

Minutes
Business and Finance Committee
Board of Regents of the University of Wisconsin System
November 9, 2000

The Business and Finance Committee met in Room 1820 Van Hise Hall, Madison, at 1:15 p.m., with all Regents invited. Present were Regents Alexander, Axtell, Barry, Boyle, Brandes, De Simone, Gottschalk, Gracz, James, Krutsch, Marcovich, Mohs, Olivieri, Randall, Schneiders and Smith.

I.2.a. Management Flexibility

- What's Been Achieved and What It's Done for UW Efficiency and Effectiveness
- Survey of Other States

Associate Vice President Sell noted that this was the first of two presentations on management flexibilities and that a panel of Chancellors will address the Board in December to talk about the major flexibilities the System is seeking this biennium in GPR position creation and the ability to keep interest from tuition revenue. She recognized Erin Fath and Bob Hanle from the Department of Administration who were present.

The UW System needs management flexibility in order to act expeditiously to meet student and other client needs, to retain appropriate accountability and to exercise fiduciary controls. Minimizing the amount of nonvalue-added paperwork helps to maintain low administrative costs and maximizes the number of staff directly serving students and citizens.

The UW System has received 17 management flexibilities in the past seven biennia, in such areas as: Program Revenue (PR) position creation for grants and contracts and continuing education; carryover authority; purchasing delegation; and continuing appropriation for tuition. Having these flexibilities allows the System to: serve more students as they enroll and pay their tuition; respond rapidly to grant and contract opportunities; provide auxiliary services, including updated food service options; and offer more credit outreach programs. It also allows institutions to provide increased public services to area communities.

Saving time from paperwork tasks frees up time for direct services to students. Administrative costs have gone from 6.4% of total expenditures in 1989-90 to 5.8% in 1997-98. This compares to 9.5% in 1989-90 and 10.4% in 1997-98 at peer institutions.

The UW System has been able to serve more students. Auxiliaries flexibilities and carryover on the continuing appropriation have resulted in dorm and lab improvements and added computer stations in libraries, unions and dorms. Flexibilities in PR positions for gifts and contracts has had a positive impact on assisting teachers in the State's PK-12 schools and improving health care. Carryover flexibilities have allowed for future planning and the carryover has been used to wire dorms for computers, fund administrative and student services data systems and other major purchases over multiple years.

A comparison with public Big 10 peer institutions shows that the UW System is the only one to not have authority to create positions by need regardless of the funding source, where faculty or academic staff compensation is tied to the State civil service system, and where the University is not allowed to keep interest earned on tuition revenues. It is also one of only four institutions where all positions are not exempt from state reporting and not counted in the "total state employees" figure.

Flexibilities being requested in the 2001-03 budget are: (1) create GPR positions within revenue; (2) retain interest earnings on tuition revenue; (3) exempt cash-funded projects from Building Commission enumeration; (4) PR position creation authority for four new appropriations; (5) retain 100% of real estate sale proceeds from property purchased with non-GPR funds; (6) remove the \$12,000

cap on salaries from interinstitutional partnerships; and (7) remove the sunset on the Tuition Award Program (TAP) for UW-Parkside and UW-Superior.

Associate Vice President Sell concluded by questioning if the State would look more favorably on a corporation offering to create 8,3000 more high tech jobs by clearing obstacles and offering incentives. The UW System, in fact, is ready to increase enrollments by 8,300 by 2007 and provide 50,000 graduates toward the Sate's projected 100,000 skilled labor shortage by 2010 if the biennial budget request is approved. This will require more faculty and staff positions which can be accomplished with position decontrol.

Regent Marcovich noted that flexibilities are an example of what management can do if management is allowed to manage.

Regent Boyle suggested the Board focus on having one personnel system with accountability to maintain it. He noted that it is a political issue and neither political party wants to create more jobs.

Regent Axtell asked if decoupling the University from the State personnel system had been considered. Associate Vice President Sell responded that in 1992-93 there had been some consideration given to that idea. There are pros and cons on both sides.

Regent Krutsch suggested a proactive approach of thinking of positive changes the System can make. Associate Vice President Sell noted that campuses were given flexibility in 1996, and Chancellors should again be asked for input. Regent Krutsch asked Chancellors to identify flexibilities that the Board or System Administration could grant to them.

