

September 20, 2005

MEMORANDUM

TO: The Finance Committee:

W. Heywood Fralin, Chair
A. Macdonald Caputo
Alan A. Diamonstein
Georgia Willis Fauber
Mark J. Kington
Warren M. Thompson
John O. Wynne
Thomas F. Farrell, II, Ex Officio

and

The Remaining Members of the Board:

Susan Y. Dorsey Lewis F. Payne
G. Slaughter Fitz-Hugh, Jr. Don R. Pippin
Glynn D. Key Gordon F. Rainey, Jr.
Vincent J. Mastracco, Jr. E. Darracott Vaughan, Jr., M.D.
Catherine S. Neale

FROM: Alexander G. Gilliam, Jr.

SUBJECT: Minutes of the Finance Committee Meeting on
September 20, 2005

The Finance Committee of the Board of Visitors of the University of Virginia met, in Open Session, at 11:00 a.m., Tuesday, September 20, 2005, in the President's Conference Room at Madison Hall; W. Heywood Fralin, Chair, presided. Alan A. Diamonstein and Ms. Georgia Willis Fauber were present. A. Macdonald Caputo, Mark J. Kington, Warren M. Thompson, and John O. Wynne participated by telephone.

Also present were Leonard W. Sandridge, Alexander G. Gilliam, Jr., Ms. Colette Sheehy, Ms. Yoke San L. Reynolds, Christopher Brightman, and Ms. Jeanne Flippo Bailes.

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

2006-2008 BIENNIAL BUDGET REQUESTS

Mr. Sandridge reminded the Committee that every two years, usually in September, the University submits its biennial budget requests to the Department of Planning and Budget in Richmond. The 2006-2012 Capital Plan, approved by the Board of Visitors on April 2nd, was sent to Richmond on May 13th. The 2006-2008 operating budget requests were submitted on September 15th.

Mr. Sandridge asked Ms. Sheehy, Vice President for Management and Budget, to review the budget submissions.

The University's Operating Budget requests, Ms. Sheehy said, total \$30.3million in General Funds and \$42.7million in Non General Funds in the first year of the biennium, and \$44.3million in General Funds and \$74.7million in Non General Funds in the second year. These figures break down to \$12.2million in General Funds and \$28.9million in Non General Funds for the first year for the Academic Division, and \$19.5million and \$52.8million, respectively, for the second year. For the Medical Center, the totals are \$14.8million in General Funds and the same amount in Non General Funds for the first year, and \$21.9million in General Funds and \$21.9million in Non General Funds for the second year. For The University of Virginia's College at Wise, \$3.3million in General Funds is being requested for the first year of the biennium and \$2.9million in the second year; there are no requests for Non General Funds.

Capital Budget amendments come to \$.9million in General Funds for the Academic Division and \$9.3million in Non General Funds. For the Medical Center, the figures are, respectively, \$25million and \$53million; and for Wise, \$1.1million and \$17.9million.

On motion, the Committee adopted the following resolution approving the budget request, and recommended it to the full Board for approval:

APPROVAL OF 2006-2008 BIENNIAL BUDGET REQUEST FOR THE ACADEMIC DIVISION, THE MEDICAL CENTER, AND THE UNIVERSITY OF VIRGINIA'S COLLEGE AT WISE

WHEREAS, the University's 2006-2008 biennial budget request has been reviewed carefully; and

WHEREAS, the biennial budget request represents the highest priority initiatives and is aligned with the mission of the institution;

RESOLVED that the Board of Visitors of the University of Virginia endorses and supports the 2006-2008 biennial budget request; and

RESOLVED FURTHER that the Board of Visitors understands that to the extent these initiatives are not included in the Governor's 2006-2008 biennial budget, the Academic Division, the Medical Center, and The University of Virginia's College at Wise may want to pursue similar requests to the legislature; and

RESOLVED FURTHER that the Executive Vice President and Chief Operating Officer is authorized 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.

