

October 4, 2007

MEMORANDUM

TO: The Finance Committee:

John O. Wynne, Chair  
A. Macdonald Caputo  
The Honorable Alan A. Diamonstein  
Thomas F. Farrell, II  
G. Slaughter Fitz-Hugh, Jr.  
Glynn D. Key  
Austin Ligon  
Vincent J. Mastracco, Jr.  
Warren M. Thompson  
W. Heywood Fralin, Ex Officio

and

The Remaining Members of the Board:

Daniel R. Abramson	Don R. Pippin
Susan Y. Dorsey	Gordon F. Rainey, Jr.
The Honorable Lewis F. Payne	E. Darracott Vaughan, Jr., M.D.
Carey J. Mignerey	

FROM: Alexander G. Gilliam, Jr.

SUBJECT: Minutes of the Finance Committee Meeting on  
October 4, 2007

The Finance Committee of the Board of Visitors of the University of Virginia met, in Open Session, at 9:20 a.m., Thursday, October 4, 2007, in the Board Room of the Rotunda; John O. Wynne, Chair, presided. G. Slaughter Fitz-Hugh, Jr., Austin Ligon, Vincent J. Mastracco, Jr., Warren M. Thompson, and W. Heywood Fralin, Rector, were present.

Also present were Daniel R. Abramson, Ms. Susan Y. Dorsey, The Honorable Lewis F. Payne, Don R. Pippin, Gordon F. Rainey, Jr., E. Darracott Vaughan, Jr., M.D., and Carey J. Mignerey.

Present as well were John T. Casteen, III, Leonard W. Sandridge, Alexander G. Gilliam, Jr., Paul J. Forch, Ms. Colette Sheehy, Ms. Susan Carkeek, Christopher J. Brightman, Arthur

Garson, Jr., M.D., James L. Hilton, Sharon L. Hostler, M.D., R. Edward Howell, Ms. Yoke San L. Reynolds, Robert D. Sweeney, David J. Prior, Craig K. Littlepage, and Ms. Jeanne Flippo Bailes.

Ricardo Padron, Chair of the Faculty Senate, was present.

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

Consent Agenda

Mr. Sandridge reported two Consent Agenda items. The first of these was the resetting of the Endowment spending rate. In May, 2006, the Board set the rate for the fiscal year beginning July 1<sup>st</sup> of that year at 4%. Mr. Sandridge offered a resolution proposing that the spending rate for the fiscal year 2007-2008 be set at 4.5% of the June 30, 2007 market value.

Consent Agenda - APPROVAL OF RESET OF ENDOWMENT SPENDING RATE

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

APPROVAL OF RESET OF ENDOWMENT SPENDING RATE

WHEREAS, the University's current endowment spending policy, approved by the Board of Visitors in March 2005, calls for a percentage increase in the annual distribution from the endowment, unless such increase causes the distribution to fall outside a range defined as 3.5 percent on the low end and 5.5 percent on the high end of the market value of the Pooled Endowment Fund; and

WHEREAS, the policy specifies that if the distribution falls outside of this range, the Finance Committee may recommend either raising or lowering the rate of increase; and

WHEREAS, the distribution for fiscal year 2007-2008 as a percentage of market value at June 30, 2007 is 3.5 percent;

RESOLVED that for fiscal year 2007-2008, the endowment spending rate for all shares will be adjusted to 4.5 percent of the market value at June 30, 2007; and

RESOLVED FURTHER that the deans shall work jointly with the Executive Vice President and Provost to determine and carry out plans for expending these funds in ways that meet strategic school and institutional priorities and that are consistent with donor restrictions.

Consent Agenda - RATIFICATION OF EXECUTIVE COMMITTEE APPROVAL OF THE UNIVERSITY'S 2008-2014 SIX-YEAR INSTITUTIONAL PLAN

Because the University's 2008-2014 Six Year Institutional Plan had to be submitted to the Commonwealth by October 1 - and thus before this meeting of the Finance Committee - , the Executive Committee, by telephonic poll, approved the Plan on September 28<sup>th</sup> (see the Minutes of that poll). The Finance Committee, after a discussion led by Mr. Sandridge and by Ms. Sheehy, Vice President for Management and Budget, approved a resolution endorsing the earlier Executive Committee resolution.

