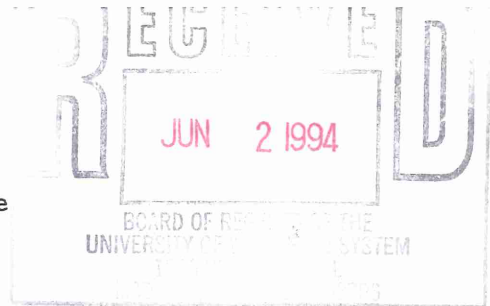


Minutes
Business and Finance Committee
May 5, 1994



The Business and Finance Committee met at 2:30 p.m in Room 1820 Van Hise Hall. Present were Regents Gelatt, Lubar, Hempel, Nicholas, Orr, and Tregoning.

c. Salary Policy for UW System Senior Executives

Regents Orr and Hempel presented information to the Committee on salary policy for UW System senior executives. The Board of Regents is responsible for setting the salaries of the following UW System senior executives: the System President, Senior Vice Presidents, and Vice Presidents; the Vice Chancellor for Clinical Health Sciences at UW-Madison; the Chancellors and Provosts or Academic Vice Chancellors at the UW institutions.

In 1989 the Board of Regents adopted a salary policy which provides guidelines for setting the salaries of these UW System senior executives. The 1989 resolution set a single target salary point for each senior administrator position. The policy was designed to establish an internal hierarchy of salaries.

At the request of Regent President Steil, the 1989 policy was reviewed. It was determined that the policy was no longer appropriate for the following reasons:

- o In 1991, new legislation changed the statutory restrictions on the UW System President's salary by raising the maximum salary for the UW President to 115% of the maximum of the state Executive Salary Group. Due to this statutory change, the UW President's salary could no longer maintain the same internal relationship to the salaries of other UW senior executives.
- o The 1989 policy was based on internal relationships. There was no explicit linkage or consideration of external market conditions in setting UW senior executive salaries.
- o As noted above, the 1989 policy defined a single figure as the target salary for each senior executive position. A common practice in private, and many public sector organizations is to utilize a range, rather than a single point, as the target salary to recognize differences in qualifications, experience, and performance among those that hold the position.

The proposed salary policy in the resolution is designed to improve salary administration for UW senior administrators. Key features of the new salary policy are:

- o The use and definition of external market salary data is explicit.
- o Recognition is given to the fact that Wisconsin has a lower cost of living than many other states, which makes it an attractive place to live and work.

- o A salary range rather than a single target salary is established for each senior executive position.

It is also important to note that the proposed senior executive salary policy is consistent with UW System policy on faculty salaries. The proposed senior executive policy utilizes the 1984 peer groups for the senior administrative positions at the UW institutions (i.e., chancellor and vice chancellor positions). In addition the policy codifies a salary peer group for UW System positions. The proposed policy takes the further step of incorporating the effect of regional cost-of-living differences.

With a few exceptions, most notably the UW System President and the UW-Madison Chancellor and Vice Chancellor, the current salaries of UW senior executives fall within the target salary ranges defined by the policy. Statutory restrictions specifying the maximum salary for the UW President and the UW-Madison Chancellor and Vice Chancellor prohibit the Board of Regents from setting a salary within the target salary range for these positions. In these cases, the Board will seek to adhere to the salary guidelines as defined in this policy as closely as possible subject to the statutory constraints.

Adoption of the proposed policy guidelines will not trigger immediate salary changes for any UW System senior executive. If adopted by the Board this month, these guidelines will be utilized by President Lyall and the Board when the Board approves the next round of annual salary increases for UW senior executives and other UW employees in June.

Gloria Toivola, President of the TAUWP, noted the importance of using not only the 1984 peer institutions but also national data because these positions are hired from a national market. In addition, she expressed concern with the use of a 5% downward adjustment for the cost of living.

Upon the motion of Regent Nicholas and the second of Regent Orr, the committee unanimously approved Resolution I.2.c.

Resolution I.2.c.

That the Board of Regents rescinds Resolution 5357 (November 1989) and adopts the attached salary policy for UW System senior executives.

a. Approval of minutes of the April 7, 1994, meeting of the Business and Finance Committee

Upon the motion of Regent Orr and the second of Regent Hempel, the minutes of the April 7, 1994, meeting of the Business and Finance Committee stood approved.

b. Julian J. Rogan Trust

General Counsel Stathas presented for approval a resolution to transfer the bequest of the late Julian J. Rogan to the University of Wisconsin-Madison in the amount of \$100,000.