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INTENT TO ISSUE BONDS

Mr. Sandridge reminded the Committee that it, and the full Board, in instances of capital projects requiring debt financing, must approve intent-to-issue resolutions. Thus, the proposed expansion of the Hospital to provide more patient beds will require the issuance of bonds, which must be approved by the Committee and the full Board.

The Hospital Expansion project has been approved by the Medical Center Operating Board and the Buildings and Grounds Committee has approved the design guidelines. The maximum bond amount is \$60million.

On motion, the Committee adopted the following resolution and recommended it to the full Board for approval:

APPROVAL OF INTENT TO ISSUE BONDS FOR CAPITAL PROJECTS

WHEREAS, the University intends to undertake the following capital project with bond financing as a funding source:

Medical Center Bed Expansion Project to increase inpatient bed capacity.

WHEREAS, the United States Department of the Treasury has promulgated final regulations in Section 1.150-2 of the Treasury Regulations ("the Regulations") governing when the allocation of bond proceeds to reimburse expenditures previously made by a borrower shall be treated as an expenditure of the bond proceeds; and

WHEREAS, the Regulations require a declaration of official intent by a borrower to provide evidence that the borrower intended to reimburse such expenditures with proceeds of its bonds; and

WHEREAS, the Board of Visitors of the University of Virginia desires to make such a declaration of official intent as required by the Regulations; and

WHEREAS, the University may be required to provide short-term financing to this project prior to issuing long-term debt in order to implement an efficient and timely construction schedule; and

WHEREAS, the University has funding mechanisms to accommodate short-term financing needs, defined as a period of less than sixty months; and

WHEREAS, the authority for the University to issue long-term bonds for this project listed is not included in this resolution and will be addressed in a future bond issuance resolution; and

WHEREAS, if the University arranges short-term financing for a particular project, and if the project is not ultimately completed, or if the project utilizes funding sources other than bonds, then the appropriate school or unit remains responsible for refunding the short-term obligation.

RESOLVED that, pursuant to the terms of the Regulations, the University of Virginia declares its intent to reimburse expenditures in accordance with the following:

1. The University reasonably expects to reimburse expenditures incurred for this project from the issuance of tax-exempt bonds to be issued by the University;

2. This resolution is a declaration of official intent under Section 1.150-2 of the Regulations;

3. The maximum principal amount of bonds expected to be issued for the purpose of reimbursing expenditures relating to this project is \$60 million, excluding costs of issuance and premiums or discounts; and

RESOLVED FURTHER, that this project is a separate enterprise independent of other projects, and that the authorization for funding relates to this individual project; and

RESOLVED FURTHER, funds may be borrowed for this project on a short-term basis, but only if the following conditions are met:

1. The Board of Visitors approves this resolution;
2. A comprehensive and detailed financial plan for the school/unit project is submitted;
3. Short-term financing shall not exceed sixty months in maturity; and
4. The school or unit remains responsible for refunding any debt obligations incurred for this project regardless of the status of the capital project or whether or not a bond issuance actually occurs.

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SHORT-TERM LOAN FOR THE CONSTRUCTION OF THE JOHN PAUL JONES ARENA

Financial projections show that the Arena project will require a short-term loan, or loans, to provide interim financing in anticipation of the receipt of pledged gifts. Mr. Sandridge said short-term loan requirements of no more than \$20million are anticipated for a term of no longer than four years. Potential sources of funding include commercial paper borrowings or funds from the University's Capital Renewal Pool or Internal Loan Program.

On motion, the Committee adopted the following resolution and recommended it to the full Board for approval:

APPROVAL OF A SHORT-TERM LOAN FOR THE CONSTRUCTION OF THE JOHN PAUL JONES ARENA

WHEREAS, the John Paul Jones Arena Project requires short-term funding in anticipation of the receipt of pledged donations.

RESOLVED that the Board of Visitors approves a short-term loan, or loans, of up to \$20 million for a term of up to four years for the purpose of providing short-term financing in anticipation of the collection of pledged gifts associated with this project; and

RESOLVED FURTHER that the Executive Vice President and Chief Operating Officer is authorized to execute all necessary documents to effect the short-term loan(s).

