

UNIVERSITY OF MINNESOTA

BOARD OF REGENTS

February 11, 2005

A meeting of the Board of Regents of the University of Minnesota was held on Friday, February 11, 2005, at 9:00 a.m. in the Boardroom, 600 McNamara Alumni Center.

Regents present: David Metzen, presiding; Clyde Allen, Anthony Baraga, Frank Berman, Dallas Bohnsack, John Frobenius, William Hogan, Richard McNamara, Lakeesha Ransom, Maureen Reed, and Patricia Simmons.

Staff present: President Robert Bruininks; Senior Vice President and Provost Thomas Sullivan; Senior Vice President Frank Cerra; Vice Presidents Kathryn Brown, Carol Carrier, R. Timothy Mulcahy, Kathleen O'Brien, Richard Pfutzenreuter, and Linda Thrane; General Counsel Mark Rotenberg; Executive Director Ann Cieslak; Provost David Carl; Executive Associate Vice President Al Sullivan; and Associate Vice Presidents Margaret Carlson, Gerald Fischer, Gail Klatt, Stuart Mason, and Michael Volna.

INTRODUCTIONS

President Bruininks introduced two recently-appointed vice presidents: R. Timothy Mulcahy, Vice President for Research, and Linda Thrane, Vice President for University Relations.

APPROVAL OF MINUTES

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

- Facilities Committee - December 9, 2004
- Educational Planning & Policy Committee - December 9, 2004
- Faculty, Staff & Student Affairs Committee - December 9, 2004
- Finance & Operations Committee - December 9, 2004
- Board of Regents Meeting - December 9, 2004
- Board of Regents Work Session - December 9, 2004
- Board of Regents - December 10, 2004

REPORT OF THE PRESIDENT

President Bruininks reported on the status of the University's 2004 Capital Request and provided current information on the University's 2006-2007 Biennial Budget Partnership Proposal compared to the Governor's recommendation. He stressed that the University's priorities for the 2005 legislative session are to obtain full funding for both the biennial partnership request and the capital request and to secure passage of Gopher stadium legislation.

He commented briefly on the Itasca-University Project, one of several initiatives undertaken by a voluntary organization comprised mainly of chief executive officers of larger corporations throughout the state. They have come together to address long-term issues relative to the development of Minnesota's economy, civic culture, and quality of life. Bruininks reviewed a summary of recommendations developed by the organization relating to the University of Minnesota's impact on the state's businesses and economy.

A copy of the Report of the President is on file in the Board Office.

REPORT OF THE CHAIR

Chair Metzen reported that the Legislature announced it will meet in joint convention to elect new Regents on February 16, 2005. He noted that Regents Hogan and Reed have announced that they would not seek reelection and, therefore, this will be their last meeting. He spoke briefly about the accomplishments of each of them while they were on the Board. Regents Hogan and Reed spoke briefly addressed the Board.

Metzen reported that several Board members would be attending the annual conference of the Association of Governing Boards for Colleges and Universities in April. He also announced that there would be no Board meetings held in April 2005.

RECEIVE AND FILE REPORTS

Chair Metzen noted the receipt and filing of the Annual Capital Financing & Debt Management Report.

REPORT OF THE ALL-UNIVERSITY HONORS COMMITTEE

Regent Metzen stated that the Report of the All-University Honors Committee was forwarded to the Board in a letter from President Bruininks on January 26, 2005.

A motion was made and seconded, and the Board of Regents voted unanimously to approve the Report of the All-University Honors Committee. A copy of the report is on file in the Board Office.

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 for November and December, 2004, as listed in the docket materials and on file in the Board Office. Fischer noted that the December report has a revision that will be made and reported on at the March 2005 meeting.

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

REPORT OF THE FACULTY CONSULTATIVE COMMITTEE

Professor Marvin Marshak, Chair of the Faculty Consultative Committee (FCC), reported on the activities of the committee since its last report to the Board of Regents, and briefly discussed ongoing and emerging initiatives.

Marshak also expressed appreciation on behalf of the FCC to Regents Hogan and Reed for their service and dedication to the University of Minnesota.

A copy of the full report is included in the docket materials and is on file in the Board Office.

BOARD OF REGENTS POLICY: GIFTS RECEIVED AND GIVEN BY REGENTS AND UNIVERSITY OFFICIALS

Proposed amendments to Board of Regents Policy: *Gifts Received and Given by Regents and University Officials* were presented for information as described in the docket materials. The policy was first adopted on October 10, 1997.

The amended policy will be on a future agenda for adoption.

BOARD OF REGENTS POLICY: ATTORNEYS AND RELATED SERVICES

Proposed amendments to Board of Regents Policy: *Attorneys and Related Services* were presented as described in the docket materials. The policy was first adopted on May 13, 1988 and amended on October 13, 1995. It was noted that the policy has been reformatted and revised to eliminate obsolete language. Proposed amendments also requires an annual report to the Board rather than the current six-month report, but explicitly recognizes that the Litigation Review Committee may require additional reporting.

The amended policy will be on a future agenda for adoption.

