

UNIVERSITY OF MINNESOTA
BOARD OF REGENTS
Finance & Operations Committee
February 7, 2008

A meeting of the Finance and Operations Committee of the Board of Regents was held on Thursday, February 7, 2008 at 9:45 a.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: Chancellor Charles Casey; Senior Vice President Frank Cerra; Vice Presidents Steve Cawley and Richard Pfutzenreuter; Executive Director Ann Cieslak; and Associate Vice Presidents Gail Klatt, Stuart Mason, and Michael Volna.

Student Representatives present: Nathan Swanson and Mark Torma.

**ISSUES RELATED TO: ANNUAL CAPITAL FINANCING &
DEBT MANAGEMENT REPORT**

Vice President Pfutzenreuter invited Carol Fleck, Director of Debt Management, and John Augustine, Managing Director of Lehman Brothers, to present the Annual Capital Financing & Debt Management Report for FY2007, as included in the docket materials and on file in the Board Office.

Fleck indicated that the University's approach to debt management is to focus on using an overall portfolio; to link debt structure and external debt service with the budget process; and to maintain the current excellent long- and short-term core debt ratings by Moody's and Standard & Poor's. Augustine reviewed determinants of the University's credit rating and debt capacity, noting that State support, student demand, and market positions and financial indicators place the University solidly in the Aa category. The University compares favorably when benchmarked with its peer group in terms of total resources, comprehensive debt, and debt service as a percentage of operations.

In response to questions from the committee, Augustine stated that audits have recently become increasingly important in determining ratings. The excellent quality of the University's audits and the regular communication by the Financial Management Group are valued by the rating agencies. He observed that the University's diversified revenue stream and the State's good credit rating have had a positive effect on the University's rating.

Regent Allen reported on the Debt Management Advisory Committee's recent discussion of debt structure. He stated that the committee supports recommended changes to maximize financial returns and lower interest rates on existing bonds through a Request for Proposal. The committee also suggested that the consideration of using \$65 million of previously approved but un-issued commercial paper.

ISSUES RELATED TO: PRIVATE EQUITY

Vice President Pfutzenreuter introduced Associate Vice President Mason to review the portfolio characteristics of the Private Equity allocation in the Consolidated Endowment Fund (CEF), as included in the docket materials.

Mason stated that the University's management oversight for private capital investments ensures that it is familiar with the portfolio, is aware of the companies involved, and is familiar with the types of investments made. Alternatives to private capital investments in the CEF include: venture capital, which traditionally performs well in a good economy and has recently done well; buyouts, or new acquisitions, which generally slow down in a bad economy; and distressed debt. Mason noted distressed debt opportunities are increasing due to the current economy, and the University's percentage of this type of private capital may rise in order to take advantage of the current market. He added that private capital continues to be the University's best performing asset.

In response to questions from the committee, Mason stated that current Board of Regents policy is flexible and will allow the University to take advantage of market opportunities that may arise.

UPDATE: ENTERPRISE FINANCIAL SYSTEM IMPLEMENTATION

Vice President Pfutzenreuter invited Vice President Cawley and Associate Vice President Volna to present an update on the Enterprise Financial System implementation (EFS), as included in the docket materials and associated materials on file in the Board Office. Volna reported significant progress on the EFS implementation plan since the last presentation in May 2007. He described the benefits EFS will provide, including a fully functioning and integrated accounts receivable and billing system; fixed asset management tools; an improved reimbursement function for travel and expenses; comprehensive financial analysis tools and capabilities; and a platform for grants tools.

Cawley reported the EFS project is on time and continues to be on budget. He noted that extensive testing of the system will be completed this spring to ensure a smooth transition when the system goes live on July 1, 2008.

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:

- Cellular Specialties, Inc. for an estimated \$1,248,628 to furnish, deliver and install public safety radio and Nextel cellular communications equipment for the Department of Public Safety.
- Communication Power Corporation for \$280,172 for 7T Amplifier System Upgrade for the Radiology Department, Center for Magnetic Resonance Research.
- Enventis Telecom for \$1,700,000 to purchase network hardware and software and to provide annual Cisco Smartnet hardware and software support for the period of April 1, 2008 through March 31, 2009 for Networking and Telecommunications Services, a division of the Office of Information Technology.

