

Minutes
Business, Finance, and Audit Committee
Board of Regents of the University of Wisconsin System
October 4, 2007

The Business, Finance, and Audit Committee met at 1:35 p.m. in the St. Croix River Room, UW-River Falls University Center. Present were Regents Smith, Connolly-Keesler, Rosensweig, and Shields.

a. Approval of Minutes of the September 6, 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 September 6, 2007 meeting of the Business, Finance, and Audit Committee were approved as presented.

b. UW-River Falls Presentation – *Living the Promise: Investing in our Future*

UW-River Falls Budget Director Kristen Hendrickson presented an overview of UW-River Falls budget and funding sources, including General Purpose Revenue (GPR), Program Revenue, and gifts and grants. Of the total \$86 million budget, 30% is funded by GPR, 60% by tuition and program revenues, and 10% federal. Over 89% of the budget is expended for salaries and fringes.

Vice Chancellor for Administration and Finance Mary Halada described the recently completed “Living the Promise” strategic planning exercise which resulted in four operational goals and six infrastructure goals. Each goal has three initiatives associated with it and each initiative is further associated with a number of specific tasks. Ms. Halada emphasized the importance of collaboration with multiple partners in achieving the institution’s strategic goals.

Nancy Devine, Foundation President, UW-River Falls, reported that the UW-River Falls Foundation has an endowment of \$11.4 million and last year provided over \$1 million of support to UW-River Falls, primarily for scholarships. The Foundation will begin its first comprehensive campaign next year with a goal to raise \$25 million over seven years.

UW-River Falls Professor Tim Lyden, Director of Student Undergraduate Research and Scholarly Activities, discussed the development of the Center for Advanced Cell Biology at UW-River Falls. The Center’s activities fall into three major categories: cellular imaging, tissue engineering, and artificial organ development, and stem cell biology. The Center supports the teaching and research mission of the university and serves as a cornerstone of the Integrated Solutions Consortium in which UW-River Falls participates along with UW-Stout, UW-Eau Claire, and the Chippewa Valley Technical College. The UW-River Falls Foundation and WiSys have helped support the Center along with Dr. Lyden’s own research. Dr. Lyden discussed the importance of undergraduate research in the UW-River Falls curriculum and pointed to the students’ recent support of a differential tuition initiative as evidence of their commitment to the program.

UW-Rivers Falls senior biology major Travis Cordie discussed his research into avian embryonic cardiac tissue and impact that the opportunity to do significant research as an undergraduate has had on his education and prospects for the future.

c. Information Technology (IT) Update

Vice President Debbie Durcan stated that updating the Committee on large IT projects is an outgrowth of the review performed by the Office of Operations Review and Audit that was presented to the Board in March, 2007. The Committee revisited the review and its recommendations after the Legislative Audit Bureau (LAB) released its review of IT projects. In May, the Board approved a resolution directing that an inventory of major UW information technology projects be provided to the Board of Regents along with regular status reports on project implementations.

(1) Oversight and Reporting Structure

Ed Meachen, Associate Vice President, Office of Learning and Information Technology, discussed the oversight and reporting structure now used to manage large UW System IT projects. Under the leadership of Executive Senior Vice President Don Mash, a network of teams with broad campus and functional representation is responsible for the strategic management and operational oversight of these important projects.

(2) Common Systems 2007-08 Expenditure Plan

Vice President Durcan outlined the major IT projects included in the 2007-08 Common Systems budget which totals \$14.3 million. As of the end of September, all projects are within budget. Three projects, including the Human Resources System, Identity Management, and Supply Management are all in the planning stages. The budget for these projects represents planning and not the cost of implementing the system.

Ms. Durcan reported on the process followed to determine the fiscal year 2008 expenditure plan. The Common Systems Review Group established a budget subcommittee to work with each of the individual project managers to review their proposed budgets. The budgets were scrutinized in depth and modifications were made before they were acted upon by the Common Systems Review Group. The budget was submitted to Senior Executive Vice President Mash and then presented to the Chancellors for their approval.

(3) IT Roadmap

Associate Vice President Ed Meachen discussed the results of a facilitated session of the Common Systems Review Group. The IT Roadmap is intended to guide UW System leadership as it looks to the future of information technology in the UW System.

Andy Soll, Vice Chancellor for Administration, UW-Eau Claire, described the IT Roadmap as “30,000 foot view” for viewing where the UW System has been with respect to information technology, where it is at present and where it might like to go in the future. The IT Roadmap is not intended as a strategic plan leading to a pre-determined goal but rather as a tool to inform decision making. He made the analogy of roadmap that provides context in contrast to the type of routing extract provided by a trip planning service. The common systems approach leverages the strength of the System to provide a base of level of technological support that would not otherwise be available to all campuses. He pointed to the Shared Financial System, the library system, and the course management system as examples of support services that are used by all campuses.

