

**UNIVERSITY OF MINNESOTA**  
**BOARD OF REGENTS**  
**Finance and Operations Committee**  
**June 8, 2006**

A meeting of the Finance and Operations Committee of the Board of Regents was held on Thursday, June 8, 2006 at 8:00 a.m. in the East Committee Room, 600 McNamara Alumni Center.

Regents present: Clyde Allen, presiding; Anthony Baraga, Frank Berman, John Frobenius, Steven Hunter, and Cynthia Leshner.

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

Student Representatives present: Cassie McMahon and Nathan Wanderman.

Regent Allen welcomed new Student Representatives McMahon and Wanderman to the committee and invited their participation in committee discussions.

**BOARD OF REGENTS POLICY: INVESTMENT OF RESERVES**

Vice President Pfutzenreuter and Associate Vice President Mason led the discussion of proposed amendments to Board of Regents Policy: *Investment of Reserves*, which governs the investment of short-term and long-term reserves of the institution. The proposed amendments are meant to achieve higher levels of return and cash flow by moving some core University reserves located in both the Temporary Investment Pool (TIP) and the Group Investment Pool (GIP) into the Consolidated Endowment Fund (CEF). The changes are expected to achieve greater diversification, which will lead to lower portfolio return volatility and reduced dependence on domestic interest rates.

Pfutzenreuter highlighted revisions that had been made since the policy was last reviewed by the committee. He pointed out that the policy will now define the amount to be retained in the TIP balance, rather than indicating what percentage of TIP will be moved to CEF. Pfutzenreuter also explained that the reserves retained in TIP shall be categorized for the specific purposes of debt service, cash flow for operations, and core operating resources. Regent Allen commented that the percentages specified for each purpose are general benchmarks that allow for fungibility between the categories. He added that these changes properly address concerns previously voiced by the committee.

Pfutzenreuter reported that the administration is also recommending a modification to the investment strategy for GIP. Current investment guidelines for GIP are to maximize the income and preserve capital balances through the investment in high-quality fixed-income securities with a relatively small portion of the overall portfolio invested in domestic equity-related securities. The proposed new long-term reserves policy would allow up to fifty percent of the overall portfolio to be invested in CEF. The amendments would also allow individual academic and business units to invest in CEF and realize a portion of the returns.

In response to a question from Regent Baraga, Pfutzenreuter stated that the policy change should have no negative effect on the University's bond rating. Allen added that earmarking reserves for certain purposes would most likely be looked upon favorably by bond rating agencies.

In response to a question from Regent Frobenius, Pfutzenreuter explained that future quarterly investment reports brought before the committee will provide a detailed categorization of how TIP and GIP are invested.

A motion was made and seconded, and the committee voted unanimously to recommend adoption of amendments to Board of Regents Policy: *Investment of Reserves*.

#### **BOARD OF REGENTS POLICY: CENTRAL RESERVES FUND**

Vice President Pfutzenreuter led the discussion of proposed amendments to Board of Regents Policy: *Central Reserves Fund*. He stated that the revisions are necessary in order to accommodate amendments to Board of Regents Policy: *Investment of Reserves*. The proposed modifications to the policy would change the size of the reserves to four percent of state appropriations or \$25 million, whichever is greater. The amendments also contain an additional consideration in determining the appropriate level of central reserves by including an evaluation of the composition of investments in the Temporary Investment Pool.

A motion was made and seconded, and the committee voted unanimously to recommend adoption of amendments to Board of Regents Policy: *Central Reserves Fund*.

#### **BOARD OF REGENTS POLICY: ENDOWMENT FUND**

Vice President Pfutzenreuter and Associate Vice President Mason presented proposed amendments to Board of Regents Policy: *Endowment Fund*. Mason stated that the Office of Asset Management (OAM) is recommending a change to the asset allocation guidelines. The proposed asset allocation targets are:

- Public Equity – 40%;
- Fixed Income – 20%;
- Real Assets – 20%; and
- Private Capital – 20%.

Mason explained that the changes are being proposed because they will lead to a more balanced diversification; they are in line with consultant's recommendations and peer group leaders; they will lower volatility without compromising expected return; and they will increase exposure to real assets and private capital.

Pfutzenreuter explained that the proposed policy amendments would include language recognizing the University's responsibility to consider social issues when making investment decisions. He informed the committee that this revision is being recommended by the University Senate Social Concerns Committee and that Board of Regents Policy: *Investment Social Concerns* would be superseded with the adoption of the policy amendments.

In response to questions from several Regents, Mason agreed to develop a proposed reporting structure for alternative assets that would include information on compliance, performance, and benchmarking. External Auditor Don Loberg of LarsonAllen stated that because of the tremendous increase in institutional investment

in alternative assets in recent years, the accounting industry is attempting to catch up regarding best practices in reporting.

The policy amendments will return to the committee for action at a future meeting.

#### **ISSUES RELATED TO: ANNUAL OPERATING BUDGET FY2006-07**

Vice President Pfutzenreuter and Julie Tonneson, University Budget Director, led the discussion of issues related to the annual operating budget FY2006-07, as detailed in the docket materials. The budget, which was reviewed by the Board during the May 2006 Board meetings, is funded through tuition, state funding, the University fee, indirect cost recovery, and central reserves.

