

UNIVERSITY OF MINNESOTA

BOARD OF REGENTS

October 11, 2002

A meeting of the Board of Regents of the University of Minnesota was held on Friday, October 11, 2002, at 9:00 a.m. in the Boardroom, 600 McNamara Alumni Center.

Regents present: Maureen Reed, presiding; Anthony Baraga, Robert Bergland, Frank Berman, Dallas Bohnsack, Richard McNamara, David Metzen, H. Bryan Neel, and Lakeesha Ransom.

Staff present: Interim President Bruininks; Chancellor Samuel Schuman; Executive Vice President and Provost Christine Maziar; Senior Vice President Frank Cerra; Vice Presidents Carol Carrier, Sandra Gardebring, Robert Jones, and Kathleen O'Brien; Interim Vice President Kathryn Brown; General Counsel Mark Rotenberg; Executive Director Ann Cieslak; Provost David Carl; and Associate Vice Presidents Gerald Fischer, Gail Klatt, Donna Peterson, and Richard Pfitzenreuter.

RECOGNITION

Recognition was given to Coach Brad James and the University of Minnesota Men's Golf Team for their achievement in winning the 2001-2002 National Collegiate Athletic Association's Men's Team Golf Championship on June 1, 2002.

INTRODUCTIONS

The following newly-appointed individuals were introduced to the Board:

- Kathleen O'Brien, Vice President for University Services
- J. Brian Atwood, Dean, Hubert H. Humphrey Institute of Public Affairs
- Deborah Powell, Dean, Medical School
- Jack Bowman, Dean, University of Minnesota Duluth School of Fine Arts

APPROVAL OF MINUTES

A motion was made and seconded, and the Board of Regents voted unanimously to approve the minutes of the following meetings:

Litigation Review Committee - September 9, 2002

Audit Committee - September 12, 2002

Facilities Committee - September 12, 2002

Educational Planning & Policy Committee - September 12, 2002

Finance & Operations Committee - September 12, 2002

Faculty, Staff & Student Affairs Committee - September 12, 2002

Board of Regents Work Session - September 12, 2002

Board of Regents Meeting - September 13, 2002

REPORT OF THE PRESIDENT

Interim President Bruininks reported on his recent State of the University Address in which he spoke of the myriad successes the University is experiencing, as well as citing the challenges that lie ahead. He stated in his address that now is the time for the University to seize natural opportunities to enhance service and productivity and reduce unnecessary costs. In that regard, he is launching an enhanced service and productivity initiative. This initiative will be a system-wide effort to leverage recent investments in technology systems, heighten awareness of the competitive marketplace, aggressively recommit to the highest level of service to the students, streamline key business practices, and seize opportunities for revenue generation through better use of physical and human resources. He expects that the initiative will result in tangible service improvements in areas of critical importance to the University and realize considerable costs savings at a critical time for the University.

Bruininks also noted the departure of Regent Michael O'Keefe from the Board of Regents, noting the extraordinary experience and insights that he brought to the discussions and decisions of the Board.

REPORT OF THE CHAIR

Chair Reed acknowledged the resignation of Regent Michael O'Keefe and spoke about his contributions to the Board and indicated that the Board wishes him well in his new endeavors. She reported that due to the departure of O'Keefe, Regent Baraga will chair the Finance & Operations Committee and Regent Neel will chair the Facilities Committee. She noted that newly-appointed Regent Peter Bell will be present for meetings in November.

Reed reported that the presidential search continues in its confidential stage and is scheduled to be completed by the end of this calendar year. There is a diverse pool of approximately 120 candidates, including a number of women and minorities.

Reed also noted the dedication of the Molecular and Cellular Biology Building and the numerous Twin Cities homecoming events that were underway during the week.

RECEIVE AND FILE REPORTS

Chair Reed noted the receipt and filing of the Annual Asset Management Report.

