

Minutes
Business and Finance Committee
Board of Regents of the University of Wisconsin System
February 6, 2003

The Business and Finance Committee met at 2:04 p.m. in room 1920 Van Hise Hall. Present were Regents Olivieri, Walsh, Davis and Jones. Regent Smith was also present.

a. Approval of the Minutes of the December 5, 2002 Meeting

Upon the motion of Regent Jones, and the second of Regent Davis, the minutes of the December 5, 2002, meeting of the Business and Finance Committee were approved as presented.

b. Annual Financial Report

Regent Olivieri noted that this year's annual financial report was prepared in accordance with new Governmental Accounting Standards Board (GASB) reporting standards, and reading the report is a good way for new Board members to prepare for their service to the UW System.

Doug Hendrix, Associate Vice President for Financial Administration, UW System, noted that these statements are the first prepared in accordance with the newly effective GASB Statement 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*. The accompanying Notes to the Financial Statements are an integral part of the financial statements, including both disclosures required by Generally Accepted Accounting Principles (GAAP) and explanations intended to aid the reader in understanding the statements. In addition, as required by GASB Statement 35, the Annual Financial Report also includes a new "Management Discussion and Analysis" (MD&A) section this year that is intended to provide an objective and easily readable analysis of the UW System's financial activities. The report can be found on the UW System web site.

Mr. Hendrix outlined some of the major changes to the statements this year: annual depreciation expense and accumulated depreciation are reported for the first time; tuition is reported net of remissions and scholarship allowance; state appropriations are reported "below the line" as "non-operating revenue"; summer session revenues and expenses are accrued as of June 30th rather than being reported in the fiscal year beginning the following July 1st; and certain general obligation debt issued by the State of Wisconsin, on behalf of the UW System, is no longer reported as debt of the UW System nor is the debt service reported on the operating statement.

Regent Walsh asked why the report is presented at the February meeting if the fiscal year ends on June 30 of the prior year. Mr. Hendrix noted that the state holds the books open until mid August. Also the report is done off system, and the UW System Financial Administration office is dependant on each campus to provide information that is used to compile the report. The report is completed by November 1, and the Legislative Audit Bureau completes their audit of the financial statements by January.

Dwan Schuck, Director of Financial Reporting, UW System, introduced the statements of the financial report, and referred to the corresponding note which relates to each statement. The statement of net assets is a financial condition snapshot as of June 30, 2002. It is based on the accrual basis of accounting where revenue and expense recognition are recorded when goods or services are received despite when payment occurs. Current assets are available to satisfy current liabilities, and current liabilities are those which require payment within one year. The difference between the total assets and total liabilities is considered the net assets.

Ms. Schuck summarized the importance of the classification of net assets, including restricted – nonexpendable, restricted – expendable and unrestricted assets. Regent Davis asked for an example of an unrestricted asset. Ms. Schuck noted that a large portion of unrestricted assets are endowment fund assets, meaning the external donor did not specify a specific purpose for the funds. However, for many of these endowment funds, the Board of Regents designates an educational purpose, and requires that the principal should be preserved for this purpose.

Regent Jones thanked the UW System staff for their hard work in compiling the report. Ms. Schuck directed special recognition to Ralph Thiede, an experienced accountant in the Office of Financial Administration, and noted that Mr. Thiede did a superior job in preparing the financial report.

c. Program Review of Stewardship of Art, Science, and Special Library Collections

Ron Yates, Director, Office of Operations Review and Audit, UW System, stated that this review was performed to ensure that proper policies and procedures were in place to manage and protect collections owned, borrowed, and loaned by UW institutions. The review covered a variety of collections, including artwork, historical documents, maps and rare books, natural history collections, anthropology collections, and digital collections. Examples of these collections include UW-Madison's Elvehjem Museum of Art, which holds the largest art collection in the UW System; UW-Milwaukee's American Geographical Society collection, which includes a rare map of the world from 1452; UW-Green Bay's natural history collection, which includes the tenth largest egg set in North America; and UW-Superior's collection of ship records, charts, and maps.

