

UNIVERSITY OF MINNESOTA

BOARD OF REGENTS

Finance & Operations Committee

December 13, 2007

A meeting of the Finance and Operations Committee of the Board of Regents was held on Thursday, December 13, 2007 at 2:30 p.m. in the East Committee Room, 600 McNamara Alumni Center.

Regents present: Steven Hunter, presiding; Clyde Allen, Linda Cohen, John Frobenius, Venora Hung, and Dean Johnson.

Staff present: Vice President Richard Pfutzenreuter; Executive Director Ann Cieslak; and Associate Vice Presidents Stuart Mason and Michael Volna.

Student Representatives present: Ben McKibben and Nathan Swanson.

ISSUES RELATED TO: ANNUAL FINANCIAL REPORT

Vice President Pfutzenreuter and Acting Controller Denise Seck presented information from the University of Minnesota Fiscal Year 2007 Annual Financial Report and highlighted the following:

- The University's balance sheet continues to be strong;
- Revenues and expenses in 2007 resulted in an increase in net assets of \$590 million;
- The University experienced favorable returns on investments during FY2007; and
- Future financial strength is dependent on 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 (foundations, alumni associations, etc.) are included in the Annual Financial Report.

A copy of the report is on file in the Board office.

ISSUES RELATED TO: OVERVIEW OF INVESTED ASSETS

Regent Hunter invited Associate Vice President Mason to present an overview of invested assets, as detailed in the docket materials and associated materials distributed at the meeting on file in the Board Office. Mason reviewed the organizational structure, responsibilities, and operational guidelines of the Office of Asset Management (OAM).

Mason provided details on the two largest portfolios, the Consolidated Endowment Fund (CEF) and the Temporary Investment Pool. He discussed the University's migration away from public entities to those with less liquidity. He noted

that investments in private capital earn a greater return with a higher volatility, whereas real assets resemble public equity returns, but with less volatility.

Mason announced that, as part of the Enterprise Financial System project, OAM will change its name to the Office of Investments and Banking, effective January 1, 2008.

In response to questions from the committee, Mason explained that in May 2005 the Board approved reducing the payout rate from 5.0 to 4.5 percent to achieve strategic positioning of the CEF over an extended period of time. He noted that the transition to the 4.5 percent payout has not been reached yet. Regent Frobenius expressed interest in revisiting the payout rate in light of current financial market conditions. In response to a suggestion from Regent Cohen, the committee requested discussion of the CEF payout rate at a future meeting.

ISSUES RELATED TO: SIX-YEAR CAPITAL IMPROVEMENT PLAN/DEBT CAPACITY

Vice President Pfutzenreuter reviewed issues related to the Six-Year Capital Improvement Plan and the University's debt capacity, as included in the docket and associated materials distributed at the meeting and on file in the Board Office. The Six-Year Capital Improvement Plan and the 2008 Legislative Bonding Bill establish the priorities and financial framework for the 2009 through 2013 capital budget. Pfutzenreuter stated that the University will be greatly affected if the State of Minnesota reduces or fails to increase the University's appropriation.

Pfutzenreuter reviewed the determinants of the University's bond rating, the sources of Board-authorized outstanding debt through 2014, annual debt service through 2014, outstanding debt excluding state-supported stadium debt through 2014, and annual debt service excluding state-supported stadium debt through 2014.

Pfutzenreuter advised that projections of debt capacity are based on a number of debt service assumptions, including maintenance of the University's current Aa2 debt rating. On the basis of previous approvals, the University expects to issue \$158.4 million in debt during FYs 2009-11. In 2011, total outstanding debt is projected to be \$818.3 million with annual debt service of \$82.1 million. He reported that standard debt service ratios, which measure the University's ability to retire debt with assets, are trending in the desired direction through 2014. He added that the use of standard measures does overstate the University's projected debt capacity because the University's assets must include foundation assets.

In response to questions from the committee, Pfutzenreuter explained the need for ten years of bridge financing in support of the stadium, but that the Department of Athletics will pay the interest on this debt.