GIFTS

Associate Vice President Gerald Fischer presented the monthly list of gifts to the University of Minnesota, the University of

Minnesota Foundation, the Arboretum Foundation, and the Minnesota Medical Foundation through August 31, 2002, as listed in the docket material and on file in the Board Office.

A motion was made, seconded, and the Board of Regents voted unanimously to approve the receipt of gifts as presented.

ANNUAL UNIVERSITY OF MINNESOTA FOUNDATION REPORT

Gerald Fischer, President of the University of Minnesota Foundation (UMF), and Russell M. Bennett, Chair and Spokesperson for Campaign Minnesota, provided an annual review of fundraising highlights and a status report on Campaign Minnesota.

Fischer reported that gift production totaled \$165 million in FY02 compared with \$217 million the prior year. He provided analyses of the donors, size of gifts, and designated uses of the gifts. Other aspects of private giving to the University and its recognized foundations were also presented.

Fischer also reported that as of August 31, 2002, Campaign Minnesota had recorded a total of gifts and grants of \$1.412 billion, compared with a goal of \$1.3 billion of the campaign's seven-year timeframe. The campaign concludes on June 30, 2003. An analysis of the campaign, its featured objectives and major strategies was also discussed.

REPORT OF THE FACULTY CONSULTATIVE COMMITTEE

Professor Daniel Feeney, Chair of the Faculty Consultative Committee (FCC) presented the FCC quarterly report as contained in the docket materials. The report described the initiatives the FCC will focus on during FY03.

REPORT OF THE AUDIT COMMITTEE

Regent Bergland, Chair of the committee, reported that the committee did not meet this month.

REPORT OF THE FACULTY, STAFF, & STUDENT AFFAIRS COMMITTEE

Regent Metzen, Chair of the committee, reported that the committee voted unanimously to recommend:

- a. Approval of the Consent Report for the Faculty, Staff, & Student Affairs Committee as presented to the committee and described in the October 10, 2002 committee minutes.

The Board of Regents voted unanimously to approve the recommendation of the Faculty, Staff & Student Affairs Committee.

Metzen reported that the committee reviewed amendments to several Board of Regents policies: *Awards, Honors, and Recognition; Private Practice: Medical School; Private Practice Plan: School of Dentistry; Private Practice Plan: School of Nursing*; and reviewed a proposed Board of Regents Policy: *Private Professional Practice: University of Minnesota Duluth School of Medicine*. The committee discussed the Committee Workplan for 2002-03; received a presentation on the student experience at the University of Minnesota; and reviewed a number of information items as described in the docket materials.

REPORT OF THE FINANCE & OPERATIONS COMMITTEE

Regent Baraga, Vice Chair of the committee, reported that the committee voted unanimously to recommend:

- a. Approval of the Consent Report for the Finance & Operations Committee as presented to the committee and described in the October 10, 2002 committee minutes.
- b. Adoption of amendments to the Board of Regents Policy: *Central Reserves Management* as presented in the docket materials with a new title.

CENTRAL RESERVES EMERGENCY FUND

SECTION I. DEFINITION

The central reserves emergency fund refers to resources that are not allocated to any specific unit of the University, but are held in a central account within the University's financial system. The primary revenue sources of the central reserves emergency fund are investment earnings from the temporary investment pool, the group investment pool, and other miscellaneous revenues, including proceeds from periodic real estate sales and legal settlements.

The purpose of the central reserves emergency fund is to insulate the University from potential major financial risks, including:

- unanticipated or uninsured catastrophic events;
- temporary institutional revenue declines or expenditure gaps;
- unforeseen legal obligations and costs;
- failures in central infrastructure; or
- failures of major business systems.

SECTION II. BUDGETING

Subd. 1. Budget Planning. A central reserves budget is prepared annually and submitted to the Board of Regents (Board) for approval as part of the president's recommended Annual Operating Budget.

Subd. 2. Allowable Allocations. Central reserves emergency funds may be allocated for:

- 1) expenses that are fixed term in nature (usually 3 years or less) or
- 2) expenditures that should be funded from sources other than tuition or state appropriations.

