

**UNIVERSITY OF VIRGINIA  
BOARD OF VISITORS  
MEETING OF THE  
FINANCE COMMITTEE  
JANUARY 19, 2006**

FINANCE COMMITTEE

Thursday, January 19, 2006

1:45 - 3:45 p.m.

Board Room, The Rotunda

Committee Members:

W. Heywood Fralin, Chair

Mark J. Kington

A. Macdonald Caputo

Warren M. Thompson

Alan A. Diamonstein

John O. Wynne

Georgia Willis Fauber

Thomas F. Farrell, II, Ex-officio

AGENDA

	<u>PAGE</u>
I. CONSENT AGENDA (Mr. Sandridge)	
• Ratification of Budget Amendments	1
II. ACTION ITEMS (Mr. Sandridge)	
A. Student Housing Rates, 2006-2007 (Mr. Sandridge to introduce Ms. Yoke San L. Reynolds; Ms. Reynolds to report)	4
1. University of Virginia	
2. University of Virginia's College at Wise	
3. Mountain Lake Biological Station	
B. 2006-2007 Tuition and Fees for Special Programs	9
C. Amendment to the Fraternity and Sorority Investment Program	11
D. Amendment to the Approval Delegation for Individual Quasi-Endowment Transactions and Investment in the Long-Term Investment Pool (Ms. Reynolds)	12
III. REPORTS BY THE EXECUTIVE VICE PRESIDENT AND CHIEF OPERATING OFFICER (Mr. Sandridge)	
A. Vice President's Remarks	14
• Progress Report on 2005-2006 Goals and Work Plan	
B. Capital and Operating Reserves (Ms. Reynolds to report)	15
C. Review of Debt Program and Policy (Ms. Reynolds to report)	17
D. Endowment Report - Market Value and Performance as of September 30, 2005 (Written Report)	20
E. State Budget and Legislation (Written Report)	27
1. Governor's Budget	
2. 2006 Legislative and Budget Amendments	
3. Preliminary 2006-2007 Budget Assumptions	

	<u>PAGE</u>
F. Miscellaneous Financial Reports	
1. Academic Division Accounts and Loans Receivable	33
2. Internal Loans to University Departments and Activities	35
3. Summary of Quasi-Endowment Actions	36
4. Quarterly Budget Report	37
5. Endowment/Investments for UVa and Related Foundations	41
IV. APPENDICES	
A. Summary of Budget Requests and Governor's Budget Bill	43
B. 2006-2008 Proposed Amendments	47
C. Draft Debt Policy	50

## BOARD OF VISITORS CONSENT AGENDA

RATIFICATION OF BUDGET AMENDMENTS: Authorizes the Executive Vice President and Chief Operating Officer to transmit the final proposed legislative and budget amendments to the General Assembly.

Every two years, the University submits its biennial budget requests to the Department of Planning and Budget for review by the Governor for inclusion in his budget proposal. The 2006-2008 operating budget requests were submitted to the Commonwealth in September 2005. On December 16, 2005, the Governor presented his 2006-2008 budget proposal to the General Assembly.

The University intends to submit proposed legislative actions and amendments to the Governor's Budget Bill. These must be submitted to the General Assembly by January 19. The action taken by the Board in October to approve our amendments to the Governor permitted the resubmission of any requests not addressed by the Budget Bill to the Legislature for its consideration. The items listed below are new items which have been identified since the Board's discussion in the fall.

### AGENCY 207 - Academic Division

#### Capital:

- 1) *Medical Research Building #6 (\$4.7 million GF and \$8.7 million NGF)* - This request increases the project to \$84.1 million and reflects increases in the project budget based on construction bids received. The cost increase is related to the current construction market, both nationally (cost of materials) and regionally (construction needs exceed the number of qualified contractors).
- 2) *Gilmer Teaching Labs (\$0.575 million GF)* - This request increases the project to \$6.275 million reflecting current construction market conditions and pricing.
- 3) *Supplement South Lawn, Phase I (\$5 million GF and \$21.9 million NGF)* - This request increases the project to \$105 million based upon September 30, 2005 action of the Board of Visitors.
- 4) *Arts Grounds Garage (\$800,000 NGF)* - This request increases the project by 45 parking spaces to 523 at a total cost of \$11.4 million.

- 5) *Medical Research Building #7 (\$35 million NGF)* - Originally included in the 2008-2010 biennium, this project has been accelerated with the announcement of the Ivy Foundation's gift of \$25 million towards this Translational Research Center.
- 6) *Advanced Research Technology Facility (\$2.6 million NGF)* - This request increases the project to \$41.5 million due to market conditions, poor soil conditions, and scope refinements.
- 7) *Main Heating Plant Upgrade (\$4.0 million NGF)* - This supplement is to fund the cost of the revised requirements for the coal conveyor system included in the main heat plant upgrade, bringing the total project cost to \$68.2 million.
- 8) *Rouss Hall* - This request is to switch the existing gift authorization to debt, with no net increase in the project budget.

AGENCY 209 - Medical Center

Capital:

1. *Hospital Expansion Project (\$7.6 million NGF)* - This supplement will fund the revised Same Day Admission Suite/Post Anesthesia Care Unit and accommodate construction change orders and cost escalation.
2. *Two Operating Rooms (\$4.0 million NGF)* - This project will add two operating rooms in order to meet surgical demand.
3. *Hospital Link Project (\$4.0 million NGF)* - This project will add offices along the upper floor of the Link connecting the West Complex with University Hospital. The Link consists of two walkways, the lower, which is used frequently by pedestrian traffic, and the upper, which was intended for patient transportation but is rarely used for that purpose.

AGENCY 246 - College at Wise

None

ACTION REQUIRED: Approval by the Finance Committee and by the Board of Visitors

RATIFICATION OF ADDITIONAL 2006-2008 BUDGET AMENDMENTS FOR THE UNIVERSITY OF VIRGINIA

WHEREAS, the additional 2006-2008 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 2006-2008 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.

UNIVERSITY OF VIRGINIA  
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: January 19, 2006

COMMITTEE: Finance

AGENDA ITEM: II.A. Student Housing Rates, 2006-2007

BACKGROUND: The Board considers student housing rates at this time each year. The University's student housing rates were increased by approximately 9.7 percent in 2005-2006 (four percent base plus 5.7 percent for a \$200 fee for maintenance reserve). The University of Virginia's College at Wise student housing rates were increased 7.5 percent in 2005-2006.

For the current fiscal year (2005-2006), the average double room rate at Virginia public colleges and universities is \$3,493. The comparable average at the University is \$3,289. The College at Wise charges an average of \$3,292. Historically, the University has strived to keep the University's and the College at Wise's charges for room and board under the average amounts charged at other Virginia public institutions.

DISCUSSION: The University proposes housing rates to increase by approximately 9.7 percent in 2006-2007 - the same percentage increase that occurred in 2005-2006. This proposed increase would raise the University's average housing rate to \$3,639 for 2006-2007. Of the proposed 9.7 percent, 5.1 percent is proposed as a \$200 fee specifically to fund replacement and renovation reserves for anticipated major renovation and the replacement of first-year residence halls. The remaining 4.6 percent of the 9.7 percent increase will cover rising operating costs, including increases in salaries, utilities, natural gas, debt service for the heating plant upgrade, property insurance, and trash removal.

The University of Virginia's College at Wise proposes a seven percent room rate increase. The proposed average housing rate will be \$3,534 for 2006-2007.

The proposed resolution also addresses summer 2006 housing and dining rates for the Mountain Lake Biological Station.

ACTION REQUIRED: Approval by the Finance Committee and by the Board of Visitors

**APPROVAL OF STUDENT HOUSING RATES FOR 2006-2007**

**RESOLVED that rental increases for student housing facilities be approved as shown below, effective beginning with the 2006-2007 session:**

<u>Facility</u>	<u>Actual 2005-2006 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 2006-2007 Per Student Per Session</u>
<b><u>Academic Division</u></b>						
<b><u>DORMITORIES</u></b>						
<u>Alderman/Observatory Houses</u>						
Double Room	\$3,250	\$150	4.62%	\$200	10.77%	\$3,600
<u>Brown College</u>						
Double Room	\$3,890	\$180	4.63%	\$200	9.77%	\$4,270
<u>McCormick Road</u>						
Double Room	\$3,120	\$140	4.49%	\$200	10.90%	\$3,460
Small Double Room	\$2,900	\$130	4.48%	\$200	11.38%	\$3,230
Single	\$3,260	\$150	4.60%	\$200	10.74%	\$3,610
<u>Lawn</u>						
Single	\$3,740	\$170	4.55%	\$200	9.89%	\$4,110
Single (no fireplace)	\$3,640	\$170	4.67%	\$200	10.16%	\$4,010
<u>Range</u>						
Regular Single	\$3,740	\$170	4.55%	\$200	9.89%	\$4,110
<u>Crackerbox</u>						
Single Room	\$3,740	\$170	4.55%	\$200	9.89%	\$4,110
<u>Mary Munford / Roberta Gwathmey</u>						
Double Room	\$3,250	\$150	4.62%	\$200	10.77%	\$3,600
Single Room	\$3,740	\$170	4.55%	\$200	9.89%	\$4,110
<u>Sprigg (Lewis/Hoxton)</u>						
Double Room	\$3,600	\$170	4.72%	\$200	10.28%	\$3,970
Small Double Room	\$3,410	\$160	4.69%	\$200	10.56%	\$3,770
Single Room	\$3,930	\$180	4.58%	\$200	9.67%	\$4,310
Single Room (w/bath)	\$4,110	\$190	4.62%	\$200	9.49%	\$4,500
<u>Gooch / Dillard</u>						
Double Room	\$3,600	\$170	4.72%	\$200	10.28%	\$3,970
Single Room	\$3,930	\$180	4.58%	\$200	9.67%	\$4,310
Twelve Month Rate:						
Single Room	\$5,300	\$240	4.53%	\$200	8.30%	\$5,740
<u>Hereford College</u>						
Double Room	\$3,600	\$170	4.72%	\$200	10.28%	\$3,970
Single Room	\$3,890	\$180	4.63%	\$200	9.77%	\$4,270
<u>French House</u>						
Triple Room	\$3,430	\$160	4.66%	\$200	10.50%	\$3,790
Double Room	\$3,600	\$170	4.72%	\$200	10.28%	\$3,970
Single Room	\$4,010	\$190	4.74%	\$200	9.73%	\$4,400

<u>Facility</u>	<u>Actual 2005-2006 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 2006-2007 Per Student Per Session</u>
<u>Russia House</u>						
Double Room	\$3,580	\$170	4.75%	\$200	10.34%	\$3,950
Single Room	\$3,940	\$190	4.82%	\$200	9.90%	\$4,330
<u>Spanish House</u>						
Double Room	\$3,600	\$170	4.72%	\$200	10.28%	\$3,970
Single Room	\$4,010	\$190	4.74%	\$200	9.73%	\$4,400
<u>Shea House</u>						
Double Room	\$3,600	\$170	4.72%	\$200	10.28%	\$3,970
Single Room	\$4,010	\$190	4.74%	\$200	9.73%	\$4,400
Apartments - Single Student						
<u>Copeley Hill III, IV, Lambeth Field</u>						
Two Bedroom (dbl. occupancy)	\$3,630	\$170	4.68%	\$200	10.19%	\$4,000
Three Bedroom (dbl. occupancy)	\$3,530	\$160	4.53%	\$200	10.20%	\$3,890
<u>Bice House</u>						
Two Bedroom (dbl. occupancy)	\$3,630	\$170	4.68%	\$200	10.19%	\$4,000
Three Bedroom (dbl. occupancy)	\$3,530	\$160	4.53%	\$200	10.20%	\$3,890
Single	\$3,990	\$190	4.76%	\$200	9.77%	\$4,380
<u>Faulkner (Hench, Mitchell, Younger)</u>						
Single	\$3,990	\$190	4.76%	\$200	9.77%	\$4,380
Large Single	\$4,720	\$220	4.66%	\$200	8.90%	\$5,140
Apartments - Family (per month)						
<u>Copeley Hill I &amp; II</u>						
One Bedroom (furnished)	\$691	\$0	0.00%	\$0	0.00%	\$691
One Bedroom (unfurnished)	\$657	\$0	0.00%	\$0	0.00%	\$657
Two Bedroom (furnished)	\$755	\$35	4.64%	\$15	6.62%	\$805
Two Bedroom (unfurnished)	\$722	\$33	4.57%	\$15	6.65%	\$770
Three Bedroom (furnished)	\$814	\$37	4.55%	\$15	6.39%	\$866
Three Bedroom (unfurnished)	\$780	\$35	4.49%	\$15	6.41%	\$830
<u>University Gardens</u>						
One Bedroom (furnished)	\$674	\$0	0.00%	\$0	0.00%	\$674
One Bedroom (unfurnished)	\$641	\$0	0.00%	\$0	0.00%	\$641
Two Bedroom (furnished)	\$724	\$33	4.56%	\$15	6.63%	\$772
Two Bedroom (unfurnished)	\$690	\$31	4.49%	\$15	6.67%	\$736
<u>College at Wise</u>						
McCrary	\$3,019	\$211	6.99%	\$0.0	6.99%	\$3,230
Asbury, Thompson, Henson Randolph, Townhouses, Theme Housing	\$3,488	\$244	7.00%	\$0.0	7.00%	\$3,732
Notes:						
1. The 2005-2006 rates for one bedroom apartments are at market.						
2. The rates for Copeley Hill I & II and University Gardens include utility charges, and cable TV.						
3. A new rate for furnished apartments will go into effect as the units turn over.						
4. The rate for a double room used as a single is 135% of the double rate.						
5. The rate for a double room used as a triple is 85% 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).						

