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February 8, 2011

Governor Scott Walker
115 East Capitol
Madison, WI 53702

Dear Governor Walker,

Thank you for taking time to meet with Regent President Pruitt and me this morning. I appreciated the opportunity to discuss the upcoming 2011-13 budget, in which we will all face some daunting financial challenges.

As you approach those challenges, please remember that the University of Wisconsin System institutions are anxious to work with you to build a brighter, more prosperous future for all State residents.

In tough times like these, it is more important than ever that we provide UW campuses with greater management flexibilities that make efficient use of limited resources, allowing campuses to respond nimbly to emerging needs. By allowing all UW campuses to adopt modern business practices, you can encourage innovation and create savings that can be re-directed to core educational programs.

Attached is a summary of statutory changes that we believe are necessary to help all UW institutions sustain a high level of service to Wisconsin citizens. While this document is divided into distinct areas, I hope that you will view these recommendations as a singular bold package – one that aligns closely with your desire to reform State government and create new jobs.

These are not “one size fits all” flexibilities. Each UW institution is unique. As such, varying levels and types of flexibilities will benefit each campus differently, but all institutions will see measurable benefits. If lawmakers approve these changes, we will aggressively work to “push” new authority down to the local level, letting individual campuses take on higher levels of responsibility. As our largest institution, UW-Madison has the in-house expertise to take on many of these new roles right away, and we will work with Chancellor Martin’s leadership team to tailor those changes in ways that let our flagship campus compete more effectively with other leading research universities.

As we implement these changes at each campus, we will be careful to keep overhead low and accountability high. As part of this process, Regent President Chuck Pruitt has already agreed to launch a thorough review of Regent Policy Documents to eliminate

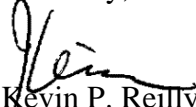
outdated rules, ensuring that new statutory freedoms are not hampered by UW System Administration regulations and procedures that we can clear away on our own.

As we discussed today, these changes – at both the State and UW System level – will provide UW-Madison with all the flexibility it wants and needs, as expressed in the “New Badger Partnership.” History shows that UW-Madison has thrived as part of a statewide UW System, and the other 25 campuses have benefitted greatly from a collaborative, integrated approach. That is not to say that everything should remain the same. As indicated in the attached document, we must have significant statutory changes that will help all UW campuses manage the challenges ahead, and we hope that your 2011-13 budget will advance these flexibilities for all UW campuses.

As we discussed, I hope that UW System staff will have an opportunity to work with your Department of Administration budget experts, in advance of the budget’s publication, to ensure that recommended actions can be implemented in ways that UW campuses can manage as cost effectively as possible.

If you have any questions or reactions, I would of course be happy to talk with you at any time. Thank you again for the meeting today.

Sincerely,



Kevin P. Reilly
President

CC: Board of Regents
Chancellors

A flexible UW is a strong UW

Transforming UW campuses into nimble, efficient engines of economic growth

Wisconsin Leaders Call for Bold Action to Strengthen UW

Wisconsin business leaders have long argued that over regulation chokes innovation and undermines entrepreneurship in the private sector. The same is true for Wisconsin's public institutions of higher education.

Colleges and universities across the nation compete intensely for faculty, staff, and students, as well as government grants and private gifts. Today, University of Wisconsin System campuses compete on a tilted playing field, hampered by outdated laws and burdensome State bureaucracy.

To compete more effectively, the UW campuses need new statutory flexibility in the following areas:

- **Budgeting**
- **Tuition/Pricing**
- **Human Resources**
- **Capital Planning and Construction**
- **Financial Management**
- **Purchasing/Procurement**

Leaders from around the state have endorsed this idea of providing UW campuses with greater autonomy. The *Milwaukee Journal Sentinel* editorial board observed that:

“Greater autonomy should come in exchange for certain promises, including a pledge by the UW to increase the number of undergraduate degrees conferred and to boost research, especially in Milwaukee, the heart of Wisconsin's industrial base. A more efficient university system bolstered by a more reliable stream of state funding would benefit everyone in Wisconsin if the result was more graduates, more research and increased connections and a stronger alignment between UW and the state's job base.”

In a formal resolution, the **Wisconsin Higher Education Business Roundtable** board of directors encouraged Governor Walker and members of the Wisconsin Legislature to allow the UW to adopt new, more efficient business practices:

“Let UW manage education-related building projects in ways that maximize efficiency, adopting practices that more closely mirror those used in the private sector provided

they reduce time-to-completion and acknowledge the role of non-State funds in UW building projects. Allow the UW to participate in higher-education purchasing consortia, and let the state benefit from consortium savings where the UW can negotiate better prices....

“Expand the UW’s ability to address both access and educational quality when setting tuition prices...The UW should have the ability to add value to the college experience by introducing new features and value-added programs focused on higher retention, better graduation rates, or hands-on research/internship experiences, even when the State lacks the resources to fund these vital workforce development initiatives with taxpayer support.

