

UNIVERSITY OF MINNESOTA

BOARD OF REGENTS

Finance and Operations Committee

June 10, 2004

A meeting of the Finance and Operations Committee of the Board of Regents was held on Thursday, June 10, 2004, at 9:45 a.m. in the West Committee Room, 600 McNamara Alumni Center.

Regents present: William Hogan, presiding; Clyde Allen, Anthony Baraga, Dallas Bohnsack, John Frobenius, and Maureen Reed.

Staff present: Senior Vice President Robert Jones; Vice President Richard Pfutzenreuter; Interim Vice President David Hamilton; Executive Director Ann Cieslak; Associate Vice Presidents Steve Cawley, Stuart Mason, and Michael Volna.

Student Representatives present: Bobak Ha'Eri and Joshua Jacobsen.

BOARD OF REGENTS POLICY: *DEBT TRANSACTIONS*

Vice President Pfutzenreuter reported that Board of Regents Policy: *Debt Transactions* governs the administration's authority to engage in debt transactions and to engage underwriters and debt advisers. The redrafted policy reflects the revised delegation of authority and current practice, and was restructured for clarity and consistency with other Board policies. The policy is proposed to supersede three existing Board policies: *Asset & Debt Management*; *Debt Guidelines*; and *Debt Transactions*.

A motion was made and seconded, and the committee unanimously recommended approval.

Committee members briefly discussed the appropriate level of debt for the institution and suggested it be a topic for the 2004-05 Workplan.

BOARD OF REGENTS POLICY: *PURCHASING*

Vice President Pfutzenreuter and Associate Vice President Volna presented proposed amendments to Board of Regents Policy: *Purchasing* as part of the Board's comprehensive policy review process. Proposed amendments include changes to reflect current practice, clarify definitions, and ensure compliance with Board of Regents Policy: *Reservation and Delegation of Authority*. Volna referred the committee to the summary of proposed changes as included in the docket materials.

The committee engaged in a lengthy discussion regarding specification of the institution's relationship with the rationale for determining guiding principles; the determination of competitive thresholds; the importance of including vendor selection and rejection processes within Board policy; purchasing protocols; and the institution's relationship with MINNCOR.

Pfutzenreuter stated that a revised draft of the policy will return for review at a future meeting of the committee, along with related Board policies: *Non-Equal Opportunity Vendors Prohibited* and *Targeted Business, Urban Community Economic Development, and Small Business Programs*.

RESOLUTION AMENDING 2001 BONDING RESOLUTION

Vice President Pfutzenreuter and Carole Fleck, Debt Management Director, presented the Resolution Amending 2001 Bonding Resolution. Pfutzenreuter summarized the February 2001 resolution, which (1) called for a \$50 million shelf program for capital projects; (2) authorized the \$20 million bonds under this program; and (3) required Board approval of any subsequent bond issues. The proposed amendments authorize issuance of an additional \$23 million and allow the use of bond proceeds to acquire land and buildings.

A motion was made and seconded, and the committee voted unanimously to recommend approval of the Resolution Amending 2001 Bonding Resolution.

ISSUES RELATED TO: FY 2004-05 ANNUAL OPERATING BUDGET

Vice President Pfutzenreuter and Julie Tonneson of the Office of Budget and Finance led the discussion of the FY 2004-05 operating budget financial assumptions. Pfutzenreuter briefly summarized the primary factors that impacted budget decisions for the current and coming fiscal years; changes to the budget since its review by the Board in May 2004; University financial needs and the total budget challenge; and the status of the State of Minnesota budget, as detailed in the docket materials and associated handout.

Pfutzenreuter gave an overview of how funds are appropriated to the University by the state legislature and how these appropriations resulted in budget reductions. He also discussed centrally allocated and attributed revenues and the percentage of the budget those funds represent.