Mr. Yates noted a number of recommendations for improving the UW System's management of collections and artwork. Institutional collections managers should consult with campus security and risk managers, consider applying Association of College and Research Libraries security guidelines, and review efforts to screen and train collections employees. UW departments should fully document and record the value of collections objects to help assure compensation in the event of loss, and should review their procedures to assure the proper reporting process is followed. The UW System Office of Safety and Loss Prevention should work to identify cost-effective approaches for insuring collections. Regent Policy Document 73-15, pertaining to disposal of artwork, should be revised to improve administrative flexibility. Finally, UW System should encourage institutions to meet accreditation requirements, which help to ensure that collections meet high standards of care.

While collections preservation must be balanced against other institutional priorities, care is needed to preserve the collections for future generations. The necessary investment of resources would need to be evaluated in relation to the likely benefits, such as increased financial support for collections, increased public outreach, or enhanced educational opportunities.

The Committee agreed to table the resolution in support of the report's recommendations to a later meeting. The cost of the review's recommendations needs further study, and the financial impact of the recommendations should be more clearly defined.

d. Trust Funds

(1) Annual Report

Regent Olivieri noted that the UW System endowment funds met most Trust Funds investment performance benchmarks. Assistant Trust Officer Doug Hoerr commented that the Trust Funds office hopes that endowment performance will improve with the addition of new asset classes and improved diversification. Mr. Hoerr also noted that total expenses as a percentage of assets are very low (.65%). With respect to the request for proposal (RFP) to select new investment managers, the Trust Funds office expects to receive at least 100 responses.

Regent Davis asked whether the UW System is receiving responses to the RFP from a diverse set of managers, whether the UW System factors diversity into the recruitment process, and whether the Committee will be updated on this throughout the manager search. Ruth Anderson, Director, UW System Office of Procurement, noted that there is a vendor list of minority businesses, and the RFP was sent out to vendors on the list. In addition, if a minority business submits a competing proposal, there is an additional 5% in points awarded to that proposal. The Committee will be updated at future meetings on the progress of the manager search.

(2) Bequests over \$50,000

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

Resolution I.2.d.(2)

That, upon the recommendation of the President of the University of Wisconsin System and the Chancellors of the benefiting University of Wisconsin institutions, the bequests detailed on the attached list be accepted for the purposes designated by the donors, or, where unrestricted by the donors, by the benefiting institution, and that the Trust Officer or Assistant Trust Officers be authorized to sign receipts and do all things necessary to effect the transfers for the benefit of the University of Wisconsin. Let it be herewith further resolved, that the President and Board of Regents of the University of Wisconsin System, the Chancellors of the benefiting University of Wisconsin institutions, and the Deans and Chairs of the benefiting Colleges and Departments express their sincere thanks and appreciation to the donors and their families for their tremendous generosity and devotion to the values and ideals represented by the University of Wisconsin System. These gifts will be used to sustain and further the quality and scholarship of the University and its students.

(3) Request to Expend Principal of Louis C. Smith Bequest

Colleen Cummins, Administrative Officer, UW-Madison School of Nursing, noted that the School of Nursing has a critical need for the Louis C. Smith bequest, which will be used for the furnishing of expanded student service and academic advising areas.

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

Resolution I.2.d.(3)

That, upon recommendation of the President of the University of Wisconsin System and the Dean of the University of Wisconsin-Madison School of Nursing, the principal and income balance of the Louise C. Smith bequest become available for spending.

e. Federal Relations Update

Kris Andrews, Federal Relations Coordinator, UW System, noted that since the last update, the Republican Party took control of the Senate, gained seats in the House of Representatives to retain the majority, and obtained half of the nation's governorships. The unprecedented Republican Party victory has had a significant effect on the federal committee structure, especially in the Senate.

Ms. Andrews stated that Wisconsin has members of Congress who are well-positioned and are guaranteed considerable influence in the final spending decisions. Congressman Obey will continue to serve as the powerful Vice Chairman of the House Appropriations Committee and on the Subcommittee on Labor, Health and Human Services, and Education. Senator Kohl continues to serve on the powerful Senate Appropriations Committee, and is a ranking member on the Subcommittee on Agriculture and Rural Development.

Federal Relations Coordinator Andrews commented that Congress still has eleven unfinished fiscal year 2003 appropriations bills. However, appropriators hope to complete negotiations on the omnibus spending legislation by next week.

