Minutes  
Business and Finance Committee  
Board of Regents of the University of Wisconsin System  
December 9, 2004

The Business and Finance Committee met at 1:24 p.m. in room 1920 Van Hise Hall, UW-Madison. Present were Regents Bradley, Connolly-Keesler, Pruitt, Randall and Rosenzweig. Regent Vice President Walsh was also present.

a. Approval of Minutes of the November 4, 2004 meeting of the Business and Finance Committee

Upon the motion of Regent Connolly-Keesler, and the second of Regent Pruitt, the minutes of the November 4, 2004, meeting of the Business and Finance Committee were approved as presented.

b. Critical Nature of State Funded Infrastructure for Research

Chancellor Carlos Santiago, UW-Milwaukee, stated that UW-Milwaukee (UWM) is mandated by the Board of Regents to fulfill its responsibility as a public research institution. UWM is the second largest and one of only two public doctoral-granting research universities in Wisconsin.

Chancellor Santiago commented that UWM has a duty to the citizens of this state to disseminate knowledge through teaching, create knowledge through research, and transfer discoveries to the public and private sectors for the economic benefit of the state and Southeastern Wisconsin in particular. UWM is in a leading position to do this because Milwaukee is the economic heart of the state. For example, Milwaukee has:

- the largest concentration of Wisconsin’s population;
- the greatest portion of Wisconsin’s employment;
- the highest percentage of private employers;
- the biggest part of Wisconsin’s total payroll;
- the largest percentage of the state’s total reported income;
- the greatest concentration of Wisconsin’s manufacturing employment, employers and payroll; and,
- the greatest portion of Wisconsin’s high-tech employment.

Chancellor Santiago noted that it is not enough for a city to have a highly educated population. A city must also have a diverse economic infrastructure in order for per capita income to rise considerably. Milwaukee has a diverse economic infrastructure, but needs to support it with a growing educational enterprise.

Chancellor Santiago indicated that UWM’s basic strength lies in its quality of faculty and researchers. It is their intellect, creativity, and imagination that will propel the university forward. The job as chancellor of Milwaukee’s public research university, in part, is to identify areas of excellence in research, make strategic investments in those programs and leverage those strengths for the good of the region.

Chancellor Santiago stated that current research efforts include many programs. The Center for Gravitation and Cosmology has, since 1969, brought in extramural funding at a rate of $10 to every $1 invested. The Milwaukee Mathematics Partnership has generated $20 million in funding with an investment of approximately $300,000 for faculty and in-kind space and facilities. UWM is working with the Milwaukee Public Schools and the Milwaukee Area Technical College toward substantially improving mathematics achievement for the 100,000 K-12 Milwaukee Public Schools students. Over the past decade, extramural funding has increased more than 90% and now brings in nearly $25 million a
year. Combined with other research resources, that totals more than $64 million for the most recent fiscal year.

Chancellor Santiago noted that a key way to improve UWM is through cluster hiring by way of a targeted recruitment program for faculty. UWM must attract scholars of high quality to particular thematic areas. UWM also must increase the number of doctoral programs offered by the university. UWM intends to do this by adding an average of two new PhD programs during each of the next six years. By the year 2010, UWM will have 32 doctoral offerings, which is much more in line with public research universities of UWM’s size.

Chancellor Santiago remarked that while it is difficult to determine in which fields UWM will add PhD programs, there is a growing need for doctoral degrees in the sciences. That need is supported by research undertaken by Competitive Wisconsin Inc. The latest edition of the organization’s “Measuring Success: Benchmarks for a Competitive Wisconsin,” focuses on the need for more PhD recipients in the state. The State of Wisconsin’s precipitous drop in the ratio of people with PhD degrees in science, engineering, computer sciences and mathematics is well documented in the report. In the past five years, Wisconsin’s percentage of people with these highly skilled degrees has dropped more than 30%, a rate that is more than twice the national average.

