AGENDA

1. Board of Regents Policy: *Targeted Business, UCED, and Small Business Programs* - Action - M. Volna (pp. 2-4)

2. Issues Related to: Annual Capital Financing & Debt Management Report - R. Pfutzenreuter/C. Fleck (pp. 5-6)


5. Consent Report - Review/Action - R. Pfutzenreuter (pp. 29-41)

6. Information Items - R. Pfutzenreuter (pp. 42-43)
Finance and Operations Committee

February 11, 2010

Agenda Item: Board of Regents Policy: Targeted Business, UCED and Small Business Programs

☐ review  ☐ review/action  ☒ action  ☐ discussion

Presenters: Associate Vice President Michael Volna

Purpose:

☒ policy  ☐ background/context  ☐ oversight  ☐ strategic positioning


Outline of Key Points/Policy Issues:

The proposed amendments to Section II, subd. 1 will bring the policy into conformity with Board of Regents policy language regarding delegations of authority. The policy also has been reformatted and edited to conform to the style of Board of Regents policies. None of the proposed changes are intended to constitute substantive changes to this policy.

Additional grammatical and stylistic changes, shown in the policy in bold text, also have been made since the Board’s review in December 2009. None of the additional proposed changes are intended to constitute substantive changes to this policy.

Background Information:


President’s Recommendation for Action:

TARGETED BUSINESS,
URBAN COMMUNITY ECONOMIC DEVELOPMENT, AND
SMALL BUSINESS PROGRAMS

SECTION I. PURPOSE.

Subd. 1. Targeted Businesses. The Board of Regents (Board) strongly believes that supports the use of the purchasing power of the University of Minnesota (University) should to enhance equal employment and business opportunities for minorities, women, and disabled persons. Consistent with the Board’s of Regents long-standing policies and achievements in advancing diversity, equal employment opportunity, and affirmative action, the University should continue is committed to act aggressively both to promote actively the utilization of businesses owned and operated by minorities, women, and disabled persons (“targeted businesses”); and to prevent discriminatory practices against such businesses.

Subd. 2. Public Service Mission. Moreover, Consistent with the University’s outreach and public service mission, it is appropriate mandates that it the University foster economic growth in the urban communities of which it is a part. Reduction of poverty and unemployment in our the urban community is of vital interest to the University. The University should shall take advantage of opportunities, presented by its construction projects and its contracts for goods and services, to promote the training and employment of urban community residents in skilled trades and professions.

SECTION II. CONTINUATION OF PROGRAMS.

Subd. 1. Charge Delegation of Authority. Accordingly, the Board of Regents directs the Vice President or delegate shall for Finance and Operations to establish and implement (or continue, as applicable) administer the programs described in subdivisions 2-5.

Subd. 2. Targeted Business Program. The Targeted Business Program which requires that a contractor, as a condition of bidding on any construction contract where the aggregate project sum exceeds $100,000, present objective evidence demonstrating:
(1) its past record and continuing commitment to achieve meaningful levels of participation of targeted businesses as subcontractors and suppliers; and

(2) its commitment to achieve meaningful levels of employment of minorities, women, and disabled persons.

Subd. 3. Urban Community Economic Development Program. The Urban Community Economic Development program which requires, as a condition of any construction contract where the aggregate project sum exceeds $100,000, that the contractor:

(1a) employ meaningful numbers of residents of our urban communities, such communities designated by the appropriate administrative officer administration based upon levels of poverty and unemployment; and

(2b) collaborate with the University in the development, funding, and implementation of programs designed to train residents of such urban communities and to increase the number of such urban residents who are skilled and union-certified in building trades to participate in construction projects at the University and elsewhere.

Subd. 4. Non-construction Contracts. Programs designed to annually achieve meaningful levels of participation for targeted businesses in non-construction contracts for the purchase of goods and services.

Subd. 5. Outreach. Programs designed to continue and strengthen outreach to small businesses to implement the provisions of Minn. Stat. §137.31 as amended applicable state law.

SECTION III. OVERSIGHT.

Subd. 1. Monitoring. The Board of Regents further directs that the appropriate administrative officers administration aggressively actively monitor, and take all reasonable actions necessary to ensure, compliance with the above-stated policy and programs.

Subd. 2. Reporting. The president shall report to the Board of Regents annually regarding the implementation of this policy, and shall recommend additional actions which that may be necessary to achieve its purposes.
Finance and Operations Committee February 11, 2010

Agenda Item: Issues Related to: Annual Capital Financing & Debt Management Report

☐ review ☐ review/action ☐ action ☒ discussion

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

Purpose:

☐ policy ☐ background/context ☒ oversight ☐ strategic positioning

To provide an update on the debt profile of the University, in accordance with Board of Regents Policy: Debt Transactions.

Outline of Key Points/Policy Issues:

At June 30, 2009, the University’s long-term debt outstanding was $934.2 million with a total effective interest rate of 4.06%. Long-term debt consists of general obligation bonds, special purpose revenue bonds, commercial paper notes, auxiliary bonds, infrastructure development bond obligations, and capital leases and other.

The balance outstanding at June 30, 2009, excluding the Special Purpose Revenue Bonds (State Supported Stadium Debt) was $793.9 million.

Significant FY09 debt transactions:

• Chapter 11 bankruptcy of Lehman Brothers Inc. (LBI) and Lehman Brothers Holdings Inc. (LBHI) – September 16, 2008
  ○ Sale to Barclays Capital Inc. (Barclays) of certain assets of LBI related to its investment banking and capital markets businesses – September 22, 2008
  ○ $26,000,000 of University’s Series 1999A and 2001C variable rate demand bonds (VRDBs) were not remarketed and were put to the standby bank facilities – September 22 and 23, 2008
  ○ Termination of existing swaps with Lehman Brothers Commercial Bank (not a party to the bankruptcy) and replacement of swaps with Barclays – February 26, 2009
• Conversion of Series 2003A auction rate securities to weekly VRDBs, Remarketing Agreement with Barclays, and Line of Credit with Wells Fargo to provide support to self-liquidity on weekly VRDBs and commercial paper – October 2, 2008
• Extension of liquidity facility for Series 2001C bonds with JPMorgan Chase Bank (JPM) to March 15, 2010
• Issuance of general obligation bonds for TCF Bank Stadium – February 5, 2009 [Senior Manager – Piper Jaffray & Co]
  o Tax-exempt Series 2009A in the amount of $41,000,000, supported by student fees ($13,000,000), and revenues of the athletic department ($28,000,000)
  o Taxable Series 2009B in the amount of $17,035,000, supported by the naming agreement with TCF Financial Corporation
• Issuance of general obligation bonds for various capital projects – May 5, 2009 [Senior Manager – Wells Fargo Brokerage Services, LLC/Wachovia Securities]
  o Tax-exempt Series 2009C in the amount of $44,625,000
  o Taxable Build America Bonds (BABs), Series 2009D in the amount of $37,330,000
  The BABs, authorized under the American Recovery and Reinvestment Act, provide for a 35 percent interest subsidy of each interest payment due over the next 20 years while the bonds are outstanding to be paid directly to the University by the United States Treasury. This results in a savings of approximately $2.7 million in debt service over the life of the bonds.

