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

Following an all-Regent meeting at 1:00 p.m. in Room 1820 Van Hise Hall, Madison, on Enrollment Planning for the 21st Century (see Education Committee Minutes), the Business and Finance Committee met in Room 1920 Van Hise Hall, at 1:30 p.m. with the Physical Planning and Funding Committee for a presentation on Stewardship of UW Facilities (see Physical Planning and Funding Committee Minutes). The joint meeting recessed at 2:10 p.m., and the Business and Finance Committee reconvened at 2:18 p.m. Present were Regents Marcovich, Axtell, De Simone, Gottschalk, Olivieri and Smith.

I.2.a. Approval of Minutes of the October 7, 1999, Meeting of the Business and Finance Committee

Upon the motion of Regent De Simone and the second of Regent Gottschalk, the Minutes of the October 7, 1999, meeting of the Business and Finance Committee were approved as presented.

I.2.b. Building the Technology Infrastructure for the 21st Century (Periodic Update)

Vice President Bromberg reported on various projects in process.

- The **Shared Financial System**, a systemwide initiative involving all institutions, is in progress, with a completion goal of June 30, 2001.

- Progress on the **Payroll Personnel System** has been delayed slightly to address concerns which have been raised by some involved with the project. However, the RFP should be ready to go to the vendors soon.

- Use of **E-Commerce** that will allow both application and payment for admission electronically is nearing the "go live" state.

- The Facilities Management System (**FACMAN)** for the State is being implemented first in the UW System. Facilities audits are now underway on each campus to build the system.

- Progress is being made in building a **Data Warehouse** to accommodate information needed for management reporting at institutions and systemwide. The goal is to develop data sources that can be seamlessly accessed at all levels.

I.2.c. 1999-00 Pay Plan Procedures

Associate Vice President Brooks reported that the delay in signing the Biennial Budget will most likely cause implementation of pay plans to go beyond the calendar year. Only the approximately 1,000 nonrepresented classified employes will receive their increases in November. Represented classified employes' pay plans will be delayed by ongoing union bargaining negotiations. Because the Department of Employment Relations is focused on collective bargaining, it is likely there will not be a pay plan brought to the Board before December or January. Senior Executive pay plans are also in a holding pattern and most likely will not be brought to the Board until December or January. Increases will be retroactive to the beginning of the fiscal year.

I.2.d. Report of the Vice President

(1) Graduate Summer School Tuition Outside Plateau (Eau Claire)

Vice President Bromberg noted that UW-Eau Claire had asked to delay discussion of this item until the December meeting.

(2) Quarterly Gifts, Grants and Contracts

Vice President Bromberg reported that total gifts, grants and contracts for the three-month period ended September 30, 1999, were $252.4 million, an increase of $13.0 million from the comparable period of the previous fiscal year. Federal awards increased $6.8 million, while non-Federal awards increased $6.2 million.

I.2.e. UW-Madison Intercollegiate Athletics Five-Year Plan

Vice Chancellor Torphy explained that the UW-Madison Athletic Department's five-year financial plan was prepared at the request of the Legislative Audit Bureau (LAB) and Joint Committee on Finance (JCOF). Last year, the Department was projecting, for the first time, an operating budget deficit for 1999-2000.

For the last six years, UW-Madison has finished first or second in the overall Big Ten competitive standings and has consistently ranked as one of the top 25 athletic programs in the country. In addition, the women's sports program was recently ranked tenth best in the country by *Women's Sports Illustrated*. Wisconsin ranks first in academic excellence over the past six years, and student athletes have earned more Big Ten academic achievement awards than athletes at any other Big Ten institution during the past twelve years. In terms of expenditures, men's sports is eighth out of the eleven schools in the Big Ten; women's sports ranks sixth; and in all sports, Wisconsin ranks seventh out of the eleven.

Of the $41 million budget, one percent comes from taxpayers, and that finances women's sports. The remaining 99% must be generated by the Athletic Department. The majority of the revenue (46%) comes from ticket sales and concessions. Ninety-seven percent of ticket sales are generated by football, men's basketball and men's hockey. Because tickets are sold out for football and men's basketball, the Department cannot rely on additional ticket revenues to achieve financial solvency.

The five-year plan is exclusive of the golf course and camps which are required to be self-supporting and not run in a deficit. The six major elements of the five-year plan are: maintaining academic and athletic competitiveness; achieving financial solvency without additional support from the University, State or students; containing costs; increasing revenue; building a reserve to $10 million; and making necessary improvements to facilities. In 1989-90, Athletics had a deficit of $2.1 million, and in seven years that deficit changed to a surplus of $3.9 million. Last year, a portion of that was used for facilities not funded by the State. Five-year projections are to increase the reserve to $10 million to ensure resources in case of a "bad" year in attendance or unanticipated maintenance needs.

