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

The Business and Finance Committee convened at 1:05 p.m. in Room 1820 Van Hise Hall, Madison. All Regents were invited to attend. Present were Regents Barry, Benson, Boyle, Brandes, DeBraska, De Simone, Gottschalk, Hempel, James, Mac Neil, Marcovich, Olivieri, Orr, Randall, Smith and Staszak.

**I.2.a. 1999-01 Unclassified Pay Plan Request**

President Lyall began by explaining the pay plan process we use to make biennial pay plan recommendations for our unclassified faculty and academic staff. Pay plans for our classified staff are bargained by the Department of Employment Relations (DER) with the relevant unions. In November of even years, the Board of Regents makes a pay plan request for faculty and academic staff to the Secretary of the Department of Employment Relations, following *Wis. Stats.* 230.12(3)(e).

The DER Secretary typically makes his recommendation to the Joint Committee on Employee Relations (JCOER) in March or April; JCOER holds hearings on the Secretary's recommendations, and the JCOER action is final in time to make pay plan adjustments effective with the start of the fiscal year, July 1.

She noted that the Secretary's recommendation is to be based on the "competitive ability of the board of regents to recruit and retain qualified faculty and academic staff, data collected as to the rates of pay for comparable work in other public services, universities, and commercial and industrial establishments, recommendations of the board of regents and any special studies."

While in the past, the Secretary's recommendation for UW faculty and staff has most often been the same as that bargained with the classified employees, in recent years, the Secretary has recommended different pay plans for some groups of other state employees.

President Lyall noted that she consults with a systemwide Compensation Advisory Committee which reviews background economic indicators for the state and data on salaries at our peer institutions. The Committee also reviews matters related to salary compression, turnover, and hiring experiences in order to provide advice on aspects of pay plan distribution. The peer institutions that we use in this analysis were agreed to jointly by DOA and the UW System nearly a decade ago. She further stated that while there is always some desire to change our peers, we cannot do this unilaterally, and we have done the analysis for 1999-01 using the established peer groups. Similarly, we have used the same computational methodology as in the past, with one modification which she indicated she would point out later.

She went on to explain that the peer comparisons show that UW faculty salaries lagged 5.59% behind the median of our peers in 1997-98, and our academic staff salaries are 16.6% below the market for these jobs based on the TPF&C midpoints updated to 1997.

Despite these differences in shortfall from market, it is the advice of our systemwide Compensation Advisory Committee-that we should make a single unclassified pay plan request based on the faculty data.

President Lyall explained the computation of 1999-01 pay plan needed to reach the average of our peers by July 1, 2001. She noted that the latest peer comparison data are for 1997-98, so it is necessary to first update to the current year (1998-99). and then make some estimate of what our peers will do in 1999-01. Using this method it will take a 10.29% increase over two years of the biennium, or a 5.2% increase each year to reach our goal.

She further explained this to be a conservative estimate based upon what we hear about proposed increases for Illinois and Minnesota.

She went on to explain the one modification used in the methodology that had not been used in the past. In prior biennia, we have projected that our peers would increase their pay plans at about the rate of inflation. This has proven not to be a good assumption in recent years when peer pay plans are rising substantially more than inflation. Therefore, in this computation, she assumed that peers will increase their average salaries at the same overall average rate as in 1998-99 or 3.7%.

President Lyall also gave a break down of who pays for unclassified salary increases. She urged the state to fully fund its share of the 1999-01 state pay plan for both classified and unclassified employees.

She reminded us of the Smith Lever increase for UW-Extension employees. *Wis. Stats.* s.20.865(1)(cj) stipulates that the state shall fund the cost of any difference between the state pay plan and the federal pay increases authorized for UW-Extension personnel under the Smith Lever Act up to a maximum of 3%. The resolution being presented includes this as part of the Board's formal request.

Finally, she reminded the Board that the distribution of any pay adjustments is accomplished through a process that they set in motion in February. They will adopt distribution guidelines for the campuses and ask each institution, through consultation with its faculty and academic staff governance bodies, to submit detailed distribution plans to System Administration.

President Lyall said she will have further discussions with the Compensation Advisory Committee before bringing recommended guidelines to the Board in February. However, the Committee has already urged that the 1999-01 guidelines address the compression for full professors by requiring that promotion premiums of at least 5% accompany promotion to associate and full professor rank.

