I.2.a. Closed session to consider Trust Fund matters, as permitted by s.19.85(1)(e), Wis. Stats.

The Business and Finance Committee met in Room 1511 Van Hise Hall, and adjourned to Closed Session at 11:10 a.m., to consider Trust Fund matters as permitted by s. 19.85(1)(e), Wis. Stats. Present were Regents De Simone, Gottschalk, Krutsch, and Marcovich. The Closed Session concluded at 11:45 a.m.

Following the Closed Session to consider Trust Fund matters, the Business and Finance Committee met at 1:00 p.m. in a joint meeting with the Education Committee to hear a technology update. The meeting concluded at 1:55 p.m. Details of that discussion is covered in the Education Committee minutes.

Following the joint meeting with the Education Committee the Business and Finance Committee reconvened at 2:05 p.m. Present were Regents De Simone, Gottschalk, Krutsch, and Marcovich.

I.2.b. Approval of Minutes of the December 7, 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 December 7, 2000, meeting of the Business and Finance Committee were approved as presented.

I.2.c. Venture Capital Presentation by Commonfund

Tim Hickey, Managing Director of Commonfund Securities, Inc., and Peter Burns, Managing Director of Commonfund Capital, Inc., discussed private capital. Mr. Burns explained that Commonfund was founded in 1972, is the largest manager of endowments with 1,400 clients, and manages $26 billion for not-for-profit organizations exclusively. Private capital is investments in non-public companies. It is made up of three parts: venture capital, domestic private equity, and international private capital. Venture capital invests in early-stage, primarily technology companies. Domestic private equity invests in later-stage, growth equity, and middle market companies. International private capital is both venture capital and private equity outside of the United States. Any institution thinking about investing in private equity should invest in all three areas to be diversified. The main reason to invest in private capital is return. Commonfund believes private capital can outperform the public indexes, for example the Standard & Poors 500, by 5 percentage points per year. Returns over 30 years for private capital have averaged between 20-22% per year.

Mr. Burns explained the key characteristics of private investing. First, commitments to a private capital program are drawn down over time. Commonfund draws from the investor’s monetary commitment at about 5% per quarter, so it takes time to fully invest in the asset class. A typical implementation schedule requires a multi-stage commitment over 10-12 years, with the impact on the portfolio at its greatest as investments reach maturity (generally in 5-10 years). Second, realized gains are returned in cash to investors as they occur, and not automatically
reinvested. Commonfund suggests investing between 10-20% of the universities total endowment in private capital, noting that an investment of only 5% would not make an impact. A recent NACUBO study showed that the average commitment per institution is about 8% of their endowment.

Mr. Burns finally explained two ways that institutional investors can invest in private capital. First, institutions can build their own portfolio of private capital managers, giving them diversity and access to hundreds of companies. With this method, institutions should commit staff and dollars to build a thoughtful, diversified portfolio of managers. Second, institutions can use the fund-to-fund method of investing in private capital. This means committing to one fund, and allowing that fund to build a portfolio of private capital managers.

Regent De Simone, noting that students occasionally raise objections about the endowment and socially responsible investing, asked whether this type of investing is socially responsible. Mr. Burns noted that private capital managers are focused on growth areas such as early stage software and hardware corporations, and have typically avoided “sin” investments because the returns are not as high. He noted that it is hard to say whether managers will not invest in these companies. Mr. Hickey noted that many other universities invest in private capital including Indiana University, Michigan State University, Northwestern University, University of Iowa, and the University of Michigan.

Regent Gottschalk, noting that private capital returns take a few years to be realized, asked how private capital firms quantify investment returns and meet quarterly benchmarks. Mr. Burns noted that private capital firms, provide quarterly reports that show distributions to investors since inception, rate of return, and benchmarks for comparison to the industry. Reports show invested dollars compared to current worth. Finally, an audited annual report is provided.

Regent Krutsch asked how the current, less exuberant investment market has affected private capital. Mr. Burns noted that in the past, private capital firms had a 3-4 year period to analyze an investment manager. During 1999-2000, managers started coming back for reinvestment within about 12 months. This made it more difficult to analyze how managers are performing over time. He noted the importance of looking at the prior record of investment managers, and having a blue chip list of managers. Mr. Hickey noted the importance of looking at the long-term investment horizon of private capital. Investors should be less concerned about today’s market, and look towards the next four to eight years, when returns will be realized.

Regent Schneiders joined the meeting at this time.

