

Minutes
Business, Finance and Audit Committee
Board of Regents of the University of Wisconsin System
December 4, 2008
UW-La Crosse

The Business, Finance and Audit Committee met at 2:17 p.m. in Room 259 Cartwright Center at UW-La Crosse. Present were Regents Smith, Burmaster, Falbo and Womack.

a. State Fiscal Update

Tom Anderes, Senior Vice President for Administration and Fiscal Affairs, reported that currently the State is estimating a \$5.4 billion shortfall for the 2009-11 biennium, and the State is also estimating a \$346 million shortfall for the remainder of the 2008-09 fiscal year. The Governor has indicated that he wants to implement hospital and oil assessments; protect core services such as public safety, education, and infrastructure; avoid passing deficits to local governments; and maintain an investment in moving the state forward and creating jobs. In response to the challenging fiscal climate, the UW System has taken several actions including strengthening position controls on each campus, implementing guidelines to limit travel costs, continuing efforts to enhance efficiency and cost-effectiveness, and assessing academic and administrative programs within the context of reduced resources and relative value. The administration hopes to learn the university's preliminary reduction target in the next couple of weeks, and will continue to work with the Chancellors and the President to define strategies which will be coordinated with the Board.

Regent Falbo asked about reducing expenses, and suggested that the university could do better as a System with its buying power. He also asked if institutions should look for external income. Senior Vice President Anderes responded that various options were being looked at, not just tuition increases.

Regent Smith questioned whether the legislature would give the universities more flexibility, and Regent Burmaster questioned if the universities' key role as an economic engine to the stimulus package has been communicated. President Reilly indicated that universities, in general, will need to turn more to the federal government for funds.

Regent Smith asked if the 3-year degree baccalaureate model is being pursued, and Regent Womack asked about freezing tuition. President Reilly stressed that freezing tuition would not be good policy. Regent Smith asked if the economy has impacted financial aid, to which Vice President Durcan responded that the financial aid counselors report that there should be money available through Spring 2009.

b. Approval of 2009-11 Unclassified Pay Plan Recommendations

Senior Vice President Anderes provided introductory comments which illustrated:

- The state shortfall has increased from \$3.1 billion reported in November, to \$5.4 billion to date
- Competitive salaries are a primary factor in recruitment/retention of faculty and staff
- The UW System would need 7.78% annually for two years to reach peer median salaries.
- Due to the state's fiscal situation, the request was scaled back from 5.23% to 2.5%.

- A 2.5% salary increase each year would allow some progress toward the peers, estimated to increase by 2%, while not unduly burdening students with a steep increase in tuition.
- The UW-Madison is the only Big 10 university that does not provide domestic partner health benefits for its employees. The Fringe Benefits Advisory Committee strongly believes that, in the absence of domestic partner benefits, it will grow more difficult for the UW System to retain existing faculty and staff and to recruit new faculty and academic staff to replace its rapidly-aging workforce.

In light of the economic situation, Resolution I.2.b. was adopted, directing the UW System President to transmit to the Director of the Office of State Employment Relations currently available information on unclassified salaries for UW System peer institutions and related economic indices, and the Board's request that the Director recommend to the Joint Committee on Employment Relations a salary increase for each year of the biennium of 2.5%, and related increases for unclassified salary ranges and salary minima.

The Resolution also endorses providing state group health insurance for domestic partners of all state employees.

The pay plan distribution guidelines for 2009-11 provide that "not less than one-third of the total compensation plan shall be distributed on the basis of merit/market and not less than one-third of the total compensation plan shall be distributed on the basis of solid performance." Those guidelines should apply to any pay plan greater than 2%, but pay plans of 2% or less may be distributed across-the-board to satisfactory performers.

Regent Falbo questioned how the salary ranges are determined, and Al Crist, Associate Vice President for Human Resources and Workforce Diversity, explained that there are yearly reviews with peer institutions which indicate minimum ranges, but not maximum ranges.

