Finance Committee

June 2017

June 8, 2017

10:00 a.m. – 11:30 a.m.

West Committee Room, McNamara Alumni Center

FIN - JUN 2017

1. Operational Excellence: Reallocation Update

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    Presentation Materials - Page 4

2. Long-Range Financial Planning: Update 2018-2023

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3. Consent Report - Review/Action

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BOARD OF REGENTS
DOCKET ITEM SUMMARY

Finance **June 8, 2017**

AGENDA ITEM: Operational Excellence: Reallocation Update

☐ **Review** ☐ **Review + Action** ☐ **Action** ☒ **Discussion**

☐ *This is a report required by Board policy.*

PRESENTERS: Brian Burnett, Senior Vice President for Finance and Operations
Julie Tonneson, Associate Vice President for Budget and Finance

PURPOSE & KEY POINTS

The purpose of this item is an update on reallocations made as a part of Operational Excellence in response to questions from the Board. This discussion will summarize information addressing questions focused on the:

- Definition of internal reallocation.
- Connection between a change in headcount and implemented reallocations.
- Measure of employee productivity based on revenue generation.
- Use of reallocation within the budgeting process, and its impact.
- Definition of "administrative costs" within this context.
- Administrative reallocations achieved to date and the remaining plans to meet the President's $90 million goal.

This item will include any needed clarification, and an opportunity to discuss priority goals for future reallocations.

BACKGROUND INFORMATION

The full Board received Operational Excellence updates at the following meetings:

- March 8, 2013
- September 13, 2013
- May 9, 2014
- March 27, 2015
- February 12, 2016

The Finance Committee discussed possible next steps for Operational Excellence in February 2017.

Operational Excellence: Reallocation Update

Brian Burnett, Sr. Vice President, Finance & Operations
Julie Tonneson, Assoc. VP Budget and Finance

Finance Committee
June 8, 2017

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Reallocation – Definition

(as used for budget development at the U of MN)

"the reduction of recurring costs/spending related to a chosen activity in order to repurpose an existing resource to cover cost increases or higher priority investments in other activities"

Reallocations – Tracking Against Headcount Changes

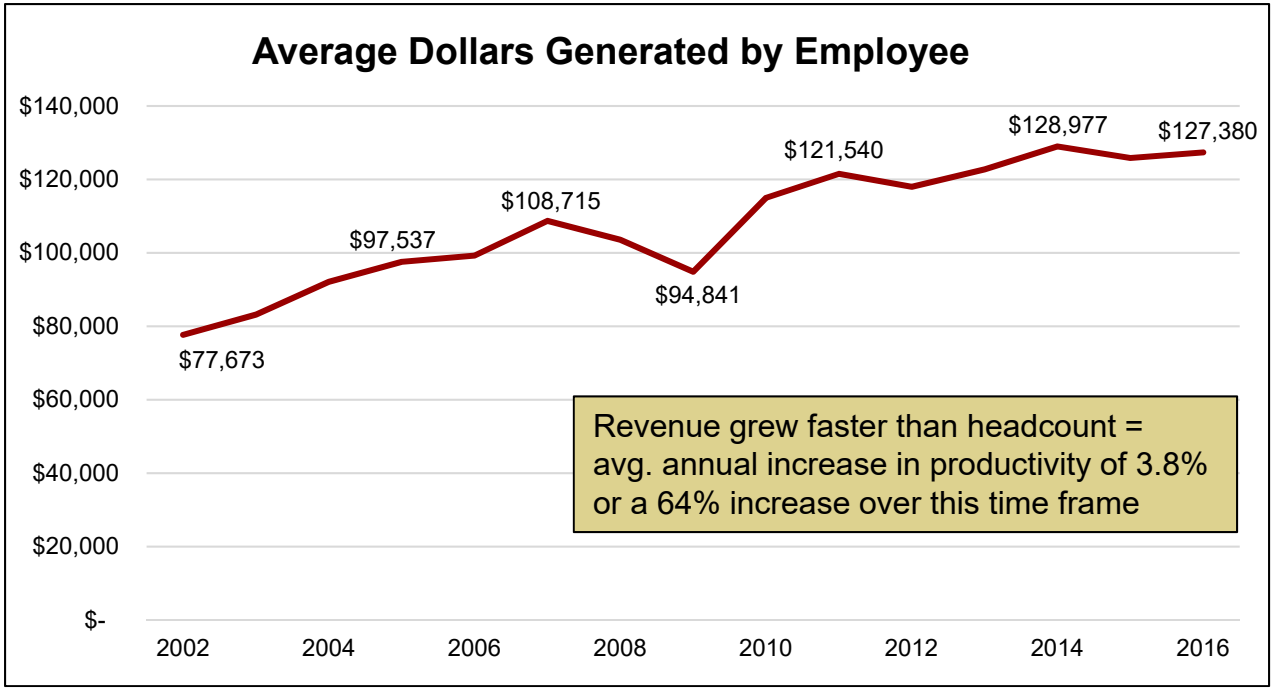
Why they don't necessarily correlate:

- Planned reallocations exclude sponsored funds – total headcount data does not
- Units can reach reallocation goals while total headcount increases – (see below)

Why reducing headcount is not necessarily optimal:

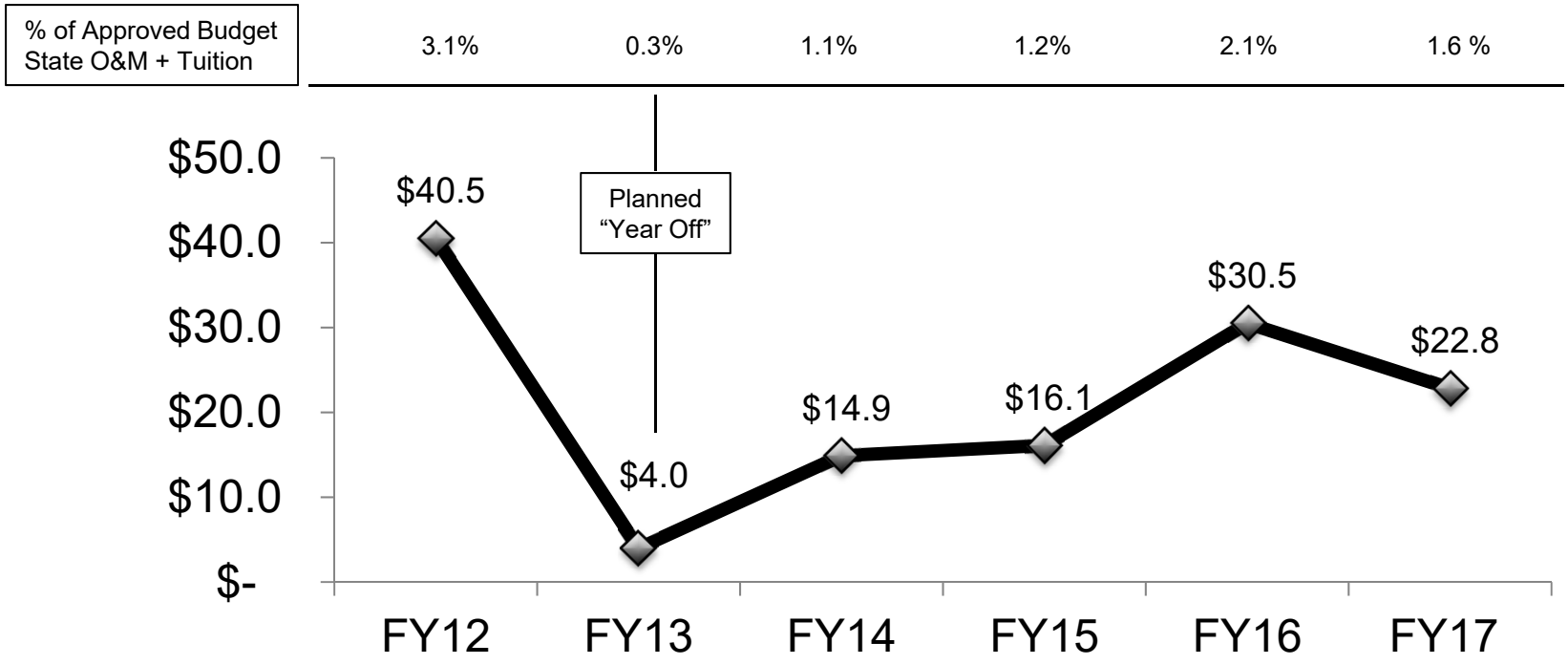
- Reallocations do not equate to a reduction in total budget – revenues continue to increase at the University, often leading to increased personnel numbers as the means to achieve programmatic goals associated with that revenue
- In some situations, it is possible to spend less while increasing headcount (exchanging one full-time position for more than one part-time positions)

One Measure of Employee Productivity – Revenue Generation



Planned Reallocations Over Time

Framework Reallocations Included in President's Recommended Operating Budget
($ in million)



* Note – excludes reallocations required in other "non-framework" funds.

Reallocations Planned in the Annual Budget
Tuition & State $ Equivalencies

	Planned Reallocation	Equal to What % On Tuition Rate* & $/student*	Equal to What % Of State $
FY12	$40.5m	9.2% - Avg. $1,055	7.1%
FY13	$4.0m	.9% - Avg. $106	.7%
FY14	$14.9m	3.4% - Avg. $403	2.5%
FY15	$16.1m	3.7% - Avg. $442	2.6%
FY16	$30.5m	7.0% - Avg. $838	4.7%
FY17	$22.8m	5.1% - Avg. $615	3.5%

* Resident undergraduate tuition rate and $ per student – avg. annual across all campuses

FY16 Expenditure Categories

"Administrative" Expenditures

Direct Mission Delivery

*The expenses of the **'doers'** of the mission*

Student Aid

Types of Positions Included in this Category:

- Tenured and tenure-track professors
- Adjunct instructors, lecturers, clinical professors
- Extension educators
- Health science professionals
- Scientists and laboratory technicians
- Students in teaching assistant, research assistant, or fellowship roles

Plus all non-personnel expenses with instruction, research, or public service function codes (excluding utilities, rents, leases and repairs & maintenance – assigned to facilities)

Mission Support & Facilities

*The expenses to **'support'** the delivery of mission activities*

Types of Positions Included in this Category:

all non-supervisory

- Audit/Finance/HR/Info Tech/Legal and Clerical Support
- Advisors, librarians, curators, child care workers, coaches
- Coordinators, "Skilled generalists" – analysts, associate to, administrative professional, etc.
- Buildings and grounds workers
- Skilled trades, engineers, safety technicians, environmental health and safety workers, police

Plus prorated share of supplies and services etc. in non-mission functions; equipment purchases in non-mission functions, all consulting in non-mission functions, facilities costs -- utilities, repair & maintenance, rents & leases

Leadership & Oversight

*The expenses for the **'leadership, direction, control and management'** of the mission*

Types of Positions Included in this Category (Leadership & Management):

- **Executive leadership** – President, Vice Presidents, Chancellors, Provost & Vice Provosts
- **Academic leadership** – Deans & Associate Deans, Department chairs and heads
- **Directors** – program, department, campus, and system-wide (another "non-descriptive" set of job codes)
- **Supervisor and managerial titles** across the organization

Plus prorated share of supplies & services etc. in non-mission functions

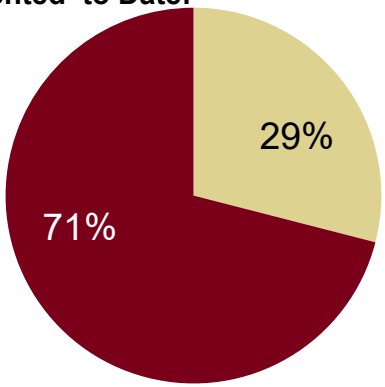
Reallocation of Resources to Advance Priorities

President's Goal – $90m Reduction in Admin Costs Over 6 Years FY14 through FYFY19 - Status

Redirect resources to:

Invest in mission activities ◆ Stem growth in cost of attendance ◆ Meet inflationary cost pressures

Of the $53.8m Savings Implemented to Date:



Non-Personnel ■ Personnel

FY14:	$18.8 million – Implemented	
FY15:	$19.6 million – Implemented	
FY16:	$15.4 million – Implemented	
FY17:	$14.7 million – Approved/In Process	
	$68.5 million – to date	76%
	$21.5 million – Planned for FY18-FY19	24%

Examples:

- Position Eliminations
- Salary Savings – Restructuring Existing Positions
- Reductions to General Operations
- Reductions to Budgets for Facilities, Equipment, Consultants, etc.

High Level Results

- Total administrative expenditures over the last four years have grown at a slower pace on an average annual basis (2.8%) than total expenditures (3.2%).
- Total administrative expenditures as a percent of total spending has decreased one-half percent.
- The University is spending more of its revenue to deliver education, research and outreach efforts but is doing so without a proportional increase in administrative costs.

What's Next After FY19?

- Continued reallocation – consistent goal to reprioritize activities – strategically
- Continued monitoring of "administrative costs"
- Pursue other areas of efficiency – space?
- Consider scope/reach of the University in the face of increased costs and constrained resources

Questions & Discussion?

BOARD OF REGENTS
DOCKET ITEM SUMMARY

Finance **June 8, 2017**

AGENDA ITEM: Long-Range Financial Planning: Update 2018-2023

☐ **Review** ☐ **Review + Action** ☐ **Action** ☒ **Discussion**

☐ *This is a report required by Board policy.*

PRESENTERS: Lincoln Kallsen, Director, Institutional Analysis

PURPOSE & KEY POINTS

In a rapidly changing world, long-range financial planning is an increasingly important element in guiding the University's future. The purpose of this item is to highlight broad policy choices and options to guide long-range financial planning.

Long-term financial planning activities at the University include two major components. The first component is updated annually in conjunction with the President's annual operating budget recommendation. The second component is updated biennially in conjunction with the President's biennial budget request to the State of Minnesota. The University traditionally submits its biennial request to the Board of Regents for review and approval in the fall of the even-numbered years for consideration by the governor and the Minnesota Legislature in the upcoming odd-numbered year legislative session.

The long-range financial model informs both the biennial request and the six-year capital plan. In this update, the University's FY18 budget assumptions are incorporated as a starting point. This update also focuses on a deeper understanding of the behavior of different fund types, especially choices available with more flexible funds vs. more restricted funds. The model and assumptions give context and information with regard to operating surpluses or deficits. The model supplies understanding of growth rates of different revenue and expense streams and their impact on the University's overall financial condition. All of this will give context for a discussion of available policy and fiscal levers and the ability to influence revenue and expenditure streams over time.

Baseline Assumptions

The long-range financial model begins with the President's fiscal year 2018 recommended operating budget. The two tables outlined below highlight major revenue and expenditure assumptions for the next six fiscal years beginning with budgeted 2018 fiscal year. The model highlights incremental changes in revenue and expense for fiscal years 2019-2023, using fiscal year 2018 as a base.

Table 1 below highlights the annual **expense** assumptions for the forecast period beginning with the base assumptions for fiscal year 2018. Included in the table are brief explanations of the basis for the projections.

Expenses and Investments	**FY2018**	***FY2019***	***FY2020-23 annual change***	**2020-2023 Projection Basis**
Salaries	2.0%	*Every 1% = ~ $17M*	*~ 2.5%*	10 year HEPI weighted average of all employees
Fringe benefit costs*	7%	*~ 6%*	*~ 3%*	10 year HEPI average
Number of faculty & other academic positions	Updated estimates using October 2016 official headcount as a base	*Stable*	*Stable*	Impacted by biennial request and strategic planning
Number of staff	Updated estimates using October 2016 official headcount as a base	*Stable*	*Stable*	Could be impacted by internal reallocations below
Remainder of Education & General	1.5%	*1.5%*	*1.5%*	10 year HEPI average
Auxiliary enterprises	2.3%	*2.8%*	*2.5% - 2.8%*	
Academic initiatives	+$5.0M	*$0*	*$0*	Held to set baseline
Facilities and technology infrastructure	+$7.2M	*New facility op costs*	*New facility op costs*	New building expenses, software licenses, new tech expenses, etc.
Internal reallocations & reductions	($17.1M)	*($11M)*	*TBD*	President's $90M commitment
University repair and renovation funds	+$1M Recurring +$10M NR	*Flat*	*Flat*	Held to set baseline

*Fringe benefit rates decreased in FY2017 on a one-time basis due to legal settlements related to the payment of pharmacy benefits. FY2018 and FY2019 extraordinary increases due to increasing off of a lower base and federal fringe rate formulas.

