

**UNIVERSITY OF MINNESOTA**  
**BOARD OF REGENTS**  
**Finance and Operations Committee**  
**December 9, 2004**

A meeting of the Finance and Operations Committee of the Board of Regents was held on Thursday, December 9, 2004, at 2:45 p.m. in the East Committee Room, 600 McNamara Alumni Center.

Regents present: Clyde Allen, presiding; Anthony Baraga, Dallas Bohnsack, John Frobenius, and Maureen Reed.

Staff present: Senior Vice President and Provost Thomas Sullivan; Vice President Richard Pfutzenreuter; Executive Director Ann Cieslak; Associate Vice Presidents Steve Cawley, Stuart Mason, and Michael Volna.

Student Representatives present: Joshua Jacobsen and Nathan Wanderman.

**BOARD OF REGENTS POLICY: *ENDOWMENT FUND***

Associate Vice President Mason led the discussion of the proposed amendments to Board of Regents Policy: *Endowment Fund*, which, if adopted, will narrow strategic asset allocation target ranges in domestic, international, and alternative investment equities. The amendments were presented in the docket and associated materials distributed at the meeting. The goal of these changes is to diversify investments, lower volatility, and enhance returns on the Consolidated Endowment Fund. Mason noted that the Investment Advisory Committee has reviewed and recommended the changes.

Mason introduced George Pendergast and Stephen Symchych of Cambridge Associates to discuss the rationale for the changes. They presented information on past returns, contrasted current allocations against several prospective portfolios, and compared the asset allocations to peers and "best performing" colleges and universities.

The amendments will return for action at a future meeting of the committee.

**ISSUES RELATED TO: ANNUAL CAPITAL FINANCING & DEBT MANAGEMENT REPORT**

Vice President Pfutzenreuter introduced John Augustine, Managing Director of Lehman Brothers, to present the Annual Capital Financing and Debt Management Report (copy on file in the Board Office).

Augustine reviewed information on the history of taxable and tax-exempt interest rates from 1984 to the present, the University's debt profile, current funding levels, and capital structure and bond rating determinants. He reported that the University compares favorably to peer institutions on most key credit ratings including total resources to debt, total resources per student, and debt management.

Augustine stated that other financial factors, including high student demand, high student matriculation rate, favorable market position, and a well-diversified revenue base yielding positive operating results, place the institution solidly in the strong "Aa" category. He acknowledged that declining state support is a principle concern of rating agencies.

#### **ISSUES RELATED TO: SIX-YEAR CAPITAL BUDGET FINANCING PLAN**

Vice President Pfutzenreuter and Carole Fleck, Director of Debt Management, discussed financing assumptions supporting the Six-Year Capital Plan (Plan). Pfutzenreuter noted that several financial factors are considered when developing the Plan, including historical state appropriations for capital needs, the institution's debt capacity and operating costs, and the availability of local unit and private funds.

The President's recommended Plan totals \$1.3 billion for capital improvements during FY2004-05 to FY2009-10. The plan is financed through a mix of \$842 million in state funding and \$457 million funded by the University (i.e. long-term debt obligations, unit level resources, fundraising, and public/private partnerships.)

Pfutzenreuter and Fleck summarized the historical state support of the institution's capital needs, noting that the University receives on average 14.7% of the state's bond sale. They outlined the anticipated level of state support in the Plan, the impact of additional long-term debt on the bonded indebtedness, and preliminary estimates of additional annual operating and debt costs resulting from full implementation of the Plan (presentation on file in the Board Office).

In response to a question about the inflationary increase in the 2004 Plan, Pfutzenreuter agreed to report back to the committee on the portion that can be attributed to increased construction costs and the part caused by the Legislature's failure to approve a bonding bill.

#### **ISSUES RELATED TO: ANNUAL FINANCIAL REPORT**

Vice President Pfutzenreuter and Associate Vice President Volna presented the 2004 Annual Financial Report, which includes the University's financial position, results of operations for FY2004, and comparative data for FY2003. A copy of the report is on file in the Board Office.

Pfutzenreuter reported that the institution's statement of net assets and liabilities continues to be strong, with an increase in net assets in FY04. Future financial strength will depend on the level of state support, the University's ability to generate new revenues, effective cost containment, and focus of the institution's financial resources on its core mission.

Pfutzenreuter also reported that the \$239 million increase in assets for FY04 over FY03 was driven by increases in tuition and fees, investment gains, grant and contract revenues, prior year capital appropriations, and a decrease in operating expenses of nearly \$20 million, largely due to reductions in salary and fringe benefit expenses.

