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, M.D.

FROM: Susan G. Harris

SUBJECT: Minutes of the Finance Committee Meeting on May 22, 2012

The Finance Committee of the Board of Visitors of the University of Virginia met, in Open Session, at 1:15 p.m., Tuesday, May 22, 2012, in the Board Room of the Rotunda; Mark J. Kington, Chair, presided.

Present were Mr. A. Macdonald Caputo (via teleconference), The Honorable Alan A. Diamonstein, Ms. Glynn D. Key, Stephen P. Long, M.D., Vincent J. Mastracco Jr., Edward D. Miller, M.D., and Ms. Helen E. Dragas, Rector.
Also present were Hunter E. Craig, Ms. Allison Cryor DiNardo, W. Heywood Fralin, Marvin W. Gilliam Jr., John L. Nau III, Timothy B. Robertson, and Jonathan B. Overdevest, M.D.

Daniel Maxwell Meyers, the consulting member from the Council of Foundations, was also present.


The Chair opened the meeting by thanking Ms. Yoke San L. Reynolds for her time and work at the University, and wished her the best in her retirement.

2012-2013 Operating Budgets

The Chair asked Mr. Strine, Executive Vice President and Chief Operating Officer, to present the 2012-2013 operating budgets. Mr. Strine reported that this year's new budget development process forms the foundation for the new financial model. Each school and administrative unit contains profiles of strategic direction for 2012-13, new initiatives, and pertinent trended data.

The 2012-13 budget process began in November with the development of detailed budget assumptions. Budget meetings were held with each individual school and major administrative area, and in late April, President Sullivan met with deans and vice presidents to discuss the final outcome of the budget process.

Resource allocation decisions were focused on strategic priorities. In the Academic Division, budget priorities include compensation for faculty and staff and enrollment growth. For the College at Wise, budget priorities include the early alert retention program, Wise scholars, and science, technology, engineering and math (STEM) education. The Medical Center's budget reflects its recently endorsed strategic plan.

The combined operating budget of all three divisions is $2.6 billion, a 4.2% increase over the current year. State appropriations show growth of 6.1%, net tuition and fees revenue increase by 5.3%, and due in part to the lack of stimulus funds for this year, sponsored programs decrease by 3.7%. The Medical Center is projected to comprise 46.2% of the 2012-13 budget, compared to the 44.5% in the current year. The Medical Center is growing faster than the Academic Division, reflecting a trend in higher education institutions with academic medical centers. Employment levels in the Academic Division are at their lowest level in five years, primarily from reductions in
research and state funding, while employment levels in the Medical Center have increased.

Changes in the University's portfolio over the last decade show important trends, including patient revenues serving as the largest revenue source for the budget, an increase in net tuition and fees and private funding, and a decrease in research grants and contracts and state appropriations.

Mr. Strine said that on the expense side, patient care now comprises slightly less than half of the University's expenditures. The primary programs of instruction, research, and public service comprise just over a quarter of the expenditure budget. Remaining expenditures occur in support activities including operation and maintenance of the buildings and grounds, student financial aid, and self-supporting activities like housing, dining, athletics, the bookstore, parking and transportation, and student health.

Mr. Strine noted three specific areas where trends in data among schools and across the academic division will provide strategic direction and resource investment in the future:

1) Faculty compensation and benchmarking  
2) Research growth and trends  
3) Student/faculty ratios for each school

Mr. Strine said the progress made at the institutional level and within individual schools, as well as the progress on integrating metrics at these levels, needs to be matched with progress on the financial reporting for the institution at each division. This will be something he will be working on in the future.

Mr. Strine said that one task force for the new financial model is charged with assessing financial reporting needs and recommending options for the kinds of tools necessary to allow multi-year planning and appropriate management reporting.

In response to a question about the student/faculty ratio, Mr. Strine said the real issue is redefining what the ratio should be in the future. During an era where one can deliver instruction via technology, the question arises: what is the most beneficial ratio?

