

Minutes
Business and Finance Committee
Board of Regents of the University of Wisconsin System
February 7, 2002

The Business and Finance Committee met at 2:38 p.m. in room 1820 Van Hise. Present were Regents Axtell, Gottschalk, Jones, and Krutsch.

a. UW-Stevens Point – Intergovernmental Agreement with Mid-State Technical College

Thomas George, Chancellor, UW-Stevens Point reported on the UW-Stevens Point Intergovernmental Agreement with Mid-State Technical College. The idea behind the agreement was to create an entity that will broker between the two institutions and offer a wide range of courses that responds to the needs of the business community of Central Wisconsin. The facility is an addition to the main building of the Portage County Business Council Center, and groundbreaking at the facility was two weeks ago. Funding for the program comes from a variety of sources. These sources include the federal government, Portage County, Mid-State Technical College, and \$350,000 from UW-Stevens Point.

b. 2000-01 Annual Financial Report

Doug Hendrix, Associate Vice President for Financial Administration, noted that the Financial Statements include the Balance Sheet, the Statement of Changes in Funds Balances, and the Statement of Current Funds Revenues, Expenditures and Other Changes. The Balance Sheet is a snapshot of financial standing as of June 30, 2001 showing assets, liabilities, and fund balances by fund group. The total equity and funds balances were \$4.0 billion. The Statement of Changes in Funds Balances details changes in funds balances from June 30, 2000 to June 30, 2001. The Statement of Current Funds Revenues, Expenditures and other Deductions shows revenues by source and expenditures by function. The Notes to the Financial Statements were described as an integral part of the financial statements, presenting required disclosures and helpful explanations.

Mr. Hendrix noted the relative proportion of funding provided in 2000-01 by the six major sources of current operating funds. The funding mix has changed over the last ten years with state appropriations making up 5.7 percent less of the total in 2000-01 than they did in 1990-91. The relative decline in state funding has been offset by increases in tuition and gifts. When adjusted for inflation, state support has been relatively flat over the first six years of the ten-year period, but has increased slightly over the past two biennia. The current state budget crisis jeopardizes the continuance of that trend.

Mr. Hendrix noted the relative proportion of Current Funds expended by function (or “activity”). In 2000-01, over 78 percent of current operating funds was spent on the primary missions of instruction, research and public service and related academic support, student services and financial aid, while only 5 percent was spent on institutional support (administration). He noted the relative proportion of Current Funds spent on the six major “object” groupings.

Finally, Mr. Hendrix noted that the university controlled endowments have grown from \$108 million in 1990-91 to \$305 million in 2000-01. This includes both “true” endowments, gifted principal that must remain intact by donor stipulation, and “quasi” endowments, gift and income funds that the Board of Regents has elected to manage as an endowment.

Regent Krutsch asked whether the UW System’s low percentage of institutional support costs in comparison to its peers could be due to inconsistencies in the categorization of costs. Mr. Hendrix noted that the UW System follows the National Association of College and University

Business Officers expenditure definitions. Accordingly, there is limited room for interpretation of these national categories.

c. GASB Management Discussion and Analysis

Doug Hendrix, Associate Vice President for Financial Administration, noted that the financial statements will be presented under new reporting standards next year. The most notable changes that members of the Board of Regents can expect to see under the new model are:

- Entity wide statements – There will be a single column presentation in all statements rather than a separate reporting by “fund type” as currently exists.
- Statement of Net Assets – The Balance Sheet will be presented in a “net assets” format wherein the arithmetic of the three major sections is Assets minus Liabilities equals Net Assets (as opposed to the traditional Assets equals Liabilities plus Fund Equity). Assets and liabilities must be grouped between current and long-term and restricted assets must be separately labeled.
- Depreciation – Depreciation expense must be reported in the operating statements and assets must be reported net of accumulated depreciation in the statement of net assets (balance sheet).
- Tuition revenue to be reported net – Under the existing reporting model, tuition remissions are reported as an expense, primarily on the financial aid line, based on the concept that revenue foregone is an expense. Tuition revenues are “grossed up” by a corresponding amount so that the net effect in the operating statement is zero. Under the new reporting model, this reporting practice will be discontinued.
- The Management Discussion and Analysis Section – This new section will include an objective narrative explanation of what the financial statements contain. The Committee was asked to provide input on what should be included in this section.