Significant FY10 debt transactions in process:
• One-year extension of $130 million Line of Credit (LOC) with Wells Fargo to October 2010, supporting the University’s self-liquidity program – September 2009
• Issuance of $25 million Commercial Paper Notes, Series 2009D, for purposes of financing TCF Bank Stadium – December 2009
• Two-year extension of Standby Bond Purchase Agreement with JPM supporting the Series 2001C outstanding amount of $121,550,000 – expected completion in March 2010

Background Information:

Board of Regents Policy: Debt Transactions was revised in June 2004:
• Maintain University’s long-term core debt rating of Aa/AA category and short-term core debt rating of A-1/P-1 by Moody’s Investors Service and Standard & Poor’s, respectively.
• Distinguishes between core debt and special purpose debt.
• Issue debt for qualified capital projects only and not for University operating costs.
• Align maturity of debt with life expectancy of projects to be financed.

University’s approach to debt management is to accomplish the following objectives:
• Focus administrative management of debt on overall portfolio of debt rather than individual debt transactions.
• Link the debt structure and external debt service requirements with the budget process.

Two existing committees are used for developing debt policy and seeking advice in new debt management practices:
• Debt Management Advisory Committee (DMAC), chaired by Regent Allen.
• Debt Oversight Group (DOG), which includes executive leadership across University functional areas.

A Debt Process Team (DPT) exists for purposes of discussion and documentation of the University’s external debt management processes, including the investment of and the spending of bond proceeds and accounting and tax compliance.

The Annual Capital Financing and Debt Management Report was last presented to the Finance & Operations Committee in February 2009.
Finance and Operations Committee February 11, 2010

Agenda Item: Issues Related to: Annual Insurance & Risk Management Report

☐ review     ☐ review/action     ☐ action     ☒ discussion

Presenters: Vice President/CFO Richard Pfunzenreuter
Steven Pardoe, Director of Risk Management

Purpose:

☐ policy     ☐ background/context     ☒ oversight     ☐ strategic positioning

To provide a report on the risk management and insurance programs at the University for fiscal year 2009.

Outline of Key Points/Policy Issues:

Annual Insurance & Risk Management Report

- Total cost of risk for 2009 was $13.5 million, compared with $14.7 million for the prior fiscal year, a decrease of 8.2%. Factors contributing to the decrease include:
  - Improvement in RUMINCO claims.
  - Leveling of self-insured costs.
  - Better management of commercial insurance premiums.
UNIVERSITY OF MINNESOTA

Annual Report
Of the
Office of Risk Management
As of
Fiscal Year Ended
30 June, 2009
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I. Overview

The Mission of the Office of Risk Management

- Provide consultation to the University community regarding the risk naturally encountered in the course of Research, Teaching and Outreach.
- Minimize the frequency and severity of physical injury and property damage through education and specific loss control measures.
- Protect and preserve University human and financial resources.

A 'risk-free' University is one in which no productive activity can take place. The Office of Risk Management finds ways to concurrently manage risk and promote and enable Research, Teaching and Outreach opportunities.

The Office of Risk Management uses commercial and captive insurance, as well as retention (self-insurance) to finance monetary loss arising from risk. The Office of Risk Management is charged with the design, procurement, implementation and maintenance of these programs, which are all designed to administer the financial consequences of loss events. The Office also routinely consults with the Office of General Counsel with respect to problematic risk and insurance provisions of many of the contracts the University seeks to enter into annually.

This report summarizes the scope of operations of the University’s Office of Risk Management as of fiscal year-end June 30, 2009.
I. Overview (cont.)

Organizational Structure

The Office of Risk Management
- Acts at the direction of the Controller’s Office
- Has a dotted line relationship with many University entities and resources
- Directly controls the activities of insurance vendors and suppliers

Controller’s Office

Office of Risk Management

University at Large
RUMINCO Board
Environmental Health & Safety
Disability Services
Occupational Health & Safety

Insurance Broker
Captive Manager
Actuaries
Workers Compensation & Casualty Claims Administrator
Property Program Administrator & Broker
I. Overview (cont.)

**FY09: Milestones and Accomplishments**

**Associate Director of Risk Management Position Filled**
The Office filled the Associate Director of Risk Management position in November of 2009. The position has greatly expanded the Office’s ability to reach out and serve the University’s risk management needs.

**Workers Compensation Revitalization**
In many measures -- claim count, dollars allocated, employee contact and employee satisfaction -- the Workers Compensation program is the most important program Risk Management administers. The Office of Risk Management initiated a broad review of the current system and processes, with a strong focus on enhancing usability and efficiencies.

**Cost Control**
The percent change in the overall gross cost of the program is on a downward trend, from 26.4% and 13.5% increases for FY07 and FY08 to a 3.9% increase for FY09.

**Policy**
The old policy regarding Workers Compensation was difficult to understand and use. Policy changes made during FY09 include:
- Policy and appendices are shortened from 22 to 11 pages
- Claim filing process are clarified
- Contacts and medical provider lists are updated and consolidated

**Summit Meeting**
In an effort to promote communication and education, the Office of Risk Management sponsored the inaugural Workers Compensation Summit in August of 2009. This was the first time these groups had all been in the same place at the same time:
- UMN Claims Area Contacts
- Environmental Health and Safety
- Disability Services
- Office of General Counsel
- Third Party Administrator
- Outside Counsel
- Office of Risk Management

Summit topics included:
- History of Workers Compensation at the University
- Policy Updates and Accident Reporting Procedures
- Vendor Roles and Responsibilities
- Metrics: Possibilities for Measuring Success

We have already seen increases in communication and cross-team cooperation, and expect those improvements to result in better program performance over time.

**Extra-Minnesota Liability Limits**
As the University expands operations beyond the Minnesota State border, the chance of incurring Tort Liability imposed by an alien jurisdiction will increase. The University will enjoy no Tort Cap liability protection in those situations. Risk Management established an option for greater General and Auto Liability Limits for extra-Minnesota suits, bindable for the FY10 policy year.
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 will be 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.

The University broadly treats its risk as follows:

- Liability – *Transferred* to Captive Insurer (RUMINCO)
- 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. The guiding principle has been that if it is financially possible and reasonable for the University to retain risk, it is best to do so, as retention tends to be more economical in the long run.

