

Minutes
Business and Finance Committee
Board of Regents of the University of Wisconsin System
February 5, 1998

The Business and Finance Committee met in Room 1920 Van Hise Hall, Madison, at 1:16 p.m. Present were Regents Brandes, De Simone and Marcovich.

I.2.a. Approval of Minutes of the December 4, 1997, Meeting of the Business and Finance Committee

Upon the motion of Regent Marcovich and the second of Regent De Simone, the minutes of the December 4, 1997, meeting of the Business and Finance Committee stood approved.

I.2.b. UW-Madison Annual Research Report

Graduate School Dean Hinshaw reported that, in 1996-97, 77% of total UW-Madison extramural awards were for research. UW-Madison received \$363 million in total research awards—an increase of approximately \$24 million compared to 1995-96 award amounts. Federal research awards increased by \$13 million, and non-Federal research awards increased by \$11 million. This was accomplished with 250 fewer faculty than the previous year.

Dean Hinshaw highlighted several of the new areas of research at UW-Madison. A team of scientists headed by Frederick Blattner of the E. coli Genome Project in the Laboratory of Genetics at UW-Madison has determined the complete genome sequence of the E. coli bacterium. This study will aid in determining why some germs cause disease and some do not. Yoshihiro Kawaoka, a virology professor in the School of Veterinary Medicine, is working on identifying the source of the deadly influenza virus that has killed several people in Hong Kong. Finding the virus in animals is important in determining how the virus is being spread. And Michael Gould is researching chemotherapy treatments using a chemical found in orange peel which holds possibilities for treating prostate, breast and pancreatic cancers.

In response to Regents' questions, Dean Hinshaw indicated that research funding is headed in the right direction. She is optimistic that there is a positive attitude by legislators for funding research.

I.2.c. HEAB Formulas for WHEG Awards

Assistant Vice President Peters stated that the 1997-99 biennial budget reinstated the requirement created in the 1995-97 biennial budget that the UW System recommend a Wisconsin Higher Education Grant (WHEG) allocation formula to the Higher Educational Aids Board (HEAB) by April 10 of each year. After recommendations are made, HEAB has final authority in setting the formula and does so by May 1.

In 1996-97, 19,217 UW System resident undergraduates (18% of all resident undergraduates) received average WHEG grants of \$815. The grants account for 13% of the financial aid received by these students.

Separate formulas for dependent and independent or self-supporting students are established in the *Wisconsin Statutes*. The formulas rely on the Federal needs analysis that measures how much of a student's/family's resources are available to help meet educational costs. The formulas act as a rationing mechanism for WHEG dollars as the current funding level does not provide enough grant support to fully meet the financial need of UW System resident, undergraduate students. The dependent award is based on the equity level or maximum award amount and subtracts the student's/family's contribution. The

independent award is based on the percentage of need after subtracting the student's/family's contribution from a hypothetical student budget.

These formulas reflect historical college enrollment with a focus on 18-24 year-old college students. A new formula was devised to provide funds within resource limitations for nontraditional (independent) students.

The WHEG Advisory Board, formed to make formula recommendations to the President of the UW System, is composed of three Financial Aid Directors, three students and System staff. The Board recommended decreasing the inequity between dependent and independent student maximum awards. They recommended that any additional WHEG funding for UW System students in the 1997-99 biennial budget be distributed to independent students by increasing the independent student award percentage in the independent formula. They also recommended that WHEG awards to dependent students be held harmless by keeping the maximum award per dependent student at \$1,510.

In the future, the WHEG Advisory Board will reexamine the formulas to make a more comprehensive recommendation regarding changes for the 1999-01 biennium and consider elimination of the distinction between the independent and dependent students and awarding WHEG using one formula and one equity level.

Regent Marcovich questioned why it was necessary to differentiate between independent and dependent students for this purpose, and Mr. Peters responded that Financial Aid Directors are trying to address that issue for the future; however, it may require statutory changes to make any modifications.

Upon the motion of Regent De Simone and the second of Regent Marcovich, the Committee approved Resolution I.2.c.

Resolution I.2.c.

That, upon the recommendation of the President of the University of Wisconsin System, the Board of Regents recommends continuing the current Wisconsin Higher Education Grant formula for dependent students while distributing additional funds received in 1998-99 to independent students. The Board authorizes its transmittal to the Higher Educational Aids Board as directed by section 36.11(6)(c), of the *Wisconsin Statutes*.

Because Vice President Bromberg had not arrived from the Physical Planning and Funding Committee meeting, the Committee agreed to move to Item I.2.e.

