

**Year 2002-03**

**UNIVERSITY OF MINNESOTA**

**BOARD OF REGENTS**

**April 11, 2003**

**A meeting of the Board of Regents of the University of Minnesota was held on Friday, April 11, 2003, at 9:00 a.m. in the Boardroom, 600 McNamara Alumni Center.**

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

**Staff present: President Robert Bruininks; Chancellors Donald Sargeant and Samuel Schuman; Executive Vice President and Provost Christine Maziar; Senior Vice President Frank Cerra; Vice Presidents Kathryn Brown, Carol Carrier, Robert Jones, and Kathleen O'Brien; Executive Director Ann Cieslak; and Associate Vice Presidents Steve Cawley, Gerald Fischer, Gail Klatt, Donna Peterson, and Richard Pfutzenreuter.**

**RECOGNITION OF RHODES SCHOLAR DAVID SIMON**

**Recognition was given to David Simon, recipient of the 2003 Rhodes Scholarship.**

**RECOGNITION OF STUDENT REPRESENTATIVES TO THE BOARD OF REGENTS**

**Recognition was given to the 2002-03 Student Representatives to the Board of Regents:**

**Cameron Bauer**

**Crookston**

**Jacob Elo**

**Twin Cities**

**Gretta Hanson**

**Twin Cities**

**Gina Nelson**

**Twin Cities**

**Allison Rhody**

**Duluth**

**Aaron Street**

**Twin Cities**

**Danielle Stuard**

**Morris**

## **APPROVAL OF MINUTES**

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

- **Board of Regents - March 13, 2003**
- **Educational Planning & Policy Committee - March 13, 2003**
- **Facilities Committee - March 13, 2003**

- **Faculty, Staff & Student Affairs - March 13, 2003**
- **Finance & Operations Committee - March 13, 2003**
- **Board of Regents Work Session - March 13, 2003**
- **Board of Regents - March 14, 2003**
- **Board of Regents - March 25, 2003**

## **REPORT OF THE PRESIDENT**

**President Bruininks commented briefly on his recent travels throughout the country to meet with donors and University of Minnesota alumni. He commented on the success of the recent capital campaign, indicating that the University ranked with the top four public universities in the nation for fundraising in 2002. The generosity of these donors has been a ray of sunshine in the stormy economic times.**

**Bruininks focused the majority of his report on the presence and economic impact that the University has in the region and throughout the state of Minnesota. The impact is important to understand as committees at the Legislature will be making budget decisions affecting the University during the next two months.**

**Bruininks provided information on a statewide analysis describing the University's social and economic impact on Minnesota. He talked specifically about the impact in each congressional district and challenged Board members to be strong advocates for the University of Minnesota during the next few months as lawmakers are making these critical budget decisions.**

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

## **REPORT OF THE CHAIR**

**Chair Reed reported that Regent Ransom recently represented the Board at the annual Association of Governing Boards Conference held in Seattle, Washington. Other Board members and staff did not attend this year in keeping with the financial challenges facing the University.**

**She reported that in May she will appoint a Presidential Performance Review Committee and a Nominating Committee to prepare a slate of officers for election at the Board's annual meeting in June. Board members should indicate to the Chair or Executive Director if they are interested in serving on either committee.**

**Reed stated that the Board supports the President and members of the administration as they struggle with the financial issues facing the University. She expressed appreciation to faculty, staff, students, and the University community for the lobbying efforts at the Legislature on behalf of the University.**

### **RECEIVE AND FILE REPORTS**

**Chair Reed reported the receipt and filing of the Presidential Delegations Annual Review.**

### **GIFTS**

**Associate Vice President Gerald Fischer presented an amended monthly list of gifts to the University of Minnesota, the University of Minnesota Foundation, the Arboretum Foundation, and the Minnesota Medical Foundation through February 28, 2003, and is on file in the Board Office.**

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

### **REPORT OF THE ALL-UNIVERSITY HONORS COMMITTEE**

**Regent Reed stated that the Report of the All-University Honors Committee was forwarded to the Board from President Bruininks on March 21, 2003.**

**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.**

### **ANNUAL REPORT OF THE STUDENT REPRESENTATIVES TO THE BOARD OF REGENTS**

Alison Rhody, Chair of the Student Representatives to the Board of Regents, presented their annual report as contained in the docket materials. The report reflects the student perspective on issues and concerns facing University students and identifies issues explored by the Student Representatives during the past year. Issues highlighted in the report pertained to: campus involvement - utilizing public engagement and service learning, University of Minnesota Crookston competitiveness, Greek life at the University of Minnesota, work study funding, and a Gopher football stadium.

