

June 11, 2009

MEMORANDUM

TO: The Finance Committee:

John O. Wynne, Chair  
A. Macdonald Caputo  
The Honorable Alan A. Diamonstein  
Thomas F. Farrell, II  
Glynn D. Key  
Austin Ligon  
Vincent J. Mastracco, Jr.  
Warren M. Thompson  
W. Heywood Fralin, Ex Officio  
Daniel M. Meyers, Consulting Member

and

The Remaining Members of the Board:

Daniel R. Abramson	The Hon. Lewis F. Payne
Susan Y. Dorsey	Don R. Pippin
Helen E. Dragas	E. Darracott Vaughan, Jr., M.D.
Robert D. Hardie	Rahul Gorawara

FROM: Susan G. Harris

SUBJECT: Minutes of the Finance Committee Meeting on  
June 11, 2009

The Finance Committee of the Board of Visitors of the University of Virginia met, in Open Session, at 1:45 p.m., Thursday, June 11, 2009, in the Board Room of the Rotunda; John O. Wynne, Vice Rector and Chair, presided. Present were The Honorable Alan A. Diamonstein, Thomas F. Farrell, II, Ms. Glynn D. Key, Austin Ligon, Vincent J. Mastracco, Jr., Warren M. Thompson, and W. Heywood Fralin, Rector.

Also present were Daniel R. Abramson, Ms. Helen E. Dragas, Robert D. Hardie, The Hon. Lewis F. Payne, E. Darracott Vaughan, Jr., M.D., and Rahul Gorawara.

Present as well were John T. Casteen, III, Leonard W. Sandridge, Ms. Susan G. Harris, Paul J. Forch, Arthur Garson, Jr., M.D., James L. Hilton, R. Edward Howell, Ms. Patricia M. Lampkin, Ms. Yoke San L. Reynolds,

Ms. Colette Sheehy, Thomas Skalak, Steven T. DeKosky, M.D., Ms. Susan A. Carkeek, David J. Prior, and Ms. Jeanne Flippo Bailes.

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

ACTION AGENDA: 2009-2010 Budget

Mr. Sandridge stated that the 2009-2010 Budget is \$2.25 billion, increasing from last year by 1.9 percent. The Academic Division is down just slightly by 0.1 percent, which reflects a 14.7% decrease by in state funding. The Budget reflects a 5.4 percent growth in tuition revenues; 0.7 percent decrease in auxiliaries; a 0.7 percent growth in private funds; and a 0.1 percent growth in sponsored programs. The Budget does include operating stimulus funds for the Academic Division of \$11.2 million and Wise of \$1.6 million.

Sixteen years ago before the Wilder budget reductions of the early 1990s, the state provided 26.2 percent of the University's operating revenue. Five years ago the state provided 13.6 percent of our operating budget. The state is now providing only 6.9 percent of the University's operating budget.

The Budget reflects a decrease of 275 positions to an employment level of 15,128 FTE.

Key issues for 2009-2010 include what the future holds for state investment, investment return, fundraising, and health care admissions. A year without a salary increase has had a negative impact on the competitive position of the average faculty salary.

The cost of Access UVA continues to increase dramatically, taking a large share of incremental undergraduate tuition.

The University is continuing implementation of the Commission on the Future of the University and the Health System's Decade Plan which will drive decision-making and resource allocations.

Mr. Sandridge then turned the discussion over to Ms. Sheehy to provide additional details regarding the Academic Division budget.

Ms. Sheehy introduced Ms. Melody Bianchetto, Assistant Vice President for Budget and Financial Planning, and stated that she and her staff had done the work on creating the Budget.

The Academic Division budget is \$1.23 billion of the total budget. Tuition and fees are the major revenue source (over 30

percent) with grants and contracts the second largest revenue source at about 24 percent. Economic stimulus grants and contracts are not included in this budget because it is too early to estimate. The University has requested \$180 million. Also not included is the increase in indirect cost recoveries which Ms. Reynolds negotiated and will go into effect July 1.

Gifts & endowment income will contribute 18.4 percent of available funds.

Auxiliary enterprises, which are self-supporting operations, will contribute 12 percent.

On expenditures, Educational and General (programs of instruction, research, public service, academic support, student services, institutional support, and operation and maintenance of the physical plant) is about 77 percent of the Budget, with student aid and expenditures on auxiliary enterprises making up the rest.

