

UNIVERSITY OF MINNESOTA

BOARD OF REGENTS

June 9, 2006

A meeting of the Board of Regents of the University of Minnesota was held on Friday, June 9, 2006, at 9:00 a.m. in the Boardroom, 600 McNamara Alumni Center.

Regents present: Anthony Baraga, presiding; Clyde Allen, Dallas Bohnsack, John Frobenius, Steven Hunter, David Larson, Cynthia Leshar, David Metzen, Lakeesha Ransom, and Patricia Simmons.

Staff present: President Robert Bruininks; Chancellor Samuel Schuman; Senior Vice President and Provost Thomas Sullivan; Senior Vice President Frank Cerra; Vice Presidents Kathryn Brown, Carol Carrier, R. Timothy Mulcahy, Kathleen O'Brien, Richard Pfitzenreuter, and Linda Thrane; Executive Director Ann Cieslak; Provost David Carl; and Associate Vice Presidents Margaret Carlson, Gerald Fischer, and Donna Peterson.

ANNUAL MEETING

Chair Baraga called the annual meeting of the Board of Regents to order at 9:00 a.m.

ESTABLISHMENT OF MEETING DATES

A motion was made and seconded and the Board of Regents voted unanimously to approve the following meeting schedule for 2006-2007:

July 12, 2006	
July 13-14, 2006	Board of Regents Retreat
No August Meeting	
September 7-8, 2006	
October 12-13, 2006	Meeting at University of Minnesota Crookston
November 9-10, 2006	
December 7-8, 20096	
No January 2007 Meeting	
February 8-9, 2007	
March 8-9, 2007	
April 12-13, 2007	Meeting Tentative
May 10-11, 2007	
June 7-8, 2007	

The annual meeting adjourned at 9:05 a.m.

The regular meeting of the Board of Regents was convened at 9:05 a.m.

RECOGNITION OF CHANCELLOR, UNIVERSITY OF MINNESOTA MORRIS

Recognition was given to Samuel Schuman for his service as chancellor of the University of Minnesota Morris. The Board of Regents expressed appreciation for his dedication and remarkable accomplishments during his tenure at the University of Minnesota Morris.

APPROVAL OF MINUTES

A motion was made and seconded, and the Board of Regents voted unanimously to approve the minutes of the following meetings:

Audit Committee – May 11, 2006
Educational Planning & Policy Committee – May 11, 2006
Finance & Operations Committee – May 11, 2006
Faculty Staff & Student Affairs Committee – May 11, 2006
Facilities Committee – May 11, 2006
Board of Regents – May 11, 2006
Board of Regents – May 12, 2006
Public Forum on the University Budget – May 23, 2006

REPORT OF THE PRESIDENT

President Bruininks reported on his recent trip to Norway. Vice Presidents Brown and Mulcahy, Deans Powell and Elde, and a number of other University officials were part of the delegation. The purpose of the trip was to share ideas and sign agreements that will deepen educational exchanges with Norway. He stated ideas were shared relating to the role and importance of research universities in regional economies; advances in commercialization of technology; areas of academic interest with Norwegian universities; and how to increase the numbers of students studying abroad.

A copy of the Report of the President is on file in the Board Office.

REPORT OF THE CHAIR

Chair Baraga reported on the appointment of the President's Review Committee comprised of Regents Frobenius, Simmons, and himself. The committee will meet in closed session several times before the July meeting when a final report on the President's performance will be given.

He also announced that Professor Kenneth Keller would be given the title President Emeritus of the University of Minnesota effective July 1, 2006. The honor which is bestowed by the Chair of the Board according to Board policy recognizes the distinguished service Keller provided as president of the University from 1983 to 1985.

He reported that the July 2006 Board meetings would be held on July 12, with July 13 and 14 reserved for a Board retreat at Riverwood Conference Center.

Lastly, he recognized the newly-elected student representatives who will serve during the 2006-07 academic year.

RECEIVE AND FILE REPORTS

Chair Baraga noted the receipt and filing of the Annual Review of the President's Delegations.