#### **REPORT OF THE AUDIT COMMITTEE**

Regent Bohnsack, Chair of the committee, reported that the committee received information on the relationship and services provided by Deloitte and Touche, the University's external auditors; reviewed a resolution relating to the Sarbanes-Oxley Act; reviewed administrative recommendations relating to the Sarbanes-Oxley Act; received information on the University's Institutional Compliance Program; and reviewed an institutional assessment of the University's research compliance.

#### **REPORT OF THE FACULTY, STAFF, & STUDENT AFFAIRS COMMITTEE**

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

- Approval of the revised Consent Report for the Faculty, Staff, & Student Affairs Committee as presented to the committee and described in the April 10, 2003 committee minutes.
- Approval of the promotion and/or tenure recommendations as presented in the docket materials effective with the beginning dates of their terms of appointment in 2003-2004.
- Approval of continuous appointment status along with promotion for one staff in the academic professional series as presented in the docket materials to be effective with the beginning of the 2003-2004 appointment period.

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

Metzen reported that the committee reviewed proposed amendments to the Board of Regents Policy: Student Conduct, and reviewed comparisons and an analysis of faculty and staff compensation at the University of

Minnesota. The committee also reviewed a number of information items as described in the docket materials.

## **REPORT OF THE FINANCE & OPERATIONS COMMITTEE**

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

- Approval of the revised Consent Report for the Finance & Operations Committee as presented to the committee and described in the April 10, 2003 committee minutes.
- Approval of a resolution relating to the adoption of amendments to Board of Regents Policy: Investment of Reserves, as follows:

**BE IT RESOLVED** that the Board of Regents adopts amendments to Board of Regents Policy: Investment of Reserves, as presented in the docket materials.

**BE IT FURTHER RESOLVED** that the Finance and Operations Committee shall receive within 90 days a more comprehensive presentation and analysis of all investment oversight policies and procedures (both Board and administrative), including specified roles and responsibilities in the oversight process.

## **INVESTMENT OF RESERVES**

This policy governs the investment of short-term and long-term reserves of the University of Minnesota (University).

### **ARTICLE I**

#### **Short-Term Reserves**

**Subd. 1. Investment Objective.** The primary investment objective for the University's short-term reserves, known throughout this article as the Temporary Investment Pool (TIP), is capital preservation. In addition, the following are priorities for the investment of short-term reserves:

- a. **maintaining sufficient liquidity to meet the near term funding and operations requirements of the University; and**

**maximizing current income and investment returns on these reserves.**

**Subd. 2. Overall Portfolio Characteristics.** TIP funds are usually invested in high quality, relatively short-term fixed income securities not exposed to significant market risk. TIP investments shall be guided by the following:

- a. **average duration of three years or less for the entire portfolio and maximum duration of seven years for any individual holding;**  
**average credit quality of A1/A+ or better;**
- b. **no use of leverage; and**
- c. **security ratings of investment grade (defined as Baa/BBB rating or better by Moody's or Standard & Poor's) unless the president or delegate specifically approves retention of a lower rated security. The Finance and Operations Committee of the Board of Regents must be notified of such approvals.**

**Subd. 3. Investment Guidelines for Specific Types of Securities.** The following investment guidelines shall apply to specific types of securities:

- a. **Federal Government Securities - Investments in federal government securities shall be limited to U.S. Treasury obligations, federal agency securities, and obligations guaranteed or insured by an agency of the federal government, with no limitation on amount per agency or percent of overall portfolio.**

**Money Market Investments - Money market investments shall be limited to money market mutual funds or fixed income mutual funds designed to maintain a stable unit value, with no limitation on percent of overall portfolio.**

