The University of Michigan
Senate Assembly
Financial Affairs Advisory Committee
Minutes of April 10, 2007

Members Present:	Phil Frost, Tim Slottow, Kathleen Folger, N. Reed Dunnick, Ken Silk, Bryce Bach,
Members Absent:	Nejat Seyhun, Dee Edington, Stephen DesJardins, David Blair, David Brophy, and Barbara MacAdam
Others Present:	Paul Moggach, Risk Management Director Jason Winters, Senior Associate Athletic Director, Chief Financial Officer Ilene Sullivan, Secretary, EVP/CFO Office Michele Sargent, SACUA Student Liaison

I. Call to Order

Chair Frost called to order the regular meeting of the Senate Assembly Financial Affairs Advisory Committee at 11:45 a.m. on April 10, 2007 in Conference Room 3019, Fleming Administration Building.

II. Approval of Minutes

The March 22, 2007 minutes will be presented for approval at a future meeting.

III. Risk Management

Mr. Slottow briefly stated the purpose of this topic.

Mr. Moggach, Risk Management Director referred to the "*University Risk Management Services-Veritas Insurance Corporation*" handout while he presented an overview of the University's risk management function, Veritas Insurance Corporation (the University's captive insurance corporation), risk management strategies with a captive and how they are used to help protect the financial assets of the institution, the history of the development of Veritas, and the claims profile to determine risk strategies.

Risk Management protects against the potential adverse effect of a loss on the human, physical, and financial assets of the University. Mr. Moggach stated that the goal of the office of Risk Management is to provide the lowest, long-term cost of protection against such risk, consistent with the University objectives. The goal is achieved by identifying and evaluating exposure to loss, examining alternative ways to deal with risk exposure, selecting/implementing/monitoring loss prevention initiatives, selecting insurance options (loss funding and risk financing), and monitoring and improving the program (managing claims).

The risk management office conducts risk analysis to identify exposure to loss and implements risk treatment strategies to prevent and reduce risk. Veritas, the University's captive insurance company is the funding source for the majority of incurred loss. The risk management department works closely with the Medical Center Risk Management Office. Mr. Moggach continued that health care risk stands out with 74 locations, 1.7 million outpatient visits, 55,000 surgeries, and 586 physicians. Veritas' medical malpractice coverage covers anybody in the caring arts. Mr. Moggach commented that another important issue is that risk is not managed only by the Risk Management office, but in every unit of the University. Additionally, there are large transportation risk issues. Veritas was instrumental in eliminating the use of fifteen-passenger vans to avoid putting the University staff and students at risk.

Mr. Moggach compared and described the differences between commercial insurance and self-insurance. When we elect to purchase insurance, we transfer the risk to the insurance company. This results in less cash flow as the insurance company retains the premiums that are greater than losses. Overhead (marketing, profit, etc.) is included in the premium. The insurance company and premiums are based on the insurance carriers' perception of the risk. A commercial insurance company reinvests, retains all profits, and receives all returns. (Thus, if there is more risk, there is more cash flow). The alternative of self-insurance, and in our case a captive insurance company, allows a party to underwrite, in whole or part, directly or indirectly, its own insurance needs. The captive company, a closely held insurance company, has retention of risk, but uses cash flow and excess premiums greater than losses to offset future premiums. It also has less overhead, and a better understanding of the University's risks. Mr. Moggach commented that Veritas uses actuaries to develop the premiums based on the University's own loss experience.

Veritas Insurance Corporation, a single parent captive insurance company, was established and domiciled in Vermont in 1986. Veritas considered a Bermuda domicile, but chose Vermont because it offered an established infrastructure, minimal regulations, and reasonable oversight.

Mr. Moggach reviewed the University's risk and insurance coverage profile that includes the UM property and casualty insurance occurrence limits for FY2006-07. For every occurrence, there is a limit of loss coverage. Veritas self-insures the first $2 million of liability insurance for hospital and general liability, auto, and workers' compensation. Coverage over $2 million is covered 50/50 by Veritas and a reinsurance company. The Executive Vice President and Chief Financial Officer approve any loss payment greater than $2 million. Dr. Dunnick asked what Veritas covers for aviation. Mr. Moggach responded that a commercial insurance company provides an aviation policy with a $100 million liability limit and a $10,000 deductible.

The Veritas Board of Directors and the Risk Management Department provide oversight of the corporation. PricewatershouseCoopers (PwC), audits Veritas on an annual basis. Mr. Moggach gave an overview of the board of directors. Additionally, Mr. Moggach reviewed the financial condition of Veritas as of 12/31/2006 and the claims frequency and severity of claims covered by the Veritas Corporation over a six-year period (FY02-FY07). The medical professional liability insurance coverage claims frequency averages 95 claims, at an average annual severity per claim of $197,000. The largest claim of all time was $16 million.

Mr. Moggach concluded by briefly explaining the process to determine reserves and premiums, the $52 million gross budget, FY2007 insurance budget by category, FY2007 gross insurance programs, and administration by budget category. He pointed out that self-insurance and Veritas allowed the University to save $238 million over the last 9 years, compared to the cost of commercial insurance.

IV. Michigan Stadium Financial Plan

Chair Frost introduced Mr. Winters, Senior Associate Athletic Director, Chief Financial Officer.