Volna summarized assets, liabilities, revenues, and operating expenses. He reported that accounts receivable increased by approximately \$23.1 million mainly due to spending on prior year capital appropriations. The value of property, plant, and equipment also increased by \$25.1 million as a result of building construction and renovation projects. Over the past two years cash and cash equivalents decreased due to a shift of cash to investments, which are the result of the Board's desire to extend

maturities on certain cash balances. Offsetting the decrease in cash flow was a decrease in operating expenses. Volna noted that key ratios measuring the contribution of various revenue sources to support education, remained relatively consistent over the past several years, but indicate decreased state support. Volna noted that due to changes in accounting rules the institution is required to include some associated organizations as component units.

### **CONSENT REPORT**

Regent Reed recused herself from the discussion because of a possible conflict of interest. She left the meeting.

Vice President Pfutzenreuter presented a portion of the Consent Report as detailed in the docket materials and including Purchase of Goods and Services over \$250,000 to:

- Renew a contract for stop loss insurance with Midwest Assurance Company for \$340,700 (HealthPartners, Inc.) and National Benefit Resources, Inc. for \$277,200 (Wausau Benefits) for a total of \$617,900 for participants in the UPlan Medical Program for the period January 1, 2005 through December 31, 2005 on behalf of the Employee Benefits Department.

A motion was made and seconded, and the committee voted unanimously to recommend approval of a portion of the Consent Report.

Regent Reed returned to the meeting.

Pfutzenreuter presented the remaining items in the Consent Report as detailed in the docket materials and including Purchase of Goods and Services over \$250,000 to:

- Anixter, Border States Electric Supply, Goldcom, and Graybar, Inc., for an estimated \$1,500,000 combined total to provide telecommunication supplies for the period December 17, 2004 through December 16, 2005 for Networking and Telecommunications Services, a division of the Office of Information Technology.
- Center for Academic Programs Abroad for a not-to-exceed amount of \$984,450 for administering study abroad academic credit programs for the Learning Abroad Center during spring and fall semester 2005.
- Daktronics, Inc. for \$725,700 for purchase and installation of video replay board systems for Williams and Mariucci Arenas for Intercollegiate Athletics.
- EMC Corporation for \$1,200,000 for the hardware components and software products required to improve and expand the Enterprise Storage Area Network and extend it to the St. Paul campus. In addition, three years of maintenance support is included for all new software products and hardware components of the Enterprise Storage System for Central Computing Operations, a division of the Office of Information Technology.

- Fisher Scientific Company L.L.C. for an estimated \$630,487 for Falcon Plastic Labware manufactured by BD Biosciences to be stocked at the University Stores for purchase by University departments from January 1, 2005 through December 31, 2005.
- Metropolitan Council and Metro Transit for \$3.361 million a year for the continuation of the UPass/Metropass programs from September 2004 to September 2008 for Parking and Transportation Services.
- Science Products Division of Corning Incorporated for an estimated \$550,979 for Corning Plastic Labware, to be stocked at the University Stores for use in University departments from January 1, 2005 through December 31, 2005.

#### Approval of New Investment Managers

The Office of Asset Management proposes engaging the following investment managers to invest target allocations of the Consolidated Endowment Fund. These three new manager allocations replace a current commitment to Commonfund.

- Marketable Alternatives

##### Coast Asset Management

- \$10 million investment
- \$2.1 billion fund size
- Fund of Funds – Multi Strategy
- 8.9% return since inception (1995)

##### Ramius Capital

- \$10 million investment
- \$2.1 billion fund size
- Direct – Multi Strategy
- 9.7% return since inception (1996)

##### Front Point Partners

- \$5 million investment
- \$177 million fund size
- Direct – Multi Strategy
- 8.3% return since inception (2000)

A motion was made and seconded, and the committee voted unanimously to recommend approval of the remaining items in the Consent Report.

### **INFORMATION ITEMS**

Vice President Pfutzenreuter referred the committee to information items as detailed in the docket materials:

- Quarterly Purchasing Report;
- Quarterly Asset Management Report;
- Quarterly Investment Advisory Committee Update;
- Semi-Annual Debt Management Advisory Committee Update; and
- Financial Oversight: Key Indicators

The meeting adjourned at 4:13 p.m.

**ANN D. CIESLAK**  
**Executive Director and**  
**Corporate Secretary**