

Minutes  
Business, Finance, and Audit Committee  
Board of Regents of the University of Wisconsin System  
February 9, 2006

The Business, Finance, and Audit Committee met at 12:32 p.m. in room 1920 Van Hise Hall, UW-Madison. Present were Regents Pruitt, Connolly-Keesler, Loftus, Rosenzweig, and Smith. Regent Randall joined the meeting via telephone. Regent President Walsh was also present.

**a. Approval of Minutes of the December 9, 2005 Meeting of the Business, Finance, and Audit Committee**

Upon the motion of Regent Smith, and the second of Regent Rosenzweig, the minutes of the December 9, 2005 meeting of the Business, Finance, and Audit Committee were approved as presented.

**b. Overview of Regent Action Relating to Chancellor Salary Ranges and Process for Review and Assessment of Chancellor Salaries**

Regent Pruitt remarked that the salary disparity problem of UW System senior executives must be resolved. While this may not happen overnight, the Board has to make progress. The UW System cannot expect to be competitive on a national scale if it does not pay competitive salaries. Under-compensating chief executives does not work for leading Wisconsin companies like S. C. Johnson and Miller Brewing, and it will not work on UW System campuses.

Regent Pruitt added that adopting the salary ranges will enable the Board of Regents to compensate UW System executives individually, appropriately, and competitively. He reminded the Committee that this action would not set the salaries of individual university senior executives, but rather set the ranges into which those salaries must fall.

Associate Vice President for Human Resources Alan Crist stated that the salary range is determined by Board of Regent policy which calls for the mid-point of the senior executive salary range to be set at 95 percent of the average paid by peer universities across the country. The Board of Regents has not adjusted these ranges since November, 2004.

Mr. Crist reiterated that the UW System competes in a national market for the faculty and university leaders. UW chancellors' salaries are, on average, between 8 percent and 17 percent below peer medians. Even as such inequities exist, the university must continue to establish salary ranges for university leaders as part of the pay plan process, which applies to faculty, academic staff, and state employees. In addition, a periodic review and assessment of individual chancellor compensation would allow for adjustments as needed, given competitive factors and salary inequities, as allowed by State Statutes.

Regent Loftus, noting that salary range peer groups were set in 1984, asked about the peer groups that the UW System uses to form its salary ranges. Some universities within the groups have evolved over time, and it may be time to revisit them. He also asked whether the Board has the authority to adjust the peer groups. Associate Vice President Crist listed the universities which make up the peer groups for UW System campuses. A different set of comparable campuses are used for the salary ranges for UW-Madison, UW-Milwaukee, and the comprehensive campuses. The Board has the authority to adjust the peer campuses. Darrell Bazzell, Vice Chancellor for Administration at UW-Madison, commented that the peer groups were established through negotiations and agreement with the State Legislature. The Committee agreed that it would not be beneficial to modify the peer groups at this time.

Regent Loftus asked how many academic leaders' salaries this adjustment in salary range would affect. Mr. Crist commented that no one would receive a pay raise as a result of this action, but rather the ranges into which those salaries must fall would be adjusted. The salary ranges for thirty individuals would be affected.

President Reilly, citing the recent search for a chancellor at UW-Eau Claire, shared with the committee the comments from two business community members, Charles Grossklaus and Pat Quinn, who served on the search and screen committee. They stated that the chancellor is one of the most important investments the campus will make. To grow in business there must be a willingness to put capital behind investment decisions. They urged the UW System to make sure that compensation issues do not preclude UW-Eau Claire from hiring the best possible candidate. The input from the two business leaders also raised the possibility of using private monies to supplement the salary of the chancellor.

Regent Rosenzweig, who chaired the Regents' search and screen committee for the UW-Eau Claire chancellor position, endorsed those comments, saying that the community was passionate about the search. The community felt strongly about the need for excellence in the chancellor. The proposed salary ranges are being watched by the public, and she noted her support for them.

Regent Connolly-Keesler added that the positive feedback regarding competitive salaries is not limited to the city of Eau Claire. People from all over the state are saying that in order to fill these positions with good people, the UW System must offer competitive salaries.

