

Minutes
Business and Finance Committee
Board of Regents of the University of Wisconsin System
April 10, 2003

The Business and Finance Committee met at 3:05 p.m. in room 1920 Van Hise Hall. Present were Regents Olivieri, Walsh, Davis and Jones. Regent Smith was also present.

a. Approval of Minutes of March 6, 2003 meeting of the Business and Finance Committee

Upon the motion of Regent Davis, and the second of Regent Walsh, the minutes of the March 6, 2003, meeting of the Business and Finance Committee were approved as presented.

b. Discussion: All-Regents Sessions

The Committee discussed the annual budget approval process, and the role of the Board in approving budget reductions. The Regents noted that they would like to be provided with campus reduction plans as soon as possible, and well in advance of the June meeting if possible. The Board needs to understand the impact of the budget cuts, and that reductions have been made in accordance with the principles adopted by the Board. Acting Associate Vice President Freda Harris stated that the Board will vote on the 2003-04 budget in July.

c. 2003-04 Annual Budget Decision Rules

Acting Associate Vice President Harris stated that these decision rules represent the start of the annual budget process that will culminate in the Board of Regent's action on the UW System's annual budget at the July meeting. These decision rules are the principles that will be used to allocate new funding and budget reductions to the institutions once the Legislature completes budget action. These decision rules are based on the Governor's recommendations for the next biennium. These rules are only preliminary because it is likely that the final Legislative budget will include some changes. Changes of substance will be brought back as part of the Board's annual budget action. Items not funded until the second year of the biennium are not allocated, and will be brought forward in next year's decision rules.

Ms. Harris noted that there is very little funding to be distributed this year. The redistribution of existing base GPR and increased financial aid funds for the Lawton Undergraduate Minority Retention Grant (LUMRG) and Advanced Opportunity Program (AOP) will be distributed based on each institution's proportion of a three-year rolling average headcount of students of color. The distribution of funding for utilities will be based on 2001-02 actual expenditures. The student technology fee increased funding will be allocated in proportion to the 2002-03 combined academic year and summer session fee budgets excluding the student technology fee. Assuming that the Governor's budget recommendation will be accepted with the tuition offset, as it currently stands, a net \$60 million base reduction will be distributed based upon each institution's share of the UW System's 2002-03 GPR/Fee budget excluding debt service, utilities, financial aid and UW-Extension credit programs. A second distribution has been prepared in the event that the tuition offset is not available.

Acting Associate Vice President Harris stated that the Governor's budget recommendation included a \$110 million GPR cut to the UW System that could be offset by up to \$50 million of tuition revenue, leaving a net reduction of \$60 million in 2003-04. In 2004-05, the GPR reduction in the Governor's recommendation is \$140 million that can be offset by \$100 million of tuition revenue, leaving a net reduction to the budget of \$40 million. That being the case, the 2003-04 budget reduction with the tuition offset is being viewed as a \$40 million base cut with a \$20 million one time reduction. The tuition revenue is being generated by a \$250 per semester increase at the UW Colleges and comprehensive institutions, and a \$350 per semester increase at UW-Madison and UW-Milwaukee. The differential

tuition is consistent with the Board of Regent's policy goal of bringing institutional tuition closer to their peer medians. Currently, the comprehensives are \$858 below their peers, UW-Madison is \$1,086 below its peers, and UW-Milwaukee is \$1,317 below its peers.

Acting Associate Vice President Harris commented that the dollar differential of tuition increases is consistent with previous UW System increases. Historically, tuition percentage increases have been the same at all UW System institutions with the exception of years when UW-Madison and UW-Milwaukee had differential tuition programs and when the student technology fee was implemented. In 2002-03, UW System tuition increased by 8% across all institutions with UW-Madison students receiving a \$286 annual increase, UW-Milwaukee students receiving a \$276 increase and UW comprehensive institution students receiving a \$224 tuition increase. During that year, funding for initiatives ranged from \$70,062 at UW-Superior to \$4,335,400 at UW-Madison. The uniform percentage increases occurred partly due to a legislative cap of 8% that did not allow UW-Madison and UW-Milwaukee to implement a differential tuition increase of 2.1%, as planned, to support their initiatives. However, students still contributed towards initiatives that differentially impacted their campus because the UW System has tried to keep tuition increases reasonably consistent and minimize the complexity of fee setting. Distributing the tuition increases in this manner means that, while an institution might gain in one particular year, they could lose in another year. This method generally balances out over time, with the students being the biggest beneficiary.

Rick Wells, Chancellor, UW-Oshkosh, noted that the student body voted to approve a differential tuition program, and the budget cuts will put UW-Oshkosh in a particularly difficult situation. Chancellor Wells commented that a memo from the UW-Oshkosh student government was sent to President Lyall stating these concerns. Acting Associate Vice President Harris noted that this memo was shared with the Legislative Fiscal Bureau. Regent Olivieri and Regent Davis noted that differential tuition programs are encouraged by the Board of Regents, and the UW-Oshkosh program should be supported to go forward. Regent Jones stated that this issue has affected multiple campuses within the UW System, and asked that the Board receive a copy of the memo sent from UW-Oshkosh.

