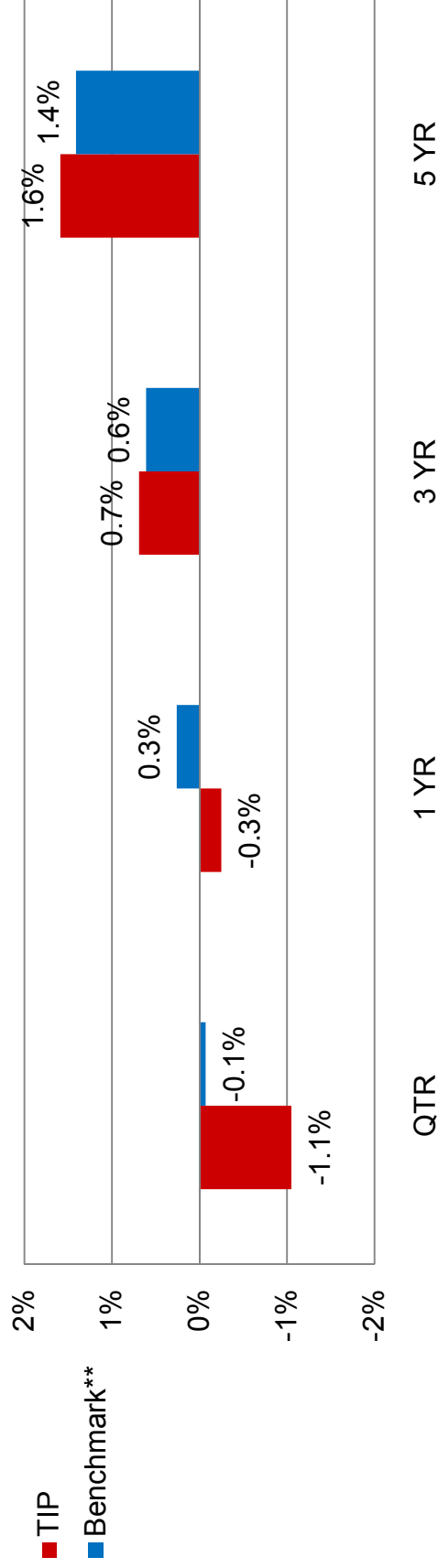
Risk Mitigating FI- Identified new managers and funded dedicated allocations to short-duration treasuries and US TIPS as part of new asset allocation guidelines

Public Equities- Identified new managers and funded dedicated allocations to US small cap and emerging markets equity portfolios

TIP Review

TIP – Total Fund Performance*

Market Value: \$1,031M



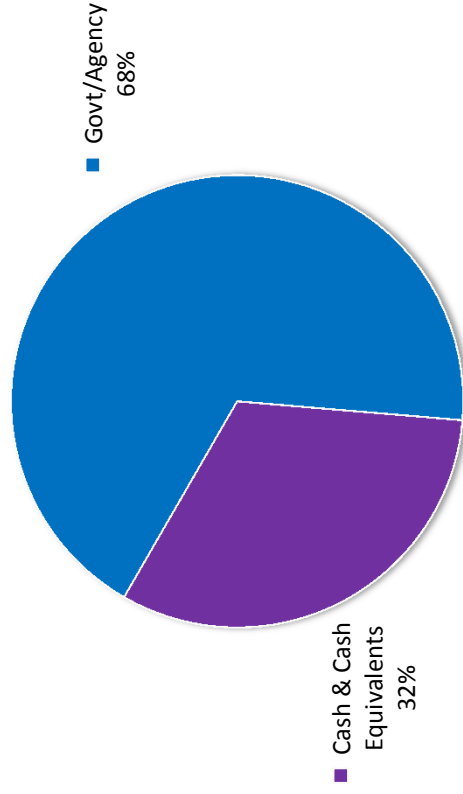
- One year underperformance driven primarily by:
 - Spread widening in US agency and mortgage sectors
 - Longer portfolio duration relative to benchmark

* Performance is net of manager fees and excludes balances at Wells Fargo and US Bank used to offset banking fees
 ** Benchmark: 70% BofAML U.S. Treasuries 1-3 Yr / 30% 91 Day T-Bill
 *** Total TIP Market value excludes the \$123.6 investment in CEF

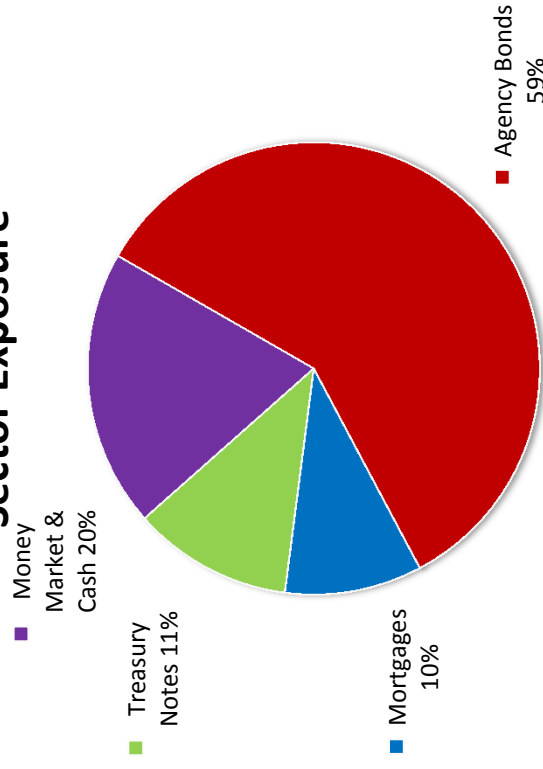
TIP – Asset Allocation

Market Value: \$1,031M

Credit Quality



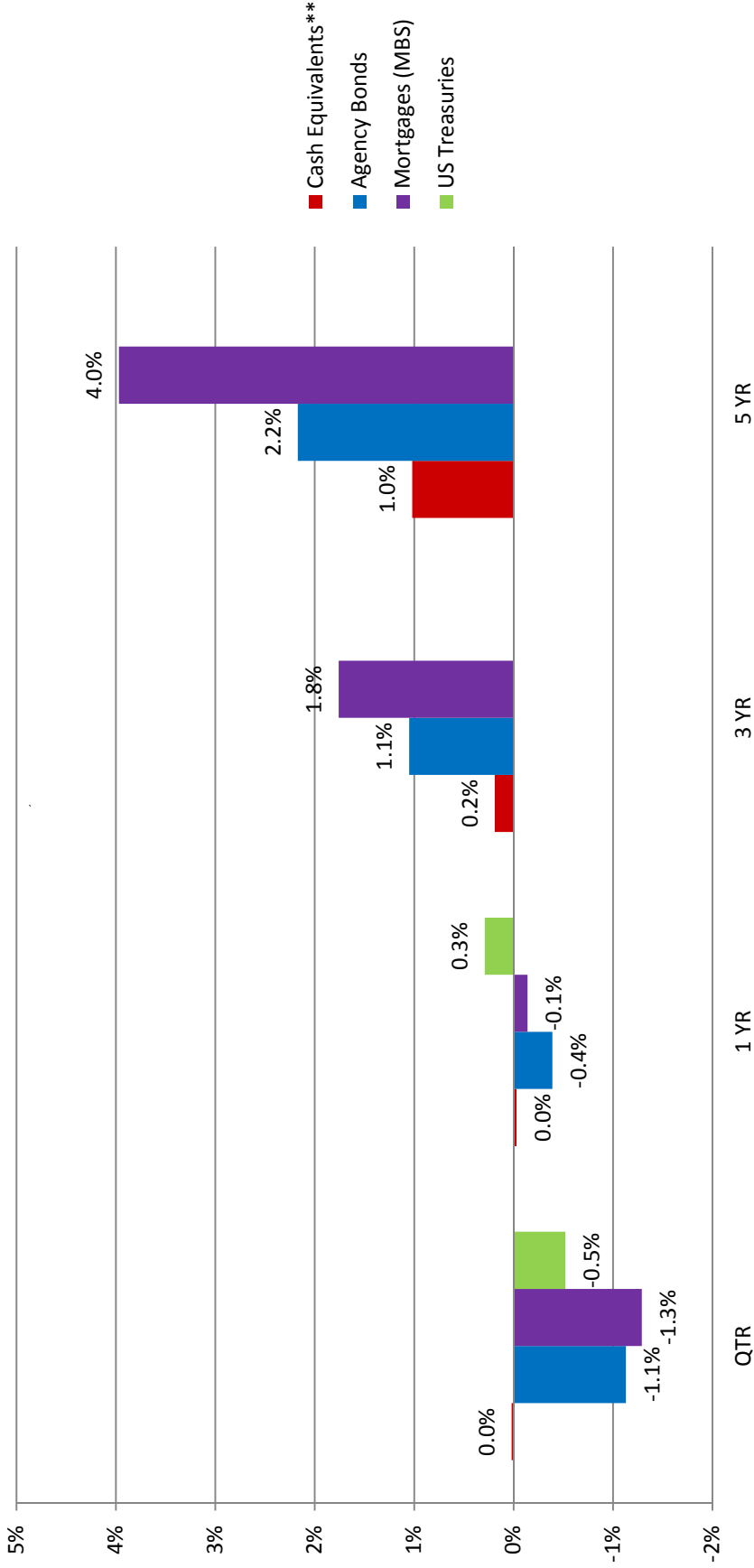
Sector Exposure



Statistic	Portfolio	Benchmark
Average Duration	2.41	1.40
Average Credit Rating	Govt/Agency	Govt/Agency
Current Yield	0.90%	0.27%

