

FINANCE COMMITTEE

2005-06 GOALS

- 1. Provide relevant financial data and support to the Special Committee on Planning to facilitate the necessary policy decisions regarding fundamental University operations and priorities in order to complete a detailed ten-year financial plan.**

The availability of fiscal, capital, and human resources is a critical issue for our efforts to be best-in-class as a teaching, research, and health care enterprise. It calls for excellent management of existing resources and generation of new resources. Ensuring the availability of resources requires careful planning and deliberate execution. Completion of the six-year revenue/expense/academic plan for submission to the state as required by the Restructuring legislation will help us in this planning effort. We will extend the plan to cover a ten-year period (including all fund sources) in support of the institutional objectives and ranking goals that will be established by the Board.

- 2. Fulfill Restructuring requirements at the maximum level to enable the University to take full advantage of the enabling legislation.**

Our long-term success depends on our ability to a) manage our operations under policies established by the Board of Visitors, b) rely on tuition and private support as stable revenue streams, and c) position ourselves to act quickly and effectively as an organization, free of unnecessary limitations imposed by the state. Over almost two decades, we have seen our status evolve from a traditional governmental agency to a major research university with substantial responsibilities and authority to manage our affairs. We have gained many operational benefits since 1995-96, when “codified autonomy” was established for the Medical Center. On April 6, 2005, the Restructuring legislation was passed, advancing our position as we aspire to become a top-ranked institution of higher education.

We are focused on implementing the restructuring initiative by meeting the specific requirements of the Act, which provides a broad framework to enable us to redefine our relationship with the Commonwealth in a manner befitting our established credibility and integrity.

- 3. Establish a debt policy that preserves the University’s Aaa bond rating, with special attention to accelerating the development of research facilities.**

In 2002, the University developed and implemented a new debt management approach, providing greater financing flexibility and lower financing costs. The reduced interest cost since March 2003 was largely attributable to two factors: the new debt portfolio approach and the prevailing low market interest rates. In June 2005, the second bond issuance under this program locked in record-low interest rates. In terms of policy and structure, UVa has a draft debt policy. The key policy issue was to set the institutional risk tolerance level. At the April 2004 meeting, the BOV approved a policy to allow up to 40 percent variable-rate debt in our portfolio. UVa has also developed a comprehensive computer system to support management decision-making. The following peer university practices will be considered more fully as we develop our debt strategy: 1) self-liquidity to support the issuance of variable-rate debt and 2) taxable interest rate swaps to fix floating-rate tax-exempt liabilities.

Source: Office of the Executive Vice President and Chief Operating Officer

Date: July 22, 2005

Page 1 of 4

In the last year, UVa completed swap master agreements with four financial institutions and is therefore positioned to move quickly when appropriate. Over the year, staff will study debt management programs of selected private universities with a view to adopting best practices to the extent possible and permitted by law. The Finance Committee will hear a report on these practices, and subsequent recommendations in winter 2006.

This issue takes on importance not only because it is fiscally important and a key responsibility of the Board, but also because debt is likely to be the key to our ability to provide the research facilities that are needed to advance the University's reputation as a major player in the research arena. Although there must always be a revenue stream to retire debt, an appropriate policy can go a long way toward assuring that debt capacity is available now and in the future at the lowest overall cost of capital.

4. Ensure the University's benefits plan is cost-effective and competitive with best-in-class institutions of higher education.

To remain a top-ranked institution of higher education, we must provide competitive pay, benefits, and work conditions to attract and retain talented faculty and staff, while fulfilling fiduciary responsibilities. One area of focus is to continue the evaluation of the quality and cost effectiveness of our benefits program. In order to evaluate the University's benefits programs, staff completed a detailed comparison of benefits provided at several peer institutions, which showed that the University fares well when compared to its peers in most core benefits areas -- retirement, health, life, disability, leave, and education benefits. The notable outliers are optional supplemental benefits for faculty, domestic partner benefits, and education benefits for family/dependents. The task for 2005-06 will be to develop recommendations regarding how to address the findings of the benefits peer comparison. One must consider the cost of enhanced benefits, to both the employee and institution, and evaluate the overall level of benefits. The Finance Committee will receive the results of the peer analysis and assist staff in achieving the correct balance between cost and level of benefits provided to employees within the context of the long-term fiscal impact on the institution.