Note: FY2018 estimates are reflective of the President's Recommended Operating Budget. *FY2019-FY2023, in italics, represent either the University's estimate of expenditure growth, or are deliberately set to produce a baseline to encourage further discussion.*

Table 2 below highlights the annual **revenue** assumptions for the forecast period beginning with the base assumptions for fiscal year 2018. Included in the table are brief explanations of the basis for the projections.

Revenues	**FY2018**	***FY2019***	***FY2020-23 annual change***	**FY2020-23 Projection Basis**
Undergraduate rate changes	3% TC Resident 1% system campuses 10% TC NR 5.5% UMD NR	*0%*	*0%*	Held to set baseline
Undergraduate enrollment changes	+400 TC campus	*+400 TC campus*	*+~400 TC campus through Fall 2020*	TC undergraduate enrollment management plan
Graduate and Professional rate changes	3% (typical programs)	*0%*	*0%*	Held to set baseline
Graduate and Professional enrollment changes	Updated estimates using Fall 2016 official enrollments as a base	*Stable*	*Stable*	Fall 2016 first stable enrollment in 6 years
Federal Grants and Contracts	OVPR estimates	*0%*	*0%*	OVPR Projections
Sales and Services	1.2%	*1.2%*	*1.2%*	CPI average
Gifts	Foundation estimate	*3%*	*3%*	Allows for capital campaign
Auxiliary Enterprises	2.5%	*3.3%*	*3.0% - 3.3%*	Includes rate projections for TC residence halls
State Appropriations	+$32.3M	*($10M)*	*No assumption beyond FY19*	Held to set baseline

Note: FY2018 estimates are reflective of the President's Recommended Operating Budget. *FY2019-FY2023, in italics, represent either the University's estimate of revenue growth, or are deliberately set to produce a baseline to encourage further discussion.*

Perspectives and potential variances with regard to several of these baseline assumptions will be discussed, including changes due to the implementation of the Twin Cities undergraduate enrollment plan, supporting directions included in the University's progress card, and other investment and revenue strategies.

The resulting financial models will represent different scenarios that require further refinement. For each of the years highlighted, the President's recommended annual operating budget presented to the Board each year will be balanced, with available resources matching planned expenditures.

Long Range Financial Planning Model

Presentation to the Board of Regents
Finance Committee
June 8, 2016

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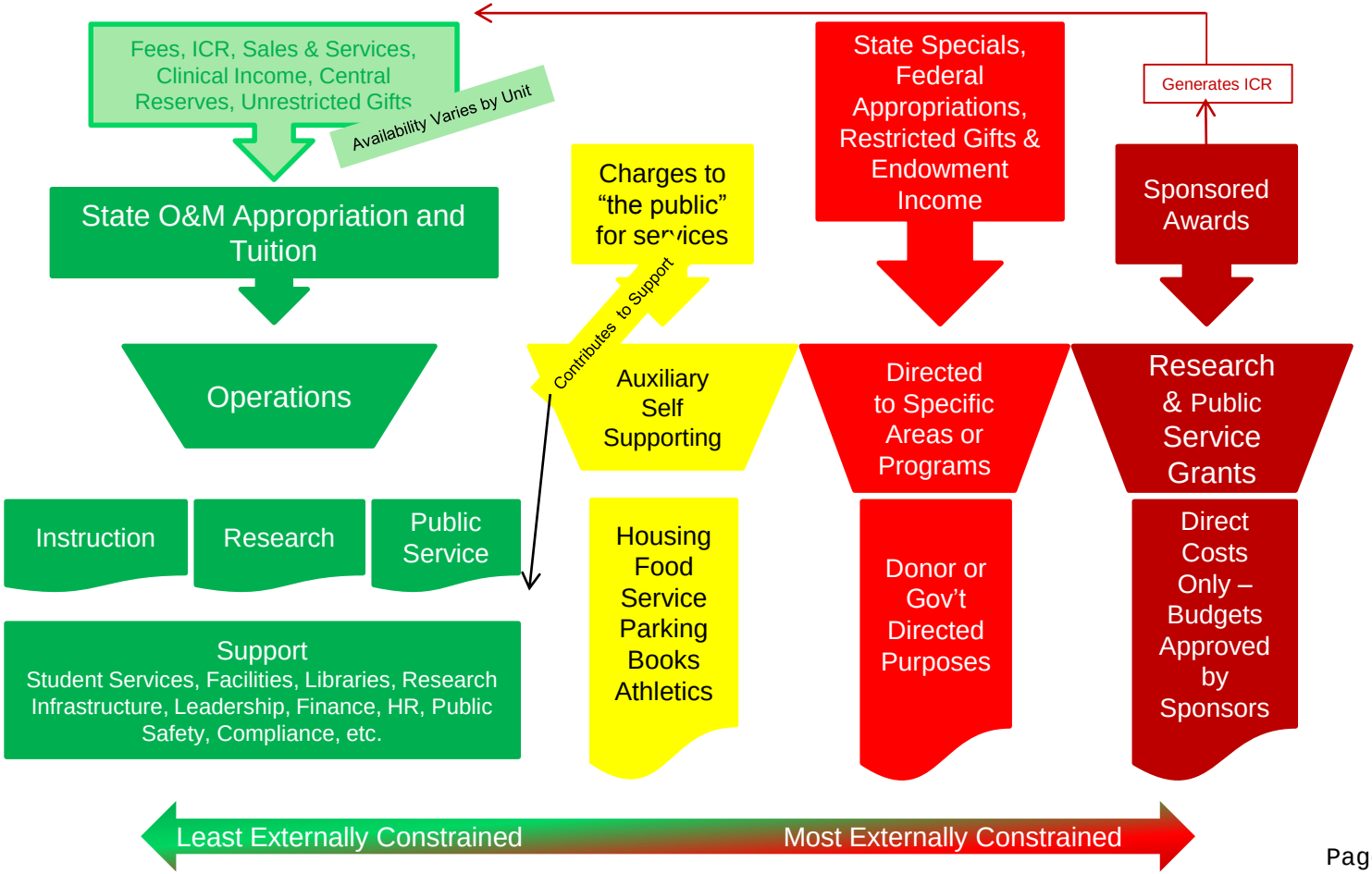
Long Range Financial Planning Budget View
Process & Timeline

6 Year Planning Horizon

Updated Annually June → Part A
Baseline Impact of President's Annual Operating Budget Recommendation

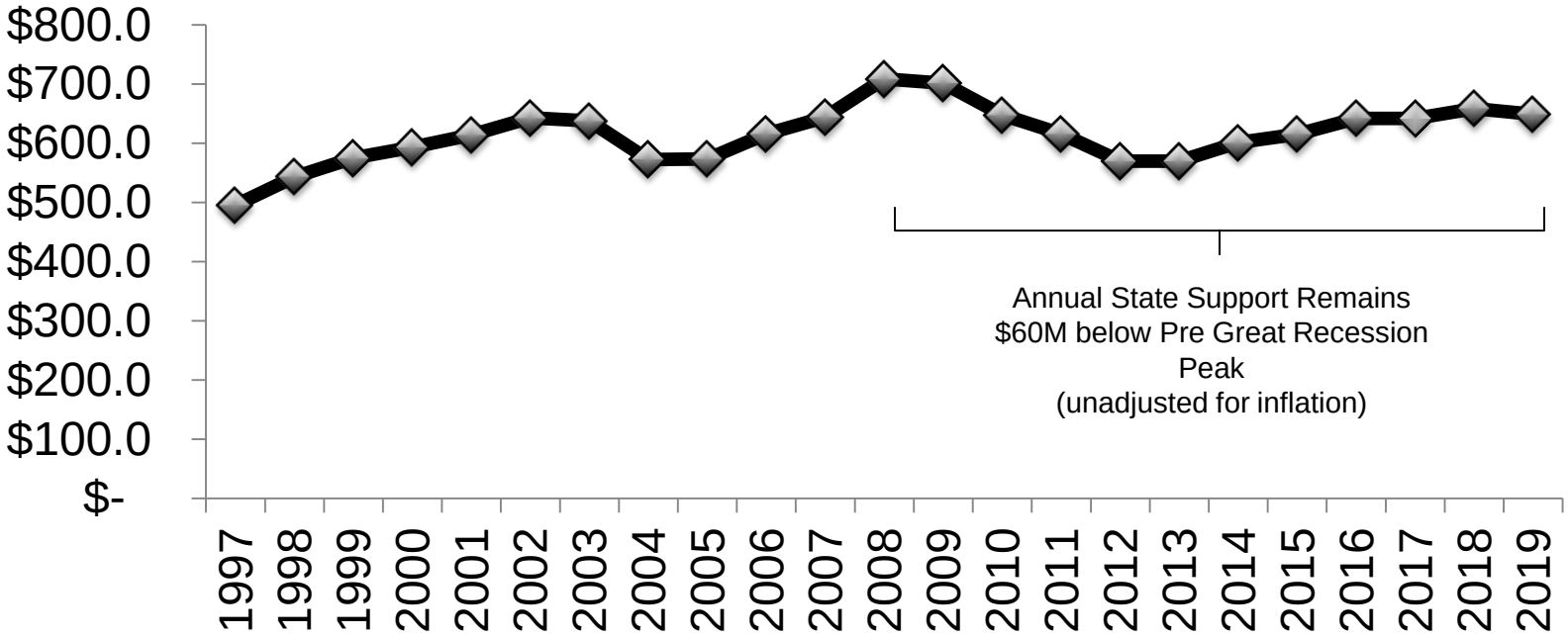
Updated Biennially October → Part B
Baseline Impact of President's Biennial Budget Request to the State

Current Funds – "Not All Money is Green"



University of Minnesota
FY1997 – FY2019
Trends in State Funding

State O&M Appropriation and Tuition



Flat enrollments in this decade

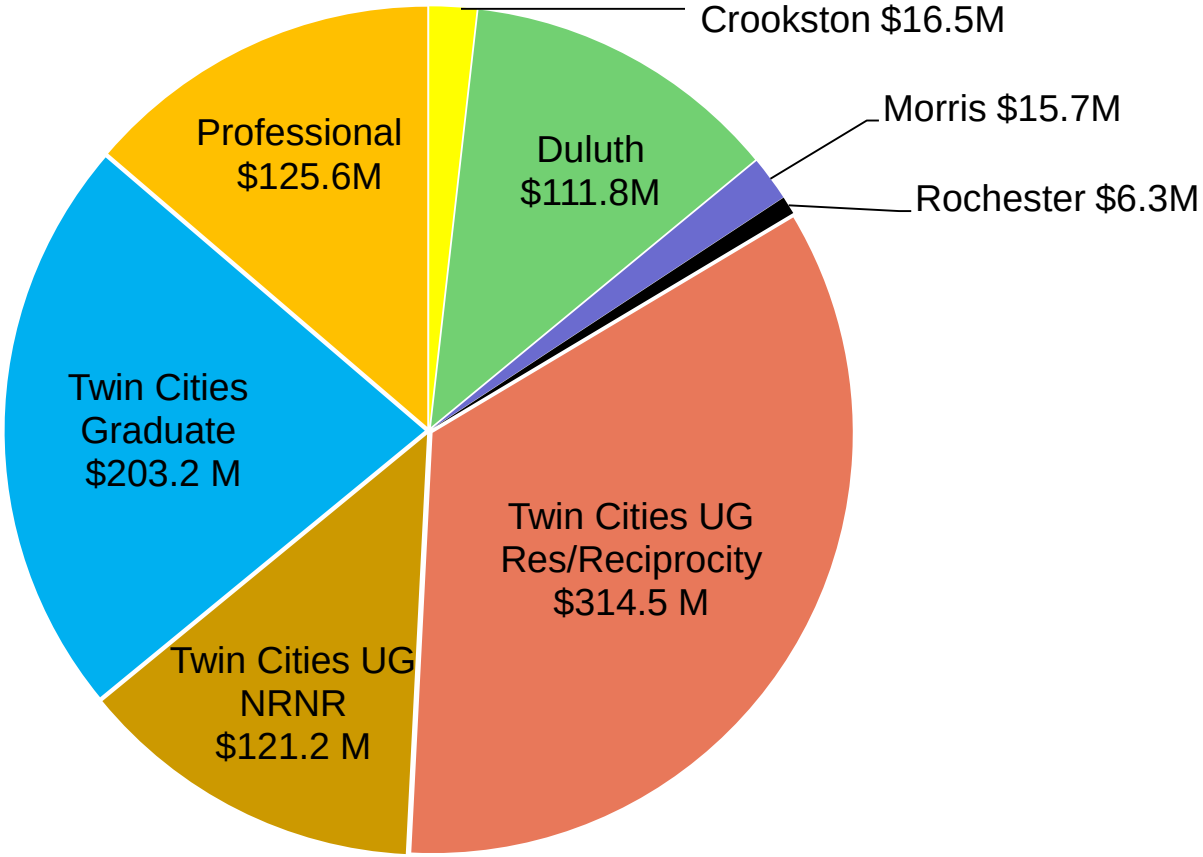
Fall semester system-wide enrollments

State O&M Appropriation and Tuition

Academic Level	2010	2011	2012	2013	2014	2015	2016
Undergraduate	43,471	44,071	43,802	43,646	43,413	43,457	43,951
Graduate	14,662	14,327	13,877	13,606	13,426	13,311	13,392
Professional	3,988	3,980	4,178	4,194	4,088	3,990	4,018
Non-degree	5,811	6,843	6,561	6,601	6,550	5,893	6,119
TOTAL	**67,932**	**69,221**	**68,418**	**68,047**	**67,477**	**66,651**	**67,480**

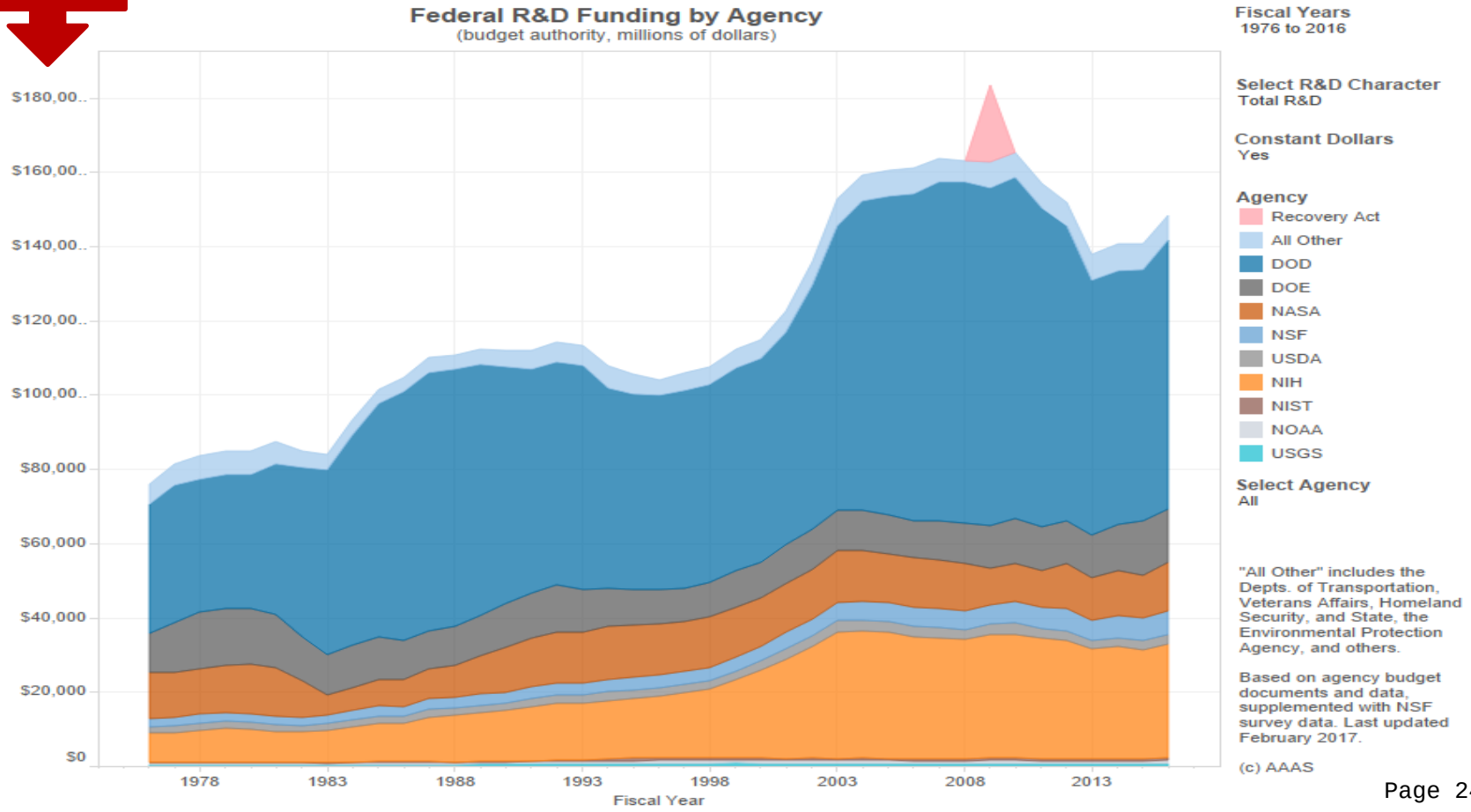
Budgeted FY 18 tuition revenue - $914.8M

