

UNIVERSITY OF MINNESOTA

BOARD OF REGENTS

Finance and Operations Committee

May 13, 2004

A meeting of the Finance and Operations Committee of the Board of Regents was held on Thursday, May 13, 2004 at 1:45 p.m. in the East Committee Room, 600 McNamara Alumni Center.

Regents present: William Hogan, presiding; Clyde Allen, Anthony Baraga, Dallas Bohnsack, John Frobenius, and Maureen Reed.

Staff present: Chancellor Velmer Burton, Jr.; Vice Presidents Kathryn Brown, Kathleen O'Brien, Richard Pfutzenreuter; Executive Director Ann Cieslak; Executive Associate Vice President Al Sullivan; Associate Vice Presidents Stuart Mason and Steven Spehn.

Student Representatives present: Bobak Ha'Eri and Joshua Jacobsen.

BOARD OF REGENTS POLICY: *CENTRAL RESERVES EMERGENCY FUND*

Vice President Pfutzenreuter led the discussion on proposed amendments to Board of Regents Policy: *Central Reserves Emergency Fund*.

Referring to Section III of the policy, the committee discussed the size of the reserves fund and what level might be advisable considering potential economic volatility. Current policy states that under normal circumstances funds should not fall below 3.0% of all centrally allocated funds, exclusive of tuition, or \$20,000,000, whichever is greater. Pfutzenreuter indicated that at the present time, central reserves are approximately 2%, or \$17 million. In the proposed FY 2005 budget, reserves represent 2.5% of centrally allocated funds. In response to a question, Pfutzenreuter stated that reserves could be increased by reducing funds transferred from central reserves to the operating and maintenance budget, or by increased income on investments, which are transferred into central reserves funds.

A motion was made and seconded to recommend approval of proposed amendments to Board of Regents Policy: *Central Reserves Emergency Fund*.

Committee members discussed at length the minimum level of central reserves to be maintained, and agreed that because current language policy specifies a variety of factors to be considered in determining the level of central reserves, 3% of centrally allocated funds is an appropriate near-term goal.

The committee voted unanimously to recommend approval of the proposed amendments.

BOARD OF REGENTS POLICY: *DEBT TRANSACTIONS*

Vice President Pfutzenreuter reported that Board of Regents Policy: *Debt Transactions* governs the administration's authority to engage in debt transactions and to engage underwriters and debt advisers, and has been written to reflect the revised delegation of authority, to reflect current practice, and is structured for clarity and consistency with other Board policies. The policy is proposed to supersede three existing Board policies: *Asset & Debt Management*; *Debt Guidelines*; and *Debt Transactions*. The revised policy introduces two new terms, core debt and special purpose debt, as defined in the docket materials.

Pfutzenreuter introduced John Augustine, Managing Director, Lehman Brothers, who clarified debt financing alternatives and explained how each could impact the University's debt capacity. (Presentation on file in the Board Office). Committee members discussed the establishment of a target debt level for the institution and the potential impact on the bond rating of issuing core or special purpose debt.

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

FY 2004-05 PRESIDENT'S RECOMMENDED ANNUAL CAPITAL IMPROVEMENT BUDGET FINANCING ASSUMPTIONS

Vice President Pfutzenreuter presented financing assumptions based on the President's recommended 2004-05 Capital Improvement Budget. A copy of the presentation is on file in the Board Office.

Pfutzenreuter stated that for projects to be included in the capital budget, they must be approved by the respective vice president or chancellor, following the appropriate level of planning, identification of required funding, and be ready to proceed if approved by the Board.

Pfutzenreuter reviewed the 2005 State Capital Improvement Request, noting that the plan is contingent on legislative approval of the proposed budget. He summarized possible consequences to capital projects if no bonding bill is approved before the legislative session ends, noting that the plan would be reduced from \$232 million to \$44 million. Additionally, if the Higher Education Asset Preservation and Replacement (HEAPR) request is approved for less than proposed, numerous renovation projects would be delayed and others would not proceed.

CONSENT REPORT

Vice President Pfutzenreuter presented the revised Consent Report as detailed in the docket materials and including the following:

- To Blue Cross Blue Shield of Minnesota for approximately \$983,900 for the cost of claims administration/network management fees and stop loss insurance as part of a self-insurance program for the Twin Cities Graduate Assistant Medical Plan for the period September 1, 2004 through August 31, 2005.
- To Bulldog Technologies, Inc. for \$350,000 (increased from \$200,000) for software development and support services for the period January 1, 2003 to December 31, 2004 for the School of Physics and Astronomy.
- To Cardinal Health for purchase of pharmaceuticals and related supplies for Boynton Health Service Pharmacy for the period May 15, 2004 through April 30, 2006 for an estimated two-year total of \$5.8 million.
- To Computer Concepts and Services, Inc. to purchase analysis and programming services not to exceed \$450,000 for the period June 1, 2004 through May 31, 2005 for the University of Minnesota Veterinary Diagnostic Laboratory.
- To Continental Casualty for an estimated \$1,319,800 for Long-Term Care Insurance offered through the University of Minnesota Office of Human Resources Employee Benefits for the period January 1, 2004 through December 31, 2004.
- To Foster Wheeler Twin Cities, Inc. an agreement to replace the 1992 Management Operations Maintenance Agreement, which incorporates all of the provisions of the Term Sheet for Settlement, approved by the Regents on March 11, 2004. The cost reimbursable agreement has a fixed fee of \$600,000 and a maximum incentive fee of \$600,000 for each of the three years and a fixed fee of \$500,000 and a maximum incentive fee of \$500,000 for each year thereafter for a term of five years with automatic renewal for up to five additional years.
- To Gage Marketing for \$266,784 for website design services for the period May 1, 2004 through May 1, 2005 for the Carlson School of Management.
- To Hartford for the estimated annual amount shown below for providing optional Short-Term Disability and Long-Term Disability Insurance, offered through the University of Minnesota Office of Human Resources Employee Benefits, for the period January 1, 2004 through December 31, 2004:
 - Optional Short-Term Disability Plan - \$789,400
 - Optional Long-Term Disability Plan - \$884,650
 - Total: \$1,674,050

- To IBM Corporation for an estimated \$149,933 per year or an estimated \$449,800 for three years to lease approximately 280 IBM ThinkPads Model T41 for the period June 1, 2004 through May 31, 2007 for the Law School.
- To MBraun, Inc. to increase an existing contract by \$27,700 for a total of \$276,800 for solvent purification systems for the Department of Chemistry, Duluth; the Department of Chemistry, Minneapolis; the Department of Medicinal Chemistry, Minneapolis; and the Natural Resources Research Institute, Duluth.
- To Minnesota Life for the estimated annual amount shown below for providing the Faculty Income Disability Plan for faculty and professional and administrative staff, offered through the University of Minnesota Office of Human Resources Employee Benefits, for the period January 1, 2004 through December 31, 2004:
 - Faculty Income Disability Plan - \$2,562,000
 - Optional Faculty Income Disability Plan for higher salaried employees - \$9,500
 - Total: \$2,571,500
- To Watson Wyatt for an estimated \$680,000 for comprehensive benefits consulting services for the UPlan Employee Medical Program beginning May 2004 and continuing through December 2010 on behalf of the Employee Benefits Department.

A motion was made and seconded, and the committee voted unanimously to recommend approval of the Consent Report.

INFORMATION ITEMS

No information items were presented this month.

The meeting adjourned at 3:14 p.m.

ANN D. CIESLAK
Executive Director and
Corporate Secretary