UNIVERSITY OF MINNESOTA
BOARD OF REGENTS
Finance & Operations Committee
Thursday, February 10, 2011
9:45 – 11:45 a.m.
600 McNamara Alumni Center, East Committee Room

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

Student Representatives
Matt Privratsky
Chantal Wilson

AGENDA

1. University Endowment Policies Update - R. Pfutzenreuter/S. Mason (p. 2)
2. Issues Related to: Annual Capital Financing & Debt Management Report - R. Pfutzenreuter (pp. 3-4)
3. Issues Related to: University Budget Model - R. Pfutzenreuter/J. Tonneson (p. 5)
4. University Student Fees Reform Update - R. Pfutzenreuter/J. Tonneson (p. 6)
5. Annual Insurance & Risk Management Report - M. Volna/S. Pardoe (p. 7-26)
7. Information Items - R. Pfutzenreuter (pp. 31-32)
Agenda Item: University Endowment Policies Update

Presenters: Vice President/CFO Richard Pfutzenreuter
Stuart Mason, Associate Vice President, Asset Management

Purpose:
To provide the Board of Regents an update regarding forthcoming recommendations for changes to the Board of Regents Policy: Endowment Fund, including new strategic asset allocation targets. Also, to provide highlights from a new Investment Policy Statement that is being drafted and an update on possible changes in the role provided by the external investment consultant.

Outline of Key Points/Policy Issues:
Recent IAC meetings have focused on recommendations for new asset allocation targets and ranges for assets in the CEF. The recommendations will also include new portfolio targets for the composition of liquid assets vs. non-marketable as well as defining risk parameters.

A new Investment Policy Statement is under review by the IAC which describes the rationale behind the strategic asset allocations, defines the importance of monitoring risk and liquidity, and defines the roles and responsibilities of the Board, IAC, Administration and external consultants.

The role of the external consultant is being re-evaluated to ensure that contracted services are optimized by all parties who use them.
Finance and Operations Committee

February 10, 2011

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

☐ review    ☐ review/action    ☐ action    ☒ discussion

Presenters: Vice President/CFO Richard Pfutzenreuter

Purpose:

☐ policy    ☐ background/context    ☒ oversight    ☐ strategic positioning

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

Outline of Key Points/Policy Issues:

At June 30, 2010, the University’s long-term debt outstanding was $943,437,000 with a total effective interest rate of 3.67%. 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, 2010, excluding the Special Purpose Revenue Bonds (State Supported Stadium Debt) is $807,510,000.

Effective fiscal year ended June 30, 2010, the University implemented GASB Statement No. 53 (GASB 53), Accounting and Financing Reporting for Derivative Instruments. The impact of the GASB 53 implementation related to the University’s interest rate swaps resulted in an increase in long-term debt by $12,927,000 as of June 30, 2010. This amount is in addition to the amounts reflected in the paragraphs above.

Significant FY2010 debt transactions:

• Effective November 1, 2009, the University restructured its Series 1999A, 2001C and 2003A swap agreements with Barclays Capital that were originally entered into on February 27, 2009. The restructuring resulted in a reduction in the fixed interest rate that the University pays, and a change in the variable rate received based on the Securities Industry Financial Markets Association Index (SIFMA) instead of the existing percentage of three-month London Interbank Offered Rate (LIBOR).

• On December 22, 2009, the University issued $25,000,000 in tax-exempt Commercial Paper Notes, Series 2009D, to finance the balance of the construction cost of the TCF Bank Stadium.

• On February 2, 2010, the University issued general obligation bonds for various capital projects [Senior Manager – Piper Jaffray & Co.]
  o Tax-exempt Series 2010C in the amount of $8,480,000
  o Taxable Build America Bonds (BABs), Series 2010D in the amount of $27,200,000. The BABs, authorized under the America 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.
In February 2010, the Standby Bond Purchase Agreement (SBPA) with JPMorgan Chase Bank supporting the variable rate demand bonds Series 2001C outstanding amount of $121,550,000 was extended for two years, with the current agreement expiring March 15, 2012.

