

UNIVERSITY OF MINNESOTA

BOARD OF REGENTS

Finance & Operations Committee

Thursday, November 11, 2010

9:45 – 11:45 a.m.

600 McNamara Alumni Center, East Committee Room

Board Members

John Frobenius, Chair
Venora Hung, Vice Chair
Clyde Allen
Richard Beeson
Steven Hunter
Patricia Simmons

Student Representatives

Martin Chorzempa
Matt Privratsky

A G E N D A

1. Issues Related to: University Risk Tolerance - Action - R. Pfutzenreuter/
T. Mulcahy (pp. 2-4)
2. Debt Capacity Update - R. Pfutzenreuter (p. 5)
3. Resolution Related to Issuance of Debt - Review/Action - R. Pfutzenreuter
(pp. 6-9)
4. Consent Report - Review/Action - R. Pfutzenreuter (pp. 10-12)
5. Information Items - R. Pfutzenreuter (pp. 13-15)



**UNIVERSITY OF MINNESOTA
BOARD OF REGENTS**

Finance and Operations Committee

November 11, 2010

Agenda Item: Issues Related to: University Risk Tolerance

review review/action action discussion

Presenters: Vice President/CFO Richard Pfitzenreuter
Vice President Tim Mulcahy

Purpose:

policy background/context oversight strategic positioning

The purpose of this presentation is to familiarize the board with the administration's work related to assessing the University of Minnesota's institutional appetite for risk and the formulation of risk principles. The need to reconsider the University's risk tolerance has been identified as a significant issue by the President's Advancing Excellence Committee. A "risk tolerance" working group was established to assess current risk philosophies, strategies, and practices and ultimately provide recommendations to the President as to whether recalibration is necessary to support the University's aspirations of excellence.

Outline of Key Points/Policy Issues:

This presentation to the Board will summarize the University's "risk tolerance" working group's assessment of the current risk-averse culture at the University; will review the factors that have contributed to its current conservative posture; will introduce fundamental considerations that should be incorporated in the development of principles to direct the University's preferred approach to specific risks; and, will provide a preview of draft principles under current consideration by the group.

Background Information:

Vice President Mulcahy presented a report entitled "Institutional Appetite for Risk" to the Audit Committee on June 10, 2010.

UNIVERSITY RISK TOLERANCE
Finance & Operations Committee
November 11, 2010

Over the past fifteen to twenty years the University of Minnesota has actively cultivated a “culture of compliance” through development of effective policies and procedures, establishment of compliance and oversight structures, and creation of programs to raise the awareness of the campus community as to ethical standards, responsibility, and accountability that must govern all of our daily activities. As an outgrowth of the University’s “exceptional status” in the early 1990s these initial efforts were intentionally conservative; designed to minimize risks across the expanse of the University’s activities. At the time and under the circumstances a fairly conservative approach to risk was most appropriate.

In the ensuing years the University’s “culture of compliance” has matured and now represents one of its greatest strengths as a research university. However, as greater and increasingly complex challenges have confronted all aspects of the University’s mission, many additional risk-averse policies, procedures and practices have been layered on the background of those already in place, often creating highly regulated environments. All too often the need for, the appropriateness of, or the intent of existing policies have not been revisited nor have procedures and practices been re-examined for utility, efficiency or effectiveness. Consequently, the deliberately risk-averse approach at the heart of the effort to clear the “exceptional status” designation persists in many current policies and continues to strongly influence the University’s approach to the realities of the “New Normal” in which it now operates. While the University’s current posture with respect to many of the risks it confronts remains appropriately risk averse, there is a growing consensus across the University community that continued manifestation of our generally risk-averse legacy is limiting innovation, productivity and responsiveness to opportunity. This tendency toward risk-aversion is increasingly viewed as impeding fulfillment of our academic mission while taxing the limits of available resources.