Subd. 3. Contingency Funding. During the course of the year, unanticipated expenses may occur that require immediate funding. As part of the Annual Operating Budget, a contingency fund may be established for unplanned or unexpected financial needs. Expenditures from the contingency fund of less

than \$250,000 shall be approved by the president or delegate and reported at the next regular meeting of the Board.

Subd. 4. Board Approval. Board approval is required for any modifications to the central reserves budget and for all expenditures from the contingency fund of \$250,000 or more. When delay for Board approval poses a significant health, safety, or financial risk to the University, approval of expenditures from the central reserves emergency fund may be granted by the chair of the Board, the vice chair, and the chair of the Finance and Operations Committee. Any such emergency approvals shall be brought to the next regular meeting of the Board, consistent with Board of Regents Policy: *Board Operations & Agenda Guidelines*.

SECTION III. SIZE OF RESERVES

Appropriate central reserves emergency funds maintain financial strength and high bond ratings, protect the University from interest expense volatility, and allow flexibility in the use of variable rate debt to lower or control interest costs.

Under normal circumstances, central reserves emergency funds should not fall below 3.0% of all centrally allocated funds, exclusive of tuition, or \$20,000,000, whichever is greater, unless such reduction is part of a short-term "bridge" financing plan that includes restoration of the central reserves emergency fund balance within two to three years. However, determining the appropriate level of the central reserves emergency fund requires judgment and consideration of a variety of factors, including, among others, the following:

- the condition of the Minnesota and federal economies;
- the political climate towards higher education;
- the volatility of University revenues and expenditures; and
- the size and composition of University debt.

A projected central reserves emergency fund year-end balance will be presented to the Board as part of the Annual Operating Budget. A central reserves emergency fund report will be presented annually to the Finance and Operations Committee.

The Board of Regents voted unanimously to approve the recommendations of the Finance & Operations Committee.

Baraga reported that the committee voted by a majority of 3 to 2 to recommend:

- a. Approval of a contract with a Research Corporation for \$5 million and estimated annual operating costs of approximately \$190,000 for 16.66 nights per year for the Department of Astronomy on the Large Binocular Telescope (LBT) as specified in the Agreement between the Research Corporation and the University of Minnesota. Recommendation of the contract is with the condition that the University of Arizona agree to establish a binding, independent, and fair grievance procedure that provides for fair, independent hearings and resolution of Apache complaints about access and their religious beliefs.

A motion was made and seconded to approve the recommendation.

Board members expressed their difficulty in coming to a decision on this issue. Regents Baraga and Ransom indicated that they could not vote in favor of the recommendation. Baraga stated that he could not believe in his heart that approval of the

contract is the right thing to do. Ransom indicated that she did not believe the process used by the University of Arizona to establish use of the telescope on Mount Graham was fair to the Apache people.

Regent Berman stated that he does not believe that there has been sufficient effort to resolve the issues expressed by the Apache people. He reported that Interim President Bruininks received a letter from the President of the University of Arizona dated October 10, 2002, assuring that the University of Arizona will work closely with the University of Minnesota and the United States Forest Service to create a fair and neutral process for resolution of any disputes over access. The letter further indicated that the University of Arizona will create a Native American Cultural Advisory Committee to guide ongoing activities on Mount Graham. Berman stated that in light of this commitment from the University of Arizona, he will vote in favor of the contract.

Chair Reed called for a vote and the Board of Regents voted by a majority of 7 to 2 to approve the recommendation of the Finance & Operations Committee, with Regents Baraga and Ransom voting against the recommendation.

Due to disruptive behavior in the Boardroom, Reed recessed the meeting at 10:30 a.m. The meeting was called back to order at 11:20 a.m.

Baraga continued his report. He reported that the committee discussed the committee's workplan for 2002-2003; received an update on financial reporting requirements from the Governmental Accounting Standards Board (GASB); reviewed the Annual Capital Financing and Debt Management Report and the Annual Asset Management Report. The committee also reviewed a number of information items as described in the docket materials.