Ms. Andrews noted that President Bush recently submitted his fiscal year 2004 budget plan to Congress. The Bush Administration identified winning the war against terrorism, securing the homeland and generating long-term economic growth as national priorities. The President's budget calls for overall spending of \$2.23 trillion in fiscal year 2004, an increase of 4% (about half the rate Congress has approved in recent years). Discretionary budget authority would also rise by 4%, with most allocated to defense and homeland security. The budget also calls for \$1.46 trillion in new tax cuts over the next ten years, with a call to make permanent the provisions of the 2001 tax bill. The President's budget projects a deficit of \$307 billion for the current year, and no likely surpluses in the next five years.

Federal Relations Coordinator Andrews stated that Congressional leadership has said that they plan to finalize the budget and reconciliation by Memorial Day. With economic recovery still sluggish and the dual prospects of war in Iraq and terrorism at home weighing on business and consumer confidence, no one believes the "rosy scenario" of the Administration's growth forecasts for future years. There is concern, even among Republicans, of how much of a tax cut can be justified to stimulate growth with these kinds of deficits. Senate leaders predict the Senate will scale back the President's proposed tax cut to reign in the projected short-term deficits. There also appears to be little hope for significant increases in any of the higher education programs or funding proposed for the National Institutes of Health (NIH) and the National Science Foundation (NSF).

Ms. Andrews noted portions of the President's fiscal year 2004 requests which have particular importance to higher education. The President is proposing an overall increase for research and development of 7%. The budget would increase funding for basic research across the agencies by 5%, and would increase government-wide funding for applied research by 2%. The President proposed \$14.6 billion for federal student assistance accounts, a 14% increase over the fiscal year 2003 budget request. The budget would provide \$12.7 for the Pell Grant program, an increase of \$1.9 billion. This would level-fund the program at \$10.8 billion, and use the additional \$1.9 billion to help cover the program's shortfall. The maximum Pell award would remain at \$4,000. Federal Work Study and Perkins Loans would all be level-funded. The President's budget would level-fund the TRIO program, which provides federal funds to help minority, disadvantaged and first-generation students select and pursue post-secondary education, at \$802.5 million. This would serve an estimated 872,000 disadvantaged students in fiscal year 2004.

Federal Relations Coordinator Andrews commented that the President has proposed a \$499 million increase for NIH, bringing total funding to \$27.9 billion. NIH research will rise by 7.5%, and the number of new grants will rise as well. However, a significant amount of this increased funding is targeted to bioterrorism and similar homeland security research. The budget request is \$5.5 billion for NSF, an increase of 9% above the fiscal year 2003 request. This is low compared with the authorized level of \$6.4 billion approved by Congress and signed into law in December 2002.

Ms. Andrews stated that federal relations activities have centered on developing the set of recommendations the UW System submitted to Congress in preparation for the process to reauthorize the Higher Education Act. The recommendations were developed by a task force comprised of members from nearly every UW System campus and UW-Extension. The UW System also met with U.S. Representatives Thomas Petri and Ron Kind, of Wisconsin, both members of the Committee on Education and the Workforce.

Federal Relations Coordinator Andrews noted that one of the main recommendations calls for amending federal law to allow each two-year UW Colleges campus to receive funding through TRIO. Current interpretation of federal law considers the UW Colleges as one institution, even though it has 13 campuses, because it has a single chancellor and centralized financial aid processing. This means the UW Colleges receives only one TRIO grant and only 27 percent of eligible students get funding from the program.

Ms. Andrews commented that the Education Commission of the States recognized Wisconsin as the only state with a three-year plan for putting "highly qualified" teachers in every classroom. Wisconsin's success can be attributed to the strong partnerships between our universities and colleges (public, private and technical) and PK-12 schools. As a result, the UW System urged Congress to require,

not just recommend, partnerships between colleges, universities and K-12 schools to improve teacher quality.

Federal Relations Coordinator Andrews stated that another recommendation called for a partnership between the U.S. Department of Education, Department of Defense and Wisconsin Academic Advanced Distributed Learning (ADL) Co-Lab in developing national online learning standards. The UW System also recommended using the UW System as a national model in terms of how the university holds itself accountable each year to students, alumni and the state, based on the excellent performance of our institutions. The UW System has asked the Committee to hold a field hearing in Wisconsin focused on the issue of accountability.

Regent Jones asked whether the Wisconsin Congressional Delegation is sent a copy of this report, and whether the Wisconsin Congressional Delegation will be able to share this information at future accountability field hearings. Ms. Andrews noted that the report is given to the Wisconsin Congressional Delegation, and that, with the strong presence of U.S. Representatives Petri and Kind, chances are good that Wisconsin will be well represented.