Rita Cheng, Provost and Vice Chancellor, UW-Milwaukee, stressed that the IT roadmap and the work that results from it is intended to support the academic mission of the UW System. The Common Systems Review Group not only reviews IT budgets but is focused on how each project aids in support of the mission. The Roadmap is a living document that the Common Systems Review Group will update annually.

Members of the Committee raised several questions regarding the overall presentation. Regent Rosensweig asked whether “on budget” means that all planned work has been completed or simply that a set spending limit has not been exceeded. Vice President Durcan responded that frequently not all planned work is completed in a given fiscal year for a variety of reasons, including limitations on the availability of skilled staff. However, no project is seriously behind. Unspent project dollars in a given fiscal year must be re-approved by the Common Systems Review Group and do not automatically carry over.

Regent Shields asked whether training is provided to faculty on how to use the course management system, noting that some faculty make greater use of this tool than others. Provost Cheng and others reported that training is available. Mr. Meachen noted that over the past academic year there

was an 18% increase in the number of classes for which the course management system was used and that the class management system is now used for over 75% of all classes taught.

Regent Connolly-Keesler asked if campuses get to choose the software that is used. Mr. Meachen said that a competitive process with campus participation is used to select software but, with respect to common systems, campuses that are late adopters may come into an environment where the software has already been chosen.

Regent Connolly-Keesler asked to be provided with the cumulative costs of implementing major systems. Vice President Durcan agreed to do so. Mr. Soll pointed out that there are ongoing support costs for each system and that separating implementation costs from ongoing costs is not always straightforward.

d. Trust Fund Items

(1) Investment Policy Statement

Doug Hoerr, Assistant Trust Officer, provided the Committee with a first reading of a comprehensive Investment Policy Statement (IPS), which is intended to better outline the roles and responsibilities of various parties and describe some key elements of the UW System Trust Funds. The IPS should be viewed as the business plan and the essential management tool for directing and communicating the activities of an investment portfolio. The key elements of the IPS will be: overall fund objectives and constraints, approved asset classes and investment strategies, targets and acceptable ranges for asset allocations, spending distribution policies, and qualitative discussions of topics such as overriding investment philosophies, beliefs, and expectations.

(2) 2007 Proxy Season Voting Results

Tom Reinders, Investment Portfolio Analyst, reported that the 2007 proxy season saw the filing of 346 proposals related to social issues, with half of them coming to votes. Investor support has been very strong for shareholder proposals on social and environmental proposals. Through the end of June, 174 social issue proposals resulted in shareholder votes, 109 were withdrawn, and 63 were allowed to be omitted by the SEC. As in the prior year, the categories of proposals that have won strong support included the following requests of companies: expand or report on fair employment policies, disclose and monitor political contributions, and report on sustainability. In a new trend, more investors are favoring proposals asking companies to track and reduce their greenhouse gas emissions.

Investment Portfolio Analyst Reinders stated that the UW Trust Funds submitted voting instructions for 60 proposals, including non-routine corporate governance proposals. Of the proxies submitted for voting by the Trust Funds, 35 came to votes, 18 were withdrawn, six were omitted, and one is pending. The primary submissions for the UW Trust Funds on social issues involved the environment and global climate change, sustainability, and animal welfare. For corporate governance issues, the UW's primary submissions involved political donations, poison pill reporting, and future golden parachutes reporting.

(3) Follow Up on Changes to the Strategic Asset Allocation Plan

Assistant Trust Officer Hoerr addressed questions that Regent Salas raised at last month's meeting of the full Board regarding the greater use of alternative investments, a shift of assets out of U.S. equities over the past five years, and the potential for investing in Wisconsin based enterprises. Mr. Hoerr responded that the asset allocation plan approved by the Board includes targets for both alternative investments and the breakdown between domestic and foreign stocks. The current portfolio is within the target range. Regarding greater investment in Wisconsin based companies, Mr. Hoerr pointed out that preferential investing would not be consistent with the Board's fiduciary responsibility to maximize return.

e. Committee Business

(1) 2007-09 Operating Budget Update

Freda Harris, Associate Vice President, Office of Budget and Planning, provided an update on the status of the 2007-09 UW System biennial operating budget. The conference committee is continuing to meet, with no major breakthroughs yet reported.