Generally, this principle is abrogated by exposure to truly catastrophic loss potential. A good example of this is the property associated with the University’s campuses. With values approaching nine billion dollars, there is no reasonable way for the University to fund a catastrophic property loss event. The University purchases an insurance policy to transfer that exposure to a third party.
II. Risk Finance Programs (cont.)

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 a combination of three main mechanisms:

The Office of Risk Management monitors the University's loss trends and the insurance marketplace to determine the optimal combination of risk financing methods. 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.
II. Risk Finance Programs (cont.)

Captive Insurance

RUMINCO Ltd. (Regents of the University of Minnesota Insurance Company) 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

The University purchased excess limits from commercial insurance companies until 1986, when the Office of the General Counsel furnished an opinion that the State of Minnesota’s Tort Statute effectively and reliably limits the University’s exposure to Tort Liability. The University chose to discontinue the purchase of Excess Liability from commercial insurers and rely solely on the limits underwritten through RUMINCO. As RUMINCO matured and its surplus (i.e., net worth) grew, the RUMINCO Board added other lines of coverage:

- Automobile Liability
- Non-Profit Organization Liability

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.

The graph on the next page summarizes RUMINCO’s current coverage structure, and is followed by descriptions of each line of coverage in the order laid out in the bullets above.
II. Risk Finance Programs (cont.)

Captive Insurance (cont.)

Summary of RUMINCO Ltd. Limits

Limits within the RUMINCO program are generally in the same range as the maximum payout prescribed by the Minnesota Tort Cap statutes; buying more limit effectively waives the Statute’s protection.
II. Risk Finance Programs (cont.)

Captive Insurance (cont.)

General Liability

**Carrier:** RUMINCO Ltd.

**Coverage Summary:** General liability insures the University’s legal liability for third party bodily injury or property damage.

**Principal Frequency Exposure:** Premises injuries to third parties (slip-and-falls).

**Principal Severity Exposure:** Concentrations of people in facilities such as dormitories, stadiums and arenas exposed to fire, collapse, explosion, etc.

**Five-Year Premium and Loss History:** RUMINCO’s premiums are set based on recommended funding levels determined by a certified actuary. Premiums are used to fund losses, and are fully retained by RUMINCO if not expended on loss events. Expected losses include Paid Losses, Outstanding Reserves and Incurred but Not Reported (IBNR) components.
II. Risk Finance Programs (cont.)

Captive Insurance (cont.)

**Professional Liability**

**Carrier:** RUMINCO Ltd.

**Coverage Summary:** Legal liability for damages arising out of professional services, including:
- Medical (including the Medical School and Boynton Health Service physicians), surgical, dental or nursing treatment, including the related furnishing of food or beverages
- Furnishing or dispensing of drugs or medical, dental, or surgical supplies of appliances
- Handling of or performing post-mortem examinations
- 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 Frequency Exposure:** Medical Malpractice

**Principal Severity Exposure:** Medical Malpractice

**Five-Year Premium and Loss History:** RUMINCO's premiums are set based on recommended funding levels determined by a certified actuary. Premiums are used to fund losses, and are fully retained by RUMINCO if not expended on loss events. Expected losses include Paid Losses, Outstanding Reserves and Incurred but Not Reported (IBNR) components.

![Five-Year Premium and Loss History Graph]

- Paid Losses
- Case Reserves
- IBNR
- Premiums Paid
II. Risk Finance Programs (cont.)

Captive Insurance (cont.)

**Automobile Liability**

**Carrier:** RUMINCO Ltd.

**Coverage Summary:** Auto Liability covers legal liability for bodily injury and property damage arising out of the use of 775 owned vehicles, hired autos, and non-owned autos operated with the permission of the University.

**Principal Frequency Exposure:** Collision damage to third parties’ vehicles.

**Principal Severity Exposure:** Vehicle accidents involving multiple passenger vehicles.

**Five-Year Premium & Loss History:** RUMINCO’s premiums are set based on recommended funding levels determined by a certified actuary. Premiums are used to fund losses, and are fully retained by RUMINCO if not expended on loss events. Expected losses include Paid Losses, Outstanding Reserves and Incurred but Not Reported (IBNR) components.
II. Risk Finance Programs (cont.)

Captive Insurance (cont.)

Non-Profit Organization Liability

Carrier: RUMINCO Ltd.

Coverage Summary: This policy 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 Frequency & Severity Exposures: Employment related claims such as allegations of sexual harassment, failure to grant tenure, discrimination, etc.

Five-Year Premium & Loss History: RUMINCO’s premiums are set based on recommended funding levels determined by a certified actuary. Premiums are used to fund losses, and are fully retained by RUMINCO if not expended on loss events. Expected losses include Paid Losses, Outstanding Reserves and Incurred but Not Reported (IBNR) components.
II. Risk Finance Programs (cont.)

Retained

*Workers Compensation*

**Coverage Summary:** Medical costs and wage loss for University employees who are injured while acting in the scope of their duties.

**Limits:**
The University is a qualified self-insurer under Minnesota law. It assumes liability up to $1,800,000 in any one Workers’ Compensation occurrence. The Workers Compensation Reinsurance Association (WCRA) provides excess protection. The WCRA was created by the State of Minnesota as a funding source, acting as an excess insurer for catastrophic claims.

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Avg. Cost per Claim</th>
</tr>
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<tbody>
<tr>
<td>2008-09</td>
<td>$7,216</td>
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<tr>
<td>2007-08</td>
<td>$6,972</td>
</tr>
<tr>
<td>2006-07</td>
<td>$6,426</td>
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</tbody>
</table>

**Growth Rate in Gross Program Cost (%):**

- FY06 to FY07: 26.4%
- FY07 to FY08: 13.5%
- FY08 to FY09: 3.9%
II. Risk Finance Programs (cont.)
Retained (cont.)

Workers Compensation
Five-Year Loss History

Claim Count and Claims Remaining Open
II. Risk Finance Programs (cont.)
Transfer

**Property Insurance**

**Carrier:** Chartis (via Midwest Higher Education Compact Master Property Program)

**Coverage Summary:** Covers risks of direct physical loss or damage to the “covered property” as defined in the policy, subject to sublimits and specifically excluded perils.

**Limits:** $1 Billion per occurrence.

**Five-Year Loss History:** Property premiums are set based on historical claim patterns and current exposure aggregations. Premiums are used to fund losses, and are fully retained by the insurance company if not expended on loss events. The University retains the first $200,000 of each loss in the form of a deductible. Departments see only $10,000 of this, with the Office of Risk Management funding the remainder.
II. Risk Finance Programs (cont.)
Transfer (cont.)