Mr. Strine introduced Ms. Colette Sheehy, Vice President for Management and Budget, to report on the proposed operating budgets for the Academic Division.

Ms. Sheehy said the 2012-13 budget process was one of transparency. Meetings with every school and major administrative unit were helpful in seeing the strategic directions and understanding the challenges various units are facing. Certain themes emerged, including tuition pricing and financial aid, enrollment growth and other objectives of the Higher Education Opportunity Act, faculty
recruitment and competitive compensation, and concerns about the new internal financial model.

The Academic Division has $1.37 billion in available funds, with tuition comprising 32.4%, sponsored programs 23%, private funds 20%, and state appropriations 10.2% of overall funds. Investment income, sales and services, private funds, and tuition and fees have all more than doubled over the past 10 years. In contrast, state appropriations have grown only 2.7%.

The 2012-13 Academic Division expenditure budget by category will expend 60.5% on personal services. Instruction is the largest single program expenditure at 26.5% of the budget. Mission-critical activities including teaching, creating new knowledge, and serving the public, comprise 62% of the budget. The 10-year trend shows a 63.7% increase; the largest percentage increase by activity is operations and maintenance of the physical plant, and the second largest is student services, because of the new student information system.

Ms. Sheehy explained that new revenues available total $17 million. Allocated uses for the Academic Division budget include compensation and benefit adjustments, enrollment growth, base operating increases, prior year academic commitments, and strategic reserves. Incremental sources and uses result in a surplus of $761,000, however, out of a total of $8.9 million in requests for supplemental funding from the schools and units, only $744,000 funded. Funds will be invested in the Batten School of Public Policy to support their new enrollment growth, and other funding is allocated to graduation equipment rentals, the expansion of the sexual misconduct position in Student Affairs, and a program to reintegrate study abroad students into the University.

Ms. Sheehy discussed the 2012-2013 Pratt Fund Allocation. The current market value of the Pratt endowment is $123 million. This fund benefits biology, math, physics, and chemistry in the College of Arts and Sciences, and research and scholarships in the School of Medicine. Deans are asked to forward their requests regarding how to use the money, and these requests are approved by the provost and president before coming to the Board. Expenditure of the Pratt fund in the 2012-13 budget total $7 million with the School of Medicine using funds for research and fellowships, and the College of Arts and Sciences using funds for new faculty start-ups, fellowships, equipment, and faculty salaries.

Ms. Sheehy introduced Mr. Simeon E. Ewing to report on the 2012-13 College at Wise Budget, which was approved by the College at Wise Advisory Board on March 23. The College at Wise has 1,651 fall 2011 FTE students, 142 faculty, and 173 support staff. The 2012-13 expenditure budget is $36.3 million. By source, 27.1% comes from tuition and fees, 41.2% from state appropriations, 22.4% from sales and services, and 9.3% from gifts. The budget focuses on three strategic priorities: hiring additional faculty to meet instructional
needs, implementing the early alert and retention plan, and establishing the UVa-Wise Scholars Program.

Ms. Sheehy reported on the Annual Renovation and Infrastructure Projects plan (ARIP), which is approved every year by the Board of Visitors for capital projects that cost between $2 and $5 million and are funded with 100% cash. The ARIP process is much shorter than the regular biennial budget process, so it allows these types of projects to commence quickly. The ARIP for the Academic Division totals $24.2 to $30 million and the ARIP for the Medical Center includes $7.6 to $9.2 million for various renovation projects and infrastructure upgrades.

Mr. R. Edward Howell, Vice President and Chief Executive Officer of the Medical Center, reported on the operating budget of the Medical Center. Mr. Howell emphasized that the budget is a growth budget that supports the strategic plan. A number of the strategic objectives for fiscal year 2012-18 have been achieved, including continuously improving the quality to achieve recognition as a top decile provider of clinical care among academic medical centers, and maintaining financial stability.

