Minutes
Business and Finance Committee
Board of Regents of the University of Wisconsin System
December 5, 2002

The Business and Finance Committee met in joint session with the Physical Planning and Funding Committee for a discussion on auxiliary operations at 2:58 p.m. in room 1920 Van Hise Hall. Present were Regents Gracz, Jones, Klauser, Krutsch, Schneiders and Randall.

Doug Hendrix, Associate Vice President for Financial Administration, led the financial management side of the auxiliary operations discussion. The National Association of College and University Business Officers define auxiliary operations as “… an entity that exists predominantly to furnish goods and services to students, faculty, or staff and that charges a fee directly related to, although not necessarily equal to, the cost of goods or services.” The UW System auxiliary operations are comprised of the auxiliary statutory appropriations with subsets of student fee funded and “pure” auxiliaries including housing, food service, bookstores and parking.

Associate Vice President Hendrix stated that the UW System has several management expectations regarding auxiliary operations. The auxiliary operations activity must be integral to the universities mission, or meet at least one of following criteria: 1) pricing must be in compliance with the Board of Regents policy on competition with the private sector; 2) pricing must be equitable among successive student cohorts; and, 3) revenues of auxiliary operations must be expended where generated. Auxiliaries maintain multiple year budget and program planning cycles, require Generally Accepted Accounting Principles (GAAP), must link “reserves” to specific program and operating needs, and must have certain reserve accumulations approved by the Department of Administration (DOA) and Joint Finance Committee (JFC).

Mr. Hendrix noted the UW System policies for loans, transfers and pricing of auxiliaries. Loans must be approved by campus management, must be repaid with interest within a defined time period, and must not adversely affect rates in the program making the loan. One-time transfers to other student related activities are permitted under s. 20.285(1)(h), Wisconsin Statutes, and transfers were made possible under Board of Regent resolution 7555. Transfers to other auxiliary operations must be approved by the Board of Regents. Auxiliaries are normally priced to recover all direct and indirect costs, and exceptions to this pricing policy are specified in the Regent policy on competition with the private sector.

Associate Vice President Hendrix noted that “reserve” auxiliary balances are defined as cash less encumbrances less advance deposits. Reserve balances are not segregated from other cash balances. Reserve auxiliary cash is held in the State Investment Fund. As a part of the “Building our Resource Base” study, the UW System has put forward the plan to invest a portion of the reserves in order to earn a higher rate of return. Reserves are subject to multi-year planning, and reserves are linked to specific program needs. In the event of unexpected revenues, excess funds are returned to operations, and anticipated ending reserves are projected as part of the annual budget. One-time transfer of reserves must be approved by the Board of Regents, and the UW System has defined maximum and minimum reserve levels.

Mr. Hendrix stated that certain student fee funded reserves must be approved by DOA and JFC (s. 36.46). Student fee funded reserves include housing, food service, and segregated fee funded operations. Approval of the reserves is required if the planned ending reserve exceeds 15% of prior year revenue.

Mr. Hendrix commented that oversight of auxiliaries is performed by the campus, UW System Administration, and the Board of Regents. Oversight at the campus level is carried out through campus management structure and institutional internal auditors who review cash handling on a regular basis. The UW System Administration Budget, Financial Administration, Physical Planning and Procurement offices review auxiliary rate increases, cash and reserve balances, capital plans and negotiate contracts. The Board of Regents approves rate increases, reviews the annual reserves report, approves priorities for construction, and approves contracts in excess of $500,000.
Regent Krutsch noted that the UW System student population votes on the funding of auxiliary programs. Currently, the Board of Regents does not review these programs as thoroughly because of student involvement in the process. However, the Board should carefully analyze and provide input on these programs because the Board has a stewardship responsibility for students of the future.

Regent Jones commented that student government provides input into many of these initiatives. Whereas, the students of today are not necessarily the students of tomorrow, student governments from several years often have a say on these programs.

Regent Klauser stated his concern for maintaining the integrity of accumulated reserve balances in order to satisfy future funding needs. Mr. Hendrix noted that the accumulated balances are there for specific projects, and the reserve is made up of a large variety of small balances across many operations, each of which is self-supporting. However, the UW System has recognized that a portion of the accumulated balance is available to be invested in a way that makes better use of the funds.

