

Minutes  
Business, Finance, and Audit Committee  
Board of Regents of the University of Wisconsin System  
July 12, 2007

The Business, Finance, and Audit Committee met at 10:30 a.m. in room 205, Pyle Center, UW-Extension, on the UW-Madison campus. Present were Regents Smith, Connolly-Keesler, Burmaster, and Shields. Regents Crain and Thomas were also present.

**a. Approval of the minutes of the June 7, 2007 meeting of the Business, Finance, and Audit Committee**

Upon the motion of Regent Connolly-Keesler, and the second of Regent Burmaster, the minutes of the June 7, 2007 meeting of the Business, Finance, and Audit Committee were approved as presented.

**b. Review of Selected UW System Expenditure Trend Data**

Vice President Debbie Durcan reported that total expenditures increased by \$1.5 billion or 63.5 percent over the period from 1997 to 2006. State supported expenditures peaked in fiscal year 2003 at over \$860 Million and were only \$40 Million higher in 2006 than 10 years earlier. Restricted General Purpose Revenue (GPR) expenditures, predominately utilities and debt service, have grown by about \$100 Million. Tuition funded expenditures have more than doubled growing from about \$400 million to almost \$850 million. Beginning in 2005, tuition expenditures exceeded GPR expenditures. The UW is becoming more reliant upon tuition to fund the general operations of the university. Federal expenditures and gifts, grants and contracts have almost doubled in the ten years.

Vice President Durcan stated that, when looking at the expenditures based upon functional classification, the largest share is spent on instruction. Instructional expenditures have grown by almost \$440 million over the ten year period. Expenditures for research are the next largest category and almost twice the amount of ten years ago. Student support services have increased by 50 percent as have academic support services. Institutional support, or pure administration, has decreased in four of the last five years. Expenditures for financial aid have more than doubled in the last 10 years.

Ms. Durcan noted that the UW System is a labor intensive business. While there has been modest growth in salaries over the past ten years, when adjusted for inflation, salary expenditures have been virtually flat since fiscal year 2002. Salary expenditures were about \$1.2 billion in fiscal year 1997 and \$1.7 billion in fiscal year 2006.

Vice President Durcan reported that health care expenditures have seen large increases since 2000. Costs have more than doubled over the past ten years going from \$123 million to \$305 million, averaging about 15 percent per year. After adjusting for inflation, costs have basically doubled. The University is part of the state-wide health insurance program and does not separately contract for health insurance.

Ms. Durcan stated that utility expenditures were relatively flat from 1997 until 2000; however, they have been on an upward trend since that time. Utility expenditures were about \$58 million in 1997 and were \$127 million in 2006. Expenditures for electricity have risen from almost \$8 million to more than \$54 million, accounting for 14 percent of the total utility costs in 1997 and 43 percent of the costs in 2006. Expenditures for coal have gone from less than \$2 million to slightly more than \$20 million, a ten fold increase. Utilities purchases and energy contracts are controlled by the state. There have been energy savings initiatives, but the savings have not offset the price increases. The UW System has added new space in the ten year period and it is generally more efficient than the space it replaces.

Upon the completion of the expenditure trend data discussion, with no objection from the Committee, Regent Smith changed the order of the agenda items.

#### **d. Committee Business**

##### **(1) UW-La Crosse: Exclusive Soft Drink Pouring Rights and Vending Rights Contract**

Joe Gow, Chancellor, UW-La Crosse, asked the Committee to approve a seven year contract with Pepsi Cola Bottling of La Crosse for exclusive rights to provide fountain and vending beverage services to the institution. Key elements of the proposed contract include new energy star rated equipment in all vending locations, new fountain service equipment in dining service areas, and limited presentation of competitor products in selected locations. The contract is expected to generate over \$201,000 per year for the institution for a total of over \$1.4 million during the contract period. He noted that UW-La Crosse is committed to working with students to determine the most effective and beneficial uses of the pouring rights revenues.

Two UW-La Crosse student representatives, Briana Hanson and Ryan Vanloo, spoke in favor of the contract. They noted that students were involved in the process, support the proposal, and are passionate about where the revenue generated by the contract will be used.

Regents Rosenzweig, Falbo, and Bartell joined the Committee meeting at this time.