**Corporate Obligations - Corporate obligations include commercial paper, intermediate or long-term bonds, bank paper, and master notes. Corporate obligation investments in aggregate shall not exceed 60% of the portfolio, with a maximum limitation of 7% for any single issuer, and shall be guided by the following:**

1. **Commercial Paper - Commercial paper obligations shall include obligations of U.S.-based or foreign issuers whose commercial paper is rated A-1 or A-2 by Standard & Poor's or P-1 or P-2 by Moody's.**
2. **Intermediate or Long-Term Bonds - Intermediate or long-term bonds shall include obligations of U.S. corporations only, including bonds and flexible rate securities with a duration of seven years or less that are rated as investment grade or better by Moody's and Standard & Poor's.**
3. **Bank Paper - Bank paper shall include certificates of deposit, time deposits, bankers acceptances, letters of credit, and documented discount notes from U.S. or foreign issuers whose long-term securities are rated investment grade.**

**Master Notes - Master note obligations shall include only master notes of U.S. corporations whose long-term debt rating is investment grade, with a maximum limitation of 10% of the portfolio.**

**Subd. 4. Prohibited Securities.** Investments in the following securities are prohibited:

- a. equity and equity related alternatives;
- b. securities convertible into equity;
- c. non-investment grade high yield securities;
- d. unrated obligations;
- e. financial futures;
- f. fixed income options;
- g. interest rate swaps;
- h. other derivatives securities, private securities, or those not traded on a major exchange;
- i. and any securities issued by a foreign government or corporation domiciled in a country that is not part of the Europe, Australasia, and Far East (EAFE) Index.

## ARTICLE II

### Long-Term Reserves

**Subd. 1. Investment Objective.** The primary investment objective for the University's long-term reserves, known throughout this article as the Group Income Pool (GIP), is to maximize income while preserving capital balances until such time as the principal is required to fund the intended use.

**Subd. 2. Intended Use of GIP.** GIP is usually used to fund a capital or infrastructure expenditure not scheduled for at least three years.

**Subd. 3. Investment Guidelines.** GIP funds shall be invested on a total return basis. The following are approved investment guidelines for GIP:

- a. **Fixed Income Securities** - Up to 100% of the portfolio may be invested in fixed income securities. The fixed income portion of the portfolio shall maintain an average duration that is +/- 20% of the duration of a selected broad market index, such as the Lehman Brothers Aggregate Index or the JP Morgan Global Index, and maintain an average credit quality of A or better as rated by Moody's and/or Standard & Poor's.

The fixed income portion of the portfolio shall be invested by outside professional managers and may include:

1. **bonds, convertible bonds, mortgage-backed and/or asset-backed securities that are issued by governments, government agencies, or corporations in developed market countries;**
  2. **such securities, denominated in foreign currencies, baskets of foreign currencies (such as the euro), or U.S. dollars;**
  3. **a maximum 10% allocation to securities rated below investment grade but with a rating of B or better by Moody's and/or Standard & Poor's;**
  4. **maximum 10% exposure to emerging market debt;**
  5. **mutual funds consistent in quality with these investment guidelines; and**
  6. **futures, options, and interest rate swap agreements.**
- b. Equity - Up to 33% of the overall portfolio may be invested in domestic equities and shall:**
1. **be invested by outside professional managers in a manner consistent with a broad market index, such as the Russell 3000 Index; and**
  2. **exclude private placements or non-publicly traded securities.**

**Money Markets - To the extent that money market instruments are used in the portfolio, they:**

1. **shall have a minimum commercial paper rating of A3/P3 as rated by Moody's or Standard & Poor's; and**
2. **may include money market mutual funds.**

**Subd. 3. Prohibited Activities. Use of the following instruments and strategies shall be prohibited:**

- a. **mortgage derivatives, including stripped mortgage pass through securities, such as interest only and principal-only securities; and**
- b. **leverage.**

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

**Baraga reported that the committee received an update on the Financial Systems Replacement Project and discussed the processes involved in the selection and monitoring of the investment managers within the Consolidated Endowment Fund. The committee also reviewed a number of information items as described in the docket materials.**

