

Minutes
Business, Finance, and Audit Committee
Board of Regents of the University of Wisconsin System
October 5, 2006

The Business, Finance, and Audit Committee met in Joint Session with the Physical Planning and Funding Committee at 12:45 p.m. in the Pioneer Student Center, UW-Platteville, to hear a presentation on the UW-Platteville campus plan and about the development and fundraising challenges at a comprehensive institution. 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 1:45 p.m.

The Business, Finance, and Audit Committee reconvened at 1:55 p.m. in the Pioneer Student Center, UW-Platteville. Present were Regents Pruitt, Connolly-Keesler, Burmaster, Randall, Rosenzweig, and Smith. Regent Vice President Bradley and Regent Shields (nominated) were also present.

a. Approval of Minutes of the August 17, 2006 Meeting of the Business, Finance, and Audit Committee

Upon the motion of Regent Smith, and the second of Regent Connolly-Keesler, the minutes of the August 17, 2006 meeting of the Business, Finance, and Audit Committee were approved as presented.

b. Midwest Higher Education Compact: Benefits for Wisconsin Presentation by President Larry Isaak and Commissioner and Chancellor Emeritus John Kerrigan

UW-Oshkosh Chancellor Emeritus John Kerrigan, who serves as a Commissioner of the Midwest Higher Education Compact (MHEC), briefly noted the benefits of the collaborative opportunities for members. He remarked that MHEC's goals are a good fit for the UW System, and the whole focus is on what is best for students.

Larry Isaak, President of MHEC, stated that MHEC was established in 1991 at the urging of interested state lawmakers. The organization promotes interstate cooperation and resource sharing among colleges and universities in 11 states, and directs programs related to cost savings, student access, and policy research.

Mr. Isaak said MHEC also sponsors regional conferences where representatives of colleges and universities can share ideas about the future of higher education and its role in developing a state's workforce. In addition, the collaborative allows for state legislators and academic leaders to have unique conversations about the direction of higher education.

Mr. Isaak stated that Wisconsin has saved nearly \$7 million in recent years by participating in cost savings programs offered through MHEC and opportunities exist to save even more. In 2004-05, Wisconsin institutions saved nearly \$1 million through voluntary participation in purchasing programs for computer hardware and software, office products, and telecommunications. Overall, Wisconsin saves less than other states, but the UW System is not able to take advantage of all the opportunities MHEC offers, such as state-wide property insurance.

Regent Connolly-Keesler asked for more details on the MHEC property insurance program. Mr. Isaak reported that the MHEC property insurance program allows participating states to pool their purchasing power. The six participating states saved a total of nearly \$4 million in 2004-05. Ruth Anderson, Assistant Vice President for Procurement, noted that the UW System was interested

in participating in the MHEC insurance program, but the Department of Administration (DOA) wanted the university to remain pooled in the state-wide insurance program with other state agencies. Mr. Isaak noted that other colleges and universities, such as the University of Minnesota, have been granted authorization from their states to participate in the MHEC insurance program.

Mr. Isaak commented on the benefits of the MHEC student exchange program. Several UW campuses also now participate in the Midwest Student Exchange Program, which makes it possible for students to attend college in other states at competitive tuition rates when space is available. The program is designed to allow colleges and universities to offer opportunities for access that benefit both students and institutions.

Mr. Isaak also described MHEC's new initiative called e-Transcript, which allows MHEC public and private high schools and colleges to efficiently provide student transcripts at reduced costs to students and institutions. Before the launch of this program, providing student transcripts were still largely paper-based.

Mr. Isaak presented a number of interesting indicators comparing Wisconsin to the other MHEC states, national averages, and in some instances, best performing states. He stated Wisconsin's reputation is still quite high as reflected in the indicators but there are also some challenges.

