Finance Committee

February 2017

February 9, 2017

2:30 p.m. - 4:30 p.m.

West Committee Room, McNamara Alumni Center

FIN - FEB 2017

BOARD OF REGENTS
DOCKET ITEM SUMMARY

Finance **February 9, 2017**

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

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

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

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

PURPOSE & KEY POINTS

The purpose of this item is to further review the results of the FY 2014 Fully Allocated Cost of Mission: Unit Analysis (analysis). It will include:

- A summary of the methodology to aid in understanding the results.
- A summary of total University spending in each category and the revenues that supported that spending.
- A discussion of the purpose and context for the analysis.
- Illustrative unit-level results for spending on research and public service.
- A more in-depth discussion of spending on instruction at the unit level, with identification of factors that influence those costs (up or down) and real unit-level examples to better illustrate the results.
- An outline of potential and planned future steps for this analysis.

The Cost of Mission analysis has been completed twice – once on data from FY 2010 and once on data from FY 2014. The methodology created by the Office of Budget and Finance assigns all expenditures (both direct and support/overhead) from a given fiscal year to the following mission areas:

- Instruction
- Research
- Public service
- Auxiliary operations
- Student aid

The methodology also includes a component that allows the University to better understand which funding sources are paying for those mission activities.

The analysis was designed to present a view of University spending and can serve to generate policy questions around goals and strategic direction. It helps management at all levels better understand University operations and the distribution of resources and effort across mission activities. The goal is to understand spending in a way that yields insight on questions around the most effective ways to ensure service or program quality. As the analysis will show, the answers to those questions rightly differ across units and disciplines.

BACKGROUND INFORMATION

The Finance Committee discussed results of the FY 2014 Fully Allocated Cost of Mission analysis at the institutional level in December 2015 and initial results at the unit level in February 2016.

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

Direct Costs

Instruction
Research
Public Service

Faculty compensation
Teaching assistants
Scientists
Sponsored research
Extension services
Clinical trials

\+

Indirect Costs

Student Services
Academic Support
Institutional Support
Physical Plant

Advisors
Registrar
Dean's Offices
Libraries
President's Office
General Counsel
Utilities
Repair &
Maintenance

=

Fully Allocated Costs

Fully Allocated Revenue

Revenue Sources

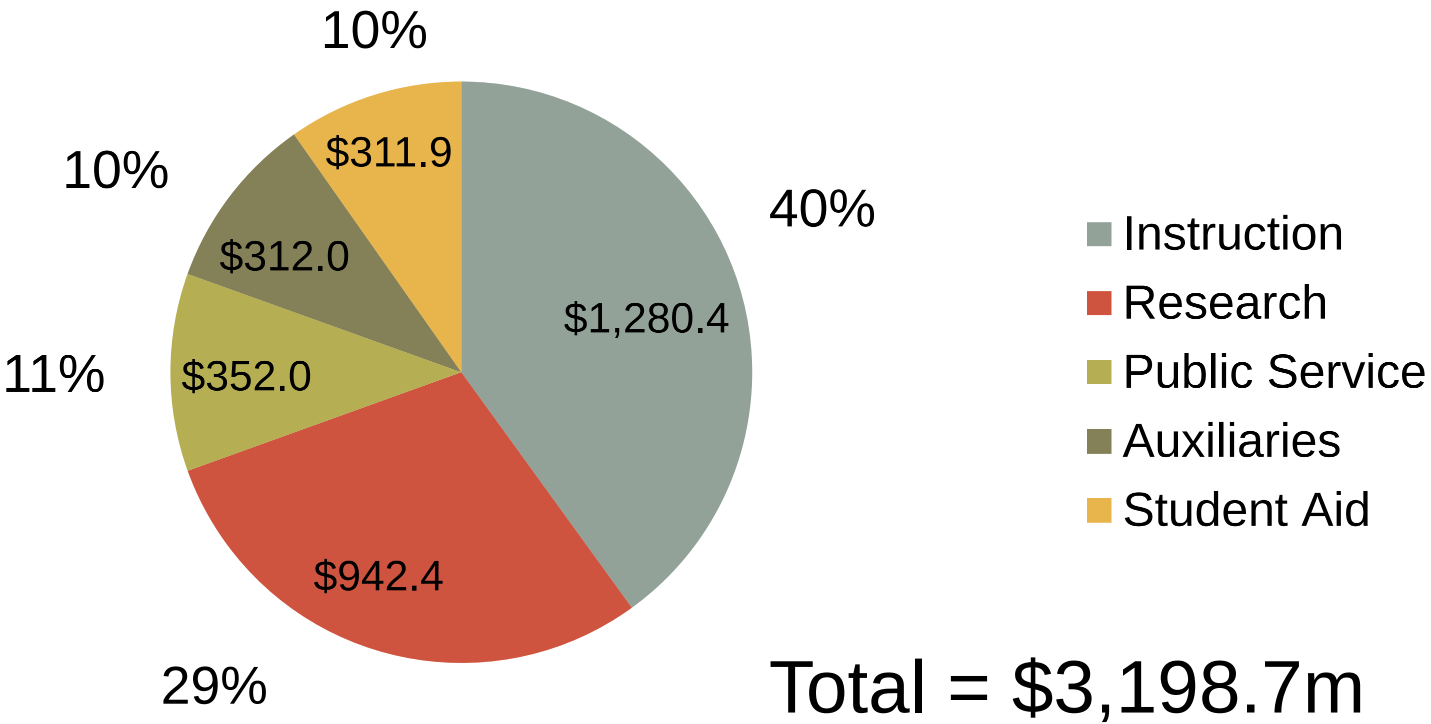
Tuition
State Appropriation
Gifts
Clinical Income
Sponsored Funding
Etc.

That support the direct and indirect costs – tracked in the financial system

Follow the Costs: Allocated to mission activities in the same way costs are allocated

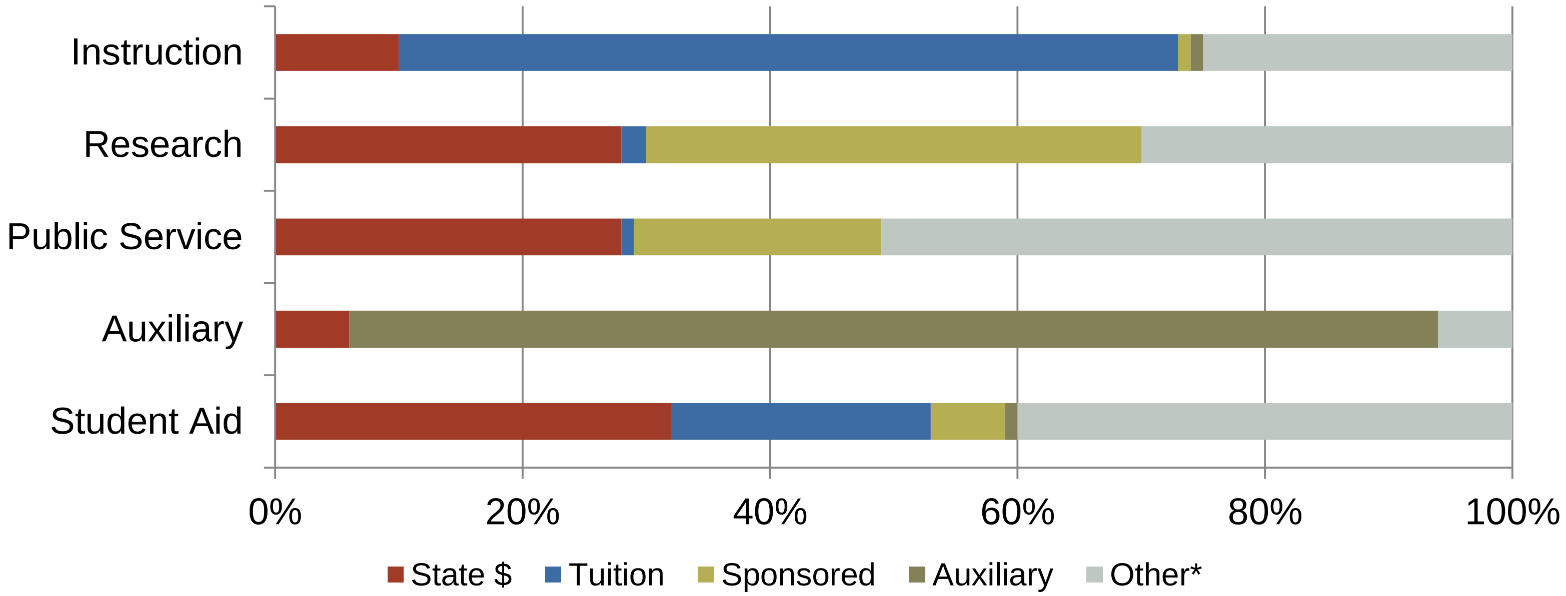
FY14 Fully Allocated Mission Expenditures

($ in millions)



Total = $3,198.7m

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 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

Cost of Instruction-2nd 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

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
Twin Cities	$12,060
Duluth	$11,720

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

Cost of Instruction-2nd Level Analysis
Graduate and Professional Education – FY14

Unit	Fully loaded cost per FYE	Unit	Fully loaded cost per FYE
Biological Sciences	$40,230	Public Affairs	$24,156
Continuing Education	$12,070	Law	$43,240
Education & Hum Dev.	$17,157	Medical School	$50,568
CFANS	$15,570	Nursing	$28,930
Liberal Arts	$22,848	Pharmacy	$23,577
Sci. & Engineering	$22,683	Public Health	$20,570
CSOM	$20,795	Vet Med	$46,153
Dentistry	$53,310	Duluth	$22,202
Design	$23,485		

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.

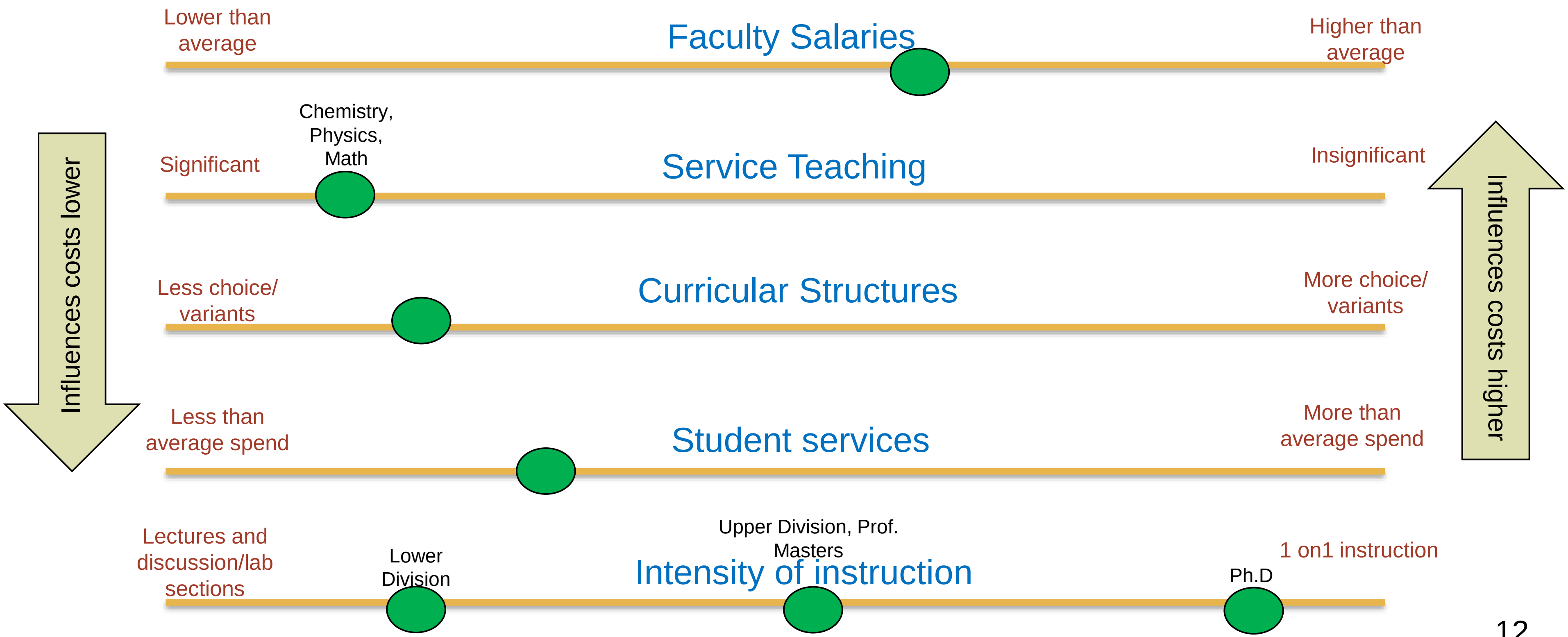
Factors that may influence instructional costs

Factor	Examples
Higher spend on student services	CSOM, Morris, Vet Med
Market driven faculty salaries	Economics, Law, Medicine
Cost and complexity of unique instructional spaces	CFANS, Dentistry, Design
Highly instructor intensive programs	Ph.D programs, Music, Art, Writing Intensive
Instructional modes and instructor availability	Public Health, Morris
“Infrastructure costs” not spread as widely	Smaller programs, single mission focus programs

Factors that may influence instructional costs

Factor	Examples
Economies of scale	CLA, Duluth, CSOM
Economies of scope	CSE, CFANS, Public Health
Volume of “service teaching”	CEHD, CSE, CLA
Curricular structures	CSE, CBS
More efficient administrative structures	Many units

Example: College of Science and Engineering



Changes between FY10 and FY14 to explore

- Shifts in spend from graduate education to undergraduate education (and professional education)
- Minor shifts in spending from research towards instruction
- Changes in student service spending

Next Steps

- Complete reviews with colleges and campuses on FY14 data
- Analysis and understanding of changes between FY10 and FY14
- Additional sub-analyses at the college/campus level, potentially focusing on research, public service, and unique revenue streams
- Incorporate campus and collegiate specific nuances into the methodology
- 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

Finance **February 9, 2017**

AGENDA ITEM: Annual Capital Financing and Debt Management Report

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

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

PRESENTERS: Carole Fleck, Director, Debt Management

PURPOSE & KEY POINTS

The purpose of this item is to discuss the Annual Capital Financing and Debt Management Report for FY 2016 (report).

As of June 30, 2016, the University's total outstanding long-term debt was $1,500,632,000. The debt consists 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 and discount.

Ratio calculations are based on the amount of debt outstanding, excluding the special purpose revenue bonds, but including capital leases. The balance outstanding at June 30, 2016 of University supported debt (at face value or par) plus capital leases was approximately $1,118,548,000.

During FY 2016 the University issued GO Bonds Series 2016A in the amount of $122,475,000. Proceeds will be used to finance capital projects, including the following on the Twin Cities campus:

- Improvements to the Combined Heat and Power Plant;
- Renovation of the Tate Science and Teaching building;
- Research laboratory improvements; and
- Construction of a new James Ford Bell Museum and Planetarium.

The bonds will also finance construction of a new Wellness Center at the Crookston campus and to pay costs of issuance.

The State of Minnesota has provided a $3,500,000 increase in the general operating appropriation for fiscal years 2016-2041 that will cover the debt service for the portion of the debt related to the Bell Museum.

BACKGROUND INFORMATION

Board of Regents Policy: *Debt Transactions* outlines the University's goals when issuing debt and requires an annual report be presented to the Board.

The Finance Committee last received this report in February 2016.

Annual Capital Financing and Debt Management Report

Finance Committee
February 9, 2017

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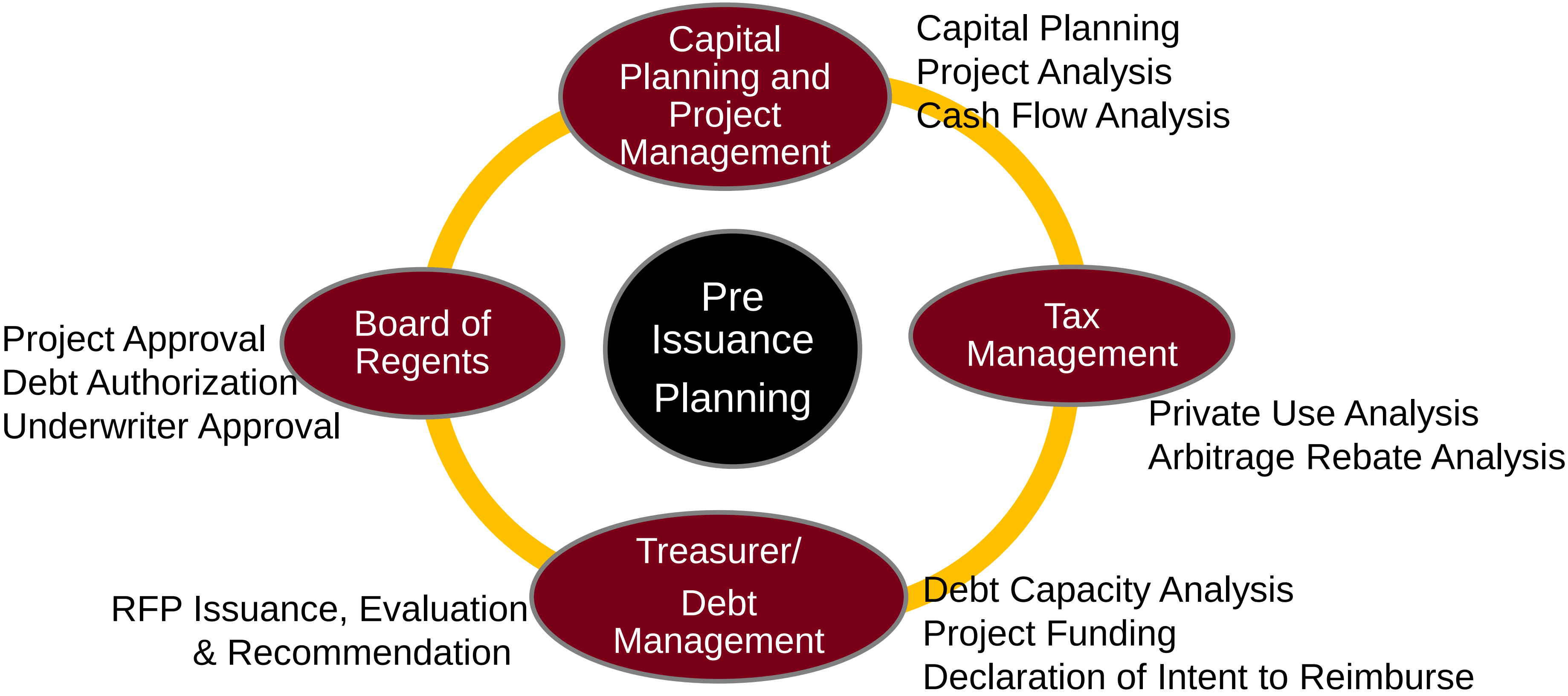
Outline of Presentation

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

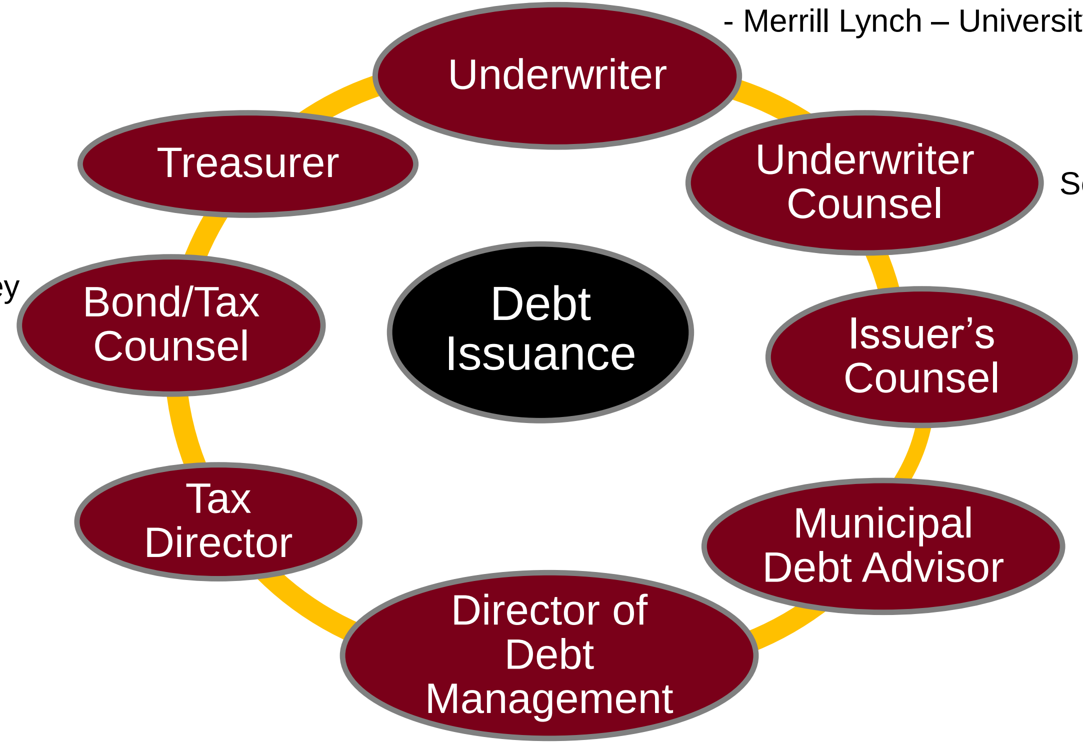
Issuance of Debt – Guiding Principles

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

Phase I - Pre Issuance



Phase II - Debt Issuance



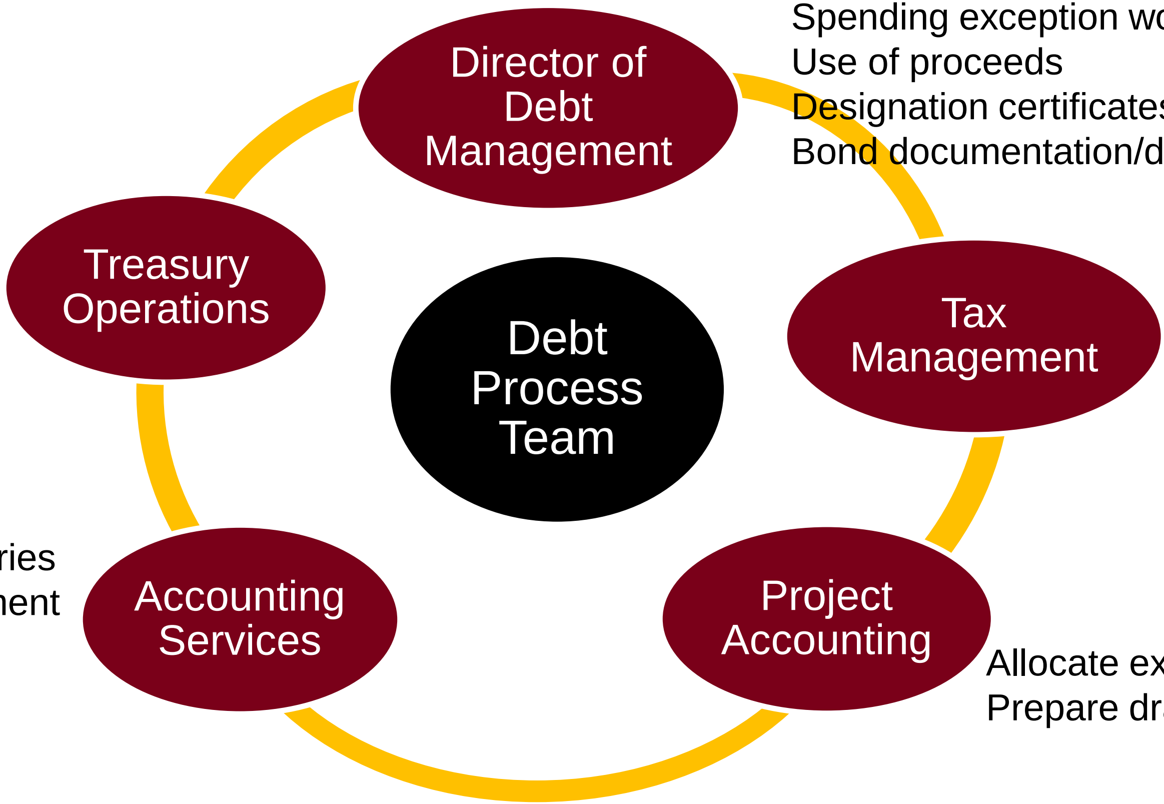
- Qualified pool for bond issuances
- Merrill Lynch – University CP Dealer

Selected by underwriter

Dorsey & Whitney Minneapolis

Public Financial Management (PFM), Minneapolis

Phase III - Post Issuance Compliance



Director of Debt Management:

Spending exception worksheets
Use of proceeds
Designation certificates
Bond documentation/disclosure

Treasury Operations:

Invests proceeds
Draws proceeds
Pays debt service

Tax Management:

Timing guidelines
Arbitrage rebate
Private use monitoring

Accounting Services:

G/L accounting entries
Project reimbursement

Project Accounting:

Allocate expenditures to projects
Prepare draw requests

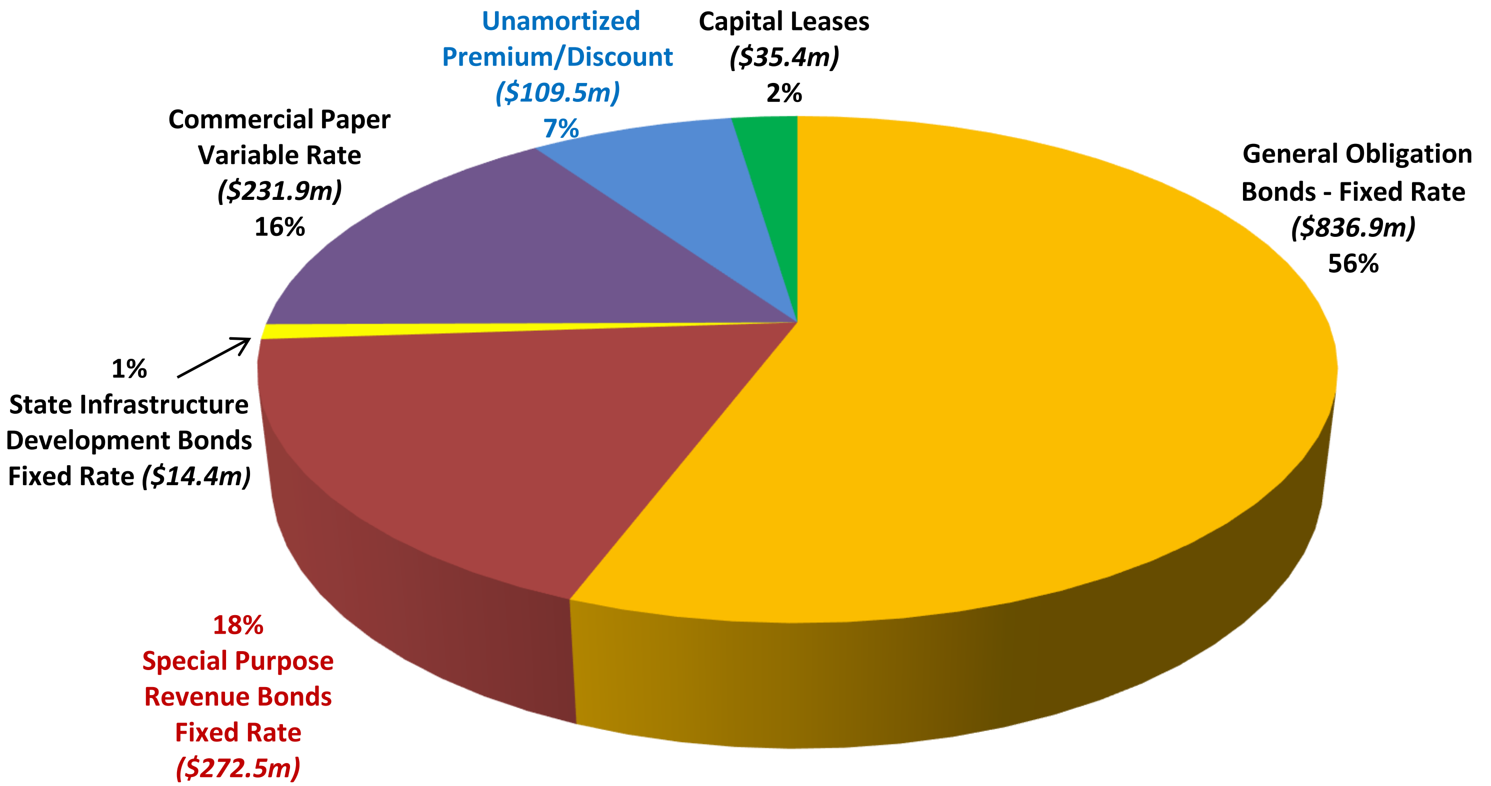
CAPITAL STRUCTURE

Long-Term Debt As of June 30, 2016 (000s omitted)

	Final payment due in fiscal year	Beginning Balance	Additions	Reductions	Ending Balance	% of Total
General Obligation Bonds - Series 2016, 2014B, 2013A, 2011D, 2011A, 2010C, 2009C, and 2009A	2044	$ 582,455	$ 122,475	$ 33,340	$ 671,590	49.5%
General Obligation Taxable Bonds - Series 2015B, 2013B, 2010D, 2009D, and 2009B	2038	91,075	10,110	1,070	100,115	7.4%
General Obligation Taxable Bonds – Series 2013D, 2011C, 2010B (Biomedical Science Research Facilities Funding Program)	2039	67,380		2,230	65,150	4.8%
Special Purpose Bonds – Series 2013C, 2011B, 2010A (Biomedical Science Research Facilities Funding Program)	2039	187,420		5,000	182,420	13.5%
Special Purpose Revenue Refunding Bonds – Series 2015A Special Purpose Revenue Bonds – Series 2006 (State-Supported Stadium Debt)	2032	0 104,385	90,075 0	0 104,385	90,075 0	6.7%
Commercial Paper Notes Series A, B, C, D, E	2022 - 2040	249,620		17,700	231,920	17.1%
Obligations to the State of Minnesota pursuant to Infrastructure Development Bonds (IDB)	2026	17,844		3,453	14,391	1.0%
Balance – at par		**$ 1,300,179**	**$ 222,660**	**$ 167,178**	**$ 1,355,661**	**100.0%**
Unamortized premiums and discounts	2044	81,810	39,456	11,677	109,589	
Capital leases and other	2025	39,439	2,281	6,338	35,382	
TOTAL PER FINANCIALS		**$ 1,421,428**	**$ 264,397**	**$ 185,193**	**$ 1,500,632**	

Debt Profile as of June 30, 2016

$1.4 billion par outstanding; $1.1 billion University-supported



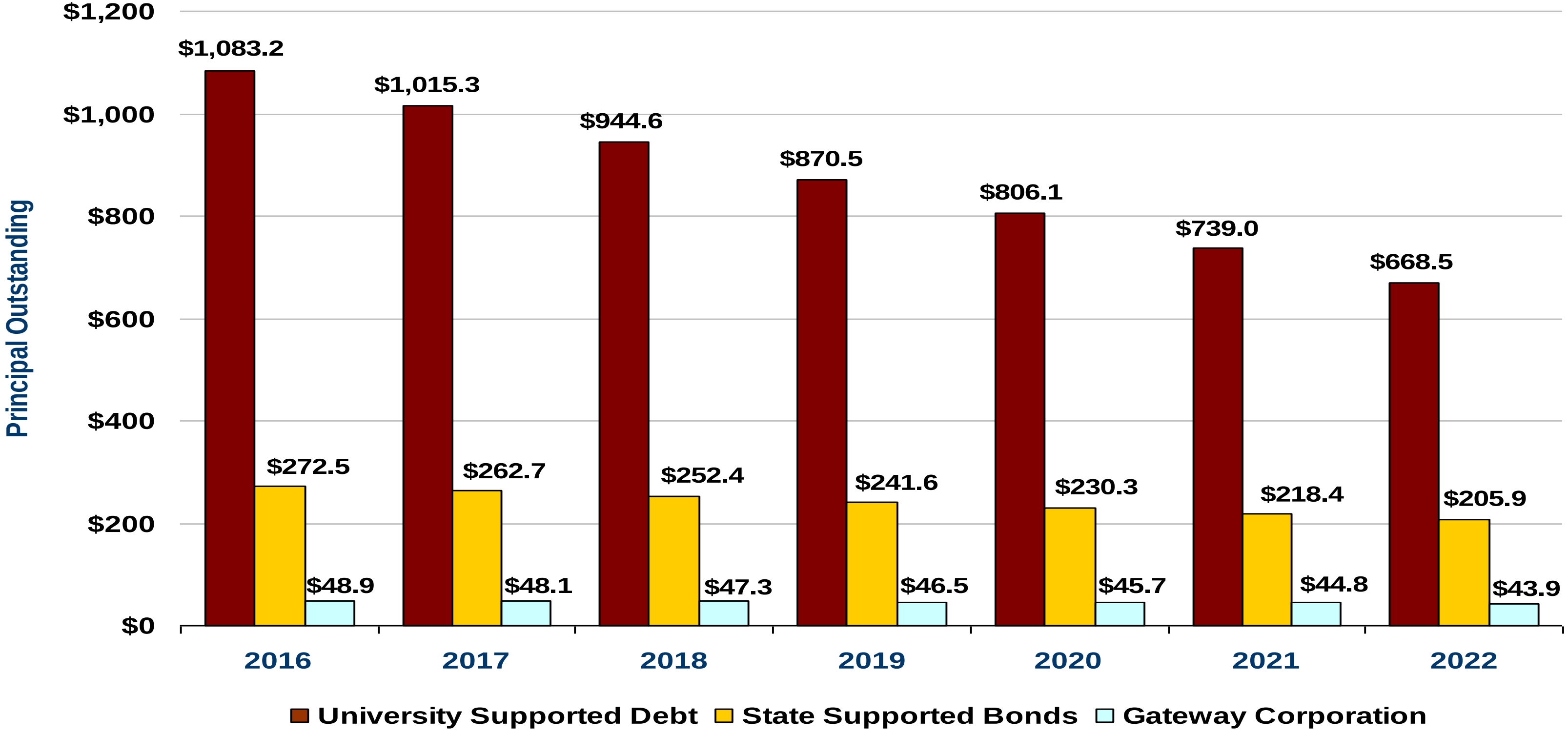
Long Term Debt Analysis – Five Year Comparison
(in millions)

	6/30/12	6/30/13	6/30/14	6/30/15	6/30/16
Total Outstanding per financials	$ 1,226.4	$ 1,300.7	$ 1,282.5	$ 1,421.4	$ 1,500.6
Less: Capital leases and other	(6.0)	(46.3)	(42.7)	(39.4)	(35.3)
Less: Unamortized premiums/discounts	(68.3)	(73.7)	(72.5)	(81.8)	(109.6)
University Bonds and Commercial Paper	$ 1,152.1	$ 1,180.7	$ 1,167.3	$ 1,300.2	$ 1,355.7
University Supported	$ 870.4	$ 906.4	$ 866.2	$ 1,008.4	$ 1,083.2
State Supported	$ 281.7	$ 274.3	$ 301.1	$ 291.8	$ 272.5
Fixed Rate* / Variable Rate	91% / 9%	86% / 14%	88% / 12%	87% / 13%	88% / 12%
University Issued / State Issued	97% / 3%	98% / 2%	98% / 2%	99% / 1%	99% / 1%
Weighted Average University Debt	3.65%	3.55%	3.40%	3.33%	3.32%
Annual debt service (principal paid + interest expense)	$ 101.0	$ 107.8	$ 112.8	$ 115.7	$ 123.3

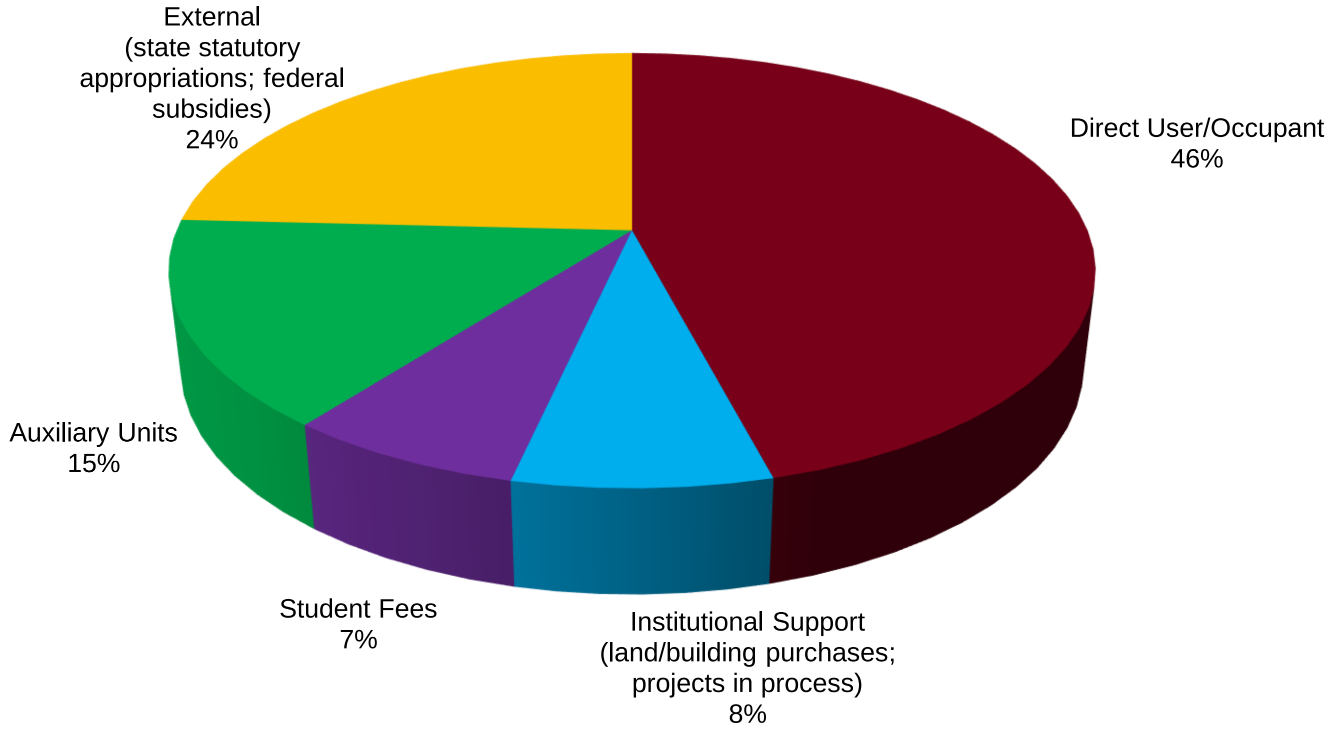
* Includes impact of synthetically fixed swaps

Current Amortization Structure *(in millions)*

6/30/16 Bonds and Commercial Paper Outstanding (at par)



Funding of External Debt Service – FY2016



Projected Long Term Debt as of June 30, 2017
(in millions)

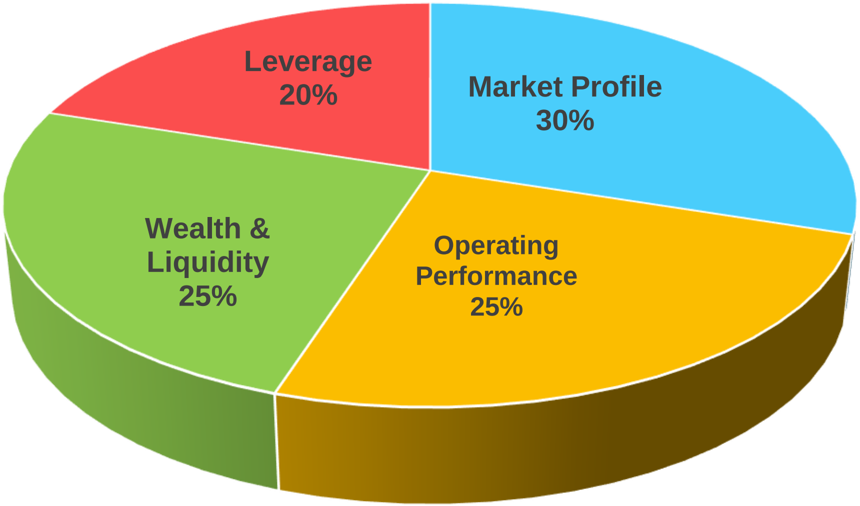
	University Supported *	State Supported	Total
Balance June 30, 2016 (at par)	$ 1,083.2	$ 272.5	$ 1,355.7
Scheduled principal reductions	(68.0)	(9.8)	(77.8)
Subtotal (at par)	1,015.2	262.7	1,277.9
Projected additional FY17 issuance	50.1	0.0	50.1
Projected balance, June 30, 2017, at par	1,065.3	262.7	1,328.0
Unamortized premium/discount (projected at 6/30/17)	51.2	28.5	79.7
Capital leases (projected at 6/30/17)	35.0	0	35.0
Projected balance June 30, 2017	$ 1,151.5	$ 291.2	$ 1,442.7

* Series 2015B and Series 2016A were both issued as General Obligation Bonds and are listed in the University-supported column even though funds are received from the State of Minnesota to fund the debt service on Series 2015A through a capital appropriation and for the debt service on the Bell Museum portion of the Series 2016A through a general operating appropriation.

CREDIT RATING

Moodys Global Higher Education Scorecard November 2015

Broad Weighting Factors



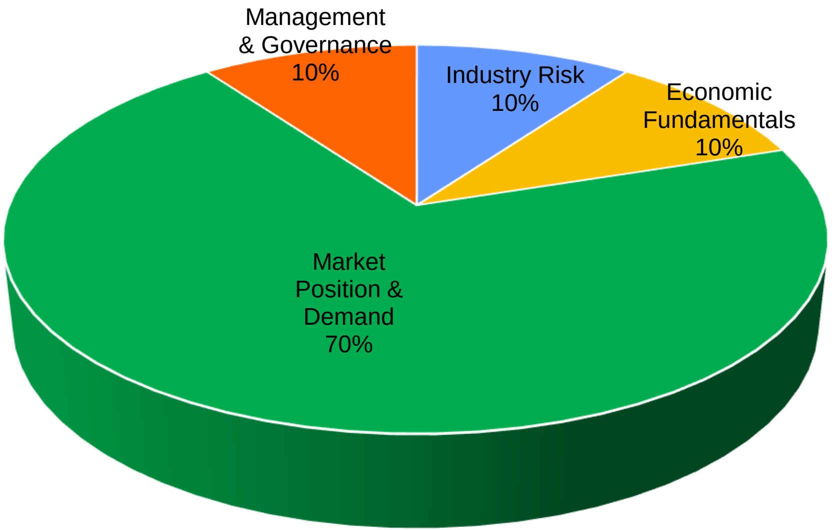
Sub-Factors

Scope of Operations	15%
Reputation & Pricing Power	5%
Strategic Positioning	10%
Operating Results	10%
Revenue Diversity	15%
Total Wealth	10%
Operating Reserve	10%
Liquidity	5%
Financial Leverage	10%
Debt Affordability	10%
Total	100%

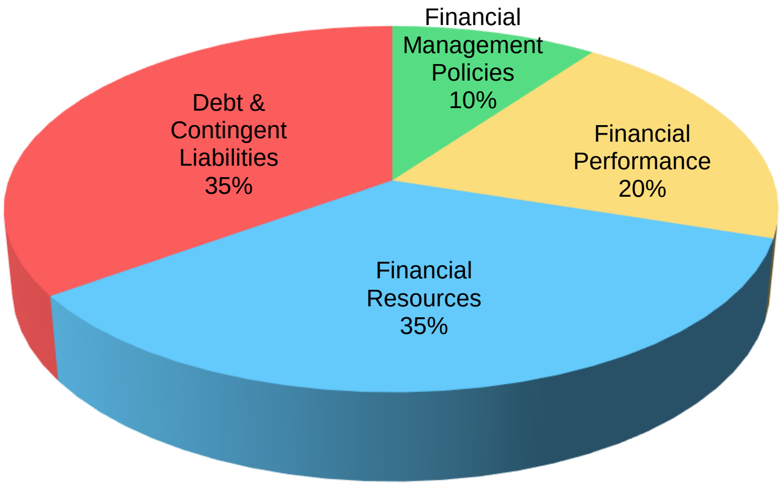
Other credit considerations include multi-year trends, governance & management, debt structure, liquidity quality, government relationship, pension and other post-employment obligations, and healthcare operations.

Standard & Poors Rating Criteria – January 2016

Enterprise Profile



Financial Profile



The methodology results in a convergence of a detailed analysis of a university's *"Enterprise Profile"* and "*Financial Profile"* with qualitative adjustments for compelling factors or qualifiers.

Letter Ratings to Designate University Credit Quality

Moody's Investors Service Rating	Financial Security Evaluation	Standard and Poor's Rating
Aaa	Exceptional	AAA
Aa1, Aa2, Aa3	Excellent	AA+, **AA**, AA-
A1, A2, A3	Good	A+, A, A-
Baa1, Baa2, Baa3	Adequate	BBB+, BBB, BBB-
Ba1, Ba2, Ba3	Moderate	BB+, BB, BB-
B1, B2, B3	Weak	B+, B, B-
Caa to C	Default	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

- Excellent strategic position as flagship research and land grant university and Big Ten conference member
- Strong student and research market positions
- Ample financial resources and liquidity
- Good capital support in the form of debt service on over $300 million of debt
- Strong fund-raising

Offset by

- Softening operating performance
- Expected additional debt issuance

Stable Outlook

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

Standard & Poor's - AA

- Very strong enterprise profile
- Competitive demand trends & stable enrollment, with very good selectivity and student quality
- Very strong financial profile, with consistently positive operations on a cash basis
- Manageable pro forma debt service burden
- History of strong fundraising

Offset by

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

Stable Outlook (revised from Negative Outlook)

Reflects view that the University will continue to experience favorable demand trends and steady enrollment, steady state financial support, improve its operating performance on a full-accrual basis, and maintain a manageable debt burden in the next two years.

** Comments from rating reports dated March 2016 for General Obligation Series 2016A issuance*

KEY FINANCIAL INDICATORS

Key Financial Metrics

RATIO	KEY COMPONENT	DEFINITION
A - Total Cash and Investments to Total Debt	Total Cash & Investments	Total cash and cash equivalents plus short-term investments plus noncurrent investments of the University, UMF and UMP (Does not include the restricted cash and cash equivalents)
B – Spendable Cash and Investments to Total Debt	Spendable Cash and Investments	Total cash and investments as computed above less restricted, nonexpendable net assets of the University, less the permanently restricted net assets of UMF and UMP
	Total Debt	The sum of the University's outstanding debt as shown on the financials, less net unamortized premium/discount on the bonds, plus UMF bonds payable.
	Total Debt as Modified for U of MN Ratios	Total Debt as computed above, less the University's special purpose debt (i.e., state-supported stadium debt and state-supported debt related to the biomedical science research facilities funding program) **.
C - Debt Service to Operations	Debt service	Sum of the principal and interest paid on capital debt by the University excluding principal and interest on the special purpose debt
	Operations	University operating expenses less scholarships & fellowships, plus interest on capital asset-related debt, excluding the interest on the special purpose debt

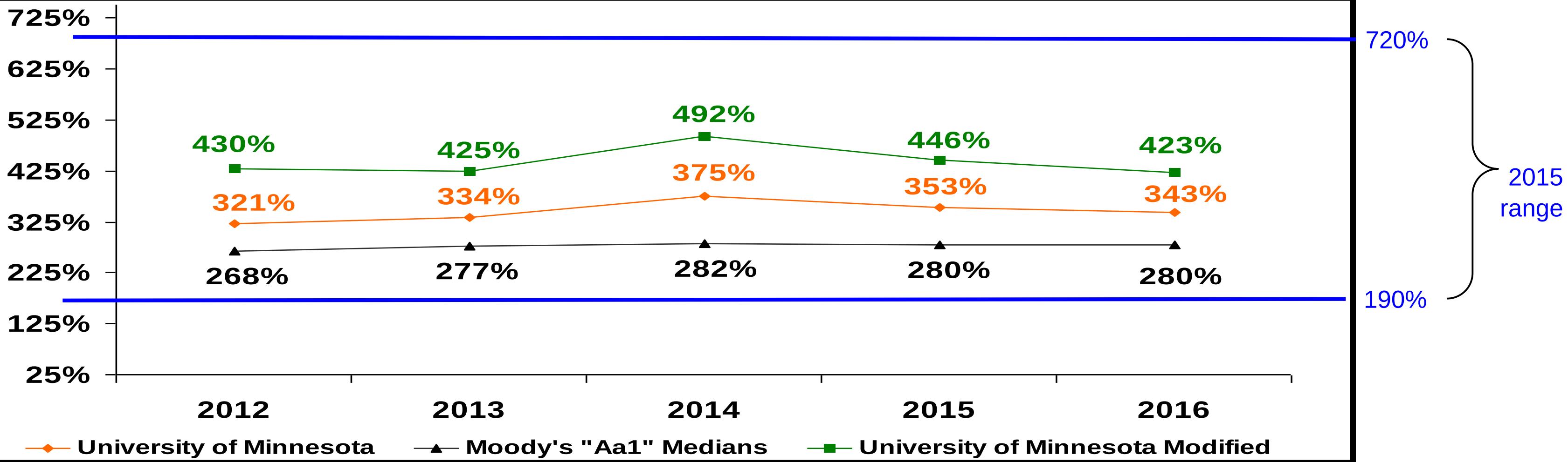
* UMF = University of Minnesota Foundation; UMP = University of Minnesota Physicians
** Stated another way: Total debt modified = outstanding University-supported debt at par plus capital leases plus UMF bonds payable at par

Note: Financial metrics updated from previous years to correspond with Moodys' revised methodology

University of Minnesota: Analysis of Key Credit Ratios

Resources and Leverage

Total Cash and Investments to Total Debt



Desired Trend ⬆

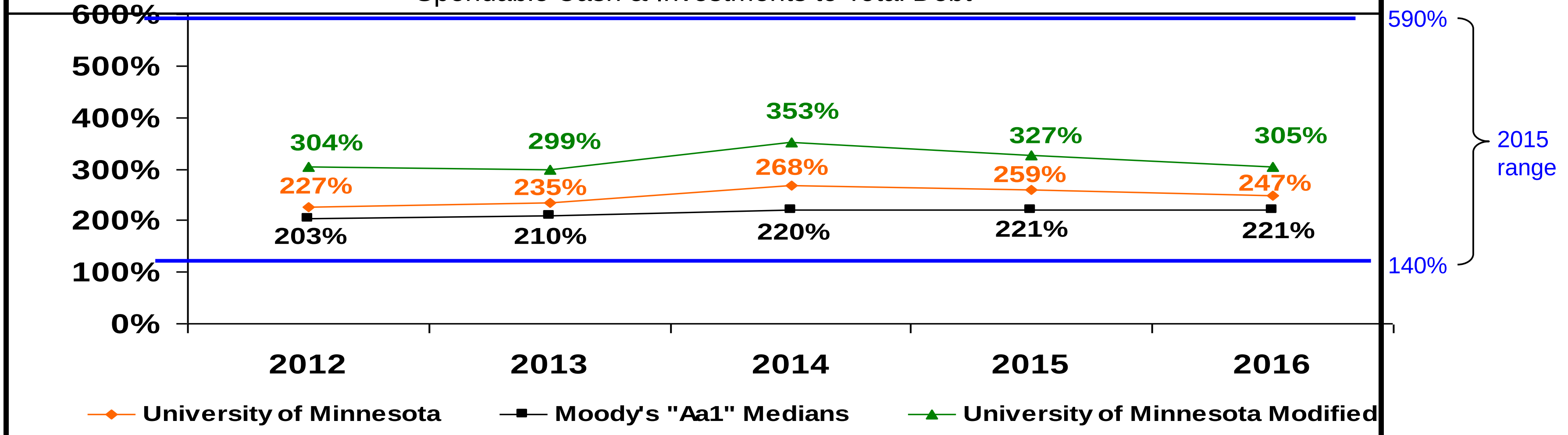
University Cash and Cash Equivalents, (excluding restricted), and Investments
+ UMF's & UMP's Cash and Cash Equivalents, and Investments

