

Minutes
Business, Finance, and Audit Committee
Board of Regents of the University of Wisconsin System
December 8, 2005

The Business, Finance, and Audit Committee met in Joint Session with the Physical Planning and Funding Committee at 12:40 p.m. in room 1820 Van Hise Hall, UW-Madison, to hear a presentation on the UW-Madison: Campus Master Plan Presentation and a report on apportionment of energy costs for the UW System. 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 1:40 p.m.

The Business, Finance, and Audit Committee reconvened at 1:53 p.m. in room 1820 Van Hise Hall, UW-Madison. Present were Regents Pruitt, Connolly-Keesler, Loftus, Randall, and Smith.

a. Approval of Minutes of the November 10, 2005 meeting of the Business and Finance Committee

Upon the motion of Regent Loftus, and the second of Regent Randall, the minutes of the November 10, 2005 meeting of the Business and Finance Committee were approved as presented.

b. Continued Review of University Personnel Policies and Practices: Fixed Term Contracts

Associate Vice President Alan Crist framed the issue of fixed term contracts in terms of whether one type of employer-employee relationship makes the UW System more competitive in recruitment and retention. The UW System must determine whether one method over another provides for more options or greater flexibility in compensation, benefits packages, and job security. UW System employer-employee agreements should be understood by the public and provide the competitive advantage needed to attract and retain top administrators. Finally, of practical importance, UW System employer-employee relationships should provide the balance between employee job security and the need for management flexibility in the face of uncertain level of resources and job expectations.

Patricia Brady, General Counsel, reported that the current limited appointment system is relatively simple. Appointees serve at the pleasure of the appointing authority and can be dismissed without cause. Job security is provided via a concurrent appointment for faculty or academic staff if the appointee is from within the UW System or by the 6-month termination notice/reassignment authorized by the Board in November, 2005 for non-faculty from outside the UW system. The system is established by statute and further defined under university rules, policies, and procedures. The system is flexible and allows for negotiations at the time of termination that may be more favorable to management. However, in some circumstances, the system may result in people continuing employment longer than desired.

Ms. Brady listed some alternatives to the current system, including amending the statute to eliminate limited appointments altogether or using a hybrid model similar to that used for coaches. Hybrid approaches, although similar in practical effect, are more complicated contractual agreements. Agreements must define the circumstances under which termination is possible, typically covering three types of situations: 1) voluntary resignation/retirement; 2) dismissal with cause; and, 3) dismissal without cause. Agreements also provide and define job security, severance pay, liquidated damages, retreat rights, and tenured positions. Agreements tend to be more complex with respect to other benefits. Severance and liquidated damages are, in effect, payments for not working, but this approach clearly defines what must be paid and in which circumstances.

Regent Smith asked whether the UW System President can currently offer hybrid employment agreements. General Counsel Brady responded that it would require a statutory change before the UW System President could offer hybrid agreements.

Regent Pruitt asked if fixed-term contracts would have any effect on compensation offered to university employees. Mr. Crist replied that it is not known at this time, but at every level, UW salaries are well below those offered by peer institutions.

Several Chancellors told the Committee that, in their experience, Wisconsin is nationally known for providing low salaries, but that the state's reputation for educational excellence had, until recently, outweighed those concerns for prospective employees. However, the atmosphere and reputation of the UW System has recently declined.

Chancellor Richard Wells, UW-Oshkosh, commented that the issues of salary and security are both important. It is important for the UW System to find strategies for exiting employees that are beneficial to the university.

UW-Madison Chancellor John Wiley reported to the committee that attention must also be given to compensation of academic staff members, who support the faculty and students on campus. The university cannot operate with faculty alone, and the quality of a university rises and falls with the quality of its people. Employment policies should not tie the hands of university leaders simply to deal with a few unusual cases of misconduct.

Chancellor Martha Saunders, UW-Whitewater, noted that Wisconsin has previously been known to support higher education, and she is very hopeful that recent troubles can be resolved.

Upon the motion of Regent Loftus, and second of Regent Smith, the Committee voted to ask campus chancellors for a recommendation about future employer-employee agreements in the UW System.

c. UW-Madison: Presentation on Conflict of Interest Reporting

Kathleen Irwin, Senior University Legal Counsel, UW-Madison, reported that since 1986, the UW System has required that faculty and academic staff report outside activities on a yearly basis. In 1995, two federal agencies also adopted requirements that recipients of federal funding take certain steps to assure objectivity in federally sponsored research. UW-Madison established a conflict of interest committee through its Graduate School to fulfill its obligations as the recipient of federal grants.