Mike Rupp, Director of Business and Finance, UW-Milwaukee, described the budget and accounting cycles for auxiliary operations and how reserve levels are managed at UW-Milwaukee. UW-Milwaukee starts the budget process in October and analyzes guidance provided by UW System when the budget office examines possible rate increases. In December, the student government makes student segregated fee recommendations. In February, the budget is put together after analyzing data from the first six months of the fiscal year. Finally, the cycle is completed in June or July, when the budget is presented to the Board of Regent for approval.

Mr. Rupp also detailed UW-Milwaukee’s reserve policy, noting that the reserves are working capital. Auxiliary funding minimum and maximum balances are established at the campus level, and the goal is to stay within these thresholds. Regent Jones asked who is involved in the decision making process when looking at minimum and maximum reserve levels. Mr. Rupp noted that student groups, campus administrators, financial officers, and the Chancellor provide input in the decision making process.

Greg Diemer, Vice Chancellor for Business Services, UW-Stevens Point, noted the competitive market forces at work with setting rates for auxiliaries. He reviewed UW-Stevens Point’s expectations for the directors and business managers of auxiliary operations. Since auxiliary operations are of a self-supporting nature, they must be run competitively, must be responsive, and must provide a service to their clientele. If the auxiliaries do not satisfy these objectives, they will not be effective in order to continue their operations. Capital project operations involve student input and require student approval.

Mr. Diemer noted that, from a financial management perspective, the 95% level of enrollment plan would likely adversely affect auxiliary operations. This would possibly mean that UW-Stevens Point would have to close a residence hall, provide less efficient food service operations, and fewer programs and services would be available to UW-Stevens Point students.

Bill Richner, Assistant Vice Chancellor for Budget Planning and Analysis, UW-Madison, noted the trends in auxiliary operations over the past 25 years. Auxiliary operations at UW-Madison are fairly large, with total annual expenditures exceeding $200 million. There has been a steady improvement in the expertise and quality of personnel in UW-Madison’s auxiliary operations. This is especially prevalent in the athletic department. Examples of trends include the replacement of buildings, elevators, and food service operations. Other areas of growth include academic support, where auxiliaries have provided for the creation of computer labs and the expansion of tutoring programs. Also, auxiliaries have become more involved in classroom learning, community service programs, and collaborative efforts to provide alcohol-free activities for students. Mr. Richner also noted that student involvement has been critical to the success of UW-Madison’s auxiliary operations.

Regent Klauser stated that many of these auxiliaries are self-contained, and management flexibility exists so that they could be self-chartered and managed more like a business.

Elliott Garb, Vice Chancellor for Student Affairs, UW-Oshkosh, commented that students are interested in flexibility and variety in auxiliary services, especially regarding parking and food service. Also, student input into the auxiliary process makes the end products and services better, and the costs more palatable. Finally, although there are many large dollar projects that need attention at UW-Oshkosh,
including the maintenance and repair of parking lots and buildings, there is great pressure from student
government to hold down rates.

Details of the joint session discussion of facilities management of auxiliaries are in the Physical
Planning and Funding Committee minutes.

Upon conclusion of the joint session, the Business and Finance Committee met at 3:26 p.m. in
room 1511 Van Hise Hall. Present were Regents Klauser, Jones, and Krutsch.

a. Approval of the minutes of the November 7, 2002 Meeting

Upon the motion of Regent Jones, and the second of Regent Krutsch, the minutes of the
November 7, 2002, meeting of the Business and Finance Committee were approved as presented.

b. UW-Oshkosh Differential Tuition

Elliott Garb, Vice Chancellor for Student Affairs, UW-Oshkosh introduced two students, Michael
Schumacher and Matthew Zimmerman, who discussed the differential tuition program at UW-Oshkosh.
Mr. Schumacher commented that the students at UW-Oshkosh voted in favor of the differential tuition
proposal because of the programs and services that it will provide.