Divided by Total Debt

University of Minnesota: Analysis of Key Credit Ratios

Resources and Leverage

Spendable Cash & Investments to Total Debt



Desired Trend

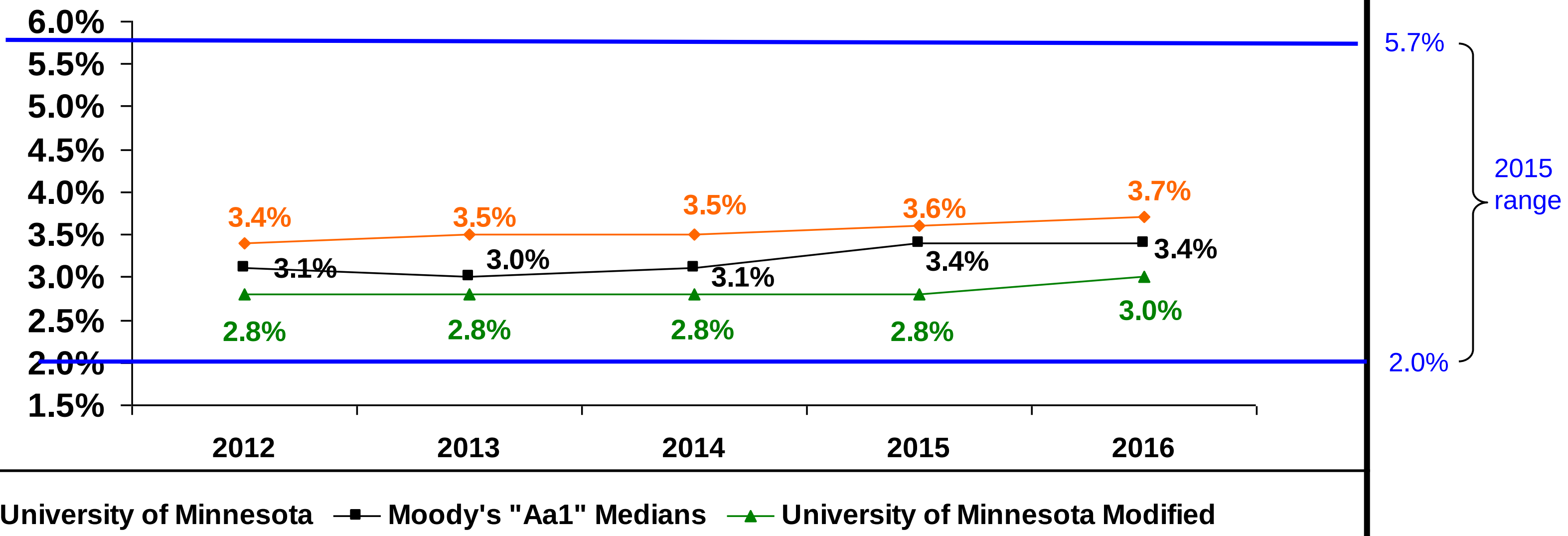
Total unrestricted cash and investments of the University, UMF & UMP, less restricted, nonexpendable net assets of the University, less the permanently restricted net assets of UMF and UMP

Divided by Total Debt

University of Minnesota: Analysis of Key Credit Ratios

Resources and Leverage

Debt Service to Operations



Desired Trend

Annual Debt Service

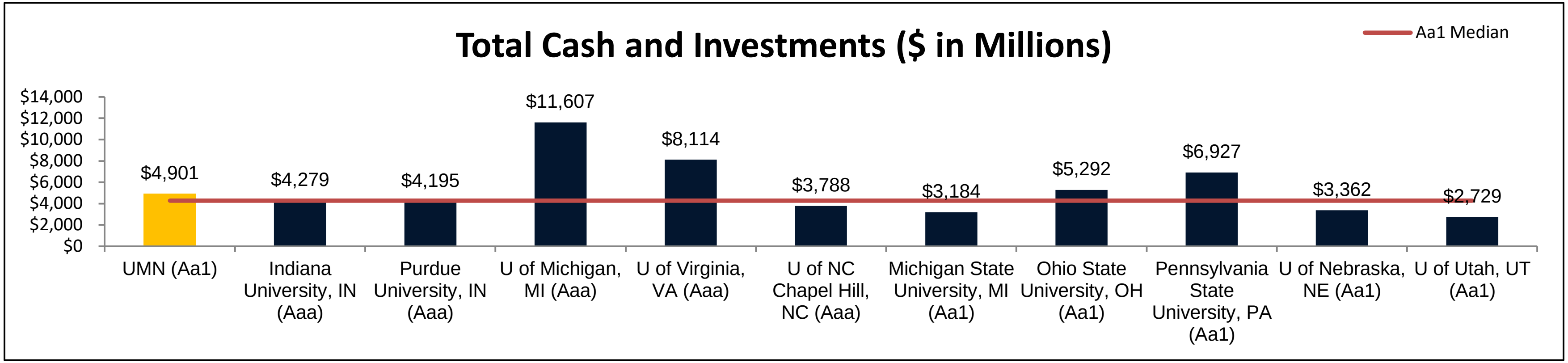
Divided by Total Operations

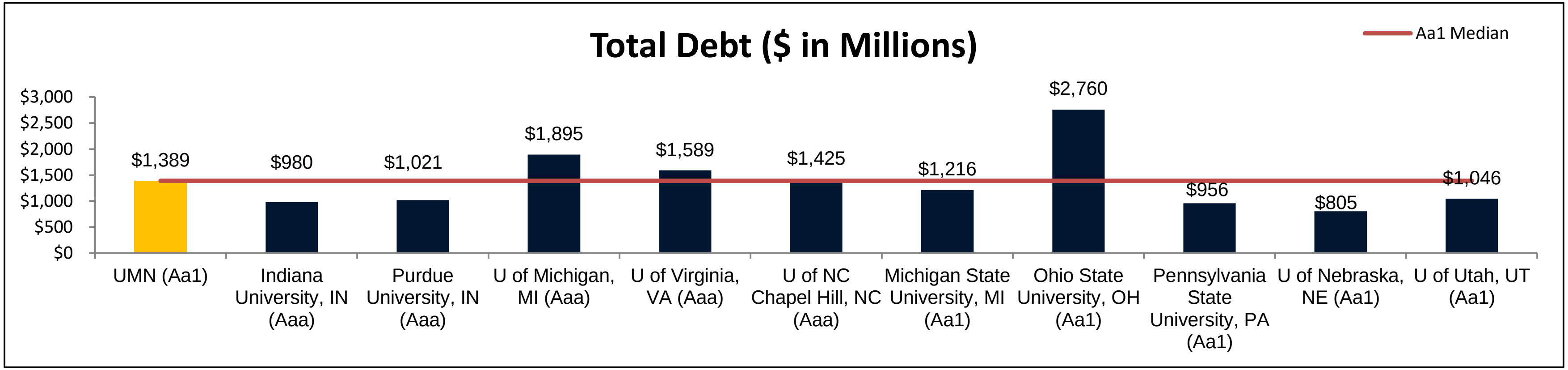
PEER GROUP ANALYSIS

Peer Group Analysis – Data as of 6/30/15

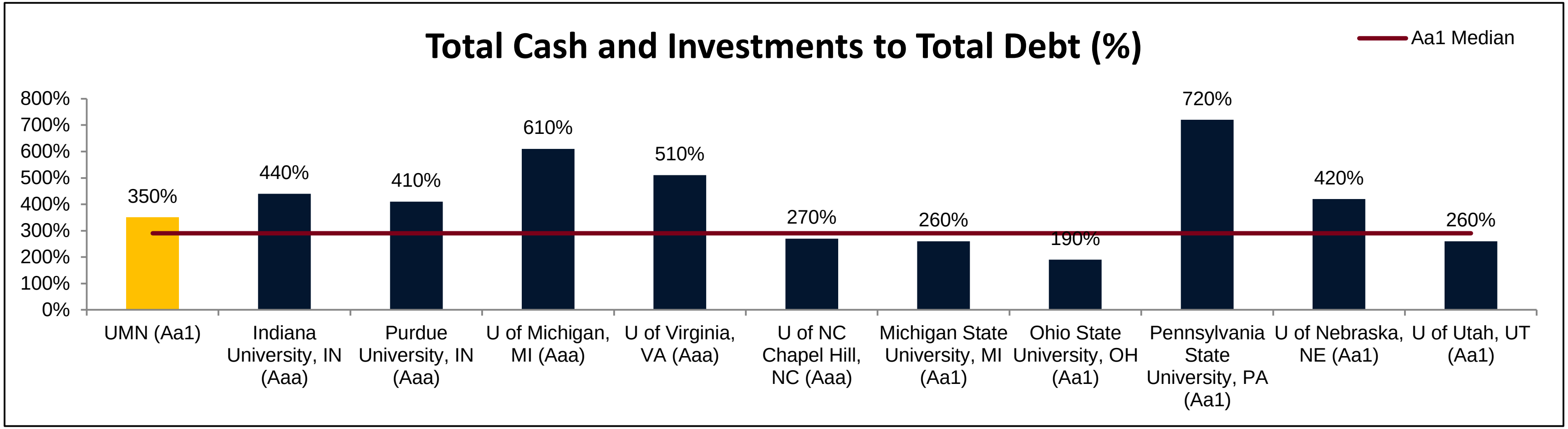
- *Total Cash & Investments*
- *Total Debt*
- *Total Cash & Investments to Total Debt*
- *Total Spendable Cash & Investments to Total Debt*
- *Debt Service to Operations*
- *Spendable Cash & Investments to Operations*

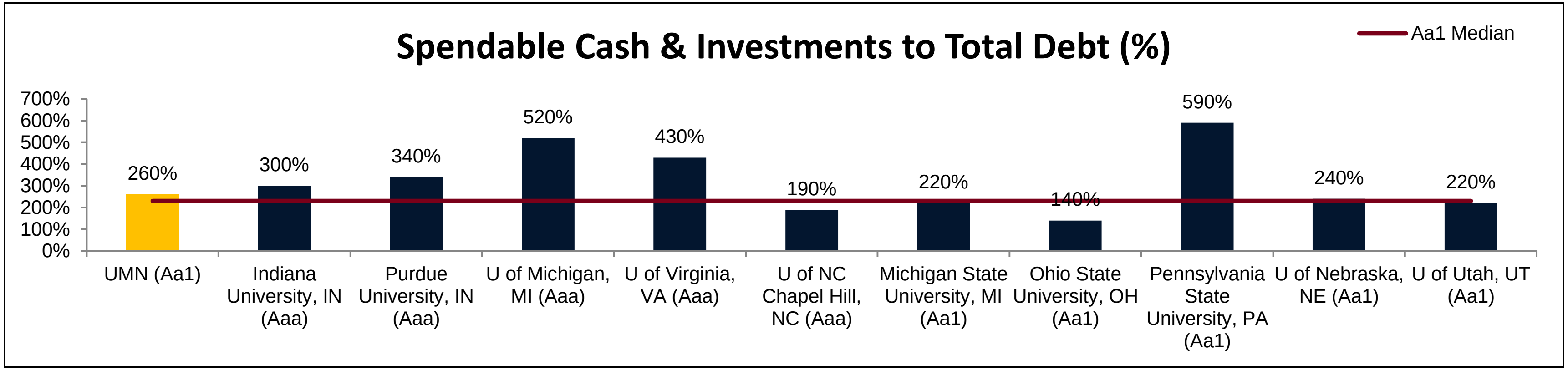
University of Minnesota Peer Group Analysis – 6/30/15



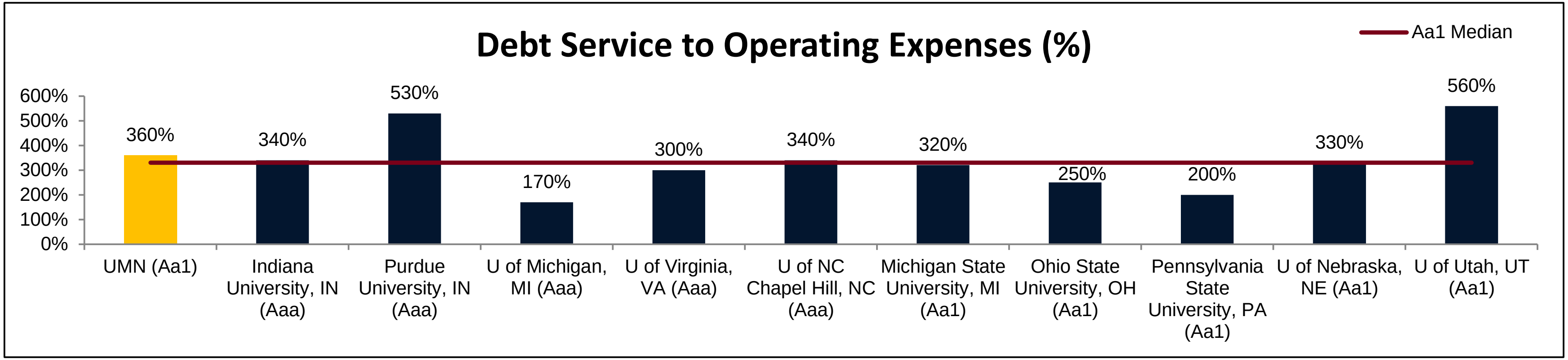


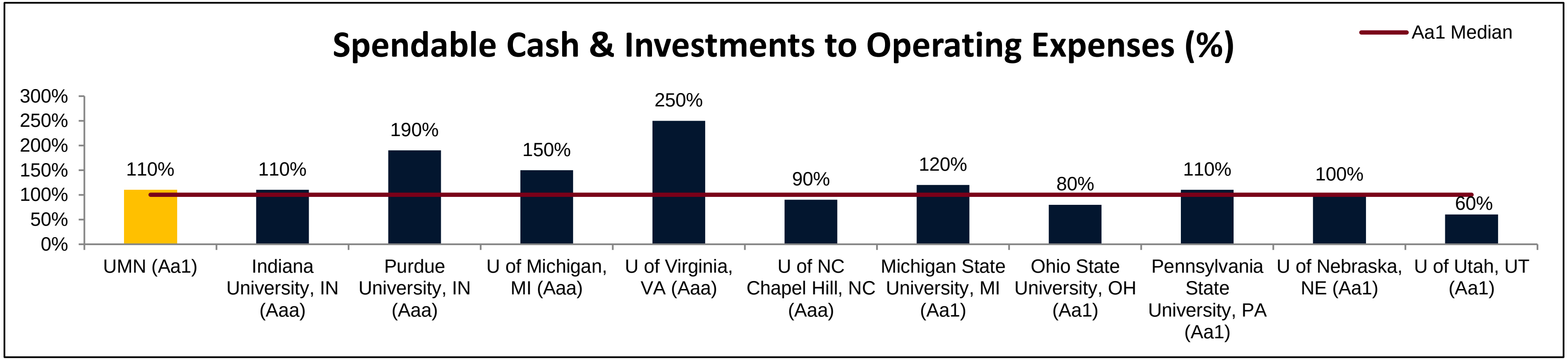
University of Minnesota Peer Group Analysis – 6/30/15





University of Minnesota Peer Group Analysis – 6/30/15





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BOARD OF REGENTS
DOCKET ITEM SUMMARY

Finance **February 9, 2017**

AGENDA ITEM: Operational Excellence: Next Steps

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

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

PRESENTERS: President Eric W. Kaler
Brian D. Burnett, Senior Vice President for Finance & Operations

PURPOSE & KEY POINTS

The purpose of this item is to begin a discussion on the principles, strategic goals, and metrics that will be used when considering alternatives to the current Operational Excellence cost reduction program (OpEx). The discussion will include brief background information, the status of cost reductions and reallocations through FY 2016, selected information regarding what other institutions are doing, and observations and lessons learned with considerations for potential directions going forward.

BACKGROUND INFORMATION

OpEx is the University's long-term commitment to working smarter, reducing costs, enhancing services, and increasing revenues. A centerpiece of OpEx is the plan to reduce $90 million of administrative costs and redirect those savings to invest in mission activities, stem the growth of the cost of attendance, and meet inflationary cost pressures.

OpEx was initiated in FY 2014 and the University is on track to achieve the $90 million target in FY 2019, the final year of the program.

The Minnesota Legislature has previously made a portion of the University's annual appropriation contingent on achieving at least 3 of 5 defined goals, one of which is the implementation of at least $15 million in annual administrative cost reductions and reallocations.

The University Progress Card includes a gold measure goal of attaining at least $15 million in administrative cost reductions and reallocations annually through FY19.

Operational Excellence
Next Steps

Board of Regents Finance Committee
February, 2017

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Operational Excellence

- Long-term commitment to work smarter, reduce costs, enhance services, and increase revenues throughout the University system
- Use our resources – people, money, time, facilities – to the highest purpose possible
- Since 2012, Operational Excellence work has included:
  - Process redesign and improvement projects
  - Huron Consulting's administrative benchmarking report recommendations
  - $90 million – 6 year cost reduction and reallocation program

This discussion will focus on goal to reduce and reallocate $90 million in administrative costs by end of FY 2019

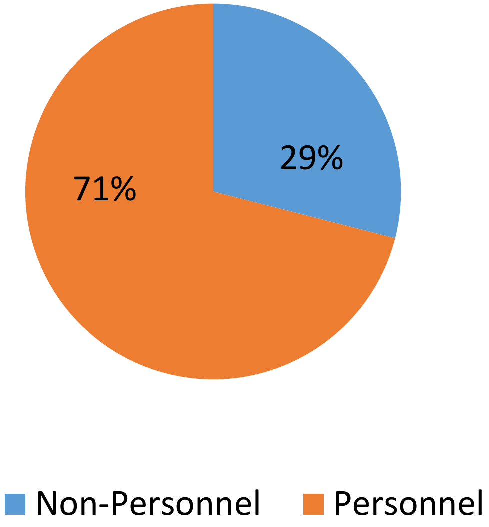
Reallocation of Resources to Advance Priorities

President's Goal – $90m Reduction in Admin Costs Over 6 Years
FY14 through FYFY19 - Status

Redirect resources to:

Invest in mission activities ◇ Stem growth in cost of attendance ◇ Meet inflationary cost pressures

Of the $53.8m Savings Implemented to Date:



FY14:	$18.8 million – Implemented
FY15:	$19.6 million – Implemented
FY16:	$15.4 million – Implemented
FY17:	$14.7 million – Approved/In Process
	$68.5 million – to date → 76%
	$21.5 million – Planned for FY18-FY19 → 24%

Examples:

- Position Eliminations
- Salary Savings – Restructuring Existing Positions
- Reductions to General Operations
- Reductions to Budgets for Facilities, Equipment, Consultants, etc.

Oversight and Accountability for Results

Legislative Accountability:

- A portion of the University's appropriation is tied to achieving the goal of $15 million in annual cost reductions and reallocations

University Accountability:

- University's Progress Card – a Gold Measure tracks progress towards achieving $90 million goal by FY19
- Created a new tool for analysis and insight – "Administrative Cost Benchmarking" analysis

Progress Card: Gold Measures

- Well understood and agreed upon data sources
- Able to set a quantifiable goal for 2021
- Reasonable historic data and accuracy
- University can take action to influence

Entering year	Campus	2008	2009	2010	2011	Goal/Year
4-year graduation rate (by entering year)	Crookston	35.5%	34.7%	42.5%	44.5%	45%/2017 cohort
	Duluth	37.4%	37.5%	38.2%	39%	45%/2017 cohort
	Morris	57.4%	53.2%	53.4%	52.6%	60%/2017 cohort
	Rochester	NA	50%	50%	63.1%	60%/2017 cohort
	Twin Cities	58.1%	59.1%	60.9%	63.3%	65%/2017 cohort
Entering year		2006	2007	2008	2009	Goal/Year
6-year graduation rate (by entering year)	Crookston	53.4%	46.6%	51.7%	48.4%	60%/2015 cohort
	Duluth	59.6%	66.7%	65.5%	66.5%	68%/2015 cohort
	Morris	64.2%	68.2%	73.5%	68.1%	80%/2015 cohort
	Rochester	NA	NA	NA	60%	60%/2015 cohort
	Twin Cities	73.2%	75.7%	78.7%	77.6%	82%/2015 cohort
Entering year		2008	2009	2010	2011	Goal/Year
4-year graduation rates of Pell-eligible students (by entering year)	System	41.2%	41.5%	44.1%	45.2%	54%/2017 cohort
		2012-13	2013-14	2014-15	2015-16	Goal
Twin Cities freshman average ACT	Twin Cities	27.7	27.9	27.9	28.2	>28.0
		2011-12	2012-13	2013-14	2014-15	Goal/Year
Institutional gift aid	System	$210M	$216M	$223M	$233M	$275M/2021

Expense Summary for Administrative Cost Benchmarking

FY 2016

University of Minnesota - Systemwide *

($$ in Thousands)

	a	b	c	d	e	d	e	f	g	h
1	**PERSONNEL**	**Mission**	Mission as % of Total	**Student Aid**	Student Aid as % of Total	**Mission Support & Facilities**	MS&F as % of Total	**Leadership & Oversight**	L&O as % of Total	**Total**
2	Direct Academic	930,363	97.8%					20,465	2.2%	950,828
3	Students	248,397	85.1%			43,651	14.9%			292,048
4	Leadership							68,475	100.0%	68,475
5	Campus Operations					108,205	82.9%	22,274	17.1%	130,480
6	**Support:**									
7	*Audit/Finance/HR/Info Tech/Legal*					*186,944*	*80.9%*	*44,123*	*19.1%*	*231,066*
8	*Clerical Support*					*77,930*	*99.9%*	*99*	*0.1%*	*78,029*
9	*Coordinators*					*6,004*	*100.0%*			*6,004*
10	*Skilled Generalists*					*27,000*	*37.7%*	*44,533*	*62.3%*	*71,533*
11	*Other Support*					*176,921*	*80.6%*	*42,715*	*19.4%*	*219,637*
12	**Support Subtotal**	0	0.0%	0	0.0%	474,799	78.3%	131,470	21.7%	606,269
13	**Total Personnel**	**1,178,760**	57.6%	**0**	0.0%	**626,655**	30.6%	**242,684**	11.8%	**2,048,100**
14	**NON-PERSONNEL**	**Mission**	Mission as % of Total	**Student Aid**	MS&F as % of Total	**Mission Support & Facilities**	MS&F as % of Total	**Leadership & Oversight**	L&O as % of Total	**Total**
15	Direct Mission Subcontract/Participant	132,169	100.0%							132,169
16	Supply/Service/Misc	215,062	47.6%			195,719	43.3%	41,215	9.1%	451,996
17	Equipment/Other Capital Assets	44,696	47.1%			44,178	46.6%	5,979	6.3%	94,853
18	Consulting/Prof Services	86,511	64.8%			47,081	35.2%			133,592
19	Repair & Maintenance Supply					60,237	100.0%			60,237
20	Utilities					99,846	100.0%			99,846
21	Rents/Leases					31,545	100.0%			31,545
22	Student Aid			321,866	100.0%					321,866
23	**Total Non-Personnel**	**478,439**	36.1%	**321,866**	24.3%	**478,607**	36.1%	**47,194**	3.6%	**1,326,106**
24	**TOTAL EXPENSE**	**1,657,199**	49.1%	**321,866**	9.5%	**1,105,261**	32.8%	**289,878**	8.6%	**3,374,205**

* Excludes expenditures for Enterprise Systems Upgrade Project (RRC: Enterprise Resource Planning), direct construction activity, real estate acquisitions, debt, agency funds activities, cross-unit charges, and ISO Funds.

Observations and Lessons Learned

- Difficult to effect material changes between Direct Mission, Mission Support, and Leadership and Management cost categories.
  - ***$3 million shift between categories = a tenth of 1%***
- Administrative reallocations are increasingly necessary to cover core cost increases in all categories and not just for investment in new mission activities.

Observations and Lessons Learned

- Program expansions often require mission support and facilities spending, as well as additional direct mission spending.
  - *Increasingly, though, new funding is directed to program costs only, and restricts or excludes uses that cover associated administrative costs.*
- Lack of growth in available sponsored funding continues to put pressure on additional mission investment
- Cost pressures of regulations, compliance, and accountability are a “headwind” to containing administrative costs

Potential directions forward

- External benchmarking, along with maintaining the internal benchmarking analyses currently tracked, could provide a more comprehensive review of costs at the University.
- One example, other public and private universities have worked to estimate costs of compliance as a part of administrative or total institutional costs.
  - *Ball State University (IN) recently reported to the Indiana legislature that 11% of its budget was estimated to be spent on compliance with federal and state mandates.*
  - *Vanderbilt University reported that its compliance costs ranged from 8-15% of the overall spending of the university in a report publicized last year.*
- Continuous improvement should be the goal—however, at what level will some "band/range of excellence" be established if the institution is performing well over a period of time on key metrics?

Discussion Questions

- What strategic goals and principles should frame any future administrative cost containment program?

- Are there alternative ways to benchmark cost containment and administrative efficiencies?

  - *For example "sustained excellence" and deviation from established benchmarks.*
  - *Re-examine the viability of using reported data to IPEDS and measures to add another benchmark.*

- What are the desired outcomes? Can these be measured and monitored?

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BOARD OF REGENTS

DOCKET ITEM SUMMARY

Finance **February 9, 2017**

AGENDA ITEM: Review of Required Reports

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

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

PRESENTERS: Michael Volna, Associate Vice President & Controller

PURPOSE & KEY POINTS

This discussion item will examine the required reports that come to the Finance Committee throughout the year. The docket materials provide an inventory of the reports currently required by Board policy, noting purpose, frequency, month it is normally provided, and how the report is typically presented (agenda item vs. information item). The administration's recommended changes (if any) are also included.

The discussion will assist the committee with its fiduciary and oversight responsibilities by ensuring that it receives timely and relevant information relative to key financial activities.

Feedback gained from this discussion will be considered by the Governance & Policy Committee as a part of its comprehensive review of Board of Regents Policy: *Board Operations and Agenda Guidelines.*

Board of Regents Finance Committee

Reports Required by Board of Regents Policy

The following list outlines the various Finance Committee reports and related requirements established by Board of Regents policy.

