February 25, 2011

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
W. Heywood Fralin
Robert D. Hardie
Stewart H. Ackerly

Glynn D. Key
Austin Ligon
The Hon. Lewis F. Payne

FROM: Susan G. Harris

SUBJECT: Minutes of the Finance Committee Meeting on February 25, 2011

The Finance Committee of the Board of Visitors of the University of Virginia met, in Open Session, at 9:15 a.m., Friday, February 25, 2011, in the Board Room of the Rotunda; Ms. Helen E. Dragas, Chair, presided. Present were A. Macdonald Caputo, Hunter E. Craig, The Honorable Alan A. Diamonstein, Marvin W. Gilliam Jr., Mark J. Kington, Vincent J. Mastracco Jr., and John O. Wynne, Rector.

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.
Mr. Daniel M. Meyers, a consulting member, was also in attendance.


Jonathan B. Overdevest, the student member-elect of the Board of Visitors, was present as well.

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

Consent Item: School of Medicine Quasi-Endowment Investments

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

APPROVAL OF INVESTMENTS TO THE SCHOOL OF MEDICINE’S FUND FOR THE FUTURE AND SCHOOL OF MEDICINE QUASI-ENDEWORTH

WHEREAS, the School of Medicine received $20,998,759 from the UVa Medical Center to support its academic mission and wishes to take $18 million of this money to invest in its Fund for the Future Quasi-Endowment account; and

WHEREAS, the School of Medicine is the beneficiary of a bequest of approximately $4 million, of which $2 million has been advanced, and seeks to invest this advance in its School of Medicine Quasi-Endowment account;

RESOLVED, the Board of Visitors authorizes the investment by the School of Medicine of $18 million and $2 million into its Fund for the Future and School of Medicine Quasi-Endowment accounts, respectively.

Action Item: Enrollment Projections Through 2018-2019

Mr. Sandridge presented the enrollment projections and spoke about efforts to preserve the undergraduate student experience, including maintaining the current faculty/student ratio or improving it, and making the necessary infrastructure improvements, which are minimal, in order to support the growth.

On motion, the Committee adopted the following resolution and recommended it to the full Board for approval:
APPROVAL OF REVISED ENROLLMENT PROJECTIONS – THROUGH 2018-2019

WHEREAS, the University’s existing enrollment plan, approved by the Board of Visitors in April 2009, must be revised to reflect projected increases in the undergraduate and graduate enrollment levels; and

WHEREAS, the Board of Visitors previously discussed and approved enrollment growth of 1,100 undergraduate students and 400 graduate students over a decade, from 2004-2014; and

WHEREAS, the Board of Visitors supports the recommendations of the Governor’s Commission on Higher Education Reform, Innovation and Investment, one of which is to confer an additional 100,000 undergraduate degrees on Virginians over the next 15 years in order to make the Commonwealth one of the most highly educated states in the nation; and

WHEREAS, the University is committed to serving the higher education needs of the Commonwealth of Virginia and the nation; and

WHEREAS, the revised enrollment projections for 2011-2012 through 2018-2019 are to be submitted to the State Council of Higher Education in Virginia by April 1, 2011;

RESOLVED, the Executive Vice President and Chief Operating Officer is authorized to develop plans with the State Council of Higher Education in Virginia which will allow the University to increase enrollment by 1,500, to be comprised of 1,400 undergraduate students and 100 graduate students; and

RESOLVED FURTHER, enrollment growth will occur only with appropriate state support as set forth in The Higher Education Opportunity Act of 2011; and

RESOLVED FURTHER, that all undergraduate student growth maintains the current 70 percent in-state/30 percent out-of-state ratio.

ACTION ITEM: 2011-2012 Tuition and Fees for Special Programs

Mr. Sandridge presented the tuition and fees for special programs, including a differential tuition rate for Virginians and non-Virginians entering the McIntire School in the Fall. It is an additional charge and will be implemented on an experimental basis which will be assessed further at the conclusion of the first year and prior to setting the tuition and fees for the following year.