The Committee recessed at 1:48 p.m. and reconvened in a joint session with the Physical Planning and Funding Committee to participate in discussion on the 2001-03 and Long Range Facility Maintenance Plan – First Reading, and Camp Randall Expansion and Renovation. Details of that discussion are included in the Minutes of the Physical Planning and Funding Committee.

The Committee then reconvened at 2:46 p.m. Present were Regents Marcovich, Gottschalk, Barry, De Simone and Krutsch.

Approval of Minutes of the October 5, 2000, 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 5, 2000, meeting of the Business and Finance Committee were approved as presented.

UW-Madison Presentation: E-Procurement for Higher Education

Mike Hardiman, Director of Purchasing, UW-Madison, highlighted UW-Madison's procurement cycle goals of: increasing process efficiency; improving navigation to find contracted products in vendor catalogs (self-service purchasing concept); reducing product cost through focused contracting that takes advantage of vendors' reductions in process cost and eliminating unintentional maverick buying; and maximizing efficiencies in the physical movement of goods.

Mr. Hardiman demonstrated UW-Madison's website for e-procurement of supplies, which is available to all UW institutions. They are finding that staff are enthusiastic about the ease of purchasing online and are now using their service resulting in increased usage of contract vendors. The use of procurement cards has also been beneficial in eliminating the need for requisitions and paper processing.

UW Foundation Views on Venture Capital

John Feldt, Senior Vice President, UW Foundation, outlined advantages and disadvantages of alternative investments, including venture capital. Over the long term, venture capital can lower risk of a portfolio due to its lack of correlation with other assets. On a short-term basis, it is a highly risky asset class.

Mr. Feldt indicated the University would need a critical mass of funds (the UW Foundation analysis determined they needed \$300 million as a critical mass), there would need to be a committee to analyze and monitor the funds and a determination would need to be made as to whether venture capital fits with the Board of Regents' investment objectives. Mr. Feldt recommended the use of a fund of funds approach in which a professional money manager is paid to manage the venture capital portfolio.

Due to the lack of time on the Committee's agenda, Regent Marcovich suggested inviting Mr. Feldt to return for further discussion after the Committee has had time to evaluate what might be appropriate for the UW Trust Funds.

Request for Principal Expenditure from Kathryn J. Schmidt Estate/Helen Louise Allen Textile Fund

The Board's quasi-endowment policy provides that bequests totaling more than \$50,000 must become designated endowments if they provide no direction as to the desired use of principal or income. In this policy, the Business and Finance Committee is allowed to approve exceptions to this rule when it is in the best interest of the University. However, in all cases, the use of funds must remain consistent with the donor's instructions.

A gift of \$55,000 was received from the Kathryn J. Schmidt Estate, and the School of Human Ecology would like to use these funds to digitize images of the Helen Louise Allen textile collection. In addition, the School would like to supplement this with a transfer from principal to income of \$50,000 from the existing Helen Louise Allen Fund. This is one of the largest university textile collections in the United States and the hope is to make it more accessible to faculty, staff and students.

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 recommendation of the President of the University of Wisconsin System, and the Chancellor of the University of Wisconsin-Madison, the principal and income balance of the Kathryn J. Schmidt bequest be made available for spending and \$50,000 be transferred from principal to income of the Helen Louise Allen Textile Fund.

Report of the Vice President

(1) Quarterly Gift, Grants and Contracts

Total gifts, grants and contracts for the three-month period ended September 30, 2000, were \$333.4 million, an increase of \$79.7 million from the comparable period of the previous fiscal year. Federal awards increased \$53.7 million, while non-Federal awards increased \$26.0 million.

In response to a request from Regent Krutsch, information on gifts, grants and contracts was provided to the Committee by institution. Vice President Durcan cautioned the Committee not to read too much into campus fluctuations this early in the fiscal year.

(2) Contractual Agreement with Pharmacia & Upjohn AB Company

Upon the motion of Regent Barry and the second of Regent Gottschalk, the Committee approved Resolution I.2.f.(2).

Resolution I.2.f.(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 Pharmacia & Upjohn AB Company entitled "A Phase III randomized double-masked, vehicle controlled, parallel group study of Tin Ethyl Etiopurpurin (SnET2) photodynamic therapy in the treatment of subfoveal choroidal neovascularization (CNV) with Age-Related Macular Degeneration (AMD Study)."