Mr. Howell brought to the committee’s attention the budget challenges, which include Medicaid and indigent care funding, the impact of federal healthcare reform, mandatory coverage, and billing code changes.

Mr. Howell said the budget is proposed to increase by $99 million, or 9%, to $1.2 billion for 2012-2013. The operating margin is expected to be $58.6 million, or 4.7%.

Mr. Howell reviewed the budget sources and uses and explained the importance of benchmarking. He said the Medical Center budget includes the Transitional Care Hospital’s budget.

On motion, the committee approved the following resolutions and recommended them for full Board approval:

APPROVAL OF THE 2012-2013 OPERATING BUDGET AND ANNUAL RENOVATION AND INFRASTRUCTURE PLAN FOR THE ACADEMIC DIVISION

RESOLVED, the 2012-2013 Operating Budget and Annual Renovation and Infrastructure Plan for the Academic Division are approved, as recommended by the President and the Chief Operating Officer.

APPROVAL OF THE 2012-2013 OPERATING BUDGET FOR THE UNIVERSITY OF VIRGINIA’S COLLEGE AT WISE

RESOLVED, the 2012-2013 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 2012-2013 OPERATING AND CAPITAL BUDGETS AND ANNUAL RENOVATION AND INFRASTRUCTURE PLAN FOR THE UNIVERSITY OF VIRGINIA MEDICAL CENTER

RESOLVED, the 2012-2013 Operating and Capital Budgets and the Annual Renovation and Infrastructure Plan for the University of Virginia Medical Center are approved, as recommended by the President, the Chief Operating Officer, and the Medical Center Operating Board.

APPROVAL OF THE 2012-2013 OPERATING AND CAPITAL BUDGETS FOR THE UNIVERSITY OF VIRGINIA TRANSITIONAL CARE HOSPITAL

RESOLVED, the 2012-2013 Operating and Capital Budgets for the University of Virginia Transitional Care Hospital, presented as a component of the Medical Center Operating Budget, are approved, as recommended by the President, Chief Operating Officer, and the Medical Center Operating Board.

APPROVAL OF PRATT FUND DISTRIBUTION FOR 2012-2013

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 $7,000,000 for 2012-2013, are suggested by the department chairs and recommended by the dean of each school; the disbursement of each allotment will be authorized by the Executive Vice President and Provost. 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 Item: Disposition of Real Property, Wise County, Virginia, Stallard Property

Mr. Strine reported that a 44.7 acre parcel of property located four miles southeast of The University of Virginia’s College at Wise was bequeathed to the College, subject to two restrictions, a life estate and a right of first refusal. The College has decided to sell the property due to its location, and use the proceeds to create an unrestricted endowment.

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

APPROVAL TO SELL STALLARD PROPERTY OF APPROXIMATELY 44.7 ACRES IN WISE COUNTY, VIRGINIA
Finance Committee May 22, 2012

WHEREAS, by Last Will and Testament, dated July 1, 2010, Iloe Read Stallard devised to The University of Virginia’s College at Wise approximately 44.7 acres located in Wise County, Virginia (the “Property”), subject to a life estate in favor of Evelyn Stallard Smith and to a first right of refusal in favor of Eddie Buchanan; and

WHEREAS, Iloe Read Stallard is now deceased such that title to the Property is vested in the name of The University of Virginia’s College at Wise; and

WHEREAS, the Board of Visitors finds it to be in the best interest of the College at Wise to dispose of the Property;

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 College at Wise, 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 the sale of the Property; and

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

Action Item: Transfer of Real Property

To enhance the intersection at Emmet Street and University Avenue, the City of Charlottesville, the University of Virginia, and the University of Virginia Foundation are cooperating in the transfer of property from the University to the City for public street purposes, and the University is granting an easement to Dominion Virginia Power to relocate electric lines.

