

Minutes
Business and Finance Committee
Board of Regents of the University of Wisconsin System
June 10, 2004

The Business and Finance Committee met in Joint Session with the Physical Planning and Funding Committee at 2:58 p.m. in room E280, Union, UW-Milwaukee, to discuss Higher Education Capital Financing Options. Present were Regents Salas, Amato, Randall, Bradley, Connolly-Keesler, Gottschalk and Rosenzweig. Regent Vice President Walsh was also present.

a. Higher Education Capital Financing Options

Vice President Debbie Durcan noted that as a result of the Charting the Future of the UW System Study, the Efficiencies Committee recommended that improvements to the capital building process be pursued, including whether it would be appropriate for the Board of Regents to issue its own Program Revenue Bonds. UW System staff participated in a course on the basics of bonding, and were joined by the State's Capital Finance Officer, the Department of Administration (DOA) budget analyst, and the capital budget analyst from the Department of State Facilities. The UW System emphasized the desire to move projects more quickly through the pipeline, as well as the need to protect student dollars earmarked for capital projects.

Ms. Durcan introduced John Augustine, Managing Director of Lehman Brothers' Higher Education Group, who has 18 years of experience in university and investment banking positions including three years on the faculty of Yale University. Mr. Augustine's approach to investment banking is characterized by ongoing advisory services to clients across a broad spectrum of financial matters.

Vice President Durcan also introduced Christoph Muelbert, Vice President of the Lehman Brothers' Higher Education Group in New York, who provides general banking, technical and analytical support to Lehman Brothers' private and public education clients.

Mr. Augustine noted that in the mid-1980's, as state support for universities began to decline, the University of Texas and University of Michigan developed a model for issuing their own debt in conjunction with the state. Over time, the capital markets recognized that there is an opportunity to expand the debt capacity of the state by creating a credit mechanism managed by the university system in combination with the state. In 2004, Wisconsin and Massachusetts are the only public university systems that have not moved towards this idea.

Mr. Augustine stated that the full spectrum of credit strategies is available to the UW System, from General Revenue Bonds, with a high credit rating, to true non-recourse debt, with a lower credit rating. Moving across the spectrum, the credit rating goes down and the cost of capital becomes greater. However, today's debt capital markets provide the UW System with a unique opportunity to implement a comprehensive debt strategy due to interest rates and the cost of capital being close to historic lows.

Mr. Augustine commented that university systems around the country vary widely, and each state develops their own bonding models. The spectrum shifts from using the full faith and credit of the university pledging all revenues in one extreme to pledging only project specific revenues on the other. The key to success is to partner with the state to develop a win-win proposal. Some systems, such as Minnesota, Michigan and Tennessee, commit the whole university system as credit, including tuition, while others, such as the University of Illinois, because of state law, do not include tuition and commit auxiliary revenues.

Mr. Augustine remarked that Lehman Brothers' Higher Education Group has performed pro-forma analysis on the UW System's balance sheet. The UW System as a whole would qualify for a double-A2 bond rating because of the amount of federal funding received, whereas the state is currently a double-A3 rating. Mr. Augustine remarked that the capital markets have great regard for university systems, because there have been only two defaults since these bonding models began.

Regent Vice President Walsh asked how this model of bonding authority relates to the UW Building Corporation and the State Constitution, and why the UW System would not qualify for a triple-A rating. Vice President Durcan noted that it would take state legislation to allow this type of bonding authority. Ms. Durcan noted that State Capital Finance Officer Frank Hoadley envisioned two models: 1) the state and university would separate completely, similar to the model of the UW Hospital; or, 2) the state would issue the bonds, similar to the model with the Department of Transportation. Mr. Augustine noted that the University of Michigan's bond rating is mostly due to their strong research support, and there are only a few triple-A rated university systems in the country. The UW System would qualify as at least a strong double-A rating.

Regent Salas asked which university systems have taken advantage of these types of bonding authority models, and how long have they been utilized. Mr. Augustine responded that universities have taken advantage of these models since the mid-1980's, and the University of California is the most recent to move to full General Revenue Bonding. The University of California joined universities from Washington, Oregon, Utah, Montana, Arizona, and numerous others across the country.

Regent Gottschalk asked whether these bonding authority models are strictly for capital projects. Mr. Augustine noted that, thus far, these models have only been used for capital projects. There is a prohibition for tax-exempt bonds to be used for working capital.