## **REPORT OF THE FACILITIES COMMITTEE**

**Regent Ransom, Chair of the committee, reported that the committee did not meet this month.**

## **REPORT OF THE EDUCATIONAL PLANNING & POLICY COMMITTEE**

**Regent Hogan, Chair of the committee, reported that the committee did not meet this month.**

## **REPORT OF THE LITIGATION REVIEW COMMITTEE**

**Regent Berman, Chair of the committee, reported that the committee did not meet this month.**

## **EMERGENCY PREPAREDNESS AT THE UNIVERSITY OF MINNESOTA**

**Senior Vice President Cerra and Vice President O'Brien presented the University of Minnesota Emergency Preparedness Plan as contained in the docket materials.**

**O'Brien reported that the University's Emergency Preparedness Plan, prepared by the University's Office of Public Safety, is a systematic approach to prepare for, manage, respond, and recover from major emergencies. She provided an overview of the mission, priorities, and scope of the plan and addressed general questions relating the University's preparedness for emergencies, how the University compares to peer institutions, the University's role in state, regional and local preparedness, and how emergency preparedness is evaluated at the University of Minnesota.**

**Cerra described the role that the University of Minnesota Academic Health Center (AHC) plays in emergency operation planning. The AHC plays a unique role in Emergency Operation Planning in that it not only is a part of the emergency planning, it must be ready to respond to the needs of the region and the State. Providing emergency public information, mass dispensing of health care, diagnostic capabilities, unique therapies, and expert consultations are examples of the potential roles that will be required of the AHC in emergency preparedness and response.**

In response to questions from Board members, O'Brien reported that checklists have been formulated to respond to each disaster, that contingency plans are being developed, and that the plan also serves as a template for the coordinate campuses. O'Brien also indicated that the University is better prepared to respond for certain types of emergencies, i.e. incidents that have already been experienced. It is anticipated that the training exercises will help prepare for the types of emergencies not yet experienced.

Regent Allen asked if the University community is aware of the importance of emergency preparedness at the University. O'Brien reported that an extensive communication and training plan has been developed to heighten the awareness and change the culture around campus regarding these issues.

Regent Frobenius asked that the administration provide the Board with updates on progress made in implementing the plan.

#### **UPDATE: UNIVERSITY OF MINNESOTA BUDGET ISSUES**

President Bruininks provided an update on the FY04 biennial budget issues facing the University of Minnesota as a result of the Governor's FY2004-05 budget recommendations. Information from the legislature indicates that the University is facing a possible \$209 million reduction in state funding for the 2004-05 biennium. Bruininks reviewed the strategies and preliminary actions that have been taken to reduce administrative and operating costs, as well as the strategies to implement targeted reductions, eliminations, and consolidations. He assured the Board that the administration is being very creative as it seeks to find ways to address this challenge. He reviewed the timeline for budget development, indicating that the Legislature is scheduled to adjourn May 19. His recommended budget will be before the Board for review at the June 13, 2003 Board meeting, with action scheduled for a meeting to be scheduled in late June.

In response to a question, Bruininks stated that while the University's base operating budget from the state will be reduced, he still believes that the University can restore its base in the future as the economy improves.

Regent Simmons asked about the effect the reductions will have on other revenue sources, i.e. philanthropy and private partnerships. Bruininks stated that it is too early to tell. Nationally, gift giving has been reduced due to the sharp decline in the stock market. However, the University of Minnesota has shown an increase in its receipt of gifts over the same period last year. It is difficult to rely on philanthropy as a short term solution as most gifts are dedicated to particular purposes. In the future however, he believes the University should strategically target certain areas for fundraising that will support the institution's budget.

With regard to sponsored funding, particularly from the state, the President believes there may be some

**decline, but he reiterated that it is too early to tell at this time.**

**The President indicated that the University has contingency plans if the Legislature goes into a special session.**

**The meeting adjourned at 11:45 a.m.**

**ANN D. CIESLAK**

**Executive Director and**

**Corporate Secretary**

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