Regent Burmaster asked whether a term of seven years is typical for pouring rights contracts. Rich Lampe, Senior Procurement Specialist, responded that typical contracts vary from five to seven years in length.

Regent Connolly-Keesler asked Chancellor Gow to report back to the Committee on what UW-La Crosse decides to do with the pouring rights revenues.

Upon the motion of Regent Connolly-Keesler, and the second of Regent Shields, 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 and the Chancellor of the University of Wisconsin-La Crosse, the Board of Regents approves a seven-year contract with Pepsi Cola Bottling of La Crosse to provide exclusive soft drink fountain and vending services to the University effective August 15, 2007.

#### **c. Review of UW System Banking Programs**

Vice President Debbie Durcan opened the discussion regarding UW System campus identification (ID) cards and institutions' relationships with banking organizations. Some UW System campuses partner with private banks to provide students with multi-function ID cards that also serve as financial tools.

Ruth Anderson, Assistant Vice President, Administrative Services, reported that the all-in-one campus ID cards are sophisticated tools. They are multi-purpose access tools that allow access to campus facilities, vending and laundry machine purchases, as well as many other things.

Assistant Vice President Anderson stated that UW-Stout contracted with Higher One Bank for service five years ago. A single card allows electronic disbursement of student loan residuals, the financial aid dollars left over after tuition is paid. Prior to the one card program, the Bursar's Office issued over 16,000 paper checks each year. Last semester 66 percent of students received refunds electronically through their Higher One account, allowing UW-Stout to save \$76,000. Other UW institutions, such as UW-Oshkosh, pursued the bankcard to offer students ATM/Debit card bank features on their ID card.

Ms. Anderson stated that UW campuses receive revenue through revenue sharing provisions of these banking contracts. At UW-Stevens Point, a majority of the revenue sharing funds go towards scholarship awards. At UW-Eau Claire, funds go towards the University Centers which provides student

programming and food services. At other campuses, the revenue pays for the ID card office or to offset the costs of continuing to issue paper checks.

Assistant Vice President Anderson reported that none of the all-in-one cards can be used as a credit card. Similar to home bank accounts, students may incur charges if they overdraw their accounts. Students have the option of obtaining overdraft protection so they do not incur these fees. UW campuses will benchmark current overdraft rates in the marketplace and negotiate with the vendors to ensure reasonable overdraft charges.

Regent Falbo commented that overdraft charges seldom occur since a vast majority of transactions are approved at the point-of-sale. Also, it can be difficult to obtain a valid comparison when evaluating overdraft fees at different banks.

Ms. Anderson stated that, with respect to the procurement process followed, three campuses used a formal request for proposal process and four campuses “piggybacked” on an original contract. Piggybacking is a standard practice, whereby if one campus has used an official procurement process, then another can use that agreement to enter into an additional contract.

Assistant Vice President Anderson noted that advisory boards are a common business practice. UW System employees participate on advisory boards to advocate for change in company services and products to benefit students and the UW System. Typically boards are established to garner customer feedback. UW System employees who participate on advisory boards are governed by conflict of interest and ethical standards set out in statute and administrative code.

Tom Sonnleitner, Vice Chancellor for Administrative Services, UW-Oshkosh, and Andrew Soll, Vice Chancellor of Business and Student Services, UW-Eau Claire, described the campus card programs at their respective campuses. They emphasized the “opt-in” nature of the banking programs and noted that many students choose not to participate in the financial functions of all-in-one cards. The participation rate at UW-Oshkosh is roughly 10 percent of the student body. However, these agreements were entered into in response to student demand for them.

In response to Regent Bartell’s question regarding disclosure to students, Vice Chancellor Sonnleitner stated that UW-Oshkosh discloses information about the program with student governance groups and during student orientation. Vice Chancellor Soll noted that UW-Eau Claire prints a brochure for students outlining the features of the program. Regent Bartell commented that these programs are valuable to students; however, campuses have a greater responsibility for disclosure once a bank logo is printed on a university card.

Vice Chancellor Sonnleitner reported that UW-Oshkosh received a one-time payment of \$30,000 from US Bank and annual payments of \$15,000. The revenue goes to support the operational costs for their card program and their Academic Initiatives fund which supports new or expanded academic services. Banking is not the university’s core business; education is, so the campus needs to find partners that can provide banking services.