On motion, the Committee adopted the following resolution and recommended it to the full Board for approval:
APPROVAL OF 2011-2012 TUITION AND FEES FOR CERTAIN PROGRAMS

RESOLVED, the Board of Visitors approves the tuition and fees applicable to the following programs as shown below, effective May 1, 2011, unless otherwise noted:

<table>
<thead>
<tr>
<th>Program</th>
<th>Virginian</th>
<th></th>
<th>Non-Virginian</th>
<th></th>
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<tbody>
<tr>
<td></td>
<td>Amount</td>
<td>%</td>
<td>Approved</td>
<td>%</td>
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<tr>
<td></td>
<td>2010-11</td>
<td></td>
<td>Increase</td>
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<tr>
<td></td>
<td>2011-12</td>
<td></td>
<td>Proposed</td>
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<td>MBA for Execs</td>
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<td>3.5%</td>
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<td></td>
<td>$ 4,000</td>
<td></td>
<td>$ 4,000</td>
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<td></td>
<td>$119,500</td>
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<tr>
<td>Global MBA for Execs</td>
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<td>n/a</td>
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<tr>
<td>MIT</td>
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<td>$39,655</td>
<td>3.0%</td>
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<td></td>
<td>$1,155</td>
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<td>$1,155</td>
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<td>$39,655</td>
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<tr>
<td>MIT Optional</td>
<td>$1,283/</td>
<td>3.0%</td>
<td>$1,322/</td>
<td>3.0%</td>
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<tr>
<td>Indep. Study</td>
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<td>Systems Eng.</td>
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<td>4.3%</td>
<td>$36,500</td>
<td>4.3%</td>
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<td></td>
<td>$1,500</td>
<td></td>
<td>$1,500</td>
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<tr>
<td>Post-Bac, Pre-Med</td>
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<td></td>
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<td>$1,300</td>
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<td></td>
<td>$28,700</td>
<td></td>
<td>$30,000</td>
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<td>McIntire School of Commerce Undergraduate Tuition Differential</td>
<td>n/a</td>
<td>n/a</td>
<td>$3,000</td>
<td>n/a</td>
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</tbody>
</table>

The price is all inclusive for the 22 months of the full program and includes estimated 2011-2012 and 2012-2013 special session mandatory fee, books, materials, computer leasing, software licenses, group meals, and lodging.

The price includes the estimated 2011-2012 special session mandatory fee, books, materials, software licenses, group meals, and lodging.

The price includes the estimated 2011-2012 full-time mandatory fee.
ACTION ITEM: Additions to the 2010-2011 Annual Renovation and Infrastructure Plan

Mr. Sandridge called on Ms. Sheehy, the Vice President for Management and Budget, to apprise the Committee of four projects which must commence prior to June 1, 2011 and so they need to be approved in advance of the June meeting. Ms. Sheehy asked the Committee to add these projects to the 2010-2011 Annual Renovation and Infrastructure Plan.

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

APPROVAL OF ADDITIONS TO THE 2010-2011 ANNUAL RENOVATION AND INFRASTRUCTURE PLAN

RESOLVED, the Board of Visitors approves the addition of four projects to the 2010-2011 Annual Renovation and Infrastructure Plan: an HVAC upgrade at the Aquatic and Fitness Center and renovations of the Camp Library at the Darden School, the Medical Center’s Bone Marrow Inpatient Bed Unit, and the Medical Center’s Pain Center.

Vice President’s Report

Mr. Sandridge asked Ms. Sheehy to walk the Committee through the Governor’s budget, budget amendments, and budget planning.

Ms. Sheehy said the Governor did not include any of the University’s budget amendments, brought to the Board in the Fall, in his budget, and so those were re-submitted to the General Assembly in January.

Governor’s Budget

Ms. Sheehy explained the Governor’s budget proposal and how the House and Senate handled the proposed allocations so far. She said $50 million was proposed by the Governor for a higher education innovation and performance fund, and another $25 million for a research and commercialization of technology fund. The legislature redistributed these funds to other priorities, including enrollment growth.