Upon completion of the discussion on the Midwest Higher Education Compact, with no objection from the Committee, Regent Pruitt changed the order of the agenda items.

f. Review of Regents' Position on Domestic Partner Benefits

UW System General Counsel Pat Brady provided background on and reviewed the possible impacts of the proposed amendment to the Wisconsin Constitution concerning marriage. She noted that the second sentence in the amendment would not allow Wisconsin to recognize a legal status identical or substantially similar to marriage. This language creates uncertainty on the ability of employers to provide domestic partner benefits and uncertainty about what benefits the university or state would be able to provide to employees.

The Committee heard about the importance of domestic partner benefits from the perspective of three representatives of the business community: Carrie Madson, Vice President, Human Resources of Footlocker.com, Inc., Jennifer Alexander, President of the Greater Madison Chamber of Commerce, and Mary Ann Reichling, Director of Benefits and Compensation of Lands' End, Inc.

Ms. Madson noted that Footlocker, which has locations in Wausau, Green Bay, and Oshkosh, previously changed one of the company's local insurance plans which left it unable to offer domestic partner benefits for a period of time. When this occurred, the company lost some key people. The company has now negotiated the ability to be able to again offer these benefits, and the company will make them available to domestic partners.

Ms. Reichling reported that Lands' End added domestic partner benefits as an option for its 3,000 full-time employees four years ago. The company felt it was not competitive in attracting some candidates for key positions due to the fact that other retailers offer these benefits. Lands' End does not offer benefits to domestic partners of the opposite gender because of the opportunity for marriage. The company requires employees eligible for these benefits to sign a declaration of domestic partnership to ensure that they are in a committed relationship.

Ms. Alexander said that the Greater Madison Chamber of Commerce recently took an official position opposing the state's proposed marriage amendment. She said the Madison area is home to many high-tech businesses, including university spin-offs that attract educated workers who prefer work environments that are open and welcoming.

Ms. Alexander stated that the proposed amendment creates uncertainty about the benefits employers could offer, and uncertainty is not a word that businesses generally embrace. Operating in a globally competitive environment is largely about workforce, and businesses are very concerned

about that competitive nature. The organization's board feels that it cannot afford to discourage a single worker.

Regent Pruitt noted that other colleges and universities around the country, including all Big 10 schools except UW-Madison, offer domestic partner benefits. He reminded the Committee that the Board has already taken a position affirming the importance of offering such benefits. The Board took that position on the basis of fairness and competitiveness. The proposed amendment could hurt the university's ability to recruit and retain faculty and staff, and tie the hands of future Boards and Legislatures. The Committee should approve a resolution to take a formal position with respect to the proposed constitutional amendment.

Regent Shields (nominated) remarked that many students have contacted him voicing their opposition to the proposed constitutional amendment. He stated his strong opposition to the proposed constitutional amendment, and hoped that the UW System would be able to offer domestic partner benefits in the future.

Regent Smith said that he has heard concerns from campus representatives about how the lack of domestic partner benefits negatively impacts recruitment, retention, and the overall working atmosphere. These representatives urged the Board to approve this resolution in opposition to the proposed constitutional amendment.

Regent Randall asked what action beyond this resolution the UW System would take in opposition to the proposed constitutional amendment. President Reilly stated that the UW System would follow normal procedures concerning public notification of Board action. Also, the Board's position would be shared during conversations with Legislators regarding the recruitment and retention of UW System employees.

Upon the motion of Regent Pruitt, and the second of Regent Connolly-Keesler, with Regent Randall voting no, the Committee approved Resolution I.2.f.

Resolution I.2.f.