GIFTS

Associate Vice President Fischer presented the list of gifts to the University of Minnesota, the University of Minnesota Foundation, the Arboretum Foundation, and the Minnesota Medical Foundation for April 2006 as included in the docket materials.

A motion was made, seconded, and the Board of Regents voted unanimously to approve the receipt of gifts as presented.

REPORT OF THE ALL-UNIVERSITY HONORS COMMITTEE

Chair Baraga noted that the Report of the All-University Honors Committee was forwarded to the Board from President Bruininks on May 24, 2006.

A motion was made and seconded and the Board of Regents voted unanimously to approve the Report of the All-University Honors Committee. A copy of the report is on file in the Board Office.

QUARTERLY SUMMARY OF EXPENDITURES

Regent Baraga presented the Quarterly Summary of Expenditures for the Office of the Board of Regents, the President's Office, and Eastcliff Operations, for six months ending March 31, 2006 as contained in the docket materials.

A motion was made and seconded and the Board of Regents voted unanimously to approve the Summary of Expenditures for the period ending March 31, 2006.

BOARD OF REGENTS POLICY: CODE OF ETHICS ANNUAL REVIEW

Associate General Counsel William Donohue reviewed the Board of Regents Policy: *Code of Ethics for Members of the Board of Regents*. Section IV, Subdivision 1 of the policy provides that each year the Board publicly reviews the requirements and procedures provided in the Board policy.

Donohue highlighted the guiding principles that board members are obligated to follow: 1) Board members are responsible for the governance of the University and must be accountable in the areas of financial disclosure, gifts, expenses, and conflicts of interest; 2) Board members are expected to put aside parochial interests, keeping the welfare of the entire University, not just a particular constituency; and 3) Board members are to make the necessary commitment of time and diligence to fulfill their public governance responsibilities.

He reported that the policy requires that Board members file a financial disclosure statement with the secretary of the Board annually. Board members also may not accept any gift or accommodation, except as permitted by Board policy. Regents serve without compensation but are entitled to reimbursement for expenses incurred while representing the University in an official capacity in accordance with guidelines on file in the Board Office.

He reviewed the section relating to definitions which clarified the meanings of recusal, financial conflict of interest, family members, business associated with a Regent, and financial interest.

Donohue reported that the policy provides that any individual can bring an ethics or conflict of interest claim to the chair of the Board. A regent for whom a conflict of interest question has arisen is encouraged to consult with the general counsel and may request that the general counsel provide a written opinion on the matter. A copy of the opinion is provided to the chair. Likewise, the chair may also request an opinion from the general counsel on any conflict of interest question that comes to the chair's attention.

When a conflict of interest has been disclosed or acknowledged, the regent with the conflict of interest issue shall not participate in the deliberations or vote of the Board of Regents. The policy also states that a disclosure or acknowledgement of a potential conflict of interest shall be noted in an appropriate place in the Board of Regents minutes.

The policy also requires a regent to resign from the Board upon official announcement of candidacy for a partisan elective public office. In response to a question, Donohue stated that a number of offices including school boards and city councils are not considered partisan positions.

REPORT OF THE FACULTY CONSULTATIVE COMMITTEE

Professor Jean Bauer, Chair of the Faculty Consultative Committee (FCC), reported on the activities of the committee since its last report to the Board of Regents. She reported that faculty governance has been working closely with the task forces appointed to support the strategic positioning process. She reported on FCC membership and expressed appreciation for the positive working relationship with the Board during the past year.

A copy of the full report is included in the docket materials and is on file in the Board Office.

RECOGNITION: FACULTY CONSULTATIVE COMMITTEE OUTGOING CHAIR

Recognition was given to Professor Jean Bauer for her service as chair of the Faculty Consultative Committee. Bauer served as chair during the 2005-06 academic year.

ANNUAL UNIVERSITY OF MINNESOTA ALUMNI ASSOCIATION (UMAA) REPORT

Robert Stein, UMAA National President, highlighted the achievements of the University of Minnesota Alumni Association during fiscal year 2006. Stein recognized Margaret Carlson, Chief Executive Officer of UMAA, for her work during the past year, and introduced Dennis Shulsted, the UMAA National President for the 2006/07 fiscal year.