5. Develop appropriate policies to establish operating, maintenance, replacement, and renewal reserves.

The University is a complex enterprise with a wide range of operations and technically advanced building systems, especially in the science and health care areas. Increasingly, the responsibility for the long-term care and protection of the University rests with the resources of the institution rather than the state. New restructuring legislation places both the authority and the policy responsibility for the University in the hands of the Board of Visitors. The realities of the funding situation and the changes in our relationship with the state emphasize the importance of this time to evaluate the existing policies pertaining to operating and capital reserves. It is likely that new and modified policies will be needed once the needs are evaluated in a systematic and rational manner. The Finance Committee will receive information regarding our existing policies, have an opportunity to hear reports from staff identifying gaps in coverage with existing reserves and advise how it believes our reserve program should develop in the future.

WORK PLAN

- 1. Provide relevant financial data and support to the Special Committee on Planning to facilitate the necessary policy decisions regarding fundamental University operations and priorities in order to complete a detailed ten-year financial plan.**
 - September 2005: Meeting of Full Board to consider the management agreement, six-year plan and policies – the materials to be reviewed will be the result of work conducted throughout the summer 2005 consistent with the restructuring legislation. Written updates will be provided as appropriate to keep the Finance Committee informed prior to the meeting date.
 - Fall 2005: Committee will receive status report.
 - Winter 2006: Committee will receive a status report and take action as necessary to respond to the legislative process.
 - Spring 2006: Committee will receive status report.
 - Summer 2006: Final review and approval of all financial matters necessary to implement the Management Agreement effective July 1, 2006. The 2006-07 budget which will be approved at this meeting will reflect the changes and resources necessary to comply with the Management agreement.

- 2. Fulfill Restructuring requirements at the maximum level to enable the University to take full advantage of the enabling legislation.**
 - September 2005: Meeting to consider the management agreement, six-year plan, and policies.
 - Spring 2006: Meeting to consider tuition and fees for 2006-07.
 - Summer 2006: Final review and consideration of all financial matters necessary to implement the Management Agreement effective 7/1/06.

- 3. Establish a debt policy that preserves the University's Aaa bond rating, with special attention to accelerating the development of research facilities.**
 - Winter 2006: Review of existing debt policy; recommendations for amendments; discussion of ways to improve the current policy; review will include information on the results of the application of the existing debt policy over the last 18 months.
 - Spring 2006: Review and consideration of any modifications recommended in the winter 2006 evaluation session.

- 4. Ensure the University's benefits plan is cost-effective and competitive with best-in-class institutions of higher education.**
 - September 2005: Annual Report on UVa Health Plan
 - Fall 2005: Management is engaged with its benefits consultant to evaluate the University's benefits plan and will complete that evaluation before the Fall 2005 meeting. The review will include benchmarking other plans, identifying strategies to promote wellness, manage long-term health care costs and clarify the cost distribution between employee and employer. Based on the assessment, management will review with the Committee suggested changes intended to strengthen the program over the long-term and ensure maximum benefits at a reasonable cost. The objective will be

Source: Office of the Executive Vice President and Chief Operating Officer

Date: July 22, 2005

Page 3 of 4

to hear recommendations at this meeting and advise staff so the changes can be effective with the 2006 plan year.

5. Develop appropriate policies to establish operating, maintenance, replacement, and renewal reserves.

- Winter 2006: Assess categories of reserves that are supported by best practices; identify current policies and reserves that exist; suggest new and modified policies for creation, funding, and management of operating, maintenance, replacement, and renewal reserves. Describe how the policies related to reserves relate to the deferred maintenance reduction policy established by the Board effective through the 2005-2006 operating budget.
- Spring 2006: Review and consideration of any policies recommended in the Winter 2006 review session to establish operating, maintenance, replacement, and renewal reserves.