

**UNIVERSITY OF MINNESOTA**

**BOARD OF REGENTS**

**Finance & Operations Committee**

**October 10, 2002**

A meeting of the Finance & Operations Committee of the Board of Regents was held on Thursday, October 10, 2002, at 1:15 p.m. in the West Committee Room, 600 McNamara Alumni Center.

Regents present: Anthony Baraga, presiding; Frank Berman, H. Bryan Neel, and Lakeesha Ransom. Regent Jean Keffeler participated via telephone.

Staff present: Executive Vice President and Provost Christine Maziar; Vice Presidents Sandra Gardebring, Robert Jones, and Kathleen O'Brien; Executive Director Ann Cieslak; and Associate Vice Presidents Steven Cawley, Richard Pfitzenreuter and Michael Volna.

Student Representatives present: Gina Nelson and Aaron Street.

**COMMITTEE WORKPLAN, 2002-2003**

Associate Vice President Pfitzenreuter presented the revised 2002-2003 Committee Workplan, as found in the docket materials on file in the Board Office. Pfitzenreuter noted the workplan was updated to reflect changes to the annual schedule of meeting dates and the comments of committee members at the September meeting.

**BOARD OF REGENTS POLICY:  
CENTRAL RESERVES MANAGEMENT**

Associate Vice President Pfitzenreuter discussed revisions to the Board of Regents Policy: *Central Reserves Management*, as noted in the docket materials. He stated that the revised policy, together with another policy to be presented at the December meeting, will replace the existing Board of Regents Policy: *Central Reserves Management*.

Pfitzenreuter stated the proposed policy addresses the portion of central reserves that is intended to insulate the University from potential major financial risks. The proposed policy recommends that the central reserves emergency fund should not fall below 3 percent of all centrally allocated funds, exclusive of tuition, or \$20 million, whichever is greater.

A motion was made and seconded and the committee voted unanimously to recommend approval of the proposed revisions to the Board of Regents Policy: *Central Reserves Management*. With final adoption by the Board, the name of the policy will change to Board of Regents Policy: *Central Reserves Emergency Fund*.

**PURCHASE OF GOODS & SERVICES:  
CONTRACT WITH RESEARCH CORPORATION FOR LARGE BINOCULAR TELESCOPE**

Executive Vice President and Provost Maziar discussed the request for permission to acquire guaranteed access to the Large Binocular Telescope (LBT) through a contract with the Research Corporation for \$5 million. Estimated annual operating costs are \$190,000 for 16.66 nights per year on the LBT for the Department of Astronomy, as specified in the Agreement between the Research Corporation and the University of Minnesota. The initial contract term would be ten years, with a provision for five-year contract renewals.

Maziar reported that construction of the facility is complete. Because use of and access to Mount Graham has been controversial, she noted that a University delegation visited the site and met with representatives of the University of Arizona and the Apache community. Maziar outlined additional projects the University of Minnesota is committed to undertake as a result of the consultative process.

Based on the University's interest in supporting the Department of Astronomy, the fact that the University of Minnesota's participation is a small percent of the total participation in the project, and plans to work with the community in the vicinity of Mount Graham, Maziar stated that Interim President Bruininks recommends approval of the proposed Agreement with the Research Corporation.

In response to issues raised by the committee, Vice President Gardebring discussed the meeting with representatives of the San Carlos tribe, the response of the University of Arizona to the dispute, and access to scientific data resulting from the University's participation. She noted that it has been made clear to University of Arizona officials that a more respectful response to Apache concerns is expected if the University of Minnesota is a participant.

At the invitation of Regent Baraga, San Carlos Apache tribe representatives Sandra Rambler and Wendsler Nosie spoke in opposition to the proposed Agreement between the Research Corporation and the University of Minnesota.

The committee engaged in a lengthy discussion regarding the proposal, and Regents Ransom and Baraga expressed concerns about participation by the University of Minnesota.

Regent Berman made a motion to recommend approval of the contract with Research Corporation on 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 practices. The motion was seconded by Regent Keffeler. The committee voted three to two to approve the motion, with Regents Baraga and Ransom voting in opposition.

**CONSENT REPORT  
Review/Action**

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

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

- \$6.0 million to Metropolitan Council and Metro Transit for the continuation of the U-Pass/Metropass programs from September 2002 through August 2004 for Parking and Transportation Services. Metro Transit is the only entity providing a fully comprehensive bus service to the Twin Cities metro area.
- An amount not to exceed \$277,500 to Quintessential Consulting, Inc. for temporary contract programming services for the Office of Information Technology's Department of Applications, Development and

Maintenance, through December 31, 2002. Extension of this contract, initiated July 1, 2000, will bring the total dollars over the \$250,000 threshold that requires Regents approval. Vendor was originally selected through a competitive process.