Regent Klauser asked how much the increase in tuition is, and for what will the increase be used.
Mr. Schumacher noted that the increase will be incremental. Undergraduate tuition will increase $25 per
semester ($50 per year) the first year, 2003-04, and another $30 per semester ($60 per year) in 2004-05.
The differential rate will remain at $55 per semester ($110 per year) for each subsequent year through the
2006-07 academic year. The increase will be used for academic programs that will interest all students at
UW-Oshkosh, such as student support services, advising and career counseling.

Mr. Zimmerman stated that the proposal was a tough sell to many students because many students
believed that these services should already be provided. Also, students noted that they are expecting
tuition increases due to a reduction in state funding. However, students believe that this program is in the
best interest for UW-Oshkosh students at this time.

Regent Krutsch commented that the sunset clause is a good part of the resolution, in that future
students will have a chance to vote on the differential tuition program.

Regent Jones stated that the differential tuition program is a complex plan, and that students have
taken a stewardship role in the process to approve it for UW-Oshkosh. Students will continue to be
involved in the process in the future.

Upon the motion of Regent Jones, and the second of Regent Krutsch, the Committee approved
Resolution I.2.b.

Resolution I.2.b.

That, upon the recommendation of the President of the University of Wisconsin System
and the students and Chancellor of the University of Wisconsin-Oshkosh, the Board of
Regents approves the differential tuition rates for undergraduate students at UW-Oshkosh
beginning in the fall semester of 2003-04.

c. 2003-05 General Compensation Distribution Plan and Guidelines

Upon the motion of Regent Jones, and the second of Regent Krutsch, the Committee approved
Resolution I.2.c.
Resolution I.2.c.

That upon the recommendation of the President of the University of Wisconsin System, the 2003-05 General Compensation Distribution Plan and Guidelines (Exhibit A) be approved. If changes are required as a result of actions by either the Joint Committee on Employment Relations or legislation, the Executive Committee, in consultation with the System President is authorized to act on these changes.

d. Trust Fund Issues

(1) Recommendations on Asset Allocation, Spending Plan, and Investment Guidelines

Regent Klauser noted that the Committee discussed this issue at the Committee’s prior meeting, and has had numerous presentations on the asset allocation and spending plan. He noted his continuing concern about hedge fund investing, and how hedge funds will be managed and monitored.

Assistant Trust Officer Doug Hoerr noted that the Trust Funds office will go through a detailed search process for hedge fund investment managers. The Trust Office will most likely go with a fund-of-funds management approach, which will provide for good diversification. Also, selection will be partly based on the manager’s ability to provide transparency of underlying investments and strategies.

Upon the motion of Regent Jones, and the second of Regent Krutsch, the Committee approved Resolution I.2.d.(1).

Resolution I.2.d.(1)

That, upon recommendation of the Regent Business and Finance Committee, the Board of Regents adopts the following:

1) U.S. High Yield, Emerging Market Equities, and Hedge/Absolute Return Funds as approved asset classes;

2) Revision of the Statement of Investment Objectives and Guidelines to accommodate the addition of these approved asset classes as follows:

Under the section "Investment Guidelines & Restrictions" and "Approved Asset Classes,” add:

- U.S. High Yield (under "Fixed Income-Oriented Vehicles"),
- Emerging Market Equities (under "Equity-Oriented Vehicles"),
- Hedge/Absolute Return Funds (under new "Alternatives" category); and

3) Reduction of the small fraction spending plan rate from 5.0 percent to 4.5 percent.

e. Committee Business

(1) Report on State Imposed Costs

Acting Associate Vice President Freda Harris stated that Wisconsin Act 9 included a provision that the Board of Regents could only increase resident undergraduate tuition in an amount sufficient to fund:

- An established budget level (as determined by the statutes);
- Increases for compensation (as determined by the statutes);
• A projected loss of revenue due to enrollment or mix changes;
• Distance education, nontraditional courses and intersession courses;
• Differential tuition; and,
• State imposed costs.

Ms. Harris commented that Wisconsin Act 9 also required the Board of Regents to report annually, beginning on December 15, 2000, any state-imposed costs not covered by general purpose revenue that were used to compute academic fee increases for resident undergraduate students. The UW System increased tuition by $3.2 million to fund the fee share of a utilities increase, providing a total general program revenue and fee increase of $12.7 million.

