

February 3, 2005

MEMORANDUM

TO: The Finance Committee:

Thomas A. Saunders, III, Chair  
Thomas F. Farrell, II  
W. Heywood Fralin  
Mark J. Kington  
Warren M. Thompson  
Georgia M. Willis  
John O. Wynne  
Gordon F. Rainey, Jr., Ex Officio

and

The Remaining Members of the Board:

William G. Crutchfield, Jr.    Lewis F. Payne  
Susan Y. Dorsey                    Don R. Pippin  
G. Slaughter Fitz-Hugh, Jr.    Terence P. Ross  
Glynn D. Key                        E. Darracott Vaughan, Jr., M.D.  
James W. Head

FROM: Alexander G. Gilliam, Jr.

SUBJECT: Minutes of the Finance Committee Meeting on  
February 3, 2005

The Finance Committee of the Board of Visitors of the University of Virginia met, in Open Session, in the East Oval Room of the Rotunda at 2:10 p.m., Thursday, February 3, 2005; Thomas A. Saunders, III, Chair, presided. Thomas F. Farrell, II, W. Heywood Fralin, Mark J. Kington, Warren M. Thompson, Ms. Georgia M. Willis, and John O. Wynne were present.

Also present were G. Slaughter Fitz-Hugh, Jr., Ms. Glynn D. Key, Lewis F. Payne, Don R. Pippin, Terence P. Ross, E. Darracott Vaughan, Jr., M.D., and James W. Head.

Present as well were John T. Casteen, III, Leonard W. Sandridge, Alexander G. Gilliam, Jr., Paul J. Forch, Gene D. Block, R. Edward Howell, Robert E. Reynolds, M.D., Ms. Yoke San Reynolds, Ms. Colette Sheehy, Ernest H. Ern, Ms. Melody

Bianchetto, Christopher J. Brightman, and Ms. Jeanne Flippo Bailes.

BECAUSE OF A TOTAL MALFUNCTION IN THE RECORDING EQUIPMENT IN THE ROTUNDA, THESE MINUTES ARE A RECONSTRUCTION

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

RATIFICATION OF BUDGET AMENDMENTS

The first item was a Consent Agenda item, a resolution ratifying proposed amendments to the 2004-2006 Appropriation Act. The amendments, Mr. Sandridge explained, are in addition to the budget amendments approved by the Board and submitted to the Governor in October for inclusion in his budget proposal to the General Assembly in December.

The Committee adopted the following resolution and recommended it to the full Board for approval:

RATIFICATION OF BUDGET AMENDMENTS

WHEREAS, the additional 2004-2006 budget amendments have been carefully reviewed; and

WHEREAS, the budget amendments represent additional high priority initiatives and are aligned with the mission of the institution; and

WHEREAS, the Board of Visitors authorized the Executive Vice President and Chief Operating Officer to transmit to the General Assembly any request not funded by the Governor as long as there are no material differences from the items already endorsed by the Board of Visitors;

RESOLVED that the Board of Visitors of the University of Virginia endorses and supports the additional 2004-2006 budget amendments; and

RESOLVED FURTHER that the Executive Vice President and Chief Operating Officer is authorized to transmit the final proposed budget amendments to the General Assembly.

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TUITION AND FEES FOR CERTAIN GRADUATE DEGREE PROGRAMS

Continuing to the regular Action Agenda, Mr. Sandridge proposed a resolution approving 2005-2006 tuition and fees for two master's degree programs, both "executive-style." By that, he explained, he meant programs that are primarily residential weekend programs, geared towards students who are working fulltime. One of the programs is the McIntire School's Management of Information Technology degree, and the other is a Systems Engineering degree in the School of Engineering.

The Committee adopted the following resolution and recommended it to the full Board for approval:

APPROVAL OF 2005-2006 TUITION AND FEES FOR CERTAIN GRADUATE DEGREE PROGRAMS

RESOLVED that the tuition and fees applicable to the following graduate degree programs be approved as shown below, effective May 1, 2005:

	Virginian			Non-Virginian			2005-06 Proposed	
	2004-05 Approved	Amount of Increase	Percent of Increase	2004-05 Approved	Amount of Increase	Percent of Increase		
MIT	\$33,261	\$33	0.1%	\$33,294	\$38,261	\$48	0.1%	\$38,309

Price includes fees of \$10,294 Virginian/\$10,309 Non-Virginian for special session mandatory fee, books, materials, computer leasing, software licenses, group meals, and lodging.

Systems Eng.	\$29,500	\$2,000	6.8%	\$31,500	\$29,500	\$7,000	23.7%	\$36,500
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Price includes fees of \$11,907 Virginian/\$11,922 Non-Virginian for special session mandatory fee, books, materials, technology, group meals, and lodging.

