

Minutes  
Business, Finance, and Audit Committee  
Board of Regents of the University of Wisconsin System  
September 6, 2007

The Business, Finance, and Audit Committee met at 1:37 p.m. in room 1820 Van Hise Hall, UW-Madison. Present were Regents Smith, Connolly-Keesler, Burmaster, Rosenzweig, and Shields.

**a. Approval of the minutes of the July 12, 2007 meeting of the Business, Finance, and Audit Committee**

Upon the motion of Regent Rosenzweig, and the second of Regent Connolly-Keesler, the minutes of the July 12, 2007 meeting of the Business, Finance, and Audit Committee were approved as presented.

**b. Review of Select Terms and Disclosures of UW System Banking Programs**

Ruth Anderson, Assistant Vice President, Administrative Services, reported on UW System banking programs. Overdraft fees of \$31 are charged to UW students with ID/debit cards affiliated with US Bank, and this is consistent with fees assessed to other US Bank customers. Higher One accounts are not available to the general public; therefore, comparative information does not exist. Higher One charges the same overdraft fees for all institutions with whom it contracts, including four UW campuses. For the first overdraft occurrence, a fee of \$29 is assessed; \$35 is charged for all following occurrences.

Julie Gordon, Director, Operations Review and Audit, stated that general information provided by UW campuses regarding their ID/debit card programs is consistent with other institutions. While information disclosed by UW institutions varies somewhat, disclosures typically include an overview of the institution's program, general policies, terms of use and privacy policies, and frequently asked questions. Most institutions with ID/debit card programs, including UW campuses, do not disclose that revenue is earned from their agreements with banks or financial service organizations or how those proceeds are used. Of the 12 peer institutions reviewed, only one, the University of Illinois, provides such information.

Director Gordon noted that UW campuses have a higher rate of student involvement in deciding how banking program revenues will be used than institutions outside of the UW System. Of the seven UW campuses with ID/debit card programs, four obtained direct student input when deciding how the funds should be used at the institution. Only two of the twelve non-UW institutions indicated that student input was used in making decisions regarding the expenditure of proceeds. Many UW campuses use at least a portion of the funds to offset the costs associated with the ID/debit card program. Some campuses have designated scholarship programs as an intended purpose of the program funds while others use the funds for other student programs or operations.

The Committee asked that UW institutions disclose that, 1) they receive financial support and what it is used for; 2) the selection of the banking program was through a competitive process; and, 3) alternative banking options are available. These disclosures should be provided in campus brochures and/or websites. It is expected that these changes will be in place no later than the fall of 2008.

**c. WiSys Update**

Kris Andrews, Assistant Vice President, Federal Relations introduced Maliyakal John, Managing Director, WiSys Technology Foundation. Managing Director John provided a general overview of WiSys activities, including outreach activities to regional businesses.

Managing Director John discussed the challenges facing WiSys. Challenges include a portfolio dominated by low market value technologies, low revenues generated in order to fund further research, and no pipeline for stable high-value intellectual property. He noted that there were 121 invention

disclosures from WiSys campuses, not including UW-Madison and UW-Milwaukee, over the past six years. This number is relatively low compared to UW-Madison. However, WiSys campuses have significant potential for intellectual property creation.

Managing Director John reported that WiSys is meeting challenges by identifying areas of expertise and key inventors. WiSys is facilitating long-term research and development to create a high value intellectual property pipeline and forming partnerships to collaborate with local businesses and industries. For example, a partnership between WiSys and Marshfield Clinic is in place to tap the enormous scientific potential through collaborative research and development. This partnership takes advantage of the UW's drug design expertise and Marshfield Clinic's genomic and clinical expertise.

Managing Director John stated the importance of long-term research and development programs and leveraging these programs with available funds. The programs encourage pooling resources to achieve common goals by partnering with campus foundations and industry, and taking advantage of state matching funds and Federal Grants. One such program, WiSys Technology Advancement Grant (WiTAG), performs data validation to support extramural funding and oversees release-time for faculty members to conduct research and development.

