UNIVERSITY OF MINNESOTA
BOARD OF REGENTS
Finance & Operations Committee
Thursday, February 12, 2009
1:15 p.m. – 3:15 p.m.
600 McNamara Alumni Center, East Committee Room

Board Members
Steven Hunter, Chair
Dean Johnson, Vice Chair
Clyde Allen
Linda Cohen
John Frobenius
Venora Hung

Student Representatives
Imee Cambronero
Jennifer McCabe

AGENDA

1. Issues Related to: Annual Capital Financing & Debt Management Report - R. Pfutzenreuter/C. Fleck (pp. 2-21)

2. Issues Related to: RUMINCO - R. Pfutzenreuter/M. Volna (p. 22)

3. Issues Related to: Board of Regents Policy: Central Reserves Fund - R. Pfutzenreuter (pp. 23-33)

4. Update: Enterprise Financial System Implementation Status/New Opportunities - R. Pfutzenreuter/M. Volna (p. 34)

5. Consent Report - Review/Action - R. Pfutzenreuter (pp. 35-43)

6. Information Items - R. Pfutzenreuter (pp. 44-57)
Finance and Operations Committee  February 12, 2009

**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 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, 2008, the University’s long-term debt outstanding is $825 million with a total effective interest rate of 4.26%. 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.

Significant FY08 debt transactions:

- The Board of Regents, in October 2007, approved the Resolution Related to Issuance of New Commercial Paper in the amount of $135,000,000 for purchases of land and buildings, construction and remodeling projects, and acquisition and installation of equipment. In addition, the maximum principal capacity of the Commercial Paper Program was revised to $350,000,000. Tax-exempt Commercial Paper Notes, Series C, in the amount of $70,000,000 were issued on November 28, 2007.

- The Series 2003A General Obligation Refunding Bonds, auction rate securities in the amount of $65,750,000, had failed auctions on March 5, April 9, May 14, June 18, July 23 and August 27, 2008. The highest interest rate paid in FY2008 was 6.150% for the period April 10, 2008 through May 14, 2008. These bonds were converted to variable rate demand bonds (VRDBs) on October 2, 2008.
Significant FY09 Debt Activities:

- 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.
- 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.
- Approval of three resolutions related to Issuance of Debt - $20 million taxable for the stadium; $123 million for capital projects, including $41 million for the stadium; Biomedical Research Facilities Shelf program, with $16 million authorized for 1st tranche – November 14, 2008.
- Expiration of 5-year liquidity facility for 2001C bonds with JPMorgan Chase Bank (JPM) – 12/16/2008. Agreement with JPM was extended to March 16, 2009. Currently in the process of working with a local bank to become the replacement facility.
- Appointment of Piper Jaffray as underwriter for the taxable bond issuance, and subsequently awarded the additional $41 million for the tax-exempt series for the stadium.
- Issuance of $58 million in taxable and tax-exempt bonds for the stadium – to close on February 4, 2009.
- Termination of existing swaps with Lehman Brothers Commercial Bank (not a party to the bankruptcy) and replacement of swaps with Barclays – in process.

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, chaired by Regent Allen.
- Debt Oversight Group, which includes executive leadership across University functional areas.

A Debt Process Team 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 2008.
Outline of Presentation

- University’s Capital Structure
- Market Update
- Credit Rating
- Key Financial Indicators
- Peer Group Analysis
Issuance of Debt

Guiding Principles

• Core Debt
  – Preserve core long-term debt ratings at Aa/AA category and short-term core debt rating of A-1/P-1
  – Ensure access to variable and fixed-rate bonds
  – Minimize borrowing costs at acceptable levels of risk over life of the issue

• Special Purpose Debt
  – Receive an investment grade credit rating
  – Ensure acceptable cost of capital
  – Identify a revenue stream to support debt service
  – Consider unique marketing timing or opportunities
**Long-Term Debt As of June 30, 2008 (000s omitted)**

<table>
<thead>
<tr>
<th>Bond Type</th>
<th>Interest Rate</th>
<th>Due at various dates through</th>
<th>Beginning Balance</th>
<th>Additions</th>
<th>Reductions</th>
<th>Ending Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>General obligation bonds</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Series 2004A</td>
<td>4.86%</td>
<td>2010</td>
<td>$15,333</td>
<td>$3,635</td>
<td></td>
<td>$11,698</td>
</tr>
<tr>
<td>Series 2003A</td>
<td>4.39%</td>
<td>2031</td>
<td>67,000</td>
<td>1,250</td>
<td></td>
<td>65,750</td>
</tr>
<tr>
<td>Series 2001C</td>
<td>4.40%</td>
<td>2009</td>
<td>139,250</td>
<td>5,600</td>
<td></td>
<td>133,650</td>
</tr>
<tr>
<td>Series 2001B</td>
<td>4.33%</td>
<td>2009</td>
<td>1,980</td>
<td>360</td>
<td></td>
<td>1,620</td>
</tr>
<tr>
<td>Series 2001A</td>
<td>3.08%</td>
<td>2009</td>
<td>5,240</td>
<td>2,570</td>
<td></td>
<td>2,670</td>
</tr>
<tr>
<td>Series 1999A</td>
<td>4.16%</td>
<td>2009</td>
<td>147,150</td>
<td>10,250</td>
<td></td>
<td>136,900</td>
</tr>
<tr>
<td>Commercial paper notes, Series A</td>
<td>3.15%--3.65%</td>
<td>2009</td>
<td>147,100</td>
<td>5,000</td>
<td></td>
<td>142,100</td>
</tr>
<tr>
<td>Commercial paper notes, Series B</td>
<td>3.15%--3.65%</td>
<td>2009</td>
<td>58,000</td>
<td>3,000</td>
<td></td>
<td>55,000</td>
</tr>
<tr>
<td>Commercial paper notes, Series C</td>
<td>3.15%--3.65%</td>
<td>2009</td>
<td>$70,000</td>
<td>3,500</td>
<td></td>
<td>66,500</td>
</tr>
<tr>
<td>Obligations to the State of Minnesota pursuant to infrastructure development bonds</td>
<td>3.55%--6.90%</td>
<td>2025</td>
<td>57,267</td>
<td>5,751</td>
<td></td>
<td>51,516</td>
</tr>
<tr>
<td>Auxiliary revenue bonds</td>
<td>3.00%</td>
<td>2013</td>
<td>6,545</td>
<td>1,015</td>
<td></td>
<td>5,530</td>
</tr>
<tr>
<td>Special purpose revenue bonds</td>
<td>4.00%--5.00%</td>
<td>2029</td>
<td>147,714</td>
<td>3,189</td>
<td></td>
<td>144,525</td>
</tr>
<tr>
<td>Capital leases and other</td>
<td>1.72%--8.00%</td>
<td>2015</td>
<td>3,621</td>
<td>1,542</td>
<td></td>
<td>7,294</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td><strong>$796,200</strong></td>
<td><strong>$75,215</strong></td>
<td><strong>$46,662</strong></td>
<td><strong>$824,753</strong></td>
</tr>
<tr>
<td></td>
<td>6/30/2007</td>
<td>6/30/2008</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>-----------------------------</td>
<td>-----------------</td>
<td>-----------------</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Outstanding</strong></td>
<td>$796.2 million</td>
<td>$824.8 million</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fixed Rate* / Variable Rate</td>
<td>92% / 8%</td>
<td>85% / 15%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>University Issued*/ State Issued</td>
<td>93% / 7%</td>
<td>94% / 6%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Weighted Average Fixed Rate</strong></td>
<td>4.36%</td>
<td>4.92%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Weighted Average Variable Rate</strong></td>
<td>3.76%</td>
<td>1.59%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Weighted Average University Issued</strong></td>
<td>4.31%</td>
<td>4.20%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>State Issued Fixed Rate</td>
<td>5.06%</td>
<td>5.06%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Weighted Average University Debt</strong></td>
<td>4.36%</td>
<td>4.26%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Average Life of Debt</strong></td>
<td>9.8 years</td>
<td>9.4 years</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* Includes State Supported 2006 Special Purpose Revenue Bonds
Current Amortization Structure (in millions)

6/30/08 University Balance Plus Gateway Debt

<table>
<thead>
<tr>
<th>Year</th>
<th>Principal Outstanding</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>$144.5</td>
</tr>
<tr>
<td>2009</td>
<td>$140.3</td>
</tr>
<tr>
<td>2010</td>
<td>$135.9</td>
</tr>
<tr>
<td>2011</td>
<td>$131.4</td>
</tr>
<tr>
<td>2012</td>
<td>$126.6</td>
</tr>
<tr>
<td>2013</td>
<td>$121.6</td>
</tr>
<tr>
<td>2014</td>
<td>$116.4</td>
</tr>
<tr>
<td>2015</td>
<td>$111.1</td>
</tr>
</tbody>
</table>

- University Balances
- State Supported Stadium Bonds
- Gateway Debt
### Projected Long-Term Debt (in millions)

- **Balance June 30, 2008** * $824.8
- **Scheduled payments** (35.3)
- **New Issuances:**
  - Series 2009A – stadium – tax-exempt 41.0
  - Series 2009B – stadium - taxable 17.0
  - Series 2009C – other projects ** 87.0
  - Series 2009D – Biomedical Research Facilities – 1st tranche *** 16.0 161.0
- **Projected balance June 30, 2009** $950.5

* Includes $144.5 of Special Purpose Revenue Bonds that will be excluded for debt capacity calculations

** Total authorized by Board was $123 but lesser amount expected to be issued due to progress of project spending

*** $12 of total issued will be considered special purpose bonds whereby state appropriation covers 75% of total debt service on the bonds
### Historic Taxable and Tax-Exempt Interest Rates: 1989 to Present