**Significant FY2011 debt transactions:**

- On September 16, 2010, the University issued the first tranche totaling $153,120,000 of the Biomedical Science Research Facilities Funding Program that will be used to fund the costs of the Center for Magnetic Resonance Research (CMRR) renovation and a portion of the costs of construction of the Cancer/Cardiovascular Research Building. [Senior Manager – Barclays Capital; Co-Manager – Dougherty & Company LLC]
  - Tax-exempt Series 2010A – $111,400,000 Special Purpose Revenue Bonds (State Supported Biomedical Science Research Facilities Funding Program). In 2008, State of Minnesota legislation provided for an annual appropriation to reimburse the University for the annual debt service on these bonds.
  - Taxable BABs Series 2010B – $41,720,000 General Obligation Bonds (University Supported Biomedical Science Research Facilities Funding Program)

- In September 2010, the University extended the Line of Credit (LOC) with Wells Fargo for one year, which supports the University’s self-liquidity program, and reduced the amount from $130,000,000 to $65,000,000. The current agreement expires October 1, 2011.

- The University is in the process of issuing approximately $338,555,000 of tax-exempt general obligation bonds, Series 2011A with an expected pricing date of February 1, 2011. [Senior Manager – Barclays Capital] The amount consists of:
  - New funding of $78,000,000 for various capital projects
  - Refunding of $282,900,000 of variable rate demand bonds to fixed rate. The University expects to terminate liquidity facilities and interest rate swap agreements related to the refunded series subsequent to closing on the bonds.

**Background Information:**

Board of Regents Policy: *Debt Transactions* was revised 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 Beeson.
- 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.

Annual Capital Financing and Debt Management Report was last presented to the Finance & Operations Committee in February 2010.
Finance and Operations Committee  February 10, 2011

Agenda Item: Issues Related to: University Budget Model

☐ review  ☐ review/action  ☐ action  ☒ discussion

Presenters: Vice President/CFO Richard Pfutzenreuter
Budget Director Julie Tonneson

Purpose:

☐ policy  ☐ background/context  ☒ oversight  ☐ strategic positioning

The University is now in its 5th year of budget development under the new institutional budget model. Components and characteristics of the budget model, and its application to budget decision making will be the focus of the discussion.

Outline of Key Points/Policy Issues:

The institutional budget model is a set of rules and a process for revenue and cost attributions that assist in achieving the strategic goals and objectives of the institution. The budget model itself does not determine the strategic goals and objectives of the institution. It works within the objectives to assist in making allocation decisions that support sound financial principles and the University’s academic priorities. The budget allocation model is dependent upon strong leadership for making strategic allocations of resources provide to the University.

Background Information:

The Board of Regents previously reviewed the framework of the budget allocation model prior to its implementation on July 1, 2006, and received an update on the model on May 10, 2007.
Finance and Operations Committee                February 10, 2011

Agenda Item: University Student Fees Reform Update

☐ review         ☐ review/action         ☐ action         ☒ discussion

Presenters: Vice President/CFO Richard Pfutzenreuter
Budget Director Julie Tonneson

Purpose:

☐ policy         ☐ background/context    ☒ oversight        ☐ strategic positioning

To present an update of the analysis being conducted on student fees.

Outline of Key Points/Policy Issues:

Each year, the President’s annual operating budget to the Board of Regents includes a summary of student fees for approval. In recent years, questions have been raised as to the nature and level of those fees, so the Budget Office is conducting a thorough review and analysis of all fees charged to students. The study focuses on defining and categorizing existing fees, summarizing the metrics around those fees (numbers, types, dollar levels, revenues generated, thresholds etc.), reviewing the approval processes for the fees and raising policy and procedural questions associated with existing fees and future fee proposals. The discussion will update the review and analysis completed to date and will identify “next steps” and potential implications of the study.

