MEMORANDUM

TO: The Finance Committee:

Helen E. Dragas, Chair
A. Macdonald Caputo
Hunter E. Craig
The Honorable Alan A. Diamonstein
Marvin W. Gilliam Jr.
Sheila C. Johnson
Mark J. Kington
Randal J. Kirk
Vincent J. Mastracco Jr.
John O. Wynne, Ex Officio
Daniel M. Meyers, Consulting Member

and

The Remaining Members of the Board:

Susan Y. Dorsey       Glynn D. Key
W. Heywood Fralin     Austin Ligon
Robert D. Hardie      The Hon. Lewis F. Payne
                      Stewart H. Ackerly

FROM: Susan G. Harris

SUBJECT: Minutes of the Finance Committee Meeting on September 14, 2010

The Finance Committee of the Board of Visitors of the University of Virginia met, in Open Session, at 1:15 p.m., Tuesday, September 14, 2010, in the Board Room of the Rotunda; Ms. Helen E. Dragas, Chair, presided. Present were Hunter E. Craig, The Honorable Alan A. Diamonstein, Marvin W. Gilliam Jr., Mark J. Kington, Randal J. Kirk, Vincent J. Mastracco Jr., and John O. Wynne, Rector. A. Macdonald Caputo participated by telephone.

Also present were Ms. Susan Y. Dorsey, W. Heywood Fralin, Robert D. Hardie, Ms. Glynn D. Key, Austin Ligon, The Honorable Lewis F. Payne, and Stewart H. Ackerly.

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

CONSENT ITEM: 2011 Operating and Capital Amendments to the 2010-2012 Biennial Budget

On motion, the following resolution was adopted:

APPROVAL OF 2011 OPERATING AND CAPITAL AMENDMENTS TO THE 2010-2012 BIENNIAL BUDGET

WHEREAS, the 2010-2012 budget requests to the Governor were submitted on September 1, 2009, pending approval by the Board of Visitors; and

WHEREAS, the proposed 2010-2012 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, the Board of Visitors of the University of Virginia approves the 2010-2012 biennial budget requests accompanying this resolution; and

RESOLVED FURTHER, the Board of Visitors understands that to the extent these initiatives are not included in the Governor’s 2010-2012 biennial budget, the University may want to pursue similar requests to the Legislature; and

RESOLVED FURTHER, 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.

ACTION ITEM: Signatory Authority

Mr. Sandridge said the resolution is to authorize an environmental services contract for the Medical Center. The contract is five years with an option for a five year extension. The scope
includes 760 patient rooms, including all of the outlying clinics. Over the ten year period, the total cost could be as much as $95 million. This is in line with the contract in place now.

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

SIGNATORY AUTHORITY FOR ENVIRONMENTAL SERVICES CONTRACT FOR THE MEDICAL CENTER

RESOLVED, the Board of Visitors authorizes the Executive Vice President and Chief Operating Officer of the University to execute a contract for environmental services for the Medical Center based on the recommendation of the Vice President and Chief Executive Officer of the Medical Center in accordance with Medical Center procurement policy.

ACTION ITEM: Signatory Authority for UVA Health Care Plan Third Party Administrator Contract

Mr. Sandridge said the University is the only state agency with its own healthcare self-insurance plan. It is administered by a third party. Mr. Sandridge introduced Susan Carkeek, Vice President and Chief Human Resources Officer, to present the health plan.

Ms. Carkeek recognized Anne Broccoli, Director of Benefits. Ms. Carkeek said in designing the health plan, they try to provide attractive benefits, maintain the financial stability of the plan including an adequate reserve, and keep costs low. The plan offers two options, a low premium and a high premium. The plan covers 13,396 employees. The total number covered is up about 1% from the prior year. Approximately 98% of eligible employees elect to have healthcare coverage. Total coverage is 27,129 individuals.

In recent years, overall utilization was up 13%. Last year, significant changes were made to try to control costs. The changes have made a difference in utilization and stabilized the financial picture. As a result, there are no plans to make major changes this year. Retirees are in the plan: 554 early retirees between the age of 55 and 65. At age 65, they enroll in the Commonwealth’s plan. Their utilization is twice that of active employees. In order to help close the discrepancy, a 10% increase is planned for retirees. Overall, the employer contributions will increase by 5%, but low premium plan employee contributions will remain the same and high premium plan employee contributions will increase about 3%. A benchmark is to achieve an 80/20 employer to employee contribution share, which is just about right. The plan costs less than the Commonwealth’s plan.
Ms. Carkeek said changes this year are the ones that are federally mandated, including extending dependent coverage to age 26, and removing benefit maximums. They are also removing a prior authorization for mental health services. The changes will go into effect January 1, 2011.

Human Resources is planning for two changes in vendors. One is the pharmacy administrator and they have selected Catalyst Rx. The second is the medical claims administrator. After a competitive bid process, Aetna was selected. The Committee and Board must approve the signatory authority because the cost exceeds delegated authority. Aetna has proactive disease management services, a track record of managing mental health benefits, and they have national and international networks. They have a number of higher education institutions in their portfolio.

