

UNIVERSITY OF MINNESOTA

BOARD OF REGENTS

Finance & Operations Committee

December 12, 2002

A meeting of the Finance & Operations Committee of the Board of Regents was held on Thursday, December 12, 2002, at 9:30 a.m. in the West Committee Room, 600 McNamara Alumni Center.

Regents present: Anthony Baraga, presiding; Peter Bell, Frank Berman, H. Bryan Neel, Jean Keffeler, and Lakesha Ransom.

Staff present: President Robert Bruininks; Chancellors Kathryn Martin and Donald Sargeant; Executive Vice President and Provost Christine Maziar; Vice President Kathleen O'Brien; Interim Vice President David Hamilton; Executive Director Ann Cieslak; and Associate Vice Presidents Steven Cawley, Donna Peterson, Richard Pfitzenreuter, and Michael Volna.

Student Representatives present: Gina Nelson and Aaron Street.

CONSENT REPORT

Review/Action

Associate Vice President Pfitzenreuter presented the Consent Report, as found in the docket materials, which included:

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

• An estimated \$540,171 to Blue Cross Blue Shield of Minnesota, HealthPartners, Medica, and UCare for purchase of Medicare supplemental insurance offered through the University of Minnesota Office of Human Resources Employee Benefits for the period of January 1, 2003 through December 31, 2003. Vendors were selected through a competitive process.

• An estimated \$8,170,000 and \$3,289,000 to Delta Dental of Minnesota and HealthPartners Dental, respectively, for dental insurance offered through the University of Minnesota Office of Human Resources Employee Benefits for the period of December 30, 2002 through December 28, 2003. Vendors were selected through a competitive process.

• An estimated \$583,200 to Fisher Scientific Company L.L.C. for Falcon Plastic Labware manufactured by BD Biosciences, to be stocked at the University Stores for use in University departments from January 1, 2003 through December 31, 2003. Vendor was selected through a competitive process.

• An estimated \$1,156,000, \$320,000, and \$635,000, for a total of \$2,111,000, to HealthPartners Administrators, Inc., Resolution Re, and Wausau Benefits, respectively, for administering stop loss insurance coverage for the period

December 30, 2002 through December 28, 2003 for the University's self-funded UPlan medical plan. Vendors were selected through a competitive process.

i An estimated \$3,339,700 to Minnesota Life/ING for the purchase of the life insurance coverages offered through the University of Minnesota Office of Human Resources Employee Benefits for the period of December 30, 2002 through December 28, 2003. Vendor was selected through a competitive process.

i An increase of \$360,000 to an existing contract with Ray Solutions Group to provide temporary consulting and programming services for the period of January 9, 2002 through April 1, 2003 for the Office of Information Technology. The current contract amount is \$240,000. The proposed contract amendment will raise the contract amount above the \$250,000 level that requires Regents approval. Vendor was selected because it provided reliable, reasonably priced services to the University on two previous, similar projects and is familiar with the University's system.

i An estimated \$3,250,000 to renew a contract for a consortial/institution electronic access service with ScienceDirect, a division of Reed Elsevier Inc. and Elsevier Science to provide Internet access to ScienceDirect, an online service consisting of electronically searchable and retrievable full-text content from over 730 scientific and other scholarly journals published by Elsevier Science and other publishers under license to ScienceDirect, and related information products and services to 21 academic libraries in Minnesota. The contract will run from January 1, 2003 through December 31, 2007.

i An estimated \$626,000 to Science Products Division of Corning Incorporated for Corning Plastic Labware, to be stocked at the University Stores for use in University departments from January 1, 2003 through December 31, 2003. This is a negotiated, manufacturer direct contract that enables the University Stores to receive distributor pricing and avoid the additional cost of purchasing through a distributor.

i \$506,475 to 3D Systems, Inc. for purchase of a Viper si2 SLA system and a Vanguard si2 SLS System and ancillary items for creation of the new design and prototyping center being created at the Natural Resources Research Institute, University of Minnesota Duluth. Vendor was selected to be compatible with an industrial partner who will purchase prototypes from the Institute.

Regent Berman stated that he heard concerns from a number of University of Minnesota retirees because access to University of Minnesota Physicians (UMP) and Boynton Health Service (BHS) is no longer available through HealthPartners. He suggested this issue should be addressed at this time because it started in March of 2002. Dann Chapman from the Office of Human Resources (OHR) confirmed that HealthPartners has not yet contracted with the two entities to add them to its 65+ network, stating that OHR will work aggressively to try to resolve the situation. He noted that it will not be necessary for retirees to change physicians because UMP and BHS are available under other plans open to retirees.

In response to Regent Keffeler, Chapman explained that the University already held an open enrollment for 2003 and some people have selected the HealthPartners option. If HealthPartners does not reach an agreement, he noted that the University could consider not renewing the contract for 2004.

In response to a request from Regent Berman, Chapman stated he will report on this issue in February during a scheduled update on employee health care benefits. If there is not a satisfactory conclusion, Berman stated that he will be against renewing the contract with HealthPartners in 2004.

Karen Triplett, Director of Purchasing Services, responded to Regent Bell's questions regarding the competitive bid process and exceptions to that process.

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

STATE OF MINNESOTA ECONOMIC UPDATE

Associate Vice President Pfutzenreuter introduced Thomas Stinson, State Economist, to present the State of Minnesota economic forecast, as found in the materials on file in the Board Office.

Stinson reported that the November 2002 Minnesota economic forecast shows a projected budget shortfall of \$4.560 billion for FY 2004-05. He discussed the end-of-session projected shortfall, income tax reductions as a result of lower capital gains income, and increased health care costs, all of which account for 83 percent of the projected shortfall.

