MEMORANDUM

TO: The Finance Committee:

Mark J. Kington, Chair
A. Macdonald Caputo
The Honorable Alan A. Diamonstein
Glynn D. Key
Randal J. Kirk
Stephen P. Long, M.D.
George Keith Martin
Vincent J. Mastracco Jr.
Edward D. Miller, M.D., Ex Officio
Helen E. Dragas, Ex Officio
Daniel M. Meyers, Consulting Member

and

The Remaining Members of the Board:

Hunter E. Craig Robert D. Hardie
Allison Cryor DiNardo John L. Nau III
W. Heywood Fralin Timothy B. Robertson
Marvin W. Gilliam Jr. Jonathan B. Overdevest

FROM: Susan G. Harris

SUBJECT: Minutes of the Finance Committee Meeting on September 16, 2011

The Finance Committee of the Board of Visitors of the University of Virginia met, in Open Session, at 9:05 a.m., Friday, September 16, 2011, in the Board Room of the Rotunda; Mark J. Kington, Chair, presided. Present were A. Macdonald Caputo, The Honorable Alan A. Diamonstein, Ms. Glynn D. Key, Randal J. Kirk, Stephen P. Long, M.D., George Keith Martin, Vincent J. Mastracco Jr., Edward D. Miller, M.D., and Ms. Helen E. Dragas, Rector.

Also present were Hunter E. Craig, W. Heywood Fralin, Marvin W. Gilliam Jr., Robert D. Hardie, John L. Nau III, Timothy B. Robertson, and Jonathan B. Overdevest.
Mr. Daniel M. Meyers, a consulting member, was also in attendance.


The Chair asked Mr. Strine, Executive Vice President and Chief Operating Officer, to begin the meeting. Mr. Strine introduced Ms. Colette Sheehy, Vice President for Management and Budget, to report on the state operating budget requests for the 2012-2014 biennium.

**Action Item: State Operating Budget Requests**

Ms. Sheehy said budget amendments are drawn from the 6-year plan and due to the state on Monday. The University will ask the state to fund three parts of enrollment growth: those additional students entering in Fall 2012 and 2013, the over-enrolled in-state students this year, and growth from 2005-2010 that was not funded previously.

The second budget request will be to fund start-up packages for new faculty, particularly STEM faculty. The one-time cost to bring a STEM faculty member in is an issue for the University.

Ms. Sheehy said they will ask the state to fund operations and maintenance costs for new facilities, a common element that is requested every year.

Cancer research funding will also be requested to expand medical translational research, including cancer clinical trials, so that laboratory discoveries are converted into new methods to diagnose and treat illness. Funding is requested to augment cancer outreach and prevention activities, particularly in Southwest Virginia.

The final request will be to provide resources for an economic development accelerator fund to increase research, promote economic development, and enhance the innovation ecosystem. Funding is requested at $5 million annually for a period of five years beginning in 2013-14.

Ms. Sheehy said the University was requesting some language amendments: the first is to change the language in the Appropriations Act to be consistent with the management agreement, which allows reversion of non general fund savings. Other language changes include eliminating the review of excess non general fund revenues, eliminating specific line item language related to several research and public service centers, and modifying research language to provide greater flexibility in how funds may be directed.
For the College at Wise, requests will be made to fund the Early Alert and Retention Program, which is focused on keeping admitted students; supporting high need degrees such as science and nursing; funding a Science Consortium which will create awareness around the opportunities in science; and supporting the UVA-Wise Scholars, to broaden the program that currently partners with the community college system.

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

**APPROVAL OF STATE OPERATING BUDGET AMENDMENTS FOR THE 2012-2014 BIENNIAL FOR THE ACADEMIC DIVISION AND THE UNIVERSITY OF VIRGINIA’S COLLEGE AT WISE**

WHEREAS, the proposed 2012-2014 biennial budget requests have been reviewed carefully; and

WHEREAS, the proposed biennial budget requests represent the highest priority initiatives and are aligned with the six-year plan submitted to the Commonwealth on July 1, 2011;

RESOLVED, the Board of Visitors of the University of Virginia approves the 2012-2014 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 2012-2014 biennial budget, the Academic Division and the College at Wise 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.