Regent Randall cautioned against other entities contributing to chancellors' salaries. He stressed that this could be counter-productive, citing an example from the University of Georgia. The UW System needs strong leadership recruited through a process that is transparent and inclusive.

### **(1) Approval of 2006-07 Salary Ranges for University Senior Executives**

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

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

Whereas, s. 20.923 (4g), Wis. Stats., gives the Board of Regents the authority to establish salary ranges for: System President; Senior Vice Presidents; Chancellors; UW-Madison Vice Chancellor; and, UW-Milwaukee Vice Chancellor; and

Whereas, s. 230.12 (3) (e), Wis. Stats., provides that the Board of Regents must recommend salary ranges for the Vice Presidents and non-doctoral institution Vice Chancellors to the Director of the Office of State Employment Relations; and

Whereas, the Senior Executive Salary Policy (Regent Policy Document 94-4 as amended October 10, 2003) specifies that UW senior executive "salary ranges shall be adopted by resolution by a majority of the full membership of the Board of Regents in open session by roll call vote at a regularly scheduled meeting, for the ensuing fiscal year, after review of peer salary survey information;" and

Now, therefore be it resolved;

That, the proposed university senior executive salary ranges as set forth in the attached table (Appendix A) are constructed according to RPD 94-4; and

That, in accordance with Wisconsin statutes and Regents Executive Salary Policy, the Board adopts new salary ranges for university senior executives in senior executive salary groups three through nine as set forth in Appendix A; and

That, in accordance with Wisconsin statutes, directs the System President to advise the Director of the Office of State Employment Relations of the recommended dollar values of the new market based salary ranges for university senior executives in senior executive salary groups one and two as set forth in Appendix A.

## **(2) Process for Review and Assessment of Chancellor Salaries**

The Committee discussed the recommendation that the President of the UW System periodically perform a review and assessment of individual Chancellors' salaries to determine whether there is a need for an adjustment to recognize competitive factors or correct salary inequities among executive leadership, as allowed by law. The Committee endorsed the new process as a step in the right direction.

### **c. Establishing Competitive Nonresident Tuition to Subsidize Resident Students**

Associate Vice President Freda Harris stated that, between 2001-02 and 2004-05, the UW System lost about 900 nonresident undergraduate students. This decline began immediately after the large increases in nonresident tuition rates that occurred in 2001-2003 which resulted in nonresident tuition rates that are significantly higher than peer institutions. This reduction in students and revenue has increased each year and now amounts to approximately \$13 million in lost tuition revenue each year. If the proposed nonresident tuition rates are implemented next fall, undergraduate out-of-state students would save about \$2,000 on their current average cost of about \$14,300.

Ms. Harris reported that because these nonresident enrollments pay more than the cost of their education, they generate significant additional resources which subsidize Wisconsin resident enrollments enhancing both access and the quality of services for all students. The proposed new lower tuition rate for students who come from other states is expected to make it possible to educate even more students from Wisconsin by increasing the number of nonresident students, thereby increasing overall revenue.

Associate Vice President Harris asked the Committee to approve the nonresident undergraduate tuition plan for 2006-07. The plan will not displace any Wisconsin students. Rather, the move is expected to attract more students from outside the state, who pay more in tuition to subsidize costs for resident students.

Regent Loftus asked why there is a need to lower nonresident tuition if the number and percentage of incoming freshman nonresident students were at a high in 2005. Ms. Harris stated that some institutions have gone outside the state and recruited very heavily. Regent Connolly-Keesler noted that the UW-Platteville regional enrollment differential tuition plan boosted their recruitment of out-of-state students. Ms. Harris added that the UW-Platteville initiative lowered nonresident tuition below regular nonresident tuition. Most other comprehensive campuses and UW-Milwaukee are seeing reduced revenue due to the drop in nonresident students. Vice President Durcan remarked that the strong number of nonresident students at UW-Madison skew the results when looking at the UW System as a whole.

Regent Loftus raised questions about how the comprehensive institutions would be able to handle the short term impact of reduced revenue due to reducing nonresident tuition. Associate Vice President Harris stated that the UW System expects that revenue would be static for the first year, but then increase in subsequent years. She added that the potential downside of this plan is minimal at no cost to the state.

