

UNIVERSITY OF MINNESOTA

BOARD OF REGENTS

Finance and Operations Committee

June 9, 2005

A meeting of the Finance and Operations Committee of the Board of Regents was held on Thursday, June 9, 2005, at 1:30 p.m. in the East Committee Room, 600 McNamara Alumni Center.

Regents present: Clyde Allen, presiding; Anthony Baraga, Dallas Bohnsack, John Frobenius, Steven Hunter, and David Larson.

Staff present: Chancellors Kathryn Martin and Samuel Schuman; Senior Vice President Frank Cerra; Vice Presidents Timothy Mulcahy and Richard Pfutzenreuter; Executive Director Ann Cieslak; Provost David Carl; Executive Associate Vice President Al Sullivan; and Associate Vice Presidents Steve Cawley, Donna Peterson, and Michael Volna.

Student Representatives present: Sarah Black (alternate) and Joe Linder.

FINANCING ASSUMPTIONS

A. ANNUAL OPERATING BUDGET FY2006

Vice President Pfutzenreuter invited Budget Director Julie Tonneson to join him for a discussion of financing assumptions related to the President's Recommended Annual Operating Budget (Budget) for FY2006. Pfutzenreuter stated that this discussion would focus on the Budget for FY2006 and the preliminary plan for FY2007, the outcome of the State budget negotiations, the institution's financial needs and budget strategy, and centrally distributed and attributed funds. He noted that the President will present the Budget to the Board of Regents for review at its meeting the following day.

Pfutzenreuter provided an overview of the framework from which the Budget is developed. The University submitted a proposed 50-50 partnership to the State, requesting an additional \$42 million over the base support for each year of biennium, with funds targeted at new investments and academic programs, research support, recruiting and retaining top faculty, staff, and students, specific technology initiatives, support for libraries, classrooms, the financial system replacement projects. The University of Minnesota offered to match both years through combination of tuition increases and reallocation.

Pfutzenreuter reported that of the \$42 million request to the State for FY2005-06, the University received \$41.1 million, and \$23.4 million of the requested \$42 million for FY2006-07, which is \$19.5 million short of the biennial budget partnership proposal. He outlined the proposal to address the shortfall with 7.5% and 6.5% tuition increases in the next two years respectively, reallocation of University resources, and adjustments in the investment plan.

Pfutzenreuter outlined the budget plan for the first year of the biennium, which is organized around categories of needed investments and financial obligations in the areas of academic investments, student support and services, competitive compensation, technology, and new buildings, utilities and debt. He summarized proposed tuition and fee increases and centrally attributed and distributed revenues by category, and discussed a number of issues related to sponsored research funds and indirect cost recovery, central reserves, and cash returns on investments.

In response to a question, staff agreed to provide data on the trends in expenditures for the three core mission functions of instruction, research, and outreach.

A copy of the presentation is on file in the Board Office.

B. PRELIMINARY FINANCIAL PLAN FY2007

Vice President Pfutzenreuter presented a brief overview of the Preliminary Financial Plan (Plan) for FY2006-07. He summarized the revenue assumptions of the \$74 million investment plan: \$23.4 million State appropriation, a 6.5% tuition and fee increase, a \$15.4 million reallocation target, and \$4.5 million of other additional sources of revenue. He outlined the investment plan, which includes general and competitive compensation increases, new funds for student services and support, libraries, and investments in academic priorities, technology and classrooms, and facilities.

In response to a number of questions, staff agreed to provide information on the institution's tuition and financial aid policies and trends with comparative data on peer institutions.

C. ANNUAL CAPITAL IMPROVEMENT BUDGET FY2006

Vice President Pfutzenreuter stated that the University adopts an annual capital improvement budget that authorizes projects to begin design and construction during the upcoming fiscal year. The Annual Capital Improvement Budget authorizes projects totaling \$247.0 million to begin design or construction during FY2006. He noted that the budget includes an allocation of approximately \$170.2 million to existing facilities, emphasizing the institution's commitment to repair and renewal.

Pfutzenreuter summarized the process by which projects are included in the Capital Improvement Plan. Units are required to have cash in hand or an approved financial plan from sources such as fundraising, University debt repaid with University resources, or an internal bridge loan, prior to a project moving forward. He also reviewed the funding sources and long and short-term debt costs.

