

MINUTES OF THE SPECIAL MEETING
OF THE
MICHIGAN STATE UNIVERSITY
BOARD OF TRUSTEES

July 26, 2000

President McPherson called the Special Meeting of the Board of Trustees to order at 8:09 a.m. in the Conference Room, 450 Administration Building.

A Roll Call was conducted by Secretary Pogel. Trustees present via teleconference: Dolores Cook, Joel Ferguson, Dorothy Gonzales, Donald Nugent, David Porteous, Bob Traxler, and Robert Weiss.

Trustee absent: Colleen McNamara.

University officers present: President McPherson, Provost Simon, Secretary Pogel, Vice Presidents Poston and Denbow, and Vice President and General Counsel Noto. Others present: Assistant Vice President Lindahl, Assistant Vice President Flowers, Director Byelich, and Director Osburn.

All actions taken were by unanimous vote of the Trustees present, unless otherwise noted.

1. On a motion by Mr. Porteous, supported by Mr. Traxler, **THE BOARD VOTED to approve** the proposed agenda.
2. There were no requests to address the Board of Trustees on issues germane to the agenda or other issues.
3. 2000-2001 Budget

Trustee Nugent recommended that the Board approve the 2000-2001 operating budget for the University's general fund, the Michigan Agricultural Experiment Station, the MSU Extension Service, and Intercollegiate Athletics. He reported that this recommendation came from the Trustee Finance Committee on a 3 to 1 vote. Mr. Weiss said that he voted No in committee because of a misunderstanding about the Michigan tuition tax credit. He believed that a tuition increase up to 4% would allow students to receive the tax credit, but subsequently learned that a 3.5% increase in MSU's tuition would preclude students from receiving the tax credit. For that reason, Mr. Weiss explained, he would be voting No on the budget.

Trustee Nugent attributed Mr. Weiss' misunderstanding to a confusion between aspects of the tuition tax credit legislation and a 1.5% funding penalty that universities would receive if tuition was raised more than 4%. Trustee Weiss agreed with Mr. Nugent's assessment.

Trustee Traxler explained that the budget is one of the most important issues that the Board votes on. He said that he would also vote No because of his "usual procedural and process reasons." Trustee Ferguson asked Trustee Traxler to clarify what he meant by procedural and process reasons. Trustee Traxler said that the Board should consider the budget in greater detail. He said that each year's budget should be presented in comparison to detailed budgets from prior years so the Board could review spending trends. He suggested that the budget be discussed during the Board's annual retreat.

Trustee Nugent assured Mr. Traxler that the Finance Committee spent considerable time reviewing the 2000-2001 budget before it was sent to the full Board. He said that the committee was quite comfortable in recommending the budget to the Board.

On a motion by Mr. Nugent, supported by Ms. Cook, **THE BOARD VOTED to approve** the proposed 2000-2001 budget. A Roll Call vote was conducted by Secretary Pogel. Trustees Traxler and Weiss voted No.

4. Financing Issues

Trustee Nugent recommended that the Board approve the Revised Investment Strategy for Operating Cash Pools. The liquidity pools shall be composed of short-term and intermediate-term commercially available funds and up to a \$75 million bank line of credit or its equivalent. The combined size of the short-term and intermediate-term pool would be 15% of the overall operating cash pool. He said that the University would maintain a cash pool of at least \$50 million. The balance, 85%, of the overall cash pool would be invested as long-term capital for the University. There would be a 25% target to be invested in fixed income security funds, and there would be a 60% target to be invested in one or more trusts and held there as endowment funds. Each trust would last at least five years and be irrevocable for that time. This plan would be implemented over the next eight quarters starting within 90 days after its approval. He said that the Finance Committee has received reports from legal counsel that the proposal is consistent with the Constitution of the State of Michigan.

The Board had a lengthy discussion of the proposal. Trustee Traxler offered three amendments to the resolution. The first amendment altered language in paragraph seven, sentence one of the resolution. The sentence, "The Vice President for Finance and Operations and Treasurer shall report to the Finance Committee on at least an annual basis...." would read, under the amendment, "The Vice President for Finance and Operations and Treasurer shall report to the Finance Committee and the Board of Trustees on at least a semi-annual basis..." President McPherson asked if there was support for Trustee Traxler's amendment. Trustee Weiss seconded the amendment. Mr. Traxler explained that this is a procedural issue regarding reporting to the Board. He said that all members of the Board should be provided with these reports, not just the Finance Committee.