- \$525,000 to Sequenom, Inc. for a High-Throughput MassArray System for the Academic Health Center (AHC) Biomedical Genomics Center. Vendor was selected through a competitive process.
- An estimated \$2,500,000 to Southeastern Library Network, Inc. (SOLINET) for a consortial/institution electronic access fee to provide Internet access to 13 electronic resources for libraries in the MINITEX region which choose to subscribe to any or all of these resources. The contract will run from July 1, 2002 through June 30, 2007. This contract, which is for a unique package, leverages the combined purchasing power of the participating libraries of electronic resources.
- \$261,356 to The Trane Corporation for hardware and software upgrades for building heating and control systems for the Twin Cities campus to take place October 18, 2002 through June 30, 2003 for the Facilities Management Department. Upgrades to Trane systems are available only from Trane.
- An estimated \$925,000 to the University of Chicago Press for a contract renewal for warehousing, distribution, order processing, accounts receivable, and collection services for the University of Minnesota Press for the period of October 2002 through September 2004. Vendor was selected in 1999 because of the services and advantages it offers the University.

#### Investment Managers:

- Endowment fund's sole fixed income manager relationship was terminated as of June 30, 2002.
- The engagement of Western Asset Management and Advantus Capital Management as fixed income managers. The Investment Advisory Committee has reviewed and approved the recommendation.

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

### **GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB): REPORTING AND ACCOUNTING UPDATE**

Associate Vice President Volna discussed new requirements for financial reporting by public colleges and universities adopted by the Governmental Accounting Standards Board (GASB), which will be effective for fiscal year 2004. Implications of the requirements include a changed format for annual financial statements, the inclusion of affiliated organizations' financial status as a component of the annual statements, and the classification of state appropriations as non-operating revenues, resulting in an "operating loss".

Regent Baraga stated that showing an operating loss on annual financial statements does not appear to be a good practice. Volna explained that while the required changes will make the financial statements less meaningful, other public institutions will have to make the same changes. Associate Vice President Pfitzenreuter and Volna stated that including the income, expenses, and liabilities of the University's foundations will have an impact on comparative analysis with other institutions.

In response to Regent Neel, Volna discussed the impact of the requirements on the workload of his department and on

accounting staff in University departments due to the changes in accounting procedures.

## **ANNUAL CAPITAL FINANCING AND DEBT MANAGEMENT REPORT**

Associate Vice President Pfutzenreuter introduced John Augustine and Ji Bak from Lehman Brothers, and Carole Fleck from the Budget Office.

Augustine reviewed information on the history of taxable and tax-exempt interest rates from 1982 to present, the University's debt profile, and bond rating determinants, as found in the materials on file in the Board Office.

Bak reported that an analysis of student demand, market position, and financial indicators places the University of Minnesota solidly in the strong "Aa" category.

In response to a question from Regent Neel, Augustine stated that the University's debt rating places it slightly above the middle of the Big 10. He noted that the University of Michigan recently received a "AAA" rating, but noted that it has a different profile than the University of Minnesota.

## **ANNUAL ASSET MANAGEMENT REPORT**

Associate Vice President Pfutzenreuter introduced Stuart Mason, the University's new Associate Vice President/Chief Investment Officer, and Sheila Warness, Director of Asset Management.

Mason presented the Annual Asset Management Report as of June 30, 2002, as found in the materials on file in the Board Office.

Mason reviewed a summary of funds invested and portfolio returns, noting an 11.5 percent total decline in funds invested. He reported that the market value of the Consolidated Endowment Fund declined to \$554.8 million as of June 30, 2002 as a result of distributions and negative investment returns. He stated the Temporary Investment Pool fund increased as a result of an investment gain of approximately \$20 million and a \$75 million fluctuation in the working capital requirements of the University.

Mason compared the Consolidated Endowment Fund asset allocation to the target established by the Board of Regents. In response to Regent Baraga, Warness stated that at the September meeting Regent O'Keefe discussed adjusting the fixed income asset allocation target to 15 percent, with a range of 10 to 25 percent. Pfutzenreuter stated that this will be presented to the committee for review at a future meeting.

## **INFORMATION ITEMS**

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

- An update of the items discussed by the Investment Advisory Committee;
- An update of the items discussed by the Debt Management Advisory Committee;
- The Small Business Report, a statistical overview of the University's expenditures with women, minority, and disabled owned businesses for the period July 2001 through June 2002; and

- Introduction of Mr. Stuart Mason, the new Associate Vice President/Chief Investment Officer for the University of Minnesota.

The meeting adjourned at 3:15 p.m.

**ANN D. CIESLAK**  
**Executive Director and**  
**Corporate Secretary**

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