Nancy Ives, Assistant Vice President for Capital Budgeting, asked whether the capital markets would consider tuition and other assets of the UW System without the university having to pledge those assets. Mr. Augustine noted that much of the federal funds that the capital markets consider are earmarked for specific uses. Universities can have a source of credit that is different than the source of payment.

The Committees urged the UW System staff to continue working with Lehman Brothers and bring bonding options back to the Committees.

The Business and Finance Committee continued to meet in Joint Session with the Physical Planning and Funding Committee for the UW-Milwaukee Presentation: Exploring Columbia/St. Mary's Facility to meet University and Community Needs. The minutes of this discussion are detailed in the minutes of the Physical Planning and Funding Committee.

The Joint Session with the Physical Planning and Funding Committee adjourned at 4:09 p.m.

The Business and Finance Committee reconvened at 4:10 p.m. in room E280, Union, UW-Milwaukee. Present were Regents Bradley, Connolly-Keesler, Gottschalk and Rosenzweig.

b. Approval of Minutes of May 6, 2004 meeting of the Business and Finance Committee Report

Upon the motion of Regent Rosenzweig, and the second of Regent Connolly-Keesler, the minutes of the May 6, 2004, meeting of the Business and Finance Committee were approved as presented.

c. Operations Review and Audit Update – Student Credit Card Debt and Policies on Credit Card Solicitation on UW Property

Ron Yates, Director, Office of Operations Review and Audit, updated the Committee on the extent of credit card debt among UW students, and the policies of UW institutions on credit card solicitation. Statistics on credit card use and debt for UW System students are in line with national averages. Around 70 percent of UW System students have credit cards, and 20 percent have credit card debt balances of at least \$500.

Mr. Yates noted that credit card companies' rights to contact students are protected by the First Amendment, though campuses could regulate on-campus solicitation. Credit card companies can obtain students' names for direct mailings through directory information that is available under the Wisconsin

Open Records Law and the Federal Educational Rights and Privacy Act (FERPA). However, students have the right to opt out of such listings, and UW System institutions have informed students of that right.

Committee members discussed whether a system-wide policy on such solicitations would be beneficial. A number of UW System institutions have adopted formal and informal policies on credit card solicitation. However, UW System campuses have varying demographics, and the Committee members concluded that it would be better for campuses to set their own policies under general guidelines to assure practices are consistent within institutions and with state and federal laws.

Director Yates stated that UW institutions should make financial education for students a priority. Another recommendation is for campuses to disallow gifts from being given to students obtaining credit cards.

d. Committee Business

(1) Correction to the RPD 93-1 Authorization to Sign Contracts

Pat Brady, General Counsel, stated that the February 2000 revision to Regent Policy Document 93-1: *Authorization to Sign Documents*, reflected a desire to bring greater consistency between State Building Commission procedures and UW Board of Regent policies regarding the approval of leases. Regent policy at the time enabled corporate or administrative officers of the University of Wisconsin System to sign grants, contracts, leases, and agreements with private-profit making organizations, with the understanding that those in excess of \$500,000 require formal acceptance by the Regents. The amended Regent policy approved at the February 2000 meeting made the requirements consistent between the two authorities; however, those revisions did not address authority to sign leases where value is below the \$500,000 threshold. The policy revision requested will make that authority clear.

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

Resolution I.2.d.(1)

That, upon the recommendation of the President of the University of Wisconsin System, the Board of Regents amends Item 5 of Regent Policy Document 93-1: *Authorization to Sign Documents* to read:

5. Grants, contracts, leases except where paragraph 8 of this policy applies, and agreements with private-profit making organizations, with the understanding that those in excess of \$500,000 require formal acceptance by the Regents prior to execution.

(2) Correction to RPD 96-4 Delegation to Vice President for Finance

Pat Brady, General Counsel, noted that Section 2 of Regent Policy Document 96-5: *Delegation of Responsibilities to the Vice President for Finance*, delegates to the Vice President for Finance the authority to sign contracts and documents for University purposes with a value under \$200,000. This delegation is not consistent with Regent Policy Document 93-1: *Authorization to Sign Documents*, which authorized the Vice President for Finance to sign grants, contracts, and agreements whose value is less than \$500,000. The policy revision requested will bring these policies into agreement by eliminating this inconsistency.