WHEREAS, the Board of Regents, in Resolution 8817, endorsed state group health insurance for domestic partners of all state employees, and requested that group health insurance premiums for domestic partners of University of Wisconsin System employees be funded in the same way as for all other state employees; and

WHEREAS, more than 150 colleges and universities now offer health insurance benefits to domestic partners, including all Big Ten Schools except UW-Madison; and

WHEREAS, thousands of private employers across the United States currently offer domestic partner health benefits, including companies both headquartered, and doing business in Wisconsin such as Alliant Energy, CUNA Mutual Insurance Group, Oscar Mayer, Ameritech, Northern States Power, American Express, General Motors, and DaimlerChrysler; and

WHEREAS, the lack of domestic partner medical benefits, further limits the UW System's ability to recruit faculty and staff; and

WHEREAS, the recruitment and retention of high-quality faculty and staff is predicated on an inclusive climate that supports all individuals; and

WHEREAS, both branches of the Wisconsin State Legislature have approved a joint resolution to amend the state's constitution by creating a new section 13 of article XIII with the following language: "Only a marriage between one man and one woman shall be valid

or recognized as a marriage in this state. A legal status identical or substantially similar to that of marriage for unmarried individuals shall not be valid or recognized in this state;" and

WHEREAS, on November 7, 2006, this proposed amendment will be brought before the voters of the state of Wisconsin; and

WHEREAS, by prohibiting recognition of a legal status identical or substantially similar to that of marriage for unmarried individuals, the amendment, if adopted, would create substantial uncertainty, including potential legal challenges, about the ability to provide employment benefits to domestic partners."

BE IT THEREFORE RESOLVED that, the Board of Regents stands in opposition to the proposed Constitutional Amendment Concerning Marriage.

c. Audit Update

(1) Academic Performance Standards in Division I and II Athletic Coaches' Contracts

Ron Yates, Director, Office of Operations Review and Audit, reported on the recently completed review of academic performance standards in Division I and II athletic coaches' contracts. The review was requested by Regent Randall at the March 9, 2006 Committee meeting.

Mr. Yates stated that the review found that many, but not all, contracts for athletic directors and coaches include a specific clause addressing the academic performance of student-athletes. Even though not all contracts include academic performance standards, administrators reported that the academic performance of student-athletes is routinely considered as part of job performance evaluations.

Director Yates commented that the report suggests that the Board of Regents consider requiring that all athletic directors' and coaches' contracts include an academic performance clause, especially for contracts at Division I institutions that are subject to potential National Collegiate Athletic Association (NCAA) penalties under their Academic Progress Rate standards.

Regent Burmaster warned of the possibility of pressure or even coercion on faculty members if the Board included academic performance standards in coaches' contracts. She worried that this may encourage poor behavior and could lead to grade inflation. Given what the NCAA is already doing regarding academic performance standards, she wondered what the Chancellors thought about standards within coaches' contracts.

UW-Green Bay Chancellor Shepard noted that UW-Green Bay has not had any problems with grade inflation. There are no separate advisory systems, tutors, or other special services for student-athletes; they are treated the same as other students. He remarked that academic performance standards within coaches' contracts are probably not necessary. For example, the UW-Green Bay basketball program uses its high graduation rate as a player recruitment tool.

UW-Parkside Chancellor Keating agreed with Chancellor Shepard, noting that the NCAA has recently improved in this area. Progress toward graduation is a better measure than waiting for six year graduation rates. Also, Division II collegiate athletics are vastly different from Division I concerning student-athlete academic performance.

Michael Viney, Assistant Chancellor, Student Affairs, UW-Platteville, further explained how Division I and Division II athletics differ. He pointed out that over the last four years, UW-Platteville's student-athletes scored higher academically than the overall student population.

Regent Randall noted that the NCAA has an obligation concerning student-athlete academic performance, and so does the Board of Regents. UW System schools face sanctions if performance mandates are not met, and the Board should clearly define who is accountable for meeting those standards.

Chancellor Shepard stated that Chancellors are responsible for their respective athletic programs. Chancellor Keating agreed, commenting that Chancellors are accountable.