Several Chancellors commented that there is a short term risk in reduced revenue, but the comprehensive institutions would be able to attract higher numbers of students from outside of Wisconsin which would make up for the lower tuition rate. This plan would give Chancellors more flexibility to attract more nonresident students.

UW-La Crosse Chancellor Doug Hastad remarked that the proposal is a win-win situation for the UW System, the state, and students. This is a strategy that makes tuition more affordable for out-of-state students while at the same time increases revenue. The state would benefit due to the brain gain of recruiting out-of-state students. Also, UW System students will gain from the increased geographic diversity on campus.

UW-Oshkosh Chancellor Rick Wells pointed out that the system for financing public higher education is broken in the State of Wisconsin as it is elsewhere in the country. He noted that, for better or worse, we are slowly evolving toward a financing model already used at Miami University of Ohio where the same tuition is assessed residents and nonresidents alike and state support of the university is provided as financial aid to subsidize resident students.

UW-Green Bay Chancellor Bruce Sheppard commented that substantial aid given to students attending some private institutions, such as St. Norbert College in De Pere, Wisconsin, has effectively priced those institutions lower than the nonresident tuition rate at UW-Green Bay.

Regent President Walsh asked whether the negative trend of nonresident enrollments will level off once other state's tuition rates catch up to the UW System. Associate Vice President Harris stated that it would take a long time for that to happen. This proposal would send a message to prospective nonresident students and immediately help Chancellors in their recruitment efforts.

Executive Senior Vice President Don Mash stated that the comprehensive institutions have recognized for several years that high nonresident tuition was pricing them out of the market. The nonresident tuition proposal would bring rates closer in line with where they should be, and give Chancellors much needed flexibility during tight fiscal budgets.

Upon the motion of Regent Connolly-Keesler, and the second of Regent Smith, with Regent Randall voting in opposition, the Committee approved Resolution I.2.c.

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

Whereas, nonresident undergraduate tuition has increased dramatically over the last five years, largely as a result of the 5 percent annual tuition surcharges that were mandated by the legislature and the Governor during the 2001-03 biennium; and

Whereas, in 2005-06 nonresident undergraduate tuition at UW-Milwaukee is \$3,138 above its peer midpoint, and the UW Comprehensive universities' nonresident undergraduate tuition is \$2,592 above their peer midpoint; and

Whereas, the UW System has seen a reduction of more than 900 nonresident undergraduate students since 2001-02, with price likely playing a significant role; and

Whereas, the Board of Regents' Tuition Policy Principles state that "nonresident rates should be competitive with those charged at peer institutions and sensitive to institutional nonresident enrollment changes and objectives;" and

Whereas, nonresident tuition covers not only the full cost of educating a nonresident student, but also provides a subsidy that will increase access and/or services for resident students;

Therefore, be it resolved that, upon the recommendation of the President of the University of Wisconsin System, the Board of Regents approves a nonresident undergraduate tuition plan for 2006-07 that would set nonresident undergraduate tuition at all UW System institutions, except UW-Madison, at a level that will cover the full cost of educating a student while also providing the equivalent of the average state support for a resident undergraduate student.

#### **d. 2006-07 Annual Distribution Adjustments**

Associate Vice President Freda Harris reported that Wisconsin Act 25 provides an additional \$1,666,000 in 2006-07 for retention of high demand faculty. The budget increases funding for the Lawton Undergraduate Minority Retention Grant by \$313,100 and the Advanced Opportunity Program

(AOP) by \$272,700 in 2006-07. The budget provides an increase of \$6,821,500 for utilities in 2006-07. The 2005-07 biennial budget provided an additional \$1.7 million in 2006-07 to meet student needs for instructional technology and information access. Allocation of this funding is proportional to 2004-05 combined academic year and summer session tuition budgets excluding the student technology fee.

Ms. Harris commented on campus specific funding, noting that the budget provides \$105,000 General Purpose Revenue (GPR) to UW-Platteville in 2006-07 to fund the expansion of an engineering program at UW-Fox Valley. The budget replaces some GPR with tuition revenue in the budget for the UW-Platteville Rock County engineering initiative.