Mr. McPherson said that this is an appropriate amendment. Trustee Nugent accepted Mr. Traxler's suggested change as a friendly amendment.

Trustee Ferguson requested that a vote be taken on the amendment. **The BOARD VOTED to approve** Trustee Traxler's amendment.

The second amendment suggested by Trustee Traxler was that paragraph 5, sentence 1 of the resolution be changed from “The President and the Vice President for Finance and Operations and Treasurer are hereby authorized...” to “The Vice President for Operations and Treasurer is hereby authorized to”. After President McPherson and General Counsel Noto explained that the purpose of this paragraph of the resolution was not to delegate to the President or Vice President for Finance any authority with respect to the trusts other than moving forward to establish them, Trustee Traxler withdrew this proposed amendment.

In light of the explanation by President McPherson and General Counsel Noto, Trustee Traxler proposed a third amendment, which was to remove the word “maintain” from the first sentence of paragraph 5 of the resolution. President McPherson indicated that this was, in his judgment, an appropriate amendment and suggested that Trustee Traxler modify his proposed amendment to remove the words “maintain and account for” from the first sentence of paragraph 5 of the resolution. Trustee Traxler agreed to do so. President McPherson conducted a vote on Trustee Traxler’s revised amendment. **The BOARD VOTED to approve** that amendment.

Mr. Weiss asked if the resolution includes a delegation. President McPherson explained that there is no delegation, though it is expected that members of the Finance Committee would delegate to staff the administrative functions of the trust. He said that Finance Committee members would be trustees of the trust and would, therefore, be required to review and sign any documents establishing the trusts. Mr. Weiss asked if the resolution allowed administration to proceed in establishing the trust. Mr. McPherson said yes.

Trustee Traxler inquired whether the Board would be required to take further action on the matter if the recommendation were approved. President McPherson and General Counsel Noto said that the recommendation authorizes administration to prepare documents for execution by members of the Finance Committee as trustees of the trust, and by President McPherson or Vice President Poston on behalf of the University.

Trustee Weiss requested that members of the Finance Committee have approval of the trust agreement before the University enters into such an agreement. Mr. Noto said that since the members of the Finance Committee are serving as trustees, and must, therefore, sign each trust agreement, they will have an opportunity to review each trust agreement and request changes in it before signing it.

Trustee Porteous stated that he would support this recommendation because of President McPherson’s leadership and expertise in the finance area. He said that it is important to have President McPherson involved in the oversight and review of the trusts.

President McPherson said that the resolution does not change the process for establishing the policies under which the University’s money is invested. The Finance Committee will continue to make recommendations for the establishment of these policies to the full Board.

Mr. Traxler commended President McPherson for moving forward with this investment strategy, and said that it should have been done long ago.

Trustee Porteous commented that he agrees with Mr. Traxler that President McPherson's finance team has looked at ways to maximize return on investments while maintaining a sound, conservative investment policy. He said that greater risk comes with a greater rate of return. A diversified portfolio such as MSU's, Mr. Porteous said, helps minimize risk. President McPherson pointed out that implementing the program set forth in the resolution slowly over several years was intended to reduce risk as well. Trustee Porteous complimented General Counsel Noto for his thorough review of the issue before the Board.

On a motion by Mr. Nugent, supported by Ms. Cook, **THE BOARD VOTED to approve** the proposed resolution, as amended. A Roll Call vote was conducted by Secretary Pogel. All Trustees present voted Yes. During discussion of the resolution, Trustee Weiss had indicated that he supported the recommendation, however, technical difficulties with the teleconference connection during the Roll Call vote prevented him from casting his vote.

5. An Executive Session was not requested.
6. On a motion by Ms. Cook, supported by Ms. Gonzales, **THE BOARD VOTED to adjourn** at 8:56 a.m.

Respectfully submitted,

Nancy H. Pogel, Ph.D.
Secretary of the Board of Trustees