

UNIVERSITY OF MINNESOTA

BOARD OF REGENTS

Finance and Operations Committee

December 7, 2006

A meeting of the Finance and Operations Committee of the Board of Regents was held on Thursday, December 7, 2006 at 10:00 a.m. in 665 McNamara Alumni Center, on the University of Minnesota campus.

Regents present: Clyde Allen, presiding; Anthony Baraga, John Frobenius, Steven Hunter, and Cynthia Leshner.

Staff present: Senior Vice President Frank Cerra; Vice Presidents Richard Pfitzenreuter and Steve Cawley; Executive Director Ann Cieslak; General Counsel Mark Rotenberg; and Associate Vice Presidents Stuart Mason and Michael Volna.

Student Representatives present: Cassie McMahon and Nathan Wanderman.

RESOLUTION RELATED TO PURCHASING/BID THRESHOLDS

Vice President Pfitzenreuter and Associate Vice President Volna presented a resolution related to competitive bid thresholds for purchases, as detailed in the docket materials. Pfitzenreuter noted that Board of Regents Policy: *Purchasing* requires the thresholds be reviewed and approved by the Board biennially. The following recommendations for competitive bid thresholds were developed following the committee's discussion at its October 2006 meeting:

- Increase the threshold for purchase of goods and standard services from \$10,000 to \$50,000;
- Increase the threshold for construction costs from \$10,000 to \$250,000; and
- Increase the threshold for costs related to architects and engineers from \$50,000 to \$100,000.

The committee voted unanimously to recommend approval of the resolution related to purchasing/bid thresholds.

ENTERPRISE FINANCIAL SYSTEM REPLACEMENT PROJECT UPDATE

Vice President Pfitzenreuter introduced Vice President and Chief Information Officer Steve Cawley and Associate Vice President Michael Volna to present information related to the Enterprise Financial System Replacement Project, as presented in the docket materials. Volna highlighted the following:

- The project is aligned with, and supports, University strategic positioning;
- Administrative services will be redesigned and streamlined;
- The analysis phase was recently completed and the project has moved into the design phase;

- Additions to the project scope include grants, projects, and contract modules;
- Staff training and development is very important to ensure successful implementation;
- The addition of the grant component to the system will provide integrated financial reporting for both internal and external bodies; and
- Due to the addition of new modules, the project timeline will be extended and the budget increased.

Volna noted that approximately 80 percent of the Enterprise Financial System (EFS) will be supported by internal staff, but the complexity of the grant component will require the occasional use of external consultants. He clarified that, in large part, the budget increase is due to the additional grant and contract modules and training components.

In response to concerns Regent Frobenius expressed regarding cost accounting, Pfutzenreuter stated that the new financial system will enhance the University's ability to generate many new reports.

Regent Allen commented that the program appears to be a well thought out, long-term investment. Regent Leshar observed that the program enhancements are necessary, and she stressed that both the testing phase and training components will be critical to the overall success of the system.

STATE OF MINNESOTA ECONOMIC UPDATE/STATE GENERAL FUND BUDGET FORECAST

Vice President Pfutzenreuter introduced State Economist Tom Stinson to review the current financial status of the State and the 2008-2009 fiscal year forecast.

Stinson highlighted the following:

- The 2008-2009 budget has not been adjusted for general inflation, which will impact the current surplus;
- The state housing and auto industries are experiencing a decline;
- Compliance with the required tax payments for internet sales did not meet expectations;
- Corporate income tax continues to be strong, with a 17.4% increase above forecast anticipated for 2008-09;
- Motor vehicle sales tax receipts are forecast to be 40% lower in 2008-09;
- An overall decline in personal net worth is expected; and
- A recession is not expected.

Stinson concluded by stating that new initiatives considered for funding in 2008-09 will likely need to demonstrate that they will be sustainable without additional state support in future years.

ISSUES RELATED TO ANNUAL FINANCIAL REPORT

Vice President Richard Pfutzenreuter and Associate Controller Denise Seck presented information from the University of Minnesota Fiscal Year 2006 Annual Financial Report and highlighted the following:

- The University's balance sheet continues to be strong;
- Changes to revenues and expenses increased the University's net assets;

- There were favorable returns on investments during FY2006;
- University assets increased 2.8% and liabilities decreased by \$28.3 million; and
- Future strength is dependent upon new sources of revenue, cost containment, state support, and focusing the University's financial resources on its core mission.

