AGENDA

1. Carlson School of Management Tuition Surcharge Differential - R. Pfutzenreuter/S. Zaheer (pp. 2-18)


4. Issues Related to: 2012 Six-Year Capital Plan - R. Pfutzenreuter (pp. 43-44)

5. Consent Report - Review/Action - R. Pfutzenreuter (pp. 45-50)

6. Information Items - R. Pfutzenreuter (pp. 51-53)
Agenda Item: Carlson School of Management Tuition Surcharge Differential

Presenters: Vice President/CFO Richard Pfutzenreuter
            Interim Dean Srilata Zaheer, Carlson School of Management

Purpose:

To explain the purpose behind a proposal to levy a tuition surcharge on Carlson School of Management undergraduate students.

Outline of Key Points/Policy Issues:

The University built Hanson Hall, which opened fall of 2008, in response to a huge increase in undergraduate applicants to the Carlson School. The additional space provided by Hanson Hall enabled the Carlson School to increase the size of its undergraduate student body by nearly 20%. The original plan was to not only to build new physical space to accommodate the additional students, but also to expand the faculty in order to continue to provide the kind of quality educational experience those students expect and deserve. Unfortunately, unprecedented cuts in state support for the University have left the Carlson School at a point where state allocations are now less than 4% of its budget, and down by about $10 million since 2006. Tuition revenue increases during this time have not offset the decline in state funding and operating cost increases, which has seriously impeded the Carlson School’s ability to hire faculty (whose numbers have remained static over the past eight years) to keep pace with the close to 20% growth in students over the same period. In the absence of a mechanism to replace the decline in state allocations and grow the faculty, Carlson’s hard-won excellence in program quality, student academic and career outcomes, and faculty productivity are all at risk.

The proposed solution is a tuition surcharge to be levied on all undergraduate students enrolled in the Carlson School’s BSB degree program. This is similar to the practice of public school peers such as Michigan, Illinois, Texas and Wisconsin, along with other public Big Ten universities, each of which charges differential tuition or
fees in their undergraduate business programs. Revenue from a tuition surcharge would be dedicated to hire and retain faculty, and to support scholarships to help students in need meet the increased costs. The surcharge would be phased in gradually over four years for all Carlson School undergraduates, starting at $250 per semester in FY 2013, and reaching a steady state of $1,000 per semester in FY 2016. In steady state, the surcharge will generate about $4.9 million in recurring revenue.

**President's Recommendation for Action:**

The President supports the proposed surcharge.
Carlson School of Management Tuition Surcharge Proposal

Summary

The University built Hanson Hall, which opened fall of 2008, in response to a huge increase in undergraduate applicants to the Carlson School. The additional space provided by Hanson Hall enabled the Carlson School to increase the size of its undergraduate student body by nearly 20%. The original plan was to not only build new physical space to accommodate the additional students, but also to expand the faculty in order to continue to provide the kind of quality educational experience those students expect and deserve. Unfortunately, unprecedented cuts in state support for the University have left the Carlson School at a point where state allocations are now less than 4% of its budget, and down by about $10 million since 2006. Tuition revenue increases during this time have not offset the decline in state funding and operating cost increases, which has seriously impeded the Carlson School’s ability to hire faculty (whose numbers have remained static over the past eight years) to keep pace with the close to 20% growth in students over the same period. In the absence of a mechanism to replace the decline in state allocations and grow the faculty, Carlson’s hard-won excellence in program quality, student academic and career outcomes, and faculty productivity are all at risk. The resulting decline in quality would hit particularly hard in Carlson’s flagship undergraduate program.

The proposed solution is a tuition surcharge charged to all undergraduate students enrolled in the BSB degree program. This is similar to the practice of public school peers such as Michigan, Illinois, Texas and Wisconsin, along with other public Big Ten universities, each of which charges differential tuition or fees in their undergraduate business programs. The University of Minnesota already has differential collegiate fees, which in the Carlson School of Management are used to support career and academic services. However, revenues from a tuition surcharge can be dedicated to hire and retain faculty, and to support scholarships to help students in need meet the increased costs, thus ensuring continued academic excellence and financial access at the Carlson School. The recommended proposal is to phase in the tuition surcharge gradually over four years for all Carlson School undergraduate students, starting at $250 a semester in FY 13, and reaching a steady state of $1,000 a semester in FY16. In steady state, this will generate about $4.9 million in recurring revenue.

The proposal is merely a revised financial model – it does not imply any change in governance. The Carlson School will continue to be governed by all relevant University policies and procedures; nothing changes in how the Carlson School relates to the rest of the University of Minnesota. The proposal simply offers a way for the Carlson School and the University to continue on the path towards excellence and access, given the reality of declining state allocations.
Excellent Faculty, Exceptional Students and Outcomes

Over the years, the Carlson School of Management has consistently made multiple contributions to academic excellence at the University of Minnesota, from its faculty which is internationally recognized for excellence in research productivity, to highly ranked academic programs, to exceptional student outcomes. These factors, combined with the quality of the curriculum and strong connections to the business community make the Carlson School a leader among public business schools and a major contributor to the economic vitality of the region.

Since 1996, when the Carlson School became an undergraduate admitting college, the reputation of the undergraduate program in business (BSB) has grown dramatically, with applications up eleven-fold, from 606 in 1996 to 6,675 in Fall 2011, resulting in 470 admits (Appendix A). This growth has been matched by an increase in applicant quality, matriculation of top students, retention rates and graduation rates that are among the highest in the University and continually exceed institutional goals (Appendix B). As for other outcome measures, 87% of Carlson School undergraduate students were placed within 90 days of graduation in 2011, with average starting salaries growing by $2,000 from last year to $50,500, and ranging up to $84,000. Student debt load at graduation is manageable, with 46% of Carlson undergraduates leaving school with zero debt, and average student debt at graduation of about $28,000 for the 54% who have loans.

The Challenge of Growth: Sustaining Academic Excellence Requires Investment in Faculty

Over the past eight years, the number of undergraduates enrolled at the Carlson School has grown by 36%, from 1,693 in 2003-04 to over 2,300 in 2011-12. The total number of students at the Carlson School also increased over this period, from 4,000 in 2003-04 to about 4,700 in 2011-12.

Managing this growth poses a significant ongoing challenge for the Carlson School because the total of tenured/tenure-track faculty has stayed static over this same period, from 104 in 2003-04, to 104 in 2010-11. Among the principal constraints to growing the faculty is the decline in centrally allocated O&M state support to the Carlson school annual budget from approximately $14 million in FY07 to $4 million in FY12. At the same time, operating costs have increased and tuition revenue has been insufficient to offset both the increased costs and the decline in state funding. As a result, the Carlson School has not been able to grow the faculty, but has merely replaced the significant numbers of faculty departing via phased retirement and normal attrition. The declining faculty-student ratio at Carlson (which is already the lowest of all freshman admitting colleges in the university) poses a significant challenge to the ability to sustain and improve on academic excellence, puts at risk the delivery of a quality educational experience to students and particularly to undergraduates, and threatens the ability to maintain Carlson’s internationally recognized track record of research productivity.

