MEMORANDUM

TO:     The Finance Committee:

Helen E. Dragas, Chair
A. Macdonald Caputo
Hunter E. Craig
The Honorable Alan A. Diamonstein
Marvin W. Gilliam Jr.
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
                          Jonathan B. Overdevest

FROM:      Susan G. Harris

SUBJECT:  Minutes of the Finance Committee Meeting on June 9, 2011

The Finance Committee of the Board of Visitors of the University of Virginia met, in Open Session, at 2:00 p.m., Thursday, June 9, 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, Robert D. Hardie, Ms. Glynn D. Key, Austin Ligon, The Honorable Lewis F. Payne, and Jonathan B. Overdevest.

The Chair reviewed the schedule for the Finance Committee meeting, stating that she wanted to allow a considerable amount of time for discussion on the budget as well as AccessUVa. She said the AccessUVa program was implemented beginning in 2004 over a four-year period; since 2008-09, it has been running in full stride. So, after three years of full operations, and given the budget realities we face every year, it would be a good time to assess the program, see if it has met its objectives, determine if there are requirements we can make that will more effectively get us to our goals, and have a dialogue that will give us direction for our next steps. She then asked Mr. Sandridge, Executive Vice President and Chief Operating Officer, to present the agenda.

Consent Item: Coulter Foundation Quasi-Endowment Investment

Mr. Sandridge asked the Board to ratify a $10 million commitment to match the $10 million that we received from the Coulter Foundation to be used for biomedical engineering.

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

APPROVAL OF ESTABLISHMENT OF AND INVESTMENT IN THE WALLACE H. COULTER QUASI-ENDOWMENT

WHEREAS, the University of Virginia and the Coulter Foundation wish to expand the University’s participation in the Coulter Foundation sponsored Translational Research Partnership Program in Biomedical Engineering; and

WHEREAS, the University of Virginia received a $10 million gift from the Coulter Foundation to establish the Wallace H. Coulter Endowment; and

WHEREAS, as a condition of receiving that gift, the University of Virginia provided $10 million to match the Coulter Foundation endowment gift, and agreed to establish a separate Wallace H. Coulter Quasi Endowment; and

WHEREAS, in advance of any fund-raising, the University of Virginia transferred unrestricted funds to establish the matching quasi-endowment; and
WHEREAS, the University intends to raise private gifts to fund all or part of the University’s match; and

WHEREAS, when private gifts are received which are restricted for the required match, the funds advanced will be returned to the unrestricted endowment;

RESOLVED, the Board of Visitors authorizes the investment of $10 million to establish and fund the Wallace H. Coulter Quasi-Endowment account to match the Coulter Foundation endowment gift.

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Consent Item: Project Budget Review, East Chiller Plant

Mr. Sandridge requested approval of an increase in the East Chiller Plant project in the amount of $4.8 million. This increase is primarily due to a location change of the chiller plant. The University’s utility infrastructure fund will cover $2.4 million and the remaining $2.4 million will come from hospital operating funds.

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

APPROVAL OF PROJECT BUDGET REVIEW, EAST CHILLER PLANT

RESOLVED, that a $4.8 million increase to the East Chiller Plant project to $33.8 million, is approved.

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Consent Items: Signatory Authority for Medical Center

Mr. Sandridge brought two vendor contracts to the Board seeking approval of procurement of services. The first one is for blood services effective July 1, 2011 and the second is to engage a consultant to help with patient progression improvement actions. The vendor, Huron Healthcare, is at risk for 50% of the contract rate to ensure the outcome they have committed to the project.

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

APPROVAL OF SIGNATORY AUTHORITY FOR MEDICAL CENTER PROCUREMENT OF BLOOD SERVICES AND PRODUCTS

RESOLVED, the Board of Visitors authorizes the Executive Vice President and Chief Operating Officer of the University to execute a multi-year contract for the procurement of blood services and products, based on the recommendation of the Vice President and Chief Executive Officer of the Medical Center in accordance with Medical Center procurement policy.
APPROVAL OF SIGNATORY AUTHORITY FOR MEDICAL CENTER PROCUREMENT OF PROFESSIONAL CONSULTING SERVICES FOR PATIENT PROGRESSION IMPLEMENTATION

RESOLVED, the Board of Visitors authorizes the Executive Vice President and Chief Operating Officer of the University to execute a contract for professional consulting services for the Medical Center to manage the implementation of patient progression improvement actions, based on the recommendation of the Vice President and Chief Executive Officer of the Medical Center in accordance with Medical Center procurement policy.