Pfutzenreuter explained the differences between FY2005-06 and the proposed budget in all areas of centrally-attributed and distributed funds. He provided background information on the tuition plan for each University campus. The recommended increase for tuition on all campuses and for the graduate school is 6.5%. The rate increases of professional schools vary based on market conditions. Pfutzenreuter also reviewed the proposed cost of attendance for University students, which is a combination of tuition, student fees, room and board, books and supplies, and miscellaneous expenses.

In response to a question from Regent Hunter, Pfutzenreuter observed that the implementation of the new internal budget model lessens the importance of the University Fee and that it would be appropriate to make the fee a component of tuition. In response to a question from Regent Berman, Pfutzenreuter noted that while the competitive compensation pool allotment had decreased from \$7 million in FY2005-06 to \$6 million in the proposed budget, the administration is confident this pool will be adequate for recruiting and retention cases.

#### **ISSUES RELATED TO: ANNUAL CAPITAL IMPROVEMENT BUDGET FY2007**

Vice President Pfutzenreuter presented information on the FY2007 capital improvement budget, as detailed in the docket materials. The proposed budget authorizes projects totaling \$526.5 million to begin design or construction during FY2007. This budget is more than double of the FY2006 budget, Pfutzenreuter maintained, because of the inclusion of the University stadium project. Pfutzenreuter reported that 30% of the projects are funded as part of the University's state bonding requests. He explained that an approved financing plan must be in place for a project to be included on the annual capital budget.

Regent Allen commented that during the upcoming period of intense capital building, it will be extremely important to monitor for quality control the management of existing projects and the selection of future projects.

#### **CONSENT REPORT**

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

- To All State Communications, Inc., Collins Electrical Systems, Inc., Comlink Midwest, Inc., Dell-Comm, Inc., Metro Communication

- Services, Inc., NetVersant, Parallel Technologies, Inc., Parsons Electric Co., Performance Cable Systems, Inc., and Tri Com Communications, Inc. for an estimated \$700,000 of contract labor for Horizontal Wiring services as needed for the period of July 1, 2006 through June 30, 2007, for the Networking and Telecommunications Services (NTS) department, a division of the Office of Information Technology.
- To Applied Business Communications, Inc., Dell-Comm, Inc., Tri Comm, Inc., and Underground Piercing, Inc., for an estimated \$350,000 of contract labor for Outside Cable Placement and Inside Infrastructure Construction/Cabling and Termination as needed for the period of July 1, 2006 through June 30, 2007, for the Networking and Telecommunications Services department, a division of the Office of Information Technology.
  - To Center for Academic Programs Abroad for a not to exceed amount of \$746,550 for providing study abroad academic credit programs for the Learning Abroad Center.
  - To Collegiate Licensing Company ("CLC") for an estimated \$500,000 for an agreement appointing CLC as executive licensing agent for the University for the period of July 1, 2006 to June 30, 2011.
  - To the Duluth Transit Authority for a five-year contract at \$264,000 annually, from June 1, 2006 through August 31, 2011, for a total of \$1,320,000, to provide public transit services to University of Minnesota Duluth students, faculty and staff.
  - To IBM for \$420,000 to renew IBM mainframe computer software licenses and maintenance support for the one-year period July 1, 2006 through June 30, 2007, for the Office of Information Technology.
  - To IBM/Lenovo for an estimated \$1,284,062 for a two year lease of approximately 1150 Lenovo R60-9462CTO notebook computers and approximately 100 Lenovo T60-2007CTO notebook computers for the period of August 15, 2006 through August 14, 2008 for the Crookston Campus.
  - To Idexx Distribution Corp. for \$944,314 for the purchase of test kits for detecting diseases in MN livestock and poultry for the period July 1, 2006 through June 30, 2007, for the Veterinary Diagnostic Laboratory.
  - To Leeds Precision Instrument for \$460,390 for a Single- and Multi-photon Confocal Microscopy System for the Biomedical Image Processing lab.
  - To Rigaku/MSU for \$319,000 for modification of existing X-ray equipment, and for purchase of an additional data collection system. This purchase is for the Biochemistry, Molecular Biology and Biophysics Department.
  - To the State of Minnesota Office of Enterprise Technology 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, 2006 through June 30, 2007 for Networking and Telecommunications Services, a division of the Office of Information Technology. This purchase has been budgeted for FY07.

- To Thane Hawkins Polar Chevrolet and Lupient Enterprises for an estimated \$1,000,000 for vehicles as needed for the period of July 1, 2006 through June 30, 2007 for Fleet Services, a division of University Services.
- To Yocum Oil Company, for an estimated \$1,000,000 for the purchase of fuel as needed for the period of July 1, 2006 through June 30, 2007 for the Fleet Services Department.

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

### **INFORMATION ITEMS**

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

- Quarterly Investment Advisory Committee Update;
- Financial Oversight: Key Indicators;
- Semi-Annual Debt Management Advisory Committee Report;
- Quarterly Purchasing Report; and
- Quarterly Asset Management Report.

The meeting adjourned at 9:45 a.m.

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