

Minutes
Business, Finance, and Audit Committee
December 9, 2010
UW-Madison

The Business, Finance, and Audit Committee convened at 1:05 p.m. in the Beefeaters Room, in the UW-Madison Memorial Union. Present were Regents Brent Smith, Michael Falbo, Mark Bradley, and David Walsh.

a. UW-Madison Presentation: “*The Case for Flexibility: New Badger Partnership*”: UW-Madison Vice Chancellor Darrell Bazzell presented information and background on the institution’s *New Badger Partnership* proposal for increased autonomy and flexibility from the State. Vice Chancellor Bazzell reported that the University has reached the point where it receives more money from tuition, than from state resources, and because state support has diminished, the University needs more flexibility. He reiterated the importance of protecting the state’s investment and maintaining the University’s competitive position as a world-class research university, and that increased flexibility will allow UW-Madison to add greater value to the state, enhance institutional revenues, and manage their most urgent needs for teaching, research, and outreach.

He reported that UW-Madison provides a major beneficial economic impact to the state, and included the following examples:

- UW-Madison contributes \$9.6 billion back to Wisconsin’s economy annually
- UW-Madison creates nearly 97,357 jobs directly and indirectly
- Every \$1.00 of state tax investment in the University generates \$21.05 of economic activity in Wisconsin
- In 2009, private philanthropy contributed \$228 million to the UW-Madison budget, including \$93 million from out-of-state donors.

Vice Chancellor Bazzell also gave examples of the importance of the University Research Park (URP), including:

- There are 126 companies in 37 buildings
- It employs 3,200 people
- It has an estimated annual payroll of almost \$220 million
- The average salary for Research Park employees is \$64,300
- URP companies support more than 2,500 jobs at Wisconsin-based suppliers
- Approximately 70% of the companies have links to the University of Wisconsin
- The URP is scheduled to double in size with the addition of two new locations in Madison.

He reported that the increased flexibility UW-Madison seeks from the State includes:

- A commitment to continue to fund the state’s share of their current operations
- A new business model that provides greater flexibility to become more efficient and cost effective, including:

- Procurement
- Compensation and hiring
- Tuition and financial aid
- Construction and building projects

He assured the Committee that additional flexibility would come with appropriate oversight, and he stressed that the Partnership Proposal is not a prelude to UW-Madison leaving the UW System.

The Committee had several questions about the details of the proposal, and was told that additional details will be developed as they learn more about possible legislative and gubernatorial interest. Additional information about the New Badger Partnership can be accessed at: www.newbadgerpartnership.wisc.edu.

b. Competitive University Workforce: 2011-13 Unclassified Pay Plan Recommendations and Distribution Plan and Guidelines: President Kevin Reilly reported that state statutes require the Board of Regents to recommend a proposed salary adjustment to the Office of State Employment Relations. He then gave an overview of the importance of the Board's action to recommend a pay plan for faculty and staff. In addition, the flexibilities requested as part of the 2011-12 biennial budget would allow the University to also reallocate to help to solve the competitive compensation issues, and address concerns and recommendations made by the Competitive University Workforce Commission (CUWC) (the final report can be accessed at <http://www.uwsa.edu/bor/agenda/2010/june.pdf>, page 364). Associate Vice President Al Crist highlighted parts of Resolution I.2.b., and reported that most of the UW System peers received salary increases of 1.5% – 3%, while UW System employees got 0%. Vice President Crist indicated that the morale of UW System faculty and staff is suffering due to furloughs, the loss of pay increases, and increased cost of benefits. UW-Oshkosh Chancellor Richard Wells, who was a member of CUWC, said that he and other members of the Commission were surprised at the UW System's lack of flexibility regarding salaries. Regent Michael Falbo, who was also a member of CUWC, agreed.

Associate Vice President Crist reported that the resolution also seeks approval of the general distribution guidelines for any pay plan funding approved by the Joint Committee on Employment Relations (JCOER). He also noted that adjustments for faculty at institutions which have elected to be represented by a union, currently UW-Eau Claire and UW-Superior, will be determined through collective bargaining rather than through the general unclassified pay plan process.

Regent David Walsh suggested some minor edits to the Resolution. Then, upon the motion of Regent Walsh, and the second of Regent Bradley, the Committee unanimously approved Revised Resolution I.2.b. and Guidelines.