Many budget reduction initiatives are underway, including the elimination of 39 Teaching and Research Faculty and 43 Administrative and Professional faculty/staff through vacancies. Total reduction of personnel is 142 FTEs in the Academic Division.

New revenues available this year total \$15.7 million. The Student System Initiative, Student System Maintenance and Support, Access UVA, deferred maintenance, and other priorities have all increased in cost this year. A variety of fund sources will cover these incremental costs.

Several areas have increased base operating budgets, funded primarily with increased tuition (increases and enrollment growth), and temporary ARRA funds, which will be replaced by fiscal year 2011.

In addition, there are mandatory cost increases that must be covered including a substantial increase in utilities costs.

Faculty salaries must be looked at closely in the future; we have lost ground this year because of the salary freeze in Virginia whereas other institutions gave salary increases last year. This is attributed to the timing of salary increases. Many institutions gave increases in the summer of 2008 before the economic crisis hit, whereas the University's increases are given in November.

Economic stimulus money of \$6.9 million will have to be made up in future years.

Research indirect cost recoveries increases must be preserved to cover the increasing costs of research infrastructure.

Each year the Budget includes the allocation from the Pratt Fund for the purposes of faculty salaries, scholarships and equipment in the Departments of Biology, Chemistry, Physics, and Math in the College and Graduate School of Arts and Sciences, and for research and scholarships in the School of Medicine. The market value of both Pratt endowments is \$92.1 million. Estimated income distribution from both Pratt accounts is \$5.7 million. Requested spending from both Pratt accounts is \$5.0 million.

The College at Wise budget was approved by its advisory board on March 20<sup>th</sup>. The College at Wise is projecting enrollment of 1,621 FTE students. Fall 2008 enrollment was 1,580. (Fall 2007 enrollment was 1,532.) Employment levels will decrease to 298 FTE.

General Funds supply 44 percent of the College at Wise's budget. Tuition and fees provide 17.7 percent.

The University's Annual Renovation and Infrastructure Projects Plan (ARIP) includes \$26.4 to \$33.3 million for the Academic Division and \$14.4 million to \$17.7 million for the Medical Center. Each year, with the annual Budget Summary, the University will provide a list of projects expected to be initiated during the year. The projects must be between \$1 and \$5 million, and must be funded from cash. Projects not meeting these criteria must go through the normal capital projects process.

Mr. Sandridge introduced Mr. Howell and asked him to present the Medical Center budget. He stated that admissions are a big driver of revenue and although they are up in the current year they are below budget. The budget includes merit-based increases for employees benchmarked with 26 peer academic medical centers. The capital budget is \$79.4 million. Challenges include capacity management and changes in Medicare and Medicaid payments. Significant expenditures include the construction projects and costs associated with the electronic medical record implementation.

A 4.7 percent operating margin is budgeted overall, with 3 percent for the Medical Center.

On motion, the Committee adopted the following resolutions and recommended them to the full Board for approval:

APPROVAL OF THE 2009-2010 OPERATING BUDGET AND ANNUAL RENOVATION AND INFRASTRUCTURE PLAN FOR THE ACADEMIC DIVISION

RESOLVED, the 2009-2010 Operating Budget and Annual Renovation and Infrastructure Plan for the Academic Division is approved, as recommended by the President and the Chief Financial Officer.

APPROVAL OF THE 2009-2010 OPERATING BUDGET FOR THE UNIVERSITY OF VIRGINIA'S COLLEGE AT WISE

RESOLVED, the 2009-2010 Operating Budget for The University of Virginia's College at Wise is approved, as recommended by the President and the Chief Financial Officer.

APPROVAL OF THE 2009-2010 OPERATING AND CAPITAL BUDGETS AND ANNUAL RENOVATION AND INFRASTRUCTURE PLAN FOR THE UNIVERSITY OF VIRGINIA MEDICAL CENTER

RESOLVED, the 2009-2010 Operating and Capital Budget and the Annual Renovation and Infrastructure Plan for the University of Virginia Medical Center is approved, as recommended by the President, the Chief Financial Officer, and the Medical Center Operating Board.

APPROVAL OF PRATT FUND DISTRIBUTION FOR 2009-2010

RESOLVED, the budget for the expenditure of funds from the Estate of John Lee Pratt be approved to supplement appropriations made by the Commonwealth of Virginia for the School of Medicine and the Departments of Biology, Chemistry, Mathematics and Physics in the College of Arts and Sciences. Departmental allocations, not to exceed \$5,000,000 for 2009-2010, are suggested by the department chairs and recommended by the dean of each school. To the extent the annual income from the endowment is not adequate to meet the recommended distribution, the principal of the endowment will be disinvested to provide funds for the approved budgets.