Background Information:

There are two Board of Regents Policies that address student fees: Board Policy: Student Services Fee and Board Policy: Tuition and Fees. In addition, the annual operating budget presented to the Board of Regents each spring contains a listing of specific fees presented for approval. The discussion of this study will present current fees in the context of these policies and the procedures and descriptions used for the annual operating budget. This will be the second time this study will be discussed with the Board of Regents. The study was last discussed with the Board of Regents in December 2009.
Finance and Operations Committee

February 10, 2011

Agenda Item: Annual Insurance & Risk Management Report

☐ review  ☐ review/action  ☐ action  ☒ discussion

Presenters:  Associate Vice President Michael Volna
Steven Pardoe, Director, Risk Management & Insurance

Purpose:

☐ policy  ☐ background/context  ☒ oversight  ☐ strategic positioning

To provide a report on the risk management and insurance programs at the University for fiscal year 2010.

Outline of Key Points/Policy Issues:

Total cost of risk (which is the sum of self-insurance costs and the cost of commercially-purchased insurance) for 2010 was $12.8 million, compared with $13.3 million for the prior fiscal year, a decrease of 2.9%. Factors contributing to the decrease include:

- Improvement in RUMINCO paid losses and incurred but not reported accruals.
- Reductions in self-insurance costs, primarily worker's compensation paid losses.
- A 5.5% increase in commercial insurance costs, mainly related to property insurance.

Background Information:

This report is prepared and presented to the Board of Regents Finance and Operations Committee on an annual basis.
UNIVERSITY OF MINNESOTA

Annual Report
Of the
Office of Risk Management and Insurance
As of
Fiscal Year Ended
30 June, 2010
# Table of Contents

**I. Overview**  
The Mission of the Office of Risk Management and Insurance 2  
Organizational Structure 3  
FY10 Milestones and Accomplishments 4  

**II. Risk Finance Program**  
General Approaches to Risk Finance 5  
University Structures 6  
Captive Insurance 7  
*Summary of RUMINCO Ltd Limits* 8  
General Liability 9  
Professional Liability 10  
Automobile Liability 11  
Non-Profit Organization Liability 12  
Retained (Self-insured) 13  
*Workers Compensation*  
Commercial Insurance 14  
*Property Insurance*  
*Miscellaneous Commercial Insurance Coverage* 15  

**III. Cost of Risk**  
Estimate of Savings: Captive and Self-insurance 16  
Cost of Risk Summary 17  

**IV. Workplan**  
Major Goals for FY11 18
I. Overview

Mission of the Office of Risk Management and Insurance

The Office of Risk Management and Insurance (‘Risk Management’) assumes as principle that a ‘risk-free’ University is one in which no productive activity can take place. Risk Management finds ways to promote and enable Research, Teaching and Outreach while concurrently managing the risk inherent to those core missions.

The Office of Risk Management and Insurance:
- Provides consultation to the University community regarding the risk naturally encountered in the course of Research, Teaching and Outreach;
- Minimizes the frequency and severity of physical injury and property damage through education and specific loss control measures; and
- Protects and preserves University human and financial resources.

Risk Management uses commercial insurance, captive insurance, and self-insurance to transfer, or budget for, monetary loss arising from risk. It is responsible for the design, procurement, implementation and maintenance of these programs. Risk Management routinely consults with the Office of General Counsel with respect to 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 and Insurance as of fiscal year-end June 30, 2010.
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; and
- Directly controls the activities of insurance vendors and suppliers.

![Organizational Structure Diagram]
I. Overview (cont.)

**FY10: Milestones and Accomplishments**

**Workers Compensation Revitalization**

**Independent Review**
In terms of employee contact, employee satisfaction, and overall cost, the university’s self-insured Workers Compensation is a very important program. Risk Management commissioned an independent review of the program by the same Workers’ Compensation consultant, Marty VonDrasek, who reviewed the program in 1999. Ms. VonDrasek found that “…over the past ten years, and more significantly in the last two years, the recommendations from 1999 have been implemented and with great success”.

