

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

The Business and Finance Committee met at 2:05 p.m. in room 1920 Van Hise. Present were Regents Axtell, Gottschalk, Jones, Klauser, and Krutsch.

a. Building Our Resource Base

Associate Vice President Kathi Sell led a discussion on the State Compact. The Committee confirmed its support of linking financial aid increases to tuition increases. Regent Axtell asked how many other states have implemented a compact. Associate Vice President Sell noted that five states have implemented a compact, and four of the five have had budget cuts despite the compact. Therefore, having a compact with the state is no guarantee of funding stability. Regent Gottschalk proposed using a '95 percent of peer tuition midpoint' methodology for setting tuition. This approach would provide consistency with the methodology that the UW System currently uses to set faculty and administrative salaries.

Regent Axtell noted that the Board of Regents and UW System should critically look at ideas that would generate fresh revenue. For example, companies bring college campuses to their offices for employee training. The 'corporate campus' idea should be pursued, because companies encourage their employees to seek continuing education. Regent Jones stated that institutions should be asked whether they would be interested in the corporate campus idea. Institutions should also be asked about what type of programs they are interested in offering, and what the Board of Regents can do to help the institutions deliver these programs. Also, internet-based learning, and exploring the non-traditional student market could be ways to increase revenue. Associate Vice President Sell noted that differential pricing should be encouraged at the institutions. Chancellor Jack Miller, UW-Whitewater, stated that if traditional and non-traditional students are being offered the same courses and services, the pricing for these courses should be the same. However, when value-added services for non-traditional students are provided, this justifies a differential in price. Associate Vice President Sell noted that if the Committee would find it useful, the UW System could internally track non-traditional revenue separately from traditional revenue.

Regent Klauser stated that the UW System needs to demonstrate to the legislature that it is exercising good business practices and operating efficiently and effectively. The UW System must have a system in place to perform financial and management audits. Regent Klauser noted that the UW System needs to show that it is reducing costs wherever possible, and that there is appropriate oversight over auxiliary operations. Vice President Durcan stated that each campus has internal auditors performing financial audits, and there are extensive system wide policies on auxiliary management. Regent Gottschalk noted that the recently published accountability report would be a good report to take to the Legislature to show that the UW System is operating efficiently.

Regent Axtell stated that campuses should not only look at ways to reallocate resources, but also look to save resources by identifying non-essential programs. Regent Krutsch noted that institutions should carefully review their programs, and institutions may find majors that may not be as high a priority as they were in the past. Chancellor Ann Lydecker, UW-River Falls, noted an example where this occurred involving a program at UW-River Falls. The program was going to be cut, but a public outcry compelled the university to take closer look at finding a way to save the program. UW-River Falls switched the program to a service-based pricing model, and, as a result, maintained the program for the community. Associate Vice President Sell stated that during the campus visits, Board members should ask what the campus is doing as far as reallocating and improving efficiencies. Another option available to the Board would be to hold another chancellor's panel on efficiencies and reallocations. Vice President Durcan noted that the last system wide report on efficiencies and effectiveness was two years ago.

b. United Council Student Priorities

Maggie Brown, Academic Affairs Director for United Council, stated that student leaders met recently at UW-Oshkosh to discuss budget priorities. Ms. Brown noted that one of the most important priorities falls under the Board of Regents “Building Our Resource Base” topic; that some sort of affordability compact with the state should be reached. An important first step would be to link financial aid increases to tuition increases. The average debt for UW System graduates is \$15,611. A recent national report showed that 77 percent of low-income students have an unmanageable debt burden upon graduation, meaning that 8 percent of their monthly income goes toward paying student debt.

Another important priority falls under the student experience issue. Students are concerned that retention efforts should be increased. Campus climate, classroom climate, transitions and engagements are the four areas that students are focusing on in an attempt to come up with concrete solutions regarding retention.

Chancellor Jack Miller, UW-Whitewater, stated that UW-Whitewater has just embarked on eight specific retention interventions to promote students to become more focused on completing their degree. Students were willing to pay an extra \$50 in tuition in order for UW-Whitewater to put forth these interventions. These interventions included the creation of a central advisement center, peer/mentor programs, required experiences before the student’s first semester, and career exploration programs.

In response to a question from Regent Krutsch about cohort tuition, Ms. Brown noted that students have two major concerns. The concerns are the initial sticker shock during the student’s first year, and the effect that it could have on initial access to low-income students.

c. 2002-03 Annual Budget Decision Rules

Assistant Vice President Freda Harris noted that Resolution I.2.c. approves the 2002-03 annual budget allocation decision rules. The 2002-03 decision rules are based on the state biennial budget and will determine how funding will be allocated for those specific items for which the budget has recommended additional 2002-03 funding above the fiscal year 2001-02 level, and how funding reductions will be de-allocated.

Assistant Vice President Harris stated that the budget allocation decision rules include two changes. The first change is that the UW System received increased funding for the Agricultural Stewardship Initiative. The second change is that the UW System received additional base reductions as a result of Wisconsin Act 16. The Governor’s budget adjustment bill included new base budget reductions for the UW System. Wisconsin Act 16 included a \$6.3 million budget reduction as a percentage of the base in 2001-02. The second part of the reduction in 2002-03 was based on the percentage of increased funding that the UW System received due to the Economic Stimulus Package. Recognizing that the Governor recommended smaller base reductions for the UW System to protect access, enrollments will not be decreased below 50% of the fall 2002 Economic Stimulus Package enrollment targets. However, this leaves the UW System short of the Economic Stimulus Package related enrollments at some institutions. Those institutions that have not yet achieved 50 percent of their Economic Stimulus Package enrollment targets may do so. Institutions above that enrollment level should strive not to grow further, unless the UW System achieves restoration of the full funding for the Economic Stimulus Package.