(3) Contractual Agreement with Novartis Pharmaceutical Corporation

Upon the motion of Regent Barry and the second of Regent Gottschalk, the Committee approved Resolution I.2.f.3.

Resolution I.2.f.(3)

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 Novartis Pharmaceutical Corporation entitled "The effects of immunosuppression with cyclosporin A, RAD cyclophosphamide and steroids on survival time in baboons receiving life-supporting xenotransplantation with h-DAF porcine kidney" and "The effects of immunosuppression with cyclosporin A, RAD cyclophosphamide and steroids on the outcome of acute vascular rejection and survival time in baboons receiving life-supporting xenotransplantation with h-DAF porcine kidney."

I.2.g. Request to See a Low Power FM License from the Federal Communication Commission for UW-Waukesha

UW-Waukesha is currently searching for a tenure track faculty member in Communications with a specialty in broadcast/print journalism. The curriculum currently contains several journalism courses, including COMM 220, Radio Broadcasting. An FCC license will enable the station to more effectively fulfill its public service function by reaching a wider local audience and will enable UW-Waukesha to more effectively market its programs and services and increase its visibility in the local community.

Upon the motion of Regent Krutsch and the second of Regent Gottschalk, the Committee approved Resolution I.2.g.

Resolution I.2.g.

That upon recommendation of the Chancellor of UW Colleges and the President of the UW System, the Board of Regents agrees to apply for licensing by the Federal Communications Commission (FCC) to construct and operate a low power FM (LPFM) broadcast radio station.

I.2.h. Request to See a Low Power FM License from the Federal Communication Commission for UW-Fox Valley

Students at UW-Fox Valley have continuously operated a closed circuit (campus only) radio station since the early 1970s. Funded by the Student Association of UW-Fox Valley, the station has broadcast news and entertainment to the campus student body in the commons areas of the student union. With strong support from the Student Association, faculty and staff advisors, the student management of the station wishes to establish a Lower Power radio station to increase the service area and the outreach capacity of the station by becoming an FCC-approved radio station.

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

Resolution I.2.h.

That upon recommendation of the Chancellor of UW Colleges and the President of the UW System, the Board of Regents agrees to apply for licensing by the Federal Communications Commission (FCC) to construct and operate a low power FM (LPFM) broadcast radio station for UW-Fox Valley.

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

Vice President Durcan distributed copies of a letter from the Legislative Audit Bureau, outlining the scope of their audit of the 1999-2000 financial statements.

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

There were no items necessary for this closed session.

The Business and Finance Committee adjourned at 3:24 p.m.


Donita R. Zintz, Recording Secretary

**Minutes
Business and Finance Committee
Board of Regents of the University of Wisconsin System
Public Forum on Trust Fund Investments
November 9, 2000**

The Business and Finance Committee held a public forum on trust fund investments in Room 4151, Grainger Hall, Madison, at 3:48 p.m., with all Regents invited. Present were Regents Axtell, Barry, De Simone, Gottschalk, Krutsch, Marcovich, Mohs and Schneiders.

Regent Marcovich welcomed those in attendance, noting this was the fourth year of the forum and that the format has evolved each year. This year's forum was focused on proxy voting issues. Regent policy permits proxy voting with the exception of issues dealing with discrimination or the environment.

Treasury Manager Mills reviewed Regent policies guiding proxy voting for UW Trust Funds. She also noted shareholder resolutions that had been considered by management for possible proxy voting. Her office monitors and keeps current on upcoming issues, does an analysis and review and brings proxy items to Regent Marcovich. For issues that are more complex, Regent Marcovich can elect to refer the item to the full committee for review. She noted that, in addition to the issues identified by the Trust Funds Office, concerned students can raise issues such as the Arctic drilling issue voted in May of this year.

Tom Reinders, Investment Portfolio Analyst, gave an IRRC online analyst demonstration and a summary of UW Trust Fund votes for the past year. He also highlighted the proxy list on the Trust Funds web page and encouraged people to contact the Office if they have information on corporations not listed or have questions on a particular issue.