Ray Spoto, TAUWP President indicated that the TAUWP recommendation calls for a 6% increase in the first year of the biennium and an 8% increase in the second year. The TAUWP Board of Directors recognizes that this modest proposal is asking for less than needed to be truly equal to our competition.

He further indicated that salary comparisons of comparable universities are not difficult to come by since all universities fill out forms with salary information. TAUWP feels that increases should be based on a national cohort rather than the peer groups that are used. He indicated just to catch up to the 1997-98 levels among our public university competitors, we need 9.6% at the full professor level.

Regent Staszak asked why the pay plan was not done with the budget. President Lyall indicated we would look into this.

Regent Smith supported sticking with the peer group and methodology currently in use. Regent Marcovich asked how peers are chosen. President Lyall responded that it was negotiated with the state in the 80's. Regent Orr stated that the peer group had been reviewed in the early 90's.

Upon motion of Regent Smith and second of Regent Marcovich, the Committee unanimously approved resolution I.2.a.

<u>Resolution I.2.a.</u>

> That upon the recommendation of the UW System President, and pursuant to s. 230.12(3)(e) Wis. Stats., the Board of Regents directs the UW System President to notify the Governor and the Legislature that the UW System requests an average salary increase of 5.2% in each year of the 1999-01 biennium for faculty, academic staff, and university senior executives in order to obtain competitive market salaries by the end of the biennium. The Board further directs the UW System President to transmit to the Department of Employment Relations Secretary, currently available information on unclassified salaries for UW System peer institutions and related economic indices on which this request is based.
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> Further, that the UW System President requests that pursuant to s. 20.865(1)(cj) Wis. Stats. the State fund the cost of any difference between the pay plan authorized for UW employees and the pay plan provided by the federal government for UW-Extension employees funded by the Smith Lever Act, up to a maximum of 3%.
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> Further, that the Department of Employment Relations Secretary be asked to recommend to the Joint Committee on Employment Relations, that academic staff salary ranges be increased by the full amount of the pay plan each year of the biennium.

Further, that the Department of Employment Relations Secretary be asked to recommend to the Joint Committee on Employment Relations, that university senior executive salary ranges be adjusted to reflect the Board of Regents executive salary structure which establishes a midpoint of the salary range at 95% of the peer median and sets the salary range at 90% and 110% of that midpoint.

Finally, that the Board of Regents requests that faculty, academic staff, and university senior executives participate fully in any staff benefit improvements made available to other state employees during the 1999-01 biennium.

The Committee recessed at 1:40 p.m. and reconvened in Room 1920 Van Hise Hall at 1:50 p.m. Present were: Regents Hempel, Marcovich, De Simone, Gottschalk, Olivieri and Orr.

I.2.c. Comparison of Expenditures by Activity with Peer Institutions

Associate Vice President Durcan began by explaining that this report offers a means of comparing the UW System with peer systems. The report uses the same eighteen peer systems used in a 1993 report. She pointed out that the UW System expenditure activity is relatively consistent with our peers in both instruction and related expenditures (53% to 52.3%) and primary mission expenditures (60.1% to 59.8%),

The main differences between the UW System and its peers occurs in the research area where the UW System expends more (19.8% vs. 16.2%) funded mostly by external grants and contracts and in administration (5.8% vs. 10.5%) and plant operations (6.5% vs. 7.3%) where the UW System spends less.

The Committee noted several reasons why our institutional support expenditures are less-than our peers, including increased collaboration among UW System institutions and adoption of best business practices. Overall the UW System spends $2,251 less per student than peer systems. The Committee asked for additional detail regarding student services expenditures. Staff will continue to pursue ways to provide comparative data with other systems.

**I.2.d.(1) Unclassified Paid Leave Options**

Associate Vice president Brooks reported that the President's Fringe Benefits Advisory Committee recommended two changes to the paid annual leave program available to faculty and academic staff on annual appointments. First, that the Annual Leave Reserve Account established by the board four years ago, be modified to remove the :"cap " of 22 days. All other state employee groups have an equivalent paid leave benefit that enables employees to defer one week of paid annual leave for use in subsequent years, but those employees do not have this cap. It was noted that only one-half of the eligible faculty and academic staff actually take advantage of the program.

