

Minutes
Business and Finance Committee
Board of Regents of the University of Wisconsin System
April 5, 2001

The Business and Finance Committee met in Room 1920 Van Hise Hall at 2:30 p.m. Present were Regents De Simone, Gottschalk, and Marcovich.

a. Approval of minutes of the March 8, 2001 meeting of the Business and Finance Committee

Upon the motion of Regent De Simone and the second of Regent Gottschalk, the minutes of the March 8, 2000, meeting of the Business and Finance Committee were approved as presented.

b. Arch Venture Capital (University of Chicago)

Elizabeth Rindskopf Parker, General Counsel, UW-System, introduced Keith Crandell, Managing Director of Arch Venture Partners. Mr. Crandell gave a brief history of Arch Venture Partners. Arch Development Corporation was founded by the University of Chicago in 1986. Arch Venture capitalized Arch Venture Fund I in 1989 at \$9 million by starting 12 companies, and Arch continues to be co-founders of about one-half of the companies in which they invest. Arch Venture separated from the University of Chicago in 1992, and capitalized Arch Venture fund II at \$31 million in 1993. Currently, Arch Venture Fund V is targeted to capitalize at \$300 million. Arch Venture Partners have 15 partners that have worked together for 15 years. Arch focuses on seed and early-stage technology companies specializing in information technology, physical, and life sciences. Arch Venture Partners has a regional focus headquartered in Austin, Chicago, New York, and Seattle.

Mr. Crandell noted two ways that venture capital startup companies could relate to a university setting. First, venture capital could be attracted to the university community by looking at research that has the potential to become a platform for future venture capital backing. Second, venture capital could look at existing companies that have ties to university research technologies, yet lack the access to capital in order to rapidly grow.

Regent De Simone asked where Arch Venture Partners looks for investment capital. Mr. Crandell noted that the capital comes mostly from institutional investors such as university endowments, corporate pension funds, and insurance companies.

Mr. Crandell discussed some critical success factors for venture capital investing. First, it is important to invest in breakthrough technologies with broad intellectual property protection. Second, it is important to invest in attractive markets in terms of size and growth potential. Third, it is important to invest in a strong management team including the technical founders and board of directors. Finally, it is important to invest with local, lead, and syndicated investors with a tie to the community.

Mr. Crandell noted an example of a local venture capital company that Arch Venture Partners is currently investing with called Alfalight. Alfalight is a recognized leader in high power diode lasers, and the company has all the critical success factors that lead Arch Venture Partners to decide to invest in them.

Regent Gottschalk asked if there is a rule of thumb for a minimum investment in venture capital. Mr. Crandell responded that Arch Venture Partners has a wide range of investors committing from \$1 million to \$29 million.

Ms. Rindskopf Parker asked what the UW System could do with their investments to spark the type of venture capital success story described in the Alfalight example. Mr. Crandell responded that it is critical to tap the network of successful University of Wisconsin research graduates, and facilitate the match between successful entrepreneurs and research technologists.

c. 2001-02 Annual Budget Decision Rules

Kathleen R. Sell, Associate Vice President, Budget and Planning noted that each year at this time, UW System institutions must prepare their annual budgets for the fiscal year beginning July 1, 2001. This has to occur in the first year of a new biennium, and before legislative action is completed on the UW System's biennial budget, which will affect the annual budgets. This enables institutions to schedule course offerings and plan staffing levels, and enables the Board to authorize a tentative or final annual budget for the new fiscal year, and set appropriate tuition levels in time for bills to be mailed in late summer for the fall semester.

The institutions develop their budget changes within parameters from the Board of Regents. These decision rules are based on the Governor's Executive Budget Recommendations, as this is all that the UW System knows about the biennial budget at this time. Any changes made by final legislative action will alter these decision rules.

Institutions' plans for taking budget reductions will be included in the 2001-02 Annual Budget for review at the July 2001 Board of Regents meeting. Four guiding principles, which recognize the reality of a \$6.3 million budget cut only three biennia after a \$33 million cut, still strive to maintain UW System access and economic development goals, and the UW System's commitment to moving toward state of the art instructional technology.

Regent Gottschalk asked why agricultural stewardship and aquaculture were a part of both the last biennial budget and also this budget. Ms. Sell responded that this is a different agricultural stewardship and aquaculture initiative than what was included in the last budget. The last budget contained planning stage funding, and this budget contains the operating budget.

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

[Resolution I.2.c.]

That, upon recommendation of the President of the University of Wisconsin System, the Board of Regents approves the 2001-02 annual budget allocation decision rules. These rules may be modified based on final legislative action on the 2001-03 biennial budget. If the final budget materially affects allocations, subsequent Board of Regents' action will occur as part of the 2001-02 annual budget action.

d. Coaches Exceptional Achievement Award Policy

Bernice Durand, Professor of Physics, UW-Madison, Chair of Personnel Commission for Athletic Board noted that it is the policy of the University of Wisconsin-Madison, Division of Intercollegiate Athletics, to permit exceptional achievements by its coaches to be recognized in the form of cash awards paid by outside sources (NCAA Bylaw 11.3.2.3). The payment of these awards is subject to the availability of funds from an outside source and is not guaranteed by the University. At the October 1994 meeting of the Regents, the policy adopted by the Athletic Board was presented to the Committee for its information.

Recently a committee of the Athletic Board reviewed the existing policy and recommended some revisions that were adopted by the Board. The revised policy will be effective July 1, 2001. The revisions include the following:

- Strength coaches in designated sports would be eligible.

- Eligibility to receive an award for head and assistant coaches will require meeting roster management goals as well as receiving a satisfactory or better performance evaluation.
- Coaches of more than one sport will have their awards calculated based on the appointment percentages assigned to each sport in their contracts.
- In Basketball (Men's and Women's) and Football, new categories were created to reflect national championship game appearances, Big 10 conference contractual football bowl games and NCAA basketball "Sweet Sixteen" (third round) participation.

Awards may be approved only if they are in recognition of exceptional achievements as specified in the University of Wisconsin-Madison Exceptional Achievement Award Schedule. Any awards for unspecified achievements will not be approved.

Regent Marcovich asked whether the Rose Bowl would earn a higher or lower percentage bonus than the Citrus, Outback, Alamo, and Sun Bowl. Ms. Durand responded that the Rose Bowl is classified as a Bowl Championship Series (BCS) game, and therefore the Rose Bowl would earn a higher bonus than the four bowls Regent Marcovich listed.

Regent Gottschalk asked whether the bonus percentage would be based on University base salary or some other figure. Ms. Durand responded that the bonus would be based on the coach's University base or contract salary as defined by UW-Madison, with the exception of Barry Alvarez, whose bonus is based on \$1 million.

e. Report of the Vice President

Vice President Debbie Durcan noted that the UW System is still anticipating a utility shortfall, and a report on this topic will be presented to the Committee next month.

f. Additional items which may be presented to the Business and Finance Committee with its approval

No items were presented at this time.

g. 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 3:30 p.m. Present were Regents Marcovich, Gottschalk, De Simone.

The Business and Finance Committee adjourned at 4:15 p.m.



Eric Engbloom, Recording Secretary