Operating increases next year will be 0%, 1% for Fiscal Years 2001-02 and 2002-03, and 2% for Fiscal Years 2003-04 and 2004-05. The assumption is there will not be significant expenditure increases. Other areas of limiting expenditures are consolidations of business operations and facilities management and in post-season participation. Participation in non-football post-season events will continue to run at a deficit because there is no payment for participation.

Salaries, benefits and scholarships comprise 47% of expenditures. Salaries and benefits are determined by the State pay plan and scholarships are determined by the tuition that is set. The Athletic Department has no control over those costs, other than to deny salary increases or decrease the number of scholarships. A 5% increase in the pay plan and tuition would increase Athletic expenditures by $1 million.

The alternative to meet Title IX requirements in lieu of roster management is to add additional sports, which would also add additional cost. Approximately 50% of the growth that has been mentioned in the audit report and by the media is due to the addition of women's sports to meet Title IX requirements. Additional administration costs have been predominantly for the Kohl Center, and that increase in staffing was approved by the Legislature and Governor.

The University's share of Big Ten revenues is projected to increase by 57% over the next five years, primarily as the result of football television distribution. Other revenue increases are expected from increased corporate sponsorships, investment income on the reserve balance, and fundraising efforts. Of annual, unrestricted fundraising monies given to Big Ten institutions, Wisconsin ranks lowest in the Big Ten schools. Most of that amount is from preferential seating for men's basketball and hockey at the Kohl Center.

The proposed football preferential seating plan is a phased-in approach. The proposal originated in 1982 and, if the 1982 plan had been fully implemented for all season ticket purchasers, the income would have been in excess of $6 million annually. Required donations would not be higher than the 1982 plan, and would not be implemented until the 2001 football season. Details of the plan will be presented to the Athletic Board in January and then will come to the Board of Regents. The most costly of the preferential seating would be $300, but it is a tiered plan, and the majority of seats would be less.

There are no plans for significant increases in ticket prices, although Wisconsin ranks seventh in ticket prices in the Big Ten in both basketball and football ticket prices. The Department plans to raise the men's basketball ticket price by $2 for the 2000-01 season and require the team to play 16 home games during each year of the plan. Single game football tickets will be increased by $4 in 2004.

Debt service will be used to make improvements to the athletic facilities, including Camp Randall, the Natatorium, Track/Soccer Complex and Boathouse. Camp Randall is long overdue for renovation, which is anticipated to cost approximately $40 million.

Regent Marcovich asked for clarification of the Board's role in regard to the Athletic Department. Vice Chancellor Torphy explained that the Board approves capital projects, approves the budget as part of the overall budget, approves bonuses for coaches and approves complimentary ticket policies. Regent Smith added that it isn't an area needing micromanagement by the Board because it is directly responsible to the Athletic Board. The Board has a fiduciary responsibility for overview.

Regent Marcovich expressed concern with recent inaccurate reporting by the media on both the preferential seating plan for football and the Rose Bowl expenditures. He asked that the media investigate their sources and assure accuracy of their facts before printing reports and to clarify that the Rose Bowl official party is designated by, and their expenses paid by, the NCAA.

Regent Smith noted that, although discussion is focused on the five-year plan, he wanted to clarify the audit uncovered no major violations. He further added that the Athletic management team has put the Athletic Department into the black when it had been in the red for a long time. He noted that the Board would like to have the Athletic Department keep the budget in balance and that increases be gradual and predictable, and with advance warning.

Athletic Director Richter noted that the Department had reported the deficit to the Athletic Board in February. The Department had budgeted for a $600,000 deficit; however, it is feasible it could break even, and with bowl invitations, could change to a $500,000 profit. The Department is only in the fourth month of the budget.

Regent Axtell congratulated the Athletic Department on their program and on the five-year plan. However, he expressed concern with the media's reporting of the Rose Bowl deficit, and then immediately following that with articles on the preferential seating plan, giving the appearance that the Department was trying to solve the deficit by the seating plan. Athletic Director Richter noted that, in

1998, season ticket holders were given information on the preferential seating plan, and were again informed in 1999. Another mailing is currently in process. Regent Axtell also asked that the media repair the miscommunication of previous news articles regarding the preferential seating.