Upon the motion of Regent Hempel and the second of Regent Tregoning, the committee unanimously approved Resolution I.2.b.

Resolution I.2.b.

That, upon the recommendation of the President of the University of Wisconsin System and the Chancellor of the University of Wisconsin-Madison, the bequest of the late Julian J. Rogan, be accepted; and the Trust Officer or Assistant Trust Officers be authorized to sign receipts and do all things necessary to effect the transfer for the benefit of the University of Wisconsin, Madison, Wisconsin.

(The Will provides \$100,000 to the University of Wisconsin, Madison, Wisconsin to establish a fund to be known as the JULIAN J. ROGAN SCHOLARSHIP FUND. The net income from the Fund, as determined under applicable policies of the institution, shall be used to provide scholarships to students who are dependent in whole or in part upon their own efforts to provide the means of obtaining an education. Among worthy and eligible students, preference shall be given to those students whose parents are employees at the time the scholarship is awarded of Rogan Corporation, a Delaware corporation whose principal office is currently in Northbrook, Illinois, or students who at the time the scholarship is awarded are employees of Rogan Corporation, or are on leave from employment by Rogan Corporation, or have left the employment of Rogan Corporation, in order to attend such institution. Otherwise, the selection of individuals to receive such scholarship awards and all other matters relating to the making of such awards shall be under the direction of the President of the institution or the person designated by him to administer scholarship funds.)

d. Trust Funds

(1) Amendments to Trust Fund Investment Guidelines

Regent Gelatt presented the amendments to the trust fund guidelines to the Committee for approval. At their March 1994 meeting, the Board of Regents amended Regent Resolution 1615 by deleting Section 1 which explicitly prohibited investments in corporations doing business in South Africa. The same restriction is included in the Trust Fund Investment Objectives and Guidelines. The Business and Finance Committee has the responsibility to establish the investment objectives and guidelines of the UW System Trust Fund.

Upon the motion of Regent Lubar and the second of Regent Nicholas, the committee unanimously approved Resolution I.2.d.

Resolution I. 2. d.

That, upon the recommendation of the Business and Finance Committee, the Board of Regents eliminates from the Guidelines for the Principal Fund (Section IV.5.c.) and the Income Fund (Section IV.3.b.) the phrase "this prohibition shall be applied to corporations doing business in South Africa, without regard to the number of individuals employed."

(2) Endowment Update

Vice President Marnocha provided the Committee with the Endowment Update. The market value of the Principal Fund on June 30, 1993 was \$139.8 million. Equities comprised 58.6% of the portfolio, Fixed 41.4%. The five-year history of fund transactions shows 43% growth. Market value of Trust Fund was \$149,229,446 as of 3/31/94.

In 1992-93 the total portfolio performance of +12.7% was +1.1% above the comparative indice (the two market indices adjusted to match our average asset ratio). Equity performance (+17.7%) was considerably above the S&P (+13.4%). Gifts in 1992-93 were \$8,120,658 up 77% from the previous year, which is a record high of the past ten years.

The Income Fund is comprised of residual earnings from Endowment & Similar Funds (60%) as well as gifts given for current use (21%) and temporary investment of gift fund accounts (19%). The Income Fund has grown by 33% over the past five years. Income Fund earnings in 1992-93 were 7.9% as compared to Principal Fund earning of 34%. Spending continues to increase as departments utilize accumulated income and gifts given for current use.

440 schools participated in the NACUBO survey for the year ended June 30, 1993. The UW endowment ranks number 115 in size.

Endowment spending rules compare the formulas for calculating the amount available for spending (i.e. a rate applied to a three-year trailing average of principal market values). Spending is not limited to only the rate, since departments, when allowed by account conditions, accumulate and carry forward account balances.

The UW Spending Fraction is set at a general guideline of 5% which is below the Big 10 median of 5.2%, though somewhat above the NACUBO \$100-399 million grouping and public institutions, each of which are at 4.4%. The UW Fraction is adjusted downward whenever the actual earnings are below 5%.