Goals: Increasing Financial Access while Improving Academic Excellence

Growing the faculty to sustain and improve academic excellence for Carlson’s exceptional undergraduate students requires new sources of recurring revenue, including increased tuition or fees. At the same time, any increase in tuition or fees must not negatively affect the ability of
students to choose business as a major for financial reasons, although business majors overall reap significant private benefits by way of paid summer internships, high-paying jobs and lower debt loads. The land grant mission and history of the University of Minnesota conveys an obligation to ensure financial accessibility to our undergraduate program for any Minnesota resident who is accomplished enough to gain admission into the Carlson School’s BSB program, but that idea is based on a bedrock of public support.

With the twin goals of improving financial access and academic excellence in mind, we have crafted a revised financial model for the Carlson School that a) assumes an ongoing commitment of State funds at current levels and b) implements a new tuition surcharge, a variation of which is becoming the norm in public research universities (see Appendices C and D). It is assumed in a) that the bedrock of State support will not be cut further as tuition revenues increase. In turn, the Carlson School would immediately increase its commitments to faculty hiring as well as to ensuring financial access by eliminating financial barriers for those Minnesota residents who qualify for admission.

Recommendation: Tuition Surcharge to Ensure Financial Access and Academic Excellence

Tuition Surcharge for Carlson School Undergraduate Students

Differential pricing (through tuition and/or fees) is the norm among public business schools. Nelson (2008)⁠, in his dissertation on differential undergraduate tuition and fees at public research institutions, found that of the 51 land-grant universities with business undergraduate programs that responded to his survey, 57% had differential undergraduate tuition by program, and that number has been increasing (Appendix C).

Of the 10 peer institutions used for benchmarking by the University of Minnesota, UCLA does not have an undergraduate program in Business. Of the nine remaining institutions, six – Michigan, Wisconsin, Illinois, Texas, Penn State and Ohio State -- use differential pricing by major for their undergraduate business majors, of as much as 45% over the base (Appendix D). Except for Ohio State, which charges differential fees, the other five peer institutions charge differential tuition.

The University of Minnesota’s current resident tuition and fees of $12,810 are still significantly below what many of our peers charge their business undergraduates: Illinois, for example, charges $19,238 to its business undergraduates, Penn State charges $18,182, and Michigan charges $15,466. Three schools in our peer group (Berkeley, Florida and Washington) do not appear to use differential pricing based on major, although they charge vastly more in differential tuition to their non-resident and international students, compared to what Minnesota does. In a 2009 Carlson School survey which examined differential pricing among ten major public competitors (which partially overlapped with the University list of peers), nine of the ten schools

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reported some form of differential pricing involving differential tuition, differential fees, or both. The steady increase in demand for undergraduate admissions supports a price increase of some kind for the BSB program. The present proposal is a phased-in tuition surcharge that will go from $250 per semester in FY13 to $1,000 per semester in FY16, charged to all Carlson School undergraduate students, which will generate additional revenues of $4.9 million annually by FY16. The revenue generated each year would be used for scholarships to ensure continued financial access and for faculty hiring and retention.

Amend Board of Regents Policy: Tuition and Fees

Use of a tuition surcharge will require consideration and approval of a minor amendment to the Board of Regents Policy: Tuition and Fees. The administration’s intention is to bring a proposal to the Board for review in February and action in March. A surcharge of the type proposed is consistent with the Guiding Principles contained in the Tuition and Fees Policy, but the section on Tuition Rates would need to be amended. Currently, the applicable portion of that section reads: “For each campus, the resident tuition rates shall be the same for all undergraduate students and the nonresident tuition rates shall be the same for all undergraduate students.” Addition of the following sentence would enable a surcharge of the type discussed above: “A college specific tuition surcharge may be established as a supplement to the relevant undergraduate tuition rate.”
Appendix A

Appendix A: Historical Growth in Undergraduate Applications

Carlson School of Management Undergraduate Applicants, Admits & Matriculates, 1996-2011

- Applicants
- Admits
- Matriculates
Carlson School Undergraduate Program Key Metrics

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Freshman Retention</td>
<td>95.5%</td>
<td>97.1%</td>
<td>97.0%</td>
<td>96.9%</td>
<td>95.1%</td>
</tr>
<tr>
<td>Four Year Graduation</td>
<td>77.4%</td>
<td>75.4%</td>
<td>78.3%</td>
<td>75.7%</td>
<td>71.8%</td>
</tr>
<tr>
<td>Five Year Graduation</td>
<td>90.3%</td>
<td>91.8%</td>
<td>91.1%</td>
<td>89.0%</td>
<td>86.4%</td>
</tr>
<tr>
<td>Employment at 90 days</td>
<td>87.0%</td>
<td>86.0%</td>
<td>94.0%</td>
<td>89.0%</td>
<td>81.0%</td>
</tr>
<tr>
<td>Starting Salary (Range)</td>
<td>$50,500 (24,000-84,000)</td>
<td>$48,609</td>
<td>$49,169</td>
<td>$48,532</td>
<td>$45,868</td>
</tr>
</tbody>
</table>

*In 2008 the University of Minnesota switched to the National Survey Student Engagement (NSSE) to assess student satisfaction.*
Appendix C

Extent of differential tuition/fees at a range of public research universities


http://digitalcommons.unl.edu/cgi/viewcontent.cgi?article=1004&context=cehsedaddiss

Note: Not all public research universities responded in this study.

<table>
<thead>
<tr>
<th>Public Research Universities - Business Programs</th>
<th>Differential over base %</th>
</tr>
</thead>
<tbody>
<tr>
<td>University of Colorado, Boulder</td>
<td>59</td>
</tr>
<tr>
<td>University of Illinois at U-C</td>
<td>45</td>
</tr>
<tr>
<td>University of Kansas</td>
<td>40</td>
</tr>
<tr>
<td>University of Utah</td>
<td>35</td>
</tr>
<tr>
<td>University of South Dakota</td>
<td>30</td>
</tr>
<tr>
<td>The University of Montana</td>
<td>22</td>
</tr>
<tr>
<td>Oklahoma State University</td>
<td>18</td>
</tr>
<tr>
<td>University of Arizona</td>
<td>16</td>
</tr>
<tr>
<td>University of Texas, Austin</td>
<td>16</td>
</tr>
<tr>
<td>University of Wisconsin, Madison</td>
<td>16</td>
</tr>
<tr>
<td>West Virginia</td>
<td>15</td>
</tr>
<tr>
<td>Indiana University, Bloomington</td>
<td>14</td>
</tr>
<tr>
<td>U of Missouri, St. Louis</td>
<td>14</td>
</tr>
<tr>
<td>University of Arkansas, Fayetteville</td>
<td>14</td>
</tr>
<tr>
<td>Purdue University, West Lafayette</td>
<td>13</td>
</tr>
<tr>
<td>Ohio State University</td>
<td>12</td>
</tr>
<tr>
<td>University of Hawaii, Manoa</td>
<td>12</td>
</tr>
<tr>
<td>University of Memphis</td>
<td>12</td>
</tr>
<tr>
<td>Arizona State University</td>
<td>10</td>
</tr>
<tr>
<td>Indiana U, Purdue U Indianapolis</td>
<td>10</td>
</tr>
<tr>
<td>University of Oregon</td>
<td>10</td>
</tr>
</tbody>
</table>
**Appendix D**