Regent Connolly-Keesler asked for further details on how partnerships are formed between WiSys and local businesses. Managing Director John stated that WiSys approaches local businesses and negotiates terms of the agreements so that faculty members can concentrate on research and development. The UW and businesses split the costs and benefits realized.

Chancellors spoke to the need for State General Purpose Revenue (GPR) investment to unleash the huge research potential available at the comprehensive institutions. UW-Oshkosh Chancellor Wells and UW-River Falls Chancellor Betz commented on the need to leverage as efficiently as possible faculty members and available research and development funds into long term projects.

Regent Burmaster commented that there is vast research and development potential at the comprehensive campuses. The Board of Regents must work to convince Legislators of the huge opportunities that will be missed if these programs are not funded.

#### **d. Trust Fund Items**

##### **(1) Changes to the Strategic Asset Allocation and Reconfirmation of the Spending Plan**

Doug Hoerr, Assistant Trust Officer, reported that the previous strategic asset allocation and spending plan review for the Long Term Fund was in 2005. This is the first strategic asset allocation review for the Intermediate Term Fund. For this review, asset classes were grouped into categories, including growth and high-yielding assets, event risk and deflation hedge assets, and finally, real and inflation hedge assets.

Assistant Trust Officer Hoerr stated that no major changes are recommended for the Long Term Fund. He recommended a lower overall allocation to growth assets by 5 percent and an increase of 10 percent in absolute return assets. Also, an allocation is recommended in the "opportunistic" investment category, which includes unusual opportunities expected to meaningfully improve the fund's risk/return profile. The Long Term Fund would continue to maintain a 25 percent allocation in the Global Tactical Asset Allocation (GTAA). The impact of these changes on return would be minimal, while lowering risk.

Assistant Trust Officer Hoerr noted that, for the Intermediate Term Fund, the focus had previously been on pure fixed income, low risk securities. It is now being recommended that the focus on low risk be maintained, but that return be improved by adding new asset classes. The recommendations would add relatively small allocations to equities, high yield debt, absolute return, cash, and dedicated Treasury Inflation Protected Securities (TIPS). The impact of these changes would be to increase diversification and expected return, while reducing volatility.

Mr. Hoerr reported that the annual spending distribution rate was reduced from 4.5 percent to 4.0 percent as of June, 2005. It is recommended that the spending distribution rate remain unchanged at 4.0 percent.

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, the Board of Regents approves the changes to the strategic asset allocations for the UW Trust Funds' Long Term and Intermediate Term Funds, as described in the report to the Board of Regents entitled "Strategic Asset Allocation and Spending Plan Review: Long Term and Intermediate Term Funds," dated September 7, 2007; and reconfirms the four percent spending plan for the Long Term Fund.

Regent Falbo joined the meeting at this time.

**e. Audit Issues**

**(1) Quarterly Status Update**

Office of Operations Review and Audit Director Gordon stated that a report is being drafted regarding the Office's review of computer security policies, procedures, and practices. The review will examine how UW institutions structure and manage computer security functions and the extent to which adequate safeguards are in place to minimize the risk of unauthorized access to private information. She noted that fieldwork is continuing on a review of student mental health services which will provide information about mental health services at UW System institutions and policies and procedures related to these services. A report is being drafted regarding a review of oversight of student organizations which will identify efforts to manage risk and reduce liability associated with student organization activities. Also, academic fees reviews are being conducted at each UW institution to determine the adequacy of policies, procedures, and internal controls related to the assessment and collection of student fees. The Office has visited nine campuses and expects to visit the remaining campuses before issuing the report.

Ms. Gordon stated that the Legislative Audit Bureau (LAB) is currently working on the annual compliance audit of federal grants and expenditures for fiscal year 2006-07. Also, the UW BadgerNet program is included in a recently released LAB audit of the Universal Service Fund, which supports telecommunication programs statewide.