Report Name	Purpose	Board/ Committee	Frequency	Policy Reference	Notes	Recommendation
University Budget - Annual Operating Budget	Fiduciary and oversight - review and approval of the annual operating budget	Board / Finance	Annual May / June	Board Operations and Agenda Guidelines: Section II, Subd. 2, Part a. & Section II, Subd. 3, Part 5. and Student Services Fee: Section VI, Subd. 1. and Tuition and Fees Section IV, Subd. 1, and Central Reserves Section II, Subd. 1.	The Annual Operating Budget must include a projected central reserves year-end balance and central reserves budget. It also includes Student Services Fee and Tuition and Fees. The operating budget is required to come in successive meetings. It is approved by the Board with recommendation from the Finance Committee.	No change
Annual Asset Management Report	Oversight - review and discussion of the University's investments as related to the endowment and operating cash	Board / Finance	Annual September	Board Operations and Agenda Guidelines: Section II, Subd. 2, Part d. and Endowment Fund: Section V, Part b.	The Annual Asset Management Report is presented in Finance for discussion and to the Board as a receive and file item. Policy does not stipulate a submission date. The Annual Endowment Report is a component of this report. The report must include a peer institution comparison of relative performance and asset allocation, which comes to Finance annually in February.	No change
Annual Financial Report	Oversight - review of audited financial statements for the University as of fiscal year end.	Board / Finance / Audit	Annual December	Board Operations and Agenda Guidelines: Section II, Subd. 2, Part f. & Section II, Subd. 3, Parts 1. & 5. and Audit Committee Charter: Subd. 4, Part c.	The Audit Committee reviews the Annual Financial Report in advance of final issuance. Once issued, the report is presented in Finance for discussion and to the Board as a receive and file item. Policy does not stipulate a submission date.	No change
University Budget - Six-Year Capital Plan	Fiduciary and oversight - review and approval of plan for capital projects and investments	Board / Finance / Facilities and Operations	Annual September / October	Board Operations and Agenda Guidelines: Section II, Subd. 2, Part a. & Section II, Subd. 3, Parts 3. & 5.	The Six-Year Capital Plan is required to come in successive meetings. It is approved by the Board with recommendations from the Finance and Facilities & Operations Committees.	No change
University Budget - Annual Capital Improvement Budget	Fiduciary and oversight - review and approval of annual budget for capital investments	Board / Finance / Facilities and Operations	Annual May / June	Board Operations and Agenda Guidelines: Section II, Subd. 2, Part a. & Section II, Subd. 3, Parts 3. & 5.	The Annual Capital Improvement Budget is required to come in successive meetings. It is approved by the Board with recommendations from the Finance and Facilities & Operations Committees.	No change

Board of Regents Finance Committee

Reports Required by Board of Regents Policy

The following list outlines the various Finance Committee reports and related requirements established by Board of Regents policy.

Report Name	Purpose	Board/ Committee	Frequency	Policy Reference	Notes	Recommendation
Capital Finance & Debt Management Report	Oversight - review of financing and debt management plans and performance.	Finance	Annual February	Board Operations and Agenda Guidelines: Section II, Subd. 2, Part e. and Debt Transactions: Section VI.	The Capital Finance and Debt Management report is presented for discussion. Policy does not stipulate a submission date.	No change - continue as discussion item on Committee workplan
Central Reserves Fund Report	Oversight - review of the Central Reserves of the institution	Finance	Annual February	Central Reserves Fund: Section IV.	The Central Reserves Fund Report is presented as an information item. Policy does not stipulate a specific date. Also note the Annual Operating Budget must include a projected central reserves year-end balance and central reserves budget.	No change, pending Committee discussion on role of Central Reserves
Insurance and Risk Management Report	Oversight - report of risk management program, including insurance coverages, costs, losses	Finance	Annual February	Board Operations and Agenda Guidelines: Section II, Subd. 3, Part 5.	The Insurance and Risk Management Report is a component of the Finance Committee Portfolio.	Recently moved from Discussion agenda item to Information item. Recommend continuing as Information Item.
Annual Report on Targeted Business, Urban Community Economic Development, and Small Business Programs	Oversight - report on purchasing and spending relative to targeted business goals, federal requirements, and urban / community impact	Finance	Annual September	Targeted Business, Urban Community Economic Development, and Small Business Programs: Section III, Subd. 2.	The Annual Report on Targeted Business, Urban Community Economic Development, and Small Business Programs is presented as an information item. Policy does not stipulate a submission date.	Recommend moving this report from Information Item to Discussion Item on Committee agenda
Annual Investment Performance: Peer Comparisons	Oversight - report on investment and endowment performance relative to peers.	Finance	Annual February	Board Operations and Agenda Guidelines: Section II, Subd. 3, Part 5. and Endowment Fund: Section V, Part b, 1.	The Annual Investment Performance: Peer Comparisons is presented annually in February in addition to the Annual Endowment Report.	Recently moved to Information item; recommending continuing as Information Item.
Semi-Annual Management Report	Oversight - six month report on unaudited financial statements for the institution.	Finance	Semi-Annual February	Board Operations and Agenda Guidelines: Section II, Subd. 3, Part 5.	The Semi-Annual Management Report is a component of the Finance Committee Portfolio. It is presented as an information item.	No change

Board of Regents Finance Committee

Reports Required by Board of Regents Policy

The following list outlines the various Finance Committee reports and related requirements established by Board of Regents policy.

Report Name	Purpose	Board/ Committee	Frequency	Policy Reference	Notes	Recommendation
Quarterly Purchasing Report	Oversight - report on quarterly purchasing trends, and violations of Board purchasing policy	Finance	Quarterly September, December, March, May	Board Operations and Agenda Guidelines: Section II, Subd. 3, Part 5. and Purchasing: Section II, Subd. 4.	The Quarterly Purchasing Report is presented as a information item. Policy does not stipulate a submission date. If a non-competitive bid is used, it must be reported to the Board.	Recommend amending BOR policy to eliminate quarterly reports; replace with annual Purchasing report.
Quarterly Asset Management Report	Oversight - quarterly report on investment performance	Finance	Quarterly September, December, March, May	Board Operations and Agenda Guidelines: Section II, Subd. 3, Part 5. and Endowment Fund: Section V, Part a.	The Quarterly Asset Management Report is presented as a information item. The Quarterly Endowment Report is included as a component of this report.	No change.

BOARD OF REGENTS
DOCKET ITEM SUMMARY

Finance **February 9, 2017**

AGENDA ITEM: Consent Report

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

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

PRESENTERS: Brian D. Burnett, Senior Vice President for Finance & Operations

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 CDW Government LLC for $27,044,499 for Cisco equipment for core segment of Next Generation Network equipment and support and maintenance for the Office of Information Technology (OIT) for the period of February 15, 2017, through February 14, 2022. The first year purchase of equipment and support and maintenance is funded through the financing plan for The Next Generation Network project, which was reviewed and approved by the Board of Regents in October 2016. Subsequent years' expense will be paid for as part of OIT's annual operating budget. Vendor was selected through a competitive process.
- To CDW Government LLC for $2,965,032 for Cisco equipment for data center segment of Next Generation Network equipment and support and maintenance for the Office of Information Technology (OIT) for the period February 15, 2017, through February 14, 2022. The first year purchase of equipment and support and maintenance is funded through the financing plan for The Next Generation Network project, which was reviewed and approved by the Board of Regents in October 2016. Subsequent years' expense will be paid for as part of OIT's annual operating budget. Vendor was selected through a competitive process.
- To Comcast Cable Communications Management LLC for an estimated $1,950,126 for a bulk rate cable TV service agreement for Housing & Residential Life, Office of Classroom Management, and Office of Information Technology Video and Conferencing Services for the

period of July 1, 2017, through June 30, 2021, with the option to renew through June 30, 2024. Housing & Residential Life will cover costs to residents with other costs covered by the departments using the service. Vendor was selected through a competitive process.

- To Computer Concepts & Services, Inc. for an estimated $3,000,000 for the purchase of essential analysis and programming services for the University of Minnesota Veterinary Diagnostic Laboratory (VDL) for the period of May 1, 2017, through April 30, 2020, with contract extensions through April 30, 2022. VDL user fees and a Minnesota Department of Agriculture appropriation provide sources of funding for modifications specified by the VDL. This has been budgeted for in FY17. Vendor was selected through a competitive process.
- To Deloitte & Touche LLP for an estimated $2,344,000 to provide external audit and related services to the University for the Controller's Office for fiscal years 2017 through 2020, with options for contract extensions through fiscal year 2023 for an additional $1,877,500. Total contract value, if all options are exercised, would be $4,231,500. The cost of the contract is budgeted and funded out of the Controller's office operating budget on a recurring annual basis. Vendor was selected through a competitive process.
- To Kudelski Security for $14,832,716 for Fortinet equipment for the firewall segment of Next Generation Network equipment, software, services and support and maintenance for the Office of Information Technology (OIT) for the period February 15, 2017, through February 14, 2022. The first year purchase of equipment and support and maintenance is funded through the financing plan for The Next Generation Network project which was reviewed and approved by the Board of Regents in October 2016. Subsequent years' expense will be paid for as part of OIT's annual operating budget. Vendor was selected through a competitive process.
- To Ortega y Gasset Foundation (Spain), University Paul-Valery (Montpellier, France), CAPA (Sydney & London), Jose Suarez & Dolores Lopez (MSID-Ecuador), Fundacion Ortega y Gasset, Argentina (Buenos Aires, Argentina), Mohamud Jama (MSID-Kenya), Ousmane Sene (MSID Senegal), CIEE, Accent, and others for an estimated $17,000,000 to provide services to support overseas study abroad programs for FY 2016-17 for the Learning Abroad Center. The program fees cover the costs of the academic program and the administrative costs for the Learning Abroad Center. See enclosed documentation for basis of vendor selection.
- To Siemens Medical Solutions USA, Inc. for a 5-year service contract $1,105,820 for the renewal of the existing service contract on the PET/CT mCT 64 Scanner, for the Center for Clinical Imaging Research, Department of Radiology for the period of March 1, 2017, through February 28, 2022. The financial model that supports the profitable operation of the PET/CT mCT 64 Scanner currently pays for the existing service contract of $226,040. The long-term five-year financial projections for this equipment with the incurred costs of this service contract, which will decrease $4,876 annually, will fully support this renewal and all ongoing operations. See enclosed documentation for basis of vendor selection.

BACKGROUND INFORMATION

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

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

PRESIDENT'S RECOMMENDATION

The President recommends approval of the Consent Report.

General Contingency

Fiscal Year 2016-17

	Recipient	Amount	Balance	Purpose
1	**FY2017 General Contingency**		**$1,000,000**	
2	Carryforward from FY16 to FY17	22,500	1,022,500	
3	Facilities Management	88,000	934,500	Eastcliff small capital & large maintenance projects in FY16
4	U Services	(5,515)	940,015	Return of unused funds from reconstruction of Eastcliff Event Lawn Space
5	Capital Planning & Project Mangement	125,000	815,015	Replacement of 3 boilers at the North Central Research & Outreach Center in Grand Rapids
6	**New items this reporting period:**			
7	Capital Planning & Project Mangement	(180)	815,195	Return of unused funds from Rare Books pre-design funds given to CPPM in FY16
8	**FY 2016-2017 Ending Balance**		**815,015**	

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

FY17 r. 2017 February

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

To CDW Government LLC for $27,044,499 for Cisco equipment for core segment of Next Generation Network equipment and support and maintenance for the Office of Information Technology (OIT) for the period February 15, 2017 through February 14, 2022.

The purchase of this Cisco equipment, software, training and support and maintenance is providing an upgrade to from 10G to 100G Ethernet for the backbone and core. This upgrade encompasses all University campuses.

The vendor was selected as a result of a competitive bid process. $16,060,691 is the first year cost for Cisco equipment, licenses, training, professional services and support and maintenance. $10,983,808 is the cost for years two through five for support and maintenance.

The first year purchase of equipment and support and maintenance is funded through the financing plan for The Next Generation Network project which was reviewed and approved by the Board of Regents in October 2016. Subsequent years' expense will be paid for as part of OIT's annual operating budget.

Submitted by: Ron White
Purchasing, OIT Business Office
1300 South Second Street
Mpls. Campus
Phone: (612) 625-2333
Fax: (612) 625-3521

Approval of this Item is requested by:

Vice President and CIO

01-25-2017
Date

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

To CDW Government LLC for $2,965,032 for Cisco equipment for data center segment of Next Generation Network equipment and support and maintenance for the Office of Information Technology (OIT) for the period February 15, 2017 through February 14, 2022.

The purchase of this Cisco equipment, software, training and support and maintenance is providing an upgrade to a highly available and redundant system. Network performance will increase by ten fold. This upgrade encompasses all University campuses.

The vendor was selected as a result of a competitive bid process. $2,452,806 is the first year cost for Cisco equipment licenses, training, professional services and support and maintenance. $512,226 is the cost for years two through five for support and maintenance.

The first year purchase of equipment and support and maintenance is funded through the financing plan for The Next Generation Network project which was reviewed and approved by the Board of Regents in October 2016. Subsequent years' expense will be paid for as part of OIT's annual operating budget.

Submitted by: Ron White
Purchasing, OIT Business Office
1300 South Second Street
Mpls. Campus
Phone: (612) 625-2333
Fax: (612) 625-3521

Approval of this Item is requested by:

Vice President and CIO

01-25-2017
Date

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

To Comcast Cable Communications Management LLC for an estimated $1,950,126 for a bulk rate cable TV service agreement for Housing & Residential Life, Office of Classroom Management, Intercollegiate Athletics and Office of Information Technology Video and Conferencing Services for the period of July 1, 2017 through June 30, 2021, with the option to renew through June 30, 2024.

In 2010, the University of Minnesota entered into an agreement with Campus TeleVideo to provide content for on-campus residents over the traditional coaxial delivery system without the need for set-top boxes along with limited Internet Protocol television (IPTV) channel line-up. Many departments benefited from this agreement, as they were able to tie into the cable or IPTV content delivery in locations such as, classrooms, TCF Bank Stadium, Bierman Building and University Recreation & Wellness Center.

Through a competitive RFP process, Comcast provided the best pricing for both traditional coaxial and IPTV. The cost provides a bulk rate of $5.00 per housing unit/per month for 108 HD channels and HBO, 191 IPTV channels, 20 hours of recorded content and XFINITY TV GO. Providing bulk rate cable TV results in increased satisfaction with their on-campus living experience and significant savings to students compared to subscribing to this service on their own. The University will save approximately $488,359 over the initial four-year term by moving to Comcast with a potential additional cost savings of $425,237 if we renew for the additional 3 years. University cost for a seven-year agreement with Comcast:

Residence Halls/Apartments	*1,698,585*
Public (other campus facilities)	*251,541*
Total	*$1,950,126*

Housing & Residential Life will cover costs to residents while the public costs are covered by the departments using the service.

Submitted by: Laurie McLaughlin, Director, Housing & Residential Life
Comstock Hall-East
210 Delaware Street SE
Minneapolis Campus
Phone: 612-626-1499

Approval for the item requested by:

Laurie McLaughlin

1/17/17
January, 17 2017

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

To Computer Concepts & Services, Inc. for an estimated $3,000,000 for the purchase of essential analysis and programming services for the University of Minnesota Veterinary Diagnostic Laboratory for the period of May 1, 2017 through April 30, 2020 with contract extensions through April 30, 2022.

The University of Minnesota Veterinary Diagnostic Laboratory (VDL) has developed proprietary laboratory information management (LIMS) software to manage and automate VDL and Minnesota Poultry Testing Laboratory operations. This contract is to purchase the analysis and programming skills necessary to maintain, modify and implement LIMS software enhancements. The VDL is the official laboratory of the Minnesota Board of Animal Health and plays a critical role in tracking and analyzing animal health data related to diseases such as highly pathogenic strains of avian influenza, swine influenza, and other zoonotic diseases. Necessitating ongoing system enhancement are the successful efforts of VDL faculty in research projects on emerging disease identification, new test development, and disease prevention.

Analytical and programming skills are required for continuing development of system enhancements to address regulatory issues such as participating in the National Animal Health Network and for rapid response to disease outbreak. Furthermore, laboratory operational issues are met as they arise to develop, maintain and enhance instrument interfaces of newly developed testing procedures, customer service initiatives, quality and financial management requirements, and rapid compilation and transmission of complex infectious disease informatics as well as basic maintenance.

Through a competitive bid process, Computer Concepts & Services, Inc. best demonstrated the necessary experience and skill sets as well as cost effectiveness to carry out the requisite tasks and was awarded the contract.

VDL user fees and a Minnesota Department of Agriculture appropriation provide sources of funding for modifications specified by the VDL. This has been budgeted for in FY17.

Submitted by: Jerry L. Torrison
Veterinary Diagnostic Laboratory
1333 Gortner Avenue
St. Paul, MN 55108
Phone: (612) 624-0497
torri001@umn.edu

Approval for this item requested by:

Brooks Jackson

Brooks Jackson, Vice President
Health Sciences

1/26/17
Date

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

To Deloitte & Touche LLP for an estimated $2,344,000 to provide external audit and related services to the University for the Controller's Office for fiscal years 2017 through 2020, with options for contract extensions through fiscal year 2023 for an additional $1,877,500. Total contract value, if all options are exercised, would be $4,231,500.

The University of Minnesota engages an independent external audit firm to conduct a variety of audits, which are required by federal regulations, bond rating agencies, and the NCAA. The audit contract with Deloitte & Touche LLP expired with the fiscal year 2016 audit. The Board of Regents Audit & Compliance Committee authorized the administration to conduct a request for proposal (RFP) for external audit services. An evaluation team reviewed proposals from 2 firms who responded to the University's RFP. Deloitte & Touche LLP was unanimously selected by the evaluation team.

The University has successfully negotiated a contract with Deloitte that includes terms and conditions favorable to the University. The initial contract is four years and includes option to continue with Deloitte for 3 years beyond the initial contract. Deloitte has agreed to a fee structure wherein the fees in year one will be the same as the final year of the prior contract, and fee increases thereafter will be limited to 2% annually for the duration of the contract, including the three option years in the contract.

The cost of the contract is budgeted and funded out of the Controller's office operating budget on a recurring annual basis.

NOTE: The proposed engagement of Deloitte will also require Audit &Compliance Committee approval, which is being presented to that committee meeting on February 9, 2017.

Submitted by: Suzanne M. Paulson
Interim Controller
1300 South Second Street
Minneapolis, MN 55454
Phone: (612) 624-5007

Approval for this item requested by:

Michael D. Volna
Interim Vice President, Finance

1/26/2017
Date

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

To Kudelski Security for $14,832,716 for Fortinet equipment for the firewall segment of Next Generation Network equipment, software, services and support and maintenance for the Office of Information Technology (OIT) for the period February 15, 2017 through February 14, 2022.

Kudelski is providing Fortinet firewall appliances, firewall services, software and support and maintenance for all University campuses and data centers. This is a next generation firewall that is application aware and has real-time virus and malware protection.

The vendor was selected as a result of a competitive bid process. $6,804,087 is the first year cost for Fortinet equipment, licenses, training, professional services and support and maintenance. $8,028,629 is the cost for years two through five for support and maintenance. By pre-paying five years support and maintenance, the University is saving $10,450,000 versus paying annually.

The first year purchase of equipment and support and maintenance is funded through the financing plan for The Next Generation Network project which was reviewed and approved by the Board of Regents in October 2016. Subsequent years' expense will be paid for as part of OIT's annual operating budget.

Submitted by: Ron White
Purchasing, OIT Business Office
1300 South Second Street
Mpls. Campus
Phone: (612) 625-2333
Fax: (612) 625-3521

Approval of this Item is requested by:

Vice President and CIO

01-25-2017
Date

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

To Ortega y Gasset Foundation (Spain), University Paul-Valery (Montpellier, France), CAPA (Sydney & London), Jose Suarez & Dolores Lopez (MSID-Ecuador), Fundacion Ortega y Gasset, Argentina (Buenos Aires, Argentina), Mohamud Jama (MSID-Kenya), Ousmane Sene (MSID Senegal), CIEE, Accent, and others for an estimated $17,000,000 to provide services to support overseas study abroad programs for FY 2016-17 for the Learning Abroad Center.

The Learning Abroad Center (LAC) at the University of Minnesota is one of the largest education abroad offices in the US and currently sends over 4,000 students abroad annually, the 6th highest number overall in the US. The LAC offers over 60 programs and 250 affiliated programs, including university partners around the world, language programs, internships, field research, and short-term faculty-led programs. The Learning Abroad Center is anticipating increased enrollments each year due to the University of Minnesota's initiative to have 50% of students participating in a study abroad experience during their academic career. As a result of the study abroad initiatives, there is a need for additional contracted services from existing and new providers each year.

The Learning Abroad Center contracts with international providers in order to provide services to support overseas study abroad programs. Services include, but are not limited to the following:

- *Student Services – pre-departure and on-site orientation, airport transfers, room and board arrangements including home-stays, health and safety management, and in-country travel and liability insurance.*
- *Academic programs and facilities – enrollment requirements, academic program design, delivery and procedures, course content, tutorial sessions, faculty hiring and support, transportation for course related travel, program evaluations, and administration and course assessment.*

Costs for students participating on study abroad programs are based on a per student fee which is very similar in most cases to the costs students would incur if they were paying tuition, fees, and room and board to attend classes on the U of M campus.

The program fees cover the costs of the academic program and the administrative costs for the Learning Abroad Center.

Submitted by: Martha Johnson, Assistant Dean
Learning Abroad Center
Global Programs and Strategy Alliance
Phone: 612-626-0984

Approval for this item requested by:

Karen Hanson ____________________ 20 Dec 2016 ____________
Senior Vice President Date

Rationale for Exception to Competitive Bidding

This purchase has not been competitively bid because a comprehensive and diligent process to select external administrators is used by the Learning Abroad Center (LAC).

External administrators, third parties who work with the LAC's directors to design and customize programs in particular cities for the University of Minnesota, are researched, and selected based on (1) their familiarity with and contacts in a particular city, (2) student and LAC's assessments of the external program administrator's past performance, (3) demonstrated ability to provide for the housing, health and safety of participants, and (4) references from other Universities. The continued success of the program depends on the administrator's ability to provide a safe, productive and memorable student experience in the particular country or city. The risk of vendor non-performance in this area is a risk to the program and a risk to students. LAC's selection process is the optimal process to assure that the University's interests are protected for this type of purchase.

Costs for students participating on study abroad programs are based on a per student fee which is very similar in most cases to the costs students would incur if they were paying tuition, fees, and room and board to attend classes on the U of M campus. The program fees cover the costs of the academic program and the administrative costs for the Learning Abroad Center.

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 Siemens Medical Solutions USA, Inc. for a 5-year service contract $1,105,820 for the renewal of the existing service contract on the PET/CT mCT 64 Scanner, for the Center for Clinical Imaging Research, Department of Radiology for the period of March 1, 2017 through February 28, 2022.

The Center for Clincial Imaging Research (CCIR), as part of the Department of Radiology, is requesting approval to renew its existing service contract on the Siemens PET/CT Biograph mCT 64 Scanner, Syngo MMWP operating system, and Medrad Stellant D injection system (which are all bundled and used with the PET/CT Scanner). The Siemens Biograph mCT 64 Scanner at CCIR was originally approved for purchase by the Board of Regents in 2009, and since then it has become the most advanced PET/CT in the Midwest; now running the Biograph FLOW scanning software. Our current service agreement expires on 2/28/17, and this renewal is for 5 additional years. A service agreement is required as part of the operation of the PET/CT, and must be purchased through the vendor of the scanner, Siemens Medical Solutions USA, Inc. The annual cost for this service agreement is $221,164, and the five year service contract totals $1,105,820 over 5 years. Please note that the annual cost is decreasing with this renewal by over 2%, ($4,876), as the current annual cost for this system is $226,040.

The renewal of the PET/CT Biograph mCT 64 Scanner service contract will directly benefit the current clinicians and collaborators that rely on its use daily. On average, the PET/CT provides in excess of 40 scans per month. These range in modality from whole body, cardiac, brain, and other internal diagnoses. A listing of some of the departments that currently utilize the PET/CT include: Radiology, Neuroscience, Psychiatry, Oncology, and Urology here at UMN. The proximity of this scanner within the BioMedical Discovery District at CMRR/CCIR allows for an ease of access for a variety of the researchers, as well as the clinical patients that are referred. This scanner is crucial to the ongoing operations of both Fairview and UMP to compliment the existing PET/CT located at UMMC.

The financial model that supports the profitable operation of the PET/CT mCT 64 Scanner currently pays for the existing service contract of $226,040. The long-term five-year financial projections for this equipment with the incurred costs of this service contract, which will decrease $4,876 annually, will fully support this renewal and all ongoing operations.

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

Approval for this item requested by:

____________________ 1/23/17
VP or Exec. VP Signature Date

Rationale for Exception to Competitive Bidding

This purchase has not been competitively bid because of the need to renew the existing service contract that has been in place with Siemens since 2012 (following a two-year warranty period after the original purchase of the PET/CT mCT 64 Scanner in 2009. The need to renew the existing service agreement with the vendor, Siemens Medical Solutions USA, Inc, relates to the requirement to have the vendor service the scanner once installed. The existence of a service agreement lowers overall costs and streamlines any upgrades or repairs as they are needed because they are covered within the agreement.

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. The annual cost of the service agreement will go down by over 2% ($4,876) annually for the five-year duration of this agreement.

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

BOARD OF REGENTS
DOCKET ITEM SUMMARY

Finance **February 9, 2017**

AGENDA ITEM: Information Items

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

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

PRESENTERS: Brian D. Burnett, Senior Vice President for Finance & Operations

PURPOSE & KEY POINTS

Annual Risk Management & Insurance Report

The purpose of this annual report is to provide an overview of the University's FY 2016 property, liability, and workers compensation insurance programs, including key financial metrics.

The University's total cost of risk for FY 2016 (the sum of captive costs, self-insurance costs, and the cost of commercially-purchased insurance) was $13.5 million, up 10 percent over the prior year's total cost of risk of $12.2 million.

During FY 2016, Risk Management issued an RFP for claims administration. The incumbent offered the best terms and was awarded the contract. Risk Management also issued an RFP for property insurance. FM Global Insurance Company offered the best terms and was awarded the contract.

Goals for FY 2017 include continuing to work with internal units and departments to integrate protection advice from the new property insurance company into existing and new facilities and partnering with the University Library related to movement and protection of rare books and manuscripts collection.

Annual Investment Performance: Peer Comparisons

The purpose of this annual report is to provide the committee with the investment performance and asset allocation data related to peer institutions for the fiscal year ending June 30, 2016.

- Endowment fund investment performance of 0.3 percent ranked in the top quartile among all peer institutions in the country.
- Drivers of performance included venture capital managers, who produced greater than 10.5 percent returns.
- Increased portfolio liquidity and targeted asset class strategies position the endowment fund for continued success in coming 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:

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

FY 2016 Year End Balances Report – Non-Sponsored Funds

This report outlines the process and results of in-depth review on FY 2016 year-end carry-forward balances. Carry-forward balances (funds that remain at the end of a fiscal year after all revenues and expenditures are recorded that then "carry forward" into the next fiscal year) play an important role in the management of the University's finances both at the institution level and in individual operating units. Balances at the Twin Cities collegiate, system campus, and major support unit level (which is referred to as the Resource Responsibility Center or RRC level) are monitored centrally on an annual basis with close attention to the level of unit balances in relationship to expenditures, changes in balances over time, and the use of balances to fund unit academic priorities. Every few years, University Finance undertakes a more in-depth review of unit-level balances to verify the intended purposes of balances in various funds. The last in-depth review was based on FY 2012 year-end balances.