**Miscellaneous Insurance Coverage**

The aggregate cost of all commercial insurance programs (excluding the MHEC Property Program) and associated brokerage and consulting was $436,597 in FY09. Here is a brief overview of the purchased policies:

**AUTOMOBILE EXCESS LIABILITY (Extra-Minnesota Jurisdiction):** Provides $5,000,000 Automobile Liability limits for University-owned automobiles involved in incidents occurring outside the State of Minnesota. Coverage applies excess of $1.2M underwritten by RUMINCO. The possibility of not having tort statute protection in other states prompts this coverage purchase.

**BROADCASTER’S LIABILITY:** Provides Media-Peril coverage for the University-owned radio stations, KUOM (Minneapolis), KUMD (Duluth), and KUMM (Morris).

**CHILD CARE CENTERS:** Provides accidental medical, death and dismemberment coverage for enrollees at the University-owned and operated child care centers.

**FIDELITY & CRIME:** Coverage for loss of money or securities due to employee theft and dishonesty, computer fraud, and related perils.

**FINE ARTS:** Primary coverage for fine arts (i.e., artwork, books, manuscripts, antiques, etc).

**EXCESS LIABILITY (METRODOME):** Coverage applies to the University’s liability to third parties arising out of its use of the Metrodome, and must continue until the University entirely ceases Metrodome operations. The Metrodome use contract with the Metropolitan Sports Facilities Commission requires the University to carry $5,000,000 of liability insurance. The first $1,000,000 in coverage is insured through RUMINCO with the remaining $4,000,000 being covered under this Excess Liability policy.

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

**NON-OWNED AIRCRAFT LIABILITY:** Covers the University’s liability arising out of use of non-owned aircraft rented or chartered by the University. The limit is $25 million per occurrence, and is intended to be excess of any policies purchased by the owner of the aircraft.

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

**UPWARD BOUND EARLY INTERVENTION AD&D:** Accidental medical, death, and dismemberment coverage for participants in Upward Bound activities, for both the Minneapolis and Duluth campuses.

**SHOWBOAT HULL & LIABILITY:** Coverage is purchased through Paddleford Company for the University’s hull & liability exposure arising out of its sponsorship of the *Showboat* dinner theatre. The boat is moored at the University’s dock on the Mississippi.

**STUDY ABROAD (FRANCE):** Foreign Liability coverage with an approved (“admitted”) French insurance carrier is required for University operations in France.
III. Cost of Risk

We define **Cost of Risk** as:

**Commercial Insurance Premiums**
+ [Captive and Retained Losses + Administrative Expenses]
+ Brokerage and Consultative Costs

**Estimated Cost Savings**

When the University opts to captivize or self-insure an exposure, it assumes additional risk. The chart below shows the University’s actual cost of risk (vertical bars) versus the estimated 5-year averaged cost of risk had the University opted to commercially insure all of its risks (red line). The gap between the two represents the annual savings; the benefit derived from assuming more risk.

This model contemplates a 30% Administrative/Profit burden on the 5-year average of the “Captive and Uninsured Cost” component. This burden represents an estimate of costs commercial insurers experience that our programs are not exposed to. Savings in this model average $2,485,953 per year over the last five years.
## University of Minnesota
### Cost of Risk Summary
#### Total Amounts Incurred and Reserved, FY05-FY09

<table>
<thead>
<tr>
<th>COST ITEM</th>
<th>7/1/04-05</th>
<th>7/1/05-06</th>
<th>7/1/06-07</th>
<th>7/1/07-08</th>
<th>7/1/08-09</th>
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<tr>
<td><strong>Captive Expenses</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Captive Expenses</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Paid Losses</td>
<td>$1,907,218</td>
<td>$1,692,570</td>
<td>$657,012</td>
<td>$2,420,120</td>
<td>$1,138,538</td>
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<td>Case Reserves</td>
<td>17,198</td>
<td>18,000</td>
<td>7,649</td>
<td>1,139,858</td>
<td>536,037</td>
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<tr>
<td>Incurred, But Not Reported (ESTIMATE)</td>
<td>15,000</td>
<td>5,000</td>
<td>100,000</td>
<td>574,000</td>
<td>1,379,000</td>
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<td>Liability Claims Administrator</td>
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<td>49,350</td>
<td>42,159</td>
<td>54,624</td>
<td>50,724</td>
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<td>Captive Administrative Expenses</td>
<td>86,888</td>
<td>88,426</td>
<td>148,144</td>
<td>131,177</td>
<td>148,305</td>
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<tr>
<td>Litigation Cost</td>
<td>686,995</td>
<td>649,997</td>
<td>692,967</td>
<td>1,083,375</td>
<td>1,103,282</td>
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<td><strong>Total Captive</strong></td>
<td>$2,771,440</td>
<td>$2,503,343</td>
<td>$1,647,931</td>
<td>$5,403,154</td>
<td>$4,356,486</td>
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<td><strong>Self-Insurance</strong></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Workers' Compensation (&quot;WC&quot;)</td>
<td>1,995,360</td>
<td>2,172,608</td>
<td>3,018,007</td>
<td>3,357,910</td>
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<td>WC Reinsurance Association</td>
<td>75,379</td>
<td>89,047</td>
<td>95,350</td>
<td>109,815</td>
<td>130,873</td>
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<td>Special Compensation Fund</td>
<td>259,738</td>
<td>292,918</td>
<td>204,758</td>
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<td>WC Claims Administrator</td>
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</tr>
<tr>
<td>Litigation Cost</td>
<td>217,398</td>
<td>222,439</td>
<td>248,656</td>
<td>308,934</td>
<td>305,033</td>
</tr>
<tr>
<td>Bill Review Service</td>
<td>--</td>
<td>23,753</td>
<td>38,239</td>
<td>27,985</td>
<td>35,191</td>
</tr>
<tr>
<td>WC Actuarial</td>
<td>15,000</td>
<td>16,000</td>
<td>16,000</td>
<td>12,000</td>
<td>12,000</td>
</tr>
<tr>
<td>WC Broker Consultation</td>
<td>--</td>
<td>--</td>
<td>28,350</td>
<td>33,210</td>
<td></td>
</tr>
<tr>
<td><strong>Total WC</strong></td>
<td>2,841,907</td>
<td>3,039,850</td>
<td>3,842,564</td>
<td>4,364,319</td>
<td>4,538,863</td>
</tr>
<tr>
<td>Retained Property Losses [1]</td>
<td>1,151,246</td>
<td>738,700</td>
<td>986,756</td>
<td>1,290,563</td>
<td>1,067,865</td>
</tr>
<tr>
<td>Automobile Physical Damage</td>
<td>161,891</td>
<td>124,174</td>
<td>101,189</td>
<td>125,338</td>
<td>154,891</td>
</tr>
<tr>
<td><strong>Total Self-Insured</strong></td>
<td>$4,155,044</td>
<td>$3,953,904</td>
<td>$5,021,720</td>
<td>$5,835,719</td>
<td>$5,783,803</td>
</tr>
</tbody>
</table>