A copy of UMAA's achievements were listed in the docket materials on file in the Board Office.

Chair Baraga thanked Stein for his service and leadership on behalf of the University.

ANNUAL OPERATING BUDGET FY2007

A motion was made and seconded to approve the following resolution relating to the FY2007 annual operating budget:

WHEREAS, the University of Minnesota as the state's public, land grant university is charged with the responsibility to pursue knowledge and to help apply that knowledge through research and discovery, teaching and learning, and outreach and public service; and

WHEREAS, the State of Minnesota, through its legislative and executive branches, has appropriated \$551,212,000 in state general fund monies for fiscal year 2006-07 to the University of Minnesota, which represents an increase of \$23,388,000 compared to the prior year's base level funding, for the pursuit of its mission and in support of our goals and objectives; and

WHEREAS, the University of Minnesota is committed to achieving standards of national and international excellence; and

WHEREAS, the future of the University is premised on partnerships within the University community of faculty, staff and students, with the State of Minnesota, other educational institutions, business and industry, University alumni, local communities, and the citizens of Minnesota;

NOW, THEREFORE, BE IT RESOLVED that to achieve these goals, the Board of Regents approves the University of Minnesota Fiscal Year 2006-07 Operating Budget as follows:

The annual revenue and expenditure plan for current, non-sponsored funds and projected expenditures for sponsored funds for fiscal year 2006-07.

The Fiscal Year 2006-07 Operating Budget approved by the Board of Regents includes the following attachments which are included in the President's Recommended Fiscal Year 2006-07 Operating Budget:

- Attachment 1 – Resource and Expenditure Budget Plan (University Fiscal Page) - Revised
- Attachment 3 – University of Minnesota 2005-06 Tuition Plan: Tuition Rates - Revised
- Attachment 7 – University of Minnesota 2005-06 Tuition Plan: Course Fees - Revised
- Attachment 8 – University of Minnesota 2005-06 Tuition Plan: Academic Term Fees - Revised
- Attachment 9 – University of Minnesota 2005-06 Tuition Plan: Fees in Lieu of Tuition – Revised
- Attachment 10 – Student Services Fees
- Attachment 11 – Fund Forecast - Centrally Distributed and Attributed Funds – Revised

NOW, THEREFORE, BE IT FURTHER RESOLVED that in order to finance the student share of the design and construction costs of the stadium, the Board of Regents approves a \$12.50 per semester fee that:

- will begin in the fall of 2007
- will be implemented on a phased schedule

- will be fully implemented in the fall of 2009
- will remain at a fixed level coterminous with the bonds issued by the Board; and
- will not be increased to meet construction overruns.

President Bruininks briefly reviewed details of the proposed operating budget plan for fiscal year 2006-07 as described in the docket materials and on file in the Board Office. He noted that the plan was reviewed in detail at the May 12, 2006 Board meeting and only minor revisions have been made. He also reported that the budget is consistent with the two-year financial framework approved by the Board in June 2005 and with the University's academic priorities.

The Board of Regents voted unanimously to approve the Annual Operating Budget for Fiscal Year 2007.

ANNUAL CAPITAL IMPROVEMENT BUDGET FY2007

President Bruininks introduced the proposed FY2007 capital improvement budget which authorizes projects intended for implementation during the coming year. He noted that the budget is reflective of the planning priorities established by the Six-Year Capital Improvement Plan and was developed to focus on:

- advancing the University's strategic aspirations;
- enhancing education and the student experience;
- supporting groundbreaking research;
- strengthening service to Minnesota communities; and
- leveraging space utilization opportunities

Vice Presidents O'Brien and Pfutzenreuter presented the \$526.5 million budget, as detailed in the docket materials. It was noted that the Board reviewed the proposed budget at its May 2006 meeting and it has been adjusted to reflect the outcome of the legislative session. A summary of the changes was included in the docket materials. Pfutzenreuter noted that this budget is substantially larger than budgets in previous years due to the addition of \$248.7 million for the stadium. It was also noted that the projects included in the budget have been approved by the respective Vice President or Chancellor, have completed an appropriate level of planning, have all the required funding identified, and would be ready to proceed when approved by the Board.