Debt Management Advisory Committee (DMAC) Update

The purpose of this item is to provide a report on the meeting of the Debt Management Advisory Committee (DMAC) held on February 8, 2017. The agenda for the meeting included:

- Status of the issuance of Commercial Paper, Series F, for the Combined Heat & Power Plant project.
- Review of the Annual Capital Financing and Debt Management Report.
- Status of spending on approved projects and timing of related future debt issuances.

Budget Allocation Report

The budget allocation report that was submitted to the Minnesota Legislature as defined in Minnesota Laws of 2016, Chapter 189 is included in the docket materials.

BACKGROUND INFORMATION

Annual Investment Performance: Peer Comparisons

The Office of Investments & Banking prepares this report, as required by Board policy, for review by the Investment Advisory Committee and the Board of Regents.

Annual Risk Management & Insurance Report

This report is prepared and presented to the Finance Committee annually, in conformance with Board of Regents Policy: *Board Operations and Agenda Guidelines*.

UNIVERSITY OF MINNESOTA

Annual Report
of the
Office of Risk Management and Insurance
as of
Fiscal Year Ended
30 June 2016

Table of Contents

Total Cost of Risk Summary

COST ITEM	FY12	FY13	FY14	FY15	FY16
Captive					
Liability Ultimate Loss (EST.)	$ 1,829,870	$ 1,301,165	$ 728,003	$ 1,490,186	$ 2,343,420
Liability Claims Administrator	$ 63,566	$ 51,707	$ 50,542	$ 56,333	$ 56,045
Captive Administrative Expenses	$ 120,930	$ 116,909	$ 101,896	$ 109,878	$ 105,510
Litigation Cost	$ 1,633,392	$ 1,411,683	$ 1,666,978	$ 1,223,099	$ 1,540,318
Total Captive	**$3,647,758**	**$2,881,464**	**$2,547,419**	**$2,879,496**	**$4,045,293**
Self-Insurance					
Workers' Compensation Ultimate Loss (EST.)	$ 1,808,916	$ 4,567,820	$ 3,513,577	2,928,820	2,793,860
WC Reinsurance Association	$ 142,096	$ 155,784	$ 223,486	268,505	181,565
Special Compensation Fund	$ 291,348	$ 207,312	$ 301,786	179,742	339,746
WC Claims Administrator	$ 267,826	$ 275,324	$ 313,479	297,777	317,449
Litigation Cost	$ 214,019	$ 191,338	$ 214,638	346,676	455,100
Bill Review Service	$ 28,640	$ 32,717	$ 38,591	32,694	32,281
WC Actuarial	$ 9,288	$ 10,300	$ 10,430	9,892	9,402
WC Total	$ 2,762,133	$ 5,440,595	$ 4,615,987	4,064,106	4,129,403
Retained Property Losses [1]	$ 1,560,600	$ 1,463,923	$ 2,107,430	1,214,922	769,196
Electronic Data Processing [2]	$ 29,707	$ 24,371	$ 12,837	27,288	35,975
Automobile Physical Damage	$ 156,843	$ 87,779	$ 210,577	153,238	380,128
Total Self-insurance	**$4,509,283**	**$7,016,668**	**$6,946,831**	**$5,459,554**	**$5,314,702**
Commercial Insurance					
All Risk Property	$ 2,240,136	$ 2,261,562	$ 2,345,651	$3,268,222	$3,578,633
Excess General/Auto Liability - Extra MN	$ 234,745	$ 238,002	$ 242,762	250,044	262,012
Excess Clinical Trials Liability - Extra MN	--	$ 139,839	$ 215,756	184,506	135,000
Intercollegiate Athletics	$ 31,500	$ 31,500	$ 33,500	33,500	33,500
Hull, Liability, Pollution (Blue Heron Watercraft)	$ 30,613	$ 31,558	$ 28,701	28,659	27,494
Fidelity & Crime	$ 20,210	$ 20,162	$ 21,740	22,015	22,015
Fine Arts	$ 18,280	$ 18,280	$ 18,827	18,827	20,934
Nonowned Aircraft Liability	$ 18,000	$ 22,000	$ 22,000	22,000	20,900
Showboat	$ 6,925	$ 9,739	$ 11,748	13,300	6,480
Broadcaster's Liability	$ 5,365	$ 5,365	$ 5,594	5,594	5,594
Child Care Center AD&D	$ 1,188	$ 1,159	$ 1,397	1,198	1,704
Upward Bound AD&D	$ 376	$ 406	$ 406	406	406
Brokerage	$ 54,000	$ 37,586	$ 38,337	38,337	38,337
Total Commercial Insurance	**$2,661,338**	**$2,817,158**	**$2,986,419**	**$3,886,608**	**$4,153,009**
GRAND TOTAL COST OF RISK	**$10,818,379**	**$12,715,290**	**$12,480,669**	**$12,225,658**	**$13,513,004**

I. Overview

Mission of the Office of Risk Management and Insurance

The Office of Risk Management and Insurance ('Risk Management') accepts as principle that assuming some risk is integral to being productive. The University must take risks and Risk Management must find ways to minimize the financial impact of adverse outcomes.

The Risk Management Team:

- Consults with the University community regarding the risk naturally encountered in the course of Research, Teaching and Outreach;
- Minimizes the frequency and severity of physical injury and property damage through education and specific loss control measures; and
- Protects and preserves University human and financial resources.

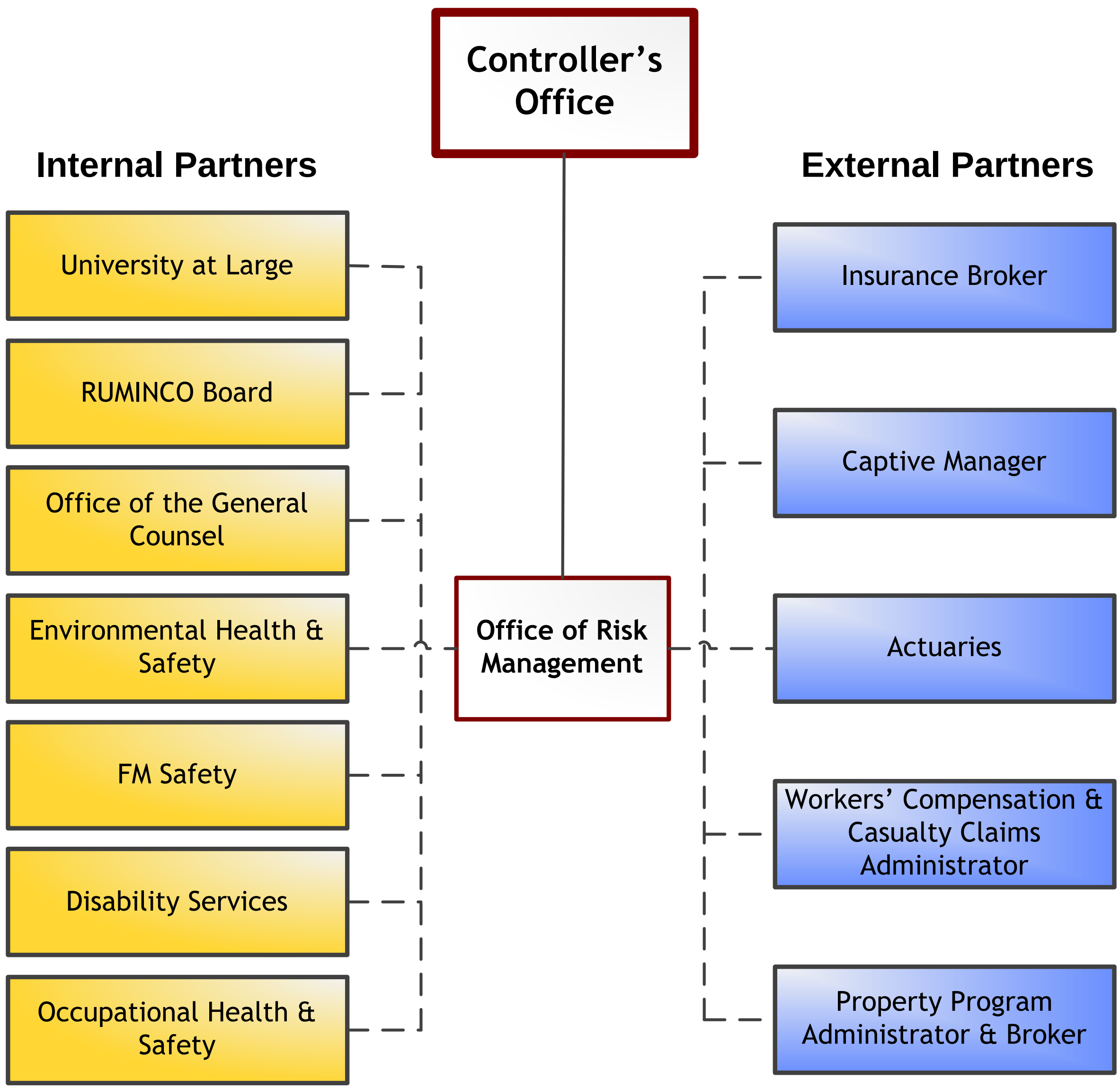
Risk Management uses commercial insurance, captive insurance, and self-insurance to transfer, or budget for, monetary loss arising from risk. It is responsible for the design, procurement, implementation, and maintenance of these programs. Risk Management routinely consults with the Office of General Counsel with respect to risk and insurance provisions of the contracts the University seeks to enter.

This report summarizes the scope of operations of the University's Office of Risk Management and Insurance as of fiscal year end June 30, 2016.

Organizational Structure

The Office of Risk Management:

- Acts at the direction of the Controller's Office;
- Maintains dotted line relationships with many University entities and resources; and
- Controls the activities of several insurance vendors and suppliers.



FY16 Workplan Status

Third Party Administrator RFP

We issued an open RFP to select a vendor to administer claims for RUMINCO, Ltd. (our captive liability insurer) and for our self-insured Workers' Compensation for the next three years. No competitor offered terms superior to incumbent Sedgwick's, and we awarded the contract to them.

Property Insurance RFP

We issued an RFP for property insurance. Respondent FM Global Insurance Company ('FM') offered the winning terms.

> **Savings**: The FM program rate was 32% below the prior carrier's renewal offer. This produced $1MM in first-year savings.
>
> **Stability**: We negotiated a three year rate guarantee as well as an accompanying guarantee of a 5% additional rate credit at next year's renewal.
>
> **Policy limit**: Our new general limit is $2B, $250MM more than the prior limit.
>
> **Expertise**: FM's property protection engineers are recognized as the strongest in the property insurance industry.

II. Risk Finance Programs

General Approaches to Risk Finance

The financial consequences of risk may be ***Retained*** or ***Transferred.***

- ***Risk retention*** (often called "self-insurance") is characterized by the assumption (retention) of financial risk consequences. This retention ranges from a deductible to carrying no insurance whatsoever. Optimally, risk retention is the result of pre-considered choice.

- ***Risk transfer*** is characterized by the passing of the financial consequences of risk to a third party (typically an insurer) via purchase of a contract (typically an insurance policy) that specifies the terms and conditions of the transfer.

Broadly, the University treats its risk as follows:

- Liability – ***Transferred*** to captive insurer (RUMINCO, Ltd.)
- Workers' Compensation – ***Retained***; Self-insured
- Property and Miscellaneous Insurance – ***Transferred*** to commercial insurers

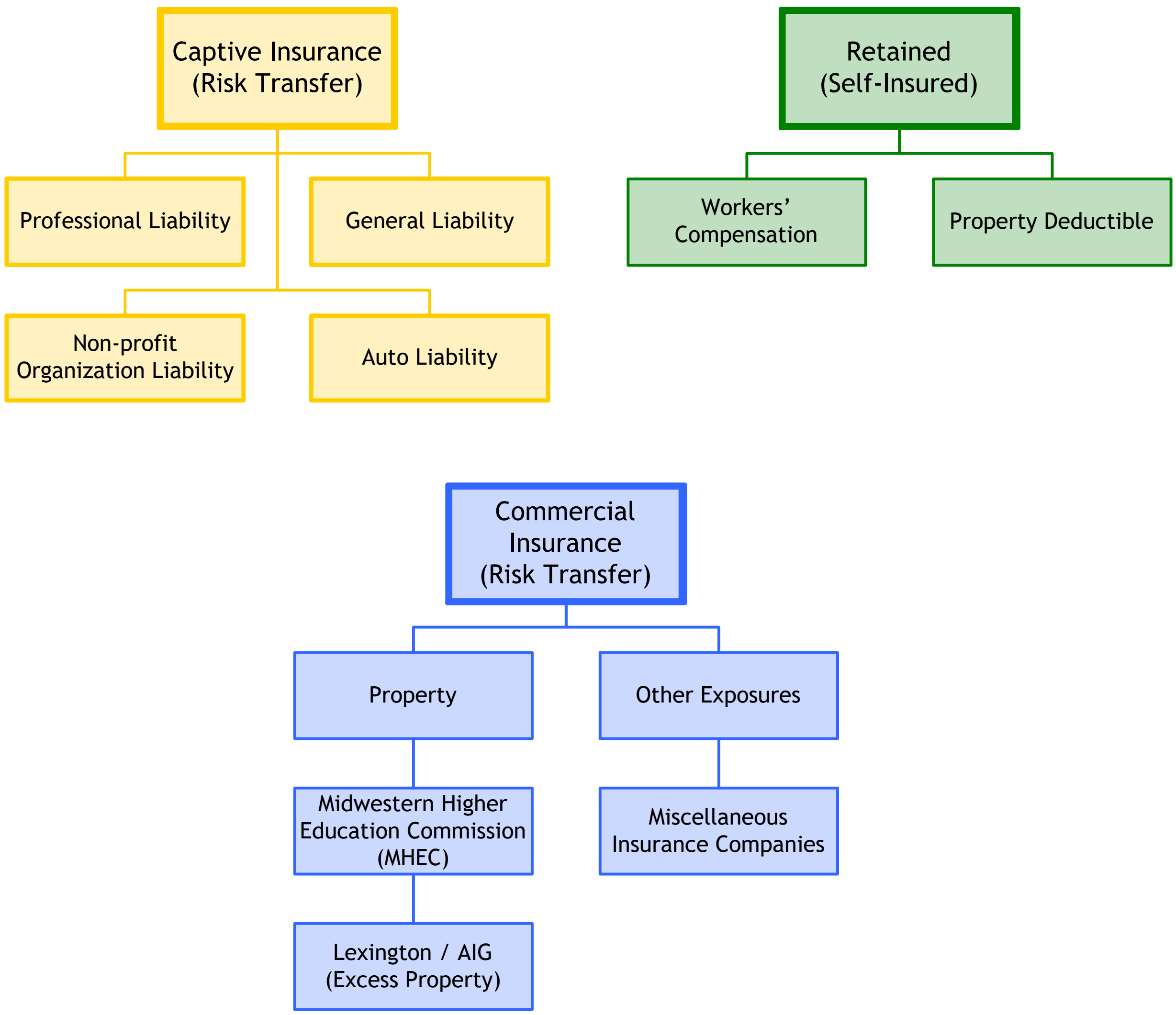
There are specific rationales behind the decision to transfer or retain a specific risk. Because retaining one's own risk (within limits) tends to be more economical in the long run than paying a third party to assume it, the guiding principle has been for the University to retain risk, to the extent that it is financially possible and reasonable to do so.

Generally, this principle is not useful when the University is exposed to truly catastrophic loss potential. A good example of this is the property associated with the University's campuses. The University owns over $14 billion in property, and carries a multi-billion property insurance limit. We cannot fund losses at that level internally, so we purchase an insurance contract to transfer the exposure to a third party.

University Structures

Much activity of the Office of Risk Management centers on the establishment, maintenance and continuing refinement of risk finance mechanisms.

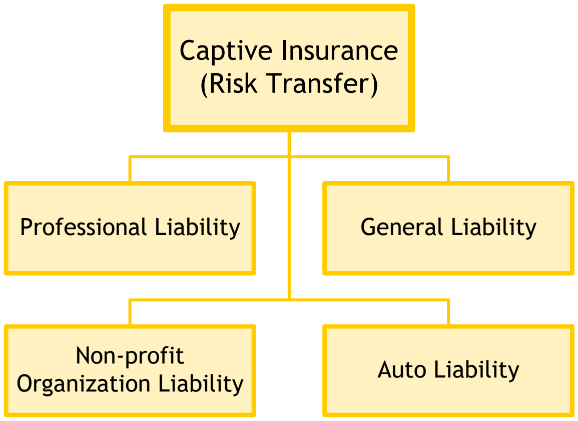
The University finances its Property and Casualty risk using three general strategies:



The Office of Risk Management monitors the University's loss trends and the insurance marketplace to determine the optimal risk financing strategy. This process includes ongoing reviews of the University's loss exposures, claim frequency and severity, and trends in each.

The following sections describe the University's **Captive**, **Retained**, and **Commercially Insured** risk financing programs.

CAPTIVE INSURANCE



RUMINCO, Ltd.

RUMINCO Ltd. (*R*egents of the *U*niversity of *M*innesota *IN*surance *CO*mpany) is a captive insurance company, a wholly owned subsidiary of the University of Minnesota. It was incorporated in 1978 during a nationwide crisis in the medical malpractice insurance market. At that time, the University Hospitals and Clinics and the Medical School faced 400% increases in premiums. After exploring various risk financing options, the University decided to form RUMINCO Ltd. to fund its primary layer of protection for:

- **General Liability; and**
- **Professional Liability (Medical Malpractice)**

The University purchased excess limits from commercial insurance companies until 1986, when the Office of the General Counsel advised that the State of Minnesota's Tort Statute effectively and reliably limits the University's exposure to Tort Liabilities incurred within Minnesota jurisdiction.

As RUMINCO matured and its surplus (i.e., net worth) grew, the RUMINCO Board added other lines of coverage:

- **Automobile Liability; and**
- **Non-Profit Organization Liability (Employment Claims)**

Over one-third of a century, RUMINCO has proven itself to be a useful funding tool for the University. It is a formalized, disciplined way to finance risk, yet retains flexibility, and provides long-term stability.

RUMINCO, Ltd. Coverage Overview

A. General Liability insures the University's legal liability for third party bodily injury or property damage.

Principal Exposures:

Frequency: Premises injuries to third parties (slip-and-falls)

Severity: Population concentrations in dormitories, stadiums, and arenas exposed to fire, collapse, explosion, etc.

B. Professional Liability covers damages arising out of professional services, including:

- Medical, surgical, dental or nursing treatment
- Furnishing or dispensing of drugs or medical, dental, or surgical supplies or appliances
- Services by any person as a member of a formal accreditation or similar professional board or committee of the University, or as a person charged with the duty of executing directives of any such board or committee
- Service by accountants, architects, engineers, lawyers, and teachers acting within the scope of their duties as employees of the University

Principal Exposure:

Frequency and Severity: Medical Malpractice

C. Auto Liability covers legal liability for bodily injury and property damage arising out of the use of over 800 owned vehicles, as well as hired and non-owned autos operated on behalf of and with the permission of the University.

Principal Exposures:

Frequency: Collision damage to third parties' vehicles

Severity: Vehicle accidents involving multiple-passenger vehicles

D. Non-Profit Organization Liability covers liability claims not triggered by Bodily Injury or Property Damage, including:

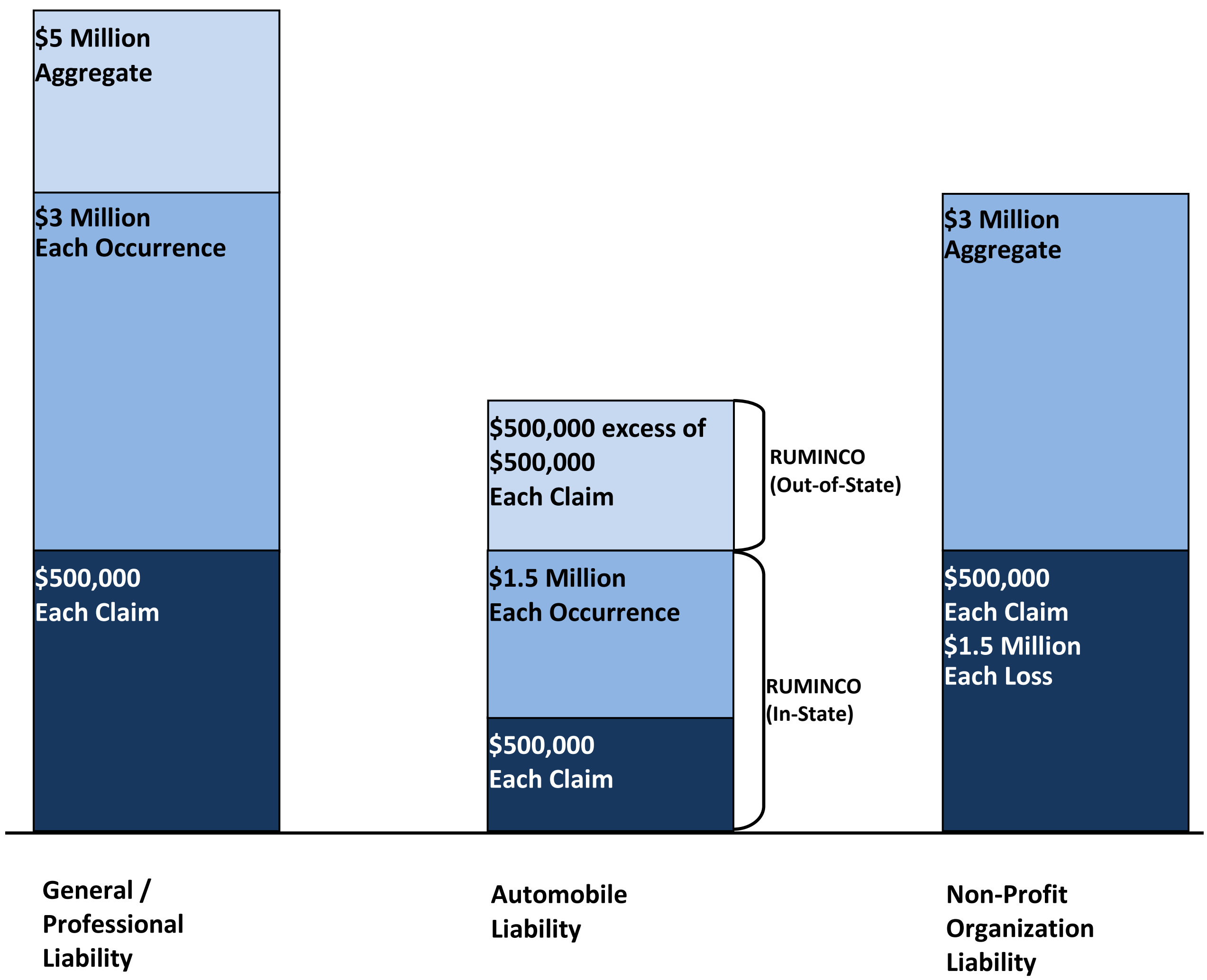
- Directors' and Officers' Liability
- Employment Practices Liability
- Personal Injury e.g., libel, slander, defamation, emotional distress

Principal Exposure:

Frequency and Severity: Employment-related claims such as allegations of sexual harassment, failure to grant tenure, discrimination, etc.

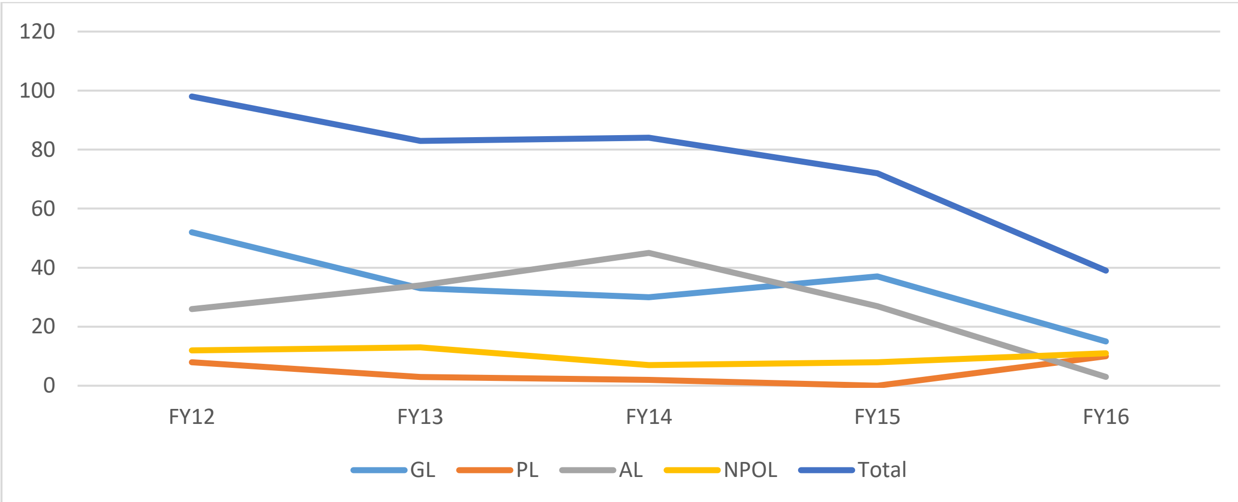
Summary of RUMINCO Ltd. Limits

RUMINCO limits are in the same range as the maximum payout prescribed by the Minnesota Tort Cap statutes; buying more limit than required effectively waives the Statute's protection, with the new limit becoming the de facto tort cap.



RUMINCO Ltd. Claims Experience

Claim Count by Fiscal Year

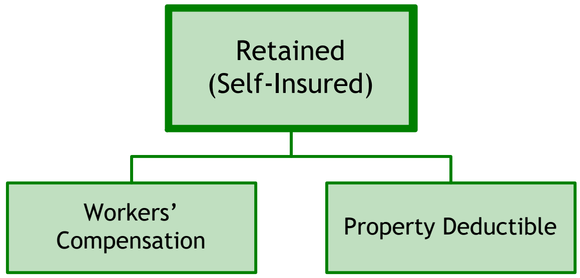


Claim frequency for the four RUMINCO lines of liability coverage over the past five years.

RUMINCO's Total Claim Count has averaged 86 claims per year over the past five years.

The Total FY16 Claim Count of 39 represents a five-year low.

