

**UW System Board of Regents
Business & Finance Committee
UW-Madison, Union South, Varsity Hall II
February 5, 2015**

MEETING OF THE BUSINESS AND FINANCE COMMITTEE:

The Business and Finance Committee was called to order at 10:46 a.m. by Regent Pruitt. Roll call was taken and Regents Pruitt, Behling, Farrow, Harsy and Higgins were in attendance.

Regent Pruitt began by stating that upon request of Regent Mueller, who could not be in attendance at this meeting, item *I.2.d. UW System Trust Funds Proxy Voting Policy* would be deferred to a future meeting agenda. Regent Mueller would like to be present for this item. In the future, the committee will discuss the background, history and current Board policy with respect to shareholder proxy voting associated with UW System Trust Fund investments. Concerns have been raised by certain committee members regarding UW System voting positions and process for this activity. The committee will consider potential changes it may desire in Board policies related to proxy voting and socially responsible investing.

I.2.a.1. Approval of the Minutes of the December 4, 2014 Meeting of the Business and Finance Committee

Upon the motion of Regent Higgins, and the second of Regent Behling, the committee unanimously approved the minutes of the December 4, 2014, meeting of the Business and Finance Committee.

Regent Pruitt then proposed that the next 6 items be considered as consent agenda items which involve a series of contracts for UW-Madison and UW-Milwaukee and also the endorsement of the Veteran's Choice Act. He asked if there were any items that we wish to be removed from the consent agenda to be discussed and voted upon separately. Upon the motion of Regent Farrow, and the second of Regent Higgins, the committee approved the items on the consent agenda, which are listed separately below.

Regent Farrow had questions about the Veteran's Choice Act but did not want it pulled from the agenda. She stated that there is a lack of clarity around an individual's qualifications or background to allow the use of the Veteran's Choice Act. She asked if there was any concern with the level of flexibility or uncertainty regarding qualifications.

Senior Vice President for Administration David Miller responded by stating that the full federal implementation has not yet been published. He stated that institutions have requested guidance because they are doing admissions right now. He believes that the parameters in the paper that are definitions will be consistent with forthcoming guidance from the federal government. Mr. Miller then stated that rather than just adopt these administratively, they thought the board should see them and how they will be directing institutions to define residency enrollment

periods. Some will be left up to each university but some will be clarified as more direction comes from the federal government. Mr. Miller stated that they will re-visit again, only if they require additional definitions.

Regent Farrow asked about how to encourage uniform implementation of the law across the system.

Mr. Miller responded that veterans benefits coordinators and registrars all meet and communicate frequently and it is in their interest to implement provisions consistently. He also pointed to the 1.1.a.7. paper on the Choice Act and said it contained guidance that will help promote uniform implementation.

Regent Harsy then requested to take this item off of the consent agenda and go through the questions.

Regent Harsy said the federal provision to restrict Choice Act coverage to students enrolling within 3 years of a service members death was unreasonable. He also highlighted the issue of the date a student is considered enrolled in light of the unpredictable times at which service members are discharged and the time some veterans need to readjust to post-military life before enrolling in college. Regent Harsy also noted that the concept of “continuously enrolled” in the Choice Act may fail to acknowledge the large number of transfer students who move between institutions and that many programs are designed to encourage this transfer.

Senior VP of Administration Miller responded that the definition of enrollment giving the student the earlier of the first day eligible to register for classes, or the deposit, would be to the advantage of the student. That process would be the same at every institution. Regent Harsy said he agreed with that definition.

The resolution was approved.

I.2.a.2. UW Madison Contractual Agreement Amendment – Smithfield Foods

Upon the motion of Regent Farrow, and the second of Regent Higgins, the Committee approved a UW-Madison research agreement with Smithfield Foods, Inc. The agreement involves the development of a substance to be used in the treatment of disorders related to gastrointestinal dysfunction and for use as an animal feed supplement. Work under this agreement began in November 2012, but did not require regent approval until recently as subsequent amendments pushed it over the \$500,000 threshold requiring approval. The most recent amendment extends the project through June 30, 2017 and brings the total expected to be generated for the institution to \$670,795. Efforts under the agreement will be supervised by Dr. Mark Cook in the UW-Madison Department of Animal Sciences.

I.2.a.3. UW-Madison Contractual Agreement – Learfield Communications

Upon the motion of Regent Farrow, and the second of Regent Higgins, the Committee approved an amendment to a UW-Madison Athletics contractual agreement for marketing and multi-media rights with Learfield Communications. The Division of Intercollegiate Athletics at UW-Madison intends to add a high-speed Wi-Fi network and a stadium-wide Internet Protocol Television (IPTV) system within select sports venues. These improvements would be supported by additional revenues from Learfield under the amended agreement.