State O&M Appropriation and Tuition



Sponsored Awards

Federal research funding remains challenging



Sponsored Awards

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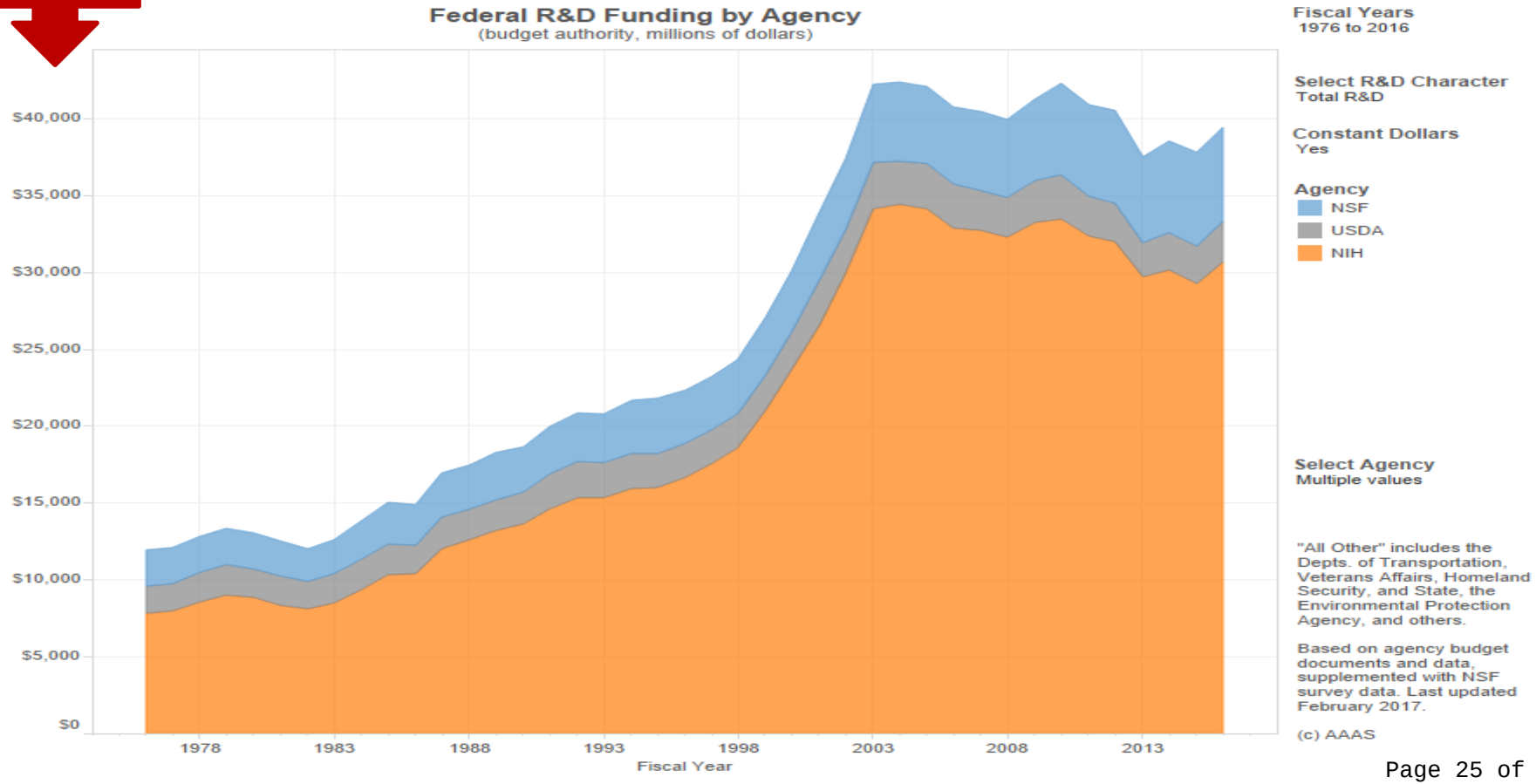


Auxiliary
Self
Supporting

Auxiliaries

(Ex: housing, food service, bookstore, parking, athletics)

- **Exist to support the educational experience**
- Expectation that units are self-supporting and cover appropriate overhead
- Often facility intensive
- Units must pay for operations, facility upkeep, repairs and maintenance, and debt service on new facilities
- Units building balances often represent funded depreciation for future capital expenditures
- Auxiliaries have different market pressures, and rates must be mindful of market constraints and overall cost of attendance

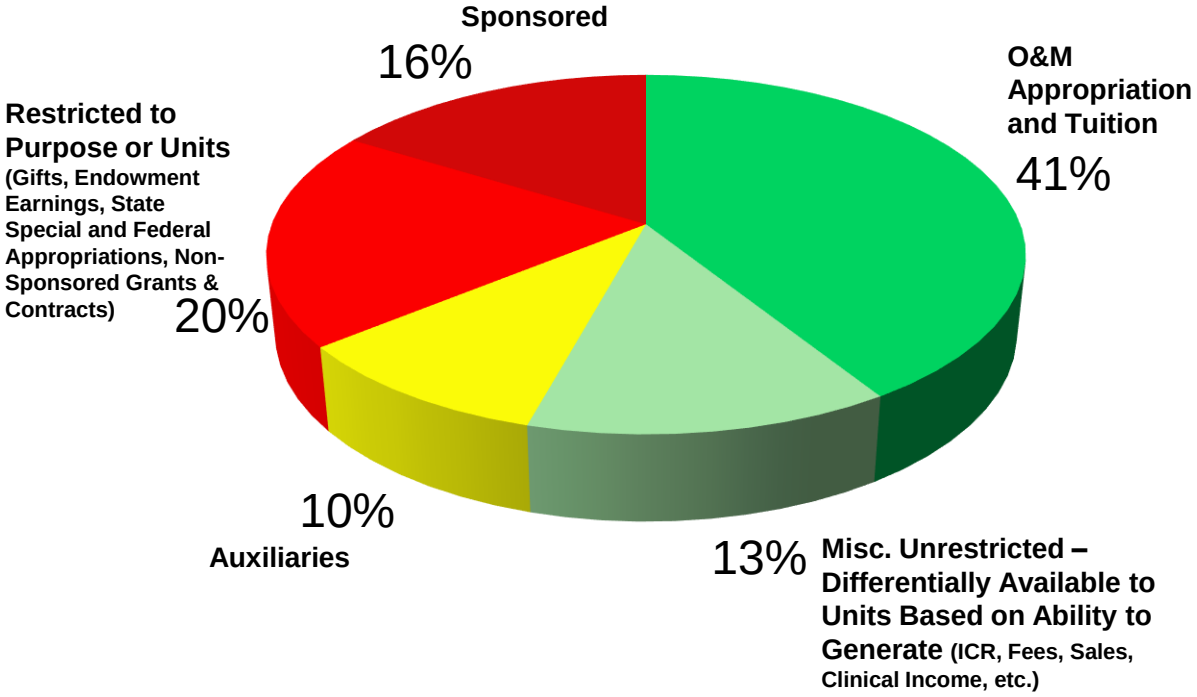
State Specials, Federal Appropriations, Restricted Gifts & Endowment Income

“Restricted to purpose” funds

- State specials and direct federal appropriations are directed in statutes
- Endowment income usually restricted in some way
  - Specific purpose (e.g., scholarships, faculty scholarship)
  - Specific unit (e.g., campus, college, or department)
  - Other conditions (e.g., scholarship for students graduating from Duluth East)
- Over 90% of endowment funds have some restriction

University of Minnesota Revenue Sources By Fund Category-FY17: $3.5 Billion

(excludes internal sales)



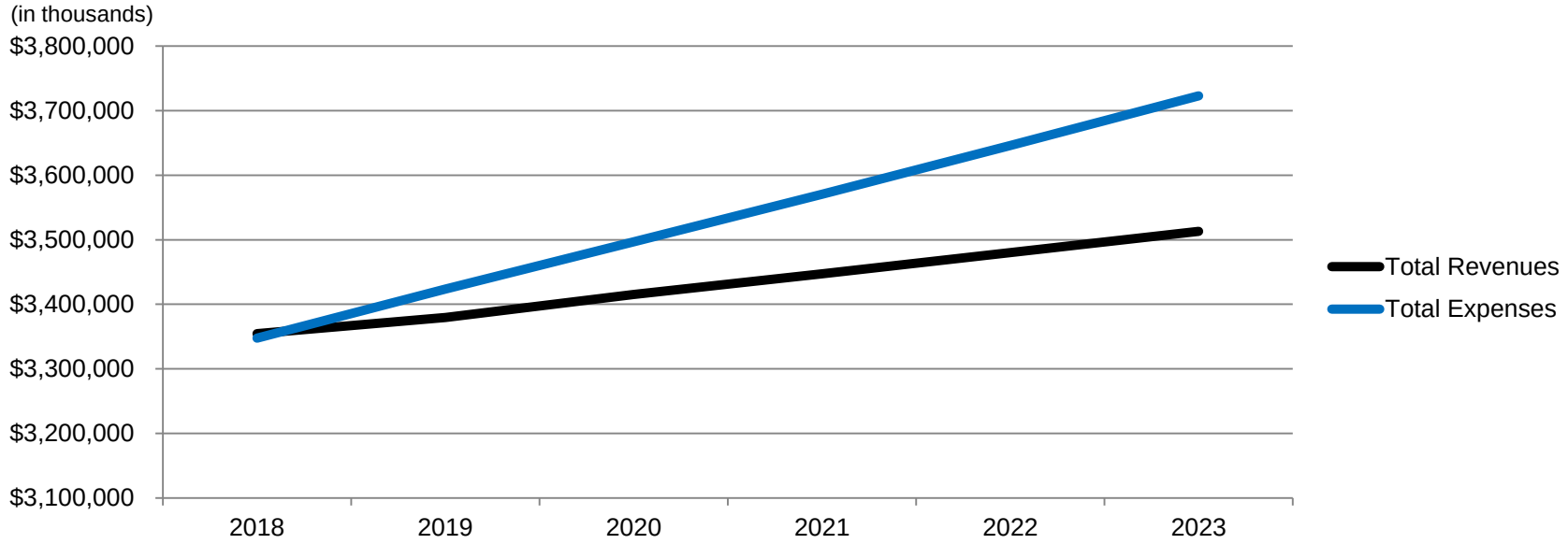
Baseline Revenue Assumptions – June 2017

Revenues	FY2018	*FY2019*	*FY2020-23 Annual Change*	Projection Basis
State Appropriations	+$32.3M	*($10M)*	*0%*	Set at 0% to produce baseline
Resident undergraduate rate increase	3% Twin Cities 1% System Campuses	*0%*	*0%*	Set at 0% to produce baseline
Non-resident undergraduate rate increase	UMTC +$2220 (10.0%) UMD +$894 (5.5%) UMM +$140 (1.0%)	*0%*	*0%*	Set at 0% to produce baseline
Graduate and Professional rate changes (typical)	3.0%	*0%*	*0%*	Set at 0% to produce baseline
Undergraduate enrollment change	Updated estimates	*+400 TC Campus*	*~ + 400 per year thru Fall 2020*	Incorporates TC undergrad enrollment mgmt. plan
Graduate and Professional enrollment changes	Updated estimates	*Flat*	*Flat*	
Federal Grants and Contracts	OVPR Estimate	*0%*	*0%*	High uncertainty
Sales and Services	1.2%	*1.2%*	*1.2%*	CPI 5 year average
Gifts	Foundation estimates	*3%*	*3%*	Allows for capital campaign
Auxiliary Enterprises	2.5%	*3.3%*	*3.0%-3.3%*	Includes rate projections for TC residence halls

Baseline Investment and Expense Assumptions – June 2017

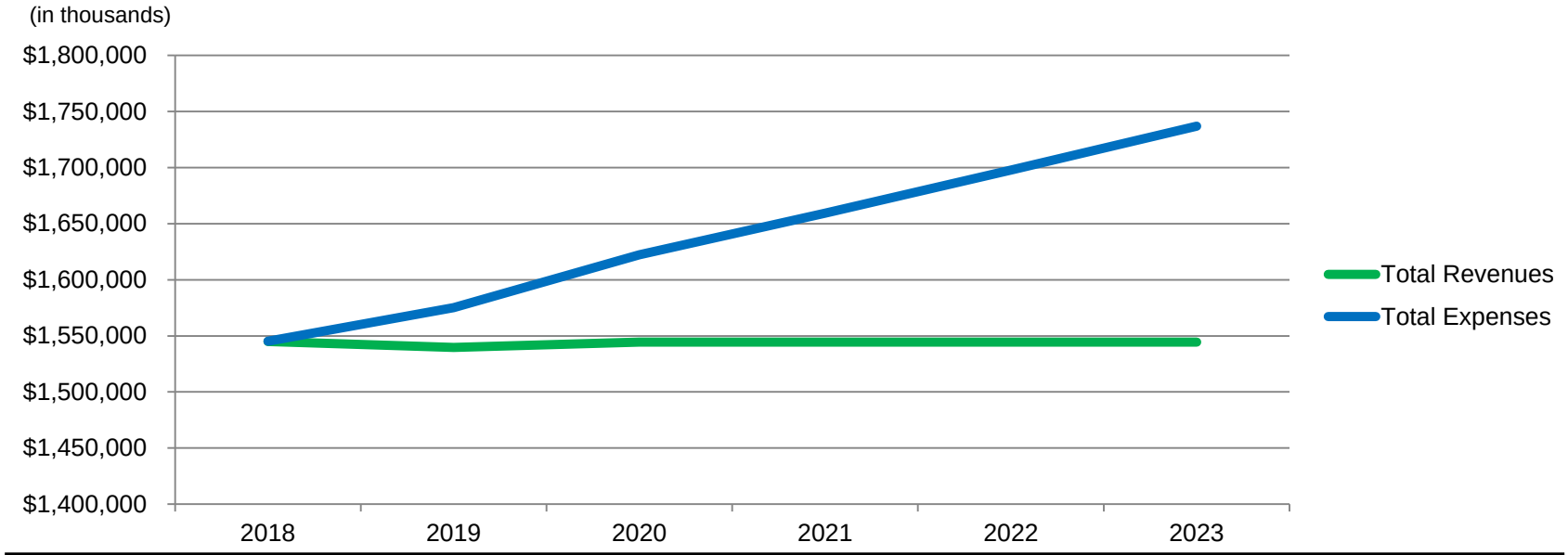
Expenses	FY2018	*FY2019*	*FY2020-23 Annual Change*	Projection Basis
Salaries	2.0%	*Every 1% = ~$17M*	*~ 2.5%*	10 year HEPI weighted average of all employees
Fringe benefit cost	7%	*~ 6%*	*~ 3%*	2018-19: Current U estimates 2020-22: University trend
Number of faculty/academic staff	Updated estimates	*Stable*	*Stable*	
Number of staff	Updated estimates	*Stable*	*Stable*	Could be impacted by internal reallocations below
Remainder of supplies, services, and expenses	1.5%	*1.5%*	*1.5%*	Recent University trend
Auxiliary enterprises	2.3%	*2.8%*	*2.5% - 2.8%*	
Academic initiatives	$5.0M	*$0*	*$0*	Held to set baseline
Facilities and technology infrastructure	+$7.2M	*New facility op costs*	*New facility op costs*	Includes any other known unavoidable operational costs
Internal reallocations (reductions)	($17.1M)	*($11M)*	*TBD*	President's $90M commitment
University repair and renovation funds	+$1 Recurring +$10M NR	*Flat*	*Flat*	