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VICE PRESIDENT'S REMARKS

Mr. Sandridge said that a discussion of the outlook on tuition would be part of the forthcoming Six Year Plan discussions.

He then suggested the possibility of seeking a legislative amendment to try to change the State's rules to allow a better rate of return on reserve funds held by the University. Mr. Diamonstein proposed a resolution expressing the Board's interest in obtaining such a change; the resolution was approved by the Committee and recommended to the full Board for approval.

AUTHORIZATION TO SEEK AN AMENDMENT TO THE CODE OF VIRGINIA

RESOLVED, the Board of Visitors authorizes the Executive Vice President and Chief Operating Officer of the University to work with the General Assembly and the appropriate officers of the Commonwealth to seek an amendment to the Code of Virginia that will allow the use of alternative short-term investment vehicles, under the Investment of Public Funds Act, to improve the returns on reserve funds held by the University.

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Continuing with his report, Mr. Sandridge spoke briefly to the South Lawn Project and said it continues to be an "active and challenging project."

Mr. Sandridge reminded the Committee that at the discussion of the Committees' goals at the Board Retreat in July, it was noted that the Finance Committee should be concerned about the diversity of financial firms the University does business with. He assured the Committee that the administration shares these concerns and is working to see that they are met.

REPORT ON THE UNIVERSITY'S HEALTH CARE PLAN

Ms. Reynolds, Vice President for Finance, gave her annual report on the state of the Health Care Plan, which, she said, meets its objectives of (1) ensuring the financial stability of the Plan, (2) maintaining appropriate reserves, and (3) keeping the Plan cost increases as low as possible while maintaining financial integrity. In 2005, subscribers to the Plan were offered the choice of one of two variations: a Low Premium Plan which had a lower monthly premium but a higher point-of-service cost sharing; and a High Premium Plan which had just the opposite. In 2006, both variations on the Plan will add a fourth tier on the prescription drug plan to allow participants to buy self-pay drugs at the negotiated discount rate.

Ms. Reynolds then "benchmarked" the University's Plans with plans at six peer institutions: the University of California at Berkeley, Cornell University, Duke University, Emory University, the University of Michigan and Stanford University. The University came off better than all of them, save in two instances: the "Composite Relative Value of the Total Plan" was slightly better at Cornell, and the "Net Relative Value to Employees" was a bit better at Michigan.

REPORT ON THE ENDOWMENT

Mr. Sandridge then asked Mr. Brightman of the University of Virginia Investment Management Company (UVIMCO) to report on the Endowment, reminding the Committee that UVIMCO's report to the Board is made semi-annually.

Mr. Brightman said the principal objective of UVIMCO's investment policy is to maximize long-term real returns constrained by the University's tolerance for risk. He said long-term co-mingled investment pool's assets increased by approximately \$300million from \$2.3billion at the end of Fiscal Year 2004 on June 30th of that year, to \$2.6billion on June 30, 2005; thus a return of 14.3%, which exceeded the target benchmark return of 12.6%.

Portfolio target allocations for 2006 would increase public equity assets by 10%, reduce holdings in hedge funds by 12.5% and private equity by 4.5%, as well as increase real assets by 2% and fixed income by 5%.

Although performance returns of peer institutions for Fiscal Year 2005 will not be available until later this month, the University's investment pool returns over the three, five, and ten year periods - ending on June 30, 2004 - place it in the top quartile of the peer group of the largest higher education endowments.

MISCELLANEOUS FINANCIAL REPORTS

Mr. Sandridge referred the Committee to the customary written financial reports, previously distributed. He drew the Committee's attention to the report on faculty salary averages, which compared faculty salaries at the University with those at other AAU institutions, as well as those at peer institutions listed by the State Council (SCHEV).

The University's percentage increase in salaries between 2003-04 and 2004-05 caused UVa's rank position to rise from 24th in 2003-04 to 23rd in 2004-05. UVa's percentage increase in compensation caused the University's ranking in the same years to rise by three positions.

On motion, the meeting was adjourned at 1:00 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>