Mr. Slottow encouraged committee member questions and feedback regarding Michigan Stadium. He compared the recently renovated Hill Auditorium to the Michigan Stadium project. Both are landmark University structures and have similar issues within the University community. In terms of the Regental process, the stadium project must complete one more formal approval. The process consists of three steps: project approval and appointment of an architect (November 2006), approval of schematic design (November 2006), and completion of approval of detailed construction/design drawings to ensure the University can finance and build the stadium within budget.

Mr. Winters referred to the "*Michigan Athletic Department -Michigan Stadium Project*" handout and provided a background of the Michigan Stadium project. In 2001, the University retained HNTB, a nationally known sports architect to create an athletic campus master plan. While analyzing the athletic campus master plan, HNTB focused a great deal of their work on Michigan Stadium and Crisler Arena. Athletic Director Bill Martin also commissioned three fan surveys that have also been integral to the programming process. The first of three major surveys occurred in 2001, which resulted in data on the demographics of our fan population, and measured the importance of several factors for fan experience and satisfaction.

Mr. Winters commented that according to the surveys, the University has an older, wealthy, and highly educated fan base. The University utilized the 2001 survey results to implement the preferred seat donation program (PSD). In 2005, the University surveyed the students. Finally, as the University got closer to a stadium project, the University surveyed season ticket holders for their attitudes toward the stadium renovation, and found that fans were not comfortable with circulation or the size of the bench seats. On the other hand, the fans were proud that Michigan Stadium was the largest in the country. The University struggled with the question of how much to improve fan comfort by removing seats and widening aisles when it was clear that the community did not want to lose Michigan Stadium's "largest stadium" status. Mr. Winters believes the stadium plan provides a good balance of improvements in fan comfort and circulation while maintaining capacity. Mr. Slottow added that the University is not interested in generating income with stadium advertising, and that our fan base generally approves of that policy. Mr. Slottow commented that many people who come for football games in Michigan stadium come from outside the immediate area; Michigan football is not competing against other professional sports events, such as Detroit Lions, Pistons, Red Wings, etc. It is relatively a captive audience. Mr. Winters stated the UM did not survey the waitlist or ticket holders. Mr. Slottow asked how many fans are currently on the wait list. Mr. Winters responded 15,000, and added there is a one-time $15 waitlist registration fee.

Mr. Bach asked how the University's seats compare to other colleges. Mr. Winters commented that most college stadiums have similar seating issues, and that the survey did not capture information about the number of female or children occupying seats. There is a sense that there are more children and women at the stadium versus professional sports venues. The number of children and females is important as the University finalizes the restroom renovations program.

Mr. Winters stated that the University engaged a second firm to conduct a market study, which was helpful. The University, encouraged by the survey results, used that data as the basis for developing the stadium financial plan.

The following guiding principles were established for the project:

- Positively impact fan experience & safety
- Be of appropriate quality
- Be financially feasible
- Not decrease existing capacity
- Not limit future opportunities for additional expansion or other modifications

Ultimately, the University focused on four different scenarios for the stadium to present to Regents. Mr. Winters described the four scenarios and the recommended option in more detail.

Mr. Slottow briefly described the fan safety issues under current stadium conditions. The stadium needs much more concourse space, increased seat and aisle width, and handrails, as well as improvements to avoid security issues (i.e. cameras). Mr. Winters stated that Mr. Slottow highlighted all of the elements, but then added the key points from a fan's perspective, for example, all the seats will be larger to some degree; all the aisles will be wider. On both the east and west sidelines the stadium will have new upper concourses on top of the bowl, increased restroom facilities, new press box and premium seating areas (including an outdoor club level), and a combination indoor/outdoor club. Mr. Winters added that there would be 70+ new wheelchair seats at the top of the west side of the bowl.

Ms. Folger asked how many disabled patrons want seats. Mr. Slottow responded that professionals with experience with the ADA, as well as individuals from the ADA community were involved in the planning from the beginning.

Mr. Slottow and Mr. Winters reviewed the estimated capacity project costs, and cash flow and commented that they believe the stadium project will achieve break-even on its own, not including gifts or additional annual donations based on conservative assumptions.

Dr. Dunnick asked whether the financial analysis includes concessions. Mr. Winters said that the financial projections did not rely on additional royalties from concession, but the athletic department was optimistic that they would have more profits from concessions.

Dr. Silk commented about the proposed completion date set for 2010, and asked if the construction will be completed in stages.

Mr. Winters responded that the University expects to begin work on the foundations and the utilities after the 2007 season ends. Work will cease during the playing seasons.

Ms. Folger asked whether there would be a loss of seats in between seasons.

Mr. Winters stated that there would probably not be any major fan relocation issues until 2010.

Chair Frost asked about the stadium designs that Mr. Winters brought to the meeting and whether the plans were available for review. Mr. Winter referred Chair Frost to www.mgoblue.com, click on stadium renovations to review the current stadium project plans.

V. Other Business

Chair Frost and Mr. Slottow agreed to invite back Mr. Moggach, Risk Management Director, and Mr. Winters, Senior Associate Athletic Director, Chief Financial Officer to continue their presentations at an appropriate future date. The guests were open to returning.

The next FAA Committee meeting is scheduled on June 4, 2007, Noon – 1:30 p.m. Hank Baier, Associate Vice President for Facilities and Operations, Laura Patterson, Associate Vice President for Michigan Administrative Information Services, and Frances Mueller, Project Manager will present Space Utilization.

VI. Adjournment

Chair Frost adjourned the meeting at 1:06 p.m.

Minutes submitted by: Ilene Sullivan and Michelle Sargent