A motion was made and seconded and the Board of Regents voted unanimously to approve the following resolution relating to Annual Capital Improvement Budget for FY2007:

WHEREAS, the Board of Regents directed the administration to annually submit a capital improvement budget and a 6-year capital improvement plan; and

WHEREAS, the Board has adopted principles to guide the formulation of the capital improvement budget and 6-year capital improvement plan; and

WHEREAS, the Board recognizes the importance of sustaining and improving the University's facilities in support of teaching, research, and outreach; and

WHEREAS, the administration has developed a capital planning framework designed to focus its capital planning efforts toward projects

that support the University's institutional priorities within a financial strategy that is realistic;

NOW, THEREFORE, BE IT RESOLVED that the Board of Regents approves the FY2007 Capital Improvement Budget and reaffirms its prior year capital expenditure authorizations.

LEGISLATIVE REPORT

President Bruininks introduced Associate Vice President Peterson who presented a summary of the 2006 legislative session contained in the docket materials.

Peterson made a number of observations relating to the 2006 session. She reported that while legislation for the stadium was not passed until the end of the session, from the beginning there had been strong bipartisan support by legislative leaders. It is hoped that this support will carry over to academic program requests in the future.

She reported that the University was also successful with its capital bonding bill, but that requests for funding have become increasingly competitive and the University will need to be very creative in the future.

She also noted the funding received for the expansion of higher education in Rochester and for the University/Mayo partnership. Administrators are encouraged that the University of Minnesota is becoming more visible to legislators in southeast Minnesota, which could generate additional support for the University.

Peterson indicated that the Governor and all 201 legislators are up for reelection in 2006. A number of legislators have already announced their retirement, which could mean a significant turnover in the legislature.

Board members expressed appreciation to Peterson and her colleagues for their tireless work during the 2006 legislative session.

REPORT OF THE EDUCATIONAL PLANNING & POLICY COMMITTEE

Regent Larson, Vice Chair of the committee, reported that the committee voted unanimously to recommend:

- a) Approval of the Consent Report for the Educational Planning & Policy Committee as presented to the committee and described in the June 8, 2006 committee minutes.
- b) Adoption of amendments to Board of Regents Policy: *Animal Care and Use* as follows:

Animal Care and Use

SECTION I. SCOPE.

This policy governs University of Minnesota (University) research, teaching, and service activities involving animals when conducted by University faculty, staff, or students or when using University facilities or equipment.

SECTION II. COMMITMENT.

The Board of Regents (Board) of the University affirms the appropriate use of animals in research, teaching, and service activities and is committed to the highest standards for their humane care and use. The president shall support and protect the officially sanctioned use of animals covered pursuant to this policy.

SECTION III. GUIDING PRINCIPLES.

In performing their duties, University faculty, staff, and students shall adhere to the following recognized principles:

- (a) procedures involving animals shall be designed and performed with due consideration for their relevance to human or animal health, the advancement of knowledge, or the good of society; and
- (b) the proper use of animals requires avoidance or minimization of discomfort, distress, and pain.

SECTION IV. DEFINITIONS.

Subd. 1. Institutional Animal Care and Use Committee. *Institutional Animal Care and Use Committee* (IACUC) shall mean the committee established by the president or delegate in accordance with federal regulations to review University protocols, animal facilities, and uses of animals.

Subd. 2. Institutional Official. *Institutional official* shall mean the individual appointed by the president to oversee all aspects of the University's animal care and use programs.

Subd. 3. Research Animal Resources. *Research Animal Resources* (RAR) shall mean the program established by the president or delegate to provide veterinary services and support for activities covered under this policy.

SECTION V. COMPLIANCE WITH FEDERAL AND STATE LAW.

Subd. 1. Federal and University Responsibilities. As required by federal law, the president or delegate shall appoint an IACUC to ensure that activities covered under this policy meet federal requirements. The president or delegate is responsible for overseeing the IACUC. University officials may not approve an activity covered under this policy if it has not been approved by the IACUC. Activities approved by the IACUC nevertheless may be subject to further review and approval by University officials.