Under the auspices of President Bruinink’s Advancing Excellence initiative a Risk Tolerance Work Group was convened to develop a set of recommendations for enabling the University to develop a strategic management approach to risk across all aspects of its operations. The intent of moving to a more strategic approach to risk management is to transform the U’s prevailing risk-averse culture to one in which leaders responsible for individual functional domains will be expected to re-define acceptable risk within areas of their responsibilities in ways that enhance innovation, creativity, productivity, morale and overall performance. Such efforts could at the same time also reduce the financial, personnel and systems costs associated with the current risk adverse culture. The University of Minnesota is well positioned to leverage the many positive aspects of its current “culture of compliance” to help direct the transformation to a more productive “culture of performance with responsibility”.

Strategic risk management refers to tolerance for “risk-taking that is systematically expanding the organization’s risk portfolio with the goal of maximizing the effectiveness

of resources in the deliberate pursuit of mission.¹” A strategic approach to risk management acknowledges the positive as well as the negative aspects of individual risk situations and involves a deliberate risk vs. benefit analysis approach to inform decision-making throughout all facets of the University’s operations. The essential principle of strategic risk management designed to enhance overall institutional performance is the definition of the appropriate balance between decisions and activities that contribute to the optimal pursuit of mission on the one hand and ethics, responsible conduct and accountability on the other. Advocates for strategic management of risk acknowledge that governing boards and executive leadership must collaborate to define this critical balance point for the organization as a whole. Essential to fulfillment of this important leadership responsibility is the adoption of a set of Tolerance Principles that will serve as framing principles for implementation at operational levels as well as guideposts for the culture change that will be required to insure that a new, less conservative approach to risk is ingrained in the University.

This presentation to the Audit Committee will briefly review background information considered by the Working Group, summarize key characteristics of strategic risk management and to obtain the Committee’s feedback on the proposed:

1. Risk Tolerance Principles to serve as the framework for the transformation to a strategic management approach to institutional risks:
 - a. High tolerance for risks in the pursuit of innovative, breakthrough research, scholarship and public engagement.
 - b. High tolerance for strategic risk-taking that enhances instructional quality.
 - c. High tolerance for strategic risk-taking that promotes productivity, creativity and reputation.
 - d. Moderate risk tolerance for rewarded financial risk.
 - e. Low tolerance for risks arising from inappropriate discharge of fiduciary responsibilities.
 - f. Low tolerance for risks that undermine actual safety, or the perception of safety, on our campuses.
 - g. Zero tolerance for intentional non-compliance with laws or regulations.
2. A set of Operational Principles that will serve to guide the development of implementation plans throughout University operations; and
3. A set of action items that University leadership should initiate as next steps in the evolution to the desired strategic management approach to institutional risk.

¹ Adam Oswald, *Weathering the Storm, Strategic Risk Management and Non-profit Accountability*, 2010. Hubert H. Humphrey Institute of Public Affairs; Professional Paper in Fulfillment of Degree.



**UNIVERSITY OF MINNESOTA
BOARD OF REGENTS**

Finance and Operations Committee

November 11, 2010

Agenda Item: Debt Capacity Update

review review/action action discussion

Presenters: Vice President/CFO Richard Pfitzenreuter

Purpose:

policy background/context oversight strategic positioning

The Board of Regents annually reviews the impact of existing and planned bonded indebtedness relating to capital projects and the impact of those plans on the current and future debt capacity of the University.

Outline of Key Points/Policy Issues:

The debt capacity forecast is a key financial planning component to the development of a long range financial plan for the University of Minnesota. The debt capacity forecast also provides a framework for the development of a six year capital plan. The six-year capital plan is a required element for the development of a long range financial plan for the University.

The presentation will outline future debt capacity in the context of key financial ratios taking into consideration current authorized debt levels and any near term plans for additional debt issuances relating to capital projects.

Background Information:

Board of Regents Policy: *Board Operations and Agenda Guidelines* directs the administration to conduct capital planning with a 6 year time horizon, updated annually. This annual capital planning process is completed in two parts.