Regent Gottschalk asked how the university would decide which Commonfund venture capital, private equity, or international private capital pool in which to invest. Mr. Burns noted that universities choose to invest in a percentage of all three types, or choose to invest in just one type. Commonfund recommends an allocation of 40 percent venture capital, 40 percent private equity, and 20 percent international private capital.


Doug Hendrix, Associate Vice President for Financial Administration presented the 1999-2000 Annual Financial Report. Mr. Hendrix noted that the Annual Financial Report received an unqualified opinion from the Legislative Audit Bureau, and is on the UW System web site. He reviewed the source of funds spent, comparing years 1989-1990 with 1999-2000, the ten-year comparison of revenues, and the ten-year comparison of revenues adjusted for inflation from 1990-2000. He discussed current funds expenditures and mandatory transfers, noting that instruction made up the lion’s share at 27 percent. He also noted the growth of the endowment from $100 million to $300 million over the past ten years.

Three financial statements are prescribed for public institutions of higher education;

- First, a Balance Sheet, giving a point-in-time view of the financial standing of the organization showing assets, liabilities and fund balances by fund group. The Balance
Sheet holds $3.9 billion total equity and funds balances, and $3.1 billion net investment in plant.

- Second, a Statement of Changes in Funds Balances, showing net increases or decreases in detail.
- Third, a Statement of Current Funds Revenues, Expenditures and Other Deductions, providing additional revenue and expenditure detail for current funds only.

Mr. Hendrix finally discussed the notes to the financial statements, noting that they are an integral part of the financial statements. The notes contain both required information prescribed by the Governmental Accounting Standards Board (GASB), as well as information designed to help the reader understand the information presented.

Regent Krutsch, noting that the institutional support figure for the UW System is low in comparison to peer institutions, asked whether any other figures stand out. Mr. Hendrix noted that student support tends to be higher for the UW System. Also, research tends to be higher, which skews the percentages when comparing the UW System to institutions.

Regent Krutsch asked how federal research grants used for administrative purposes are classified. Mr. Hendrix reported that we receive no grants directly for administrative purposes. The federal government’s reimbursement of indirect costs is classified as unrestricted revenue, and expenditures subsequently made using these funds are classified according to how the dollars are spent. Expenditures related to administrative purposes would be classified as institutional support.

### I.2.e. New Financial Reporting Requirements for Public Colleges and Universities

Doug Hendrix, Associate Vice President for Financial Administration discussed the new financial reporting requirements for public colleges and universities. In the past, the National Association of College and University Business Officers (NACUBO) controlled how the UW System financial statements were reported. Currently, the Governmental Accounting Standards Board (GASB) has decided to unify the financial statements of private colleges and public universities. GASB Statement No. 35 provides a new financial reporting model for public universities effective for the 2001-02 financial statements.

Mr. Hendrix noted that GASB Statement No. 35 requires entity-wide statements, using full accrual accounting, including depreciation of fixed assets. A Management’s Discussion and Analysis section will include an objective presentation of what the financial statements contain, and there will be a Statement of Cash Flows. A Statement of Net Assets will classify assets as current or long-term, and use three asset classes: invested in capital assets, restricted, and unrestricted. Within the restricted class will be a further breakdown between expendable and non-expendable assets. The restricted section will include only true endowment principal, therefore many assets reported in the past as restricted, will be reported as unrestricted.

Mr. Hendrix reviewed the new Statement of Revenues, Expenses and Changes in Net Assets, and the Statement of Cash Flows. The Statement of Revenues, Expenses and Changes in Net Assets will feature an operating/non-operating format, including an operating income or loss total. There will be an option to classify expenses in either a natural or functional classification. Most peer institutions use the natural classification, therefore the UW System will likely follow their lead, and use the footnotes to classify expenses by function. The Statement of Cash Flows will feature four categories: operating, investing, capital and related financing, and non-capital financing. The statement will include a reconciliation of net operating income (loss) to cash provided by (used in) operations.

Mr. Hendrix discussed the implementation issues facing the UW System for the new financial statement requirements. These include capitalization and depreciation of infrastructure, separate reporting of gifts and private grants/contracts, reporting net tuition, and the Cash Flow Statement. Finally, he noted that the new format is more intuitive than the old format, and it is similar to the commercial sector.
Regent Marcovich noted the improved format of the new financial statements, and suggested they will be much more understandable to the Board of Regents.