Seck noted that reports from component units are included in the Annual Report, as required by a recent statement from the General Accounting Standards Board.

ISSUES RELATED TO ANNUAL CAPITAL FINANCING & DEBT MANAGEMENT REPORT

Vice President Pfutzenreuter announced the recent sale of the \$137.2 million of state-backed debt to help finance TCF Bank Stadium that resulted in a savings to the state of \$28.4 million. He noted that the sale shortened the length of the debt repayment period from 25 to 22 years.

Pfutzenreuter introduced Carol Fleck, Director of Debt Management, and Ji Bak from Lehman Brothers to present the Annual Capital Financing & Debt Management Report.

Fleck and Bak highlighted the following items:

- The University's outstanding debt is projected to drop from \$628.8 million in 2006 to \$390.1 million in 2013;
- The University has an excellent credit rating of Aa2 with Moody's and AA with Standard and Poor's; and
- The University is above the median of peer institutions in Moody's Exceptional Category in several areas including Total Resources, Total Resources to Comprehensive Debt, Expendable Resources to Comprehensive Debt, and Expendable Resources to Operations.

In response to a question from Regent Baraga, Regent Allen explained the University debt-capacity has increased recently, due in part to repayment and lower interest rates. Pfutzenreuter announced the next debt-capacity forecast will be available in February, 2007. He added that University debt-capacity ratios will be determined excluding the new bond issue, but noted the University will carefully monitor stadium debt.

CONSENT REPORT

Vice President Pfutzenreuter presented an amended Consent Report that was distributed at the meeting, including the Purchase of Goods and Services over \$250,000 to:

Purchase of Goods and Services over \$250,000

- To Affymetrix, Inc. for an estimated \$700,500 for GeneChip® Expression Arrays as needed for the period of November 1, 2006, through October 31, 2007, for the Biomedical Genomics Center.
- To Blue Cross Blue Shield of Minnesota and their subsidiary, First Plan of Minnesota, for the estimated amounts shown below, to administer self-funded medical insurance coverage and to provide stop loss insurance

for Twin Cities and UMD Graduate Assistants for the period of September 1, 2006, through August 31, 2007.

- To Fisher Scientific Company L.L.C. for an estimated \$590,580 for Falcon Plastic Labware manufactured by BD Biosciences, to be stocked at the University Stores for use in University departments from January 1, 2007, through December 31, 2007.
- To the Science Products Division of Corning Incorporated for an estimated \$573,929 for Corning Plastic Labware, to be stocked at the University Stores for use in University departments from January 1, 2007, through December 31, 2007.
- The University of Minnesota and UMPhysicians propose to renew the existing Master Agreement for an additional five year period. Pursuant to this Master Agreement, the University of Minnesota and UMPhysicians may enter into individual purchasing agreements with one another, up to \$1,000,000 per agreement, as needed for the period January 1, 2007, through December 31, 2011.

Approval of Investment Managers

The Office of Asset Management (OAM) proposes engaging the following investment managers to invest target allocations of the Consolidated Endowment Fund. The proposed investments have been reviewed and recommended by the Investment Advisory Committee.

Private Capital-Venture and Buyout:

Vesbridge Partners

- \$10 million commitment
- Early stage venture
- Communication technology and Software as a Service
- Target return: 20% + net IRR to LPs

Index Partners

- \$15 million commitment
- European, early stage venture
- Technology focused: founders of Skype, Ofoto, MySQL
- Target return: 22% + net

Real Assets-Private Real Estate:

BayNorth Capital

- \$15 million commitment
- Distressed and non-performing real estate
- Former Harvard real estate team, Fund VII
- 18% + net

India Real Estate Opportunity Fund

- \$15 million commitment
- Development of real estate in India
- US tech companies outsourcing and middle income housing
- 18% + net

General Contingency

Expenditure of \$261,000 for design cost for wind to hydrogen project in Morris.

The committee voted unanimously to recommend approval of the amended Consent Report.

INFORMATION ITEMS

Vice President Pfutzenreuter referred committee members to the Information Items contained in the docket, including:

- Quarterly Purchasing Report;
- Quarterly Investment Advisory Committee Update;
- Quarterly Asset Management Report;
- Quarterly Debt Management Advisory Committee; and
- Financial Oversight: Key Indicators (July-Sept)

The meeting adjourned at 11:55 a.m.

ANN D. CIESLAK
Executive Director and
Corporate Secretary