Associate Vice President Harris stated that the 2005-07 biennial budget includes additional administrative reductions and decreases reallocations in 2006-07, including a return of the one time \$20 million asset management savings, an increase in required administrative reductions from \$15 million to \$20 million, and a decrease in the additional Joint Finance Committee (JFC) imposed reductions from \$15 million to \$10 million.

Ms. Harris discussed the distribution adjustments for compensation. The 2005-07 unclassified pay plan, approved by the Joint Committee on Employment Relations (JCOER) in July 2005, provides phased increases for 2006-07 of two percent to be paid on July 1, 2006 and an additional 1 percent paid on April 1, 2007. Regarding the 2005-07 nonrepresented classified pay plan, it provides phased increases with 2 percent and an additional 1 percent paid on the same dates.

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

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

That, upon recommendation of the President of the University of Wisconsin System, the Board of Regents approves the 2006-07 annual distribution adjustments.

#### **e. Annual Financial Report**

Ginger Hintz, Director of Financial Reporting, provided an overview of the UW System fiscal year 2005 Annual Financial Report. The UW System received an unqualified opinion from the Legislative Audit Bureau (LAB).

Ms. Hintz commented there was an increase in Net Assets in fiscal year 2005. Major factors that contributed to the decline in Net Assets in the prior fiscal year of 2004 included a \$68.3 million decline in State Appropriations, with an additional \$4.9 million decline in fiscal year 2005. Also capital contributions decreased \$46.2 million in fiscal year 2004, but rebounded \$51.7 million in fiscal year 2005.

Director Hintz reported that Working Capital in fiscal year 2005 totaled \$427.1 million representing 46 days of operating expenses, meaning that the UW System could support normal operations for 46 days without additional revenue or liquidating Noncurrent Assets.

Ms. Hintz remarked that the Current Ratio indicates the university's ability to meet short-term debt obligations. This ratio declined to 1.9, but still indicates good short-term financial flexibility. A Current Ratio of 1.0 or greater is considered acceptable for most businesses.

Director Hintz noted that Current Assets increased 13.6 percent, whereas Current Liabilities increased 21.2 percent. Noncurrent Assets increased 5.6 percent and Noncurrent Liabilities increased 17.3 percent. Capital Assets, net of accumulated depreciation, make up 70.2 percent of all UW System assets.

Director Hintz remarked on Operating and Nonoperating revenues. Student Tuition and Fees increased 10.5 percent and total Grants and Contracts increased 10.7 percent, whereas State Appropriations decreased .5 percent. This was in addition to the 7.0 percent decrease last year.

Ms. Hintz reported that a 10-year comparison of current funds revenue shows a percentage increase in State Appropriations of 15.5 percent. Tuition rose 126.7 percent. Other sources rose 85.6 percent. The overall total rose 65.7 percent.

Director Hintz stated that the 10 year percent change adjusted for inflation shows that State Appropriations decreased 9.3 percent. Tuition rose 77.9 percent. Other sources rose 45.7 percent. The overall total rose 30 percent.

Ms. Hintz commented on operating expenses by natural classification. Salary and Fringe Benefits make up 67.6 percent of operating expenses, a reduction of .2 percent from the prior fiscal year.

Director Hintz commented on operating expenses by functional classification. Institutional Support decreased by 4.5 percent and Financial Aid increased 39.5 percent.

Ms. Hintz discussed auditor communication, noting that the UW System evaluates audit adjustments, and, if in agreement with them, will make a correction. Some are considered immaterial to the financial statements and are not made. The auditors identified four audit adjustments that were made and three that were not.

Regent Loftus asked for additional information that would show the funding provided by students versus the State of Wisconsin for certain UW System capital projects. Associate Vice President Doug Hendrix stated that information concerning this breakdown would be provided.

#### **f. Trust Funds Annual Report**

Assistant Trust Officer Doug Hoerr reported that, as opposed to the quarterly reports focusing purely on investment results, the Annual Report provides a more complete picture of the entire Trust Funds operation for the fiscal year. It is meant to serve as a management and oversight tool for senior management and the Board and as a communication piece for existing donors, potential donors, the public, and UW campuses that have, or may in the future have, monies invested with Trust Funds.

