

October 4, 2002

MEMORANDUM

TO: The Finance Committee:

William H. Goodwin, Jr., Chair  
Thomas F. Farrell, II  
Charles L. Glazer  
Mark J. Kington  
Thomas A. Saunders, III  
Warren M. Thompson  
John P. Ackerly, III, Ex Officio

and

Thomas J. Bliley, Jr.	Gordon F. Rainey, Jr.
William G. Crutchfield, Jr.	Terence P. Ross
T. Keister Greer	Elizabeth A. Twohy
Elsie Goodwyn Holland	E. Darracott Vaughan, Jr., M.D.
Don R. Pippin	H. Timothy Lovelace, Jr.

FROM: Alexander G. Gilliam, Jr.

SUBJECT: Minutes of the Meeting of the Finance Committee

The Finance Committee of the Board of Visitors of the University of Virginia met, in Open Session, at 9:15 a.m., Friday, October 4, 2002, in the East Oval Room of the Rotunda; William H. Goodwin, Jr., Chair, presided. Thomas F. Farrell, II, Charles L. Glazer, Mark J. Kington, Thomas A. Saunders, III, Warren M. Thompson, and John P. Ackerly, III, Rector, were present.

Also present were Thomas J. Bliley, Jr., William G. Crutchfield, Jr., T. Keister Greer, Don R. Pippin, Gordon F. Rainey, Jr., Terence P. Ross, Ms. Elizabeth A. Twohy, E. Darracott Vaughan, Jr., M.D., and H. Timothy Lovelace, Jr.

Present as well were John T. Casteen, III, Leonard W. Sandridge, Alexander G. Gilliam, Jr., Paul J. Forch, Ms. Colette Sheehy, Ms. Alice Handy, Donald W. Jones, Gene D. Block, Arthur Garson, Jr., M.D., R. Edward Howell, Ms. Patricia M. Lampkin,

Robert E. Reynolds, M.D., Ms. Yoke San Reynolds, R. Ariel Gomez, M.D., William W. Harmon, Craig K. Littlepage and Ms. Jeanne Flippo Bailes.

By way of opening the meeting, the Chair reminded the Committee that it was being called on to make significant decisions. He asked that Members consider the issues carefully and discuss them thoroughly.

The Chair asked Mr. Sandridge, Executive Vice President and Chief Operating Officer, to present the Agenda.

The first two items were Consent Agenda items, resolutions approving Current Funds guidelines and additional appointments to the Emergency Communications Center Management Board. The first would change investment guidelines as recommended by the Board of the University of Virginia Investment Management Company (UVIMCO). Mr. Sandridge explained that the University has a large balance in its Current Funds portfolio; many of these funds are long term in nature and might earn a higher return if invested in equities. At the University's request, the Code of Virginia was amended to expand the law governing the investment of the University's gifts and endowment income. The proposed guidelines should increase investment returns on these funds.

On motion, the Committee approved the necessary resolution and recommended it to the full Board for approval (see Minutes of the meeting of the Board of Visitors, October 5, 2002).

The second Consent item would amend the Operating Agreement for the Emergency Communications Center Management Board. The Emergency Communications Center, also known as the "911 Center," is a joint undertaking of the City of Charlottesville, Albemarle County and the University. Its Board has representatives from each of the entities and the proposed resolution would amend the Operating Agreement to add two representatives.

On motion, the Committee approved the necessary resolution and recommended it to the full Board for approval (see Minutes of the meeting of the Board of Visitors, October 5, 2002).

Turning to the regular Action Agenda, Mr. Sandridge noted that in the off year of the biennial State Budget cycle, state agencies may submit requests for amendments to the Budget; these normally go to the Governor for review in the fall and are submitted to the General Assembly in December on the eve of the Session. Because of the current budget situation, the Governor's Office has not yet called for amendments. When that call comes, it is likely to be a modification of the normal process and might not allow the submission of any amendment that requests general

funds. Mr. Sandridge explained that the proposed budget amendments, with few exceptions, would be limited to non-general fund appropriations; these would be used to accommodate increases in the volume of activity or capital projects funded from sources other than tax monies.

