

Minutes  
Business and Finance Committee  
Board of Regents of the University of Wisconsin System  
March 4, 2004

The Business and Finance Committee met at 8:40 a.m. in room 154 of the Friedrich Center, UW-Madison. Present were Regents Bradley, Connolly-Keesler, Gottschalk and Rosenzweig.

**a. Implication of the Taxpayer Bill of Rights (TABOR) on the UW System**

Regent Bradley stated that the Committee continues to gather information from Legislators on the effects that the Taxpayer Bill of Rights (TABOR) could have on the UW System. The Committee met in February with Representative Frank Lasee, co-sponsor of the Assembly TABOR legislation.

President Lyall reviewed the possible impact on the UW System if spending on School Aids, Medical Assistance, Corrections and Shared Revenue and Property Tax Credits remained the same. If the TABOR plan had been in effect over the prior ten years, statewide General Purpose Revenue (GPR) expenditures would have decreased by \$1-2 billion per year in most years. Typically, the UW System receives one-quarter to one-third of State cuts. Therefore, within a few years of the TABOR plan, GPR support could have easily fallen to zero, and essentially privatized the UW System.

President Lyall noted that TABOR is not yet finalized, and the UW System would like a continuing discussion, particularly about how tuition, financial aid, bonding, gifts, grants and contracts and the budget stabilization reserve would be treated under the plan.

John Gard, Assembly Speaker, stated that the tax burden in Wisconsin is out of line with personal income. He indicated that Wisconsin needs to reduce taxes in order to make the State more competitive for employers that are deciding against growing their business in Wisconsin.

Speaker Gard stated that Colorado's TABOR approach to rein in state spending, on which this bill is modeled, represents a worst-case scenario. Mr. Gard commented that he has great concern for the UW System going forward, and the Legislature will try to move the TABOR bill forward in a responsible manner.

Speaker Gard remarked that bonding will likely be excluded from the TABOR plan. Gifts, grants and contracts will also probably not be included under the spending caps, and whether tuition will be included has not yet been resolved.

Speaker Gard stated that the Legislature may have a special session in May to approve the TABOR plan, and he predicted that it would pass this spring. The proposed legislation would amend the State's Constitution, and therefore needs to pass both houses of the Legislature this year and next year before the plan could be presented for public referendum.

Regent Bradley commented that with lower state support, the UW System would in turn have to reduce its size and educate fewer students. Speaker Gard commented that this would not necessarily be the case. Over the last twelve months, the UW System has survived through very significant cuts.

Regent Bradley stated that the UW System does not have any control over population growth or changes in the consumer price index (CPI), which are the two indicators on which TABOR is based. Speaker Gard responded that School Aids, Medical Assistance, Corrections and Shared Revenue and Property Tax Credits would be included in the legislation, and exempting the UW System from the legislation would be difficult. He indicated that the bill that is put forward to the public will have teeth to control taxes and spending, and, over the next ten years, Wisconsin residents would not see significant tax relief without the bill.

Regent Gottschalk remarked that TABOR may have unintended consequences. Decreased state funding tends to have a chilling effect on philanthropy. Also, the question of whether tuition and financial aid would be included in the TABOR caps is very important. It is a top priority of the Board of Regents that students do not become priced out of the UW System.

Regent Gottschalk stated that the UW System is a major engine of economic development in the state. Further limiting state funding for the university system could weaken state growth. Regent Gottschalk asked Speaker Gard to limit TABOR to the state-funded portion of the university's budget, noting that it does not seem fair to exercise tight-fisted control with elements of the UW System's budget that are not funded by Wisconsin taxpayers. Speaker Gard agreed that the university is a strong source of economic development for the state. He noted that the UW System would be treated fairly under the measure without compromising what the legislation is trying to accomplish.

Speaker Gard thanked the Committee for inviting him to the discussion. Regent Bradley thanked Speaker Gard, and asked for a continuing discussion in the future.

Speaker Gard left the meeting at this time.

Associate Vice President Margaret Lewis remarked that Legislative working groups are continuing to amend the bill. The Committee could invite some participants from these groups to meet with the Committee, especially concerning bonding, and the key principle that the limitations should only apply to tax supported funding of the UW System. There is strong public interest for maintaining a high level of access to the UW System, and this needs to be reiterated to Legislators at this time.

The Committee discussed making a recommendation to the Board of Regents, but agreed not to take a formal position on TABOR at this time. The decision was reached, in part, because the bill is still a work in progress. The Committee agreed that the Board should continue dialogue with Legislators, work to refine the Board's messages, and look for opportunities to further the dialogue as the proposal evolves.

Upon the motion of Regent Rosenzweig, and the second of Regent Connolly-Keesler, the Business and Finance Committee recessed at 9:35 a.m.

The Business and Finance Committee reconvened at 2:25 p.m. in room 154 of the Friedrich Center, UW-Madison. Present were Regents Bradley, Connolly-Keesler, Gottschalk and Rosenzweig.