[Revised Resolution I.2.b.]

Whereas, pursuant to s.230.12(3)(e) *Wis. Stats.*, the Board of Regents is charged with the responsibility to recommend to the Director of the Office of State Employment Relations (OSER) a proposal for adjusting compensation and employee benefits for faculty, academic staff, and academic and administrative leaders (limited appointees) for the 2011-13 biennium, and,

Whereas, the UW System Board of Regents adopts the Competitive University Workforce Commission's recommendation for a UW System total compensation philosophy that the average salaries of faculty, academic staff, and academic and administrative leaders (limited appointees) should reach their respective peer median

salary levels, while retaining/attaining competitive benefits, by no later than the end of the 2015-17 biennium, and

Whereas, since salaries represent approximately 73% of total compensation, peer salary analyses will be the principal determinant in setting the target compensation levels for faculty, academic staff, and academic and administrative leaders (limited appointees) in the System, and

Whereas, the Board of Regents requested in the 2011-13 budget: (1) the restoration of the rescinded pay plan which was to have been paid to unclassified staff in June of 2009, (2) additional recruitment and retention base funding, and (3) the base funding which was removed from the 2009-11 budget that resulted in mandatory furloughs for all staff, and

Whereas, in addition, the Board of Regents requested flexibilities in the 2011-13 budget that would provide additional funding and greater latitude in the use of base funds by Chancellors to further the goal of closing the gaps between peer median salaries and our average salaries by no later than the end of the 2015-17 biennium, and

Whereas, the Consumer Price Index for All Urban Consumers (CPI-U) is projected to increase on average by 1.8% each year of the biennium, and

Whereas, salary increases at peer institutions are estimated to increase on average by 2.0% each year of the biennium;

Now, therefore be it resolved;

That the Board of Regents supports the pay plan recommendation of the UW System President providing for a 2% increase each year of the 2011-13 biennium so that average salaries will not fall farther behind peer salaries for faculty, academic staff, and academic and administrative leaders (limited appointees). Whether or not there will be a compensation adjustment for faculty at UW-Eau Claire and UW-Superior, who have elected to be union represented and any other unclassified bargaining unit electing to be union represented before a pay plan is approved by the Joint Committee on Employment Relations (JCOER), will be determined as the result of collective bargaining; and

Further, 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 JCOER a salary increase for each year of the biennium of 2.0% and the necessary related increase for unclassified salary ranges and salary minima; and

Further, to reiterate the Board of Regents 2011-13 budget requests for authorization to increase and redistribute resources to address competitive compensation gaps at each institution in the UW System. These include: (1) the authority to approve compensation levels and salary ranges for employees serving as Vice Presidents or comprehensive

institution Provosts; (2) the ability to determine pay plan increases for faculty, academic staff, and academic and administrative leaders (limited appointees), while taking into consideration state funding and the availability of resources; (3) the ability to make base adjustments for salary increases associated with performance; and (4) to consider compensation needs within the UW System as part of the tuition authority provided under Section 36.27, Wis. Stats.; and

Further, the Board of Regents adopts the attached pay plan distribution guidelines for 2011-13.

2011-13 GENERAL DISTRIBUTION PAY PLAN GUIDELINES FOR UNCLASSIFIED STAFF

That upon the recommendation of the President of the University of Wisconsin System, the 2011-13 General Distribution Pay Plan Guidelines for unclassified staff [faculty, academic staff, and academic and administrative leaders (limited appointees)] be approved as follows;

- (1) Each chancellor is directed to proceed with faculty and academic staff salary evaluations using a suitable evaluation system to assess meritorious performance and solid performance, the results of which can be converted to a salary, once the pay plan is known. The salary review should be conducted in accordance with the performance standards outlined in Recommendation #9 of the 1992 Report of the Governor's Commission on University of Wisconsin Compensation. A record of the evaluation judgments shall be made before July 1, as provided in s. 36.09 (1)(j), Wis. Stats.
- (2) The 2011-13 compensation adjustments for faculty, academic staff, and academic and administrative leaders (limited appointees) shall be distributed on the basis of merit and on the basis of solid performance. Chancellors are authorized to earmark up to 10 percent of the total pay plan each year for the chancellors' discretionary use to meet special compensation needs such as: faculty and/or academic staff internal pay problems; to reward faculty and academic staff innovative and/or collaborative program delivery, and/or exceptional performance in support of institution goals; and/or to correct gender pay inequities in the faculty and academic staff, and academic and administrative leaders (limited appointees.)