Mr. Sandridge emphasized that the proposed amendments at this point are conjectural, in the sense that no one knows what the state budget process will be this year or even if amendments to the Budget will be accepted for consideration.

Mr. Sandridge and Ms. Sheehy, Vice President for Management and Budget, then led a discussion of the proposed amendments. These amendments call for an increase of \$19.4million in non-general funds for the Academic Division in the first year of the biennium, and \$42.3million in non-general funds for both the Academic Division and The University of Virginia's College at Wise in the second year of the biennium. Both increases would be in the Operating Budget.

As for the Capital Budget, \$6.42million in general funds is proposed and \$16.68million in non-general funds. These increases would cover five projects: the Maintenance Reserve, the replacement of the vivarium in Jordan Hall at the Medical School, planning for modifications and improvements to the Main Heating Plant, renovations to Bice House, and an increase in the authorization for the Arena project.

The Committee adopted the necessary resolution and recommended it to the full Board for approval (see Minutes of the meeting of the Board of Visitors, October 5, 2002).

Changing the order of the published Agenda somewhat, Mr. Sandridge proposed a resolution which would expand the funds available for short-term internal loans.

He explained that the University has available a rotating internal loan pool of \$10million, on which there are outstanding commitments for \$8.4million. He proposed increasing the loan pool up to the amount of \$35million. This would be used to address short-term cash flow issues on seven capital projects before the anticipated external financing is received. The University, he emphasized, would repay the principal of the loan on or before June 30, 2003, with interest paid equal to the prevailing rates.

After a discussion, which included an update on University debt issuance, the resolution was approved by the Committee and recommended to the full Board for adoption (see Minutes of the meeting of the Board of Visitors, October 5, 2002).

Mr. Sandridge reported to the Committee that the question of firstyear students being allowed to have cars in their second semester has been studied during the last year by the Parking and Transportation Committee, who have recommended that undergraduates not be allowed to have cars at all during their first year. The Student Council has given its formal support to this recommendation, with the understanding that new public transportation options be considered. Mr. Lovelace said he has talked to a number of his fellow students about this question; he concurs in the recommendation. Mr. Sandridge said the new rule would not affect the current firstyear class, but would apply to students matriculating in the fall of 2003. It would involve, he said, about 500 cars. The new rule does not require action by the Board of Visitors and is a decision made by the Administration.

The Chair then asked Ms. Handy to give her customary report on the Endowment.

On August 31<sup>st</sup>, the total market value of the Endowment stood at \$1billion 729.1million, down \$.2million from its value on June 30<sup>th</sup>. As of June 30<sup>th</sup>, 47% of the portfolio was invested in hedge funds, up from 39% last year. Private equity accounted for 14% and bonds 15%. In comparison with its peer group, the Endowment portfolio is much more heavily invested in hedge funds. In comparison with 36 peer institutions, the University's performance has been consistently better. Ms. Handy also showed the Committee figures which listed the endowments held by various foundations at the University: the Alumni Association, Darden, Law, Medicine, and the Virginia Student Aid Foundation. The Endowment has consistently outperformed these as well.

Ms. Handy reported that during its meeting of September 18-19, the Board of the University of Virginia Investment Management Company (UVIMCO) took the following actions, none of which require the approval of the Board of Visitors:

Approved the investment of \$25million in EnCap Fund IV  
Approved the investment of \$25million in Cherokee Investment Partners  
Approved the investment of \$50million in Eminence Fund Ltd.  
Approved the investment of \$25million in Copper Arch Fund  
Approved the investment of an additional \$25million in Viking Global Investors  
Approved the investment of an additional \$25million in Bridger Capital  
Reaffirmed the targets for the endowment fund  
Changed the benchmark for hedge funds to 30% Russell 3000 and 70% T-Bills plus 800 basis points.