STUDENT HOUSING RATES, 2005-2006

Mr. Sandridge reminded the Committee that student housing rates for the next session customarily are set at the winter Board meeting. As proposed, the University's housing rates, which are below the average for the public institutions in the state, would increase by 9.7% and the rates at The University of Virginia's College at Wise would rise by 7.5%.

The resolution Mr. Sandridge proposed also covered the summer 2005 housing and dining rates for the Mountain Lake Biological Station.

The Committee adopted the following resolution and recommended it to the full Board for approval:

APPROVAL OF STUDENT HOUSING RATES FOR 2005-2006

RESOLVED that rental increases for student housing facilities be approved as shown below, effective beginning with the 2005-2006 session:

<u>Facility</u>	<u>Actual 2004-2005 Per Student Per Session</u>	<u>Amount of Increase</u>	<u>% Increase Before Improvement Fee</u>	<u>Student Housing Improvement Fund Fee</u>	<u>Total Percent Increase</u>	<u>Proposed 2005-2006 Per Student Per Session</u>
<u>Academic Division</u>						
DORMITORIES						
Alderman/Observatory Houses						
Double Room	\$2,930	\$120	4.10%	\$200	10.92%	\$3,250
Brown College						
Double Room	\$3,550	\$140	3.94%	\$200	9.58%	\$3,890
McCormick Road						
Double Room	\$2,810	\$110	3.91%	\$200	11.03%	\$3,120
Small Double Room	\$2,600	\$100	3.85%	\$200	11.54%	\$2,900
Single	\$2,940	\$120	4.08%	\$200	10.88%	\$3,260
Lawn						
Small Single	\$3,400	\$140	4.12%	\$200	10.00%	\$3,740
Regular Single	\$3,400	\$140	4.12%	\$200	10.00%	\$3,740
Small Single (no fireplace)	\$3,310	\$130	3.93%	\$200	9.97%	\$3,640
Range						
Regular Single	\$3,400	\$140	4.12%	\$200	10.00%	\$3,740
Crackerbox						
Single Room	\$3,400	\$140	4.12%	\$200	10.00%	\$3,740
Mary Munford/ Roberta Gwathmey						
Double Room	\$2,930	\$120	4.10%	\$200	10.92%	\$3,250
Single Room	\$3,400	\$140	4.12%	\$200	10.00%	\$3,740
Sprigg (Lewis/Hoxton)						
Small Double Room	\$3,090	\$120	3.88%	\$200	10.36%	\$3,410
Double Room	\$3,270	\$130	3.98%	\$200	10.09%	\$3,600
Single Room	\$3,590	\$140	3.90%	\$200	9.47%	\$3,930
Single Room (w/bath)	\$3,760	\$150	3.99%	\$200	9.31%	\$4,110
Gooch/Dillard						
Double Room	\$3,270	\$130	3.98%	\$200	10.09%	\$3,600
Single Room	\$3,590	\$140	3.90%	\$200	9.47%	\$3,930
Twelve Month Rate:						
Single Room	\$4,900	\$200	4.08%	\$200	8.16%	\$5,300
Hereford College						
Double Room	\$3,270	\$130	3.98%	\$200	10.09%	\$3,600
Single Room	\$3,550	\$140	3.94%	\$200	9.58%	\$3,890

