

Minutes
Business and Finance Committee
Board of Regents of the University of Wisconsin System
March 4, 1999

The Business and Finance Committee met in Room 1511 Van Hise Hall, Madison, at 9:30 a.m. Present were Regents Marcovich, De Simone and Gottschalk.

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

Upon the motion of Regent De Simone and the second of Regent Gottschalk, the Business and Finance Committee adjourned to Closed Session at 9:35 a.m., to consider Trust Fund matters as permitted by s. 19.85(1)(e), *Wis. Stats.*

The Committee recessed at 12:00 noon and reconvened in Open Session at 1:02 p.m. in Room 1820 Van Hise Hall, with all Regents invited. Present were Regents Barry, Benson, Boyle, Brandes, De Simone, Gottschalk, James, Mac Neil, Marcovich, Mohs, Olivieri, Orr, Smith and Staszak.

I.2.b. Biennial Budget Update

President Lyall summarized the Governor's 1999-01 budget recommendations for the UW System and discussed the next steps in the biennial budget process. She emphasized that there is much good news in the recommendations. Governor Thompson's recommendations state they are designed to help create "a stronger University of Wisconsin System—the crown jewel of our educational system and an incubator of ideas that improve our economy and better the condition of our society." The recommendation of \$60.5 million, excluding the pay plan, is the best budget proposal for the UW System in a decade in which the early years were marked by budget freezes, lapses and significant base cuts. The proposal represents a 2.7% increase in GPR over the next two years, targeted to the priorities laid out in the Regent's request to sustain quality, maintain access and improve efficiency.

Tuition increases associated with the Governor's proposal would average 2.1% annually at all institutions except UW-Madison where increases would average 4.8% annually as part of the special Madison Initiative. This is before pay plan which adds about 0.7% to tuition for each 1% of pay plan funded with the traditional GPR/fee split. Actual tuition, therefore, cannot be estimated until action is taken on the pay plan later in the spring.

The Governor's budget recommendations include:

- \$2.0 million to address the students' highest priority for improved advising.
- \$7.3 million to restore basic library collections, purchase statewide licenses for electronic databases and speed up document delivery throughout the statewide lending network.
- \$4.9 million for the innovative "grow-our-own" program to train and employ 200 additional student information technology workers.
- \$3.0 million to fund study abroad opportunities for about 1,000 students and to develop a Global Studies program and business development initiatives at UW-Milwaukee.
- \$0.7 million to expand precollege programs to ensure that minority and disadvantaged students will be prepared for admission and success in the UW System.
- Funding for a number of institution-specific initiatives, including expansion of student services for nontraditional students at the UW Colleges, completion of the Allied Health consortium commitment at UW-La Crosse, startup for a consortium program in graphics communication management by UW-Stout, the Technical Colleges and the graphics industry, and funding for the first half of the Madison Initiative.

- \$400 million for statewide implementation of the Early Placement and Early Writing Assessment tests and support for the UW Center for Tobacco Research and Intervention to develop antismoking education and intervention programs.
- \$3 million in bonding from Native American Gaming funds for the creation of an Aquatic Demonstration facility at Ashland, with the operating funds for the facility promised for the following biennium.

President Lyall also expressed appreciation for the Governor's recommendation that the WHEG financial aid program be increased 6% in each year of the biennium for UW students. This will go a long way toward ensuring that able but needy students can continue to have access to a UW education.

Disappointments were also part of the budget. There was no funding proposed to expand UW-Extension's technical assistance to help local governments cope with the many new responsibilities and technical policy issues devolving on them from Federal and State levels. Funding is also not proposed for the UW-Milwaukee urban environmental health initiative or the UW-Superior integrated assessment program. No increases were recommended in the State's two minority and disadvantaged financial aid programs, the Lawton Undergraduate Grants and the Advanced Opportunity Program for graduate students.

It is not yet known what the Governor's recommended pay plan will be, but this will be critical to the UW System's ability to recruit, replace and retain the next generation of the professorate as faculty retire in increasing numbers over the next two years.

Recommended management flexibilities which will enable the UW System to use resources more effectively to serve students both on and off campus:

- extend the Tuition Award Program (TAP) at UW-Parkside and UW-Superior through Year 2001.
- remove the \$12,000 cap that discourages UW faculty from working with another UW System institution to provide summer school or collaborative programs with other faculty across the System.
- help meet the burgeoning demand for "just in time" continuing education and be more responsive to the needs of nontraditional adult students by granting an additional 1% GPR positions, or approximately 180 FTE, and continuing appropriation authority to spend revenue received from new students, as received, to ensure they receive the highest quality of service.