Mr. Sandridge explained that the Board of Visitors has asked for a regular report on the status of the University's self-insured health care plan. He said the University reviews its rates and makes changes on January 1<sup>st</sup>, while the State makes any changes in its rates on July 1<sup>st</sup>. He asked Ms. Yoke San Reynolds, Vice President for Finance, to give the report.

Ms. Reynolds said the University's health plan has had four objectives set for it: to cover projected costs, to maintain reserves to cover claims and contingencies, to hold employee and employer premiums equal to or less than the state plan for comparable coverage, and to maintain a 90% satisfaction rate among enrollees. The University has met the first three objectives - premiums, for example, are lower than those for the state plan, but the last survey of enrollee satisfaction put that rate at 87%.

There was a 16% increase in actual costs in the calendar year 2001 and the projected increases for 2002 and 2003 are 17%; the increases are driven by increased medical costs, increased pharmaceutical costs, increased utilization and increased enrollment. All of these are consistent with national trends.

Ms. Reynolds then listed proposed monthly premiums, to be effective January 1, 2003; all are below the current monthly premiums for the state plan. Over the years, in fact, the UVa health plan has maintained small increases in employee premiums.

Continuing to the next item on the Agenda, Mr. Sandridge told the Committee that because of the state Budget crisis, the Governor has enacted quarterly spending limits for state agencies and requested budget reduction plans from each. Further reductions by the Governor are expected around the middle of the month but the amounts of these are not now known. Pending the announcement of these cuts, Mr. Sandridge said he would propose to the Board a tuition surcharge to be levied in the second semester of this year, the amount to be calculated when more information has been received from Richmond. He said the surcharge was being proposed with the understanding that the concomitant financial aid needs of students would be met.

He then asked Ms. Sheehy to outline the various actions being taken to reduce the budget.

Ms. Sheehy first reviewed actions taken by the state to balance the Budget. As for the University, she said hiring and discretionary spending were frozen on July 25<sup>th</sup>; on August 1<sup>st</sup>, schools and departments were asked to prepare budget reduction plans equal to 7% of total E&G budget (which equates to 16.3% of general funds). On August 19, outside consultant contracts were frozen.

Some immediate effects of budget cuts at the University will be a reduction in the number of classes, more students in the remaining classes and heavier workloads for faculty.

There ensued a lively and lengthy discussion of how the University can best meet current and future reductions in state budget support. The discussion was based on the proposed resolution, which would allow the University to levy an across-the-board tuition surcharge in the second semester of this session. The Chair suggested that the parameters of the discussion should be based on identifying the point in budget reductions you arrive at where the core values of the University are threatened. In saying this, he observed that some portions of the reductions mandated by Richmond can be handled. "Fat" can always be cut in any organization. But the core values must be maintained and ways must be found to do this.

The discussion then centered on the proposed tuition surcharge. Mr. Farrell suggested that it is premature to state a dollar amount before the full extent of the Governor's Budget reductions are known. He said the proposed mechanism of having the Rector and the Chair of the Finance Committee work with the Administration in setting the amount is the best way of doing it.

Mr. Ross expressed serious concern about the affect of a mid-year tuition increase on the budgets of middle class students. It is clear, he said, that the financial aid needs of the poorest students can be met; at the other end of the spectrum, the richest students should be able to support an increase. The majority, however, are students who do not meet the criteria applied to determine financial need and whose families have budgeted for the year or even for the full four years of college.

Mr. Farrell said he appreciated Mr. Ross's concerns; when he attended the University his expenses were a major "stretch" for his parents and he, with a son in the first year class, will have to pay whatever surcharge is levied. On the other hand, tuition at the University is under-priced. The budgetary situation is serious to the point of being an emergency and a rise in tuition seems to be the only reasonable way of coping with it. He said that he, in fact, would support a surcharge of up to \$500.