Upon the motion of Regent Krutsch, and the second of Regent Jones, the Committee approved Resolution I.2.e.(1).

**Resolution I.2.e.(1)**

That, upon recommendation of the President of the University of Wisconsin System, the Board of Regents approves the 2001-02 Report on State Imposed Costs Added to Resident Undergraduate Tuition for submission to the Secretary of the Department of Administration.

(2) **Report on Continuing Appropriations**

Acting Associate Vice President Freda Harris noted that Wisconsin Act 9 required the Board of Regents to report annually, beginning on December 15, 2000, the amount by which actual expenditures in the previous fiscal year, in this case 2001-02, exceeded the amount in the schedule for that appropriation in the previous fiscal year.

Ms. Harris commented that the 2001-02 expenditures in the Academic Student Fee appropriation for the University of Wisconsin System were $576.8 million. The amount printed in the schedule, 2001 Wisconsin Act 16, s. 20.285 (1)(im) for 2001-02 for Academic Student Fees, was $511.4 million. The difference was $65.4 million, which consisted of expenditures in the following four major categories:

• 2000-01 Encumbrances & Carryover;
• 2001-02 Compensation Related;
• Enrollment Related Funding; and,
• Fee Share of Utilities.

Acting Associate Vice President Harris noted that $10.8 million were due to UW System encumbrances and carryover. An additional $41.2 million was used for compensation, primarily for faculty and academic staff pay plans, health insurance and non-represented classified employees. Institutions generated $10.2 million of revenue above their revenue targets for increased enrollment. This additional fee income was used to support programs including those related to enrollment increases from the prior year, the Summer Session, the Intersession/Winterim, the UW-Whitewater On-Line Business Masters program and the UW-Stout Access to Learning and Customized Instruction program. The final $3.2 million funded the fee share of a utilities increase as discussed in the Report on State Imposed Costs.

Upon the motion of Regent Jones, and the second of Regent Krutsch, the Committee approved Resolution I.2.e.(2).
Resolution I.2.e.(2)

That, upon recommendation of the President of the University of Wisconsin System, the Board of Regents approves the 2001-02 Continuing Appropriation Report for submission to the Legislature.

(3) UW-Madison: LTE Conversion Pilot

John Torphy, Vice Chancellor for Administration, UW-Madison, noted that the 2001 Wisconsin Act 16 (the Biennial Budget Bill) created a two-year pilot program at UW-Madison ending July 1, 2003, during which time the Board of Regents may convert up to 50 long-term Limited Term Employee (LTE) positions to permanent classified general program revenue, segregated fee, or program revenue positions. The Act permits the Board of Regents to appoint LTEs who have held appointments at UW-Madison for at least one year and exempt appointees from competitive examination requirements. The Act requires the Board of Regents to submit a quarterly report during the 2001-03 biennium to the Department of Administration and the Joint Committee on Finance on the number of LTEs appointed to classified service positions under this provision.

Mr. Torphy stated that in May 2002, the Board of Regents approved the conversion of 27.77 UW-Madison long-term LTE positions to permanent classified positions. During the period April 1, 2002 to December 1, 2002, UW-Madison identified an additional 22.73 long-term LTE positions that qualify for conversion to permanent classified status under this provision. This action brings the total conversion under the program to 50.50 Full Time Employees (FTE). While this exceeds the total number of 50 FTE by 0.5 FTE, one of the positions is on Fund 133, and thus the extra 0.5 FTE is created pursuant to our authority to create positions on that funding source.

Upon the motion of Regent Jones, and the second of Regent Krutsch, the Committee approved Resolution I.2.e.(3).

Resolution I.2.e.(3)

That, upon recommendation of the President of the University of Wisconsin System, the Board of Regents approves the final quarterly report on the UW-Madison LTE Conversion Pilot.

(4) UW-River Falls Contract Extension with Chartwells

Virgil Nylander, Vice Chancellor for Administration and Finance, UW-River Falls, noted that UW-River Falls is requesting an extension of the current contract for the operation of their dining services from its current expiration date (May 31, 2003). Dining service facilities are currently located in two buildings on campus. During the 2003-04 year, UW-River Falls is preparing to start construction on a new University Union, which will have a significant effect on dining services. To prepare for this new construction, UW-River Falls completed an examination of dining service operations. This process has resulted in the development of a strategic master plan for campus dining services. One of the primary goals of this plan is to concentrate all dining service operations in the new centrally located University Union building on campus. This will require many changes in the programmatic, operational, and financial aspects of the food program. The new facility is scheduled for opening in the summer of 2006.

