I.2.a. Approval of Minutes of the June 4, 1998, Meeting of the Business and Finance Committee

Upon the motion of Regent De Simone and the second of Regent Marcovich, the minutes of the June 4, 1998, meeting of the Business and Finance Committee stood approved.


Associate Vice President Durcan reviewed the mission of the Best Business Practices Team established in 1995 to identify value-added services, stabilize costs of business operations and provide a common base to guide change. Projects have included travel reimbursement (November 1996), low dollar procurement (December 1996) and Financial Systems (May 1998).

In fall 1997, the Board approved the elimination of the subactivity reporting system. During its deliberations, the Business and Finance Committee asked if there were other more meaningful comparative data which could be utilized to provide assurance that the UW system compared positively to other institutions. The use of ratio analysis was examined as a replacement. While confirming the UW System ratios are within a reasonable range of those of other university systems and relatively consistent over time, they do not provide the type of information the Committee is seeking.

Several campus representatives reported on the best business practice initiatives and collaborative efforts taking place at their institutions.

James Freer, Assistant Chancellor of Administrative Affairs at UW-Whitewater, reported that, following a Quality Improvement team’s efforts, the Financial Aid Office has enhanced their automation processes during the last few years. The team determined that old practices had not been changed to use available technology. Students can now complete the financial aid application on the Web, saving about two weeks of processing time for the applicant. Using available technology, financial aid letters go out in April, allowing students who do not qualify for awards to have adequate time to apply for direct lending.

UW-La Crosse, UW-Oshkosh and UW-Whitewater, facing increased demands for information to support decision making and recognizing the weakness of their old and often modified legacy systems, were preparing to reengineer their student information systems to meet requirements for transition into the next century. A consortial effort among the three institutions was based on group purchasing power, capitalization on strength of each institution, agreement to keep the project on schedule, less costly and quicker development due to shared resources, leveraging small programming staff and moving forward on a Board of Regents’ suggestion of planning for common information systems and processes. The goal of the joint effort was to develop a common student information system while efficiently providing quality services and allowing for institutional uniqueness and autonomy by utilizing emerging technologies. A systemwide license has been acquired for PeopleSoft SIS. PeopleSoft is also the software product being used to create the new Shared Financial System.
Regent De Simone inquired how success stories such as these can be conveyed to other institutions. Assistant Chancellor Freer indicated that, currently, reports at Regent meetings, or meetings of Chancellors, Vice Chancellors, Institution Business Officers or other institutional groups provide a vehicle to share information.

Kathleen Mitchell, Associate Vice Chancellor for Business and Student Services at UW-Eau Claire, told the Committee of collaborative efforts of UW-Eau Claire, UW-River Falls and UW-La Crosse through shared staff in the area of environmental health and safety. She also reported on an agreement between UW-Eau Claire and the City of Eau Claire by which they share the services of a Risk Control Coordinator/Safety Officer who is employed by the University, with the City purchasing about one-half of the person's time. The arrangement is a particularly efficient use of resources because many City and University staff members require the same training to meet OSHA and State requirements and staff can be combined into single training sessions. In addition, this type of partnership enhances the positive relationship between the City and University.

UW-Eau Claire also used to pay an outside agency $20,000 annually to manage its Perkins Loan Program. Five years ago, the University purchased Bermuda Software and, with no increase in staffing, has been managing the $12 million portfolio locally. This change has saved the University money and has greatly increased service to students.

Associate Vice Chancellor Mitchell concluded by expressing appreciation to System Administration staff for leading the initiative for best business practices because the emphasis has promoted beneficial changes for the institutions. Regent Hempel added that the progress she has seen over the past six or seven years is quite striking—the institutions planned the administrative issues in a very independent fashion, and it has been very rewarding to see the results of the institutional collaboration in recent years.

Diane Moen, Assistant Chancellor for Administrative and Student Life Services at UW-Stout, noted that, during the fall of 1996, UW-Stout instituted an open, participatory budget process intended to facilitate planning and informed discussion and to encourage participation and proactive response to critical external and internal issues.

UW-Stout staff participated in a workshop on cost controls in dining services at UW-Whitewater and presented by UW-Platteville staff. Dining Services staff, which includes full-time management, represented staff and student managers, visit and tour the dining operations of a campus in the area. They have also hosted tours of dining service management staff from other institutions and also hosted tours of operations as related to ID card production and the campuswide access system.

In an effort to entice more student employees in food service, UW-Stout looked at what other institutions were doing to handle student employee shortages. Since instituting a food incentive program where the students are allowed a free meal during their shift, employment has gone from 50-60% up to 80-90%.

John Torphy, Vice Chancellor for Administration at UW-Madison, reported that UW-Madison established a Solid Waste Alternatives Program (SWAP) to dispose of University surplus property to other University departments, school districts and nonprofits first and then to the general public. Many State agencies also use the store to dispose of their surplus property. Materials are handled on consignment, resulting in sales of $1.1 million and a return of 71% to departments in FY98.

