

UNIVERSITY OF MINNESOTA

BOARD OF REGENTS

Finance & Operations Committee

Thursday, October 13, 2011

3:00 - 5:00 p.m.

600 McNamara Alumni Center, West Committee Room

Board Members

John Frobenius, Chair
Venora Hung, Vice Chair
Clyde Allen
Richard Beeson
Linda Cohen
Steve Sviggum

Student Representatives

James Rook
Madeleine Hammerlund

A G E N D A

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**UNIVERSITY OF MINNESOTA
BOARD OF REGENTS**

Finance and Operations Committee

October 13, 2011

Agenda Item: Resolution Related to Issuance of Debt

review review/action action discussion

Presenters: Vice President/CFO Richard Pfutzenreuter
Carole Fleck, Director, Debt Management

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 \$61,000,000 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 \$61,000,000. The Bonds shall be issued in one or more series

and shall mature not later than the date that is 25 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 and approve the terms and condition of any credit support or liquidity facility for any series of Bonds, and to negotiate with the counterparty to any such agreement the terms and condition of any interest rate swap agreement or other similar agreement to be used as a hedging technique with respect to 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, the final Official Statement, and any supplements or amendments thereto to be prepared and distributed to potential purchasers of the Bonds, and the President is authorized to execute and deliver the final Official Statement and 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

October 13, 2011

Agenda Item: Issues Related to: Long Term Financial Planning, Part I

review review/action action discussion

Presenters: Vice President/CFO Richard Pfutzenreuter

Purpose:

policy background/context oversight strategic positioning

In a rapidly changing world, long range financial planning is an increasingly important element in guiding the University of Minnesota's future. The purpose of this discussion is to provide the Board of Regents with a progress report regarding the development and incorporation of long range financial planning into academic and operational plans at the University of Minnesota.

Outline of Key Points/Policy Issues:

The Board of Regents and the administration are both committed to establishing a clear set of principals and processes regarding long range financial planning. The Board of Regents and the administration are working to develop a long-term financial model with core principles, assumptions and recommendations to maximize resources, efficiency and productivity.

Background Information:

The Board of Regents, through work sessions, presentations in Board operating committees, and periodic reports from the administration, discussed long term financial planning.



**UNIVERSITY OF MINNESOTA
BOARD OF REGENTS**

Finance and Operations Committee

October 13, 2011

Agenda Item: EFS Update

review review/action action discussion

Presenters: Vice President/CFO Richard Pfutzenreuter
Associate Vice President Michael Volna

Purpose:

policy background/context oversight strategic positioning

The University of Minnesota has owned and operated the PeopleSoft Campus Solutions (CS) and Human Capital Management (HCM) Enterprise Resource Planning (ERP) System since 1998, and we have owned and operated the Financial Supply Chain Management (FSCM), commonly referred to as Enterprise Financial System (EFS) since July 1, 2008. All three parts of our ERP are heavily integrated to provide a comprehensive system to support our student, human resource, and finance business processes.

Outline of Key Points/Policy Issues:

As October 1, 2011 approaches, it will be just over three years since the University went live with EFS. We are grateful to both the user community and staff in central support units for their collective efforts and tireless work supporting the University's financial system. Although many fixes, improvements and enhancements have been implemented since the new system went live, feedback from the user community in December 2010 made it clear that significant challenges and problems still remained that eroded the system's effectiveness to the University community at large. Based on this feedback, and at the direction of the President, both Vice President Timothy Mulcahy and Vice President/CFO Richard Pfutzenreuter were charged in December 2010 to lead a team that would organize, develop and implement specific remedies to these persistent problems. The goal remained to provide a more user-friendly, efficient and reliable system.

In order to better communicate to the University community and improve coordination, we organized our efforts in three distinct categories: 1) financial reporting enhancements, 2) ongoing system technical improvements, and 3) complex systems architecture and foundational design considerations. A strategic element of the action plan common to all three categories was the need to seek input from a broad range of users to ensure that a full complement of issues is teed up at the outset of our work. Each of these broad topic areas

presented challenges and opportunities to improve EFS and required input from both the user community and central support staff.

The presentation and discussion will focus on updating the Board of Regents on accomplishments to date and to provide additional background information and additional actions to further improve EFS.

Background Information:

The Board of Regents has periodically received updates regarding EFS.