Regent Krutsch noted the importance of straightforward analysis when presenting information in the Statement of Management Discussion and Analysis. Regent Krutsch noted that it would be a good idea for the Business and Finance Committee to invite campus representatives and the UW System Administration to meet in order to discuss campus needs with respect to the new financial reporting model. Vice President Durcan added that some peer institutions have already implemented GASB Statement No. 35, and it would be helpful to look at what those institutions included in their new financial reports.

I.2.f. UW-Madison Annual Research Report

Graduate School Dean Hinshaw focused on four main areas: research funding, optimism for future growth, results from the UW-Madison’s research, and future research challenges. She reported that UW-Madison received $445 million in total research awards in 1999-00, an increase of $28 million or 7% over the previous fiscal year. Federal research awards totaled $305 million, an increase of $11 million. Non-federal research awards totaled $140 million, an increase of $17 million. Also, the current year research grants are already 20% above the previous year. Biological sciences are always strong in generating research awards, but the Arts and Humanities were also very strong this past year. Dean Hinshaw reported that in 1998-99, UW-Madison ranked fifth nationally for total research and development expenditures among all institutions.

Dean Hinshaw noted a great optimism for future growth, and thanked the Board of Regents for their support in attaining funding. She expected continually strong federal research support. She noted a Wisconsin connection to the Office of Health and Human Services, where they will work with former Governor Thompson to attain continued support. Also, the UW Foundation and Wisconsin Alumni Research Foundation (WARF) were noted as mainstays of continued funding.

Dean Hinshaw noted examples of research results from the past year. The UW-Madison had a great year in genomics. A UW-Madison team of 24 researchers recently completed mapping the sequence of the E-coli bacteria, which causes 75,000 illness and numerous deaths every year. By mapping the sequence, researchers hope to find better preventions and new drug treatments for the disease. A UW-Madison researcher identified the gene that causes the devastating children’s brain disorder called Alexander disease. By mapping this gene, researchers hope to find treatments and cures for this and other similar diseases like Alzheimer’s disease. A UW-Madison researcher described a 4.4 billion year old crystal, the oldest known terrestrial material, which has helped revamp theories of the evolution of the moon and earth. Also, the Arts Institute benefited greatly due to their cluster hires, bringing in an acclaimed theatre director and scholar and visiting artists.

Dean Hinshaw finally discussed future challenges. First, over the past few years, graduate enrollment has decreased nationally and at UW-Madison. Graduate education is an important part of the University, with UW-Madison ranking first in science and engineering doctorates granted, and tied for second in earned doctorates overall. These individuals are important members of the UW-Madison community, and help build the state’s future economic growth. She noted that out-of-state graduate tuition has grown to over $17,000 per year, second only to the University of Michigan in the Big Ten. She noted federal fellowship programs and tax relief is needed to help recruit graduate students.

Regent Schneiders left the meeting at this time.

Second, stem cell research has become a great challenge. Dean Hinshaw reported that stem cell research is the most notable scientific development of the last decade, and its potential benefit is enormous. She is hopeful that the National Institute of Health (NIH) will direct federal funding to stem cell research. However, there are threats at the state and federal level to keep this research from occurring.
Third, pork or ear-marking of money is a challenge. The UW-Madison wants ear-marking discontinued, because it detracts from competitively awarded federal funding of research.

Finally, the UW-Madison has been legally challenged over the program called the Y-files. 20th Century Fox has threatened a lawsuit because of an infringement on the name of the X-files television program, and the UW-Madison is set to defend itself against the lawsuit.

Regent Krutsch, noting the solid annual increase in federal research funding, asked whether the UW-Madison has enough quality research programs to justify the increased funding. Dean Hinshaw reported that in the past, only 9% of research projects received funding, and the competition for these grants in intense. Therefore, only the highest quality research programs are funded.

Regent Marcovich noted that stem cell research would be an excellent program for the Board of Regents to support for increased federal research funding. Upon the motion of Regent Marcovich and the second of Regent Gottschalk, the Business and Finance Committee agreed to sponsor a resolution to support federal funding for stem cell research. Dean Hinshaw noted that she has a bio-ethics advisory committee, and the university approaches this research in a very ethical manner. This resolution would be greatly respected and appreciated.

I.2.g. Annual Broadcast Report

Senior Vice President David Olien submitted the Annual Broadcast Report to the Regents. Rather than discuss the report, he introduced two presenters who demonstrated some of the emerging technologies that the UW broadcast stations are using.