Significant elements of the amendment include:

- Adding 2 additional years to the contract, extending the term through June 30, 2026
- \$10M in guaranteed capital subsidy payments over the life of the contract
- \$1.5M in additional extension bonus payments
- Increased annual guaranteed payment amounts based on higher % of adjusted gross income
- Learfield would be provided 75% of the advertising inventory created via the technology

I.2.a.4. UW-Milwaukee Contractual Agreement- Nano Affix, LLC, A.O. Smith, Badger Meter, Inc., and Baker Manufacturing

Upon the motion of Regent Farrow, and the second of Regent Higgins, the Committee approved a UW-Milwaukee cooperative research agreement with the parties noted. The project term of this agreement runs from August 2014 through July 2017 and is expected to generate \$750,000 in revenue to the institution plus \$350,000 in in-kind personnel support from partners. These amounts are in addition to \$800,000 the institution will receive from an NSF partnership program. Work under the agreement is being overseen by Dr. Junhong Chen in the UW-Milwaukee College of Engineering and Applied Science.

I.2.a.5. UW-Milwaukee Contractual Agreement – Areva Mines and NAGRA

Upon the motion of Regent Farrow, and the second of Regent Higgins, the Committee approved a research agreement with Areva Mines and NAGRA for the development of two probes for the detection of certain chemical elements of interest to the parties. The term of the agreement runs August 2012 through March 15, 2015 and is expected to generate \$714,000 for the institution. Work under this agreement is overseen by Dr. Timothy Grundl in the UW-Milwaukee Department of Geosciences.

I.2.a.6. UW-Milwaukee Contractual Agreement – CalciGenix, LLC

Upon the motion of Regent Farrow, and the second of Regent Higgins, the Committee approved a research agreement with CalciGenix, LLC for the evaluation of a novel therapy's ability to ameliorate aging-related cognitive decline. The agreement runs June 2014 through June 2017 and is expected to generate \$504,000 based on the current agreement. The work is being overseen by Dr. James Moyer in the UW-Milwaukee College of Letters and Science.

I.2.a.7. Endorsement of the Veterans Choice Act and Approval of Resident Tuition Rates for Qualifying Non-Residents

This item was removed from the consent agenda for separate consideration.

After a brief discussion and questions, upon the motion of Regent Behling and the second of Regent Harsy, the Committee approved the application of the Veterans Access, Choice, and

Accountability Act of 2014 within the UW System. This Act requires that eligible non-resident U.S. veterans and other eligible benefit recipients be charged the same tuition as Wisconsin residents for pursuing the same course or program effective July 1, 2015.

I.2.b. UW System 2014 Financial Report

Associate Vice President for Financial Administration Julie Gordon presented a summary of information from the UW System's 2014 Annual Financial Report for the period ending June 30, 2014. Director of Financial Reporting Connie Christianson was present as well. This published report is prepared using generally accepted accounting principles (GAAP) as well as governmental accounting standards board (GASB) and includes an unqualified audit opinion from the Legislative Audit Bureau along with all standard higher education financial statements. The complete report will be posted to <https://www.wisconsin.edu/financial-administration/forms-and-publications/annual-financial-reports/> on the meeting date.

Ms. Gordon highlighted a few changes since the FY13 statements. She pointed out that Government Accounting Standards Board now requires us to separately report gains and losses related to debt refunding. Prior to this announcement these gains or losses were netted with bonds payable and then amortized over the remaining life. Now the gains or losses are reported as deferred inflows and outflows, but we will continue to amortize as we have in the past. Ms. Gordon also expressed another change is that debt issuance costs are now expensed in the year they are incurred. In previous years, the costs were accrued as a deferred charge. Now we are incurring those costs all in that first year that the bonds are issued. Ms. Gordon also noted that a miscalculation in depreciation, thereby increased depreciation expense by \$32.0 million. She pointed out that with these changes, the UW System's net position decreased by \$32.9 million.

Ms. Gordon noted that FY 2014 revenues decreased by \$131 million from FY 2013. Tuition decreased by \$36.4 million. This tuition decrease is a result of a HEAB transfer of \$58.3 million, a change in accounting of \$13.0 million and a change in non-resident enrollment of \$9.2 million. Grants and contracts decreased by \$120.1 million and Capital Appropriations decreased by \$105.6 million.

It was also noted that total expenses for FY14 increased by \$228.6 million over FY13. Salary and fringe benefits increased by \$99.1 million, supplies & services expense increased by \$77.3 million and transfers to state agencies increased by \$29.1 million. Instruction and Research are by far our largest expense.

Lastly, Ms. Gordon reviewed the statement of net position. Overall, the UW Systems net position increased by \$23.3 million for FY14.

Senior Vice President David Miller added that the increase in state appropriations is a combination of two increases. The return of the FY13 one year lapse that was then re-available in FY14 was \$20 million and booked as an increase and also the salary and fringe increase associated with the 1% state pay plan was \$38 million. So the \$58 million increases are offset by a \$33 million, base reduction for a net increase of \$25 million. The increases do not help offset the cut because they were either pre-existing or for fixed cost increases. The institution still had to administer the \$33 million reduction even though net state appropriations actually went up \$25

million. Because there was the \$58 million charge this year against tuition revenue for the HEAB one-time transfer, next year this will show up as a tuition increase, which may be misleading. The change will be explained again next year.