**UNIVERSITY OF MINNESOTA
BOARD OF REGENTS**

Finance and Operations Committee

October 13, 2011

Agenda Item: Issues Related to: Enterprise Systems Upgrade

review review/action action discussion

Presenters: Vice President/CFO Richard Pfitzenreuter
Interim VP & Chief Information Officer Ann Hill Duin

Purpose:

policy background/context oversight strategic positioning

The University of Minnesota has owned and operated the PeopleSoft Campus Solutions (CS) and Human Capital Management (HCM) Enterprise Resource Planning (ERP) system since 1998, and has owned and operated the Financial Supply Chain Management (FSCM) system since 2008. All three parts of our ERP are heavily integrated to provide a comprehensive system to support our student, human resource, and finance business processes. These systems have created efficiencies by reducing duplicate or legacy systems, centralizing processes where possible, and providing services that did not exist previously in a computerized form. Together, they represent a culture of technical innovation and service.

Outline of Key Points/Policy Issues:

In 1996, the Student 2000 project was launched. The goal of this project was to centralize and standardize the administrative systems and to enhance the delivery of services to students, faculty, and staff. After investigating alternatives, the project team recommended the purchase of an ERP system made by PeopleSoft.

In June 1998, the University of Minnesota was one of the first universities in the nation to implement the combined Human Resources and Student Administration (version 7.0) now referred to as Campus Solutions (CS). For the first time, the University had a centralized system that provided online access for students to view class schedules, add or drop classes, update personal information, and view their grades. This new ERP also provided common data repositories that allowed for more accessible reporting and standardization of processes across the system.

In 1999, the University upgraded to version 7.5 and rolled out more ERP functionality including modules for student finance and financial aid. In addition, the Office of Information Technology (OIT) started developing customized web applications (commonly known as Pillar

applications) to meet requirements that were requested from the Registrar's Office and not provided by the PeopleSoft ERP. For example, initial interface and speed issues with web registration within the PeopleSoft ERP resulted in the need to create our own registration system; as a result, registration transactions improved from over two minutes to under 10 seconds.

In 2000 the University upgraded from PeopleSoft version 7.6 to 8.0. This upgrade added new functionality and provided architecture that transitioned the University from mainframe to client-server based technology. We continued to develop customized web applications to meet requirements not provided by the PeopleSoft ERP.

In July 2006 the University upgraded to PeopleSoft version 8.9. This upgrade primarily represented a technical upgrade needed as preparation for the upcoming Financials (FSCM) implementation. All existing data, business processes, and code were transitioned technically to the new version.

In 2008 the University implemented PeopleSoft FSCM 8.9 to replace legacy software (CUFS). This new application added functionality, upgraded technology, and tightened integration with the HR and CS portions of the ERP. Most recently (September 2011), the University developed Principal Investigator reports to assist researchers with use of the Financials system.

Current Challenges and Opportunities

An Enterprise Resource Planning (ERP) system is a highly integrated complex application requiring continual maintenance and updates due to changing federal and state regulations, technology, and security updates and functionality enhancements. This system requires a highly coordinated combination of business owners, users, and technical staff who all cooperate to ensure reliability and functionality. Because these systems are so complex, the effort to upgrade functionality often takes a back seat to other institutional priorities.

In contrast to 1996, we now face an even more technologically savvy and agile student population. Students bring their own devices to campus and expect immediate interoperability with our administrative and academic systems. However, our current PeopleSoft ERP systems are built primarily upon old technology and even older business processes.

In addition, our current ERP version for Campus Solutions and Human Resources will run out of support for bug fixes and enhancements as of December 31, 2012. While we can continue to buy "lights on" support for these systems (i.e., critical security patches, tax updates, federal regulation updates) for a fee, we will not receive fixes to non-critical issues or any new functionality past this date. In addition, in order to enable the ERP to continue to work with other applications that are built with newer technology (i.e., with cloud systems being deployed), we would have to invest heavily in programmers and analysts.

Therefore, in April 2011, Oracle Consulting services was engaged to help lead our student, human resources, and financials staff through the current business processes and proactively plan for transforming these processes with the new available technology in the latest releases of the PeopleSoft ERP system.

Oracle Consulting's review process of our current business processes and ERP environment revealed that we have a highly customized system, resulting in significantly higher cost to maintain. Within Oracle's current higher education customers (N=86), our PeopleSoft deployment is the 2nd most customized (Michigan is highest) in both our Campus Solutions and Human Resources ERP modules. We are 9th overall in our Financials module. Many of the customizations were made because of the lack of functionality in the earlier releases of the PeopleSoft delivered software; many were also made and maintained because of a lack of proactive business process redesign as technologies improved.