I.2.e. Annual Financial Report

Associate Vice President Durcan noted that the Annual Financial Statement is prepared in accordance with Generally Accepted Accounting Principles for public colleges and universities and is the primary vehicle for public accountability on the sources and uses of funds provided to the System. The financial statements are a required part of the federally-mandated A-133 audit report and are frequently requested by extramural sponsors. This is the second year that the Legislative Audit Bureau opinion letter has been included and the first year that the report has been able to be provided to the Board at the time of mailing. The UW Hospital and Clinics has been taken out of prior year comparisons in this year's report.

Associate Vice President Durcan noted the changes in funding sources for current operations over the last ten years, including a reduction in State support from 41% to 36.6% and increases in tuition from 19.4% to 21.1% and gifts and endowment from 5.6% to 8.6%. While State appropriations have grown from \$632.1 million to \$852.9 million over the ten-year period, when adjusted for inflation, that revenue today is only worth \$621.8 million.

Only 5% of the current fund and expenditures were for administration or institutional support, while 77% of the expenditures were for the primary missions of instruction, research and public service and related support functions of student services, academic support and financial aid.

The Notes to the Financial Report contain both required information as prescribed by the Governmental Accounting Standards Board as well as information designed to help the reader understand the information presented. Of particular interest in this year's report are:

- Note 4—Accounts Receivable. Of the total current unrestricted funds accounts receivable of \$65.9 million, only \$6.0 million are Student Academic Fee Receivables and of that, only \$2.0 million are set aside as uncollectible. Considering Academic Fees are an over \$400 million appropriation, this is quite low.
- Note 10—Compensated Absences. This represents accumulated unpaid annual leave, compensatory time, legal holidays, etc., and is calculated at the employees' current rate of pay. It does not include the value of sick leave upon retirement which is reflected on the State's financial statements.
- Note 14—The financial statements do not include the \$104 million of endowment funds held by outside trustees; \$83.9 million of this amount is held by the Vilas Estate.
- Note 15—Fine Art Collections are not included in the Financial Statements. This is in accordance with Generally Accepted Accounting Principles which allow you to exclude collections if they are held for exhibition, education, or research in furtherance of public service rather than for financial gain.

Regent De Simone requested staff provide information on how the change in policy allowing for State employees to apply unused sick leave credits to purchase health insurance after retirement had affected sick leave usage since implementation.

I.2.f. Report of the Vice President

(1) Quarterly Gifts, Grants and Contracts Report

Since Vice President Bromberg had not yet arrived, Associate Vice President Durcan reported that total gifts, grants and contracts for the six-month period ended December 31, 1997, were \$359.1 million, an increase of \$19.1 million from the comparable period of the previous fiscal year. Federal awards decreased \$2 million, while non-Federal awards increased \$21.1 million.

(2) Agreement with Private, For-Profit-Making Organizations

(a) Agreement with University Bookstore to Operate Kohl Center Badger Store

Upon the motion of Regent De Simone and the second of Regent Marcovich, the Committee approved Resolution I.2.f.(2)(a).

Resolution I.2.f.(2)(a)

That, upon recommendation of the President of the University of Wisconsin System and the Chancellor of the University of Wisconsin-Madison, the Board of Regents accepts the agreement with the University Book Store.

(b) UW-Madison Contractual Agreement with SmithKline Beecham Pharmaceuticals**(c) UW-Madison Contractual Agreement with Astra Hässle AB**

Dean Farrell of the UW Medical School noted that the contractual agreements with SmithKline Beecham Pharmaceuticals and with Astra Hässle are both for studies on treating congestive heart failure.

Upon the motion of Regent Marcovich and the second of Regent De Simone, the Committee approved Resolution I.2.f.(2)(b) and Resolution I.2.f.(2)(c).

Resolution I.2.f.(2)(b)

That, upon recommendation of the President of the University of Wisconsin System and the Chancellor of the University of Wisconsin-Madison, the Board of Regents accepts the agreement with SmithKline Beecham Pharmaceuticals entitled, "Data Analysis Center for COPERNICUS Trial."

Resolution I.2.f.(2)(c)

That, upon recommendation of the President of the University of Wisconsin System and the Chancellor of the University of Wisconsin-Madison, the Board of Regents accepts the agreement with Astra Hässle AB entitled "Data Analysis Center for the MERIT Study."

I.2.d. Biennial Budget Presentation: Management Flexibilities for Effective Resource Management

Vice President Bromberg noted that, since the 1980s, the State has obtained a number of management flexibilities, but the changes granted have not gone far enough in giving the Board the necessary tools to perform their stewardship role effectively in the 21st Century.

Delegated authority has been granted for the following: creation of positions in program-funded areas; continuing expenditure authority for program revenues; authority to use auxiliary balances in a responsible, accountable manner; authority to spend up to 107% of the tuition appropriation by the end of the biennium; and a reduction in reporting requirements.