“Redesign compensation authority to let UW use existing resources wisely to address competitive challenges, recognizing that UW operates in a global marketplace and competes for talent differently than other state agencies.”

Citing the “urgency” of the UW’s situation, members of the **Competitive University Workforce Commission** recommended:

“The Board [of Regents] should seek greater flexibility and freedom to manage operations. Savings realized from flexibility could be redirected by the UW System to address high priority needs. Some examples include: Flexibilities in the capital budget process to allow for greater speed in project completion and reduced costs; Additional procurement delegation to the Board of Regents; and Management of facilities, utilities, telecommunications, and fringes, with savings accruing to the UW System.”

Authors of the **“Be Bold: Wisconsin Prosperity Strategy”** say the State of Wisconsin should:

“Provide UW System with greater flexibility to adopt modern business practices that encourage innovation and make the best use of scarce dollars. In purchasing, contracting, construction and other areas, allow UW management to drive overhead down and productivity up. ...Maintain university accountability and transparency without stifling innovation.”

UW campuses have worked diligently to help the State compete in the global economy. Enrollment at UW System campuses has surged to all-time highs, with nearly 182,000 students. The number of degrees conferred has also reached a new record. At the same time, the UW remains a world leader in innovation and scientific research. Discoveries emerging from UW campuses yield important benefits for human health, environmental sustainability, and economic growth.

UW campuses are poised to help Wisconsin improve economic output and create new jobs, with ambitious strategic plans. However, the global economic downturn has further undermined the State’s ability to support UW’s economic development strategies. This means that the State will not be able to consistently provide an adequate share of the resources UW

campuses need to prepare more graduates for the workforce and translate UW research into new private-sector jobs.

Faced with these realities, Wisconsin's public universities need to employ more efficient business practices that make better use of scarce dollars. **Only the Governor and the Legislature have the power to let the UW operate more like an efficient business.**

UW leaders want to work with the Governor and the Legislature to create a new framework – one that will let institutions of higher education move forward more nimbly and efficiently while remaining accountable to students and taxpayers. Unleashing UW institutions from inefficient government regulations will allow local institutions to employ new operational flexibility, utilizing proven business strategies to address emerging local and regional needs.

Budgeting

Currently, general-purpose revenue (GPR) dollars and other funds are allocated to the UW System in earmarked “silos,” providing campuses little/no ability to move funds among appropriations, or the flexibility to reprioritize available funds in one area to address emerging needs in another. This limits the tools that Chancellors may use to “manage to the bottom line.”

The State should replace this model with one that provides a “GPR block grant” from the state, in lieu of specific line-item funding earmarked for utilities, debt service, pay plan, health insurance, and new initiatives.

A statutory change in the State's appropriation structure would be needed, allowing individual institutions to use GPR, fees, and other program revenue funds for any appropriate university purpose. Institutions would retain additional revenues from institution-specific tuition increases and from new enrollment growth.

In return, Chancellors and institutions would be accountable for meeting specific goals, such as producing more graduates and closing achievement gaps. This approach shifts the UW System and its institutions closer to a philosophy of “full operational budgeting,” as is done at most private businesses, including private colleges. Financial reports and audits would continue to provide a public accounting of all expenditures and revenues.

In tandem with other new administrative flexibilities, Chancellors and their campus leadership teams could use this new budgeting approach to employ cost-saving measures – rather than being subjected to measures made uniformly across all State agencies.

UW institutions could reallocate funding among all activities to address institutional priorities and adjust to emerging regional needs. Chancellors and business officers would have a strong incentive to make operational decisions that maximize efficiency. For example, savings from utilities, fringe benefits, and other areas could be used to fund core academic operations, technology transfer, educational services for small businesses, competitive compensation

adjustments for UW faculty/staff, debt service for new facilities, financial aid, or other UW campus priorities.

To provide this flexibility to the UW, lawmakers must amend Wisconsin Statutes 20.285

Tuition/Pricing

Wisconsin Statutes grant tuition revenue generating authority to the UW System Board of Regents, but the law also restricts the use of these funds.

The UW can currently set tuition for resident undergraduate students to fund specific activities approved by the Legislature, and to cover state-imposed costs. The UW can adjust tuition to provide partial funding for faculty/staff pay increases, but only if approved by the Office of State Employee Relations and the Legislature.

Without legislative approval, UW institutions cannot generate new tuition revenues for initiatives that enhance educational quality, improve student services, boost retention rates, increase graduation rates, or provide more hands-on research/internship experiences. Inclusion of initiatives that enhance the quality of undergraduate education would ensure that students continue to receive a world-class education at all UW System campuses.