Stinson emphasized that the budget problem is real and significant budgetary changes at the state level will be required to solve it. He noted concerns regarding the forecast are that the Minnesota economy has trailed U.S. growth through the entire period of economic weakness, and that any U.S. military action will have a negative impact. Stinson indicated the Governor and Legislature will be faced with solving the current problem, in addition to putting reserves into place.

In response to questions from Regents Bell and Neel, Stinson discussed the capital gains issue and the impact of the current situation on the state's bond rating. He noted that Minnesota has a AAA bond rating and the rating agencies hold AAA states to higher standards. To maintain the AAA rating, the state will be expected to establish reserves and make good progress toward achieving structural balance.

Stinson agreed with Pfutzenreuter's assessment that the state's dependence on income taxes will result in a recurrence of the current situation, even if the budget is balanced. He stated that the tax system has evolved out of balance because of the nature of changes in individual income, resulting in unstable tax revenues.

BOARD OF REGENTS POLICY:

ENDOWMENT FUND

Associate Vice President Pfutzenreuter and Stuart Mason, Chief Investment Officer, discussed the reasons for recommending the following revisions to the Board of Regents Policy: *Endowment Fund*, as noted in the docket materials:

- Adjust asset class targets by reducing international equity to 20 percent and increasing fixed income to 20 percent; and
- Expand ranges to +/- 10 percent around each asset class to more effectively employ tactical allocation to preserve capital and maximize return over shorter market cycles.

Regent Berman spoke in support of the proposed revisions. In response to a question from Berman, Mason stated the University's current exposure in emerging markets is limited to selective opportunities in which the University's money managers are confident.

Berman noted that the policy was submitted for review this month. He recommended that the policy be adopted, rather than wait for the next Board meeting in February.

A motion was made and seconded, and the committee voted unanimously to recommend approval of the proposed revisions to the policy.

RESOLUTION RELATED TO

BOARD OF REGENTS POLICY: *INVESTMENT RESERVES*

Associate Vice President Pfutzenreuter and Stuart Mason, Chief Investment Officer, discussed the request by the Office of Asset Management for an exemption to the Board of Regents Policy: *Investment Reserves*, as noted in the docket materials.

Mason reported that the Office of Asset Management is currently working with the Investment Advisory Committee to draft amendments to the policy, which will be presented to the Board of Regents for approval no later than May 2003. However, the University could enhance its investment return significantly if several revisions were made on an interim basis through May 31, 2003. He noted that the goal in proposing the interim changes is to enable the University to invest up to \$50 million, or about 10 percent of the existing reserve pool, in a mix of securities the University is currently excluded from investing in to increase the return by approximately \$1.5 million per year.

In response to questions from committee members, Mason explained that the Investment Advisory Committee has approved the proposed revisions, and discussed the impact the revisions will have on income to the University. Pfutzenreuter stated that the proposed revisions do not change the way central reserves are viewed, but will help the University move toward the goal of rebuilding central reserves to \$20 million.

Following the discussion, a motion was made and seconded, and the committee voted unanimously to recommend approval of the proposed resolution.

ANNUAL FINANCIAL REPORT

Associate Vice President Pfutzenreuter introduced University Controller Michael Volna to present the Annual Financial Report for fiscal year 2002, as found in the docket materials. Volna noted the report is in the new format previously discussed, as required by the Governmental Accounting Standards Board (GASB).

Volna reviewed the FY 2002 revenues and expenses by source, stating that distribution is consistent with prior years.

Volna discussed the new GASB reporting requirements for affiliated organizations, which require that the financial statements of public universities include organizations that raise and hold significant economic resources for the institution.

In summary, Volna stated FY 2002 was a good year. He noted that net assets increased by \$2.3 million, cash flow increased by \$84.6 million, and the University's balance sheet continues to be strong.

Regent Keffeler asked if the University will be responsible for the accuracy of the information related to the affiliated organizations it will be required to include in its financial statements. Volna explained the implications of the requirement and noted that the entities that need to be included in the University's financial statements will be determined.

In response to a question from Regent Bell, Volna stated that GASB does not require reformatting of financial statements from previous years. The University decided not to do such reformatting due to staffing and time constraints.

FINANCIAL SYSTEMS REPLACEMENT PROJECT STATUS

Associate Vice Presidents Pfutzenreuter and Volna presented an update on evaluation and planning activities related to replacement of the University's current financial system.

Pfutzenreuter stated that a request for funding for the replacement project was included in the University's Biennial Request, noting that the administrative recommendation will depend on the financial situation at the end of the legislative session.

Volna provided an update on the two alternatives currently being evaluated, a vendor purchase option and a Big 10

consortium option. As a result of the RFP process, PeopleSoft is the only vendor the University is continuing to consider, but no negotiations have taken place.

In response to questions from Regent Berman, Volna stated that initial cost estimates for the project were close to the \$25 million included in the Biennial Request. Volna concurred with Berman's concern about the RFP process resulting in one vendor, but noted that because of difficult economic times other institutions have received attractive informal proposals from PeopleSoft and other vendors. He also noted the fact that the University continues to pursue the consortium option is also a competitive factor.

Regent Ransom asked how the University is going to avoid the cost problems experienced with previous system replacement projects. Volna responded that current staff is experienced at cost estimating and project management. Pfitzenreuter noted that the product being considered is used in other institutions, while the student system had to be developed by the University because it did not exist.

Volna presented an update on the consortium process, noting that it continues to be a viable option. He reported that Indiana University, Michigan State University, and Northwestern University also are participants in the process.

Volna stated work will continue to refine the options, with a final recommendation to the Board expected by March 2003.

INFORMATION ITEMS

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

- Quarterly Purchasing Report; and
- Quarterly Asset Management Report.

The meeting adjourned at 11:30 a.m.

ANN D. CIESLAK

Executive Director and

Corporate Secretary

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