

Minutes
Business and Finance Committee
Board of Regents of the University of Wisconsin System
April 7, 2005

The Business and Finance Committee met at 1:33 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 March 10, 2005 meeting of the Business and Finance Committee

Upon the motion of Regent Pruitt, and the second of Regent Rosenzweig, the minutes of the March 10, 2005, meeting of the Business and Finance Committee were approved as presented.

b. Biennial Budget Update

Associate Vice President Freda Harris briefed the Committee on recent State budget developments, in particular the recent Joint Finance Committee hearing on March 29, 2005, where Executive Senior Vice President Mash and Regent Pruitt and campus representatives spoke for the UW System. At the meeting, Executive Vice President Mash reported that the UW System is pleased with the slight turn around in General Purpose Revenue (GPR) funding compared to the prior biennial budget; however, more needs to be done to reverse the trend of declining GPR funding.

Associate Vice President Harris noted that the Joint Finance Committee asked how the UW System has dealt with administrative cuts in the past, the impact of domestic partner benefits on faculty turnover, and the specific initiatives associated with the Committee on Baccalaureate Expansion (COBE). The UW System representatives briefed the Joint Finance Committee on these issues.

Ms Harris commented that Gary Sandefur, Dean of the College of Letter and Sciences, UW-Madison, gave two examples of faculty that left the university due to the lack of domestic partner benefits. Regent Pruitt remarked that the Joint Finance Committee was told that a good case can be made for domestic partnership benefits because of fairness and the competition for faculty from peer institutions. All other Big 10 universities offer domestic partner benefits. Ms. Harris noted that Edgewood College in Madison also offers domestic partnership benefits.

Associate Vice President Harris reported that UW System representatives requested more operating flexibility. Flexibility will be especially important regarding the timing of 200 FTE positions that need to be cut and the ability to generate savings wherever possible.

Regent Bradley asked whether there was any follow up from members of the Joint Finance Committee on flexibilities that the UW System could turn into operational savings. Executive Senior Vice President Mash responded that the Joint Finance Committee asked whether savings resulting from flexibilities, such as the procurement initiative, would accrue back to the UW System. It is the UW System's position that savings should indeed accrue back to the university.

Vice President Debbie Durcan noted that the Joint Finance Committee asked whether the compensation reserve had sufficient funds to fund the 5% per year faculty pay plan request. The Legislative Fiscal Bureau answered that the compensation reserve does not have nearly enough to fund the 5% request.

c. WiSys Update

Elizabeth Donley, Managing Director, WiSys Technology Foundation, Inc. (WiSys), stated that WiSys protects federally funded discoveries and their commercialization, and bears the cost of patenting and licensing for technologies developed throughout the UW System at institutions other

than UW-Madison. WiSys brings technologies to the marketplace for the inventors and their colleges. WiSys was founded in the year 2000 as a result of the success enjoyed in technology transfer at UW-Madison through the Wisconsin Alumni Research Foundation (WARF).

Maliyakal John, PhD, WiSys General Manager, stated that WiSys intellectual property activity totaled 137 disclosures through March, 2005. These disclosures resulted from all 12 campuses associated with WiSys. There are currently 54 active cases with 16 pending patent applications. WiSys has been issued 11 patents and has spent \$520,000 on intellectual protection. WiSys has been involved with one licensed technology and one start-up company. The most productive campuses in terms of disclosures produced were UW-Milwaukee with 67 and UW-Stout with 22.

Mr. John noted that of the 137 disclosures, 40% were to the physical sciences, 37% were to the life sciences and 23% were to miscellaneous technologies that do not fit into the other categories. There were 53 disclosures in the physical sciences, and within the category, 45% were electrical and mechanical sciences, 28% were material sciences and 27% were software disclosures. There were 45 disclosures in the life sciences, and within the category, 64% were pharmaceuticals, including therapeutic molecules, diagnostics, or genes, and 36% were medical imaging devices or procedures.

Mr. John commented that WiSys supports a broad range of both cutting edge and traditional technologies, and gave several examples of UW System technologies innovations. Professor Charles Gibson, UW-Oshkosh, is working with nanostructured metal compacts that could be used for producing microwavable packages or diamond cutting. Professor James Cook, UW-Milwaukee, is focused on designing therapeutic molecules targeting receptors in the brain that cause anxiety disorders. Professor Brian Smith, UW-River Falls, has sent the winter hardy Lydecker plum to several nurseries in the Midwest where they are being field tested. Inventors Scott Hartsell and David Lewis, UW-Eau Claire, have an excellent collection of highly fluorescent molecules that are resistant to photobleaching and may be used as a cholesterol tagging agent for medical imaging.

Mr. John remarked that NovaScan is the first WiSys licensed start-up company. WiSys is partnered with UW-Milwaukee and Techstar in this endeavor. NovaScan scans for the detection and diagnosis of cancers and other diseases. The scans reduce the need for invasive biopsies.

