

UNIVERSITY OF MINNESOTA

BOARD OF REGENTS

Finance and Operations Committee

October 6, 2005

A meeting of the Finance and Operations Committee of the Board of Regents was held on Thursday, October 6, 2005, at 3:00 p.m. in MacMillan Auditorium B/D, Minnesota Landscape Arboretum.

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

Staff present: Senior Vice President Frank Cerra; Vice Presidents Kathryn Brown, Kathleen O'Brien, Richard Pfutzenreuter, and Linda Thrane; General Counsel Mark Rotenberg; Executive Director Ann Cieslak; and Associate Vice Presidents Steve Cawley, Stuart Mason, Donna Peterson, and Michael Volna.

Student Representatives present: Joe Linder and Cassie McMahon.

BOARD OF REGENTS POLICY: *INVESTMENT SOCIAL CONCERNS*

General Counsel Rotenberg presented proposed amendments to Board of Regents Policy: *Investment Social Concerns*, which establishes the role of the Social Concerns Committee (SCC) of the University Senate in making recommendations to the president concerning shareholder resolutions, restrictive investment policies, and positive social investment policies. Rotenberg noted that the key changes delegate authority through the president or delegate and clarify the legal limitations that have recently been articulated by the United States Supreme Court in this area.

A motion was made and seconded to recommend adoption of amendments to Board of Regents Policy: *Investment Social Concerns* as detailed in the docket materials.

The committee engaged in a lengthy discussion. Regent Berman expressed a number of concerns regarding the proposed amendments. He stated that the University should not adopt any action that is inconsistent with the foreign policy of national government on foreign policy issues. Before the SCC take an official action and make recommendations with regard to a particular investment the committee should seek a legal opinion when dealing with foreign policy issues. He also raised concerns regarding the membership and operations of the Social Concerns Committee, noting that as an officially sanctioned committee its minutes could be interpreted as official University positions.

A motion was made by Regent Berman, and seconded, to recommend an amendment to Board of Regents Policy: *Investment Social Concerns*:

The committee shall not make a recommendation without the president and the general counsel determining that such recommendation is consistent with and not in derogation of the foreign policy of the United States.

Regent Simmons expressed her support for the policy as drafted in the docket materials and for the social concerns process as it provides a venue for open debate. The recommendation that is presented to the administration and Board is one piece of information that is considered before the Board decides what is in the best interest of the University.

Regent Frobenius questioned why the role of this committee is sanctioned in Board policy.

Regent Allen indicated his support for the policy as included in the docket, noting that a process exists for identifying socially responsible investments, and that impinging on that process with additional policy language without further study of how the SCC operates would be inappropriate.

The committee voted against recommending the amendment proposed by Regent Berman by a vote of three to two, with Regents Allen, Hunter, and Simmons opposed.

The committee voted to recommend adoption of the proposed amendments to Board of Regents Policy: *Investment Social Concerns* as presented in the docket materials by a majority vote of four to one, with Regent Berman opposed.

ISSUES RELATED TO: REGIONAL OPTICAL RESEARCH NETWORK

Associate Vice President Cawley led the discussion on a joint effort between the University of Minnesota, the University of Wisconsin, Iowa State University, and the University of Iowa to develop a high-speed regional network that will connect the four campuses to the new national advanced optical fiber network (National LambdaRail).

Cawley summarized the history of internet connectivity on campus, noting that the institution was a regional pioneer in bringing the advanced networking services of Internet 2 to the State of Minnesota. The University continues to be a connection hub for institutions of higher education in the region and neighboring states. He reported that joining this next generation of data network will serve advanced research projects and is critical to the institution's strategic positioning goals for the research enterprise.

Cawley explained that the four institutions will enter into a memorandum of understanding to share all costs and manage the network in a manner that will serve the research, education, and outreach missions of the respective institutions. The University of Minnesota is currently leading the purchasing effort to acquire the rights to two strands of optical fiber that will form the very high-speed data network ring. He also summarized the cost estimates and how the costs will be shared among the four universities. He then summarized the next steps, noting that the system should be operational by early 2007. The item will return to the committee for action (contract approval) at a future meeting.

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

FINANCING ASSUMPTIONS

SIX-YEAR CAPITAL BUDGET FINANCING PLAN: FY2006-2012 2006 STATE CAPITAL REQUEST

Vice President Pfutzenreuter and Carole Fleck, Director of Debt Management, discussed financing assumptions supporting the Six-Year Capital Plan (Plan) and the 2006 State Capital Request (Request), which establish the priorities and financial

framework for the 2006 through 2012 capital budget. The Plan sets priorities and directions for continued academic, facilities and financial planning efforts, and defines the boundary for additional University debt.

