

Minutes
Business and Finance Committee
Board of Regents of the University of Wisconsin System
October 9, 2003

The Business and Finance Committee met at 2:29 p.m. in Room 307, Reeve Memorial Union, UW-Oshkosh. Present were Regents Bradley, Connolly-Keesler, Gottschalk and Rosenzweig. Regent Vice President Walsh was also present.

a. Approval of minutes of September 4, 2003 meeting of the Business and Finance Committee

Upon the motion of Regent Gottschalk, and the second of Regent Rosenzweig, the minutes of the September 4, 2003, meeting of the Business and Finance Committee were approved as presented.

b. Faculty and Academic Staff Pay Plan Recommendations

Katherine Lyall, President, UW System, stated that by law, after receiving pay plan recommendations from the Board of Regents, the Office of State Employment Relations (OSER) Director is required to submit to the legislature's Joint Committee on Employment Relations (JCOER) a proposal for adjusting compensation for faculty and academic staff.

President Lyall noted that she met with the systemwide Compensation Advisory Committee composed of faculty and academic staff representatives of each institution in August to review salary data from established peer groups and national reports. The committee also examined projections of several economic indicators obtained from the U.S. Bureau of Labor Statistics, Wisconsin Economic Outlook, and the Wisconsin Department of Revenue. In addition, the committee reviewed the results of a survey of peer institutions with respect to anticipated pay plans for faculty and staff at UW System peer institutions.

President Lyall noted that an overall assessment of salary data and economic indicators suggest university faculty entered the 2003-05 biennium four percent behind their peers. Moreover, it seems likely that faculty at UW peer institutions will receive at least two percent pay increases this year and next year. Therefore, a very conservative need assessment suggests four percent annual salary increases are needed if UW faculties are to attain peer market medians by the end of the current biennium.

President Lyall commented that, historically, it has been very difficult for Wisconsin to recover from a zero percent pay plan. Last biennium, the approved pay plan for faculty and academic staff was 3.2 percent in 2001-02 and 4.2 percent divided into two phases in 2002-03. All but one percent of that pay plan was funded by tuition. That funding source is not available for the 2003-05 biennium because tuition dollars have been fully allocated to offset part of the \$250 million base budget cut to the UW System. Therefore, no tuition dollars are available for faculty or academic staff salary increases.

Regent Vice President Walsh asked whether anyone has challenged the data upon which the four percent recommendation was based. President Lyall responded that no one has challenged the data. The peer groups and economic indicators used were negotiated and agreed upon with the Department of Administration (DOA), and should not be unilaterally changed without a renegotiation.

Regent Vice President Walsh noted that there may not be available funds in the compensation reserve to cover the 4 percent recommendation, and it is difficult to make a recommendation without knowing the amount of available funds. He noted that the Board should recognize that there are competing constituencies, and be sensitive in the wording of the resolution. The resolution should clearly state the Board's statutory responsibility to recommend this pay plan. President Lyall noted that the 4 percent recommendation is driven in part by data showing that the UW System is already 4 percent behind the peers. The resolution could be reworded to more clearly state that the Board analyzed real data based on competitive market factors.

Regent Bradley noted that many constituents believe that the Board decides faculty and academic staff pay. It should be made clear that the Board submits data to JCOER, and JCOER takes the Board's

recommendation under consideration when analyzing the pay plan and submitting their own recommendation.

Regent Rosenzweig noted that if the Board recommends a pay plan that is greater than the available funds in the compensation reserve, it raises the unwanted possibility of forcing campuses to make up for any shortfall. President Lyall stated that the language of the resolution should make it clear that the UW System does not have the resources to supplement any shortfall, and the available funds in the compensation reserve should be utilized up to the 4 percent recommendation.

Professor David Nack, Vice President of United Faculty and Academic Staff (UFAS), Local 223, noted that Local 223 represents faculty and academic staff employed by the UW-Madison and UW-Extension. The pay plan proposed by the UW System Administration cannot be separated from the broader question of the Regents' and senior administration's commitment to a properly funded public institution of higher learning.

