MEMORANDUM

TO: The Finance Committee:

Victoria D. Harker, Chair
A. Macdonald Caputo
The Honorable Alan A. Diamonstein
Randal J. Kirk
Vincent J. Mastracco Jr.
Edward D. Miller, M.D.
John L. Nau III
Timothy B. Robertson
Helen E. Dragas, Ex Officio
Daniel M. Meyers, Consulting Member

and

The Remaining Members of the Board and Senior Advisors:

Frank B. Atkinson                       Stephen P. Long, M.D.
Hunter E. Craig                         George Keith Martin
Allison Cryor DiNardo                   Linwood H. Rose
Marvin W. Gilliam Jr.                   Hillary A. Hurd
Bobbie G. Kilberg                      William H. Goodwin Jr.
                                        Leonard W. Sandridge Jr.

FROM: Susan G. Harris

SUBJECT: Minutes of the Finance Committee Meeting on
September 14, 2012

The Finance Committee of the Board of Visitors of the University of
Virginia met, in Open Session, at 10:10 a.m., Friday, September 14,
2012, in the Small Auditorium of The Harrison Institute; Victoria D.
Harker, Chair, presided.

Present were Mr. A. Macdonald Caputo, Vincent J. Mastracco Jr.,
Edward D. Miller, M.D., John L. Nau III, Timothy B. Robertson, and Ms.
Helen E. Dragas, Rector.

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


Ms. Victoria Harker began the meeting with some introductory comments. She stated that the Finance Committee will have a laser focus in linking with the strategic planning process. Ms. Harker also provided the Board with a brief overview of the agenda.

Report on Internal Financial Model

The Chair asked Ms. Sheehy, Vice President for Management and Budget, to begin the meeting with a report on the internal financial model. Ms. Sheehy reminded the Board that the model is a movement toward activity-based budgeting, meaning revenues flow to the activities that generate them. At the same time, the costs also have to be assigned to those same revenue centers, whether that be direct costs or indirect costs. The principle objectives of the model are: to provide tools that will allow the University to operate more efficiently in a future constrained by limited resources; to emphasize transparent decision-making, incentive-based allocations and prudent stewardship of University resources; to empower the individual academic units to be innovative and cost efficient; to build incentives into the system to encourage entrepreneurism among our deans, administrative leaders, faculty and staff; and to enable us to align our resources more precisely with our core mission areas of education, research, patient care and service.

They performed research on peer financial models and realized all financial models are very different. They have to be designed to fit their own culture and their own institution and so that is what the University will have to do, but at the same time draw from the best parts of the financial models that we have seen at other institutions. One big step that was made was a transition in the budget process in the current year toward some of the principles of the new model. One very obvious one was new tuition revenue associated with new students as we grow our undergraduate population was allocated to the schools that actually enrolled those students. That really has not happened in the past.
They have created five task forces which are led by either a dean or a vice president. The task forces are: 1) Financial reporting, system preparedness, and training; 2) Communications and change management; 3) Revenue and incentives; 4) Cost and service level architecture; and 5) Decision-making, governance and policy making. In regards to the timeline, we are looking at phasing the model in over two budget cycles. Implementing Phase 1 between January and June of 2013 and Phase II implementation would take place between January and June of 2014.


Ms. Sheehy gave an overview of what financial information will be brought to the Board each Finance Committee meeting throughout the year.

- In September, the committee considers a Quarterly Financial Report as of June 30. Larry Kochard presents the endowment report as of June 30. There is also a report on the endowment distribution at this meeting.
- In November, budget assumptions and the quarterly financial report with audited June 30 figures, including a trend analysis, are presented.
- In February, presentations include enrollment projections (every other year – slated for 2013) and a Quarterly Financial Report with calendar year-end figures.
- In April, the committee will consider rates for tuition, fees, housing and dining. These are key drivers of the revenue budget.
- In June, the committee will hear a Quarterly Financial Report as of March 30 and the proposed operating and capital budgets.

Mr. David Boling, Comptroller of the University, reviewed the Governmental Accounting Standards Board (GASB) statements. The audit is in progress and they expect to finish it around October 15. Assets were up 2% ($6.2 billion); liabilities were down 3% ($1.1 billion), and net assets total $5.1 billion which is up 3.1%. Operating revenues were down 1.3% and operating expenses went up by 0.6%. Under the heading of significant revenue changes, tuition and fee revenue went up 9.8% due to professional, graduate, and undergraduate tuition rate increases and enrollment increases. Grants and Contracts remained constant (excluding ARRA funds), and State appropriations were down 10.5% (excluding state stabilization funds).

Last week, Fitch Ratings affirmed its 'F1+' rating on the University's approximately $78.6 million of outstanding series 2003A multi-modal general revenue pledge bonds and $300 million taxable and tax-exempt commercial paper (CP) program. A key driver for the rating was cited as the financial strength of the University: The university maintains a strong financial profile, fueled by a diverse revenue base; strong balance sheet liquidity; robust fundraising; and manageable debt burden. Fitch rates the University's general revenue pledge bonds 'AAA'.
Despite the strong financial condition the University of Virginia, like many public institutions of higher education, face challenges. A list of a few include:

- Carefully managing tuition increases and focusing on net price. The University took a step in that direction this year by limiting tuition increases to the lowest in a decade.
- Developing a multi-year plan to increase faculty compensation while also paying attention to our staff salary levels.
- Continuing to discuss with state officials the need to finance start-up packages
- Looking for new funding sources for research as federal agency budgets become more limited.
- Continuing our focus on the cost side of the operation and looking for ways to operate more efficiently.
- Looking to alumni, friends, corporate, and foundation relationships to fill some gaps.