I.2.c. UW System 2014 Annual Trust Funds Report

Senior Administrative Program Specialist Tom Reinders presented the Committee with the Annual Trust Funds Report. These funds are comprised of gifts and bequests made directly to a UW institution rather than to their respective foundations. As of June 30, 2014, the funds held net assets totaling \$536.1M, an increase of \$51.8M from \$484.3M at the end of the prior fiscal year. Gifts received during the period totaled \$10.0M, up from the \$9.2M received in the prior period. Disbursements to benefiting UW institutions totaled \$18.9M for the year, versus \$17.0M for the prior period. The *Long Term Fund* gained 16.7% over the period, while the *Intermediate Fund* and the *Income Fund*, returned 7.8% and 0.1%, respectively.

Regent Farrow asked to confirm if we wanted to change the 4% average spending rate, would it have to be approved by the board. It was confirmed that the Board would need to approve a requested change to the average spending rate.

I.2.d. UW System Trust Funds Proxy Voting Policy

This item was deferred to the next full Board meeting.

I.2.e. Quarterly Report of Gifts, Grants and Contracts (2nd Quarter FY 2015)

Senior Vice President David Miller presented to the Committee an overview of the quarterly report of gift, grant and contract awards. This quarterly report provides a summary of gift, grant, and contract awards for the period July 1, 2014 through December 31, 2014. Total awards for the period were approximately \$778.6 million, a decrease of \$11.8 million compared to the prior year. Federal awards decreased 46.8 million while non-federal awards increased by \$35.0 million.

UW Madison Vice Chancellor for Finance and Administration Darrell Bazzell presented trends and definitions to the committee on grants and contracts at UW-Madison as a preface to the presentation of the Quarterly Gift, Grant and Contracts report. He explained why there is fluctuation between awards and expenditures from year to year. Awards represent obligations and commitments by the sponsors. Expenditures represent documented general ledger of expenses related to research as work occurs. Because of this, expenditures will always trail awards. When you see awards, you are seeing the obligations to the federal government. In turn, we will report just the awards that are obligated. Success rates are very competitive and UW-Madison continues to do a little better than peers.

Regent Higgins asked about the top five universities in total research expenditures. He said there are universities who were previously in the top five and are no longer there. What happens to those universities that drop out of the top five? Vice Chancellor Bazzell stated that sometimes it is a function of what type of research infrastructure they have, the faculty movement between institutions, or the changing focus of some universities. We are competitive across a whole spectrum of research opportunities, which allows UW-Madison to attract stable funding.

Regent Higgins asked how Madison has been successful at retaining faculty members who bring large grants to the university. Vice Chancellor Darrell Bazzell stated that they do everything they can to not lose faculty members that help drive our research. If we lose a star faculty member, it takes eight years to recoup for that loss.

I.2.f. Financial Management Report (2nd Quarter FY 2015)

Senior Vice President David Miller presented the committee with a high level summary report comparing budgeted to actual revenues and expenditures through the second quarter of the fiscal year. The report provides UW System management and the Board with a dashboard-type tool to monitor financial activity within the UW System. This mid-year interim management report shows that, as of December 31st, actual expenditures were approximately 46.8% of the regent approved budget, while revenues were at 61.4% of the budgeted level.

He explained that carry forward balances are not current year revenue. They are not counted in the budget as current revenue. As carry forward funds are spent, it is reported as current year expense. So if institutions are spending balances it would show up in greater expenses than budgeted. This illustrates that institutions are covering their budget cut by spending some balance.

I.2.g. UW System Information Technology Report as Required by Wis. Stats. 13.58(5)(b)(3)

Senior Vice President David Miller presented the committee with two statutorily required Information Technology reports. One report was an overview of information regarding UW System Strategic Plans for IT projects. The other report was a semi-annual status report on large projects. Individual institutional strategic plans may be found at:

<https://www.wisconsin.edu/systemwide-it/strategic-plans>

One large project that was presented was for the 13 two-year UW Colleges wired and wireless networks upgrade with a total cost of approximately \$1.8M.

The second project that was presented was a UW System Administration project for \$1.3M. This project is a compensation administration tool that is required to implement the UW personnel system which begins July 1, 2015 in which classified state employees become University employees. Currently, as classified state employees the system does not allow them to be paid by merit per individual employee. This new system would allow university employees to be paid like academic staff and faculty are which are on an individual basis on merit.

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

Senior Vice President for Administration & Fiscal Affairs David Miller stated that he had no additional updates to provide at this time.

The Committee adjourned at 12:15 p.m.

Respectfully submitted,

A handwritten signature in cursive script that reads "Jennie Bauernhuber". The signature is written in black ink and is positioned above the printed name.

Jennie Bauernhuber
Recording Secretary