Chancellor Santiago indicated that UWM should be a great part of the solution for adding PhD recipients in the state. To address this, however, attention must be paid to UWM’s infrastructure. UWM’s Great Lakes Wisconsin Aquatic Technology & Environmental Research (WATER) Institute has, in just two years, returned $2 for every dollar invested by the state, but it has done so by the most frugal of means. Research facilities are anything but extravagant, and the main research vessel, the Neeskay, is cramped, rusting, and, after 50 years of nautical service, in need of replacement. Given all the attention being placed on clean and safe water, UWM must become a part of the public policy debate. To do this, UWM must have a modern, floating laboratory for the 21st century. Finally, researchers in the Engineering and Mathematical Sciences building succeed in spite of their outdated facilities.

Chancellor Santiago stated that flexibility is the key to the future facilities, such as modular spaces, large doorways, moveable walls and convenient data network access. Major improvements are not going to happen on the current east-side campus. UWM resides in a beautiful neighborhood, but 27,000 students are being served this semester in a landlocked 93 acres footprint. The Columbia-St. Mary’s option is an important link in helping the current need for increased space; however, it does not meet UWM’s future needs. Space is a need that must be addressed, and UWM is working to address it with the possible addition of a second footprint.

Chancellor Santiago commented that UWM has come a long way in terms of research funding, but can go much farther. The question remains as to whether UWM needs to grow to several hundred million dollars a year in research funding, similar to other Midwestern universities like UW-Madison and the University of Michigan, to have a real impact on the economy of Southeastern Wisconsin. UWM’s current goal for research funding is $100 million per year. Increasing productivity and increasing the number of dedicated scientists are two ways to help achieve that goal.

Chancellor Santiago noted that one of the benefits of being a stronger research university is that UWM will be a growing partner to other institutions in Southeastern Wisconsin. Two of the best examples of these institutions are TechStar and the Biomedical Technology Alliance. As a founding member of TechStar, UWM embraces its efforts to stimulate entrepreneurship, facilitate technology transfer, fund new companies and invigorate the economy. The Biomedical Technology Alliance seeks to take advantage of the region’s strengths in biomedical engineering, functional imaging, bioinformatics, and technologies to accelerate drug development. UWM will continue to make further contributions to WiSys, an offshoot of the Wisconsin Alumni Research Foundation (WARF), which identifies innovative technologies developed at UW System schools besides Madison, and brings them to the marketplace. UWM has taken excellent advantage of WiSys, with faculty projects accounting for more than 80% of the disclosures currently accepted for patenting and licensing. The number of UWM patents will continue to grow quickly because a number of new faculty who are active in research have been hired during the last few years, and because funding for faculty research has seen significant growth.
Chancellor Santiago listed two more benefits of being a stronger research university. First, there will be an increase in the quality and quantity of research possible when Wisconsin’s second research university places an emphasis on research similar to that seen in Iowa and Michigan. Finally, as a stronger research university, UWM will be a more appropriate partner for UW-Madison. Through expanded research, UWM can create better synergies by developing more points of contact between faculty members.

The Committee discussed the potential for UW-Milwaukee to become a stronger research institution within its urban setting. Regent Rosenzweig asked whether UWM was drawing any experience from Wayne State University, an institution that is adding value to the Detroit area in an appreciable way. Chancellor Santiago remarked that, although UWM does not have a medical school, both Wayne State University and the University of Illinois at Chicago are great models for UWM of research institutions in an urban environment.

Regent Pruitt and Regent Randall asked for more details about UWM’s cluster hiring initiative. Regent Randall noted that the Committee would need to be engaged in the cluster hiring process. Chancellor Santiago stated UWM would put into place a very strategic cluster hiring process. UW-Madison’s cluster hiring initiative worked well; however, UWM would need to come up with a program that is specific to its own needs.

Chancellor John Wiley, UW-Madison, stated that UW-Madison is currently a leading research university, in part, due to being one of the earliest research universities in the country. It is more challenging to become a leading research institution than it is for a top institution to maintain that position. Likewise, if a university slipped in the rankings, it would be very difficult to regain that leading position. Therefore, it is extremely important and much less costly to maintain a leading position than to falter and try to regain that position.

Chancellor Wiley outlined the difficulties of maintaining its place as a premier public research institution. The key to maintaining excellence is attracting and retaining the best people in an increasingly competitive environment. Identifying, recruiting, hiring, and retaining quality faculty members are the most important components of the research infrastructure. Recruiting and retaining quality faculty requires competitive salaries, adequate research space, state-of-the-art equipment, and a significant administrative infrastructure. The UW-Madison campus has faced some large challenges recently in this area.