Mark Evenson, Associate Professor at UW-Platteville and President of TAUWP (The Association of University of Wisconsin Professionals) spoke about the importance of increasing salaries for faculty and academic staff in order to be competitive with other institutions. He stressed that salaries in Wisconsin have lagged behind each of the neighboring states for more than 30 years. He also indicated faculty and staff are campaigning for collective bargaining and that if they win the right to bargain collectively, they would have the same, or equal rights, as attorneys, physicians and forensic scientists who are employed by the state.

President Reilly conveyed endorsement of state group health insurance for domestic partners of all state employees. When asked how much this would cost, Associate Vice President Crist reported that the cost of domestic partner benefits is estimated to be approximately \$600,000.

Regent Burmaster stated that the Department of Workforce Development has released information indicating that currently the state has 15,000 displaced workers to date, compared to 6,000 last year, and that Unemployment Compensation claims are 40% higher than a year ago, and in the last few months have increased to 60% higher. She reiterated the need to be mindful of the seriousness and depth of the state fiscal situation.

Upon the motion of Regent Womack and the second of Regent Falbo, the Committee unanimously approved Resolution I.2.b.

Resolution I.2.b.

Whereas, the University of Wisconsin System vision, embodied in the UW System's Growth Agenda for Wisconsin, is to be the state's premier developer of advanced human potential, the knowledge-economy jobs that employ that potential, and the thriving communities that sustain citizens and businesses alike; and,

Whereas, the Growth Agenda is a plan to produce more college graduates, stimulate job creation, and strengthen local communities; and,

Whereas, the UW System's success in achieving this vision and implementing the Growth Agenda requires the ability to effectively leverage its own human capital; and,

Whereas, to succeed in an increasingly competitive national and global higher-education marketplace, the UW System must have the means to continue attracting, hiring, and retaining the most diverse and best possible corps of faculty, academic staff, academic leaders, and classified staff which will require long-term efforts that position the UW System to provide both competitive compensation and supportive work environments; and,

Whereas, pursuant to s.230.12(3)(e) *Wis. Stats.*, the Regents are charged with the responsibility to recommend to the Director of the Office of State Employment Relations a proposal for adjusting compensation and employee benefits for faculty, academic staff, and senior academic leaders for the 2009-11 biennium; and,

Whereas, the Director is required to submit a proposal which shall be based upon the competitive ability of the Board of Regents to recruit and retain qualified faculty, academic staff, and senior academic leaders, data collected as to rates of pay for comparable work in other public universities, recommendations of the Board of Regents, and any special studies carried on as to the need for any changes in compensation and employee benefits to cover each year of the biennium; and,

Whereas, for the 2007-08 fiscal year average faculty salaries are 9.89% behind peer median salaries; and

Whereas, with an originally estimated 3.1% increase in peer median salaries for the current year and for each year of the 2009-11 biennium, a 7.78% increase each year of the biennium would close the gap between average faculty salaries and faculty peer median salaries; and

Whereas, the Board of Regents is cognizant of the difficulty of funding the pay plan needed to close the gap between our average faculty salaries and faculty peer median salaries in the current economic environment; and

Whereas, while original estimates of the widening of the salary gap with peers were made prior to the down turn in the economy, an assumption can be made that peer salary increases will not be as high as the earlier estimate, and

Whereas, while formal final information on salary increases at peer institutions is not available, a reasonable estimate is that peer median salaries will increase on average by 2% each year of the next biennium; and

Whereas, the Board of Regents embarked on a plan beginning with the 2007-09 biennium that recommended a 5.23% pay plan each year for the next four years that would close the gap between our average faculty salaries and peer median salaries; and

Whereas, the current economic conditions require an adjustment to the plan initiated in 2007-09, and

Whereas, the Board of Regents is committed to continuing to close this gap in our ability to offer competitive salaries, and

Now, therefore be it resolved;

That the Board of Regents supports the pay plan recommendation of the UW System President providing for increases such that average unclassified salaries will not fall farther behind peer salaries for each year of the 2009-11 biennium for faculty, academic staff, and senior academic leaders. Pursuant to 230.12(3)(e) *Wis. Stats.*, the Board directs the UW System President to transmit to the Director of the Office of State Employment Relations currently available information on unclassified salaries for UW System peer institutions and related economic indices, and the Board's request that the Director recommend to the Joint Committee on Employment Relations a salary increase for each year of the biennium of 2.5%, and the necessary related increase for unclassified salary ranges and salary minima.