Mr. Hoerr stated that as the Board explores more fully the possibility of pooling the assets of smaller UW Foundations for investment purposes on a voluntary basis, this report will be one useful communication piece. To date, UW-Milwaukee, UW-Stevens Point, UW-Platteville, UW-River Falls, and UW-Stout, have expressed interest.

Assistant Trust Officer Hoerr highlighted a few key items from the 2005 Annual Report. Total net assets grew to almost \$370 million, up from \$346 million a year ago. Contributions totaled \$8.6 million, down from \$12.8 million. Disbursements to UW institutions totaled \$18.4 million, down from almost \$20 million in 2004. The bulk of 2005 disbursements went toward research and student aid.

Assistant Trust Officer Hoerr highlighted investment returns. The Long Term Fund posted a strong gain of 12.3 percent versus 10.9 percent for the policy index. This return was strong compared to U.S. stocks and bonds which returned only 6.3 percent and 6.8 percent, respectively. The Long Term Fund benefited greatly from the diversifying exposure to international, emerging market, and private equities, as well as successful active management. The Intermediate Term Fund gained 5.5 percent versus 4.8 percent for the benchmark index. This was a decent year for intermediate bonds due to some decline in intermediate and longer term interest rates, which provided for some price appreciation. The Income Fund returned 2.1 percent versus 2.0 percent for 30-day Treasury bills. This return was low, but better than last year's 1 percent.

Assistant Trust Officer Hoerr made a few comments on expenses and fees. Total investment management expenses as a percent of assets for the Long Term Fund and Intermediate Term Fund combined were 0.63 percent in 2005 versus 0.54 percent in 2004. The increase was due to higher allocations to higher fee asset classes, primarily emerging market equities and private equity. Administrative expenses amounted to 0.14 percent in 2005 versus 0.11 percent in 2004.

## **g. Committee Business**

### **(1) Quarterly Gifts, Grants, and Contracts**

Vice President Debbie Durcan stated that total gifts, grants, and contracts for the six-month period ending December 31, 2005 were almost \$600 million, a decrease of \$63 million from the comparable period of the previous fiscal year. Further information will be provided at the committee's March meeting regarding trends in extramural funding.

### **(2) UW-River Falls Food Services Contract Extension**

Regent Randall asked whether the UW-River Falls food services contract extension was proposed in order to avoid changing contracts during a period of construction. Vice President Durcan responded that the primary reason for the proposed contract extension was to provide stability during construction. UW-River Falls will be transitioning from two dining service operations into one new facility in January, 2007. This transition will cause great disruption and adjustments to all retail and board services as existing equipment is being removed from the current facilities and moved into the new Student Center.

Regent Randall asked whether students are satisfied with the food service vendors. UW River-Falls Chancellor Don Betz commented that student satisfaction is high in all aspects of the program. Chartwells, the current vendor, is willing to honor the current pricing structure. He added that the extension of the existing food service contract with Chartwells would allow completion of its new Student Center and complete a full year's operation of the new food service facility with the current contractor.

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

#### **Resolution I.2.g.(2)**

That, upon the recommendation of the President of the University of Wisconsin System and the Chancellor of the University of Wisconsin-River Falls, the Board of Regents approves a two-year contract extension with Compass Group doing business as Chartwells to provide dining services to the University according to existing contract provisions.

### **(3) UW-La Crosse Food Services Contract Extension**

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

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

That, upon the recommendation of the President of the University of Wisconsin System and the Chancellor of the University of Wisconsin-La Crosse, the Board of Regents approves a three-year contract extension, with the provision of an additional one-year option, with Compass Group doing business as Chartwell's, to provide Dining Services at the University of Wisconsin-La Crosse, according to existing contract provisions.