TIP – Performance* by Sector

Market Value: \$1,031M



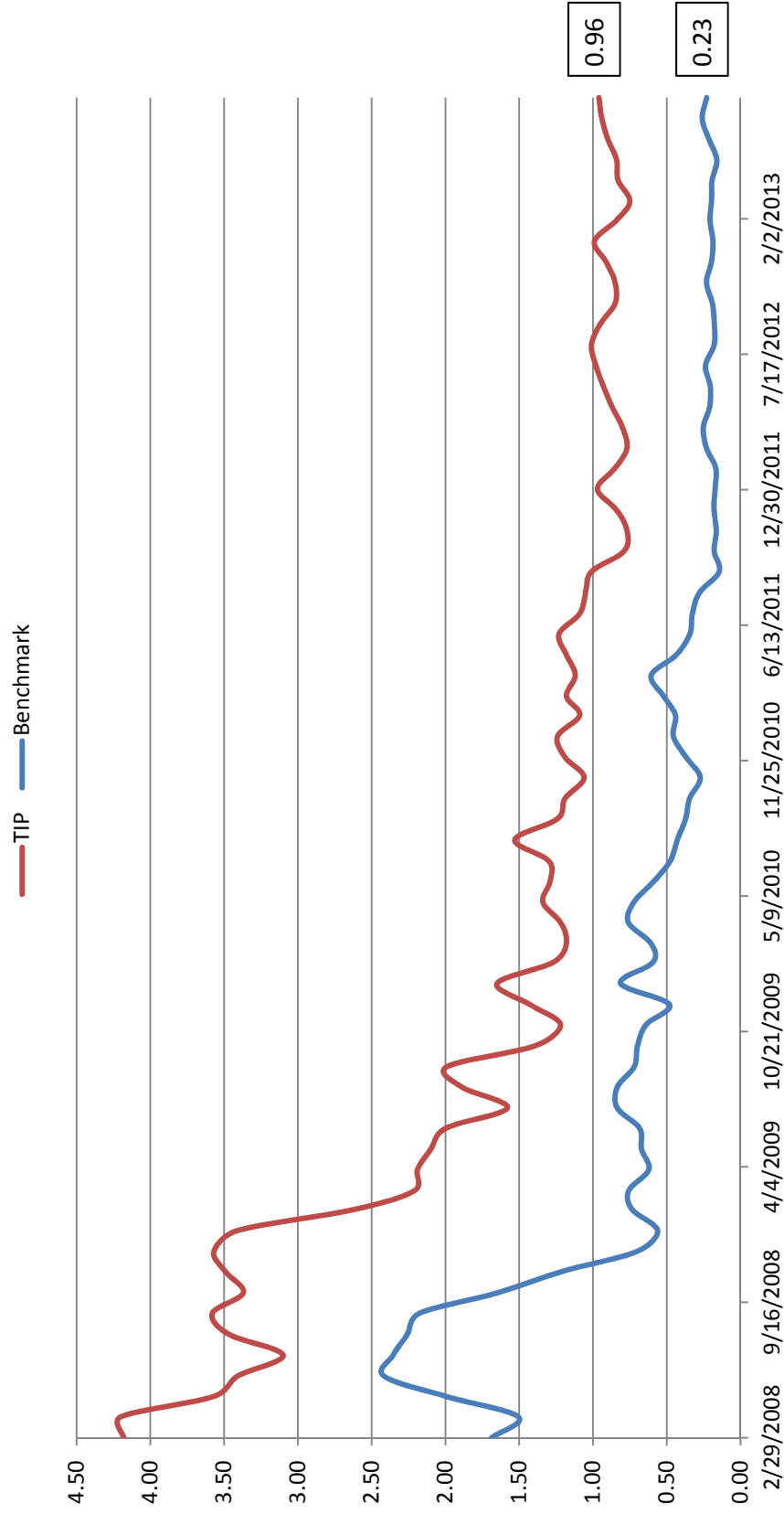
*Performance is net of manager fees

** Performance excludes balances at Wells Fargo and US Bank used to offset banking fees

TIP – Yield History

Market Value: \$1,031M

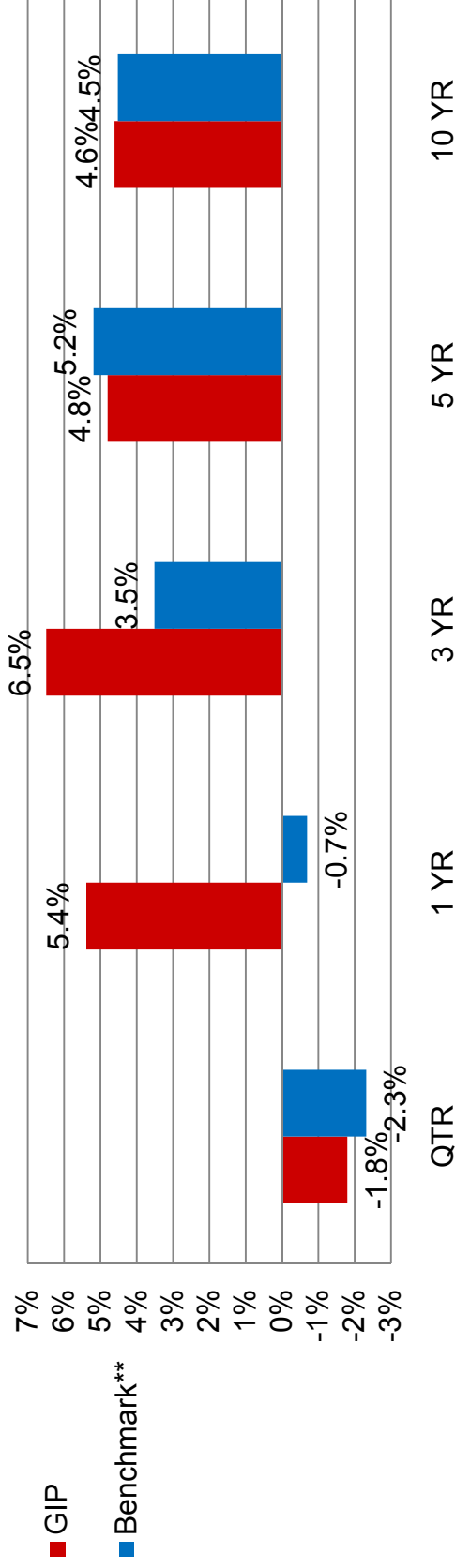
Yield History Relative to Benchmark



GIP Review

GIP – Total Fund Performance*

Market Value***: \$58M



- One year outperformance driven primarily by:
 - Investment in CEF (21% allocation) outperformed the GIP benchmark by 1535 bps
 - Underweight to US Treasuries relative to the benchmark
 - EM debt outperformed the GIP benchmark by 756 bps
 - TCW and PIMCO Total Return Funds outperformed the GIP benchmark by 736 and 189 bps, respectively

* Net of Manager Fees

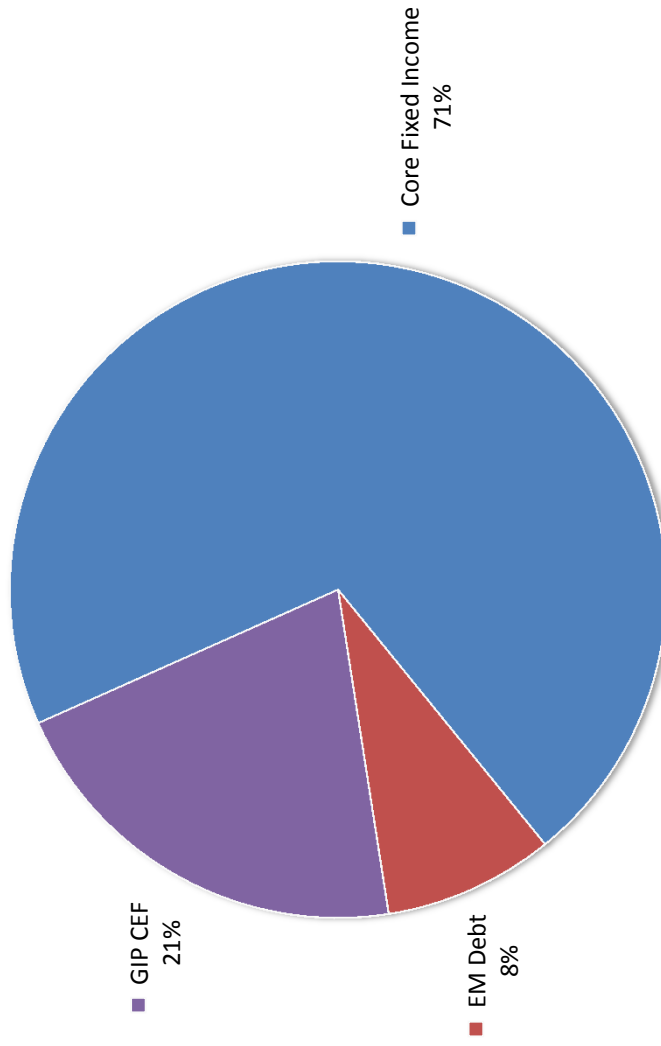
** Benchmark: 100% Barclays Capital Aggregate

*** Total GIP market value and investment performance includes the \$12.2 investment in CEF

GIP – Asset Allocation

Market Value: \$58M

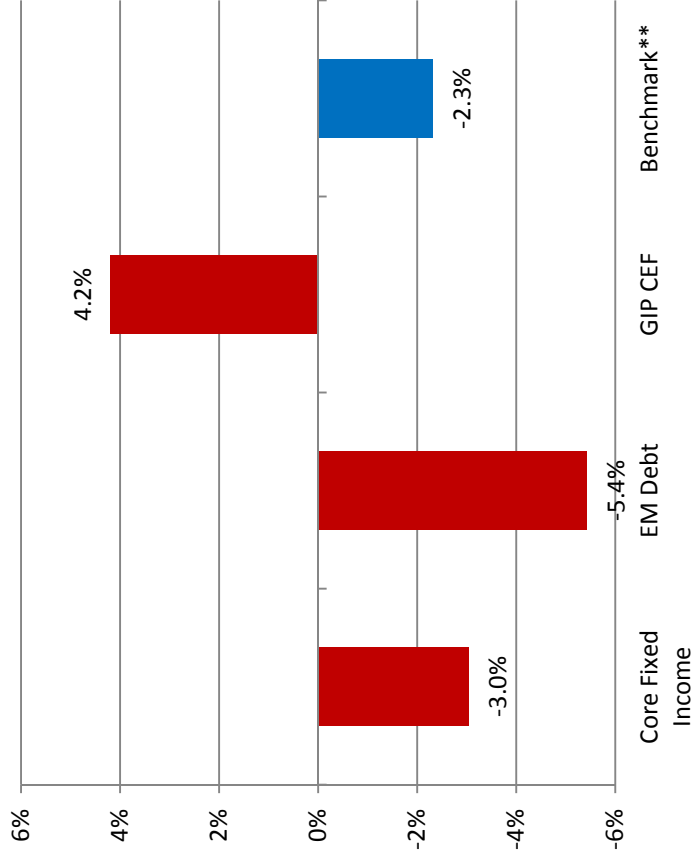
Portfolio Composition



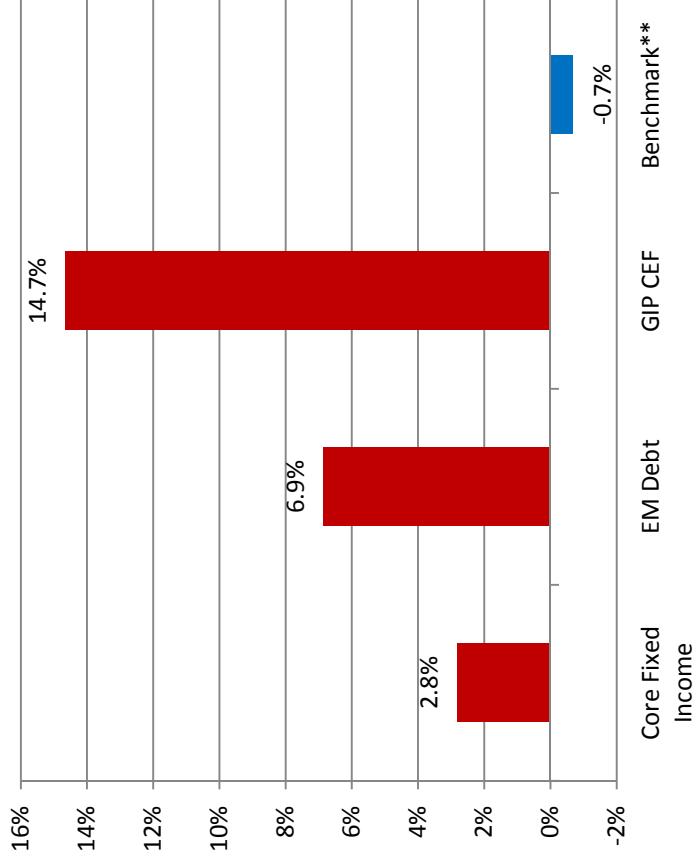
GIP – Performance* by Sector

Market Value: \$58M

1 Quarter



1 Year

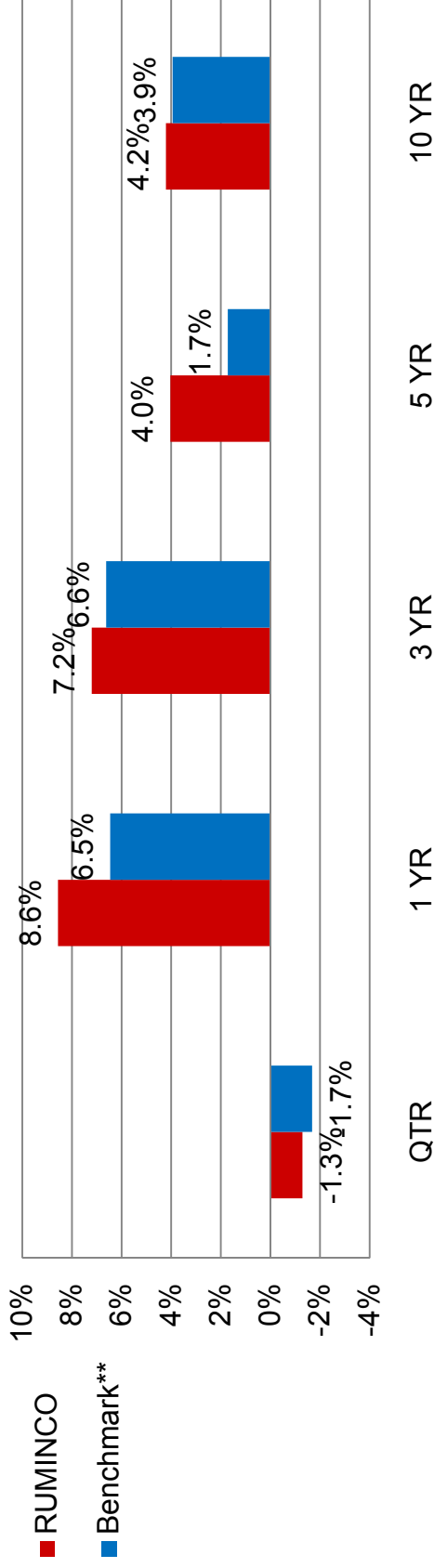


* Net of Manager Fees
 ** Benchmark: 100% Barclays Capital Aggregate

RUMINCO Review

RUMINCO – Total Fund Performance*

Market Value: \$36M



- One year outperformance primarily driven by:
 - Outperformance of short-duration fixed income relative to the benchmark
 - Slight overweight to Global Equities
 - Significant overweight to MBS in the TCW Total Return portfolio