The resolution of the Executive Committee is as follows:

APPROVAL OF THE 2008-2014 SIX-YEAR INSTITUTIONAL PLANS PURSUANT TO THE RESTRUCTURED HIGHER EDUCATION FINANCIAL AND ADMINISTRATIVE OPERATIONS ACT

WHEREAS, the Restructured Higher Education Financial and Administrative Operations Act of 2005 requires the governing boards of the public institutions of higher education to approve, and by October 1 of each odd-numbered year, submit a six-year plan to the Governor, the State Council and the Chairs of the House Committee on Appropriations and the Senate Committee on Finance; and

WHEREAS, the next scheduled meeting of the full Board of Visitors of the University of Virginia falls after the October 1<sup>st</sup>, 2007, deadline;

RESOLVED, the Executive Committee of the Board of Visitors of the University of Virginia, acting on behalf of the full Board, approves the six-year plans of the University's Academic Division, the Medical Center, and The University of Virginia's College at Wise; and

RESOLVED FURTHER, the President of the University is authorized to transmit the six-year plans to the Governor, the State Council and the Chairs of the House Committee on Appropriations and the Senate Committee on Finance.

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The Finance Committee adopted the following resolution, seconding the resolution of the Executive Committee, and recommended approval by the full Board:

WHEREAS, the Executive Committee of the Board of Visitors, in a telephonic poll conducted on September 28, 2007, adopted a resolution approving the University's 2008-2014 Six-Year Institutional Plan; and

WHEREAS, no further action by the Board is necessary, the Executive Committee being empowered by the Manual of the Board of Visitors to act on behalf of the full Board;

RESOLVED, nonetheless, the full Board wishes, as a matter of record, to second the action of the Executive Committee in approving the University's 2008-2014 Six-Year Institutional Plan.

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Action Item - APPROVAL OF STATE OPERATING BUDGET REQUESTS FOR THE 2008-2010 BIENNIUM

Explaining that the instructions from Richmond to state agencies on the submission of 2008-2010 budget requests have not yet been received, Mr. Sandridge and Ms. Sheehy presented a proposed list of requests based on the University's expectations of what will be included in these instructions.

Taking these considerations into mind, the following resolution approving the list of requests was approved by the Committee and recommended to the full Board for approval:

APPROVAL OF STATE OPERATING BUDGET REQUESTS FOR THE 2008-2010 BIENNIUM FOR THE ACADEMIC DIVISION, THE MEDICAL CENTER, AND THE UNIVERSITY OF VIRGINIA'S COLLEGE AT WISE

WHEREAS, the instructions for submitting the 2008-2010 budget requests to the Governor have not yet been received; and

WHEREAS, the proposed 2008-2010 biennial budget requests have been reviewed carefully; and

WHEREAS, the proposed biennial budget requests represent the highest priority initiatives and are aligned with the mission of the institution;

RESOLVED that the Board of Visitors of the University of Virginia approves the 2008-2010 biennial budget requests accompanying this resolution and outlined in an attachment to this resolution; and

RESOLVED FURTHER that the Board of Visitors understands that to the extent these initiatives are not included in the Governor's 2008-2010 biennial budget, the Academic Division, the Medical Center, and the University of Virginia's College at Wise may want to pursue similar requests to the Legislature; and

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

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Action Item - PROJECT BUDGET AND SCOPE MODIFICATION AND INTENT TO ISSUE TAX EXEMPT DEBT: SCIENCE INITIATIVE

This item, Mr. Sandridge said, is focused on science. It has to do with an investment to build about 200,000 square feet of research space. There are three projects: an expansion of the Information Technology Engineering Building, the expansion of the Ivy Translational Research Center at the Fontaine Research Park, and the construction of a Physical/Life Science Building near the Chemistry Building on the central Grounds.

The University, Mr. Sandridge said, intends to issue tax exempt debt to fund these projects.

After a discussion of the general question of providing more research space as a means of strengthening science at the University, the Committee adopted the following resolution, which must also be approved by the Buildings and Grounds Committee, and recommended it to the full Board for approval:

APPROVAL OF PROJECT BUDGET AND SCOPE MODIFICATION AND INTENT TO ISSUE TAX EXEMPT DEBT TO EXPAND THE INFORMATION TECHNOLOGY ENGINEERING BUILDING, EXPAND THE IVY TRANSLATION RESEARCH CENTER, AND CONSTRUCT A NEW PHYSICAL/LIFE SCIENCES FACILITY

WHEREAS, the University of Virginia desires to increase available research and laboratory space to meet long-term objectives to increase research in medicine, engineering, and the sciences; and

WHEREAS, the University has developed a comprehensive science initiative to increase previously planned construction at the Information Technology Engineering Building to approximately 100,000 gross square feet and at the Ivy Translational Research Center to approximately 110,000 gross square feet and to

construct a new approximately 100,000 gross square foot physical/life sciences facility; and

WHEREAS, the precise source of debt repayment is being developed and will be identified and confirmed with the Board of Visitors;

RESOLVED, the Board of Visitors approves in concept the issuance of tax exempt debt in the amounts of \$19.6 million for the expansion of the Information Technology Engineering Building; \$58.3 million for the expansion of the Ivy Translational Research Center; and \$88.9 million for the construction of the physical/life sciences facility.

