

**UNIVERSITY OF MINNESOTA
BOARD OF REGENTS**

**Finance & Operations Committee
July 12, 2001**

A meeting of the Finance & Operations Committee of the Board of Regents was held on Thursday, July 12, 2001, at 8:30 a.m. in the West Committee Room, 600 McNamara Alumni Center.

Regents present: Michael O'Keefe, presiding; Anthony Baraga, Warren Larson, H. Bryan Neel, and Jessica Phillips. Regent Bergland also was in attendance.

Staff present: President Mark Yudof; Chancellor Samuel Schuman; Vice Presidents Tonya Brown, Sandra Gardebring, Robert Jones, and Eric Kruse; Executive Director Ann Cieslak; Associate Vice Presidents Steven Cawley, Elizabeth Nunnally, and Richard Pfitzenreuter.

Student Representatives present: Isaac Dallager and Venora Hung.

2001-2002 OPERATING BUDGET

Associate Vice President Pfitzenreuter presented the 2001-2002 Operating Budget, as found in the materials on file in the Board Office.

Pfitzenreuter reported that revisions made to the 2001-2002 Operating Budget since the end of the special legislative session are minimal and are technical in nature. The revenue and expenditure estimates, carryforward and year-end balance estimates, and allocations of central funds remain unchanged from the Operating Budget reviewed by the Board on June 26, 2001, as do the three sources of funding:

- one-third from the new state appropriations;
- one-third from additional tuition and fee revenue; and
- one-third from internal University actions to reduce costs, revise investment plans and raise other internal institutional resources.

A lengthy discussion of the budget ensued.

In response to concerns raised by Regent O'Keefe regarding the appearance of new funding needs in the budget documents, Pfitzenreuter explained that certain types of institutional needs were not included in the biennial request for state funding. Central administration identified these needs in a timely manner before the special legislative session ended and incorporated alternate funding sources or internal reallocations into the operating budget presented to the Board on June 26, 2001. One such internal reallocation is a significant increase in funds available for allocation to academic units by the President and Executive Vice President and Provost as part of the yearly compact budget process to address strategic academic investments not funded in the state appropriation. O'Keefe requested a breakdown of these internal funding decisions made

by central administration.

Pfutzenreuter reviewed the compensation increase, noting the percentage of funds supplied centrally and the percentage of funds supplied by academic units. Pfutzenreuter reminded the committee that each unit, including coordinate campuses, receives the tuition revenues it generates. Several committee members expressed concern regarding whether this shared responsibility model would affect units equitably due to different tuition rates and enrollment numbers among colleges, and whether this model would have a negative impact on the strategic academic priorities previously set by the Board and by central administration. O'Keefe requested a future discussion regarding the impact of this model upon individual units and upon the academic priorities of the institution.

Pfutzenreuter informed the committee that expenditures from the Central Reserves fund would be \$15.8 million lower in FY02. The fund balance decreased significantly during FY01 due to a \$13 million withdrawal to cover an upcoming debt service payment and due to lower interest rates. He anticipates that Central Reserves interest earnings will drop an additional \$3 million below FY01 interest earnings. Regent Neel reported that the Investment Advisory Committee is exploring different investment strategies in an effort to improve the rate of return for the fund. Pfutzenreuter indicated that he expects to bring the recommendations of the Investment Advisory Committee back to the committee within six months, and reminded the committee that any proposed changes may require revision of the Board of Regent Policy: *Central Reserves Management*.

O'Keefe observed that the revised operating budget reflects a balanced approach in meeting the challenge presented by the legislature, pointing out that by making larger percentage cuts in the institution's aspirations than the percentage increase in tuition, the administration has implemented one of the main principles the Board emphasized at the June 26, 2001 meeting.

UNIVERSITY DEBT: UPDATE

Associate Vice President Pfutzenreuter introduced Budget Director Carole Fleck to present an update on the status of the University's capital financing, as found in the materials on file in the Board Office.

Fleck reviewed the status of the \$200 million in General Obligation bonds issued in 1999 to finance capital projects, and briefed the committee on plans to issue a second portion, worth approximately \$150 million, in September 2001. Fleck reminded the committee that both issuances are part of an original 1998 resolution approving \$330 million in bonds and an additional bonding resolution for \$50 million passed by the Board in February 2001.

In response to Regent Baraga's concerns related to the amount of University debt and the effect on academic units without revenue streams, Pfutzenreuter explained that the University is in compliance with the Mooty and Standard & Poor benchmark ratios for similar higher-educational institutions. The University has an excellent debt rating and an aggressive plan to repay quickly much of the initial principal. This allows the University to cover future debt needs by reissuing the bonds, rather than incurring additional debt.

Regent O'Keefe requested a briefing for the committee on debt rating systems, the connection between rating systems and interest rates, and the differences between revenue-supported debt and non-revenue-supported debt.

CONSENT REPORT Review/Action

Interim Controller Michael Volna presented the Consent Report, as found in the docket materials.

Volna presented the following purchases of goods and services over \$250,000:

- \$825,000 to FonSystems, Inc. for a one-time purchase of analog phones to be used with the University's new central telephone system. Vendor selected through competitive process.

- An additional \$163,000 to Larsen Design & Interactive for additional Web redesign services for the Carlson School of Management under an existing contract from July 30, 2001 through June 30, 2002. Total contract amount \$402,600; vendor selected through competitive process.
- An estimated \$1,410,000 in revenue to Metro Sales for supplying and servicing coin and card-operated equipment for the University Libraries for the period August 1, 2001 through July 31, 2004. University Libraries will receive a 30% commission based on revenue generated; vendor selected through competitive process.
- \$3,579,400 to MTS Systems Corporation for the acquisition and installation of actuators, hydraulic fluid pumping system, hydraulic fluid distribution system, and servo-hydraulic controller for the National Science Foundation (NSF) Multi-Axial Subassemblage Testing (MAST) system in the Department of Civil Engineering. Vendor selected through competitive process; NSF funding will be used for purchase.
- Approval of a Master Agreement which allows the University of Minnesota and University of Minnesota Physicians (UMP) to enter into individual purchasing agreements as needed for the purchase of goods and services for the period of August 1, 2001 through June 30, 2006 in an amount not to exceed \$1,000,000 per individual agreement. These individual purchasing agreements will not be subject to additional review and approval by the University Purchasing Office or by the Board of Regents.
- \$1,000,000 in startup costs to WiseAcres, Inc., SoftLink, and other consulting firms yet to be selected for the preparation of the PeopleSoft systems and related technology to run the new University of Minnesota health care program. Vendors selected for knowledge of the University's HRMS software; negotiated rates for this project are at or below current market rates.

In response to a question from Regent O'Keefe regarding the proposed Master Agreement with the University of Minnesota Physicians (UMP), Volna explained that a variety of transactions between the University and UMP are routine and of benefit to both organizations. The intent is to structure an agreement to cover these types of transactions, thereby exempting them from the competitive bidding process due to the nature of the services provided. Volna assured the committee that the transactions would be monitored to ensure compliance with the intent of the agreement.

Associate Vice President Elizabeth Nunnally, Chief Financial Officer for the Academic Health Center, noted that more efficient operations would help maintain the financial support that UMP clinical revenues provide to the Medical School.

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

INFORMATION ITEMS

Associate Vice President Pfitzenreuter reported that there were no information items this month.

The meeting adjourned at 10:00 a.m.

ANN D. CIESLAK
Executive Director and
Corporate Secretary

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