Mr. Nack stated that the first steps toward achieving a fair pay plan are that the Board of Regents and the administration should: 1) lead a campaign to win public recognition of the importance of the UW System; and, 2) advocate progressive tax policies that will allow for proper funding of the University. Also, UFAS rejects the concept of the new proposal that would require payments for medical insurance. The UW System should lead the way in implementing cost effective medical coverage that starts from the assumption that medical care is a right – not a privilege. The proposed insurance payment requirement accepts as a given a system of escalating costs. More than one thousand faculty and academic staff of the UW System have signed petitions opposing the plan as laid out by System Administration.

Mr. Nack noted some important observations that would be especially relevant if the four percent wage increases do not materialize. Two years ago, System Administration recognized that many academic staff employees are being compensated as much as 15 percent below their peers. The pay plan as presented does nothing to deal with this situation. Also, across the board percentage increases only exacerbate the growing wage inequity present on our campuses. Finally, in the view of UFAS, merit pay is inherently unfair, and can never be administered equitably.

Regent Bradley asked Mr. Nack to elaborate on the UFAS recommendations regarding tax policy, and why UFAS believes merit pay is unfair. Mr. Nack responded that businesses and corporations are paying less in taxes, while the burden is being shifted to students. A detailed analysis is needed to determine a tax policy that will allow the UW System to be funded properly. Regarding merit pay, Mr. Nack noted that no standardized plan can be applied to the UW System, leaving a wide disparity in merit pay increases across campuses and departments.

Warren Johnson, Associate Professor of Biochemistry and Molecular Biology, UW-Green Bay, representing The Association of University of Wisconsin Professionals (TAUWP), noted that as tuition continues to rise at an alarming rate, UW System salaries fall further behind peer institutions. TAUWP is in favor of the UW System 4 percent pay plan recommendation. TAUWP is looking to the Board for leadership in championing the cause of UW System employees. TAUWP is also looking to the Board to take action on the regressive nature of employee health care costs, and over 1,000 faculty and staff have signed a petition opposing what amounts to a unilateral pay cut. Finally, faculty and academic staff have no effective representation in drafting proposals for the pay plan. TAUWP looks to the Board to support the 14 out of 15 faculty senates that have called for collective bargaining enabling legislation.

Upon the motion of Regent Vice President Walsh, and the second of Regent Gottschalk, the Committee approved Resolution I.2.b. as revised.

Resolution I.2.b. Revised

Whereas, pursuant to s.230.12(3)(e) *Wis. Stats.*, the Regents are charged with the responsibility to recommend to the Director, Office of State Employment Relations a proposal for adjusting compensation and employee benefits for university senior executives, faculty and academic staff for the 2003-05 biennium; and,

Whereas, the Director shall submit a proposal for same, which shall be based upon the competitive ability of the Board of Regents to recruit and retain qualified faculty and academic staff, data collected as to rates of pay for comparable work in other public services, universities and commercial and industrial establishments, recommendations of the Board of Regents and any special studies carried on as to the need for any changes in compensation and employee benefits to cover each year of the biennium; and,

Whereas, the Board of Regents has considered those factors and concluded that to recruit and retain faculty and academic staff a salary increase of four percent each year is needed; and,

Whereas, the UW System staff and the Board of Regents is cognizant of the difficulty of funding the needed pay plan in the current fiscal climate including lack of full funding in the compensation reserve and unavailability of tuition revenue sources or base budget reallocation capabilities.

Now, therefore;

Upon the recommendation of the UW System President, and pursuant to s. 230.12(3)(e) Wis. Stats., the Board of Regents directs the UW System President to notify the Governor and the Legislature that the UW System has identified a need for a four percent salary increase each year of the 2003-05 biennium for faculty, academic staff and university senior executives in order to obtain competitive market salaries by the end of the biennium. The Board directs the UW System President to transmit to the Director of the Office of State Employment Relations, currently available information on unclassified salaries for UW System peer institutions and related economic indices, and request that the Director recommend to the Joint Committee on Employment Relations a salary increase up to four percent each year to the full extent of funds available in the compensation reserve.

Further, the Board directs the UW System President to ask the Director of the Office of State Employment Relations to present the Board's pay plan recommendations to the Joint Committee on Employment Relations in sufficient time to allow faculty and academic staff to make their health insurance provider selections at least one week before expiration of the annual dual choice enrollment period.

