UW System Board of Regents
Business & Finance Committee
UW-Stevens Point, Dreyfus University Center, Alumni Room
October 9, 2014

MEETING OF THE BUSINESS AND FINANCE COMMITTEE:

The Business and Finance Committee was called to order at 9:00 a.m. by Regent Mueller. Roll call was taken and Regents Mueller, Pruitt, Behling, Delgado, Farrow, Higgins, and Walsh were in attendance.

I.2.a. Approval of the Minutes of the August 21, 2014, Meeting of the Business and Finance Committee
Upon the motion of Regent Walsh, and the second of Regent Farrow, the Committee unanimously approved the minutes of the August 21, 2014, meeting of the Business and Finance Committee.

I.2.b. UW-Stevens Point Presentation: *UW Stevens Point Efficiency Reviews and PR Balance Reporting*
UW-Stevens Point Chief Business Officer Greg Diemer provided an overview of a UW System funded efficiency review the institution performed in partnership with Huron Consulting's Higher Education Group. He described the effort as having used a "Blitz" approach involving over 160 interviews of campus personnel over a six week period. The review resulted in the identification of 82 "opportunities" for savings, efficiencies and/or revenue enhancement. Mr. Diemer's comments highlighted what he called "the top ten" opportunities for further evaluation. These areas included 1) Dining Services: changing the institution's policy regarding the carryover of missed meals from week to week, 2) Student Health Service: staffing reductions and elimination of lab and pharmacy services, 3) Enrollment Growth and Mix: deemed the institution's largest opportunity to increase revenue and offset state mandated reductions, 4) Space Utilization: centralizing scheduling to make better use of existing space, 5) Campus Store: take advantage of revenue enhancement opportunities and potential outsourcing operation of the Store, 6) Human Resources: consolidation of all HR functions into a single comprehensive program, 7) Parking Services: restructure permit process and increase pricing, 8) Facilities Services: eliminate fragmentation, 9) implementing ACH payment processing, and 10) taking better advantage of prompt pay discounts.

Regent Mueller expressed concern with how staffing reductions in the student health services operation could be reconciled with the recommendations of a recent audit that suggested a need for more robust mental health services. Mr. Diemer responded that the institution has actually added mental health counselors in recent years, and such counseling efforts were not impacted by the staffing reductions he discussed.

Regent Pruitt asked why the institution engaged an external consultant for the review rather than using a more internal process and, in looking back, if he felt it was worth the cost. Mr. Diemer responded that the primary driver in deciding to use an outside consultant was the ability of an outside party to bring in broader experience, benchmarking data, and perhaps additional credibility to the outcomes of the process. He also noted that the institution has done a number of internal reviews of campus processes using Lean Manufacturing principles. Chancellor Patterson added that the availability of funding from UW System to support the engagement of external consultants also helped drive the decision to use outside help.

Regent Walsh asked about the drop in enrollments at UW-Stevens Point and whether the institution was surprised by this turn of events (preliminary headcount enrollments showed a 3% drop at the institution). Mr. Diemer acknowledged they were a bit surprised. He noted they have had pretty solid retention rates and steady freshman/transfer admissions, but found they had lost a significant number of upperclassmen from last year to this year. They are gathering data to better understand why students are leaving and where they are going.

Shifting to the second part of his presentation, Mr. Diemer provided an overview of the timeline and process used on campus to prepare the institution's Program Revenue Balance Report. He made note of the considerable time and effort required by UWSP staff, staff at the other institutions, and at UW System Administration.

I.2.c. Report on Faculty and Staff Base Salary Adjustments and Lump Sum Payments for FY2014
Senior Vice President for Administration David Miller introduced the report noting that a similar report was first presented last year and that, at the request of the Regents, the report will now be presented annually. Mr. Miller stated that the report presents summary information on two types of salary adjustments – on-going base salary adjustments and one-time, lump sum payments. He noted that any lump sum payments made are provided for additional work of a one-time, non-recurring nature and should not be construed as "bonuses". The University does not have the ability to provide bonuses, only additional pay for additional work. Sr. Vice President Miller then introduced Associate Vice President Al Crist who discussed highlights of the report.

