

Minutes  
Business and Finance Committee  
Board of Regents of the University of Wisconsin System  
May 9, 2002

The Business and Finance Committee met at 2:45 p.m. in Room 1346 UW-Fox Valley. Present were Regents Gottschalk, Axtell, Jones, and Krutsch. Regent President Smith and Regent Vice President Randall were also present.

**a. Building Our Resource Base – Proposed Final Report**

Associate Vice President Kathi Sell commented that, in looking at the recommendations by revenue source, this report recommends 17.5 action items as follows:

- 5 of the original 8 items for action in enhancing program revenue;
- 6.5 of the original 7 items to enhance tuition funding;
- 5 of the items to enhance state funding levels, predictability or control over fluctuations; and,
- 1 item on financial and other strategies to improve efficient degree completion.

Associate Vice President Kathi Sell noted that, at the last Business and Finance meeting, the Committee made changes to a number of recommendations that were listed in the minutes of that meeting. Items that were further modified by the Committee during the current meeting were as follows:

- Add a requirement that the Special Assistant for Federal Relations periodically update the Business and Finance Committee on progress in increasing federal funding;
- Tuition and other strategies to improve efficient degree completion. Add a study of other universities' experiences with per credit and other related tuition plans;
- Specify that the UW System annual report on information technology IT/Distance Education should include reports from the Executive Group of Online Learning (EGOLL) on progress in implementing their goals; and,
- Regent Krutsch noted that the Committee should add "and time to degree" to the statement on "the priorities of improving retention and decreasing credits to degree....". The Committee should also add language indicating: "Any proposals should consider the effects on retention and access and should quantify the access opportunities created as students complete degrees more efficiently."

Regent Gottschalk noted that the United Council agreed with all 24 original recommendations, except the time to degree surcharge recommendation, and thanked the United Council for their participation in the process. Maggie Brown, Academic Affairs Director for United Council, stated that students are concerned with the time to degree surcharge. Students are asking that they have input into the tuition related recommendations as they are implemented.

Regent Jones commented that he appreciated all the hard work from the United Council and UW System staff in working together on these recommendations. He noted that for any program that raises students' tuition, students should be involved and have a dialogue in the process. This process is a partnership between students and the UW System, and students and administrators should all be on the same page in where the process is going.

Regent Axtell noted that the rise in non-resident tuition is a serious issue, and the Committee should look at ways to reduce non-resident tuition. The UW System could end up with a net loss in revenue if this trend continues. John Torphy, Vice Chancellor, UW-Madison stated that non-resident

tuition at UW-Madison is about \$16,000 this year, and will jump to about \$18,000 next year. UW-Madison's non-resident tuition is now second highest in the Big 10 behind the University of Michigan. However, the University of Michigan has significant scholarships available to non-resident students. Regent President Smith concurred, noting that non-resident students pay over 100 percent of cost, thereby subsidizing in-state students. With a reduction in non-resident enrollment, the UW System is in danger of lowering tuition revenue.

Regent President Smith and Regent Vice President Randall left the meeting at this time.

## **b. Endowment Funds Annual Report**

Assistant Trust Officer Doug Hoerr noted that the Long Term Fund principal market value as of June 30, 2001 was \$267 million. The Long Term Fund experienced an investment loss of 3.4% for Fiscal 2001, as compared to gains of 10.0% and 10.8% for Fiscal Years 2000 and 1999, respectively. The annualized return of the Long Term Fund has been 11.7% over the most recent ten-year period, well above the target return of 9.8% (which would provide for the spending rate, inflation, expenses and additional real growth of 1% per year).

Assistant Trust Officer Hoerr commented that the primary difference between the UW System Trust Funds' allocation and that of the benchmarked peers is the under weighting in the alternatives and other categories. The current allocation is 70% equities and 30% fixed income. The UW System Board of Regents approved a 10% allocation to the alternatives private capital category in June 2001, which will gradually shift the Trust Funds policy allocation to 67% equities, 23% fixed income and 10% alternative investments.

Assistant Trust Officer Hoerr stated that the UW System Trust Funds investment performance finished in line with its peers for fiscal year 2001, and over the most recent five and ten-year periods. The UW System Trust Funds' nominal rate of return in Fiscal 2001 was -3.4%. The overall NACUBO median return was -3.6%, with a range of 24.8% to -26.9%. The median return for the NACUBO \$100 to \$500 million category was -3.4%, with a range of 14.3% to -23.8%.

Assistant Trust Officer Hoerr noted that the Comparative Index represents the average annual return that would have been earned on a passive portfolio of market indices weighted according to the Trust Funds' asset allocation. The Long Term Fund has outperformed this composite index by 1.6% per year.