Further, the Board of Regents directs the UW System President to convey to the Director of the Office of State Employment Relations the Board's endorsement of state group health insurance for domestic partners of all state employees, and encourages the Governor and the Legislature to amend state statutes to provide that benefit.

Further, the Board of Regents adopts the pay plan distribution guidelines originally adopted in 2003-05 for 2009-11 if the pay plan exceeds 2% each year. However, the Board suspends those pay plan distribution guidelines if the authorized amount for an unclassified pay plan is 2% or less in any year, and permits that in such instance the pay plan percentage may be distributed across-the-board to all those who have at least a solid performance rating, with any unused funds distributed by the Chancellor to address critical salary needs.

c. Operations Review and Audit

1. Follow-up on occupational health and safety training: Sheri Ackley, Director, UW System Office of Safety and Loss Prevention discussed a progress report on implementing the recommendations of an earlier review. The report essentially presents a framework for UW System efforts to strengthen and coordinate activities related to occupational health and safety training. The committee was assured for each recommendation there has either been something done or a plan is in place to address the recommendation. Two phases were presented:

1. Implement or develop a system that can address the training administration and tracking needs of the UW System.
2. Create and document a training profile for each current employee and job position, contingent on the development and implementation of a UW System training administration system.

Director Ackley indicated that the successful administration of occupational safety training will be achieved through the application of management attention, supported by the installation and proper use of an employee training database and reporting tool. Those two items are critical—with those in place, other key aspects such as supervisor and employee participation, or appropriate training content and delivery, can be readily managed. Cooperative efforts, such as the training consortium, might assist with specialty content, different delivery methods, or content variety.

Efforts to reinforce and enhance a stronger safety culture within UW System campuses should have at their foundation a functional occupational safety and health program. Each campus will need to adopt a program and management procedures that work best for their campus. OSHA's Safety and Health Program Management Guidelines offer a framework of the most important program elements. Other universities that have achieved distinction for their safety and health programs can be used as models. To achieve the level of success desired, these long-term efforts will require sustained commitment as well as considerable human and financial resources.

The Committee asked for another follow up in 9-12 months.

2. Follow-up on Cost of Textbooks. Julie Gordon, UW System Director of Operations Review and Audit, presented follow-up information related to an earlier review looking at the cost of textbooks. The presentation highlighted actions taken by UW System institutions to control the costs of textbooks for students including text rental programs, early adoption programs, and alternatives to traditional textbooks.

Director Gordon reported that within the UW System, UW-Green Bay, Madison, Milwaukee, Oshkosh, Parkside, Superior, and the majority of the UW Colleges continue to require students to purchase textbooks. Students' actual textbook costs at these institutions depend on several factors, such as the number of enrolled credits and courses taken. As a result, the institutions' estimated costs of attendance include varying amounts for textbooks and supplies, ranging from \$500 for the 2008-09 academic year at UW-Oshkosh to \$990 at UW-Madison.

As noted in the initial program review, several bookstore managers indicated that the single most effective strategy for reducing textbook costs may be faculty making textbook adoption decisions as early as possible. Early decisions give the bookstores time to extensively shop the used textbook market. Regent Falbo indicated that there is a need to pursue viable paths to require early adoption, and to negotiate to get better prices on Systemwide purchases.

Regent Burmaster stated that it's important for faculty recognize the hardship this places on students, and she expressed concern that some students were not taking certain courses due to the cost of books.

Director Gordon reported that in recent years, several states, including Wisconsin, have attempted to legislatively address increasing textbook costs. Assembly Bill (AB) 883 was introduced in Wisconsin's 2007-2008 legislative session. Though it failed to pass, AB 833 would have required textbook publishers to provide the textbook price and history of revisions to instructors at institutions of higher education. Efforts to reduce textbook costs were also included in the federal College Opportunity and Affordability Act, which reauthorized the Higher Education Act and was signed into law in August 2008.