Mr. Crist noted that, after last year's report was presented, Regent Whitburn asked that he meet with Regents Pruitt and Mueller to see if there might be some improvements made. One result of those discussions was that a separate table for faculty only was added. Mr. Crist said that approximately 29% of all employees received a base adjustment in FY 2014 (including those for promotions, title changes, and changes in duties). He pointed out that these base adjustments hovered around 3% on average when the 1% pay plan amounts received by all staff are included. As noted earlier, though, not all employees received an adjustment beyond the 1% State approved pay plan. Mr. Crist told the Committee that these amounts did not help to close the University's salary gap vs peers, but they did keep some UW staff from falling farther behind peers at comparable institutions. Associate Vice President Crist then made note of the separate tables for lump sum payments. He acknowledged that the tables in the report include lot of data, which he will not walk through, but that he would be happy to address questions the Committee may have at this time.

Regent Mueller offered several thoughts on the data presented. She pointed out that the faculty and staff in the report would also have received the 1% State pay plan amounts. Correct? Mr. Crist confirmed that they did. Regent Mueller then asked whether the institution's program revenue balances were used to fund these adjustments, in particular the one-time adjustments. Sr. Vice President Miller noted that the balances could be used if available in the related fund source. Regent Mueller registered some concern about inter-institutional equity given that not all campuses have the same level of cash balances. She also noted that different institutions appear to have approached additional pay in different ways with some giving smaller amounts to larger numbers of people and others giving larger amounts to smaller numbers of people. Mr. Miller responded that the report shows only the summarized results of campus actions, it does not show the process used in determining any salary adjustments. For a variety of reasons, different institutions will approach the challenge in different ways depending on their overall situation, their most pressing concerns, priorities, etc.

Regent Pruitt complimented UW Chancellors on their entrepreneurial spirit but pointed out that, as Associate VP Crist noted, these adjustments are only keeping UW institutions from falling further behind and not really helping to close the gap vs institutional peers. Regent Pruitt asked if we have salary data from other sources that show the trend line over the last year or so. Mr. Crist stated that we have data from the College and University Professional Association for Human Resources (CUPA-HR), Minnesota and other sources that point to an average of 2% to 2.5% increases over the last two years. Regent Walsh expressed concern that faculty and staff are the University's most important asset and we are failing to adequately address needs in this area.

He asked what we have been able to do in terms of a general pay plan over the past few years. Mr. Crist responded that, in each of the last two years, all staff achieving satisfactory performance were eligible to receive a 1% pay raise. In the three years prior to that, he said employees received a 0% general pay plan.

Regent Mueller noted that over $1 billion of the $1.6 billion in unclassified salaries shown in the report were for non-faculty employees. She thought that faculty salaries would have been the larger share of unclassified salary dollars. Associate Vice President Crist pointed out that unclassified salary totals include instructional academic staff, researchers, etc. Regent Walsh noted that some institutions hire adjunct faculty because they cannot afford tenure track faculty. He felt this approach can have negative impacts on the institution.

Regent Farrow asked what happened in the years where the University was increasing tuition at an annual rate of 5.5%. Why were these resources not used to address salary concerns? Sr. Vice President Miller explained that the tuition revenue raised was mostly needed to offset State GPR funding reductions. He also noted that the University does not currently have authority to provide a general pay plan outside of the State approved 1%. The limited approaches, results of which are summarized in today's report, are the only tools available. Regent Farrow stated that she did not want to see the UW giving away its valuable faculty to non-residents at bargain basement prices. She felt we should be looking at ways to generate additional resources from non-residents to help with these salary challenges. She understands that we do not want to, and actually cannot, raise resident tuition but we should consider moving non-resident rates closer to what the market will bear.

I.2.d. Report on Faculty Turnover in the UW System

Associate Vice President Al Crist noted that Senior Vice President David Ward will also be discussing faculty turnover in the Education Committee today. He also pointed to earlier work by Sr. Vice President Rebecca Martin and UW Provosts to gather information in this area. Mr. Crist then spoke about the general contents of today's report noting that, while it contains a lot of numbers, those numbers do not always tell the story. In particular, he said one needs to look closely at faculty turnover at individual institutions to appreciate the considerable differences between UW institutions. Challenges vary by institution with some clearly struggling to maintain faculty. He also suggested looking at turnover among younger faculty to better understand the impact on the future of UW institutions. He noted that the trends shown are undoubtedly related to compensation levels in the UW System. Rather than walk through all the details of the report, Mr. Crist asked if Committee members had questions about the report and invited Chancellors to offer their perspectives on the situation.