<table>
<thead>
<tr>
<th>Period</th>
<th>1-Year</th>
<th>3-Year</th>
<th>5-Year</th>
<th>7-Year</th>
<th>10-Year</th>
<th>15-Year</th>
<th>20-Year</th>
<th>25-Year</th>
<th>30-Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>1989</td>
<td>1.71%</td>
<td>2.24%</td>
<td>2.57%</td>
<td>2.77%</td>
<td>2.96%</td>
<td>3.16%</td>
<td>3.20%</td>
<td>3.20%</td>
<td>3.21%</td>
</tr>
<tr>
<td>2019</td>
<td>2.02%</td>
<td>2.77%</td>
<td>3.27%</td>
<td>3.58%</td>
<td>3.89%</td>
<td>4.29%</td>
<td>4.42%</td>
<td>4.46%</td>
<td>4.51%</td>
</tr>
</tbody>
</table>

**Historical Information**

- **30-Year Treasury Bond**: Low Point 2.52% (12/18/08) Average Since 1989 6.17% Current Rates (1/30/09) 3.57%
- **Revenue Bond Index**: Low Point 4.38% (3/15/07) Average Since 1989 5.84% Current Rates (1/30/09) 5.89%
- **1-Month LIBOR**: Low Point 0.33% (1/14/09) Average Since 1989 4.67% Current Rates (1/30/09) 0.42%
- **SIFMA Index**: Low Point 1.00% (12/18/08) Average Since 1989 3.43% Current Rates (1/30/09) 0.53%

The 10-Year Treasury Bond is currently yielding 2.81%.

**Source:** Barclays Capital

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**Funding Levels for University of Minnesota (“Aa2/AA”)**

<table>
<thead>
<tr>
<th>Period</th>
<th>General Revenue Bonds</th>
<th>SIFMA Swap</th>
<th>67% of LIBOR Swap</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-Year</td>
<td>1.00%</td>
<td>2.02%</td>
<td>1.71%</td>
</tr>
<tr>
<td>3-Year</td>
<td>1.81%</td>
<td>2.77%</td>
<td>2.24%</td>
</tr>
<tr>
<td>5-Year</td>
<td>2.27%</td>
<td>3.27%</td>
<td>2.57%</td>
</tr>
<tr>
<td>7-Year</td>
<td>2.68%</td>
<td>3.58%</td>
<td>2.77%</td>
</tr>
<tr>
<td>10-Year</td>
<td>3.43%</td>
<td>3.89%</td>
<td>2.96%</td>
</tr>
<tr>
<td>15-Year</td>
<td>4.65%/4.74%</td>
<td>4.29%</td>
<td>3.16%</td>
</tr>
<tr>
<td>20-Year</td>
<td>5.19%</td>
<td>4.42%</td>
<td>3.21%</td>
</tr>
<tr>
<td>25-Year</td>
<td>5.41%</td>
<td>4.46%</td>
<td>3.20%</td>
</tr>
<tr>
<td>30-Year</td>
<td>5.47%</td>
<td>4.51%</td>
<td>3.20%</td>
</tr>
</tbody>
</table>

**Notes:**

1. Yield to call/Yield to maturity; includes 10-year call option at 100% of par.
2. Includes 85 basis points for remarketing and liquidity fees.

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**Market Update: Taxable and Tax-Exempt Interest Rates**

Source: Barclays Capital
An analysis of student demand, market position and financial indicators places the University of Minnesota solidly in the strong “Aa” category. Debt capacity and credit ratings are not a function of ratios alone, but are highly dependent on other factors such as debt strategy, essentiality of debt, future fundraising, revenue producing capability and debt structure.

Source: Barclays Capital
**Letter Ratings to Designate University Credit Quality**

<table>
<thead>
<tr>
<th>Moody’s Investors Service Rating</th>
<th>Financial Security Evaluation</th>
<th>Standard and Poor’s Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aaa</td>
<td>Exceptional</td>
<td>AAA</td>
</tr>
<tr>
<td>Aa1, <strong>Aa2</strong>, Aa3</td>
<td>Excellent</td>
<td>AA+, <strong>AA</strong>, AA-</td>
</tr>
<tr>
<td>A1, A2, A3</td>
<td>Good</td>
<td>A+, A, A-</td>
</tr>
<tr>
<td>Baa1, Baa2, Baa3</td>
<td>Adequate</td>
<td>BBB+, BBB, BBB-</td>
</tr>
<tr>
<td>Ba1, Ba2, Ba3</td>
<td>Moderate</td>
<td>BB+, BB, BB-</td>
</tr>
<tr>
<td>B1, B2, B3</td>
<td>Weak</td>
<td>B+, B, B-</td>
</tr>
<tr>
<td>Caa to C</td>
<td>Default</td>
<td>CCC to D</td>
</tr>
</tbody>
</table>

The University of Minnesota is currently rated Aa2 by Moody’s, and AA by Standard and Poor’s.
**University of Minnesota: Analysis of Key Credit Ratios**

### Resources and Leverage

<table>
<thead>
<tr>
<th>Total Resources to Comprehensive Debt</th>
</tr>
</thead>
<tbody>
<tr>
<td>Range</td>
</tr>
<tr>
<td>260% to 280%</td>
</tr>
</tbody>
</table>

**Desired Trend**

Unrestricted net assets + Restricted expendable net assets + Restricted non-expendable net assets + Foundation total net assets – Foundation net investment in plant

Divided by Comprehensive Debt

**University of Minnesota**

Moody's "Aa2" Medians
### University of Minnesota: Analysis of Key Credit Ratios

#### Resources and Leverage

<table>
<thead>
<tr>
<th>Year</th>
<th>University of Minnesota</th>
<th>Moody's &quot;Aa2&quot; Medians</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>2.2%</td>
<td>2.8%</td>
</tr>
<tr>
<td>2005</td>
<td>2.3%</td>
<td>2.8%</td>
</tr>
<tr>
<td>2006</td>
<td>2.4%</td>
<td>2.8%</td>
</tr>
<tr>
<td>2007</td>
<td>2.5%</td>
<td>3.1%</td>
</tr>
<tr>
<td>2008</td>
<td>2.5%</td>
<td>3.0%</td>
</tr>
</tbody>
</table>

**Desired Trend**: Actual Annual Debt Service Divided by Total Operating Expenses

**Range**:
- 1.0%
- 2.0%
- 3.0%
- 4.0%
- 5.0%
- 6.0%
- 7.0%

- University of Minnesota
- Moody's "Aa2" Medians
Unrestricted net assets + Restricted expendable net assets + Foundation unrestricted temporarily restricted net assets – Foundation net investment in plant

Divided by Total Operating Expenses
University of Minnesota Peer Group Analysis

Total Resources ($Millions)

<table>
<thead>
<tr>
<th>Entity</th>
<th>Resources ($Millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minnesota</td>
<td>$3,601</td>
</tr>
<tr>
<td>Michigan</td>
<td>$3,536</td>
</tr>
<tr>
<td>Texas</td>
<td>$7,725</td>
</tr>
<tr>
<td>North Carolina</td>
<td>$3,047</td>
</tr>
<tr>
<td>Purdue</td>
<td>$2,746</td>
</tr>
<tr>
<td>Washington</td>
<td>$3,306</td>
</tr>
<tr>
<td>California</td>
<td>$16,597</td>
</tr>
<tr>
<td>Indiana</td>
<td>$1,045</td>
</tr>
<tr>
<td>Michigan State</td>
<td>$2,094</td>
</tr>
<tr>
<td>Ohio State</td>
<td>$2,778</td>
</tr>
<tr>
<td>Penn State</td>
<td>$2,987</td>
</tr>
<tr>
<td>Illinois</td>
<td>$1,592</td>
</tr>
</tbody>
</table>

Note: Fiscal year 2007 data for University of Illinois; fiscal year 2008 data for all other peers.

Comprehensive Debt ($Millions)

<table>
<thead>
<tr>
<th>Entity</th>
<th>Debt ($Millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minnesota</td>
<td>$10,132</td>
</tr>
<tr>
<td>Michigan</td>
<td>$5,308</td>
</tr>
<tr>
<td>Texas</td>
<td>$1,242</td>
</tr>
<tr>
<td>North Carolina</td>
<td>$1,134</td>
</tr>
<tr>
<td>Purdue</td>
<td>$643</td>
</tr>
<tr>
<td>Washington</td>
<td>$1,134</td>
</tr>
<tr>
<td>California</td>
<td>$831</td>
</tr>
<tr>
<td>Indiana</td>
<td>$570</td>
</tr>
<tr>
<td>Michigan State</td>
<td>$1,130</td>
</tr>
<tr>
<td>Ohio State</td>
<td>$1,023</td>
</tr>
<tr>
<td>Penn State</td>
<td>$856</td>
</tr>
</tbody>
</table>

Note: Fiscal year 2007 data for University of Illinois; fiscal year 2008 data for all other peers.