**Differential Pricing for Undergraduate Resident Tuition and Fees at Peer Schools**

(From Carlson School Survey of peers, 2009; updated through web searches, September 2011)

<table>
<thead>
<tr>
<th>School</th>
<th>Differential Tuition</th>
<th>Differential Fees</th>
<th>Annual Differential from Base</th>
<th>% Differential from Base</th>
</tr>
</thead>
<tbody>
<tr>
<td>Illinois at Urbana-Champaign*</td>
<td>Yes</td>
<td>$ 4,824.00</td>
<td>43%</td>
<td></td>
</tr>
<tr>
<td>Michigan*</td>
<td>Yes</td>
<td>$ 2,330.00</td>
<td>15%</td>
<td></td>
</tr>
<tr>
<td>Penn State University Park*</td>
<td>Yes</td>
<td>$ 970.00</td>
<td>6%</td>
<td></td>
</tr>
<tr>
<td>Texas at Austin*</td>
<td>Yes</td>
<td>$ 1,392.00</td>
<td>15%</td>
<td></td>
</tr>
<tr>
<td>Wisconsin at Madison*</td>
<td>Yes</td>
<td>$ 1,000.00</td>
<td>10%</td>
<td></td>
</tr>
<tr>
<td>Ohio State*</td>
<td>Yes</td>
<td>$ 754.00</td>
<td>12%</td>
<td></td>
</tr>
<tr>
<td>Indiana at Bloomington</td>
<td>Yes</td>
<td>$ 1,080.00</td>
<td>10%</td>
<td></td>
</tr>
<tr>
<td>Purdue University</td>
<td>Yes</td>
<td>$ 1,070.00</td>
<td>13%</td>
<td></td>
</tr>
<tr>
<td>California, Berkeley*</td>
<td>No+</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Washington, Seattle*</td>
<td>No+</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Florida, Gainesville*</td>
<td>No+</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>California, Los Angeles*</td>
<td></td>
<td></td>
<td>No undergraduate program in Business</td>
<td></td>
</tr>
</tbody>
</table>
Carlson School of Management
Tuition Surcharge Proposal

Srilata Zaheer, Interim Dean

Presentation to the
University of Minnesota Board of Regents
Finance & Operations Committee
February 9, 2012
Carlson School of Management Undergraduate Applicants, Admits & Matriculates, 1996-2011

Applicants
Admits
Matriculates

Historical Growth in Undergraduate Applications

- Applicants, Admits & Matriculates
- Years: 1996-2011
- Numbers: 8,000, 7,000, 6,000, 5,000, 4,000, 3,000, 2,000, 1,000
<table>
<thead>
<tr>
<th>Year</th>
<th>Freshman Retention</th>
<th>Four Year Graduation</th>
<th>Five Year Graduation</th>
<th>Employment Starting at 90 Days</th>
<th>Starting Salary (Range)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>95.1%</td>
<td>71.8%</td>
<td>86.4%</td>
<td></td>
<td>$45,868</td>
</tr>
<tr>
<td>2007</td>
<td>96.9%</td>
<td>75.7%</td>
<td>89.0%</td>
<td></td>
<td>$48,532</td>
</tr>
<tr>
<td>2008</td>
<td>97.0%</td>
<td>78.3%</td>
<td>91.1%</td>
<td></td>
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</tr>
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<td>2009</td>
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<td>$50,000 ($24,000-$84,000)</td>
<td>$48,609</td>
</tr>
</tbody>
</table>

*In 2008 the University of Minnesota switched to the National Survey Student Engagement (NSSE) to assess student satisfaction.*
BSB Enrollment Growth vs. Faculty Headcount

* Fall 2008
Hanson Hall opens

- Undergraduate Student Headcount
- Tenured/Tenure-Track Faculty
Proposal for Tuition Surcharge in the BSB Program

- Impose a tuition surcharge of $1,000 per semester on all undergraduate students enrolled in the BSB program.

  - To be phased in over 4 years:
    - FY13: $250/semester
    - FY14: $500/semester
    - FY15: $750/semester
    - FY16: $1,000/semester

  - In steady state, generates ~$4.9M in new annual revenues from 2,450 students.
Benchmarking Differential Tuition at Peer Business Schools

<table>
<thead>
<tr>
<th>School</th>
<th>Differential Tuition</th>
<th>Differential Fees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Illinois at Urbana-Champaign*</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>Michigan*</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>Penn State at University Park*</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>Wisconsin at Madison*</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>Ohio State*</td>
<td></td>
<td>Yes</td>
</tr>
<tr>
<td>Indiana at Bloomington</td>
<td></td>
<td>Yes</td>
</tr>
<tr>
<td>Purdue University</td>
<td></td>
<td>Yes</td>
</tr>
<tr>
<td>California, Berkeley*</td>
<td>No</td>
<td></td>
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<tr>
<td>California, Los Angeles*</td>
<td></td>
<td>No undergraduate program in Business</td>
</tr>
<tr>
<td>Florida, Gainesville*</td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>Texas at Austin*</td>
<td></td>
<td>Yes</td>
</tr>
<tr>
<td>Washington, Seattle*</td>
<td></td>
<td>No</td>
</tr>
</tbody>
</table>

Source: Institutional websites, September 2011
* Designated as institutional peers by central administration
Proposal for Tuition Surcharge in the BSB Program

Questions?
Finance and Operations Committee                                               February 9, 2012

**Agenda Item:** Annual Insurance & Risk Management Report

☐ review   ☐ review/action   ☐ action   ☒ discussion

**Presenters:** Associate Vice President Michael Volna
                Steven Pardoe, Director of Risk Management and 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 2011.

**Outline of Key Points/Policy Issues:**

The University’s total cost of risk for FY 2011 (which is the sum of self-insurance costs and the cost of commercially-purchased insurance) was $14.1 million, compared with $12.1 million for the prior year, an increase of 17%. The property insurance program was a major driver of the cost increase, with 10 year highs in total claims (23) and claims exceeding $200,000 (4).

During FY 2011, Risk Management successfully bid the contract for third party administration (TPA) of liability and Workers’ Compensation claims. The winning bid will result in an estimated 10% reduction in TPA costs over the life of the contract.