REPORT OF THE FACILITIES COMMITTEE

Regent Baraga, Chair of the committee, reported that the committee voted unanimously to recommend:

- a. Approval of the Consent Report for the Facilities Committee as presented to the committee and described in the October 10, 2002 committee minutes.
- b. Approval of an amendment to the FY03 Capital Budget by \$11,600,000 to incorporate funding for the Southeast Steam Plant Rehabilitation, Phase I project located on the Twin Cities campus.
- c. Approval of the schematic plans for the Center for Magnetic Resonance Research project and of the appropriate administrative officers proceeding with the award of contracts, the development of construction documents, and construction.

The Board of Regents voted unanimously to approve the recommendations of the Facilities Committee.

Baraga reported that the committee also reviewed a draft resolution recommending nomination of the West Central School of Agriculture and Experiment Station Historic District on the Morris Campus to the *National Register of Historic Places*.

REPORT OF THE EDUCATIONAL PLANNING & POLICY COMMITTEE

Regent Reed reported that the committee did not meet this month.

REPORT OF THE LITIGATION REVIEW COMMITTEE

Regent Neel, Chair of the committee, reported that the committee did not meet this month.

SIX-YEAR CAPITAL IMPROVEMENT PLAN

Interim President Bruininks presented the following resolution relating to the University of Minnesota's Six-Year Capital Improvement Plan:

WHEREAS, preserving the University campuses through stewardship of public investments that have been made over 150 years is a commitment the Board has made to the State; and

WHEREAS, advancing key academic priorities is critical for the University to achieve and maintain excellence; and

WHEREAS, continuing investment in research infrastructure is essential for the future competitiveness of the University and the State of Minnesota; and

WHEREAS, enhancing the student experience for both undergraduate education and graduate and professional education is required as the core of its mission in order to generate and disseminate knowledge; and

WHEREAS, improving outreach and engagement is necessary in order to transform State communities, fuel the State economy, address State social issues, and improve the State's health; and

WHEREAS, the administration has developed a capital-planning framework designed to focus its capital planning efforts toward projects that support the University's institutional priorities within a financial strategy that is responsible;

NOW, THEREFORE, BE IT RESOLVED, that the Board of Regents approves the University's Six-Year Capital Improvement Plan in order to create and maintain facilities that serve as tools in accomplishing the University's education, research and outreach objectives.

BE IT FURTHER RESOLVED, that the Board of Regents approves the University's Supplemental Capital Request for consideration in the 2003 Legislative Session.

A motion was made and seconded to approve the resolution.

Bruininks briefly highlighted the plan that was reviewed in detail at the September 2002 Board meeting.

In response to a question, the Board members expressed consensus that the proposed Six-Year Capital Improvement Plan is in alignment with the core components of the University's mission.

The Board of Regents voted unanimously to approve the University of Minnesota's Six-Year Capital Improvement Plan as presented in the docket materials.

REPORT OF THE COMMISSION ON UNIVERSITY OF MINNESOTA EXCELLENCE

Executive Vice President and Provost Maziar and Donald Sudor, a member of the Commission on University of Minnesota

Excellence (Commission), presented key findings and recommendations contained in the Report to the Minnesota State Legislature issued in September 2002. A copy of the full report is on file in the Board Office.

Sudor reported that the Commission was established by the Minnesota State Legislature in 2001. The scope of the Commission included: reviewing the University's nationally-ranked areas of excellence; reviewing the major investment efforts in interdisciplinary initiatives identified by the University in 1998; evaluating and making recommendations on additional centers of excellence; examining the University's mission, scope, and financing of programs and proposing possible ways in which the University can refocus or refine its mission and offerings; and identifying undergraduate degree programs in which quality and productivity could be achieved through increased collaboration with public and private post-secondary institutions inside and outside of Minnesota. He stated that the Commission members hope that the findings and recommendations in the report will be widely shared and will help foster greater appreciation and understanding of the University of Minnesota.