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

SIGNATORY AUTHORITY FOR UVA HEALTH CARE PLAN THIRD-PARTY ADMINISTRATOR CONTRACT

RESOLVED, the Board of Visitors approves the selection of Aetna as the Third-Party Administrator for Medical Program Services. The term of this contract will commence upon execution and will be effective through December 31, 2015, with the ability to renew on the same terms and conditions, for two five-year periods beginning January 1, 2016, and January 1, 2021, respectively; and

RESOLVED FURTHER, the Executive Vice President and Chief Operating Officer, or his designee, is authorized to negotiate and execute a contract with Aetna for Medical Program Services.

ACTION ITEM: Approval to Purchase Property

Mr. Sandridge asked Colette Sheehy to present the property items. Ms. Sheehy said the first action is to acquire 1204 West Main Street, on which the UVA Foundation will construct the Barry and Bill Battle Building and then sell the property to the University. For financing reasons, the Board is asked to approve the action prior to construction.

The second item is a very small piece of land, 1 acre in an inaccessible location. The University would like to sell the piece of land.

On motion, the Committee adopted the following resolution and recommended it to the full Board for approval:
APPROVAL TO PURCHASE 1204 WEST MAIN STREET, CHARLOTTESVILLE, VIRGINIA, AND EXISTING AND FUTURE IMPROVEMENTS FROM THE UNIVERSITY OF VIRGINIA FOUNDATION

WHEREAS, the Board of Visitors finds it to be in the best interest of the University of Virginia to purchase from the University of Virginia Foundation (the “Foundation”) land located at 1204 West Main Street, Charlottesville, together with all existing and future improvements, to include the Barry and Bill Battle Building at UVA Children’s Hospital to be constructed by the Foundation (collectively, the “Property”), all of the foregoing to be used for University of Virginia and University of Virginia Medical Center activities and organizations, at a purchase price not to exceed $141.6 million;

RESOLVED, the Board of Visitors approves the acquisition of the Property; and

RESOLVED FURTHER, the Executive Vice President and Chief Operating Officer is authorized, on behalf of the University, to approve and execute purchase agreements and related documents, to incur reasonable and customary expenses, and to take such other actions as deemed necessary and appropriate to consummate such property acquisition; and

RESOLVED FURTHER, all prior acts performed by the Executive Vice President and Chief Operating Officer, and other officers and agents of the University, in connection with such property acquisition, are in all respects approved, ratified, and confirmed.

ACTION ITEM: Approval to Sell or Convey Property

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

APPROVAL TO SELL OR CONVEY PROPERTY LOCATED ON HICKORY HILL LANE, ALBEMARLE COUNTY, VIRGINIA

WHEREAS, approximately one acre of land located near Hickory Hill Lane and further described as Tax Map 75, Parcel 42B0 being the same property conveyed by Robert E. Scully to The Rector and Visitors of the University of Virginia by deed dated December 9, 1954, and recorded in Deed Book 314, Page 44, in the Office of the Clerk of the Circuit Court of Albemarle County, Virginia (the “Property”), is property that is not required for University purposes, and the Board of Visitors finds it to be in the best interest of the University of Virginia to dispose of the Property; and

RESOLVED, the Board of Visitors approves the sale of the Property to any interested party; and
RESOLVED FURTHER, the Executive Vice President and Chief Operating Officer is authorized, on behalf of the University, to approve and execute agreements and related documents, to incur reasonable and customary expenses, and to take such other actions as deemed necessary and appropriate to consummate such property sale; and

RESOLVED FURTHER, all prior acts performed by the Executive Vice President and Chief Operating Officer, and other officers and agents of the University, in connection with such property sale, are in all respects approved, ratified, and confirmed.

Vice President’s Remarks

Mr. Sandridge highlighted some of the written reports in the Finance Committee book. The first is the salary analysis compared to peers. The impact of the third year without salary increases is showing itself in the chart. In 2006-2007, the University completed a five-year effort to get the salaries up. Since then, the University has gone back almost to where it started prior to the effort. The University moved from 30th in the American Association of Universities (AAU) list to 19th over five years. Whatever must be done to build the loyalty of the workforce is worth making the investment; every time we have a chance to say thank you to the faculty and staff we ought to do so, he said.

Mr. Sandridge pointed out a written report on the distribution from the endowment for next year. The policy is to increase the distribution by the amount of inflation so long as the resulting percentage is no less than 4% and no more than 6%. He said the distribution will be 5.3% of the endowment.

University of Virginia Investment Management Company

Mr. Sandridge introduced Michael Aked to present the endowment performance. The endowment was valued at $2.5 billion five years ago, and ended the 2010 fiscal year at just under $4.5 billion total assets. Long term performance over 10 years is 7.1%, well above the benchmark of 3.1%. There were consistent returns across the three major sectors of the portfolio.

Over one year, the long term pool returned 15.1%, with large divergence of performance across the strategy groups. UVIMCO has changed strategy over the last five or six years, but has remained very consistent over the last two years. The change increased investments in private assets and reduced investments in hedge funds. This put a liquidity burden on the portfolio. The second quarter of 2010 was the first positive cash flow period for the private portfolio.
since the increase in the assets which began in 2005. They expect this trend to continue.