Source: Moody’s Public Institutions "Aa2" Median ($641)

Barclays Capital and Moody’s Investors Service
Expendable Resources to Comprehensive Debt (%)
University of Minnesota Peer Group Analysis

Debt Service as a % Operations

Expendable Resources to Operations (%)

Note: Fiscal year 2007 data for University of Illinois; fiscal year 2008 data for all other peers.
Source: Barclays Capital and Moody’s Investors Service
University of Minnesota Peer Group Analysis

Enrollment

<table>
<thead>
<tr>
<th>University</th>
<th>Enrollment 2007</th>
<th>Enrollment 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minnesota (Aa2)</td>
<td>58,154</td>
<td>58,504</td>
</tr>
<tr>
<td>Michigan (Aaa)</td>
<td>50,494</td>
<td></td>
</tr>
<tr>
<td>Texas (Aaa)</td>
<td>151,968</td>
<td></td>
</tr>
<tr>
<td>North Carolina (Aa1)</td>
<td>23,788</td>
<td>23,788</td>
</tr>
<tr>
<td>Purdue (Aa1)</td>
<td>52,906</td>
<td>52,906</td>
</tr>
<tr>
<td>Washington (Aa1)</td>
<td>46,066</td>
<td>46,066</td>
</tr>
<tr>
<td>California (Aa1)</td>
<td>222,264</td>
<td>222,264</td>
</tr>
<tr>
<td>Indiana (Aa1)</td>
<td>71,886</td>
<td>71,886</td>
</tr>
<tr>
<td>Michigan State (Aa2)</td>
<td>41,148</td>
<td>41,148</td>
</tr>
<tr>
<td>Ohio State (Aa2)</td>
<td>61,568</td>
<td>61,568</td>
</tr>
<tr>
<td>Penn State (Aa2)</td>
<td>79,808</td>
<td>79,808</td>
</tr>
<tr>
<td>Illinois (Aa3)</td>
<td>69,789</td>
<td></td>
</tr>
</tbody>
</table>

Note: Fiscal year 2007 data for University of Illinois; fiscal year 2008 data for all other peers.

Source: Barclays Capital and Moody’s Investors Service

Operating Budget ($Millions)

<table>
<thead>
<tr>
<th>University</th>
<th>Operating Budget 2007</th>
<th>Operating Budget 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minnesota (Aa2)</td>
<td>$2,486</td>
<td>$2,691</td>
</tr>
<tr>
<td>Michigan (Aaa)</td>
<td>$4,756</td>
<td>$4,756</td>
</tr>
<tr>
<td>Texas (Aaa)</td>
<td>$10,917</td>
<td>$10,917</td>
</tr>
<tr>
<td>North Carolina (Aa1)</td>
<td>$2,084</td>
<td>$2,084</td>
</tr>
<tr>
<td>Purdue (Aa1)</td>
<td>$1,584</td>
<td>$1,584</td>
</tr>
<tr>
<td>Washington (Aa1)</td>
<td>$3,253</td>
<td>$3,253</td>
</tr>
<tr>
<td>California (Aa1)</td>
<td>$20,702</td>
<td>$20,702</td>
</tr>
<tr>
<td>Indiana (Aa1)</td>
<td>$2,214</td>
<td>$2,214</td>
</tr>
<tr>
<td>Michigan State (Aa2)</td>
<td>$1,678</td>
<td>$1,678</td>
</tr>
<tr>
<td>Ohio State (Aa2)</td>
<td>$3,846</td>
<td>$3,846</td>
</tr>
<tr>
<td>Penn State (Aa2)</td>
<td>$3,510</td>
<td>$3,510</td>
</tr>
<tr>
<td>Illinois (Aa3)</td>
<td>$3,549</td>
<td>$3,549</td>
</tr>
</tbody>
</table>

Note: Fiscal year 2007 data for University of Illinois; fiscal year 2008 data for all other peers.

Source: Barclays Capital and Moody’s Investors Service
University of Minnesota Peer Group Analysis

**Direct Debt per Student ($)**

- Minnesota (Aa2) 2007: $11,151
- Minnesota (Aa2) 2008: $11,627
- Michigan (Aaa): $24,601
- Texas (Aaa): $33,470
- North Carolina (Aa1): $45,018
- Purdue (Aa1): $22,153
- Washington (Aa1): $42,629
- California (Aa1): $12,155
- Indiana (Aa1): $11,014
- Michigan State (Aa2): $13,846
- Ohio State (Aa2): $17,478
- Penn State (Aa2): $12,817
- Illinois (Aa3): $11,961

---

**Total Resources per Student ($)**

- Minnesota (Aa2) 2007: $61,930
- Minnesota (Aa2) 2008: $60,447
- Michigan (Aaa): $152,980
- Texas (Aaa): $124,381
- North Carolina (Aa1): $128,101
- Purdue (Aa1): $51,906
- Washington (Aa1): $74,672
- California (Aa1): $71,767
- Indiana (Aa1): $14,538
- Michigan State (Aa2): $50,879
- Ohio State (Aa2): $45,117
- Penn State (Aa2): $37,422
- Illinois (Aa3): $22,810

---

**Note:** Fiscal year 2007 data for University of Illinois; fiscal year 2008 data for all other peers.

**Source:** Barclays Capital and Moody’s Investors Service
Finance and Operations Committee

February 12, 2009

Agenda Item: Issues Related to: RUMINCO

☐ review  ☐ review/action  ☐ action  ☒ discussion

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

Purpose:

☐ policy  ☐ background/context  ☒ oversight  ☐ strategic positioning

To provide the committee with information about RUMINCO, Ltd., including its role in financing the University’s risk management and insurance programs.

Outline of Key Points/Policy Issues:

The University finances risk using both risk retention and risk transfer mechanisms. RUMINCO, Ltd. is a wholly-owned captive insurance company that is used to transfer risk-related liabilities away from the University. It has historically been a fiscally efficient mechanism for transferring risk. The Office of Risk Management and a number of other units are collaborating to expand RUMINCO’s insurance coverage in traditional and emerging areas of risk.

Background Information:

The committee receives an annual report on the University’s risk management and insurance programs. That report provides limited information on RUMINCO, focused on financial performance.
Finance and Operations Committee  

February 12, 2009

Agenda Item:  Issues Related to:  Board of Regents Policy: Central Reserves Fund

☐ review  ☐ review/action  ☐ action  ☑ discussion

Presenters:  Vice President/CFO Richard Pfutzenreuter

Purpose:

☐ policy  ☐ background/context  ☑ oversight  ☐ strategic positioning

To provide an update on central reserves in accordance with Board of Regents Policy: Central Reserves Fund and to review Board of Regents Policy: Central Reserves Fund.

Outline of Key Points/Policy Issues:

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.

Background Information:

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; and failures in central infrastructure or of major business systems.

In accordance with Board of Regents Policy: Central Reserves Fund, 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 Board of Regents Policy: Central Reserves Fund on June 9, 2006 and June 12, 2008. The Board of Regents receives an Annual Report on Central Reserves midway through each fiscal year.
CENTRAL RESERVES FUND

SECTION I. DEFINITION.

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 within the University's financial system. The primary revenue sources of the central reserves fund include the following: investment earnings and realized and unrealized gains or losses in market values from the Temporary Investment Pool (TIP); funds invested in the Consolidated Endowment Fund from TIP; 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.

SECTION II. BUDGETING.

Subd. 1. Budget Planning. A central reserves budget is prepared annually and submitted to the Board of Regents (Board) for approval as part of the president’s recommended Annual Operating Budget.

Subd. 2. Allowable Allocations. As part of the Annual Operating Budget, the central reserves fund may be allocated for:

(a) expenses that are fixed term in nature (usually 3 years or less);
(b) transfers to other centrally allocated funds to support expenditures that should be funded from sources other than tuition or state appropriations;
(c) a general contingency for unplanned or unexpected financial needs that routinely arise during the fiscal year; or
(d) other various miscellaneous expenditures as determined by the president and approved by the Board.

Subd. 3. Board Approval. Board approval is required for any modifications to the central reserves budget and for all expenditures from the central reserves general contingency account of $250,000 or more. Expenditures from the general contingency account of less than $250,000 shall be approved by the president or delegate and reported at the next regular meeting of the Board. When delay for Board approval poses a significant health, safety, or financial risk to the University, approval of expenditures from the central reserves fund may be granted by the chair of the Board, the vice chair, and the chair of the Finance and Operations Committee. Any such emergency approvals shall be brought to the next regular meeting of the Board, consistent with Board of Regents Policy: Board Operations and Agenda Guidelines.

SECTION III. SIZE OF RESERVES.

An appropriate central reserves fund maintains financial strength and high bond ratings, protects the University from interest expense volatility, and allows flexibility in the use of variable rate debt to lower or control interest costs.

Under normal circumstances, the central reserves fund should not fall below 4.0% of state appropriations, or $25,000,000, whichever is greater, unless such reduction is part of a short-term financing plan that includes restoration of the central reserves fund balance within two to three years. However, determining the appropriate level of the central reserves fund requires judgment and consideration of a variety of factors, including, among others, the following:

- the condition of the Minnesota and federal economies;
- the political climate towards higher education;
- the volatility of University revenues and expenditures;
- the size and composition of University debt; and
- the composition of investments in TIP.

SECTION IV. REPORTING.

A projected central reserves fund year-end balance shall be presented to the Board as part of the Annual Operating Budget. A central reserves fund report shall be presented annually to the Finance and Operations Committee.
Issues Related to: Board of Regents Policy: Central Reserves

Presentation to Board of Regents
Finance and Operations Committee

February 12 - 2009
Agenda:

1. What is Central Reserves?
2. What is the Purpose of Central Reserves?
3. What is the Annual Budget for Central Reserves?
4. What is the Revenue Estimate for FY2009?
5. What is the Required Reserve Level?
What is 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 within 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.
What is the Purpose of Central Reserves?

- 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.
What is the Budget of Central Reserves?

