

UNIVERSITY OF MINNESOTA

BOARD OF REGENTS

Finance and Operations Committee

October 12, 2006

A meeting of the Finance and Operations Committee of the Board of Regents was held on Thursday, October 12, 2006 at 3:00 p.m. in Room D/E, Bede Hall, on the University of Minnesota Crookston campus.

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

Staff present: Senior Vice President Frank Cerra; Vice Presidents Richard Pfutzenreuter and Kathleen O'Brien; Executive Director Ann Cieslak; and Associate Vice Presidents Steve Cawley, Stuart Mason, and Michael Volna.

Student Representatives present: Cassie McMahon and Nathan Wanderman.

PURCHASING/BID THRESHOLDS

Vice President Pfutzenreuter and Associate Vice President Volna presented information on the proposed bid thresholds, as presented in the docket materials. Pfutzenreuter noted that Board of Regents Policy: *Purchasing* requires that thresholds be reviewed and approved by the Board biennially. The following recommendations were presented to the committee:

- Increase in the threshold for purchase of goods and standard services from \$10,000 to \$50,000;
- Increase in the threshold for construction costs from \$10,000 to \$100,000; and
- Increase in the threshold for costs related to architects and engineers from \$50,000 to \$100,000.

Pfutzenreuter informed the committee that the current threshold of \$50,000 for costs related to professional services will remain until new financial systems are in place, at which point the administration expects to bring forth a recommendation for an increased threshold.

In response to a question from Regent Frobenius, Vice President O'Brien explained that the increased bid threshold for construction projects will result in more flexibility in dealing with smaller projects. The committee requested further information on the effects of increasing this threshold to an amount higher than the recommended \$100,000. Pfutzenreuter agreed to provide that information and explained that the bid thresholds will return for action at a future meeting.

ISSUES RELATED TO CERTAIN INVESTMENT CLASSES

Vice President Pfutzenreuter introduced Associate Vice President Mason to present information related to the private capital allocation in the Consolidated

Endowment Fund (CEF), as presented in the docket materials. Mason highlighted the following during his presentation:

- The University invests funds in the private capital category in order to capitalize on opportunities not available in the public markets;
- The private capital category has a current allocation of 11 percent of CEF and a strategic allocation of 20 percent;
- The 1-year, 3-year, and 5-year rates of return in private capital investments have exceeded the overall CEF performance; and
- IAC has worked extensively with the external auditor to implement effective tracking systems for private capital investments.

The committee had a lengthy discussion regarding the strategic allocations in the private capital category. Mason explained that his office uses a formula to monitor and manipulate the balance between the amount of funds approved by the Board and committed to each investment manager and the amount actually invested in the market.

CONSENT REPORT

Vice President Pfutzenreuter distributed an amended Consent Report. At the request of Regent Hunter, the items related to the approval of an underwriter for the state-supported stadium bonds and the associated fees were removed from the amended Consent Report.

A motion was made and seconded, and the committee voted to unanimously to approve the remaining items in the amended Consent Report, as follows:

Purchase of Goods and Services over \$250,000

- To Bruker Biospin for \$315,000 for NMR Magnet, 40 MHz, 54 mm Bore with actively Shielded design to be delivered in December 2006 for the College of Pharmacy, Medicinal Chemistry.
- To 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 one year period of January 1, 2007, through December 31, 2007:
 - Retiree Paid Coverage:
 - Blue Cross Blue Shield of Minnesota:
U of M Retiree Plan - \$4,347,000
 - HealthPartners:
HealthPartners Freedom Plus - \$2,260,000
 - Medica:
Medica Group Prime Solution - \$666,000
 - UCare:
UCare for Seniors - \$892,000
- To Boos Dental Laboratory, Dental Arts Laboratory, Granite City Dental, Harrison Dental Studio, Hermanson Dental Laboratory, Lakeland Dental Laboratory, Midwest Dental Arts, Inc., Udell Dental Laboratory, and Webster Dental Laboratory for an estimated \$835,000 for dental lab services as needed for the period of November 1, 2006, through October 31, 2007, for the University of Minnesota, School of Dentistry.