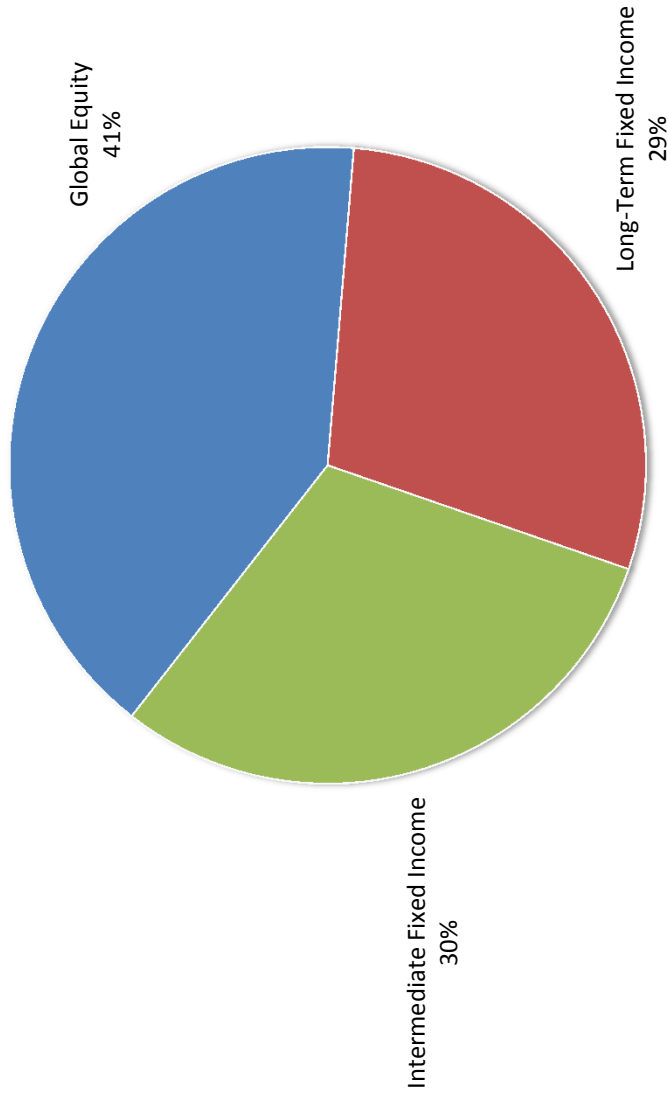
* Net of Manager Fees

** Benchmark: 40% MSCI AC World Net, 30% Barclays Capital Aggregate, 30% BofAML U.S. Corp & Govt 1-3 Yr

RUMINCO – Asset Allocation

Market Value: \$36M

Portfolio Composition



FY 2013 Investment Manager Changes

New:

- Lazard Emerging Markets Distressed Asset Strategy (CEF)
- Vontobel Global Emerging Markets (CEF)
- Pembroke LTD (CEF)
- Westwood Global Investments (CEF)

Terminated:

- None

Targeted Investment Managers

The University and the Office of Investments & Banking (OIB) recognizes the opportunity of working with targeted investment managers which are defined as emerging investment managers (less than \$250 million under management) and minority / women owned investment firms.

The OIB has an open door policy when interviewing investment managers and makes every effort to consider targeted managers consistent with the financial and fiduciary responsibilities of the University.

In the last year, OIB hired two targeted investment managers: Sit Investment Associates, and Icon Ventures. OIB held initial meetings or preliminary due diligence sessions with 14 targeted managers.



**UNIVERSITY OF MINNESOTA
BOARD OF REGENTS**

Finance Committee

September 12, 2012

Agenda Item: 2013-2014 Committee Work Plan Discussion

review review/action action discussion

Presenters: Regent David McMillan
Vice President/CFO Richard Pfutzenreuter

Purpose:

policy background/context oversight strategic positioning

To discuss issues and priorities for inclusion in the 2013-2014 Finance Committee Work Plan.

Outline of Key Points/Policy Issues:

The 2013-2014 Finance Committee Work Plan is a summary of agenda items and is scheduled to be presented to the Finance Committee in September. The plan will guide discussions during the upcoming 12 months.

Background Information:

The annual Finance Committee Work Plan is discussed annually.

Draft for Discussion Only
Finance Committee Agenda Items
2013-2014

Date	Topics
2013	
September 12-13	<ul style="list-style-type: none"> • Strategic Issues related to University Plan, Performance & Accountability Report • Annual Asset Management Report • Committee Work Plan Discussion • 2014 State Capital Request
October 10-11	<ul style="list-style-type: none"> • Administrative Cost Definition and Benchmarking Report: Update • Annual Operating Budget Development Process • Challenges Facing Higher Education: Moody's Report
November	No Meeting
December 12-13	<ul style="list-style-type: none"> • Resolution Related to Issuance of Debt: ACC • Resolution Related to Issuance of Debt: Other U of M GO Debt(CHP) • Supplemental State Budget Request(TBD): Review/Approval(Resolution) • Annual Financial Report
2014	
January	No Meeting
February 13-14	<ul style="list-style-type: none"> • Cost of Mission Analysis: Update • Annual Capital Finance & Debt Management Report(Debt Capacity Update) • Annual Insurance & Risk Management Report • Annual Investment Performance: Peer Comparisons • Central Reserves Update(written update only)
March 27-28	<ul style="list-style-type: none"> • TBD
April	No Meeting
May 8-9	<ul style="list-style-type: none"> • Annual Capital Budget: FY2014 - Review • President's Recommended Annual Operating Budget FY2015 – Review • Long Range Financial Planning Update
June 12-13	<ul style="list-style-type: none"> • President's Recommended Annual Operating Budget FY2015 – Approval(Resolution) • Annual Capital Budget: FY2014 – Approval(Resolution) • University Tax Compliance Activities & Programs • Enterprise Systems Upgrade Project: Update
July (TBD)	Committee to meet only if there are urgent agenda items that require action.
August	No Meeting

Other items of interest

- Audit Committee: Risk Profile Discussion – Finance: September
- ACC Lease: October
- Operational Excellence Update: September Full Board
- Six- Year Capital Improvement Plan: TBD

Every Month: Transactional Business:

- Consent Report(General Contingency Items, Purchase of Goods & Services > \$1,000,000)
- Information Items



**UNIVERSITY OF MINNESOTA
BOARD OF REGENTS**

Finance Committee

September 12, 2013

Agenda Item: Consent Report

review review/action action discussion

Presenters: Vice President/CFO Richard Pfitzenreuter

Purpose:

policy background/context oversight strategic positioning

General Contingency

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

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

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

Outline of Key Points/Policy Issues:

General Contingency

An expenditure of \$250,000 by University Services for an upgrade to the University Stores sprinkler system requires Board approval.

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

- To HTC Global Services Group, Kelly Mitchell Group, Inc., Modis Iceberg Technology Group and other approved vendors for an estimated additional \$13,500,000 for consulting services for both direct services and backfill for the Enterprise System Upgrade Program (ESUP) for the period of July 1, 2013, through December 31, 2014. The funding for these contracts is included in the overall ESUP budget, which was approved by the Board of Regents at its July 11, 2012, meeting. This request will cover anticipated contractor contracts through the deployment of the upgraded systems. Vendors were selected through a competitive process.
- To Metropolitan Council and Metro Transit for an estimated \$18,500,000 for the continuation of the UPass/Metropass programs from August 26, 2013, to September 2018 including options for renewal for Parking and Transportation Services. The annual estimated cost of \$3,700,000 per year will incorporate the actual volume of base card sales from the previous academic year and approved or anticipated transit fare increases. Annual price per pass will be communicated to the University in January for the following contract/academic year. This program will be financed annual by user fees, transportation fees and parking revenues. Total cost of the contract is estimate based on current price per pass and current sales volume for individual passes based on changes to regional transit rates. See enclosed documentation regarding basis for vendor selection.

- To Midwestern Higher Education Compact (MHEC) for an estimated amount of \$7,200,000 to purchase property insurance for the University of Minnesota for the period July 1, 2013, through June 30, 2016. This contract is funded through the Office of Risk Management and Insurance. Vendor was selected through a competitive process.
- To Nikon, USA for an estimated \$1,178,000 for three (3) separate micro to nano-optical imaging systems for the University Imaging Centers (UIC). The three (3) separate micro to nano-optical imaging systems will be purchased with UIC funds currently available. Vendor was selected through a competitive process.
- To Illumina, Inc. for \$3,250,000 for manufacturer reagents as well as instrumentation service agreements as needed for the period of September 12, 2013, through June 30, 2015, for the Genomics Department core facility, University of Minnesota Genomics Center (UMGC). The reagents from Illumina will be purchased with departmental funds. As an Internal Service Organization, the University of Minnesota Genomics Center will order reagents as needed for expression, genotyping, and next-generation sequencing projects provide to University researchers. See enclosed documentation regarding basis for vendor selection.
- To Oracle Corporation for \$1,035,096 to renew Oracle PeopleSoft Campus Solutions computer software licenses, updates, and maintenance support for the one-year period September 26, 2013, through September 25, 2014, for the Office of Information Technology (OIT). The Office of Information Technology funds these product support and software updates to ensure continuous operation of Oracle PeopleSoft Campus Solutions. The expense will be covered from OIT's central O&M funds. Its FY14 budget includes planning and funding for this expense.
- To Veolia Energy Solutions, LLC for an estimated \$7,380,000 for steam and electrical generating facilities plant operator services for the period of February 1, 2014, through January 31, 2019, including optional contract extensions through January 31, 2029, for Facilities Management. These services will be purchased with funds from the Steam Utility Internal Service Organization. The funds were identified in Facilities Management's Fiscal Year 2013-14 budget process. Vendor was selected through a competitive process.

Background Information:

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

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

President's Recommendation for Action:

The President recommends approval of the Consent Report.

General Contingency

2013-14 General Contingency:		Allocation	Balance	Purpose
1	Recipient			
	FY2014 General Contingency		\$1,000,000	
	Carryforward from FY2013 into FY2014	1,406,141	2,406,141	
1	New items this reporting period:			
2				
3	Dean of the College of Liberal Arts	20,000	2,386,141	Consultant to negotiate Showboat management agreement
4	Vice President for University Services	* 250,000	2,136,141	U Stores sprinkler upgrade
5				
6	FY 2013-14 Ending Balance		2,136,141	
7				
8	* Subject to Board approval			
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Purchase of Goods and Services \$1,000,000 and over

To HTC Global Services Group, Kelly Mitchell Group, Inc., Modis, Iceberg Technology Group and other approved vendors for an estimated additional \$13,500,000 for consulting services for both direct services and backfill for the Enterprise Systems Upgrade Program (ESUP) for the period of July 1, 2013 through December 31, 2014.

ESUP will upgrade the University's PeopleSoft enterprise systems and perform other related systems improvements. The project uses contractors in two primary roles: first, to provide skilled staffing for the project itself; and second, to backfill positions in University departments that have been assigned to the project. The estimated \$13,500,000 is in addition to the \$8,015,000 that was approved by the Board of Regents on September 13, 2012.

HTC Global Services Group, Kelly Mitchell Group, Inc., Modis, and Iceberg Technology Group are on the University of Minnesota's University Wide Contract list. Vendors on this list were selected by the University through a competitive process and are approved for use by the University. The vendors have been chosen for their expertise in providing experienced technology consultants.

The funding for these contracts is included in the overall ESUP budget, which was approved by the Board of Regents at its July 11, 2012 meeting. This request will cover anticipated contractor contracts through the deployment of the upgraded systems.

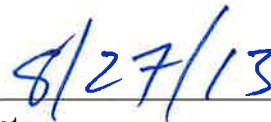
Submitted by: Andrew Hill

Director, Enterprise System Upgrade Program
150 Williamson Hall
Phone: 612-625-1387
Email: ajhill@umn.edu

Approval for this item requested by:



Enterprise Systems Upgrade Program Executive
Steering Committee Chair



Date

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

To Metropolitan Council and Metro Transit for an estimated \$18,500,000 for the continuation of the UPass/Metropass programs from August 26, 2013 to September 2018 including options for renewal for Parking and Transportation Services. The annual estimated cost of \$3,700,000 per year will incorporate the actual volume of base card sales from the previous academic year and approved or anticipated transit fare increases. Annual price per pass will be communicated to the University in January for the following contract/academic year.

The UPass/Metropass programs provide the University with unlimited ride passes that are accepted on Twin Cities transit routes. Metro Transit is the only entity providing complete transit services within the Twin Cities metro area. The University offers discounted transit passes to its actively enrolled students and current employees. The goal of the UPass/Metropass program is to offer a commuting alternative thereby reducing regional traffic and campus parking congestion. By increasing transit ridership, the University reduces its carbon footprint and promotes environmental preservation.

UPass/Metropass ridership has continuously demonstrated its effectiveness as an alternative transportation option year over year. Total rides alone in the UPass program during academic year 2011-2012 is 4.74 million – providing its sustainability and promoting the goals originally set forth since the program inception in 2000-2001 where 1.5 million rides were taken.