<u>Facility</u>	<u>Actual 2004-2005 Per Student Per Session</u>	<u>Amount of Increase</u>	<u>% Increase Before Improvement Fee</u>	<u>Student Housing Improvement Fund Fee</u>	<u>Total Percent Increase</u>	<u>Proposed 2005-2006 Per Student Per Session</u>
<b>French House</b>						
Triple Room	\$3,110	\$120	3.86%	\$200	10.29%	\$3,430
Double Room	\$3,270	\$130	3.98%	\$200	10.09%	\$3,600
Single Room	\$3,660	\$150	4.10%	\$200	9.56%	\$4,010
<b>Russia House</b>						
Double Room	\$3,250	\$130	4.00%	\$200	10.15%	\$3,580
Single Room	\$3,600	\$140	3.89%	\$200	9.44%	\$3,940
<b>Spanish House</b>						
Double Room	\$3,270	\$130	3.98%	\$200	10.09%	\$3,600
Single Room	\$3,660	\$150	4.10%	\$200	9.56%	\$4,010
<b>Shea House</b>						
Double Room	\$3,270	\$130	3.96%	\$200	10.09%	\$3,600
Single Room	\$3,660	\$150	4.10%	\$200	9.56%	\$4,010
<b>APARTMENTS - SINGLE STUDENT</b>						
<b>Copeley Hill III, IV, Lambeth Field</b>						
Two Bedroom (double occupancy)	\$3,300	\$130	3.94%	\$200	10.00%	\$3,630
Three Bedroom (double occupancy)	\$3,200	\$130	4.06%	\$200	10.31%	\$3,530
<b>Bice House</b>						
Two Bedroom (double occupancy)	\$3,300	\$130	3.94%	\$200	10.00%	\$3,630
Three Bedroom (double occupancy)	\$3,200	\$130	4.06%	\$200	10.31%	\$3,530
Single	\$3,640	\$150	4.12%	\$200	9.62%	\$3,990
<b>Faulkner (Hench, Mitchell, Younger)</b>						
Single	\$3,640	\$150	4.12%	\$200	9.62%	\$3,990
Large Single	\$4,350	\$170	3.91%	\$200	8.51%	\$4,720
<b>APARTMENTS - FAMILY (per month)</b>						
<b>Copeley Hill I &amp; II</b>						
One Bedroom (furnished)	\$650	\$26	4.00%	\$15	6.31%	\$691
One Bedroom (unfurnished)	\$617	\$25	4.05%	\$15	6.48%	\$657
Two Bedroom (furnished)	\$712	\$28	3.93%	\$15	6.04%	\$755
Two Bedroom (unfurnished)	\$680	\$27	3.97%	\$15	6.18%	\$722
Three Bedroom (furnished)	\$768	\$31	4.04%	\$15	5.99%	\$814
Three Bedroom (unfurnished)	\$736	\$29	3.94%	\$15	5.98%	\$780
<b>University Gardens</b>						
One Bedroom (furnished)	\$634	\$25	3.94%	\$15	6.31%	\$674
One Bedroom (unfurnished)	\$602	\$24	3.99%	\$15	6.48%	\$641
Two Bedroom (furnished)	\$682	\$27	3.96%	\$15	6.16%	\$724
Two Bedroom (unfurnished)	\$649	\$26	4.01%	\$15	6.32%	\$690

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<u>Facility</u>	<u>Actual 2004-2005 Per Student Per Session</u>	<u>Amount of Increase</u>	<u>% Increase Before Improvement Fee</u>	<u>Student Housing Improvement Fund Fee</u>	<u>Total Percent Increase</u>	<u>Proposed 2005-2006 Per Student Per Session</u>
College At Wise						
McCraray Asbury, Thompson, Henson, Martha Randolph, Townhouses, Theme Housing	\$2,808	\$211	7.51%	\$0	7.51%	\$3,019
	\$3,244	\$244	7.52%	\$0	7.52%	\$3,488

Notes:

1. The rates for Copeley Hill I & II and University Gardens include utility charges and cable TV.
2. A new rate for furnished apartments will go into effect as the units turn over.
3. The rate for a double room used as a single is 135 percent of the double rate.
4. The rate for a double room used as a triple is 85 percent of the double rate. Students living in a triple receive a credit of \$50 for each month they reside in a triple (maximum of \$200/semester).

MOUNTAIN LAKE BIOLOGICAL STATION RATES

	<u>Actual 2004</u>	<u>Proposed 2005 Rate</u>	<u>Percent Increase</u>
<b>BOARD RATES PER TERM (4 weeks)</b>			
Persons 17 years & older	\$531.00	\$550.00	3.58%
Persons 10-16 years old	\$319.00	\$330.00	3.45%
Persons 9 yrs & younger	\$170.00	\$176.00	3.53%
<b>SUMMER HOUSING RATES PER TERM (4 weeks)</b>			
CABINS	\$176.00	\$185.00	2.78%
LAING APTS	\$134.00	\$141.00	2.92%
DORMS/SINGLES	\$ 97.00	\$100.00	3.09%
<b>NEW DORM:</b>			
Apts (2 rooms)	\$155.00	\$161.00	2.55%
2nd bedroom (family)	\$ 49.00	\$ 51.00	2.00%
Singles	\$110.00	\$115.00	2.68%

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DISCUSSION OF LONG-TERM TUITION QUESTIONS: A PROPOSED FIVE YEAR PLAN

Mr. Sandridge reminded the Committee that at its meeting on April 15<sup>th</sup> last year, it asked the administration to develop a long-term tuition plan for discussion. This request coincided with the University's efforts to pursue status as a Commonwealth Chartered University, an undertaking that also required the development of a long-term financial plan. The requested tuition plan thus is presented in the context of the Chartered University initiative.

As a matter of record, the Executive Summary of the tuition plan is appended as an Attachment.

There was a lengthy discussion of the conclusions and recommendations in the presented plan, but the Committee took no action - indeed, it was emphasized that no action was expected and that the plan was presented as a means of focusing discussion on tuition questions.

ENDOWMENT REPORT

Mr. Sandridge introduced Mr. Christopher Brightman, the new head of the University of Virginia Investment Management Company (UVIMCO), and they gave the customary report on the Endowment, using figures current as of December 31<sup>st</sup>, 2004.

At the end of Fiscal Year 2004 (June 30<sup>th</sup>), the Endowment stood at \$2,344million. On December 31<sup>st</sup> - and thus the first half of the current fiscal year - it stood at \$2,548million.