Chancellor Wiley noted that recruitment and retention of quality staff members to administer programs and manage the cumbersome state and federal policies and regulations are an important factor in maintaining excellence. UW-Madison and the other UW campuses have a competitive disadvantage compared to the private sector regarding the low starting salaries and rigid hiring requirements that need to be followed for lab technicians and other research support staff who are part of the state civil service system. As a result of these disadvantages, annual turnover is 30-50% for these types of positions.

Upon the motion of Regent Pruitt, and the second of Regent Rosenzweig, the Committee agreed to revise the order of the agenda items.

e. Trust Funds

(1) Ella Seitz Bequest – Request to Expend Principal

Philip Farrell, Dean of the UW-Madison Medical School, requested an exception to Regent policy, thereby allowing expenditure of principal from the Ella Seitz bequest. These funds will be used for funding of the Ella Seitz wing of the Healthstar Interdisciplinary Research Complex (IRC) on the breast cancer research floor. This gift will help expedite the construction of this urgently needed new cancer research space for the Comprehensive Cancer Center.

Mark Lefebvre, Senior Vice President for Health Sciences, UW Foundation, noted that the will of Ella Seitz imposed no restriction on the use of the bequest, giving the Medical School some agility in
using the gift. The Medical School has received a total of $14 million in Federal grant support from the Department of Health and Human Services and the National Cancer Institute for construction of new cancer research space in the IRC. The grants carry a one-to-one matching provision. The $1.7 million from this gift will be used to help meet that match requirement. This usage of the funds has been discussed with the attorney for the estate, and he is very supportive of using the funds for the cancer portion of the IRC.

Regent Connolly-Keesler asked how the UW Medical School is doing regarding the goal of funding 83% of the $134 million construction of the IRC from private donations and grants. Dean Farrell noted that the Medical School is currently $15-20 million short of the goal. Both the State Building Commission and Board of Regents approved the continued design and construction of the building contingent upon the Medical School raising that money.

Regent Bradley stated that the will specifically names the Comprehensive Cancer Center. Also, the intent of the donor, as clearly stated in the will, imposed no restriction on the use of the funds. The Committee expressed their unqualified support for the resolution.

Upon the motion of Regent Pruitt, and the second of Regent Rosenzweig, the Committee approved Resolution I.2.e.(1).

Resolution I.2.e.(1)

That, upon recommendation of the President of the University of Wisconsin System, the Chancellor of UW-Madison, and the Dean of the University of Wisconsin Medical School, the principal and income balances of the Ella M. Seitz bequest become available for spending for research space in the Interdisciplinary Research Center.

c. Financial Impact of Faculty Turnover

Chancellor John Wiley, UW-Madison, reiterated that the financial impact of faculty turnover for UW-Madison is about $3 million per faculty member. For example, since 1995, the Psychology department has been number one in the country in research expenditures. Each faculty member brings in about $700,000 per year, and the department wins campus-wide teaching awards every year. Over the last two years, 6 of 31 faculty members have left the department, receiving salaries 50% higher than they were receiving at UW-Madison. It would have only cost about $380,000 to bring the whole department up to just the median salary range. The ability to retain key faculty continues to be a serious concern.

d. Business of the Committee

(1) Report on State Imposed Costs

Assistant Vice President Lynn Paulson, Office of Budget & Planning, stated Wisconsin Act 9 included a provision to change the appropriation for tuition and fee revenues from an annual, sum certain appropriation to a continuing appropriation, which would allow the UW System to expend all monies received as tuition. Wisconsin Act 9 also required the Board of Regents to report annually on any state-imposed costs not covered by general purpose revenue that were used to compute academic fee increases for resident undergraduate students. There were no unfunded state imposed costs added to resident undergraduate tuition rates for the 2003-04 academic year.

Upon the motion of Regent Connolly-Keesler, and the second of Regent Randall, the Committee approved Resolution I.2.d.(1).
Resolution I.2.d.(1)

That, upon recommendation of the President of the University of Wisconsin System, the Board of Regents approves the 2003-04 Report on State Imposed Costs Added to Resident Undergraduate Tuition for submission to the Secretary of the Department of Administration.