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Action Item: Partial Divestment

Mr. Sandridge asked the Board for approval to divest $2.4 million of the School of Medicine’s Robert M. Berne Chair Quasi-Endowment for the purposes of recruiting four senior researchers and funding additional research endeavors within the Cardiovascular Research Center.

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

APPROVAL OF PARTIAL DIVESTMENT OF THE SCHOOL OF MEDICINE’S ROBERT M. BERNE CHAIR QUASI-ENDOWMENT

WHEREAS, the School of Medicine has $4.9 million in the Robert M. Berne Quasi-Endowment account; and

WHEREAS, the School of Medicine wishes to provide funding for recruitment packages for new researchers, as well as for additional research endeavors within the Cardiovascular Research Center;

RESOLVED, the Board of Visitors authorizes the divestment by the School of Medicine of $2.4 million from the Robert M. Berne Chair in Cardiovascular Research Quasi-Endowment account.

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Action Item: Authorization of and Intent to Issue Tax-Exempt Debt

The IRS requires a public statement of intent to issue tax-exempt bonds in order to be reimbursed from the bond proceeds for expenditures on certain projects.

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

Infrastructure Expansion and Replacement — $14,500,000;
Alderman Road-Phase IV, Bldg. 6 — $23,400,000;

MEDICAL CENTER

Ambulatory Practice Space Renovations — $6,910,000; 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.
Action Item: Additions to the Major Capital Projects Program

Two projects are proposed as additions to the Capital Projects Program that were identified after the Board voted on the capital program in April. The first is for a small landscape shop for Facilities Management to meet expansion needs, and the second addition is for a football and band building at the College of Wise, a project that is entirely donor funded.

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

APPROVAL OF ADDITIONS TO THE MAJOR CAPITAL PROJECTS PROGRAM

RESOLVED, the Board of Visitors approves the addition of two new capital projects to the College at Wise and University Major Capital Projects Programs: a $2.41-$2.48 million new Football/Band Building at the University of Virginia’s College at Wise and a $1.56-$1.96 million new Facilities Management Landscape Shop in Charlottesville.

Action Items: 2011-2012 Operating Budgets

Mr. Sandridge reminded the Board that most of the decisions about building the budget had already been brought to the Board. For example, tuition, distribution from the endowment, as well as the actions of the General Assembly, were all brought to the Board in the spring. The budget is increasing by 3.1% for all agencies. The academic division budget is projected to be 2.1% less than last year because state monies and stimulus monies were built into the budget and they are diminished this year. The Medical Center budget shows an increase, but there are a number of major program additions that are driving the increase including a full year of Emily Couric Cancer Center operations, a full implementation of EPIC, a partial year of bed tower operations, and an accelerated and increased volume for the Transitional Care Hospital.

From an employment perspective, the budget accounts for 15,800 employees. The largest increases are in the Medical Center to staff the programs/facilities mentioned above. The staffing for the academic side will decrease by two-tenths of a percent.

Mr. Sandridge said this year’s budget will accommodate the University’s first year of the new growth plan for undergraduate enrollment. The budget contemplates 120 additional first-year students, and includes allocations of funds to educate these students and additional resources to support the libraries, student financial services, and student affairs offices. This budget also reflects reduced resources from the State Fiscal Stabilization Funds from the American Recovery and Reinvestment Act of 2009 (ARRA), state general funds, and direct research support from ARRA. It invests available
resources in areas of highest priority where there is a need to maintain quality or service levels. It also includes a base salary increase of 5% for VRS employees, which is offset by a mandatory 5% employee contribution towards their retirement. The budget reserves a $3 million compensation pool to address strategic salary issues on a merit basis for faculty and staff.

The Medical Center has included in their budget a 5% operating margin, but there are many external threats to attaining this goal, including lower support from the state for indigent care, and the emerging impact of federal health care reform.

Mr. Sandridge asked Ms. Sheehy to review the academic budget, and he asked Mr. Howell and Mr. Fitzgerald to provide an overview of the Medical Center budget.

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

APPROVAL OF THE 2011-2012 OPERATING BUDGET AND ANNUAL RENOVATION AND INFRASTRUCTURE PLAN FOR THE ACADEMIC DIVISION

RESOLVED, the 2011-2012 Operating Budget and Annual Renovation and Infrastructure Plan for the Academic Division is approved, as recommended by the President and the Chief Operating Officer.

APPROVAL OF THE 2011-2012 OPERATING BUDGET FOR THE UNIVERSITY OF VIRGINIA'S COLLEGE AT WISE

RESOLVED, the 2011-2012 Operating Budget for The University of Virginia's College at Wise is approved, as recommended by the President and the Chief Operating Officer.