#### **b. Approval of Minutes of February 5 and 13, 2004 meetings of the Business and Finance Committee**

Upon the motion of Regent Rosenzweig, and the second of Regent Connolly-Keesler, the minutes of the February 5 and 13, 2004, meetings of the Business and Finance Committee were approved as presented.

#### **c. 2004-05 Annual Budget Decision Rules**

Upon the motion of Regent Gottschalk, and the second of Regent Rosenzweig, the Committee approved Resolution I.2.c.

##### **Resolution I.2.c.**

That, upon the recommendation of the President of the University of Wisconsin System, the Board of Regents approves the 2004-05 annual budget allocation decision rules.

#### **d. Blue Cross/Blue Shield Amendment to the Gift Agreement**

Pat Boyle, Regent Emeritus and Regents' Liaison to the Wisconsin Partnership Fund, stated that this resolution replaces the former documents, and more clearly defines the procedural aspects that will be utilized in receiving and implementing the Blue Cross/Blue Shield funds. If the Board approves the requested resolution, the plan can move on to the implementation stage. The resolution approves the

agreement between the Wisconsin United for Health Foundation, Inc. (WUHF), the University of Wisconsin Foundation and the University of Wisconsin System Board of Regents, which includes changes from the last draft of the agreement. The resolution approves the review process for the determination of non-supplanting of funds. The resolution authorizes Darrell Bazzell, Vice Chancellor for Administration, UW-Madison to sign the agreement on behalf of the Board of Regents, and to agree to any minor or technical changes to the agreement. This agreement has the potential to have a great impact on the UW-Madison Medical School and their ability to improve health care in Wisconsin.

Regent Rosenzweig asked whether the Oversight and Advisory Committee has specific criteria for judging projects to be funded. Regent Boyle noted that the plan has a very in-depth approval process which uses a point system. Philip Farrell, Dean of the UW-Madison Medical School, stated that many people are already familiar with the process after going to the Medical School's web site. There is a great amount of pent up energy and demand that has been waiting to make use of these funds.

Regent Bradley asked whether a percentage of the assets or the interest and dividends will be available. John Feldt, Senior Vice President for Finance and Administration, UW Foundation, affirmed that not only interest and dividends, but 4.75 percent of the rolling average of assets will be available.

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

#### **Resolution I.2.d.**

That upon the recommendation of the President of the University of Wisconsin System and the Chancellor of the UW-Madison, the Board of Regents:

- Approves the “Agreement Between the Wisconsin United for Health Foundation, Inc., the University of Wisconsin Foundation and the University of Wisconsin System Board of Regents” which includes changes from the last draft of the agreement, made at the request of WUHF, and which are in compliance with the Insurance Commissioner's Order of March, 2000.
- Approves the “Review Process for the Determination of Non-Supplanting” which will be conducted by the UW-Madison and the UW Medical School to ensure compliance with the prohibition on supplanting in the Insurance Commissioner's Order of March, 2000.
- Authorizes Darrell Bazzell, Vice Chancellor for Administration, UW-Madison to sign the “Agreement” on behalf of the Board of Regents, and to agree to any minor or technical changes to the “Agreement.”

#### **e. Definition of Differential Tuition and Guidelines for Student Involvement**

Andrew Richards, Assistant Vice President for Budget and Planning, UW System, presented new administrative guidelines pertaining to differential tuition. The guidelines do not change board policy, but rather clarify how those policies will be administered. This will help students and institutions have a clearer picture of the various types of differential tuitions and the expectations for student involvement in the process.

Mr. Richards stated that in 1996, the Board of Regents approved flexibilities for tuition setting, encouraging UW System institutions to propose and implement differential tuition rates for unique programs with strong demand or special operating costs. In May, 1999, the Board approved policy outlining student involvement in differential tuition initiatives.

Assistant Vice President Richards noted that when the policy was developed in May, 1999, differential tuition was a fairly new policy with a simple definition. Differential tuition has now become much more widespread and complex across the UW System. The UW System now has institution-wide differential tuitions at 7 institutions, several program specific differentials at 3 institutions, plateau changes, or per credit tuition for summer graduate programs at a hand full of institutions and an institution-wide per credit tuition at UW-Stout. With all these changes occurring in the differential tuition area, it quickly became evident that the UW System needed to clarify the different types of differential programs that exist and the guidelines needed to fulfill the Board's student involvement policy.

Stephanie Hilton, Academic Affairs Director, United Council, noted that students need to be consulted on differential tuition plans, and that these guidelines document the steps that had previously been more informally taken between students and the UW System Administration.

Brian Tanner, Shared Governance Director, United Council, stated that students are opposed to differential tuition programs that are used to backfill state budget cuts and supplement state support. Students worked with the UW System Administration to develop good-faith initiatives to ensure that students are involved in the process.