**Electronic Reporting**
In conjunction with the Office of Information Technology, Risk Management developed and implemented a web-based claim reporting tool. This tool is replacing the current paper/FAX manual information stream, saving hundreds of input hours and preventing transcription errors. Claim notices are instantly routed to our Third Party Claims Administrator, promoting quick response to our Employees, and helping us stay with Minnesota reporting time guidelines. Relevant information is automatically routed, in real-time, to University Offices and Departments with a need to know or ability to help.

**Trends**
The year-on-year percent change in the overall cost of the program and the claims count is trending downward with respect overall University payroll. These are welcome trends.

**Extra-Minnesota Liability Limits**
Outside Minnesota, the University enjoys no statutory ‘Tort Cap’ liability protection. As University operations diversify geographically, the chance of incurring uncapped liabilities in an alien jurisdiction will increase. Risk Management purchased $40 million in excess General and Auto Liability Limits for lawsuits brought outside Minnesota jurisdiction. Seventy-six percent of the cost was offset by non-renewing two policies whose coverages were rolled into the new policy during negotiations.

**Property**
The rates, terms and conditions of the Property Insurance written under the MHEC program had not been tested on the open market in well over a decade. After consultation with University senior management, Risk Management introduced competition to the MHEC Master Property Program. The result was FY11 savings of $1.36 million and preservation of the MHEC relationship.
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.

Broadly, the University 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. The University requires $1 billion in property insurance limit. Because there is no good way to fund that sort of amount internally, 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.

![Chart showing five years of premium and loss history for General Liability insurance.]
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.
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 (Self-insured)

*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.

![Chart showing financial data for Workers Compensation from FY06 to FY10](chart.png)
II. Risk Finance Programs (cont.)
Commercial Insurance

**Property Insurance**

**Carrier:** Chartis (via Midwest Higher Education Compact ['MHEC'] 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.)
Commercial Insurance (cont.)

**Miscellaneous Commercial Insurance Coverage**

The aggregate cost of all commercial insurance programs (excluding the MHEC Property Program) and associated brokerage and consulting was $475,084 in FY10. Here is a brief overview of the purchased policies with premiums exceeding $10,000:

**EXCESS LIABILITY – EXTRA MN:** This policy provides $40MM in coverage excess a $1MM Self-insured Retention (Deductible) for liabilities the University may incur outside the jurisdiction, and Tort Cap protection, of Minnesota law.

**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).

**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.

**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.

**Discontinued**
The coverages provided in these policies were negotiated into the new “Excess Liability– Extra MN” policy.

**AUTOMOBILE EXCESS LIABILITY (Extra-Minnesota Jurisdiction):** Provided $5,000,000 Automobile Liability limits for University automobile liabilities arising outside the State of Minnesota.

**EXCESS LIABILITY (METRODOME):** Coverage applied to the University’s liability arising out of its use of the Metrodome, and provided $4,000,000 of liability insurance excess of $1,000,000 in primary coverage through RUMINCO.
III. Estimate of Savings: Captive and Self-insurance

Cost of Risk is:

Commercial Insurance Premiums
+ [Captive Losses and Self-insured Losses + Associated Administrative Expenses]
+ Brokerage and Consultative Costs

When the University captivizes or self-insures an exposure, it assumes additional risk.

In return, the University gains the potential to avoid the profit and expense load inherent to commercial insurance products. This model assumes that load to add 30% to pure risk transfer cost.