Upon the motion of Regent Krutsch and the second of Regent Axtell, 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 2002-03 annual budget allocation decision rules. If

subsequent legislative action modifies either the second year funding increases or reductions noted in the rules, the UW System would distribute the changes according to the principles set forth in Section III.

d. NACUBO Cost of College Report

Vice President Debbie Durcan noted that the National Association of College and University Business Officers (NACUBO) recently completed a three-year endeavor called the Cost of College Project with the goal of creating a standardized methodology that any university or college could utilize to explain in simple and understandable terms the costs incurred in providing one year of undergraduate education inclusive of related services. The title of the report generated is “Explaining College Costs: NACUBO’s Methodology for Identifying the Costs of Delivering Undergraduate Education”. After completing three pilot tests, NACUBO conducted a broader field test that included 150 institutions. Three UW System institutions (UW-Madison, UW-Platteville, and UW-Whitewater) participated in this project. The test was not based upon a representative sample, and therefore was not statistically valid. The test was also not a measure of quality or value of the education provided.

The NACUBO found that at almost every participating institution the cost of providing programs and related services to undergraduate students exceeded the price charged to these students in the form of tuition and fees. The findings indicated subsidies for students at public four-year institutions ranged roughly from \$4,000 to \$11,000. Subsidies provided by the three participating UW System institutions that participated in the study averaged \$5,548, ranking in the lower end of the range of subsidies.

The study also concluded that the main drivers of cost for most institutions are direct educational expenses inclusive of faculty and academic services that support instruction. The average distribution of total cost by category at public four-year institutions per the report was 87 percent in instruction and student services costs, 7.5 percent in institutional and community costs and 5.5 percent in financial aid costs. The average distribution of total cost by category for the UW System institutions was 85 percent, 13 percent and 1.6 percent, respectively. Financial aid costs was an area subject to much interpretation. In accordance with the definitions for this study, financial aid does not include state or federal funds or student loans.

Finally, the findings in the report illustrated that total expenditures per student at public four-year institutions ranged from \$7,000 to \$15,000. The total expenditures of the three UW System institutions participating in the study averaged \$8,708, an amount that ranks near the lower end of the total cost range. The NACUBO is hoping that more colleges and universities will use the new methodology in the future, which will, in time, improve the ability to draw statistically valid comparisons among institutions.

Vice Chancellor John Torphy, UW-Madison, stated that faculty salaries make up a large portion of the difference in instructional costs. Instructional cost is the single biggest factor resulting in the UW-Madison spending less per capita than the average.

e. Committee Business

(1) Approval of minutes of the February 7, 2002 meeting of the Business and Finance Committee

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

f. Report of the Vice President

Vice President Debbie Durcan noted that the National Center for Education Statistics recently released a longitudinal study of colleges and universities for the years between 1989 and 1998. Public institutions and private institutions were reported separately.

Vice President Durcan stated that the study highlighted trends in tuition. For public institutions, a direct correlation existed between increases in tuition and decreases in state appropriations. The study concluded that tuition was the most important factor in decreases in state appropriations. For private institutions, increases in tuition were directly associated with internal factors such as faculty compensation and institutional aid, and revenue from endowment income and private gifts, grants and contracts.

Vice President Durcan noted that the study also highlighted trends in financial aid. For public institutions, an average of two-thirds of first time, full-time degree seeking students received aid from any source. For private institutions, an average of three-fourths of those students receive aid.

Finally, the study found no correlation between financial aid and increases in tuition at public institutions, and only a slight correlation at private institutions. Tuition accounted for a larger share of total revenue, and state appropriations account for a smaller share of total revenue in fiscal year 1989. Expenditures for instruction continue to be the largest percentage of total expenditures, but expenditures for instruction decreased as a percentage of the total.

Vice President Durcan noted an interesting calculation concerning the UW System's administrative costs. The calculation is based upon the UW System's 5.77 percent administrative expenditures versus the peer average of 10.3 percent. If the UW System had spent at the peer average rate, the UW System would have spent \$115 million more on administrative costs (\$261 million versus \$146 million).

Vice President Durcan stated that a letter of intent to award the new UW System banking contract went to Firststar Bank.

Vice President Durcan noted that on Tuesday of this week, all state agencies including the UW System were advised by the Department of Administration (DOA) Secretary that effective immediately, all in-state and out-of-state travel requests must be approved in advance. State agencies must have their travel requests approved in advance by the agency secretary, and submit a travel plan to DOA for the remainder of the fiscal year. For the UW System, the chancellors must approve all travel with after-the-fact reports to the State Budget Director. The UW System is working with the institutions to develop a process whereby the UW System can meet the intent of the restrictions, and yet not completely inundate the institutions with paperwork.

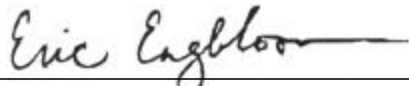
g. Additional Items which may be presented to the Committee with its approval

No additional items were presented to the Committee.

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

Upon the motion of Regent Krutsch and the second of Regent Axtell, the Business and Finance Committee adjourned to Closed Session at 3:35 p.m. Present were Regents Gottschalk, Axtell, Jones, Klauser, and Krutsch.

The Business and Finance Committee adjourned at 3:55 p.m.



Eric Engbloom, Recording Secretary