• Budget Plan is prepared annually

• Allowable Allocations:
  – Expenses that are fixed in term (3 years or less)
  – Transfers to other funds to support expenditures that should be funded from sources other than tuition and state appropriations
  – A general contingency for unplanned or unexpected financial needs
  – Other expenditures as determined by President and approved by the Board
### Centrally Attributed and Distributed Funds
#### Central Reserves FY2009 Revenue Estimates

<table>
<thead>
<tr>
<th></th>
<th>A</th>
<th>B</th>
<th>C = B-A</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Original Average Cash</strong></td>
<td>$510,000,000</td>
<td>$470,000,000</td>
<td>$(40,000,000)</td>
</tr>
<tr>
<td><strong>Earnings %</strong></td>
<td>3.2%</td>
<td>3.0%</td>
<td>0%</td>
</tr>
<tr>
<td><strong>12/31/2008</strong></td>
<td>$16,375,000</td>
<td>$14,100,000</td>
<td>$(2,275,000)</td>
</tr>
<tr>
<td><strong>CEF Distribution</strong></td>
<td>$4,800,000</td>
<td>$4,800,000</td>
<td>-</td>
</tr>
<tr>
<td><strong>Investment Loss WAMU</strong></td>
<td>$ -</td>
<td>$(9,900,000)</td>
<td>$(9,900,000)</td>
</tr>
<tr>
<td><strong>Realized Gains YTD</strong></td>
<td>$ -</td>
<td>$1,000,000</td>
<td>$1,000,000</td>
</tr>
<tr>
<td><strong>Net Change</strong></td>
<td>$21,175,000</td>
<td>$10,000,000</td>
<td>$(11,175,000)</td>
</tr>
</tbody>
</table>
## Centrally Attributed and Distributed Funds
### Central Reserves - Updated

<table>
<thead>
<tr>
<th></th>
<th>A</th>
<th>B</th>
<th>C = B-A</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Original Budget</strong></td>
<td></td>
<td><strong>Revised Budget</strong></td>
<td></td>
</tr>
<tr>
<td><strong>12/31/2008</strong></td>
<td></td>
<td><strong>Difference</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Beginning Balance</strong></td>
<td>$ 22,276,959</td>
<td>$ 21,278,921</td>
<td>$ (998,038)</td>
</tr>
<tr>
<td><strong>Investment Income</strong></td>
<td>$ 21,175,000</td>
<td>$ 10,000,000</td>
<td>$ (11,175,000)</td>
</tr>
<tr>
<td><strong>Other Income - Net</strong></td>
<td>$ 50,000</td>
<td>$ 50,000</td>
<td>$ -</td>
</tr>
<tr>
<td><strong>Transfers Out</strong></td>
<td>$ (12,698,103)</td>
<td>$ (12,698,103)</td>
<td>$ -</td>
</tr>
<tr>
<td><strong>Net Resources</strong></td>
<td>$ 30,803,856</td>
<td>$ 18,630,818</td>
<td>$ (12,173,038)</td>
</tr>
<tr>
<td><strong>Allocations</strong></td>
<td>$ 4,805,000</td>
<td>$ 4,805,000</td>
<td>$ -</td>
</tr>
<tr>
<td><strong>Ending Balance</strong></td>
<td>$ 25,998,856</td>
<td>$ 13,825,818</td>
<td>$ (12,173,038)</td>
</tr>
<tr>
<td><strong>Required Reserve</strong></td>
<td>$ 28,961,960</td>
<td>$ 13,825,818</td>
<td>$ (15,136,142)</td>
</tr>
</tbody>
</table>
**4% Central Reserve Requirement**

<table>
<thead>
<tr>
<th></th>
<th>2008-2009</th>
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</thead>
<tbody>
<tr>
<td>1</td>
<td>State Appropriations</td>
</tr>
<tr>
<td>2</td>
<td>Operations &amp; Maintenance</td>
</tr>
<tr>
<td>3</td>
<td>State Specials</td>
</tr>
<tr>
<td>4</td>
<td>Grand Total</td>
</tr>
<tr>
<td>5</td>
<td>Required Reserve @ 4.0%</td>
</tr>
<tr>
<td>6</td>
<td>Forecast Reserve @ 1.9%</td>
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</table>
Finance and Operations Committee       February 12, 2009

Agenda Item: Update: Enterprise Financial System Implementation Status/New Opportunities

☐ review  ☐ review/action  ☐ action  ☒ discussion

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

Purpose:

☐ policy  ☐ background/context  ☒ oversight  ☐ strategic positioning

To provide the committee with an update on the implementation of the PeopleSoft Enterprise Financial System and a preview of future enhancement opportunities and strategies.

Outline of Key Points/Policy Issues:

The new PeopleSoft Enterprise Financial System went live on July 1, 2008. The post-implementation stabilization efforts have focused on the following priorities:

• Delivering financial reports;
• Fixing system “defects” — those system processes that are not working as designed; and
• Providing assistance, problem solving support, and enhanced training to users.

As the new system becomes more stable and users’ immediate needs are addressed, the support units will shift their efforts toward developing and implementing system enhancements. The priority will be leveraging the technology to reduce costs, improve efficiencies, and maximize the data analysis and reporting capabilities of the new system.

Background Information:

The University purchased the PeopleSoft Enterprise Financial System software in September 2003, pursuant to Board approval. Project planning and implementation activities occurred between January 2004 and June 2008. During that timeframe, the Board has received eleven status reports, with the most recent delivered in September 2008.
Finance and Operations Committee
February 12, 2009

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.

Approval of Underwriters for Debt Approved in November 2008
1. To approve the appointment of Piper Jaffray & Co. as underwriter for $41,000,000 in tax-exempt bonds related to Stadium financing. This approval is requested in accordance with Board of Regents Policy: Debt Transactions, which provides that in exigent situations the president’s delegate may act to engage an underwriter, and approval shall be sought at the next regularly scheduled Board meeting.
2. To approve the appointment of underwriter(s) in connection with the issuance of University debt and the issuance of debt for the Biomedical Sciences Research Facilities. As of docket deadline, the evaluation of the Request for Proposal responses and recommendation of underwriter(s) is still in process. The recommendation(s) will be discussed with the Debt Management Advisory Committee on February 11, 2009.

Approval of Debt Advisor
To approve the engagement of Bond Logistix LLC as an advisor in connection with the replacement of the interest rate swaps to which Lehman Brothers Commercial Bank was the counterparty. This approval is requested in accordance with Board of Regents Policy: Debt Transactions, which provides that in exigent situations the president’s delegate may act to engage a debt advisor, and approval shall be sought at the next regularly scheduled Board meeting.

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 Amendola Builders and Donald Holm Construction Company for an estimated $500,000 of contract skilled labor services as needed for the period of April 1, 2009 through March 31, 2010 for the Department of Facilities Management on the Duluth Campus. This purchase of contract skilled labor services by Facilities Management will be funded by FY09 and FY10 Repair and Replacement projects and Operations and Maintenance funds. Vendor was selected through a competitive process.

• To Fleet Sources-Walser Automotive Group for an estimated $800,000 for vehicles as needed for the period of March 1, 2009 to June 30, 2010 for the Fleet Services, Parking and Transportation Department, a division of University Services. For vehicles in the central motor pool the vehicles are leased, which is funded by charging departments a monthly fee. Purchased vehicles are funded by the using departments at the time of purchase.

• To Lakehead Painting Company and Swanson and Youngdale, Inc. for an estimated $500,000 of contract painting labor services as needed for the period of March 1, 2009 through February 28, 2010 for the Department of Facilities Management on the Duluth Campus. This purchase of contract painting and drywall labor services by Facilities Management will be funded by FY09 and FY10 Repair and Replacement projects and Operations and Maintenance funds. Vendor was selected through a competitive process.

• To The Institute for Continuing Health Care Education for $560,693 for services associated with a jointly sponsored educational project entitled Certified Education Multidisciplinary Activities Highlighting Recognition and Treatment of Fibromyalgia for the Office of Continuing Medical Education. Funding in the amount of $598,443 from educational grants will be received by the Office of Continuing Medical Education. The Office of Continuing Medical Education will pay The Institute for Continuing Healthcare Education $560,693 for their services and retain $37,750 for its services. See enclosed documentation regarding basis for vendor selection.

Approval of Underwriters for Debt Approved in November 2008

• A request for proposal (RFP) was sent to ten investment banking firms to act as the underwriter/investment banker for the issuance of up to $164,000,000 in general obligation bonds for various capital projects and for the issuance of a total of $292,000,000 for the Biomedical Sciences Research Facilities to be issued in several tranches. The closing date of the RFP was November 21, 2008.

• Nine responses were received and were evaluated by four members of the University’s Debt Oversight Group. The evaluation process will be discussed at the Debt Management Advisory Committee meeting to be held on February 11, 2009.

• The evaluation and selection process resulted in the following selections:

1. Tax-exempt financing for the stadium - $41,000,000 – Piper Jaffray & Co. (Piper)

In September 2008, Piper was chosen to underwrite the taxable financing (up to $20 million) related to the TCF Naming Agreement for the TCF Bank Stadium (Stadium). They were selected through a competitive process due to their apparent understanding of the financing and the University’s objectives; the degree to which their proposal met the University’s expectations for services to be provided; their documented relevant qualifications, experience, and capabilities; the completeness of their response; and their reasonable quoted price. The University intended to issue the bonds in late November 2008 but, due to volatile market conditions in November and December 2008, delayed issuance of the taxable bonds until after the first of the year, in light of the possibility that rates would improve. The delay meant that issuance of the taxable bonds was still pending when the time came to issue the $41 million portion.

The issuance of the $41,000,000 for the Stadium was awarded to Piper for the following reasons:

• Their proposal addressed the University’s needs, met expectations, and quoted a competitive low price.

• The University had a preliminary offering statement prepared for the taxable debt related to the Stadium, was in the process of obtaining ratings, and had provided due diligence responses to Piper’s counsel.

• Efficiencies would be gained by adding a second series of bonds to the offering that was close to completion, especially since the additional funding was for the same project, and the entire amount to be issued was general obligation, fixed-rate bonds.
Series 2009A for $41,000,000 in tax-exempt financing and Series 2009B for $17,035,000 in taxable financing was priced on January 28, 2009 and is scheduled to close on February 5, 2009.