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Action Item - PROJECT BUDGET MODIFICATION AND INTENT TO ISSUE TAX EXEMPT DEBT: STADIUM WATERPROOFING

Mr. Sandridge told the Committee that at its meeting on June 8<sup>th</sup>, the Board approved a project to waterproof parts of the structure of Scott Stadium at an estimated budget of \$2.4million. As a result, a consultant was engaged and the consultant has determined that previously unidentified portions of the Stadium structure must be waterproofed as well. Treating these new areas will be complex, causing an increase to \$4.7million in the project budget.

It is proposed to use tax exempt debt to pay for the project.

On motion, the Committee approved the following resolution, which must also be approved by the Buildings and Grounds Committee, and recommended it to the full Board for approval:

APPROVAL OF PROJECT BUDGET MODIFICATION AND INTENT TO ISSUE TAX EXEMPT DEBT: STADIUM WATERPROOFING

RESOLVED, as a result of further study, the Scott Stadium Waterproofing project budget, which has increased by \$2.3 million to a total of \$4.7 million, is approved.

RESOLVED FURTHER that the Board of Visitors approves the University's intent to issue tax-exempt debt, of up to \$4.7 million to be repaid over a period of not longer than five years from the distribution on the Scott Stadium Quasi-Endowment, for the purpose of funding the Scott Stadium Waterproofing project.

Action Item - COLLEGE AT WISE STADIUM DEBT PLAN

The University of Virginia's College at Wise in 1998 began construction on a new football stadium, to cost \$3.55million which was to be financed with private donations. The Board of Visitors authorized a \$3million internal loan to pay project costs until all the funds were collected. At the time, it was expected that the College's final payment on the loan would be made by December 31, 2002. In April 2001, the Board approved an amendment to the loan extending the final maturity date to December 2009.

It became apparent later that the College would not be able to settle the \$1.56million due on the loan by this date, so they have requested that the loan be restructured. The College and the University accordingly have reached agreement on a plan to repay the loan, a plan which will not necessitate a rise in student fees.

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

APPROVAL OF THE COLLEGE AT WISE STADIUM DEBT PLAN

WHEREAS, in 1998, the University granted the College at Wise a four-year, \$3 million loan to provide temporary financing in anticipation of gift receipts for the construction of a new football stadium; and

WHEREAS, in April 2001 the Board of Visitors approved an amendment to this loan, extending its due date to December 2009; and

WHEREAS, the College has determined that available sources of funds will be insufficient to repay the remaining outstanding balance of \$1.56 million on the loan by its December 2009 due date and requests the University to restructure this loan to provide a solution that better matches the College's ability to repay and avoids placing the burden of this debt on students through tuition and fee increases; and

WHEREAS, the University and the College have drafted a solution calling for an immediate partial repayment of the outstanding loan in the amount of \$949,000 and the creation of a new 15-year, amortizing loan for the approximately \$611,000 remaining balance with annual debt service payments roughly equal to annual payments being made under the existing loan;

RESOLVED that the Board of Visitors approves a \$949,000 partial repayment of the Wise Stadium loan and the creation of a new 15-year, amortizing loan for the remaining balance of approximately \$611,000.

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Action Item - CASH MANAGEMENT AUTHORITY

Under the 2006 Restructuring Management Agreement between the University and the Commonwealth, the University assumed responsibility for the management of non-local cash. The University subsequently embarked on a comprehensive cash management program and wishes to invest its cash in the University of Virginia Investment Management Company (UVIMCO) in order to obtain the best possible return, while ensuring that liquidity requirements are met.

A resolution permitting this and setting forth the broad terms of such an investment, was proposed to the Committee.

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

APPROVAL OF CASH MANAGEMENT AUTHORITY

WHEREAS, the 2006 Restructuring Management Agreement grants the University the authority to invest all non-general fund cash if the performance metrics negotiated in the Agreement are met; and

WHEREAS, the 2007 investment legislation (23-76.1) allows the investment of local funds and all non-general fund reserves and balances in a variety of financial securities in addition to the instruments allowed by the Investment of Public Funds Act; and

WHEREAS, the University seeks to manage and invest cash in a prudent manner subject to the law, in order to obtain the best returns concomitant with acceptable risks that ensure liquidity requirements are met;

RESOLVED that the Vice President and Chief Financial Officer is authorized to invest the cash of and held by the University in the University of Virginia Investment Management Company (UVIMCO) long-term pool or in other investment vehicles as permitted by law, the cash to include but not be limited to working capital, operating reserves, employee health plan reserves, other academic division operating and capital reserves, and Medical Center working capital, operating and capital reserves including depreciation reserves;

RESOLVED FURTHER that the Vice President and Chief Financial Officer is granted the authority to distribute returns to major entities and to central reserves as appropriate.