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**Action Item: Acquisition**

Ms. Sheehy described the proposed purchase of the land located at 100 Emmet Street from the University of Virginia Foundation. A lease on the property, used as a fuel station, has expired and the Foundation has agreed to demolish the existing improvements, including the removal of underground storage tanks. The Foundation has agreed also to demolish an adjoining building at 104 Emmet Street, owned by the University. Sidewalks and curbs will be added and the site will be graded and planted with grass.

On motion, the committee adopted the following resolution and recommended it to the full Board for approval:
APPROVAL OF ACQUISITION OF 100 EMMET STREET, CHARLOTTESVILLE, VIRGINIA 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 University of Virginia Foundation (the "Foundation") land located at 100 Emmet Street, Charlottesville, Virginia (the "Property"), with associated costs of demolition to include the property located at 104 Emmet Street, and minor improvements to the site at a purchase price not to exceed $950,000; and

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: Addition to the Major Capital Projects Program

One project was proposed to be added to the Capital Projects Program, identified after the Board voted on the capital program in April: an Indoor Practice Facility - Fieldhouse is proposed to be sited on an existing football practice field near the McCue Center. This facility will replace the previously approved Air-Supported Structure included in the current multi-year capital program.

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

APPROVAL OF ADDITION TO THE MAJOR CAPITAL PROJECTS PROGRAM - INDOOR PRACTICE FACILITY - FIELDHOUSE

WHEREAS, the University proposes to add an $11.0-$13.0 million new Indoor Practice Facility - Fieldhouse to the Major Capital Projects Program;

RESOLVED, the Board of Visitors approves the addition of the Indoor Practice Facility - Fieldhouse project to the University’s Major Capital Projects Program.
Action Item: Divestment

Mr. Strine introduced Ms. Yoke San Reynolds, Vice President and Chief Financial Officer, to discuss the request for divestment from the McIntire School of Commerce Quasi-Endowment. The quasi-endowment was established in 2006 “to pay or support operating, maintenance, construction, and other costs”. The School requests divestment to retire an internal loan for the construction of the additions to Rouss Hall.

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

APPROVAL OF THE DIVESTMENT OF MCINTIRE QUASI-ENDOWMENT

RESOLVED, the divestment from the McIntire School of Commerce Quasi-Endowment is approved to occur at the end of a future month, to allow the proceeds to be applied to pay down the outstanding internal loan that was incurred to cover expenses of the "Back to the Lawn" campaign.

Vice President's Report

Mr. Strine explained plans for bond refunding because of interest rate savings, and he directed the committee to two written reports on the endowment spending rate and the UVa Health Plan. He said the spending rate was expected to be 4.6%, which is within the authorized range. He said retirees will see an increase in premiums for the UVa Health Plan to help offset the substantial subsidies to that group of plan participants.

Together with President Sullivan and Interim Vice President and Provost Milton Adams, Mr. Strine reported on the development and preparation for implementation of a new internal financial model. Ms. Sullivan said there is a strategic imperative to think about how we distribute money internally to support our mission. The University is lean and efficient by any measure, but this model should create better transparency and alignment and create efficiencies at every corner of the institution rather than expecting the central administration to figure it out for the entire institution.

Mr. Adams said they are trying to incentivize entrepreneurship, empower and engage faculty, and increase transparency, by directly tying resources to students taught and credit hours, and research and scholarly activity as well as clinical work. The schools must have the business acumen to manage this and resources must be in place to do this.

Mr. Strine said the move will require changes in systems, culture, and governance. The architecture and accountability for
delivering core services will change. This means greater accountability and the need to differentiate service models. They have established a steering committee of deans and vice presidents. He said the activity-based model is not new, and we can learn from the experiences of others and adapt them to our strategic goals and aspirations. Part of this process is building consensus at the dean level. How we make decisions and who will make them will change. What incentives do we want to create and what do we want to dis-incent? This will require bringing a community along, and that is underway. He said they will be reporting regularly to the committee.