The UW System should have full authority to set tuition, removing the statutory limitations related to resident undergraduates. This change, along with removing multiple tuition appropriations (Funds 122, 131, 186, and 189), would improve the budgeting and planning process for all UW campuses.

At a time when taxpayers are reeling from the economic downturn, these changes would provide UW campuses with greater flexibility to meet the needs of students and employers alike, while maintaining high levels of academic quality. Tuition dollars could be combined with the GPR block grant (mentioned above) to provide the resources needed for enhanced student support, higher retention/graduation rates, better job preparedness, and other activities focused on economic development and job creation, as well as competitive compensation challenges.

With this new flexibility, the Board of Regents would be responsible for developing policies and guidelines to ensure that UW institutions remain affordable for Wisconsin citizens. Tuition would be benchmarked against established peer groups. At the same time, this tuition flexibility would allow individual institutions to generate funding for unique value-added services and programs, establish niches within the higher-education marketplace (e.g., polytechnic or liberal arts focus), or implement new pricing models.

The UW System and its institutions are very concerned about affordability and access. Reasonable, predictable changes in tuition, coupled with need-based financial aid, will ensure access for those who might not otherwise be able to attend. Other programs, such as those

focused on helping students complete their degrees faster, with fewer paid credits, will also preserve affordable access to a high-quality UW degree.

To provide these flexibilities to the UW, lawmakers must amend *Wisconsin Statutes 36.27: 20.285; and 36.27(1)(am).*

Human Resources

Today, UW faculty and academic staff employees are governed by the same laws that govern virtually all other State employees. Titles, pay ranges, pay plans, benefit plans, and other human resources decisions are now made by the Office of State Employment Relations, and are generally applied uniformly across all agencies, ignoring UW campuses' unique need to compete in a global market for human capital.

Statutory change is needed to delegate OSER's current authority to the UW. **The University of Wisconsin should have the ability to establish its own unclassified human resources policies with respect to hiring, compensation, titling, furloughs, benefits, and other areas.**

Each UW institution's human resources staff would be responsible for managing Board of Regents policies related to unclassified titling and compensation, including salary ranges, the rationale for setting salaries within those ranges, and situations where exceptions are necessary to address market needs. This would go a long way toward improving hiring and retention, while reducing turnover costs.

The UW institutions should be able to determine benefits that are offered to UW faculty and staff, with the ability to opt-in or opt-out of state-procured benefit programs. UW institutions could evaluate the costs and benefits of regionalized health insurance options, ensuring competitive rates and better response to regional needs. UW System institutions could purchase insurance through University consortia, if those plans offered comparable benefits at lower costs, and UW System could determine the appropriate level of benefits for part time employees.

By delegating authority to the local UW institution to administer the classified hiring process, the UW campuses could streamline hiring processes and increase productivity by filling vacant positions more quickly. Local classified staffing authority, used in compliance with Federal and State laws, would allow projects to be completed on deadline.

The Legislature established a \$12,000 limit on "overload" pay for university faculty members in the 1970s, and that cap remains in effect today. This constrains faculty creativity and entrepreneurship by removing the incentive to pursue outside funding for projects that have the potential to employ others, give students hands-on research experience, and benefit the local economy. Each UW System institution must track dual employment situations against this cap, which is administratively difficult and resource-intensive. Removal of this cap will free staff

resources for other duties and allow UW System institutions to hire the most talented and qualified individuals available, regardless of their status with another state agency or authority.

To provide these flexibilities to the UW, lawmakers must amend Wisconsin Statutes 16.417(2)(a); 36.09(1)(i) and (j); 111.815(1); 230.04(9); 230.09; 230.10; and 230.12.

Capital Planning and Construction

Currently, the UW System comprises approximately 65 percent of the State-owned facilities and capital building program. In the FY 2009-11 Capital Budget, approximately \$963 million was approved for 31 major construction projects and approximately \$110 million for capital maintenance projects. About one-third of these projects were funded by taxpayer supported bonds. These project costs could be reduced significantly by streamlining the planning, design, and approval processes, and by placing the responsibility and accountability closer to the users – typically those who are also paying for the project.

Adopting best practices used by private-sector builders and universities in other states, the UW would be responsible for its own facilities and save money by significantly reducing the time it takes to complete a project and reducing the cost of management. The University would reduce the non-construction “soft costs” of projects by making design and management fees more competitive. The University would utilize private sector project management teams to reduce administrative costs.

Unlike most other State capital projects, most UW facilities are funded by university-generated revenue and gifts, not State taxpayer funds.

There is no other state in which a state agency similar to the Department of Administrative Services manages all university capital projects. This added layer of bureaucracy delays projects and inflates costs. Other states differentiate between state facilities and university facilities primarily because the design, construction, and purpose of university facilities is unlike state facilities. Universities plan and design facilities tailored to meet national academic standards and student life needs.