Regent Pruitt encouraged Committee member input to Regent Randall and Audit Director Yates on options for the Board. The Committee will revisit this topic at the November meeting.

d. Committee Business

(1) Statutorily Mandated Report: Serving Adult Students of the University of Wisconsin through Biennial Budget Appropriations

Gail Bergman, Acting Director, Office of Policy Analysis and Research, provided a summary of this statutorily mandated report on 100 percent tuition funded courses serving adult and non-traditional students. The report shows that UW institutions served 13,671 students and generated 68,000 credits last year. This is a slight increase, three percent, in credit activity generated by adult students over the previous academic year. The number of adults served is slightly less. It is hoped that the Adult Student Initiative will be funded to help increase the number of adults served.

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

Resolution I.2.d.(1)

That, upon recommendation of the President of the University of Wisconsin System, the Board of Regents accepts the report on Cost Recovery Activity, Credit Enrollment and Unduplicated Student Headcount by Program and Age, 2005-06 Academic Year for submission to the Joint Committee on Finance.

(2) Discussion of DOA 2007-09 Budget Instructions

Freda Harris, Associate Vice President for Budget and Planning, reviewed budget preparation instructions from the State Department of Administration (DOA), stating that the instructions require state agencies, including the UW System, to prepare plans to absorb a ten percent reduction on non-Federal administrative activities. The instructions ask agencies to look beyond across-the-board cuts and review the agencies' missions and priorities, integrate programs, and consolidate functions. They further suggest that agencies should plan to accomplish this reduction without layoffs.

Ms. Harris noted that administrative reductions and the requirement to submit reduction plans have occurred in the past. In 1999-01, the state asked agencies to submit a 95 percent base budget plan. However, the UW System was exempted from having to submit a plan by the Governor. In 2003-05, state agencies were again asked to submit a 95 percent base budget plan. The UW System was not exempted from this plan, and was required to detail how it would manage with about \$49 million less in state funding. The 2003-05 biennial budget resulted in the UW System reducing its General Purpose Revenue (GPR) funding, some of which was offset by tuition revenue increases, resulting in a net reduction of \$40 million.

Associate Vice President Harris remarked that the UW System is required to submit plans to reduce its GPR funding by an estimated \$14.1 million for the 2007-09 biennia. The 2005-07 biennial budget required the UW System to take \$30 million of ongoing reductions, which was more than double the planned amount. In addition, the UW System was required to lapse \$20 million for asset management, and reduce expenditures by \$5 million in each year due to procurement savings.

UW-Madison was required to reduce its base budget by \$500,000 per year on top of the systemwide requirements.

Ms. Harris stated that, in spite of these reductions, the UW System has continued to be effective, efficient, and productive. A December 2005 National Center for Higher Education Management Systems (NCHEMS) study ranked Wisconsin among the five most productive state systems and public sectors of higher education relative to their resources. Since 1995-96, the UW System has increased enrollments by 13,298 full-time equivalent (FTE) students. At the same time the UW System absorbed nearly \$250 million in GPR funding cuts, and reduced GPR FTE staff by 438.

Associate Vice President Harris commented that the UW System spends 57 percent less than the national average in dollars per student for institutional support, the category of expenditures higher education refers to as administration. The UW System would have to increase funding for institutional support by more than \$100 million to reach the national average. The UW System also spends 28 percent less than the Midwest average in dollars per gross square foot for operations and maintenance of facilities. The UW System continually searches for new ways to become more efficient. However, given the need to help increase the number of baccalaureate degrees in Wisconsin, the state may wish to consider allowing the university to retain its base resources to help advance the growth agenda.

Ms. Harris noted that at the November, 2006 Board meeting, a budget reduction plan is slated for review. That plan will include some opportunities for savings that were included in the Charting the Course study recommendations and were part of the 2005-07 reduction plans, such as allowing the UW System to participate in Midwestern Higher Education Compact (MHEC) and other purchasing consortia. However, these savings would only account for about half of the administrative savings requirement. The other half would require each UW System institution to make significant reductions that could impact mission-critical areas like internal audit, police operations, libraries, and counseling services.