#### Commercial Insurance Premiums

| All Risk Property | $2,700,397 | $2,578,036 | $2,827,147 | $3,061,018 | $2,987,422 |
| **Total Property Insurance** | $1,982,756 | $2,169,093 | $2,409,723 | $2,952,632 | $2,968,127 |
| Automobile Liability (out of state) | 187,500 | 185,400 | 191,554 | 51,881 | 53,610 |
| Boynton Professional Liability [3] | 167,041 | 20,250 | -- | -- | -- |
| Broadcasters's Liability | 5,677 | 5,960 | 5,960 | 5,365 | 5,365 |
| Child Care Center | 1,406 | 1,406 | 1,406 | 1,275 | 931 |
| Electronic Data Processing [2] | 63,483 | -- | -- | -- | -- |
| Excess Liability for Metrodome | 55,106 | 115,952 | 115,952 | 119,164 | 101,894 |
| Fidelity & Crime | 51,300 | 49,553 | 49,407 | 43,232 | 19,967 |
| Fine Arts | 55,837 | 55,988 | 55,988 | 43,750 | 18,495 |
| Intercollegiate Athletics | 112,558 | 70,970 | 79,772 | 76,000 | 39,000 |
| Nonowned Aircraft Liability | 28,250 | 20,545 | 20,545 | 17,849 | 19,187 |
| Special Events | 26,885 | 26,102 | 26,102 | 24,365 | -- |
| Student Activities Office (RSO Liability) | 5,000 | 5,000 | 5,000 | 7,725 | 8,047 |
| Hull & Liability for Watercraft | 20,315 | 18,042 | 15,599 | 15,599 | 15,599 |
| Excess Marine Liability | 11,870 | 9,540 | 9,450 | 9,450 | 9,450 |
| Pollution (Blue Heron watercraft) | 500 | 500 | 1,000 | 1,075 | 1,075 |
| Upward Bound AD&D | 1,440 | 206 | 310 | 310 | 376 |
| Showboat | -- | -- | 10,433 | 7,648 | 7,648 |
| Study Abroad (France) | -- | -- | 6,500 | 6,500 | 7,203 |
| Consultation | 3,602 | 2,513 | 6,400 | 19,737 | -- |
| Brokerage | 114,143 | 110,070 | 103,397 | 128,750 | 128,750 |
| **Total Commercial Insurance** | $2,895,069 | $2,867,490 | $3,112,761 | $3,507,742 | $3,404,724 |

#### Grand Total Cost of Risk

<table>
<thead>
<tr>
<th>7/1/04-05</th>
<th>7/1/05-06</th>
<th>7/1/06-07</th>
<th>7/1/07-08</th>
<th>7/1/08-09</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grand Total Cost of Risk</td>
<td>$9,821,553</td>
<td>$9,324,737</td>
<td>$9,782,412</td>
<td>$14,746,615</td>
</tr>
</tbody>
</table>

---

[1] Insurable property losses falling within department deductibles or overall program deductibles.
[2] EDP coverage was self-insured starting FY 2005-06; figure now shows losses paid by RM Dept.
[3] Transferred to RUMINCO FY07
IV. Workplan

Major Goals for FY10

Property
After consultation with University Senior Management, Risk Management has begun an analysis of the MHES Master Property Program. The rates, terms and conditions of the Property Insurance written under the MHEC program have not been tested on the open market in well over a decade. Risk Management will conduct an RFP, and perform other due diligence, to compare the MHEC program to other options for the 07/01/10 policy renewal.

Workers Compensation
Risk Management will continue efforts to improve the efficiency, communication and teamwork associated with the Worker’s Compensation program administration.

Specifically, Risk Management will work to implement a computer-based claim reporting tool. This tool will supplant the current paper/FAX manual information stream, saving hundreds of input hours and preventing transcription errors. Relevant information will be automatically routed, in a real-time basis, to University Offices and Departments with a need to know, or ability to help. It will also be automatically routed to our Third Party Claims Administrator, ensuring quick response to our Employees, and helping us stay with Minnesota reporting time guidelines. We expect to roll the system out for test in the fourth quarter of FY10.

Extra- Minnesota Liability Limits
Risk Management will implement a Risk Transfer solution to the growing challenge of un-capped Extra-Minnesota general and Automobile Liability.

Cost Control
The Office of Risk Management will continue to aggressively seek, develop and implement cost saving tools and opportunities.
Finance and Operations Committee  February 11, 2010

Agenda Item:  Progress Report: FY2010 Operating Budget

☐ review  ☐ review/action  ☐ action  ☒ discussion

Presenters:  Vice President/CFO Richard Pfutzenreuter

Purpose:

☐ policy  ☐ background/context  ☒ oversight  ☐ strategic positioning

To provide the Board of Regents with a status report on the implementation of the President’s operating budget for fiscal year 2010.

Outline of Key Points/Policy Issues:

The administration will discuss progress toward meeting the approved budget plan for FY10, including updates on revenues and expenditures, budget reductions, change in the number of employees, etc. For example, in order to address the significant decline in state appropriations for FY10, the University is undertaking budget reductions totaling $94,900,000, or approximately 5.2%. All academic and support units were subject to budget reductions in FY10. In addition to budget reductions, the University planned on increasing tuition rates sufficient to yield an additional $41,000,000 in revenue.

Background Information:

The Board of Regents approved the President’s recommended operating budget plan on June 12, 2009.
Finance and Operations Committee          February 11, 2010

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 approve allocations from General Contingency greater than $250,000.

Purchase of Goods and Services over $250,000

To approve purchases of goods and services over $250,000, in compliance with Board of Regents Policy: Board Operations and Agenda Guidelines.

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 Over $250,000

• To AT&T for an estimated $625,000 to provide Integrated Switched Digital Network Primary Rate Services for the period of March 1, 2010 through February 28, 2013 for Networking and Telecommunications Services, a division of the Office of Information Technology. This purchase has been budgeted for FY10 and will be included in the budget for FY11 through FY13. The funding for this purchase is from a central allocation for telecommunications services for the Twin Cities campus. Vendor was selected through a competitive process.