Mr. Lovelace said he, too, was sympathetic to Mr. Ross's concerns and that perhaps ways could be found to meet the financial aid needs of these students. On the other hand the threat to the academic core of the University is serious and that if a tuition surcharge is necessary to meet it, then it should be imposed.

The President said that as a matter of record, he wanted to repeat to the Board the observations of the mother of an out-of-state student, which he had promised her he would do: she thinks her child's tuition is fair, but she objects to paying a surcharge to resolve a State of Virginia problem.

After more discussion on the wording, the Committee, on motion, approved the proposed resolution and recommended it to the full Board for approval (see the Minutes of the Board of Visitors meeting of October 5<sup>th</sup>).

Turning to the question of growth in the number of students at the University, Mr. Sandridge said the State's projections for the increase in the college population are skewed and the situation is not at all clear. The President confirmed this and said the anticipated crush in the population headed for four year colleges simply did not materialize this year. Instead, the Community College system has experienced a significant rise in the number of entering students. Any serious consideration of enrollment growth as a factor in the University budget thus will have to be put off until better statistics are available - which means that the Administration cannot bring a proposal to the Committee before the January Board meeting.

Mr. Ross asked that there be a comprehensive discussion of the University's growth policy at the January meeting.

Ms. Sheehy gave a brief presentation in outline on tuition at the University in relation to the tuitions charged at peer institutions. She explained that this simply was for the Committee's information as the Board normally sets tuition at the April meeting. The basic question the Board will need to consider is how the University should position itself in the market.

Mr. Rainey observed that Ms. Sheehy's comparisons with peer institutions prove that tuition at the University is a bargain.

Mr. Saunders agreed and said that the next setting of tuition by the Board could be a watershed in this regard in that charging tuition at market rates could be a serious factor in offsetting budgetary shortfalls. He asked that information on proposed tuition rises be gotten to the Board well in advance of the next meeting. The Chair agreed and said it should go to the Board two weeks before the meeting at which it is to be discussed.

Reminding the Board that tuition decisions are made at the April meeting, Mr. Sandridge suggested that the figures Mr.

Saunders requested be discussed at the January Board meeting and the final decision be made in April.

Mr. Saunders agreed, but said the Board should be afforded maximum flexibility in its options. He suggested a range of options in January and firm proposals in April.

Ms. Sheehy then gave a report on the University's business with minority-owned firms, information which had been requested by Mr. Thompson at the June Board meeting. She said the Governor had issued an Executive Order on July 2<sup>nd</sup> instructing state agencies to develop a program to facilitate the participation of small, women-owned and minority-owned vendors in their procurement programs.

The University for some years has had in place an active and successful minority procurement program. In 1998-99, for example, business amounting to \$5million was done with 248 firms. By 2000-01, this had been expanded to 365 firms who did \$5.3million worth of business with the University. In response to the Governor's Executive Order, she said, the University will use the same methods for small and women-owned businesses that it has used so successfully with minority-owned firms.

As an aside, she added that 74% of the University's business with architectural and engineering firms over the last four years was done with Virginia companies; over the last three years, 95% of the University's construction business was done with Virginia firms.

Ms. Sheehy then introduced Mr. Donald W. Jones, Director of Minority Procurement Services, who answered questions directed to him by several Members.

Mr. Thompson said that long before he was appointed to the Board, minority business owners had sought his help in doing business in Virginia. Since he joined the Board, people seeking to do business with the University have tried to solicit his help, many of them citing difficulties they have encountered. He has told them that the University must ease access, but that we cannot pay higher prices to a minority firm. He told the Committee that he believes it is important to see an improvement in this if indeed there are difficulties.

Mr. Sandridge asked Mr. Thompson to let him know of instances where firms have complained that doing business with the University is difficult.

On motion, the meeting was adjourned at 11:45 a.m.

AGG:lah

These minutes have been posted to the University of Virginia's Board of Visitors website.

<http://www.virginia.edu/bov/financeminutes.html>