Pfutzenreuter reported that the financial challenge faced by the institution for FY 2004-05 totals \$70.4 million. When the two-year budget solution is viewed together, decline in state appropriations coupled with the need to make new critical investments results in a total budget challenge for the biennium of \$317,200,000. He described the administration's proposed plans to address the budget challenge, partly through reductions in operating expenses; institutional revenues and adjustments; administrative and operating efficiencies; and tuition increases.

Committee members expressed concerns over the share of the budget challenge being borne by students and the possible long-term consequences for the University by continuing budget reductions.

CONSENT REPORT

Vice President Pfutzenreuter presented the Consent Report as detailed in the docket materials and including the following:

- To Adecco Temporary Services for an estimated \$1,600,000 for administration of a temporary clerical work force management program for the period July 1, 2004 through June 30, 2005.
- To Allied Blacktop Company, a supplemental contract in the amount of \$80,000 that will bring the total contract to \$320,000, to provide the University with bituminous repair, restoration and maintenance of its streets, parking lots and service drives.
- To Aramark to provide concession services for athletic venues for the period July 1, 2004 through June 30, 2007. The current contract with Aramark will pay to the Department of Intercollegiate Athletics a commission based on gross sales, which will generate an estimated \$500,000 in revenue annually (\$1,500,000 for three years) for the department.
- To Cemanahuac Comunidad Educativa for an amount not to exceed \$295,000 for providing study abroad academic credit programs from August 1, 2004 through August 15, 2005 for the Learning Abroad Center.
- To Dell Corporation for an estimated \$650,000 per year (\$1,300,000 for two years) to lease approximately 1250 Dell Latitude D600 notebook computers for the period August 15, 2004 through August 14, 2006 for the Crookston campus.
- To Hennepin County for an estimated \$300,000 to provide solid waste disposal for the Twin Cities campus for the period of July 1, 2004 through June 30, 2005.
- To IBM for \$375,000 to renew IBM mainframe computer software licenses and maintenance support for period July 1, 2004 through June 30, 2005 for the Office of Information Technology.

- To IBM for an estimated \$450,000 to renew support for IBM mainframe hardware and IBM small to mid-range servers for the period July 1, 2004 through June 30, 2007 for the Office of Information Technology.
- To KMC Telecom for \$800,00 for digital telecommunications service (2,016 lines) to provide modem access for the period July 1, 2004 through June 30, 2007 for Networking and Telecommunications Services, a division of the Office of Information Technology.
- To Managed Services, Inc. for \$485,542 to renew a contract to provide preventative maintenance and janitorial services to the West Bank Office Building for the period July 1, 2004 through June 30, 2005.
- To SBC Global Markets for \$650,000 to provide Integrated Switched Digital Network Primary Rate Services for the period August 1, 2004 through July 31, 2007 for Networking and Telecommunications Services, a division of the Office of Information Technology.
- To the State of Minnesota Department of Administration for an estimated \$400,000 for network connections between the Twin Cities and its campuses in Duluth, Crookston, Morris and Rochester for the period July 1, 2004 through June 30, 2005.
- To Sun Microsystems for an estimated \$900,000 for a new Enterprise server including three years of maintenance support for all components of the server for the period June 16, 2004 through June 15, 2007.

New Investment Managers

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

Private Real Estate Tuckerman Group

- \$10 million commitment
- Multi-family development/opportunistic manager
- Domestic focus
- Target return: 18-20% net IRR to LPs

Private Equity Emergence Capital Partners

- \$5 million commitment
- Focused sector manager/Venture Capital
- Technology enabled services focus, early stage service companies
- Target return: 20%+ net IRR to LPs

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

INFORMATION ITEMS

Vice President Pfutzenreuter referred the committee to a number of information items presented in the docket, including:

- Quarterly Purchasing Report;
- Quarterly Asset Management Report;
- Quarterly Investment Advisory Committee Update

The meeting adjourned at 11:47 a.m.

ANN D. CIESLAK
Executive Director and

Corporate Secretary