<u>Facility</u>	<u>Actual 2005-2006 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 2006-2007 Per Student Per Session</u>
<u>Russia House</u>						
Double Room	\$3,580	\$170	4.75%	\$200	10.34%	\$3,950
Single Room	\$3,940	\$190	4.82%	\$200	9.90%	\$4,330
<u>Spanish House</u>						
Double Room	\$3,600	\$170	4.72%	\$200	10.28%	\$3,970
Single Room	\$4,010	\$190	4.74%	\$200	9.73%	\$4,400
<u>Shea House</u>						
Double Room	\$3,600	\$170	4.72%	\$200	10.28%	\$3,970
Single Room	\$4,010	\$190	4.74%	\$200	9.73%	\$4,400
Apartments - Single Student						
<u>Copeley Hill III, IV, Lambeth Field</u>						
Two Bedroom (dbl. occupancy)	\$3,630	\$170	4.68%	\$200	10.19%	\$4,000
Three Bedroom (dbl. occupancy)	\$3,530	\$160	4.53%	\$200	10.20%	\$3,890
<u>Bice House</u>						
Two Bedroom (dbl. occupancy)	\$3,630	\$170	4.68%	\$200	10.19%	\$4,000
Three Bedroom (dbl. occupancy)	\$3,530	\$160	4.53%	\$200	10.20%	\$3,890
Single	\$3,990	\$190	4.76%	\$200	9.77%	\$4,380
<u>Faulkner (Hench, Mitchell, Younger)</u>						
Single	\$3,990	\$190	4.76%	\$200	9.77%	\$4,380
Large Single	\$4,720	\$220	4.66%	\$200	8.90%	\$5,140
Apartments - Family (per month)						
<u>Copeley Hill I &amp; II</u>						
One Bedroom (furnished)	\$691	\$0	0.00%	\$0	0.00%	\$691
One Bedroom (unfurnished)	\$657	\$0	0.00%	\$0	0.00%	\$657
Two Bedroom (furnished)	\$755	\$35	4.64%	\$15	6.62%	\$805
Two Bedroom (unfurnished)	\$722	\$33	4.57%	\$15	6.65%	\$770
Three Bedroom (furnished)	\$814	\$37	4.55%	\$15	6.39%	\$866
Three Bedroom (unfurnished)	\$780	\$35	4.49%	\$15	6.41%	\$830
<u>University Gardens</u>						
One Bedroom (furnished)	\$674	\$0	0.00%	\$0	0.00%	\$674
One Bedroom (unfurnished)	\$641	\$0	0.00%	\$0	0.00%	\$641
Two Bedroom (furnished)	\$724	\$33	4.56%	\$15	6.63%	\$772
Two Bedroom (unfurnished)	\$690	\$31	4.49%	\$15	6.67%	\$736
<u>College at Wise</u>						
McCrary	\$3,019	\$211	6.99%	\$0.0	6.99%	\$3,230
Asbury, Thompson, Henson Randolph, Townhouses, Theme Housing	\$3,488	\$244	7.00%	\$0.0	7.00%	\$3,732
Notes:						
1. The 2005-2006 rates for one bedroom apartments are at market.						
2. The rates for Copeley Hill I & II and University Gardens include utility charges, and cable TV.						
3. A new rate for furnished apartments will go into effect as the units turn over.						
4. The rate for a double room used as a single is 135% of the double rate.						
5. The rate for a double room used as a triple is 85% 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  
Proposed 2006 Rates**

Mt. Lake Housing Rates / 4 Week Term

	<u>Actual 2005</u>	<u>Proposed 2006</u>	<u>% Increase</u>
<b>Dormitories</b>	\$100.00	\$103.00	3.00%
<b>Laing Singles</b>	\$100.00	\$103.00	3.00%
<b>Laing Apartments:</b>			
Center	\$141.00	\$ 145.50	3.19%
North	\$141.00	\$ 145.50	3.19%
South	\$141.00	\$ 145.50	3.19%
Northwest	\$141.00	\$ 145.50	3.19%
West	\$141.00	\$ 145.50	3.19%
<b>New Dormitory:</b>			
Singles	\$115.00	\$119.00	3.48%
Apartments (2 rooms)	\$161.00	\$166.00	3.11%
Second Bedroom (family)	\$51.00	\$53.00	3.92%
<b>Cabins:</b>			
Hentz-Mohr	\$185.00	\$191.00	3.24%
Clayton	\$185.00	\$191.00	3.24%
Catesby	\$185.00	\$191.00	3.24%
Gattinger	\$185.00	\$191.00	3.24%
Michaux	\$185.00	\$191.00	3.24%
Burns	\$185.00	\$191.00	3.24%
Washington	\$185.00	\$191.00	3.24%
Banister	\$185.00	\$191.00	3.24%
LeConte	\$185.00	\$191.00	3.24%
Hariot	\$185.00	\$191.00	3.24%
Schoew	\$185.00	\$191.00	3.24%
Maphis	\$185.00	\$191.00	3.24%
Holbrook	\$185.00	\$191.00	3.24%
Mitchell	\$185.00	\$191.00	3.24%
Rafinesque	\$185.00	\$191.00	3.24%

UNIVERSITY OF VIRGINIA  
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: January 19, 2006

COMMITTEE: Finance

AGENDA ITEM: II.B. 2006-2007 Tuition and Fees for  
Special Programs

BACKGROUND: The University has two executive-style master's degree programs whose academic year begins in May rather than in August. For that reason, the Finance Committee considers their tuition proposals each year at this meeting. Executive-style refers to a primarily residential, weekend program geared toward working professionals, whose tuition and fees are often reimbursed by their employers.

The McIntire School of Commerce's Management of Information Technology (MIT) master's program is currently offered in Reston and Charlottesville at the same tuition and fee rate. The University is negotiating a Memorandum of Understanding with Universitas 21 to offer the MIT program globally beginning in the summer 2006. Tuition and fees for the global version of the MIT program are still under development as the agreement with Universitas 21 is being finalized. If the tuition and fees for the MIT-Global program are materially different from the tuition and fees for the Reston and Charlottesville locations outlined below, we will ask for your approval of these fees in March.

This year the Finance Committee will also consider the tuition and fee proposal for the new Post-Baccalaureate Pre-Medical Certificate Program. This program has been developed by the School of Continuing and Professional Studies in collaboration with the College of Arts and Sciences. The program is designed to provide college graduates and individuals seeking a career change the opportunity to complete a pre-medical science curriculum in a concentrated program of preparation for application and admission to leading medical schools. The program is designed to be a highly selective, intellectually and academically challenging twelve-month, full-time program. The program is expected to be of particular interest to University alumni, based on inquiries received every year from prospective students interested in pre-medical studies. Since the program begins in June rather than in August, the proposed tuition is presented at this meeting in order to have adequate time to recruit the first cohort of students.

**DISCUSSION:** All three programs are priced according to program cost, market rates, and program demand. Tuition and fees for the Virginia locations of the MIT program will increase 4.8 percent for Virginians and 4.2 percent for non-Virginians in order to cover higher material and instructional costs.

Tuition and fees for the Engineering School's Systems Engineering master's program will increase by 3.2 percent for Virginians and 2.7 percent for non-Virginians due to increases in program delivery costs and in compensation for instructional faculty.

**ACTION REQUIRED:** Approval by the Finance Committee and by the Board of Visitors

**APPROVAL OF 2006-2007 TUITION AND FEES FOR CERTAIN PROGRAMS**

RESOLVED that the tuition and fees applicable to the following programs be approved as shown below, effective May 1, 2006:

	Virginian			Non-Virginian			2006-07 Proposed	
	2005-06 Approved	Amount of Increase	Percent of Increase	2005-06 Approved	Amount of Increase	Percent of Increase		
MIT Price includes fees of \$10,900 for special session mandatory fee, books, materials, computer leasing, software licenses, group meals, and lodging.	\$33,294	\$1,606	4.8%	\$34,900	\$38,309	\$1,591	4.2%	\$39,900
Systems Eng. Price includes fees of \$12,049 for special session mandatory fee, books, materials, technology, group meals, and lodging.	\$31,500	\$1,000	3.2%	\$32,500	\$36,500	\$1,000	2.7%	\$37,500
Post-Bac, Pre-Med Price includes full-time mandatory fees.	n/a	n/a	n/a	\$18,000	n/a	n/a	n/a	\$23,000

UNIVERSITY OF VIRGINIA  
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: January 19, 2006

COMMITTEE: Finance

AGENDA ITEM: II.C. Amendment to the Fraternity and Sorority Investment Program

BACKGROUND: In January 2002, the Board of Visitors authorized the Fraternity and Sorority Investment Program, which is intended to provide financial assistance in the way of loans or other financial commitments to the House Corporations of fraternities and sororities. The Board resolution states, in part, that funds are to be used "for improvements to off-Grounds fraternity and sorority houses or to provide on-Grounds fraternity and sorority housing."

DISCUSSION: A fraternity has requested a loan under the Program to acquire an off-Grounds property. The original Board resolution was silent on the acquisition of off-Grounds property, but such acquisition is consistent with the intent of the Board to provide assistance to ensure well-maintained fraternity and sorority housing. The University's analysis concludes that the fraternity in question, the Virginia Beta chapter of the Phi Delta Theta International Fraternity, has the ability to meet both the financial and behavioral conditions of this loan program.

ACTION REQUIRED: Approval by the Finance Committee and by the Board of Visitors

APPROVAL TO AMEND FRATERNITY AND SORORITY INVESTMENT PROGRAM TO ALLOW FOR LOANS FOR THE PURPOSE OF ACQUIRING OFF-GROUNDS PROPERTIES

WHEREAS, the Board has previously approved the Fraternity and Sorority Investment Program; and

WHEREAS, the Program does not specifically cover loans to Fraternities or Sororities for the purpose of acquiring off-Grounds properties;

RESOLVED that the January 25, 2002 resolution authorizing the Fraternity and Sorority Investment Program is hereby amended to allow for loans under the Program for the purpose of acquiring off-Grounds properties.

UNIVERSITY OF VIRGINIA  
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: January 19, 2006

COMMITTEE: Finance

AGENDA ITEM: II.D. Amendment to the Approval Delegation for Individual Quasi-Endowment Transactions and Investment in the Long-Term Investment Pool

BACKGROUND: From time to time, an entity within the University may wish to build reserves to meet long-term funding requirements. When certain criteria are met on the source of the funds and time horizon of the liquidity requirements, the University permits such funds to be established as a separate quasi-endowment and invested by UVIMCO in its long-term investment pool. In June 1996, the Board of Visitors authorized the Executive Vice President and Chief Operating Officer to approve individual quasi-endowment transactions, including establishments and divestments, of under \$2 million. Individual quasi-endowment transactions of \$2 million or more require the approval of the Board of Visitors.

DISCUSSION: In connection with the University's central loan program, the administration is seeking two exceptions to this policy. As part of the review of a proposed capital project, collateralization may be deemed necessary based on an assessment of the business plan. In such a case, the University may require the borrowing entity to segregate unrestricted funds for this purpose. Such unrestricted funds will be established in an internal quasi-endowment account and invested in assets managed by UVIMCO or other investment vehicles as prudent. The resolution calls for Board authorization to delegate such approval to the Executive Vice President and Chief Operating Officer, in amounts based on the business plan and not subject to the \$2 million threshold.

Second, to the extent that the central loan program has balances, the resolution also calls for the option to invest such portions, as permitted by law, in the long-term investment pool managed by UVIMCO or in other investment vehicles as prudent.

ACTION REQUIRED: Approval by the Finance Committee and by the Board of Visitors

AMENDMENT TO THE APPROVAL LIMITS FOR INDIVIDUAL QUASI-ENDOWMENT TRANSACTIONS

WHEREAS, the Executive Vice President and Chief Operating Officer has the authority to approve individual quasi-endowment transactions totaling less than \$2 million for investment in the long-term investment pool managed by UVIMCO; and

WHEREAS, there is a need to expand this delegation of authority for two sets of circumstances in connection with the University's central loan program.

RESOLVED, the Executive Vice President and Chief Operating Officer may approve individual quasi-endowment transactions, regardless of the dollar amount, in cases in which collateralization is determined to be necessary by the Executive Vice President and Chief Operating Officer as part of the assessment of the business plan for a capital project. Funds may be invested in the long term investment pool managed by UVIMCO or in other investment vehicles as permitted by law.

RESOLVED FURTHER, to the extent that the central loan program has balances, they may be invested in the long-term investment pool managed by UVIMCO or in other investment vehicles as permitted by law.