Mr. John stated that protecting patents is expensive, and pointed out trends from UW-Madison technologies, and suggested that the greatest revenue potential is in the areas of therapeutics and medical imaging. Therapeutics accounted 14% of UW-Madison WARF licenses; however, those licenses produced 62% of WARF revenue. Medical imaging accounted 22% of UW-Madison WARF licenses; and, those licenses produced 28% of WARF revenue.

Mr. John praised the new WiSys Innovation Scholar Award program which will supply needed research supplies funding for a faculty member at each institution. Also, the Department of Commerce awarded \$1 million over the next two years to establish the Wisconsin Entrepreneurs Network (WEN), connecting Wisconsin businesses to faculty. Additionally, WiSys is seeking to work with faculty who hold their own patents to move the products out of the laboratory and into industry. Finally, there is a new UW System program to award \$40-50,000 applied research grant funding for prototypes, and winners will be selected from 34 applications.

d. Business of the Committee

Vice President Durcan stated that over the past few years, the Board of Regents has asked UW institutions to strengthen their efforts at securing extramural gifts, grants and contracts. This was made clear through explicit recommendations in the Regent's "Building our Resource Base" and "Charting a New Course" studies. In December 2004, the Committee heard from UW-Madison and UW-Milwaukee regarding research activities; however, research, scholarly activity, and other extramural activity is also important at non-doctoral institutions.

Ms. Durcan commented that the data shows that many campuses and UW-Extension have experienced fairly significant growth. A good share of federal support to comprehensive campuses is in the form of federal financial aid.

Vice President Durcan remarked that several campuses mentioned the significance of the TRIO program. The TRIO funding at UW-Green Bay has recently been lost, which is a serious concern to all institutions.

Vice President Durcan indicated that UW-Eau Claire actively seeks federal support to underwrite enhanced research experiences for its faculty and students. Over the past four years extramural funding for research has totaled more than \$1 million per year, and in fiscal year 2004, it grew to \$1.9 million. These funds are leveraged with nearly \$500,000 campus funding for faculty and student research collaboration. At the end of 2004, UW-Eau Claire had more than 15 active National Science Foundation (NSF) awards and 9 additional proposals under review.

Ms. Durcan reported that UW-LaCrosse has substantially increased its federal grant awards through a wide variety of programs. Most notable of these is the River Studies Center which, since 1995, has received more than \$9 million in funding to support research and research training on the Mississippi River and its tributaries, lakes in the upper Midwest and laboratory studies. This has provided research opportunities to almost 100 graduate students and more than 200 undergraduate students.

Vice President Durcan pointed out that UW-Stevens Point is the recipient of a five year grant for more than \$12 million from the U.S. Environmental Protection Agency for its “Second Environmental Education and Training Partnership.” Over the past five years, more than 80,000 educators from across the nation have participated in its innovative programs aimed at enhancing state and local environmental education programs.

Sue Foxwell, Research Administrator, UW-Stout, gave perspectives on the connection of research, instruction and service, and how research enhances the teaching and learning experience at her institution. She noted the efforts of faculty in securing grants, and praised WiSys in moving ideas from the laboratory to business and industry. Ms. Foxwell noted that research not only keeps faculty up-to-date in their discipline, but also enables them to incorporate the results into the classroom and laboratory to motivate students.

Bill Campbell, Grants and Research Officer, UW-River Falls gave perspectives on the research enterprise and the challenges surrounding securing extramural funds. He also praised WiSys in moving ideas from the laboratory to business and industry. Mr. Campbell noted that aggressive efforts by the comprehensive institutions to pursue grants have energized younger faculty members. While faculty members were recruited with the expectation that their obligation is to teach undergraduate classes, many also want to engage in research, but find it difficult because of their teaching loads. The best way to achieve this is to bring student assistants into their research projects which give them extra sets of hands in the laboratory.

Regent Rosenzweig asked whether a particular dip in the amount of funding coming to comprehensive campuses was a reflection of cutbacks in federally funded programs. Mr. Campbell responded that the campuses benefit from a variety of gifts and grants; however, federal funding can run on a cyclical basis.

Regent Pruitt commended the progress that the comprehensives have attained overall. The trend lines regarding gifts, grants and contracts are positive. Ms. Foxwell praised the efforts of Kris Andrews, Federal Relations Coordinator for the UW System, in assisting the campuses in identifying federal research priorities and forming collaborations.

Regent Randall suggested that the comprehensive institutions continue with their emerging trend of pursuing statewide collaborations on grants, and that UW System Administration has a role in this collaboration. This is necessary when competing with other statewide initiatives, such as those in California with stem cell research. Ms. Foxwell agreed with Regent Randall’s conclusion that System Administration would be the best organization to provide the coordination on those efforts. The trend for research funding has been to university systems rather than individual institutions.

e. Trust Funds

Assistant Trust Officer Doug Hoerr introduced real estate as the last in a series of discussions with the Committee on various real return asset classes. In general, real assets are expected to provide inflation hedges. The focus for Trust Funds is investing in equity real estate, not debt, of commercial, income-producing properties. Property types include office, industrial, warehouse, retail, and apartment buildings. Real estate equity in the United States is roughly 10% of the capitalization of all equity markets.