This program will be financed annual by user fees, transportation fees and parking revenues. Total cost of the contract is estimate based on current price per pass and current sales volume over the contract period. Overall cost is dependent on actual sales and annual price adjustments for individual passes based on changes to regional transit rates.

Submitted by: William Stahlman
Interim Director of Parking and Transportation Services
300 Transportation & Safety Building
511 Washington Ave SE
Minneapolis Campus
Phone: 612-625-9543

Approval for this item requested by:


VP or Exec. VP Signature

8/22/13

Date

Pamela Wheelock
Vice President, University Services

Rationale for Exception to Competitive Bidding

This purchase has not been competitively bid because it is a purchase available only from another governmental agency or public entity. Metro Transit is the only fully comprehensive bus transit system in the Twin Cities metro area. It partners with other smaller regional transit providers to ensure comprehensive service.

Both the UPass and Metropass programs offer a commuting alternative to reduce regional traffic and campus congestion by increasing bus ridership and at the same time promoting environmental conservation. The UPass provides students discounted unlimited semester-period bus pass while the Metropass program provides qualifying University employees a discounted unlimited annual bus pass.

Procedures undertaken to ensure reasonableness of price included negotiations between Parking and Transportation Services and the Metropolitan Council (Met Transit) to reach an acceptable pricing agreement. Negotiation sessions included experienced managers and directors from both parties qualified to make judgment of reasonableness in the bus transit industry. Financial officials and legal counsel from both parties analyzed and approved the contract terms.

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

To Midwestern Higher Education Compact (MHEC) for an estimated amount of \$7,200,000 to purchase property insurance for the University of Minnesota for the period July 01, 2013, through June 30, 2016.

The Office of Risk Management and Insurance purchases property insurance through a shared insurance program controlled by The Midwestern Higher Education Compact (MHEC).

MHEC is a non-profit regional organization, established by compact statute, to assist Midwestern states in advancing higher education through interstate cooperation and resource sharing. Member states are: Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, and Wisconsin. Each member state appoints five individuals to a 60-member governing body of legislators, higher education leaders, and governors' representatives. Member state obligations, program fees, and foundation grants finance MHEC activities and support initiatives to increase regional collaboration and achieve outcomes that could not be realized by institutions and systems acting independently.

The university entered into the MHEC property insurance program in the mid-nineties. We tested the MHEC program with an RFP in Fiscal Year 11. MHEC's terms and pricing were superior to those we gathered during the RFP process.

This contract is funded through the Office of Risk Management and Insurance.

Submitted by: Steven Paul Pardoe, Director,
Office of Risk Management and Insurance
Office of the Controller
207 West Bank Office Building
Phone: 612-625-0062

Approval of this item is requested by:



VP or Exec. VP Signature

8/28/13

Date

Rationale for Exception to Competitive Bidding

This purchase has not been competitively bid because

The Minnesota Legislature, in conjunction with the Legislatures of Illinois, Indiana, Iowa, Kansas, Michigan, Missouri, Nebraska, North Dakota, Ohio, South Dakota, and Wisconsin, created the Midwestern Higher Education Compact (MHEC) to increase regional collaboration and achieve outcomes that could not be realized by institutions and systems acting independently.

Risk Management purchases property insurance through the MHEC group-purchase property insurance program.

Procedures undertaken to ensure reasonableness of price included

Risk Management tested the MHEC program with an RFP in Fiscal Year 11. MHEC's terms and pricing were superior to the alternative.

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

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

To Nikon, USA for an estimated \$1,178,000 for three (3) separate micro to nano-optical imaging systems for the University Imaging Centers (UIC).

The University Imaging Centers (UIC) compose a network of core imaging facilities for optical imaging, light microscopy and basic electron microscopy located in multiple locations within the Medical School/Academic Health Center and College of Biological Science at the University of Minnesota. The UIC cores serve approximately 460 labs in the design of imaging experiments, choice of and training on suitable imaging systems, and image processing, visualization and analysis. The UIC provides more than 25 advanced imaging systems including wide-field microscopy, spinning disk, Total Internal Reflectance Fluorescence (TIRF), laser-scanning confocal microscopes, multi-photon microscopes (one them with Second Harmonic Generation), laser capture micro-dissection, live cell systems, scanning and transmission electron microscopy, whole animal fluorescence and chemiluminescence scanners, assorted optical microscopes and gel-scanners and printer services. These acquisitions will permit investigators to aggressively pursue research questions unable to be addressed by any other approach.

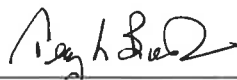
Funding from a 2011 UofM I3 (Infrastructure Investment Initiative) was earmarked for super-resolution microscope to be added to the UIC's capabilities as part of a larger program addressing the advanced imaging needs across the University. After extensive evaluation of different technologies (PALM, STORM, SIM, STED) and four vendors, including demonstrations we identified structured illumination microscopy (SIM) as the best compromise between performance, flexibility and ease of use, key factors for a core facility at this stage of the technology. In spring 2013 the Cancer and Cardiovascular Research Building (CCRB) site of the UIC became available and with it the need to procure instrumentation. It became evident that to best leverage our resources the purchases should be combined to obtain the best possible outcome.

A competitive RFP was issued in July 2013 including the SIM super resolution microscope for Jackson Hall along with confocal and wide field microscopes to be installed at the Cancer Cardiovascular Research Building site. Nikon, USA was selected as a result of a competitive RFP and provided the best overall pricing and service costs.

The three (3) separate micro to nano-optical imaging systems will be purchased with UIC funds currently available.

Submitted by: Mark A. Sanders, Program Director
University Imaging Center
Rm 2-165D Jackson Hall
Mpls Campus
Phone: 612-626-3645

Approval for this item requested by:



VP or Exec. VP Signature

8/23/13

Date

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


To Illumina, Inc. for \$3,250,000 for manufacturer reagents as well as instrumentation service agreements as needed for the period of September 12, 2013 through June 30, 2015 for the Genomics Department core facility, University of Minnesota Genomics Center (UMGC).

Expression, genotyping, and next-generation sequencing projects provided by the UMGC, require manufacturer specific reagents to process samples using Illumina's HiSeq2500, HiSeq2000, MiSeq, iScan, cBot, and Tecan instruments. In order to provide consistent results and maintain manufacturer warranty, the instruments require reagents manufactured solely by Illumina. UMGC will provide core services to University of Minnesota researchers through fiscal year 2015.

The reagents from Illumina will be purchased with departmental funds. As an Internal Service Organization, the University of Minnesota Genomics Center will order reagents as needed for expression, genotyping, and next-generation sequencing projects provided to University researchers.

Submitted by: Karina Bunjer Sartorio, Scientist
University of Minnesota Genomics Center
MMC 613 Mayo
420 Delaware Street SE
Minneapolis, MN 55455
Phone (612) 626-5341
FAX (612) 626-8232

Approval for this item requested by:



VP or Exec. VP Signature

8/16/13

Date

Rationale for Exception to Competitive Bidding

This purchase has not been competitively bid because the Biomedical Genomics Center requires reagents from Genomics for Illumina HiSeq2000, GAIIX, iScan, cBot, and Tecan instruments to provide consistent research results for the University of Minnesota researchers.

Prices or discounts for this request are reasonable and represent a good value to the University of Minnesota. This judgment is based on discounts negotiated with Genomics for all reagents. Discounts range from 3% to 30% from Academic Research Pricing depending on the item and volume.

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

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

To Oracle Corporation for \$1,035,096 to renew Oracle PeopleSoft Campus Solutions computer software licenses, updates, and maintenance support for the one-year period September 26, 2013, through September 25, 2014, for the Office of Information Technology (OIT).

All full- and part-time University of Minnesota faculty, students, and staff are represented in and are served by the PeopleSoft Campus Solutions system. Among the mission-critical functions of this system are:

- *Tracking and billing of tuition and fees*
- *Processing of federal financial aid*
- *Class registration*
- *Processing of Admissions applications*
- *Producing official transcripts*
- *Awarding of degrees*
- *Payroll*
- *Benefits*
- *Hiring and maintenance of employee records throughout their employment*

The Oracle PeopleSoft "Software License and Services Agreement" provides software licenses, updates, and 7x24 technical support and problem resolution via telephone, the web, and on-site, if necessary. The high level of support provided by Oracle in the past has helped OIT maintain an excellent record for reliability and availability of this critical Enterprise system.

The Office of Information Technology funds these product support and software updates to ensure continuous operation of Oracle PeopleSoft Campus Solutions. The expense will be covered from OIT's central O&M funds. Its FY14 budget includes planning and funding for this expense.

Submitted by: Diane Wollner
Senior Director, OIT Business Office
1300 South Second Street
Mpls. Campus
Phone: (612) 626-1311
Fax: (612) 625-3521

Approval of this item is requested by:



Vice President and CIO



Date

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

To Veolia Energy Solutions, LLC for an estimated \$7,380,000 for steam and electrical generating facilities plant operator services for the period of February 1, 2014 through January 31, 2019 including optional contract extensions through January 31, 2029 for Facilities Management.

The University currently has two steam plants used to create pressurized steam and electricity to provide heating, supplemental electricity, and other utilities to the Twin Cities campuses. Operation, maintenance, and management services for these facilities are currently performed by a third-party under a contract which is due to expire on May 16, 2014.

The University is adding a state-of-the-art combined heat and power (CHP) facility to the Minneapolis campus to provide additional steam capacity, improve system reliability, and augment electrical generation. This new equipment will be ready for service in January 2016.

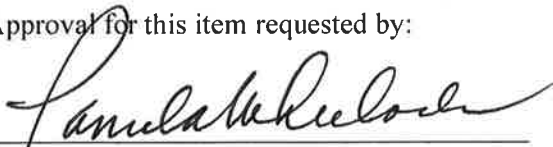
Due to the expiration of the existing service agreement and the addition of the CHP facility, the University issued a request for proposals (RFP) in March 2013 for plant operator services. The University received seven responses to the RFP. Veolia Energy Solutions, LLC provided competitive pricing, and was identified as the best qualified vendor due to the breadth and depth of their experience managing similar technology, their emphasis on providing innovative service solutions, and their demonstrated ability to safely operate plants at a level of reliability required for medical and research facilities.

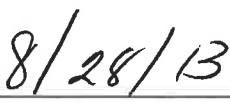
The purchase is for a five-year contract with the possibility of two, five-year extensions. The contract includes an annual management fee of \$492,000. Fifty percent of the fee is fixed and will be paid to Veolia each year of the contract. Fifty percent is incentive-based and will be paid if Veolia meets performance criteria identified by Facilities Management. The initial contract term is \$2,460,000 for fixed and incentive payments over five years. In addition, Veolia will pass through costs associated with labor to operate the facilities, repair and maintenance, consumables, subcontracted services, and general and administrative expenses. Pass-through costs under the existing service agreement have ranged from \$7.9 million to \$8.4 million annually over the past five years. Facilities Management expects the projected pass-through costs to be within this range or lower based on Veolia's proposal.

These services will be purchased with funds from the Steam Utility Internal Service Organization. The funds were identified in Facilities Management's Fiscal Year 2013-14 budget process.

Submitted by: Michael Berthelsen
Donhowe Building, Room 329
Twin Cities Campus
Phone: (612) 626-1091
Fax: (612) 626-0234

Approval for this item requested by:


Vice President, University Services


Date



**UNIVERSITY OF MINNESOTA
BOARD OF REGENTS**

Finance Committee

September 12, 2013

Agenda Item: Information Items

review review/action action discussion

Presenters: Vice President/CFO Richard Pfitzenreuter

Purpose:

policy background/context oversight strategic positioning

Quarterly Purchasing Report

To provide a quarterly report of purchasing activity as required by Board of Regents Policies: *Purchasing and Board Operations and Agenda Guidelines*.

Annual Economic Development Report

To provide a statistical overview of the University's expenditures with small, women, minority and disabled owned business.

Emergency Approval

To provide the Board with information regarding emergency approval of a purchase of \$1,000,000 or over.

Outline of Key Points/Policy Issues:

Quarterly Purchasing Reports for Fourth Quarter, FY13

Detailed reports with brief discussion on the following activity:

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

Annual Economic Development Report

Total expenditures with Targeted Business (Women/Minority/Disabled owned Businesses) for the fiscal year ending June 2013 were \$86,075,461. This number represents 14.64% of the University's total spending for this period. This report also shows the total expenditures with small business for this period.

Emergency Approval

On August 7, 2013, Regents Beeson, Johnson, McMillan and Brod approved a purchase of \$1,000,000 or greater as follows:

- To PricewaterhouseCoopers for an estimated \$2,700,000 for professional services related to the replacement of the University of Minnesota's existing legacy identity management system (x.SOO) with Oracle Identity Manager and related systems between July 2013 and May 2014.

In support of using the emergency process, President Kaler noted that approval prior to the September meeting of the Regents was necessary to assure that purchases were made as economically as possible and to avoid interruption of the Enterprise System Upgrade Project.

