

UNIVERSITY OF MINNESOTA

BOARD OF REGENTS

Finance & Operations Committee

June 13, 2002

A meeting of the Finance & Operations Committee of the Board of Regents was held on Thursday, June 13, 2002, at 2:45 p.m. in the West Committee Room, 600 McNamara Alumni Center.

Regents present: Michael O'Keefe, presiding; Anthony Baraga, Frank Berman, Jean Keffeler, and Lakeesha Ransom.

Staff present: Chancellor Donald Sargeant; Executive Director Ann Cieslak; Associate Vice Presidents Steven Cawley, Donna Peterson, Richard Pfitzenreuter, and Michael Volna.

Student Representatives present: Gina Nelson and Aaron Street.

FISCAL YEAR 2002-03 ANNUAL OPERATING BUDGET

Associate Vice President Pfitzenreuter presented the President's Recommended Operating Budget Plan for Fiscal Year 2002-03. He discussed the University's financial fund structure, noting that the estimated total current fund operating budget for fiscal year 2002-03 is \$2,321,807,252. Pfitzenreuter reviewed sources of funding for the University's activities, stating that the decline in state revenue and the resulting reduction in funding to the University has a profound impact on the institution.

Pfitzenreuter compared actual spending trends by function in 1998-99 versus those proposed for 2002-03. He noted the amount spent on instruction has increased and fringe benefits have become a bigger piece of the budget. He reviewed the 2002-03 Operating Budget framework, which is based on a decentralized budget model. Pfitzenreuter provided 2002-03 investment detail and discussed the sources of \$67.6 million to support the investment plan.

In response to Regent Keffeler's question about the consequences of the proposed budget on the strategic investments that had been planned, Pfitzenreuter stated that \$8 million in investments is being deferred. He noted the primary deferral is the reduction of the faculty salary increase from 6 percent to 4 percent.

Pfitzenreuter reviewed anticipated revenue from Institutional Revenue Sharing (IRS), tuition and the University Fee. He noted that although auxiliary units do not receive allocations, they support the University's academic mission through the IRS tax.

Pfitzenreuter discussed estimated Medical Education Endowments for Fiscal Years 2001 through 2004, noting that the endowment proceeds are an important component of the Academic Health Center's (AHC) strategic investment plans. He noted that by 2004 estimated total proceeds are approximately \$23.3 million.

The committee discussed the importance of faculty compensation, and various funding options, including internal reallocation, the use of central reserves, or requiring units to cover the costs.

In summary, Peter Zetterberg, Institutional Research and Reporting, stated that Deans allocate available salary funds in

various ways so there is a great variation in increases for individual faculty. He discussed the University's standing compared to its peer institutions in terms of overall compensation, noting that this is a difficult year financially for many institutions, which presents an opportunity for the University.

STATE OF MINNESOTA BIENNIAL BUDGET INSTRUCTIONS FISCAL YEAR 2004-05

Associate Vice President Pfutzenreuter reviewed the timeline and major features of the 2004-2005 state biennial budget process. He noted that the Department of Finance will issue budget development guidelines on August 30, which presents a problem for the University, as the timeline will not provide the Board with the opportunity to review the budget in its usual 3-month fashion. Regent O'Keefe thanked Pfutzenreuter for bringing this situation to the attention of the committee, and stated the Chair and Vice Chair will discuss the issue with the administration.

Pfutzenreuter discussed the outcomes of recent biennial requests and noted the University has been fairly successful because the economic times have been good. Since higher education gets less funding when the economy turns, it will be difficult for the University to maintain its current status, let alone receive new funding.

The committee also discussed various funding strategies and the need for continued investment in the University's initiatives.

CONSENT REPORT

Review/Action

Associate Vice President Pfutzenreuter presented the following additional item as recommended by President Yudof, noting that funds for this initiative have been provided by a donor:

- \$518,755 to Pinnacle Systems Team Sports for the purchase of digital video systems that will provide a significant upgrade, including: 10 laptop PC coaches' stations, 4 mini tower PC coaches' stations, and 2 PC editors. This purchase is made for the University of Minnesota Football Program.

Pfutzenreuter presented the Consent Report, as found in the docket materials, which included:

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

- \$383,175 to Allentown Caging Equipment Company, Inc. for filtered microbiological barrier cage systems and accessories for housing laboratory mice for Research Animal Resources (RAR), Academic Health Center (AHC). Vendor was selected through a competitive process.
- \$610,000 to Aon Risk Services, Inc. to provide consulting services and to market and purchase insurance coverage through the University of Minnesota's Office of Risk Management & Insurance property/casualty insurance program for the period of July 1, 2002 through June 30, 2005. Vendor was selected through a competitive process.
- \$1,084,000 to AT&T Broadband for a private gigabit network to support METNET (Metropolitan Educational Telecommunications Network) from July 2002 through June 2007. This purchase is requested by the University of Minnesota, Office of Information Technology. Vendor was selected through a competitive process.
- To Blue Cross and Blue Shield of Minnesota for a second year of a five-year award for a partially self-funded Student Health Benefit Plan (SHBP) with a maximum estimated expenditure of \$3,273,000 for students at the University of Minnesota Twin Cities campus. The period for this expenditure is for medical expenses incurred during the plan year of August 26, 2002 through August 25, 2003, and claims paid between August 26, 2002 and February 28, 2004. The

department responsible for this purchase is Boynton Health Service. Vendor was originally selected through a competitive process.

- An estimated \$2,000,000 to Dell Marketing L.P. to lease approximately 1,400 notebook computers for students and faculty at the University of Minnesota Crookston Campus for a period of August 1, 2002 to July 31, 2004. Vendor was selected through a competitive process.
- To Deloitte & Touche, LLP for business and system expertise to implement a sponsored accounts receivable and reporting system to be used primarily by Sponsored Financial Reporting (SFR). The project began June 4, 2001. The supplemental contract in the amount of \$120,000 will bring the total contract to \$343,200. Implementation is scheduled to occur in the first half of FY 2003. Vendor was originally selected through a competitive process.
- An estimated \$300,000 to Hennepin County to provide solid waste disposal for the Twin Cities Campus. The contract will cover the period July 1, 2002 through June 30, 2003. Hennepin County ordinances require use of Hennepin County incineration for solid waste generated in Hennepin County.
- \$300,000 to IBM to provide IBM mainframe computer software licenses for the period beginning July, 2002 through June, 2003 for the Office of Information Technology (OIT). IBM is the only supplier of licensing and support for its proprietary software.
- An estimated \$481,500 to Qwest for a private 45 MBPS high bandwidth network to support METNET (Metropolitan Educational Telecommunications Network) from July, 2002 through May, 2007. Vendor was selected through a competitive process.
- \$780,000 to Sedgwick Claims Management Services to provide workers' compensation claims services to the University of Minnesota's Office of Risk Management & Insurance for the period beginning July 1, 2002 through June 30, 2005. Vendor was selected through a competitive process.
- \$332,158 to Vending Unlimited to operate the Snack & Candy vending program on the Duluth campus for Auxiliary Services for the period July 1, 2002 through June 30, 2007, with three additional option years. Vendor was selected through a competitive process.

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

INFORMATION ITEMS

Associate Vice President Pfitzenreuter noted the following Information Items in the docket materials:

- Quarterly Asset and Debt Management Report,
- Quarterly Purchasing Report,
- Investment Advisory Committee Update.

Regent O'Keefe reported on the recent Investment Advisory Committee meeting, stating a number of changes underway and details which will be presented at a future meeting.

The meeting adjourned at 4:00 p.m.

ANN D. CIESLAK
Executive Director and
Corporate Secretary

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