APPROVAL OF THE 2011-2012 OPERATING AND CAPITAL BUDGETS AND ANNUAL RENOVATION AND INFRASTRUCTURE PLAN FOR THE UNIVERSITY OF VIRGINIA MEDICAL CENTER

RESOLVED, the 2011-2012 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 Operating Officer, and the Medical Center Operating Board.

APPROVAL OF THE 2011-2012 OPERATING AND CAPITAL BUDGETS FOR THE UNIVERSITY OF VIRGINIA TRANSITIONAL CARE HOSPITAL

RESOLVED, the 2011-2012 Operating and Capital Budget for the University of Virginia Transitional Care Hospital, presented as a component of the Medical Center Operating Budget, is approved, as recommended by the President, Chief Operating Officer, and the Medical Center Operating Board.
APPROVAL OF PRATT FUND DISTRIBUTION FOR 2011-2012

RESOLVED, the budget for the expenditure of funds from the Estate of John Lee Pratt is 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 $6,900,000 for 2011-2012, 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 Items: Medical Center Joint Ventures/Acquisitions

The following three joint ventures and acquisitions were acted upon at the Medical Center Operating Board meeting. The action regarding the Hematology Oncology Patient Enterprises, P.C. authorizes the University, on behalf of the Medical Center, to acquire the capital stock of Hematology Oncology Patient Enterprises, P.C. from the individual shareholders of the practice at a price to be determined by an independent third-party appraiser. The resolution also approves the investment of $2.5 million to establish and fund a quasi-endowment account to provide incentive pay based on performance metrics to the physicians located in the Hematology Oncology Patient Enterprises, P.C. practice, beginning after five years.

The Program of All-Inclusive Care for the Elderly (PACE) resolution authorizes the University, on behalf of the Medical Center, to enter into a joint venture with Riverside Health System and the Jefferson Area Board for Aging for the establishment of a PACE in the Charlottesville area, provided the Medical Center’s interest in such joint venture does not exceed 25%.

The Nephrology practice acquisition is necessary in order to comply with provider based clinic rules. The Medical Center is purchasing from the Health Services Foundation medical records of the former Piedmont Nephrology practice, which are valued at $45,000.

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

APPROVAL TO ACQUIRE THE CAPITAL STOCK OF HEMATOLOGY ONCOLOGY PATIENT ENTERPRISES, P.C. AND ESTABLISH A QUASI-ENDOWMENT TO FUND PHYSICIAN PERFORMANCE METRICS

WHEREAS, the Medical Center Operating Board and the Finance Committee find it to be in the best interests of the University of
Virginia and its Medical Center for the Medical Center to acquire the capital stock of Hematology Oncology Patient Enterprises, P.C. from the individual shareholders of the practice; and

WHEREAS, the Medical Center wishes to create a quasi-endowment to act as a reserve account in funding physician performance metrics under a pending physician practice acquisition; and

WHEREAS, the Board of Visitors must approve the creation of any quasi-endowment greater than $2 million;

RESOLVED, the University, on behalf of the Medical Center, is authorized to acquire the capital stock of Hematology Oncology Patient Enterprises, P.C. from the individual shareholders of the practice at a price to be determined by an independent third party appraiser and on such terms to be contained in a definitive agreement between the parties; and

RESOLVED FURTHER, the resolution adopted by the Board of Visitors at its February 2011 meeting authorizing the acquisition of substantially all the assets of Hematology Oncology Patient Enterprises, P.C. is superseded by this resolution; and

RESOLVED FURTHER, the Executive Vice President and Chief Operating Officer of the University, in consultation with the Vice President and Chief Executive Officer of the Medical Center, and with the concurrence of the Chair of the Medical Center Operating Board and the Chair of the Finance Committee, is authorized to negotiate the terms of such acquisition, including execution of the definitive agreement, contracts, and all other documents necessary for the closing of the transaction, on such terms as the Executive Vice President and Chief Operating Officer of the University deems appropriate, and to take such other action as the Executive Vice President and Chief Operating Officer of the University deems necessary and appropriate to consummate the foregoing; and

RESOLVED FURTHER, on completion of the acquisition, the Board of Visitors authorizes the investment of $2.5 million to establish and fund a quasi-endowment account to provide incentive pay based on performance metrics to the physicians located in the Hematology Oncology Patient Enterprises, P.C. practice, beginning after five years.