Regent Rosenzweig asked whether chancellors receive any benefits for sitting on advisory boards. Regent Falbo remarked on the involvement of UW System chancellors on community advisory boards. Chancellors may or may not get paid for sitting on advisory boards. The involvement of leaders like campus chancellors is crucial for the ability of a bank to maintain community connections.

Richard Wells, Chancellor, UW-Oshkosh, stated that his work on a local community advisory board for US Bank helps enhance the bank’s service to the community. He added that he routinely excludes himself from any discussions involving the bidding or vendor selection process for the campus or community to ensure that there is no conflict of interest.

Regent Connolly-Keesler stated her approval of the all-in-one card programs. She noted her discomfort with banking contracts where a member of the campus sits on the bank’s advisory board. She asked for information related to how campuses disclose details of the banking programs.

Kevin Reilly, UW System President, noted that people continue to ask the UW System to look for ways to generate revenue. Banking contracts are a way for the UW System to be more entrepreneurial.

The Committee emphasized the need for transparency and full disclosure of information related to banking card terms, fees, overdraft penalties, and revenue sharing agreements. A document will be prepared showing this information and presented to the Committee at a future meeting.

## **(2) WiSys Technology Foundation, Inc. Contract**

General Counsel Pat Brady discussed modifications to the WiSys Technology Foundation contract in relation to the establishment of a new research foundation serving UW-Milwaukee. The established agreement with the WiSys Technology Foundation is being modified to exclude UW-Milwaukee as it is seeking to establish its own technology transfer function.

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

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

That, upon recommendation of the President of the University of Wisconsin System and the Chancellor of the University of Wisconsin-Milwaukee (“UWM”), the Board of Regents approves the attached contract with WiSys Technology Foundation, Inc. (WiSys), as amended to reflect UWM’s withdrawal from WiSys, and to indicate that the agreement is no longer a pilot project.

## **(3) UWM Research Foundation Contract**

General Counsel Brady noted that UW System legal staff worked with UW-Milwaukee staff to develop an agreement with the newly formed UW-Milwaukee Research Foundation (UWMRF). The agreement establishes a technology transfer arrangement that parallels the arrangement between UW-Madison and the Wisconsin Alumni Research Foundation (WARF), and is intended to be consistent with the agreements of comprehensive institutions with WiSys. The agreement will provide for UWMRF management of inventions resulting from externally-funded research at UW-Milwaukee, with licensing revenues being divided among the Foundation, UW-Milwaukee, and the inventor.

Carlos Santiago, Chancellor, UW-Milwaukee, remarked that, as a research institution, UW-Milwaukee needs to have an organization that supports its intellectual property in a broad way. UW-Milwaukee is very appreciative of the support WiSys has given. However, licensing, patenting, and disclosures are just one component of a larger research infrastructure and intellectual property transfer program. UW-Milwaukee would like to initiate business startup initiatives and fellowship and grant programs. UW-Milwaukee has the resources and is at the stage to utilize UWMRF in this capacity. The UWMRF will be an important component of the campus’s research agenda.

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

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

That, upon recommendation of the President of the University of Wisconsin System and the Chancellor of the University of Wisconsin-Milwaukee, the Board of Regents approves the attached contract with the University of Wisconsin-Milwaukee Research Foundation for the provision of intellectual property management services to the University of Wisconsin-Milwaukee.

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

Vice President Debbie Durcan reported that, since the June Committee meeting, both the Senate and the Assembly passed their versions of the 2007-09 biennial budget. President Reilly will present to the full Board regarding the budget in the context of the Board's future deliberation on tuition.

Associate Vice President Freda Harris provided information on the differences between the Senate and the Assembly versions of the budget and their impact on the UW System. The Senate version is similar to the Joint Finance version with a few exceptions. It reduces funding for the UW-La Crosse Growth Agenda, and provides \$5 million in 2008-09 in one-time General Purpose Revenue (GPR) funds to the UW-Madison School of Medicine and Public Health for lung cancer research. The funds must be matched with gifts and grants from private sources. The version also adds back domestic partner benefits, includes the requested statutory language change regarding telecommunications funds, as well as some of the graduate tuition remission benefits for veterans. The Senate version capital budget adds back the State Building Commission's recommendations for union projects at UW-Madison and UW-Eau Claire and the six residence hall projects that were not included in the Joint Finance version of the budget.