For FY 2012, Risk Management’s work plan includes: (a) evaluating risk programs that would apply to extra-Minnesota clinical trials we sponsor; (b) a project to standardize the insurance clauses in all University contract templates; (c) a review of administrative policies and procedures covering property and casualty insurance for opportunities to streamline administrative processes; and (d) finding additional uses for the Risk Management Safety Fund that will improve safety and reduce losses.

**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 2011
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I. Overview

Mission of the Office of Risk Management and Insurance

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.

The Office of Risk Management and Insurance (‘Risk Management’) accepts as principle that assuming some risk is integral to being productive. The University must take risks and Risk Management must find ways to minimize the financial impact of adverse outcomes.

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 risk and insurance provisions of the contracts the University seeks to enter.

This report summarizes the scope of operations of the University’s Office of Risk Management and Insurance as of fiscal yearend June 30, 2011.
I. Overview (cont.)

Organizational Structure

The Office of Risk Management:
- Acts at the direction of the Controller’s Office;
- Maintains dotted line relationships with many University entities and resources; and
- Controls the activities of several insurance vendors and suppliers.
I. Overview (cont.)

**FY11 Milestones and Accomplishments**

Third Party Administration Request for Proposal: Workers’ Compensation and Liability Claims

Risk Management conducted a Request for Proposal process for Third Party Administration of Liability and Workers’ Compensation claims. Sedgwick was deemed the most complete provider by the RFP team, and offered lower fees on several key services, with prices locked in for three years. Based on current use patterns, we estimate $84,000 in life of contract total savings, a decrease of 10% when compared to former pricing.

Property Program Performance

One year after the recalibration of our rate and deductible through the Request for Proposal process, we can assess the end result. Despite a year of unusual property loss frequency, our effective premium rate*, which reflects both rate and deductible, has reached a five year low, 26% below its FY08 peak.

* Effective Premium Rate = [Premium paid to Insurers + Retained Deductible Cost] / (Total Insured Values/100)
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 is 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, Ltd.)
- 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. Because retaining one’s own risk (within limits) tends to be more economical in the long run than paying a third party to assume it, the guiding principle has been for the University to retain risk, to the extent that it is financially possible and reasonable to do so.

Generally, this principle is not useful when the University is exposed to truly catastrophic loss potential. A good example of this is the property associated with the University’s campuses. The University has approximately $11B in property values, and carries a $1B property insurance limit. Because there is no good way to fund $1B internally, the University purchases an insurance policy to transfer the 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 three general strategies:

- Captive Insurance (Risk Transfer)
  - Professional Liability
  - General Liability
  - Non-Profit Organization Liability
  - Auto Liability

- Commercial Insurance (Risk Transfer)
  - Property
  - Other Exposures
  - Midwestern Higher Education Commission (MHEC)
  - Miscellaneous Insurance Companies
  - Lexington / AIG (Excess Property)

- Retained (Self-Insured)
  - Workers’ Compensation
  - Property Deductible

The Office of Risk Management monitors the University’s loss trends and the insurance marketplace to determine the optimal risk financing strategy. 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.**

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 (Medical Malpractice)

The University purchased excess limits from commercial insurance companies until 1986, when the Office of the General Counsel advised that the State of Minnesota’s Tort Statute effectively and reliably limits the University’s exposure to Tort Liabilities incurred within Minnesota jurisdiction.

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 (Employment Claims)

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.
II. Risk Finance Programs (cont.)

Captive Insurance (cont.)

**RUMINCO, Ltd. Coverage Overview**

A. **General Liability** insures the University’s legal liability for third party bodily injury or property damage.

**Principal Exposures:**

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

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

B. **Professional Liability** covers damages arising out of professional services, including:

- Medical, surgical, dental or nursing treatment
- Furnishing or dispensing of drugs or medical, dental, or surgical supplies or appliances
- Performing postmortem 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 Exposure:**

*Frequency and Severity:* Medical Malpractice

C. **Auto Liability** covers legal liability for bodily injury and property damage arising out of the use of approximately 800 owned vehicles, as well as hired and non-owned autos operated with the permission of the University.

**Principal Exposures:**

*Frequency:* Collision damage to third parties’ vehicles

*Severity:* Vehicle accidents involving multiple-passenger vehicles

D. **Non-Profit Organization Liability** 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 Exposure:**

*Frequency and Severity:* Employment-related claims such as allegations of sexual harassment, failure to grant tenure, discrimination, etc.
II. Risk Finance Programs (cont.)

Captive Insurance (cont.)

*Summary of RUMINCO Ltd. Limits*

Because RUMINCO limits are 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.)

*RUMINCO Ltd. Claims Experience*

Claim Count by Fiscal Year

Claim frequency for the four RUMINCO lines of liability coverage over the past ten years.

RUMINCO’s total claim count has averaged 99 claims per year. Only one FY11 total (Professional Liability) is beyond one standard deviation from its historical mean, and it deviates in the favorable direction.
II. Risk Finance Programs (cont.)

Retained (Self-insured)

_Workers’ Compensation Overview_

Workers’ Compensation benefits are mandated and governed by Minnesota statute. Benefits include medical costs, wage loss and retraining costs for University employees who are injured while acting in the scope of their duties.

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

Total costs associated with Workers’ Compensation administration have remained close to $4MM.
II. Risk Finance Programs (cont.)

Retained (Self-insured)

*Workers’ Compensation*

Beginning in FY09, Risk Management began a continuing initiative to make the statutory Workers’ Compensation benefit system more transparent, accessible and easy to use for all parties.

**Workers’ Compensation Legal Expenses**

![Graph showing Workers’ Compensation Legal Expenses](image)

Work Comp litigation cost has decreased by one-third since FY08.

**On-time Reporting to Department of Labor and Industry**

![Graph showing on-time reporting](image)

The University’s on-time reporting of DOLI claims has consistently exceeded the Minnesota average, and reached a ten-year high in FY11.
II. Risk Finance Programs (cont.)

Retained (Self-insured)

**Workers’ Compensation**

An "Experience Modification Factor" is a standard measure of Workers’ Compensation results. It derives from specific employers’ rolling three-year loss experience. An Experience Mod of “1.0” designates industry average performance, with levels below and above signifying better and worse than average experience, respectively.

The Minnesota Workers’ Compensation Reinsurance Association annually calculates the University’s Experience Modification Factor. Over the past 10 years, the University's factor has been 40 to 50 points better than the average for its industry group.

**Experience Modification Factor:**
**University of Minnesota vs Class Average**

The University’s Experience Modification Factor for ten years as calculated by the Minnesota Workers’ Compensation Reinsurance Association (WCRA).
II. Risk Finance Programs (cont.)