Ms. Harris noted that there are many reasons why items such as enrollment growth plans are not taken into consideration when distributing this year's budget reductions. Enrollment plans are not being substantially changed at this point, and a proportional distribution of budget cuts will not negatively affect institutions this year. Institutions have been working from an across the board plan since last November. Campuses had been preparing based on this method, and will submit their plans by the end of the April budget submission date. Changes in allocations provided at the end of February or early March with substantially different numbers would have been difficult to manage under the current structure. A differential budget allocation needs to consider many factors such as institutional mission, program array, economies of scale, UW System priorities for research, public service and instruction, and the UW System's goal for total enrollment. These items can not be decided in a two month period of time.

Regent Olivieri noted that the cuts are very significant. However, Regent Olivieri expressed concern that, at the UW System level, the reductions are being distributed across the board, rather than on a differential basis among institutions to meet systemwide goals. Regent Olivieri requested that a differential method for distributing the cuts be prepared by the UW System staff for the Committee's consideration. Ms. Harris stated that over the past two years the UW System has dealt with the implementation and modification of the 2001-03 budget, the submission of the 2003-05 budget, Building our Resource Base, Engaging Wisconsin, and now a second revision to 2002-03 budget cuts, while trying to minimize reductions in 2003-05. In addition, the enrollment targets for the UW System have been changed every year since the year prior to the implementation of Enrollment Management 21 (EM21). Changes to how the UW System allocates funding should be very carefully considered so that it fits within the UW System's goals, priorities, and decisions about the appropriate array of future programs and enrollments.

Acting Associate Vice President Harris stated that the budget reduction plans are being made on an across the board basis for the current year, with the provision that allocation methodologies for new initiatives may be modified in 2004-05 if a year's experience provides more appropriate criteria. Also,

one-time reduction opportunities should be considered in the short term to give Chancellors and Provosts time to plan more permanent modifications including changes to program array.

Ms. Harris commented that the budget rules call for reductions that first target administrative expenses that are least related to serving students. Institutions should consider eliminating or merging academic programs and majors that have low enrollments or are similar to programs elsewhere in the UW System. Eliminations should be coordinated across the System so that the same majors are not simultaneously removed everywhere. Minority and Disadvantaged Programs and the 2001-03 Economic Stimulus Package should receive no more than a proportional share of reductions in budget cuts.

Regent Walsh asked if there are any particular campuses that have brought forward concerns about allocating budget cuts using an across the board methodology. UW-River Falls Chancellor Ann Lydecker stated that UW-River Falls had been planning for many months for a cut based on its portion of the total GPR/Fee budget. UW-Oshkosh Chancellor Wells stated that several Chancellors have come to a consensus that, over the coming summer, there needs to be a comprehensive review of how base dollars are distributed and how tuition dollars are pooled. However, with one exception, the broad agreement among the Chancellors is that the current reduction needs to be taken across the board. Ms. Harris stated that one institution has expressed concern that the additional \$100 in tuition to be collected by the doctoral institutions goes into the GPR/Fee pool, and is not specifically targeted to stay at the doctoral institutions. UW-Madison Vice Chancellor John Torphy commented that the UW System has always pooled tuition resources, and that any decision to de-pool should be taken only after a careful review of the ramifications. Regent Davis stated an agreement, at this point, with the current method of distributing the budget cut, however, alternative approaches to distributing future cuts should be considered.

Upon the motion of Regent Jones, and the second of Regent Davis, 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 2003-04 annual budget allocation decision rules. If subsequent legislative action modifies either the first year funding increases or reductions noted in the rules, the UW System would distribute the changes according to the principles set forth in Sections I and III.

d. Trust Funds

(1) NACUBO Endowment Study

Assistant Trust Officer Doug Hoerr stated that, with total assets of \$284 million at fiscal year-end 2002, UW System Trust Funds ranked 154th in size among the 654 reporting institutions. (The average of endowment assets of reporting public institutions was \$287 million.)

Mr. Hoerr noted that, although noticeably lower in its allocation to alternative asset classes, investment performance of the Trust Funds, for the most recent fiscal year and longer term, has been essentially equal to peer medians.

Mr. Hoerr commented that the largest public institution endowment is the University of Texas System (\$8.6 billion) and the largest private institution endowment is Harvard (\$17.2 billion). The average endowment assets per full time employee (FTE) student for public institutions is \$12,430. The average endowment assets per FTE for private institutions is \$152,420. The UW System Trust Funds had assets of \$6,835 per FTE student as of June 30, 2002. This is for UW-Madison only, since over 90% of Trust Funds' assets belong to this campus. Including Madison's UW Foundation assets, assets per FTE student rise to \$34,081.