Regent Krutsch noted that the changes from the old to new format and figures that are greatly affected by the change should be included in the Management Discussion and Analysis Section.

d. UW-Madison Annual Research Report

Martin Cadwallader, Interim Vice Chancellor for Research and Interim Dean of the UW-Madison Graduate School, noted that total research and development (R&D) expenditures were \$554 million in 1999-00. This ranked second in the country in total R&D expenditures. Johns Hopkins was first by a large margin with over \$900 million. UW-Madison overtook second place from the University of Michigan this past year, whose research and development expenditures over the same time amounted to \$551 million. Federal research and development expenditures amounted to \$275 million. UW-Madison ranked eleventh in the country in federal R&D expenditures. UW-Madison was second in the Big 10 in federal research and development expenditures behind the University of Michigan. Privately funded research organizations and the Wisconsin Alumni Research Foundation (WARF) made up a large portion of the non-federal expenditures. UW-Madison research awards amounted to \$509 million in 1999-00. Federal awards amounted to \$360 million, and non-federal awards amounted to \$149 million. The biggest contributors of federal awards are the Department of Health and Human Services (DHHS) and the National Institute of Health (NIH). The biggest percentage of awards was given to the Medical School (27 percent), the College of Letters and Science (17 percent), the College of Engineering (17 percent), and the College of Agricultural and Life Sciences (15 percent).

Regent Axtell noted that the Board of Regents has more control over tuition and GPR than sources of support such as federal grants, and the Board of Regents should focus more on attracting federal grants. Martin Cadwallader responded that it is correct that the Board of Regents has less control over attracting federal grants. The biggest factor that the Board of Regents can control in order to attract federal grants is to ensure that UW-Madison maintains a high quality of faculty.

The Committee discussed ways to increase legislative knowledge of the importance of this research to the State, such as taking legislators on tours through laboratories and events of the arts and humanities.

e. Annual Broadcast Report

David Olien, Senior Vice President For Administration, noted that the Board of Regents hold the broadcast licenses for 14 non-commercial educational broadcast stations located on UW campuses throughout Wisconsin —13 radio and one television. The Board of Regents also assist two stations that solely "stream" programming via the internet: SRI at UW- Eau Claire and WYRE at UW- Waukesha County. WIPZ at UW-Parkside will be applying for a license when the Federal Communications Commission (FCC) lifts its temporary freeze on granting new broadcast licenses. Seven of the radio stations are Wisconsin Public Radio affiliates, and WHA-TV is affiliated with Wisconsin Public Television. Stations are staffed with UW faculty, academic staff, and students. The stations not only produce and broadcast programs of educational and public service value to their listening and viewing communities, but they also serve as academic learning laboratories for UW journalism and mass communication students. As the licensee, the Board of Regents is accountable to the FCC for compliance with all statutory and regulatory requirements. The purpose of the annual report is to assure the Board of Regents that their broadcast stations are in compliance.

Senior Vice President Olien noted the significant television and radio activities in 2000-01. The State Building Commission, in January 2001, approved \$1.4 million to buy and install digital transition equipment at WHA-TV. WHA-TV is required to begin broadcasting digital television signals by May 2003. The KUWS-FM (Superior) transmitter that was damaged in a Spring 1999 ice storm has been repaired. The station has resumed broadcasting at full power in a new building with a new transmitter and antenna. WVSS-FM (Menomonie) is moving to a tower west of the city. Temporarily, the station is operating from Bowman Hall at UW-Stout after this past summer's demolition of its former home in the Communications Center. Once the FCC approves the change of location, the station plans to broadcast from its new home in Spring 2002.

