

UNIVERSITY OF MINNESOTA
BOARD OF REGENTS
Finance & Operations Committee

March 8, 2007

A meeting of the Finance and Operations Committee of the Board of Regents was held on Thursday, March 8, 2007 at 9:45 a.m. in the East Committee Room, 600 McNamara Alumni Center.

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

Staff present: Vice Presidents Steve Cawley and Richard Pfutzenreuter; Executive Director Ann Cieslak; and Associate Vice Presidents Stuart Mason and Michael Volna.

Student Representatives present: Cassie McMahon and Nathan Wanderman.

ISSUES RELATED TO: STATE OF MINNESOTA ECONOMIC UPDATE

Vice President Pfutzenreuter invited State Economist Tom Stinson to discuss the economic forecast for the State of Minnesota. Stinson noted that the February 2007 forecast differs only slightly from the November 2006 forecast. The only significant change is lower revenue projected for FY 2010-11. He explained that the economic outlook will primarily be affected by: 1) the inflation impact expected in the Consumer Price Index through 2011; 2) the slow down in U.S. single family housing starts; and 3) federal tax changes.

In response to a question from Regent Allen, Stinson reported that typical housing downturns are attributed to interest rate changes, but that the current slow down is the result of an overbuilt market. He concluded by noting that the changes to the FY2010-11 outlook will bring additional challenges to the State.

ISSUES RELATED TO: SIX-YEAR CAPITAL IMPROVEMENT PLAN

Vice President Pfutzenreuter discussed debt related to the Six-Year Capital Improvement Plan, noting that the University will issue \$576.7 million in additional debt through FY 2013, if all projects are realized and all funding requested from the State is received. The total debt load could be lower if private funds become available for some projects.

Pfutzenreuter explained how the University's total debt capacity is determined and how leverage ratios are used to measure the University's ability to retire debt with assets. He summarized projected trends in the leverage ratios emphasized that the institution's upward trends will be favorable to maintain an Aa2 credit rating. A lengthy discussion ensued, and committee members expressed strong support for maintaining a debt capacity reserve equal to approximately 30 percent of the University's total debt capacity.

In response to a question from Regent Hunter, Pfutzenreuter explained that the State rarely provides funds for debt service. He noted that in the past the University

has increased tuition, identified funds through internal reallocation, or raised private funds to cover the University's one-third share of State projects.

ANNUAL INVESTMENT CONSULTANTS REPORT: CAMBRIDGE ASSOCIATES

Vice President Pfitzenreuter invited Associate Vice President Stuart Mason and George Pendergast and Stephen Symchych from Cambridge Associates to present the Annual Investment Consultants Report, as detailed in the docket materials. Pendergast described 2006 as a strong year in the market and in endowment returns and reported that the University is well situated to withstand any changes in the market. The University's current asset allocation compares strongly against top institutions with assets over \$1 billion. Pendergast suggested that as the University's assets continue to grow, the University might want to further expand the array of investments.

In response to several questions from the committee, Mason reviewed the staffing in the Office of Asset Management clarifying that it is slightly smaller than other institutions with similar assets. Symchych noted there are several types of successful staffing models including exclusive use of internal or external managers. He observed that a larger staff provides opportunities for additional research into possible investments.

CONSENT REPORT

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

Purchase of Goods and Services Over \$250,000 to:

- CitiMortgage, Inc. and Automotive Rentals, Inc. for \$5,500,000 for the financing and leasing of vehicles as needed for the period of April 1, 2007, through March 31, 2010, for the Parking and Transportation Services Department, Fleet Services Division.
- Computer Concepts & Services, Inc. to purchase analysis and programming services not to exceed \$325,000 for the period May 1, 2007, through April 30, 2008, for the University of Minnesota Veterinary Diagnostic Laboratory.
- Enventis Telecom for \$1,300,000 to purchase network hardware and software and to provide annual Cisco Smartnet hardware and software support for the period of April 1, 2007, through March 31, 2008, for Networking and Telecommunications Services (NTS), a division of the Office of Information Technology (OIT).
- FishNet Security for approximately \$352,400 for a Two Factor Authentication system for staff to access University Enterprise applications for the period April 2007 through March 2008.
- Office Max, a Boise Company, for an estimated \$686,482 for Hewlett Packard laser toner and ink-jet printer cartridges to be stocked at the University Stores for use in University Departments. The renewal contract period is from April 1, 2007, through March 31, 2008.
- Olson Agency for \$4,000,000 for a contract to provide advertising and marketing expertise, design and production of print and audio/visual advertising materials, and procurement of media placements for those advertising materials (radio, TV and/or print ads) for the period March 2007 to July 2009 for University Relations.

- NIKE USA, Inc. for the Department of Intercollegiate Athletics for the designation as the exclusive supplier of athletic footwear, apparel and accessory products for the period August 1, 2007, and ending July 31, 2014.
- James River Technical, Inc., in partnership with SGI, for \$1,940,000 to purchase for fiscal year 2007-08 one SGI Altix XE 1300 Cluster computer for use by the Supercomputing Institute for Digital Simulation and Advanced Computation.

Elizabeth Eull, Senior Associate Director, Department of Intercollegiate Athletics addressed questions regarding the NIKE agreement.

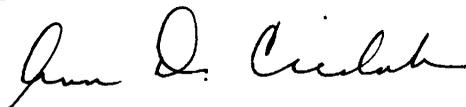
The committee voted unanimously to recommend approval of the Consent Report.

INFORMATION ITEMS

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

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

The meeting adjourned at 11:25 a.m.



ANN D. CIESLAK
Executive Director and
Corporate Secretary