BOARD OF REGENTS POLICY: CODE OF ETHICS FOR MEMBERS OF THE BOARD OF REGENTS

Proposed amendments to Board of Regents Policy: *Code of Ethics for Members of the Board of Regents* were presented as described in the docket materials. The policy was first adopted in 1966, superseding the policy as first adopted in 1973. It was noted that the policy has been reorganized and reformatted to conform to the style of Board of Regents policies. The amendments contain minor editorial changes; however, there is no change in the substantive requirements of the policy.

Regent Simmons raised questions regarding the section of the policy relating to political conflicts of interest. She questioned why it is considered a conflict of interest if a regent becomes an active candidate or serves in a partisan elective public office but it is not considered a conflict if the regent serves in an appointed position. General Counsel Rotenberg clarified that according to the current policy, it is considered a conflict of interest for a regent to become an active candidate in a partisan election. He stated that an appointed position is evaluated on a case by case basis to determine if there is a conflict of interest. Simmons also expressed concern that the policy

mandates that a regent resign upon officially announcing candidacy rather than resigning after being elected to a public office.

Regent Reed referred to the section relating to recusal and stated that she would like the language to be more specific regarding a regent recusing themselves from both deliberations and voting on an issue that poses a conflict of interest.

Chair Metzen indicated that the questions and suggestions from Board members will be reviewed before action is taken at a future meeting.

**RESOLUTION APPROVING MEMORANDUM OF UNDERSTANDING WITH
MINNESOTA MEDICAL FOUNDATION AND
UNIVERSITY OF MINNESOTA FOUNDATION**

Chair Metzen stated that this agenda item will be delayed until a future meeting.

REPORT OF THE AUDIT COMMITTEE

Regent Frobenius, Chair of the committee, reported that the committee reviewed proposed amendments to Board of Regents Policy: *Audit Committee Charter*; engaged in a discussion on compliance risks; reviewed the Management Letter from the University's external auditor; received an update on internal audit activities; and reviewed a number of information items contained in the docket materials.

REPORT OF THE FACULTY, STAFF, & STUDENT AFFAIRS COMMITTEE

Regent Simmons, 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 February 10, 2005 committee minutes.
- b) Adoption of amendments to Board of Regents Policy: *Grievance Process*, as follows:

CONFLICT RESOLUTION PROCESS FOR EMPLOYEES

The University of Minnesota shall have an internal process for the good faith review and resolution of employment-related conflicts.

Subd. 1. Scope. The conflict resolution process shall apply to the employment conflicts of faculty, academic professional and administrative staff, civil service staff, and student employees, including graduate student teaching and research assistants. The process also shall apply to complaints of faculty emeriti in accordance with the terms of the administrative procedures implementing the policy. This process shall not otherwise apply to non-employees or to employees represented by labor organizations.

Subd. 2. Delegation of Authority. The following delegations shall govern the administration of this policy:

(a) Except as provided in subd. 2 (b), the Board of Regents (Board) delegates to the president authority to administer this policy. The president, after consultation with the University Senate and the Conflict Advisory Committee, is authorized to adopt and amend administrative procedures to implement this policy; and

(b) Complaints alleging that the president personally engaged in a challenged action shall be referred to the chair of the Board, who shall determine whether the conflict resolution process must be adjusted to ensure fair consideration of the matter.

Subd. 3. Review. The administrative procedures implementing this policy will be reviewed every five years pursuant to provisions established in those procedures.

- c) Approval of a resolution relating to amendments to the Senate Constitution as follows:

BE IT RESOLVED, that the Board of Regents adopts amendments to the University Senate Constitution, as presented in the February 10, 2005 docket of the Faculty, Staff, & Student Affairs Committee. The Constitution as amended does not alter the authority of the Board of Regents or the administration under Board of Regents policies, including Board of Regents Policy: *Reservation and Delegation of Authority*. The amended Constitution shall become effective July 1, 2005.

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

Simmons reported that a motion to rescind Board of Regents Policy: *Postemployment* failed in committee and will be discussed in committee at a later date.

Simmons reported that the committee also reviewed proposed amendments to Board of Regents Policy: *Private Practice Plan: Medical School*; Board of Regents Policy: *Private Professional Practice: University of Minnesota Duluth School of Medicine*; Board of Regents Policy: *Private Practice Plan: School of Nursing*; Board of Regents Policy: *Political Office, Appointments, and Positions*; and Board of Regents Policy: *Intercollegiate Athletics Philosophy - Twin Cities Campus*. Simmons reported that the committee also received information relating to current trends and intervention efforts regarding "risky" student behaviors and reviewed a number of information items contained in the docket materials.

REPORT OF THE FINANCE & OPERATIONS COMMITTEE

Regent Hogan, 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 February 10, 2005 committee minutes.
- b) Adoption of amendments to Board of Regents Policy: *Endowment Fund*, as follows:

ENDOWMENT FUND

SECTION I. INVESTMENT OBJECTIVES.