(2) Report on Continuing Appropriations

Assistant Vice President Lynn Paulson noted that Wisconsin Act 9 required the Board of Regents to report annually the amount by which actual expenditures in the previous fiscal year exceeded the amount in the schedule for that appropriation in the previous fiscal year. 2003-04 expenditures exceeded the scheduled amount by $37,742,774, which consists of expenditures in the following major categories:

- Fiscal Year 2002-03 Encumbrances $9,047,641
- Fee Share of the Utility Shortfall $1,546,283
- Fringe Benefits/Health Insurance $3,142,827
- Delayed 2001-03 Pay Plan for Classified Staff $3,772,886
- Enrollment Related Expenditures $20,233,137

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

Resolution I.2.d.(2)

That, upon recommendation of the President of the University of Wisconsin System, the Board of Regents approves the 2003-04 Continuing Appropriation Report for submission to the Legislature.

(2) Follow Up to Annual Trust Funds Forum

Assistant Trust Officer Doug Hoerr reported that 10 individuals spoke at the November investment forum. Most of the remarks called for divestitures and screening of certain companies and industries. The specific companies or investments cited by numerous speakers were Caterpillar, Tyson Foods, Wal-Mart and weapons manufacturers, specifically makers of such especially disturbing weapons as landmines and cluster bombs. Background reports on these issues will be posted to the Trust Funds web site when completed.

f. Report of the Vice President

Vice President Durcan stated that the UW System currently estimates about a $40 million shortfall in the utility budget for this fiscal year, about $30 million General Purpose Revenue (GPR) and $10 million tuition using the traditional split. The increase from last month of $10 million is due to price increases by category including coal, gas and electricity as provided by the Department of Administration (DOA). UW System staff continues to work with DOA on revised expenditure projections and solutions to this long-standing budget problem. The UW System is required to report to the Joint Finance Committee in January on the estimated shortfall and energy conservation efforts, and will base that report on December month end expenditure data and campus input on conservation efforts.

Vice President Durcan remarked that UW System staff is still gathering peer information about domestic partner benefits. The UW System is exploring options and costing them out based on different levels of participation.
Vice President Durcan updated the Committee on three continuing Legislative Audit Bureau (LAB) audits. Regarding the cell phone audit, although the audit is statewide, it is very narrow in scope. UW-Madison and UW-Milwaukee have been selected by LAB because of higher numbers of cell phones and higher dollar volume. The audit is expected to conclude in January. Regarding the fleet audit, most of the fieldwork is done. This is primarily an audit of DOA, and DOA will be the official recipient of the recommendations. The audit is expected to be released in the spring. Regarding the Materials Distribution Services/Surplus with a Purpose (MDS/SWAP) audit, LAB is reviewing the financial and staffing trends over past five years. The audit is expected to be completed in early summer.

Vice President Durcan commented on the recent Chief Business Officers (CBO) meeting. The CBO’s spent a great deal of time working on the report due to the Joint Audit Committee on operating efficiencies.

Vice President Durcan stated that UW System staff is meeting regularly with the DOA Deputy Secretary concerning their Good Government Initiative. DOA is looking at procurement practices and expenditure data, and using an outside consultant to help them identify targeted areas for cost reductions, changing contract terms, and training issues.

Vice President Durcan noted some issues discussed at the most recent Big 10 Business Officers Meeting, included projected tuition and salary increases. Many Big 10 institutions are performing risk assessments and some are hiring a risk officer. Finally, the impact of the Sarbanes-Oxley Act was assessed, and the Committee will receive a presentation on some of these issues at a future Business and Finance meeting.

The Committee discussed the DOA request to change Program Revenue (PR) cash to bonding for capital projects at four campuses, and the continued request for auxiliary cash balance projections. The Committee expressed concern about these requests, and will work with the Physical Planning and Funding Committee to draft a resolution stating the Board’s commitment to protect these Program Revenue funds from being used by the State during the upcoming budget deliberations for 2005-07.

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

Upon the motion of Regent Randall, and the second of Regent Rosenzweig, the Business and Finance Committee adjourned to Closed Session at 3:05 p.m. Present were Regents Bradley, Connolly-Keesler, Pruitt, Randall and Rosenzweig.

The Business and Finance Committee adjourned at 3:15 p.m.

Eric Engbloom, Recording Secretary