Subd. 2. Regulatory Compliance. All activities covered by this policy must comply with applicable federal and state regulations and guidelines, including, but not limited to, the Public Health Service *Policy on the Humane Care and Use of Laboratory Animals*, the National Research Council *Guide for the Care and Use of Laboratory Animals*, the federal *Animal Welfare Act*, United States Department of Agriculture regulations, and the *Guide for the Care and Use of Agricultural Animals*.

SECTION VI. UNIVERSITY COMPLIANCE PROVISIONS.

Subd. 1. President. The president shall:

- (a) ensure that activities covered under this policy meet federal requirements; and
- (b) oversee the institutional official.

Subd. 2. Institutional Official. The institutional official shall:

- (a) ensure compliance with applicable laws, guidelines, and policies;
- (b) appoint IACUC members, in consultation with the administrative staff of the IACUC;
- (c) perform all necessary reporting requirements;
- (d) report to the appropriate federal governmental and University officials any serious or continuing noncompliance with applicable laws and policies and any corrective action taken; and
- (e) consult with the Office of the General Counsel in carrying out these responsibilities as appropriate.

Subd. 3. RAR. The veterinary services and support provided by RAR shall include:

- (a) quality husbandry programs;
- (b) quality veterinary medical services; and
- (c) expert consultation on the selection, care, and use of University animals.

Subd. 4. IACUC. The IACUC has the authority to:

- (a) gain access to all facilities used for the care and research of animals;
- (b) obtain University records and other relevant information related to the use of animals; and
- (c) take any actions, including suspending an activity, that are in its judgment necessary to ensure compliance with applicable federal, state, or University policies and procedures.

Subd. 5. IACUC Responsibilities. The IACUC shall use this authority to:

- (a) review and approve, require modifications to, or withhold approval of all University activities involving animals prior to the start of the activity;
- (b) conduct semi-annual inspections of facilities where animals are being used;
- (c) conduct semi-annual evaluations of the University's animal care and use program;
- (d) conduct continuing review of previously approved activities at least once per year;
- (e) review and investigate complaints of noncompliance; and
- (f) promptly report to the institutional official:
 - (1) any alleged serious or continuing noncompliance with federal or state laws or University policies or procedures; and
 - (2) any corrective actions taken in response to noncompliance.

Subd. 6. University Faculty, Staff, and Students. University faculty, staff, and students involved in the care and use of animals shall:

- (a) be appropriately qualified or supervised for conducting procedures on animals;
- (b) participate in training and receive periodic certification of training;
- (c) enroll and participate in an occupational health program; and
- (d) abide by and carry out the decisions of the IACUC.

SECTION VII. ADMINISTRATIVE PROCEDURES.

The IACUC, with responsible oversight by the president or delegate, shall maintain appropriate administrative policies and procedures to implement this policy.

The Board of Regents voted unanimously to approve the recommendations of the Educational Planning & Policy Committee.

Larson reported that the committee reviewed proposed amendments to Board of Regents Policy: *Research Involving Recombinant DNA and Hazardous Biological Materials*; Board of Regents Policy: *Reserve Officers' Training Corps*; and Board of Regents Policy: *College Constitutions*; engaged in a discussion relating to the annual budget proposal and its impact on academic programs and initiatives; and received an update on campus reports and strategic positioning for Duluth and Rochester.

REPORT OF THE FACILITIES COMMITTEE

Regent Metzen, Chair of the committee, reported that the committee voted unanimously to recommend:

- a) Approval of the following real estate transaction as described in the docket materials:
 - 1. Five-year lease for space at 701 – 24th Avenue SE, Minneapolis for University Bookstores.
- b) Approval of schematic plans for the following:
 - 1. Northrop Auditorium Exterior Stabilization, Twin Cities Campus
 - 2. Carlson School of Management Expansion, Twin Cities Campus

The Board of Regents voted unanimously to approve the recommendations of the Facilities Committee.