Regent Gottschalk asked why the UW System Trust Funds performance trailed the S&P 500. Assistant Trust Officer Hoerr noted that the S&P 500, which is an index of large capitalization equities, has had the strongest performance over the last 5 years, returning 12.6% per year. UW System Trust Funds has an 18% allocation to small capitalization equities (small cap), whose index had an average annual return of only 9.6%. UW System Trust Funds also has a 12% allocation to international equities, whose index had a return of only 1.4% per year. The UW System Trust Funds' total equities would have outperformed a composite of the S&P 500, small cap, and international equity indices.

Assistant Trust Officer Hoerr commented that Trust Funds' investment management/ custody fees for Fiscal 2001, at 0.57% of assets, were slightly above the peer group average. The NACUBO average for similar size endowment was 0.50%. As another point of comparison, the UW Foundation, with assets at approximately \$1.2 billion, reported investment management fees of 0.40% of assets for their year ending December 31, 2000. Part of the reason that UW System Trust Funds fees have been slightly above the peer group average is likely due to peer use of index funds, which charge lower fees. UW System Trust Funds does not invest in any index funds at this time.

Assistant Trust Officer Hoerr noted that the 2001 NACUBO Endowment Study shows that most, 59%, of reporting institutions do not consider social responsibility criteria as part of their investment management policies. Only 11% of public institutions consider social responsibility criteria, while 23% of private institutions do. However, there was likely some inconsistency in how institutions responded to

the NACUBO question on social responsibility. The question seemed to implicitly be asking if the institution considered social responsibility criteria in making investment selections, i.e., "screening". UW System Trust Funds considers social responsibility criteria in voting shareholder proxy proposals and seeks student and public comment, but does not currently actively screen investments in this regard.

Assistant Trust Officer Hoerr commented that 611 institutions participated in the NACUBO survey. The UW System Trust Funds, with assets of \$267 million, ranks 154th in size. Endowment assets remain highly concentrated; only 88 schools (15% of the total) have assets in excess of \$500 million, yet this group represents 80% of the total assets. 41 schools (7%) have assets in excess of \$1 billion. This group represents 58% of the total assets. Slightly more than half the public institutions are research universities, and they hold 90% of the public sector assets. The largest public institution endowment is the University of Texas System (\$ 9.4 billion) and the largest private institution endowment is Harvard (\$18 billion). The average endowment assets per FTE (full time equivalent) student for public institutions are \$13,700. The average endowment assets per FTE for private institutions are \$138,300. The UW System Trust Funds' endowment had assets of \$2,055 per FTE student as of June 30, 2001. However, if all UW System Foundation assets were included in this figure, the figure would be \$12,682 per FTE student. It appears that, for the NACUBO study, most institutions report endowment and foundation assets together.

### **c. Trust Funds: Potential Projects and Plans**

Assistant Trust Officer Hoerr discussed UW System Trust Funds potential projects and plans for fiscal year 2002-2003. The Trust Funds' internal mission statement contains the following elements:

- Provide the Regent Business and Finance Committee with the support, information and analyses they require to fulfill their Trust Funds oversight and fiduciary responsibilities;
- Provide excellent (timely, accurate, efficient and courteous) service to Trust Funds "customers", account holders and donors primarily, and explore opportunities to provide additional centralized investment and trust related services; and,
- Commensurate with appropriate levels of risk and variability, strive to provide the highest level of returns.

The projects and studies listed for the Committee, or elements relating to them, may eventually be presented as agenda items in upcoming Committee meetings.

Assistant Trust Officer Hoerr stated that UW System Trust Funds will analyze other alternative investments and asset classes for possible inclusion into the Long Term Fund such as hedge funds, high yield fixed income, emerging markets, and "opportunistic allocations."

Assistant Trust Officer Hoerr commented that UW System Trust Funds will analyze potential ways to improve domestic and international equity structures and managers for the Long Term Fund. The current contracts with investment managers expire in October of this year, and the contracts will likely be extended for six months to allow time for a full-blown search and re-bid for all investment manager mandates. UW System Trust Funds will also analyze the appropriateness of making dedicated allocations to mid-cap equities, indexed equities, and emerging market equities.

Assistant Trust Officer Hoerr noted that UW System Trust Funds will analyze potential ways to improve on the fixed income structures and managers for the Long Term and Intermediate Term Funds. This may include reconsidering the appropriateness and value of a foreign component for the Long Term Fund, and analyzing the appropriateness of a possible small inclusion of other asset classes to the Intermediate Term Fund to improve its risk and return profile.