A copy of the presentation is on file in the Board Office.

D. PRELIMINARY 2006 STATE CAPITAL BUDGET REQUEST

Vice President Pfutzenreuter presented the item. He reported that the State of Minnesota requires all state agencies, local governments, and the University to submit a Preliminary Capital Request in June or July of odd-numbered years for consideration by the Governor and the legislature in the even-numbered years. The proposed University's 2006 State Capital Budget Request totals \$296 million and is built upon a combination of funds appropriated by the State of Minnesota (\$224.1 million) and University resources from fundraising and debt issuance (\$71.9 million).

Pfutzenreuter reviewed the next steps for the plan, including review by the Board of Regents, with final submission to the State in fall 2005 for consideration during the 2006 Legislation session.

CONSENT REPORT

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

- Applied Business Communications, Inc., Collins Electrical Systems, Comlink Midwest, Inc., Dell-Comm, Inc., FWR Communication Networks, Inc., Metro-Communication Services, Inc., Parsons Electric, LLC, and Orius Telecommunication Services, Inc., for an estimated \$800,000 of contract labor for Horizontal Wiring services as needed for the period July 1, 2005 through June 30, 2006 for the Networking and Telecommunications Services department, a division of the Office of Information Technology.
- Blue Cross and Blue Shield of Minnesota for a two-year contract extension for Academic Health Center students and Twin Cities, Duluth and Crookston students at an estimated \$4,039,663 for a partially self-funded Student Health Benefit Plan for Boynton Health Service.
- IBM for \$350,000 to renew IBM mainframe computer software licenses and maintenance support for the one-year period July 1, 2005 through June 30, 2006 for the Office of Information Technology (OIT). Central Computing Operations, a division of OIT, pays these software maintenance support charges to ensure continuous operation of the equipment.
- Idexx Distribution Corp. for \$909,521 for the purchase of test kits for detecting diseases in Minnesota livestock and poultry for the period July 1, 2005 through June 30, 2006 for the Veterinary Diagnostic Laboratory.
- Qiagen, Inc. for \$738,319 for the purchase of OneStep RTj-PCR kits and QIAamp DNA Blood BioRobot 9604 kits as needed for the period July 1, 2005 through June 30, 2006 for the Veterinary Diagnostic Laboratory.
- Software House International, a Microsoft distributor, for an estimated \$2,737,600 to provide software licensing for commonly used Microsoft products for all University of Minnesota students (all campuses), for the period July 1, 2005 through June 30, 2008 for the Academic and Distributed Computing Services department, a division of the Office of Information Technology.
- State of Minnesota Department of Administration for an estimated \$400,000 for network connections between the Twin Cities and its campuses in Duluth, Crookston, Morris, and Rochester for the period July 1, 2005 through June 30, 2006 for Networking and Telecommunications Services, a division of the Office of Technology.
- Larson Allen LLP for a not to exceed amount of \$2,640,700 for providing external audit services for the University for fiscal years 2005, 2006, 2007, 2008, and 2009.

- Sun Microsystems for \$500,000 to purchase four new mid-range servers and six additional system boards for the existing E25000 Enterprise Server for Central Computing Operations, a division of the Office of Information Technology.

Approval of New Investment Managers

The Office of Asset Management (OAM) proposes engaging two new investment managers to invest target allocations of the Consolidated Endowment Fund (CEF). The proposed managers have been reviewed and are recommended by the Investment Advisory Committee. The managers have been selected after interviewing top performing firms identified from recommendations by peer institutions, Cambridge Associates, and others.

ALTERNATIVE INVESTMENTS: EQUITY HEDGE FUNDS

Hayground Cove

- \$10 million investment
- Domestic equity long/short fund
- Hedge portfolio generally 40-50% net long
- Annualized return since inception of 14.2%

ALTERNATIVES INVESTMENTS: PRIVATE CAPITAL

Insight Venture Partners

- \$10 million investment
- Domestic venture
- Information technology focus, expansion stage companies
- Target return = 20.0%

A motion was made and seconded, and the committee voted unanimously to recommend approval of the amended Consent Report subject to an Audit Committee review of the contract with LarsonAllen LLP for external audit services.

INFORMATION ITEMS

Vice President Pfutzenreuter referred committee members to the information items as contained in the docket, and including:

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

The meeting adjourned at 3:17 p.m.

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