The Division of Facilities Development will recommend to the Building Commission approval of the Regents' proposal to establish a repair/renewal/renovation pool of funding which can be managed more flexibly among projects by the Board. The Division will recommend a total of \$136 million for this pool called "WisBuild." In addition, \$23 million in enumerated projects will be recommended for approval in 1999-01.

President Lyall cautioned that this is only the beginning of the legislative review of the budget, so UW System will work aggressively for legislative approval of the Governor's proposals, which are crucial to the future quality and access to a UW education for many Wisconsin citizens. There are many competing demands for State resources, but the UW cannot wait at the end of the line for another two or four years.

It is vital the Regent's pay plan recommendation of 5.2% be fully funded at the standard GPR/fee split. More than any other single item, full funding of a 5.2% pay plan would relieve pressure on future tuition and ensure a continuation of the System's fine faculty.

The Legislature should sustain the Governor's 6% annual increase in WHEG funding for financial aid grants and extend it to include Lawton and AOP aid programs. President Lyall urged strong support of having all three aid programs automatically increased at the same rate as tuition, by Statute, so that students and their families can be assured of access to a first quality UW education.

Students should continue to pay a fair share of the budget increases, but GPR must also provide a fair share of these essential investments in maintaining the quality and value of a UW education. It is time to restore the partnership that will help UW students succeed in the 21st Century.

President Lyall emphasized the importance of stepping up advocacy with legislators to ensure the UW System's needs are understood and the Governor's proposals are not reduced or weakened. The Joint

Finance Committee will be holding regional hearings on the budget throughout the State in the next month. Students, faculty, staff, administrators, Regents, community leaders and friends of the University must take an active role in supporting this budget.

It is expected that the Legislature will complete its work on the budget by July 1 so the Regents can authorize the 1999-00 budget allocations to the campuses at the July meeting. In anticipation of this, Regents will be asked to adopt some Decision Rules for allocating the funds at the April Board meeting so staff can prepare the campuses' annual budgets as soon as the Governor signs the final budget bill in July.

Regent Orr agreed that this is a good budget which is student-focused, and stressed the importance of managing the limited resources the System does have. He noted that it is important that the UW System have the same flexibilities as other Big 10 institutions.

Regent Boyle stated that the foundation of a great university is the faculty, and the UW System needs to be able to compete, so it is important that the compensation package be equally as good as the budget.

Regent Smith agreed that the pay plan needs to be strong enough, not just to be competitive, but to put the System ahead of the crowd. He also noted the need to strengthen the request for funding for diversity initiatives.

Regent Stazack expressed appreciation that the budget addresses students. He also noted the importance to students of funding to ensure quality faculty and for financial aid, and indicated he would deliver those concerns to the Governor on behalf of the students.

The Business and Finance Committee recessed at 1:24 p.m. and reconvened in Room 1920 Van Hise Hall at 1:33 p.m., in a joint session with the Physical Planning and Funding Committee. Present were Regents Marcovich, Barry, De Simone, Gottschalk, James, Mohs and Olivieri.

I.2.c. Y2K Update

Vice President Bromberg reported that contingency planning for the Year 2000 is continuing and a follow-up report will be made to the Board in the fall. All critical systems are being examined and prepared for Year 2000, and staff will be available in all areas.

The payroll system will be tested between July and December and the January 1, 2000, payroll will be run early. The ACH network is guaranteed to be compliant.

Testing is underway for the financial system, since fiscal year 2000 begins July 1. The system is fully backed up and check writing capabilities are available.

Federal feed for 1999-00 is due this spring and the next feed will be due in the spring of 2000 for the financial aid system. Back-up for this system is nonautomated packaging.

Admissions and records systems compliance varies by campus. Some systems are new and are compliant, and the older ones require some fixes. There will be hard copy back-up for admissions and records. Reports are being run in advance, and some of those have already been run successfully using Year 2000.

Back-up energy sources and/or alternative sites are being identified for facilities systems. Hazardous materials drills are in place.

There will be technical and functional staff identified who will either be at work or on call in all critical areas.