Approval of Debt Advisor

In September 2008, Lehman Brothers Inc. and Lehman Brothers Holdings Inc., its parent, (collectively Lehman) filed a bankruptcy petition under chapter 11 of the Bankruptcy Code. Subsequently, Barclays Capital, Inc. (Barclays) acquired certain assets of Lehman related to its investment banking and capital markets businesses. Though the counterparty to the University swaps is Lehman Brothers Commercial Bank (LBCB), not a party to the Lehman bankruptcy, it was determined that the University should terminate those existing swaps and replace LBCB with a new counterparty because LBCB, as a Lehman subsidiary, is a part of the overall Lehman liquidation process.

The Treasurer has retained the services of Bond Logistix LLC (BLX) to provide certain advisory services related to (1) the early termination of certain interest rate exchange agreements (the LBCB Swaps) between LBCB and the University and (2) replacement transactions expected to be entered into by the University subsequent to such termination.

The purchase of services of a swap advisor was not competitively bid because the need was urgent and the sudden demand for such advisors meant that they were not likely to take the time to respond to an RFP anyway.

BLX offers a full spectrum of consulting and SEC registered investment advisory services to state and local governments. Beginning in 1989 as Orrick, Herrington and Sutcliffe’s Financial Services Group, BLX has evolved into a nationwide network of professionals with offices in Los Angeles, San Francisco, Dallas, Portland, Tampa and New York. Through their extensive professional expertise, they are able to offer the unique combination of both investment and regulator expertise in the public finance sector. They assist municipalities across the country in evaluating, structuring and implementing key investment strategies for their tax-exempt transactions.

With the advice of BLX, the University chose to negotiate with Barclays as the likely replacement swap counterparty.

Documentation is close to being finalized and the final steps to determine rates and settlement amounts are in 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.

Approval of Underwriters for Debt Approved in November 2008
• Finance & Operations Committee Consent Report – October 17, 2008 – Assignment of Remarketing Agreement
• Finance & Operations Committee Agenda Item – November 13, 2008 – Issues Related to: Financial Heat Map

Approval of Debt Advisor
• Finance and Operations Committee Information Items – December 11, 2008 – Quarterly Debt Management Advisory Committee Update
• Board of Regents – November 14, 2008 – Approval of Resolution Related to Issuance of University Debt and Approval of Resolution Related to Issuance of Debt For Biomedical Sciences Research Facilities

President’s Recommendation for Action:

The President recommends approval of the Consent Report.
General Contingency

2008-09 General Contingency:

<table>
<thead>
<tr>
<th>Recipient</th>
<th>Allocation</th>
<th>Balance</th>
<th>Purpose</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY2009 General Contingency</td>
<td>$1,400,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Carryforward from FY2008 into FY2009</td>
<td>896,843</td>
<td>2,296,843</td>
<td></td>
</tr>
<tr>
<td>1 VP for University Relations</td>
<td>22,000</td>
<td>2,274,843</td>
<td>Media relations efforts for Republican National Convention</td>
</tr>
<tr>
<td>2 VP for University Relations</td>
<td>50,000</td>
<td>2,224,843</td>
<td>Campus-area neighborhood employee housing incentive</td>
</tr>
<tr>
<td>* 3 VP for University Relations</td>
<td>250,000</td>
<td>1,974,843</td>
<td>Campus-area neighborhood/district plan and vision</td>
</tr>
<tr>
<td>4 Assoc VP for Campus Planning and Project Development</td>
<td>60,000</td>
<td>1,914,843</td>
<td>Predesign of exercise and wellness center for Cooke Hall</td>
</tr>
<tr>
<td>5 Assoc VP for Campus Planning and Project Development</td>
<td>95,000</td>
<td>1,819,843</td>
<td>Predesign work for Cooke Hall renovation</td>
</tr>
<tr>
<td>6 Associate VP for Auxiliary Services</td>
<td>63,000</td>
<td>1,756,843</td>
<td>Request for Proposal process for Dining Services</td>
</tr>
<tr>
<td>7 General Counsel</td>
<td>46,000</td>
<td>1,710,843</td>
<td>Move of Records Office</td>
</tr>
<tr>
<td>8 Sr VP for Academic Affairs and Provost</td>
<td>100,139</td>
<td>1,610,704</td>
<td>Weisman Art Museum collection digitization project</td>
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<tr>
<td>9 Assoc VP for Campus Planning and Project Development</td>
<td>175,000</td>
<td>1,435,704</td>
<td>Update to Twin Cities Campus Master Plan</td>
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<tr>
<td>10</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11 New items this reporting period:</td>
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* Subject to Board approval due to cost of $250,000 or more
Purchase of Goods and Services $250,000 and over

To Amendola Builders and Donald Holm Construction Company for an estimated $500,000 of contract skilled labor services as needed for the period of April 1, 2009 through March 31, 2010 for the Department of Facilities Management on the Duluth campus.

Facilities Management requires supplemental skilled labor (carpenters, laborers, semiskilled laborers) contract services in order to complete various maintenance and remodeling projects across the Duluth campus and associated properties.

UMD Facilities Management supports and maintains more than 50 buildings on UMD's primary 244 acre campus as well as other UMD facilities including the Glensheen Mansion, Lower Campus, the Limnological Research Center and the Natural Resources Research Institute. In addition to regular maintenance, we routinely complete construction projects throughout the campus to support expansion and remodeling goals. These labor contracts are necessary to supplement the existing crew of 6 carpenters within Facilities Management.

These contractors were selected as the result of a competitive RFP issued on February 2, 2005 which rated them highly in response time, price and available labor pool. This is a multiple award contract so a sufficient number of vendors will be available for various projects during the year. This purchase is the last of four optional renewals.

This purchase of contract skilled labor services by Facilities Management will be funded by FY09 and FY10 R&R projects and O&M funds.

Submitted by: John Rashid, Facilities Management Associate Director
241 Darland Administration Building
1049 University Drive
Duluth, MN 55812
Phone: 218-726-6930
Fax: 218-726-8127

Approval for this item requested by:

[Signature]
John King
Interim, Vice Chancellor of Finance & Operations

[Signature]
Date
1/14/09
Purchase of Goods and Services over $250,000

To Fleet Sources-Walser Automotive Group for an estimated $800,000 for vehicles as needed for the period of March 1, 2009 to June 30, 2010 for Fleet Services, Parking & Transportation Department, a division of University Services.

*Fleet Services uses contract vendors to acquire vehicles for the central motor pool and for University departments who need to acquire vehicles. The following vendor has been identified to provide vehicles for the remainder of Fiscal year 09 and Fiscal year 10:*

*Fleet Sources-Walser Automotive Group will provide Toyota Vehicles. The unusual timing and length of this contract is due to the fact that the prior supplier went out of business.*

*Most vehicles will be ordered and delivered by the vendor. Approximately 35% of the vehicles will be purchased directly by the University. The remainder of the vehicles will be either financed by Fleet’s contract finance company, CitiMortgage, or leased to the University of Minnesota by Fleet’s contract leasing company, ARI, Inc.*

*Through a request for proposal process, this vendor proved that they had the necessary experience working with other political subdivisions to handle the University’s business.*

*For vehicles in the central motor pool the vehicles are leased, which is funded by charging departments a monthly fee. Purchased vehicles are funded by the using departments at the time of purchase.*

Submitted by: William K. Roberts, Associate Director of Parking & Transportation Services –
Fleet Services
107 Fleet Services Building
Minneapolis campus
Phone: 612-625-8020
Fax: 612-624-5587

Approval for the item requested by:

Kathleen O’Brien, Vice President for University Services

1/28/09 Date
Purchase of Goods and Services $250,000 and over

To Lakehead Painting Company and Swanson and Youngdale, Inc. for an estimated $500,000 of contract painting labor services as needed for the period of March 1, 2009 through February 28, 2010 for the Department of Facilities Management on the Duluth campus.

*Facilities Management requires supplemental painting and drywall labor contract services in order to complete various painting projects across the Duluth campus and associated properties.*

*UMD Facilities Management supports and maintains more than 50 buildings on UMD's primary 244 acre campus as well as other UMD facilities including the Glensheen Mansion, Lower Campus, the Limnological Research Center and the Natural Resources Research Institute. In addition to regular painting maintenance, we routinely complete construction projects throughout the campus to support expansion and remodeling goals. These labor contracts are necessary to supplement the existing crew of 2 painters within Facilities Management.*

*These contractors were selected as the result of a competitive RFP issued on January 8, 2007 which rated them highly in response time, price and available labor pool. This is a multiple award contract so a sufficient number of vendors will be available for various projects during the year. This purchase is two of four optional renewals.*

*This purchase of contract painting and drywall labor services by Facilities Management will be funded by FY09 and FY10 R&R projects and O&M funds.*

Submitted by: John Rashid, Facilities Management Associate Director
241 Darland Administration Building
1049 University Drive
Duluth, MN 55812
Phone: 218-726-6930
Fax: 218-726-8127

Approval for this item requested by:

John King
Interim, Vice Chancellor of Finance & Operations

Date: 1/14/09
Purchase of Goods and Services over $250,000

To The Institute for Continuing Health Care Education (ICHE) for $560,693.15 for services associated with a jointly sponsored educational project entitled Certified Education Multidisciplinary Activities Highlighting Recognition and Treatment of Fibromyalgia for the Office of Continuing Medical Education.

This request outlines the development of a series of educational interventions intended to improve the diagnostic and treatment abilities of primary-care physicians in the overall care of patients with fibromyalgia. Activities proposed in 2009 include the following:

- A satellite symposium at the 2009 American Academy of Family Physicians Scientific Assembly tentatively entitles "The Reality of Fibromyalgia: Pathways to Diagnosis, Therapy, and quality of Life.
- A case-based, simulated patient activity to be housed on Medscape.
- A series of post-activity physician and patient surveys intended to measure the impact of education and change in patient health.