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

Vice President Durcan stated that, in December, she reported that there were over 700 veterans and family members who had applied for the new veterans' remission benefits passed as part of the 2005-07 biennial budget. This is a significant unfunded mandate roughly estimated at more than \$900,000 in

lost tuition revenue and over \$100,000 in lost segregated fee revenue for each semester. Now there are two proposals in the legislature that would further expand these benefits to increase the veterans' remission rate to 100 percent and to increase eligibility to veterans who have resided in the state for ten years rather than just having been Wisconsin veterans. UW System staff are currently developing estimates as to the additional fiscal impact. As additional information is collected, it appears the lost revenue could be much greater.

Ms. Durcan reported the overall fiscal impact of remitting tuition for students affected by Hurricane Katrina was about \$600,000. Regent Pruitt added that the UW System should take pride in what it has done to help the victims of Hurricane Katrina.

Vice President Durcan stated that the current estimated utility shortfall for fiscal year 2006 is about \$1.8 million. It is hoped that the unusually warm January will help to offset the increasing prices.

Ms. Durcan commented on an upcoming meeting with the Legislative Audit Bureau (LAB) regarding their letter report on felons. LAB is hopeful to have the exit conference on that report by the end of the month.

Vice President Durcan remarked that the UW System expects the Joint Audit Committee to approve the request for an audit of major information technology systems in the near future. She also reported the good news that the UW System received the first distribution of licensing revenue from WiSys Technology Foundation Inc.

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

No additional items were presented to the Committee.

The Business, Finance, and Audit Committee adjourned at 2:50 p.m.

  
Eric Engblom, Recording Secretary



**Appendix A**

**Calculated 2006-07 Regent Salary Ranges for  
Senior Executive Groups 3 through 9 Using Peer Survey Results & RPD 94-4 Formula**

	SEG	<u>2004-05 Peer Group Survey Results</u>			<u>Using RPD 94-4 2006-07 Regents Salary Range</u>		
		<u>Highest</u>	<u>Lowest</u>	<u>Median</u>	<u>Minimum</u>	<u>Midpoint</u>	<u>Maximum</u>
<b>System President</b>	<b>9</b>	\$468,000	\$250,000	<b>\$316,692</b>	\$279,707	<b>\$310,786</b>	\$341,864
<b>UW-Madison Chancellor</b>	<b>8</b>	\$484,500	\$270,000	<b>\$348,500</b>	\$307,800	<b>\$342,000</b>	\$376,201
<b>UW-Milwaukee Chancellor</b>	<b>7</b>	\$525,000	\$219,251	<b>\$284,763</b>	\$251,507	<b>\$279,452</b>	\$307,397
<b>UW-Madison Vice Chan</b>	<b>6</b>	\$299,500	\$170,000	<b>\$270,000</b>	\$238,468	<b>\$264,965</b>	\$291,461
<b>Senior Vice Presidents</b>	<b>5</b>	\$380,000	\$201,550	<b>\$239,160</b>	\$211,230	<b>\$234,700</b>	\$258,170
<b>UW-Milwaukee Vice Chan</b>	<b>4</b>	\$364,000	\$195,750	<b>\$220,000</b>	\$194,307	<b>\$215,897</b>	\$237,487
<b>Chancellors</b> (Non-Doctoral Institutions)	<b>3</b>	\$296,792	\$150,000	<b>\$199,400</b>	\$176,113	<b>\$195,681</b>	\$215,249

**Calculated 2006-07 Regent Salary Ranges for Senior Executive Groups 1 and 2 Using Peer Survey  
Results & RPD 94-4 Formula  
For Information Purposes to the Director, Office of State Employment Relations**

	SEG	<u>2004-05 Peer Group Survey Results</u>			<u>Using RPD 94-4 2006-07 Regents Salary Range</u>		
		<u>Highest</u>	<u>Lowest</u>	<u>Median</u>	<u>Minimum</u>	<u>Midpoint</u>	<u>Maximum</u>
<b>Vice President</b> (Business and Finance)	<b>2</b>	\$215,200	\$136,600	<b>\$182,859</b>	\$161,504	<b>\$179,449</b>	\$197,394
<b>Vice Chancellors</b> (Non-Doctoral Institutions)	<b>1</b>	\$195,750	\$114,915	<b>\$150,000</b>	\$132,482	<b>\$147,203</b>	\$161,923

2/10/06