Regents Gottschalk and De Simone also agreed with the need for media reports to be corrected. Regent De Simone also asked that the media inform the public of the amount the Athletic Department must raise to fund its programs, and that Athletics are not funded by tax money. He also noted that many other universities have preferential seating plans in place, most at higher prices than that being proposed by UW-Madison; the University of Minnesota's best preferential seats are $800.

Regent Olivieri commented on the obvious need for enhancing the fundraising efforts for the Athletic Department, which are being addressed by the five-year plan. He also noted that the basis for the $10 million reserve was not clearly articulated. Athletic Director Richter responded that the $10 million is based on formulas, and Vice Chancellor Torphy added that the formula actually would come closer to $8.5 million, but the $10 million was projected to err on the high side of the reserve in the event of a season in which ticket sales decline.

Vice Chancellor Torphy, in responding to comments by the Regents, stated that he had made an assumption that, since the press had already reported on the Rose Bowl expenses seven months ago, the audit would not generate any additional media attention in that area. It was, however, unfortunate timing that the preferential seating issue was raised at the same time and linked to that over-expenditure.

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

No items were presented at this time.

I.2.f. 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 3:18 p.m. to consider Trust Fund matters, as permitted by s.19.85(1)(e), *Wis. Stats*. Present were Regents Marcovich, Axtell, De Simone, Gottschalk, Olivieri and Smith.

The Business and Finance Committee recessed at 3:25 p.m. and reconvened at 3:40 p.m. in Room 21, Human Ecology Building, 1300 Linden Drive, Madison. Present were Regents Marcovich, Axtell, De Simone, Gottschalk and Olivieri. Other Regents in attendance were: Regents Mohs and Smith.

I.2.g. Public Forum on Trust Fund Investments

Regent Marcovich and Vice President Bromberg welcomed those present, noting this was the third annual forum on trust fund investments. The forum offers an opportunity for interested people to bring issues on responsible investing to the Board's attention. Vice President Bromberg explained that System Administration asks the investment managers to take care of proxy voting as part of their management responsibilities. She noted that, during the past year, there had been shareholder resolutions considered by management for possible proxy voting, but most resolutions were withdrawn or excluded before proxies could be voted. A vote was cast in favor of a resolution to have Unocal appoint an outside committee to examine the cost of doing business in Burma.

The Board of Regents' primary fiduciary responsibility is to maximize financial return on invested assets, taking into account an appropriate degree of risk; however, the Board acknowledges the importance of maintaining an awareness of public concerns about corporate policies or practices that are discriminatory or cause substantial social injury.

Vice President Bromberg introduced Dolph Bridgewater, of TIAA-CREF. Mr. Bridgewater spoke on corporation governance and proxy voting. TIAA-CREF, one of the largest institutional investors, has developed a corporate governance policy that is provided to all firms in which they invest. Representative issues include: corporate control; board vitality; and executive compensation. As a shareholder, TIAA-CREF acts to encourage responsible behavior on the part of management through communication with management and proxy voting. Of 11 proxy resolutions in 1999, eight were withdrawn and three were won.

In response to questions, Mr. Bridgewater stated that TIAA-CREF has two socially responsible investment funds, both of which are doing well. He also noted that most companies try to respond to concerns regarding social or environmental issues.

Eight people addressed the Committee with their concerns regarding investment policies.

- Alicia Leinberger, representing Family Farm Defenders, expressed disappointment that investments do nothing to support rural economy in Wisconsin, the nation, or internationally.
- Bob Reuschlein, representing Peace Economics and Realeconomy.com, focused his comments on nonproductive military spending.
- Diane Farsetta, representing East Timor Action Network, noted that the University has $13.5 million invested in companies that helped arm the Indonesian military and she gave accounts of the atrocities of the military's invasion of East Timor.
- Thomas Foley also spoke against the military actions in East Timor, noting that investments in corporations supporting the Indonesian military is aiding and abetting genocide.
- Anita Fernandez also asked that investments not be made in corporations supporting military action in East Timor.
- Ben Manske noted that divesting in corporations can make a difference. He reminded the Committee that, in 1997, investments were divested from Texaco, and that several months after divestiture Texaco stopped operations in Burma.
- Kurt Ellison expressed concern that no changes have been made since last year's public forum. He had hoped that, after hearing testimony last year, the Committee would have recommended divesting funds from such companies as Exxon, International Paper, Weyerhauser and Disney.
- Ofelia Delgado expressed dismay at what she perceived as apathy on the part of the Board.

Regent Marcovich thanked all who had participated in the forum and indicated their comments would be given consideration.

The Business and Finance Committee adjourned at 4:38 p.m.

Donita R. Zintz, Recording Secretary