

**UNIVERSITY OF MINNESOTA**

**BOARD OF REGENTS**

**Finance and Operations Committee**

**May 11, 2006**

A meeting of the Finance and Operations Committee of the Board of Regents was held on Thursday, May 11, 2006 at 1:45 p.m. in the East Committee Room, 600 McNamara Alumni Center.

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

Staff present: Senior Vice President Robert Jones; Vice Presidents R. Timothy Mulcahy and Richard Pfutzenreuter; Executive Director Ann Cieslak; and Associate Vice Presidents Steve Cawley, Gail Klatt, and Michael Volna.

Student Representatives present: Joe Linder and Cassie McMahon.

Regent Allen thanked student representatives for their service to the committee and introduced Melissa Herbst, newly-appointed student representative.

Regent Allen recognized Professor Fred Morrison and commended him for his service as Chair of the Finance and Planning Committee. Morrison briefly addressed the committee.

**BOARD OF REGENTS POLICY: INVESTMENT OF RESERVES**

Vice President Pfutzenreuter and Chris Suedbeck, Assistant Director, Office of Asset Management led the discussion of proposed amendments to Board of Regents Policy: *Investment of Reserves*, which governs the investment of short-term and long-term reserves of the institution. The proposed amendments are meant to achieve higher levels of return and cash flow through some core University reserves located in both the Temporary Investment Pool (TIP) and the Group Investment Pool (GIP) into the Consolidated Endowment Fund (CEF). The changes are expected to achieve greater diversification, which will lead to lower portfolio return volatility and reduced dependence on domestic interest rates.

Pfutzenreuter explained the TIP portfolio composition, stating that the value of the fund was \$668 million as of March 31, 2006. He reported that the administration has determined that after considering the amount required for operating funds, (\$150 million), self-liquidity for outstanding debt (\$175 million), a core of \$300 million remains. He outlined the proposed amendments as described in the docket and associated materials distributed at the meeting (on file in the Board Office), stating that the primary change would enable staff to invest twenty-five percent of TIP in the CEF in order to maximize current income and investment returns.

Pfutzenreuter reported that the administration is also recommending a modification to the investment strategy for GIP. Current investment guidelines for GIP are to maximize the income and preserve capital balances through the investment in high-quality fixed-income securities with a relatively small portion of the overall

portfolio invested in domestic equity-related securities. The proposed new long-term reserves policy would allow up to fifty percent of the overall portfolio to be invested in the CEF. The amendments would also allow individual academic and business units to invest in the CEF and realize a portion of the returns.

Pfutzenreuter stated that the proposed changes present some risks, but based on spending and revenue patterns and tracking of daily use of cash, an investment of up to twenty-five percent would leave a substantial portion of the core funds in TIP. A lengthy discussion ensued and committee members suggested a number of potential changes.

Staff agreed to incorporate language into the policy to reflect that TIP funds would not fall below a percentage of the annual operating costs of the institution. Additional language would be added regarding a quarterly review of these TIP funds by the Investment Advisory Committee and reports to the Board of Regents.

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

#### **BOARD OF REGENTS POLICY: CENTRAL RESERVES FUND**

Pfutzenreuter led the discussion of proposed amendments to Board of Regents Policy: *Central Reserves Fund*. 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. Current policy identifies a minimum reserve level of three percent of all centrally allocated funds exclusive of tuition or \$20 million, whichever is greater. The proposed modifications to the policy would change the size of the reserves to four percent of state appropriations or \$25 million, whichever is greater. The proposed amendments also add an additional consideration in determining the appropriate level of central reserves by including an evaluation of the composition of investments in the Temporary Investment Pool.

Pfutzenreuter discussed the Group Investment Pool (GIP), which are the long-term reserves of the institution, noting that the investment objective is to maximize the total investment returns while preserving capital balances until such time as the principal is required to fund the intended use.

Pfutzenreuter described the current and projected balances in central reserves for the years ending June 30, 2006 and June 30, 2007, noting an estimated projected increase that is in excess of what the policy requires. He reported that projected balances calculated under the proposed amendments would leave a balance of approximately \$16 million, which would be used for FY2007 capital projects.

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

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

#### **ISSUES RELATED TO: ENTERPRISE FINANCIAL SYSTEM REPLACEMENT PROJECT**

Associate Vice Presidents Volna and Cawley presented issues related to the Enterprise Financial System Replacement Project, which is intended to fulfill business needs of the institution; support multiple business models; deliver tools for financial analysis and planning; improve business processes and reduce costs; and support increased accountability, strong internal controls, and fiscal compliance. Volna noted that the committee received its last project update at its May 2005 meeting.