Associate Vice President Harris noted that the Assembly Budget includes base budget reductions of \$96 million for the UW System. It also removes all public funding for public television and radio and includes other reductions to proposed increases for the 2007-09 biennium. When combined with the budget reductions, the Assembly package represents a reduction of more than \$139 million in GPR/Fees from the Joint Finance version.

Ms. Harris stated that, with regard to financial aid, the Assembly budget:

- Caps tuition and non-allocable segregated fee increases at 4 percent per year for the next four years unless the non-allocable increase is authorized by a student referendum;
- Reduces funding for WHEG-UW, which provides financial aid to low-income students;
- Removes all funding in the Higher Educational Aids Board (HEAB) for Veteran's remissions;
- Provides no increase for the WHEG-WTCS and the Tuition Grant programs, which provide need-based financial aid to students attending technical colleges and private institutions, respectively;
- Level-funds the Minority Undergraduate Retention Grant program;
- Provides no increase in funding for the Lawton Minority Undergraduate Retention Grant program;
- Reduces the Advanced Opportunity Program;
- Creates new loan forgiveness programs for physicians and veterinarians that would be administered by the Higher Educational Aids Board; and,
- Removes tuition remissions for certain undocumented persons.

Associate Vice President Harris reported that, with regard to employee compensation and benefits, the Assembly Budget:

- Reduces the funds in the Compensation Reserve by \$94 million during the biennium;
- Requires nonrepresented classified and unclassified state employees to pay the first 5 percent of earnings as employee contributions to the Wisconsin Retirement System;
- Requires that employees contribute 10 percent of the cost for state health insurance premiums for coverage rather than the current 6 percent;
- Reduces sick leave benefits for new non-protective status state employees to 6 days from 16.25 days; and,
- Removes the Governor's proposal to pick up health insurance of new employees at the beginning of the third month.

Ms. Harris stated that the Assembly budget increases the projected lapse amount by \$35 million to \$75 million annually. It also increases revenue needed from the sale of state assets and includes the UW System on the list of agencies from which the Department of Administration (DOA) could sell state-owned properties and deposit the net proceeds to the general funds.

Regent Rosenzweig asked what the process would be if the budget is not completed by September. Ms. Harris commented that the Legislators will go into conference committee to continue working on completing the budget. Completing the budget is a lengthy process and the difference between the Senate and Assembly versions is very large compared to budgets of the past.

President Reilly added that discussion on the budget would continue in more depth at the full Board meeting on the following morning. The UW System needs to set tuition levels in the near future, and this would be difficult without knowing what will be included in the final budget.

Vice President Durcan reported that, at the end of June, Minnesota and Wisconsin negotiated a new reciprocity agreement effective for the fall of 2008. Under the new agreement, students would be charged the higher of the two tuitions; however, there is an option for the state to provide a supplement for the students. She also commented that, beginning next year, Minnesota is proposing a \$2,000 per semester differential between resident and nonresident tuition. This is an explicit brain gain strategy that will be interesting to watch.

Ms. Durcan stated that the Tuition and Financial Aid Advisory Group held its second meeting on June 27. The group reviewed the principles for tuition and financial aid policies and made one minor modification. The group discussed differential tuition, tuition stratification, the use of tuition for financial aid, and options for providing additional financial aid to students from the lowest income quintiles based on several options. The group concluded that the UW System should consider:

- Using system-wide differentials to provide greater stratification;
- Supporting the use of funds from institutional and programmatic differentials for financial aid;
- Developing a system-wide process for reviewing all differential tuition programs on a regular basis and providing a report back to the Board;
- Developing a vision for financial aid; and,
- Determining the role of the Colleges and how its tuition should be set.

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

No additional items were presented to the Committee.

Upon the motion of Regent Shields, and the second of Regent Connolly-Keesler, the Business, Finance, and Audit Committee adjourned at 12:20 p.m.



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Eric Engbloom, Recording Secretary