In accordance with the College Opportunity and Affordability Act, higher education institutions will be required, effective July 2010, to disclose in their course schedules the International Standard Book Number (ISBN), which is unique to each title, and retail price information for every required and recommended textbook. The intent is to inform students of textbook costs prior to their registering for a class and allow them to shop for less expensive options online or elsewhere. Institutions may indicate that the ISBN and price information is "to be determined" if they are unknown at the time the course schedules are set.

The College Opportunity and Affordability Act also places two requirements on textbook publishers. First, publishers are required to offer all "bundled" textbooks and supplemental materials for sale as separate items. Since supplemental materials are occasionally not needed for a course but provided as one package with a textbook, unbundling the items may reduce a student's cost. Second, publishers must provide faculty with information on price, copyright dates of the three previous editions, any substantial revisions between a new edition and prior iterations, and whether the textbook is available in any other format and at what price. By providing this information, the intent is that instructors will be more cost-conscious when selecting textbooks.

In the future, UW System institutions will determine whether additional textbook disclosures are needed to meet new federal requirements. UW System institutions indicated they will also continue to evaluate the success of their implemented strategies and assess any new approaches for containing textbook costs.

3. Operations Review and Audit Status Update. Director Gordon discussed the status of six projects currently in process within the office: (1) Energy Conservation, (2) UW-Sponsored Camps and Clinics, (3) Excess Credit Policy, (4) Oversight of Student Organizations, (5) Academic Fees, and (6) The WUWM FM 89.7 Financial Statements Audit.

Director Gordon also noted that the Legislative Audit Bureau is working on: (1) the UW System's annual financial report, which will be completed in December 2008, and (2) the annual compliance audit of federal grants and expenditures, including student financial aid, for FY 2007-08, with a report due in spring 2009. The Audit Bureau is also conducting a statewide analysis of savings and efficiencies gained from the State's Accountability, Consolidation, and Efficiency (ACE) Initiative. She also indicated that the Legislative Audit Bureau is starting a statewide review of procurement cards.

d. Trust Funds: Affirmation of UW System Investment Policy Statement.

Trust Funds Director Doug Hoerr asked for approval of the revised Investment Policy Statement, which contained the following changes:

- The allocation range for Global Tactical Asset Allocation is currently set (in Appendix 6 of the IPS) at 23 percent to 27 percent, with a target of 25 percent. It is recommended that this allocation range be revised to 20 percent to 30 percent, with no change to the target allocation. Given the recent market volatility and large target allocation to this strategy, the current allowable range is deemed too restrictive compared to the ranges for other asset classes and strategies.
- The allocation range for Private Equity is currently set (in Appendixes 5 and 6) at seven percent to 13 percent. It is recommended that this allocation range be revised to five percent to 15 percent, with no change to the target allocation. The difficulties in achieving and maintaining a target allocation to Private Equity were discussed at length in the report entitled *Update on Private Equity Program*, which was presented to the Board at their meeting of August 22, 2008. The allowable range recommended here better reflects these realities.
- Finally, consistent with the revision made to Regent Policy 31-13, *Investment and Social Responsibility*, at the Board meeting of June 6, 2008, a change has been made to the summary description of that policy given in Appendix 3 of the IPS. This wording change is as follows: from “a proxy review service will be subscribed to,” to “a proxy review will be conducted.”

Regent Falbo questioned raising the upper limit of the allocation for Private Equities from 13% to 15%. Director Hoerr explained that the intent was not to reallocate to that percentage, but by requesting a higher percentage, it builds in the flexibility to do so, if necessary.

After further discussion, Regent Womack moved, and Regent Burmaster seconded adoption of Resolution I.2.d.

Resolution I.2.d.