The approval was consistent with Board of Regents Policy: *Board Operations and Agenda Guidelines*, Section II, Subd. 10, which states:

Upon the recommendation of the president, the Board chair, vice chair, and the respective Committee chair may act on behalf of the Board when delay for Board approval poses a significant health, safety, or financial risk to the University. Any such emergency approvals will be brought to the next meeting of the Board, consistent with Board policy.

Background Information:

The Annual Economic Development Report (Small Business Report) is prepared by the Office for Business & Community Economic Development.

September 12, 2013

The Honorable David McMillan, Chair, Finance Committee
The Honorable John Frobenius, Vice Chair
The Honorable Clyde Allen
The Honorable Richard Beeson
The Honorable Laura Brod
The Honorable Dean Johnson

Committee Members:

Enclosed is Purchasing Services' report on purchasing activity for fourth quarter, fiscal year '13. Regents policy requires that a quarterly purchasing report, including violations of Regents purchasing policy, be submitted to the Finance Committee of the Board of Regents. This letter provides explanatory background and brief analysis of the report and attachments that follow.

Background

The enclosed report and attachments provide statistics, graphics and some detail on four categories of purchasing activity for the quarter:

- 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

“Quarterly 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.

“Quarterly 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 transactions that followed this process and were approved as exceptions.

“Quarterly 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 transactions that were processed which bypassed the competitive process without following proper protocol and without the necessary approvals. Section IV provides a listing of purchasing violations.

The fourth quarter report compares dollars spent on purchases in the fourth quarter of the current year to dollars spent on purchases in fourth quarter of the two previous years. The same quarter-to-quarter comparison is made for approved exceptions and for preapproved exceptions. We have also attached the fiscal Year-To-Date summary of purchasing activity and exception reporting. With that in mind, the following observations are worth noting:

- Both quarterly and total year exceptions track closely with previous periods.
- There were no Regents Purchasing Policy Violations in the fourth quarter of FY13.

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

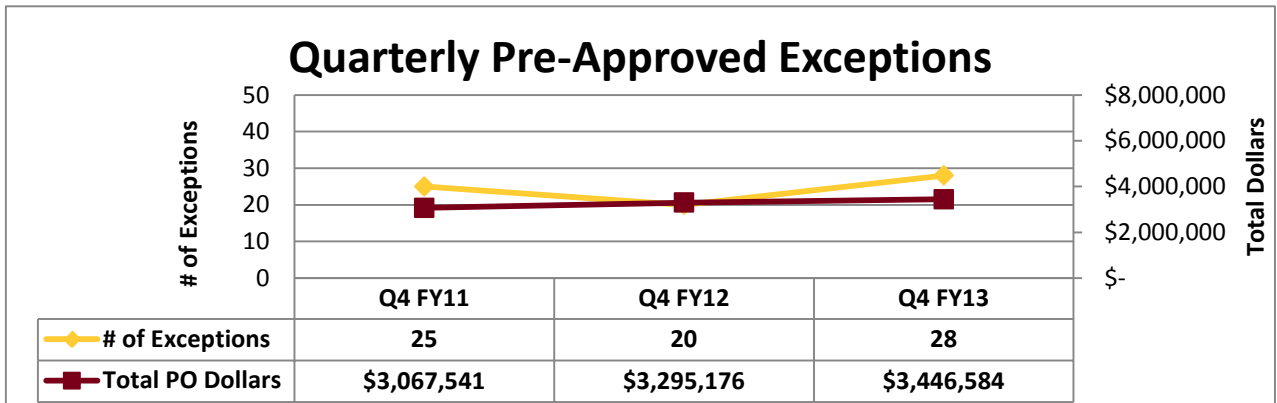
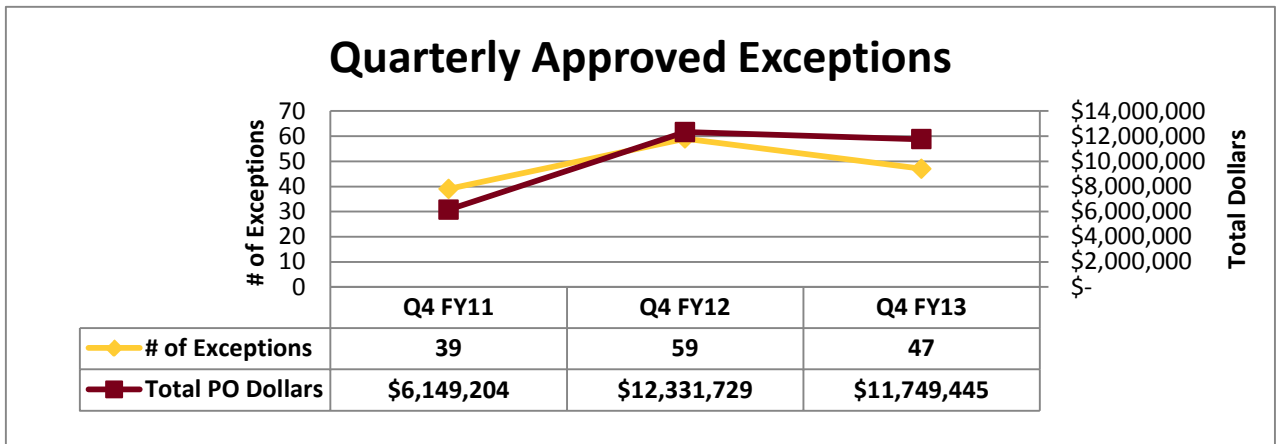
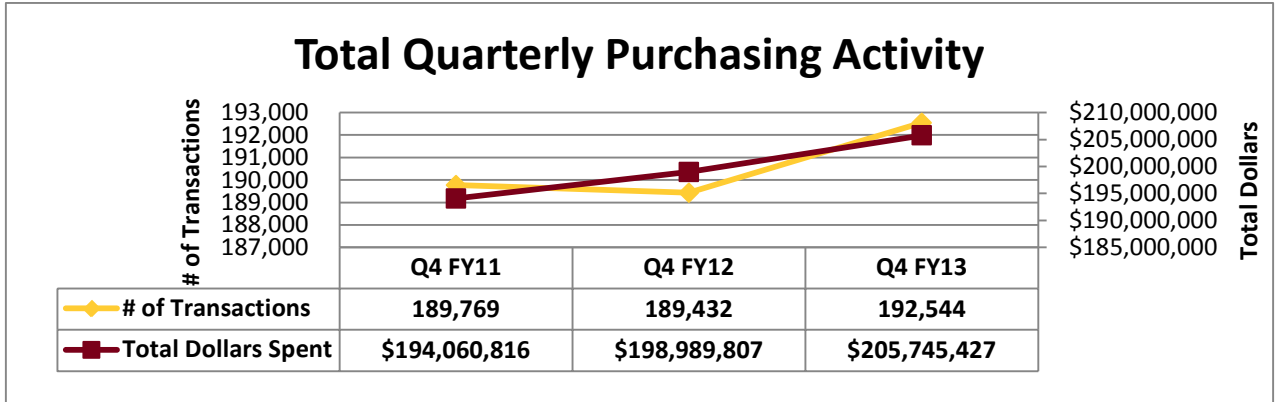
Sincerely,



Michael D. Volna
Associate Vice President-Finance & Controller

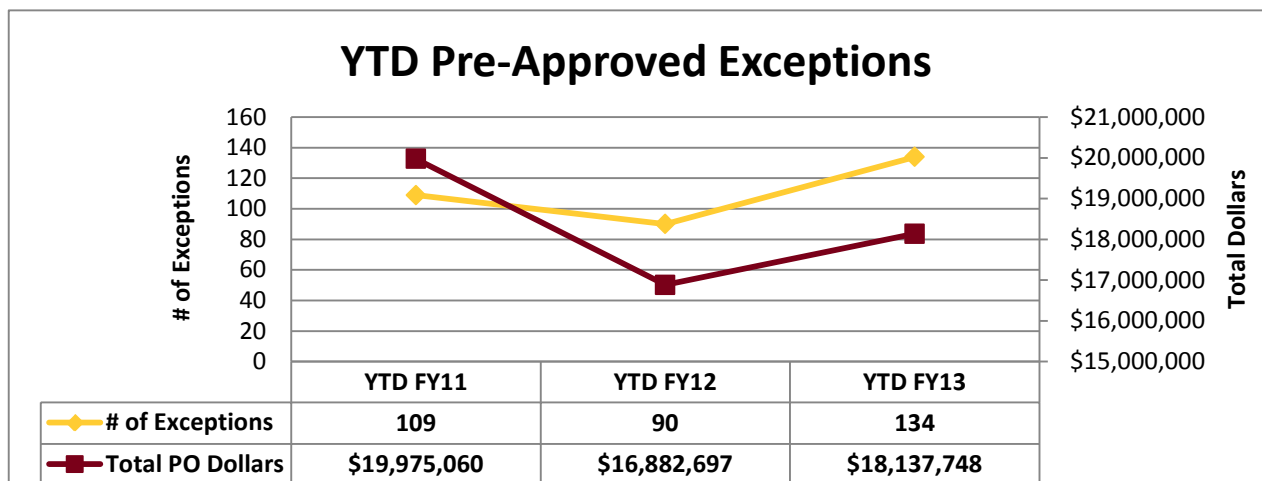
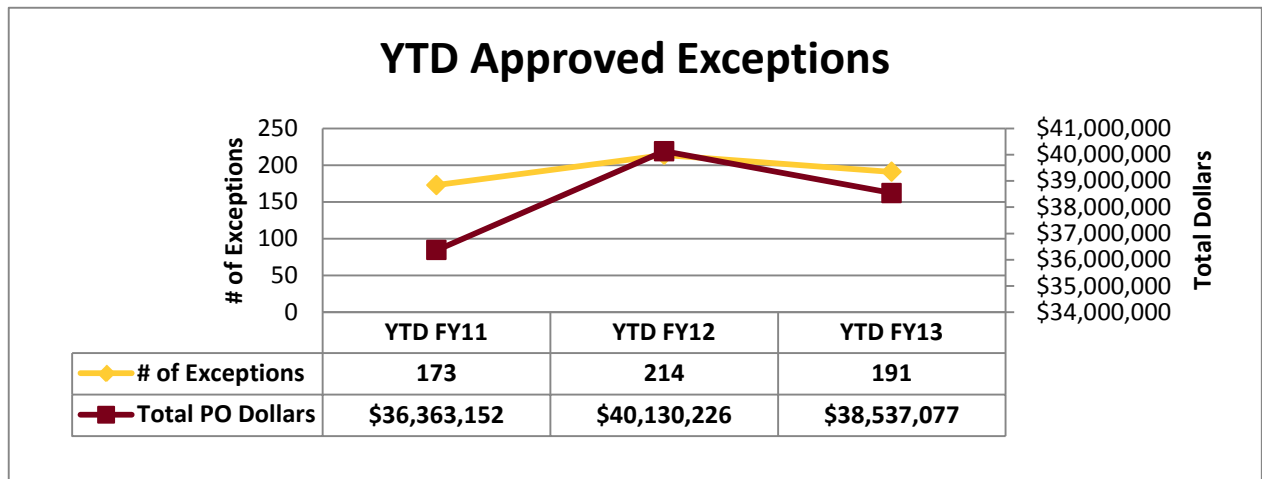
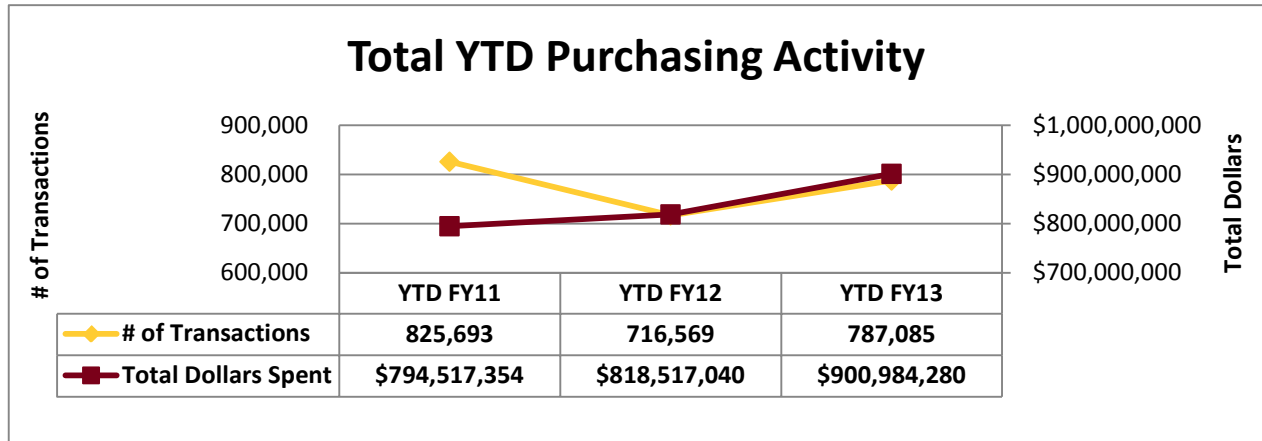
cc: Richard Pfutzenreuter, CFO, Treasurer and Vice President for Budget & Finance
Brian Steeves, Executive Director and Corporate Secretary, Board of Regents
Tim Bray, Associate Director, Purchasing Services