Commercial Insurance

Property Insurance

Property Insurance covers risks of direct physical loss or damage to the “covered property” as defined in the policy, subject to sublimits and specifically excluded perils. The principle insurer for the University is Chartis (AIG) through the Midwest Higher Education Compact (MHEC) Master Property Program. Default limit under the program is $500MM. The University purchases another $500MM excess of standard limits, for a $1B per-occurrence total.

Early in 2010, the University conducted an RFP for the July 1, 2010, renewal of its property program. Based on our ten-year loss history, we chose at that time to revise our deductible level from $200,000 to $500,000 per claim event.

Trends in Values, Premium and Rates: FY07 = 1

Using 2007 as the baseline (2007 = 1) this chart shows rate decreases offsetting value increases, leaving premium relatively stable.

The competitive process and deductible revision resulted in a 34% insurance rate decrease.
II. Risk Finance Programs (cont.)

Commercial Insurance (cont.)

**Property Insurance**

We expected some rate savings would be eroded by the increased deductible. Fiscal year 2011 was in fact notable for the number of events; the property claim count reached a ten-year high of 23.

**Property Claim Count by Fiscal Year**

Property claim count reached a ten-year high of 23 events.

FY11 losses were also notable for their severity and unusual nature:
- Four losses exceeded $200,000, again a ten-year record (1-2 typical)
- Notable Events:
  - Soudan Mine Fire,
  - 10 August 2010 storm,
  - Metrodome roof collapse (affecting our baseball schedule),
  - Ice-crush of our Mississippi boat dock, and
  - Three research freezer failures.
  - Phillips Wagensteen Water Claim

These events accounted for:
- 35% of the 23 loss claim count, and
- 80% of the University-incurred deductible expenses.
II. Risk Finance Programs (cont.)

Commercial Insurance

Property Insurance

The unusual loss year combined with taking a higher deductible produced a spike in retention (deductible cost in excess of $10,000 incurred by the University and reported to Risk Management) cost incurred by the University for FY11.

Total Deductible Expense Paid by the University by Year (000,000s)

Property loss retention cost (incurred deductible) is affected by claims experience and deductible level.

Rate paid to insurers is down 44% since FY07, from $0.043 to $0.024.

A more complete measure of performance is Effective Total Rate, which reflects retention cost;

Effective Total Rate = (Premium + Amount Retained)/Total Insured Values

Effective Total Rate is down 26% from its peak in FY08.

Rate Paid to Insurer vs. Effective Total Rate

Effective Total Rate has decreased 26% since its FY08 peak, reaching a five-year low of $0.046 (High=$0.062)
II. Risk Finance Programs (cont.)

Commercial Insurance

Property Insurance

The University saved $360,285 compared to results based on applying expired FY10 rate and deductible to FY11 values and experience. Even in the context of a challenging claim year, the net result of the deductible and rate changes was financially positive for the University.

Miscellaneous Commercial Insurance Coverage

The aggregate cost of all commercial insurance programs (excluding the MHEC Property Program) and associated brokerage and consulting was $440,368 a decrease of 7% from FY10 levels. Here is a brief overview of the purchased policies with premiums exceeding $10,000:

EXCESS LIABILITY – EXTRA MN: $40MM in coverage excess a $1MM Self-insured Retention (Deductible) for General and Automobile 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: Insurance specific to 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 $25MM 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 $5MM 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 $4MM of liability insurance excess of $1MM in primary coverage through RUMINCO.
### III. Total Cost of Risk

University of Minnesota Total Cost of Risk: Fiscal Years 2007 – 2011

<table>
<thead>
<tr>
<th>COST ITEM</th>
<th>FY07</th>
<th>FY08</th>
<th>FY09</th>
<th>FY10</th>
<th>FY11</th>
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<tbody>
<tr>
<td><strong>Captive</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Paid Losses</td>
<td>$657,170</td>
<td>$2,790,987</td>
<td>$1,285,329</td>
<td>$1,619,891</td>
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<td>Case Reserves</td>
<td>963,721</td>
<td>341,548</td>
<td>130,576</td>
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<td>Incurred, But Not Reported (ESTIMATE)</td>
<td>1,000</td>
<td>13,000</td>
<td>42,000</td>
<td>289,000</td>
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<tr>
<td>Liability Claims Administrator</td>
<td>42,159</td>
<td>54,624</td>
<td>50,724</td>
<td>74,075</td>
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<td>Captive Administrative Expenses</td>
<td>148,144</td>
<td>131,177</td>
<td>148,305</td>
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<td>Litigation Cost</td>
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<td>54,624</td>
<td>50,724</td>
<td>74,075</td>
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<td><strong>Total Captive</strong></td>
<td>$1,541,440</td>
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<td><strong>Self-Insurance</strong></td>
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<td>Workers' Compensation Est. Ultimate Loss</td>
<td>2,821,771</td>
<td>3,160,318</td>
<td>3,139,282</td>
<td>2,848,430</td>
<td>3,188,112</td>
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<td>WC Reinsurance Association</td>
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<td>109,815</td>
<td>130,873</td>
<td>158,827</td>
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<td>Special Compensation Fund</td>
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<td>273,999</td>
<td>244,764</td>
<td>261,894</td>
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<td>WC Claims Administrator</td>
<td>221,554</td>
<td>245,326</td>
<td>317,428</td>
<td>298,348</td>
<td>291,712</td>
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<td>Litigation Cost</td>
<td>248,656</td>
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<td>WC Claims Administrator</td>
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<td>Bill Review Service</td>
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<td>27,985</td>
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<td>WC Administrative Claims</td>
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<td>12,000</td>
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<td>9,892</td>
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<td>WC Broker Consultation</td>
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<td>28,350</td>
<td>33,210</td>
<td>11,550</td>
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<td><strong>WC Total</strong></td>
<td>2,821,771</td>
<td>3,160,318</td>
<td>3,139,282</td>
<td>2,848,430</td>
<td>3,188,112</td>
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<tr>
<td>Retained Property Losses [1]</td>
<td>866,251</td>
<td>1,059,750</td>
<td>709,990</td>
<td>901,752</td>
<td>2,407,782</td>
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<td>Automobile Physical Damage</td>
<td>101,189</td>
<td>125,338</td>
<td>154,891</td>
<td>173,682</td>
<td>127,295</td>
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<td><strong>Total Self-insurance</strong></td>
<td>$4,704,979</td>
<td>$5,407,314</td>
<td>$5,104,846</td>
<td>$4,978,207</td>
<td>$6,826,056</td>
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<tr>
<td><strong>Commercial Insurance</strong></td>
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<tr>
<td>All Risk Property</td>
<td>$2,827,147</td>
<td>$3,061,018</td>
<td>$2,987,422</td>
<td>$3,115,827</td>
<td>$2,618,781</td>
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<tr>
<td>Property Experience Dividend</td>
<td>(14,384)</td>
<td>(32,453)</td>
<td>(85,691)</td>
<td>na</td>
<td>na</td>
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<td>Total Property Insurance</td>
<td>$2,812,763</td>
<td>$3,028,565</td>
<td>$2,901,731</td>
<td>$3,115,827</td>
<td>$2,618,781</td>
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<td>Automobile Liability (out of state) [3]</td>
<td>191,554</td>
<td>51,881</td>
<td>53,610</td>
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<td>Broadcaster's Liability</td>
<td>5,960</td>
<td>5,365</td>
<td>5,365</td>
<td>5,365</td>
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<td>Child Care Center</td>
<td>1,406</td>
<td>1,275</td>
<td>931</td>
<td>1,173</td>
<td>1,173</td>
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<td>Excess Liability - Extra MN</td>
<td>--</td>
<td>--</td>
<td>205,511</td>
<td>233,400</td>
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<tr>
<td>Fidelity &amp; Crime</td>
<td>49,407</td>
<td>43,232</td>
<td>19,967</td>
<td>19,967</td>
<td>19,967</td>
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<td>Fine Arts</td>
<td>55,988</td>
<td>43,750</td>
<td>18,495</td>
<td>17,549</td>
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<td>Intercollegiate Athletics</td>
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<td>76,000</td>
<td>39,000</td>
<td>34,195</td>
<td>53,000</td>
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<td>Nonowned Aircraft Liability</td>
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<td>17,649</td>
<td>19,187</td>
<td>18,229</td>
<td>18,000</td>
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<td>Special Events</td>
<td>24,365</td>
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<td>RSO Liability</td>
<td>5,000</td>
<td>7,725</td>
<td>8,047</td>
<td>8,067</td>
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<td>Hull &amp; Liability (Blue Heron Watercraft)</td>
<td>15,599</td>
<td>15,599</td>
<td>15,599</td>
<td>18,315</td>
<td>19,967</td>
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<td>Excess Marine Liability</td>
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<td>9,450</td>
<td>9,450</td>
<td>9,450</td>
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<tr>
<td>Pollution (Blue Heron Watercraft)</td>
<td>1,000</td>
<td>1,075</td>
<td>1,075</td>
<td>1,212</td>
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<td>Upward Bound AD&amp;D</td>
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<td>Showboat</td>
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<td>7,648</td>
<td>6,925</td>
<td>6,925</td>
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<td>Study Abroad (France)</td>
<td>6,500</td>
<td>6,500</td>
<td>7,203</td>
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<td>Consultation</td>
<td>6,400</td>
<td>19,737</td>
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<td>Brokerage</td>
<td>103,397</td>
<td>128,750</td>
<td>128,750</td>
<td>128,750</td>
<td>54,000</td>
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<td><strong>Total Commercial Insurance</strong></td>
<td>$3,515,801</td>
<td>$3,583,675</td>
<td>$3,338,328</td>
<td>$3,590,911</td>
<td>$3,059,149</td>
</tr>
</tbody>
</table>