Assessment of meritorious performance and solid performance for faculty shall be based on a systematic performance evaluation program, which identifies positive contributions by the faculty member to teaching, research, public service and/or the support functions inherent in the institution's mission. Assessment of teaching faculty shall include consideration of student evaluations (Regent Policy Document 20-2, formerly 74-13, October 4, 1974).

Assessment of meritorious performance and solid performance for academic, limited and other unclassified staff shall be based on a systematic performance evaluation program

which allows supervisory assessment of meritorious performance in their areas of assigned responsibility.

- (3) Market determinations for faculty, academic staff, limited and other unclassified staff are not to be considered in the distribution of pay plan funds.
- (4) Any and all compensation adjustments must be based on performance; across-the-board compensation adjustments not based on merit are prohibited. At a minimum, continuing staff who have performed at a satisfactory level shall be entitled to a compensation adjustment from funds set aside to recognize solid performance, except when an employment contract or administrative practice holds to the contrary.
- (5) Each institution will be required to submit its plans for distribution of the compensation adjustments to System Administration for approval before implementation can be accomplished. System Administration is directed to return any institution's distribution plan not in compliance with the Board guidelines to the involved chancellor for corrective action by the appropriate governance body. Implementation of pay plan adjustments shall be deferred until a distribution plan meets the Board's guidelines.
- (6) Unless otherwise specified by executive/legislative action, the effective dates for the payment of the 2011-13 pay plan rates will be July 1 each year for annual basis employees, the start of the academic year for those on academic year appointments, and other dates as set by the chancellors for persons with appointment periods commencing at times other than July 1 and the beginning of the academic year.
- (7) The President is authorized each year to increase the systemwide faculty salary minima by up to the full amount of the pay plan and rounded to the nearest hundred dollars. For Category B research and instructional academic staff, the Board authorizes the continuation of the current policy linking titles to the faculty salary minima based on percentage relationships approved in the 1994 Gender and Race Equity Study. UW System salary ranges and salary minima will be established in accordance with the pay plan approved by the Joint Committee on Employment Relations.
- (8) Base salaries shall not be less than the salary minima or pay range minimum. The salary increase shall not move the base salary above the UW System salary range maximum. Unclassified staff who are currently paid above the maximum shall be eligible for a salary increase of up to half of the amount by which the salary ranges have been adjusted.
- (9) Salary adjustments for promotion in faculty rank shall, on an academic year basis, be no less than \$1,500 for promotion to assistant professor, \$1,750 for promotion to associate professor, and \$2,000 for promotion to professor. Institutions may set policies on adjustments for promotions on an annual basis appointment, consistent with these minima.
- (10) The pay plan funding allocation shall be distributed as soon as possible after final approval of the pay plan by executive/legislative action and after the distribution

plan is approved by System Administration as being in compliance with these guidelines.

- (11) Each institution shall complete its actions on stipend schedules for non-represented graduate assistants prior to July 1 and shall establish a factor for adjustments, which can be applied expeditiously to determine stipend increases. Stipend schedules for each graduate assistant category shall be separately established.
- (12) If the Regent's meeting schedule does not afford an opportunity for timely action by the full Board on salary adjustments, the Board authorizes the Executive Committee of the Board, in consultation with the System President, to approve any discretionary salary adjustments effective for 2011-12. Appropriate information shall be provided to all members of the Board.
- (13) Compensation actions related to the unclassified pay plan and delegated to the chancellors shall be completed in accordance with statutory requirements, legislative intent, Regent's policy, and shall be reported to System Administration to make possible the preparation of payrolls and reporting to the Board of Regents.