I. Summary of Purchasing Activity for 4th Quarter



Q4 Exceptions	64	79	75
Q4 Exception Dollars	\$9,216,745	\$15,626,905	\$15,196,029

Summary of Purchasing Activity YTD



	YTD FY11	YTD FY12	YTD FY13
YTD Exceptions	282	304	325
YTD Exception Dollars	\$56,338,212	\$57,012,923	\$56,674,825

II. Purchases made as Approved Exceptions to Competitive Purchasing Process – Q4

Exception #1:	Total # of Exceptions	Total Dollars
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.	10	\$3,069,758

Exception #2:	Total # of Exceptions	Total Dollars
Equipment that requires brand compatibility with existing equipment and is available only from manufacturer or sole source authorized distributor.	13	\$5,523,075

Exception #3:	Total # of Exceptions	Total Dollars
Funding source or granting agency specified a single supplier.	5	\$1,189,444

Exception #4:	Total # of Exceptions	Total Dollars
Other	17	\$1,839,168

Emergency Exception #1:	Total # of Exceptions	Total Dollars
A threat to health, welfare, safety.	2	\$128,000

Emergency Exception #2:	Total # of Exceptions	Total Dollars
A significant loss to the University.	0	\$0

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

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

TOTAL Approved Exceptions

47 PURCHASES \$11,749,445

III. Pre-Approved Exceptions to Competitive Purchasing – Q4

Exception #1:	Total # of Exceptions	Total Dollars
Lodging, travel (does not include group airfares or charter air).	2	\$190,209

Exception #4:	Total # of Exceptions	Total Dollars
Closeout of used items which requestor or Purchasing has verified to be at least 30% below comparable new equipment (does not include refurbished or remanufactured furniture).	4	\$615,000

Exception #5:	Total # of Exceptions	Total Dollars
Subcontractors previously arranged by Sponsored Projects Administration (SPA).	1	\$51,000

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.	1	\$63,095

Exception #7:	Total # of Exceptions	Total Dollars
Service/maintenance agreements with the original manufacturer/ developer for equipment and software.	10	\$1,574,537

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.	5	\$569,296

Exception #11:	Total # of Exceptions	Total Dollars
Fairview purchases related to research projects.	1	\$65,277

Exception #12:	Total # of Exceptions	Total Dollars
Entertainers, lecturers, speakers and honoraria.	2	\$198,170

Exception #14:	Total # of Exceptions	Total Dollars
Study Abroad Administrators (Does not include group airfares).	2	\$120,000

TOTAL Pre-Approved Exceptions

28 PURCHASES \$3,446,584

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.

**Office for
Business & Community
Economic Development**

**SMALL BUSINESS REPORT
July 2012 - June 2013**



UNIVERSITY OF MINNESOTA

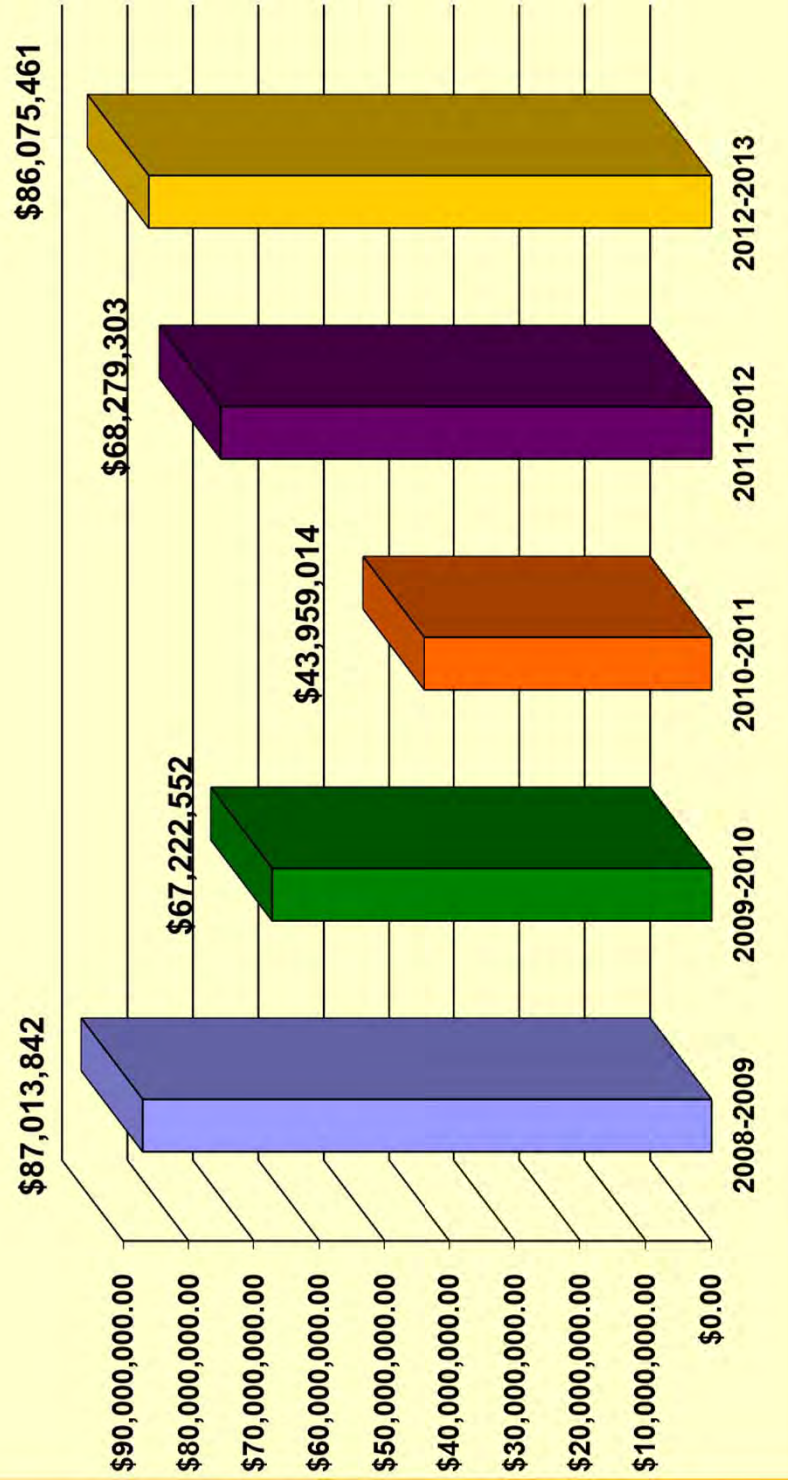
**UNIVERSITY OF MINNESOTA
OFFICE FOR BUSINESS & COMMUNITY
ECONOMIC DEVELOPMENT**

**SMALL BUSINESS REPORT
4TH QUARTER CUMULATIVE TOTALS
JULY 2012 - JUNE 2013**

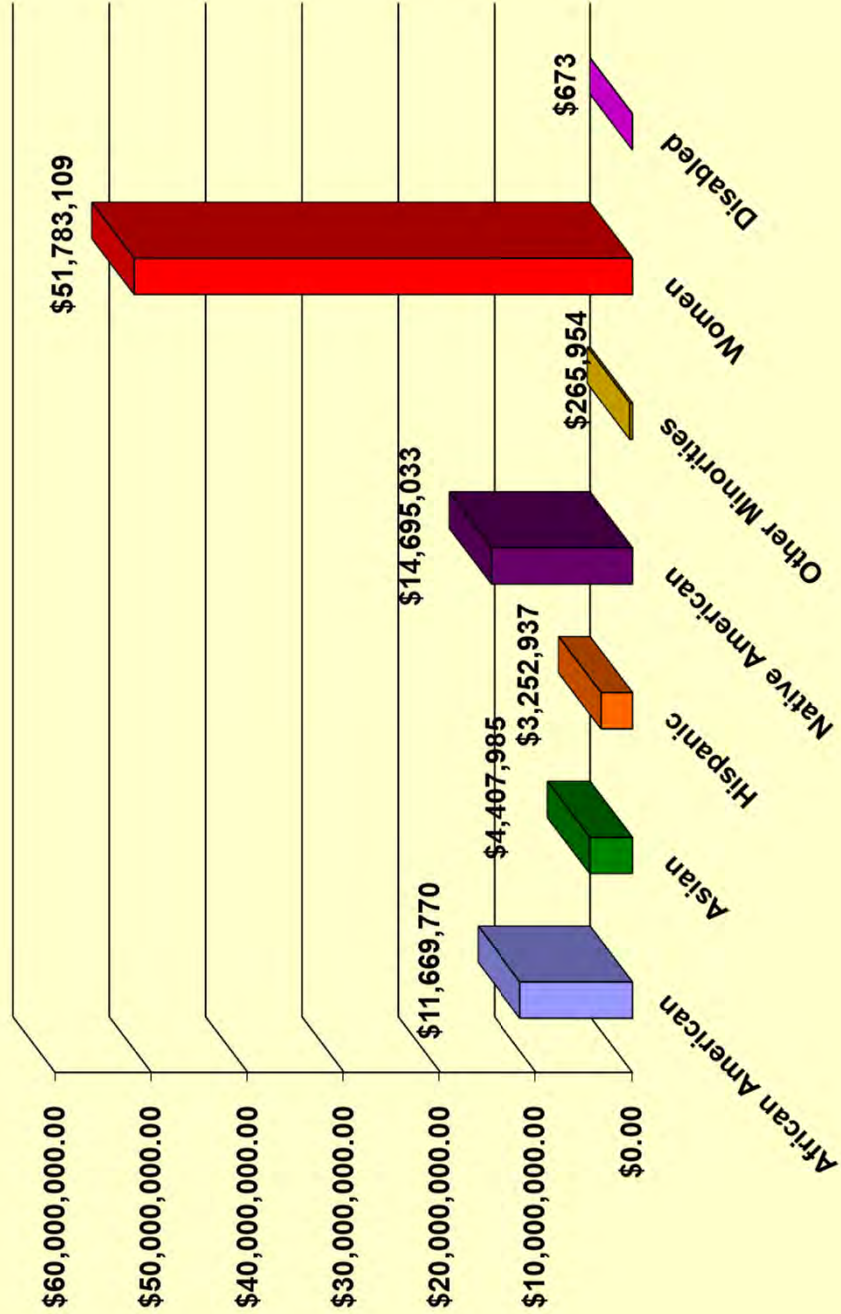
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**SMALL BUSINESS REPORT
EXPENDITURES WITH WOMEN, MINORITY AND DISABLED
BUSINESSES (WMDB)
2008-2013 4TH QUARTER CUMULATIVE TOTAL COMPARISONS**



SMALL BUSINESS REPORT EXPENDITURE BREAKDOWN BY PROTECTED CLASS GROUP 2012-2013 4TH QUARTER CUMULATIVE TOTALS



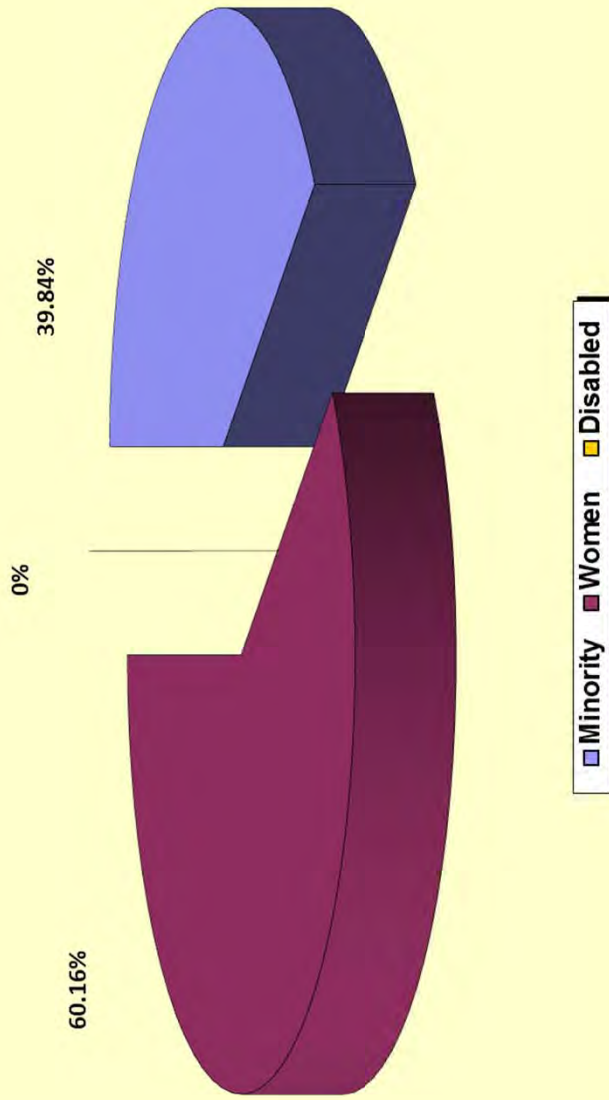
**SMALL BUSINESS REPORT
BREAKDOWN BY GROUP
2012-2013 4TH QUARTER CUMULATIVE TOTALS**