Funding in the amount of $598,443.15 from educational grants will be received by Office of Continuing Medical Education. The Office of Continuing Medical Education will pay the Institute for Continuing Healthcare Education $560,693.15 for their services and retain $37,750 for its services.

Submitted by:

Ginny Jacobs, Director
Office of Continuing Medical Education
University Park Plaza, Suite 601
2928 University Ave. S.E.
Minneapolis, MN 55414
T: 612-625-4660
F: 612-626-7766

Approval of this item is requested by:

[Signature]
Vice President or Executive Vice President Signature  
Date 1/29/09
Rationale for Exception to Competitive Bidding

University of Minnesota
The Institute for Continuing Healthcare Education
Certified Education Multidisciplinary Activities Highlighting Recognition
and Treatment of Fibromyalgia Project

This service was not competitively bid because the University Of Minnesota Office Of Continuing Medical Education was invited by the Institute for Continuing Healthcare Education to jointly sponsor Certified Education Multidisciplinary Activities Highlighting Recognition and Treatment of Fibromyalgia. The University Of Minnesota Office Of Continuing Medical Education will certify these activities for AMA category 1 credit, in accordance with Accreditation Council for Continuing Medical Education (ACCME) standards.

Funding in the amount of $598,443.15 from educational grants will be received by Office of Continuing Medical Education. The Office of Continuing Medical Education will pay the Institute for Continuing Healthcare Education $560,693.15 for their services and retain $37,750.00 for its services.

Reasonableness of the price for the development was determined based on The Institute for Continuing Health Educations’ effective delivery of continuing medical education since 1986.

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 12, 2009

Agenda Item: Information Items
☐ review ☐ review/action ☐ action ☒ discussion

Presenters: Vice President/CFO Richard Pfutzenreuter

Purpose:
☒ policy ☒ background/context ☒ oversight ☐ strategic positioning

Quarterly Debt Management Advisory Committee Update
To provide a report on the meeting of the Debt Management Advisory Committee (DMAC) held on February 11, 2009.

University Bond Ratings
To provide the Board of Regents with information related to the long-term ratings issued by Moody's Investor Services and Standard and Poor's for the Series 2009A and Series 2009B General Obligation Bonds.

Outline of Key Points/Policy Issues:

Quarterly Debt Management Advisory Committee Update
The agenda for the meeting held on February 11, 2009, included:

• Review of the 2008 Annual Capital Financing and Debt Management Report

• Review of the RFP evaluation process for selection of the Underwriter for the Issuance of University Debt and the Issuance of Debt For Biomedical Sciences Research Facilities

• Discussion of the status of the termination of existing swaps with Lehman Brothers Commercial Bank and their replacement with another counterparty

• Discussion of the status of the Standby Bond Purchase Agreement related to the Series 2001C General Obligation Bonds
University Bond Ratings

The University of Minnesota General Obligation Bonds, Series 2009A and General Obligation Taxable Bonds, Series 2009B 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 were issued in fixed-rate mode and will be a general obligation of the University. Proceeds will be used to finance a portion of the cost of construction of the TCF Bank Stadium.
New Issue: University of Minnesota, MN

MOODY’S ASSIGNS Aa2 RATING TO UNIVERSITY OF MINNESOTA’S GENERAL OBLIGATION BONDS, SERIES 2009A AND GENERAL OBLIGATION TAXABLE BONDS, SERIES 2009B; OUTLOOK REVISED TO STABLE FROM POSITIVE

UNIVERSITY WILL HAVE TOTAL OF $938 MILLION OF RATED DEBT OUTSTANDING, INCLUDING GUARANTEED DEBT OF UNIVERSITY OF MINNESOTA FOUNDATION AND COMMERCIAL PAPER AT FULL ISSUANCE

Regents of the University of Minnesota
Higher Education
MN

Moody’s Rating

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<td>Rating Description</td>
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Moody's Outlook  Stable

Opinion

NEW YORK, Jan 27, 2009 -- Moody's Investors Service has assigned an Aa2 rating to the University of Minnesota's General Obligation Bonds, Series 2009A and General Obligation Taxable Bonds, Series 2009B. The rating outlook has been revised to stable from positive, reflecting expectations of stable to modestly declining financial resources driven by investment losses and expected lower operating cash flow from pressured operations from expected reductions in state funding.

At the same time, we have affirmed the Aa2 and Aa2/VMIG1 ratings on the University's outstanding long-term debt and the P-1 ratings on the Series A and Series B Commercial Paper Notes (detailed in RATED DEBT at the end of the report). Also affirmed at this time is the Aa2 rating on the University of Minnesota Foundation's outstanding debt, based on the guarantee of the University. Both the University and the Foundation have debt rated Aa2/VMIG1, with the short-term rating based on liquidity support provided by Standby Bond Purchase Agreements (SBPAs).

USE OF PROCEEDS: Proceeds from the Series 2009A and 2009B bonds will be used to finance a portion of the costs of construction of the University's football stadium in Minneapolis and fund related infrastructure improvements, as well as pay costs of issuance.

LEGAL SECURITY: The Series 2009 bonds are fixed rate bonds and are a general obligation of the University. The bonds are on parity with its outstanding General Obligation bonds and Commercial Paper Notes. There is no debt service reserve fund.

DEBT STRUCTURE AND DEBT-RELATED INTEREST RATE DERIVATIVES: A substantial 73% of the University's outstanding direct debt is variable rate debt - specifically the Series 1999A, 2001B, 2001C, 2003A, as well as the Commercial Paper, Series A, B and C. To hedge its variable rate exposure, the University has entered into a number of interest rate swaps with a fair market value of negative $46.6 million as of 9/30/2008. Although substantial, the fair market value can fluctuate widely depending upon market conditions and remaining term on the swaps. We find the risks that might arise from the derivative...
transactions acceptable for the University's rating level.

STRENGTHS

* Strong market position as a Big Ten public university, with enrollment for Fall 2008 of 58,504 full-time equivalent (FTE) students at its campuses and total research expenses of $565 million for fiscal year (FY) 2008, up from $511 million the prior year.

* Overall strong balance sheet resources, with total financial resources of $3.5 billion as of fiscal year end (FYE) 2008; total foundations include $1.9 billion of resources held by the University's two major affiliated foundations.

* Good operating performance and cash flow generation, with a well-diversified revenue base. The University produced a three-year average operating margin of 1.2% as calculated by Moody's, which although favorable has declined steadily from earlier years. However, we expect operating surplus to decrease due to anticipated reductions in state appropriations and constrained revenue growth from tuition and gifts, offset by initiatives taken by the University to reduce or manage expenses or enhance revenues.

* University investments providing sufficient self-liquidity or the presence of bank facilities to support bonds tendered back to the University or commercial paper unable to be remarketed (see SHORT-TERM RATIONALE).

CHALLENGES

* Thin unrestricted resources, resulting in a substantially thinner cushion of only 0.2 times of proforma debt and 0.09 times of annual operating expenses.

* Substantial future borrowing plans currently planned over the next six years to fund future capital projects for strategically important projects, including the construction of the biomedical research facilities, completion of the stadium construction and its proportional one-third share for state-funded projects, although it is likely debt issuance will slow in reaction to expected contractions in state appropriations and operating performance.

* Declines in State's demographic environment with an expected decrease in high school graduates from 2009-2013, although mitigated by draw of out-of-state students. The University is implementing recruiting strategies to provide enrollment stability as the number of Minnesota high school graduates over the next 10 years are projected to decline, decreasing the pool of future applicants.

MARKET POSITION/COMPETITIVE STRATEGY: SOLID STUDENT MARKET AND RESEARCH POSITION HELD BY THIS BIG TEN PUBLIC UNIVERSITY:

Moody's believes that the University of Minnesota will maintain a very strong market position as the flagship public university and the land grant institution for the State, as well as one of the nation's leading educational and research institutions. The University has shown rising enrollment, with full-time equivalent (FTE) enrollment of 58,504 students for Fall 2008, with increases at both undergraduate and graduate levels. The University of Minnesota is a member of the prestigious Big Ten athletic conference, enhancing its broader market draw, resulting in non-resident students accounting for 28% of enrollment for Fall 2008. The University is implementing recruiting strategies to provide enrollment stability as the number of Minnesota high school graduates over the next 10 years are projected to decline, decreasing the pool of future applicants.

The University of Minnesota is one of the nation's leading research universities, with $565 million of research expenses in FY 2008, up from $511 million in FY 2007. Further, Research awards totaled $675 million for FY 2008, up 9% from the $619 million awarded the previous year; increases were experienced in federal, private/business and state funding. Federal awards rose to $443 million from $423 million the prior year. Federal research funding has been generally constrained in recent years with reduced funding and shifting research priorities. However, we believe that the University of Minnesota will remain successful in its research activities with good levels of grants from governmental and private sources. An important driver of future growth will be the four biomedical research facilities to be built on the University's Minneapolis campus from 2009 to 2013. In May 2008, the State Legislature approved the funding of 75% of the total $292 million of project costs, or about $220 million; the State's support for the bonds will be accomplished through funds transfers to the University to cover 75% of the debt service on the bonds to be issued to provide the funding for construction.