Mr. Kirk cautioned the committee that this sort of implementation can destroy an institution if it is not done well. He said not to be afraid to push from top down and limit consultation. Information Technology has changed over the past five years, and you can move quickly if you get the right people involved.

Mr. Strine said this is strategic because it is about aligning our faculty and deans on how we use resources. Mr. Kington said we are able to do this now because we have three individuals who have done this at other institutions. Mr. Strine said we need to do this so that we have our own destiny with respect to our strategic objectives. Ms. Key said she commended the effort—it is an important act of strategic leadership. Mr. Strine said he was personally committed to accomplishing this. Ms. Dragas said she thought we needed to articulate more clearly the University’s strategic plan and priorities.

Access UVA

Mr. Strine introduced Ms. Yoke San Reynolds to explain the plans to engage a consultant to review the Access UVA program. She said the two strategic objectives are to attract and retain a diverse and high-quality student body, and to use our limited resources effectively. We have been paying AccessUVA costs out of unrestricted resources, and so it is important to find a balance between these two priorities.

She said there is a changing context: federal financial aid is in jeopardy, there is a changing need profile of students with more students requiring financial aid, there are fiscal pressures on the University given the escalation of costs for financial aid, and there is a change in leadership at the Board and institutional level and fresh eyes looking at the University’s strategic goals.

The AccessUVA program was fully implemented in 2008-2009, so we now have three full years of data and it is a good time to do an assessment.

A special ad hoc committee has been formed to steer the program review, and a request for proposal developed for a consultant. The
consultant will do peer benchmarking, program assessment and best practices, and facilitation of discussion of the issues.

Ms. Reynolds explained the program review and timeline for implementation, which is aggressive. The plan is to have conclusions by April 2012 so they may be used in setting tuition for Fall 2012. Any changes will not take effect until the following year for the class entering in 2014.

Working Capital Investment Policy

Ms. Reynolds outlined the Working Capital Investment Policy, which replaces the Short Term Investment Policy and guides investment for maturity in less than 2 years.

Endowment Report

Mr. Strine introduced Mr. Lawrence Kochard, Chief Executive Officer of the University of Virginia Investment Management Company (UVIMCO). Mr. Kochard explained the UVIMCO governance structure and meetings of the Board of Directors. He said Michael Strine has been named the President's designee on the Board. There are 30 staff members, and UVIMCO has focused on growing talent within the organization.

He said the investment philosophy of UVIMCO is long-term returns, with a belief in reversion to fundamental values. The external managers who are hired to invest funds are viewed as partners, and a great deal of work is done to be sure they pick quality managers.

As of June 30, performance is up about 24% for the fiscal year. The biggest contributors have been natural resources through private partnerships, and some of the value is created by the managers selected. The other high performing area was public equity on a relative basis as well as an absolute basis. He said it is important not to focus too much on the one-year number because it will fluctuate year to year, however, over 10- and 20-year periods UVIMCO has outperformed the benchmarks.

Performance relative to peers shows that UVIMCO has done very well against peers on both a short-term and long-term basis. The comparisons with comparable higher education endowments are not available yet for the 2011 fiscal year, but he said he expects to be in the top quartile of those peers.

Mr. Kochard explained the risk analysis. He said there are three types of risk: market risk, liquidity risk, and manager risk. Market risk is what most people think of when they think about risk, but the other two are also important. He said that right now UVIMCO has 18% in unfunded commitments; he would like to have 15%. He said UVIMCO
has excess liquidity across any short-term horizon, with 50% of assets available to be turned into cash within a year.

On asset allocation, the equity portfolio from a market risk standpoint is much lower risk than the policy portfolio. Over time, the real assets allocation has increased; he said they like real assets as a risk reducer.

The Chair adjourned the Finance Committee meeting at 10:30 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