Regent Mueller thanked him for the report noting that at first the 5.1% turnover rate did not seem so bad, but she appreciated his comments on the need to look at individual institution data. Ms. Mueller then asked if there were national benchmarks available to better gauge the UW System's experience. Mr. Crist responded that we know other institutions are collecting these data, but they are not published and generally only cover segments of the faculty population (e.g., Nursing faculty). Regent Mueller then turned to Chancellors for their thoughts.

Chancellor Blank told the Committee that, for the larger research institutions, it is not just the cost of having to recruit faculty replacements that creates challenges but also the costs of start-up packages for new research programs. She pointed out that it generally takes several years for research programs to become productive so losing established researchers and their grants takes a long time to recover. She also said she has been astonished at the difference in salary that departing faculty often receive when they leave – $50,000, $60,000, sometimes a $100,000 more than they were making at her institution. Faculty do not usually leave for money alone, but it is very hard for it not to dominate decision making when the differentials become this high and, of course, when we try to hire new faculty we have to pay the market rates which are clearly higher than what we had been paying. She said that there is a clear, strong linkage between salary levels and turnover.

Interim Chancellor Brower stated that the biggest losses at the UW Colleges are at the junior faculty level. He described it as almost a post-doc system for many of their younger hires. They hire really bright, good assistant professors at a salary of about $43,000, they work with Colleges for about 3-4 years then move on for other jobs often for 50% increases, and often just across the parking lot to one of Wisconsin's Tech Colleges.

Chancellor Shields noted that UW-Platteville has lost 3 or 4 mid-career faculty from its engineering program. These are folks who would have been expected to contribute to the program and the institution for another 15-20 years. These faculty, he said, leave not just for salary but they do not see a bright future with the institution and are often concerned with political rhetoric disparaging University employees. Regent Walsh reminded the Committee that these decisions are made in the context of not just the 0 - 0 and 1% - 1% pay plans of recent years, but also in the context of how changes in retirement and health benefits have impacted employees. These changes effectively reduced take home pay by 7-8% so many University employees are still well behind where they were 4-5 years ago.

Chancellor Telfer stated that the piece he wanted to add is that, when looking at these turnover rates, we need to keep in mind that these numbers are after we have made our best efforts to keep them. The targeted salary adjustments discussed in the previous report helped keep turnover lower. But those targeted adjustments do nothing for most faculty and those that did receive something know they will not be seeing another bump the next year, or the next year so they do not see a bright future. He noted the situation is having a big impact on morale at our institutions. We are working hard to retain people, but still lose them in considerable numbers.

Regent Pruitt said that we should look at this situation comprehensively, aggregate the data, broadly communicate our concerns to all constituencies and seek strong action to change the situation. Regent Farrow agreed, but felt it should be coupled with a dusting off of a recent LAB audit comparing UW and Tech College salaries which noted significant salary disparities between the two Systems. She did not feel it appropriate that such differences exist solely because of funding source – local property taxes vs. tuition & State GPR. Most people, she thought, do not know about or understand this situation. Regent Farrow also stated that we need to consider things in the context of the times, where people are in their career, and what is going on in other work environments. She pointed out that many people no longer stay with one employer for as long as they used to. Multiple employers, even careers are common place so a certain amount of turnover is just to be expected. Regent Delgado agreed and noted that he had little concern when people leave for the right reasons (opportunity) but would be concerned if faculty were leaving because they felt the UW System was no longer a good place to work. Regent Mueller said this points to the importance of exit interviews to truly understand why people are leaving.

Chancellor Ford pointed out that these numbers show how many left, but what they don't show is how many are looking. She has heard from many of her faculty colleagues at the institution that they are looking, that they do not see any light at the end of the tunnel, and that they are concerned for the future of the institution. She said that this issue of critical importance to her institution and to the entire UW System. Regent Pruitt suggested that whatever form future analysis takes it should capture those aspects that Chancellor Ford described because this is as much about those that remain as those that have left.