**f. Committee Business**

**(1) 2007-09 Biennial 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 Legislative Conference Committee continues to meet; however, there is no timeline on when the budget will be completed.

Regent Smith stated that there is concern about the possibility of the budget being completed on a piecemeal basis. Associate Vice President Harris added that, until a new budget is passed, the UW System will operate under the assumptions of the prior year budget.

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

Vice President Debbie Durcan stated that total awards of nearly \$1.3 billion were reported for the fiscal year ended June 30, 2007. This represents an increase of \$138.2 million over the prior year. Federal awards were up \$12.5 million while non-federal awards increased by \$125.7 million. The

significant increases in non-federal awards result primarily from gifts to UW-Madison for several large building projects, including the Mechanical Engineering building and the Microbial Sciences building.

### **(3) Committee Goals and Priorities for 2007-08**

Vice President Durcan and the Committee briefly discussed upcoming goals and priorities for 2007-08. Regent Connolly-Keesler suggested placing regular, statutorily-required reports on a consent agenda for improved meeting efficiency. Regent Smith requested that follow-up reports continue to be presented regarding prior Board action and asked for a report on non-resident enrollments later this fall.

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

Vice President Durcan reported that the Tuition and Financial Aid Advisory Group held its third and fourth meetings in August. The group had a lengthy discussion on per credit tuition, noting there were more institutions that have moved from per credit to a plateau system than vice versa. UW-Stout's experience with per credit has been favorable and the group identified the many advantages of a per credit system. One lingering concern is the potential impact on graduation rates and time to degree.

Ms. Durcan stated that the group discussed nonresident tuition and the programs currently in place to increase the number of nonresidents, including the Return to Wisconsin program and the Midwest Student Exchange program. Nonresident graduate tuition is currently not competitive and changes to this will be recommended in the future. The group also discussed differential tuition, concluding that the current Board policy on student consultation should continue and differential tuition should generally not be used for bonding or capital projects.

Ms. Durcan noted that the group's scope was expanded by President Reilly. The scope now includes a review of the pros and cons of tuition models, including income based tuition, cohort tuition, discounts for multiple family members, and expanded use of differential tuition by degree programs, in the context of different institutions' missions, to advance the growth agenda. At its most recent meeting, the group discussed several of these tuition models, and the Miami University of Ohio model, which charges one price for both resident and non-resident students, and state support is used for financial aid.

Regent Rosenzweig asked about a recent New York Times article regarding the real cost of higher education, including not just tuition but also fees. Ms. Durcan responded that UW-Milwaukee was included in the New York Times article about student fees, and it is important that UW institutions are transparent regarding the segregated fees that are charged to students. She also mentioned that UW-Madison was referenced in the Greentree Gazette regarding the new differential tuition for business students.

Vice President Durcan reported that Regent President Bradley sent appointment letters to the Segregated Fee Committee that will continue to review allocable segregated fee policies. She noted that Regent Shields is continuing as a Regent member on the committee.

#### **(1) Update on Student Loan Issues and Textbook Costs**

Sharon Wilhelm, Interim Associate Vice President, Office of Policy Analysis and Review, provided an update on the meeting of UW System Financial Aid Directors regarding student loan issues. Financial Aid Directors reviewed policies and discussed website disclosure. They discussed ways to improve student financial literacy and emphasized that students can choose any lenders, not just those on UW lender lists. Ms. Wilhelm noted that there is no new federal legislation at the present time.

Office of Operations Review and Audit Director Gordon gave a brief update on textbook costs. She reported that a report will be presented to the Committee in December.

**h. 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 Rosenzweig, the Business, Finance, and Audit Committee adjourned at 3:27 p.m.

A handwritten signature in cursive script that reads "Eric Engbloom". The signature is written in black ink and includes a long horizontal flourish extending to the right.

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Eric Engbloom, Recording Secretary