Further, the Board of Regents directs the UW System President to recommend to the Director of the Office of State Employment Relations that:

Full-time UW System faculty, academic staff and university senior executives be asked to contribute to state group health insurance at the same levels that will be applied to all other state employees beginning with January 1, 2004 coverage;

Non-represented graduate assistants be asked to contribute to state group health insurance at the same levels that will be applied to represented graduate assistants;

Part-time UW System faculty, academic staff and university senior executives with at least a 50 percent appointment contract be asked to contribute to state group health insurance at the same levels that will be applied to full-time appointments beginning with January 1, 2004 coverage;

The UW System be authorized to increase the academic staff salary ranges by the full amount of the pay plan each year; and,

The salary ranges for university senior executive salary groups one (Vice Chancellors at non-doctoral institutions) and two (Vice Presidents) be adjusted to reflect the Board of Regents executive salary policy.

Further, the Board of Regents suspends its pay plan distribution guidelines for 2003-05 if the authorized amount for an unclassified pay plan is less than two percent in any year, and directs that in such instance the pay plan percentage be distributed across-the-board to all those who have at least a solid performance rating, with any unused funds distributed by the Chancellor in consultation with the governance bodies to address salary compression.

Further, the Board of Regents suspends the cash payment option for unused vacation earned by unclassified staff with 25 years of service under Regent Policy 98-6 until such time as funds are made available in the state budget, and amends Regent Policy 94-6 to allow unclassified staff with 25 years of service to place up to ten days of vacation in the annual leave reserve account.

c. Operations Review and Audit – A Best Practice Review of Policies and Procedures for Addressing Copyright Infringement Issues

Ron Yates, Director, Operations Review and Audit, noted that the Office reviewed UW policies and procedures for addressing copyright infringement issues because of increasing national concern about compliance with copyright law by institutions of higher education. In July of 2003, the Recording Industry Association of America (RIAA) filed over 200 lawsuits against individuals alleged to have downloaded music from the internet; however, none of the lawsuits were filed against institutions of higher education. He noted that the review found that significant copyright expertise exists within the UW System. Some UW institutions have formalized structures to carry out copyright functions, and copyright policies exist at the System and institutional level. Mr. Yates noted that overall, UW System institutions are making a good effort to comply with laws and regulations despite the rapidly changing legal environment.

d. Return to Wisconsin Pilot – First Reading

Vice President Debbie Durcan stated that over the course of the 2001-02 fiscal year, the Board of Regents considered a series of potential policy changes and actions intended to build and strengthen the University's resource base. Among the several dozen concepts considered was a program to offer discounted tuition to children of alumni who reside out of state. The UW System Administration proposes launching a pilot program at three institutions (UW-Eau Claire, UW-Oshkosh, and UW-La Crosse) beginning with the fall 2004 semester. Tuition rates for eligible individuals would be discounted to a rate equal to regular non-resident tuition less 25% but not less than the projected cost of student's education. The pilot would run three years after which the UW System Administration would evaluate its effectiveness and offer recommendations to the Board regarding whether the program should be made permanent, modified, or discontinued.

Regent Connolly-Keesler asked whether the legacy student must go to the actual school that the alumni attended or any school in the UW System. Vice President Durcan stated that under this plan, the legacy student must attend the actual school of the alumni, and that this plan is only a pilot involving the 3 participating campuses. Regent Bradley noted that this would preclude potential legacy students from benefiting if that student wanted to attend a different UW System school that fits better with his or her academic needs.

Jack Miller, Chancellor, UW-Whitewater, noted that UW-Whitewater would like to participate in the pilot. UW-Whitewater has a representative student demographic that would benefit the pilot program. Vice President Durcan noted that three campuses took the initiative to submit a proposal, and that the Board of Regents requested a pilot program. Therefore, the pilot was limited to the three campuses that submitted the proposal.

Regent Connolly-Keesler asked whether the UW System can handle administering a larger pilot. Vice President Durcan noted that it is up to each campus to administer the program locally. W. Bruce Shepard, Chancellor, UW-Green Bay, stated that the Committee touched on the real issue of whether to expand the program to allow legacy students to attend any UW System school or just the actual school the alumni attended. Darrell Bazzell, Vice Chancellor for Administration, UW-Madison, indicated that UW-Madison would not participate in the program due to the potentially significant economic impact.