APPROVAL TO ENTER INTO A JOINT VENTURE FOR A PROGRAM OF ALL-INCLUSIVE CARE FOR THE ELDERLY

WHEREAS, the Medical Center Operating Board and the Finance Committee find it to be in the best interests of the University of Virginia and its Medical Center for the Medical Center to enter into a joint venture with Riverside Health System and the Jefferson Area Board for Aging for the purpose of establishing a Program of All-
Inclusive Care for the Elderly in the Charlottesville, Virginia area; and

WHEREAS, Section 23-77.3 of the Code of Virginia grants authority to the Medical Center to enter into joint ventures;

RESOLVED, the University, on behalf of the Medical Center, is authorized to enter into a joint venture with Riverside Health System and the Jefferson Area Board for Aging for the establishment of a Program of All Inclusive Care for the Elderly in the Charlottesville area, provided the Medical Center’s interest in such joint venture shall not exceed 25 percent; and

RESOLVED FURTHER, the Executive Vice President and Chief Operating Officer of the University, in consultation with the Vice President and Chief Executive Officer of the Medical Center, and with the concurrence of the Chair of the Medical Center Operating Board and the Chair of the Finance Committee, is authorized to negotiate the terms of such joint venture, including execution of contracts and all other documents necessary for the establishment of such joint venture, on such terms as the Executive Vice President and Chief Operating Officer of the University deems appropriate, and to take such other action as the Executive Vice President and Chief Operating Officer of the University deems necessary and appropriate to consummate the foregoing.

APPROVAL TO ACQUIRE NEPHROLOGY PRACTICE

WHEREAS, the Medical Center Operating Board and the Finance Committee find it to be in the best interests of the University of Virginia and its Medical Center for the Medical Center to purchase from the University of Virginia Health Services Foundation the medical records of the former Piedmont Nephrology practice;

RESOLVED, the University, on behalf of the Medical Center, is authorized to purchase from the University of Virginia Health Services Foundation the medical records of the former Piedmont Nephrology practice, at a price of $45,000; and

RESOLVED FURTHER, the Executive Vice President and Chief Operating Officer of the University is authorized to execute any and all other documents necessary for the acquisition of the medical records.

Vice President’s Report

Mr. Sandridge provided updates on three matters in his remarks. The first was the Darden School Student Loan Program, which was
discussed initially with the Board in February. He reported that the program was finalized in mid-May and is underway.

The second subject was the variable rate debt structure. Over the last several weeks, the University has worked to change 2003 variable rate bonds ($82 million) from the current weekly remarketing to "commercial paper mode" which means that the University may specify maturity dates up to 270 days. Currently, the University maintains two credit agreements with Bank of America in support of the variable-rate debt. With this change, the University will be able to support all outstanding variable rate bonds under one credit agreement. Mr. Sandridge said it was important to note that this is not new debt, the amount of the debt will not change, and it will continue to be subject to variable rates.

Mr. Sandridge's third topic was an update on the fraternity loan program. In January 2002, the Board of Visitors authorized up to $3 million to be used for the Fraternity and Sorority Investment Program as "loan funds and other financial commitments for improvements to off-Grounds fraternity and sorority houses or to provide on-Grounds fraternity and sorority housing." So far, the University has made no grants, only loans. The first loan was made to Phi Delta Theta in the amount of $800,000 on May 30, 2006. The outstanding balance on the original loan as of May 1, 2011 was $747,378. The outstanding loan is performing well, both financially and from the perspective of the behavior of the organization. The University has just authorized $1.6 million for the "Wooglin Company", the house corporation for the Virginia Chapter of Beta Theta Pi International Fraternity. This leaves approximately $650,000 for new commitments under the original program.

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Access UVA

Mr. Sandridge began the conversation about Access UVA, the University's financial aid program, by stating that the Board had asked the University to look at its investment in Access UVa to determine how effective the program is in attracting low-income students. Mr. Sandridge introduced Ms. Yoke San Reynolds to provide background information on the program. Mr. Gregory W. Roberts, Dean of Admissions, and Ms. Yvonne B. Hubbard, Director of Student Financial Services, were also available to answer questions. Mr. Sandridge noted that any changes will not affect the program for the upcoming year; those offers already have been packaged.

Ms. Reynolds presented the history, structure, and objectives of the program. She explained that both growth and higher tuition costs accounted for the substantial increase in total costs, and she showed comparisons with peers. She explained the methodology behind assessing student need. She began a presentation on the metrics used to assess the program, which she did not finish. After much
discussion, the Committee decided to engage an independent agency to analyze the data accumulated thus far and offer some advice on alternative uses of the funds. Ms. Key stated that the analysis should be objective-driven.

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Mr. Sandridge informed the Committee of two written reports in the Finance Committee book that members should review: the UVIMCO Endowment Report and the Retirement Administrative Committee report.

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The Chair adjourned the Finance Committee meeting at 3:30 p.m.

SGH:dr

These minutes have been posted to the University of Virginia's Board of Visitors website.
http://www.virginia.edu/bov/financeminutes.html