Ms. Irwin noted that until 2003, UW-Madison asked its faculty and staff to submit two separate paper reports listing outside activities and financial interests. One was the form required to comply with UW System requirements, the second to provide the information necessary to allow the university to carry out its responsibilities under the federal provisions. To ease the administrative burdens of compliance, UW-Madison, under leadership of the Graduate School, in 2003, developed a single, electronic form that could serve as the basis for evaluation of financial interests under the federal requirements and also provide all the information required by the UW System.

Regent Axtell joined the meeting at this time.

Senior University Legal Counsel Irwin stated that UW-Milwaukee joined the pilot in 2005 and has a similar process in place. The system was audited at both UW-Madison and UW-Milwaukee. The new electronic form is an improvement over the old paper forms and it meets the requirements of university administrative code.

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

Resolution I.2.c.

That, upon the recommendation of the Chancellors of UW-Madison and UW Milwaukee, and the President of the UW System, the Board approves the use of an electronic reporting system consistent with that described in Attachments A and B for purposes of compliance with Chapter

UWS 8, Wisconsin Administrative Code at UW-Madison and UW-Milwaukee, and further authorizes any UW System institution to implement such a system, if it chooses.

d. Audit Issues

(2) Process for Operations Review

Regent Connolly-Keesler briefly discussed the process that the Committee follows for program reviews conducted by the Office of Operations Review and Audit.

(1) Review of Audit Scope for Segregated Fees

Regent Eileen Connolly-Keesler, Regent audit liaison, and Ron Yates, UW System Director of Operations Review and Audit, led a committee discussion of the proposed review of segregated fees within the UW System.

Regent Loftus asked whether segregated fees used for capital projects could also be used for operational costs, and whether it would take a vote by the Board of Regents to remove the fees after the building is completed. Regent Loftus and Regent Randall suggested that it would be useful to have an understanding of the process, including whether or not segregated fees can be used for operational costs once building projects are completed.

Regent Randall agreed that specific documentation of the segregated fees, including sunset clauses, should be added so that it is clear how long students will pay segregated fees on building projects.

Mr. Yates replied that segregated fees can be used for operational costs such as maintenance of buildings. The university should clearly document how the funds will be used.

Assistant Vice President Freda Harris commented that each campus goes through a process to review segregated fees every year. This review involves students, who determine whether there are continuing operational costs that need to be paid. Chancellor Sheppard, UW-Green Bay, affirmed that student committees review segregated fees every year and decide whether to continue funding for each project.

Regent Loftus asked whether differential tuition is classified as tuition or student fees. Vice President Debbie Durcan stated that differential tuition is classified as tuition. The consensus of the Committee was to not include differential tuition in a review of segregated fees.

Mr. Yates indicated that the review will need to look not only at compliance, but also at the process that is followed by the campuses, the UW System, and the Board. The Committee unanimously agreed to approve the segregated fee review as outlined in the scope document.

(3) Quarterly Status Update: Operations Review and Audit

Director Yates mentioned the projects that the office is currently working on, including reports on police and security operations, early-return-to-work efforts, oversight of student organizations, and tuition waivers. Also, the office is continuing with the ongoing financial compliance review of academic fees.

Director Yates reported that the Legislative Audit Bureau (LAB) has been conducting three UW System-related projects: (1) an overall review of the UW System's personnel policies and practices, with a letter report on the issue of employees with records of felony convictions is expected to be completed in early 2006; (2) a review of the state's economic development programs, including programs in the UW System, is ongoing; and, (3) the annual statewide single audit of major federal programs for fiscal year 2004-05 is in progress and will be released in March, 2006.

e. Trust Funds Issues

(1) Follow-up on Investment Forum

Assistant Trust Officer Doug Hoerr provided a summary of the forum held on November 10th. The forum was very well attended compared to prior years. Regents in attendance were the Committee members, as well as Regents Walsh, Axtell, Crain, and Semenas. Public attendees and speakers were predominately students, both undergraduate and graduate, but there were faculty members as well. In all, there were 26 speakers.