Metzen reported that the committee voted by a majority to recommend:

- a) Approval of schematic plans for the following:
 - 1. Carlson School of Management Skyway, Twin Cities Campus

The Board of Regents voted by a majority of 9 to 1 to approve the recommendation of the Facilities Committee. Regent Frobenius voted against the motion.

Metzen reported that the committee reviewed one proposed real estate transaction for the purchase of 2324 University Avenue SE, Minneapolis; reviewed a capital budget amendment relating to the renovation of 717 Delaware Street SE; received an update on the Twin Cities Campus Master Plan; and reviewed a number of information items as described in the docket materials.

REPORT OF THE AUDIT COMMITTEE

Regent Frobenius, Chair of the committee, reported that the committee did not meet this month.

REPORT OF THE FACULTY, STAFF, & STUDENT AFFAIRS COMMITTEE

Regent Bohnsack, Chair of the committee, reported that the committee voted unanimously to recommend:

- a) Approval of a resolution related to the proposed labor agreement with University Education Association for Faculty on the Crookston Campus (Outstate Instructional Unit 9), as follows:

WHEREAS, the parties have met and negotiated over the course of the past several months and have reached agreement regarding terms and conditions of employment regarding the employees of this bargaining unit; and

WHEREAS, UEA Crookston faculty have ratified acceptance of this agreement; and

WHEREAS, according to Board of Regents Policy: *Board Operations and Agenda Guidelines*, approval of labor agreements by the Board of Regents is required;

NOW, THEREFORE, BE IT RESOLVED that on the recommendation of the President, the Board of Regents approves this labor agreement as outlined in the docket for June 8, 2006.

Regent Hunter recused himself and left the room for the discussion and action on the above item due to a possible conflict of interest.

The Board of Regents voted unanimously to approve the recommendation of the Faculty, Staff & Student Affairs Committee.

Regent Hunter returned to the meeting.

Bohnsack reported that the committee also voted unanimously to recommend:

- a) Approval of the Consent Report for the Faculty, Staff, & Student Affairs Committee as presented to the committee and described in the June 8, 2006 committee minutes.

The Board of Regents voted unanimously to approve the recommendation of the Faculty, Staff, & Student Affairs Committee.

Bohnsack reported that the committee reviewed two proposed Board of Regents policies: Board of Regents Policy: *Outside Consulting and Other Commitments* and Board of Regents Policy: *Conflict Resolution Process for Student Academic Complaints*; received the semi-annual UPlan Health Care Report; received a presentation on Post Tenure Review; and reviewed a number of information items as described in the docket materials.

REPORT OF THE FINANCE & OPERATIONS COMMITTEE

Regent Allen, Chair of the committee, reported that the committee voted unanimously to recommend:

- a) Approval of the amended Consent Report for the Finance & Operations Committee as presented to the committee and described in the June 8, 2006 committee minutes.
- b) Adoption of amendments to Board of Regents Policy: *Investment of Reserves*, as follows:

Investment of Reserves

This policy governs the investment of short-term and long-term reserves of the University of Minnesota (University).

ARTICLE I

Short-Term Reserves

Subd. 1. Investment Objective. The primary investment objective for the University's short-term reserves, known throughout this article as the Temporary Investment Pool (TIP), is current income and capital preservation. In addition, the following are priorities for the investment of short-term reserves:

- (a) maintaining sufficient liquidity to meet the near term funding and operations requirements of the University; and
- (b) maximizing current income and investment returns on these reserves.

Subd. 2. Overall Portfolio Characteristics. A majority of TIP funds are to be invested in high quality, relatively short-term fixed income securities not exposed to significant market risk while a portion may be invested in the University's Consolidated Endowment Fund (CEF). The following percentages of annual operating revenues, as measured at the completion of each fiscal year, shall be retained in TIP:

- (a) At least 8% for the purpose of debt service reserves and related liquidity requirements;
- (b) At least 6% for the purpose of providing cash flow for operations; and
- (c) At least 5% for the purpose of providing core operating reserves.