**GRAND TOTAL COST OF RISK**

$9,762,220 $14,027,873 $11,414,362 $12,069,420 $14,136,462

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[1] Insurable property losses exceed $10,000 falling within the deductible.
[2] EDP coverage is self-insured; figure shows losses excess $500/claim.
III. Total Cost of Risk (cont.)

The University’s Total Cost of Risk is the sum of

- Captive expenses,
- Self-Insured expenses and
- Commercial Insurance premiums.

Total Cost of Risk has averaged $12.3MM over the past five years, ranging from $9.8MM to $14.1MM.

Total Cost of Risk by Fiscal Year

The volatility of our Total Cost of Risk closely tracks the claims experience of the RUMINCO, Ltd. captive.
IV. Workplan

Goals for FY12

Extra-Minnesota Clinical Trials Liability

Within Minnesota jurisdiction, the University is afforded protection from high-dollar lawsuits by statute. We cannot count on similar protections in foreign jurisdictions. In FY10, Risk Management established a new excess liability insurance placement for catastrophic extra-Minnesota General and Auto liabilities. We are now pursuing a similar program that would apply to extra-Minnesota clinical trials we sponsor.

Standard Contracts

We will review the insurance sections of the standard contracts the University uses. The central goal will be the practical ability of contract partners to comply with requirements, appropriateness of standards to the tasks normally covered by the contracts, and, to the extent possible, standardization.

Insurance Policy

We will review University administrative policy addressing property and casualty insurance. Our focus will be on streamlining the policy, making sure the information is relevant to end users and that key points are immediately recognizable and easy to understand.

Physical Safety Improvements

The Safety Fund is an annually replenished pool of funds used for purchase of durable equipment that improves the safety profile of the University workplace. Risk Management administers the Safety Fund, and encourages units to apply for funding whenever appropriate. This fund can be particularly helpful in this fiscal environment. We are actively seeking areas where Safety Fund support will be optimally useful.
Finance and Operations Committee

February 9, 2012

Agenda Item: Issues Related to: Annual Capital Finance & 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, 2011, the University’s long-term debt outstanding was $1,145,419,000 with a total effective interest rate of 3.63%. Long-term debt consists of general obligation (GO) bonds, special purpose revenue bonds, commercial paper (CP) notes, auxiliary bonds, infrastructure development bond obligations, and capital leases and other.

The balance outstanding at June 30, 2011, excluding the special purpose revenue bonds (State Supported Stadium Debt and State Supported Biomedical Science Research Facilities) is $890,226,000.

Significant FY 2011 debt transactions:

- In September 2010, the University extended the Line of Credit (LOC) with Wells Fargo for one year and reduced the amount from $130,000,000 to $65,000,000. The LOC supports the University’s self-liquidity for its commercial paper outstanding.

- On September 30, 2010, the University issued the first tranche of the Biomedical Science Research Facilities Funding Program, of which the proceeds 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.
• $111,400,000 Special Purpose Revenue Bonds, Series 2010A (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.

• $41,720,000 GO Taxable Bonds (Build America Bonds – BABs), Series 2010B (University Supported Biomedical Science Research Facilities Funding Program). The University will receive a 35 percent annual interest subsidy from the Federal Government for the life of the bonds.

• On February 15, 2011, the University issued GO bonds, Series 2011A, in the par amount of $335,270,000 to fund various capital projects and to refund the University’s outstanding variable rate GO bonds, Series 1999A and 2001C, and variable rate GO Refunding Bonds, Series 2003A, in the total amount of $282,900,000. In addition, the university terminated liquidity facilities and interest rate swap agreements associated with each refunded series.

• Subsequent to year-end:
  • The LOC with Wells Fargo was extended for an additional year to October 1, 2012 with a reduction in the amount to $50,000,000.
  • The second tranche of the Biomedical Science Research Facilities Funding program was issued on October 13, 2011 – Special Purpose Revenue Bonds, Series 2011B in the par amount of $52,485,000, and GO Taxable Bonds, Series 2011C in the par amount of $19,335,000.
  • GO Bonds, Series 2011D, in the par amount of $53,610,000, was issued on December 21, 2011 to fund various capital projects.