Forecast model – Baseline scenario
All-University



(in thousands of dollars)	2018	2019	2020	2021	2022	2023
Total Revenues	$ 3,354,509	$3,379,566	$ 3,415,428	$ 3,447,466	$ 3,480,354	$ 3,512,926
Total Expenses	$ 3,347,602	$3,423,406	$ 3,496,741	$ 3,570,341	$ 3,645,797	$ 3,723,156
Net	$ 6,907	$ (43,840)	$ (81,313)	$ (122,875)	$ (165,443)	$ (210,230)

Forecast model - Baseline scenario
State O&M + Tuition



(in thousands of dollars)	2018	2019	2020	2021	2022	2023
Total Revenues	$ 1,545,037	$1,539,689	$ 1,544,341	$ 1,544,341	$ 1,544,341	$ 1,544,341
Total Expenses	$ 1,545,216	$1,575,286	$ 1,622,249	$ 1,659,479	$ 1,697,675	$ 1,736,863
Net	$ (179)	$ (35,597)	$ (77,908)	$ (115,138)	$ (153,334)	$ (192,522)

Budget levers

Revenues/resources

- State Appropriation
  - 1% on base ~ $6.5M
- Tuition rate changes
  - 1% overall ~ $9.1 million
  - 1% resident undergraduate ~ $4.5 million
  - 1% NRNR undergraduate ~ $1.2 million
  - 1% grad and professional~ $3.3 million
- Enrollment changes
  - 1% undergraduate = 440 students ~ $5.1M
  - 1% graduate/prof = 175 students ~ $3.3M
- Rate increases/decreases
  - Auxiliaries, clinical, sales, etc.
- Reallocation
  - 1% on Framework base ~ $15 million

Expenditures

- Compensation
  - 1% general salary increase ~ $17M all-funds
  - Faculty salaries make up 30% of salary base
  - Fringe costs
- Operations
  - Technology, licensing, compliance, etc.
- Facilities & Capital Expenses
- Debt
- Strategic Choices

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BOARD OF REGENTS
DOCKET ITEM SUMMARY

Finance **June 8, 2017**

AGENDA ITEM: Consent Report

☐ **Review** ☒ **Review + Action** ☐ **Action** ☐ **Discussion**

☐ *This is a report required by Board policy.*

PRESENTERS: Brian Burnett, Senior Vice President for Finance and Operations

PURPOSE & KEY POINTS

General Contingency

The purpose of this item is to seek approval for allocations from General Contingency greater than $250,000:

- Transfer of $350,000 to the Office of the President to offset expenses incurred for executive level searches.

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

The purpose of this item is to seek approval for purchases of goods and services of $1,000,000 and over.

- To The Coca-Cola Company, Great Lakes Coca-Cola Distribution, Coca-Cola Bottling Company High Country, and Viking Coca-Cola Bottling for $6,000,000 for an exclusive beverage and sponsorship agreement extension for the Department of Auxiliary Services for the period of July 1, 2018, through June 30, 2021. Coca-Cola beverages are budgeted by a variety of organizations and subcontractors of the University (Aramark and Sodexo) on all five campuses for resale or consumption. Vendors were selected through a competitive process.

- To Discovery Benefits for the estimated amount of $369,000 for administering UPlan medical options for the University of Minnesota Office of Human Resources Employee Benefits for the two-year period of January 1, 2018, through December 31, 2019, with optional contract extensions through December 31, 2023, for an additional $738,000. Total contract value, if all options are exercised would be $1,107,000. The administrative service fees are funded on an annual basis through the fringe pool. Vendor was selected through a competitive process.

- To Dodge of Burnsville and Saxon Fleet Services for $4,000,000 for new vehicle purchases for Parking & Transportation – Fleet Services as needed during the contract period from

August 1, 2017, to July 31, 2022. Vehicles in the central motor pool are funded through a period fee charged to departments. Purchased vehicles are funded by the department at the time of purchase. Vendors were selected through a competitive process.

- To Sodexo Educational Services, LLC for $45,000,000 to provide retail food service, residential food service and catering service on the University's Morris campus and Crookston campus for the Department of Auxiliary Services for the period of July 1, 2018, through June 30, 2024. Sodexo residential and catering services are budgeted for by the appropriate departments using these services on the Crookston and Morris campuses. Vendor was selected through a competitive process.

- To Unizin, Ltd. for $1,282,500 for a three-year renewal of membership in the higher education consortium for the Office of Information Technology (OIT) for the period July 1, 2017, through June 30, 2020. The annual payment of membership fees will be covered from OIT's central O&M funds. The FY18 budget includes planning and funding for this expense. See enclosed documentation regarding basis for vendor selection.

- To Unum Group for the estimated amount of $8,748,000 for administering claims and providing disability coverage options for the University of Minnesota Office of Human Resources Employee Benefits for the two-year period of January 1, 2018, through December 31, 2019, with optional contract extensions through December 31, 2023, for an additional $18,854,000. Total contract value, if all options are exercised would be $27,602,000. The administrative service fees and Academic Long-Term Disability premiums are funded on an annual basis through the fringe pool. The voluntary Short-Term and Long-Term Disability premiums are funded by employee contributions. Vendor was selected through a competitive process.

- To US Solar, LLC, DG Minnesota CSG 1, LLC; DG Minnesota CSG 3, LLC; DG Minnesota CSG 10, LLC; Minnesota CSG 1, LLC; for an estimated $130,000,000 in community solar garden subscription fees and related services for Facilities Management for the period of July 1, 2017 through December 31, 2042. These services will be purchased with funds from the Electric Utility ISO. 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*, Article I, Section VII, Subd. 1.
- Purchase of Goods and Services $1,000,000 and Over: *Reservation and Delegation of Authority*, Article I, Section VII, Subd. 6

PRESIDENT'S RECOMMENDATION

The President recommends approval of the Consent Report.

General Contingency

Fiscal Year 2016-17

	Recipient	Amount	Balance	Purpose
1	**FY2017 General Contingency**		**$1,000,000**	
2	Carryforward from FY16 to FY17	(22,500)	1,022,500	
3	Facilities Management	88,000	934,500	Eastcliff small capital & large maintenance projects in FY16
4	U Services	(5,515)	940,015	Return of unused funds from reconstruction of Eastcliff Event Lawn Space
5	Capital Planning & Project Mangement	125,000	815,015	Replacement of 3 boilers at the North Central Research & Outreach Center in Grand Rapids
6	Capital Planning & Project Mangement	(180)	815,195	Return of unused funds from Rare Books pre-design funds given to CPPM in FY16
7	Capital Planning & Project Mangement	(18)	815,213	Return of unused funds from Rare Books-MINITEX predesign
8	**New items this reporting period:**			
9	President's Office	350,000	465,213	Offset expenses incurred for executive level searches
10	Capital Planning & Project Mangement	(150,000)	615,213	Return of funds for TCF Bank Stadium security bollards
11	**FY 2016-2017 Ending Balance**		**615,213**	

* Subject to Board approval due to cost of $250,000 or more

FY17 r. 2017 June

Purchase of Good and Services $1,000,000 and over

To The Coca-Cola Company, Great Lakes Coca-Cola Distribution, Coca-Cola Bottling Company High Country, and Viking Coca-Cola Bottling for $6,000,000 for an exclusive beverage and sponsorship agreement extension for the Department of Auxiliary Services for the period of July 1, 2018 through June 30, 2021.

In 2008, the University of Minnesota entered into a ten-year agreement with two, three-year extensions with Coca-Cola to be the exclusive beverage provider for all five campuses. The beverage agreement provides programmatic and sponsorship advantages of one vendor serving all five campuses, with one coordinating office, under one agreement. This extension provides an overall value of over $13,000,000 back to the University through a combination of commissions, scholarships, sponsorships, bonuses, and other programs. This new agreement extension results in the University of Minnesota having one of the top collegiate Coca-Cola beverage contracts in the nation.

All of the terms and conditions of the original agreement remain in place with slight modifications reflecting the changes to Coca-Cola's company and distribution structure. The extension financially exceeds the original contract value on an annual basis. The Coca-Cola contract extension maintains original contract performance measures, requires an annual business review, and periodic performance and marketing reviews to ensure the performance requirements of the contract are being met.

Coca-Cola beverages are budgeted by a variety of organizations and subcontractors of the University (Aramark and Sodexo) on all five campuses for resale or consumption.

Submitted by: Laurie Scheich, Auxiliary Services, Associate Vice President
Rm 210 Printing Services Building
Minneapolis Campus
P: 612-624-0542
F: 612-626-1549

Approval for this item requested by:

Michael Berthelsen — 5-24-17

Michael Berthelsen
Interim Vice President University Services

Date

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

To Discovery Benefits for the estimated amount of $369,000 for administering UPlan flexible spending account options for the University of Minnesota Office of Human Resources Employee Benefits for the two-year period of January 1, 2018 through December 31, 2019 with optional contract extensions through December 31, 2023 for an additional $738,000. Total contract value, if all options are exercised would be $1,107,000.

Discovery Benefits was selected as the flexible spending accounts plan administrator as a result of a request for proposal process conducted from January 2017 through May 2017. The initial contract is for a two-year period, with four options to renew the contract. The estimated annual amount of $184,500 is based on administrative service fees submitted as a part of the RFP process and estimated enrollment.

The administrative service fees are funded on an annual basis through the fringe pool.

Submitted by: Ken Horstman
Senior Director, Total Compensation

Approval for this item is requested by:

Kathryn F. Brown
Vice President, Office of Human Resources

June 8, 2017

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

To Dodge of Burnsville, and Saxon Fleet Services for $4,000,000 for new vehicle purchases for Parking & Transportation – Fleet Services as needed during the contract period from August 1, 2017 to July 31, 2022.

Fleet Services, a unit of Parking & Transportation Services, offers vehicle leasing, rental, and purchasing to support the University of Minnesota's diverse statewide research, outreach and service environments. A leasing or rental department pays a period charge for a vehicle from Fleet Services' central motor pool. A vehicle purchased on behalf of a department is funded by the department at the time of purchase.

Fleet Services utilizes contract vendors to acquire new vehicles for both the central motor pool and for purchasing vehicles for University departments. This $4,000,000 request is to purchase new vehicles on behalf of a University department.

Fleet Services also currently uses Automotive Rentals, Inc. (ARI), to finance vehicles for the central motor pool. These dealership contracts will extend to ARI so that ARI can acquire vehicles to lease to Fleet Services. The funding needed for financing obligations related to these vehicles was included in the request approved by the Board of Regents in September, 2016 for the ARI contract.

Vendors were selected through a competitive bid process and were chosen based on lowest cost for vehicle makes with and without customizations. Dodge of Burnsville will provide Chrysler, Dodge, Jeep, and RAM vehicles with and without customizations. Saxon Fleet Services will provide Chevrolet, Ford, and GMC vehicles with and without customizations.

Vehicles in the central motor pool are funded through a period fee charged to departments. Purchased vehicles are funded by the department at the time of purchase.

Submitted by: Lisa Raduenz, Assistant Director
Parking & Transportation Services, Fleet Services Division
901 29th Avenue SE
Minneapolis, MN 55414
Phone: (612) 625-8020
Fax: (612) 624-5587

Approval for this item requested by:

Michael Berthelsen

Michael Berthelsen
Interim Vice President, University Services

5-18-17
Date

Purchase of Good and Services $1,000,000 and over

To Sodexo Educational Services, LLC for $45,000,000 to provide retail food service, residential food service and catering service on the University's Morris Campus and Crookston Campus for the Department of Auxiliary Services for the period of July 1, 2018 through June 30, 2024.

In 2008, the University of Minnesota entered into a ten-year agreement with three, two-year extensions for Sodexo to be the food service provider of retail food service, residential food service and catering services at the Crookston and Morris campuses. Sodexo maintains a strong reputation of providing excellent dining programs for smaller, residential campuses. It was at the behest of campus administration on both campuses that an early extension was negotiated. An early extension of the full six years was negotiated.

This extension provides an overall value of over $1,475,000 back to the University. The value includes an early payment of $825,000 for capital improvements in the campus dining areas and the introduction of a 50/50 profit split into the terms of the agreement. The agreement will also provide the University with an estimated $650,000 in revenue from commissions based on meal plan, catering and retail sales.

All other terms and conditions of the original contract remain in place with slight modifications reflecting the changes to different operational requirements of each campus and modification of performance benchmarks. The Sodexo extension requires an annual business review and periodic performance reviews to ensure the performance requirements are being met.

Sodexo residential and catering services are budgeted for by the appropriate departments using these services on the Crookston and Morris campus.

Submitted by: Laurie Scheich, Auxiliary Services, Associate Vice President
Rm 210 Printing Services Building
Minneapolis Campus
P: 612-624-0542
F: 612-626-1549

Approval for this item requested by:

Michael Berthelsen

Michael Berthelsen
Interim Vice President University Services

5-24-17
Date

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

To Unizin, Ltd. for $1,282,500 for a three-year renewal of membership in this higher education consortium for the Office of Information Technology (OIT) for the period July 1, 2017 through June 30, 2020.

The University of Minnesota entered the Unizin consortium in 2014, joining forces with several peer institutions in higher education. They have a shared mission of developing a teaching and learning digital technology ecosystem that will support future technology growth of Unizin members while retaining control of the technology, ownership of the data that digital technology creates and shaping its development so that it will best serve the needs of the consortia members. We hope to help change the future of higher education by improving access, affordability and learner success.

In the past three years, Unizin has used the power of the consortium to develop, host and offer services and applications that support the Unizin consortium's vision of a highly customizable digital environment that allows each member institution to create the system that will work best for them. These services and applications are in the areas of digital content creation and management, an interoperable, standards-based platform, and learning analytics and data warehousing. The University of Minnesota has been involved in several pilots of Unizin's applications and services. Licensing and use of Unizin applications and services, and as well as support for each, are included in the membership fee. This does not include the learning management system platform, Canvas.

The annual payment of membership fees will be covered from OIT's central O&M funds. The FY18 budget includes planning and funding for this expense.

Submitted by: Ron White
Purchasing, OIT Business Office
1300 South Second Street
Mpls. Campus
Phone: (612) 625-2333
Fax: (612) 625-3521

Approval of this Item is requested by:

Vice President and CIO

May 23, 2017
Date

Rationale for Exception to Competitive Bidding

This purchase has not been competitively bid because the University of Minnesota is a founding member of Unizin, a consortium of twelve higher education institutions including seven Big Ten schools.

The focus of this consortia is on gathering big data and sharing that information and knowledge across the schools to help improve education outcomes for their students. Other founding members are renewing their memberships as well.

The University receives value in terms of the big data gathered through the electronic tools used by the members that cannot be gathered through any other source. Licensing and use of Unizin applications and services, as well as support for each, are included in the membership fee. A financial analysis conducted in the past several months has clearly shown that contract separately for each of Unizin's applications and services would be significantly more expensive.

The Director of Purchasing and the University Controller concluded that this is a reasonable exception and that value is received for this membership.

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

To Unum Group for the estimated amount of $8,748,000 for administering claims and providing disability coverage options for the University of Minnesota Office of Human Resources Employee Benefits for the two-year period of January 1, 2018 through December 31, 2019 with optional contract extensions through December 31, 2023 for an additional $18,854,000. Total contract value, if all options are exercised would be $27,602,000.

Unum Group was selected as the disability plan administrator and insurance provider as a result of a request for proposal process conducted from December 2016 through April 2017. The initial contract is for a two-year period, with four options to renew the contract. The estimated annual amount of $4,600,000 is based on estimated enrollment.

The administrative service fees and Academic Long-Term Disability premiums are funded on an annual basis through the fringe pool. The voluntary Short-Term and Long-Term Disability premiums are funded by employee contributions.

Submitted by: Ken Horstman
Senior Director, Total Compensation

Approval for this item is requested by:

Kathryn F. Brown
Vice President, Office of Human Resources

June 8, 2017

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

To US Solar, LLC; DG Minnesota CSG 1, LLC; DG Minnesota CSG 3, LLC; DG Minnesota CSG 10, LLC; and Minnesota CSG 1, LLC for an estimated $130,000,000 in community solar garden subscription fees and related services for Facilities Management for the period of July 1, 2017 through December 31, 2042.