Upon the motion of Regent Connolly-Keesler, and the second of Regent Rosenzweig, 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, the Board of Regents amends Item 2 of Regent Policy Document 96-5: *Delegation of Responsibilities to the Vice President for Finance* to read:

Authority to sign contracts and documents for University purposes with a value under \$500,000.

e. Trust Funds**(1) Change to Terms of Trust**

Pat Brady, General Counsel, stated that there are no extant legal documents related to the Sherman Property Trust, a gift which was accepted by the Board of Regents in 1979, other than a letter from Miss Sherman's attorney expressing some of her desires regarding the use of the funds. The funds have been used to maintain a biological field station. UW-Waukesha finds that the principal and income of the Sherman Property Trust Fund are now at a level which exceeds the amount required for support of the field station, and therefore UW-Waukesha would like to use a portion of the Sherman Property Trust Fund for three \$1,000 annual scholarships for students taking classes at UW-Waukesha's Biological Field Station. The late Gertrude Sherman's relatives had indicated that they felt using the Sherman Trust for scholarships would be appropriate. In addition, although there are currently no building plans, UW-Waukesha would like authorization to use principal from this trust account to build or improve facilities in the future.

Committee members agreed that only income from the Trust Fund should be used to fund the scholarships, and that UW-Waukesha should return to the Board with any requests to spend principal for specific facility improvements in the future.

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

Resolution I.2.e.(1) revised

That, upon recommendation of the President of the University of Wisconsin System and the Chancellor of the University of Wisconsin Colleges, the Board of Regents approves expanding the terms and conditions of the Sherman Property Trust Fund to permit the additional use of the interest from the Fund for scholarships for students taking classes in the disciplines taught at the Biological Field Station.

f. Report of the Vice President

Vice President Debbie Durcan stated that the UW System should receive a confidential draft of the Legislative Audit Bureau's (LAB) report on administrative costs in the UW System in June.

Ms. Durcan noted that, regarding the LAB Economic Development Audit, LAB is contacting Small Business Development Centers.

Vice President Durcan commented that LAB has begun a statewide fleet audit. UW System staff were notified yesterday, and scheduled an entrance conference for the week of June 14.

Ms. Durcan noted that the Department of Administration (DOA) Fleet Reduction Plan determined the reduction to be 160 vehicles, about 10% of UW System's total fleet. UW System staff are working with DOA to develop a reduction plan, but have notified them that the targeted 160 vehicle reduction would result in a hardship for the UW System. About 35% are trucks and work vehicles, and an additional

35% are vans and minivans. Many vehicles are used for physical plant, maintenance and grounds, and used to transport materials and equipment. In addition, vehicles are used for field trips, teaching and nursing practicums, and the like. The UW System had to stop using 15 passenger vans for long distance driving, resulting in a need for more vehicles to transport the same numbers of students for field trips and athletic events. System staff are also worried that a reduction in the passenger fleet will result in higher costs as people will be more inclined to rent vehicles. As for a possible increase in the use of personal cars, UW System staff are concerned about risk management implications. Drivers may not have adequate insurance, and the UW System could have to ascertain the insurance coverage, adding to administrative costs.

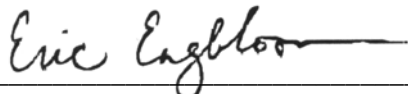
Vice President Durcan commented that UW System staff sent a 13.10 request to Joint Finance regarding the utility shortfall, and are in the process of answering several questions posed by the Legislative Fiscal Bureau. The current projected shortfall for end of May expenditure data is \$10.8 million, made up of \$6.3 carried forward from last fiscal year, and \$4.5 million from this fiscal year. The General Purpose Revenue (GPR) share of the shortfall is \$9.7 million.

Ms. Durcan remarked that the UW System President has expressed concern to Secretary Marotta on the impact of the gaming contracts. For example, \$100,000 per year of operating costs for UW Superior's Aquaculture Demonstration Facility are paid from gaming revenues. The UW System is not in a position to base reallocate for this. In fact, the Board's resolution from 2001 specifically states that it is the intent of the Board that operation of the facility not be funded from the UW System's base budget.

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

No additional items were presented to the Committee.

The Business and Finance Committee adjourned at 4:45 p.m.



Eric Engbloom, Recording Secretary