• To Buyers Health Care Action Group (BHCAG) for $282,400 for the service of providing modifications to and the use of Personal Health Records as needed for the period of October 2009 through October 2011 for the Institute for Health Informatics. This service from BHCAG will be purchased through funds from the Consumer Research Network grant. See attached documentation regarding basis for vendor selection.
• To Communication Power Corporation for $510,450 for the purchase of 9.4T magnet power amplifiers for the Center for Magnetic Resonance Research (CMRR), Department of Radiology. This purchase will be primarily funded from a $495,000 American Recovery and Reinvestment Act grant entitled "A Multi-Mode, Multi-Channel Transmitter for 9.4T NMR". These funds must be expended by the end date of this grant, which is April 30, 2010. The remaining $15,450 will be funded with CMRR gift funds. Vendor was selected through a competitive process.

• To Johnson Controls, Inc. for $353,771 for the conversion of the terminal HVAC controls in EE/CS (building 165) from pneumatic to Direct Digital Controls. 2009 HEAPR funds have been identified for use on this project. Vendor was selected through a competitive process.

• To Key Solutions, Inc., an enterprise Research Compliance Module software company, for an estimated $800,000 to provide software for the period of February 15, 2010 through February 14, 2013 for the Office of Information Technology (OIT) and the Office of the Vice President for Research (OVPR). The initial software purchase will be funded by OVPR's O&M resources through a transfer to OIT. The ongoing maintenance and support costs will be funded by OIT’s O&M resources. Vendor was selected through a competitive process.

• To Key Solutions, Inc., an enterprise Research Compliance Module software company, for an estimated $380,000 to provide technical installation and configuration of their e-Protocol software for the period February 15, 2010 through February 14, 2013 for the Office of Information Technology (OIT) and the Office of the Vice President of Research (OVPR). The technical implementation will be funded by OVPR's O&M resources through a transfer to OIT. Vendor was selected through a competitive process.

• To RADIL for an estimated $550,000 for laboratory diagnostic testing as needed for the period of March 1, 2010 through February 28, 2014 for the Department of Research Animal Resources. The purchases will be made using departmentally budgeted funding. The costs will be recovered directly by either charging investigators or by charging per diem for laboratory housed research animals, depending on the type of and reason for testing. Vendor was selected through a competitive process.

• To Qwest for an estimated $625,000 to provide Centrex service for the period of March 1, 2010 through February 28, 2013 for Networking and Telecommunications Services, a division of the Office of Information Technology. This purchase has been budgeted for FY10 and will be included in the budget for FY11 through FY13. The funding for this purchase is from a central allocation for telecommunications services for the Twin Cities campus. Vendor was selected through a competitive process.

• To Qwest for $500,000 to provide long-distance calling services for the period of March 1, 2010 through February 28, 2013 for Networking and Telecommunications Services, a division of the Office of Information Technology. This purchase has been budgeted for FY10 and will be included in the budget for FY11 through FY13. The funding for this purchase is generated through charge-back of long distance service to the University departments. Vendor was selected through a competitive process.

**Background Information:**

**General Contingency**
Allocations from the General Contingency in excess of $250,000 require Board approval. Allocations of less than $250,000 are reported in the Board of Regents Finance and Operations Committee each month in which the Committee meets.

**President's Recommendation for Action:**

The President recommends approval of the Consent Report.
## General Contingency

### 2009-10 General Contingency:

<table>
<thead>
<tr>
<th>Recipient</th>
<th>Allocation</th>
<th>Balance</th>
<th>Purpose</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY2010 General Contingency</td>
<td>$1,000,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Carryforward from FY2009 into FY2010</td>
<td>729,523</td>
<td>1,729,523</td>
<td></td>
</tr>
<tr>
<td>1 Vice President for Public Safety</td>
<td>100,000</td>
<td>1,629,523</td>
<td>Enhanced police enforcement for major University events</td>
</tr>
<tr>
<td>2 Chancellor University of Minnesota Crookston</td>
<td>100,000</td>
<td>1,529,523</td>
<td>Director of Assessment position, year 1 of 3.</td>
</tr>
<tr>
<td>3 Assoc. V.P. for Capital Planning and Project Management</td>
<td>90,000</td>
<td>1,439,523</td>
<td>Replacement of boiler in Eastcliff</td>
</tr>
<tr>
<td>4 Vice President for University Relations</td>
<td>131,000</td>
<td>1,308,523</td>
<td>TCF Bank Stadium suite - three year budget</td>
</tr>
</tbody>
</table>

6 **New items this reporting period:**

8 No new items this reporting period

10 **Balance as of January 31, 2010** 1,308,523

* Subject to Board approval due to cost of $250,000 or more
Purchase of Goods and Services over $250,000

To AT&T for an estimated $625,000 to provide Integrated Switched Digital Network (ISDN) Primary Rate Services for the period of March 1, 2010 through February 28, 2013 for Networking and Telecommunications Services (NTS), a division of the Office of Information Technology (OIT).

*ISDN service is required in order for University students, faculty, and staff to receive and place phone calls.*

*ISDN local telephone lines connect the University’s telephone system to the local calling area for incoming and outgoing local telephone calls. Without these local telephone lines, basic local phone calls to and from the University’s telephone system would be impossible.*

*This vendor was selected as the result of a competitive RFP sent out in June, 2009 which rated them highly in service, experience, available features, and price. This purchase is for a 3-year contract with 2 optional one-year renewals.*

*This purchase has been budgeted for FY10 and will be included in the budget for FY11 through FY13. The funding for this purchase is from a central allocation for telecommunications services for the Twin Cities campus.*

Submitted by: Diane Wollner  
Director of Finance  
Office of Information Technology  
Phone: (612) 626-1311

Approval of this item is requested by:

[Vice President and Chief Information Officer][Date: 1/25/2010]
Purchase of Goods and Services $250,000 and over

To Buyers Health Care Action Group (BHCAG) for $282,400 for the service of providing modifications to and the use of Personal Health Records (PHR) as needed for the period of October 2009 through October 2011 for the Institute for Health Informatics.

The service of providing modifications to and the use of Personal Health Records (PHR) is necessary for research paid for by the Consumer Research Network grant.

BHCAG is the only vendor in the state of Minnesota that is coordinating the distribution of Personal Health Records, so the granting agency specified them as the supplier.

This service from BHCAG will be purchased through funds from the Consumer Research Network grant.

Submitted by: Julie Jacko, PhD, Lead Faculty Institute for Health Informatics
330 Diehl Hall
Mpls Campus
Phone: (612) 626-3364
Fax: (612) 626-7227

Approval for this item requested by:

VP or Exec. VP Signature  Date
Rationale for Exception to Competitive Bidding

This purchase has not been competitively bid because BHCAG is the only vendor in the state of Minnesota that is coordinating the distribution of PHR in a manner that has utility for this grant. In addition, the use of BHCAG was specified as the supplier of this service by the NIH.