The Wisconsin Commission on Privatization recommended that the Best Business Practice for obtaining commonly used supply items is Just In Time (JIT) delivery. UW-Madison changed to JIT for office supplies on July 1 and will be moving in that direction for lab supplies shortly. UW-Madison will be using Prime Vendor Ordering off contracts recently awarded. It is expected that customers will see a 30% price drop over current methodologies, and the number of paper invoices is expected to decline by about 100,000 per year, which will allow UW-Madison to eliminate two accounts payable invoice auditors.
Regents Marcovich and De Simone expressed some concern with the contracts not going to local suppliers. Chancellor Kuipers added that in Madison and Milwaukee, the use of outside vendors would not be as much of a concern as the other institutions would experience. The other institutions depend more on contributions from the community and, therefore, it’s important that the institutions support local businesses as well.

Regent Hempel noted that the basic issue is defining whether the contribution at risk is greater than the cost benefit. Vice President Bromberg noted that, because purchasing has been governed by DOA, individual institutions have not been able to do that type of cost analysis. Regent Marcovich asked if there was any way to measure what the cost would be. Vice Chancellor Torphy replied that there is a 30% savings which is due to the prime vendor contract. Regent Hempel noted, however, that it is difficult to measure that against what someone’s future grant plans might be. Vice President Bromberg stated that it is worth quantifying and that staff would look into it further and report back to the Committee.

President Bromberg stated that it is reassuring to find that the UW System compares favorably with other university systems. We do need to keep looking for ways to measure our institutions with each other, which is the most valuable measure, but also to measure the System against other systems. The UW System is doing this subjectively with Best Business Practice, but it is important to also be objective as well.

Regent Hempel added, for the benefit of the newer members of the Committee, that the Committee has been having continuing discussions for a number of years about the best way to assure, as the Committee monitors the University System, that the efficiency and effectiveness of its operations continue to improve and compare favorably with those of other systems. However, it’s been difficult to find consistent measures that are reliable across comparable systems. A commitment was made about a year ago to find a comparison that might assist the Committee. She asked if there were any cost-based ratios in the KPMG report that might have proven useful as compared to the balance sheet ratios.

Associate Vice President Durcan responded that there are a number of cost-based ratios and they look at the functional activities over the total revenues, which are the demand ratios. The contribution ratios look at the portion of the various sources of revenue to total expenditures. Staff did look at those, but chose not to present them because, in the past when staff have presented the administrative cost information, expenditure by function has been looked at as a portion of total expenditures. Both allow comparison across other institutions and that comparison will be brought to the Committee at the November or December meeting.

Regent Hempel added that she thought the subject was going to become increasingly important because the System is doing a good job, but that these ratios may fall into a similar category as the ones discarded last year and suggested that staff might not want to spend time on them.

1.2.c. Year 2000 Report

Vice President Bromberg reported that the UW institutions have been preparing for Year 2000 for over ten years; UW-Madison began in 1985 and UW-Milwaukee began in 1988. Systemwide efforts began in 1996 with the CIO Council which began exploring numerous areas: mission critical systems; personal computer, network and hardware/software issues; test environments; disaster recovery plans; vendor compliance; and noncritical applications. In a 1997 letter to Chancellors, President Lyall outlined steps each campus should take, and a follow-up audit/review is underway. There are three areas of concern: critical functions on December 31, 1999; critical functions during 2000; and noncritical, but important impacts. Reports will be prepared throughout the coming year on how critical functions have been addressed, contingency plans, liability issues and what remains to be done.
I.2.d. Report on Base Salary Adjustment to Recognize Competitive Factors

Vice President Bromberg explained that ss. 36.09(1h) and 36.09(1)(j), Wis. Stats., allow the University System to grant salary increases to recognize competitive factors. No later than October 1 of each year, the Board of Regents must report to the Joint Committee on Finance and the Department of Administration and Employment Relations concerning the amount of such pay increase granted, and the institutions at which they are granted for the 12-month period ending on the preceding June 30. In 1997-98, increases totaling $1,022,466 were granted to 136 individuals at 14 institutions.

Upon the motion of Regent Marcovich and the second of Regent De Simone, the Committee approved Resolution 1.2.d.

Resolution 1.2.d.

That, upon the recommendation of the President of the University of Wisconsin System, the Report on Base Salary Adjustments to Recognize Competitive Factors Required by Section 36.09(1)(j), Wisconsin Statutes, be accepted for transmittal to State Officials.

I.2.e. Authorization to Recruit for General Counsel

President Lyall presented a resolution which would allow recruitment of a General Counsel to replace Charles Stathas who will be retiring at the end of November, after 37 years with System Administration.

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

Resolution I.2.e.

That, upon the recommendation of the President of the University of Wisconsin System, the President be authorized to recruit for a General Counsel, at a salary that may exceed the Executive Salary Group Six maximum and the President is authorized to make such appointment within the approved salary range limits.