## **f. Trust Funds**

### **(1) 2004 Proxy Season Report**

Assistant Trust Officer Doug Hoerr stated that Regent Policy 92-4 contains the proxy voting policy for UW System Trust Funds. Non-routine shareholder proposals, particularly those dealing with discrimination, the environment, or substantial social injury, are to be reviewed with the Committee so as to develop a voting position.

Mr. Hoerr remarked that in addition to approval of voting in the affirmative on shareholder resolutions under previously approved social issues, approval to vote in favor of the following new issue is being sought for the 2004 proxy season: sustainability reporting. In the last several years, sustainability, although somewhat of an amorphous concept, has become a significant subject of shareholder campaigns.

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

#### **Resolution I.2.f.(1)**

That, upon recommendation of the President of the University of Wisconsin System, the non-routine shareholder proxy proposals for UW System Trust Funds, as presented in the attachment, be voted in the affirmative.

### **(2) Annual Endowment Peer Comparison Report**

Assistant Trust Officer Hoerr outlined the highlights of the annual NACUBO Endowment Study. While investment performance has lagged average peer performance over more recent timeframes, over longer periods, performance has been comparable. More recent underperformance is likely attributable to a significantly lower allocation to alternative asset classes to date. Regarding investment-related fees and staffing, UW Trust Funds is very much in line with peer averages. While UW Trust Funds' spending rate policy is typical, the percentage spending rate of 4.5 percent is now below the peer average of 5.4 percent.

Regent Gottschalk pointed out that the 2003 NACUBO Endowment Study shows that 83 percent of reporting institutions do not consider social responsibility criteria as part of their investment management policies. Only 9 percent of public institutions consider social responsibility criteria, while 22 percent of private institutions consider it. UW System Trust Funds considers social responsibility

criteria in voting shareholder proxy proposals and seeks student and public comment on issues of significant social concern. The UW System is in the small minority of institutions that consider social responsibility, putting the university ahead of the curve.

### **(3) Authorization to Use Regents' Discretionary Trust Funds for Presidential Search Expenses**

Vice President Debbie Durcan stated that the donor-gifted Trust Fund accounts include accounts which may be expended at the discretion of the UW System Board of Regents. For the last UW System Presidential search process in 1992, the Executive Committee of the Board authorized partial funding of related expenses from these Trust Fund monies. To the extent necessary, use of these discretionary Trust Funds may be needed in the search to obtain the best possible candidate for this critical position.

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

#### **Resolution I.2.f.(3)**

That, upon recommendation of the President of the Board of Regents of the University of Wisconsin System, to the extent additional resources are necessary, above and beyond available general program operations funding, to provide for payment of the expenses incurred in the search and screen process for selecting a new System President, then UW System Trust Fund monies available for use at the Board's discretion be used as supplemental funding.

### **g. Report of the Vice President**

Vice President Debbie Durcan remarked that she had no additional information to provide at this time concerning the Legislative Audit Bureau (LAB) administrative audit.

Ms. Durcan followed up on a question asked by Regent Vice President Walsh at the February, 2004 Business and Finance Committee meeting about the number of actual UW System layoffs and contract non-renewals due to the severe budget cuts. Associate Vice President George Brooks stated that the budget called for 650 positions to be cut over the biennium. Most of the cuts will be due to attrition, and, in effect, 103 positions were cut due to layoff or non-renewal of their annual employment contract. The challenge will be next year when the UW System must cut an additional 325 positions from its state employee counts.

Regent Gottschalk asked whether there is an opportunity to rehire people in a part-time capacity at a lesser cost to the UW System to retain their needed capabilities. Mr. Brooks affirmed that this is possible, and the UW System makes its best effort to help people find new jobs after they have been laid off.

Vice President Durcan noted that the UW System's Department of Administration (DOA) Budget Analyst recently requested information on the anticipated year end cash balances in several program revenue funds. They not only asked about expected auxiliary balances, but also tuition, noncredit instruction, credit outreach, privately supported loan funds, Wisconsin Alumni Research Foundation (WARF), Trust Funds Income, Madison Athletics and other operating receipts. Based on estimates provided by the institutions, the UW System provided anticipated balances as well as the commitments against those balances. While the UW System shows no uncommitted balances, it is concerning that DOA is asking the question.

Ms. Durcan noted that in the Return to Wisconsin Pilot that was approved by the Board, parents were defined as biological, adoptive and step, but grandparents were identified only as biological. Many institutions felt that this definition is overly restrictive, and the Committee concurred to allow adoptive grandparents. This does not impact the previously approved resolution, but slightly modifies the proposal that accompanied it.

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

No additional items were presented to the Committee.

**i. Closed session to consider trust fund investments 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 3:29 p.m. Present were Regents Bradley, Connolly-Keesler, Gottschalk and Rosenzweig.

The Business and Finance Committee adjourned at 4:04 p.m.

A handwritten signature in cursive script that reads "Eric Engbloom". The signature is written in black ink and includes a horizontal line extending to the right from the end of the name.

---

Eric Engbloom, Recording Secretary