RETAINED (SELF-INSURED)



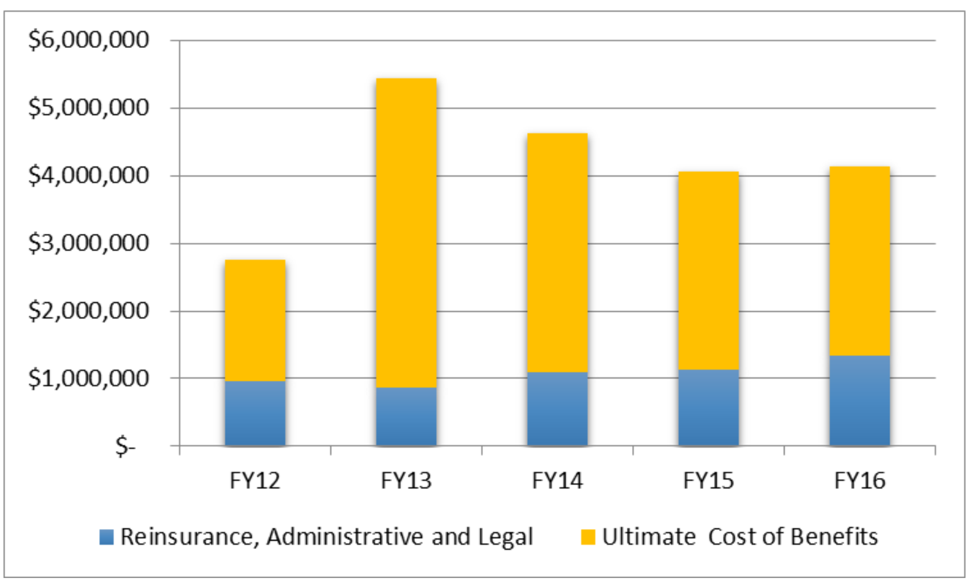
Workers' Compensation Overview

Workers' Compensation benefits are mandated and governed by Minnesota statute. Benefits include medical costs, wage loss and retraining costs for University employees who are injured while acting in the scope of their duties.

The University is a qualified self-insurer under Minnesota law, assuming liability up to $1,880,000 in any one Workers' Compensation occurrence. The Workers' Compensation Reinsurance Association (WCRA), an excess insurer for catastrophic claims created by the State of Minnesota, provides excess protection.

Beginning in FY09, Risk Management began a continuing initiative to make the statutory Workers' Compensation benefit system more transparent, accessible, and easy to use for all parties. That initiative formed the basis for positive trends that continue today.

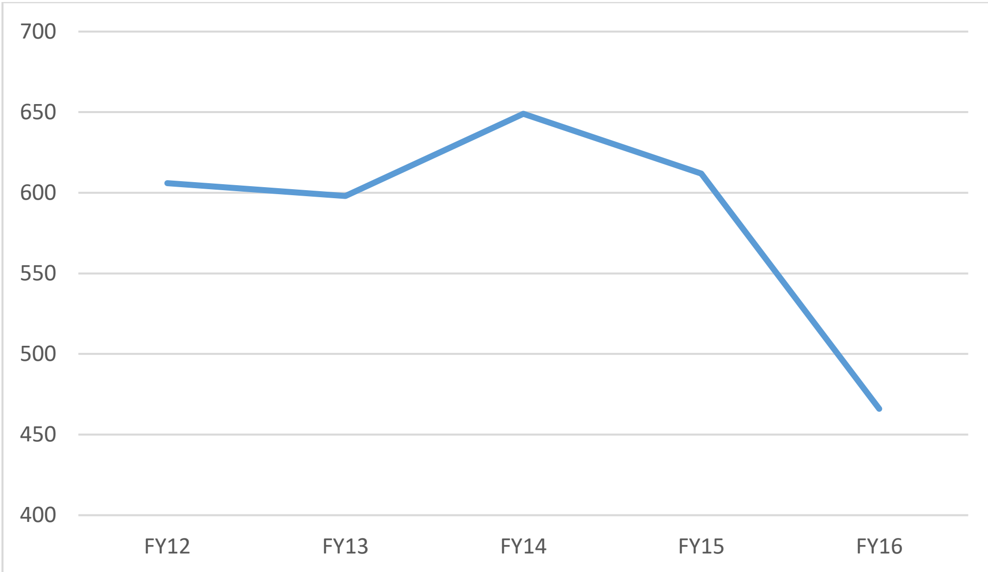
Workers' Compensation Program Costs



Annual claim cost is moderately volatile. Administrative costs are relatively steady.

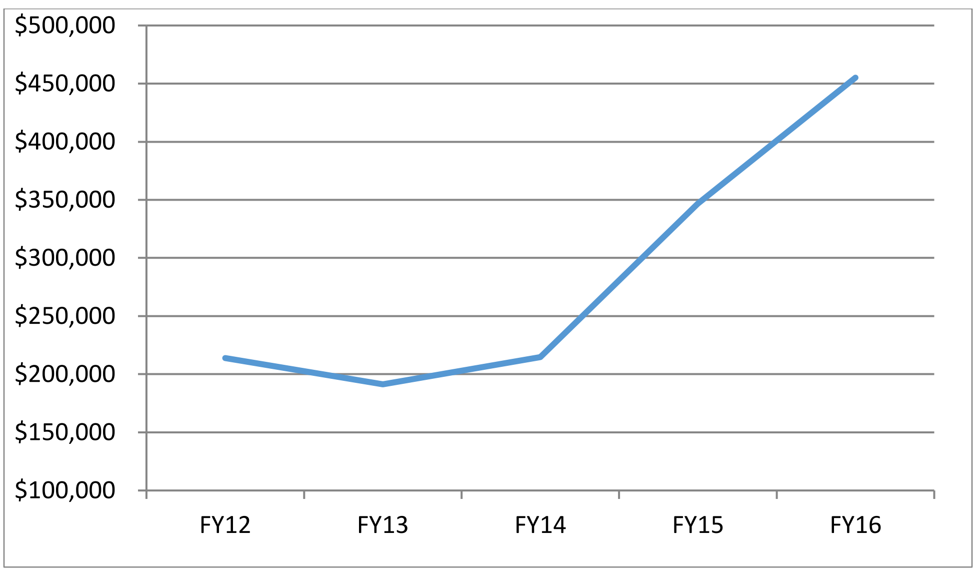
Workers' Compensation

Workers' Compensation Claim Count



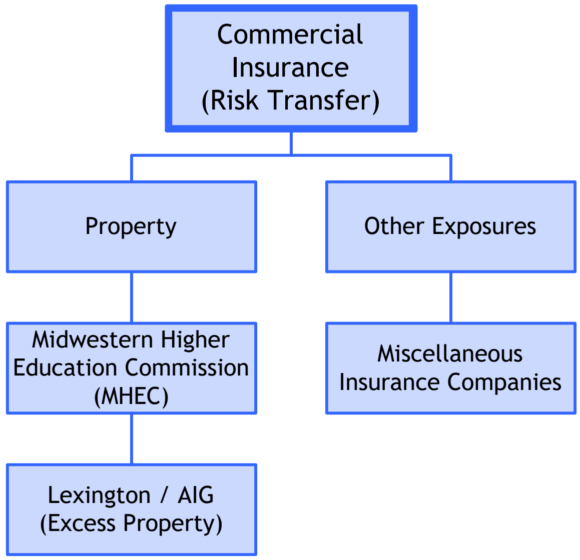
Aggregate claim count is at a five (and ten) year low.

Workers' Compensation Legal Expense



Legal expense is up as a result of our pursuit of binding precedent on 'course of commute' claims

COMMERCIAL INSURANCE



Through the purchase of commercial insurance, the University transfers certain loss exposures to commercial insurance companies.

Reasons to commercially transfer risk include:

- High limits would be difficult, or impossible, to self-fund ($40 million Extra MN General/Auto Liability; $10 million Extra MN Clinical Trial Liability; $1.75 billion Property Insurance) and

- Customer/public relations, low price of transfer, or demands by third parties (NCAA Athletic Injury Primary Coverage; Daycare Accident; Fine Art)

Property Insurance premiums are 86 percent of the University's commercial insurance outlay.

Property Insurance

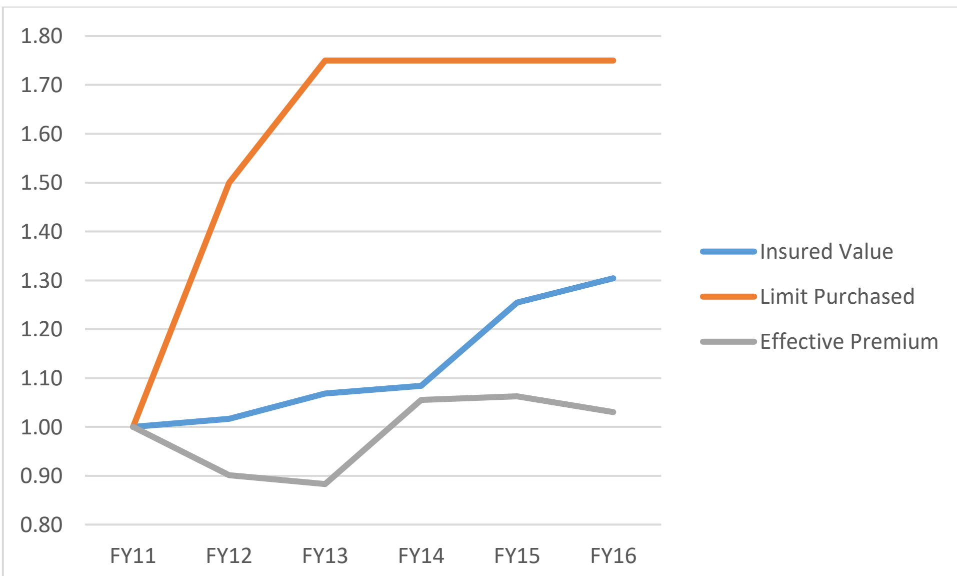
Property Insurance covers risks of direct physical loss or damage to the "covered property" as defined in the policy, subject to sublimits and specifically excluded perils. The principle insurer for the University is AIG through the Midwest Higher Education Compact (MHEC) Master Property Program.

We revised the program deductible from $200,000 to $500,000 in FY11 and have been monitoring program performance since. An effective measure of performance is "Effective Premium", which reflects changes in deductible cost:

Effective Premium = Premium Paid to Insurer + Deductible Internally Retained

The chart below shows the change in Effective Premium in relation to two key Premium Cost Drivers (Insured Value and Limit Purchased) since FY11 (with FY11 having been converted to a baseline of "1"):

Trends in Values, Premium and Limit: FY11 = 1



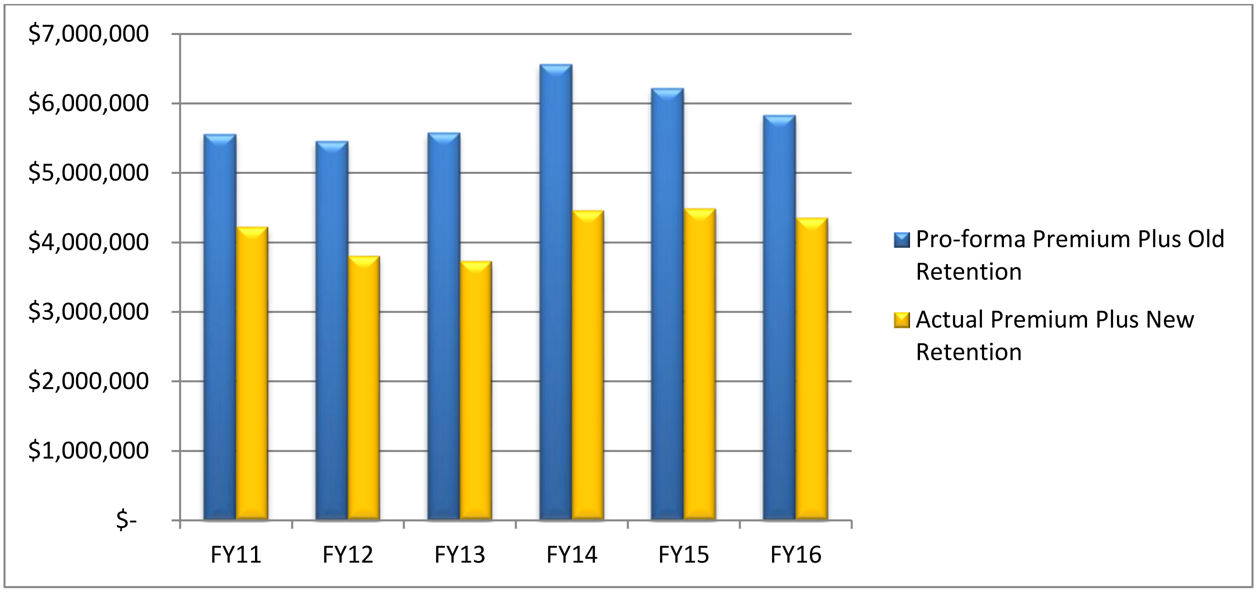
Property insurance cost drivers are Insured Value *and* Limit Purchased*.*

Using FY11 as the baseline, we see Effective Premium *has lagged Premium Cost Drivers.*

Property Insurance

Because we both reduced the rate and increased the deductible from $200,000 to $500,000 in FY11, we are interested in whether the net effect of the changes is benefitting the University.

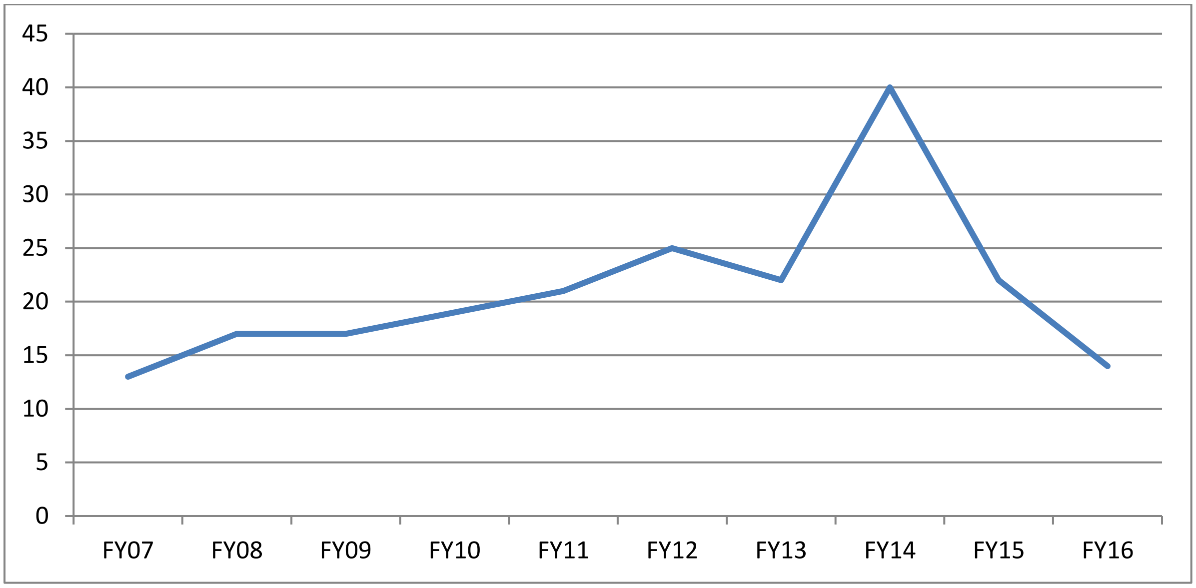
The graph below compares actual total cost (Premium plus Retention) to results adjusted pro-forma to pre-FY11 rates and deductibles.



As a result of restructuring the property program, the University has saved an average of $1.7 million annually -- a total of $10.1 million over the six years since the revision.

Property Insurance

Property Claim Count by Fiscal Year



Property claim count was 14 events for FY16, which lies within one
Standard Deviation of the historical 10 year average of 21 claims per year.
This is an expected regression to the mean after the severe FY14 winter.

In FY15, only one loss exceeded $200,000, the August 12, 2015, Hail Damage to the Lake Itasca Biological Station ($600,000).

Miscellaneous Commercial Insurance Coverage

Here is a brief overview of purchased policies with premiums exceeding $25,000.

EXCESS GENERAL AND AUTO LIABILITY – EXTRA MN: $40 million in coverage excess a $1 million Self-insured Retention (Deductible) for General and Automobile liabilities the University may incur outside the jurisdiction, and Tort Cap protection, of Minnesota law.

EXCESS CLINICAL TRIALS LIABILITY – EXTRA MN: $10 million in coverage excess a $1 million Self-insured Retention (Deductible) for Clinical Trials liabilities the University may incur outside the jurisdiction, and Tort Cap protection, of Minnesota law.

INTERCOLLEGIATE ATHLETICS: This policy insures medical costs arising from injuries sustained by University intercollegiate athletes during play, practice or travel.

HULL & LIABILITY (Primary & Excess): Physical Damage and Liability coverage up to $1 million of primary liability, plus $14 million of excess liability, arising out of our ownership and use of the 86-foot *Blue Heron* research vessel in Duluth.

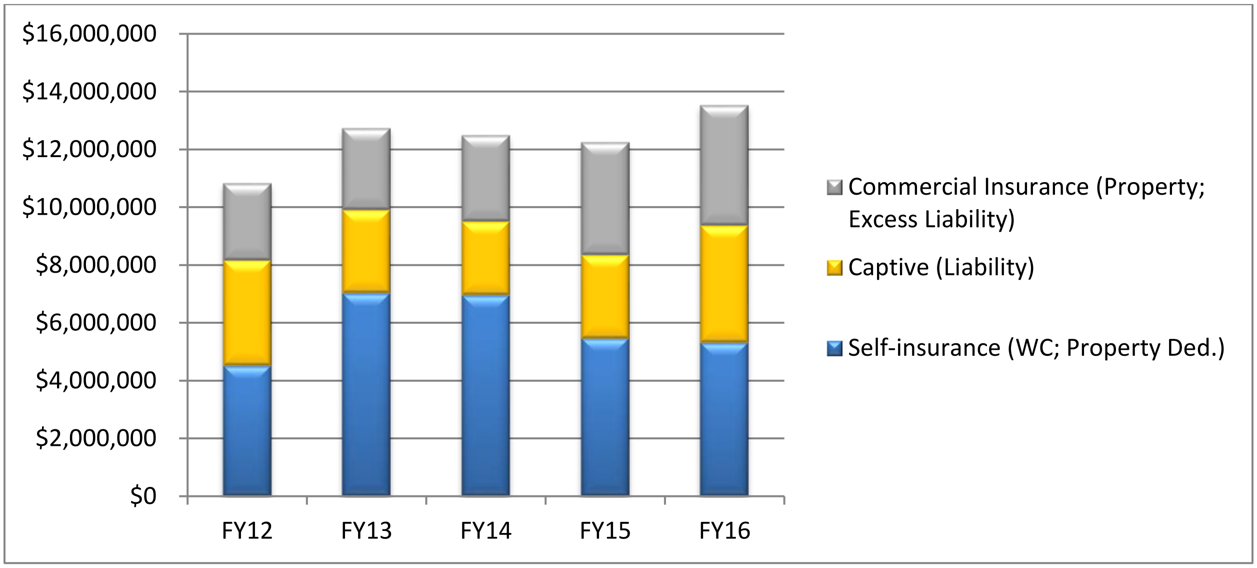
Total Cost of Risk Summary

University of Minnesota

Total Cost of Risk: Fiscal Years 2012 – 2016

The University's Total Cost of Risk is the sum of:

- Self-Insured costs;
- Captive costs; and
- Commercial Insurance premiums.



Total Cost of Risk averaged $12.3 million over the past five years.

Total Cost of Risk Summary

COST ITEM	FY12	FY13	FY14	FY15		FY16
Captive						
Liability Ultimate Loss (EST.)	$ 1,829,870	$ 1,301,165	$ 728,003	$ 1,490,186		$ 2,343,420
Liability Claims Administrator	$ 63,566	$ 51,707	$ 50,542	$ 56,333		$ 56,045
Captive Administrative Expenses	$ 120,930	$ 116,909	$ 101,896	$ 109,878		$ 105,510
Litigation Cost	$ 1,633,392	$ 1,411,683	$ 1,666,978	$ 1,223,099		$ 1,540,318
Total Captive	**$3,647,758**	**$2,881,464**	**$2,547,419**	**$2,879,496**		**$4,045,293**
Self-Insurance						
Workers' Compensation Ultimate Loss (EST.)	$ 1,808,916	$ 4,567,820	$ 3,513,577	2,928,820		2,793,860
WC Reinsurance Association	$ 142,096	$ 155,784	$ 223,486	268,505		181,565
Special Compensation Fund	$ 291,348	$ 207,312	$ 301,786	179,742		339,746
WC Claims Administrator	$ 267,826	$ 275,324	$ 313,479	297,777		317,449
Litigation Cost	$ 214,019	$ 191,338	$ 214,638	346,676		455,100
Bill Review Service	$ 28,640	$ 32,717	$ 38,591	32,694		32,281
WC Actuarial	$ 9,288	$ 10,300	$ 10,430	9,892		9,402
WC Total	$ 2,762,133	$ 5,440,595	$ 4,615,987	4,064,106		4,129,403
Retained Property Losses [1]	$ 1,560,600	$ 1,463,923	$ 2,107,430	1,214,922		769,196
Electronic Data Processing [2]	$ 29,707	$ 24,371	$ 12,837	27,288		35,975
Automobile Physical Damage	$ 156,843	$ 87,779	$ 210,577	153,238		380,128
Total Self-insurance	**$4,509,283**	**$7,016,668**	**$6,946,831**	**$5,459,554**		**$5,314,702**
Commercial Insurance						
All Risk Property	$ 2,240,136	$ 2,261,562	$ 2,345,651	$3,268,222		$3,578,633
Excess General/Auto Liability - Extra MN	$ 234,745	$ 238,002	$ 242,762	250,044		262,012
Excess Clinical Trials Liability - Extra MN	--	$ 139,839	$ 215,756	184,506		135,000
Intercollegiate Athletics	$ 31,500	$ 31,500	$ 33,500	33,500		33,500
Hull, Liability, Pollution (Blue Heron Watercraft)	$ 30,613	$ 31,558	$ 28,701	28,659		27,494
Fidelity & Crime	$ 20,210	$ 20,162	$ 21,740	22,015		22,015
Fine Arts	$ 18,280	$ 18,280	$ 18,827	18,827		20,934
Nonowned Aircraft Liability	$ 18,000	$ 22,000	$ 22,000	22,000		20,900
Showboat	$ 6,925	$ 9,739	$ 11,748	13,300		6,480
Broadcaster's Liability	$ 5,365	$ 5,365	$ 5,594	5,594		5,594
Child Care Center AD&D	$ 1,188	$ 1,159	$ 1,397	1,198		1,704
Upward Bound AD&D	$ 376	$ 406	$ 406	406		406
Brokerage	$ 54,000	$ 37,586	$ 38,337	38,337		38,337
Total Commercial Insurance	**$2,661,338**	**$2,817,158**	**$2,986,419**	**$3,886,608**		**$4,153,009**
GRAND TOTAL COST OF RISK	**$10,818,379**	**$12,715,290**	**$12,480,669**	**$12,225,658**		**$13,513,004**

[1] Amount of Insurable property losses between $10,000 and deductible.
[2] EDP coverage is self-insured; figure shows losses excess $500.

Work Plan Fiscal Year 17

Property Insurance Transition

We will work with internal units and departments – most notably, Facilities Management and Capital Planning and Project Management – to integrate FM Global property protection advice into existing and new facilities.

Library Special Collections Move

The Library staff will move $500,000,000 in rare books and manuscripts from the Wilson Library to the Anderson library over the course of 2017. We will work with the libraries and Capital Planning and Project Management to take advantage of this opportunity to optimally protect these irreplaceable objects.

University of Minnesota

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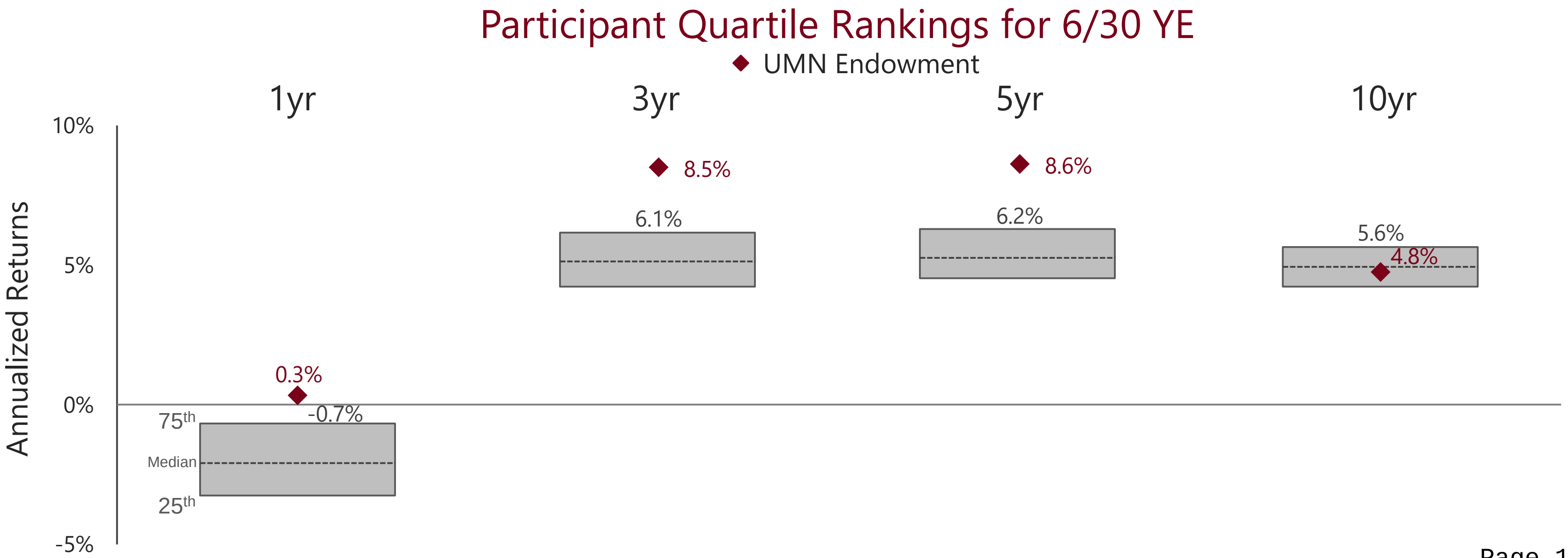
FY 2016 Annual Peer Benchmarking

Office of Investments & Banking

NACUBO/Commonfund Study

- Joint study by National Association of College and University Business Officers (NABUCO) and the Commonfund Institute. 805 total participating institutions ranging in size from $25M to over $20B.
- Participating institutions returned an average of -1.9% for the 2016 fiscal year.
  - The year's negative return follows a low 2.4% return reported for FY2015, which contributed to a decline in the 10-year average annual return to 5.0% from 6.3%.