*In 2013, Minnesota State legislation directed Minneapolis-based utility, Xcel Energy, to create a program for community solar gardens (Minnesota Statute 216b.1641). Xcel named the program the Xcel Energy Solar*Rewards Program. The community solar gardens are financed, built, operated, and maintained by third-party developers. A community solar garden is a centralized, shared solar project connected to the energy grid that has multiple subscribers. Each subscriber receives a credit on their Xcel Energy electric bill based upon the production of the solar facility and their subscription share of that facility. Subscribers pay the developer for the subscription. The developer provides the electricity and renewable energy certificates generated to Xcel. The difference in payments to the developer and the bill credit received from Xcel results in savings or costs to the subscriber.*

The University issued a request for proposal in March 2017 for community solar garden subscription services. The University received proposals from US Solar, LLC, NextEra Energy Resources Acquisitions, LLC (i.e. DG Minnesota CSG 1, LLC; DG Minnesota CSG 3, LLC; DG Minnesota CSG 10, LLC), and Innovative Power Systems, Inc. (i.e. Minnesota CSG 1, LLC). All three vendors were selected to provide this service due to their competitive pricing, strong teams, and viable solar gardens that will serve the University's needs. Construction of these gardens will not use University land or financial capital, and the subscriptions are projected to yield annual operating cost savings.

The purchase is a 25-year contract, which is standard for the community solar garden industry in Minnesota. The University's subscription is equal to ~46,493,000 kilowatt hours of electricity in year 1, subject to successful completion of the proposed community solar gardens. Year 1 subscription fees are estimated to be $5,466,000 and yield estimated year 1 savings to the University of $251,000.

These services will be purchased with funds from the Electric Utility ISO.

Submitted by: Shane Stennes
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Twin Cities Campus
Phone: (612) 626-2588
Fax: (612) 626-0234

Approval for this item requested by:

Michael Berthulsen

Vice President, University Services

5-22-17

Date

BOARD OF REGENTS
DOCKET ITEM SUMMARY

Finance **June 8, 2017**

AGENDA ITEM: Information Items

☐ **Review** ☐ **Review + Action** ☐ **Action** ☒ **Discussion**

☒ *This is a report required by Board policy.*

PRESENTERS: Brian Burnett, Senior Vice President for Finance and Operations

PURPOSE & KEY POINTS

University Tax Compliance Activities

The purpose of this item is to provide information to the Board on the various tax compliance activities and programs of the University Tax Management Office.

Quarterly Investment Advisory Committee Update

The purpose of this item is to provide a report on the quarterly meeting of the Investment Advisory Committee (IAC) held on May 10, 2017. The agenda for the meeting included:

- Portfolio Performance Review
- Asset Allocation Study Update
- Manager Recommendation: Lake Whillans Fund I – Approved
- Manager Recommendation: Rockbridge Hospitality Fund VII – Approved
- Manager Recommendation: CRV XVII – Approved

Quarterly Asset Management Report

The purpose of this item is to report on the quarterly performance results for assets managed by the Office of Investments & Banking (OIB) for the quarter ended March 31, 2017. The OIB prepares this report, as required by Board policy, for review by IAC and the Board of Regents.

- The invested assets of the University totaled approximately $2.66 billion on March 31, 2017.
- The Consolidated Endowment Fund (CEF) value increased to $1,324 million as of March 31, 2017. The total investment return for CEF during the quarter was 2.5 percent, compared to its short-term benchmark at 3.2 percent.
- The slight underperformance during the quarter was driven largely by the realized discount on the sale of several private equity funds through the secondary market for the purpose of rebalancing the portfolio.

- The market value of the short-term reserves (TIP) was $ 1.15 billion as of March 31, 2017. The investment return on the portfolio over the last quarter was 0.5 percent compared to a benchmark return of 0.2 percent. The change in market value during the quarter was largely due to the timing of cash flows as part of the University's normal business cycle.

Debt Management Advisory Committee Update

The purpose of this item is to provide a report on the meeting of the Debt Management Advisory Committee (DMAC) held on Wednesday, June 7, 2017. The agenda for the meeting included:

- Status of potential refunding opportunities.
- Discussion of the establishment of a Commercial Paper Program.

The University Tax Management Office
Fiscal Year 2016 Tax Items and Activities

Introduction The University of Minnesota Tax Management Office (TMO) has worked on numerous projects and activities over the last fiscal year. The purpose of this memorandum is to document those activities so that a permanent record of activitie can be maintained.

Consultation and coordination with other units at the University is a key function of the TMO. The TMO wishes to thank all the academic units and key departments for their assistance in helping the TMO address University tax issues. Without their contribution and cooperation the TMO function of the University could not be accomplished.

> ***TMO Office Location:***
> Suite 100, University Office Plaza Building
> (2221 University Avenue S.E., Minneapolis, MN)

General TMO Activities The TMO undertakes many activities to position itself to provide up-to-date tax services to the University community. The TMO regularly meets with all campus locations and other key collegiate units to ensure that tax issues are timely addressed and that appropriate training regarding significant tax matters occurs.

Updated Website The TMO website, www.tax.umn.edu, underwent a significant format change in FY 2016, along with adding content. We believe the increase in resources and improvements to the site will facilitate overall tax compliance. We learned that for the period from February 1st to May 20th the FAQ on 1098-Ts was the 12th most accessed site through the University MyU portal.

> ***TMO Website Address:***
> www.tax.umn.edu

Continual Development and Improvement of Guidance The TMO continues to develop and improve specialized tax guidance and specialized training for various key collegiate units on campus.

Contracts and Tax Issues The TMO also advises the General Counsel's Office regarding specific contractual provisions that University contracts should contain with regard to tax issues. Additionally, it reviews tax language in the various contractual provisions and considers whether additional provisions are necessary. This includes general provisions for foreign taxes with foreign entities and US withholding of foreign individuals working in the US as well as consideration of items for sales tax, unrelated business income taxes and private business use on tax-exempt bond financed facilities.

Federally Authorized Tax Practitioner – Client Privileged Communications Professional members of the University TMO are licensed to practice before the Internal Revenue Service (IRS) and qualifying communication from these professionals may be given federally authorized tax practitioner – client privileged status under § 7525 of the Internal Revenue Code (IRC). This status may protect qualifying communications between the TMO professionals and members of the University administration in non-criminal IRS proceedings when the communication is for the purpose of seeking, obtaining or providing tax advice.

CPE/CLE Conference Presentations In fiscal year 2016, the Director of the TMO (Kelly Farmer) represented the University as part of the conference organization committee of two different national tax conferences for higher education participants: the Treasury Institute Workshop on Bond Compliance, and the Higher Education Tax Institute. He also presented at these conferences. The Assistant Tax Director (Heather Broneak) is also involved in the development of the Minnesota State Bar Association Tax Institute agenda each year.

Conference Committees
Treasury Institute – Bond Compliance
Higher Education Tax Institute
Minnesota State Bar Association Tax Institute

AICPA Exempt Organization Technical Resource Panel (AICPA EOTRP) Activities The Tax Director continues to fulfill a voluntary role as an associate member of the AICPA EOTRP. As a participant of this panel, the Tax Director works with other panel members and AICPA staff in evaluating various tax positions taken by the IRS and assists in the development of any official response by the AICPA on the matter. This helps the University to be kept current on the various tax developments affecting higher education exempt organizations. For FY 2016, the Tax Director was able to utilize the meeting with the Treasury to request relief from certain legislative changes mandated late in calendar year 2015 (See IRS Notice 2016-03).

Higher Education Industry Relief for 2015 1098-Ts

The TMO Involvement with Peer Groups Part of the objective of the TMO is to determine how the IRS is enforcing the tax laws in various other parts of the country in the higher education community. Facilitating this need to determine how the IRS is operating throughout the country is the TMOs collaboration efforts with other educational institution tax peers. As a result, the TMO continues to have involvement with The University Tax Peer Group (UTPG) and with The Minnesota Colleges & Universities Tax group (MNCUT). These groups consist of peers of the University in the United States or other institutions of higher education in the State of Minnesota, respectively. A significant purpose of these groups is to identify key issues that each institution is working through and identify issues surrounding IRS and Minnesota Department of Revenue audits and compliance initiatives. This has been an invaluable tool for the TMO to prioritize areas of compliance emphasis within the University. Through involvement with these resources we were able to identify IRS audits occurring in higher education in the state of Minnesota as well as other states.

University Tax Peer Group (UTPG)
Large Public Research Institutions with Medical Schools and Division I Athletic Activities

Minnesota College and University Tax (MNCUT) Group
Most colleges and universities in the State of Minnesota

Tax Controversies

The TMO is the primary representative of the University with respect to inquiries from federal and state taxing authorities. In early FY 2016, the University was subjected to penalties relating to 1099-MISC filing for calendar year 2012. It is the TMO position that the University has been in full compliance regarding this issue.

Penalties

The TMO has filed a claim for refund but has yet to hear whether such claim has been processed by the IRS.

Unrelated Business Income (UBI) Throughout the year, the TMO reviews new external sales applications in order to identify new unrelated activities. The TMO also reviews new non-standard contracts with taxable entities in order to identify potential unrelated business income. We meet with departments that will have UBI and work to create a process of tracking direct expenses. The TMO periodically runs reports throughout the year to monitor these new and existing unrelated activities.

Sources of UBI

- Trade or business activities
- Unrelated to Exempt Mission
- Regularly Carried on Activity

UBI Tax Filing The TMO completed the fiscal year 2015 (July 1, 2014-June 30, 2015) Form 990-T, Exempt Organization Business Income Tax Return, for the Regents of the University of Minnesota. As part of this return, fifteen different activities were reported on the return, resulting in taxable net loss of $692,466. The TMO worked to identify credits to minimize the overall current and future UBI tax liability. The partnership K-1s were tracked for flow-through credits. In addition, the Renewable Energy Credit relating to the University's wind turbines on our Morris campus and Rosemount location were calculated for additional tax credits. These credits, to the extent they are allowed, are either taken against current year unrelated business income tax and/or carried over to future tax years when they can be offset against future unrelated business income tax. As of fiscal year end 2015, the University had a tax credit carryforward of $406K.

UBI Statistics

Total Revenues Reported = $ 19,277,355
Business activities on 990-T = 15
Net Operating Loss Carryover $26.9M
Tax credit carryforward = $406K

Trade Show Exception to UBI The TMO analyzed and concluded that University departments can utilize the trade show exception to unrelated business income on their qualifying conferences and trade shows.

UBI Consequences of Syndicated Solar Garden Program The TMO analyzed and concluded that planned solar gardens would not generate any unrelated business income.

UBI Reporting of Vikings Use of Stadium The TMO tracked revenue and expenses (including allocation of interest and depreciation) for the Vikings games, concerts and other third party events held at the TCF Bank Stadium.

State Filings The TMO identified a significant potential unrelated business income tax liability with respect to limited partnership activities in another state. Inquiry was made with the General Partner (GP) and as a result, significant modifications to the reported taxable income are to be processed by the GP. As soon as these changes are made and official notice is provided, the TMO will analyze whether a state filing is required for UBI in that particular state.

Tax-Exempt Debt The TMO plays an important role in the University's tax-exempt bond compliance. Kirsten Muller, Assistant Tax Manager, sits on the Debt Process Team (DPT). Kelly Farmer, the University Tax Director, sits on the Debt Oversight Group (DOG) and attends the Debt Advisory Management Committee (DMAC) meetings. The TMO is involved with these committees as the subject matter experts for purposes of advising on the tax rules pertaining to tax-exempt bonds.

Departments Key to Tax-Exempt Debt Management

Debt Management Office
Capital Planning and Project Management
Office of Investment and Banking
Controller's Office

Planning and Monitoring Activities for Meeting Arbitrage Rebate Exceptions The University monitors its compliance with the arbitrage rebate spending exceptions through the DPT (see above). Periodically, the need to allocate bond proceeds of one issuance to projects of another issuance arises in order to spend the bond proceeds timely for purposes of meeting the spending exception to arbitrage rebate. The TMO assists the University Debt Manager in these efforts. In connection with this effort TMO maintains the Arbitrage and Rebate tickler file to help manage due dates and required tax filings.

Review of Debt Issued in the Past Year As needed, the TMO performs reviews of private use and arbitrage rebate relating to current year tax-exempt debt issuances. In fiscal year 2016, the TMO was very involved with the issuance of a refunding for the 2006 Special Purpose Debt (2015A Debt) which also resulted in the issuance of taxable debt to efficiently manage private business use (2015B Debt). In addition, TMO assisted in the issuance of debt in April (2016A Debt) to complete construction of various University projects. The TMO was also heavily involved in designating a portion of the commercial paper program proceeds (Series E Debt) to be used for the purchase of various land acquisitions.

FY 2016 Proceeds of Debt Issuances

2015A Refunding $ 104,244,557
2015B Taxable Issuance $ 10,110,000
2016A Debt Issue $ 147,761,428
Series E Reallocation $51,507,615

Updated Bond Guidelines During fiscal year 2016, the TMO along with the University Debt Manager, updated the University's Bond Compliance Guidelines to reflect University policies and procedures. The maintenance of policies for bond compliance is an IRS requirement for tax-exempt debt issuers and updating these on an annual basis is considered to be best practice.

Monitoring PBU The TMO tracks PBU by debt issuance and by building on an annual basis. The TMO has detailed maps of each campus and their buildings. Based on the guidelines mentioned above, buildings are assigned a "color" based on their PBU percentage. The PBU is updated annually which enables the TMO to give a snapshot of private use percentage on each building among the campuses. The University currently has 26 debt issuances with over 130 University buildings identified with University debt. In addition, there are over 70 University buildings identified with non-HEAPR

Private Business Use Numbers

University Debt Issuances =26
Buildings with University debt = 130
Buildings with State Debt = 72
Buildings with HEAPR = >210

State debt. All of these maps are kept on the TMO website so the University community has access to this information.

Identification of PBU in Buildings to which HEAPR Funds Were Utilized The TMO manages PBU on HEAPR projects to acceptable limits by applying federal safe harbors and other regulatory provisions. The TMO analyzed the private business use of all the buildings connected with the 2016 HEAPR request. Overall, the TMO has identified over 210 University buildings utilizing HEAPR dollars.

Training of Key University Personnel on PBU Basics The TMO presented several training sessions to key University personnel on the basic PBU measuring principles available under federal tax regulatory guidance. Specifically, the use of allocations, safe harbors, and regulatory exclusions from PBU were discussed.

Developed New Tax Management Office Guidelines (TMOGs) on Debt The TMO developed or revised five TMOGs pertaining to tax-exempt debt that are now available on our web site. The TMOGs cover 1) the Fifty Day Rule, 2) the Qualified Improvement Exception, 3) Tax-Exempt Bond Expenditure Allocation Rules, 4) Arbitrage Rebate Compliance, and 5) Private Business Use.

New TMOGs on Debt

Analyzed PBU Consequences of Planned Campus Initiative The TMO reviewed with University Services the private business use connected to syndication of solar gardens planned to be built upon or adjacent to University debt financed facilities.

Analyzed New U.S. Treasury PBU Accounting and Allocation Regulations The TMO reviewed Final Regulations issued by the U.S. Treasury Department regarding accounting and allocation rules for managing tax-exempt debt private business use. The practices of the University when it finances projects by tax-exempt debt constitutes a complex process that is presently not contemplated by the Final Regulations. The TMO will continue to work with outside bond counsel in addressing these complex issues.

New Regulations

Related and Associated Organizations

The TMO provides a variety of tax assistance and guidance to the organizations that are related to and associated with the University of Minnesota. These organizations range from organizations that are under the direction and control of the University, such as RUMINCO and the Minnesota 4-H organizations, to the foundations affiliated with the University and the numerous separately organized student organizations.

RUMINCO Ltd IRS Reporting The TMO completed the fiscal year 2015 (July 1, 2014-June 30, 2015) Form 990, Return of Organization Exempt From Income Tax, for RUMINCO, Ltd.