UNIVERSITY OF VIRGINIA  
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: January 19, 2006

COMMITTEE: Finance

AGENDA ITEM: III.A. Vice President's Remarks

ACTION REQUIRED: None

BACKGROUND: The Executive Vice President and Chief Operating Officer will inform the Board of recent events that do not require formal action, but of which it should be made aware.

UNIVERSITY OF VIRGINIA  
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: January 19, 2006

COMMITTEE: Finance

AGENDA ITEM: III.B. Capital and Operating Reserves

ACTION REQUIRED: None

BACKGROUND: The University has a wide range of complex operations and technically advanced building systems. Increasingly, the responsibility for providing adequate operating reserves and funding the long-term care of these facilities rests with the University instead of the state. New restructuring legislation places both the authority and the policy responsibility for the institution's financial health squarely in the hands of the Board of Visitors.

At the institutional level, the University's cash and short-term investment balances of approximately \$388 million and unrestricted quasi-endowment of \$645 million provide operating reserves that are adequate to support the academic division's annual operating expenses, excluding depreciation expense, of \$1 billion. Within the institution, there are many entities with specific operating and capital reserve requirements that are best met through operating and capital reserve policies and practices applied directly to the business unit on a systematic and rational basis.

DISCUSSION: The Finance Committee's 2005-2006 work plan calls for a review of existing operating and capital reserve policies and the identification of new polices that are appropriate for a university of our size and complexity. It is reasonable to believe that the overall financial strength of the University can be enhanced by more formalized operating and capital reserve policies, especially for some of the University's business operations. Input from the Finance Committee deliberations will be used to develop capital and operating reserve policies for consideration by the Board at its spring meeting.

Within the University, there are business units that operate on a financially self-supporting basis, e.g., the Medical Center; auxiliary units such as Housing, Athletics, the Bookstore, and Parking & Transportation; the Law School and the Darden School. These entities are expected to maintain independent reserves for capital renewal and replacement as well

as operations. Many of these units have carefully developed reserve policies appropriate to their specific needs. Other individual units and groups of units follow more informal practices regarding reserves that may be inadequate in today's business environment. The University is evaluating the feasibility of establishing default target reserve requirements that call for: (a) operating reserves equivalent to three months of operating expenses and (b) capital reserves equal to two percent of replacement value of buildings and equipment. It is clear that it will not be possible for all operating units to meet these expectations immediately. It is also clear that reserve objectives other than the general policy should be applied in other cases. However, the general expectation sets a benchmark against which we can measure progress and assess best practices.

The University manages several institution-wide programs that have established reserves based on different analyses specific to each program. These include self-insurance programs (including the UVa Health Plan) and our capital funding program, which is an integral part of the University's debt management program. The University also maintains central reserves for operations (including utilities and financial aid) and for maintenance and repairs (including the state funded maintenance reserve program) for academic activities other than those for which individual enterprise-based reserve expectations apply. The Board recently addressed physical plant conditions by establishing a maintenance reserve policy and approving the funding of a ten-year program to reduce deferred maintenance to an appropriate level.

Because of the decentralized nature of the University, deans and department chairs hold discretionary funds that serve as reserves. To date there has not been a policy on reserves held by schools. There may be opportunities to move the schools, other than Law and Darden, to a degree of financial self-sufficiency that will allow them to establish operating reserves, thereby distributing financial risk across the institution instead of focusing it at the institutional level. In the absence of specific unit based reserves, the institutional/central reserves will be maintained to protect the operating and capital requirements of the University.

UNIVERSITY OF VIRGINIA  
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: January 19, 2006

COMMITTEE: Finance

AGENDA ITEM: III.C. Review of Debt Program and Policy

ACTION REQUIRED: None

BACKGROUND: In 2002, the University launched a debt portfolio management program to provide external financing for its capital projects. This was accomplished with the assistance of third-party financial advisors, investment bankers and bond counsel. In January 2003, the Board heard a report on its planned debt structure and draft debt policy. Bonds were issued in connection with this program in March 2003 and July 2005. In 2003, the University also implemented its new commercial paper program to meet short-term financing needs. At its April 2004 meeting, the Board approved a policy to limit the reliance on variable rate debt to a maximum of 40 percent of total debt financing for construction projects.

DISCUSSION: An update will be provided on the University's debt program and draft debt policy (Appendix C). The purpose of this review is to solicit the Finance Committee's input, which will be incorporated into the final version of the policy and presented for approval by the board at its spring meeting.

The University's draft policy formalizes the debt management process currently in place, drawing upon experience and industry best practices. The draft policy also includes new enhancements to further strengthen the overall process. The scope of the policy includes all indebtedness of the University regardless of the term, interest-rate structure, or financing vehicle. At the present time, policy guidelines are applied only to indebtedness incurred for capital projects. The University has discussed a version of its draft debt policy with the State Treasurer. The key components of the draft debt policy are summarized below.

The Board of Visitors currently approves the intent to use debt for specific capital projects, as well as the official issuance of debt. It delegates the approval of financing parameters to the Finance Committee. Currently, the Executive Committee approves the pricing of debt on the day the debt is marketed. One enhancement included in the draft debt policy

would be for the authority for pricing debt to be delegated to the Executive Vice President and Chief Operating Officer.

The Vice President and Chief Financial Officer has responsibility for implementing the University's debt policy and managing the University's debt portfolio. Various potential financing structures are considered when issuing debt, including an examination of taxable and tax-exempt markets, short and long-term maturities, and fixed and variable interest rates, both synthetic and natural. The analysis is done in order to achieve the lowest possible costs for the University while optimizing its debt portfolio mix and risk profile.

The University monitors both its debt affordability and debt capacity. This is done by reviewing both qualitative factors, such as the University's strategic plan, market position, alternative sources of funding, and relationship with the Commonwealth, as well as quantitative measures of debt affordability and capacity that focus on the relationship among debt service requirements, operating revenues, operating expenses, asset balances, and total outstanding debt.

From time to time, certain derivatives (i.e. swaps, options, or interest rate locks) may be used in order to achieve portfolio management objectives. Under certain circumstances, derivatives create an efficient way to lower financing costs and/or achieve a desired portfolio mix of fixed and floating-rate debt. Guidelines on the use of derivatives will be included in a separate interest rate risk management policy which will be reviewed with the Finance Committee at a future meeting.

Debt is allocated strategically, with priority given to projects critical to the attainment of the University's strategic goals. A central loan program, managed by the Director of Treasury Operations, provides for loans to entities of the University and utilizes funds from a variety of sources in order to provide funding. Each borrowing entity is responsible for repayment of all funds borrowed through the central loan program, following a prescribed amortization schedule.

Each capital project is analyzed at its inception to ensure that capital is used in the most effective manner and in the best interests of the University. The University is proposing to enhance its use of debt to accomplish critical University priorities. This would be accomplished by more prudently using debt financing to accelerate the initiation or completion of

certain projects, where appropriate. The proposed approach would build in an initial institutional review of each project, prior to its inclusion in the state's six-year plan, to determine if debt leveraging would be desirable even if not requested by the project sponsor.

As part of this initial institutional review, the University will assess, based on the project's business plan, the sufficiency of revenues to support any internal loans. If the University determines that collateral is necessary, it may require the entity to segregate unrestricted funds for this purpose. Such unrestricted funds will generally be segregated in an internal quasi-endowment.

UNIVERSITY OF VIRGINIA  
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: January 19, 2006

COMMITTEE: Finance

AGENDA ITEM: III.D. Endowment Report - Market Value  
and Performance as of September 30, 2005  
(Written Report)

ACTION REQUIRED: None

BACKGROUND: The University of Virginia Investment Management Company provides investment management to the Rector and Visitors of the University of Virginia and its related Foundations. Assets deposited in UVIMCO are held in the custody and control of UVIMCO on behalf of the University and Foundations within a long-term co-mingled investment pool.

UVIMCO's primary objective in managing the pool is to maximize long-term real return commensurate with the risk tolerance of the University. To achieve this objective, UVIMCO actively manages the pool in an attempt to achieve returns that consistently exceed the returns on a passively managed benchmark with similar asset allocation and risk. Recognizing that the University must attract outstanding students, faculty, and staff and provide to them appropriate resources, UVIMCO attempts to manage pool assets to provide long-term real returns that compare favorably with the returns of endowments of other outstanding schools. UVIMCO does not set spending rates. UVIMCO communicates the Pool's risk and return estimates to the University and Foundations for their consideration in setting spending rates.

DISCUSSION:

*PERFORMANCE*

Investment return for both the quarter-ended September 2005 and longer term periods is remarkably strong. However, the return over the quarter of 5.4 percent trailed the target benchmark return of 6.4 percent. Under performance over the quarter is attributed to J-curve effects in private markets and low market exposure within the hedge fund portfolio during a strong quarter for equity markets.

Private investments may deliver low or negative time weighted returns during their early years, as base fees are assessed on committed capital, early investments are carried at cost, and few gains are realized (the J-curve). As UVIMCO's private portfolio is developed toward a considerably larger position over coming years, reported returns may lag the more mature portfolios represented by the Cambridge benchmarks.

Over recent quarters, equity markets have appreciated at an unsustainable pace. The Russell 3000 Index rose by four percent over the quarter and 15 percent over the past year, the MSCI World ex-US Index rose 11 percent over the quarter and 27 percent over the year, and the MSCI Emerging Index rose 18 percent over the quarter and 47 percent over the year. The Pool's over 50 percent allocation to hedge funds returned four percent for the quarter and 15 percent for the past year, strong in absolute terms, but only matching the US equity market, and trailing far behind international indices. In this environment, the Pool's performance may lag behind other institutional portfolios with higher equity allocations.

#### *OUTLOOK & STRATEGY*

The economic outlook has clouded following the clear skies of easy money and rapid growth in productivity and corporate profits over recent years. With the economy now operating at capacity, growth is limited by resource constraints. Decades of under investment in oil and gas infrastructure combined with the recent hurricanes in the Gulf have caused energy prices to spike upward. At the same time, the Fed has increased cash rates from one percent to nearly four percent.

Dramatically higher energy costs together with rising debt service and an end to the monetization of home equity will likely depress growth in US consumption of non-energy products and services. Such a slowing of consumption expenditures seems all the more likely given the negative savings rate of US households.

Counterbalancing likely slowing in US consumption, business investment may pick-up in response to higher capacity utilization and slowing productivity growth. Liquid corporate balance sheets along with strong operating cash flow provide ample funds for business investment. Thus, the economy may manage an orderly adjustment from consumption-led growth to investment-led growth, facilitated by flexible markets and global diversification.

However, inflated asset prices supported by levered investment structures suggest elevated risk of a disorderly financial market correction during this economic inflection point. As Alan Greenspan remarked in August, "history has not dealt kindly with the aftermath of protracted periods of low risk premiums." The Pool's overall asset allocation focus on alternative investments, particularly the 52 percent allocation to hedge funds, positions it well to weather a period of widening risk premiums.

As noted last quarter, with US corporate profits as a proportion of GDP near record levels, corporate earnings seem unsustainably high and US equity market prices seem vulnerable. With corporations now having begun to undershoot quarterly earnings expectations, the peak of the current profit cycle may have arrived. Therefore, the Pool's allocation to traditional equity will likely remain at or below its modest 25 percent policy target.

Credit spreads remain narrow compared to historical averages in recognition of generally healthy corporate balance sheets, low market volatility, and the risk diversifying effects of credit derivatives. This very combination of low spreads and heightened leverage through new derivative structures portends a future liquidity crisis when investors' appetite for risk moderates. The Pool's fixed income portfolio remains defensively postured relative to both interest rates and credit spreads.

Real estate capitalization rates have dropped to all time lows as cheap financing and momentum investing have driven up prices. Experienced investors have been using this opportunity to sell core properties at what they perceive as extraordinarily high prices. The Pool's real estate investments will concentrate on value added managers who build rather than buy cash flow streams and so produce returns that are only incidentally exposed to market prices.

Because Asian production growth is the mirror image of the US current account deficit, a slowdown in US consumption may slow emerging markets' export-led growth. In October, emerging equity markets have given back much of the nine percent gained in September. Such volatility explains the motivation for Asian central banks' huge accumulation of foreign exchange reserves, which mitigate the real economic risk of financial market volatility. Still, emerging financial markets may suffer more than developed markets when investors' appetite for risk contracts. The Pool's overweight allocation to emerging

markets, ten percent versus a five percent target, may be reduced over coming months.

A report on the performance of the endowment as of December 31, 2005 will be provided at the next meeting of the Finance Committee.