Part 1, approved by the Board in June, is the annual Capital Improvement Budget for the coming fiscal year in which projects with completed pre-designs and financing plans are approved to proceed with design and construction.

Part 2 is a Capital Improvement Plan that established the institutions' capital priorities and financial plans for an additional 5 years. This plan becomes the basis for continued capital and financing planning for the included projects.



**UNIVERSITY OF MINNESOTA
BOARD OF REGENTS**

Finance and Operations Committee

November 11, 2010

Agenda Item: Resolution Related to Issuance of Debt

review review/action action discussion

Presenters: Vice President/CFO Richard Pfitzenreuter

Purpose:

policy background/context oversight strategic positioning

In accordance with Board of Regents Policy: *Debt Transactions*, the Resolution Related to Issuance of Debt is being presented for action.

Outline of Key Points/Policy Issues:

The University is requesting approval of the attached financing resolution authorizing the issuance and sale of bonds in the principal amount of up to \$78,000,000 to finance and/or reimburse the University for purchases of land and buildings, construction and remodeling projects, the acquisition and installation of equipment, and costs of issuance of the bonds.

Background Information:

The purchases of land and buildings, construction and remodeling projects, and equipment to be financed by the proceeds of the bonds shall be those so designated by the Board of Regents or by the Treasurer as part of the University's capital planning process.

President's Recommendation for Action:

The President recommends approval of the Resolution Related to Issuance of Debt.



REGENTS OF THE UNIVERSITY OF MINNESOTA
RESOLUTION RELATED TO
ISSUANCE OF DEBT

WHEREAS, it has been proposed that the University proceed with a plan of financing which involves, among other things, the issuance and sale of general obligation indebtedness (such general obligation indebtedness, whether issued in the form of bonds, notes or such other form of indebtedness as may be designated by the University, the “Bonds”), the proceeds of which are to be used to finance University purchases of land and buildings, construction and remodeling projects, the acquisition and installation of equipment and costs of issuance of the Bonds;

WHEREAS, the Bonds will be issued pursuant to an Indenture of Trust between the University and a bank or trust company acting as trustee or pursuant to an Order of the University;

WHEREAS, the Indenture of Trust or Order pursuant to which Bonds will be issued will contain the terms of such Bonds and agreements and covenants of the University with respect to the payment of the principal of, premium, if any, and interest on such bonds;

WHEREAS, the principal amount of the Bonds authorized will be the amount of the Bonds outstanding at any time, and not an aggregate principal amount;

NOW, THEREFORE, BE IT RESOLVED by the Board of Regents of the University of Minnesota (Board) as follows:

1. To provide funds to finance University purchases of land and buildings, construction and remodeling projects, the acquisition and installation of equipment and the costs of issuance of such financing, the Board hereby authorizes the sale and issuance of Bonds in the principal amount of up to \$78,000,000. The Bonds shall be issued in one or more series and shall mature not later than the date that is 20 years after the date of issuance of each series. The Bonds shall be general obligations of the University if the Treasurer determines that the Bonds shall be issued as

general obligations of the University. Interest on the Bonds may or may not be excludable from gross income under Section 103 of the Internal Revenue Code of 1986, as amended.

2. The purchases of land and buildings, construction and remodeling projects, and equipment to be financed by the proceeds of the Bonds shall be those the source of funding of which is so designated by the Board of Regents or by the Treasurer as part of the University's capital planning process.

3. The Treasurer is authorized to negotiate with one or more banks, investment banking firms or financial institutions to be engaged by the University as the underwriter for the Bonds, the terms and conditions upon which the Bonds shall be sold and issued, and to approve the terms of such sale and issuance, including whether the Bonds shall be issued as general obligations of the University. The Treasurer is further authorized to negotiate with one or more commercial banks the terms and condition of any credit support or liquidity facility for any series of Bonds and approve the terms of such credit support of liquidity facility, and to negotiate the terms and condition of any interest rate swap agreement or other similar agreements with the counterparty to such agreement as hedging techniques with respect to the interest rate on any series of Bonds. Such agreements shall be in the form and contain such rights, obligations, covenants, agreements, representations and warranties of the University as may be approved by the Treasurer and the General Counsel.