General Exemption Number (GEN) Administration for 4-H All Minnesota 4-H Organizations are covered under a federal Group Exemption Number (GEN). The University is the central controlling organization with respect to this group ruling. Under this group ruling, the Minnesota 4-H Organizations are exempt from federal income tax under § 501(c)(3) of the IRC. As the University is the central controlling organization, the TMO is responsible for (a) ensuring that its current subordinates continue to qualify to be exempt; (b) verifying that any new subordinates are exempt; and (c) updating the IRS on an annual basis of new subordinates, subordinates no longer to be included, and subordinates that have changed their names or addresses. The TMO updates the IRS Master File for all 4-H organizations covered by the University GEN letter each March.

> ***4-H Facts***
> Total MN 4-H orgs = 940
> 990/990-EZ tax returns = 59
> 990N filers = 881

4-H Tax Return Assistance 4-H organizations are usually run and administered by local volunteers under the direction and control of the University Extension. Having a strong central administrative presence for tax issues ensures that tax matters are consistently addressed across all 4-H organizations. To this end, the TMO prepared the 990/990-EZ tax filings for 59 4-H councils/federations. In addition, the TMO tracks the filing of all 990-Ns to ensure this filing process has been completed for all clubs and qualifying councils/federations.

Web Page for Tax Status of 4-H Organizations The TMO maintains special 4-H web pages wherein the public can verify the tax status of the various 4-H organizations in the State of Minnesota. The TMO maintains this website to assist individuals in understanding the charitable deduction status of donations made to 4-H Organizations that otherwise is not available in the IRS Publications. A current listing of Minnesota 4-H organization is updated monthly in order to comply with this responsibility.

> ***4-H Tax Website Address:***
> http://tax.umn.edu/4-H.html

Continuing 4-H Tax Activities The TMO continues to work with all the 4-H organizations in addressing various IRS notices for sundry subjects. The TMO is continuing to monitor new clubs coming into existence and applying for their taxpayer identification numbers by filing Form SS-4 as the entity responsible for all 4-H organizations in the state. The TMO provided assistance to 4-H County organizations on responding to IRS notices and sales tax questions and issues with the Minnesota Department of Revenue.

Sales Tax The TMO is a resource to all University departments that make purchases or sell to external customers. Services provided include responding to inquiries on a daily basis regarding taxability of items, the appropriate sales tax rate to charge on a transaction, documentation needed to prove an exempt sale was made appropriately, or language to use on invoices to support the tax treatment. We also assist departments with sales tax return filing and remittance issues. The TMO is the main contact between the University and the Minnesota Department

> ***Sales Tax Returns***
> Over 50 departments file sales tax returns with the MN Department of Revenue

of Revenue (DOR), and our relationships with the DOR are utilized frequently in the sales tax area. Ongoing assistance in dealing with vendors that are not recognizing the University's ability to buy items exempt from sales tax is also regularly provided for purchases in Minnesota and in other US states. A map of the United States with the University's exempt status for sales tax purposes is maintained on the TMO website to assist when making University purchases in other states. We also review all new external sales applications for sales tax implications.

Compliance With Catering Arrangements The TMO performed an in-depth review of the U's top 20 catering suppliers to identify the accuracy of sales tax charged on catering invoices. Findings required communications with caterers and various departments to modify tax treatment in a number of areas. The TMO also offered brown-bag FSUN training to educate University purchasers on what to look for on catering invoices to ensure proper tax is paid.

Review of MN Legislative Proposals The TMO monitored proposed 2016 Minnesota legislation for tax implications to the University and related organizations and met with Government Relations staff and lobbyist to explore options.

Sales Tax Refunds Claims Processed The TMO worked on several sales tax refund claims, including a parking services claim, a Surdyk's liquor gross receipts claim, and a Commons Hotel parking refund claim.

Exempt License Plate Issue The TMO worked with Fleet Services and Minnesota Department of Safety to get approval for exempt license plates for University Fleet Services vehicles requiring in-depth research on tax laws related to motor vehicles.

MN 4-H Sales Tax Issue The TMO worked with Minnesota Department of Revenue related to sales tax letters going to MN 4-H organizations with the goal of easing administration for 4-H organizations.

Tax-Exempt Status of the University The TMO continues to be involved in documenting and communicating the University tax-exempt status to University departments and units as well as to outside interested third parties. The tax status of the University is that of an integral part of the State of Minnesota. As such, the University does not need approval from the IRS to be exempt from tax. Furthermore, contributions to or for the use of the University are contributions to or for the use of an entity described in § 170(c)(1) of the code and are for exclusive public purposes and are, therefore, generally deductible under § 170(a)(1) to the extent otherwise provided in § 170.

Benefits of Integral Part Status The administrative burden of tax compliance is significantly reduced as a result of the tax status of the University. As mentioned above, the University is not dependent upon the IRS to be exempt from federal taxes. In addition, the University enjoys the benefit of the doctrine of statutorily implied governmental immunity. This status, while rare in the higher education arena, creates opportunities for tax planning

Integral Part of the State of Minnesota

as issues are encountered with the various taxing authorities of other states. A downside to this status is the ability to communicate our tax status in the international context when we choose to conduct mission-related international activities.

Excise Taxes The TMO answers unique tax questions from departments relating to federal excise taxes on an ongoing basis. In addition, the TMO files a quarterly return (Form 720) with the IRS to report all excise tax liabilities. The PCORI (Patient Centered Outcomes Research Institute) fee is filed on the Form 720 and the TMO worked with HR - Employee Benefits to determine the most advantageous, and yet acceptable, method to calculate the fee. The TMO filed amended Forms 720 to correct previous PCORI fee calculations and remit the proper tax due. The IRS inappropriately assessed a penalty related to prior years filing of the Form 720, requiring monitoring the assessment and successfully requesting an abatement of the penalty.

Employment & Benefits The TMO answers unique tax questions relating to employee issues in the following areas: employee awards, employer provided housing, employee discounts, taxability of complimentary tickets, moving expenses, dependent health benefits, constructive receipt, assignment of income, deferred compensation questions, break-in-service questions, 1099 reporting requirements, W-2 issues, FICA withholding questions, drawings/raffles for employees, spousal travel and other employee benefits questions. The TMO also monitors changes to University policies and legislative changes to identify impacts on the University.

Compensation Related Expenses = 62% of University Total Budget

Comprehensive Review of University Provided Housing The TMO reviewed all instances where University staff were living in University-owned housing to ensure that the situations qualified for the IRC income exclusion when possible and that the value of housing was included in income when necessary. Language was added to job descriptions to support the income exclusion. New lease template wording was adopted to differentiate between required use of University housing versus optional leases.

Review of Taxation of Wellness Benefits The TMO worked with Employee Benefits in the Office of Human Resources to identify all wellness benefits and determine whether the benefits are excludable under the IRC or should be reported as income for employees. The wellness benefits were valued and the risk of noncompliance quantified.

Fringe Benefits, Taxable or Not?

Football Bowl Benefits Matrix The TMO designed a matrix indicating the tax treatment of various benefits employees and Regents might receive related to post-season games. The information in the matrix is used to report additional income for non-excludable benefits.

Retirement Planning Services Exclusion The TMO worked with the College of Continuing Education to take advantage of an IRC exclusion for retirement planning services when employees participated in

the Encore Transitions program. This required developing a creative approach that did not increase administrative burdens but allowed for exclusion of the value of the program when possible.

ACA Reporting Requirements Since many provisions of the Affordable Care Act are administered by the IRS, the TMO worked with Employee Benefits to ensure that reporting requirements for a self-insured large employer were met. This required working with the team responsible for the Form 1095-C and 1094-C reporting and assisting with developing communications to alert employees about the new forms they would be receiving.

Consultation Regarding the Taxation and Reporting Requirements of Certain Fringe Benefits The TMO worked with various collegiate units to provide guidance related to taxation and reporting of certain fringe benefits so that the University consistently applied principles of taxation between the various collegiate units.

Consistent Treatment

Other Noteworthy Projects The TMO was also involved the following: U-Pass versus Metro Pass tax implications for bus passes used by students, post-docs, and other staff; reviewed and worked on various University policies to ensure that positions adopted complied with IRS requirements; participated on prepaid debit card committee, reviewed RFP responses from a tax perspective and reviewed the related proposed policy.

Charitable Contributions The TMO frequently responds to questions from various sources regarding charitable contributions. These questions range from whether the University is eligible to receive a charitable contribution to how a department should acknowledge a donation. In addition, guidance regarding quid pro quo situations and required documentation of return benefits was provided.

Preparation of Guidance on Acknowledging In-kind Charitable Contributions Many national Tax Court cases last year resulted in the denial of the charitable contribution deduction to many taxpayers due to the lack of an appropriately worded acknowledgement. As a result, the TMO developed a TMOG on how individual departments can appropriately acknowledge in-kind gifts processed by the University in a manner to facilitate the donor claiming the appropriate deduction on their tax returns. In accordance with policy cash contributions and the preparation of their acknowledgements are processed through the various foundations connected to the University.

New TMOG

Signing of Forms 8283 for In-kind Charitable Contributions in Excess of $5,000 The TMO is responsible for signing the appraisal summary section of IRS Form 8283 that is used by donors to claim a charitable non-cash contribution in excess of $5,000. For the last fiscal year there were 33 such forms processed by TMO. The TMO also checks for any items that have been disposed in the three year period after completion of the 8283 so that appropriate IRS Form 8282 reporting can occur.

Scholarships & Fellowships The TMO fields frequent questions relating to the taxability of scholarships. Although we don't give individual tax advice to students, we attempt to provide general guidance that is helpful to students and specific information on IRS tax reporting to departments.

Guidance for Rural Rotation Payments During the past year, several meetings were required to work through the proper treatment of support payments for students undertaking rural rotations in greater Minnesota. Additionally, the TMO worked with other departments to ensure payments to students fall clearly within the scholarship or payments for services categories.

Enactment of Legislation Regarding 1098-T Reporting of Tuition In December of 2015, Congress enacted legislation mandating that all colleges and universities report tuition paid, rather than tuition billed, on the IRS Form 1098-T. The IRS issued a temporary reprieve in implementing these changes for calendar year 2016. Notwithstanding, TMO has worked with Student Finance to tee this change up so that appropriate inquires can be made of Oracle/Peoplesoft who will be providing an enterprise system solution to the University for this matter.

New Tax Law

Cessation of Voluntary Withholding for Fellowships In calendar year 2015, the University was unable to continue to allow students to voluntarily withhold federal and state taxes from fellowships processed by the University. Current tax law does not provide for any voluntary withholding for these payments. TMO worked with various student groups on campus to make this transition as smooth as possible by giving information on how to make individual estimated tax payments using the IRS website and/or using IRS Form 1040-ES, Estimated Tax for Individuals.

Information Tax Reporting Information reporting of taxes by the University is handled at various units throughout the campus locations. The Controller's Office is responsible for filing Forms 1099-MISC and 1099-K; the Student Finance area is responsible for filing Forms 1098-E and 1098-T; and the HR area is responsible for filing all employment tax returns in addition to Forms 1099-R and Forms W-2. The TMO is a resource for these departments in addressing issues that arise on a periodic basis and in gathering pertinent data needed in the various filings. In addition, the TMO advises these departments of changes in the tax laws as a result of newly enacted legislation when applicable.

Tax Reporting
# of W-2s = 54,169
# of 1098-Ts = 68,496
# of 1098-Es = 6,827
# of 1099s = 5,981

Work with Disbursement Services and Payroll Staffing changes in these departments required TMO to increase its consulting services to ensure that the University continues to comply with IRS requirements consistent with prior practices. The TMO, Disbursement Services and Payroll met on a bi-weekly basis for most of FY16 to provide a forum for regular discussion of shared issues. The TMO has provided a high level of support when consulted about vendor set-up issues and reporting requirements. In addition, the subjects of independent contractor and tax filing withholding reconciliation are frequently discussed and appropriate training is provided. The TMO also worked to

ensure that there is accurate reporting of Nonresident Entertainer tax to the State. Broad training on various tax requirements was provided to staff and documentation was developed to memorialize key tax positions.

Reporting of ROTC Individuals Following an inquiry regarding whether specific Form 1099 reporting for three individuals involved in the ROTC program was correct, the TMO determined that revised Form 1099s were required. The reporting changes extended to the Form 1098-Ts for the individuals and raised questions regarding whether the type of scholarship was appropriate.

FATCA Reporting Requirements The TMO prepared guidance for use by the University regarding IRS Forms W-8 BEN and W-8 BEN-E required for certain vendors so that the University can comply with the requirements of the Foreign Account Tax Compliance Act (FATCA). Generally, these forms may help negate any adverse tax withholding when the University does business with foreign entities for activities that occur in the United States.

Foreign Tax Compliance The TMO is a member of the Global Operations Advisory Team. Heather Broneak is the current TMO representative to that committee. In that capacity, the TMO is directly involved in the approaches taken by the University in addressing its foreign tax compliance issues. The TMO has also met regularly with the One Health Workforce work group to assist with foreign country issues.

Minnesota Global Operations Website
http://global.umn.edu/operations/index.html#/0

University Student Services Association The TMO Director is an active board member of the French association created by the University to manage its study abroad program in Montpellier, France. This entity was created, in part, to manage employee and institution tax risks of operating in a foreign country.

Compliance Related Structures for International Activities

Minnesota Global Incorporated
University Student Services Association

Establishing a Registered Organization in China The TMO was involved in working with Global Programs & Strategic Alliance operations to complete the process of registering to do business in China as a Registered Organization. In connection with this effort, a buffer entity entitled Minnesota Global Incorporated has been formed and a TIN has been obtained from the IRS. This project is expected to be finalized within the next fiscal year.

Various Certifications and Applications for Tax Treaty Treatment of Certain Foreign Related Activities TMO prepares various tax forms mandated by foreign entities in order to take advantage of tax treaty benefits with the host country of the foreign entity. This process entails completing several miscellaneous tax forms to justify the tax treaty treatment in addition to providing a Treasury Form 6166 wherein the Treasury certifies that the University is a resident of the United States eligible for those benefits.

Other Assistance Provided to Research Projects in Foreign Countries The TMO Tax Director worked with other key units on campus to provide a working mechanism for researchers to perform their activities with the necessary supplies and equipment without putting the University at risk for subjecting the research revenues to foreign taxes. These strategies were consistent with US tax law and the laws of the foreign countries.

Non-Resident Alien (NRA) Taxes The TMO is the office responsible for representing the University in case its treatment of NRAs were subject to scrutiny by the federal or state authorities. The day to day operations relating to NRA compliance are done within the Payroll Office and all processing of payments through the three main disbursement systems are coordinated with the Payroll Office to maintain compliance. The Payroll Office has experienced the retirement of a key staff member who handled most questions regarding NRA compliance. Consequently, the TMO is more frequently consulted regarding specific NRA questions.

International Students
Undergraduate = 2,789
Graduate = 2,946
Professional = 128
Non-degree = 573

Guidance on NRA Withholding The TMO developed a communication to assist departments in determining when withholding will apply to foreign visitors and the rates that departments may need to apply for purposes of calculating costs of payments to foreign visitors.

2,689 Form 1042-S for 2015

FATCA Reporting Requirements As mentioned in the information reporting section above, the TMO prepared guidance for use by the University Payroll Office regarding IRS Forms W-8 BEN and W-8 BEN-E required for certain vendors so that the University can comply with the requirements of the Foreign Account Tax Compliance Act (FATCA). Generally, these forms may help negate any NRA tax withholding when the University does business with foreign entities for activities that occur in the United States.

Deferred Comp & Pensions The University unit primarily responsible for deferred compensation and pension tax issues is the Benefits area of the Human Resources function. Notwithstanding, over the years there have been several law changes and IRS initiatives that involved the TMO. A recent example of one of these matters addressed by the TMO involved an IRS inquiry into an issue surrounding the University's 403(b) plan (Optional Retirement Plan) to determine whether the University met the Universal Availability Rules relating to these plans. In that instance, the TMO was able to obtain a no-change letter from the IRS regarding the matter. This national audit initiative was closed by the IRS in FY 2016 after subjecting several institutions of higher education additional inquiry and audit.

IRS Audits

Worked with AHC on Deferred Comp The TMO reviewed practice plans and IRC § 409A provisions to determine whether any reportable deferred compensation had occurred and made suggestions regarding how to avoid unintended consequences in the future.

Miscellaneous Tax Items The TMO continues to be involved in various other tax matters that relate to Property Taxes, MinnesotaCare Taxes, Minnesota Nonresident Entertainer Tax, Special Provisions of the Tax Code and Other matters to University constituents and the higher education industry as a whole.