**Investment Report**  
**September 30, 2005**  
**UVIMCO Long-Term Pool**

<b>Investment Activity</b>		
	<b>Month</b>	<b>Fiscal Year To Date 2006</b>
Beginning Investment	\$2,689,209,305.39	\$2,593,960,626.07
Beginning Shares	775,105.57	772,783.89
NAV Per Share at Beginning of Period	\$3,469.47	\$3,356.64
+ Contributions	\$8,052,095.32	\$21,372,605.73
- Redemptions	(\$23,450.91)	(\$5,390,656.52)
+ Investment Return	\$49,924,412.39	\$137,219,786.91
Ending Investment	\$2,747,162,362.19	\$2,747,162,362.19
Ending Shares	777,419.65	777,419.65
NAV Per Share at End of Period	\$3,533.69	\$3,533.69

<b>Position Summary</b>			
	<b>Portfolio</b>	<b>Target</b>	<b>Difference</b>
Public Equity	25.5%	25.0%	0.5%
Hedge Funds	51.2%	45.0%	6.2%
Private Equity	12.0%	15.0%	-3.0%
Real Assets	2.8%	5.0%	-2.2%
Fixed Income	5.6%	10.0%	-4.4%
Cash (Net of Repo)	2.9%	0.0%	2.9%
Total	100.0%	100.0%	0.0%

<b>Performance Summary</b>			
	<b>Portfolio</b>	<b>Benchmark</b>	<b>Difference</b>
Month Return	1.9%	3.5%	-1.6%
3-Month Return	5.4%	6.4%	-1.0%
Calendar Year-to-Date Return	11.1%	10.0%	1.1%
Fiscal Year-to-Date Return	5.4%	6.4%	-1.0%
1-Year Return	18.1%	18.0%	0.2%
3-Year Return	14.4%	16.3%	-1.9%
5-Year Return	7.7%	5.3%	2.5%
10-Year Return	14.3%	9.4%	4.9%
Fiscal Year 2005 Return	14.3%	12.6%	1.6%
Fiscal Year 2004 Return	12.7%	15.2%	-2.5%
Fiscal Year 2003 Return	9.2%	4.2%	4.9%

Investment Report  
September 30, 2005  
UVIMCO Long-Term Pool

Position Analysis						
	Actual Pool <sup>(1)</sup>		Investment Policy			Relative To Target
	\$ millions	%	Min	Target	Max	
Public Equity	700	25.5%	20%	25%	30%	0.5%
U.S.	257	9.4%	5%	10%	20%	-0.6%
Non-U.S. Developed	161	5.8%	5%	10%	20%	-4.2%
Emerging	282	10.3%	0%	5%	10%	5.3%
Hedge Funds	1,407	51.2%	30%	45%	60%	6.2%
Equity L/S	1,072	39.0%	10%	--	45%	--
Equity MN	101	3.7%	0%	--	30%	--
Fix. Inc. Arbitrage	15	0.6%	0%	--	15%	--
Global Macro	115	4.2%	0%	--	15%	--
Event-Driven	71	2.6%	0%	--	15%	--
Distressed	33	1.2%	0%	--	15%	--
Private Equity	329	12.0%	10%	15%	25%	-3.0%
Venture	76	2.7%	0%	3%	10%	-0.3%
Non-Venture	254	9.2%	5%	12%	20%	-2.8%
Real Assets	78	2.8%	5%	5%	20%	-2.2%
Real Estate	44	1.6%	0%	3%	20%	-1.4%
Resources	35	1.3%	0%	2%	10%	-0.7%
Fixed Income	155	5.6%	5%	10%	30%	-4.4%
Investment Grade	142	5.2%	5%	8%	20%	-2.8%
High Yield	13	0.5%	0%	2%	10%	-1.5%
Cash (Net of Repo)	80	2.9%	0.0%	0.0%	10.0%	2.9%
Total Pool	2,750	100.0%	100.0%	100.0%	100.0%	0.0%

Risk Analysis (Standard Deviation Estimates)					
Market Exposure	8.5%		8.9%		
Active Management	1.4%		0.8%		
Total	8.6%	6.0%	9.0%	12.0%	2.1% <sup>(2)</sup>

<sup>(1)</sup> Actual Pool allocations account for securities transactions and manager cash flows using trade or valuation dates. Contributions and redemptions from the Pool are shown in the month following valuation date.

<sup>(2)</sup> Relative to target risk is the estimated standard deviation of the difference in returns between the Pool and the Target Benchmark, also referred to as tracking error.

Investment Report  
September 30, 2005  
UVIMCO Long-Term Pool

Investment Performance

	Current				Annualized			
	MO	3MO	CYTD	FYTD	1 YR	3 YR	5 YR	10 YR
TOTAL FUND	1.9	5.4	11.1	5.4	18.1	14.4	7.7	14.3
Target Benchmark <sup>(1)</sup>	3.5	6.4	10.0	6.4	18.0	16.3	5.3	9.4
Public Equity	4.8	10.6	17.4	10.6	34.3	31.8	10.4	12.4
U.S.	0.5	4.9	7.9	4.9	20.3	23.5	5.8	10.6
Russell 3000	0.9	4.0	4.0	4.0	14.6	18.1	(0.7)	9.5
Non-U.S. Developed	5.5	10.7	29.6	10.7	46.5	--	--	--
MSCI World Ex-USA	4.6	11.0	10.6	11.0	27.4	25.9	3.8	6.6
Emerging	8.3	15.7	22.4	15.7	43.3	38.0	23.0	10.1
MSCI Emerging Markets	9.3	18.1	25.5	18.1	47.2	39.6	14.5	6.1
Hedge Funds	1.1	3.9	8.7	3.9	14.6	12.1	11.4	12.7
Equity Long/Short	1.0	4.4	9.9	4.4	16.2	11.4	11.5	13.2
Equity Market Neutral	1.1	0.5	--	0.5	--	--	--	--
Fixed Income Arbitrage	0.8	1.5	(6.0)	1.5	(5.0)	--	--	--
Global Macro	3.9	7.1	9.0	7.1	14.5	11.3	--	--
Event-Driven	(1.4)	(0.6)	0.7	(0.6)	1.8	4.7	4.3	7.7
Distressed	0.5	0.9	5.3	0.9	14.7	33.3	--	--
60% Tremont HF / 40% Tremont L/S	1.8	5.1	6.3	5.1	13.0	11.6	6.6	12.3
Private Equity	0.1	4.4	8.1	4.4	17.1	14.4	(5.0)	26.5
Venture Capital	0.0	0.7	(0.4)	0.7	(0.1)	(8.6)	(21.6)	27.1
Cambridge U.S. Venture Capital <sup>(2)</sup>	--	2.2	7.3	2.2	13.9	(2.1)	(15.4)	21.2
Non-Venture	0.2	5.7	11.2	5.7	23.9	25.7	4.5	13.7
Cambridge U.S. Private Equity <sup>(2)</sup>	--	8.8	26.8	8.8	29.6	17.7	4.8	15.0
Real Assets	1.4	2.9	3.4	2.9	22.9	24.9	14.7	14.0
Real Estate	0.7	3.6	2.4	3.6	16.4	13.4	5.4	9.6
Cambridge Real Estate <sup>(2)</sup>	--	8.3	21.3	8.3	26.2	16.5	13.5	13.1
Resources	2.3	2.2	4.5	2.2	30.2	37.4	26.0	--
Cambridge Resources <sup>(2)</sup>	--	18.3	56.5	18.3	62.0	31.4	22.0	17.8
Fixed Income	0.4	1.0	3.0	1.0	4.7	5.5	7.9	7.4
Investment Grade	0.4	0.9	2.4	0.9	4.1	5.7	8.8	8.3
Lehman U.S. Aggregate	(1.0)	(0.7)	1.8	(0.7)	2.8	4.0	6.6	6.5
High Yield	0.9	1.7	7.2	1.7	9.1	3.6	3.3	2.7
Lehman U.S. Corp. High Yield	(1.0)	0.9	2.0	0.9	6.7	16.0	7.5	6.8
Cash (Net of Repo)	0.2	0.8	2.0	0.8	2.4	--	--	--
Repo <sup>(3)</sup>	0.3	0.9	2.2	0.9	2.7	1.7	2.4	3.9

<sup>(1)</sup> Subject to change as Cambridge benchmark data becomes available.

<sup>(2)</sup> Returns reported quarterly, on a one-quarter lag. No return is reported for periods within quarter-end dates.

<sup>(3)</sup> Monthly returns prior to 8/31/2005 are approximated by Federal Funds Rate.

UNIVERSITY OF VIRGINIA  
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: January 19, 2006

COMMITTEE: Finance

AGENDA ITEM: III.E. State Budget and Legislation  
(Written Report)

ACTION REQUIRED: None

Governor's Budget

BACKGROUND: On December 16th, Governor Warner presented to the Legislature his 2006-2008 biennial budget. The General Assembly will consider the Governor's Budget Bill during its 60-day session, which began January 11th. The Academic Division, the Medical Center, and the College at Wise submitted requests for the Governor's consideration last September.

DISCUSSION: Governor Warner's operating budget for higher education includes \$309 million in new general funds for the biennium to support faculty salary increases (two to four percent in November 2006), enrollment and degree completion, undergraduate student financial aid, maintenance of new facilities, Virtual Library of Virginia, Eminent Scholars program, and regional higher education centers and institutes. Additionally, the Governor has proposed a \$554 million Higher Education Research Initiative, which is made up of \$255 million general funds and a \$299 million matching commitment to come from the institutions. This research package includes additional on-going funding for graduate financial aid, interest on sponsored program and indirect cost recovery cash balances, graduate engineering courses and one-time investments in capital outlay, biomedical and biomaterials engineering, translational research, and research equipment.

The Governor also allocated \$105 million for maintenance reserve, an increase of \$43 million over the amount allocated in 2004-2006. For capital outlay, the Governor's budget includes \$155 million for new non-research projects; \$118 million for new research projects (included in the \$255 million above); \$116 million related to construction cost increases; \$117.6 million for new research related projects; and \$34 million related to equipment for previously authorized general fund capital outlay projects.

For the Academic Division, the Governor allocated an additional \$15.7 million for the biennium in new general fund operating dollars. The budget also authorized all non-general fund operating requests. For Wise, the Governor allocated \$4.9 million in new general fund operating dollars. Specific actions can be found in Appendix A.

For capital outlay, the Governor's budget included maintenance reserve funding of \$14.8 million, an increase of \$5.2 million over 2004-2006, for the Academic Division and \$785,000, an increase of \$281,000 over 2004-2006, for Wise. The Governor provided general funds for the Main Heating Plant Upgrade (\$19.7 million) and the Cavalier Substation (\$900,000) in the Academic Division; \$25 million for a Clinical Cancer Building in the Medical Center; and \$9.1 million for the renovation of Smiddy Hall at Wise. The Governor also approved the non-general fund capital projects submitted. Specific actions can be found in Appendix A.

#### 2006 Legislative Amendments

BACKGROUND: As mentioned in the consent agenda item, proposed legislative actions and amendments to the Governor's Budget Bill will be submitted to the legislature on January 19<sup>th</sup>. The Board of Visitors previously authorized the Executive Vice President and Chief Operating Officer to submit amendments to the General Assembly for items not funded by the Governor as long as they did not materially differ from those items approved by the Board in October. Further, the consent agenda includes the ratification of any additional items. The full and final list of amendments is outlined in Appendix B.

DISCUSSION: In addition to requests that impact the budget bill, the University has submitted a legislative proposal that recommends an exception to the State Conflicts of Interest Statute, Code of Virginia, Section 2.2-3106. The University proposes to allow public institutions of higher education and their libraries to purchase scholarly collections or papers of unique academic value from their faculty.

The current statute generally prohibits contracts between state employees and their employing institutions. Thus, state institutions of higher education are currently barred from procuring scholarly collections, papers, manuscripts, or other materials of academic or cultural importance from members of

their own faculties. Because the general prohibition in the statute has proven unworkable in other circumstances, the statute already has a multitude of exemptions for public institutions of higher education, such as an employee's personal interest in a contract between a higher education institution and a publisher or wholesaler of textbooks or other educational materials for students; or an employee's personal interest in a contract for research and development or commercialization of intellectual property between a higher education institution and a business in which the employee has a personal interest, if disclosed appropriately.

A further limited exemption to allow institutions of higher education to buy special collections or papers and other materials of academic, educational and cultural value to the public institution that are owned by a member of the institution's faculty is needed to prevent the loss of such irreplaceable collections to other institutions and vendors in other states.

#### Preliminary 2006-2007 Budget Assumptions

BACKGROUND: Each year at this time, we develop preliminary budget assumptions that will be used to formulate the target budget for the subsequent fiscal year.