The chart below shows the University’s actual cost of risk (vertical bars) versus the estimated cost of risk had the University opted to commercially insure risks it currently captivizes or self-insures (red line). The gap between the two represents the savings, which total in excess of $13 million over the last five years.
# University of Minnesota
## Cost of Risk Summary
### Fiscal Years 2006 – 2010

<table>
<thead>
<tr>
<th>COST ITEM</th>
<th>FY06</th>
<th>FY07</th>
<th>FY08</th>
<th>FY09</th>
<th>FY10</th>
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<tr>
<td>Captive</td>
<td></td>
<td></td>
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<td>Paid Losses</td>
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<td>Incurred, But Not Reported (ESTIMATE)</td>
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<td>Liability Claims Administrator</td>
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<td><strong>Total Captive</strong></td>
<td>$2,503,343</td>
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<td>Special Compensation Fund</td>
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<td>WC Broker Consultation</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>28,350</td>
<td>33,210</td>
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<tr>
<td><strong>WC Total</strong></td>
<td>3,009,496</td>
<td>3,746,514</td>
<td>4,263,318</td>
<td>4,442,603</td>
<td>4,088,658</td>
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<tr>
<td>Retained Property Losses [1]</td>
<td>738,700</td>
<td>986,756</td>
<td>1,333,860</td>
<td>887,736</td>
<td>982,863</td>
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<tr>
<td>Automobile Physical Damage</td>
<td>124,174</td>
<td>101,189</td>
<td>125,338</td>
<td>154,891</td>
<td>173,682</td>
</tr>
<tr>
<td><strong>Total Self-insurance</strong></td>
<td>$3,923,550</td>
<td>$4,925,670</td>
<td>$5,778,015</td>
<td>$5,507,414</td>
<td>$5,276,767</td>
</tr>
<tr>
<td>Commercial Insurance</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>All Risk Property</td>
<td>$2,578,036</td>
<td>$2,820,147</td>
<td>$3,061,018</td>
<td>$2,987,422</td>
<td>$3,115,827</td>
</tr>
<tr>
<td>Property Experience Dividend</td>
<td>(408,343)</td>
<td>(611,384)</td>
<td>(86,708)</td>
<td>(20,392)</td>
<td>0</td>
</tr>
<tr>
<td>Total Property Insurance</td>
<td>2,169,693</td>
<td>2,215,763</td>
<td>2,974,310</td>
<td>2,966,030</td>
<td>3,115,827</td>
</tr>
<tr>
<td>Automobile Liability (out of state) [4]</td>
<td>185,400</td>
<td>191,554</td>
<td>51,881</td>
<td>53,810</td>
<td>--</td>
</tr>
<tr>
<td>Boynton Professional Liability [3]</td>
<td>20,250</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
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<tr>
<td>Broadcasters’s Liability</td>
<td>5,560</td>
<td>5,960</td>
<td>5,365</td>
<td>5,365</td>
<td>5,365</td>
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<tr>
<td>Child Care Center</td>
<td>1,406</td>
<td>1,406</td>
<td>1,275</td>
<td>931</td>
<td>1,173</td>
</tr>
<tr>
<td>Excess Liability - Extra MN</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>205,511</td>
</tr>
<tr>
<td>Fidelity &amp; Crime</td>
<td>49,553</td>
<td>49,407</td>
<td>43,232</td>
<td>19,967</td>
<td>19,967</td>
</tr>
<tr>
<td>Fine Arts</td>
<td>55,988</td>
<td>55,988</td>
<td>43,750</td>
<td>18,496</td>
<td>17,549</td>
</tr>
<tr>
<td>Intercollegiate Athletics</td>
<td>70,370</td>
<td>79,772</td>
<td>76,000</td>
<td>39,000</td>
<td>34,195</td>
</tr>
<tr>
<td>Nonowned Aircraft Liability</td>
<td>20,545</td>
<td>20,545</td>
<td>17,649</td>
<td>19,187</td>
<td>18,229</td>
</tr>
<tr>
<td>Special Events</td>
<td>26,102</td>
<td>24,365</td>
<td>--</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>RSO Liability</td>
<td>5,000</td>
<td>5,000</td>
<td>7,726</td>
<td>8,047</td>
<td>8,007</td>
</tr>
<tr>
<td>Hull &amp; Liability (Blue Heron Watercraft)</td>
<td>18,042</td>
<td>15,598</td>
<td>15,598</td>
<td>15,598</td>
<td>18,315</td>
</tr>
<tr>
<td>Excess Marine Liability</td>
<td>9,540</td>
<td>9,460</td>
<td>9,460</td>
<td>9,460</td>
<td>9,460</td>
</tr>
<tr>
<td>Pollution (Blue Heron Watercraft)</td>
<td>900</td>
<td>1,000</td>
<td>1,075</td>
<td>1,075</td>
<td>1,212</td>
</tr>
<tr>
<td>Upward Bound A&amp;D</td>
<td>206</td>
<td>310</td>
<td>310</td>
<td>376</td>
<td>376</td>
</tr>
<tr>
<td>Showboat</td>
<td>--</td>
<td>10,433</td>
<td>7,648</td>
<td>7,648</td>
<td>6,925</td>
</tr>
<tr>
<td>Study Abroad (France)</td>
<td>--</td>
<td>6,500</td>
<td>6,500</td>
<td>7,203</td>
<td>--</td>
</tr>
<tr>
<td>Consultation</td>
<td>2,513</td>
<td>6,400</td>
<td>19,737</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Brokerage</td>
<td>110,070</td>
<td>103,397</td>
<td>128,750</td>
<td>128,750</td>
<td>128,750</td>
</tr>
<tr>
<td><strong>Total Commercial Insurance</strong></td>
<td>$2,867,490</td>
<td>$2,916,801</td>
<td>$3,529,420</td>
<td>$3,403,027</td>
<td>$3,590,911</td>
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<tr>
<td>GRAND TOTAL COST OF RISK</td>
<td>$9,294,383</td>
<td>$9,492,402</td>
<td>$14,710,589</td>
<td>$13,266,927</td>
<td>$12,876,531</td>
</tr>
</tbody>
</table>

