

UNIVERSITY OF MINNESOTA
BOARD OF REGENTS
Finance and Operations Committee
December 8, 2005

A meeting of the Finance and Operations Committee of the Board of Regents was held on Thursday, December 8, 2005, at 9:45 a.m. in the West Committee Room, 600 McNamara Alumni Center.

Regents present: Clyde Allen, Presiding; Anthony Baraga, Frank Berman, John Frobenius, Steven Hunter, and Patricia Simmons.

Staff present: Chancellor Kathryn Martin; Senior Vice President Frank Cerra; Vice Presidents Charles Muscoplat and Richard Pfutzenreuter; Executive Director Ann Cieslak; and Associate Vice Presidents Steve Cawley and Michael Volna.

Student Representatives present: Joe Linder and Cassie McMahon.

RESOLUTION RELATED TO ISSUANCE OF COMMERCIAL PAPER

Vice President Pfutzenreuter reported that the administration is requesting approval of a resolution authorizing the issuance and sale of commercial paper in the principal amount of up to \$61,000,000 for: purchases of land and buildings and construction and remodeling projects to be undertaken by the University; acquisition and installation of equipment; and an additional principal amount to finance the costs of issuance. He stated that expansion of a commercial program is feasible at this time due to low short-term interest rates and the desirability of introducing additional variable rate debt into the University's existing debt portfolio. Pfutzenreuter reported that the institution is working with Merrill Lynch and Lehman Brothers to determine the appropriate level of fixed to variable rate debt for the institution.

The committee voted unanimously to recommend approval of the Resolution Related to Issuance of Commercial Paper.

STATE OF MINNESOTA ECONOMIC UPDATE

Vice President Pfutzenreuter introduced State Economist Tom Stinson to present the State of Minnesota Economic Update, including revenue and expenditure data for the current biennium and planning estimates for the 2008-09 biennium, as included in the materials distributed at the meeting and on file in the Board Office.

Stinson reported that the forecast indicates a \$31.2 billion increase in revenue, which is 2.3% more than end-of-session estimates. After adjusting for increases in spending and other changes, a balance of \$701 million remains. He noted that current law requires this balance be used to reverse the education accounting shifts enacted in 2002 and 2003 and for tax relief.

Stinson reported that revenues have increased from individual income, sales, and corporate sales taxes, but that forecast spending was largely unchanged. He also

noted several areas of concern, including the relatively flat growth in consumer spending partially due to recent hurricanes in the gulf region and slower growth in the State of Minneapolis employment rate than that of the national rate. He stated that employment growth is driven by population growth, which has slowed in recent years. He also reported on a recent legal decision that has reduced the corporate tax forecast for 2006-07.

The budget outlook for 2008-09, including the impact of inflation and potential passage of a constitutional amendment that would remove the motor vehicle sales tax from the general fund, indicates revenues greater than spending in both years, with a balance of \$137 million remaining in 2009.

ISSUES RELATED TO: ANNUAL CAPITAL FINANCING & DEBT MANAGEMENT REPORT

Vice President Pfutzenreuter introduced Carole Fleck, the University's Director of Debt Management and John Augustine, Managing Director, Lehman Brothers, to present issues related to the Annual Capital Financing and Debt Management Report for FY2005, as distributed at the meeting and on file in the Board Office. Fleck reported that the University's approach to debt management is designed to accomplish the following objectives:

- Concentrate administrative management on overall portfolio of debt;
- Link debt structure and external debt service requirements with the institution's budget process;
- Maintain the core debt long-term rating of Aa2 by Moody's Rating Service, and AA by Standard and Poors.

Fleck summarized the institution's process for developing debt policy, for seeking advice in new debt management practices, and FY2006 debt transactions to date.

Augustine reviewed information on the history of taxable and tax-exempt interest rates from 1985 to the present, the University's debt profile, capital structure, and bond rating determinants. He reported that the University compares favorably to peer institutions on most key credit ratings. He pointed out that the University has a well-diversified revenue stream and that reduction in state support has been offset by recent tuition increases.

Augustine discussed an analysis of the institution to its peers in key financial indicators such as enrollment, operating budget, total resources, comprehensive debt, and credit quality ratings. A number of other financial factors place the institution solidly in the strong "Aa" category, including high student demand, high student matriculation rate, favorable market position, and a well-diversified revenue base yielding positive operating results.

ISSUES RELATED TO: ANNUAL FINANCIAL REPORT

Vice President Pfutzenreuter and Associate Vice President Volna presented the 2005 Annual Financial Report, which includes the University's financial position, results of operations for FY2005, and comparative data for FY2004. A copy of the report and presentation are on file in the Board Office.

Volna reported that the University continues to be in a strong financial position. Revenues and expenses resulted in an increase in net assets, and the institution experienced very favorable returns on investments during FY2005. Future financial strength will depend on the level of state support, the University's ability to diversify revenues, maintaining effective cost containment, and connecting the institution's financial resources to its core mission.

Volna noted that net assets increased 6.3%, or \$225.8 million, over the prior year, driven by favorable returns on investments and realized and unrealized gains. The value of property, plant, and equipment increased as a result of building construction and renovation projects.