MN Nonresident Entertainer Tax

Monitoring of University Position Regarding Energy-efficient Commercial Building Tax Credits In fiscal year 2016, the Director of the TMO continued to work with Capital Planning and Project Management (CPPM) in establishing procedures to make allocations for tax credit purposes of designers of energy-efficient buildings placed in service on the campus. As a result, the first allocation for such benefits and resulting commitment for revenues relating to such an allocation was executed in June of 2016.

179D Tax Benefits

Review of Proposed State Legislative Initiatives The TMO reviewed and provided input on Minnesota tax proposals to identify impacts on higher education. The TMO worked with University Government Relations personnel in reviewing and providing feedback on Minnesota tax proposals.

Quarterly Asset Management Report

March 31, 2017

UNIVERSITY OF MINNESOTA

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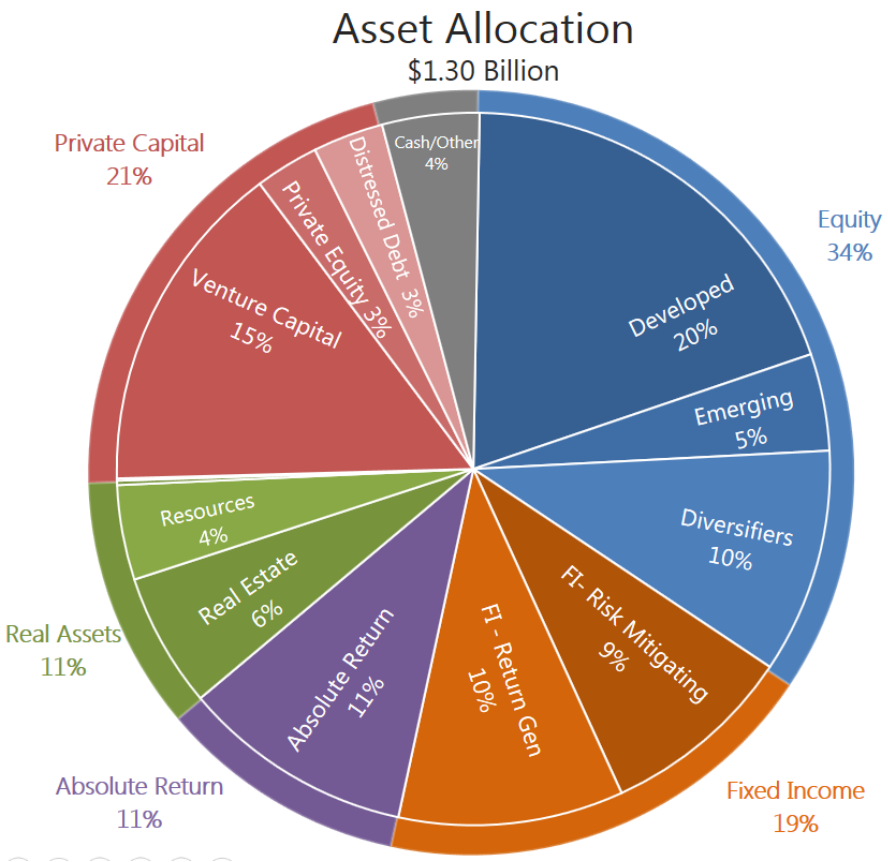
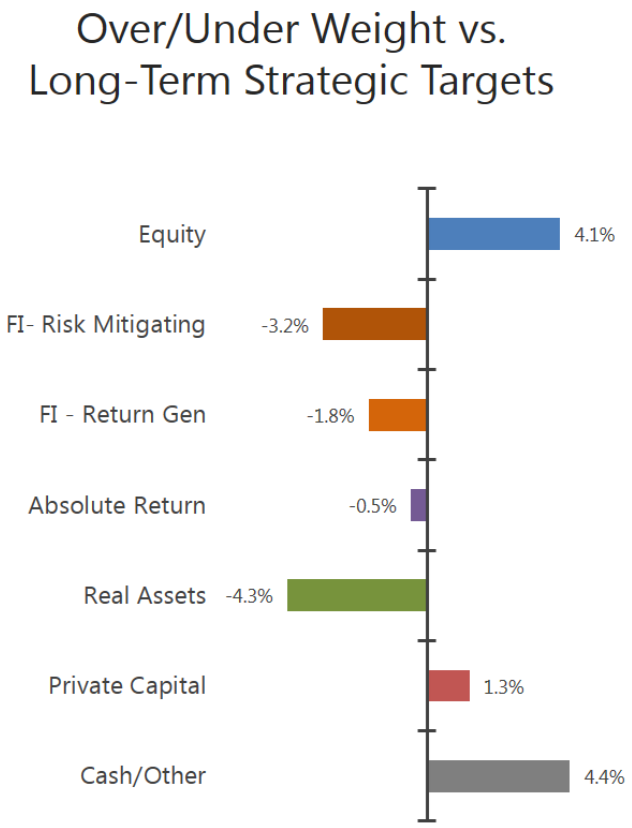
Overview of University Investment Funds

Internally Managed Funds ($ millions)	Q1 2017	FY 2016	FY 2015	FY 2014	FY 2013	FY 2012
Consolidated Endowment Fund (CEF)	$ 1,324.1	$ 1,258.0	$ 1,293.6	$ 1,272.5	$ 1,079.7	$ 977.6
Long-Term Reserves (GIP)	72.4	65.8	52.7	45.9	46.4	44.7
Short-Term Reserves (TIP)	1,149.7	1,101.0	1,050.0	1,054.6	1,031.4	972.2
RUMINCO Ltd.	44.5	40.6	39.6	39.2	35.8	32.6
Invested Assets Related to Indebtedness	75.4	100.9	148.3	66.9	87.0	189.7
Total Managed Assets	2,666.1	2,566.3	2,584.2	2,479.1	2,280.3	2,216.8

Investment Oversight ($ millions)	Q1 2017	FY 2016	FY 2015	FY 2014	FY 2013	FY 2012
Faculty Retirement Plans	$ 5,388.8	$ 4,968.1	$ 4,955.7	$ 4,769.7	$ 4,199.8	$ 3,807.9

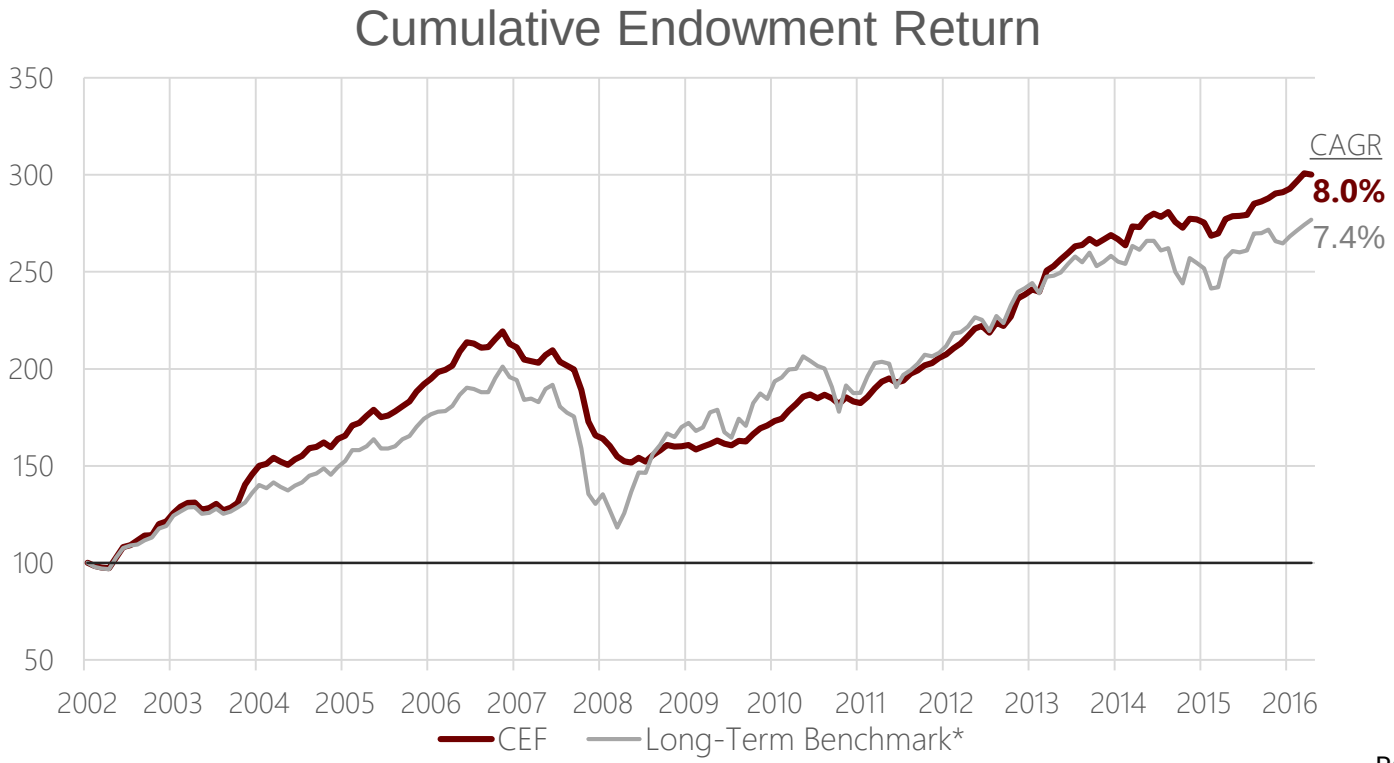
CEF Asset Allocation





Growth of $100

- Since the inception of OIB in 2003, the endowment returned 8.0% annually versus the passive mix of stocks and bonds return of 7.4%.



* 1/1/03 – 6/30/15: 70% MSCI ACWI IMI, 30% Barclays U.S. Aggregate. 7/1/15 – Present: 70% MSCI ACWI IMI, 30% Barclays Global Aggregate.

Performance Executive Summary

Short-Term

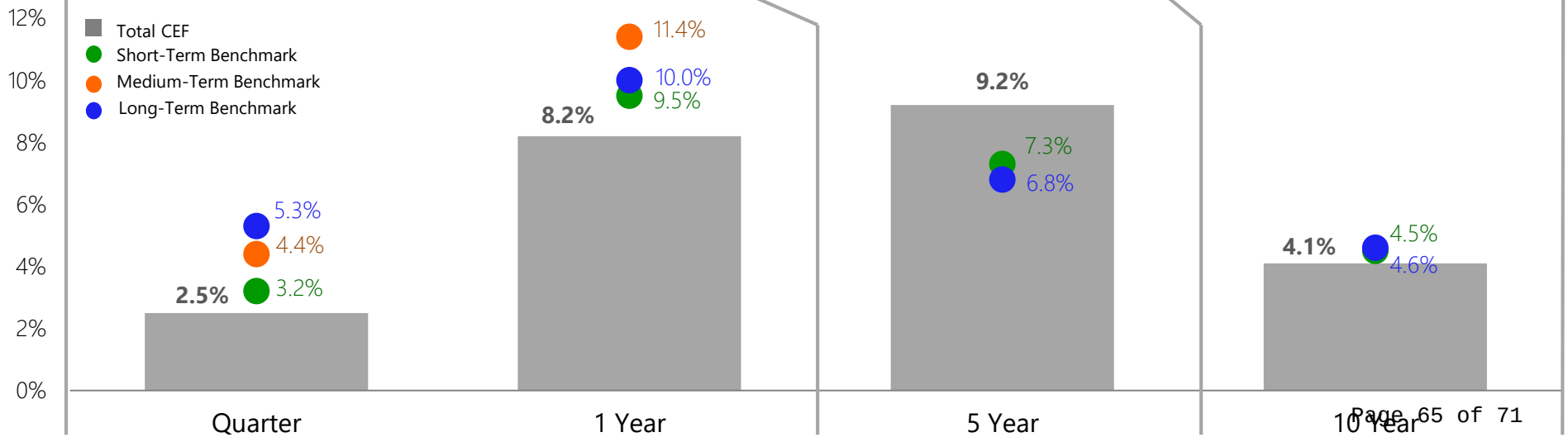
- Public equities were the main driver contributing 5% to CEF return, Private Capital contributed another ~2% to return
- Secondary sale of ~5% of CEF NAV resulted in estimated -27bps reduction in 1-year return

Medium-Term

- Equities contributed 4.5% to 3-year returns, while real assets also added 70 bps due to strong real estate realizations
- Fixed income managers generated steady 4.9% returns over the 5-year

Long-Term

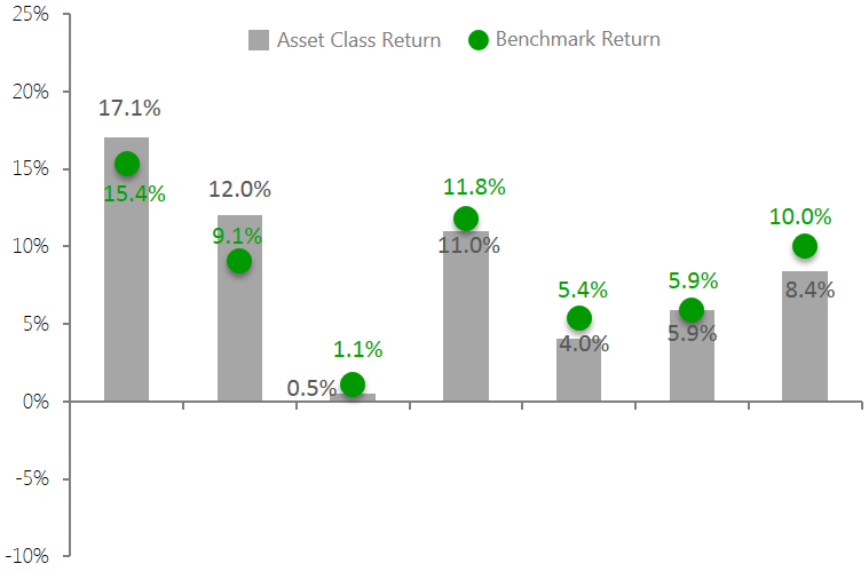
- Private Capital drove over 3/4 of the total CEF return
- Fixed Income strategies generated steady returns of ~3% over the 10-year period



CEF Asset Class Performance

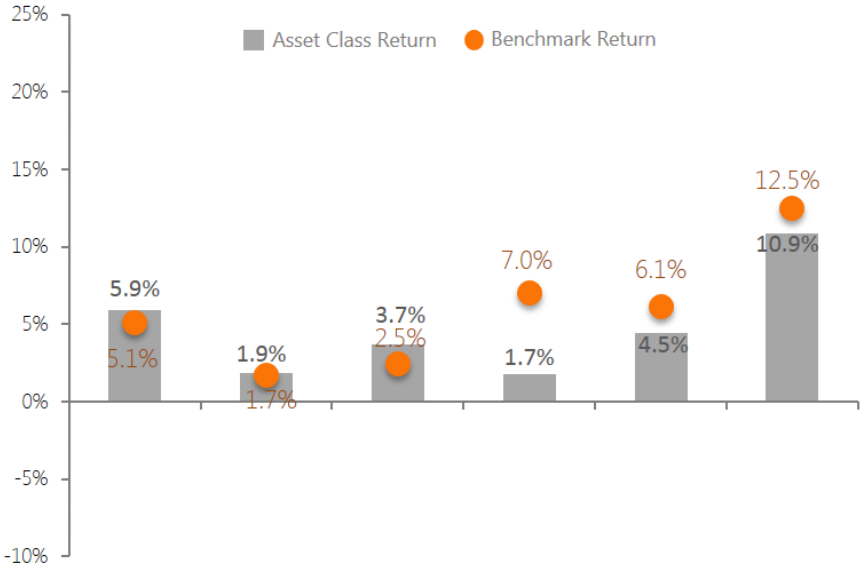
1 Year

(how did managers perform vs. benchmarks?)



3 Year

(did asset classes meet their objectives?)