Joseph Mecha, representing Student Consumer Rights, asked about the determination of risk on the SRI firms. Ms. Mills responded that they look at the standard deviation for the three-year period. Mr. Mecha also questioned what harm would be done by divesting and what evidence is necessary for divestment. Ms. Mills responded that the policy states the corporation has to specifically be responsible and not just a party to the allegation. It has to be unlawful conduct or involvement in a country that requires discrimination by law, and it must be evident beyond a reasonable doubt.

Jonathan Mertzig, representing UW Greens and WISPIRG, stated he thought divestment would be a better option for Citigroup, a firm with a wide range of offenses, the most notable being the Three Gorges Dam project in China which is displacing 1.9 million people from their homes. He also spoke against Citibank and other Citigroup divisions have been involved in redlining, which is discriminatory lending to minorities. They've also been connected to money laundering operations for dictators such as former Nigerian Dictator Sani Abacha to bankroll South Africa's apartheid regime. They're also funding the Chad/Cameroon Oil Pipeline in Africa which has been associated with several human rights violations. Regent Marcovich responded that the Trust Funds Office would check on Citigroup, and also reminded the audience they did not need to wait for the annual forum to report on issues like this, but to e-mail Trust Funds as they become aware of the issues.

Craig Chamberlin read a testimonial dated January 4, 1999, reporting firsthand on Chevron helicopters flying along the Nigerian pipeline firing on the villagers. This was followed by soldiers who arrived by boat and fired at the villagers and then burned the village. The Nigerian government claims to own the oil rights and the people are being driven from their land. Mr. Chamberlin asked that the Committee consider divesting from Chevron for their part in this effort.

John Peck, a graduate student, expressed concern that investments pop in and out of the portfolio and it doesn't appear that they are being properly investigated for these issues. He questioned the effect of proxy voting versus divestment, noting that, faced with the threat of divestment by the University,

Texaco pulled out of Burma. Regent Marcovich assured Mr. Peck that allegations brought by students are given serious consideration. Mr. Peck asked that it be made known when there is a positive screening out and which proxies are being voted on so he and others can have more input into the process. He noted there are over a dozen firms doing business in Burma, including Textron, Chevron, Exxon and Mobil, Occidental in Columbia and sweatshops in Madagascar run by Disney and by Sara Lee which owns Champion. He also encouraged proactive investment in Wisconsin based companies.

Bradley Bolling asked how they could read what the actual proxy vote is. Ms. Mills advised him to e-mail the Trust Funds Office and staff will provide the information. Mr. Bolling also provided Regent Marcovich with an article on pricefixing.

Kurt Ellison agreed with Mr. Peck's comments and voiced concern that the same companies are being discussed every year at the forums and that nothing positive is coming from the discussions.

Alicia Leinberger, an alumnus, stated this was her third year at the forum and that she comes every year with hope. She focused comments on Occidental Petroleum which has been allowed to enter Columbia against the order of courts there. Drilling on the land of the people there has environmental consequences, but also discriminates against the people by not allowing them to live on the land as they wish to do. Further environmental damage is caused by guerillas coming in and exploding the pipelines. Ms. Leinberger also expressed concern for Wisconsin farmers who could use economic assistance. Pfizer produces research, patents and technology that goes into agricultural areas, increasing production on a very short-term in order to drop the price, which forces smaller farmers out of business. Regent Barry reminded Ms. Leinberger of the limitations the Board of Regents has on addressing some of her concerns and suggested she focus on a public effort.

Marty Reiner, a student, asked if a Systemwide student petition would be an adequate measure. Regent Barry responded that the Texaco issue became more of a national issue and suggested action needs to be broader than the University. He indicated there is benefit in these forums and the Board will review the issues brought before them and he expects to see some change as a result.

An unidentified student stated that UW-Madison is a land grant institution with a mission to support sustainable, small scale agriculture on a statewide basis. Being financially supportive of the chemical agricultural industries undermines that mission.

Jennifer Zawacki stated she has found it easy to express her concerns directly to Ms. Mills and Regent Marcovich about proxy voting. She voiced concern that proxy voting isn't having a big enough impact and suggested doing more negative screening.

Regent Marcovich thanked those who had voiced their concerns and assured them that the issues brought before the Board would be investigated.

The Forum adjourned at 4:55 p.m.


Donita R. Zintz, Recording Secretary