Operations and maintenance of new facilities has been a major issue for the University. The legislature recognized this need in their amendments.
2011-2012 Academic Division Budget Planning and Preliminary Assumptions

Ms. Sheehy presented the initiatives in the academic division budget, including Board priorities such as AccessUVA and incremental operations and maintenance for new buildings. Also included are additional deferred maintenance, the estimated increase in the UVA Health Plan costs, and funds for Engineering faculty committed by the University in the Rolls Royce agreement. In addition, there are some unavoidable costs including the state budget cut of $14.7 million plus a likely additional $1 million, and other unavoidable increases. Departments have been told to plan for additional budget reductions, which will cover some of the state budget reduction.

Ms. Sheehy said they have modeled the enrollment growth to determine what the increased costs will be. Estimates include $1.3 million for new faculty, $1.1 million for new faculty start-ups, $.9 million in other support costs, and $.4 million for AccessUVA for new students. A supplemental salary increase for faculty and University staff is likely to cost $1.6 million next fiscal year. There may also be costs coming out of the Governor’s Commission on Higher Education Reform, Innovation and Investment.

The College at Wise also has cost increase in operations and maintenance, deferred maintenance, state budget reduction, increases in utility costs, salary increases, and enrollment growth.

University of Virginia Investment Management Company

Mr. Caputo, former chair of the University of Virginia Investment Management Company (UVIMCO) Board, introduced John Macfarlane, newly elected chair of the board. Mr. Macfarlane also served as interim Chief Investment Officer of UVIMCO while the search for a new CEO proceeded. Mr. Macfarlane introduced Mr. Lawrence Kochard, newly appointed Chief Executive Officer of UVIMCO, providing the reasons why he was selected to the position. Mr. Macfarlane thanked Mr. Sandridge for his leadership and guidance during the period of the search for a CEO, as well as Mr. Caputo and Mr. Wynne for their leadership of the organization since its founding in 2004.

Mr. Kochard gave the customary report on the endowment. He said the team is most important to the success of UVIMCO.

Mr. Kochard said the long term pool is close to the high water mark of $5.1 billion in 2008 at over $4.9 billion. Although lagging the policy benchmark this year, there are very strong returns. The lag should be expected in a strongly performing market. Mr. Kochard explained the allocation in each of the asset classes, and he talked about risk management initiatives.
Mr. Kochard said three features of risk are manager risk, market risk, and liquidity risk. Most people think of market risk, but the other two are equally important. Risk management is both quantitative and qualitative. There is a strong culture of risk management among the team. Liquidity risk is important to manage, but the reason for taking liquidity risk with a level of illiquidity is because it has delivered excess returns over 40 years. He explained the long-term, medium-term and short-term approach to liquidity management at UVIMCO. He said the private aggregate is 60% currently, and at its peak in 2009 was 78%. He said they feel very comfortable at 60%. Relative to peers, 60% is the median number. He said the number will continue to drift down. Within a year, one-half of the pool could be turned into cash.

Mr. Kochard concluded his presentation by projecting that long term returns will be 8%, including a 3% value added. It is important to continue to be aggressive, looking for new ideas.

Mr. Wynne commented on the good work of Mr. Macfarlane, and his support of Mr. Kochard as CEO. He said Mr. Caputo’s record was “off the charts” while he was chair and he challenged Mr. Macfarlane to achieve the same.

Vice President’s Remarks

Mr. Sandridge told the Committee about the April meeting to approve the ten year capital plan. He asked Ms. Sheehy to do a “first reading” of the plan. Ms. Sheehy said the current plan is $4.1 billion with a ten-year horizon. Fourteen projects will be completed by the end of the calendar year. Ten more will finish by the end of 2013.

The new program is a revision of the current plan, which is divided into two parts: the first two years, and the following eight years. The two year program totals $514 million, with many projects carried over from the existing plan. The long term plan in total is $1.5 billion, which is half the size that it was two years ago. Many programs are substantially modified. The Medical Center did not put any programs in the latter eight years. Funding sources are not determined for these programs, but 73% have state funds associated with them. State funding varies greatly and so there is no pattern. Development has developed private fund projections for those programs in the two year period that have private funding components.

Ms. Sheehy said the operations and maintenance costs for new buildings are often forgotten. These costs are now built in to many of the projects.
The Chair adjourned the Finance Committee meeting at 10:50 a.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