If changes are required to these guidelines as a result of either the Joint Committee on Employment Relations or legislation, the Executive Committee, in consultation with the System President, is authorized to act to modify the guidelines to be consistent with those actions.

c. Operations Review and Audit: Quarterly Status Update: Director Julie Gordon presented a quarterly status update on eight projects currently underway in the UW System: Those projects include:

- (1) Student Evaluation of Instruction
- (2) Credit for Prior Learning
- (3) Student Assistance Funds
- (4) Service Learning
- (5) Family Educational Rights and Privacy Act (FERPA) Implementation
- (6) Higher Education Learning Program (HELP)
- (7) NCAA Division III Athletic Departments
- (8) The Enterprise Risk Management (ERM) Pilot Project

Director Gordon also reported that the Legislative Audit Bureau (LAB) is working on audits of:

- UW System's annual financial report for fiscal 2009-10
- WHA TV and Radio's annual financial reports for fiscal year 2009-10
- the annual compliance audit of federal grants and expenditures, including student financial aid for fiscal year 2009-10

In addition, the LAB is conducting statewide reviews of the use of overtime in state agencies and the implementation of 2005 Wisconsin Act 410, which requires state agencies to report purchasing information to the State's Government Accountability Board.

After Director Gordon's report, Vice President Debbie Durcan notified the Committee that Julie was recently named as the UW System Associate Vice President for Financial Administration, replacing Glen Nelson who departed for the Arizona System earlier in the year.

d.1. Trust Funds: Acceptance of New Bequests Over \$50,000: Regent Resolution 8559 indicates that bequests and/or gifts over \$50,000 be presented to the Business, Finance, and Audit Committee for formal acceptance. Trust Funds Director Doug Hoerr reported that there were five bequests and/or gifts, with a total value of \$2,972,000 for the Committee's approval. Upon the motion of Regent Walsh and second of Regent Falbo, the Committee unanimously approved Resolution I.2.d.2.

[Resolution I.2.d.2.]

That, upon the recommendation of the President of the University of Wisconsin System and the Chancellors of the benefiting University of Wisconsin 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 System.

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 their 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.

d.2. Trust Funds: Investment Policy Statement Review/Affirmation: Trust Funds Director Hoerr addressed the Committee and explained that no substantive revisions were made to the existing Investment Policy Statement (IPS). He explained that the only revisions made to the document were updates to the current market values of the Funds. An in-depth asset allocation analysis and review is anticipated during the first half of 2011.

Upon the motion of Regent Falbo, and the second of Regent Walsh, 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, the Board of Regents approves the recommended revisions to, and otherwise reaffirms its adoption of, the *Investment Policy Statement* for the University of Wisconsin System Trust Funds.

e. Status Update on the Human Resource System: Michael Morgan, Senior Vice President for Administration and Fiscal Affairs, provided an update on the current status of the UW System Human Resource System project. Senior Vice President Morgan reported that the project continues to be on time and on budget, although the testing phase is running slightly

behind schedule due to additional system testing in order to ensure readiness for going live in Spring 2011. He explained that project team members are meeting with campus staff to ensure that they are working through the processes and personnel needs in order to be ready for the release.

f.1. Approval of the Minutes of the October 7, 2010 meeting: Upon the motion of Regent Walsh and the second of Regent Bradley, the Committee approved the minutes of the October 7, 2010 meeting of the Business, Finance, and Audit Committee.

f.2. Report on Quarterly Gifts, Grants, and Contracts (1st Quarter): Vice President Durcan reported that gifts, grants, and contracts for the first quarter were \$672 million—an increase of \$87.6 million over the same period in the prior year. She also noted that federal awards increased \$69.6 million, and non-federal awards increased by \$18 million.

f.3. UW System Tax Sheltered Annuity Program—Annual Program Participant Fee: Sue Chamberlain, Assistant Vice President for Human Resources, addressed the Committee and explained that approval of Resolution I.2.f.3. would grant the President of the UW System authority to approve changes to the UW System Tax Sheltered Annuity (TSA) Program's annual program participant fee. Assistant Vice President Chamberlain reported that changes initially come through recommendations from the Tax Sheltered Annuity Review Committee (TSARC)—an advisory committee created by the Board of Regents to oversee the program. Assistant Vice President Chamberlain explained that the annual fee is charged only to UW System employees who participate in the 403(b) program, and covers only the cost of administering the program.