Subd.1. Overall Objectives. The overall objectives for the University of Minnesota (University) endowment fund (endowment) shall be to:

- (1) preserve the inflation-adjusted value of the endowment; and
- (2) maximize total return (income plus capital appreciation) within acceptable risk parameters and a goal of at least 500 basis point annually above inflation (as measured by the Consumer Price Index) over three- and five-year trailing periods.

Subd. 2. Investment Manager Objectives. The objectives for the investment managers of the endowment shall be to exceed the investment performance of appropriately established benchmarks and rank consistently above the median for investment performance when compared to peers of similarly managed funds over three- and five-year trailing periods.

SECTION II. ASSET ALLOCATION GUIDELINES.

Subd. 1. Domestic Equities. The long-term target allocation for publicly traded domestic equities shall be 35 percent with a range around this target of 30-40 percent.

Subd.2. International Equities. The long-term target allocation for publicly traded international equities shall be 15 percent with a range around this target of 10- 20 percent.

Subd. 3. Fixed Income. The long-term target allocation for fixed income shall be 20 percent with a range around this target of 15-25 percent.

Subd.4. Alternative Investments. Alternative investments include all securities or investment partnerships other than long-only publicly traded stocks or bonds, stock or bond mutual funds, or index futures structures. Alternative investments shall include, but are not limited to, the following: private capital (such as private equity, venture capital, and distressed debt), real assets (such as real estate partnerships, timberlands, oil and gas partnerships, and other investable commodities), and marketable alternatives (such as hedge funds and mezzanine or high-yield debt). The long-term target allocation for alternative investments shall be 30 percent with a range around this target of 25-35 percent. Each new alternative investment shall be reported to the Board of Regents (Board).

Subd.5. Futures. The purchase of futures contracts for purposes of obtaining equity markets exposure is permissible. Futures may only be employed on an unleveraged basis. Futures shall not be employed for speculative purposes.

Subd.6. Options. The use of options shall be limited to the purchase of options for hedging purposes or the sale of covered options. The option exposure in aggregate shall be limited to 10% of the value of the endowment.

Subd.7. Short-Selling of Securities. The aggregate market value of short sales shall not exceed 10 percent of the value of the endowment.

Subd.8. Securities with No Public Market. No investments shall be made in securities without a public market, other than those defined as alternative investments in Subd. 4, unless specifically authorized by the Board.

Subd.9. Management Control. The University shall make no direct investments for the purpose of exercising management control in the underlying companies. Control strategies are permissible in the context of investments in portfolio companies made by approved investment managers.

Subd. 10. Investment Management Firm Limit. A maximum of 25 percent of the endowment may be invested by any one investment management firm. The president or delegate shall make adjustments to a portfolio if an investment management firm exceeds this limit for 12 consecutive months.

Subd. 11. Calculations of Limits. Calculations of all percentage limitations shall be done on a market value basis.

SECTION III. SPENDING GUIDELINES.

Subd.1. Distribution Level. Endowment distributions for expenditures in support of current operations shall be at an annual level that is approximately 5-6 percent of average market value on a three-year trailing basis. Distributions shall be made quarterly, based on the prior 12 quarter average market value on a total return basis taking into account capital appreciation as well as income.

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

Hogan reported that the committee reviewed proposed amendments to Board of Regents Policy: *Purchasing* and received an update on the Financial Systems Replacement Project. The committee also reviewed a number of information items contained in the docket material.

REPORT OF THE EDUCATIONAL PLANNING & POLICY COMMITTEE

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

- a) Approval of the Consent Report for the Educational Planning & Policy Committee as presented to the committee and described in the February 10, 2005 committee minutes.

The Board of Regents voted unanimously to approve the recommendation of the Educational Planning & Policy Committee.

Reed reported that the committee also engaged in a discussion regarding academic issues related to the University Plan, Performance & Accountability Report and reviewed the Enrollment & Graduation Report. The committee also reviewed a number of information items contained in the docket material.

REPORT OF THE FACILITIES COMMITTEE

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

- a) Approval of amendments to the FY05 Capital Budget by:
 - \$4,853,500 to incorporate funding for the purchase of 717 Delaware Street S.E., Minneapolis on the Twin Cities campus;
 - \$5,600,000 to incorporate funding for James L. Swenson Science Building Reconstruction project on the Duluth campus;
 - \$1,000,000 to incorporate funding for the Clayton A. Gay Hall I, Fire/Life Safety Upgrade project on the Morris campus; and
 - \$4,300,000 to incorporate funding for the Centennial Hall Student Housing project on the Crookston campus.
- b) Approval of the following real estate transaction:
 - A. Purchase of 717 Delaware Street S.E., Minneapolis

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

Bohnsack reported that the committee received an update on energy and utility management and reviewed a number of information items contained in the docket materials.

REPORT OF THE LITIGATION REVIEW COMMITTEE

Regent Berman, Chair of the committee, reported that the committee met on February 9, 2005 to discuss attorney-client privileged matters and no action was taken at the meeting. He reported that the committee convened in public session to hear a brief report on limits on liability for State entities.

The meeting adjourned at 11:20 a.m.

ANN D. CIESLAK
Executive Director and
Corporate Secretary