Procedures undertaken to ensure reasonableness of price included an evaluation by Jackie Jacko, PhD, who concluded that the rates from BHCAG are comparable to the rate for software development services.

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 $250,000 and over

To Communication Power Corporation for $510,450 for the purchase of 9.4T magnet power amplifiers for the Center for Magnetic Resonance Research, Department of Radiology.

In terms of image signal, resolving power and speed, the Center for Magnetic Resonance Research (CMRR) 9.4T magnet is among the world’s most powerful magnetic resonance imaging (MRI) instruments for observing the human brain in health, disease and therapeutic intervention for purposes of biomedical science and development of clinical diagnostics. However, CMRR’s current power amplifiers are not powerful enough to realize the inherent potential of this magnet. Power amplifiers are the part of a MRI system used to amplify the transmit signal needed to excite the MRI signal in the body. Without these power amplifiers, University research efforts will be hampered and grants could be lost to other institutions who are utilizing the 9.4T magnet to its fullest capability. This purchase agreement is for 16 radiofrequency power amplifiers which is the number necessary to bring the CMRR 9.4T magnet up to its technological potential.

The vendor was selected through a competitive bid process. Although three companies were identified as potential sources of this equipment, Communication Power Corporation submitted the only bid.

This purchase will be primarily funded from a $495,000 American Recovery and Reinvestment Act grant entitled “A Multi-Mode, Multi-Channel Transmitter for 9.4T NMR”. These funds must be expended by the end date of this grant, which is April 30, 2010. The remaining $15,450 will be funded with CMRR gift funds.

Submitted by:  Kathleen Dockter, ALRT Administrative Center Operations Director
763 Mayo
Mpls Campus
Phone: (612) 625-7401
Fax: (612) 626-2696

Frank Cerra M.D., Senior Vice President
Academic Health Center

Date

1/16/0
Purchase of Goods and Services $250,000 and over

To Johnson Controls, Inc. (JCI) for $353,771 for the conversion of the terminal HVAC controls in EE/CS (building 165) from pneumatic to Direct Digital Controls.

This project was identified as part of the University's building recommissioning program. Based on the calculations from the recommissioning study the terminal HVAC controls conversion is expected to deliver an attractive ROI with a simple payback of less than 5 years.

The JCI proposal was selected as part of a competitive bidding process.

2009 HEAPR funds have been identified for use on this project.

Submitted By: Michael Berthelsen
Associate Vice President
Facilities Management
319 15th Avenue S. E.
Minneapolis, MN 55455
Phone: 612-626-1091

Approval for this item requested by:

Kathleen A. O'Brien – Vice President of University Services

Date: 1/22/10
Purchase of Goods and Services $250,000 and over

To Key Solutions, Inc., an enterprise Research Compliance Module (RCM) software company, for an estimated $800,000 to provide software for the period February 15, 2010 through February 14, 2013 for the Office of Information Technology (OIT) and the Office of the Vice-President of Research (OVPR).

This enterprise RCM solution encompasses eight modules:
- Institutional Review Board (IRB)
- Institutional Animal Care & Use Committee (IACUC)
- Institutional Biosafety Committee (IBC)
- Human Subjects Research Compliance (HSRC)
- Animal Subjects Research Compliance (ASRC)
- Controlled Substances (CS)
- Training Function (FIRST)
- Unfunded Research Agreements (UFRA)

This RCM project aims to advance the University's goal of establishing itself as a top three public research institution through alignment with the Office of the Vice-President of Research (OVPR) strategic goals, including:
- Increasing stewardship in research by promoting and facilitating research compliance
- Improving customer satisfaction by streamlining compliance requirements
- Leveraging OVPR resources more effectively through communication efficiencies
- Establishing a central eResearch infrastructure that effectively supports volume increases

This contract includes purchase of the software and annual maintenance for three years. Implementation of this solution was a separate bidding process.

The vendor was selected as a result of a competitive bid process among enterprise Research Compliance software vendors. Key Solutions, Inc. is offering a fixed price for each of the eight modules, with corresponding annual maintenance as we purchase and implement each module.

The initial software purchase will be funded by Office of the Vice-President of Research's O&M resources through a transfer to OIT. The ongoing maintenance and support costs will be funded by the Office of Information Technology's O&M resources.

Submitted by: Diane Wollner
Chief Financial Officer, OIT
203 Johnston Hall
Mpls. Campus
Phone: (612) 626-1311
Fax: (612) 626-0076

Approval of this item is requested by:

[Signature]
Vice President and CIO

[Date] 1/25/2000
Purchase of Goods and Services over $250,000

To Key Solutions, Inc., an enterprise Research Compliance Module (RCM) software company, for an estimated $380,000 to provide the technical installation and configuration of their e-Protocol software for the period February 15, 2010 through February 14, 2013 for the Office of Information Technology (OIT) and the Office of the Vice-President of Research (OVPR).

This enterprise RCM technical installation and configuration of eight modules will be purchased under a separate February Regents document.

This RCM project aims to advance the University's goal of establishing itself as a top three public research institution through alignment with OVPR strategic goals, including:

- Increasing stewardship in research by promoting and facilitating research compliance
- Improving customer satisfaction by streamlining compliance requirements
- Leveraging OVPR resources more effectively through communication efficiencies
- Establishing a central eResearch infrastructure that effectively supports volume increases

This contract includes technical installation and configuration services for three years, or until all eight modules are installed and implemented.

The vendor was selected as a result of a competitive bid process among enterprise Research Compliance software implementers. Key Solutions, Inc. is offering a fixed price for this technical implementation work.

The technical implementation will be funded by Office of the Vice-President of Research's O&M resources through a transfer to OIT.

Submitted by: Diane Wollner  
Chief Financial Officer, OIT  
203 Johnston Hall  
Mpls. Campus  
Phone: (612) 626-1311  
Fax: (612) 626-0076

Approval of this item is requested by:

[Signature]  
Vice President and CIO  
1/27/2010  
Date
Purchase of Goods and Services $250,000 and over

To RADIL for an estimated $550,000 for laboratory diagnostic testing as needed for the period of March 1, 2010 through February 28, 2014 for the department of Research Animal Resources.

The department of Research Animal Resources (RAR) is the centralized unit that provides all of the care of animals used for research and education at the University. RAR is considered a Research Service Organization.

Without consistent and reliable diagnostic testing, certain research projects results would be jeopardized, and potentially the overall colony health could be at risk. In addition, the prices offered by this company are significantly lower than other competitors.

This requirement for diagnostic testing was sent out on a Request for Proposal, but the only response submitted was from RADIL. Even though RADIL was the sole respondent, their pricing, service availability, and quality assurance has been deemed acceptable.