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[1] Insurable property losses falling within the deductible.
[2] EDP coverage is self-insured; figure shows losses excess $500/claim.
[3] Transferred to RUMINCO FY07
IV. Workplan

Major Goals for FY11

Professional and Medical Liability

The excess limits policy Risk Management placed in FY10 covers General and Automobile Liabilities. We will explore options for excess limits to ‘blanket’ extra-Minnesota Professional and Medical Liability activities, including clinical trials we may sponsor.

Workers Compensation; Return to Work

There is broad consensus among Workers’ Compensation professionals that it is optimal – both for the Employer and the Employee – to return injured Employees to their work community as soon as practicable during the recovery period following an injury. Typically, this will involve some form of temporary, light-duty work. Despite this, the University has never had a coherent, system-wide Return to Work strategy. Risk Management will convene a group this year to begin to study the challenge of establishing a program of light duty, transitional employment at the University.

Cost Control

The Office of Risk Management fully understands the fiscal climate and will continue to aggressively seek, develop and implement reasonable cost saving tools and opportunities.
Finance and Operations Committee  February 10, 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 seek approval for allocations from General Contingency greater than $250,000.

Purchase of Goods and Services $1,000,000 and Over
To seek approval for purchases of goods and services of $1,000,000 and over.

Outline of Key Points/Policy Issues:

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

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

• To Oracle America, Inc., for an estimated $2,638,000 to purchase an Exadata database appliance, including installation services and one year maintenance and support for all components, for the Office of Information Technology (OIT). OIT is a centrally funded organization and the FY11 budget includes planning and funding for this expense. See enclosed documentation regarding basis for vendor selection.

Background Information:

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

• General Contingency:  Reservation and Delegation of Authority, Sec.VII, Subd. 1.