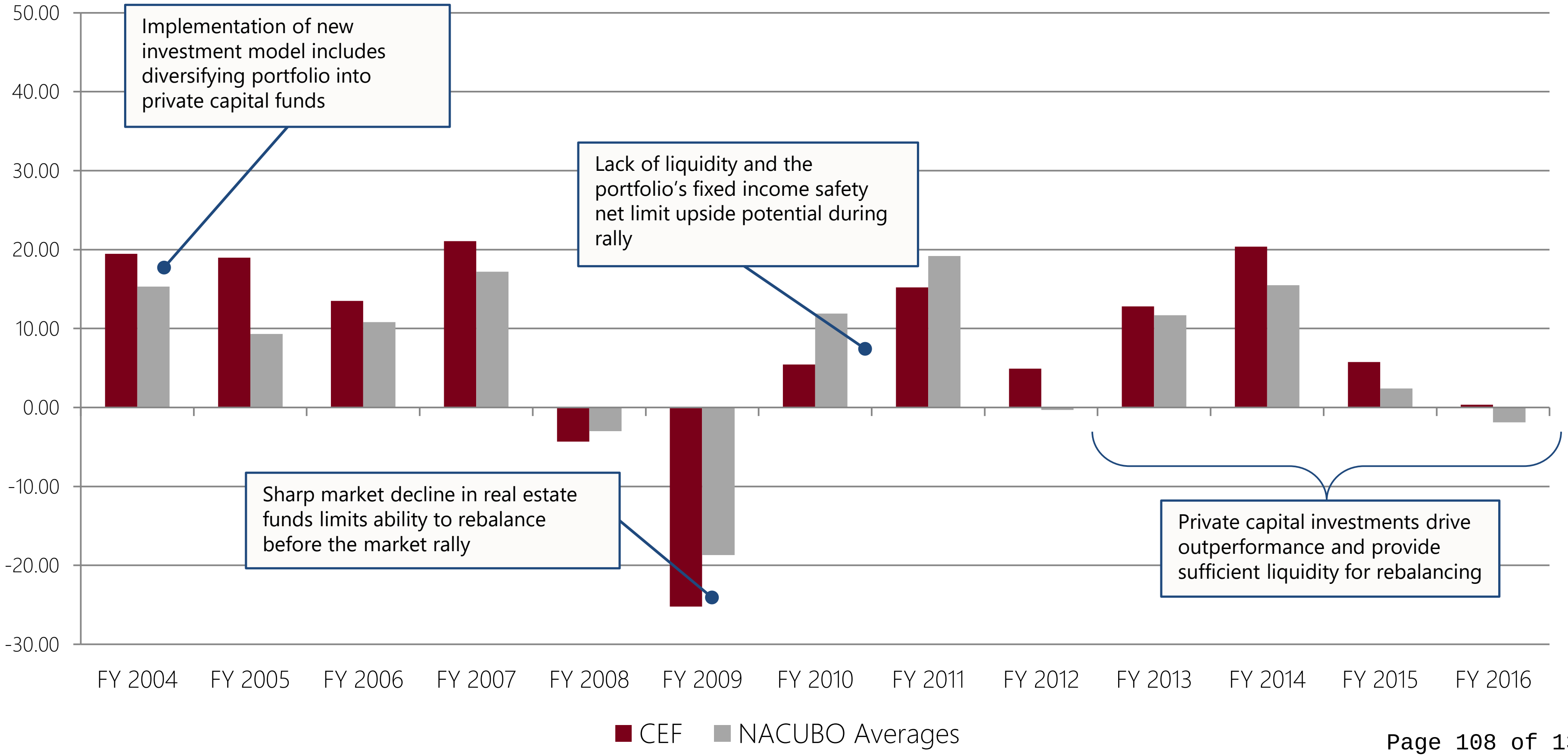


Effective Spending Rates

- 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	FY'16 (%)	FY'15 (%)	FY'14 (%)	FY'13 (%)	FY'12 (%)	FY'11 (%)	FY'10 (%)	FY'09 (%)	FY'08 (%)	FY'07 (%)	FY'06 (%)
Over $1 Billion	4.4	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	4.3	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	4.3	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	4.4	4.3	4.5	4.6	4.7	4.6	4.8	4.7
$25 Million to $50 Million	4.1	4.0	4.2	4.3	3.8	4.0	4.1	4.3	4.3	4.8	4.8
Under $25 Million	3.8	4.5	4.6	4.1	3.7	3.7	3.5	3.9	4.1	4.6	4.6
University of Minnesota	4.0	3.8	4.2	4.6	5.0	5.0	5.1	5.3	4.7	5.1	5.4

Endowment Annual Performance



NACUBO Comparison

Institution	Market Value ($bn)	1 Year Return (%)	3 Year Return (%)	5 Year Return (%)
Yale	25.4	3.4	11.5	10.3
Emory University	6.5	1.9	6.2	7.3
University of Minnesota Foundation	2	1.5	7.1	6.9
MIT	13.2	0.8	10.8	10.3
Princeton	22.2	0.8	10.8	9.4
University of Minnesota Endowment	1.3	0.3	8.5	8.6
Rice University	5.3	0.2	7.3	7.8
University of Notre Dame	10.4	-0.3	9.1	8.4
Stanford	22.4	-0.4	7.6	7.1
University of Texas System	24.1	-0.7	6.2	5.3
Columbia	9	-0.9	7.8	7.4
University of Michigan	9.7	-1.4	6.6	6.0
University of Pennsylvania	10.7	-1.4	7.6	7.7
University of Virginia	7.6	-1.5	8.1	8.5
Dartmouth College	4.5	-1.9	8.7	8.5
University of Chicago	7.1	-1.9	5.0	5.7
Harvard	35.7	-2.0	6.2	5.9
Northwestern	10.2	-2.5	5.3	6.5
Duke University	6.8	-2.6	6.9	7.0
Washington University	6.8	-3.2	5.4	5.6
Cornell University	6.1	-3.3	5.0	5.2
University of California	9.1	-3.4	7.1	6.5
Ohio State University	3.6	-3.4	4.7	5.0

NACUBO Asset Allocation Detail

	University of Minnesota	Over $1 Billion	$500 Million - $1 Billion
Number of Institutions	-	94	77
Domestic Equity	17	13	20
International Equity	16	19	18
Fixed Income	20	7	9
Alternative Strategies	46	58	45
Private Equity	7	12	8
Marketable Alternatives	9	20	20
Venture Capital	16	7	3
Global Real Estate	6	7	3
Natural Resources	3	7	4
Commodities	0	1	1
Distressed Debt	5	2	1
Other	0	2	5
Short Term Securities	1	3	8

All numbers are average asset allocation percentages

Big Ten Performance

Institution	Market Value ($mil)	1 Year Return (%)	3 Year Return (%)	5 Year Return (%)	10 Year Return (%)
University of Minnesota Foundation	$2,172	1.50	7.10	6.90	5.70
University of Minnesota Endowment	$1,258	0.34	8.50	8.62	4.75
University of Iowa	$371	0.10	6.10	6.00	4.60
University of Illinois	$622	-0.35	5.73	6.89	6.19
Pennsylvania State University	$3,619	-0.84	6.40	6.76	6.34
Rutgers University Investment Pool	$972	-0.90	5.80	5.60	5.40
University of Michigan	$9,918	-1.30	6.60	6.00	6.70
University of Wisconsin Foundation	$2,419	-1.35	5.15	5.47	4.75
University System of Maryland Foundation	$969	-1.75	4.70	4.34	3.81
University of Iowa Foundation	$889	-1.80	5.50	5.20	5.20
Northwestern University*	$9,638	-2.79	6.45	6.51	6.54
University of Illinois Foundation	$1,447	-3.00	4.67	5.51	4.62
Purdue University	$2,255	-3.40	5.00	4.80	5.20
The Ohio State University	$3,579	-3.43	4.68	5.04	3.67
University of Nebraska Foundation	$1,063	-3.90	4.30	4.60	4.70
Michigan State University	$2,349	-4.30	5.10	4.70	5.50
Indiana University Foundation	$1,871	-5.20	5.10	5.30	4.60

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Office of the Associate Vice President-Finance & Controller

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Minneapolis, MN 55454-1015
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February 9, 2017

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 second quarter, fiscal year '17. 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 one 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

"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 supplier 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 supplier 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 previous year. 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:

Second Quarter:

- FY17 Q2 Purchasing Activity tracked roughly 5% higher than FY16 Q2, but YTD is equivalent to last year.
- The total exception dollars for Q2 and FY 17 YTD are up from last year.
- There were no Regents Purchasing Policy Violations in the second quarter of FY17.

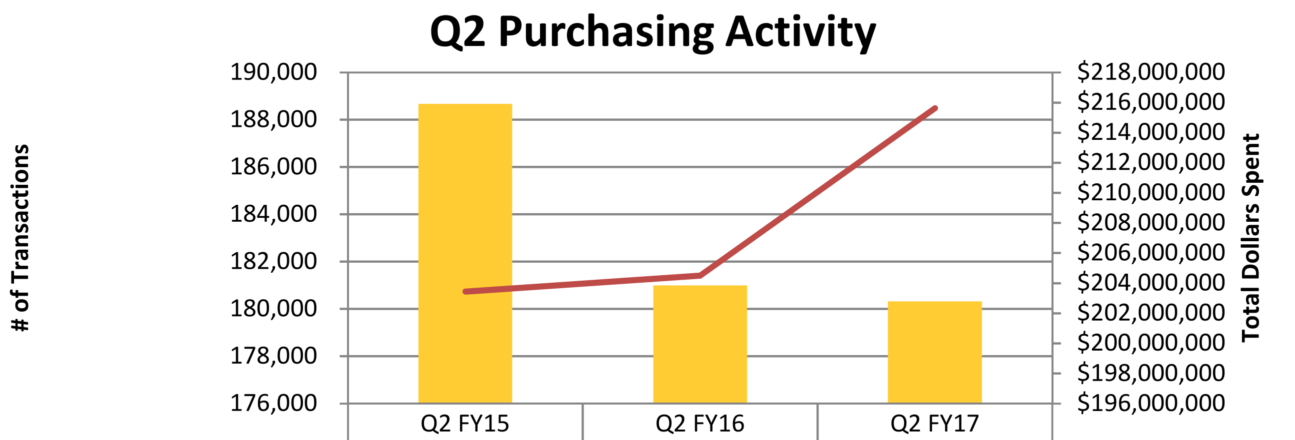
If you have any questions on the report, please do not hesitate to contact Tim Bray, Director of Purchasing, or me.

Sincerely,

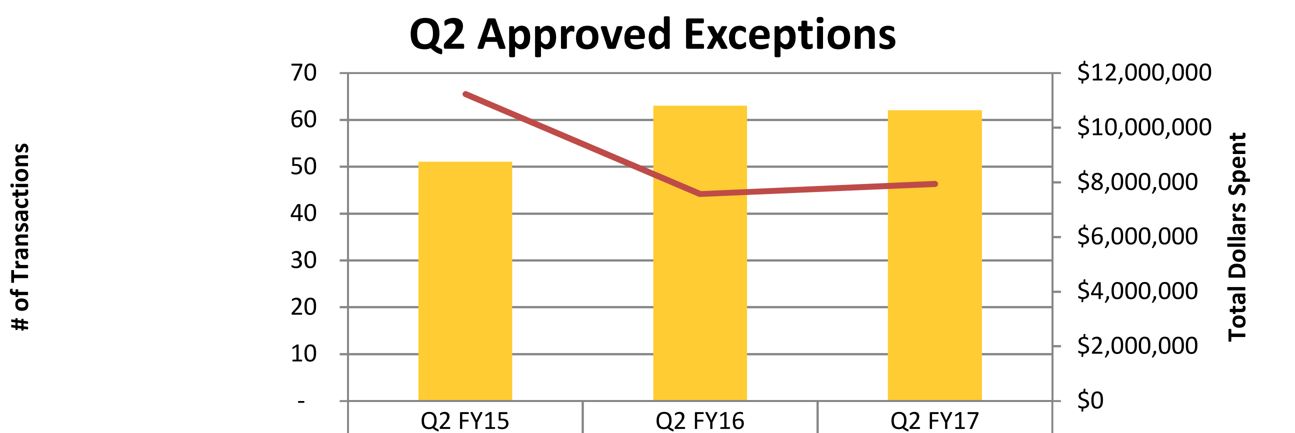
Suzanne Paulson
Interim Controller

Cc: Michael Volna, Interim Vice President
Brian Steeves, Deputy Director, Board of Regents
Tim Bray, Director, Purchasing Services

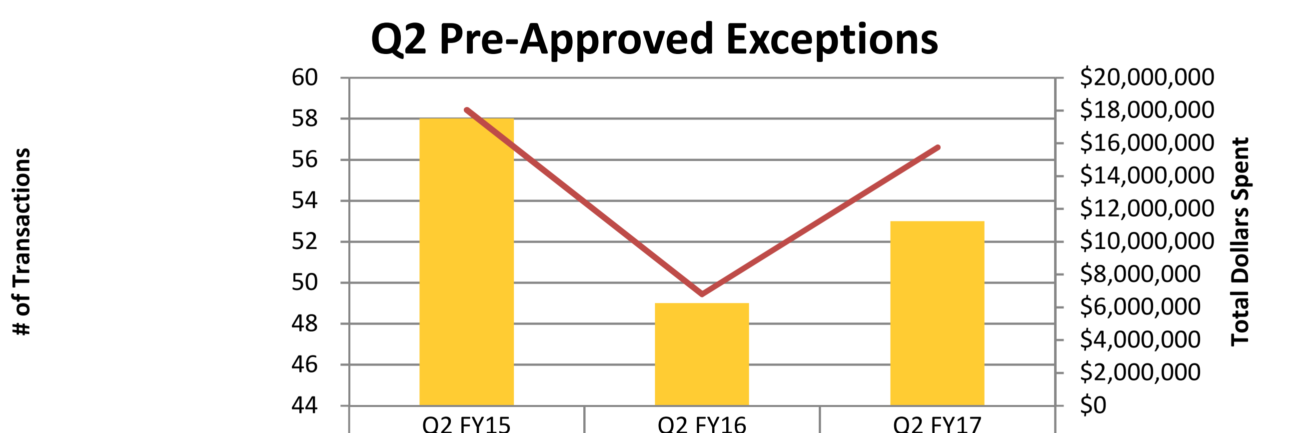
I. Summary of Purchasing Activity for Q2 FY17



	Q2 FY15	Q2 FY16	Q2 FY17
# of Transactions	188,664	180,988	180,310
Total Dollars Spent	$203,442,600	$204,505,668	$215,629,233



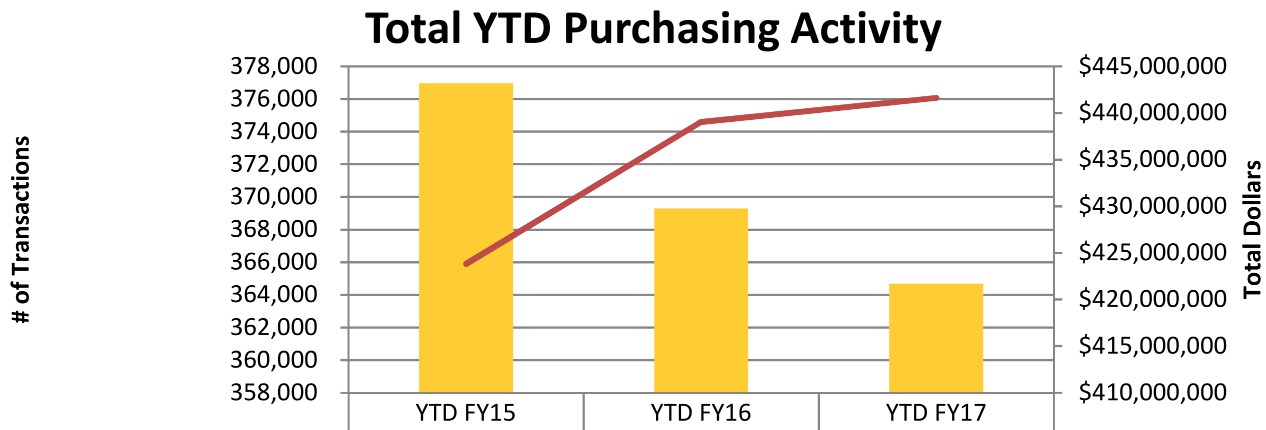
	Q2 FY15	Q2 FY16	Q2 FY17
# of Transactions	51	63	62
Total Dollars Spent	$11,232,471	$7,571,261	$7,942,506



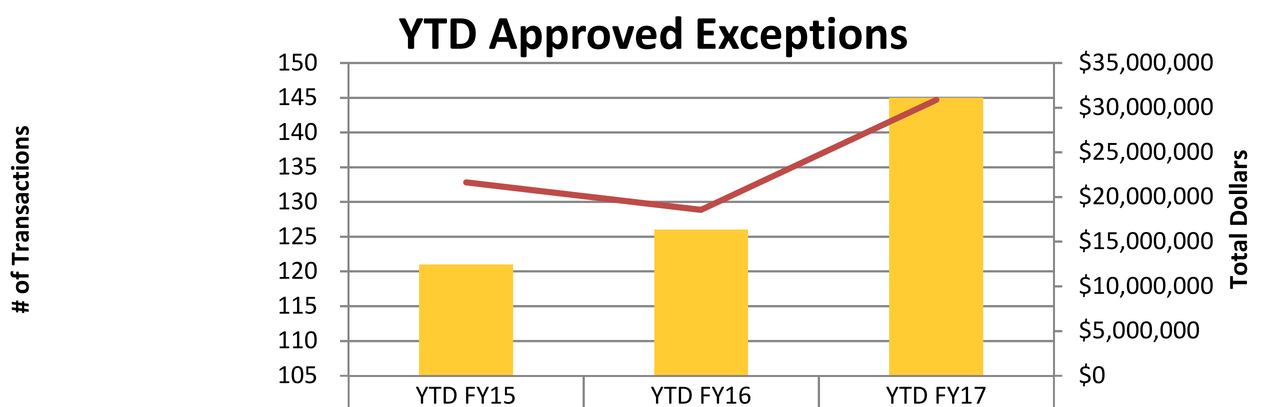
	Q2 FY15	Q2 FY16	Q2 FY17
# of Transactions	58	49	53
Total Dollars Spent	$18,036,702	$6,794,859	$15,755,359

Q2 Exceptions	109	112	115
Q2 Exception Dollars	$29,269,173	$14,366,120	$23,697,865

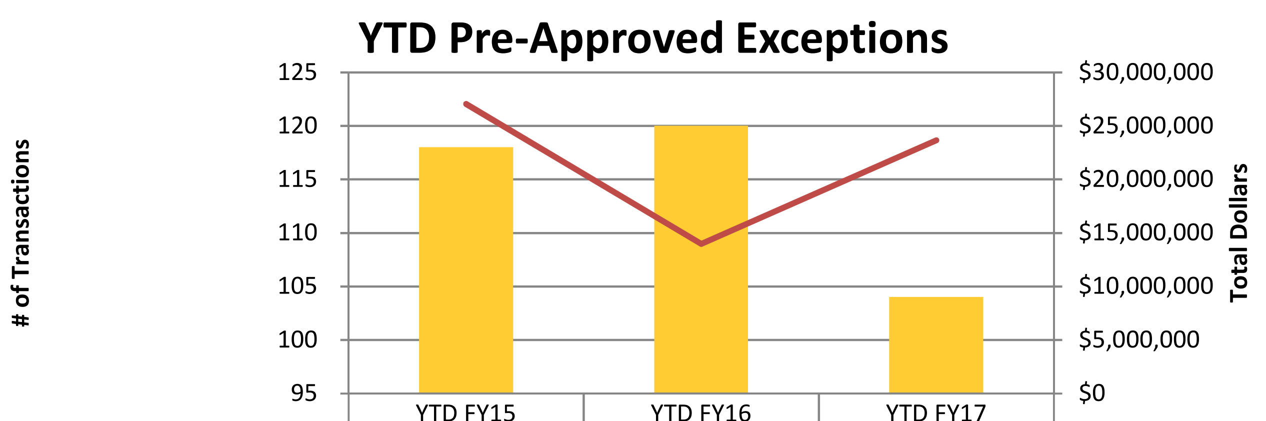
Summary of Purchasing Activity YTD FY17



	YTD FY15	YTD FY16	YTD FY17
# of Transactions	376,956	369,282	364,676
Total Dollars Spent	$423,816,981	$439,024,094	$441,625,254



	YTD FY15	YTD FY16	YTD FY17
# of Transactions	121	126	145
Total Dollars Spent	$21,627,121	$18,550,352	$30,891,668



	YTD FY15	YTD FY16	YTD FY17
# of Transactions	118	120	104
Total Dollars Spent	$27,060,410	$13,982,264	$23,663,365

YTD Exceptions	239	246	249
YTD Exception Dollars	$48,687,531	$32,532,617	$54,555,032

II. Purchases made as Approved Exceptions to Competitive Purchasing Process — Q2FY17

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.	11	$1,319,418

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.	25	$3,020,939

Exception #3:	Total # of Exceptions	Total Dollars
Funding source or granting agency specified a single supplier.	7	$1,011,860

Exception #4:	Total # of Exceptions	Total Dollars
Other	18	$2,525,724

Emergency Exception #1:	Total # of Exceptions	Total Dollars
A threat to health, welfare, safety.	1	$64,565

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	**62**	**$7,942,506**

III. Pre-Approved Exceptions to Competitive Purchasing — Q2FY17

Exception #1:	Total # of Exceptions	Total Dollars
Lodging, travel (does not include group airfare or charter air).	1	$8,361,636

Exception #2:	Total # of Exceptions	Total Dollars
Media advertising, purchase or access to uniquely compiled database information.	3	$262,826

Exception #3:	Total # of Exceptions	Total Dollars
Farm commodities such as grain or livestock.	1	$74,075

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.	6	$996,886

Exception #7:	Total # of Exceptions	Total Dollars
Service/maintenance agreements with the original manufacturer/ developer for equipment and software.	16	$3,449,127

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.	7	$946,146

Exception #11:	Total # of Exceptions	Total Dollars
Fairview purchases related to research projects.	2	$115,355

Exception #12:	Total # of Exceptions	Total Dollars
Entertainers, lecturers, speakers and honoraria.	8	$855,000

Exception #14:	Total # of Exceptions	Total Dollars
Study Abroad Administrators (Does not include group airfares).	8	$657,308

Exception #15:	Total # of Exceptions	Total Dollars
Legal Services for the Office of General Counsel.	1	$37,000

TOTAL Approved Exceptions	**53**	**$ 15,755,359**

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

IV. Regents Policy Violations — Q2FY17

There are no Regents Policy Violations to report.

FY16 Year End Balances Report
Nonsponsored Funds

January 27, 2017

University Budget & Finance

FY16 Year End Balances Report – Non-Sponsored Funds

Carry-forward balances (funds that remain at the end of a fiscal year after all revenues and expenditures are recorded that then "carry forward" into the next fiscal year) play an important role in the management of the University's finances both at the institution level and in individual operating units. Balances at the Twin Cities collegiate, system campus and major support unit level (which is referred to as the Resource Responsibility Center or RRC level) are monitored centrally on an annual basis with close attention to the level of unit balances in relationship to expenditures, changes in balances over time, and the use of balances to fund unit academic priorities. Every few years, University Finance undertakes a more in-depth review of unit-level balances to verify the intended purposes of balances in various funds. The last in-depth review was conducted based on FY12 year end balances, and this report outlines the process and results of the in-depth review just finished on FY16 year-end balances.

Background – Balances from the Institution Level Perspective

At the institution level, management focuses on pooling and investing unexpended funds. The combined total of all unit balances:

- is the source of investment through the Temporary Investment Pool (TIP), the earnings from which are recorded as revenue in central reserves
- serves to meet the University's daily cash flow need
- provides self-liquidity on $263 million of debt obligations, and
- is used in rating agency calculations of the University's ability to cover operating expenses without new revenues and to repay bondholders over a specified period of time.

Background – Balances from the Unit Level Perspective

The University Administrative Policy for Budget Development and Oversight for Current Non-sponsored Funds addresses balances as one of the financial resources available to departments in the development of annual financial plans. Financial managers are charged with incorporating carryforward balances into future year budgets as a financial resource to ensure comprehensive budget planning. They are also charged with monitoring financial activity on an ongoing basis to ensure that resources and expenditures are occurring as planned in order to avoid unexpected deficits at year end.

The University's current Earned Income/Full Cost budget model supports decentralized management and unit-level responsibility. Each unit is responsible for appropriate and effective use of their financial resources, including balances. The general operating principle in the model is that year end balances, regardless of non-sponsored fund source, are retained in individual budgetary accounts throughout the institution. This means that each "account" in the ledger, managed by faculty members, directors, departments, and so on, retains the year-end balance for carry-forward into the next fiscal year. For unrestricted funds, unit leaders (deans, vice presidents, chancellors) have the discretion to consolidate balances, or a portion of them, within the larger college, system campus or support unit, if that best meets their management goals. So, either at the individual manager level or the unit level, wherever the balance sits, decisions are made annually about how best to maximize the use of that resource, and that fosters a strong sense of financial stewardship and "resource responsibility." The non-sponsored balances are also incorporated in annual budget discussions, serving as both an indicator of financial health and a source of funds for programmatic investments.

<u>Institutional Financial Statements and Carry-forward Balances:</u>
Carry-forward balances in operating accounts are calculated for the purposes of unit budget development and management and are not calculated based on accounting practices used for the institutional financial statements. Both calculations reconcile to the Enterprise Financial System, but significantly different approaches yield different results as noted in the table below:

Accounting Practice	Institutional Financial Statement	Carry-forward Balance
Assets:		
• Include cash	Yes	Yes
• Identify and segregate cash	Yes	No
• Include receivables	Yes	No*
• Identify and segregate receivables	Yes	No
• Include inventory	Yes	Yes
• Include property, plant & equip.	Yes	No
Liabilities:		
• Identify & segregate payables	Yes	No
• Accrue for liabilities	Yes	No
• Identify & segregate liabilities	Yes	No
• Include long term debt	Yes	No
Net Assets:		
• Categorize as unrestricted/restricted	Yes	Yes
• Identify investment in capital assets	Yes	No
• Categorize as designated/undesignated	No	Yes

*Only receivables representing requested transfers of funds from the University of Minnesota Foundation (UMF) are included in the carry-forward balance.

For budget management purposes, and throughout this report, the balances generally reflect cash position, with total revenues reduced for accounts receivable. Balance calculations are a form of managerial accounting and do not follow the same rules as the accrual basis used in financial accounting.