Regent Vice President Walsh noted that the program is a good opportunity to introduce people to all the campuses of the UW System, and it would be a mistake not to expand it to all campuses.

Regent Bradley stated that the consensus of the Committee is for campuses to submit a proposal if they would like to participate in the pilot. The Committee will revisit this issue next month to see how large a pilot will be used.

e. UW-Oshkosh Presentation: Community Collaboration: A Market Profile of the University of Wisconsin-Oshkosh

Chancellor Richard Wells, UW-Oshkosh, noted the economic development strategies of UW-Oshkosh. The university's 55 undergraduate, 15 graduate, and many certificate and professional programs contribute to the workforce development effort to fill existing and future jobs in Wisconsin. Recent innovations include an accelerated on-line nursing degree program and a collaborative on-line MBA program. Current university business development programs include the Wisconsin Family Business Forum. With 34 members and five sponsors, the Forum assists some 400 entrepreneurs in dealing with issues unique to running a family business.

Chancellor Wells commented on UW-Oshkosh's overall economic impact on the State of Wisconsin. UW-Oshkosh has provided an important economic anchor for the communities in the region. The total economic contribution due to the presence of UW-Oshkosh in the region was over \$417 million in 2002. UW-Oshkosh was responsible for creating almost 7,600 jobs in the state, including 7,200 locally. UW-Oshkosh's presence generated nearly \$31 million in state and local tax revenue.

Chancellor Wells noted that the UW-Oshkosh and Center for Community Partnerships are working to help entrepreneurs and businesses develop markets and promote innovative solutions for the community through educational sessions, research, consulting, and special projects.

f. Trust Funds

(1) Report on 2003 Proxy Voting

Tom Reinders, Investment Portfolio Analyst, UW System, noted that the UW System Trust Funds actively participates in issues involving discrimination, the environment and social injury via proxy voting of shareholder proposals as addressed in Regent policy. The UW Trust Funds submitted voting instructions for 136 proposals (compared with 139, 50, and 38 proposals for the past three years) of which 84 came to votes.

Mr. Reinders noted that the leading categories of shareholder proposals for 2003 were the environment, with over 50 proposals, and global labor standards, with 27 proposals. The proxy season also stands out for the number of shareholder proposals on social issues that have received high support levels. The UW Trust Funds' proxy submissions for 2003 involved primarily issues related to poison pill reporting (32), global labor standards (13), and disclosure/review of executive compensation (12).

(2) Discretionary Trust Funds

Assistant Trust Officer Doug Hoerr noted that some gifts bequeathed to the UW System are fully discretionary at either the Board or UW System President level. While the total corpus of these funds now approximates \$3.1 million, it is Board policy to only spend income if greater than \$50,000, even if the donor would allow expenditure of the principal. These discretionary Trust Funds can be expected to generate roughly \$140,000 in annual income.

(3) Vilas Trust

Assistant Trust Officer Hoerr stated that the William F. Vilas Trust is the largest external trust for which the University of Wisconsin is a beneficiary. William F. Vilas was a graduate, professor of law, and a long-time Regent of the University of Wisconsin in the latter part of the 19th century and the early years of the 20th century. Through his will, Vilas created a trust which supported his immediate family until their deaths. The beneficiary of the considerable residual trust assets then became the University of Wisconsin (in 1961). It is estimated that since becoming the beneficiary of this Trust, the UW has received in excess of \$50 million in support over the past 40 years.

g. Committee Business

(1) Exclusive Pouring Rights Contract

Michael Hardiman, CPM, Director of Purchasing, UW-Madison, noted that this discussion was a follow-up to the prior Business and Finance Committee meeting. At that time, the Committee asked for additional information regarding the exclusive pouring rights contract. Mr. Hardiman noted that all Big Ten universities with pouring rights contracts have a 10-year relationship with the vendor. Mr. Hardiman noted that it is difficult to compare the value of the contract with peer institutions. A comparable Big Ten university's contract is valued at \$730,000 per year for the entire campus, and UW-Madison's contract is valued at \$575,000 per year, however it pertains only to UW-Madison Intercollegiate Athletics. UW-Madison makes up for more than the difference with the commissions received from vending, which are typically counted towards the total value of the contract.

