

Minutes  
Business, Finance, and Audit Committee  
Board of Regents of the University of Wisconsin System  
November 8, 2007

The Business, Finance, and Audit Committee convened at 1:00 p.m. in room 1920, Van Hise Hall, UW-Madison. Present were Regents Smith, Connolly-Keesler, Rosenzweig, and Shields.

**a. Approval of the Minutes of the October 4, 2007 Meeting of the Business, Finance, and Audit Committee**

Upon the motion of Regent Connolly-Keesler, and the second of Regent Shields, the minutes of the October 4, 2007 meeting of the Business, Finance, and Audit Committee were approved as presented.

**b. Trust Funds: Acceptance of Bequests over \$50,000**

Vice President Debbie Durcan reported on eight individual bequests of \$50,000 or more with a total value of approximately \$4,486,000. Regent Connolly-Keesler asked Vice President Durcan why one specific large bequest was not set up as a separate endowment or carry the donor's name within the general scholarship fund instead of an unnamed gift to the general scholarship fund. Vice President Durcan deferred to Vice Chancellor Darrell Bazzell, UW-Madison, who responded that he was not familiar with the specifics of the bequest in question but would follow-up on the matter and get back to the Committee with an answer.

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

**Resolution I.2.b.1**

That, upon the recommendation of the President of the University of Wisconsin System and the Chancellors of the benefiting University institutions, the bequests detailed on the attached list be accepted for the purposes designated by the donors, or where unrestricted by the donors, by the benefiting institution, and that the Trust Officer or Assistant Trust Officers be authorized to sign receipts and do all things necessary to effect the transfers for the benefit of the University of Wisconsin.

Let it be herewith further resolved, that the President and Board of Regents of the University of Wisconsin System, the Chancellors of the benefiting University of Wisconsin institutions, and the Deans and Chairs of the benefiting Colleges and Departments, express their sincere thanks and appreciation to the donors and their families for the generosity and their devotion to the values and ideals represented by the University of Wisconsin System. These gifts will be used to sustain and further the quality and scholarship of the University and its students.

### **c. UW System Strategic Planning Framework: Discussion on Operational Excellence and Resources**

Vice Chancellor Darrell Bazzell, UW-Madison, presented the Committee with a summary of the first meeting of the Operational Excellence working group. The group has defined its charge as providing the highest quality service at the most cost effective manner in a way that is driven by the mission of the system. Mr. Bazzell reported that the group determined that the group's efforts should take a systemwide perspective and include not only administrative areas and programs, but also teaching, research and public service.

Mr. Bazzell stated that the group defined operational excellence as getting value for cost and a system that is flexible and nimble. Core competencies were identified and the need to maximize and leverage those areas of expertise recognized. Examples of UW System core competencies include teaching and research. The group also acknowledged that System may not have the expertise needed in all the required core competency areas and may need to look in other places to gain that expertise.

Vice Chancellor Bazzell reported that both challenges to, and opportunities for, achieving operational excellence were identified. The group discussed how to prioritize its efforts and what criteria to use when considering the challenges and opportunities. Vice Chancellor Bazzell mentioned a few criteria were focusing on aspects that have a significant impact on System's mission, making sure to identify things that are doable, and to not lose focus on students.

Mr. Bazzell reported that the group decided to focus on three primary areas: 1) internal and external regulations; 2) processes; and, 3) improving teaching and learning. The next step for the group is to identify criteria to guide the formation of group's recommendations and then bring specific recommendations forward to the committee. The group anticipates having their work done by early December of this year.

Regent Rosenzweig noted that the legislature is focused on information technology projects and expenses and that the group should take that into consideration when determining areas of focus. Regent Connolly-Keesler added that auditing issues should be included in the group's discussion about regulations as well as the best way to have an audit presence at all campuses. Regent Smith inquired about whether the building process regulation issue is internal or external. Vice Chancellor Bazzell responded that it is primarily an external issue.

Associate Vice President Freda Harris, Office of Budget and Planning, presented the Committee with a summary of the first meeting of the Resources working group. The goal of the Resources group is to balance, diversify, and grow the system's financial resources and facilities while developing human talent.

Associate Vice President Harris commented that the Resources group reviewed sources of revenue, primarily composed of tuition and fees, as well as additional revenues from the state of Wisconsin, federal government, corporations and private sector organizations, campus foundations, and other sources such advertising, and partnering with private organizations.