Classification	Dollars Awarded	Percent Total WMBD Expenditures
African American	\$11,669,770	13.56%
Asian	\$4,407,985	5.12%
Hispanic	\$3,252,937	3.78%
American Indian/Alaska Native	\$14,695,033	17.07%
Woman	\$51,783,109	60.16%
Disabled	\$673	0.00%
Minority Other	\$265,954	0.31%
Total	\$86,075,461	100.00%

**SMALL BUSINESS REPORT
BREAKDOWN BY GROUP
2012-2013 4TH QUARTER CUMULATIVE TOTALS**

Classification	Goods and Services	Percent of Total WMDB Expenditures	Construction	Percent of Total WMDB Expenditures
African American	\$482,677	0.56%	\$11,187,093	13.00%
Asian	\$1,005,257	1.17%	\$3,402,728	3.95%
Hispanic	\$70,849	0.08%	\$3,182,088	3.70%
American Indian/ Alaska Native	\$436,524	0.51%	\$14,258,509	16.57%
Woman	\$14,344,400	16.66%	\$37,438,709	43.50%
Disabled	\$673	0.00%	\$0	0.00%
Minority Other	\$265,954	0.31%	\$0	0.00%
Total	\$16,606,334	19.29%	\$69,469,127	80.71%
Total WMDB Expenditures	\$86,075,461			

**SMALL BUSINESS REPORT
BREAKDOWN BY MINORITY, WOMEN AND DISABLED BUSINESSES
2012-2013 4TH QUARTER CUMULATIVE TOTALS**



SMALL BUSINESS REPORT
TOTAL PURCHASING & CONSTRUCTION EXPENDITURES
2012-2013 4TH QUARTER CUMULATIVE TOTALS

CONSTRUCTION EXPENDITURES	
Total Construction Expenditures	\$301,564,501
Total WMDB Construction	\$69,469,127
Percent of Total Construction	23.04%
PURCHASING EXPENDITURES	
Total Goods & Services Expenditures	\$578,171,672 *
Total WMDB Goods & Services Expenditures	\$16,606,334
Percent of Total Goods & Services	2.87%
GRAND TOTAL	
Total Goods, Services & Construction Expenditures	\$879,736,172
Total WMDB Expenditures	\$86,075,461
WMDB Percent of Totals	9.78%

*The UofM expenditures in two areas that are deemed "non-biddable" (utilities and postage only) and not included in the "University Expenditures" figure. (approx. \$54,813,145)

**SMALL BUSINESS REPORT
TOTAL PURCHASING & CONSTRUCTION EXPENDITURES
4TH QUARTER CUMULATIVE TOTALS
2012-2013 COMPARISON**

	<u>2012</u>	<u>2013</u>	<u>% change</u>
CONSTRUCTION EXPENDITURES			
Total Construction Expenditures	\$186,215,363	\$301,564,501	61.94%
Total WMDB Construction	\$51,322,817	\$69,469,127	35.36%
Percent of Total Construction	20.79%	23.04%	2.25%
PURCHASING EXPENDITURES			
Total Goods & Services Expenditures	\$579,677,620	\$578,171,672 *	0%
Total WMDB Goods & Services Expenditures	\$23,763,397	\$16,606,334	-30.12%
Percent of Total Goods & Services	3.84%	2.87%	-0.97%
GRAND TOTAL			
Total All Expenditures	\$765,892,983	\$879,736,172	14.86%
Total WMDB Expenditures	\$75,086,214	\$86,075,461	14.64%
WMDB Percent of Totals	6.82%	9.78%	2.96%

*The LoM expenditures in two areas that are deemed "non-biddable" (utilities and postage only) and not included in the "University Expenditures" figure. (approx. \$54,813,145)



**SMALL BUSINESS REPORT
TOTAL EXPENDITURES WITH SMALL BUSINESSES
2012-2013 4TH QUARTER CUMULATIVE TOTALS**

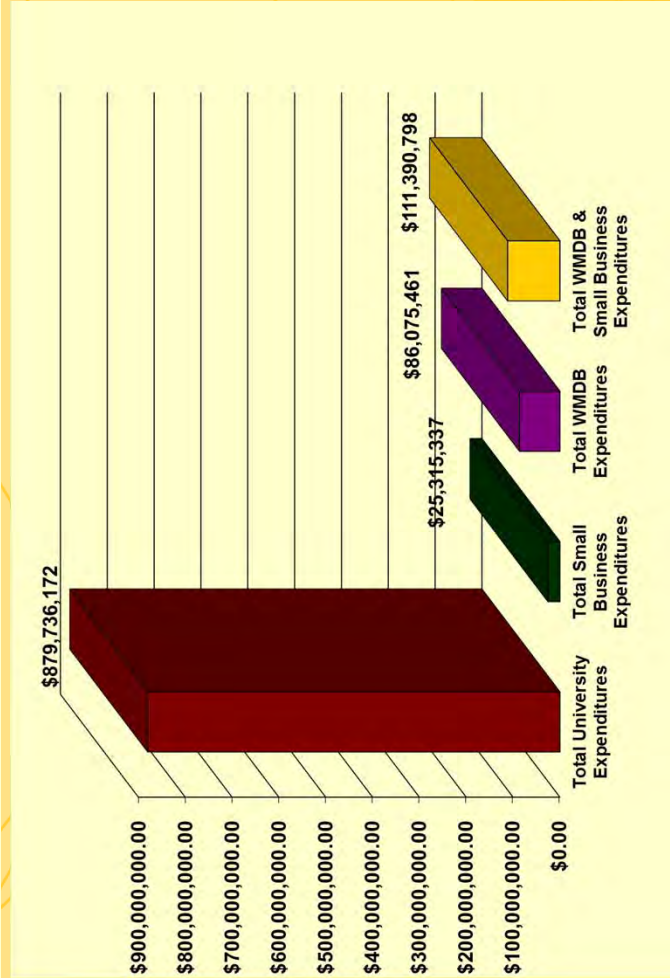
Total Small Business Expenditures **\$25,315,337**

Total WMDB Expenditures **\$86,075,461**

Total Expenditures with WMDB & Small Businesses
\$111,390,798

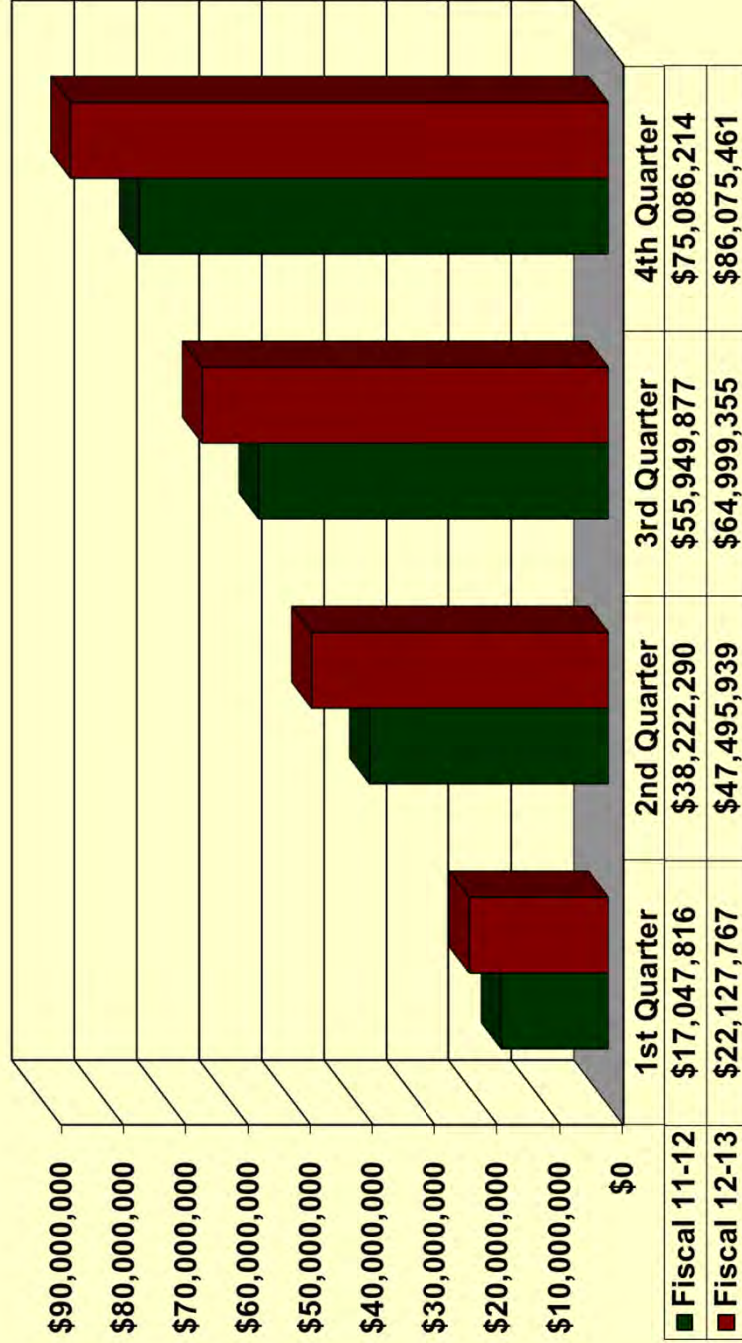
Percent of Total University Expenditures **12.66%**

Total University Expenditures
\$879,736,172



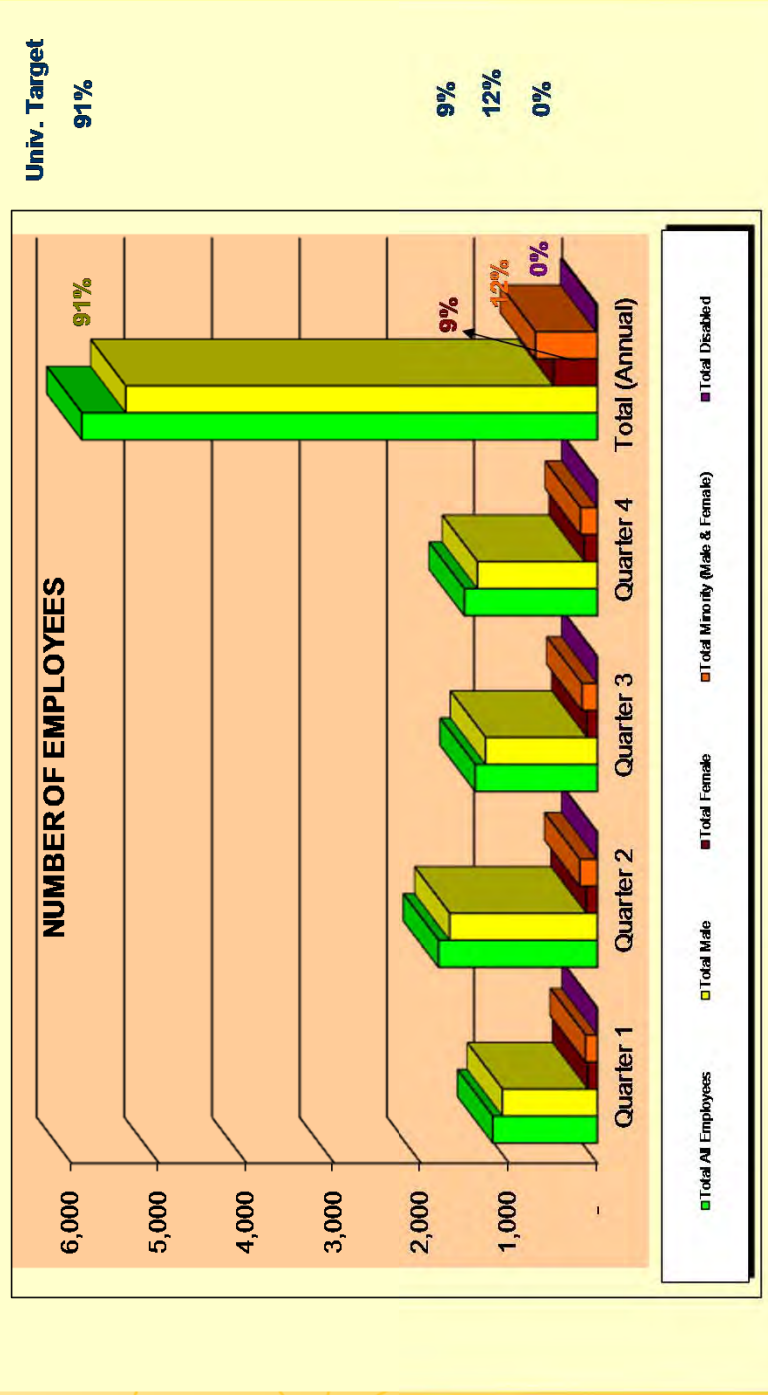
**SMALL BUSINESS REPORT
WOMEN, MINORITY & DISABLED BUSINESSES LAST YEAR VS.
CURRENT**