Assistant Trust Officer Hoerr stated that UW System Trust Funds will determine appropriate benchmarks for private equity and how the benchmarks will be incorporated into composite benchmarks. UW System Trust Funds will also update investment guidelines and other index and peer benchmarks;

investigate how to improve risk analysis and performance attribution; investigate the portfolio analytics available from J.P. Morgan; and, finally, continue to improve on the investment manager review and evaluation processes.

Assistant Trust Officer Hoerr noted that, regarding best practices and strategic relationships, UW System Trust Funds will continue efforts to collaborate and share best practices and resources with other UW-related investment organizations such as the UW Foundations, SWIB, and WARF. The UW System Trust Funds will also continue to establish strategic partnerships with capable investment counselors, such as J.P. Morgan, which can provide other investment research and services.

Assistant Trust Officer Hoerr commented that, regarding customer service, UW System Trust Funds will continue to improve on the quality and content of the Trust Funds web site, reports, and communication of Trust Funds data to interested internal and external parties. UW System Trust Funds will also review Regent policies relating to bequests and propose updates where appropriate.

Assistant Trust Officer Hoerr noted that, regarding social responsibility and investments, UW System will explore and possibly propose ways to become more active and involve students more effectively.

Assistant Trust Officer Hoerr stated that, regarding potential expanded services and responsibilities, UW System Trust Funds will continue to analyze the possible investment of auxiliary reserves and other investable cash assets. Finally, UW System Trust Funds will investigate the possibility of providing pooled investment and accounting/record keeping services to smaller campus foundations within the UW System.

#### **d. Bequest of Winifred Nybroten**

Upon the motion of Regent Axtell, and the second of Regent Jones, the Committee approved Resolution I.2.d.

##### **Resolution I.2.d.**

That, upon the recommendation of the President of the University of Wisconsin System and Chancellor of the University of Wisconsin-Platteville, the bequest of the late Winifred J. Nybroten be accepted for the purpose of establishing the NORMAN AND WINIFRED NYBROTEN SCHOLARSHIP FUND; and the Trust Officer or Assistant Trust Officers be authorized to sign receipts and do all things necessary to effect the transfer for the benefit of the University of Wisconsin-Platteville.

(The Will states:

"One-third (1/3) of the residue to the UNIVERSITY OF WISCONSIN. Said bequest shall be used to establish a perpetual scholarship fund for students majoring in education who need financial assistance. The fund shall be called the 'NORMAN AND WINIFRED NYBROTEN FUND.' The Board of Trustees, or their delegates, shall have full discretion in selecting the students to receive assistance. Both my late husband and I were alumni of the Platteville Teachers College.")

Let it be herewith further resolved, that the President and Board of Regents of the University of Wisconsin System and the Chancellor of the University of Wisconsin-Platteville express their sincere thanks and appreciation to Winifred J. Brunckhorst Nybroten, her husband Norman Nybroten and their families, for their service and devotion to the University of Wisconsin and for

this most generous gift which will be used to benefit countless students in the important field of education.

#### **e. Committee Business**

##### **(1) Approval of the Minutes of the April 4, 2002 Meeting**

Upon the consensus of the Committee, the minutes of the April 4, 2002, meeting of the Business and Finance Committee were approved as presented.

##### **(2) Quarterly Gifts, Grants and Contracts**

Vice President Debbie Durcan reported gifts, grants and contracts awarded to the institutions of the UW System for the nine-month period ended March 31, 2002. Total gifts, grants and contracts for this period were \$707.3 million, an increase of \$30.9 million from the comparable period of the previous fiscal year. Federal awards increased \$55.7 million while non-Federal awards decreased \$24.8 million. Compared to the previous fiscal year, Federal awards increased significantly in research (\$38.6 million), and the categories with the most significant decreases were physical plant (\$2.1 million). The decrease in Federal awards for student aid is due to timing differences in the reporting from last year to this year. Due to these and other factors, it may be more useful to pay particular attention to the annual report, and not focus too much on fluctuations in the quarterly reports.

##### **(3) Process for Reporting Bequests**

Assistant Trust Officer Hoerr stated that prior to September 1997, virtually each individual bequest coming to the UW System Trust Funds was presented to the Regent Business and Finance Committee for formal acceptance. This acceptance involved a formal resolution by the Committee. For reasons unknown, this practice was discontinued after September 1997. Also, other than through the publications of the "Annual Report of Trust Fund Operations" and the "UW System Annual Financial Report," there is currently no formal reporting to the Committee regarding Trust Funds' gift income.