Pfutzenreuter reported that the Request totals \$269.1 million, which represents funding of \$206.1 million requested from the state and a \$63 million commitment from the University of Minnesota. The request also contains \$80 million for Higher Education Asset Preservation and Replacement (HEAPR) funds.

Pfutzenreuter announced the projects that comprise the University's commitment, noting that further details on the projects would be presented at the Board of Regents meeting the following day. He noted that private funds and unit resources are likely to reduce the amount of debt issued by the institution. He explained the impact of additional long-term debt on the bonded indebtedness, and preliminary estimates of additional operating and debt costs resulting from full implementation of the Request.

Pfutzenreuter reported on current outstanding debt, theoretical project debt capacity, and the institution's ability to maintain its desirable bond rating, noting that projections indicate a continued strong rating.

CONSENT REPORT

Regent Frobenius recused himself for the vote on the Consent Report because of a possible conflict of interest. He left the meeting.

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

- Applied BioSystems for \$371,000 for the purchase of a 3730xl Genetic Analyzer and three 3130xl Genetic Analyzer upgrades for DNA sequencing and fragment analysis for the BioMedical Genomics Center-DNA[Sequencing]and[Analysis]Facility.
- Computer Concepts & Services, Inc. to purchase analysis and programming services not to exceed \$475,000 for the period November 1, 2005 through April 30, 2007 for the University of Minnesota Veterinary Diagnostic[Laboratory].
- Eventis Telecom for \$1,014,275 to provide Cisco network switch hardware as needed for the period October 10, 2005 through March 31, 2006 for Networking and Telecommunications Services, a division of the Office[of]Information[Technology].
- Harris HealthTrends, Inc. for the estimated amount of \$2,900,000 to provide health improvement services offered through the University of Minnesota office of Human Resources Employee Benefits for the two-year period[January 1, 2006]through[December 31, 2007].
- LogiGate Consulting for \$278,000 for consulting services to implement PeopleSoft's Position Management system and to upgrade the Student/Human Resources systems to Version 8.9 for the Office of Information[Technology]and[Human]Resources/Human[Resources]Management.

- Pareo, Inc. (consulting services) for \$210,000 and Skier, Inc. (software, maintenance, hosting, and consulting services) for \$531,000 for a total of \$741,000 to implement the Construction Project Management System that is needed for the University Services Capital Planning and Project Management[department].
- Relational LLC for \$650,000 for hardware and software components required to improve and expand the University's Enterprise Storage Area Network. In addition, three years of maintenance support is included for all new software products and hardware components of the Enterprise Storage[System].
- Universal Medical Systems for \$329,700 for three ultrasound units for the University Veterinary Medical Center. The Veterinary Medical Center will pay for the service through client revenue, departmental funds and the one-time loan from the University to reinvest the aging equipment.

New Investment Advisor

The Office of Asset Management (OAM) proposes engaging FC Stone to act as an investment advisor and broker that will help the University carry out the annual energy purchasing plan.

Confirmation of Investment Managers

Confirmation of four investment managers that were discussed and recommended by the Investment Advisory Committee in 2002: Wellington Investment Management Group, Preadium Group, LaSalle Partners, and TA Realty Associates.

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

Regent Frobenius rejoined the meeting.

INFORMATION ITEMS

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

- Authorization by the Board of Regents for a commercial paper program and issuance by the University of commercial paper to refund the University's[General][Obligation][Bonds,][Series] 1996A.
- Standard and Poor's (S&P) Ratings Services has assigned a short-term rating of 'A-1+' to the General Obligation Commercial Paper (CP) Notes, Series[A].
- This rating reflects the strong credit quality of the University, and its provision[of]self-liquidity[in]the[event]bf]unremarketed[CP]followers.
- S&P also affirmed its 'AA' long-term rating on the University's approximately[\$667]million[of]general[obligation]debt.

- Moody's Investor's Services assigned a short-term rating of 'P-1' to the Series A Notes. They also affirmed the Aa2 and Aa2/VMIG1 ratings on the University's outstanding rated debt.

The meeting adjourned at 4:24 p.m.

ANN D. CIESLAK
Executive Director and
Corporate Secretary