I.2.f. Report of the Vice President

(1) Quarterly Gifts, Grants and Contracts Report

Vice President Bromberg reported that total gifts, grants and contracts for the twelve-month period ended June 30, 1998, were $647.9 million, an increase of $53.5 million from the comparable period of the previous fiscal year. Federal awards increased $.7 million, while non-Federal awards increased $52.8 million.
(2) Agreement with Private, For-Profit-Making Organization

(a) Contract for Radio Broadcast Rights with Learfield Communications, Inc.

Vice President Bromberg presented the contract extension with Learfield Communications, Inc., for exclusive radio broadcast rights with respect to football, basketball and volleyball games involving UW-Madison teams. She indicated that payments to UW-Madison have increased 57% during the first four years of the contract; by comparison, payments under the contract with the preceding vendor increased only 11% during the entire five-year term of that contract.

Regents Olivieri and Hempel asked for clarification of whether this would merely give UW-Madison a basis for continuing to negotiate with Learfield or if the Committee was being asked to approve something without comparing it with what else might be available. Vice Chancellor Torphy explained that there is no requirement to go out to bid; this is not a contract governed by State Procurement or any other entity. Learfield has the contract for five of the Big 10 institutions and has almost doubled the revenue the Athletic Department received, compared to the prior contract. He added that, when a contractor is doing an outstanding job, it makes sense to reward them. However, if the Board wants UW-Madison to go to bid for the service, the process would need to be started now.

Regent Marcovich questioned whether there was an informal process to survey other contractors to determine whether they felt they could meet or beat Learfield. Vice Chancellor Torphy responded that the only way to do that would be to go to the bid process. The reason this suggestion is being made is because, after careful analysis, UW-Madison does not believe the results would be better, and could be less, if the contract goes out for bid at this time. He added that, if it goes to bid at this time, there would probably only be one other potential bidder.

Upon the motion of Regent De Simone and the second of Regent Gottschalk, 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 contract extension with Learfield Communications, Inc.

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

No additional items were presented at this time.

I.2.h. Trust Funds

(1) University of Wisconsin System Trust Funds Request for Principal Expenditure—Frederick S. Brandenburg Bequest

Vice President Bromberg stated that the UW-Madison Medical School has requested that the Frederick S. Brandenburg bequest, valued at roughly $51,000 be exempted from the Regent-approved “Quasi-Endowment Policy.” The policy requires that all bequests of greater than $50,000 in which the gift instrument is silent as to the use of principal, be coded as “designated endowments” with only
principal being available for expenditure by the department. In this case, the donor specifically noted that the funds could be used for “buildings” and placed no restriction on the use of principal.

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

**Resolution I.2.h.(1)**

That, upon recommendation of the President of the University of Wisconsin System, and the UW-Madison Medical School, the principal and income balance of the Frederick S. Brandenburg Life Insurance Trust is used to add to the Healthstar building fund.

**(2) University of Wisconsin System Trust Fund Principal Long Term Fund Endowment Spending Plan**

Treasury Manager Mills noted that, each year, the Business and Finance Committee is asked to review the small fraction spending plan which was adopted in 1990. Under the existing plan, each Trust Funds account receives 5% of the 36 months trailing average market value. Due to the dramatic increases in market value of the securities held in the Long Term Portfolio, the distribution for fiscal 1998 was $10.3 million, up substantially from the $8.8 million distributed for fiscal 1997. The 5% spending rate is consistent with the Big 10 average and slightly ahead of the NACUBO averages. The current rate has allowed for growth in annual distributions as well as growth in the endowment principal. Therefore, at this time, it is recommended that there be no change to the existing spending rate of 5%.

**(3) 1998 Asset Allocation Review**

Treasury Manager Mills explained that, as part of the annual review of asset allocation, an extensive study was completed. The current allocation of 67% equities and 33% fixed income has been in existence since 1995. Variables examined in the report include: expected return; standard deviation; correlation; risk profile; and target rate of return.

Once the inputs were determined, multiple simulations were run to determine the feasibility of various options. After examining the four scenarios, the recommendation is to adopt a 70/30 allocation by increasing the international equity exposure 3% (roughly $7.5 million). This adjustment increases returns with only a slight increase in portfolio risk. The estimated dollar impact is additional portfolio return of approximately $450,000 each year with a one-time cost of approximately $45,000 in transaction charges.

Regents discussed the need to take a risk to get the gains but, because the investments and the results are more public than for Foundation funds, there tends to be more “second guessing” by the public when the market is not doing well. The Board, therefore, needs to keep that in mind while still trying to maximize returns and protect the spending percentage.

Upon the motion of Regent De Simone and the second by Regent Gottschalk, the Committee approved Resolution I.2.h.(3).

**Resolution I.2.h.(3)**
That, upon the recommendation of the Business and Finance Committee, the asset allocation of 70% equities and 30% fixed income be approved for the University of Wisconsin System Trust Funds.

(4) 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 De Simone, the Business and Finance Committee adjourned to closed session, pursuant to s. 19.85(1)(e), Wis. Stats., to consider Trust Fund matters, at 3:37 p.m.

The Business and Finance Committee adjourned at 3:40 p.m.

Donita R. Zintz, Recording Secretary