Heidi Kong, WSUM Station Manager, UW-Madison, gave a demonstration on the audio streaming capabilities of WSUM using Shoutcast and RealAudio software. Ms. Kong also gave a brief update about the station’s community and campus outreach activities.

Regent Marcovich asked how many hours a day WSUM broadcasts on the internet. Ms. Kong noted that WSUM broadcasts from early afternoon to midnight, but they are working to purchase software that will enable them to archive live shows, and replay them during down time.

Byron Knight, Director of Broadcasting and Media Innovations, UW-Extension, highlighted federal grants for facilities and the National Center for Outreach. UW-Extension received a three-year grant for $3,000,000 for the National Center for Outreach, enabling UW-Extension to connect television program content to their local communities. He also noted a $408,000 “Reforging the Links” distance education grant, a $617,000 “Portal Wisconsin” cultural web page grant, and a $473,000 federal grant that will be matched by the State of Wisconsin to enable the completion of WHA’s digital conversion.

Mr. Knight noted that television is still UW-Extension’s most important product. “Wisconsin Stories,” a program in association with the Wisconsin Historical Society shows little known stories about Wisconsin. He played streaming video clips from the “Wisconsin Stories” series from the Wisconsin Public Television web page. He discussed Wisconsin Public Radio’s web broadcast of the NPR News and Classical Music Network. Finally, he discussed the Instructional Communications Systems (ICA) and future projects for WHA. These future projects are a reflection of the convergence of digital technology, broadband technology and video conferencing with broadcasting. When it is completed, UW-Extension will broadcast much more than just television. UW-Extension will send broadcast television data to computers, dorms, and school classrooms, combining the broadcast technology of old with the distance education technology of the future.

I.2.h. Systemwide Safety and Loss Training

Assistant Vice President Ellen James discussed systemwide safety and loss training. The Office of Safety and Loss Prevention (OSLP) is responsible for the following areas: occupational
health and safety, environmental management, risk management, and worker’s compensation. When the Office was formed in 1994, its goal was to assist campuses in providing a safe and healthful higher education environment for faculty, staff, students, and persons using UW programs and facilities. Also, its goal was to assure that the UW System’s financial, physical, environmental and human assets are protected from loss and destruction, and managed in a consistent fashion.

With 30,000 employees at more than 26 campus locations, the challenge of providing consistent, timely and credible employee training is extremely difficult. In the area of occupational health and safety alone, there are approximately 65 different governmental standards and regulations which require training at the time an employee is assigned to a particular job or task. Most of these standards require refresher training at regular intervals to ensure continued comprehension.

OSLP has tried to enhance campus efficiency by developing and providing resources that maximize the campus’ ability to respond to regulatory and other identified risk issues. As a result, systemwide premiums are down by $400,000 this year. Ms. James presented two examples of these resources.

The first example is web training. Approximately one year ago, the Occupational Health and Safety Manager at UW System polled campuses to determine their needs and establish priorities for health and safety programming. Employee training consistently emerged as a primary concern. OSLP was aware of a number of commercially available web-based safety training programs. However, these programs emphasize industrial applications and compliance with federal occupational safety and health regulation (OSHA). OSLP had success using these programs in the past, but felt the need to have training specific to the needs of higher education. An initial meeting was scheduled with the Office of Learning and Information Technology (OLIT) to introduce the idea of web-based employee training. OLIT suggested a meeting with UW Extension, Office of Learning Innovations to discuss the potential of developing web-based training for employees. A feasibility study was conducted, and after a meeting with UW System management, funding was approved to develop an initial training module through Learning Innovations. A core group of institution safety managers provided ideas on system features and program content.

The first module, currently in the development stage, is a program on hazard communication. This is basically a “right-to-know” program for employees who work with hazardous chemicals. OSLP selected this program because of the large number of UW System employees who work with chemicals on a daily basis, including maintenance mechanics, custodians, laboratory workers, and chemistry faculty members.

Ms. James shared a sample slide of what an employee sees when they log into the training web page. Regardless of what campus they are from, they will see the UW System logo, along with the logo from their specific campus. In designing the program, OSLP wanted consistent baseline information, but also wanted to design a training program that allowed the campus to include additional information unique to their campus. The program will integrate learning, incorporate a quiz function to evaluate learning comprehension, and also include a mechanism to track employee training.