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

APPROVAL TO TRANSFER FOR PUBLIC STREET PURPOSES PROPERTY LOCATED ON UNIVERSITY AVENUE, CHARLOTTESVILLE, VIRGINIA

WHEREAS, the City of Charlottesville, University of Virginia Foundation, and the University of Virginia are cooperating on a project to enhance the intersection of Emmet Street and University Avenue; and
WHEREAS, the project will require the transfer of property owned by The Rector and Visitors of the University of Virginia to the City of Charlottesville, Virginia, for public street purposes, to facilitate the widening of the westbound lanes of University Avenue, east of Emmet Street, to accommodate three, full-width traffic lanes;

RESOLVED, the Board of Visitors approves the transfer of property owned by The Rector and Visitors of the University of Virginia at the northeast corner of the intersection of Emmet Street and University Avenue to the City of Charlottesville for public street purposes; and

RESOLVED FURTHER, the Executive Vice President and Chief Operating Officer is authorized, on behalf of the University, to identify the specific property to be transferred to the City for public street purposes, to approve plans and plats, to approve and execute deeds and related documents, to incur reasonable and customary expenses, and to take such other actions as deemed necessary and appropriate to consummate the transfer of the property for public street purposes; 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 transfer of the property for public street purposes, are in all respects approved, ratified, and confirmed.

Action Item: Joint Venture

Mr. Strine explained that the Medical Center would like to expand its clinical enterprise in northern Virginia by forming a limited liability company with Winchester Medical Center for a radiosurgery center. The Medical Center will be a 15% owner of the center, without any capital contribution. The University of Virginia Physicians Group, through the departments of Neurosurgery and Radiation Oncology, will provide and be compensated for development services and medical direction services.

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

APPROVAL TO ENTER INTO A JOINT VENTURE TO ESTABLISH A RADIOSURGERY CENTER AT WINCHESTER MEDICAL CENTER

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 form a limited liability company with Winchester Medical Center to provide
stereotactic radiosurgery and stereotactic body radiation therapy services in northwest Virginia; 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 form a limited liability company with Winchester Medical Center to provide stereotactic radiosurgery and stereotactic body radiation therapy services in northwest Virginia; 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 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.

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Action Item: Albemarle Arthritis Associates, LLP Acquisition

The Medical Center would like to acquire a three-physician practice located in Charlottesville: Albemarle Arthritis Associates, LLP, and convert it to a provider-based clinic. The practice operates a small infusion center that performs 1,400 infusions annually, which will be enlarged to perform between 2,200 and 4,500 infusions annually. The three physicians will be employed by the University of Virginia Physicians Group. Operating income is projected to be over $1 million with an operating margin in excess of 20% by the end of year four.

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

APPROVAL TO ACQUIRE ALBEMARLE ARTHRITIS ASSOCIATES, LLP

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 substantially all of the assets of Albemarle Arthritis Associates, LLP;

RESOLVED, the University, on behalf of the Medical Center, is authorized to acquire substantially all of the assets of Albemarle
Arthritis Associates, LLP on such terms to be contained in a definitive agreement between the parties; 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.

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Vice President’s Remarks

Mr. Strine reported on AccessUVA. He said the consultants’ preliminary conclusions are that within the current policy structure the program is being optimized. Mr. Strine said the broader survey will not be completed until later in the summer; he gave an initial report on benchmarking. Out of the seven participating peer institutions, almost all indicated that their policy on financial aid since the financial downturn did not materially change. Mr. Strine said that although there is concern about the rate of growth of the financial aid program, the growth is not extraordinary, as we have fallen behind in comparison to many peers.

Mr. Strine brought the Darden School’s international student loan program to the Board’s attention, explaining how the program attracts students who are important in terms of strategic competitiveness of the school. A loan program has been put in place for the class of 2014; he assured the committee that all metrics are in place and risk is being managed properly.

Mr. Strine closed the meeting by offering his thanks to Ms. Yoke San Reynolds for her exemplary work and character.

The Chair adjourned the Finance Committee meeting at 3:00 p.m.

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