• Purchase of Goods and Services $1,000,000 and Over: Reservation and Delegation of Authority, Sec.VII, Subd. 6

President's Recommendation for Action:

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

### 2010-11 General Contingency:

<table>
<thead>
<tr>
<th>Recipient</th>
<th>Allocation</th>
<th>Balance</th>
<th>Purpose</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY2011 General Contingency</td>
<td>$1,000,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Carryforward from FY2010 into FY2011</td>
<td>117,393</td>
<td>1,117,393</td>
<td></td>
</tr>
<tr>
<td>1 Return unused funds</td>
<td>(151)</td>
<td>1,117,544</td>
<td>Unused funds from East Cliff boiler replacement project</td>
</tr>
<tr>
<td>2 Exec Dir Office for Business &amp; Community Economic Dev</td>
<td>55,000</td>
<td>$1,062,544</td>
<td>Awards Incentive &amp; Recognition Program</td>
</tr>
<tr>
<td>3 Executive Director for the Board of Regents</td>
<td>149,563</td>
<td>912,981</td>
<td>Salary and fringe for new Deputy Director position</td>
</tr>
<tr>
<td>4 Chancellor, University of Minnesota Crookston</td>
<td>100,000</td>
<td>812,981</td>
<td>Bridge funding for Dir of Assessment position, year 2 of 3</td>
</tr>
<tr>
<td>5 Assoc. VP for Capital Planning and Project Management</td>
<td>215,000</td>
<td>597,981</td>
<td>Eastcliff maintenance and refurbishment projects</td>
</tr>
<tr>
<td>6 Assoc. VP for Capital Planning and Project Management</td>
<td>75,000</td>
<td>$522,981</td>
<td>Pre-Demolition work</td>
</tr>
<tr>
<td><strong>New items this reporting period:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>12 Assoc. VP for Capital Planning and Project Management</td>
<td>165,000</td>
<td>$357,981</td>
<td>Security and phone system upgrades to Eastcliff property</td>
</tr>
</tbody>
</table>

* Subject to Board approval due to cost of $250,000 or more
Purchase of Goods and Services $1,000,000 and over

To Oracle America, Inc., for an estimated $2,638,000 to purchase an Exadata database appliance, including installation services and one year of maintenance and support for all components, for the Office of Information Technology (OIT).

The new Exadata database appliance will be used to support our existing Oracle databases. In addition, the Exadata database appliance will benefit the University in the following ways:
- Cost reduction through consolidation of 200+ Oracle database instances under a single architecture
- Delivery of an Oracle database hosting service for University departments and business units
- Provide maximum availability for Oracle databases
- Increase Oracle database performance to support thousands of queries per second
- Improve disaster recovery solution for Oracle databases

The contract includes installation and configuration of the appliance by the vendor. In addition, the maintenance and support agreement provides around-the-clock preventative maintenance and problem resolution including 7x24 online and telephone support plus on-site response for serious hardware problems.

Oracle America, Inc., has been selected as the sole source vendor for the Exadata database appliance. The Exadata is built and manufactured exclusively by Oracle America, Inc., and is compatible with existing equipment.

OIT is a centrally funded organization and the F11 budget includes planning and funding for this expense.

Submitted by: Diane Wollner  
Director, OIT Finance  
203 Johnston Hall  
Phone: 612-626-1311  
Fax: 612-626-0076

Approval for this item requested by:

[Signature]  
Vice President and CIO  
1/25/2011  
Date
Rationale for Exception to Competitive Bidding

This purchase has not been competitively bid because as Exadata is an appliance manufactured by Oracle to run Oracle databases in a highly secure, fault tolerant, and highly performing manner. Exadata is the only turn-key solution available for running Oracle databases that incorporate Oracle hardware, networking, and Oracle storage software. Exadata is only built and manufactured by Oracle America, Inc. In addition, all Oracle licenses have been purchased directly with Oracle.