FY16 Review of Balances

<u>Process:</u>
The periodic in-depth review of carry-forward balances for summarizing in report format involves a survey of each unit’s planned uses for their unexpended funds. While balances are monitored on a regular basis as part of budget management, a comprehensive review of planned uses is carried out only every few years due to the significant level of effort required at many levels of the organization. The effort is warranted due to the insights provided by delving into unit perspectives, which are not apparent by analysis using only financial system coding.

For the FY16 year-end balance review, units were asked to summarize the planned uses of funds in four major fund groups:

- O&M (O&M state appropriation and Tuition)
- State Special Appropriations
- Other Current Nonsponsored Funds (including Internal Service Organizations)
- Plant Funds

Within those groups, units were asked to indicate the planned future use of the balances by assigning them to the following categories:

a) Debt & Internal Loans: if positive, funds reserved to conform to the required debt service schedule on bonds or the required payment schedule on internal loans; if negative, sequestered deficits within the units which will be repaid over time.
b) Inventory & Accounts Receivable: amount of funds representing the value of any inventory and/or accounts receivable recorded on the general ledger as of June 30, 2016. (Note: this amount is negative if the amount committed for intended future use in other categories is based on revenues posted and not yet received.)
c) Capital Expenditure Facilities: funds reserved for capital expenditures related to facilities construction, remodeling, development and deferred maintenance. This would include funded depreciation for future capital projects.
d) Capital Expenditure Equipment: funds reserved for equipment purchases meeting the capitalization criteria – those components costing over $5,000.
e) Contingency Reserve for Tuition, F&A, or Other Volatile Revenue Sources: funds held in reserve to mitigate the potential negative impact of actual revenues being less than anticipated.
f) Faculty Recruitment and Programs: funds reserved for attracting and hiring key faculty and funds designated for exclusive use by a specific faculty member such as in the case of faculty research, chair awards or unspent funds from an employee's recruitment package.
g) Cash Flow for Operations: funds reserved for working capital to accommodate expenditure obligations that occur inconsistent with revenue flow.
h) Internal Service Organizations: funds (or deficits) specific to Internal Service Organizations.
i) Strategic Reserve for a Defined Purpose: funds held for a specific anticipated need such as hiring and recruitment costs for non-faculty employees, departmental research, system upgrades or a spike in costs related to extreme weather conditions.
j) Unassigned: Purely reserve resources with no existing plans or defined uses of these funds within the next 3 years.

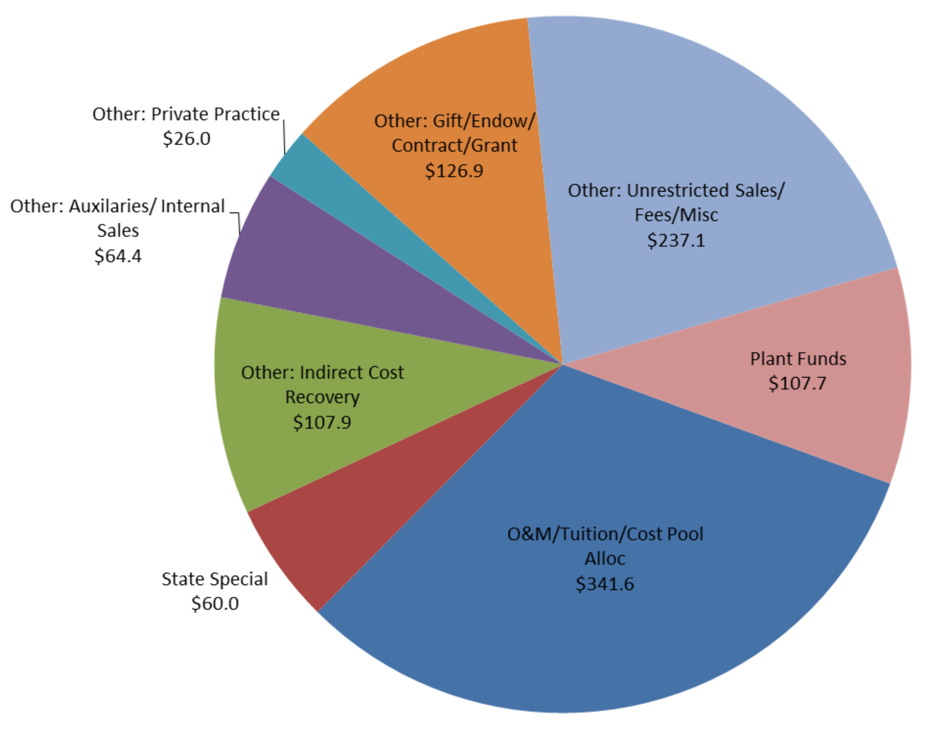
In cases where the category is more general and could incorporate a variety of planned uses (such as item "i" above) units were asked to provide specific details to clarify their response.

Balances by Fund:
Balances by fund included in the FY16 balance review are displayed in Table 1 and Chart 1.

Table 1: FY16 Year End Balances by Fund Group

Fund Group		Balance in Millions	% of Total	
O&M		$341.6		32%
State Special Appropriations		$60.0		6%
Other Current Nonsponsored Funds				
Indirect Cost Recovery	$107.9		10%	
Auxiliaries/Internal Sales	$64.4		6%	
Private Practice	$26.0		2%	
Gift/Endowment/Contract/Grant	$126.9		12%	
Unrestricted Sales/Fees/Miscellaneous	$237.1		22%	
Subtotal Other Current Nonsponsored		$562.4		52%
Plant Funds		$107.7		10%
Total:		**$1,071.7**		

Chart 1: FY16 Year End Balances by Fund Group



As noted above, O&M accounts for roughly 1/3 of fund balances, with unrestricted funds from sales, fees, and miscellaneous activity as the next largest portion at 22% of total balances. It is important to note that 20% of the balances are in restricted funds sources (state special appropriations, private practice funds and gifts/endowment/contract/grant funds), which means that they must be spent in accordance with the restrictions placed on the fund by the source. Managers do not have the discretion to use those balances for any general operating need. An additional 6% of the balances are in auxiliary or internal sales funds, which are also restricted by University policy and practice for use only in support of those activities.

Balances by Purpose:

Based on unit responses, planned uses for FY16 ending balances are displayed in Table 2.

Table 2: FY16 Balances by Fund and Purpose:

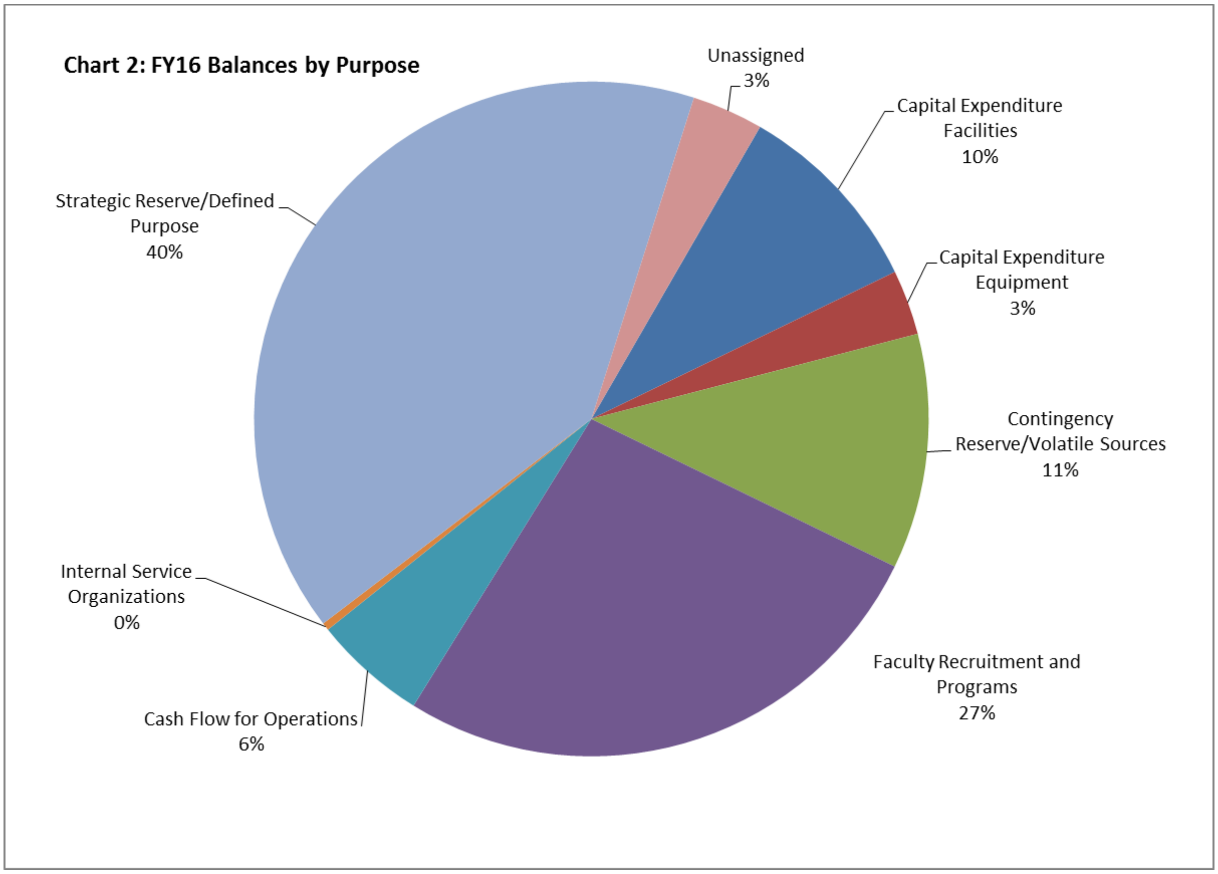
($ in millions)

Balance Purpose	O&M/ Tuition/ Cost Pool	State Special	Other Current Nonspon	Plant	TOTAL
Debt & Internal Loans	($75.4)	$0.0	($6.2)	$0.7	**($81.0)**
Inventory & Accounts Receivable *	($1.9)	$0.0	($12.7)	$0.0	**($14.5)**
Capital Expenditure Facilities	$9.4	$0.3	$34.0	$67.0	**$110.7**
Capital Expenditure Equipment	$14.2	$0.4	$16.0	$5.7	**$36.4**
Contingency Reserve/Volatile Sources	$52.2	$12.1	$66.8	$0.4	**$131.5**
Faculty Recruitment and Programs	$101.4	$33.4	$175.9	$0.2	**$310.9**
Cash Flow for Operations	$28.5	$0.1	$34.3	$0.5	**$63.4**
Internal Service Organizations **	$0.5	$0.0	$13.9	($10.1)	**$4.3**
Strategic Reserve/Defined Purpose	$189.4	$12.7	$226.6	$41.5	**$470.3**
Unassigned	$22.6	$1.3	$14.1	$1.8	**$39.8**
TOTAL	**$341.0**	**$60.5**	**$562.6**	**$107.7**	**$1,071.7**

* Accounts Receivable may be reflected as a negative number if the full amount of revenue recorded has been committed and reported as part of a balance designated for another purpose (in another table row) but the full cash amount has not yet been received (balance calculations reduce revenue amounts for receivables).

** Plant fund balances in internal service organizations are intentionally negative. Capital purchases are funded by ISO revenues after the purchase is made by including depreciation amounts in fees paid over the life of the capital item.

Chart 2 shows the distribution of balances by purpose. Debt & Internal Loans and Inventory & Accounts Receivable categories have been excluded from this view because they have negative totals and do not represent a planned "use" of the balances.



Overall, unit responses indicate that the largest portion of all balances are strategic reserves for a defined purpose, with the second largest group as funds reserved for faculty recruitment and specific programs. Only 3% of fund balances are undesignated based on unit responses.

Balances by Unit

Evaluation of year end balances is an important element of assessing a unit's financial health. Budget planning discussions with RRCs result in a better understanding of specific characteristics of their balances, including

- the distribution of balances between funds,
- the mix between restricted and unrestricted sources,
- changes in balances over time,
- the overall level of balances compared to annual operating expenditures, and
- planned use of balances to fund unit priorities.

Once characteristics of the balances are better understood, further evaluation to determine adequacy of those balances given the particular risk profile for each unit involves reviewing factors such as:

- Type of unit (campus, college, auxiliary business, support unit etc.)
- Volatility of funding sources for the unit (tuition, grants, external sales, etc.)
- Future programmatic plans and obligations (faculty expansion, capital projects, etc.)
- Annual expenditure levels
- Diversity of revenue sources to support general operations

Relationship to Annual Expenditures

The carry-forward balance as a percent of nonsponsored annual expenditures varies widely by unit. For all non-sponsored funds, including restricted and unrestricted sources, the average in academic units is 26.5%. This includes two financially challenged units with balances of less than 1% of nonsponsored expenditures. On the other hand, units with significant sponsored funding tend to maintain higher nonsponsored balances in order to be able to maintain operations during periods when grant funding is in flux, so in those cases, the balances are greater than 26.5% of annual expenditures.

For support units, the average carry-forward balance as a percentage of nonsponsored annual expenditures is 34%. (This excludes outliers like the Enterprise Resource Planning RRC, which holds the intentional enterprise system project deficit to be funded over multiple years.) Part of the reason this is higher than for academic units is that balances in these units are used to fund long-term institutional priorities like system upgrades for research support systems, such as the IRB Renew project (see more examples under "Support Units" below). In addition, institutional balances held in central reserves or as part of the budget process for allocation to units at a later date, are technically in this support unit category, even though they do not correspond to any support unit expenditures or operating budgets.

Examples of Intended Uses of Balances

Survey responses indicate a wide variety of intended purposes for FY16 balances which will be explored further in unit budget discussions in the context of leveraging appropriate resources for institutional priorities. Examples of some intended uses for balances within the more general categories described above include:

Academic Units:

- Contingency Reserve for Tuition, F&A, or Other Volatile Revenue Sources – academic units are responsible for $114 million or 87% of the funds reserved for volatile revenues. In particular, sponsored project funding can be unpredictable, requiring bridging funds between grant periods. Additionally, academic units balance their budgets based on estimated revenue from tuition, indirect cost recovery and other sources, so it is not uncommon for balances to be considered a hedge against actual revenue falling short of estimates.
- Faculty Recruitment and Programs –43% of all balances in academic programs are intended for faculty recruitment and programs. For example:
    - 73% of the Medical School's balance is intended to cover ongoing expenses from the Medical Discovery Team hires, remaining recruitment packages for department heads and upcoming department head replacements in 7 academic departments, and recruitment and retention of world class researchers.
    - 79% of the balance in the College of Pharmacy is reserved for faculty recruitment and programs, including $3.5 million in start-up package obligations for faculty that have already been hired and reserves to cover recruitment and start-up packages for replacement hires for over 20 faculty who are expected to retire within the next 10 years.
- Strategic Reserve for a Defined Purpose – intended uses of funds in this category are many and varied in both size and nature. For instance:
    - On the Duluth campus, reported purposes range from $6,682 for a sustainable development research opportunity development program to $3.5 million of ICR funds set aside for facilities research maintenance, grant matches, and research overhead.

  - For the Agricultural Experiment Station, $2.8 million in federal funds is committed to research projects in Forest Resources, Fisheries and Wildlife, Plant Pathology, the Water Resource Center and other academic units.

Support Units:

- Strategic Reserve for a Defined Purpose – $247 million or 69% of balances in support units are being held for strategic investment in a defined purpose. Examples include:
  - $4 million in the Office of the Vice President for Research for committed research projects and investigators requiring match funds
  - $22.4 million in the Office of Information Technology for the Next Generation Network project
  - $4.2 million in Facilities Management for the Enterprise Asset Management software implementation and Facility Condition Assessment initiatives
  - $16.2 million in Student Affairs consisting of student insurance fees already paid to Boynton Health Service for the plan year ending in August.
- Capital Expenditure Facilities – the next largest portion of support unit balances are intended for capital expenditures related to facilities (19% of support unit reserves). $47.5 million of the $67.3 million balance for all support units is reserved in Auxiliary Services for replacement/renewal of residence halls and parking facilities.

The items listed above are only a few examples of the many and varied intended uses of unit balances. The current analysis is a starting point for discussions of how the University's resources in every unit are being leveraged for responsible financial management and furthering the University's mission.

<u>Comparison to FY12 Analysis</u>

The process used for the analysis of FY16 balances (asking each unit to reflect on the intended purpose of funds) is the same as that used for the analysis of FY12 balances. However, there are differences in the funds included and the categories to which balances were assigned. The FY12 analysis included only current nonsponsored funds (O&M, State Special Allocations, Other Current Nonsponsored) while the FY16 analysis additionally includes Plant Funds. FY12 analysis excluded the Enterprise Resource Planning RRC while that unit is included in the FY16 analysis. Also, designating balances as ISO-related was not a choice in the FY12 analysis. To create a valid comparison between the results of both years, the data was adjusted to include the same units and fund groups. Of note in that comparison:

- Balances in current nonsponsored funds increased from $901 million at the end of FY12 to $1,042 million at the end of FY16, an increase of 16% unadjusted for inflation.
- Balances in current nonsponsored funds represented 34.4% of total expenditures in those funds in FY12. In FY16, that percentage is very comparable at 33.5%.
- Funds intended for faculty recruitment and programs increased the most from FY12 to FY16 - $110 million or 55%. Other categories with large increases include strategic reserves for a defined purpose ($47 million, 12%) and cash flow for operations ($35 million, 127%). Balances intended for most other categories decreased.

Overall, year end balances at the end of FY16 are highly committed to faculty and programmatic activities. Balances in this category represented 22% of all current nonsponsored fund balances in FY12; that proportion increased to 30% in FY16.

Conclusion

From the institution-level perspective, carry-forward balances at the end of FY16 are adequate and appropriate based on two measures. First, the balances are sufficient to meet daily cash flow needs for current operations as well as potential debt obligations. Second, as measured by days cash on hand, currently 181 days, the University of Minnesota is near (but slightly below) the median of Moody's Aa1 institutions, which is 188 days cash on hand.

From the unit-level perspective, the answer to whether the FY16 carry-forward balances are appropriate varies by unit depending on multiple factors including risk profiles, revenue and expense levels, and type of activity. As mentioned throughout this report, balances are monitored every year and actively managed to mitigate risk to the unit and to the institution. When balances fall below acceptable levels or when trends indicating possible future risk levels are identified, University Budget and Finance works closely with the at-risk unit to develop plans to mitigate their risk, rebuild fund balances and return to a solid financial footing. When balances grow within a unit, that growth is factored in to the annual budget development process in determining the most strategic ways to invest University resources.

UNIVERSITY OF MINNESOTA

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January 31, 2017

Senator Michelle Fischbach, Chair
HE Finance & Policy Committee
2113 Minnesota Senate Building
St. Paul, MN 55155

Representative Bud Nornes, Chair
HE & Career Readiness Policy and Finance
483 State Office Building
100 Rev. Dr. Martin Luther King Jr. Blvd.
St. Paul, MN 55155

Senator Greg Clausen, Ranking Minority Member
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Representative Gene Pelowski, Jr, DFL Lead
HE & Career Readiness Policy and Finance
295 State Office Bldg.
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St. Paul, MN 55155

Dear Senators and Representatives:

This response is provided pursuant to Minnesota Laws of 2016, Chapter 189, Article 1, Section 30, part (a):

> *(a) The Board of Regents of the University of Minnesota shall report by February 1, 2017 to the chairs and ranking minority members of the legislative committees with primary jurisdiction over higher education finance on the factors it considers when allocating funds to system campuses. The report must specifically, without limitation, address the following questions:*
> *(1) what circumstances would lead the university to adopt an alternate budget model to the Resource Responsibility Center (RRC) model for a system campus;*
> *(2) what were the rationale and factors considered for the initial base budget allocation to system campuses when the RRC was first established; and*
> *(3) what factors would lead the university to consider adjusting the initial base allocation model.*

(1) To address the first question, the University of Minnesota manages its annual budget under a "Responsibility Center Management", or RCM, budget model. As opposed to a "traditional" higher education budget model in which the most significant discretionary funds available to the institution (primarily tuition and the state appropriation) are co-mingled at the central level and allocated annually by the President and the Board to each of the academic and support units, an RCM model attributes earned revenues out to the units as these are generated and then allocates any discretionary state appropriation and all costs, including all overhead costs, out to those same revenue generating units. From the mid-1990s through today, many large, complex, higher education institutions have migrated to an RCM budget model in order to increase incentives for effective and efficient use of University resources at the level of the institution that can best make strategic and timely decisions, and to increase transparency of decision making. Under this model at the University of Minnesota, the revenue-generating Resource Responsibility Centers (RRCs) are defined as the colleges, major

academic units and "auxiliary businesses" (Athletics, Housing/Parking/Bookstores etc.) located on the Twin Cities campus along with each of the four system campuses.

Accountability for financial management and results has been assigned to the leaders of each of these RRCs: to the System Chancellors, the Twin Cities collegiate deans, and the system Vice Presidents. These leaders are ultimately responsible for managing the financial activity and are held accountable by and must report to the President and Provost on the financial status of the unit. In the case of the four system campuses (Crookston, Duluth, Morris and Rochester), each is treated as a single RRC within the University's budgeting structure due to the President's direct delegation of authority to each Chancellor. These individuals are responsible for determining the priorities and needs for their campus, and therefore the annual allocation of resources to the campus level is consistent with that delegation of responsibility. By giving responsibility and authority to the Chancellors, the President's delegation permits prompt and more informed decisions by those who are fully aware of the realities of the unit's academic priorities and the impact of resource allocation decisions near the point of action. In that regard, the system campuses' budgetary responsibility is exactly the same as that of Deans and Vice Presidents on the Twin Cities campus. The Twin Cities campus does not exist as a unit of budget management; there is no "chancellor" or similar position on the Twin Cities campus for delegation of financial responsibility.

At this time, and under the general principles of RCM, there is no circumstance under which an alternate budget model would be created for the system campuses. The University would not implement a separate, distinct budget process for a portion of the University system. It would not be desirable for the President to bypass the Chancellors and make decisions centrally about funding levels for the colleges and departments of these campuses. Such an effort would decrease the Chancellors' autonomy and flexibility and undermine their ability to shape priorities, activities and outcomes of their campuses. Each Chancellor has the discretion to implement a budget model for her/his campus that coordinates with the University's overall processes, but that best addresses their individual needs. If the University were to significantly modify or move away from an RCM budget model at some point in the future, which would likely be driven by significant changes in the overall funding environment for higher education, then the entire decision making process would be reevaluated for all units within the University.

> *(2) what were the rationale and factors considered for the initial base budget allocation to system campuses when the RRC was first established;*

(2) In moving to the RCM budget model, there were two fundamental changes related to the allocation of revenues and costs, and each change resulted in a "re-set" of those allocations. The first change occurred in FY98 when the University began to attribute tuition directly to the units that generated it. Prior to that time, each tuition generating unit and each support unit received what was called an Operations and Maintenance (O&M) allocation from the University, which was funded by a combination of O&M state appropriation and tuition revenue. As those two large discretionary revenue sources were co-mingled at the University level, the base funding for each individual unit was the result of annual incremental decisions from the time the University first received state appropriation. There are no records of that allocation ever being done on a formula basis, and the units did not know how much of their allocation derived from state appropriation vs. tuition. In

FY98, when the decision was made to attribute the tuition revenue directly to the units as it was generated – based on their student enrollment and the courses they taught – the shift was made budget neutral. Essentially their O&M allocation was reduced by the amount of tuition they were generating but then they received their full tuition revenue, resulting in the same total. The support units that did not generate tuition revenue continued to receive an O&M allocation, but it was therefore all state appropriation. That was the first re-set of the O&M allocation.

From FY98 to FY07, when the second re-set of O&M occurred, the change in O&M allocation for each unit was done in a base +/- process. In FY07, the University decided to implement the second half of the RCM budget model in allocating all support/overhead costs to the revenue generating units. At that time, the budgets for all support units at the University were converted into "cost pools" that would then be charged out to the revenue generating units based on a variety of different cost allocation formulas. The state appropriation that was going to the support units was eliminated and instead given to the revenue generating units. Along with some changes in internal assessments and central allocation of some fee revenue and some indirect cost recovery revenue (Indirect Cost Recoveries [ICR] – resources from external sponsors of research grants to cover overhead costs), the O&M state appropriation was also re-set for each revenue generating unit such that the shift in the model was budget neutral at that point in time. The colleges and campuses had to start paying their share of the "cost pool" charges for central support services, but each was given increased state appropriation, as well as the central fee revenue and the ICR that the unit generated, in a total amount exactly equal to those new charges.

So for each RRC, including each system campus, the transition to the new budget model was accomplished through a budget neutral initiative and the new base level of O&M allocation was set to achieve that neutrality. From FY07 through the current budget, the changes in O&M allocation for each RRC is the result of a continuing base +/- process, much like the state process for making decisions on appropriations to its state agencies, including the University of Minnesota.

> *(3) what factors would lead the university to consider adjusting the initial base allocation model.*

(3) The base allocation "model" as it was implemented and explained in item (2) above, was an intentional effort. The goal was to implement the new model in a way that was neutral to their budget at that point in time. The model itself does not determine the final budget level for each unit. Instead, the University has a very robust annual budget review and setting process. University leadership makes decisions about certain revenues and investments, in combination with known cost increases, in order to balance the budget for the upcoming year. In addition to those planning assumptions about tuition and fee levels, internal reallocation targets, compensation and facility cost increases etc., each unit then has the opportunity to bring forward requests for initiative funding and to raise any significant financial issues they are facing. University leadership then considers all of those factors for each RRC – looking at the revenue increases to be generated by each unit, the availability of increases in state appropriation, the cost increases each unit will face, the possibility of making internal reallocations within each unit, and the investments the University would like to make in priority programming – before deciding on the final positive or negative changes in the O&M allocation.

Because this process relies on a qualitative and substantive discussion at the unit level on priorities, changes in revenues and costs and so forth, and the connected interplay between the revenue sources, internal reallocations and costs, it would not be beneficial to consider a methodology change in a single component of the model. The combined impact of all of these variables results in what the University believes is the most effective and strategic outcome for all units, given the environment of constrained resources in which it operates. As mentioned in the response to item (1) previously, if the University were to significantly modify or move away from an RCM budget model at some point in the future, which would likely be driven by significant changes in the overall funding environment for higher education, then the entire decision making process would be reevaluated for all units within the University.

I hope that this information and perspective is helpful to you. Please let me know if you need anything further in this matter.

Sincerely,

Brian D. Burnett
Senior Vice President for Finance and Operations

BDB/kl

c: Eric W. Kaler, President
Dean Johnson, Chair, Board of Regents
David McMillan, Vice Chair, Board of Regents