That, upon recommendation of the President of the University of Wisconsin System, the Board of Regents, in regards to the *Investment Policy Statement* for the University of Wisconsin System Trust Funds, approves the revisions described below and otherwise affirms its adoption of the policy statement:

- 1) The allocation range for the investment strategy Global Tactical Asset Allocation (in Appendix 6) is changed from “23 percent to 27 percent” to “20 percent to 30 percent,” with no change to the target allocation of 25 percent.
- 2) The allocation range for Private Equity (in Appendixes 5 and 6) is changed from “seven percent to 13 percent” to “five percent to 15 percent,” with no change to the target allocation of ten percent.
- 3) In the summary description of Regent Policy 31-13, *Investment and Social Responsibility* (in Appendix 3), the wording “a proxy review service will be subscribed to” is changed to “proxy review will be conducted.”

e. Committee Business

1. Review of Source of Funds by UW System Institution. Lynn Paulson, Associate Vice President for Budget and Planning highlighted the key information found in the Annual Budget “Redbook” and demonstrated how to find useful financial information. He presented each committee member a CD of the 2008-09 Redbook.

Regent Falbo asked about a comparison of “actual” costs to “budgeted” amounts, and Vice President Durcan responded that the information will be provided in February.

2. Quarterly Gifts, Grants, and Contracts (1st Quarter). The Committee received a written report on Gifts, Grants and Contracts, and Regent Smith requested that Martin Cadwallader, Dean of the UW-Madison Graduate School, be invited to a future meeting.

3. Approval of UW-Madison Contract with Collegiate Licensing Company. Casey Nagy, Special Assistant to the Chancellor, presented the eight-year agreement between UW-Madison and Collegiate Licensing Company for the provision of trademark licensing services. The effective term of this agreement will run from July 1, 2008 through June 30, 2016.

Upon the motion of Regent Falbo, and the second of Regent Womack, the Committee unanimously approved Resolution I.2.e.3.

Resolution I.2.e.3

That, upon recommendation of the Chancellor of the University of Wisconsin- Madison and the President of the University of Wisconsin System, the Board of Regents approves an eight-year contract with Collegiate Licensing Company to administer UW-Madison’s trademark licensing program effective July 1, 2008 to June 30, 2016.

f. Report of the Vice President. Vice President Debbie Durcan reported on the IRS College and University Compliance Project, indicating that approximately 400 institutions across the U.S., including UW-Milwaukee and UW-Whitewater received a 33-page questionnaire. NACUBO, the National Association of College and University Business Officers, is assisting institutions in interpreting the questions. Information being asked for includes executive compensation and benefits, unrelated business income tax information, endowment payout policies, compensation for investment managers and investment staff, and information related to affiliated organizations.

Vice President Durcan also indicated that she attended the Big 10 Business Officers’ Meeting on November 24, 2008 in Chicago. Discussions at the meeting centered around the fact that all states, with the exception of Indiana, are in terrible financial condition, and most public universities within the Big 10 are looking at rescissions in this fiscal year and/or cuts next year. All states are modeling various reduction scenarios combined with varying tuition rates and salary increases. There was also discussion about the concept of service centers to control costs and energy conservation.

Vice President Durcan gave an update on recently filed reports, confirming that Board members should have received the Annual Broadcast Report and the Report on Annual Expenditures from the Tripp Trust. She also indicated that reports that will be sent later in December include the Annual Report on Sick Leave Usage, two newer reports on Consultants

and Limited Appointments, and reports on the Use of the Continuing Appropriation Authority, State Imposed Costs added to undergraduate tuition, and the Use of Breast Cancer Tax Check-off Funds.

g. Consent Agenda.

- 1. Minutes from the October 2, 2008 meeting of the Business, Finance, and Audit Committee.**
- 2. Minutes from the November 6, 2008 meeting of the Business, Finance, and Audit Committee.**

Upon the motion of Regent Womack and the second of Regent Falbo, the minutes from the October 2, 2008 and November 6, 2008 meetings of the Business, Finance, and Audit Committee were approved.

h. Additional items. No additional items were presented to the Committee.

The meeting was adjourned at 4:45 p.m.

A handwritten signature in cursive script that reads "Zayda R. Back". The signature is written in black ink and is positioned above a solid horizontal line.

Zayda R. Back, Recording Secretary