Mr. Hoerr noted that the predominate topic at this year's forum involved investments in companies that do, or allegedly do business with or in the State of Israel. Companies mentioned included Caterpillar and many military contractors. While a majority of the speakers stated their support for a general divestment from Israel, including those associated with The Palestinian Right to Return Coalition and the Alternative Palestinian Agenda, there were also speakers who spoke out against any such divestment. The main contentions of those speaking for divestment related to concerns over potential human rights violations, including discrimination.

Assistant Trust Officer Hoerr cited other issues of concern, including weapons makers. Companies mentioned included General Dynamics, Lockheed Martin, and Raytheon. Speakers also discussed companies that allegedly violate workers' rights, mentioning Abercrombie & Fitch, American Eagle Outfitters, and Wal-Mart.

Mr. Hoerr reported that many speakers stated their belief that the UW System and the Board are not following their own policies relating to investments and social responsibility. However, for the most part, these policies do not address what kinds of holdings are permissible and not permissible. The exception to this is Policy 78-2 which states that companies, "employing persons in nations which by their laws discriminate on the basis of race, religion, color, creed or sex" will be divested. This policy goes on to state that, "[t]he University of Wisconsin System's investment counsel and its Trust Officer shall bring to the attention of the Business and Finance Committee reports of the existence of laws in any other country that require companies doing business in such country to practice or condone discrimination on the basis of race, religion, color, creed or sex. The Business and Finance Committee shall investigate such reports with a view to determining whether Resolution 1590 shall be applied to investments in companies employing persons in the country in question."

Assistant Trust Officer Hoerr noted that the other policy most cited by the public is Policy 97-1, "Investment and Social Responsibility," the most relevant part of which states: "the Board acknowledges the importance of maintaining an awareness of public concerns about corporate policies or practices that are discriminatory or cause substantial social injury, and it will take this factor into account." The Policy goes on to state various ways in which the Board will maintain and enhance its awareness of social concerns, including the annual forum, and a proxy reporting service. This policy does not state what specifically the Board will or will not do with such awareness of public concerns.

Mr. Hoerr concluded his remarks by commenting that a careful reading of the policies as they stand today show that neither specific investment holdings nor current Board actions or inactions are in violation of these policies.

Regent Pruitt indicated that he had received additional communication from the Wisconsin Divest from Israel Campaign which he would share with the Board.

f. Business, Finance, and Audit Committee Goals and Plans for 2005-2006

Vice President Durcan reviewed the goals and plans for the coming year. The Committee will continue to be charged with oversight of the investments, and serve as the Audit Committee. The Committee's review of personnel policies is winding down, but there is still the issue of compensation to recruit and retain quality faculty, staff, and academic leaders. The UW System is about to embark on the biennial budget process and the Committee will focus on the overriding goals of the Board of Regents,

including improving access to the UW System and increasing baccalaureate degrees in Wisconsin during this process.

Regent Connolly-Keesler asked whether the Board of Regents can roll back non-resident tuition. Vice President Durcan noted that the Board of Regents has the authority to reduce non-resident tuition.

Regent Smith stated that the Committee should take the lead in dealing with the important issues of financial aid and tuition at the February meeting. Regent Pruitt expressed his agreement.

Regent Randall remarked that the Committee should focus attention on compensation. There needs to be a strategy and the Committee should make it a top priority to come to a resolution on this issue. Regent Pruitt and Regent Connolly-Keesler expressed their agreement.

Regent Loftus, noting that the Committee is currently clearing the decks of controversy, stated that the Committee should look forward to focusing on ways of growing the UW System over the next year. Regent Loftus suggested that the Committee should explore an alternative form of “student-based” budgeting.

Regent Randall asked for a report card of the Board of Regents stewardship of UW System resources. The Committee should then provide these facts to the Legislature in order to show them that the Board is doing what it is being asked to do.

g. Overview of Differential Tuition

Assistant Vice President for Budget and Planning Lynn Paulson provided background on the process used to develop and initiate differential tuition programs within the UW System. Differential tuition proposals are developed on the campuses. Student input is provided and incorporated into the proposal using the student involvement guidelines approved by the Board of Regents. Preliminary differential tuition proposals are shared with all Chancellors during in-person meetings. Feedback from the Chancellors may be used to further develop the proposal. The full proposal is then submitted to UW System Administration, addressing the following components:

- Proposed special tuition rate;
- Expected resulting revenue;
- Enrollment assumptions;
- Peer analysis;
- Market demand data; and,
- Rationale for use of funds.