A contingency plan questionnaire will be given to all UW System staff and a Web page is available for access. There will be a systemwide Y2K Awareness Day on April 1.

Vice President Bromberg introduced Louise Gemoules, a student who is working in the Office of Internal Audit to ensure that all areas are Y2K complaint.

The Governor's Blue Ribbon Committee's Subcommittee on Governments' report will highlight the UW System's success in addressing potential Y2K issues.

The Committee recessed at 1:50 p.m. and reconvened at 1:52 p.m. Present were Regents Marcovich, De Simone, Gottschalk and Olivieri.

I.2.d. Approval of Minutes of the February 4, Meeting of the Business and Finance Committee

Upon the motion of Regent De Simone and the second of Regent Olivieri, the Minutes of the February 4, 1999, meeting of the Business and Finance Committee were approved as presented.

I.2.e. Update: Optional Retirement System

Senior Vice President Olien reviewed that Assembly Bill 331, introduced in May 1997, would have required the Board of Regents to establish an Optional Retirement System (ORS) and would have mandated certain plan features. In December 1997, the Regents adopted eleven principles to frame the University's position on this legislation. Among the principles were the requirements that the Board of Regents retain oversight and control of the ORS and that the potential impact of ORS plan provisions on the ability of the Wisconsin Retirement System (WRS) to meet its obligations be considered.

In recognition of several of the Regent principles, the 1998 budget bill authorized an actuarial study of the impact of creation of an ORS for new hires on the WRS and required the Regents to submit legislation by June 1. The actuarial study was completed by the WRS actuary in December. Subsequently, the director of the Retirement Research Committee prepared supplemental reports in January and February which clarify and expand on the WRS report—including possible benefit changes and estimated costs of improving certain benefits for all WRS participants.

The studies found that younger faculty and academic staff may find an ORS attractive because of potential for higher earnings, under a money purchase plan, and the increased portability to roll their retirement plan over to other employers. If the younger faculty and academic staff elect the ORS, higher benefit costs for the remaining WRS participants could result. However, the actuary determined that an ORS could be structured so it would not increase WRS contribution rates paid by other public employers.

The UW System Fringe Benefits Advisory Committee (FBAC) has had the opportunity to look at the ORS experience in other states and examine the various actuarial reports. While the FBAC continues to support enhancements to the WRS to make it more portable and attractive to employees, the committee has indicated to the President it could accept an ORS provided it is not expected to have any significant negative impact on the WRS. The Committee recommends that any proposal for an ORS should assign the plan design and oversight to the Department of Employee Trust Funds.

Given the experience of Illinois and Ohio subsequent to adoption of the Regent principles, it is likely the UW System will recommend changes in several principles at the April Board meeting, including the principle related to direction and oversight of any ORS program. Staff will then prepare proposed legislation for the Board to consider at the May meeting. This timetable will enable the Board to meet the June 1, 1999, deadline for recommending ORS legislation, and also allow interested faculty and staff to participate in an open process prior to the adoption of any alterations of Regent principles and before the Board considers proposed legislation to be forwarded to the Legislature as mandated by session law.

Regent De Simone expressed concern that 30-40% of people would not be knowledgeable enough to make wise, informed investment decisions. Senior Vice President Olien assured him that legislation would address that issue.

Regent Olivieri questioned whether there would be a negative effect from this program. Sue Chamberlain, Staff Benefits Director, responded that there are over 400,000 employees in the Wisconsin Retirement System and the maximum potential enrollment for this option would be 15,000; therefore, there would be only a small impact.

I.2.f. Alternative Tuition Proposals for Graduate Summer School

UW-Oshkosh, UW-Platteville and UW-River Falls expressed interest in adopting an alternative tuition for graduate summer school. Similar to UW-Superior, most of the graduate courses offered during the summer at these three institutions are for professional programs—in particular, Education. Students typically hold full-time positions, and many are teachers. The summer is a time when they can make significant progress toward a Master's degree, complete certifications or meet some professional requirement in their field of expertise, which will lead to their professional advancement.

These UW institutions will generate about \$40,000 to \$50,000, each, in additional tuition revenue that will be used to support these courses, as well as the overall summer session program, including offering additional courses. The additional funds generated by this proposal will also help pay for the additional costs associated with the specialized needs of these returning professionals.