OPERATING PERFORMANCE: GOOD OPERATING PERFORMANCE AND OPERATING CASH FLOW GENERATION, WITH WELL-DIVERSIFIED REVENUE BASE

Moody's believes University of Minnesota will continue to generate favorable operating margins and cash flow generation, although at likely lower levels as it copes with expected decreases in state funding and
constrained growth in tuition, gift and investment revenues. For FY 2008, the University produced a three-year average operating margin of 1.2% as calculated by Moody’s, down from 2.7% for the three year period of fiscal years 2004-2006. With $145 million of depreciation expense in FY 2008, cash flow has been good, producing average actual debt service coverage of 2.8 times. Revenue sources are diverse, with student charges for tuition and auxiliary services accounting for 29% of FY 2008 total operating revenues, grants and contracts (adjusted to reclassify Pell Grants as tuition rather than grant revenues) for 30%, and state appropriations for 27%.

Regarding state funding, University of Minnesota has seen increases in its state operating appropriations, with total appropriations rising from $620 million in FY 2007 to $685 million in FY 2008 (including a one-time $25 million appropriation for the University-Mayo Clinic Partnership, later reduced by $3 million). For FY 2009, the current fiscal year, $697 million was appropriated. However, in May 2008 the Governor reduced the FY 2008 and 2009 appropriations by $6.15 million each year, as well as an additional $8.7 million for FY 2010. However, due to budget conditions, the Governor will unallocate $20 million for the remainder of FY 2009. Current revenue forecasts for the upcoming 2010-2011 biennium are for a $4.8 billion deficit, with expectations of further reductions in operating appropriations for the University. The University is currently modeling budget scenarios to plan for contingencies for budget reductions. Although we expect the University to maintain a favorable operating performance due to the reductions in state funding, we believe it will implement revenue generating and expense management/reduction initiatives to manage through financial challenges.

Moody’s currently maintains an Aa1 general obligation rating for the State of Minnesota and revised the outlook to stable from positive reflecting declining revenues, increased expenditures and complete use of the State’s budget reserves. The Aa1 rating is based on the State’s strong economic fundamentals and moderate to relatively low debt ratios on a per capital basis and personal income basis. These strengths are offset by the rapid deterioration in finances in the past year, a return to “gridlock” in the state capitol that, in the recent past, led to the use of mostly non-recurring solutions when confronting diminishing revenues and, in 2005, a partial government shutdown, and a slowdown in state economy in recent years. For more information, see Moody’s report dated January 12, 2009.

BALANCE SHEET POSITION: STRONG TOTAL FINANCIAL RESOURCES BASE WITH THINNER UNRESTRICTED RESOURCE LEVELS, WITH MANAGEABLE DEBT PLANS

University of Minnesota has shown continued good total financial resource levels, with total resources of $3.52 billion at FYE 2008, down modestly from $3.6 billion the previous year; expendable financial resources were $2.57 billion at 6/30/2008. FY 2008 expendable resources provide a good 2.7 times coverage of $945 million of current expenditures and the Foundation debt guaranteed by the University; operating expenses are covered 1.0 times. However we expect resources to decline based on year-to-date investment performance and expendable resource cushion of proforma debt decreases to 1.9 times assuming a 30% decline in resources based on investment losses and endowment spending. We note that two major affiliated foundations, the University of Minnesota Foundation and the Minnesota Medical Foundation, held $1.9 billion or more than half of the University's financial resources. The University reported $124 million in gifts that excludes the gift activity of the Foundations that exceeded $235 million for that year. We expect the University will continue to demonstrate fundraising success.

Despite the strong expendable and total resource levels, the University has shown declining unrestricted resources during the past few years - dropping from $370 million in FY 2006 to $230 million in FY 2008 and further declining to $161 million if assuming the 30% resource reduction from investment losses. The cushion of unrestricted resources to debt and operations has likewise narrowed, with FY 2008 unrestricted resources cushioning debt only 0.2 time and operations by only 0.09 times, or slightly more than one month of operating expenses. The decrease in unrestricted resources is due to a number of factors, including the $11.2 million funding of the GASB 45 OPEB liability as well as other liabilities and various expenses. We expect unrestricted resource levels to continue to be challenged due to constrained revenue growth and expense pressures with anticipated state funding cuts. However, the University has an active asset liability management oversight and cash flow monitoring and projections to manage its operating needs.

For the current fiscal year through 11/30/2008, the University reports a 20% loss on its consolidated endowment pool following an annual return of -4.8% for the prior year, FY 2008. The University of Minnesota has a diversified long-term endowment portfolio, with allocations at 11/30/2008 of: domestic equities - 17%; international equities - 9%; private real estate - 12%; natural resources - 8%; private capital - 30%; fixed income - 3%; absolute returns - 8%.

Regarding future debt plans, the University of Minnesota intends to issue up to $146 million in debt for the remainder of 2009 to complete the stadium project, provide the initial funding for the first Biomedical Research Facility and to fund various capital projects. The Board continues to assess its capital needs and debt plans. Nonetheless, we believe the University of Minnesota can absorb the additional planned debt. However, the impact of any debt plans beyond those planned will depend on the successful growth of financial resources to absorb the anticipated debt and produce continuation of good resource coverage.

SHORT TERM RATING RATIONALE: UNIVERSITY RELIES ON SELF-LIQUIDITY, INCLUDING USE OF A LINE OF CREDIT, TO SUPPORT TENDER FEATURES OF VARIABLE RATE DEMAND OBLIGATIONS
Moody's believes the University has adequate unrestricted cash and investments to meet the self-liquidity needs of its variable-rate demand bonds and commercial paper notes, although coverage has tightened and the University relies heavily on a $130 million line of credit to support its self-liquidity program. Currently University of Minnesota has $65 million of long-term debt in weekly mode backed by self-liquidity - the Series 2001B and the Series 2003A - and currently about $263 million of outstanding commercial paper Series A, B and C. The obligation to both make payments on tendered bonds that are not remarketed and to pay commercial paper at maturity is a general obligation of the University. Moody's believes that the University's self-liquidity program which, in addition to its own cash and investments also relies on a credit agreement for same-day liquidity, provides adequate coverage for the tender features of the variable-rate demand bonds as well as the University's issuances under its commercial paper (CP) programs. There is a limit of no more than $50 million of CP that can mature in any one day, as outlined in the Issuing and Paying Agent Agreement. The limit was breached one time for $55 million maturing on a single April 2009 maturity due to a Remarketing Agent rollover; the University has been advised and will monitor to ensure that the limit is maintained.

The University has approximately $290 million of money market funds and treasuries with same-day liquidity that is supplemented by a $130 million line of credit from Wells Fargo Bank, N.A. (Aa1/P-1) to provide additional self-liquidity support. The bank line, which has a term of one year (expires 10/01/2009), provides coverage of the maturing commercial paper and/or tendered Series 2003A variable-rate bonds that have not been remarketed. Because there is no mandatory tender of outstanding bonds when the bank line of credit expires or terminates, the University of Minnesota's short-term rating for the variable rate debt and commercial paper backed by self-liquidity also reflects adequate levels of available funds in the University's Temporary Investment Pool (TIP), which could be shifted from longer-term investment strategies to investments with same-day liquidity in the event the bank line expires or is terminated by the University. In addition to its same-day liquidity, the University currently has over $200 million of investments which it could liquidate within one week.

The University's same-day liquidity investments, with the bank line, must cover its daily and half of the weekly liabilities; for investment reporting as of 12/31/2008, coverage is adequate at 1.3 times. Additionally, the University must cover its daily and all of its weekly liabilities by same-day and weekly liquidity investments without the bank line; coverage for this test is slim at only 1.1 times. The University's financial management team has a high degree of capability to manage and liquidate these securities in a timely manner, with appropriate procedures to address a failed remarketing of either the bonds or the commercial paper.

The tender feature on the Series 1999A and 2001C General Obligation Bonds ($270 million outstanding) is supported by Standby Bond Purchase Agreements, all noted in Rated Debt section.

Outlook

The stable rating outlook for the University of Minnesota reflects expectations of minimal to no growth in financial resources during the next two years due to constrained operating performance and weak investment performance, mitigated by continued favorable fundraising. Overall we expect continuation of favorable student demand and a return to stronger growth trends in research grant activity. There is a stable outlook on the Series 2006 Special Purpose Revenue Bonds reflecting expectations of the payment of the legislated debt service support for the bonds, as well as the State's current stable outlook; any change in rating or outlook for the State could result in a correlated change for the Series 2006 bonds.

What could change the University rating--UP

Significant growth in financial resources with manageable additional further debt issuance; further strengthening of student demand; continued fundraising success; growth in research funding.

What could change the University rating--DOWN

Significant increase in the University's leverage position accompanied by operating deficits and deterioration of student demand.

KEY INDICATORS (Fiscal 2008 financial data and Fall 2008 enrollment data)

*Figures in parentheses represent FY2008 financial data with a 30% estimated decline in financial resources representing the impact of potential investment losses combined with endowment spending

Total Enrollment: 58,504 full-time equivalent students

Total Proforma Debt (including current issues and Foundation debt guaranteed by University): $945 million
Unrestricted Financial Resources: $230 million ($161 million)
Expendable Financial Resources: $2.6 billion ($1.8 billion)
Total Financial Resources: $3.6 billion ($2.5 billion)
Unrestricted Resources to Proforma Debt: 0.2 times (0.2 times)
Expendable Resources to Proforma Debt: 2.7 times (1.9 times)
Unrestricted Resources to Operations: 0.09 times (0.06 times)
Expendable Resources to Operations: 1.0 times (0.7 times)
Reliance on State Support: 27% of total operating revenues
State of Minnesota G.O. Rating: Aa1, stable

RATED DEBT

Commercial Paper, Series A, Series B, and Series C: rated P-1 (based on self-liquidity)

General Obligation Series 2004A, 2009A and 2009B: rated Aa2

General Obligation Series 1999A: rated Aa2/VMIG1 based on SBPA from Landesbank Hessen-Thuringen Girozentrale. The VMIG1 rating expires upon expiration of the SBPA (06/12/2009), or upon earlier termination.