Mr. Hoerr noted some major vehicles for investing in real estate. One of these is direct investment in private commercial real estate equity. These assets are properties held as individual assets or in commingled vehicles. Another vehicle for investment is publicly traded equities structured as Real Estate Investment Trusts (REITs).

Assistant Trust Officer Hoerr reported on the sources of expected return, the largest component being net operating income from lease or rental income. The inflation hedging capabilities from this source of return is ambiguous. The other major component of return is capital appreciation. This source of income is driven by supply and demand, and should provide a good hedge against inflation. Total returns over the past 25 years have averaged in the range of 7-12% per year.

Mr. Hoerr commented on the sources of risk, noting that real estate is subject to many familiar economy-wide systematic risks, including the general economic activity level and business cycle. However, real estate also has unique risks, including physical attributes of the property, location and property management expertise. Specific, diversifiable risk is more pervasive in real estate portfolios than in portfolios of most other asset classes, making diversification of risk imperative.

Assistant Trust Officer Hoerr stated that leverage is often used but is not unique to real estate. For example, stocks in companies with debt are leveraged investments. Leveraging raises the risk as well as potential return or loss of real estate investing.

Mr. Hoerr remarked on the differences between public equity REITs and private equity investing. REITs are highly leveraged, but are constantly priced to market, while private real estate valuations are infrequent and appraisal-based. There is a dichotomy of characteristics between public and private real estate investments although the underlying properties are the same.

Assistant Trust Officer Hoerr reported that there is a large discrepancy between top and bottom performing real estate investment managers. Regent Rosenzweig asked whether management fees vary between top and bottom performing managers. Mr. Hoerr responded that there is not necessarily a large dispersion between the fees of managers. Investment management fees tend to be quite competitive.

Mr. Hoerr noted that current market conditions are improving for most property types as the sedate economic recovery continues. The jobless recovery and slow company spending and hiring continue to cloud the market, but at least new construction seems to be stable for most property types except apartments in some markets.

Assistant Trust Officer Hoerr concluded that direct investing in private real estate equity could make sense in the near term. Questions of allocation level, investment vehicle and manager are yet to be determined. The Committee will receive an asset allocation study, including the possible addition of real estate and other real return asset classes, in May.

f. Report of the Vice President

The Committee revisited issues from the biennial budget update. Regent Pruitt asked whether planning is taking place at the institutions to alleviate the recent spike in non-resident tuition. Associate Vice President Harris noted that institutions are analyzing their options. Attracting students from outside the state increases the state's brain gain, and the dramatic increase in non-resident tuition will delay progress toward this goal. Decreasing non-resident tuition would create the need to increase non-resident enrollment to make up for the reduction in revenue. Also, institutions are wary of displacing

Wisconsin resident students. The Return to Wisconsin program is an example of initiatives that attempt to lessen the effect of higher non-resident tuition.

Vice President Durcan commented on the Board's authority to set differential tuition.

According to legal counsel, the Board has the authority to set tuition based upon different classes of students, and it appears that the Board would have the authority to set tuition based upon income level.

Ms. Durcan noted that setting tuition based upon income level is one of several options the Board could consider in the future. During the "Building our Resource Base" study, the Board reviewed other models such as per credit and cohort tuition. A sliding scale could be considered as another model. The UW System would need a fair amount of lead time to change to an income based model due to the fact that the UW System does not currently have income data for all students.

Regent Randall remarked that reports were prepared on each tuition model two years ago as a part of the "Building Our Resource Base" study. He suggested that presentations be given again to remind the Committee of the various tuition options available.

Vice President Durcan reported that the College Savings Board announced that fees are being suspended on the Ed Vest accounts and reduced on the Tomorrow's Scholars' accounts. Other changes that the College Savings Board is considering include the mix of funds as Wells Fargo blends the Strong funds into its investment mix, offering certificates of deposit and the option of a portfolio of funds managed by Wisconsin managers.

Ms. Durcan stated that the Legislative Audit Bureau's A-133 federally mandated audit of federal funds is expected to be released immediately, and university questioned costs were again extremely low, \$50,000 on \$1.1 billion, or .0045%. The fleet audit is expected to be released in May. The economic development audit is expected to be released this summer.

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

No additional items were presented to the Committee.

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

The Committee did not meet in closed session since there were no additional trust fund matters to discuss.

Upon the motion of Regent Pruitt, and the second of Regent Randall, the Business and Finance Committee adjourned at 3:43 p.m.



Eric Engbloom, Recording Secretary