

UNIVERSITY OF MINNESOTA

BOARD OF REGENTS

Finance & Operations Committee

February 7, 2002

A meeting of the Finance & Operations Committee of the Board of Regents was held on Thursday, February 7, 2002, at 3:30 p.m. in the West Committee Room, 600 McNamara Alumni Center.

Regents present: Michael O'Keefe, presiding; Anthony Baraga, Frank Berman, Jean Keffeler, H. Bryan Neel, and Lakeesha Ransom.

Staff present: Executive Director Ann Cieslak; Associate Vice Presidents Elizabeth Nunnally, Donna Peterson, Richard Pfitzenreuter, and Michael Volna.

Student Representatives present: Isaac Dallager and Venora Hung.

INVESTMENT MANAGER REPORT: ALLIANCE CAPITAL MANAGEMENT

Associate Vice President Pfitzenreuter introduced Director of Asset Management Sheila Warness and Alfred Harrison, Vice Chairman of Alliance Capital Management, to present the Investment Management Report, as found in the materials on file in the Board Office.

Director Warness reported that since 1978 Alliance Capital Management has managed part of the University's Consolidated Endowment Fund. Currently the firm manages approximately \$69 million in the domestic equity large-cap area, which represents 11.5% of the institution's domestic equity assets. The University has had very positive returns from this portfolio long-term, particularly when measured against the S&P 500 in the late 1990s. The portfolio has had negative returns in the past two years.

Harrison summarized Alliance Capital Management's portfolio methodology and strategies, outperforming and underperforming investments, and the 22.9% decline in the portfolio during 2001, as compared to an 11.9% decline in the S&P 500. Harrison reported that approximately one-third of this decline, or \$8.3 million*, was due to losses in the value of Enron Corporation stock.

In response to questions from Regent Berman, Harrison provided information regarding the firm's internal reporting and monitoring guidelines, its investment limit of 5% in a single security, and the rules regulating employee investments to avoid conflict of interest. Harrison also reported that the firm had received misleading information during several meetings with Enron executives over the past year.

*On February 8, 2002, it was announced that the preliminary figure of \$8.3 million was incorrect due to a double entry. The revised loss is \$5.2 million.

ANNUAL INSURANCE AND RISK MANAGEMENT REPORT

Associate Vice President Pfutzenreuter introduced Associate Vice President Volna and Cary Jones, Director of Risk Management and Insurance, to present the Annual Insurance and Risk Management Report, as found in the materials on file in the Board Office.

Jones reported that the University's total insurance costs for fiscal year 2001 were \$7.2 million, compared with \$6.8 million for the prior year. The increase was caused primarily by higher property insurance costs. Self-insurance costs, such as workers' compensation, general/professional liability, non-profit organization liability, and auto liability, remained constant at \$5.5 million.

In the future Jones anticipates that self-insurance costs will remain fairly stable, while commercial insurance costs will increase significantly when the current policy expires in June 2002. The reasons for the expected increase are the institution's high claims-to-premium ratio, industry-wide rate increases, and the impact of the events of September 11, 2001. Insurance underwriting will become more restrictive, with smaller liability limits, and no coverage for acts of terrorism or earthquakes.

The committee briefly discussed RUMINCO, the University's self-insurance company, and the types of insurance covered under its charter.

In response to a request from Regent O'Keefe, Volna agreed to prepare a study comparing self-insurance costs to the estimated cost of purchased insurance.

UNIVERSITY OF MINNESOTA STATE BUDGET UPDATE

Associate Vice President Pfutzenreuter introduced Associate Vice President Peterson and Budget Officer Elizabeth Eull to present an update on the Governor's 2002-2003 Supplemental Operating Budget Recommendations and the 2002 Capital Budget Recommendations, as found in the materials on file in the Board Office.

Eull summarized the components of the Governor's proposed \$33 million decrease in the University's \$36 million appropriation for FY2002-03.

Pfutzenreuter reported that the University generally has three methods to deal with a shortage:

1. increase tuition above the planned 13.6% increase for FY2002-03;
2. delay aspirations and investments in existing and future academic programs by eliminating faculty hires and faculty merit pool increases; and/or
3. reduce administrative overhead through position attrition and budget cutbacks.

Associate Vice President Peterson reported on recent events at the legislature pertaining to the state budget shortfall, reviewing the proposals from the House and Senate.

CONSENT REPORT **Review/Action**

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

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

- \$1,185,603 to Academic Press, Inc. for internet access to IDEAL, its electronic on-line journal collection, for academic libraries in Minnesota, North Dakota, and South Dakota, including the University of Minnesota Libraries, through December 2003. Contract negotiated directly with Academic Press, Inc.
- \$420,000 to Applied Biosystems for twenty-four kits of Big Dye Terminator Cycle Sequencing Version 2.0, 5000 reactions shipped as needed to the Advanced Genetic Analysis Center for the period March 1, 2002 through

February 28, 2003. Applied Biosystems is manufacturer and sole distributor of kits meeting instrumentation and software requirements. Contract negotiated directly with Applied Biosystems.

- An estimated \$1,200,000 to Genuity Telecom for internet connectivity provided to University of Minnesota and State of Minnesota under a Joint Powers Agreement for the period April 1, 2002 through September 30, 2004, with University as contracting agent. University's share and State's share estimated at \$600,000 each; State reimburses University for usage. Vendor selected through competitive bid process.
- \$306,906 to Heart Failure Society of America for services relating to Fifth Annual Scientific Meeting held September 9-10, 2001. Event co-sponsored with University of Minnesota Office of Continuing Medical Education. Payment originally estimated at less than \$250,000.
- \$460,000 to JOEL USA Inc. for 2 Field Emission Gun Scanning Electron Microscopes (FEG-SEMs) for the Institute of Technology Characterization Facility. Purchase negotiated directly with manufacturer.
- An estimated \$1,155,075 to Johns Hopkins University Press for an internet subscription to Project MUSE, full-text scholarly journal literature for libraries in Minnesota, North Dakota, and South Dakota, including the University of Minnesota Libraries, through December 2003. Contract negotiated directly with Johns Hopkins University Press.
- An amount not to exceed \$282,000 to McLeodUSA Telecommunications Service for long-distance call handling for the UMD Department of Information Technology Systems and Services for the period of March 2002 to February 2005. Vendor selected through competitive process.
- An amount not to exceed \$350,000 to Deloitte & Touche, LLP, related to Medicare audit services for years 1992 through 1996, prior to the sale of the University hospital. Work effort requires historical knowledge that only Deloitte & Touche, LLP, is able to provide efficiently.

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

INFORMATION ITEMS

Associate Vice President Pfitzenreuter presented the Central Reserves Summary as of January 31, 2002, as found in the materials on file in the Board Office. He noted a projected ending balance decrease from \$14.6 million to \$9.9 million due to continued interest rate cuts by the Federal Reserve Bank.

Pfitzenreuter briefly outlined several possible strategies for managing the projected decrease and rebuilding the fund, and indicated that the Investment Advisory Committee is studying options for a higher-yielding cash investment vehicle.

It was agreed the committee would schedule a policy discussion regarding central and departmental reserves prior to FY03-04 budget preparation.

Pfitzenreuter recognized Colleen Davy, Cash Management Director in the Office of Asset Management and recipient of the 2001 Best Practices Award given by the national journal *University Business*, for developing a way to track and quickly disburse over \$400 million per year that the federal government transmits electronically in lump-sum amounts

The meeting adjourned at 5:00 p.m.

ANN D. CIESLAK
Executive Director and
Corporate Secretary

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