- To CBORD Group, Inc. for an estimated \$550,000 for hardware and related items for the Online Payment System as needed for the period January 1, 2007, through December 31, 2008, for the U Card Office.
- To Delta Dental for an estimated annual amount of \$870,000 and to HealthPartners Dental for an estimated annual amount of \$515,000 for administering a self-funded UPlan dental plan option offered through the University of Minnesota Office of Human Resources Employee Benefits for the one year period of January 1, 2007, through December 31, 2007.
- To Managed Services, Inc. for \$595,770 to renew a contract to provide preventive maintenance and janitorial services to the West Bank Office Building for the period of October 17, 2006, through October 16, 2007.
- To renew a contract for stop loss insurance with UPlan Medical Program with Midwest Assurance Company (HealthPartners, Inc) and National Benefits Resources, Inc. for a total of \$925,000, for the period of January 1, 2007, through December 31, 2007, on behalf of the Employee Benefits Department.
- To Minnesota Life/ING for purchase of life insurance coverage offered through the University of Minnesota Office of Human Resources Employee Benefits for the one year period of January 1, 2007, through December 31, 2007:
 - Estimated University paid coverage:
Basic Life - \$2,200,000
 - Estimated Employee paid coverage:
Additional Employee Life - \$1,300,000
Spouse/Same-Sex Domestic Partner Life - \$395,000
Child Life - \$30,000
Optional Employee AD&D - \$47,000
Optional Spouse AD&D - \$7,400
Total - \$3,979,400
- To Pareo, Inc. for an additional \$240,000 for a total of \$450,000 and to Skire, Inc. for \$531,000 for additional services needed to implement the Construction Project Management Information System (PMIS) which is needed for the University Services Capital Planning and Project Management department.
- To Watson Wyatt & Company, doing business as Watson Wyatt Worldwide, for \$275,000 to extend the data warehouse services contract through December 31, 2007. The total for this contract since its inception in 2003 is \$655,000. This is the second of three one-year renewals. The source of funds is revenue to the UPlan and was included in the Employee Benefits FY07 budget. Vendor was originally selected through a competitive process.
- To Xerox Corporation for \$1,200,000 for monthly copier maintenance with consolidated centralized billing available to all University departments, on all campuses, covering the period January 1, 2007, through December 31, 2007, for the department of Office Equipment Services (OES).

Approval of New Investment Managers

Real Asset Portfolio: Oil and Gas

Quantum Energy Partners

- o \$15 million investment.
- o Invest in small to mid sized oil & gas companies.
- o Underwrite investments at \$45 for oil and \$5 for gas.
- o Hedge commodity exposure out from 7-10 years.
- o Three previous funds have returned 5.8x invested capital.

Private Equity Portfolio: Buyout

Kohlber, Kravis & Roberts (KKR)

- o \$20 million investment.
- o Mega corporate buyout fund.
- o Ten funds over 30 years produced net IRR of 21%.
- o Known for uniquely structured, large complex leveraged transactions.
- o Worldwide network of offices and investment professionals.

Private Equity Portfolio: Venture Capital

Novak Biddle

- o \$3 million investment.
- o Early stage technology venture capital.
- o Leverage investments made by federally funded research labs.
- o Four previous funds with the top decile performance in respective vintage years.
- o Access constrained.

A lengthy discussion ensued regarding the stadium debt underwriter. At the request of the committee, Pfutzenreuter provided background information on the process used by the administration in developing a recommendation for the underwriter and noted that the locality of the firm was not one of the criteria used in evaluating the bids. He explained that Lehman Brothers was being recommended in part because of their experience in dealing with similar special purpose debt arrangements.

A motion was made and seconded, and the committee voted unanimously to approve the following:

- The hiring of Lehman Brothers as the underwriter for the State-Supported Stadium Bond Issuance in the principal amount of up to \$137,250,000; and
- Expenditure to Lehman Brothers for an estimated \$545,000 for underwriting and investment banking services for the issuance of Regents of the University of Minnesota bonds in one or more series in the principal amount of up to \$137,250,000, the proceeds of the bonds to be used to finance a portion of the costs of the proposed TCF Bank Stadium and to pay costs of issuance thereof.

INFORMATION ITEMS

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

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

The meeting adjourned at 4:20 p.m.

ANN D. CIESLAK
Executive Director and
Corporate Secretary