She explained that the TSA program is completely voluntary--there is no university or state contribution--and that it is important for participants to financially support the program. The current annual fee is \$9.00 per participant, with a \$10.00 cap in place on the participant fee. Resolution I.2.f.3. would remove the \$10.00 cap and allow the UW System President to set the fee at a level which covers the cost of the program.

Upon the motion of Regent Walsh and the second of Regent Bradley, the Committee unanimously approved Resolution I.2.f.3.

[Resolution I.2.f.3.]

That, upon recommendation of the Tax-Sheltered Annuity Review Committee and the President of the University of Wisconsin System, the Board of Regents authorizes the President of the University of Wisconsin System to assess an annual fee to each employee participating in the UW System Tax Sheltered Annuity Program to cover the costs of administering the program. This resolution supersedes 1994 Regent Resolution 6774.

f.4. Authorization to Recruit a Limited Appointee at UW-Madison at a Salary above 75% of the UW System President's Salary: Associate Vice President Crist addressed the Committee and explained that Regent Policy Document 6-3 requires an institution to request authorization from the Board of Regents to recruit for any faculty, academic or limited staff position at a salary that may exceed 75% of the UW System President's salary. Approval of this resolution would grant UW-Madison authority to recruit a Vice Chancellor for Research and

Dean of the Graduate School at a salary that may exceed 75% of the UW System President's salary. The resolution allows the President to subsequently approve the salary at this level.

Upon the motion of Regent Walsh and the second of Regent Bradley, the Committee unanimously approved Resolution I.2.f.4.

[Resolution I.2.f.4.]

That, upon recommendation of the Chancellor at the University of Wisconsin-Madison and the President of the University of Wisconsin System, the Board of Regents authorizes UW-Madison to recruit for a Vice Chancellor for Research and Dean of the Graduate School at a salary that may exceed 75% of the UW System President's current salary.

Further, the Board of Regents authorizes the President of the University of Wisconsin System to approve the appointment and the salary for this position.

g. Report of the Senior Vice President

g.1. Budget Update: Senior Vice President Michael Morgan reported that the Department of Administration (DOA) released the Agency Budget Request and Revenue Estimates for FY 2012 and FY 2013. The DOA report indicated that the economic forecast for the next two fiscal years will result in tax revenue growth of 4.2 percent in fiscal year 2011-12, and 3.4 percent in 2012-13. Combined with agency budget requests, the projected gap is expected to be \$1.5 billion on June 30, 2013. The report also noted that across-the-board budget cuts and state employee compensation reductions would have to continue in the 2011-13 biennium.

g.2. Update on Committee Priorities: Senior Vice President Morgan indicated that priorities for upcoming Business, Finance, and Audit Committee meetings include:

- Campus structures for student participation in segregated fee allocations (February 2011)
- For-profit higher education: risks to and opportunities for UW System (March or April 2011)
- The Board's oversight role in Division I athletic programs (June 2011).

Vice President Morgan also indicated the following topics will be scheduled for Committee discussion:

- Strategic Financing: revenue enhancement and cost savings for redirection to strategic priorities
- Energy conservation
- The Enterprise Risk Management program
- Lean manufacturing principles

g.3. Changes to the Auxiliary Reporting Threshold: Senior Vice President Morgan discussed changing the Reporting Threshold for Auxiliary Operations from the current 3-year rolling average of the Wisconsin Disposable Income Per Capita to add a minimum threshold of three percent. Regent Falbo suggested that the current number of campuses that were reported each year as being over the threshold (8) was too many and should be changed to five. The Committee thought that this was workable. In the future, campuses must report to System

Administration for increases that are the higher of the 3-year rolling average of the Wisconsin Disposable Income Per Capita or three percent. System Administration will then provide detailed reports for the top five increases to the Board as long as they exceed the threshold. If only three campuses exceed the threshold, three campuses would have detailed reporting provided to the Board. If six exceed the threshold, five would have detailed information reported to the Board.

h. Other items which may be presented to the Committee with its approval: No additional items were presented to the Committee.

Upon the motion of Regent Bradley and the second of Regent Falbo, the Business, Finance, and Audit Committee adjourned at 3:18 p.m.

Respectfully submitted,

A handwritten signature in cursive script that reads "Zayda R. Back". The signature is written in black ink and is positioned above the typed name.

Zayda R. Back
Recording Secretary