As the discussion ended, Senior Vice President for Administration David Miller informed the Committee that he and Senior Vice President for Academic Affairs David Ward have discussed the need to look more closely at the faculty turnover issue. They intend to have a more comprehensive analysis prepared to better understand why faculty are leaving and what might be done to address the situation.

I.2.e Financial Management Report – FY 2014 Final

In the interest of time, Senior Vice President David Miller presented only brief highlights of this report including that, when looking at all funds, the UW System had a net operating variance of approximately 0.66% from its Regent approved $6.0 billion budget plan. Mr. Miller walked through figures in the tuition section pointing out that figures in red represent unfavorable variances while figures in black represent favorable variances. He noted that these reports will be presented at several points in the fiscal year – after the 2nd, 3rd, and 4th fiscal quarters. This is the third time this new Financial Management Report has been shared with the Committee. Mr. Miller noted that the final report for FY2014 presents actual data in both the current and projected columns to preserve the standard format used in earlier reports and which will be used in future reports.

I.2.f. Report of the Funding Allocation Working Group

Regent Mueller asked two members of the working group to share their thoughts on the Group's effort.

Chancellor Dean Van Galen said the group received a lot of information and had a lot of discussion that helped them understand the differences in campus funding structures. He said all institutions can present cogent arguments as to how they are underfunded. But he noted that new Chancellors inherit decisions of the past and that mission, program array, and economies of scale all have an impact on funding. As a result, looking only at the high level data can give misleading impressions about the equity of current base funding allocations. When one digs a little deeper, it is easier to understand those differences, how they came about, and how they make sense. He then pointed to the Group's recommendation that existing base funding not be reallocated among the institutions, but the President and the Board should have discretion in the allocation of any flexible new state funding. Chancellor Van Galen also made note of the Group's recommendation to allow institutions the flexibility to set institution tuition rates for graduate and non-resident undergraduate students allowing those rates to follow more of a market based approach. Chancellor Van Galen then handed the discussion off to Chancellor Rebecca Blank.

Chancellor Blank underscored the first recommendation that current base resources not be reallocated among institutions, but that any new flexible funding should be allocated in line with strategic priorities. She also told the Committee that the working group's recommendation regarding tuition flexibility for individual campuses was very important. In particular, she felt that graduate and non-resident undergraduate rates should better reflect market rates. Finally, Chancellor Blank stated that she would like to reinforce the need for continued state funding for cost to continue items. The working group recommended that a letter be sent to the State Department of Administration requesting that the Governor's budget consistently include full funding of cost-to-continue items (utilities, debt service, employee fringe benefits, etc.).

Regent Committee Chair Mueller then looked to members of the Committee for their thoughts and reactions to the report and comments of the two members present.

Regent Walsh noted how cost-to-continue funding has changed from being a given, something we were not responsible for, to being presented as a funding increase. He asked what we would do if given the flexibility to move funding around from some of these areas. Chancellor Blank responded that potential reallocation of things like utility savings and fringe benefit funding were not a significant part of the group's discussion.

Regent Pruitt was interested in the idea of tuition flexibility and wondered what the real opportunities were at institutions other than UW-Madison. Chancellor Van Galen thought this was a good point saying that at his institution many non-resident students actually pay Minnesota Reciprocity tuition rates. As a result, the tuition flexibility recommended would likely be used only in smaller, more entrepreneurial programs.

Regent Higgins, who was also a member of the working group, closed the discussion saying that he learned a lot in the meetings of the group but that he does not think the report should close the book on this issue. The group had only a limited amount of time to consider ideas. We are in extreme financial times and that limits options. He commented that if circumstances change we may need to revisit the situation.

I.2.g. Report of the Senior Vice President

Senior Vice President David Miller provided a very brief update on efforts to begin developing the scope for a new business intelligence system project which is intended to provide more sophisticated capacity for forecasts, projections and related financial analyses.

The Committee adjourned at 10:38 a.m.

Respectfully submitted,

Michael M. Kraus
Recording Secretary