The second paid leave option permits unclassified staff who have completed 25 years of service to exchange up to 40 hours of their paid annual leave for a cash payment. It was reported that less than 10% of the faculty and staff who earn vacation reach that service threshold. This option would achieve equity with all other state employee groups who currently have a cash payment alternative to using 40 hours of vacation credits. The fiscal year cost is estimated at less than $150,000 for the UW System

The final proposal corrects an unintended flaw in the executive compensation program that reduced by as many as eight days vacation and personal holidays for long-time executives. It was reported that the President, Chancellors and Provosts of the two doctoral campuses have been affected. Allowing university senior executives the option of returning to the vacation and personal holiday program that was part of their compensation package since they were employed would rectify that situation, holding harmless executives hired prior to the new law.

Resolution I.2.d.(1)

Upon the motion of Regent Marcovich and the second of Regent Gottschalk, the Committee approved Resolution I.2.d.(1).

> That, upon the recommendation of the President of the University of Wisconsin System, Regent Policy 94-6 regarding annual leave reserve accounts for unclassified staff is amended to delete "to a maximum of twenty-two days"; in addition to the annual leave reserve option available to unclassified staff after 10 years of service, up to 40 hours of annual leave per year at the employee's base salary rate is available as a cash payment option to those unclassified staff who have completed 25 years of service; and, university senior executives covered by s. 20.923(4g) Wis. Stats., who were employed on or before June 17, 1998 shall be allowed a non-revocable election to have annual leave and personal holiday benefits restored to the levels available previously to all university senior executives.

**I.2.d.(2) Personal Holiday Leave for Unclassified Staff**

Associate Vice President Brooks reported that the president's Fringe Benefits Advisory Committee recommended the Board add three personal holidays to the ½ day personal holiday granted to annual faculty and academic staff in 1996. It was noted that the increase in the number of sick leave days available to state employees from 13 days per year to 16.25 days per year beginning in 1997 prompted a review of the paid leave package available to faculty and academic staff. The Committee did not recommend an increase in the 12 days of sick leave earned by faculty and academic staff each year, but it took a more modest and less costly approach by recommending an increase by three personal holidays to achieve parity with state employees and the higher education marketplace.

Regent Olivieri questioned the cost associated with this benefit. It was estimated that the system-wide cost would be approximately $200,000 annually over the entire $2.6 billion budget base. After further discussion, it was agreed that Associate Vice President Brooks would provide Regent Hempel with additional detail about incremental cost of this benefit prior to the full board meeting on Friday. With this agreed to, the Committee acted upon resolution I.2.d.(2), with Regent Olivieri voting against.

Upon the motion of Regent Gottschalk and the second of Regent De Simone the Committee approved Resolution I.2.d.(2).

Resolution I.2.d.(2)

That, upon the recommendation of the President of the University of Wisconsin System, Regent Policy 96-2 be amended to grant an additional three days of paid leave each fiscal year as non-cumulative personal holidays.

**Report of the Vice President**

**Quarterly Gifts, Grants and Contract Report**

Vice President Bromberg reported that the total gifts, grants and contracts for the first quarter of fiscal year 1998-99 was $239.3 million, an increase of $18.1 million from the comparable period of the previous fiscal year. Federal awards increased $36.2 million while non-Federal awards decreased $18.1 million. The decrease in non-federal awards reflects completion of the Kohl Center which brought significant streams of gift revenues into the system over the last two year.

**I.2.b. Approval of the minutes of the October 8, 1998, Meeting of the Business and Finance Committee**

Upon the motion of Regent Gottschalk and the second of Regent Marcovich, the minutes of the October 8, 1998, meeting of the Business and Finance Committee stood approved.

**Closed session to consider trust fund matters, as permitted by s. 19.85(1)(e), *Wis. Stats.***

Upon the motion of Regent Marcovich and second of Regent Olivieri, the Business and Finance Committee adjourned to closed session, pursuant to s. 19.85(1)(e), Wis. Stats., to consider Trust Fund matters, at 2:35 p.m.

The Business and Finance Committee adjourned at 2:50 p.m., and reconvened at 3:40 p.m. in 19 Ingraham Hall, 1155 Observatory Drive. Present were Regents Boyle, Brandes, DeBraska, De Simone, Gottschalk, Hempel, James, Mac Neil, Marcovich, Mohs, Olivieri, Orr, Smith and Staszak.