Staff have reviewed those areas where the State has delegated responsibility to the Regents and asked whether the delegation had caused any problems and whether it has had the anticipated positive impact. There have been no problems and only positive impact. The UW System has demonstrated careful and responsible use of delegated authority and the positive impact of this delegation sets the stage for additional requests.

UW System's goal is to consider only those areas that have the potential of adding value through enhanced service, reduction or elimination of noncritical functions or more efficient and effective planning and decision making ability. Over the next several months, staff will be working with the Board to determine which flexibilities should be requested in the 1999-2001 budget.

Regent De Simone noted that former Vice President Brown had worked on revenue bonding authority and inquired if that could be achieved. President Lyall responded that it has to be presented to the Governor and legislators in a format that will be acceptable to them. Staff have been considering some variations on the proposal that was denied for the present budget period which might be helpful to its success for the next budget period. The ideas will be brought to the Board in May or June.

Vice President Bromberg added that Wisconsin is the only state in which its public university system doesn't have some bonding authority.

I.2.g. Additional Items Which May Be Presented to the Business and Finance Committee with Its Approval

Vice President Bromberg noted that the University of Wisconsin Medical Foundation (UWMF) intends to acquire the Physicians Plus Medical Group (PPMG) on or around February 6, 1998. Under the terms of the proposed merger, PPMG physicians will become UW Medical School faculty and be granted a defined role in UWMF's governance for a 3-4 year transition period. On December 9, 1997, the UWMF Board of Directors approved a set of bylaw changes needed to implement PPMG physician participation in governance, and these bylaw changes must be approved by the UW-Madison Chancellor and the Board of Regents. Chancellor Ward has reviewed and approved them.

The bylaw changes approved by the UWMF Board of Directors include:

- Increasing the Board of Directors to 27 members for a three-year transition period and raising the quorum to 14 during this period. The eight new members consist of one individual selected by the Chancellor, two additional public members and five PPMG physicians. The UWMF Board currently has 19 members, consisting of the Medical School Dean, five Medical School clinical department chairs, seven Medical School faculty members, the UWMF President, four independent members and one Medical School basic science department chair.
- Adding one additional seat to the UWMF Executive Committee for a four-year transition period with the UW-Madison Chancellor selecting this member.
- Increasing the Council of Faculty by four seats to be filled by PPMG physicians for a four-year transition period.
- Increasing each of the UWMF standing committees by two seats to be filled by PPMG physicians for a four-year transition period.

Medical School Dean Farrell stated that UW-Madison has been working intensely on the merger and academic integration. They are very satisfied with the proposed changes in the bylaws and are enthusiastic about the merger.

Upon the motion of Regent De Simone and the second of Regent Marcovich, the Committee approved Resolution I.2.g.(1).

Resolution I.2.g.(1)

That, upon the recommendation of the President of the University of Wisconsin System and the Chancellor of the University of Wisconsin-Madison, the Bylaws amendments contained in the Revised Resolutions of the Board of Directors of the University of Wisconsin Medical Foundation, Inc., dated December 9, 1997, be approved.

Vice President Bromberg noted that the Committee members had been invited to participate in a satellite videoconference in late January which was a Global CEO Summit on Best Business Practices. She indicated that it was an excellent conference and that videotapes would be available if any of the Board members wished to borrow one.

I.2.h. Trust Funds

(1) Update on New Investment Managers

Treasury Manager Mills noted that the transition to the new intermediate bond managers has been completed. Consistent with the Board's decision, Reams Asset Management was funded with

approximately \$25 million, while the Applied Securities Analysis Program, part of the UW-Madison School of Business, received roughly \$10 million to invest. Both managers will be subject to the Investment Guidelines and Objectives approved by the Committee and will be reviewed by staff on a monthly basis.

Additionally, Oak Associates, a core equity manager for the long-term portion of the fund, has included the University in its student investment contest. UW-Milwaukee will be competing against other schools such as the University of Akron, University of Memphis, Case Western and Dayton University. In the competition, Oak provides each student group with \$50,000 to be invested in the stock market and then monitors the performance of the portfolios. At an annual banquet, the students must complete a brief presentation regarding the performance of their fund, with the top three performing portfolios receiving additional funds to be invested.

**(2) Closed Session to Consider Trust Fund Matters, as Presented by
s. 19.85(1)(e), *Wis. Stats.***

Upon the motion of Regent Marcovich and the second of Regent De Simone, the Business and Finance Committee adjourned to Closed Session at 2:15 p.m., to consider Trust Fund matters as permitted by s. 19.85(1)(e), *Wis. Stats.*

The Business and Finance Committee adjourned at 2:25 p.m.

Donita R. Zintz, Recording Secretary