General Obligation Series 2001C - Aa2/VMIG1 rating based on SBPA from JPMorgan Chase Bank, N.A. (rated Aa1/P-1). The VMIG1 rating expires upon expiration of the SBPA (3/16/2009), or upon earlier termination.

Special Purpose Revenue Bonds (State Supported Stadium Debt) Series 2006, rated Aa2

State General Obligation Bonds: Aa1 (based on the State of Minnesota’s rating)

University of Minnesota Foundation (University Gateway Project Revenue bonds Guarantee):

General Obligation Series 1997B, rated Aa2/VMIG 1 based on Wells Fargo Bank, SBPA

CONTACTS

University: Carole Fleck, Director - Debt Management, 612-624-2858

Underwriter: Diane Paauwe, Managing Director, Piper Jaffray & Co., 612-303-6686

The last rating action was on September 25, 2008 when the ratings and outlook of the University of Minnesota were affirmed.

The principal methodology used in rating the University of Minnesota was Public Colleges and Universities, which can be found at www.moodys.com in the Credit Policy & Methodologies directory, in the Ratings Methodologies subdirectory. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Credit Policy & Methodologies directory.

Analysts

Diane F. Viacava
Analyst
Public Finance Group
Moody’s Investors Service

Leah J. Ploussiou
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University of Minnesota; CP; Public Coll/Univ - Unlimited Student Fees

Primary Credit Analyst:
Jessica Matsumori, San Francisco (1) 415-371-5083; jessica_matsumori@standardandpoors.com

Secondary Credit Analyst:
Susan Carlson, Chicago 1 (312) 233-7006; susan_carlson@standardandpoors.com

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Rationale

Standard & Poor’s Ratings Services assigned its 'AA' rating to the $58 million series 2009A and 2009B general obligation (GO) and GO taxable bonds, issued by the Regents of the University of Minnesota (UM). Standard & Poor’s also affirmed its 'AA' rating on outstanding long-term debt issued by the university, and its 'A-1+' short-term rating on outstanding GO commercial paper (CP) notes and outstanding variable-rate demand bonds. The short-term rating reflects the credit quality of the university, and its provision of self-liquidity in the event of unremarketed tenders or CP rollovers.

The long-term rating reflects the university's:

- GO pledge, which is broader than that of most public universities;
- Position as Minnesota’s (AAA/Stable) flagship research university and land grant institution, with historically strong state operating and capital support;
- Competitive demand trends and stable enrollment, supported by a Big 10 Conference demand niche, substantial research, and competitive professional and graduate programs;
- Balanced operating performance on a full accrual basis;
- Modest debt burden of under 3.0%; and
- History of good fundraising.

Offsetting factors include continued vulnerability to state appropriation cutbacks, a significant decrease in the value of the endowment in line with current market trends, additional debt plans, and modest unrestricted liquidity for a public flagship institution.

The bonds are expected to be issued in fixed-rate mode and will be a general obligation of the university. Proceeds will contribute to the cost of construction of the new stadium project. Construction will also be covered through the series 2006 stadium bonds, private donations, and corporate sponsorships. Pro forma debt will be approximately $882 million.
The university's swap program has been assigned a Standard & Poor's Debt Derivative Profile (DDP) overall score of a '2.0' on a four-point scale where '1' represents the lowest risk. The '2.0' score indicates that the swap portfolio represents low risk at this time. The university's eight swap contracts total a notional amount of about $486 million.

UM is the state's flagship research university system, as well as its designated land grant institution. Enrollment has been stable and was 66,312 in fall 2008. Tuition and mandatory fees are competitive with those of peer Big 10 Conference institutions, at $10,273 for a resident undergraduate student in the 2008-2009 academic year. State appropriations represent an important 27% of consolidated 2008 university revenues, and while annual increases have been healthy in recent years, the university expects significant cuts going forward. Financial resources are adequate for a public flagship institution, with 2008 adjusted unrestricted net assets (UNA) equal to about 36% of pro forma debt and 11% of expenses. UM benefits from a substantial $2.7 billion endowment as of June 30, 2008 (held by both the university and its foundations), as well as a strong track record of fundraising.

Outlook

The stable outlook reflects our expectation that the university will continue to experience favorable demand trends, continuing state financial support, and balanced operating performance while debt levels remain manageable. Growth in liquidity relative to operating expenses would be viewed as a positive credit factor.

The University

UM, established in 1851, is both the flagship university system in Minnesota and the state's designated land grant college for agriculture. The main campus is located in Minneapolis/St. Paul, and four smaller campuses are in Duluth, Crookston, Rochester, and Morris. UM receives about the same amount of state higher-education appropriations as does its sister system, Minnesota State Colleges and Universities (AA-/Stable). In addition to undergraduate programs, UM offers graduate and professional programs including medicine, law, engineering, business, dentistry, pharmacy, and veterinary medicine. Research activity is also substantial, with $707 million in grants and contracts received in fiscal 2008.

Enrollment And Demand

University enrollment has been growing very gradually: Fall 2008 enrollment of 66,312 was about 4% higher than the fall 2003 total. About 60% of students are undergraduates, approximately 70% of which come from Minnesota. The Twin Cities campus is the largest within the UM system, enrolling more than 51,000 students in fall 2008. Enrollment at the other campuses was 11,366 in Duluth, 1,607 in Morris, and 2,199 in Crookston. Demand is strong at the flagship Twin Cities campus, and admissions are becoming more selective. Freshman applications to UM continue to increase and were up 12% over the previous year. For fall 2008, UM accepted about 57% of new freshman applications (an improvement from 76% five years ago). About 35%-40% of applicants typically matriculate. Tuition and fees at the flagship Twin Cities campus increased by 7% to $10,273 for fall 2008. Overall student costs remain competitive with those of other Big 10 Conference schools. Tuition charges at UM's three small regional campuses are not materially different from those at the flagship Twin Cities campus.
State Appropriations

State operating appropriations remain an important university revenue source. Appropriations have been slowly on the rise since 2004. The base 2008 operating appropriation was $685 million, up about 11% since 2007, though recent cuts in the state budget and projections of deficits have resulted in a one-time $20 million reversion for the university in fiscal 2009. The university expects additional cuts for the upcoming biennium, though the extent of these cuts will not be known for some time. Management reports significant contingency planning in preparation for these expected cuts.

Financial Resources

Financial resources remain adequate for a public flagship university. At June 30, 2008, the university had $3.1 billion of total net assets, of which $2.30 billion were UNA. Adjusted UNA, which includes $84 million of quasi foundation assets, totaled $314 million, equal to a modest but adequate 36% of pro forma debt and a slimmer 11% of 2008 operating expenses. UM benefits from a substantial endowment (held by both the university and its foundations, valued at about $2.7 billion as of June 30, 2008, and estimated to be down approximately 20% over the past year), and has demonstrated a strong track record of fundraising. Management reports that it is in the early planning stages of a comprehensive campaign.

Operations

Because UM holds close to $1.4 billion of investments and endowment on its own books (in addition to investments held directly by its foundations), fluctuations in market value influence consolidated university operating results. We estimated 2008 operating performance by deducting realized/unrealized investment gains, which resulted in an operating deficit of about $3.7 million in 2008. This compared with a $14 million surplus in 2007, break-even results in 2006, and a $36 million surplus in 2005. This estimation includes about $145 million of depreciation expense, which means that operations on a cash basis are consistently quite strong. In 2008, the bottom-line change in total net assets (which includes capital grants and gifts, and realized/unrealized investment gains) was negative $2 million. This compares to bottom-line changes of $345 million in fiscal 2007, $135 million in 2006, and $223 million in 2005. The university's revenue mix remains diverse, which is a credit strength. In 2008, major operating revenues included state appropriations (27%), grants and contracts (26%), net tuition and fees (20%), auxiliary income (11%), and gifts (9%).

Debt

University debt at June 30, 2008, was $824 million, of which $616 million, or about 75%, was university GO bonds or notes. The balance comprised miscellaneous revenue bonds, special purpose stadium bonds ($144 million), and the university's one-third share of state-supported capital projects ($52 million). As of Nov. 30, 2008, the university had $263.6 million in outstanding CP. Post issuance, debt will increase by $58 million. The university's pro forma debt burden remains manageable, at less than 3% of 2008 expenses. A rather front-loaded maturity structure provides additional debt flexibility. The university may issue up to $255 million of additional debt within the year for various construction projects.
Debt Derivative Profile

The university's swap program has been assigned a DDP overall score of '2.0', which indicates that the portfolio represents low risk. The university has an outstanding notional amount of about $486 million in eight interest rate swap agreements, all of which synthetically fix variable-rate debt. Five of the agreements (about $341 million notional, or 71% of the total) are with Lehman Brothers Commercial Bank, which is guaranteed by Lehman Holdings (not rated). One contract (about 7%) is with Goldman Sachs Mitsui Marine Derivative Products L.P. (AAA). Two contracts (about 21%) are with Morgan Guaranty Trust, now JP Morgan Chase (AA-). The swap program synthetically produces fixed interest rates of between 3.08% and 4.9%. The net effect of the program (post-issuance) gives UM an approximate 13% variable interest rate exposure.

The '2.0' score indicates that the swap portfolio represents low risk at this time due to the strength of the counterparties and required collateralization, good economic viability over stressful economic cycles, and a low degree of termination risk due to a moderate spread between the university's current rating and the rating that could trigger a termination or a require collateral.

Contact

Obigor: Carole Fleck, Director of Debt Management, Office of Budget and Finance, University of Minnesota, 612-624-2858

Underwriter: Diane Paauwe, Piper Jaffray & Co., 612-303-6686

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