**Background Information:**

The 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.

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

Finance and Operations Committee  February 9, 2012

Agenda Item:  Issues Related to:  2012 Six-Year Capital Plan

☐ review  ☐ review/action  ☐ action  ☒ discussion

Presenters:  Vice President/CFO Richard Pfutzenreuter

Purpose:

☐ policy  ☒ background/context  ☐ oversight  ☐ strategic positioning

The Board-approved "Six-Year Capital Plan" (Plan) sets priorities and direction for continued capital and academic planning efforts.

Outline of Key Points/Policy Issues:

The President’s recommended 2012 Plan includes major capital improvements planned for fiscal years 2013 through 2018. The Plan includes projects to be funded with state capital support as well as projects to be funded by the University through a combination of University debt obligations, local unit resources, and fundraising. The plan envisions a total of $1,321,515,000 in capital investments and is built on a state contribution of $987,243,000 which will be requested through the normal state capital request process and the University of Minnesota expenditure of $334,272,000. The University of Minnesota’s share of the plan will be funded through a combination of debt, local academic unit resources, user fees and fundraising.

The 2012 Six-Year Capital Plan attempts to align capital planning with strategic academic and financial planning. Specific capital projects listed for each year are driven by academic priorities and facility conditions. Academic programs proposing capital projects have been evaluated in terms of long standing academic review criteria, including:

- Centrality to the University’s mission
- Quality, productivity and impact
- Uniqueness and comparative advantage
- Enhancement of academic synergies
- Demand and availability of resources
- Efficiency and effectiveness
- Development and leveraging of resources
**Background Information:**

Board of Regents Policy directs the administration to conduct capital planning with a “6-year time horizon, updated annually.” This annual capital planning process is completed in two parts.

This Six-Year Capital Plan establishes the institutions’ capital priorities for six years into the future. This Plan will become the basis for continued capital and financial planning.

The annual Capital Improvement Budget for the next fiscal year includes projects with completed predesigns and financing plans are approved to proceed with design and construction. It will be presented to the Board in May and June of 2012.

**President's Recommendation for Action:**

The President recommends that the Board approve the University Six-Year Capital Plan for fiscal years 2013–2018.
Finance and Operations Committee
February 9, 2012

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 Forte Research for an estimated $4,800,000 for an enterprise-level clinical trials management system for the Academic Health Center for a period of three years plus two one-year optional extensions. Funding for the project will come from the University’s federal Clinical and Translational Award grant and O&M funds from the Academic Health Center and programs. Vendor was selected through a competitive process.
• To Isilon Systems and other vendors for an estimated $2,500,000 over three years to purchase EMC storage units, including installation, maintenance, and support. The initial purchase to Isilon Systems will be about $900,000 in February 2012. Subsequent purchases over the next three years could add up to $1,600,000, for a total expense of $2,500,000. The purchase is for the Office of Information Technology. OIT is a centrally funded organization and its budget includes planning and funding for this expense. Vendor was selected through a competitive process.
• To Karas Dental, Anderson Dental, Webster Dental, Murphey Dental, Doctors Dental, Hermanson Dental, Harrison Dental, and Udell Dental, for an estimated $10,000,000 of dental services as needed for the period of March 1, 2012, through February 28, 2017, for the School of Dentistry. This purchase of dental lab services has been budgeted by the School of Dentistry for the time period March 1, 2012, through February 28, 2017. Vendors were selected through a competitive process.

Background Information:

Approvals are sought in compliance with Board of Regents Policy as follows:
• General Contingency: *Reservation and Delegation of Authority, Sec.VII, Subd. 1.*
• Purchase of Goods and Services $1,000,000 and Over: *Reservation and Delegation of Authority, Sec.VII, Subd. 6*

President's Recommendation for Action:

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

#### 2011-12 General Contingency:

<table>
<thead>
<tr>
<th>Recipient</th>
<th>Allocation</th>
<th>Balance</th>
<th>Purpose</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY2012 General Contingency</td>
<td>$1,000,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Carryforward from FY2011 into FY2012</td>
<td>91,986</td>
<td>1,091,986</td>
<td></td>
</tr>
<tr>
<td>1  Exec Dir Office for Business &amp; Community Economic Dev</td>
<td>55,000</td>
<td>$1,036,986</td>
<td>Awards, Incentive &amp; Recognition Program</td>
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<tr>
<td>3  New items this reporting period:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4  No new items this reporting period</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7  Balance as of January 31, 2012</td>
<td></td>
<td>1,036,986</td>
<td></td>
</tr>
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</table>
Purchase of Goods and Services $1,000,000 and over

To Forte Research for up to an estimated $4,800,000 for an enterprise-level clinical trials management system for the Academic Health Center for a period of three years plus two one-year optional extensions.

The Academic Health Center plans to purchase and implement an enterprise-level Clinical Trials Management System (CTMS) to provide a common, comprehensive technology infrastructure to support clinical trials in the health sciences.

The solution will be a University-hosted system that will support clinical research in the University’s Clinical and Translational Sciences Institute, cardiology, oncology, public health, pediatric medicine, pharmacy, nursing, dentistry, and other University health-research programs. An enterprise level CTMS leverages economies of scale in the conduct of clinical trials and facilitates the sharing of data between clinical researchers. Development of an enterprise-level clinical trials management system is a requirement of the National Institutes of Health grant recently awarded to the University for clinical and translational research.

Through a competitive bid process, Forte Research was selected because they provided the best functionality for an enterprise-level clinical trials management system and have had experience in implementation of clinical trials systems at other institutions with federal CTSA grants.

Funding for the project will come from the University’s federal Clinical and Translational Award grant and O&M funds from the Academic Health Center and programs.

Submitted by: Terry Bock
Associate Vice President and Chief of Staff
Academic Health Center
Phone: (612) 626-6138
Fax: (612) 626-2111

Approval for this item requested by:

[Signature]
Aaron Friedman
Vice President for Health Sciences

[Signature]
Date
01/24/2012
Purchase of Goods and Services $1,000,000 and over

To Isilon Systems and other vendors for an estimated $2,500,000 over three years to purchase EMC storage units, including installation, maintenance, and support. The initial purchase to Isilon Systems will be about $900,000 in February 2012. Subsequent purchases over the next three years could add up to $1,600,000, for a total expense of $2,500,000. The purchase is for the Office of Information Technology.

The EMC disk storage will be used to implement a new 'Enterprise File Storage' service intended to provide large amounts of storage to the University community through a centrally managed service. This storage service will be used to support the needs of administrative units, academic units, and researchers University-wide. The new storage array will benefit the University in the following ways:

- Provide a central service to meet the general-purpose storage needs of the University community.
- Reduce duplicate staff efforts and allow customers to redeploy their existing disk storage support staff to concentrate on projects that are currently being delayed.
- Provide a storage solution that can be scaled to meet the growing needs of the University academic, administrative, and research community at a reasonable cost.
- Provide an enterprise level of support including duplicate copies of the data for disaster recovery.