The purchases will be made using departmentally budgeted funding. The costs will be recovered directly by either charging investigators or by charging per diem for laboratory housed research animals, depending on the type of and reason for testing.

Submitted by: Cynthia Gillett, DVM
Director, Research Animal Resources
516 Delaware St. SE
B305 PWB
Minneapolis, MN 55455
Phone: 612-624-4625
FAX: 612-625-7632

Approval for this item requested by:

Frank B. Cerra, Senior Vice President for Health Sciences

Date: 1/26/10
Purchase of Goods and Services over $250,000

To Qwest for an estimated $625,000 to provide Centrex service for the period of March 1, 2010 through February 28, 2013 for Networking and Telecommunications Services (NTS), a division of the Office of Information Technology (OIT).

Centrex service is owned and maintained by Qwest. It is an alternative to University owned and maintained off-site telephone systems and service. Centrex service is integrated to the on-campus phone system. It provides disaster recovery, voice mail, conference calling, five-digit dialing, and other options to off-campus University-owned phones for faculty and staff.

Without Centrex service for off-campus University-owned phones, the University would be required to purchase and maintain separate telephone systems, services, and integrations to the main campus telephone system for each location in order to establish similar functionality.

This vendor was selected as the result of a competitive RFP sent out in June, 2009 which rated them highly in service, experience, available features, and price. This purchase is for a 3-year contract with 2 optional one-year renewals.

This purchase has been budgeted for FY10 and will be included in the budget for FY11 through FY13. The funding for this purchase is from a central allocation for telecommunications services for the Twin Cities campus.

Submitted by: Diane Wollner  
Director of Finance  
Office of Information Technology  
Phone: (612) 626-1311

Approval of this item is requested by:

[Signature]
Vice President and Chief Information Officer

[Date]
Purchase of Goods and Services over $250,000

To Qwest for $500,000 to provide long-distance calling services for the period of March 1, 2010 through February 28, 2013 for Networking and Telecommunications Services (NTS), a division of the Office of Information Technology (OIT).

Long distance calling service allows University students, faculty, and staff to communicate by phone outside the Twin Cities area.

Without this service, the University community would be unable to conduct daily business over the phone.

This vendor was selected as the result of a competitive RFP sent out in June, 2009 which rated them highly in service, experience, available features, and price. This purchase is for a 3-year contract with 2 optional one-year renewals.

This purchase has been budgeted for FY10 and will be included in the budget for FY11 through FY13. The funding for this purchase is generated through charge-back of long distance services to the University departments.

Submitted by: Diane Wollner
Director of Finance
Office of Information Technology
Phone: (612) 626-1311

Approval of this item is requested by:

[Signature]
Vice President and Chief Information Officer

1-25-10
Date
Finance and Operations Committee

February 11, 2010

Agenda Item: Information Items

☐ review  ☐ review/action  ☐ action  ☒ discussion

Presenters: Vice President/CFO Richard Pfutzenreuter

Purpose:

☐ policy  ☐ background/context  ☒ oversight  ☐ strategic positioning

Annual Report on Central Reserves
To report on the status of the University's Central Reserves

Debt Transactions
To provide an update of certain debt transactions in process:
• Extension of the standby bond purchase agreement with JPMorgan Chase Bank supporting the general obligation variable rate demand bonds (VRDBs) Series 2001C – expected completion by March 15, 2010

Outline of Key Points/Policy Issues:

Annual Report on Central Reserves

• The approved budget plan included annual revenues totaling $13,062,500, mostly in investment income. This figure has been revised to $9,695,000. The $3,367,500 lower estimate is due to a combination of three factors affecting central reserves income: (a) a slightly higher average balance in the Temporary Investment Pool; (b) slightly lower than projected investment yield on the portfolio due to prevailing market conditions; and (c) realization of a capital loss on one investment. In addition, the planned cost of operations, fees, and investment income to participants has increased $185,000 compared to budget. The actual carry forward into fiscal year 2009-10 is $569,587 lower than budget, reflecting updated balances on June 30, 2009. As a result of these changes, net resources are now anticipated to be $4,122,087 less than planned in the approved budget.

• The approved central reserves budget plan included a transfer out totaling $9,098,103 for a variety of projects. This remains unchanged.
• The combination of the decrease in anticipated investment income and revisions to the previously planned costs results in a revised June 30, 2010 central reserves ending balance of $8,509,628. The revised projected June 30, 2010 central reserves balance will temporarily fall below the Board of Regents policy requirement of $26,014,960 by $17,505,332.

The purpose of the central reserves fund is to insulate the University from potential major financial risks, including unanticipated or uninsured catastrophic events, temporary institutional revenue declines or expenditure gaps, unforeseen legal obligations and costs, failures in central infrastructure, or failures of major business systems.

Under normal circumstances, the central reserves fund should not fall below 4% of state appropriations, or $25,000,000, whichever is greater.

The Board of Regents last reviewed the Central Reserves Fund policy on June 9, 2006 and June 12, 2008. The Board of Regents receives an Annual Report on Central Reserves midway through each fiscal year.

**Debt Transactions**

1. **Issuance of Series 2010C & 2010D**

   The Regents of the University of Minnesota General Obligation Bonds, Series 2010C and 2010D, has been assigned the following long-term ratings:

   - Moody's Investors Service – Aa2, with stable outlook
   - Standard & Poor's – AA, with stable outlook

   The bonds will be issued in fixed-rate mode and will be a general obligation of the University. The Series 2010C will be tax-exempt; the Series 2010D are expected to be Build America Bonds. Both series will be priced on February 2, 2010. Proceeds will be used to finance various capital projects. Closing on the bonds is planned for February 10, 2010.

2. **Extension of Standby Bond Purchase Agreement**

   The University has accepted a renewal offer from JPMorgan Chase Bank (JPM) to extend the existing standby bond purchase agreement supporting the Series 2001C bonds for a two-year period. The outstanding amount of the bonds is currently $121,550,000. The existing agreement expires on March 15, 2010.

   The renewal offer results in a decrease in the facility fee from 1.10% to 0.90% for the term of the agreement, and provides for a termination option by the University should the short-term ratings of JPM drop below A-1/P-1/F1, or if the University converts all of the Series 2001C VRDBs to a fixed rate to maturity.

**Background Information:**

**Annual Report on Central Reserves**

Central Reserves refers to monies that are unrestricted as to purpose or use and that are available for immediate expenditure by the senior management of the University. Reserves are budgeted through an annual reserves spending plan that is prepared and submitted to the Board of Regents for approval along with the annual budget plan. Once approved by the Board, funds are allocated for the express and exclusive purpose stated, and further action is not required for allocations or expenditures consistent with the spending plan.