DISCUSSION: The following budget assumptions will be used in the development of the 2006-2007 budget, which will be presented to the Board of Visitors for action in June 2006:

1. The 2006-2007 state appropriation will reflect any budget changes as approved by the Governor and the 2006 General Assembly. The impact of these actions on the Academic Division's state appropriation will be reflected in the budget presented to the Board of Visitors in June. Any partial year amounts are annualized, and the targets are adjusted accordingly.
2. Tuition revenues will reflect rates approved by the Board received at the April 2006 meeting.
3. The 2006-2007 state budget will reflect the following:
  - Faculty salary, faculty wage, classified salary, and graduate teaching assistant base budgets (including

- fringe benefits) will be increased to fund the annual cost of the salary increases granted November 25, 2005.
- New available resources will be allocated to meet institutional priorities and benchmarks, such as base operating needs, faculty and staff compensation, financial aid programs, research initiatives, and major maintenance.
  - Vice presidents may reallocate existing funding and positions among units within their areas of responsibility.
  - State and local targets will be adjusted to reflect any changes in the fringe benefit rates for 2006-2007.
  - Reserves will be budgeted to fund any classified and faculty salary increases for the 2006-2007 fiscal year that may be approved by the 2006 General Assembly session, as well as any anticipated supplement that may be approved by the Board of Visitors.
  - Base budgets for non-personnel costs will not be increased for inflation.
  - Recoveries and transfer budgets will be adjusted as needed.
  - The Darden School and Law School financial self-sufficiency models will continue.
7. Revenue from endowment income will be budgeted based upon the 2006-2007 distribution rates as calculated per the Endowment Income Distribution and Spending Policy approved by the Board of Visitors. Related expenditures are based on historical spending patterns and will emphasize institutional and school priorities.
  8. Revenue and related expenditures from private gifts and other sales and services are budgeted based upon historical spending patterns and emphasize institutional and school priorities.
  9. Revenue and related expenditures from sponsored programs are budgeted based on historical spending patterns, sponsored program awards, and expected indirect cost recoveries.

10. Revenue and related expenditures from auxiliaries are budgeted based on fees approved by the Board in February (housing) and April (dining and mandatory student fees) and anticipated activity.

This page intentionally left blank.

MISCELLANEOUS FINANCIAL REPORTS  
Finance Committee  
University of Virginia

January 19, 2006

UNIVERSITY OF VIRGINIA ACADEMIC DIVISION

FINANCIAL REPORT

ACCOUNTS AND LOANS RECEIVABLE AS OF SEPTEMBER 30, 2005

Summary of Accounts Receivable:

The University's Academic Division's total accounts receivable as of September 30, 2005, were \$23,854,000 as compared to \$11,468,000 at June 30, 2005. The major sources of receivables at September 30, 2005, were student receivables of \$8,850,000 and sponsored programs of \$8,762,000.

The past due receivables over 120 days old at September 30, 2005 were \$1,175,000 or 4.93 percent of total receivables, well below the Commonwealth's management standard of ten percent.

	<u>Student Accounts</u>	<u>Sponsored Programs</u>	<u>Other Receivables</u>	<u>Total</u>
Gross Accounts Receivable	\$8,850,000	\$8,762,000	\$6,242,000	\$23,854,000
Less: Allowance for Doubtful Accounts	<u>100,000</u>	<u>600,000</u>	<u>198,000</u>	<u>898,000</u>
Net Accounts Receivable	<u>\$8,750,000</u>	<u>\$8,162,000</u>	<u>\$6,044,000</u>	<u>\$22,956,000</u>
Accounts Receivable Greater than 120 Days Past Due	<u>\$35,000</u>	<u>\$733,000</u>	<u>\$407,000</u>	<u>\$1,175,000</u>

SOURCE: Revenue and Collections  
DATE: January 3, 2006

UNIVERSITY OF VIRGINIA ACADEMIC DIVISION

FINANCIAL REPORT

ACCOUNTS AND LOANS RECEIVABLE AS OF SEPTEMBER 30, 2005

Summary of Loans Receivable:

The default rate for the Perkins Student Loan Program decreased by 1.73 percent to 3.18 percent. This is based on the cohort default rate calculation and is well below the 15 percent threshold set by federal regulations. The Health Professions Loan Program default rate remained the same at zero percent. The Nursing Undergraduate Student Loan Program default rate increased by 0.70 percent to 2.54 percent. Both medical loan programs are well below the five percent federal threshold. The University Loan Program default rate increased by 0.59 percent to 5.31 percent.

	<u>Gross Loans Receivable</u>	<u>Current Default Rate</u>	<u>Inc./ (Dec) From Last Quarter</u>
Perkins Student Loans	\$17,197,000	3.18%	(1.73)%
Health Professions Loans	150,000	0.00%	0.00%
Undergraduate Nursing Loans	705,000	2.54%	0.70%
University Loans	<u>8,156,000</u>	5.31%	0.59%
Total Student Loan Outstanding	<u>\$26,208,000</u>		

SOURCE: Student Financial Services  
DATE: January 3, 2006

UNIVERSITY OF VIRGINIA  
INTERNAL LOANS TO UNIVERSITY DEPARTMENTS AND ACTIVITIES  
As of September 30, 2005

(Per January 1990 Board of Visitors resolution changing Current Funds Guidelines to include investments in internal loans and the June 1994 Board of Visitors resolution authorizing internal loans to be made in the discretionary collateral account lending program [security lending program], both subject to approval by the Executive Vice President and Chief Operating Officer)

PURPOSE (INT PROJECT)	DATE OF LOAN	INTEREST RATE	ORIGINAL LOAN AMOUNT	PRINCIPAL		APPROXIMATE FINAL PAYMENT
				PAYMENTS MADE TO DATE	OUTSTANDING PRINCIPAL	
Columbarium	10/30/03	Blended borrowing rate (4.75%)	85,000.00	45,000.00	40,000.00	Oct 2008
ITC Mainframe	03/16/04	Blended borrowing rate (4.75%)	300,000.00	200,000.00	100,000.00	Jul 2006
UVA Medical Center	07/10/02	Fed. Funds+60 pts.	4,031,339.36	3,033,098.83	998,240.53	Jun 2006
Wise Football Facility	12/22/98	Fed. Funds+60 pts.	3,000,000.00	1,337,272.18	1,662,727.82	Jun 2009
Wise Student Center	11/30/03	Blended borrowing rate (4.75%)	2,000,000.00	1,000,000.00	1,000,000.00	Jun 2007
Wise Student System	04/21/04	Blended borrowing rate (4.75%)	200,000.00	100,000.00	100,000.00	Jul 2007
<b>Total Internal Loans Subject to \$15M Limit Established by BOV<sup>1</sup></b>			<b>\$9,616,339.36</b>	<b>\$5,715,371.01</b>	<b>\$3,900,968.35</b>	

NOTE: 1. Per January 1990 Board of Visitors resolution establishing the internal loan pool at \$10 million and per April 2003 Board of Visitors resolution approving the expansion of the internal loan pool from \$10 million to \$15 million. All internal loans are subject to the approval of the Executive Vice President and Chief Operating Officer.

SOURCE: Investment and Tax Services  
DATE: December 6, 2005

UNIVERSITY OF VIRGINIA  
QUASI-ENDOWMENT ACTIONS

July 1, 2005 - September 30, 2005

(Per October 1990 and June 1996 Board of Visitors resolutions granting the Executive Vice President and Chief Operating Officer authority to approve selected quasi-endowment transactions, including establishments and disinvestments, less than \$2,000,000.)

Per the delegated authority from the Executive Vice President and Chief Operating Officer, the Vice President for Management and Budget has approved the additions and divestments of the quasi-endowments listed below.

<u>Additions</u>	<u>Amount</u>
Capital Renewal Program Quasi-Endowment	\$1,900,000.00
Cohen, William B. Memorial Scholarship Fund	21,001.91
Nolan, Stanton P. Professorship in Thoracic and Cardiovascular Surgery Quasi-Endowment Fund*	267,476.00
Pratt Distinguished Professorship in Morphogenesis- Ivy Foundation*	1,500,000.00
University Quasi-Endowment Fund (1)	<u>92,815.16</u>
Total Additions to Quasi-Endowments	\$3,781,293.07
 <u>Divestments</u>	
Bristol Laboratories Quasi-Endowment Fund - Hecht	\$ 75,000.00
Dean's Adenosine Patent Quasi-Unrestricted Income	1,000,000.00
GKSA Quasi-Unrestricted Endowment Income	500,000.00
Gordon, Douglas H. Jr. Unrestricted Quasi-Endowment	441,174.29
Mellon, Paul Quasi-Endowed Library Fund	<u>628,132.87</u>
Total Divestments from Quasi-Endowments	\$2,644,307.16
 <u>Endowment Income Capitalizations</u>	
Urology Departmental Research Quasi-Endowment Fund	<u>\$ 27,780.15</u>
Total Endowment Income Capitalizations	\$ 27,780.15

NOTES:

\* Quasi-Endowment newly established or originally funded since July 1, 2005.

(1) Includes current unrestricted gifts to the University that, under a standing Board of Visitors resolution, are required to be added to the University's Unrestricted Endowment Fund.

SOURCE: Financial Administration  
DATE: January 3, 2006

## QUARTERLY BUDGET REPORT

As of September 30, 2005

This report compares the actual results for the sources and uses to the Academic Division annual budget (excluding the Medical Center and the University of Virginia's College at Wise). At the end of the first quarter of 2005-06, 46.0 percent of the budget has been collected due to the collection of tuition, the allotment of general fund appropriations at the beginning of each semester, and the auxiliary enterprise collections. The remaining sources of available funds are recognized as expended. At the end of the first quarter of 2005-06, 30.9 percent of the budget has been expended.

The operating budget is developed using differing rules and conventions from the audited financial statements, which are developed in accordance with generally accepted accounting principles (GAAP). In some cases, similar descriptions are used in both reports even though the precise definitions and the specific amounts are not identical. However, both sets of figures are accurate for their particular purposes, and both are drawn from the University's financial applications. Outlined below are several of the differing conventions used in the operating budget and the actual results presented on the accompanying statement:

- The operating budget is prepared on a cash basis.
- The operating budget presents tuition and fees as gross income and the full amount of student aid as an expense.
- In the operating budget, depreciation is not funded and non-capital outlay purchases are recognized as expensed rather than spread over the useful life of the purchase. Debt service, major repair or renovation expenditures occur within the capital outlay accounts - and off the operating budget; however, the operating budget does include the annual transfers from auxiliary enterprise operations to the capital outlay accounts and reserves.
- In the operating budget, the source of expenditures is shown rather than actual revenues recognized. Unrestricted income, including gifts and indirect cost recoveries, is shown only as it is to be expended. Endowment distributions are included only to the extent that expenditures are anticipated.

- The Federal Family Education Loan Program is excluded from the operating budget.
- Fringe benefit expenditures are included in the operating budget using pooled benefit rates.

A definition of terms is included to explain the categories for the sources and uses of funds.

SOURCE: Budget Office  
DATE: December 28, 2005

University of Virginia Academic Division  
 2005-2006 Operating Budget Report  
 As of September 30, 2005  
 (in thousands)

	2005-06 Original Budget	9/30/05 Actual Results	Variance	9/30/05 Percentage of Budget
<b>Sources of Available Funds</b>				
Tuition & Fees	\$276,654	\$139,578	\$137,076	50.5%
State General Fund Appropriations	139,559	131,292	8,267	94.1%
Sponsored Research Direct & Indirect Costs	299,666	93,871	205,795	31.3%
Endowment Distributions Expended	66,684	16,390	50,294	24.6%
Private Gifts Expended	65,548	22,687	42,861	34.6%
Sales, Investment & Other Revenues	32,583	6,603	25,980	20.3%
Auxiliary Enterprises	160,481	68,323	92,158	42.6%
<b>Total Sources of Available Funds</b>	<b><u>\$1,041,175</u></b>	<b><u>\$478,744</u></b>	<b><u>\$562,431</u></b>	<b><u>46.0%</u></b>
<b>Uses of Available Funds</b>				
Direct Instruction	245,460	56,294	189,166	22.9%
Research and Public Service	283,432	86,669	196,763	30.6%
Library, Information Tech., & Academic Administration	103,388	33,821	69,567	32.7%
Student Services	21,825	7,281	14,544	33.4%
General Administration	63,718	20,183	43,535	31.7%
Operation & Maintenance of Physical Plant	52,685	24,886	27,799	47.2%
Scholarships, Fellowships, and Other Graduate Support	101,019	47,085	53,934	46.6%
<b>Total Educational &amp; General and Student Aid</b>	<b><u>871,527</u></b>	<b><u>276,219</u></b>	<b><u>595,308</u></b>	<b><u>31.7%</u></b>
<b>Auxiliary Enterprises</b>				
Athletics	32,531	10,356	22,175	31.8%
University Bookstores	32,687	13,430	19,257	41.1%
Housing	17,452	5,748	11,704	32.9%
Other Auxiliary Enterprises	47,256	12,615	34,641	26.7%
<b>Auxiliary Operating Uses</b>	<b><u>129,926</u></b>	<b><u>42,149</u></b>	<b><u>87,777</u></b>	<b><u>32.4%</u></b>
Transfers to reserves for renewal, replacement & debt	31,297	3,598	27,699	11.5%
<b>Total Auxiliary Enterprise Uses</b>	<b><u>161,223</u></b>	<b><u>45,747</u></b>	<b><u>115,476</u></b>	<b><u>28.4%</u></b>
Reserve for Salary Increases	7,433	-	7,433	0.00%
Reserve for Base Operating Needs and Contingencies	589	-	589	0.00%
<b>Total Uses of Available Funds</b>	<b><u>\$1,040,772</u></b>	<b><u>\$321,966</u></b>	<b><u>\$718,806</u></b>	<b><u>30.9%</u></b>
<b>Surplus</b>	<b><u>\$403</u></b>	<b><u>\$156,778</u></b>	<b><u>(\$156,375)</u></b>	<b><u>n/a</u></b>

## DEFINITION OF TERMS

*Sponsored Research Direct and Indirect Costs* -- primarily research projects, but also includes activities restricted to institutional and service programs.