Regent Olivieri noted that the Board of Regents should be notified in the future if there are federal relations issues, such as the Higher Education Reauthorization Act, where the Board could be of assistance. Regent Olivieri asked how the success of federal relations is measured, and whether this could be reported on at future Committee meetings. Ms. Andrews noted that success is measured by the value that the Wisconsin Congressional Delegation and UW System campuses feel they receive from the services that UW System provides.

f. Committee Business

(1) Corrected minutes from November 2002 Business and Finance Committee Meeting

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

(2) Quarterly Gifts, Grants, and Contracts Report

Vice President Debbie Durcan reported on the gifts, grants, and contracts awarded to the institutions of the UW System for the three-month period ended December 31, 2002. Total gifts, grants, and contracts for the period were \$578 million, an increase of \$66.0 million from the comparable period of the previous fiscal year. Federal awards increased \$14.2 million and non-Federal awards increased \$51.8 million. A majority of these awards were to the UW-Madison for Instruction, Research and Physical Plant. Vice President Durcan noted that, in the future, this report will be presented in a more meaningful way to better compare how the UW System is performing regarding gifts, grants, and contracts.

(3) UW-Stevens Point Food Service Contract Extension with Chartwells

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

Resolution I.2.f.(3)

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

g. Discussion: All Regents Sessions

(1) Higher Education Reauthorization Act

(2) Accountability Report

Regent Jones noted that the accountability report should be given to legislators, and the Board of Regents should encourage UW System campuses to address their local communities to get out the message that the UW System is a valuable resource for their community.

Regent Olivieri stated that the focus at this time should be on the governor's budget. The governor needs to understand that this budget will affect literally thousands of students, and will have an impact on their ability to attend college. The Board should work to minimize the budget's effect on enrollment.

Regent Davis noted that the budget is an ongoing, long-term reality. Regent Davis asked what process the Board has to facilitate a thoughtful discussion on the trade-offs of the various accountability indicators and priority setting, and whether this is a good topic to bring up at the Board's retreats. How does the Board of Regents have strategic conversations as a policy making body on the approach to maintaining UW System priorities, such as access, quality and affordability?

Vice President Durcan commented that now that the fiscal environment has changed, some Chancellors would like to come forward to discuss the budget's impact on their campus.

William Messner, Chancellor, UW Colleges, noted that UW Colleges has experienced exceptional enrollment growth. This past year, due to budget cuts, UW Colleges had to turn away approximately 1,000 students. The current environment is extremely difficult due to the combination of increased demand and decreased funding.

Kevin Reilly, Chancellor, UW-Extension, stated that budget cuts to the UW System have broad ranging affects that go beyond UW campuses. UW-Extension is a network of educational outreach programs that have multiple partnership agreements with county, state and federal government entities. Budget cuts have a great deteriorating impact on the network of local UW-Extension campuses, programs and contacts with the communities.

Charles Sorensen, Chancellor, UW-Stout, noted UW-Stout's full and growing enrollment. UW-Stout made a large investment in the laptop program to position UW-Stout as a digital campus of the 21st century. In response to the budget cuts, UW-Stout has frozen, cut, and delayed hiring positions; however, the goal is to make strategic cuts to preserve the core mission of the campus.

Regent Olivieri noted that, especially with UW Colleges, maintaining access is a top priority. The UW System and Board of Regents should debate whether "across the board" cuts or strategic cuts are the best way to address the budget situation.

h. Report of the Vice President

Vice President Durcan distributed a table showing a number of institutions from other states, including the California State System, University of Connecticut, University of Delaware, and Oregon State University, who have instituted a mid-year tuition increase.

Ms. Durcan commented on the UW System's attendance at the Joint Audit Committee meeting to discuss the upcoming review of administrative expenditures and staffing. This will be both a program and financial review, and the review may last throughout the summer. The UW System is encouraging peer comparisons to other university systems as a part of the review.

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

No additional items were presented to the Committee.

j. Closed session to consider trust fund matters as permitted by s.19.85(1)(e) *Wis. Stats.*

Upon the motion of Regent Jones, and the second of Regent Davis, the Business and Finance Committee adjourned to Closed Session at 3:55 p.m. Present were Regents Olivieri, Jones and Davis.

The Business and Finance Committee adjourned at 4:12 p.m.

Eric Engbloom, Recording Secretary