The UW Investment performance lags the NACUBO \$100-399 million grouping and the Big 10 schools for all periods measured. The UW performance relative to the markets is above the indices in the most recent of the past five years. The UW has a much smaller exposure to international markets than the Big 10 schools and is above NACUBO on Equity International and below NACUBO on Fixed Income International. The UW also lacks exposure to alternative equity asset classes. Even though our managers have currently been exceeding the indices, managers of the Big 10 schools and NACUBO \$100-399 grouping have consistently added more value.

Manager fees, on average and for the UW, declined in 1992-93 to 48 basis points. However, the average manager fees for the \$100-399 million grouping in the NACUBO was 43 basis points. Custodial fees increased on average to .08 basis point, while UW declined one basis point to .03. Further reductions in costs are expected in 1993-94.

Committee members requested additional data to better make comparisons with other institutions when including independent foundations.

(3) Review of Asset Allocation

Vice President Marnocha provided the Committee with a review of the Asset Allocation Ratio. The Asset Allocation Ratio, the mix of stocks and bonds in the endowment, is reviewed annually by the committee. Over the past ten years the ratio has gone from a conservative 40% in equities to 60% in equities. The asset allocation ratio was last changed in September 1990.

The UW total equity position of 58.6% is a close match to NACUBO and the Big 10. The Big 10 schools have a significantly higher international exposure (15.9%) compared to 6.6% in the NACUBO \$100-399 million grouping and 11.3% for the UW. In fixed income, the Big 10 schools have 13.3% in international fixed income, significantly above the UW target maximum of 10% and the NACUBO Indices of 2.5%.

A study by Edward H. Jennings, professor of finance and president emeritus, Ohio State University, recommends a 100% equity position for endowment. The NACUBO survey disclosed that 40% of the responding schools had equity allocations above 60%. Wisconsin Statutes limit the UW to a maximum of 75% equities.

The Committee discussed two options:

1. Leave the asset allocation ratio at 60% Equities/40% Fixed.
2. Increase the equities asset allocation ratio.

The Committee decided to move to 65% equities, with a long-term goal of 75%. The Committee also decided to request that the 75% statutory constraint be removed as a part of the suggested statutory language revision section of the biennial budget request.

Upon the motion of Regent Nicholas and the second of Regent Hempel, the committee unanimously approved Resolution I.2.d.(3)

Resolution I.2.d.(3)

That, upon the recommendation of the Business and Finance Committee, the asset allocation ratio for Trust Funds Principal be set at 65% equities, 35% fixed effective June 1, 1994.

e. 1994-95 Annual Budget Preview and Base Review

Vice President Marnocha and Associate Vice President Sell presented the Annual Budget Preview and Base Review to the Committee. The purpose of this document is to provide the Committee with three pieces of information:

1. a preview of the 1994-95 annual operating budget;
2. a summary of the annual budget development process used by UW System Administration and by each UW System institution; and
3. a review of significant base shifts at each institution.

While approval of the annual budget next month focusses on the increases provided by the state budget and the associated tuition increases, each annual budget is an opportunity for institutions to realign base resources with

emerging needs and top institutional and system priorities.

The highlights of the 1994-95 Annual Budget include:

- o Most of the funding increase (88%) is for compensation, while only 12% is for new initiatives.
- o The total GPR increase is 2.9%, but tuition increases are expected to be between 7.0% and 7.6%.
- o Most of the new initiatives funding is for the second year of the undergraduate education initiative. This funding is allocated to the institutions as a lump sum. Institutions then have the flexibility to allocate funds to their highest priority undergraduate education activities within five designated areas.
- o On compensation, in addition to a 2.5% and .5% phased regular pay plan increases payable on July 1 and January 1, respectively, all unclassified staff except Category C [Deans and top administrators] will receive an additional 1% market adjustment on July 1. Now, the Joint Committee on Employee Relations has also agreed to the DER Secretary's recommendation that an additional 2% parity adjustment be awarded to all unclassified staff on January 1, 1995. For all but Category C academic staff and executive pay plan officers, this means a total 6% increase in 94-95; for the latter two categories, it will be a 5% increase.

The Annual Budget will be presented to the Board of Regents in detail in June. Briefings on the Biennial Budget will begin this month, with the Biennial Budget Request presented to the Board in August.

Regent Lubar raised questions about whether greater overhaul of the budget could occur, since less than 1% of the budget is reallocated annually. In addition, he noted the importance of a unified budget in the future. The Committee asked that additional information on reallocations within activities and within classes of expenditures be included in future reports.

f. Reorganization of the UW-Madison Division of Information Technology using a Structural Model

Director Mark Luker made a presentation to the Committee on the reorganization of the UW-Madison Division of Information Technology using a structural model.