The portfolio is currently lightly weighted in Europe and Asia and heavily concentrated in North America because of better opportunities in this region. Liquidity has been an issue. Currently, the total risk to private investments, which are illiquid assets, is 65% of the total portfolio. UVIMCO expects to be in the range of 50-70%, with a target of 60% in private investments.

Another measure of liquidity is the amount that can be raised within a short period of time and over one year. Treasury securities equaling 12% of the portfolio can be liquidated within hours. Within one year, 47% of the portfolio can be liquidated. UVIMCO would like to have at least 30% of the portfolio available to be liquidated within a year, so they are very comfortable with the current position.

Expected return and risk has varied little since the last meeting. The real return on equity should be about 4%, and the real return on bonds should be about 1%. The ten year forecast return is 8%.

Mr. Sandridge recognized Kristina Alimard, Chief Operating Officer of UVIMCO, who attended the meeting. The Chair asked Mr. Caputo, the chair of the UVIMCO Board of Directors, who participated by telephone, to make comments. He remarked on the fine work of the UVIMCO staff and provided a brief update on the search for a new Chief Executive Officer for UVIMCO.

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Mr. Diamonstein commented that the Board needed to develop a position for the Higher Education Commission on the financial situation, particularly what should be done on the revenue side. He said the Board members should be expressing their opinions publicly about financing higher education in Virginia.

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The Chair adjourned the Finance Committee meeting at 2:15 p.m.

SGH:lah
These minutes have been posted to the University of Virginia’s Board of Visitors website.
http://www.virginia.edu/bov/financeminutes.html
2011 OPERATING AND CAPITAL AMENDMENTS TO THE 2010-2012 BIENNIAL BUDGET

AGENCY 207 – Academic Division:
Operations and Maintenance Costs for New Facilities ($5,176,960 GF in year one and $7,083,876 GF in year two) – The University requests on-going support for operations and maintenance costs of new facilities which have opened since July 2008 and those that are scheduled to open in the 2010-2012 biennium.

Establish Fund for Faculty Start-Up Packages ($5,850,000 GF in year two) – The University requests the establishment of a fund for start-up packages necessary to recruit new faculty, particularly in the STEM disciplines, to support expected enrollment growth over the next four years. The $23.4 million ($5.85 million for four years) will provide critical resources for laboratory renovations, equipment, and other support for 39 new faculty in the sciences and engineering fields.

Modify Appropriation Act Language to be Consistent with Management Agreement, NGF Estimates (Language Only) – The current Appropriation Act (Chapter 874) includes language which is inconsistent with authority granted in the University’s Management Agreement (Chapter 943 of the 2006 Acts of Assembly as amended by Chapter 685 of the 2009 Acts of Assembly) with the Commonwealth under Restructuring. The Management Agreement provides that the University has sum sufficient appropriations for all non-general fund revenues (meaning we are authorized to spend whatever revenue we collect), yet the Appropriation Act requires all institutions to submit a request to the Director of the State Council of Higher Education in Virginia for nongeneral fund revenues in excess of original estimates. The University will submit language to exclude such review in accordance with each respective institution’s management agreement with the state.

Modify Appropriation Act Language to be Consistent with Management Agreement, Reversion of NGF Savings (Language Only) – The current Appropriation Act (Chapter 874) requires the reversion of non-general fund savings from tuition, auxiliary revenues, and patient revenues, an action which is inconsistent with authority granted in the University’s Management Agreement (Chapter 943 of the 2006 Acts of Assembly as amended by Chapter 685 of the 2009 Acts of Assembly) with the Commonwealth. The Management Agreement provides that the University shall be entitled to retain non-general fund savings generated from changes in Commonwealth rates and charges, including but not
limited to health, life, and disability insurance rates, retirement contribution rates, telecommunications charges, and utility rates, rather than reverting such savings back to the Commonwealth. The University will submit language to eliminate the reversions of non-general fund savings in accordance with our Management Agreement with the state.

Address Maintenance Requirements in the Rotunda, Phase I ($12.95 million GF) – This capital project will address critical repairs in the Rotunda, the centerpiece and symbol of the University. The Rotunda is listed on the Virginia Landmarks Register, is a National Historic Landmark, and is within the boundaries of the UNESCO-designated World Heritage Site. This phase of the planned renovation will address work which threatens the integrity of the building envelope, including the replacement of the dome roof and the repair of the marble Corinthian capitals on each portico. The total Phase I project cost will be $22.95 million, the balance to be funded by private funds.

AGENCY 209 – Medical Center:
Increase Medicaid Prospective Inpatient Payment Rates ($9,484,061 million GF in year one and $15,296,020 million GF in year two) – The 2010-2012 Appropriation Act reduced the level of reimbursement to the Commonwealth’s academic medical centers, also leaving federal cost-matching dollars on the table.

AGENCY 246 – University of Virginia’s College at Wise:
Operations and Maintenance Costs for New Facilities ($339,522 GF in year one and $854,110 GF in year two) – The College requests on-going support for operations and maintenance costs of new facilities scheduled to open in the 2010-2012 biennium.