Some early recommendations coming out of the review process include eliminating many of the customizations in favor of delivered software. Additional recommendations focus on improvement of service to students and streamlining workflows and processes for staff and faculty who rely on PeopleSoft systems to perform their work.

PeopleSoft Upgrade Planning Project

The purpose of the PeopleSoft Upgrade Project is to continue to contribute to the University's goal of establishing itself as a leading institution by providing an enterprise solution, backed by processes, systems and methodologies that do the following:

- Provide accurate, timely, comprehensive, and accessible information;
- Enhance risk management;
- Streamline and integrate business processes;
- Reduce implementation, modification and support costs by using the packaged solution;
- Increase value to the University through increased functionality and enhancements; and
- Provide flexible, adaptable, intuitive and reliable solutions.

Background Information:

The Board has not previously discussed the pending PeopleSoft upgrade project.



**UNIVERSITY OF MINNESOTA
BOARD OF REGENTS**

Finance and Operations Committee

October 13, 2011

Agenda Item: Consent Report

review review/action action discussion

Presenters: Vice President/CFO Richard Pfutzenreuter

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.

Approval of Underwriter

To seek approval for the appointment of Wells Fargo Bank, N.A., as Underwriter for the general obligation bonds to be issued during FY2012.

Outline of Key Points/Policy Issues:

General Contingency

There are no items in the General Contingency report requiring Board approval.

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

- To Ancestry.com for \$2,072,000 for a digital index license agreement and the transcription of information of 132 million individuals in the U.S. Census of 1940, over the period of April 2, 2012, to March 31, 2015, for the Minnesota Population Center. The Minnesota Population Center is submitting three federal grants to pay for the data transcription. The agreement with Ancestry.com states that this agreement will be modified if the grants are not awarded (in whole or in part). The first of the three grants has been reviewed with outstanding scores from the National Institute of Aging and we anticipate it will be funded. See enclosed documentation regarding basis for vendor selection.

Approval of Underwriter

- The Treasurer proposes engaging Wells Fargo Bank, N.A., as the Underwriter for the issuance of general obligation bonds during FY2012.
- The firm was selected as a result of a competitive bid process.
- The evaluation and selection process resulted in the recommendation of Wells Fargo Bank, N.A., in light of their apparent understanding of the University's financing and objectives; the degree to which their proposal met the University's expectations for service to be provided; their competitive quoted price; and their pricing guarantee.
- Expected underwriter's discount assuming \$61,000,000 in proceeds to be received upon the sale of bonds is estimated to be approximately \$118,200.

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
- Commercial Transactions or Other Matters Subject to Board Approval: Reservation and Delegation of Authority, Sec. 1, Subd. 5.
- Approval of Underwriter: Debt Transactions, Sec. III., Subd. 1.

President's Recommendation for Action:

The President recommends approval of the Consent Report.

General Contingency

2011-12 General Contingency:

	Allocation	Balance	Purpose
FY2012 General Contingency		\$1,000,000	
Carryforward from FY2011 into FY2012	91,986	1,091,986	
1 New items this reporting period:			
2			
3 No new items this reporting period			
4			
5 Balance as of September 30, 2011		1,091,986	
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Purchase of Goods and Services \$1,000,000 and over

To Ancestry.com for \$2,072,000 for a digital index license agreement and the transcription of information on 132 million individuals in the U.S. Census of 1940, over the period of April 2, 2012 to March 31, 2015 for the Minnesota Population Center.

The Minnesota Population Center has a unique opportunity to collaborate with the genealogical firm, Ancestry.com, to create a massive scientific database comprising the entire population of the United States in 1940. The new database will make a permanent and substantial addition to the nation's statistical infrastructure, and will have far-reaching implications for research across the social and behavioral sciences.

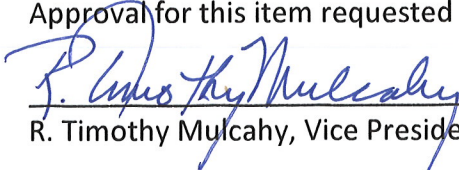
The National Archives Records Administration will release images of the 1940 census enumeration forms on April 2, 2012. Ancestry will immediately begin work to create a digital index of the entire U.S. population of 1940. The index will contain key census fields that are necessary for their genealogical search tools (geographic information, names, age, sex, race, relationship to household head, marital status, birthplace, etc.). We propose an arrangement to pay Ancestry to transcribe the additional census fields to make the index suitable for scientific research. Ancestry will provide their digital index free of charge, and this represents about 5.5 billion keystrokes required for the complete scientific database. We will purchase approximately 2.3 billion keystrokes (about 30% of the total) required for the additional census fields. On a cost per record basis, production of this database will be 95% less expensive than a 5% sample of the U.S. Census of 1930, which is nearing completion by the Minnesota Population Center.