4. In connection with the issuance of any series of Bonds, the President and Treasurer are authorized to execute and deliver on behalf of the University the Indenture of Trust or Order or any supplement or amendment thereto under which the Bonds are to be issued in the form and containing such covenants, agreements, representations and warranties as may be approved by the Treasurer and the General Counsel, and the Secretary and Treasurer are authorized to execute and deliver the Bonds in accordance with such Indenture of Trust or Order or any supplement or amendment thereto. The signatures of the Secretary and/or Treasurer on the Bonds may be by facsimile.

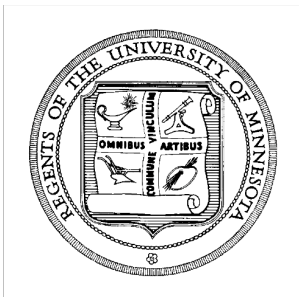
5. The President and Treasurer are authorized to execute and deliver a purchase agreement with the initial purchaser or purchasers of any series of Bonds in the form and containing such covenants, agreements, representations and warranties of the University as may be approved by the Treasurer and General Counsel.

6. The Treasurer is authorized to approve the Preliminary Official Statement and the final Official Statement or any supplements or amendments thereto to be prepared and distributed to any purchaser or potential purchaser of a series of Bonds, and the President is authorized to execute and deliver the final Official Statement or any supplements or amendments thereto.

7. The appropriate University officers are authorized to execute and deliver all other documents, certificates and to take such action as may be necessary or appropriate in connection with the issuance and sale of the Bonds.

8. The Secretary and other officials of the University are authorized and directed to prepare and furnish to any purchasers of the Bonds certified copies of all proceedings and records of the University as may be required or appropriate to evidence the facts relating to the legality of the Bonds as such facts appear from the books and records in the officers' custody and control or as otherwise known to them; and all such certified copies, certificates and affidavits, including any heretofore furnished, shall constitute representations of the University as to the truth of all statements contained therein.

9. The execution of any document by the appropriate University officers herein authorized shall be conclusive evidence of the approval of such documents in accordance with the terms hereof. In the absence of the President or Treasurer, any Indenture of Trust, Order, final Official Statement, purchase agreement or any other document to be executed by the President or Treasurer in connection with the Bonds may be executed by the Chair or Vice Chair instead of the President and by the Secretary instead of the Treasurer.



**UNIVERSITY OF MINNESOTA
BOARD OF REGENTS**

Finance and Operations Committee

November 11, 2010

Agenda Item: Consent Report

review review/action action discussion

Presenters: Vice President/CFO Richard Pfitzenreuter

Purpose:

policy background/context oversight strategic positioning

General Contingency

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

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

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

Outline of Key Points/Policy Issues:

General Contingency

An estimated maximum allocation of \$215,000 to the Associate Vice President for Capital Planning and Project Management for maintenance and refurbishment projects at Eastcliff requires Board approval.

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

- To OLSON + Co, Inc. for an additional \$1,000,000 for an Integrated Marketing Plan for the period of November 30, 2010, through December 1, 2011, for University Relations. This is the first of two renewals for this contract. The next integrated marketing plan will be funded with University Relations O&M funds currently earmarked for this project. Vendor was selected through a competitive process.

Background Information:

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

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

President's Recommendation for Action:

The President recommends approval of the Consent Report.