The main objectives of the reorganization were:

1. Unify three distinct organizations (academic computing, administrative computing, and telecommunications) after a merger
2. Achieve "high performance" response to future demands
3. Focus resources on strategic needs
4. Continuously improve products and services
5. Not downsize, but get much more done instead

The Division followed the structural model of consultant N. Dean Meyer, which has been used in similar organizations in the private sector. This is the first time this structural approach to reorganizing information technology

departments has been used in higher education.

g. Report of the Vice President

(1) Gifts, Grants, and Contracts

Vice President Marnocha reported to the Committee that total gifts, grants and contracts for the nine month period ending April 15, 1994 were \$444.9 million, a decrease of \$4.6 million over the previous year. Federal awards increased by \$3.5 million, while non-federal awards decreased \$1.1 million.

(2) Legislative Request for Report on Program Revenue Activities

Vice President Marnocha informed the Committee of the Legislative request for a report on program revenue activities at the UW System. The Board of Regents is required to report to the Governor and the Joint Committee on Finance, no later than December 1, 1994, on its review of UW campuses to determine whether there are program revenue activities whose funds are not entirely accounted for in the UW System's budget.

This request resulted from the Hospital and HPI situation. A survey of the institutions will be conducted. It is assumed that no similar situations will be found.

(3) Chartwell Home Infusion Program

Vice President Marnocha presented additional information to the Committee on the Chartwell Home Infusion Program. At the April Meeting, the committee requested additional information on the future fiscal responsibilities of University Hospital, the employment provisions of the agreement, the public oversight provisions of the agreement, and the mechanism for authorizing any future state-related payments to the partnership.

In response to these questions, the following information was provided:

1. Ten persons were staffing the UWHC home therapy program. All ten will be offered comparable jobs within UWHC.
2. There will be no transfers to the new 501(c)(3) entity. In fact, that entity will have no employees. Once the partnership (Chartwell Wisconsin) is created, some of these employees might be offered jobs with Chartwell Wisconsin, and then they would have the choice of whether to stay at UWHC or take a new job with Chartwell Wisconsin.
3. UWHC will have no liability for debts of Wisconsin Therapies or of the new partnership. A principal reason for setting up a separate 501(c)(3) corporation is to protect the state from liabilities of the new partnership. UWHC will have available the \$705,000 being paid by Chartwell Midwest to pay the start-up expenses for the partnership and to make further contributions to the partnership until the venture is "on its feet." The Regent resolution in March 1994 is seen as authorizing "support" of the 501(c)(3) entity as limited to the authority to expend part or all of the \$705,000 only.
4. The Legislative Audit Bureau will have access to Wisconsin Therapies records.

h. Additional items which may be presented to the Business and Finance Committee with its approval

None.

i. Audit Subcommittee

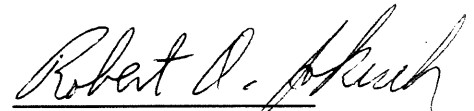
(1) 1994-95 Internal Audit Schedule

Vice President Marnocha commented on the 1993-94 completed audits to date and presented the 1994-95 Internal Audit Schedule to the Subcommittee. The audits scheduled for the 1994-95 fiscal year have been prioritized as Priority One and Two. Those audits scheduled in Priority One are audits which will be performed because of outside requirements, agreements or UW System requirements. At times, new audits are requested and will replace audits scheduled in Priority One or Two. Once Priority One audits have been completed, Internal Audit will proceed with Priority Two audits.

Priority One audits have been categorized into four different groups as follows:

1. Athletics - Audits required by NCAA to include all athletic departments within the UW System, except UW-Madison which has external auditors.
2. Corporation for Public Broadcasting - Public broadcasting requires the audit of UW-Milwaukee and UW-La Crosse radio stations.
3. Academic Fee Systems - An agreement was established with the Legislative Audit Bureau to perform audits of the academic fee assessment and collection systems and verify the accuracy of the Central Data Request every three years.
4. Other Audits - Audits which have been mandated by the Board of Regents, existing UW System policy and donor requests.

Upon the motion of Regent Gelatt and the second of Regent Nicholas, the Audit Subcommittee adjourned at 4:15 p.m.


Robert O. Jokisch
Recording Secretary