There is not another firm who could complete this project.

The Minnesota Population Center is submitting three federal grants to pay for the data transcription. The agreement with Ancestry.com states that this agreement will be modified if the grants are not awarded (in whole or in part). The first of the three grants has been reviewed with outstanding scores from the National Institute on Aging and we anticipate it will be funded.

Submitted by: Steven Ruggles, Minnesota Population Center Director and Regents Professor
50 Willey Hall
225 19th Avenue South
Minneapolis, MN 55455
Phone: 612-624-4081
Fax: 612-626-8375

Approval for this item requested by:



R. Timothy Mulcahy, Vice President for Research

9/29/11

Date

Rationale for Exception to Competitive Bidding

This purchase has not been competitively bid because Ancestry.com is the only private company creating a genealogical index of the 1940 census and is the leading and largest genealogical company in the world. Ancestry.com has more than 10 years of experience transcribing information from the U.S. Censuses and other genealogical sources.

Procedures undertaken to ensure reasonableness of price included Ancestry.com providing their digital index free of charge, this represents about 5.5 billion keystrokes required for the complete scientific database. The department will purchase approximately 2.3 billion keystrokes required for the additional census fields which will make the index suitable for scientific research. On a cost per record basis, production of this database will be 95% less expensive than a 5% sample of the U.S. Census of 1930, which is nearing completion by the Minnesota Population Center.

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



UNIVERSITY OF MINNESOTA
BOARD OF REGENTS

Finance and Operations Committee

October 13, 2011

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 30, 2011.

Outline of Key Points/Policy Issues:

Quarterly Investment Advisory Committee Update

Mr. Mason presented the newly formatted annual report for the fiscal year ending June 30, 2011 noting that all of the asset classes with the exception of private real estate had met or exceeded their benchmarks for the last 12 months. Real estate provided a positive return for the quarter, and an overall return of 10.0% for the year, which was the first positive contribution in three years since the downturn in the markets. The overall CEF portfolio return for the year was 15.2%, which trailed the custom benchmark and the 70/30 benchmark. It was noted that the performance over the preceding eight year period exceeded the 70/30 long-term benchmark, and the portfolio had over long periods also exceeded the inflation adjusted return objective, as set forth in Board of Regents Policy: *Endowment Fund*. A lengthy discussion about attribution ensued, highlighted by the facts that the primary causes for the performance shortfall were the significant underweight in public equity, contributing a negative 6.2% variance, and the drag produced by hedge fund portfolios, which contributed a negative 2.1% to the underperformance. In addition, staff recommended that one investment portfolio, in liquidation, be marked down by an unrealized amount of 50% to reflect a conservative view of ultimate recovery, which contributed a 1.4% reduction in annual performance. The underweight in public equity is being gradually addressed by the improving liquidity, which is being allocated to that asset class.

Liquidity constraints are improving and remain an important factor in limiting flexibility to rebalance to policy asset allocation targets. Mr. Mason highlighted that through the first six months of 2011 the budget for reduced liquidity in the portfolio was \$9.0 MM as a result of funding capital commitment obligations, while the actual results were a \$19.3 MM positive cash flow producing more than \$28.0 MM of variance to plan. The Office of Investments and Banking (OIB) continues to seek opportunities to sell private partnership positions at near par pricing.

The Committee then discussed benchmarks for the current fiscal year, which are used for reporting purposes and for calculations in the staff compensation plan. After a robust discussion about possible changes, the IAC passed a resolution to maintain the current benchmarks until such time later in the year when a complete review of the endowments asset allocation guidelines can be completed, at which time appropriate benchmarks will be reconsidered. The Committee discussed the framework proposed by OIB for addressing possible changes in the asset allocation. That framework was intended to serve as the basis for a presentation and discussion at the November IAC meeting.

Lastly, the IAC discussed briefly the performance of TIP, GIP, and RUMINCO all of which exceeded their benchmarks for the fiscal year and for recent multiple year periods.