Regent Marcovich indicated that, in response to student concerns and because they were not planning to implement the tuition until the summer of 2000, UW-Oshkosh had withdrawn their request, and the Resolution before the Committee had been amended accordingly.

Chancellor Thibodeau stressed that this is not a differential tuition request, but is a per credit tuition request which is responsive to the large enrollment of graduate students who can only take classes during the summer, but need to take the classes for professional advancement. Last summer UW-River Falls had to cancel one-third of their classes and they had 15 classes with less than ten students, but these were classes which the students needed. The intent of this proposal is to create a "niche" market and building on that market, but "seed" money is needed to do that, which the per credit charge would provide.

Chancellor Markee added that this is an issue of fairness, flexibility and access, and that this per credit tuition is important for UW-Platteville, also.

John Graebel, President of United Council, spoke on behalf of students, noting that United Council passed a resolution in opposition to any differential or per credit tuition programs that do not have the support of students, and specifically sighted the programs before the Committee. The resolution was not necessarily in opposition to the merits of the program, but rather the process that occurred or did not occur on the campuses. He requested that the resolution before the Committee be pulled from the agenda to allow the campuses to fully discuss the merits of the programs and allow student involvement.

Regent Olivieri stated that, before another proposal like this comes before the Board, a process needs to be in place to address the issues causing the student opposition, or he will vote against any future proposals.

Upon the motion of Regent De Simone and the second of Regent Olivieri, the Committee approved Resolution I.2.f., as amended.

Resolution I.2.f.

That, upon the recommendation of the President of the University of Wisconsin System and the Chancellors of the ~~University of Wisconsin-Oshkosh~~, University of Wisconsin-Platteville and the University of Wisconsin-River Falls, beginning in the summer 1999, allow the ~~University of Wisconsin-Oshkosh~~, University of Wisconsin-Platteville and the University of Wisconsin-River Falls to charge graduate students summer session per-credit tuition for all credits taken.

I.2.g. Vice President's Report**(1) Report on Composition of Trust Funds**

Vice President Bromberg noted that the UW System Trust Funds consist of unsolicited gifts to the Board of Regents, and totaled \$290 million as of June 30, 1998. During fiscal year 1998, the UW Trust Funds received approximately \$6 million in gifts. Of this total, 45% was from individuals, typically in the form of bequests. Businesses, through direct grants or matching gift programs, provided 33% of all gifts received. Foundations and religious organizations provided the balance.

If the donor does not specify the use of the funds, the Chancellor of the named institution is called upon to provide terms and conditions for use. These "unrestricted" gifts currently total 50% of all gifts. Scholarships/student aid represent 26%, research represents 19%, libraries represents 3% and instruction represents 2%.

In the instances when a donor does not expressly name a recipient institution, the UW System controls the fund. As of June 30, 1998, 1.3%, or approximately \$4 million, are controlled by UW System. Over 93% of all trust fund monies were held on behalf of UW-Madison.

In 1990, the Business and Finance Committee adopted a policy that all gifts greater than \$50,000, in which the gift instrument is silent as to the use of principal, must be classified as "designated" endowments. This restricts spending to income only. Conditions for use of Trust Funds must also be in compliance with all Wisconsin Statutes. After terms and conditions for use have been assigned and an account established, the gifts are pooled for investment purposes into one of three investment vehicles: Long-Term Fund, Intermediate-Term Fund or Income Fund.

Total expenditures for fiscal year 1998 were nearly \$13 million. Of that total, roughly 50% was spent on research, 24% on libraries, public spending and other, 18.3% on student aid and 8.4% was spent on instruction related items.

In response to questions from Regent Olivieri on why this discretionary money was not used for student aid, Treasury Manager Mills explained that the income from a particular gift may not be significant enough to award a scholarship every year. She also explained that some unrestricted gifts may be given to a specific department, but the donor did not specify how it must be used, and it was important for all departments to have a small amount of discretionary funds.

(2) UW-Madison Contractual Agreement with Pfizer, Inc.

Vice President Bromberg presented the contractual agreement with Pfizer, Inc., to provide services as a Data Analysis Center for the randomized Phase III controlled study of amlodipine in congestive heart failure patients. Board of Regents policy requires Regent approval when a contractual agreement with a private, for-profit organization exceeds \$500,000.

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

Resolution I.2.g.(2)

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 Pfizer, Inc. entitled "Praise II Study."