Upon the motion of Regent Jones, and the second of Regent Krutsch, the Committee approved Resolution I.2.e.(4).
Resolution I.2.e.(4)

That, upon the recommendation of the President of the University of Wisconsin System and the Chancellor of the University of Wisconsin-River Falls, the Board of Regents approves an extension of the contract with Chartwells to provide dining services at the University of Wisconsin-River Falls.

f. Vice President’s Report

Vice President Durcan noted that the new banking contract with US Bank has resulted in a drop in the price per check written.

Doug Hoerr, Assistant Trust Officer, presented the UW System Trust Funds Quarterly Investment Review for September 30, 2002. Mr. Hoerr also passed out a complimentary article from Fortune magazine about the UW-Madison Applied Securities Analysis Program, in which students invest a portion of the UW System’s endowment.

(1) Impact of Nonresident Tuition Increase

Vice President Durcan stated that the Committee previously requested a report on the impact of the nonresident tuition increase on UW System campuses other than UW-Madison. Frank Goldberg, Associate Vice President, Office of Policy Analysis and Research, UW System, has prepared a report and noted that it is very early in the process to have a definitive answer on whether the nonresident tuition increase has impacted enrollment. Systemwide, nonresident enrollments were down by a little more than 300 full time students, almost exclusively at the freshman level. The experience at institutions outside of UW-Madison was very similar to the situation at UW-Madison. If this trend continues, it would have a significant impact on the amount of the subsidy that nonresident tuition provides. The net revenue per nonresident student has gone up due to the increase in tuition, however, the Systemwide nonresident tuition total revenue has decreased due to the lower enrollment.

Regent Krutsch asked what type of discretion the Board of Regents has to keep nonresident tuition flat. Regent Klauser noted that it partially depends on the Legislature. Vice President Durcan noted that it also depends on UW System’s funding needs. Acting Associate Vice President Harris noted that the Board has some flexibility in setting nonresident tuition. However, it would be difficult to have a zero percent increase in nonresident undergraduate tuition unless the Board raises tuition for other students, and there are statutory limitations currently in place limiting tuition increases on resident undergraduate students.

Vice Chancellor Torphy stated that UW-Madison has determined that the nonresident undergraduate yield rate has gone down over the prior three years. Associate Vice President Goldberg and Vice Chancellor Torphy stated that more concrete data on the impact of the increase in nonresident tuition will be available next September.

g. Additional items which may be presented to the Committee with its approval

No additional items were presented to the Committee.

The Business and Finance Committee adjourned at 5:02 p.m.

Eric Engbloom, Recording Secretary
BUSINESS AND FINANCE COMMITTEE

Resolution:

That upon the recommendation of the President of the University of Wisconsin System, the 2003-05 General Distribution Plan Guidelines for unclassified staff be approved as follows:

(1) Each chancellor is directed to proceed with faculty and academic staff salary evaluation using a suitable evaluation system, the results of which can be converted to a salary, once the pay plan is known. The salary review should be conducted in accordance with the performance standards outlined in Recommendation #9 of the 1992 Report of the Governor’s Commission on University of Wisconsin Compensation. A record of the evaluation judgments shall be made before July 1, as provided in s. 36.09 (1)(j), Wis. Stats.

(2) The 2003-05 compensation adjustments for faculty, academic staff, and university senior executives shall be provided such that not less than one-third of total compensation shall be distributed on the basis of merit/market and not less than one-third of the total compensation plan shall be distributed on the basis of solid performance. The remaining one-third pay plan allocation may be used to address these and other compensation needs with appropriate attention to pay compression. The President, following consultation with the chancellors, is authorized to earmark up to 10 percent of the total pay plan each year for the chancellors’ discretionary use to meet special compensation needs such as: specific market shortfalls by faculty rank; and/or academic staff internal/external pay problems, or to reward faculty and academic staff innovative, and/or collaborative program delivery, and/or exceptional performance in support of institution goals; and/or to correct gender pay inequities in the faculty and academic staff, etc.