ASSET CLASS	Public Equity	Diversifiers	FI- Risk Mitigating	FI - Return Gen	Absolute Return	Real Assets	Private Capital
BENCHMARK	*MSCI ACWI*	*Manager Bchmks*	*TIPS & Treasuries*	*EMBI, HY, Leveraged Loans*	*HFRI FoF Diversified*	*Actual Returns*	*SSgA PE Qtr Lag [1]*

	Equity	FI- Risk Mitigating	FI - Return Gen	Absolute Return	Real Assets	Private Capital
	MSCI ACWI	*TIPS & Treasuries*	*50% ACWI, 50% Gbl Agg*	*3-Month LIBOR + 5% [2]*	*CPI + 5%*	*Russell 3000 + 250 bps*

[1] 1Q17 return reflects actual Private Capital returns

[2] LIBOR + 5% after 7/1/16, LIBOR + 7% prior

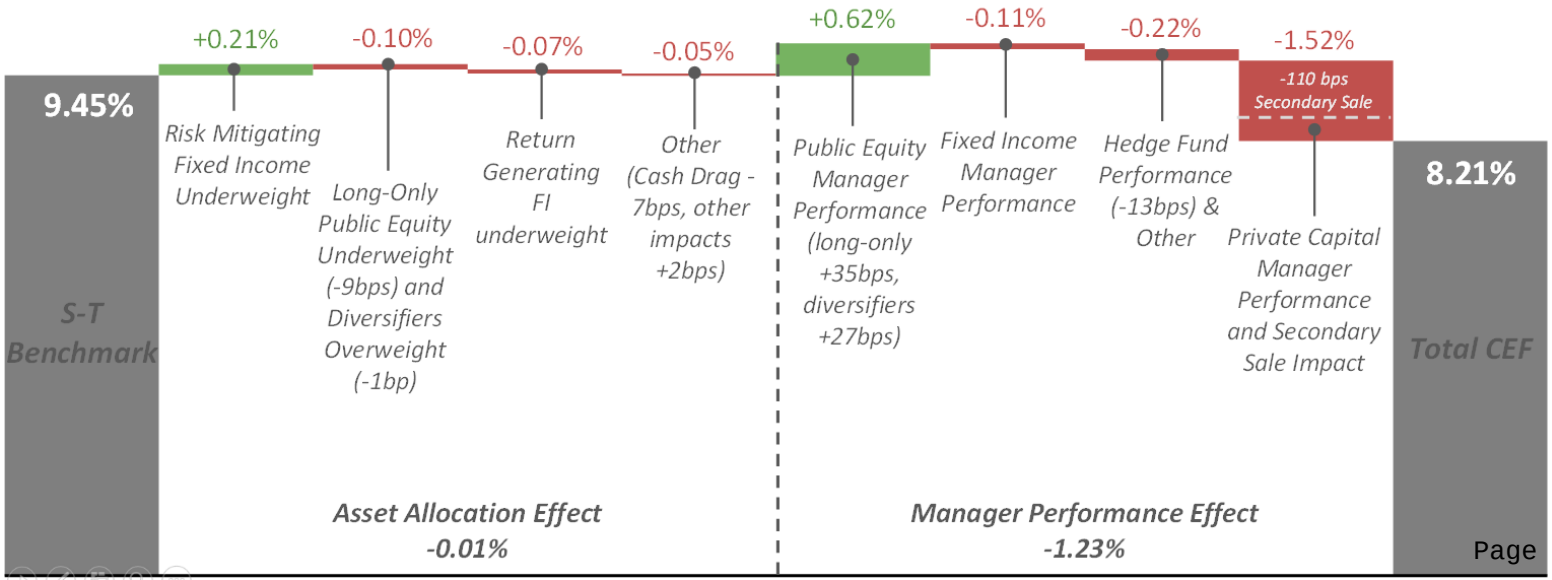
CEF 1-Year Benchmark-Relative Attribution

Asset Allocation Drivers

- \+ ~3% underweight safe assets additive in +15% equity market environment (cash drag detracted 7 bps)
- — Slight underweights to high return asset classes: public equity (-10 bps) and return-generating fixed inc. (-7bps)

Manager Performance Drivers

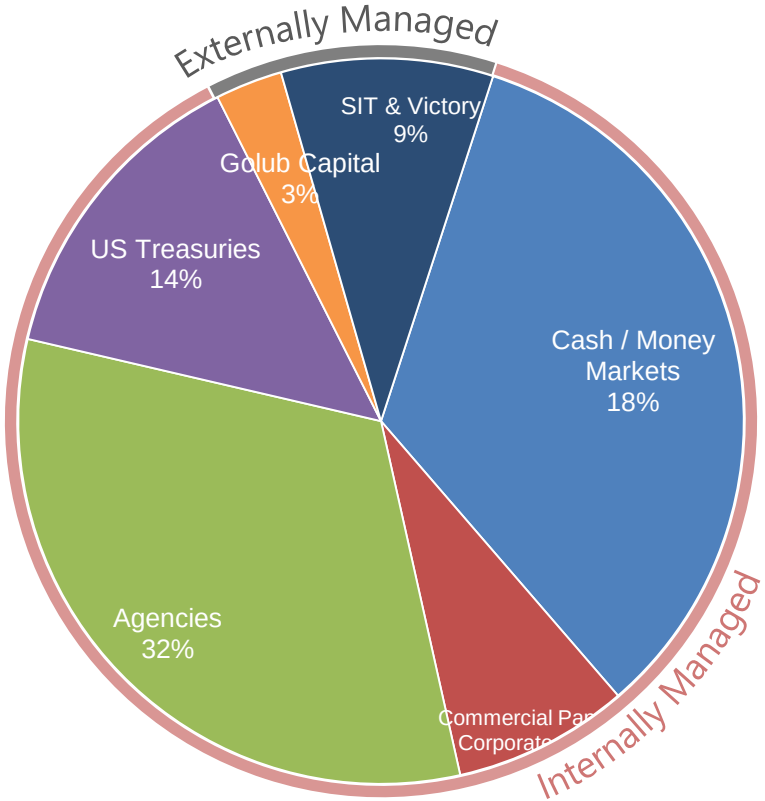
- \+ Strong alpha from active managers (Acadian +8%, Diversifiers +3%), and 60% U.S. tilt in public equity
- — Secondary sale detracted 110 bps from CEF relative return, however the absolute performance impact is -27 bps
- — Private Capital returns didn't keep pace with lagged State Street Private Equity index (-47 bps impact to relative return)



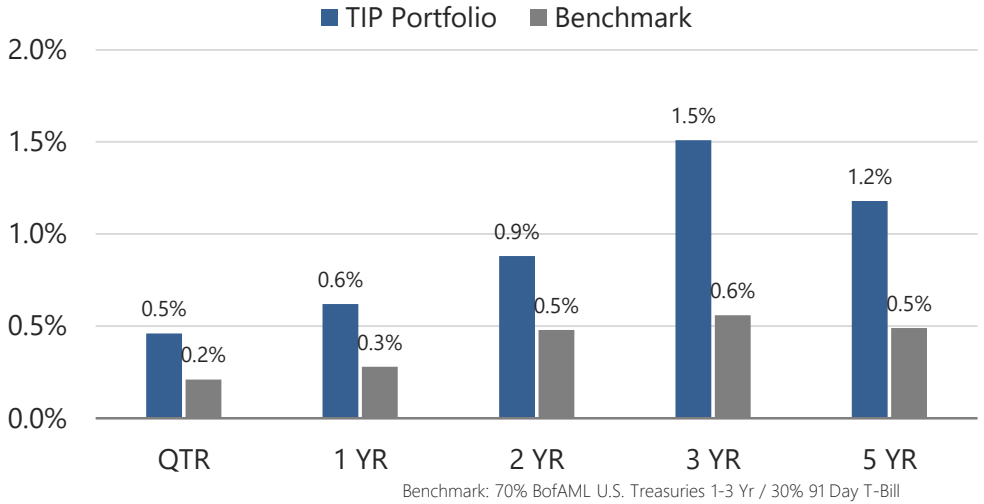
Short-Term Reserves (TIP)

Asset Allocation

Total Value: $1,149M

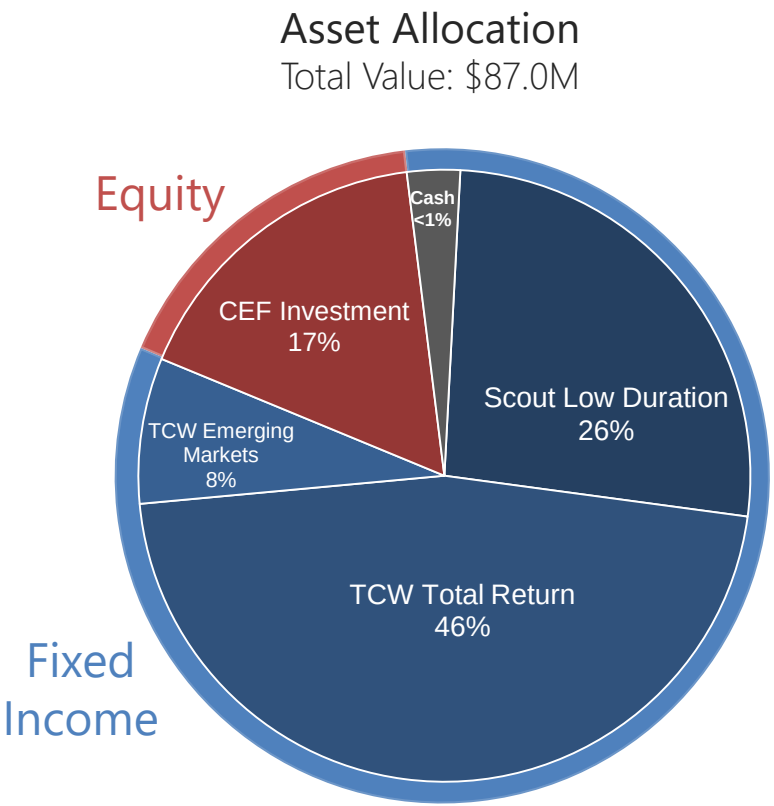


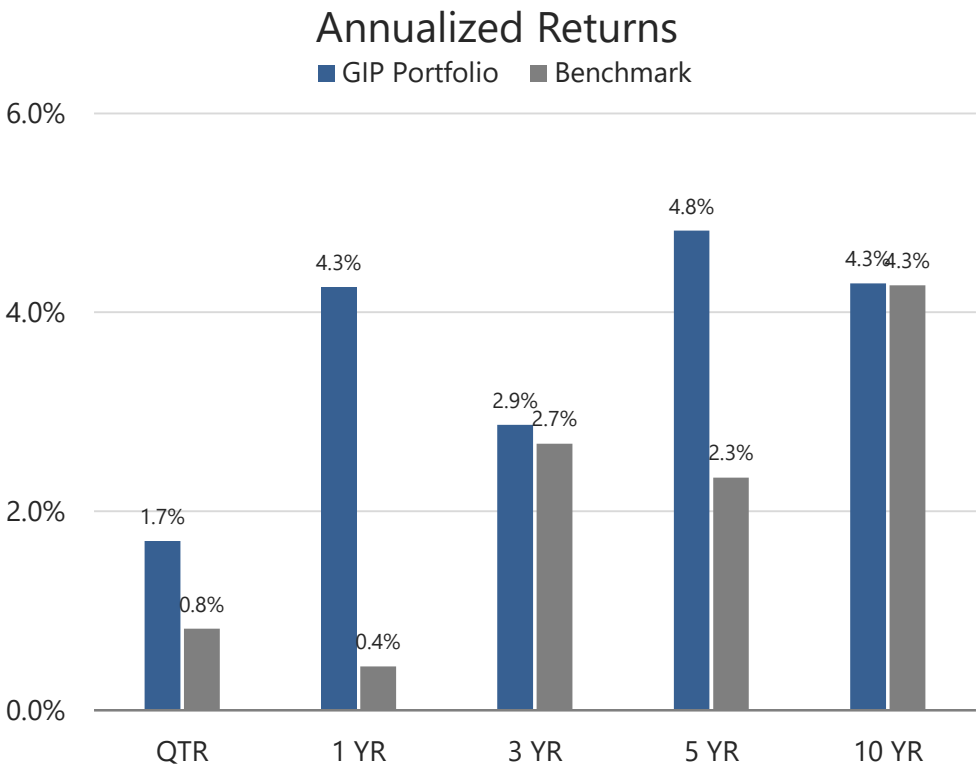
Annualized Returns



Characteristic	Guideline	Actual
Yield to Maturity	--	1.09%
Interest rate risk (duration)	< 4 years	1.2 years
Credit quality (pool average)	> A1/A+	Aa2 / AA
Credit quality (individual bonds)	100% IG	100%

Long-Term Reserves (GIP)

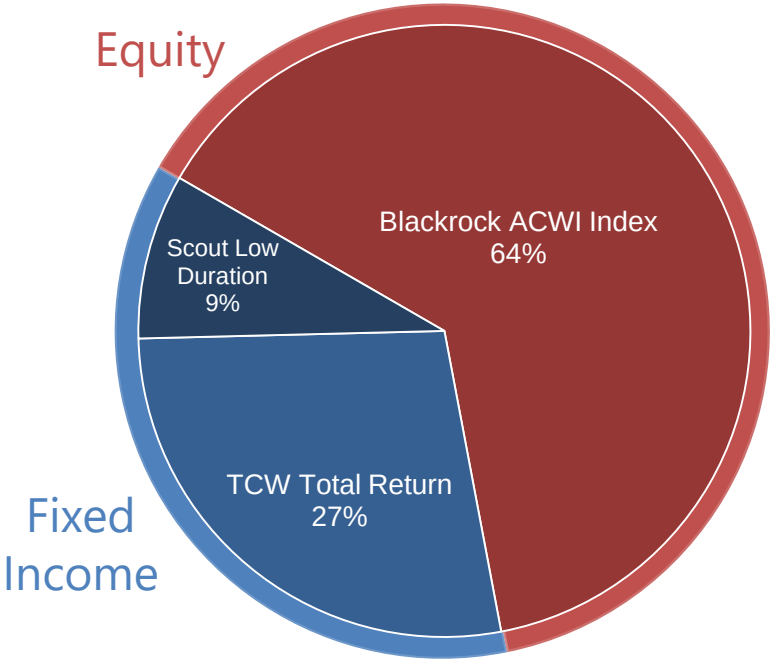




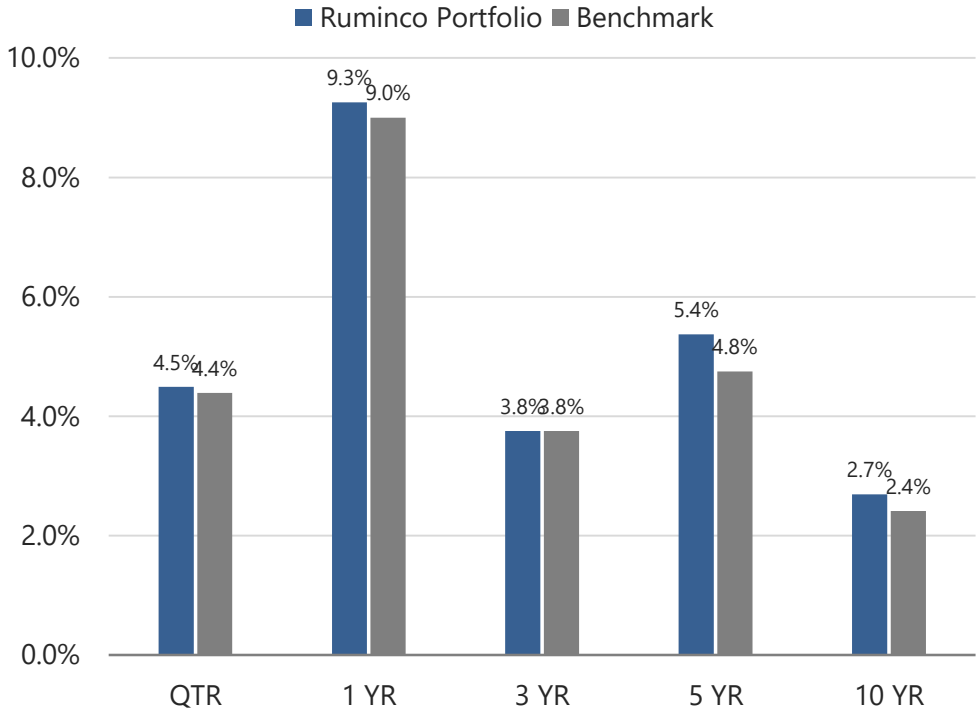
RUMINCO Ltd.

Asset Allocation

Total Value: $44.5M



Annualized Returns



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