Regent Vice President Walsh asked about the presentation of the contract and about several benefits to the vendor listed in the contract, including signage, athletic event suites and golf passes. Mr. Hardiman noted that these benefits are typical in other institution's exclusive beverage arrangements. Vince Sweeney, Associate Director, Intercollegiate Athletics, UW-Madison, noted that the vendor has guaranteed it will spend a minimum of the amounts agreed upon in the contract. Also, UW-Madison has not sold all the athletic event suites at this point, and most vendors do not guarantee this type of support in their contracts.

Upon the motion of Regent Vice President Walsh, and the second of Regent Gottschalk, the Committee approved Resolution I.2.g.(1).

Resolution I.2.g.(1)

That, upon recommendation of the President of the University of Wisconsin System and the Chancellor of the University of Wisconsin-Madison, the Board of Regents accepts the agreement with Coca-Cola Enterprises - Madison.

(2) Report on Non-traditional Students and Enrollments

Upon the motion of Regent Gottschalk, and the second of Regent Connolly-Keesler, the Committee approved Resolution I.2.g.(2).

Resolution I.2.g.(2)

That, upon recommendation of the President of the University of Wisconsin System, the Board of Regents accepts the report on Cost Recovery Activity, Credit Enrollment and Unduplicated Student Headcount by Program and Age, 2002-03 Academic Year for submission to the Joint Committee on Finance.

(3) Report on GPR Positions Created

Upon the motion of Regent Gottschalk, and the second of Regent Connolly-Keesler, the Committee approved Resolution I.2.g.(3).

Resolution I.2.g.(3)

That, upon the recommendation of the President of the University of Wisconsin System, the Report on 2002-03 Full-Time Equivalent Positions Created or Abolished Required by Section 16.505(2p)(a), Wisconsin Statutes, be accepted for transmittal to State Officials.

(4) Agreement with Triad Management Services, Inc.

Upon the motion of Regent Gottschalk, and the second of Regent Connolly-Keesler, the Committee approved Resolution I.2.g.(4).

Resolution I.2.g.(4)

That, upon recommendation of the President of the University of Wisconsin System and the Chancellor of the University of Wisconsin-Madison, the Board of Regents approves a new Academic Support Services Agreement with Triad Project Management Services, Incorporated.

h. Report of the Vice President

Vice President Durcan updated the Committee on the Legislative Audit Bureau (LAB) administrative audit of UW System. A draft of the report may not be available to the UW System until early December. LAB will be focusing on the definition of administration, starting with the UW System's more narrowly defined "institutional support," and then broadening it to include other items included in the federal indirect cost reimbursement calculation. The UW System foresees only a few actual recommendations coming out of the report. The UW System will work with LAB to try to coordinate the release of the report such that the Committee has an opportunity to respond to the report.

Vice President Durcan noted that an LAB letter was distributed to Regent President Marcovich and Regent Bradley outlining the scope of LAB's audit work on the UW System financial statements. The letter described what the audit entails, management responsibilities and other relevant issues.

Vice President Durcan commented that WiSys was established by the Wisconsin Alumni Research Foundation (WARF) to assist the non-Madison institutions in identifying, protecting and licensing technology. Funding for WiSys has been provided by draws on an interest bearing note. At the most recent WARF Board Meeting, the WARF Board provided a sum sufficient to pay off the note as part

of the annual UW-Madison grant. The UW System is very grateful to Chancellor Wiley and WARF Managing Director Carl Gulbrandsen for their support

Vice President Durcan stated that she sits on the College Savings Program Board on behalf of the Regent President. Until the New York Attorney General's investigation of Strong Funds, most meetings were focused on the growth in the program. Ms. Durcan noted the recent actions of the EdVest Board in response to allegations involving Strong Financial Corp.

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 Gottschalk, and the second of Regent Connolly-Keesler, the Business and Finance Committee adjourned to Closed Session at 5:05 p.m. Present were Regents Bradley, Connolly-Keesler, Gottschalk and Rosenzweig. Regent Vice President Walsh was also present.

The Business and Finance Committee adjourned at 5:35 p.m.


Eric Engbloom, Recording Secretary