Merit/Market determinations for faculty should be based on a systematic performance evaluation program, which identifies positive contributions by the faculty member to teaching, research, public service and/or the support functions inherent in the institution’s mission. Assessment of teaching faculty shall include consideration of student evaluations (Regent Policy Document 74-13, October 4, 1974).

Merit/Market determinations for academic, limited and other unclassified staff shall be based on a systematic performance evaluation program which allows supervisory assessment of meritorious performance in their areas of assigned responsibility.

Solid performance adjustments shall be provided to those faculty and academic staff who have demonstrated satisfactory performance.
(3) Any and all compensation adjustments must be based on performance; across-the-board compensation adjustments not based on merit are prohibited. At a minimum, continuing staff who have performed at a satisfactory level shall be entitled to a compensation adjustment from funds set aside to recognize solid performance, except when an employment contract or administrative practice holds to the contrary.

(4) Each institution will be required to submit its plans for distribution of the compensation adjustments to System Administration for approval before implementation can be accomplished. System Administration is directed to return any institution’s distribution plan not in compliance with the Board guidelines to the involved chancellor for corrective action by the appropriate governance body. Implementation of pay plan adjustments shall be deferred until a distribution plan meets the Board’s guidelines.

(5) Unless otherwise specified by executive/legislative action, the effective dates for the payment of the 2003-05 pay plan rates will be July 1 each year for annual basis employees, the start of the academic year for those on academic year appointments, and other dates as set by the chancellors for persons with appointment periods commencing at times other than July 1 and the beginning of the academic year.

(6) The President is authorized each year to increase the systemwide faculty salary minima by up to the full amount of the pay plan and rounded to the nearest hundred dollars. For Category B research and instructional academic staff, the Board authorizes the continuation of the current policy linking titles to the faculty salary minima based on percentage relationships approved in the 1994 Gender and Race Equity Study. Salary ranges for Category A academic staff and university senior executives will be established in accordance with the pay plan approved by the Joint Committee on Employment Relations. Unless otherwise provided by law, the Board authorizes the President to adjust the Category A salary ranges by up to the full amount of the pay plan.

(7) Base salaries shall not be less than the salary minima or pay range minimum. The salary increase shall not move the base salary above the academic staff salary range maximum. Unclassified staff who are currently paid above the maximum shall be eligible for a salary increase of up to half of the amount by which the salary ranges have been adjusted.

(8) Salary adjustments for promotion in faculty rank shall, on an academic year basis be no less than $1,000 for promotion to assistant professor, $1,250 for promotion to associate professor, and $1,500 for promotion to professor. Institutions may set policies on adjustments for promotions on an annual basis appointment, consistent with these minima.
(9) The pay plan funding allocation shall be distributed as soon as possible after final approval of the pay plan by executive/legislative action and after the distribution plan is approved by System Administration as being in compliance with these guidelines.

(10) Each institution shall complete its actions on stipend schedules for non-represented graduate assistants prior to July 1 and shall establish a factor for adjustments, which can be applied expeditiously to determine stipend increases. Stipend schedules for each graduate assistant category shall be separately established.

(11) The Board affirms the delegated authority of the President of the System to establish individual salaries at or below 75 percent of the salary of the UW System President within state policy and the funds appropriated for that year. Appropriate annual budget documentation will be reported to the Regents for information.

(12) If the Regent’s meeting schedule does not afford an opportunity for timely action by the full Board on salary adjustments, the Board authorizes the Executive Committee of the Board, in consultation with the System President, to approve any discretionary salary adjustments effective for 2003-04. Appropriate information shall be provided to all members of the Board.

(13) Compensation actions related to the unclassified pay plan and delegated to the chancellors shall be completed in accordance with statutory requirements, legislative intent, Regent’s policy, and shall be reported to System Administration to make possible the preparation of payrolls and reporting to the Board of Regents.

If changes are required to these guidelines as a result of either the Joint Committee on Employment Relations or legislation, the Executive Committee, in consultation with the System President, is authorized to act to modify the guidelines to be consistent with those actions.