Senior Vice President Olien noted some personnel changes, including Greg Schnirring, who was appointed the Director of Wisconsin Public Radio and WHA Radio this spring. Malcolm Brett was also hired as Director of WHA-TV. Malcolm Brett and Greg Schnirring succeed Dana Davis Rehm, who left in April 2001 to work at National Public Radio.

Senior Vice President Olien noted that WUWM (Milwaukee) moved from the UWM campus to the lower level of the Plankinton Building at the Grand Avenue Mall in Milwaukee. The new lease consolidated WUWM's operations and enhances the image of both the station and the campus in a highly visible downtown location. The \$600,000 private fundraising campaign made the project possible. Doors opened on October 26, 2000. In the fiscal year 2000, WUWM (Milwaukee) raised more than \$1.4 million from the community, a 15 percent increase from the previous year.

Finally, Senior Vice President Olien noted that with the Board of Regents approval in July 1995, WSUM-FM (Madison) applied to the FCC for a construction permit to establish a student radio station. After many years of litigation by the community where the radio tower is located, the tower has been constructed. The target date for the first broadcast is February 22,

2002. In the meantime, WSUM continues to stream news, music, sports, and public affairs programming via the Internet.

Regent Axtell asked what is the difference between the Educational Communications Board (ECB) and WHA. Senior Vice President Olien responded that the ECB was formed to centralize operations and eliminate duplication across the state. There is close collaboration between the two entities regarding programming, and the ECB is geared more towards K-12 schools including the production of educational cd-roms. John Torphy, Vice Chancellor, UW-Madison, noting the history of the distinction between the two entities, explained that WHA has been more university and Madison focused, whereas the ECB has been more K-12 focused and coordinates programming statewide.

f. Procedures for Meetings with Investment Managers

Doug Hoerr, Assistant Trust Officer, noted that upon the recommendation of the Business and Finance Committee at the meeting of November 9, 2001, the Board passed a resolution delegating the Committee's practice of meeting annually with each of the UW System Trust Funds' investment managers to the Trust Officer and Assistant Trust Officers. The resolution contained the proviso that these Officers would regularly report to the Committee on the findings and contents of such meetings. The Committee further requested that Trust Funds suggest the procedures it would use for the meetings and outline the methodology for reporting on the investment managers to the Committee.

Mr. Hoerr indicated the meetings will be in-house at least once per year, and more frequently if the manager is under review. Each quarter will focus on a particular asset class. The first meeting will involve large-cap equity managers. On-site meetings at the investment managers' office will occur once every two years, or as needed if an investment manager is under review. Finally, conference calls will occur quarterly with the managers, or immediately in the case of a guidelines violation or other significant event.

The meeting participants will be a mix of representatives from the UW System (Trust Officer, Assistant Trust Officer(s), and Investment Analyst), and, by invitation, members of the Business and Finance Committee, John Feldt of UW Foundation, Mark Fedenia of the UW-Madison Business School, Jon Vanderploeg of the State of Wisconsin Investment Board (private equity only), and the investment manager (including at least one senior portfolio manager).

The meeting procedures, format and content were outlined and discussed. Managers will be required to submit copies of their presentation material at least one week in advance of the meeting, so that it can be more thoroughly reviewed and questions can be prepared. Managers will be asked to respond to a set of standard "due diligence" questions at every meeting, designed to solicit not only pertinent facts, but to also provide better insight into the manager's critical thinking and investment capabilities.

Manager meetings may, on occasion, take the form of a "roundtable discussion", with all managers within an asset class participating. Here, specific topics and questions would be prepared ahead of time. In the event these meetings take the place of individual meetings, managers would be asked to separately respond to the "due diligence" questions in writing. Minutes will be taken at all manager meetings, will be filed at the Trust Funds office, and will be made available to Business and Finance Committee members upon request.