CONSENT REPORT

Vice President Pfutzenreuter presented the Consent Report, as detailed in the docket materials, including the Purchase of Goods and Services over \$250,000 to:

- Aeritae Consulting Group Ltd., to increase an existing contract from \$246,000 to \$382,000 to (a) complete work on a Business and IT Impact Analysis and Risk Assessment and (b) complete Disaster Recovery Plans for critical systems supported by Enterprise Applications Systems in the Office of Information Technology through June 30, 2008.
- Berean Group, CedarCrestone, Ciber, Iceberg Technology, Modis, Signature Consultants and others for \$7 million for consultant services for the Enterprise Financial System project. The total request is now \$22 million for the entire project through June 30, 2008.
- Dako Colorado, Inc. for \$530,786.53 for a MoFlo XDP Fluorescence Activated Cell Sorter flow cytometer for the Lillehei Heart Institute.
- Enventis for an estimated \$1,600,000 to provide Cisco network replacement hardware for both the University's coordinate campus interfaces and for the Northern Lights GigaPop (a partnership between the University of Minnesota and the State of Minnesota providing connectivity to the larger network of carriers) for Networking and Telecommunications Services, a division of the Office of Information Technology.
- Fisher Scientific Company L.L.C. for an estimated \$505,740 for Falcon Plastic Labware manufactured by BD Biosciences, to be stocked at the University Stores for use in University departments from January 1, 2008 through December 31, 2008.
- Fonsystems to add \$362,000 to a contract to provide analog phones for the period of December 17, 2007 through September 27, 2009 for Networking and Telecommunications Services, a division of the Office of Information Technology.
- Arthur J. Gallagher Risk Management Services, Inc. for \$100,000 to increase an existing contract for risk management and insurance advisory services for the period December 17, 2007 through June 30, 2008.
- Illumina Inc. for \$263,000 for the Beadstation 500GX as needed for genotyping and gene expression analysis in plants, animals, and microbes for the Department of Agronomy and Plant Genetics.
- InfoEd for \$248,000 for an Intellectual Property Management Software solution and \$162,800 in system transition and installation cost for a total of \$410,800. Annual maintenance fees will be \$49,600. This contract will begin January 2008 and implementation will be completed within the calendar year.
- International Business Machines for \$673,124 for Blue Gene/L System for the Hormel Institute.

- Ionicon Analytik for \$250,000 for purchase of a Proton Transfer Reaction Mass Spectrometer for the Department of Soil, Water, and Climate.
- JEOL USA, Inc. for \$380,000 for Scanning Electron Microscope model JSM-6490LV for the Department of Geological Sciences at the University of Minnesota Duluth.
- LaVision, Inc. for \$297,364 for a Stereoscopic High Speed Particle Image Velocimetry system for the St. Anthony Falls Laboratory.
- Molecular Devices Corporation for \$317,000 to purchase a Fluorescence Imaging Plate Reader needed for the High Throughput Core Screening Facility in the Institute for Therapeutics Discovery and Development in the College of Pharmacy.
- The Science Products Division of Corning Incorporated for an estimated \$594,425 for Corning Plastic Labware, to be stocked at the University Stores for use in University departments from January 1, 2008 through December 31, 2008.
- Trapeze Networks, Inc. for an estimated \$3,000,000 to provide wireless equipment, software, and maintenance that will be used to replace the current wireless network as well as installations in new buildings on the Twin Cities campus for Networking and Telecommunications Services, a division of the Office of Information Technology.

Approval of New Investment Managers

The Office of Asset Management (OAM) proposes engaging three new investment managers to invest target allocations in the Consolidated Endowment Fund (CEF). The proposed managers have been reviewed and are recommended by the Investment Advisory Committee. These managers have been recommended following a thorough due diligence process and review by OAM of the respective asset classes relative to current market conditions and the managers previously selected in these asset classes.

- FIXED INCOME PORTFOLIO: PRIVATE DEBT
- ABRY Partners
- PRIVATE CAPITAL: VENTURE CAPITAL
- CDH Ventures
- Qiming Venture Partners

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

INFORMATION ITEMS

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

- Quarterly Purchasing Report;
- Quarterly Investment Advisory Committee Update;
- Quarterly Asset Management Report;
- Quarterly Debt Management Advisory Committee Update;
- Financial Oversight: Key Indicators; and
- University Bond Ratings.

The meeting adjourned at 3:43 p.m.



ANN D. CIESLAK
Executive Director and
Corporate Secretary