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Action Item - ACQUISITION OF 2400 OLD IVY ROAD AND INTENT TO ISSUE TAX EXEMPT DEBT

Mr. Sandridge told the Committee that the University has leased the building at 2400 Old Ivy Road since 1999. The building, which contains 30,000 gross square feet situated on two acres, is close to other property owned by the University - the Miller Center, the University of Virginia Foundation, Fontana Food Center, Ivy Stacks, and the printing plant - and it has been determined that it would be advantageous to the University to acquire the property. The cost of \$5.9million will be covered by tax exempt debt which the University intends to issue.

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

APPROVAL OF PROPERTY ACQUISITION AND INTENT TO ISSUE TAX EXEMPT DEBT

WHEREAS, the University of Virginia finds it to be in its best interest to purchase 2400 Old Ivy Road and for this property to be occupied by the University of Virginia and related entities; and

WHEREAS, the University intends to issue tax exempt debt to fund the \$5,916,500 acquisition cost of the building;

RESOLVED that the Board of Visitors approves the acquisition of 2400 Old Ivy Road; and

RESOLVED FURTHER that the Executive Vice President and Chief Operating Officer be authorized to approve and execute contracts and other documents, and to take such other actions as are necessary and appropriate to consummate this property acquisition.

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Endowment Report

Mr. Brightman, Chief Executive Officer of the University of Virginia Investment Management Company, gave a report on the Endowment, its market value and performance, as of the end of the fiscal year on June 30<sup>th</sup>. The value of the Endowment on that date was \$4.3billion, up from \$3.4billion on the same date in 2006.

He gave a brief overview of UVIMCO's investment policies, including a report on the allocation of assets and how each area has performed in the last fiscal year.

The Chair, who has served as the Chair of the UVIMCO Board since it was reorganized several years ago, announced that he will step down as Chair of UVIMCO at the end of this calendar year. Mr. Caputo has agreed to take his place.

Mr. Sandridge said that much of the success of UVIMCO, including the hiring of Mr. Brightman, is the result of Mr. Wynne's leadership as Chair.

Report - Outlook on the 2008-2010 State Budget

Mr. Sandridge gave a brief report on the outlook for the forthcoming biennial state budget.

He noted the predicted shortfalls in the budget and said the University's budget reduction plan, a result of these shortfalls, is equal to 7% of the University's general fund appropriation, or \$10.7million. Under the plan, there will be no cuts in essential services to students and to patients in the hospital and no layoffs of employees.

The Chair observed that it is difficult to predict at this point how the budget will fare in the General Assembly. Much will depend on the results of the elections in November.

Report - Annual Report on the UVa Health Care Plan and Review of University Benefits

Mr. Sandridge introduced Ms. Susan Carkeek, who recently assumed her duties as Vice President for Human Resources; Ms.

Carkeek gave the customary annual report on the UVa Health Care Plan, as well as a review of University benefits.

The Health Plan, which is self-insured, is intended to provide a health insurance benefit that is attractive to current and prospective faculty, staff, and retirees. Employee participation is excellent - over 12,000 University employees, 98% of the total - are involved, most in the High Premium category. The Plan is fully funded and there are adequate reserves. Increases in the Plan's actual costs were slightly lower than predicted for 2006, though drug costs increased 18.45% from 2005 to 2006.

The overall objectives for the Plan in 2008 include increasing benefits for wellness and preventive services, controlling pharmacy costs and increasing participation in the Low Premium Plan. Proposed changes include covering immunizations for the Low Premium Plan at 100%; covering preventive services for both Plans at 100%; and covering genetic testing that meets specific medical necessity criteria.

Ms. Carkeek gave the Committee the proposed changes in the Premium Plans for employees as well as retirees, and said changes would be effective on January 1, 2008.

#### Report on Athletics Finances

Reminding the Committee of the discussion on athletics finances which took place at the Board Retreat in July, Mr. Sandridge gave an interim report as a follow-up to the Retreat discussion.

He reviewed, briefly, the University's contingency plan for generating revenue sufficient to address unexpected costs and said that a long-term financial plan, which will include cost-containment measures is being developed. This plan, along with a full report addressing the concerns raised at the Retreat, will be presented at the February Board of Visitors meeting.

#### Miscellaneous Reports

Mr. Sandridge drew Members' attention to the several written reports in the Committee material in their notebooks, in particular the annual AAU report on faculty salaries.

On motion, the meeting was adjourned at 11:05 a.m.

AGG:lah

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

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