Assistant Trust Officer Hoerr noted that investment-related fees for fiscal year 2002, at 0.45% of assets, were in line with the peer group average. In comparison, the UW Foundation, with assets at

approximately \$1.2 billion, reported investment management fees of 0.35% of assets for their year ending December 31, 2001.

Mr. Hoerr stated that for all reporting institutions, only 15% of assets are managed internally versus 85% externally. However, the range includes an average of 22% internally managed for endowments greater than \$1 billion, to only 6% internally managed for those between \$100 and \$500 million. UW Trust Funds currently invest roughly 3.6% of total assets “internally” through the UW-Madison Applied Securities Analysis Program.

Assistant Trust Officer Hoerr commented that, on average, institutions have ten members on their investment committee and two individuals on staff whose primary responsibility is investment management. Institutions with endowments of \$500 million to \$1 billion had staffs ranging from one to thirteen, and for those with \$100 to \$500 million, the range was one to four. UW Trust Funds has two individuals devoted primarily to investment management, and the investment oversight committee consists of four members. Overall, 75% of reporting institutions employ an outside consultant for investment management guidance. UW Trust Funds does not employ outside consultants.

Mr. Hoerr noted that the average annual spending rate for all institutions for fiscal year 2002 was 5.3%. Endowments with assets greater than \$1 billion reported a lower average spending rate of 4.7%, while those with assets between \$100 and \$500 million reported an average of 5.1%. Smaller endowments reported even higher rates. Trust Funds employed a spending rate of 5.0% for fiscal year 2002. This rate will be reduced to 4.5% beginning in fiscal year 2004. Approximately 84% of reporting endowments use an annual spending rate that represents a pre-specified percentage of the moving average of their endowment market values.

Assistant Trust Officer Hoerr stated that the 2002 National Association of College and University Business Officers (NACUBO) Endowment Study shows that most (73%) of reporting institutions do not consider social responsibility criteria as part of their investment management policies. Eight percent of public institutions consider social responsibility criteria, while 22% of private institutions consider social responsibility. The UW System Trust Funds considers social responsibility criteria in voting shareholder proxy proposals and seeks student and public comment, but does not actively screen investments in this regard.

e. Committee Business

(1) Trends in Federal and Non-federal Gifts, Grants, and Contracts

Vice President Debbie Durcan stated that as part of the Board’s Building our Resource Base Study, institutions were encouraged to increase federal and private fund raising efforts. She highlighted the total amount of gifts, grants, and contracts awarded to UW System institutions other than UW-Madison, UW-Milwaukee and UW-Extension’s public broadcasting operations in each of the last six fiscal years. The total amount awarded has increased from \$87.6 million in 1996-97 to \$138.0 million in 2001-2002, an increase of \$50.4 million.

The Committee discussed the federal and private fund raising campaigns, noting that this is a fairly new endeavor for most institutions. Institutions should strive to continue to improve in this area. As part of the long range study, since this is a resource issue, the Committee discussed whether fund raising goals should be established, and which institutions should make up the appropriate peer groups.

Ms. Durcan noted a comparison of UW-Milwaukee and its peer institutions based upon revenues from federal grants and contracts and private gifts, grants, and contracts as reported for 2000-01 (the latest year available). UW-Milwaukee ranked 7th out of 13 in federal revenues and 10th out of 13 in private revenues that year. She compared the UW System’s comprehensive institutions’ average to their peer institutions based upon revenues from federal grants and contracts and private gifts, grants, and contracts as reported for 2000-01 (the latest year available). The average of the UW comprehensive institutions ranked 22nd out of 35 in federal revenues and 27th out of 35 in private revenues that year.

f. Report of the Vice President

Vice President Durcan stated that the Joint Finance Committee did not approve the budget lapse plan that was submitted by the UW System. Instead, the Joint Finance Committee deleted \$19,700 in budget cuts to the Veterinary Diagnostic Lab and \$341,000 in budget cuts to institutions' instruction funding, and added \$361,000 in budget cuts to UW System Administration. Also, a request has been filed with the Joint Finance Committee to fund a \$10.7 million utilities shortfall, \$8.1 million of which should be funded with GPR dollars.

Ms. Durcan noted that the Legislative Audit Bureau has completed the A-133 audit of federal programs. The audit questioned only \$92,000 in costs, or .01% of the total. The Legislative Audit Bureau is continuing their UW System administrative review, and is now analyzing the use of outside consultants.

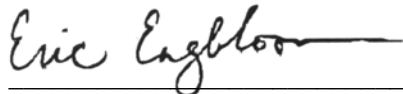
g. Additional items which may be presented to the Committee with its approval

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 Davis, and the second of Regent Walsh, the Business and Finance Committee adjourned to Closed Session at 4:45 p.m. Present were Regents Walsh, Davis and Jones.

The Business and Finance Committee adjourned at 5:03 p.m.



Eric Engbloom, Recording Secretary