

**UNIVERSITY OF MINNESOTA**

**BOARD OF REGENTS**

**Finance & Operations Committee**

**December 13, 2001**

A meeting of the Finance & Operations Committee of the Board of Regents was held on Thursday, December 13, 2001, at 9:15 a.m. in the East Committee Room, 600 McNamara Alumni Center.

Regents present: Michael O'Keefe, presiding; Frank Berman, Jean Keffeler, H. Bryan Neel, and Lakesha Ransom.

Staff present: Chancellor Samuel Schuman; Senior Vice President Frank Cerra; Vice Presidents Sandra Gardebring and Donna Peterson; Executive Director Ann Cieslak; Associate Vice Presidents Steven Cawley, Elizabeth Nunnally, and Richard Pfitzenreuter.

Student Representatives present: Isaac Dallager and Venora Hung.

**STATE OF MINNESOTA ECONOMIC UPDATE**

Associate Vice President Pfitzenreuter introduced Thomas Stinson, State Economist, to present the State of Minnesota economic forecast, as found in the materials on file in the Board Office.

Stinson reported that the November 2001 Minnesota economic forecast shows a projected budget shortfall of \$1.953 billion for the current biennium ending June 30, 2003. The projected combined shortfall for the current biennium and the next biennium ending June 30, 2005 is \$4.5 billion. The February 2002 forecast will better indicate the extent of the deficit, but not whether the recession has reached its lowest point.

Stinson noted that Minnesota's recession is more severe than that of the United States due to greater volatility in Minnesota's taxation system. Stinson indicated that state reserve funds could cover a portion of the current budget shortfall, but emphasized that permanent changes must be made through a combination of expenditure cuts and/or revenue increases to address the \$1.2 billion structural deficits in the 2004 and 2005 budgets. The continuation of the state's AAA bonding rating will depend in large part on the degree to which the state is able to address the structural deficit and have revenues exceed expenditures to rebuild the state's reserves. Stinson added that the recession is expected to end in 2005, with Minnesota's rate of recovery exceeding that of the United States.

Associate Vice President Pfitzenreuter reported that most University units have sufficient reserve funds to cover the anticipated cuts in current state funding over the short term. He emphasized, however, that departments should expect permanent decreases in state funding levels in the future and are encouraged to plan for these cuts in departmental base budgets.

**ANNUAL FINANCIAL REPORT**

Associate Vice President Pfitzenreuter introduced University Controller Michael Volna to present the Annual Financial

Report for fiscal year 2001, as found in the docket materials.

Volna reported that the University's total assets of \$3.2 billion decreased by \$19.0 million, less than one percent from the prior year. Total liabilities of \$929.9 million increased by \$27.9 million, or 3.1 percent over the prior year. Total fund balances of \$2.3 billion decreased by \$50.0 million, or 2.0 percent from the prior year. Total revenues and other additions totaled \$2.3 billion, a decrease of \$118.6 million or 4.9 percent over the prior year. Expenditures and other deductions totaled \$2.4 billion, an increase of \$101.3 million or 4.5 percent over the prior year. He also presented a summary of compounded annual investment performance and discussed changes in accounting and reporting requirements.

After receiving clarification on certain report items, Committee members discussed the impact of the state economic forecast. Pfitzenreuter noted that the University is dependent upon state appropriations to fund its instructional studies. While the University can sustain some reduction in state appropriations, large reductions will lead to significant budgetary problems.

In response to a question from Regent Keffeler, Volna reported that fund balances have increased over the past five to seven years due to a combination of increased revenues and cost-containment measures. Volna emphasized that University fund balances remain strong despite poor investment performance due to market conditions over the previous year. Revenues and expenses continue to grow in key programmatic areas.

### **CAPITAL FINANCING AND DEBT MANAGEMENT UPDATE**

Associate Vice President Pfitzenreuter introduced John Augustine, Managing Director for Lehman Brothers, to present the Capital Financing and Debt Management Update, as found in the materials on file in the Board Office.

Augustine reported that the University was able to take advantage of extremely low interest rates for capital financing over the summer. Due in part to its strong Aa2 bond rating, the University achieved a better interest rate than most institutions and took a conservative approach on the length of its debt issuances. He reviewed some of the factors contributing to the positive bond rating, including rising student demand, successful fundraising of private support, strong research funding, a low debt service to operations ratio, and the amount of support from the State of Minnesota, which has a AAA bond rating.