The following actions and policies are recommended to improve upon Regent reporting on Trust Funds and upon donor recognition:

- Include with the quarterly reporting of Gifts, Grants and Contracts, a quarterly report of Trust Funds' gift income, categorizing the gifts as to source, gift type, and expected use.
- Going forward, bring to the Committee individually, those bequests expected to exceed \$50,000 so that they can be formally accepted and recognized by the President, Board, and appropriate Chancellor if to a specific campus. The resolution of acceptance and recognition will then be conveyed to the donor or the donor's family.
- As catch-up for bequests in excess of \$50,000 taken in by Trust Funds since September 1997, adopt resolutions of acceptance and recognition at the June Board of Regents meeting.

Regent Axtell asked whether donors receive reports on the use of their donated dollars. Assistant Trust Officer Hoerr noted that this is available to donors upon request, and that such reports are then sent out annually. Regent Axtell noted that including this fact as part of the Trust Funds' written policy for reporting bequests be considered.

Regent Gottschalk encouraged the UW System Trust Funds office to contact the Foundation affiliated with the appropriate campus to notify them of a gift to the UW System Trust Funds.

**(4) UW-Madison Quarterly Report on LTEs Converted to Classified Service Positions**

John Torphy, Vice Chancellor, UW-Madison stated that Wisconsin Act 16 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 LTE positions to permanent classified GPR, 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. As of March 31, 2002, UW-Madison identified 27.77 FTE long-term LTE positions that qualify for conversion to permanent classified status under this provision. The quarterly report on LTE conversions will be filed in conjunction with the quarterly position control report for the UW System, subject to the Board's approval. This program will give employees who should be entitled to long-term benefits the option to become classified and receive those benefits.

Regent Axtell noted that this is a two-year pilot program, and asked what will be the additional cost of the program. Vice Chancellor Torphy noted that for the first year of the program, UW-Madison will absorb fringe benefits, but, after that time, they will get incorporated into the regular pay plan system. Also, he noted that most of these positions are entry-level jobs.

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

**Resolution I.2.e.(4)**

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

**(5) UW-Eau Claire Food Service Contract**

Upon the motion of Regent Axtell, and the second of Regent Jones, the Committee approved Resolution I.2.e.(5).

**Resolution I.2.e.(5)**

That upon the recommendation of the President of the University of Wisconsin System and the Chancellor of the University of Wisconsin–Eau Claire, the Board of Regents approves the contractual agreement with Sodexo Campus Services to provide dining Services at the University of Wisconsin–Eau Claire.

**f. Report of the Vice President**

Vice President Durcan asked Senior Vice President David Olien to comment on the recent legislative hearing on the early retirement proposal. Senior Vice President Olien noted the features of the proposed program. He stated that the Employee Trust Funds Board has expressed concern regarding the proposed early retirement window. Although this program may not be approved this year, it may be revisited next year. The UW System Office of Human Resources estimates that nearly one-half the faculty, over one-fourth the academic staff, and over one-third the classified staff of UW System would be eligible.

Senior Vice President Olien stated that the UW System would be exempt from the lapsing of position and salary savings under the proposed program, and that the window period is compatible with the faculty and academic staff contract year. While savings would result from fringe benefit contributions if faculty and staff decided to return as re-employed annuitants under current law, the assumption that almost all faculty and staff would return is highly questionable.

Senior Vice President Olien noted that it is difficult to predict the cost and savings impact of the program due to the unpredictability of the number of employees that may retire. The UW System would potentially lose faculty expertise and institutional memory. The fiscal year 2002-03 payout for unused leave credits would be adversely affected.

Vice President Durcan noted that the UW System had hoped to participate in a discount program with United Airlines being negotiated by the Big 10 travel managers group, but contract negotiations have been stalled. The UW System has been working with the Big 10 on travel related contract discounts for lodging and car rental for many years.

She went on to state that at their March meeting, the Governmental Accounting Standards Board (GASB) reviewed the responses to their exposure draft on affiliated organizations. This would require the inclusion of most private foundations in the financial statements of universities. It does not appear that GASB will be making any modifications to the draft. The UW System is waiting for the final standard before taking any action regarding this change.

Vice President Durcan pointed out that there were articles in two higher education business journals announcing that UW-Stout won the Baldrige Award. These journals were the February University Business Magazine and the April NACUBO Business Officer.

**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 4:25 p.m. Present were Regents Gottschalk, Axtell and Krutsch.

The Business and Finance Committee adjourned at 4:40 p.m.



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Eric Engbloom, Recording Secretary