Procedures undertaken to ensure reasonableness of price include:

Oracle America, Inc., as the direct supplier, is providing an overall 45% discount for this purchase. The software discount on this purchase is 65%, which is better than the MHEC discount of 35%. The hardware discount on this purchase is 25%, which is the highest possible hardware discount given by Oracle. In addition, the pricing for this purchase is similar to a purchase that was recently done by the North Dakota University System.

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

February 10, 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.

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 December 1, 2010.

Debt Transactions
To provide an update of the issuance of the Regents of the University of Minnesota General Obligation Bonds Series 2011A.

Outline of Key Points/Policy Issues:

Annual Report on Central Reserves:

The central reserves fund refers to resources that are not allocated to any specific unit of the University, but are held in a central account with the University's financial system. The primary revenue sources for the central reserves fund include investment earnings and realized and unrealized gains or losses in market value from the Temporary Investment Pool (TIP), funds invested in the Consolidated Endowment Fund from TIP and other miscellaneous revenues and legal settlements.

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 approved budget plan includes net resources totaling $10,317,970, mostly in investment income. This figure has been revised to $11,233,239. The $915,269 net increase in resources is due to a combination of three factors affecting central reserves income: a) higher average balance in TIP, b) slightly lower than projected investment yield on the portfolio due to prevailing market conditions, and c) slightly greater realization of a capital gains on investments. The actual carry forward into fiscal year 2010-11 has decreased by $76,598 reflecting updated balances on June 30, 2010.
The approved central reserves budget plan included a transfer out totaling $9,298,103 for a variety of purposes. The revised budget plan maintains this transfer out at the budgeted level.

The combination of the increase in anticipated investment income results in a revised projected June 30, 2011, central reserves ending balance of $11,233,239. The revised projected June 30, 2011, central reserves balance will fall below the Board of Regents policy requirement of $25,000,000 by $13,766,761.

**Quarterly Investment Advisory Committee Update**

Mr. Mason presented the investment performance summary for the September 30, 2010, quarter end. While both public and private equity met or exceeded the benchmarks for the quarter, the overall equity portfolio, comprising 55% of overall asset mix, trailed the strategic benchmark because CEF is currently underweight public stocks which rose 12-15% during the quarter, and overweight private equity which was marked up only 2.4% for the quarter. In the real asset portfolio, private real estate was marked up 3.3% for the quarter, in line with the benchmark, but these are the first positive marks it has received in more than two years. Liquidity constraints are improving somewhat but remain an important factor in limiting flexibility to rebalance to policy asset allocation targets.

Mr. Mason and Mr. Pfutzenreuter gave a brief report on their impressions from a recent investment trip to Brazil, sponsored by Goldman Sachs. This served as background to a discussion about further allocations to emerging markets which has been a central theme over the last three years.

The final discussion topic was a review of summary data from three consulting or asset management firms regarding possible changes to the strategic asset allocation targets in Board Policy, and possible additions to the Endowment Fund policy that would address portfolio liquidity targets and risk parameters. OIB staff is gathering additional information to supplement the continuation of the discussion which is scheduled for the February 9th IAC meeting.

There were no new manager recommendations.

**Debt Transactions**

The preliminary offering statement of Regents of the University of Minnesota General Obligation Bonds, Series 2011A, in the preliminary amount of $338,555,000, was issued January 21, 2011.

The net proceeds to be received from the sale will be used for various capital projects (approximately $78,000,000), and to refund some or all of its currently outstanding variable rate general obligation bonds Series 1999A, 2001C and 2003A.

The following long-term ratings have been assigned:

- Moody’s Investors Service – Aa1, with stable outlook
- Standard & Poor’s – AA, with stable outlook

Pricing on the bonds is anticipated for February 1, 2011 with closing planned for February 15, 2011.

**Background Information:**

**Debt Transactions**

The Board approved the Resolutions Related to Issuance of Debt in the November and December 2010 board meetings.