Augustine then described the University's efforts to become less reliant upon state support as part of its overall debt management strategy, and emphasized the important role of the Debt Management Advisory Committee in developing a strategy that positions the University well for the challenging times ahead.

### **LEGISLATIVE REPORT: FINANCIAL SUMMARY**

Associate Vice President Pfitzenreuter presented the Legislative Report: Financial Summary, as found in the docket materials. He reviewed University reporting requirements contained in one of the legislative riders attached to the omnibus higher education funding bill for fiscal years 2002-2003. The financial summary documents address the following three issues raised in the rider:

- Allocation of the state appropriation made to the University in the omnibus higher education funding bill;
- Tuition and fee rates set by the Board of Regents; and
- Amount of state money used to leverage money from other sources and the level of support from those sources.

In response to a question from Regent O'Keefe, Pfitzenreuter clarified that the report is due to the legislature in February.

### **CONSENT REPORT Review/Action**

Associate Vice President Pfutzenreuter presented the Consent Report, as found in the materials on file in the Board Office, which included:

Purchases of goods and services over \$250,000:

- An estimated \$3,000,000 to Adecco Temporary Services for administration of a temporary clerical work force management program for the period December 15, 2001 through November 30, 2002. Vendor selected through competitive process.
- An estimated \$508,000 to Fischer Scientific Company L.L.C. for Falcon Plastic Labware manufactured by BD Biosciences to be stocked at the University Stores for use in University departments from January 1, 2002 through December 31, 2002. Vendor selected through competitive process.
- An amount not to exceed \$350,000 to Karlsson Consulting Group, Inc., for temporary contract programming services for the Office of Information Technology's Department of Applications, Development and Maintenance through September 30, 2002. Vendor selected through competitive process.
- An estimated \$625,800 to Science Products Division of Corning Incorporated for Corning Plastic Labware to be stocked at the University Stores for use in University departments from January 1, 2002 through December 31, 2002. Negotiated, manufacturer-direct contract allowing University Stores to receive distributor pricing.
- \$336,250 to Wise Acres, Inc., for continued consulting services of Brenda Start on the Electronic Grants Management System (EGMS). Contract began in October 2000; extensions will exceed \$250,000 limit. FY01 contract total \$121,250; FY02 contract total increased to \$215,000; grand total for both years \$336,250.
- To the medical claims administrators listed below for the estimated amounts based upon enrollment for plan year 2002 to administer the self-funded UPlan medical plan options offered through Office of Human Resources Employee Benefits for an initial two-year term of December 31, 2001 through December 31, 2003. Claims administrators selected through competitive bid process.
  - Health Partners Administrators, Inc. \$4,099,624
  - Wausau Benefits, Inc. \$1,907,872
  - PreferredOne Administrative Services, Inc. \$ 830,922
  - Definity Health Corporation \$ 279,168

Pfutzenreuter reported that materials relating to the University's health plans had been sent under separate cover because contract negotiations had not been completed in time for inclusion in the original docket materials.

In response to a question from Regent O'Keefe, Director of University Health Programs Steven Burrows explained that a cost comparison between the former state-administered health plans and the new UPlan cannot be made until the completion of the 2002 plan year. In the interim, Pfutzenreuter offered to work with Senior Vice President Cerra to develop a report for the committee that compares cost projections with the negotiated contract figures.

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

## **INFORMATION ITEMS**

Associate Vice President Pfutzenreuter introduced Director of Asset Management Sheila Warness to present the first information item, the Quarterly Asset and Debt Management Report.

Warness reported that although the Consolidated Endowment Fund (CEF) decreased in value during the first quarter of

FY02, it outperformed its benchmark for the quarter, as did the Temporary Investment Pool (TIP), which contains University short-term reserves. Warness noted that balances in the CEF have increased since the end of the first quarter, which indicates improving results for the second quarter.

Pfutzenreuter reviewed the Quarterly Purchasing Report, noting one violation of Regents Purchasing Policy in the amount of \$21,325. Appropriate departmental personnel have attended training sessions to ensure future compliance with the policy.

The meeting adjourned at 11:10 a.m.

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

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