*Auxiliary Enterprises* -- those activities which are supported entirely through fees charged to users, such as housing, athletics, dining services, the telephone system and the bookstore.

*Instruction* -- expenditures for the primary mission of the University, which includes teaching faculty, support staff, instructional equipment, and related routine operating costs.

*Research* -- includes expenditures for activities such as support for research faculty and sponsored research. Activities include the Center for Public Service, the State Climatologist, and the Center for Liberal Arts.

*Public Service* -- includes activities such as the Miller Center of Public Affairs, the Virginia Foundation for the Humanities and Public Policy, and that portion of the medical school's clinical physicians salaries and fringe benefits related to patient care.

*Library, Information Technology and Academic Administration* -- encompasses the libraries, the activities of the deans of the schools, and other related expenditures.

*Student Services* -- activities whose primary purpose is to contribute to the students' emotional and physical well-being and to their intellectual, cultural, and social development outside the classroom.

*General Administration* -- includes the financial, administrative, logistical, and development activities of the University.

*Operation and Maintenance of Physical Plant* -- includes expenditures for activities related to the operation and maintenance of the physical plant, net of amounts charged to auxiliary enterprises and the Medical Center.

**ENDOWMENT/INVESTMENTS FOR UVA AND RELATED FOUNDATIONS\***  
**September 30, 2005**  
**(In Thousands)**

	R&V Funds Invested by UVIMCO	Related Foundation Funds Invested by UVIMCO	Related Foundation Funds Invested by Direction of Foundation Board	Funds Invested by Alumni Association	Total
UVA Medical School and related foundations	\$591,960	\$ 6,353	\$21,096	\$3,616	\$623,025
Darden School and related foundation	92,899	56,867	141,158	0	290,924
College of Arts and Sciences and related foundations	262,038	17,542	15,677	3,487	298,744
UVA Law School and related foundation	35,138	102,167	112,747	0	250,052
School of Engineering and related foundation	65,679	0	821	2,380	68,880
McIntire School of Commerce and related foundation	31,539	0	447	38,691	70,677
Graduate School of Arts and Sciences	38,810	0	0	0	38,810
School of Nursing	27,893	0	0	1,449	29,342
UVA's College at Wise and related foundation	25,970	824	278	1,836	28,908
Curry School of Education and related foundation	10,525	6,284	50	13	16,872
School of Architecture	13,090	0	31	366	13,487
School of Continuing and Professional Studies	61	0	0	63	124
Alumni Association*	0	0	0	251,896	251,896
Athletics and related foundation	34,585	47,506	0	340	82,431
Miller Center and related foundation	42,941	3,135	0	0	46,076
Alumni Board of Trustees	0	0	32,299	9,461	41,760
UVA Foundation and related entities	0	48,122	287	0	48,409
UVA Medical Center and related foundation	117,897	5,569	42,292 **	0	165,758
All Other	922,693	21,619	0	0	944,312
	<u>\$2,313,718</u>	<u>\$315,988</u>	<u>\$367,183</u>	<u>\$313,598</u>	<u>\$3,310,487</u>

Notes: \* Includes funds on deposit for other areas/schools not individually listed.

\*\* Excludes approximately \$21.6 million of board designated pension funds.

SOURCE: Financial Administration  
DATE: January 3, 2006

This page intentionally left blank.

## APPENDICES

**SUMMARY OF BUDGET REQUESTS AND GOVERNOR'S BUDGET BILL**  
(in 000s)

	2006-07				2007-08			
	Request		Governor's Budget		Request		Governor's Budget	
	GF	NGF	GF	NGF	GF	NGF	GF	NGF
<b>AGENCY 207 - Academic Division - Operating</b>								
Va 21 <sup>st</sup> Century Medicine Research Fund	\$ 6,250	\$ 6,900	\$16,000	\$13,261	\$ 6,250	\$ 6,900	\$-	\$12,938
Regenerative Medicine (w/ VCU)	-	-	4,200	2,100	-	-	-	2,100
Establish Virginia COMPETES	1,750	-	-	-	3,000	-	-	-
Improve Graduate Stipends	2,500	-	1,587	-	5,000	-	1,587	-
Preserve Historic Structures	500	-	-	-	2,000	-	-	-
Supplement Utilities Funding	416	-	-	-	874	-	-	-
Fund Summer Transition Program	186	-	-	-	186	-	-	-
Maintain New Facilities	76	234	101	209	1,533	2,229	152	314
Fund UVa Health Plan	166	236	166	236	166	236	166	236
Support Blandy Farm	145	-	-	-	290	-	-	-
Support VFH Programs	250	-	250	-	250	-	250	-
Faculty Salary Increases	-	-	1,664	2,390	-	-	3,072	4,412
Enrollment Growth/Degree Completion	-	-	3,917	1,929	-	-	3,917	1,929
Center for Politics	-	-	187	-	-	-	187	-
Undergraduate Financial Aid	-	-	336	-	-	-	336	-
Central Cost Adjustments	-	-	366	-	-	-	617	-
Grad Engineering (all res. institutions)	-	-	813	401	-	-	771	380
Interest on Research Balances	-	-	-	2,443	-	-	-	2,766
Research Equipment (ETF)	-	-	7,600	-	-	-	-	-
NGF for E&G	-	20,300	-	811	-	39,300	-	14,625
NGF for Student Financial Aid	-	1,200	-	1,200	-	4,100	-	4,100
<b>Subtotal Academic Division - Operating</b>	<b>12,239</b>	<b>28,870</b>	<b>37,187</b>	<b>24,980</b>	<b>19,549</b>	<b>52,765</b>	<b>11,055</b>	<b>43,800</b>

**SUMMARY OF BUDGET REQUESTS AND GOVERNOR'S BUDGET BILL**  
(in 000s)

	2006-07				2007-08			
	Request		Governor's Budget		Request		Governor's Budget	
	GF	NGF	GF	NGF	GF	NGF	GF	NGF
<b>AGENCY 207 - Academic Division - Capital</b>								
Maintenance Reserve	\$15,000	\$3,000	\$14,835	\$ -				
MR-6 Furniture	765	-	-	-				
Main Heat Plant Upgrade	19,736	5,164	19,736	5,164				
Info Tech Engineering Bldg	37,500	12,500	-	-				
Ruffner Hall Infrastructure Upgrade	16,500	-	-	-				
Ivy Stacks	13,650	-	-	-				
Science Teaching and Outreach	7,425	1,000	-	-				
Fire & Life Safety	900	-	-	-				
Accessibility	500	-	-	-				
Birdwood Restoration	-	9,600	-	9,600				
Jordan Hall HVAC	-	19,600	-	19,600				
SOM Labs Renovation	-	8,000	-	8,000				
Jordan Hall Labs Renovation	-	8,662	-	8,662				
McCue Center Renovation	-	1,600	-	1,600				
Academic Blanket Authorization	-	14,000	-	14,000				
Auxiliary Blanket Authorization	-	3,000	-	3,000				
Construct Cavalier Substation	900	-	900	-				
Construct Medical Education Building	-	9,300	-	9,300				
<b>Subtotal Academic Division - Capital</b>	<b>112,876</b>	<b>95,426</b>	<b>35,471</b>	<b>78,926</b>				
<b>Total Agency 207 - Academic Division</b>	<b>\$125,115</b>	<b>\$124,296</b>	<b>\$72,658</b>	<b>\$103,906</b>	<b>\$19,549</b>	<b>\$52,765</b>	<b>\$11,055</b>	<b>\$43,800</b>

SUMMARY OF BUDGET REQUESTS AND GOVERNOR'S BUDGET BILL  
(in 000s)

	2006-07				2007-08			
	Request		Governor's Budget		Request		Governor's Budget	
	GF	NGF	GF	NGF	GF	NGF	GF	NGF
<b>AGENCY 209 - Medical Center:</b>								
Indigent Care Reimbursement	\$13,624	\$13,624	appropriately funded		\$20,624	\$20,624	appropriately funded	
Indigent Care to 200% of Poverty Level	1,171	1,171	-	-	1,230	1,230	-	-
<b>Subtotal Medical Center - Operating</b>	<b>14,795</b>	<b>14,795</b>	<b>-</b>	<b>-</b>	<b>21,854</b>	<b>21,854</b>	<b>-</b>	<b>-</b>
Improve Med Center Facilities	-	20,000	-	20,000				
Consolidate Psych Beds/GCRC Relocation	-	25,730	-	25,730				
Medical Office Building	-	20,000	-	20,000				
Musculoskeletal Outpatient Addition	-	3,000	-	3,000				
Hospital Bed Expansion	-	78,000	-	78,000				
Construct Cancer Center	25,000	(25,000)	25,000	(25,000)				
<b>Subtotal Medical Center - Capital</b>	<b>25,000</b>	<b>121,730</b>	<b>25,000</b>	<b>121,730</b>				
<b>Total Agency 209 - Medical Center</b>	<b>\$39,795</b>	<b>\$136,525</b>	<b>\$25,000</b>	<b>\$121,730</b>	<b>\$21,854</b>	<b>\$21,854</b>	<b>\$-</b>	<b>\$ -</b>

SUMMARY OF BUDGET REQUESTS AND GOVERNOR'S BUDGET BILL  
(in 000s)

	2006-07				2007-08			
	Request		Governor's Budget		Request		Governor's Budget	
	GF	NGF	GF	NGF	GF	NGF	GF	NGF
<b>AGENCY 246 - College at Wise:</b>								
Support Student Enrollment Growth	\$1,700	\$ -	\$1,834	\$903	\$1,785	\$ -	\$1,834	\$ 903
Develop Software Engineering Program	808	-	260	145	850	-	260	145
Supplement Utilities Funding	250	-	-	-	260	-	-	-
Renew Campus Network Infrastructure	550	-	-	-	-	-	-	-
Faculty Salary Increases	-	-	107	59	-	-	197	110
Undergraduate Financial Aid	-	-	147	-	-	-	147	-
Central Cost Adjustments	-	-	20	-	-	-	38	-
<b>Subtotal Wise - Operating</b>	<b>3,308</b>	<b>-</b>	<b>2,368</b>	<b>1,107</b>	<b>2,895</b>	<b>-</b>	<b>2,476</b>	<b>1,158</b>
Maintenance Reserve	600	-	786	-	-	-	-	-
Smiddy Hall Renovation/IT Bldg	10,872	-	912	-	-	-	8,205	-
Science Bldg Renovation	10,934	-	-	-	-	-	-	-
Accessibility	600	-	-	-	-	-	-	-
Construct Drama Building	-	4,000	-	4,000	-	-	-	-
Accelerate Housing/Add Dining	-	15,000	-	15,000	-	-	-	-
Acquire Buffer Properties	1,200	(1,100)	-	-	-	-	-	-
<b>Subtotal Wise - Capital</b>	<b>24,206</b>	<b>17,900</b>	<b>1,698</b>	<b>19,000</b>	<b>-</b>	<b>-</b>	<b>8,205</b>	<b>-</b>
<b>Total Agency 246 - Wise</b>	<b>\$ 27,514</b>	<b>\$17,900</b>	<b>\$4,066</b>	<b>\$20,107</b>	<b>\$2,895</b>	<b>\$ -</b>	<b>\$10,681</b>	<b>\$ -</b>

UNIVERSITY OF VIRGINIA - ACADEMIC DIVISION  
2006-2008 PROPOSED AMENDMENTS  
(in 000s)

	2006-2007		2007-2008		TOTAL REQUEST	
	<u>GF</u>	<u>NGF</u>	<u>GF</u>	<u>NGF</u>	<u>GF</u>	<u>NGF</u>
<b>Operating</b>						
1. Blandy Farm	\$145	\$ -	\$290	\$ -	\$435	\$ -
Subtotal Operating	145	-	290	-	435	-
<b>Capital</b>						
1. Info. Tech. Engineering Building	37,500	12,500	-	-	37,500	12,500
2. Medical Research Building #6	4,700	8,700	-	-	4,700	8,700
3. Gilmer Teaching Labs	575	-	-	-	575	-
4. South Lawn, Phase I	5,000	21,900	-	-	5,000	21,900
5. Arts Grounds Garage	-	800	-	-	-	800
6. Medical Research Building #7	-	35,000	-	-	-	35,000
7. Advanced Research Technology Building	-	2,630	-	-	-	2,630
8. Main Heat Plant	-	4,000	-	-	-	4,000
9. Rouss Hall	-	fund switch	-	-	-	fund switch
Subtotal Capital	47,775	85,530	-	-	47,775	85,530
<b>TOTAL</b>	<b>\$47,920</b>	<b>\$85,530</b>	<b>\$ 290</b>	<b>\$ -</b>	<b>\$48,210</b>	<b>\$85,530</b>

Patrons: Senator John H. Chichester and Delegate Lacey E. Putney

UNIVERSITY OF VIRGINIA - Medical Center  
 2006-2008 PROPOSED AMENDMENTS TO THE BUDGET BILL  
 (in 000s)