This purchase includes installation and configuration of the storage units by the vendor. In addition, the maintenance and support agreement provides around-the-clock preventative maintenance and problem resolution including 7x24 on-line and telephone support plus on-site response for serious hardware problems.

Isilon Systems has been selected as the vendor for the EMC storage solution for the initial $900,000 purchase through a competitive bid process. Additional purchases will be subjected to competitive bid processes as well.

oit is a centrally funded organization and its 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]
Interim Vice President and Chief Information Officer

[Date]
Purchase of Goods and Services $1,000,000 and Over

To Karas Dental, Anderson Dental, Webster Dental, Murphey Dental, Doctors Dental, Hermanson Dental, Harrison Dental, and Udell Dental, for an estimated $10,000,000 of dental services as needed for the period of March 1, 2012 through February 28, 2017 for the School of Dentistry.

The School of Dentistry needs dental lab support for all the various disciplines within the School of Dentistry including: Fixed prosthodontics, Removable Prosthodontics, maxillofacial Prosthodontics, TMJ, Cleft Palate, Operative dentistry, as well as for the Faculty Practice Program.

These labs were selected as a result of a competitive Request for Proposal (RFP) issued in October, 2011, which rated them on pricing, the quality of work done on similar cases in the past, the number of cases sent to outside labs at various times of the year, the number of labs able to complete the types of cases being sent out, the ability of the laboratory to complete work in a timely manner, and the preference of the individual faculty member and student.

This is a multi-awarded contract because of the capabilities of the labs vary, and the School of Dentistry needs to ensure that a sufficient number of laboratories will be available to ensure quick turnaround for all the services needed during the year.

This purchase of dental lab services has been budgeted by the School of Dentistry for the time period March 1, 2012, through February 28, 2017.

Submitted by: Janice R. Filkins
Manager, IMS
School of Dentistry
8-216 Malcolm Moos Health Sciences Tower
515 Delaware St SE
Minneapolis, MN 55455
(612) 625-5157

Approval of this item is requested by:

Dr. Aaron Friedman
Vice President For Health Sciences
Dean, Medical School
Finance and Operations Committee February 9, 2012

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 IAC held on November 30, 2011

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 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.

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, Board of Regents policy holds that the central reserves fund should not fall below 4% of state appropriations, or $25,000,000, whichever is greater.
The central reserves year-end balance on June 30, 2011 was $1,729,826 higher than what was anticipated in the original FY11 approved budget. This gain can be attributed to a higher than anticipated average balance in TIP, a slightly greater realization of capital gains on investments, and slightly lower than estimated payments out of the fund to units participating in investment earnings. The beginning balance for FY11 was $8,048,595; actual net revenues for the year were $14,642,304; and transfers and payments out of the fund totaled $10,643,103, resulting in a final ending balance of $12,047,796.

The approved budget plan for FY12, set before the FY11 results were final, included a planned beginning balance of $11,233,239; net revenues totaling $12,651,500, mostly in investment income, and transfers/payments out of $10,591,107. At this point in the year, those estimates have been updated as follows:

• The beginning balance for the year has been updated to the actual amount of $12,047,796 per the paragraph above, $814,557 higher than in the approved budget.
• Net revenues for the year are currently projected to be $12,371,575, which is $279,925 less than the approved budget, primarily due to a revision down in the estimated average yield on the average balance in TIP.
• The expected transfers/payments out remain at approved budget level of $10,591,107.

The combined impact of these updated estimates leaves the projected balance in the central reserves fund for June 30, 2012 at $13,828,264: $534,632 more than in the approved budget, and $11,171,736 less than the policy goal of $25,000,000 ($8,961,776 less than the other policy parameter of 4% of state appropriations).

Quarterly Investment Advisory Committee Update

Regent Frobenius and Mr. Mason introduced the recently appointed IAC member-at-large, Terry Lynner. Mr. Lynner received an undergraduate degree in accounting and a law degree from the University of Minnesota. His professional career includes positions in public accounting, a corporate law practice, and for more than two decades as an executive partner in an investment firm specializing in M&A advisory and private equity.

Mr. Mason reviewed the investment performance for the Consolidated Endowment Fund (CEF) for the quarter and the 12-month period ending September 30, 2011. The overall portfolio value declined in the quarter by -1.6% versus the custom benchmark which was -4.9% and the passive benchmark of 70/30 which was -9.8%. For the last twelve months, CEF investment performance was +9.3% versus +7.4% and +2.2% for the respective benchmarks. The positive performance relative to benchmarks for both periods was driven primarily by three factors: a) public equity including long/short hedge funds, while underweight the allocation target, tracked slightly ahead of benchmarks, b) private equity is meaningfully overweight its allocation target, and outperformed broad benchmarks very significantly with the venture portfolio producing 47.9% for the 12 months, and c) while real assets, including real private real estate, were below their benchmark, they produced +11.8% for the year which is the first positive year in the last four. Detracting somewhat was the fixed income portfolio, which underperformed its benchmark for the last three quarters because the core manager invested counter to prevailing interest rate trends, they have subsequently rebalanced.
Liquidity constraints continued to improve as private capital partnerships made cash distributions to the University at rates higher than anticipated, exceeding the YTD forecast by approximately $40 million. This improving liquidity has been used to rebalance closer to strategic asset allocation ranges in accordance with the three-year rebalancing plan.

Mr. Mason presented information supporting the recommendation being made by the Office of Investments & Banking to make changes in the current strategic asset allocation target ranges. The data was based on substantial work done with several consultants over the past nine months, and primarily with the Goldman Sachs Global Portfolio Solutions advisory team. The proposed portfolio structure was built around the concept of addressing specifically identified risks, allocating portions of the investment portfolio to address those risks, and combining the entire strategy in a manner that meets the primary objectives set forth in Regents Policy for achieving long-term, inflation adjusted returns, employing acceptable risk, and providing stable distributions. A very active discussion by all members concluded with a consensus of support for the approach and several requests for additional information or analysis regarding the sensitivity to changes in various components or shocks to the overall portfolio. The expectation is that this additional analysis will be reviewed at the February meeting and a recommendation developed and approved for consideration by the Regents.

Lastly, the IAC reviewed briefly the performance of TIP, GIP, and RUMINCO. The TIP portfolio continues to outperform its benchmark. RUMINCO underperformed modestly in the quarter due to a slight overweight in public equity, which declined significantly in the quarter and GIP underperformed modestly due to a slight overweight of US treasuries and a decline in EM debt values, which is not included in the benchmark. Longer-term performance for both portfolios remains strong.