Volna summarized progress to date on the two-phase implementation approach pursued by the administration: a preparatory and exploratory phase, which ran from January 2004 through July 2005, and the implementation phase, which began in August 2005 and runs through June 2008. He reported that a number of changes have been made to the project to address potential project risks, most notably in the area of project management personnel and implementation methodology. The project plan has been adjusted to accommodate the new methodology and the addition of functionality for sponsored projects.

Volna described current challenges encountered so far due to the complexity of the project implementation and how the administration is addressing those concerns. He detailed the potential risks and challenges that remain and described the next steps, noting that any revisions to the budget will depend on the number and complexity of functional gaps from the analysis phase.

In response to a question, Cawley reported that the project executive steering team is developing a reporting methodology that will indicate how time and resources are utilized, challenges addressed, and how the various processes are completed. Regent Allen commented that a schedule of implementation activities to date would be beneficial to include in the next update.

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

#### **ISSUES RELATED TO: UNIVERSITY BUDGET ALLOCATION MODEL**

Vice President Pfutzenreuter led the discussion of issues related to the University budget allocation model, which the administration has been working to implement the purpose of more closely aligning revenues and costs. Through this model academic and support units would be fully cognizant of the financial choices facing the institution and are better informed.

Pfutzenreuter provided background information on budget development at the University and how new financial systems and processes evolved. To guide the development of this new budget allocation model the President commissioned a budget work group who used a number of principles to guide their work, including transparency, simplicity, and predictability, reflecting the desire of academic and business units to understand what is driving the costs within the institution. In response to questions, Pfutzenreuter noted that the budget model structure is planned for the collegiate level and that the administration is aware that there will be disparity among colleges.

Pfutzenreuter reported that the Earned Income/Full Cost Model will be incorporated into the Enterprise Financial System currently in the installation phase within the institution.

#### **CONSENT REPORT**

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

- Cemanahuac Comunidad Educativa for a not to exceed amount of \$364,975 for providing study abroad academic credit programs from August 1, 2006 to August 15, 2007 for the Learning Abroad Center.

- Champion Air for \$281,052 for charter service for the 2006 season for away football games for the University of Minnesota football team. The away games are scheduled from August 31, 2006 to November 11, 2006.
- Dell Marketing L.P., a Microsoft distributor, for an estimated \$2,450,000 to provide software licensing for commonly used Microsoft products for the entire University of Minnesota staff and faculty for the period July 1, 2006 through June 30, 2009 for the Office of Information Technology.
- Increase the contract with Hines Interests Limited Partnership by \$70,000 to complete work in the development of a long-range clinical campus plan for the University of Minnesota, its Academic Health Center, University of Minnesota Physicians, and Fairview Health Services. The total contract amount will be \$535,000; the original contract was \$335,000. The Board of Regents approved a contract amendment of \$130,000 in July 2005; this second amendment covers the final cost of the project.
- IBM Corporation for an estimated \$362,320 to lease 280 IBM T43 ThinkPad laptops for the period July 1, 2006 through June 30, 2009 for the Law School.
- infiNET for \$220,000 to amend and extend a contract for providing electronic billing and payment services for student accounts services for all campuses from March 4, 2006 to March 4, 2008. This extension will bring the total contract to \$419,000. The cost of the infiNET contract will be paid with departmental funds currently available for this process and budgeted as a part of the Office of Student Finance.
- MP Nexlevel, Inc. for an estimated \$1,088,000 of contract labor for Outside Cable Placement and Inside Infrastructure Construction/Cabling and Termination as needed for the East Bank to Printing Services Building (\$542,000) and Printing Services Building to St. Paul Campus (\$546,000) cabling projects for the Networking and Telecommunications Services department, a division of the Office of Information Technology.
- Qiagen, Inc. for \$998,890 to renew a contract to purchase OneStep RT-PCR kits and Qiagen Custom Extraction kits as needed for the period July 1, 2006 through June 30, 2007 for the Veterinary Diagnostic Laboratory.
- Signature Consultants, Modis, Ware Consulting, and Recruiters of Minnesota to recruit individuals with business analyst skills and PeopleSoft implementation experience for consideration for permanent positions at the University. Payment for these recruiting services is expected to total \$1 million for the Enterprise Financial System project (EFS), from May 11, 2006 to July 31, 2008. The EFS project is jointly sponsored by the Office of Information Technology and the Controller's Office. These recruitment services will be paid from the EFS budget, which is \$28,600,184.

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, including:

- Emergency purchase of services over \$250,000 to:
  - Alliant Consulting, Inc. for an estimated \$418,000 for the period April 1, 2006 to September 30, 2006 for consulting services for the Veterinary Medical Center.
- Investment in University of Minnesota Physicians Clinical Practice Training Environment.

Regent Allen noted as a follow-up to previous committee discussions that proposed amendments to Board of Regents Policy: *Investment Social Concerns* will be addressed at a future meeting.

The meeting adjourned at 4:47 p.m.

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