	2006-2007		2007-2008		TOTAL REQUEST	
	<u>GF</u>	<u>NGF</u>	<u>GF</u>	<u>NGF</u>	<u>GF</u>	<u>NGF</u>
Operating - None						
Capital						
1. Hospital Expansion Project	\$ -	\$ 7,600	\$ -	\$ -	\$ -	\$ 7,600
2. Two Operating Rooms	-	4,000	-	-	-	4,000
3. Hospital Link Project	-	4,000	-	-	-	4,000
<b>TOTAL</b>	<b>\$ -</b>	<b>\$ 15,600</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 15,600</b>

48

Patrons: Senator John H. Chichester and Delegate Lacey E. Putney

UNIVERSITY OF VIRGINIA'S COLLEGE AT WISE  
 2006-2008 PROPOSED AMENDMENTS  
 (in 000s)

	2006-2007		2007-2008		TOTAL REQUEST	
	<u>GF</u>	<u>NGF</u>	<u>GF</u>	<u>NGF</u>	<u>GF</u>	<u>NGF</u>
<b>Operating</b>						
1. Software Engineering	\$ 549	\$ -	\$ 590	\$ -	\$ 1,139	\$ -
2. Utility Costs	250	-	260	-	510	-
3. Network Infrastructure	550	-	-	-	550	-
Subtotal Operating	1,349	-	850	-	2,199	-
<b>Capital</b>						
1. Science Building Renovation	10,934	-	-	-	10,934	-
2. Smiddy Hall Renovation	1,429	-	-	-	1,429	-
Subtotal Capital	12,363	-	-	-	12,363	-
<b>TOTAL</b>	<b>\$ 13,712</b>	<b>\$ -</b>	<b>\$ 850</b>	<b>\$ -</b>	<b>\$ 14,562</b>	<b>\$ -</b>

49

Patrons: Senator Phillip Puckett  
 Delegate Terry G. Kilgore

Senator William C. Wampler  
 Delegate Clarence E. Phillips



University of Virginia  
Debt Policy  
January 2006

DRAFT

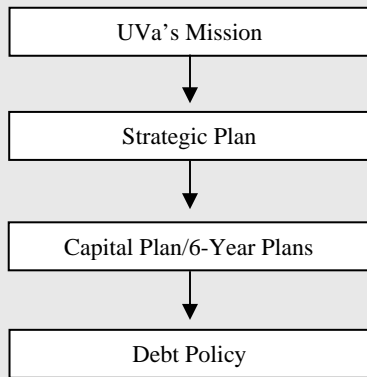
Table of Contents

I. Overview.....	2
II. Scope and Objectives .....	2
III. Oversight.....	3
III. Debt Affordability and Capacity.....	4
V. Financing Sources .....	5
VI. Portfolio Management of Debt .....	7
VII. Strategic Debt Allocation .....	9
VIII. Central Loan Program Management.....	10
IX. Approval Process.....	12
Appendix A – Policy Ratio Analysis	
Appendix B – Business Plan Template	
Appendix C – Board of Visitors’ Policy on VR	
Debt Allocation	

## I. Overview

### Purpose

1. Articulate the role of UVa's Debt Policy within the strategic planning process.



### Overview

In support of its Mission, The University of Virginia maintains a long-term strategic plan. The strategic plan establishes University-wide priorities as well as University-wide and divisional programmatic objectives. The University develops a capital plan to support its priorities and objectives defined in its strategic plan.

The University's use of debt plays a critical role in ensuring adequate funding for the capital plan. By linking the objectives of its Debt Policy to its strategic objectives, the University ultimately increases the likelihood of achieving its Mission.

The Debt Policy is intended to be a "living" document which will evolve over time to meet the changing needs of the University.

## II. Scope and Objectives

### Purpose

1. Define what activities are subject to the policy
2. Define the objectives for the Debt Policy
3. Establish debt management goals

### Scope

The Debt Policy covers all forms of debt including long-term, short-term, fixed-rate, and variable-rate debt. It also covers other forms of financing including both on-balance sheet and off-balance sheet structures, such as leases, and other structured products used with the intent of funding capital projects.

The use of derivatives is considered when managing the debt portfolio and structuring transactions. However, conditions guiding the use of derivatives are addressed in a separate Interest Rate Risk Management Policy.

### Objectives

The objectives of this policy are to:

- (i) Outline the University's philosophy on debt
- (ii) Establish a control framework for approving and managing debt
- (iii) Define reporting guidelines
- (iv) Establish debt management guidelines

The Debt Policy formalizes the link between the University's Strategic Plan and the issuance of debt. Debt is considered a limited resource that must be managed strategically in order to best support University priorities.

The policy establishes a control framework to ensure that an appropriate discipline is in place regarding capital rationing, reporting requirements, debt portfolio composition, debt servicing, and authorization. It establishes guidelines to ensure that existing and proposed debt issues are

backed by financial resources to maintain an acceptable amount of leverage, a strong financial profile, and a strategically optimal credit rating.

Under this policy, debt is to be managed to achieve the following goals:

- (i) Maintaining access to capital markets;
- (ii) Managing the University’s credit rating to meet its strategic objectives while maintaining the highest acceptable creditworthiness and most favorable relative cost of capital and borrowing terms;
- (iii) Optimizing the University’s debt mix (i.e. fixed rate vs. floating-rate) for the University’s entire debt portfolio;
- (iv) Managing the structure and maturity profile of debt to meet liquidity objectives and make funds available to support future capital projects and strategic initiatives;
- (v) Coordinating debt management decisions with both asset management decisions to optimize overall funding and portfolio management strategies.

The University may use debt to accomplish critical University priorities by more prudently using debt financing to accelerate the initiation or completion of certain projects, where appropriate. As part of its review of each project, the University evaluates all funding sources to determine the optimal funding structure to achieve the lowest cost of capital.

### III. Oversight

Purpose
<ol style="list-style-type: none"> <li>1. Provide mechanism for Board of Visitors oversight and review on periodic basis.</li> <li>2. Provide management flexibility to make ongoing financing decisions within the framework of the Policy.</li> </ol>

The Board of Visitors approves the intent to use debt for specific capital projects, as well as the official issuance of debt. It delegates the approval of financing parameters to the Finance Committee. The Executive Vice President and Chief Operating Officer is authorized to approve the pricing of debt on the day the debt is marketed, subject to the approved financing parameters.

The Office of the Vice President and Chief Financial Officer (“VP & CFO”) is responsible for implementing this policy and for all debt financing activities of the University. The policy and any subsequent, material changes to the policy are approved by the University’s Board of Visitors. The approved policy provides the framework under which debt management decisions are made.

The exposure limits listed under the policy are monitored on a regular basis by the Office of the VP & CFO. This information is made available to interested parties and to the Board of Visitors at its request.

### III. Debt Affordability and Capacity

Purpose
<ol style="list-style-type: none"> <li>1. Monitor Debt Affordability and Capacity through the use of 4 key ratios:             <ol style="list-style-type: none"> <li>a. Debt Burden Ratio</li> <li>b. Debt Service Coverage</li> <li>c. Viability Ratio</li> <li>d. Debt Capacity Ratio</li> </ol> </li> </ol>

In assessing its current debt levels, and when planning for additional debt, the University takes into account both its Debt Affordability and Debt Capacity. Debt Affordability focuses on the University’s ability to service its debt through its operating budget and identified revenue streams and is driven by strength in income and cash flows. Debt Capacity focuses on the University’s financial leverage in terms of debt funding as a percentage of the University’s total capital.

2. Clearly communicate with key parties the University's debt management philosophy and ongoing assessment of debt capacity and affordability.

The University considers many factors in assessing its debt affordability and debt capacity including its strategic plan, market position, alternative sources of funding, and relationship with the Commonwealth. The University uses four key ratios to provide a quantitative assessment of debt affordability and debt capacity.

#### Debt Affordability Measures

##### *Debt Burden Ratio*

**This ratio measures the University's debt service burden as a percentage of total university expenses. The target for this ratio is intended to maintain the University's long-term operating flexibility to finance existing requirements and new initiatives.**

$$\frac{\text{ANNUAL DEBT SERVICE}}{\text{TOTAL OPERATING EXPENSES}} < 6.0\%$$

The measure is based on aggregate operating expenses as opposed to operating revenues because expenses typically are more stable (e.g. revenues may be subject to one-time operating gifts, investment return fluctuations, variability of Commonwealth funding, etc.) and better reflects the operating base of the University. This ratio is adjusted to reflect any non-amortizing or non-traditional debt structures that could result in significant single year fluctuations including the effect of debt refundings.

##### *Debt Service Coverage*

**This ratio measures the University's ability to cover debt service requirements with revenues available for operations. The target established is intended to ensure that operating revenues are sufficient to meet debt service requirements and that debt service does not consume too large a portion of income.**

$$\frac{\text{OPERATING GAIN/(LOSS) + NON-OPERATING REVENUE} + \text{DEPRECIATION}}{\text{ANNUAL DEBT SERVICE}} > 5X$$

**This ratio is adjusted to reflect any non-amortizing or non-traditional debt structures that could result in significant single year fluctuations including the effect of debt refundings.**

#### Debt Capacity Measures

##### *Viability Ratio*

This ratio indicates one of the most basic determinants of financial health by measuring the availability of liquid and expendable net assets to aggregate debt. The ratio measures the medium to long-term health of the University's balance sheet and debt capacity and is a critical consideration of universities with the highest credit quality.

Many factors influence the viability ratio, affecting both the assets (e.g., investment performance, philanthropy) and liabilities (e.g., timing of bond issues), and therefore the ratio is best examined in the context of changing market conditions so that it accurately reflects relative financial strength.

The University has established a target of 1.5x to ensure that sufficient

balance sheet strength is maintained at all times.

$$\frac{\text{UNRESTRICTED NET ASSETS} + \text{RESTRICTED EXPENDABLE NET ASSETS}}{\text{AGGREGATE DEBT}} > 3x$$

This ratio includes the balance sheet position of the University's affiliated foundations and any long-term obligations of those organizations or University guarantees.

*Debt Capitalization Ratio*

This ratio measures what percentage of University capital comes from debt. A University that relies too heavily on debt capital may risk being over-leveraged and potentially reduce its access to capital markets. The University has established a target of less than 20% of capitalization for come from debt.

$$\frac{\text{AGGREGATE DEBT}}{\text{TOTAL NET ASSETS} + \text{AGGREGATE DEBT}} \leq 20\%$$

Use of Ratios in Managing University Credit Ratings

The ratios and limits are not intended to track a specific rating, but rather help ensure the University's maintenance of a competitive financial profile, funding for facilities needs and reserves, compliance with Commonwealth debt service to budget guidelines, and maintenance of financial equilibrium.

The Debt Policy is shared with external credit analysts and other parties in order to provide them with background on UVa's philosophy on debt and management's assessment of debt capacity and affordability, which is subject to ongoing review.

**V. Financing Sources**

Purpose
<ol style="list-style-type: none"> <li>1. Review of all potential funding sources for projects.</li> <li>2. Maximize tax-exempt University-issued debt.</li> <li>3. Utilize Commercial Paper program to provide for:               <ol style="list-style-type: none"> <li>a. bridge funding.</li> <li>b. continual access to capital.</li> <li>c. Short term funding on a taxable or tax-exempt basis.</li> </ol> </li> <li>4. Manage derivative products for hedging interest rate exposure.</li> <li>5. Consider alternative financing sources.</li> </ol>

The University recognizes that there are numerous types of financing structures and funding sources available, each with specific benefits, risks, and costs. All potential funding sources are reviewed by management within the context of the Debt Policy and the overall portfolio to ensure that any financial product or structure is consistent with UVa's objectives. Regardless of what financing structure(s) is utilized, a full understanding of the transaction, including (i) quantification of potential risks and benefits, and (ii) analysis of the impact on University creditworthiness and debt affordability and capacity, are performed.

Tax-Exempt Debt

The University recognizes that Tax-Exempt debt is a perpetual component of the University's capitalization due in part to its substantial cost benefits; therefore, tax-exempt debt is managed as a portfolio of obligations designed to meet long-term financial objectives rather than as a series of discrete financings tied to specific projects. The University manages the debt portfolio to maximize its utilization of tax-exempt debt relative to taxable debt whenever possible. In all circumstances, however, individual projects continue to be identified and tracked to ensure compliance for all tax and reimbursement purposes.

Recognizing the inherent benefit of tax-exempt interest rates, the University prefers to consider maximizing the external maturity of any tax-exempt bond issue, subject to prevailing market conditions and opportunities and other considerations, including applicable regulations.

#### *Taxable Debt*

---

While all of the University's capital projects may not qualify for tax-exempt debt, taxable debt should only be used in appropriate cases as it generally represents a more expensive source of capital relative to tax-exempt issuance. Generally, the University evaluates the use of alternate resources in lieu of taxable debt to fund non-exempt purposes based on economic benefit.