Volna summarized assets, liabilities, revenues, and operating expenses. Cash and cash equivalents increased by \$6.8 million to \$131.7 million, compared to a decrease of \$215.8 million in FY2004. Additionally, tuition, grants, cash flow from investment purchases, and cash flow from capital acquisitions and debt services all increased in FY2005 compared to FY2004. Volna also summarized assets and liabilities of several of the institution's component units now included in the institution's financial statements.

Volna reported that the institution's revenues are very diverse, with the largest sources coming from tuition, fees, and state appropriations. He noted a desire to improve revenue diversification to offset fluxuations in those main revenue sources.

CONSENT REPORT

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

- Anixter, Border States Electric, Goldcom, and Graybar, Inc. for an estimated \$1,000,000 combined total to provide telecommunication supplies for the period December 16, 2005 through December 15, 2006 for Networking and Telecommunications Services, a division of the Office of Information Technology.
- The following medical insurance carriers for purchase of Medicare supplemental insurance offered through the University of Minnesota Office of Human Resources Employee Benefits for the period January 1, 2006 through December 31, 2006:

Retiree Paid Coverage:

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| • Blue Cross Blue Shield of Minnesota:
U of M Retiree Plan | \$4,041,457 |
| • Health Partners:
HealthPartners 65+ | \$1,879,002 |
| • Medica:
Medica Group Prime Solution | \$516,000 |
| • UCare:
UCare for Seniors | \$656,904 |

- Continental Casualty for an estimated annual amount of \$1,195,400 for providing Long Term Care Insurance offered through the University of Minnesota Office of Human Resources Employee Benefits for the period January 1, 2006 through December 31, 2006.
- Cox Analytical Systems (Molndal, Sweden) for \$318,500 for the purchase of an Itrax X-Ray Fluorescence Core Scanner needed for research at the Large Lakes Observatory at the University of Minnesota Duluth.
- Delta Dental for an estimated annual amount of \$783,000 and to HealthPartners Dental for an estimated annual amount of \$308,000 for administering a self-funded UPlan dental plan option offered through the University of Minnesota Office of Human Resources Employee Benefits for the period January 1, 2006 through December 31, 2006.
- FiberLink Communications for an estimated \$1,900,000 for a 20-year Indefeasible Right of Use for Ames/Des Moines to Iowa City to Chicago fiber route for the period January 1, 2006 through December 31, 2025, and a five-year fiber maintenance and collocation agreement for the period January 2, 2006 through December 31, 2010, for Networking and Telecommunications Services, a division of the Office of Information Technology.
- Fisher Scientific Company L.L.C. for an estimated annual volume of \$635,459 for Falcon Plastic Labware manufactured by BD Biosciences to be stocked at the University Stores for use in University departments from January 1, 2006 through December 31, 2006.
- Hartford for the estimated annual amount of \$1,772,700 for providing optional Short Term Disability and Long Term Disability insurance offered through the University of Minnesota Office of Human Resources Employee Benefits for the period January 1, 2006 through December 31, 2006.
- Minnesota Life for an estimated annual amount of \$3,251,400 for providing the Faculty Income Disability Plan for faculty and professional and administrative staff, offered through the University of Minnesota Office of Human Resources Employee Benefits for the period January 1, 2006 through December 31, 2006.
- Minnesota Life/ING for purchase of life insurance coverage offered through the University of Minnesota Office of Human Resources Employee Benefits for the period January 1, 2006 through December 31, 2006:

• Estimated University paid coverage:	
Basic Life	\$2,005,300
• Estimated Employee paid coverage:	
Additional Employee Life	\$1,150,400
Spouse/Same-Sex Domestic Partner Life	\$358,900
Child Life	\$23,600
Optional Employee AD&D	\$47,800
Optional Spouse AD&D	\$7,400
Total	\$3,593,400

- Relational LLC for \$440,000 for hardware, software, professional services, and training required for improvement and expansion of the University's Enterprise Storage Area Network (SAN) for the Office of Information Technology. Three years of maintenance support is included for all new software products and hardware components of the Enterprise SAN.
- Science Products Division of Corning Incorporated for an estimated \$546,676 for Corning Plastic Labware to be stocked at the University Stores for use in University departments from January 1, 2006 through December 31, 2006.
- Varian, Inc. for \$1,155,000 for a 700MHz spectrometer for the Biochemistry, Molecular Biology and Biophysics Department.
- Watson Wyatt & Company, doing business as Watson Wyatt Worldwide, to amend the data warehouse services contract for the UPlan for the period January 1, 2006 through December 31, 2006. The initial term of the contract was for two years, January 1, 2003 through December 31, 2005 for \$260,000 with up to three additional one-year renewals. This exercises the first renewal and is estimated at \$130,000, bringing the total estimated amount of the contract to \$390,000.
- Wiltel Communications for an estimated \$1,700,000 for a 20-year Indefeasible Right of Use for a Minneapolis to Ames/Des Moines to Kansas City fiber route for the period January 1, 2006 through December 31, 2025, and a five-year fiber maintenance and collocation agreement for the period January 1, 2006 through December 31, 2010, for Networking and Telecommunications Services, a division of the Office of Information Technology.

The committee voted unanimously to recommend approval of the Consent Report.

INFORMATION ITEMS

Vice President Pfutzenreuter referred committee members to Information Items contained in the docket and distributed at the meeting, including:

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

The meeting adjourned at 11:13 a.m.

ANN D. CIESLAK
Executive Director and
Corporate Secretary