Hedge funds, on December 31<sup>st</sup>, accounted for 54.5% of the portfolio, private equity 11.1%, international 10%, and domestic equity 6.8%; in addition, 10% of the portfolio was in cash, 4.6% in fixed income, and 2% in real estate.

For the first half of Fiscal Year 2005, the Pooled Endowment Fund returned 8.5%. Domestic equities returned 8.1%, international equities rose 16.6%, and fixed income returned 4.8%. The hedge fund portfolio returned 7.6% and private equity 5.8%.

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On motion, the meeting was adjourned at 3:50 p.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>

Five-Year Expenditure Model

The University has developed a five-year financial plan outlining base operating requirements appropriately funded from a combination of state general funds and tuition. The financial model predicts that by 2009-2010 the University should invest \$125.3 million more than its current base budget of \$362.3 million to meet Educational & General (E&G) base operating requirements. The need for the additional resources is based on achieving the 60<sup>th</sup> percentile faculty salary benchmark (\$50.5 million), full funding of base adequacy (\$54.4 million), and 3.0 percent annual salary increases for staff and administrative and professional faculty (\$20.4 million). After considering an appropriate general fund contribution and other non-tuition resources, we estimate that \$76.2 million in new funding will be needed from tuition over the next five years.

Research and Findings

Our regular market analysis and specific research conducted on the issue of differential tuition pricing led to the following findings:

- The University's 2004-2005 in-state undergraduate tuition and fees are \$343 below the 60<sup>th</sup> percentile of the SCHEV public peer group.
- Analysis of in-state students who are accepted at the University, but choose to go elsewhere, reveals that price is not a determining factor in their choice.
- There is no evidence that larger tuition increases will have a negative effect on the numbers of applications or on the quality of the applicant pool, although we will need to monitor this carefully as we move forward.
- Differential tuition pricing is the practice of charging varying rates based on such things as cost of instruction, academic level, student enrollment demand, or future earnings potential. Our research found differential pricing to be a relatively new concept for undergraduate programs although a growing number of universities have implemented it in some version or are discussing it. It is a practice more prevalent in graduate and professional programs.

## Financial Aid

- As the cost of attending the University increases we must be prepared to fund the necessary incremental financial aid. The University has committed to this under its Access UVa program for undergraduates.
- To evaluate the impact of need-based financial aid on the tuition price paid by undergraduates, we analyzed by income group the "net price" paid by students applying for financial aid. Data reveal that the 2003-2004 net price for all in-state and out-of-state undergraduates applying for need-based financial aid was 68 percent of gross price. Student families at higher income levels pay a lower percentage of their family income in educational costs than families at lower income levels.
- Graduate financial aid is awarded on an entirely different basis than undergraduate need-based financial aid.
- Surveys demonstrate that 40 percent of those who decline graduate admission to the University do so because the support packages offered are not competitive.

## Conclusions and Recommendations

- We believe the University has significant market potential to increase its in-state undergraduate tuition without a negative impact on the number or quality of applicants.
- It is our conclusion that there would be a negligible benefit to applying a differential tuition structure to undergraduate programs at the University, and that those benefits do not outweigh the potential negative consequences.
- We see a benefit to differential pricing at the graduate level and recommend further study and discussion with deans and the Provost as to how best to implement such a structure in one or more of the graduate schools.
- The Access UVa program will ensure that increasing tuition will not negatively affect the current discounts received by students qualifying for financial aid and will not limit a student's ability to attend the University solely based on price.
- In order for the University to improve the competitiveness of its graduate financial aid packages, the responsibility for paying tuition and fee charges plus the provision of an adequate stipend needs to shift from the students to University-provided fellowships. New resources along with tuition pricing strategies must be identified to accomplish this goal.

- Assuming the state meets its share of closing the gap in the cost of education, the University projects an annual tuition and fee increase of just below ten percent for in-state undergraduates and just over six percent for out-of-state undergraduates in order to meet base funding requirements over the next five years.
- For the next five years, we will continue the implementation of a model to price graduate tuition appropriately. For the College of Arts & Sciences and the School of Engineering and Applied Sciences, it is expected that tuition increases will continue to close the differential between in-state and out-of-state students, with the expectation of reaching a \$10,000 differential by 2006-2007. For other graduate schools - Architecture, Nursing, and Education - we will develop an appropriate long-term tuition plan, to be presented for the Board's consideration at its March 24, 2005 meeting, to meet the individual needs of these schools.
- For the School of Medicine, we will continue to progress towards a \$10,000 differential over the next five years until all four classes achieve this mark by 2008-2009.
- For Law, Darden, and graduate programs in the McIntire School of Commerce, we expect annual increases between five and six percent for out-of-state students and a commensurate in-state increase to maintain the \$5,000 differential.