2012-2013 4TH QUARTER CUMULATIVE TOTALS



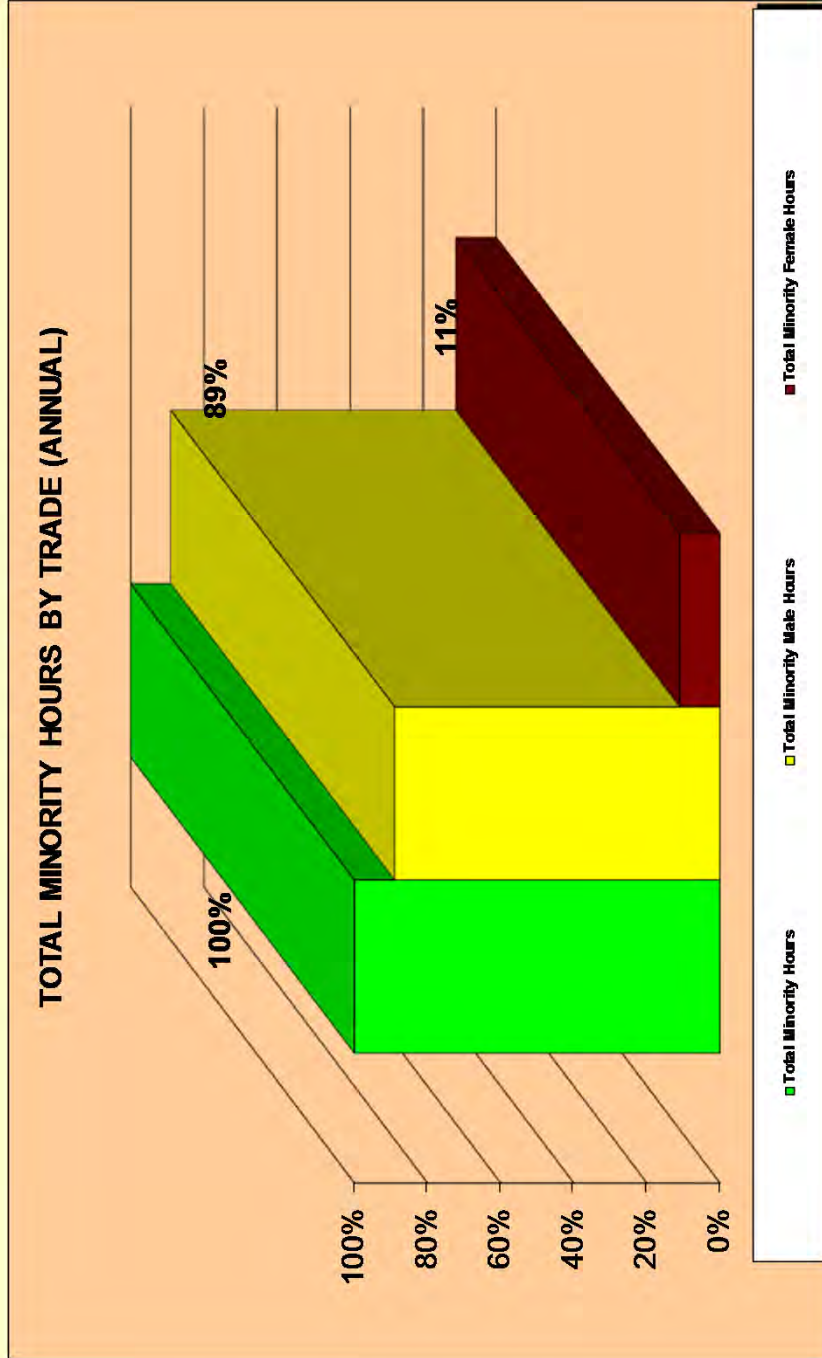
2012-2013 WORKFORCE UTILIZATION REPORT

	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Total (Annual)	% of Total Empl. (Annual)
Total All Employees	1,186	1,801	1,385	1,509	5,881	100%
Total Male	1,077	1,675	1,268	1,361	5,381	91%
Total Female	109	126	117	148	500	9%
Total Minority (Male & Female)	134	200	175	193	702	12%
Total Disabled	3	5	5	4	17	0%
Total Minority Male	118	177	153	162	610	10%
Total Minority Female	13	18	17	27	75	1%



2012-2013 WORKFORCE UTILIZATION REPORT

	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Total (Annual)	Total Hours (Annual)
Total Minority Hours	9,596	15,220	12,878	11,956	49,650	100%
Total Minority Male Hours	8,636	13,200	11,645	10,707	44,188	89%
Total Minority Female Hours	960	2,020	1,233	1,249	5,462	11%



*Board of Regents
Office of the Executive Director
and Corporate Secretary*

*600 McNamara Alumni Center
200 Oak Street S.E.
Minneapolis, MN 55455
612-625-6300*

August 7, 2013

To: President Eric Kaler

From: Brian Steeves, Executive Director & Corporate Secretary



Re: *Emergency Approval*

By email and phone on July 23, 2013 and August 7, 2013, Chair Beeson, Vice Chair Johnson, Finance Committee Chair McMillan, and Audit Committee Chair Brod each reviewed and approved the request from you for emergency approval of the following action (as described in the attached letter):

- To PricewaterhouseCoopers for an estimated \$2,700,000 for professional services related to the replacement of the University of Minnesota's existing legacy identity management system (x.500) with Oracle Identity Manager and related systems between July 2013 and May 2014.

I understand that this information will be reported to the Board of Regents at the September 2013 meetings, as required by Board Policy.

c: Richard Pfutzenreuter, Vice President
Michael Volna, Controller
Gail Klatt, Internal Auditor

UNIVERSITY OF MINNESOTA

Office of the Associate Vice President-Finance &
Controller

Ste 205 West Bank Office Building
1300 S. 2nd Street
Minneapolis, MN 55454-1015

Office: 612-625-9529
Fax: 612-625-7384

Date: August 7, 2013
To: The Honorable Laura Brod, Chair, Board of Regents Audit Committee
From: Michael Volna, Associate Vice President, Finance & Controller
Subject: **Emergency Audit Committee Approval**



The Board of Regents Audit Committee Charter stipulates that Board approval is required for all engagements of external audit firms to perform work or provide services with a value greater than \$25,000 or that may impair the audit firm's independence regarding the University. Since the Board will not be meeting in August 2013, no approvals are possible until September 2013 under normal procedures. A purchase of professional services requiring Board approval has been presented for emergency approval, pursuant to Board Operations and Agenda Guidelines and Board of Regents Purchasing policy. The information related to that emergency Board approval is included for your information. Because this proposed contract represents a non-audit engagement with an external audit firm, it requires Audit Committee approval as well.

I am recommending Audit Committee review and approval of an engagement with PricewaterhouseCoopers for professional services related to the replacement of the University of Minnesota's existing legacy identity management system (X.500) with Oracle Identity Manager and related systems between July 2013 and May 2014.

I have reviewed the proposed contract, including the scope of work, deliverables, and the University's management plan for this non-audit engagement. I have concluded it does not represent an impairment of the firm's independence, and as such would not preclude them from being selected as the University's independent external auditor in the future (the firm is not now engaged as the University's independent external auditor).

cc: Gail Klatt, Associate Vice President and Chief Audit Executive
Richard Pfitzenreuter, Vice President and CFO
Brian Steeves, Executive Director, Board of Regents

July 18, 2013

The Honorable Richard B. Beeson
The Honorable Dean E. Johnson
The Honorable David McMillan

Dear Members of the Board:

As you know, the policy on Board Operations and Agenda Guidelines stipulates that Board approval is required before the University makes any purchase of goods or services in the amount of \$1,000,000 or more. This approval is also required by the Regents policy on Purchasing.

Since the Board will not be meeting in August 2013, no approvals for large purchases are possible until September 2013 under normal procedures. However, the Board Operations and Agenda Guidelines allow for an emergency procedure if an emergency situation exists as defined in the Guidelines. Specifically, in Section II, Subd. 10, the policy reads as follows:

Upon the recommendation of the president, the Board chair, vice chair, and the respective committee chair may act on behalf of the Board when delay for Board approval poses a significant health, safety, or financial risk to the University. Any such emergency approvals will be brought to the next meeting of the Board, consistent with Board policy.

Upon the request of the Director of Purchasing, the Controller, and the Vice President and Chief Financial Officer, I am recommending Board approval for the following large purchases using this emergency process:

- To PricewaterhouseCoopers for an estimated \$2,700,000 for professional services related to the replacement of the University of Minnesota's existing legacy identity management system (X.500) with Oracle Identity Manager and related systems between July 2013 and May 2014.

PricewaterhouseCoopers has been selected through a competitive bidding process as the implementation partner for this project based on their competitive pricing and history of successful implementation and their ability to complete the implementation within the specified time frame. The value of this contract is included in the approved budget for the Enterprise Systems Upgrade Project (ESUP).

Request for Emergency Approval
July 18, 2013
Page 2

I am recommending that these be approved on an emergency basis to assure the purchases are made as economically as possible, and to avoid interruption of their related projects.

Attached is additional information and supporting documentation for the purchases themselves and justification for handling them under the emergency approval process.

Sincerely,

A handwritten signature in black ink, appearing to read "E. Kaler", written over a horizontal line.

Eric W. Kaler
President

EWK:jes

Enclosures (3)

To: Richard Pfitzenreuter III

From: Andrew Hill, Enterprise Systems Upgrade Program

Subject: Request for Emergency Approval on a Contract valued at \$1,000,000 and over

Date: July 18, 2013

The Enterprise Systems Upgrade Program would like to request an emergency approval of a contract for professional services to retain PricewaterhouseCoopers (PWC) as a partner for the implementation of Oracle Identity Manager. This request was originally submitted for inclusion on the July Regents' docket, but was withdrawn following questions about potential conflict of interest. These issues have been addressed. PWC and the Office of General Counsel are both involved in determining mutually acceptable Terms and Conditions for the contract, and a complete Statement of Work has been prepared.

If we are unable to proceed with this contract until after the September Regents' meeting, the schedule of the project will be at risk. The new identity management system must be sufficiently advanced for the end-to-end project testing to begin on schedule. Therefore delay in bringing the implementation partner on board could result in delay in the deployment of the new enterprise systems. A one month delay would cost the University approximately \$3 million in Fall 2014. We therefore request that this be submitted through the emergency approval process.

Summary

Vendor: PricewaterhouseCoopers

Value: Estimated at \$2.5 million

Desired start date: August 5, 2013

Description: Implementation partner for Oracle Identity Manager within the overall Enterprise Systems Upgrade Program

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

To PricewaterhouseCoopers for an estimated \$2,700,000 for professional services related to the replacement of the University of Minnesota's existing legacy identity management system (X.500) with Oracle Identity Manager and related systems.

As part of the Enterprise Systems Upgrade Program (ESUP), the University of Minnesota is planning to replace their existing legacy identity management system (X.500) with Oracle Identity Manager. This implementation will benefit the University by replacing a locally developed system with a standards based, vendor supported solution that incorporates a framework to easily build new functionality, providing end-users with a method for performing self-service functionality and providing more robust opportunities for integration with other internal and external systems.

PricewaterhouseCoopers will work closely with local University staff to do the design, development, testing, training, deployment and transfer of knowledge. PricewaterhouseCoopers is contracted to develop and execute the project plan and the change management and communication plans, to provide detailed fit/gap analysis, functional and technical designs, and to build and deploy the new software.


PricewaterhouseCoopers has been selected through a competitive bidding process as the implementation partner for this project based on their competitive pricing and history of successful implementation and their ability to complete the implementation within the specified time frame.

ESUP is a University-wide program approved by the Boards of Regents of the University of Minnesota. The value of this contract is included in the approved budget for the program.

Submitted by: Andrew Hill

Director, Enterprise System Upgrade Program
150 Williamson Hall
Phone: 612-625-1387
Email: ajhill@umn.edu

Approval for this item requested by:


Vice President and CIO

6/25/2013
Date