Assistant Chancellor Viney, UW-Platteville, gave the Committee a campus perspective of how the significant budget cuts of recent years have impacted students at UW-Platteville. The Division of Student Affairs has cut services and clerical staff while the campus has grown by 450 students over the prior two years.

Mr. Viney gave examples of areas where support staff levels have been reduced. Areas that provide direct services to students, such as counseling, are lean, with no middle management positions and are relying more heavily on student employees. UW-Platteville reassigned 2.7 out of 9 FTE within the residence halls to various areas around campus.

Assistant Chancellor Viney stated that UW-Platteville has been forced to identify services and shift them from GPR funding to Program Revenue (PR) or student fee funding. This has been done reluctantly and with great hesitation.

Regent Rosenzweig asked for more details on the increased use of student fees at UW-Platteville. Mr. Viney listed several examples. He noted that counseling students with mental health and violence problems has been on the rise across the UW System. The issue is becoming increasingly important at a time when fewer resources are serving increasing numbers of students.

President Reilly commented that past budget cuts have hollowed out the core of services to students. UW institutions are being forced to substitute student fees for areas previously funded through GPR. Building construction funding is relying increasingly on private donations. Also, funding for administrative and support positions are essential to the success of the UW System Growth Agenda and Wisconsin Covenant.

Regent Burmaster left the meeting at this time.

e. Trust Fund Items**(1) 2006 Proxy Season Voting Results**

Tom Reinders, Investment Portfolio Analyst, Office of Trust Funds, reported that the 2006 proxy season saw the filing of about 330 proposals related to social issues, only about half of which came to votes. Categories of proposals that won strong support this year included the following requests of companies: expand or report on their fair employment policies, disclose their political contributions and policies, and report on their sustainability. In contrast, resolutions asking companies to drop equal employment protections for gay employees fared poorly.

g. Report of the Vice President

Vice President for Finance Debbie Durcan, in response to Regent Rosenzweig's comments at the prior Committee meeting, introduced Senior Executive Vice President Don Mash to review the university's strategic information technology decision with respect to the Appointment, Payroll, Benefits System (APBS) project.

Senior Executive Vice President Don Mash stated that the UW System will not complete the implementation of the system-wide APBS utilizing Lawson software. The decision was prompted by the difficult implementation effort and the timing of the opportunity presented by the state's DOA decision to implement its Integrated Business Information System (IBIS) initiative with Oracle/PeopleSoft Enterprise Solutions.

Senior Executive Vice President Don Mash provided the Committee with background information on the UW's large-scale information technology (IT) projects in relation to the success or failure of similar projects around the world. He reported that only 30 percent of similar projects over the last ten years were completed successfully on time, on budget, and fully functional, and nearly 20 percent of these projects failed. The Legislative Audit Bureau is currently looking at the APBS project in conjunction with their audit of large IT projects statewide.

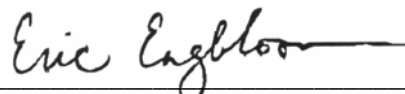
Regent Rosenzweig suggested that she and Committee Audit Liaison Regent Connolly-Keesler look at the scope of an internal review of the project prior to the November meeting.

Vice President Durcan provided a document expanding on last month's Committee discussion on goals and objectives for 2006-07. The document included information provided by Regent Connolly-Keesler obtained from the Association of Governing Boards (AGB), which may have helpful ideas to incorporate into the Committee's agenda setting and priorities. The Committee will further explore this at the next meeting.

Ms. Durcan noted that two legislatively required annual reports were filed: the Auxiliary Reserves Report and the Report on Base Salary Adjustments Due to Competitive Factors. Regents received copies of the reports and no questions were noted.

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

Upon the motion of Regent Smith, and the second of Regent Rosenzweig, the Business, Finance, and Audit Committee adjourned at 4:24 p.m.



Eric Engbloom, Recording Secretary