The remaining balance of TIP, not to exceed 30%, may be invested in CEF. Annually, when determining the amount of TIP to be invested in CEF, consideration shall be given to market conditions, timing, and other financial circumstances. TIP investments in CEF shall be reported periodically to the Board of Regents.

The fixed portion of TIP investments shall be guided by the following:

- (a) average duration of four years or less for the entire portfolio and maximum duration of seven years for any individual holding;

- (b) average credit quality of A1 /A+ or better;
- (c) no use of leverage; and
- (d) individual securities owned shall maintain a rating of investment grade (defined as Baa3/BBB- rating or better by Moody's or Standard & Poor's) unless the president or delegate specifically approves retention of a lower rated security. The Board of Regents must be notified of such approvals.

Subd. 3. Investment Guidelines for Specific Types of Securities. The following investment guidelines shall apply to specific types of securities:

- (a) Federal Government Securities – Investments in federal government securities shall be limited to U.S. Treasury obligations, federal agency securities, and obligations guaranteed or insured by an agency of the federal government, with no limitation on amount per agency or percent of overall portfolio.
- (b) Money Market Investments – Money market investments shall be limited to money market funds or fixed income mutual funds designed to maintain a stable unit value, with no limitation on percent of overall portfolio.
- (c) Corporate Obligations – Corporate obligations include commercial paper, intermediate or long-term bonds, bank paper, and master notes. In aggregate, corporate obligations shall not exceed 60% of the portfolio, with a maximum limitation of 7% for any single issuer, and shall be guided by the following:
 - (1) Commercial Paper – Commercial paper obligations shall include U.S. dollar denominated obligations of U.S.-based or foreign issuers whose commercial paper is rated A-1+, A-1, or A-2 by Standard & Poor's or P-1 or P-2 by Moody's.
 - (2) Intermediate or Long-Term Bonds – Intermediate or long-term bonds shall include bonds and flexible rate securities that are U.S. dollar denominated obligations of U.S.-backed or foreign issuers.
 - (3) Bank Paper – Bank paper shall include U.S. dollar denominated certificates of deposit, time deposits, bankers acceptances, letters of credit, and documented discount notes from U.S. or foreign issuers.
 - (4) Master Notes – Master note obligations shall include notes issued by U.S. corporations only, with a maximum limitation of 10% of the portfolio.

Subd. 4. Prohibited Securities. Except for investments made in CEF, investments in the following securities are prohibited:

- (a) equity and equity related alternatives;
- (b) securities convertible into equity;
- (c) non-investment grade high yield securities;
- (d) unrated securities;
- (e) financial futures;
- (f) fixed income options;
- (g) interest rate swaps;
- (h) other derivatives securities, private securities, or those not traded on a major exchange; and
- (i) any securities issued by a foreign government or corporation domiciled in a country that is not part of the Europe, Australasia, and Far East (EAFE) Index, or Canada.

ARTICLE II

Long-Term Reserves

Subd. 1. Investment Objective. The primary investment objective for the University's long-term reserves, known throughout this article as the Group Income Pool (GIP), is to maximize the total investment return while preserving capital balances until such time as the principal is required to fund the intended use. Because of the potential for higher levels of volatility, the GIP portfolio shall be invested by outside professional managers or in CEF.

Subd. 2. Investment Guidelines. GIP funds shall be invested on a total return basis. The following are approved investment guidelines for GIP:

- (a) Fixed Income Securities – Up to 100% of the portfolio may be invested in fixed income securities that may include:
 - (1) bonds, convertible bonds, mortgage-backed and/or asset-backed securities that are issued by governments, government agencies, or corporations in developed market countries;
 - (2) securities, denominated in foreign currencies or U.S. dollars;
 - (3) a maximum 20% allocation to securities rated below investment grade;
 - (4) a maximum 10% exposure to emerging market debt;
 - (5) mutual funds consistent in quality with these investment guidelines; and
 - (6) futures, options, and interest rate swap agreements.
- (b) Equity – Up to 50% of the overall portfolio may be invested in diversified equity-related securities and/or in CEF.
- (c) Money Market Funds – To the extent that money market funds are used in the portfolio, underlying assets in the fund shall have a minimum commercial paper rating of A2/P2 as rated by Standard & Poor's and Moody's.