Ms. Harris reported that the Resources group spent time envisioning what adequate resources would support, such as increasing the percentage of citizens with post

secondary degrees, improved UW system accessibility and affordability, and recruitment and retention of high quality faculty.

Ms. Harris summarized the Resources group's discussion concerning revenue enhancement strategies. Strategies were divided into eight categories: 1) technology enhanced learning; 2) expand access to education; 3) modify tuition and fee model; 4) benchmarking best practices; 5) financing strategies; 6) collaborations; 7) customer driven products and services; and, 8) increase grants, contracts, and donations.

Associate Vice President Harris reported that the group identified existing System assets that will help in achieving revenue enhancement goals, such as being geographically dispersed throughout the state, the reputation of both the Wisconsin Idea and the UW System, and exceptional technology transfer and economic development abilities through WARF and WiSys.

Ms. Harris noted that the meeting of the Resources group was a brainstorming effort designed to develop enabling strategies for consideration, not mandates for specific changes. The group recognizes that not every campus will move in unison in the area of revenue enhancement. The group also recognized the importance of providing financial incentives to encourage innovation and the removal of barriers that may inhibit progress. As revenue sources shift, methods capable of generating incremental revenues at lower than incremental costs will be needed while moving beyond the borders of the State. This will require collaboration among institutions and faculty.

Regent Connolly-Keesler commented that the Resources group efforts may entail additional costs and inquired whether the group tried to put a number to that cost. Ms. Harris stated that the group focused on how to generate resources rather than identifying resource needs. Regent Smith commented that the group should continue to incorporate allowing individual campuses to find their own methods of revenue generation through such means as pilot efforts.

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

##### **(1) 2007-09 Operating Budget update**

Associate Vice President Harris commented that the 2007-09 biennial budget is one of the best budget in a long time. All of System's base needs are covered in the budget, including funding for new initiatives such as the growth agenda to move forward. While there will be challenges associated with the lapse and veterans' benefit funding, overall the budget is very forward looking. Ms. Harris stated that there are still questions concerning the pay plan for our faculty and staff. Also, while the capital budget was very good, the reduction in all agency funds will be difficult for the campuses to manage.

Regent Rosenzweig made the point that cost-to-continue and debt service were included in the budget but do not represent 'new' funding. In short, the System's budget is a good one, but does not represent a financial windfall. Regent Connolly-Keesler inquired whether we would have sufficient funds to cover utility costs. Ms. Harris responded that a lot depends on the type of winter we have and the cost of oil and gas.

## **(2) Quarterly Gifts, Grants, and Contracts Report**

Vice President Durcan presented the quarterly gifts, grants, and contracts report to the committee. Total awards of \$355.4 million were reported for the quarter ending September 30, 2007, representing a decrease of \$44.2 million from the prior year. Federal awards were down \$48.6 million while non-federal awards increased by \$4.4 million. Decreases of \$28 million in the research area and \$19.8 million in federal student aid were major contributors to the overall decrease. The decrease in research awards results primarily from two large NSF grants received by UW-Madison last year but not this year. The decrease in federal financial aid awards is considered a timing issue that should resolve itself next quarter.

## **(3) Quarterly Expenditures – Budget to Actual Report**

Vice President Durcan presented a schedule of UW System expenditures through the first quarter of the current fiscal year. The information included current and prior year expenditures by institution for GPR/Fee funds. Vice President Durcan noted that both years are shown against the 2007 final budget since we do not yet have final budget allocations by institution have not yet been finalized for FY 2008.

The Committee found the report useful and requested that a similar report be made after each quarter.

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

Vice President Durcan provided an update on the work of the Tuition and Financial Aid Working Group. The working group focused on the Board's current statutory authority to set tuition and the belief that the Board's authority and responsibility needs to be expanded beyond differential tuition.

Vice President Durcan noted that the working group concluded that doctoral and comprehensive institutions are much less costly than their peers but that the UW Colleges are more expensive than theirs and not competitively priced.

Ms. Durcan mentioned that the Group developed the pros and cons for each alternative explored, including how tuition might be used for financial aid in the future. Further, the Group discussed how the University might go about earmarking some of the increased tuition for financial aid and advised that a change in tuition and financial aid policy should be tied to the broad goals of the Board and the System, such as the Growth Agenda, access, success, and support for the lowest two income quintiles. The final meeting of the Group will be December 4<sup>th</sup>.