While the first training module focuses on employee health and safety, the advantage of this operating engine is that it provides the framework for all types of employee training. Once this system is in place, there will be the capability to deliver employee training on such diverse topics as: procurement procedures, human resource policies, risk management strategies, as well as employee health and safety. In the future, the intent is to expand this program to include training modules for students. The first program should be ready for beta testing early this summer, with full release to the campuses by fall. Additional modules will be developed based on campus need and priority. While OSLP recognizes that this is not the only approach to employee training, it is a tool that will assist campuses in meeting their needs to deliver timely, consistent and reliable information to employees.
The second example of an educational resource developed for campus use is a training video on student organizations. Increasingly over the past several years, OSLP has received questions regarding student organization and their associated liabilities. OSLP recognizes that student organizations are an important part of a student’s academic career. OSLP also realizes that the activities of student organizations are sometimes outside the mission and purpose of the University, and can expose the campus to unwanted liability.

The UW System policy on student organizations has been in existence for a number of years. OSLP felt a video would be a good way to convey a consistent message to student organization officers, advisors, and other campus personnel of the benefits, responsibilities and potential liabilities of student organizations. Madison Productions, Inc. was contracted to produce the video at a cost of $26,000. Campuses are currently using the video, and because of its success, OSLP is looking into marketing it to other institutions. A portion of the video was shown to the Business and Finance Committee.

Senior Vice President David Olien noted that the purpose of these resources is not only to keep UW System faculty, staff and students safe, but also to limit the liability of the UW System. Mr. Olien noted that this is a responsible way to aggressively manage those challenging issues.

I.2.i. Blue Cross/Blue Shield By-Laws

John Torphy, Vice Chancellor for Administration, briefly noted the Blue Cross/Blue Shield By-Laws, mentioning two amendments and five minor changes requested by the insurance commissioner that were included in the final amended resolution.

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

Resolution I.2.i.

That, upon the recommendation of the President of the University of Wisconsin System and the Chancellor of the University of Wisconsin-Madison, the Board of Regents:

- Approves the revised “Agreement to Accept Gifts from Wisconsin United for Health Foundation, Inc. by the University of Wisconsin Foundation and the University of Wisconsin System Board of Regents.”

- Approves the By-Laws (OAC Bylaws attached) for the Oversight & Advisory Committee required under the Commissioner’s order.

I.2.j. Report of the Vice President

Vice President Debbie Durcan discussed the quarterly Gifts, Grants and Contracts. Total gifts, grants and contracts for this period were $488.4 million, an increase of $49.7 million from the comparable period of the previous fiscal year. Federal awards increased $38.2 million while non-Federal awards increased $11.5 million.

This fiscal year, the UW System is expected to experience a significant utility shortfall. Ms. Durcan commented that the Governor has signed an Executive Order to conserve energy, and campuses are doing everything possible to comply. During January, $1.5 million was saved due to several areas of the UW System switching from natural gas to oil. Savings are expected to continue into February. Campuses are working on reviewing expenditure and consumption
projections, and more information will be brought before the committee as projections become more accurate.

Regent Gottschalk asked John Torphy, Vice Chancellor for Administration, where the UW System is with respect to the power plant proposal. Mr. Torphy responded that the memorandum is currently at the Department of Administration. Assuming no roadblocks, the timeline is two to two-and-a-half years.

Ms. Durcan updated the committee on the outcome of a Department of Health and Human Services (DHHS) interest audit, indicating that UW-Madison lost their appeal and has agreed to pay interest owed to DHHS due to drawing federal funds down early.

I.2.k. Additional items which may be presented to the Business and Finance Committee with its approval.

No additional items were presented to the Business and Finance Committee.

I.2.l. Trust Funds

Tom Reinders, Investment Analyst, noted that Trust Funds domestic equity managers have requested a minor change in the guideline language regarding international holdings and American Depositary Receipts (ADR’s: foreign companies listed on U.S. stock exchanges). The current language does not allow our managers to hold the ADR’s which were “grandfathered” into the Standard & Poors 500 index. The guideline change would cover only seven companies and have no impact on the Trust Funds overall risk profile. The change represents a minimal departure from the existing policy.

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

Resolution I.2.l.(1).

That, upon the recommendation of the Regent Business and Finance Committee, the following revision to the Statement of Investment Objectives and Guidelines be approved.

Investment Restrictions – Specific
Principal – Long Term Fund

Individual Manager Equity Portfolios

“…Equity managers responsible for domestic portfolio may not invest in ADRs of foreign securities, except to the extent that such securities are a component of the portfolios’ respective benchmark indices.”

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

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Eric Engbloom, Recording Secretary