Subd. 3. Prohibited Activities. Except for investments made in CEF, use of the following instruments and strategies shall be prohibited:

- (a) mortgage derivatives, including stripped mortgage pass through securities, such as interest-only and principal-only securities; and
 - (b) leverage.
- c) Adoption of amendments to Board of Regents Policy: *Central Reserves Fund*, as follows:

Central Reserves Fund

SECTION I. DEFINITION.

The central reserves fund refers to resources that are not allocated to any specific unit of the University, but are held in a central account within the University's financial system. The primary revenue sources of the central reserves fund include the following: investment earnings and realized and unrealized gains or losses in market values from the Temporary Investment Pool (TIP); funds invested in the Consolidated Endowment Fund from TIP; other miscellaneous revenues; and legal settlements.

The purpose of the central reserves fund is to insulate the University from potential major financial risks, including:

- unanticipated or uninsured catastrophic events;
- temporary institutional revenue declines or expenditure gaps;
- unforeseen legal obligations and costs;
- failures in central infrastructure; or
- failures of major business systems.

SECTION II. BUDGETING.

Subd. 1. Budget Planning. A central reserves budget is prepared annually and submitted to the Board of Regents (Board) for approval as part of the president's recommended Annual Operating Budget.

Subd. 2. Allowable Allocations. As part of the Annual Operating Budget, the central reserves fund may be allocated for:

- (a) expenses that are fixed term in nature (usually 3 years or less);
- (b) transfers to other centrally allocated funds to support expenditures that should be funded from sources other than tuition or state appropriations;
- (c) a general contingency for unplanned or unexpected financial needs that routinely arise during the fiscal year; or
- (d) other various miscellaneous expenditures as determined by the president and approved by the Board.

Subd. 3. Board Approval. Board approval is required for any modifications to the central reserves budget and for all expenditures from the central reserves general contingency account of \$250,000 or more. Expenditures from the general contingency account of less than \$250,000 shall be approved by the president or delegate and reported at the next regular meeting of the Board. When delay for Board approval poses a significant health, safety, or financial risk to the University, approval of expenditures from the central reserves fund may be granted by the chair of the Board, the vice chair, and the chair of the Finance and Operations Committee. Any such emergency approvals shall be brought to the next regular meeting of the Board, consistent with Board of Regents Policy: *Board Operations and Agenda Guidelines*.

SECTION III. SIZE OF RESERVES.

An appropriate central reserves fund maintains financial strength and high bond ratings, protects the University from interest expense volatility, and allows flexibility in the use of variable rate debt to lower or control interest costs.

Under normal circumstances, the central reserves fund should not fall below 4.0% of state appropriations, or \$25,000,000, whichever is greater, unless such reduction is part of a short-term financing plan that includes restoration of the central reserves fund balance within two to three years. However, determining the appropriate level of the central reserves fund requires judgment and consideration of a variety of factors, including, among others, the following:

- the condition of the Minnesota and federal economies;
- the political climate towards higher education;
- the volatility of University revenues and expenditures;
- the size and composition of University debt; and
- the composition of investments in TIP.

SECTION IV. REPORTING.

A projected central reserves fund year-end balance shall be presented to the Board as part of the Annual Operating Budget. A central reserves fund report shall be presented annually to the Finance and Operations Committee.

The Board of Regents voted unanimously to approve the recommendations of the Finance & Operations Committee.

Allen reported that the committee reviewed proposed amendments to Board of Regents Policy: *Endowment Fund*; engaged in discussions relating to the Annual Operating Budget for FY2006-07 and the Annual Capital Improvement Budget for FY2006-07; and reviewed a number of information items as described in the docket materials.

REPORT OF THE LITIGATION REVIEW COMMITTEE

Chair Baraga noted that the committee did not meet this month.

NEW BUSINESS

Recognition was given to Maureen Krinke upon the occasion of her retirement from the Board Office after 25 years of service.

The meeting adjourned at 11:25 a.m.

ANN D. CIESLAK
Executive Director and
Corporate Secretary