State statutes should be amended to make the UW System Board of Regents responsible for the UW’s capital assets and real estate including bonding, construction and maintenance of buildings, and utilities. Individual institutions would become responsible for planning and managing capital projects. From block-grant base funding and revenue generated on campus, institutions would determine funds allocated to capital projects. Institutions would have the ability to self-perform and contract for some projects. This would also reduce or eliminate competition for projects among campuses.

Alternative delivery methods to fit the project scope would reduce construction costs. Staff at UW System and the institutions closer to the projects and constituents would manage capital projects. This would not duplicate DOA services because staffing levels are based on the scope

and budget of projects. Transition of responsibility would occur gradually; existing projects would continue under DOA and new projects would begin under UW's new authority.

Currently, the State issues General Obligation (G.O.) bonds for all major UW building projects, even those that are repaid by university-generated revenue. By authorizing the Board of Regents to issue Revenue Bonds, the state would reduce its overall debt substantially.

To provide these flexibilities to the UW, lawmakers must amend Wisconsin Statutes 13.48; 16.84; 16.848; 16.85; 16.855; 16.87; and 36.11.

Financial Management

Under current law, UW institutions cannot manage their own finances and investments. The State invests all revenues, and UW institutions are credited for interest earnings on certain funds. The state keeps investment earnings on most program revenue funds, while statutes restrict the UW to managing and investing only gifts and trust funds.

The UW should have statutory authority to manage and invest its block grant from the state in addition to all other funds collected by campuses, including auxiliaries, tuition income, gifts, grants, and contract revenue. This would include the ability to develop cash management and investment policies based upon industry standards and best practices, and the authority to develop vendor payment terms that maximize cash flow. Increased income from locally-managed investments would help offset State GPR reductions.

With this change, UW institutions would have improved cash flow, and could develop cash management policies based on higher education standards that maximize revenues and minimize expenses. UW System Administration could utilize its existing structure for Trust Fund holdings to manage other accounts, as well as the State of Wisconsin Investment Board (SWIB) for investing cash. This would allow UW institutions to generate more of their own revenues and reduce the need for additional GPR support in the future.

To provide these flexibilities to the UW, lawmakers must amend Wisconsin Statutes 16.401; 34.045(2); 36.11(11) and (29).

Purchasing and Procurement

All University of Wisconsin System institutions must adhere to strict laws and regulations that govern the procurement of goods and services. These laws apply uniformly to all State agencies, ignoring the specialized needs of UW campuses and prohibiting the use of other purchasing tools that could enhance UW operations and reduce costs.

Acknowledging the unique demands of higher education and scientific research, **the UW institutions should be granted statutory authority to develop more refined procurement policies and practices.** UW System Administration would work together with the campuses to design and implement procurement rules based on “best practices,” and institutions would be delegated the authority to make local purchasing decisions based upon those new policies.

UW System Administration would assist institutions upon request, or when they determine that collective purchasing would be advantageous. Regular reviews and public reports would ensure compliance and preserve transparency, and provide an opportunity to measure achievements against established institutional goals (e.g., MBE purchasing).

This would result in significant changes. For the first time, the UW would have the authority to:

- Use higher education purchasing consortia to obtain better pricing/service for UW campuses – in some cases opening up new opportunities for all State agencies to participate in the same contracts and realize additional savings.
- Establish realistic bidding thresholds, replacing existing dollar-level thresholds that have been in place since 1994, and aligning bidding thresholds with those established by the Federal government.
- Grant waivers from the bidding process when there is no competitive market for the good or service provided.
- Exercise greater flexibility in awarding contracts to small, minority-, and women-owned businesses.
- Develop regional or local vendor networks for multiple campuses in a geographic region that could offer improved delivery and competitive pricing.
- Use less expensive travel options, letting University employees, athletic teams, and sponsored groups seek the lowest cost vendor for travel.
- Make exceptions for goods and services purchased with outside funds and extramural contracts, facilitating faster research and attracting talented research faculty.
- Relax restrictions on sole-source procurement and engage in cooperative purchasing.

To provide these flexibilities to the UW, lawmakers must revise Wisconsin Statutes 16.70; 16.71; 16.72; 16.73; 16.75; 16.76; 16.705; 16.754; 16.753; 16.765; 20.916; and 36.11.

Next steps

If these statutory changes are included in the Governor's 2011-13 biennial budget:

- Chancellors will coordinate efforts with local business and community leaders to build public support for efforts to transform campuses into nimble, efficient engines of economic growth.
- UW representatives and third-party advocates will contact legislators via letters, phone and email, to build support for new statutory changes.
- The UW will seek support from campus student, faculty, and staff organizations.
- Letters to the editor, op-ed columns, and editorial board visits will be used to inform local opinion leaders.