General Contingency

2010-11 General Contingency:

| | Recipient | Allocation | Balance | Purpose |
|------|---|------------|--------------------|--|
| | FY2011 General Contingency | | \$1,000,000 | |
| | Carryforward from FY2010 into FY2011 | 117,393 | 1,117,393 | |
| 1 | Return unused funds | (151) | 1,117,544 | Unused funds from East Cliff boiler replacement project |
| 2 | | | | |
| 3 | Exec Dir Office for Business & Community Economic Dev | 55,000 | \$1,062,544 | Awards Incentive & Recognition Program |
| 4 | | | | |
| 5 | New items this reporting period: | | | |
| 6 | | | | |
| 7 | Executive Director for the Board of Regents | 154,063 | 908,481 | Salary and fringe for new Deputy Director position |
| 8 | | | | |
| 9 | Chancellor, University of Minnesota Crookston | 100,000 | 808,481 | Bridge funding for Dir of Assessment position, year 2 of 3 |
| 10 | | | | |
| * 11 | Assoc. VP for Capital Planning and Project Management | 215,000 | 593,481 | Eastcliff maintenance and refurbishment projects (estimated maximum) |
| 12 | | | | |
| 13 | Balance as of October 31, 2010 | | \$593,481 | |
| 14 | | | | |
| 15 | | | | |
| 16 | | | | |
| 17 | | | | |
| 18 | | | | |
| 19 | | | | |
| 20 | | | | |
| 21 | | | | |
| 22 | | | | |

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

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

To OLSON + Co., Inc. for an additional \$1,000,000 for an Integrated Marketing Plan for the period of November 30, 2010 through December 1, 2011 for University Relations. This is the first of two renewals for this contract.

Over the past four years, the University of Minnesota has been working to establish the value of this public research university in the minds of the general public and opinion leaders by establishing the brand identity, Driven to Discover, and reinforcing that brand through a comprehensive marketing campaign.

Since the campaign's inception, the annual market research has shown the messages are resonating and public perceptions are shifting upward. The data also indicates that the public and opinion leaders had a better understanding for and appreciation of the role of Minnesota's only public research institution while the campaign ran. When the campaign was not in the market in 2009, perceptions of the University and awareness of key messages declined.

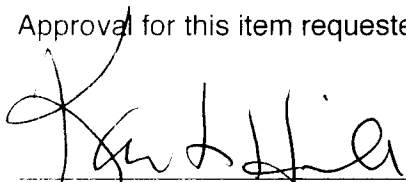
Continuation of these efforts is crucial as we work to leverage the brand's success and engage audiences around supporting the University during these challenging economic times.

Through a competitive bid process in 2009, OLSON + Co., Inc. provided the best price and demonstrated their commitment to provide a significant value for that price through their expertise in strategic and creative thinking for the contract period. The initial contract of \$1,000,000 was approved on October 8, 2009 bringing the total contract to \$2,000,000.

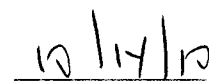
The next integrated marketing plan will be funded with University Relations O & M funds currently earmarked for this project.

Submitted by: Ann Aronson, Assistant Vice President for University Relations
Rm 14 Morrill Hall
Mpls Campus
Phone: (612) 624-1755
Fax: (612) 624-6369

Approval for this item requested by:



VP or Exec. VP Signature



Date



**UNIVERSITY OF MINNESOTA
BOARD OF REGENTS**

Finance and Operations Committee

November 11, 2010

Agenda Item: Information Items

review review/action action discussion

Presenters: Vice President/CFO Richard Pfutzenreuter

Purpose:

policy background/context oversight strategic positioning

Quarterly Investment Advisory Committee Update

To provide the Board of Regents with a summary of the quarterly meeting of the Investment Advisory Committee (IAC) held on August 25, 2010.

Lease for Phased Aggregate Mining at UMore Park

To advise the Board of Regents of an item in the Facilities Committee pertaining to review and recommended approval of a 40-year lease for the phased aggregate mining of approximately 1,722 acres at UMore Park in Dakota County to Dakota Aggregates, LLC.