**I.2.g. Public Forum on Trust Fund investments**

Regent Hempel began by stating that we are here today to hear comments from a variety of speakers and participants who have come to talk about the way we invest the funds that donors contribute to the University to support its goals and objectives. A Socially Responsible Investment Policy has been in place for a couple of years. At a previous forum, we heard comments from a variety of individuals. In constructing this year's agenda, we decided to elaborate on our presentations from last year and design an approach that would give some structure to the program. This will be followed by the usual diversity of opinion that we seek each year.

Before the speakers began Regent Hempel recapped the University's commitment to the subject. She restated that we do have guidelines that we use in managing the University Trust Fund. Within those guidelines the Board has acknowledged the importance of maintaining the awareness of public concerns about corporate policies or practices that are discriminatory as defined by state statute or cause substantial social injury and that we will take this factor into account in managing our investments. In doing so we have taken a number of actions. One is to review shareholder resolutions from our equity investments that are related to discrimination or substantial social injury and assess our proxy voting position. We have made a commitment to solicit input from students, faculty, alumni and citizens on matters related to social concerns, and are doing just that today. Finally, the Regents of the University System are aware that any position taken on social responsibility may affect investments and may affect potential contributors to the University. At this time Regent Hempel introduce the first speaker.

**Paul Neuhauser, Professor of Law, University of Iowa**
Mr. Neuhauser discussed his role as a member of several boards. He explained that the "Reasonable Business Judgement Rule" applies to corporations' as-well-as non-profit organization in guiding fiduciary responsibility. He also commented that it is unique that the University of Wisconsin System has an investment forum such as this in addition to investment policies that take into account many of the things he would be discussing.

He commented on the ability of the Regents to include Socially Responsible Investments (SRI's) in their portfolio. He explained fiduciaries are permitted but not obligated to screen investments on ethical criteria. If they do, business judgement should be used rather than the older "prudent person" standard. Business judgement means risk and return are the primary considerations and ethical considerations aligned with organizational purpose or mission secondary. In voting proxies, however, legal considerations are stronger. These standards encourage voting governance issues. He saw no "cost" to also voting proxies on social issues.

**Ken Boyer, Managing Director, Common Fund Group**
Mr. Boyer explained that the Common Fund was founded by the Ford Foundation as a non-profit organization. He noted that the only socially screened funds offered by the Common Fund were South Africa free-fund offered several years ago. He noted that the main purpose of endowment is to support a school; to make equivalent money available in 1999 and 2099 allowing for inflation. He felt consumers have the power to make a difference. They can use their social conscience in consuming to make more of a difference than any group of investors.

**Lori Mills, Treasury Manager, UW System**
Treasury Manager Mills stated that an analysis was completed by the Trust Funds office comparing a composite of Socially Responsible Investment (SRI) Mutual Funds to Trust Fund performance. The current results indicate that SRI Mutual Fund performance was lower than Trust Fund's and risk was higher. The study included a large number of public mutual funds in an attempt to create a benchmark for objective evaluation. She will continue to track these funds so that the Regents can use the information to make informed decisions about SRI's as an asset class.

**Rich Gibson, Student, UW-Madison**
Mr. Gibson gave a brief history of protests about UW investments in South Africa and the eventual divestiture of all investments in South Africa following an interpretation of state statute. Students have lobbied for responsible investing and feel there is still more to do. The portfolio is still full of socially irresponsible stocks and mutual funds. He compared four years of Trust Funds data to several SRI's to see what the difference in returns would be. His analysis indicated that socially responsible investing did not lose money but rather made money and more importantly the differences in return were not statistically significant. He cited many journal articles with empirical evidence supporting his claim. He suggested starting a pilot program, investing a portion of UW Trust Funds in a SRI. He was very upset over the large Phillip Morris investment. UW System has bigger mission than to have investments grow...they should follow the UW Mission Statement.

**Ann Fleishli, Madison Attorney**...spoke against "making a profit with public money" – even thought pain may be inflicted on others. The UW must not belong to the religion of " Corporatism"; apply Human Values over Market Values.

**John Peck, UW Greens**...spoke about his experience in Zimbabwe doing summer research for his dissertation. What he saw reinforced his belief that it is inhumane to invest in land mines as a product. We invest in GE, Lockheed, Raytheon which all make land mines. He saw first hand people, animals and land devastated by these mines. He repeated UW Mission Statement and implored our divestment in such companies.