ACTION AGENDA: ITC Data Center

Mr. Sandridge asked the Board to approve an increase in the budget for the ITC Data Center project from \$13.1 million to \$14.8 million. Early cost estimates underestimated the cost of infrastructure.

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

APPROVAL OF PROJECT BUDGET REVIEW, ITC DATA CENTER

RESOLVED, that after further study, an increase to the ITC Data Center project of \$1,739,000, bringing the total project budget to \$14,800,000, is approved.

ACTION AGENDA: Authorization of and Intent to Issue Tax-Exempt Debt

Mr. Sandridge presented a resolution to provide bridge funding for Bavaro Hall on a short-term basis of not longer than seven years and not more than \$10 million.

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

AUTHORIZATION OF AND INTENT TO ISSUE TAX-EXEMPT DEBT

WHEREAS, the University intends to undertake certain capital projects identified below (whether one or more, the "Projects"), and to finance the Projects through the issuance of tax-exempt debt, in the maximum principal amount stated below for each of the Projects:

ACADEMIC DIVISION

Bavaro Hall—\$10,000,000; and

WHEREAS, the University further intends to expend funds on the Projects and to reimburse such expenditures from the proceeds of the tax-exempt debt; and

WHEREAS, to comply with the Internal Revenue Code of 1986, as amended, and Section 1.150-2 of the Income Tax Regulations (the "Regulations"), it is necessary, in order to reimburse such expenditures incurred prior to the issuance of the tax-exempt debt with the proceeds of such debt, that the University declare its official intent to make such a reimbursement of expenditures;

RESOLVED, debt may be issued for each of the Projects on a short-term basis, but only if the following conditions are met:

1. A comprehensive and detailed financial plan for each of the Projects is submitted to and approved by the Capital Outlay Executive Review Committee;
2. Short-term debt shall not exceed eighty-four (84) months in maturity; and
3. A school or unit shall remain responsible for repaying any debt obligation incurred regardless of the status of such school or unit's Project; and

RESOLVED FURTHER, the Board of Visitors of the University of Virginia declares its intent to expend funds on the Projects and to reimburse such expenditures from the proceeds of tax-exempt debt, in accordance with the following:

1. This resolution is a declaration of official intent for purposes of Section 1.150-2 of the Regulations; and

2. The University reasonably expects to issue tax-exempt debt for each of the Projects in the maximum principal amount stated in the recitals above.

#### Vice President's Remarks

Mr. Sandridge mentioned the Build America Bond issuance of \$250 million at 4.044 percent, and the increase in the indirect cost recovery rate to 54 percent for fiscal years 2010 and 2011. Mr. Sandridge pointed out that the University has not borrowed money for operations.

Mr. Sandridge indicated out that there is a written report on Enterprise Risk Management and an Endowment Report in the materials. He then introduced Mr. Christopher Brightman, Chief Executive Officer of the University of Virginia Investment Management Company.

Mr. Brightman gave a brief report on the endowment. He stated that markets have recovered a bit anticipating an economic recovery. The endowment is down now by approximately 20 percent fiscal year to date, but estimating the endowment value on a monthly basis is not very meaningful.

Mr. Wynne mentioned that he would like to have a two hour session on the endowment to bring the Board "up to speed". Mr. Brightman replied that he would happy to do so.

Mr. Brightman was asked about private equity in the portfolio. He stated that the private investments were premised on a larger and growing pool of assets, and so in percentage terms those commitments are a larger percentage of the endowment than intended. It is not just private equity but also real estate and private resources. UVIMCO is engaged in many activities to reduce the amount of commitments. Commitments will continue to decline until they reach a comfortable level from UVIMCO's perspective. \$1 billion in commitments would be in the comfort zone. The most difficult variable is to forecast when distributions will resume. This was very predictable throughout the history of private investing, but we don't know about the future. UVIMCO is more pessimistic about distribution assumptions than any other institution of which he is aware.

Mr. Sandridge mentioned the miscellaneous financial reports in the back of the Finance Committee book.

Mr. Wynne adjourned the Finance Committee meeting at 3:10 p.m.

SGH:jb

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

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