Outline of Key Points/Policy Issues:

Quarterly Investment Advisory Committee Update

At the quarterly meeting of the IAC on August 25, 2010, Mr. Mason presented the annual report and investment performance for the fiscal year ending June 30, 2010, highlighting the fact that the public equity and fixed income portfolios essentially achieved their benchmark targets, while the real asset and private capital portfolios trailed their benchmark targets by approximately 600 bp each. In total this resulted in the overall portfolio trailing the one-year benchmark by 400 bp (5.5% vs 9.4%). It is worth noting that the private capital portion of the fund, comprising over 30% of assets, returned 14.9% for the year but trailed the benchmark that was 20.9%. For the three- and five-year periods it has exceeded the benchmarks by 300 and 200 bp respectively. The real asset portfolio comprising 20% of the overall fund was down 15.7% for the year compared to a benchmark of -9.6%; however the private real estate portion which comprises half of that real asset portfolio was down 34.3% for the year and -22.0% compounded for three years!

As a follow-up to previous discussions, Committee members recommended that staff engage one or more consultants to assist with a formal asset allocation study to provide an analytical framework for future consideration of policy asset allocation targets. Subsequently staff has engaged Cambridge Associates, Commonfund, and Blackrock to run parallel, independent studies.

The Committee considered and formally approved the benchmarks to be used for the staff Performance Based Compensation Plan for the current fiscal year.

After discussing updated information about Mariner Investment Group, the Committee participated in a 30-minute conference call interview with Jack Poulson, the portfolio manager for the Mariner Silvermine fund that was proposed as a new manager. Following that discussion, the Committee approved a recommendation to engage Mariner as a new investment manager and to allocate \$5.0 million as an initial investment.

Lease for Phased Aggregate Mining at UMore Park

The Facilities Committee agenda includes the review and recommended approval of a 40-year lease for the phased aggregate mining of approximately 1,722 acres at UMore Park in Dakota County to Dakota Aggregates, LLC, which is owned by Cemstone Products Company and Ames Construction, both Minnesota companies. The area of UMore Park to be encumbered by the mining lease is approximately the westerly 1/3 (see attached map). Of the 1,722 acres, approximately 200 acres will be used for an aggregate plant and ancillary facilities.

The lease term is expected to be approximately 40 years, with not more 160 acres in use for mining or reclamation activities at a time. The University will be able to continue to use portions of the leased premises that are not being actively mined, reclaimed or in use for lessee's processing operations.

The lease will require the following payments by the lessee:

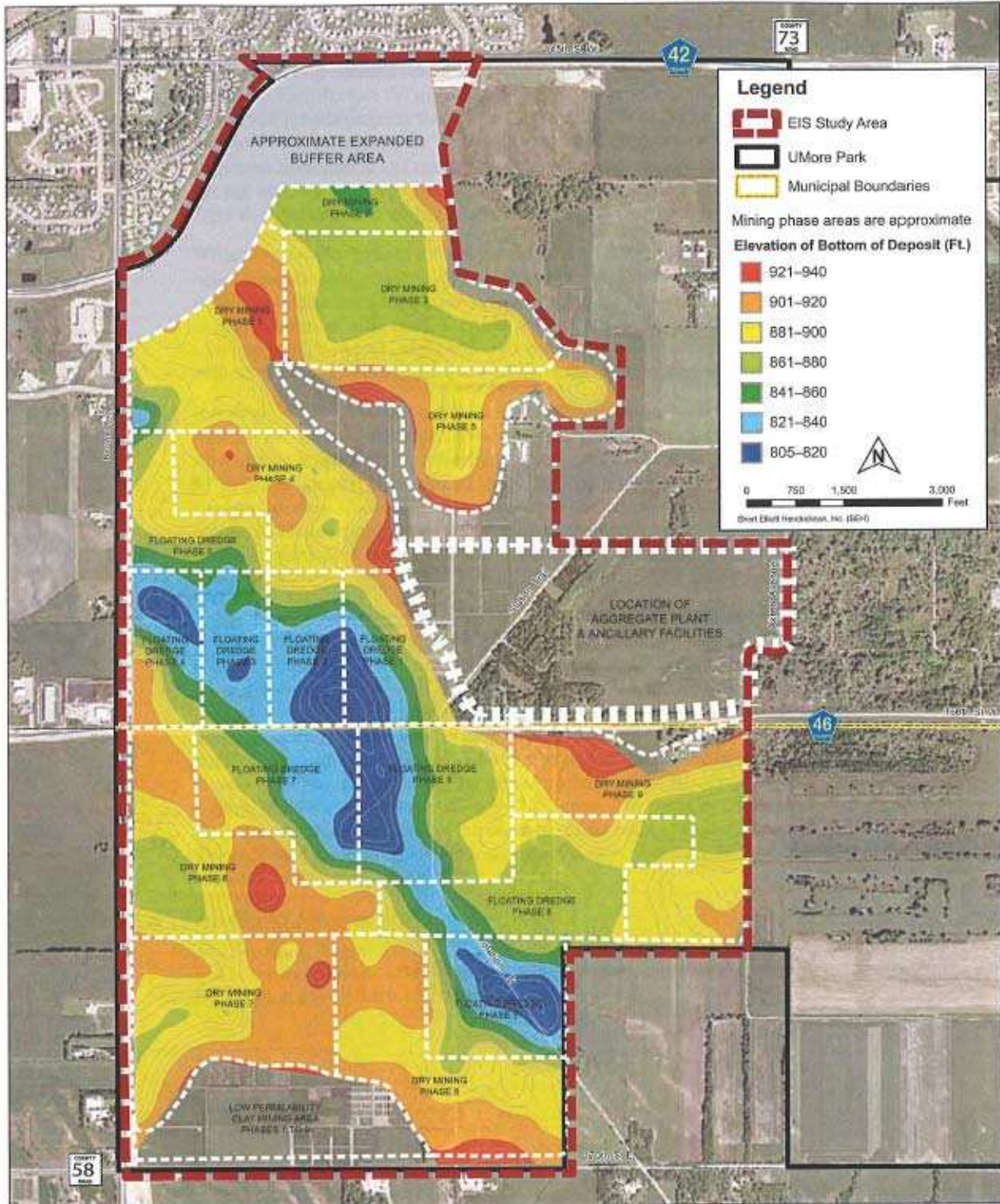
- Initial Advanced Minimum Royalty (total of \$5 million) at certain times between lease execution and commencement dates);
- Annual Minimum Royalty beginning the second Lease Year (\$425,000, \$600,000, \$700,000, and \$800,000 the second through fifth Lease Years, respectively, and thereafter the greater of \$632,000 in the sixth Lease Year [increasing 2.5% per year thereafter] or 55% of the average annual Production Royalty paid in the immediately preceding five Lease Years);
- Production Royalty each month for materials transported off the leased premises or used by the lessee on the leased premises to produce concrete, asphalt and similar products;
- Unrestricted Scholarship Fund Contribution (\$.02 for each ton of material that lessee transports off the leased premises or uses on the premises to produce concrete, asphalt and similar products for students studying or researching geology, civil engineering, land use planning and similar and related disciplines); and
- Reimbursement to the University for certain out-of-pocket expenses incurred by the University after May 1, 2009 relating to the Environmental Impact Statement for UMore Park Sand and Gravel Resources and environmental, permit and other reviews in connection with the mining project.

All net proceeds, revenues, and income earned after deducting costs incurred by the University to manage and develop UMore Park will be deposited into the Legacy Fund previously established by the Board of Regents.

This lease transaction has been unanimously recommended by the UMore Park LLC Board of Governors.

**FORTY-YEAR LEASE TO DAKOTA AGGREGATES, LLC
FOR PHASED AGGREGATE MINING OF 1,722 ACRES, DAKOTA COUNTY
(UMORE PARK)**

Depiction of the Premises



UMore Park Sand and Gravel Resources
Final Environmental Impact Statement
September 2010

Figure 3
UMA Phased
Mining Plan