Findings and conclusions from the manager meetings will be reported to the Business and Finance Committee on a quarterly basis. For instance, reports on the large-cap equity managers met with during the first quarter will be provided at the May Board of Regents meeting, together with the comprehensive Trust Funds first quarter report. Separate reports on each manager will be provided.

If a manager is under review or on a "watch-list," a report will be provided at the Board meeting immediately following the last manager meeting or by mail to the Committee members if sufficiently urgent.

g. Committee Business

(1) Approval of minutes of the December 6, 2001 meeting of the Business and Finance Committee

Upon the motion of Regent Axtell and the second of Regent Krutsch, the minutes of the December 6, 2001, meeting of the Business and Finance Committee were approved as presented.

(2) Quarterly Gifts, Grants and Contracts

Vice President Debbie Durcan presented the summaries of gifts, grants and contracts awarded to the institutions of the UW System for the six-month period ended December 31, 2001.

h. Report of the Vice President

Vice President Debbie Durcan noted the most recent administrative cost peer comparison between the UW System and peer systems is outlined in the Accountability Report.

Ms. Durcan noted the NACUBO College Cost Report. The report, "Explaining College Costs: NACUBO's Methodology for Identifying the Costs of Delivering Undergraduate Education" concludes a 3 year effort. The goal of the project was to develop a uniform methodology that any college or university can use to explain in simple and understandable terms the costs incurred in providing one year of undergraduate education and related service. The study was not designed to be a mechanism for collecting national data on college costs or creating industry benchmarks. Also, it was not designed to be a measure of quality or value of the education. A total of 150 institutions participated in the field test including three UW System institutions (UW-Madison, UW-Platteville, UW-Whitewater). The study did not use a random sampling of institutions, therefore it is not possible to extrapolate the findings to the entire higher education community. The study focused primarily on price (tuition and mandatory fees) and cost (average cost data per student for 18 expense classifications then summarized into three categories: instruction and student services; institutional and community; and financial aid). The UW System is currently analyzing the report to determine how the UW System fits into the overall findings, and will bring the findings back to the committee next month.

Ms. Durcan noted the American Council on Education (ACE) biennial survey, "Attitudes Toward Public Higher Education". The article was released February 6, 2002 in the *Chronicle of Higher Education*. The article noted that 77 percent believe that a college education is more important today than it was 10 years ago (73 percent responded this way in 2000), and 77 percent expressed a great deal of concern that cuts in state funds for higher education could impair the quality of education in their state. Also, most Americans continue to grossly overestimate the cost of a college education. The average estimate of tuition at public institutions was \$11,637, which is more than 3 times the actual average price of \$3,754. The survey polled 700 adults in late October and early November with a margin of error of 3.7 percent.

Regent Krutsch asked whether a similar survey had been conducted in Wisconsin. Associate Vice President Kathi Sell noted that a recent statewide survey found that the public in Wisconsin overestimates the price of UW tuition by four times.

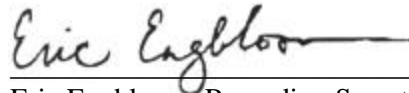
Regent Gottschalk asked the members of the Committee to comment on the discussion that the Board of Regents had on the proposed compact with the State of Wisconsin. Regent

Jones stated his belief that the Board of Regents should not move any further in forming a compact, and should explore other options to help students with their cost of education. He stated that he would ask students about their opinions on this issue. Regent Krutsch noted that the discussion was well framed. The Board of Regents and the Legislature need to discuss this in an open, non-adversarial way. Finally, the off-budget time is an opportune time to discuss it.

i. Closed Session to consider trust fund matters, as permitted by s.19.85(1)(e), Wis. Stats.

Upon the motion of Regent Axtell and the second of Regent Krutsch, the Business and Finance Committee adjourned to Closed Session at 3:59 p.m. Present were Regents Gottschalk, Axtell, Jones, and Krutsch.

The Business and Finance Committee adjourned at 4:45 p.m.



Eric Engbloom, Recording Secretary