(2) Financial Management of Auxiliary Operations (including Auxiliary Reserve Report)

Doug Hendrix, Associate Vice President, Financial Administration, reported on the management of auxiliary operations and discussed a recent submission of the Auxiliary Reserve Report to the Joint Committee on Finance seeking approval of accumulated student fee funded auxiliary reserve balances. The report details planned reserves by institution and offers justification for those balances above a statutorily established threshold. In almost every case, reserves are being accumulated for major capital projects such as residence hall, student center, and recreation and wellness center construction or renovation.

(3) Committee Goals and Priorities for 2007-08

Vice President Durcan previewed the Committee's agendas for November and December. In November there will be a report on the work of the segregated fee policy review committee, a preliminary report on fall enrollments, the presentation of several bequests, and the annual investment forum. In December there will a presentation on upcoming reviews planned by Operations Review and Audit as well as a follow-up on the textbook cost review.

f. Report of the Vice President

Vice President Durcan reported that the Tuition and Financial Aid Advisory Group held its fifth meeting in September, 2007. The group discussed using tuition for financial aid. The group discussed the merits of bringing back the bridge program that was advanced by the Board of Regents as a means to emphasize the need to start attaching funding to the covenant. The group felt strongly that funding for the covenant was critical to increasing access to low income students.

Ms. Durcan commented that the group also discussed prepaid tuition and college savings programs, noting that they provide more advantage to those who are already saving for college and have the ability to pay for college. The group talked about the tuition plateau and whether it is set at the right place at 12 credits. The group concluded that the various options will need to be weighed based on how well they meet the group's established principles, the goals of the growth agenda, and within the context of the strategic framework.

Vice President Durcan stated that the group began a review of a matrix which looks at the various tuition options in comparison to the agreed-upon principles. The group will continue to work on this over at least one to two more meetings. The group also wants to look at options in context of what is currently politically feasible and what would be designed in an ideal world.

Ms. Durcan provided an update on the Segregated Fee Committee, the new committee to review administrative policies concerning allocable segregated fees. The committee consists of five students, including Regent Shields, and five administrators, and is chaired by UW-Stevens Point Chancellor Bunnell. The committee shared information on campus practices and identified issues that need system-wide policy clarification. It is anticipated that, at the November Board of Regents meeting, President Reilly will report on the committee's recommendations regarding new and changed policy provisions. President Reilly will report back to the Board in December if any of the committee's recommendations regarding this administrative policy need to be reconsidered based upon campus and student leader feedback.

Ms. Durcan stated that the Assembly Colleges and Universities Committee held a hearing in September, 2007 on the response of Wisconsin higher education institutions to the nationwide ethical concern about relationships with student loan lenders. President Reilly provided testimony on the importance of financial aid, including grants and loans, to aid students in financing their education. He detailed the swift actions of the Board of Regents, the chancellors, and campus and UW System administrators to determine whether the national issues regarding the relationships between universities and private educational lenders were applicable in Wisconsin and to develop a new, strong UW System policy to guide campus relationships with private lenders. President Reilly responded to each of the concerns listed on the hearing notice and categorized them into perceived conflicts of interest, paid travel and training, and revenue sharing contracts, and he demonstrated how each of these are addressed by the Regent policy. Lastly he outlined how preferred lender lists can be of great assistance to students and their parents as long as there are standards followed with the best interests of students at the core.

Ms. Durcan reported that President Bush recently signed into law the Federal College Cost Reduction and Access Act. While the UW System's initial review does not indicate any impact on our student lending policy, there are many favorable provisions in the act. The maximum Pell Grant award will increase to \$7,600 for the 2008-09 academic year, with incremental increases each year until 2012-13 when it will be \$11,600. The Act reduces interest rates on Stafford and other federally backed loans from 6.8 percent to 3.4 percent over the period from 2008 to 2013. It increases aggregate limits on federally insured loans from \$23,000 to \$30,500 for undergraduate students and from \$65,500 to \$73,000 for graduate students. It limits monthly payments on loans to 15 percent of the amount by which the borrower's adjusted gross income exceeds 150 percent of the poverty level. It provides for \$5,000 in loan forgiveness over a period of five years for those employed in areas of national need. It appropriates \$60 million for fiscal years 2008-2012 to institutions that have less than average annual tuition increases to be used for additional grants for students. It also lowers the loan guaranty agency collection fee from 23 percent to 16 percent of funds collected from loan defaults.

Vice President Durcan updated the Committee on recently filed reports. In addition to the Auxiliary Reserves Report, the UW System recently filed the statutorily required annual Gifts in Kind Report, the Report on 100 Percent Cost Recovery Programs, and the Report on Base Salary Adjustments to Recognize Competitive Factors.

g. 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 Rosensweig and the second of Regent Connolly-Keeler, the Business, Finance, and Audit Committee adjourned at 4:50 p.m.



Doug Hendrix, Recording Secretary