I.2.h. Closed Session for Discussing Competitive or Bargaining Issues, as Permitted by

s. 19.85(1)(e), Wis. Stats.

Vice President Bromberg indicated that there were no items to be discussed under this agenda topic.

The Business and Finance Committee recessed at 2:32 p.m. and the Audit Subcommittee convened at 2:33 p.m. Present were: Regents Marcovich, De Simone, Gottschalk and Olivieri.

I.2.i. Audit Subcommittee**(1) Periodic Update**

Internal Audit Director Yates provided an overview of the projects the Office of Internal Audit is conducting, including reviews of faculty recruitment and retention, compliance with the Americans with Disabilities Act, competition with the private sector and other areas. Several projects are nearing completion and will be presented at upcoming Audit Subcommittee meetings. These audits include:

- Library Acquisitions – Fieldwork has been completed at selected institutions.
- Faculty Recruitment and Retention – Program review fieldwork has been completed; a draft report has been completed; and findings will be presented in the next Status Report.
- Americans with Disabilities Act – Review work on compliance with Regent policy and with the Americans with Disabilities Act of 1990 is continuing. System and institution costs associated with program implementation is also being analyzed.
- Competition with the Private Sector – Review work is nearing completion.
- Child Care Centers – Review work is nearing completion.
- Textbook Rental Management – Audit work is nearing completion.
- Year 2000 Issues – Review work is continuing.

Mr. Yates described the new mission statement for the Office of Internal Audit and discussed the Office's role. With an auditor now assigned to each of the UW institutions, the Office of Internal Audit has been moving away from traditional financial/compliance audit work and toward policy reviews and management studies. Most of the projects the Office has conducted in the past year have been analyses of the implementation status of Board of Regent policies. The Office has adopted a role as internal management consultants, focusing on offering suggestions and recommendations for operational or policy improvements.

In January 1999 the Legislative Audit Bureau (LAB) released the annual financial statement audit of the University System. LAB is currently conducting the annual, federally-mandated A-133 audit report due for release in June 1999 and expects to complete its limited review of the mass transit contracts that institutions have with local transit authorities this spring.

The Institution Internal Auditors performed a variety of audits in such areas as fleet vehicle rental, computer sales, library inventory and campus and alumni organizations. The institutions also relied upon the auditors to provide technical assistance. In 1999 the auditors foresee challenges in responding to the many requests for audits and in developing the expertise necessary to audit the new information systems (PeopleSoft and Kronos) being implemented systemwide.

In response to questions from Regent Gottschalk, Mr. Yates explained that the Institution Internal Auditors are responsive to the Chancellors' requests to look into issues on their respective campuses and they otherwise focus attention on high risk areas. He added that there will be quarterly meetings of the auditors to discuss common issues and share information. Because of turnover in staff (three auditors left in the past year), trainers will be assigned from the Office of Internal Audit to work directly with both new and current Institution Internal Auditors.

There was discussion on the need to amend the mission statement to clarify that the System Office of Internal Audit provides coordination with the Institution Internal Auditors.

(2) Cooperative Agreement with DOA

Associate Vice President Durcan explained that delegation agreements are in place with each State agency, covering delegation of the preaudit function. The cooperative agreement replaces the old delegation agreements and gives an expanded scope. The agreement includes delegation of preaudit function, recognizing responsibilities for processing transactions, development of internal controls, submission of required reports and other accounting and payroll-related activities.

After the fine-tuning of the agreement has been completed, it will be signed by Secretary Bugher, Vice President Bromberg, the State Controller and Associate Vice President Durcan. DOA has received only ten plans from State agencies thus far and are developing a suggested format. System Administration is working with the institutions to develop their individual internal control plans and developing a mechanism to review the plans and report back to DOA.

The Audit Subcommittee adjourned at 2:58 p.m., and the Business and Finance Committee reconvened at 3:10 p.m.

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

Upon the motion of Regent Gottschalk and the second of Regent Olivieri, the Business and Finance Committee adjourned to Closed Session at 3:10 p.m., to consider Trust Fund matters as permitted by s. 19.85(1)(e), *Wis. Stats.* Present were Regents Marcovich, De Simone, Gottschalk and Olivieri.

The Business and Finance Committee adjourned at 3:55 p.m.

Donita R. Zintz, Recording Secretary