Regent Rosenzweig inquired as to whether a common definition exists for differential tuition. For example, in some instances differential tuition is used to support a specific objective such as hiring more law school faculty. In other instances, differential tuition seems to be used to support an entire institution. Ms. Harris responded by stating that two separate processes currently exist, one for program specific differential tuition and another for institutional differential tuition and explained the steps required in each instance. The Tuition and Financial Aid Group did discuss whether

there should be any limits placed on the use of differential tuition and agreed that, for the time being, using it to support capital projects should not be allowed. Otherwise, the group concluded that the use of differential tuition should be left to students and the individual institutions to decide what the top priorities are and to bring those recommendations forward to the Board.

Regent Smith inquired about the best way to distinguish between segregated fees and differential tuition. Ms. Harris responded that the biggest distinctions are that segregated fees are for student activities and services while differential tuition primarily supports academic initiatives and instructional services, such as library services and advising.

Regent Connolly-Keesler asked whether differential tuition is voted on by the entire campus. Ms. Harris responded that students most directly impacted by the differential tuition fee must be consulted. If the differential tuition is for the entire campus, student input may come from student government or through a student referendum.

Regent Rosenzweig directed the group to be mindful that not everyone knows what differential tuition is and how the approval process works. Regent Rosenzweig asked what peer group was used to compare UW Colleges costs. Ms. Durcan responded that the Wisconsin technical colleges that offer college parallel courses and two-year community colleges in other states were used as peer groups. In summary, Regent Rosenzweig noted that there is no good direct peer group to UW Colleges for comparison purposes.

Associate Vice President Crist provided a review of the biennial pay plan process for 2007-09 for faculty, academic staff and limited appointees, as well as classified staff. Mr. Crist stated that within the next week or two we should have a better idea of what funding is available for the pay plan. The pay plan process for classified staff is often a lengthy one and the hope is that it will be settled soon so that all of UW System's workforce will know what their compensation will be for the biennium.

Regent Rosenzweig asked whether the commitment to a four percent pay increase over a four year period for faculty was recognized by the legislature. Mr. Crist responded that the pay plan process only recognizes a two-year period. Regent Rosenzweig clarified that the four percent pay increase over a four year period is a Board goal without any commitment from the legislature.

Interim Associate Vice President Wilhelm presented to the committee enrollment information for Fall 2007 in response to interest on the impact of the Board's non-resident tuition policy. Preliminary data shows that non-resident enrollment has grown by more than 1,200 headcount while resident enrollments are up by 1,800 since 2006-07. Therefore, the preliminary numbers indicate that the non-resident tuition policy is achieving the goal of attracting non-resident students and in turn supporting additional resident enrollment. A more detailed presentation on enrollment figures by campus is planned for next month's meeting.

Vice President Durcan recognized UW-Milwaukee for receiving a Best Practices award from the Central Association of College and University Business Officers for its program titled "Throwing Out the Paper and Keeping the Data". This is a new award program to further the sharing of best practices among colleges and universities.

Vice President Durcan also noted that new limits on indirect cost reimbursement on Department of Defense (DOD) grants were included in the final Pentagon spending bill. UW System currently receives approximately \$27 million annually in DOD funding.

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

No additional items were presented to the Committee.

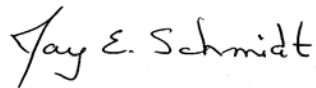
Upon the motion of Regent Rosenzweig, and the second of Regent Shields, the Business, Finance, and Audit Committee recessed at 2:18 p.m.

**f. Trust Funds Forum (Grainger Hall)**

The Business, Finance, and Audit Committee reconvened at 3:33 p.m. for the annual Trust Funds Forum. Present were Regent Smith, Regent Connolly-Keesler, Regent Shields, Vice President Durcan, and Tom Reinders, Investment Portfolio Analyst.

Several members of the media were present but no students, faculty, or public appeared to speak although the forum was noticed and published in advanced as usual.

The Business, Finance, and Audit Committee adjourned at 4:00 p.m. Vice President Durcan and Mr. Reinders remained until the posted time of 5:00 p.m.



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Jay E. Schmidt, Recording Secretary