#### *Commercial Paper*

---

Commercial paper provides the University with interim financing for projects, in anticipation of the receipt of funding either in the form of future philanthropy (many years out) or the issuance of long-term debt for permanent financing. The use of commercial paper also provides greater flexibility regarding the timing and structuring of individual bond transactions. The University recognizes that the amount of commercial paper is limited by the Debt Policy ratios, the University's variable-rate debt allocation limit, and the University's available liquidity support.

#### *University-issued vs. State-issued debt*

In determining the most cost effective means of issuing debt, the University evaluates the merits of issuing debt directly vs. issuing debt through the Virginia College Building Authority's ("VCBA") Pooled Bond Program.

On a regular basis, the University performs a cost benefit analysis between these two options and takes into consideration the comparative funding costs, flexibility in market timing, and bond ratings of each alternative. The University also takes into consideration the future administrative flexibility of each issue such as the ability to call and/or refund issues at a later date.

#### *Derivative Products*

---

Management recognizes that derivative products may enable more opportunistic and flexible management of the debt portfolio. Derivative products, including interest rate swaps and locks, may be employed primarily to manage or hedge the University's interest rate exposure. The University utilizes a framework to evaluate potential derivative instruments by considering (i) its current variable-rate debt allocation, (ii) existing market and interest rate conditions, (iii) the impact on future financing flexibility, and (iv) the compensation for assuming risks or the costs for eliminating certain risks and exposure. Risks include, but are not limited to, tax risk, interest rate risk, liquidity risk, counterparty credit risk, basis risk, and any other potential risks either imposed or removed through the execution of any transaction.

The University analyzes and quantifies the cost/benefit of any derivative instrument relative to achieving desirable long-term capital structure objectives. Under no circumstances will a derivative transaction be utilized that is not understood fully by management or that imposes inappropriate risk on the University. In addition, management discloses the impact of any derivative product on the University's financial statements per GASB requirements and includes their effects in

calculating the Debt Policy ratios.

*Other Financing Sources*

Given limited debt capacity and substantial capital needs, opportunities for alternative and non-traditional transaction structures may be considered, including off-balance sheet financings. The University recognizes these types of transactions often can be more expensive than traditional University debt structures; therefore, the benefits of any potential transaction must outweigh any potential costs.

All structures can only be considered once the economic benefit and the likely impact on the University's debt capacity and credit has been determined. Specifically, for any third-party or developer-based financing, management ensures the full credit impact of the structure is evaluated and quantified.

**VI. Portfolio Management of Debt**

**Purpose**

1. Permit decisions regarding debt issuance and structure to be made on a portfolio basis, rather than on a per-project basis.
2. Manage variable-rate exposure of the debt portfolio.
  - a. Limit variable-rate exposure.
  - b. Manage the overall liquidity requirements associated with outstanding debt.
  - c. Target overall variable-rate debt exposure.
3. Evaluate exposure to other financing vehicles and third parties on a portfolio-wide basis.

The University considers its debt portfolio holistically, that is, it optimizes the portfolio of debt for the entire University rather than on a project-by-project basis while taking into account the University's cash and investments. Therefore, management makes decisions regarding project prioritization, debt portfolio optimization, and financing structures within the context of the overall needs and circumstances of the University.

*Variable-Rate Debt*

The University recognizes that a degree of exposure to variable interest rates within the University's debt portfolio is desirable in order to:

- (i) take advantage of repayment/restructuring flexibility;
- (ii) benefit from historically lower average interest costs; and
- (iii) provide a "match" between debt service requirements and the projected cash flows from the University's assets.

Management monitors overall interest rate exposure, analyzes and quantifies potential risks, and coordinates appropriate fixed/variable allocation strategies. The portfolio allocation to variable-rate debt may be managed or adjusted through (i) the issuance or redemption of debt (potentially new issues and refundings) and (ii) the use of interest rate swaps and other derivative products.

The amount of variable-rate debt outstanding (adjusted for derivatives) shall not exceed 40% of the University's outstanding debt. This limit is based on the University's desire to: (i) limit annual variances in its debt portfolio, (ii) provide sufficient structuring flexibility to management, (iii) keep the University's variable-rate allocation within acceptable external parameters, and (iv) utilize variable-rate debt (and/or derivatives) to optimize debt portfolio allocation and minimize costs.

$$\frac{\text{VARIABLE-RATE DEBT (DERIVATIVE ADJUSTED)}}{\text{TOTAL DEBT OUTSTANDING}} < 40\%$$

*Refinancing Outstanding Debt*

The University monitors its debt portfolio on a continual basis to assure portfolio management objectives are being met and to look for opportunities to lower its cost of funding, primarily through refinancing

outstanding debt.

The University monitors the price and yield of its outstanding debt and attempts to identify potential refunding candidates by looking at refunding rates and calculating the net present value of any refunding savings after taking into account all transaction costs. Bonds that meet the University's requirements for present value savings are strongly considered for refunding.

#### *Liquidity*

---

The University's portfolio of variable-rate debt and commercial paper require liquidity support in the event of the bonds or paper being put back to the University by investors. Generally, the University can purchase liquidity support externally from a bank in the form of a standby bond purchase agreement (SBPA) or line of credit. In addition, the University can also use its own capital to supplement or replace external facilities.

Just as the University manages its debt on a portfolio basis, it also manages its liquidity needs considering its entire asset and debt portfolio, rather than managing liquidity solely on an issue-specific basis. This approach permits institution-wide evaluation of desired liquidity requirements/exposure, minimizes administrative burden, and reduces total liquidity costs.

It is reasonable to adopt a balanced approach to enhancing credit for variable-rate debt, whether through external bank liquidity, self-liquidity, auction market or derivative structures. Using a variety of approaches limits dependence on an individual type or source of credit; it also allows for exposure to different types of investors. The University must balance liquidity requirements with its investment objectives and its cost and renewal risk of third-party liquidity providers.

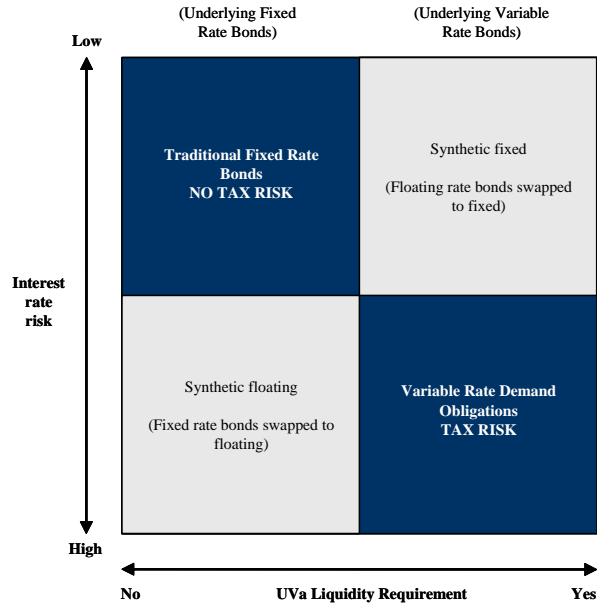
Further, a portfolio-approach to liquidity can enhance investment flexibility, reduce administrative requirements, lower total interest costs, and reduce the need for external bank liquidity.

#### *Overall Exposure*

---

The University recognizes that it may be exposed to interest rates, third-party credit, and other potential risks in areas other than direct University debt (e.g., off-balance sheet transactions, counterparty exposure in the investment portfolio, etc.) and, therefore, exposure are considered on a comprehensive University-wide basis.

The University recognizes that during some periods it may be desirable to maintain a higher or lower variable-rate allocation within its 0-40% limit, depending on prevailing long-term rates and/or opportunities in the short-term market.



## VII. Strategic Debt Allocation

### Purpose

1. Recognize that resources are limited.
2. Augment existing capital allocation and prioritization process.
3. Provide priority to mission critical projects with identified repayment source.

Recognizing that financial resources are not sufficient to fund all capital projects, management must allocate debt strategically, continuing to explore alternate sources of funding for projects. External support, philanthropy, and direct Commonwealth investment remains a critical component of the University's facilities investment plan.

Management allocates the use of debt financing internally within the University to reflect the prioritization of debt resources among all uses, including plant and equipment financing, academic projects, and projects with trans-institutional impact. Generally, the University favors debt financing for those projects critical to attainment of the strategic goals of the University, and those projects with identified revenue streams for the repayment of debt service and incremental operating costs. Federal research projects receive priority consideration for external debt financing due to partial reimbursement of operating expenses (including the interest component of applicable external debt service) of research facilities. Patient care investments that have acceptable financial and programmatic returns also receive priority.

Each capital project is analyzed at its inception to ensure that capital is used in the most effective manner and in the best interests of the University. There is an initial institutional review of each project, prior to its inclusion in the state's six-year plan, to determine if debt leveraging would be desirable even if not requested by the project sponsor.

As part of this initial institutional review, the University also will assess, based on the project's business plan, the sufficiency of revenues to support any internal loans. If the University determines that collateral is necessary, it may require the entity to segregate unrestricted funds for this purpose. Such unrestricted funds will generally be segregated in an internal quasi-endowment.

## VIII. Central Loan Program Management

Purpose
<ol style="list-style-type: none"> <li>1. Establish policies for loans to Divisions/Schools.</li> <li>2. De-link external debt structure from internal debt structures of individual borrowers.</li> <li>3. Establish single interest rate for all borrowers that reflects University's overall cost of capital.</li> </ol>

Each division is responsible for the repayment of all funds borrowed from the central loan fund, plus interest and certain fees determined through the University's internal lending policies, regardless of the internal or external source of funds.

Loan structures with standard financial terms, including level debt service repayments, are offered to divisional borrowers. The University may provide for flexible financing terms in order to accommodate individual divisions if it is determined to be in the University's best interest. The Office of the VP & CFO clearly articulates the policies and procedures regarding the assumption and repayment of debt to all borrowers. The Director of Treasury Operations is the University's loan officer for divisional borrowers.

*De-linking External and Internal Debt Structures*

The University has adopted a central loan program under which it provides funding for projects across schools and divisions (including the Health System) under the guidance of the VP & CFO. In this regard, the University has established a pool of financing resources, including debt, for a central source of capital.

The benefits of its structure include:

- (i) Enabling the structuring of transactions in the best economic interests of the University that otherwise wouldn't be possible on a project-specific basis;
- (ii) providing continual access to capital for borrowers and permitting the University to fund capital needs on a portfolio basis rather than on a project-specific basis;
- (iii) funding specific projects with favorable financial terms,
- (iv) achieving the lowest average internal borrowing costs while minimizing volatility in interest rates,
- (v) permitting prepayment of internal loans at any time without penalty, and
- (vi) achieving equity for all borrowers through a blended rate.

The central loan program can access funds from a variety of sources to originate loans to divisions. The University manages its funding sources on a portfolio basis, and therefore payments from divisions are not tied directly to a particular source of funds from an economic perspective. (Note: that due to federal tax and reimbursement requirements, actual debt service for certain projects still must be tracked).

*Single Interest Rate*

The interest rate charged to divisions is the same regardless of date of funding, the type of project/equipment being financed, or term, although the useful life of the project being financed may affect the appropriate maturity. Therefore, the timing of projects should not be influenced by the timing of access to external capital markets.

The single rate is applied to all borrowings, including existing loans, regardless of source. The blended borrowing rate is designed to improve

the predictability of future borrowing costs, permit loan prepayments without penalty, achieve lower borrowing costs across divisions, and permit central loan program resources to be loaned equitably to all divisions in need of financing for strategic projects. This interest rate may change periodically to reflect changes in the University’s average aggregate long-term cost of borrowing.

The University may also charge a premium to create an interest rate stabilization fund of an amount to be determined in order to minimize the need to adjust rates in the future. The larger the premium and corresponding fund, the lower the likelihood of the need to adjust borrowing rates higher in the future. The University may establish an interest bearing fund to which the amounts collected would be deposited and invested appropriately. Withdrawals would be permitted by the VP & CFO to pay debt service that otherwise would be paid by the divisions. Other withdrawals must be approved by the Executive Vice President and Chief Operating Officer (“EVP & COO”) and generally treated as a temporary loan with specified repayment terms. The balance in any stabilization fund will be monitored by the central loan program, and the premium charged could be reduced or eliminated in the future if management believes there are sufficient amounts held in the fund to minimize future rate adjustments.

In addition to charging borrowers interest, the central loan program collects amounts to pay for costs of administering the debt portfolio. These costs are clearly articulated to divisions, and are passed on to borrowers in the form of a rate surcharge and an upfront fee for loan origination. These charges may be reviewed and adjusted from time-to-time.

## IX. Approval Process

### Purpose

Articulate approval authority.

The Office of the VP & CFO prepares a Fiscal Impact Statement when each proposed debt issue is presented to the Board of Visitors for approval. This Fiscal Impact Statement provides details on the impact the incremental debt may have on the financial position of the University.

If Tax-Exempt Bonds are to be issued, the Board of Visitors approves an Intent to Issue Resolution. Additionally, all debt issued by the university must also be authorized through a Board of Visitors resolution.

Once the Board of Visitors has authorized debt to be issued, the pricing and ultimate issuance of the debt must be authorized by the EVP & COO or VP & CFO in his absence.