**Andrew Haglelshaw, Senate for Commercial Free Public Education**
(From California – specialty was K-12 Education) He deals with commercialization in public schools which changes the priorities of their education. He has dealt with Channel 1 (12 minutes of advertising shown in public schools). The NEA has agreed to divest in these companies (i.e. *EXXON, CHEVRON, PEPSICO, COCA-COLA, DOW* and others) that use this tactic to take over consumer minds and would like to see UW do the same.

**Sierra Powers**...spoke against mining issues and discussed terrible actions of *EXXON Co.* that is in the UW portfolio. She spoke of how lives of families have been ruined using Alaska as an example.

**Mark Brakken, Associated Students of Madison and Alliance for Democracy**
Three companies he was strongly opposed to our investments in – *EXXON* with countless environmental violations; *DUPONT* which is one of the largest manufacturers of CFC's and many hazardous chemicals that decrease the ozone layer, threaten global warming and deal with countless pesticides and chemicals that are altering our environment; and in *WACKENHUT* that operate private prisons, supported terrorism, and illegal corporate surveillance in Alaska.

**Ryan O'Malley, Associated Students of Madison Committee for Social Responsibility**
The decisions being made affect the lives of real people. We must remove the financial incentive that exploits workers. HUMAN RIGHTS ABUSE must be stopped.

**Judy Gump, Teacher from Memorial High School and UW Alumni**
Holdings in Phillip Morris must be divested. As a teacher she was upset that *PHILLIP MORRIS* advertises to attract young kids (Joe Camel). Phillip Morris markets kids; she has a personal investment in the youth today and wants it stopped. Pro-active companies that have kids best interest in mind are where our Trust Fund Investments should be.

**Jonathan Miller**... spoke against companies such as *CHASE MANHATTAN*. Sited examples of 70,000 Mexican soldiers being sent in to crack down on dissent. *ENRON* in India is brutalizing women and in Afghanistan terrorizing women and men. ENRON is making deals with terrorists over oil deals everywhere. We must not invest in these brutalities.

**Peter Tagno**...spoke of dictators buying land mines. Phillip Morris and Nabisco are companies that we should withdraw from. Minnesota and Maryland have divested money in Phillip Morris – we can do the same.

**Bill Medaille, Organizer with INFACT**
PHILLIP MORRIS marketing practices are vicious at best. They market to kids under 14!! In Malaysia they link their logo to everything that attracts young people – rock concerts, clothing, all items bought by young kids. He showed Regents pictures of young girls in Asia handing out free cigarettes to schoolchildren. They know the market of today is dying and they must addict the young people to have a market tomorrow. We must not invest in this type of practice.

**Geneva Finn**
It is the responsibility of University to stay away from investments in corporations that use Child Labor (such as *DISNEY*). Sweatshops and misuse of child labor is wrong. Disney companies in China, Haiti, Indonesia and Viet Nam are working 10-12 hour days, locking factories, risking the safety of their young workers, paying 1-21 cents/hour in some places. Other violators of child labor laws are *ABERCROMIE & FITCH, TIME/WARNER and others*. She felt the portfolio had gotten worse.

**Alicia L. Lemberger, Consumers for Fail Trade**
By not investing in socially irresponsible companies we would:
1) Make a statement
2) Money would go some where else (consumer for fair trade)
She felt the money going through the UW portfolio **could** make a HUGE difference. Regents must create a policy that has some substance and integrity in it.

**Maddy Brigell, Free Burma Coalition**...spoke of her concerns with Human Rights Violations in Burma --rape, destruction of entire villages, slave labor all for the construction of pipe lines. She sited *LaSALLE BANK, CHEVRON, PROCTOR & GAMBLE, RAYTHEON* as few of the companies that should not be in the portfolio.

**Eric Brakken, Associated Students of Madison**...spoke on Prudent Person Principal and responsibility to avoid investment undue risk etc. but pointed out that it does not prevent Socially Responsible investing. Investments do not have to be an either/or choice. We have a policy, a forum and now we need ACTION.

**Todd Prick**...applauded previous speakers and welcomed Board of Regents to attend CAMPUS DEMOCRACY MEETINGS being held over the next several days.

Regent Hempel thanked everyone. Meeting adjourned at 6:05 p.m.

J. Montgomery

J. Montgomery, Recording Secretary