Maziar provided details on the following chief findings of the Commission:

1. The measure of excellence at the University of Minnesota, like every other institution or corporation in a competitive environment, is not to be found in comparisons to the past, but in predictions of sustainable future success against the competition.
2. The unique scope of the University's mission is at the same time challenging and appropriate. The mission needs to be understood and actively supported by the Legislature and the general public as the University makes choices which will determine its future success in serving the state and competing with the very best institutions of higher education in the world.
3. The five centers of excellence established in 1998 have met their initial objectives. Great progress has been made toward the achievement of national prominence in all five areas. Significantly greater investment, however, will be particularly required in digital technology and molecular and cellular biology to achieve sustainable advantage in these highly competitive fields.

The Commission strongly recommends that before initiating major initiatives in new centers of excellence, the existing centers of excellence should be adequately funded in order to sustain and build the momentum the University has now generated in these areas. The Commission also encourages the University to continually assess the outcomes of its investments and to differentiate and focus on targeted areas of opportunity with high potential for competitive advantage and high relevance to the State of Minnesota.

4. The Commission affirms the value of the University's overall research mission and the urgent need to continue to build its research capacity.
5. To achieve status as a top ranked research institution, the University must have an excellent undergraduate program. In outstanding universities, the research, teaching, and outreach missions are mutually supportive.
6. The graduate and professional programs of the University are strong and competitive. The University must achieve its objectives in research and undergraduate education while maintaining and promoting the health of its graduate and professional programs.
7. The achievement of excellence will require extraordinary focus and priority setting, greater efficiency efforts, and

more aggressive reallocation of internal resources on the part of the University of Minnesota.

8. The achievement of excellence at the University of Minnesota will require extraordinary financial support from the state and from the private sector.

Board members expressed appreciation to the members that served on the Commission on Excellence and stated that the report supports the University's priorities and direction.

BIENNIAL BUDGET REQUEST

Interim President Bruininks presented the proposed 2004-2005 Biennial Budget Proposal for review as provided in the docket materials.

Bruininks reported that the proposal is built on continuity, responsibility, and partnership. The University of Minnesota has made tremendous progress in improving the student experience and its physical and academic environments. It has delivered on the expectations of the state to build excellence in teaching, research, and public service. This proposal builds on the progress and provides continuity for sustained momentum.

Bruininks outlined the four strategies of the request that are meant to: 1) set and implement academic directions; 2) support talented faculty and staff; 3) help students realize educational goals; and 4) build and maintain academic infrastructure. The proposal, while falling short of fully funding the University's aspirations, addresses its needs within the context of the state's current financial outlook. The State of Minnesota is asked to enter into a 50-50 financial partnership with the University of Minnesota. The partnership calls upon the University to honor its commitment to the people of Minnesota and on the state to fully participate in the University's mission.

The proposal includes a total of \$96 million in new state support for the 2004-2005 biennium, equating to an incremental increase of approximately \$32 million in each of the next two fiscal years. In exchange for this support, the University proposes to reallocate a total of \$50 million of existing resources and to increase tuition by no more than 4.5 percent in each of the next two fiscal years, for a total of \$46 million. The University's reallocation commitment, coupled with new student tuition revenue, will equal the state's contribution of \$96 million.

Allison Rhody, Chair of the Student Representatives, addressed the proposed Biennial Budget Request. She indicated that, overall, the Student Representatives are pleased with the issues outlined in the request that aid in helping students reach their educational goals. They believe the strongest aspect of the budget is its mindfulness of both the needs of the University and the state's current economic position. It is a realistic request that students and the state can easily support. The students would ask that the University keep the outlined priorities for students in mind in the case of a partially funded request.

It was noted that the 2004-2005 Biennial Budget Proposal will be on the agenda for action at the November 2002 meeting.

The meeting adjourned at 12:35 p.m.

ANN D. CIESLAK
Executive Director and

Corporate Secretary

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