Mr. Paulson noted that UW System Administration staff work with the campus to ensure that all components are adequately addressed in the proposal. If approved by the UW System President, the proposal is presented to the Board of Regents, and students are given the opportunity to state their opinion of the proposal. Final approval rests with the Board of Regents.

The Committee, along with the chancellors in attendance, discussed the consistency of the process, the drivers of differential tuition, and how it impacts quality and access.

Regent Connolly-Keesler asked why the vast majority of differential tuition programs have been initiated since the year 2003. Vice President Durcan commented that several differential tuition programs were initiated during the time when the Board was focusing a great deal of attention on building resources. Differential tuition was to support marks of excellence.

Regent Axtell expanded on this point, noting that these programs were developed during the Board’s “Charting a New Course for the UW System” and “Building our Resource Base” studies. All differential tuition programs have been done for a specific purpose with a specific goal in mind. For example, UW-Platteville’s regional enrollment differential tuition plan boosted the recruitment of out-of-state students with the goal of bringing in 2,000 students over the next several years.

President Reilly stated that differential tuition plans are employed to increase the quality of campus programs. Students are becoming increasingly aware that these programs are important in order to replace the continuing reduction in the share of state funding for the UW System.

Chancellor Douglas Hasted, UW-La Crosse, added that these programs are often initiated by students themselves. Differential tuition programs should not only be viewed as a cost but also as an investment in students' education.

Regent Loftus and Regent Randall focused on the need to get a true idea of what an education costs. The Committee should also focus on the drivers of costs that are ratcheting up tuition both in the State of Wisconsin and nationwide.

h. Business of the Committee

(1) UW-Whitewater Food Services Contract Extension

Vice President Durcan gave a brief overview of the food services contract extension at UW-Whitewater.

Upon the motion of Regent Smith, and the second of Regent Randall, the Committee approved Resolution I.2.h.(1).

Resolution I.2.h.(1)

That, upon recommendation of the President of the University of Wisconsin System and the Chancellor of the University of Wisconsin-Whitewater, the Board of Regents approves a three-year contract extension with the provision of an additional year if construction is not completed on the current timeline with Chartwells providing Dining Services to the University according to existing contract provisions.

i. Report of the Vice President

Vice President Durcan reported on discussions held at the Big 10 Business Officers Meeting. Michigan State University is charging an energy fee of \$65 per semester and the University of Illinois is considering charging \$125-\$150 per semester. Regarding the endowment spending rate, the UW System is comparatively conservative, as most are in the 4.5-5 percent range. Regent Randall stated that the Board should seriously consider implementing an energy surcharge.

Ms. Durcan remarked that, thus far, there are about 700 veterans and family members taking advantage of the new veterans' remission provisions passed as part of the 2005-07 biennial budget, resulting in \$900,000 in lost tuition and \$100,000 in lost segregated fees in one semester. The UW System will need to decide whether to request funding through the 13.10 process, or this could be another budget cut for our campuses. Regent Connolly-Keesler stated that the Committee should not wait to request funding until the biennial budget process and should request funding through a 13.10 request.

Vice President Durcan commented that a new version of the Taxpayers Bill of Rights (TABOR) will be introduced in the next several weeks. The Committee previously invited the various authors of TABOR proposals to discuss the impact their bills might have on access and tuition. The Board passed a resolution last session which outlined its grave concerns over the use of the constitution to limit spending. If the bill proceeds, an analysis of the newest proposal and further background information will be prepared for the committee to consider at the next Board meeting. Regent Pruitt stated that the Committee should invite speakers to discuss the impact of TABOR on the university.

Ms. Durcan stated that the UW System has received the first bill from the Department of Administration (DOA) representing 50 percent of the fiscal year 2006 billing for Governor Doyle's

Accountability, Consolidation, and Efficiency (ACE) initiative savings and investment costs. The total bill owed by the end of the fiscal year will be about \$1.4 million.

j. 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 Connolly-Keesler, the Business, Finance, and Audit Committee adjourned to Closed Session at 3:55 p.m. Present were Regents Pruitt, Connolly-Keesler, Loftus, Randall, and Smith.

The Business, Finance, and Audit Committee adjourned at 4:15 p.m.


Eric Engbloom, Recording Secretary