Mr. Larry Kochard, University of Virginia Investment Management Company (UVIMCO) CEO/CIO, provided a biannual report on the market value and performance of the endowment. He reported on 2011-12 year-end figures for the endowment, which was up 5.1% for the year. He also gave an overview of the UVIMCO governance and staffing, investment philosophy, and recent changes to the Investment Policy Statement.

Mr. Goodwin commented that UVIMCO is making the University about a quarter of a billion dollars a year. They have gone from being just ordinary to being very good. UVIMCO has made the University as much money through investments as all of the fundraising efforts that took place last year. It is done by staying in the top 10%. He congratulated Mr. Kochard and his staff for a job well done. Mr. Kochard commented that it comes from having a disciplined staff and a disciplined Board, as well as, clear communications with the University staff and with University-related foundations. The annual report is an example of the communications process as well as the Annual Meeting, which they held for the first time last year.

Action Item:

Amended 2012-2018 State Six-Year Institutional Plans for the Academic Division and the College at Wise

Ms. Sheehy and Mr. Sim Ewing presented the amendments to the Six-Year Plan that were submitted to the State in early August, as required by statute.

Since the submission in August, the State has reviewed the plan and would like to see the University include in the revision a projected increase. Ms. Sheehy reminded the Board that instructions
received from the State ask us not to assume any more general fund support than is already included in the approved two-year budget. Any tuition projection included in the plan is not an indication of the final rate to be approved by the Board in the spring. As a reminder, the tuition increase for undergraduates was 3.7% in the current year.

The State provided $800,000 in tax support to address some issues that were contained in the University’s Six Year Plan. The Provost allocated the $800,000 based on proposals he received from the deans. The amended August 2012 submission reflects the allocation of this funding to initiatives that increase degree production in STEM disciplines and support growth of degree programs with an online component. Examples include PRODUCED in VA, creation of the Bachelors in Professional Studies in Allied Health in School of Continuing and Professional Studies, and an undergraduate research assistantship program.

The 2012-14 Appropriation Act requires the University to reallocate $1.7 million in 2012-13 and $2.2 million in 2013-14 from current educational and general (E&G) programs to support six-year plan initiatives or address strategies that advance the objectives of the Higher Education Opportunity Act (HEOA). The updated August 2012 submission reflects the reallocation of existing resources totaling $12.2 million in 2012-13 and $2.3 million in 2013-14 toward HEOA objectives. Examples include $2.5 million to start-up packages, $0.7 million to various forms of technology enhanced instruction, $2.6 million departmental reallocations to pay the state bonus, and $152,000 to expand the BIS program. The University also documented about $8.7 million in cost savings.

The single outstanding item was a tuition projection for fiscal year 2013-14. Given the Chair’s comments, the University will have a range that will be put into the plan to be submitted on October 1 that will be between 2.5% and 3.5%.

Mr. Ewing reported on the College at Wise. Pursuant to the 2012-14 Appropriation Act, the College must reallocate $171,000 in 2012-13 and $228,000 in 2013-14 from current E&G programs to support six-year plan initiatives or address strategies that advance the objectives of the Higher Education Opportunity Act (HEOA), also known as the “Top Jobs” legislation. The updated August 2012 submission reflects the reallocation of existing resources toward HEOA objectives. An additional STEM-H teaching & research faculty position in Chemistry has been funded for 2012-13 and 2013-14 from non-general fund tuition revenue. The August 2012 submission includes funding for the 2012-13 faculty and staff bonus and the 2013-14 faculty and staff salary increase. It also includes the utilization of $266,000 in early alert funds to enhance the College’s retention and graduation rates in both 2012-13 and 2013-14. Our Community Collaboration Program which received $275,000 in funding in 2012-13 and 2013-14 enabled Wise to develop a systemic public school/UVA-Wise collaboration to create greater community interest in the broad range of opportunities in
science-related careers and to better prepare students for success in STEM-H fields. Based on funding for programs that received Commonwealth general funds but had initially been included as tuition-based programs in the October 2011 six-year plan submission, the College included tuition rate increases of 5%, which is down from the 8% previously put forward.

Ms. Dragas asked about the Six Year Plan and asked for clarification on which submission this represented. She asked at what point does the University flesh out more specific institutional goals along with metrics and benchmarks. Ms. Harker responded that the Six Year Plan is a pre-formatted report, but the Finance Committee has already considered an in-house tracking mechanism to see how well we are achieving our goals.

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

APPROVAL OF AMENDED 2012-2018 STATE SIX-YEAR INSTITUTIONAL PLAN

WHEREAS, §23-38.87:17 of the Virginia Higher Education Opportunity Act of 2011 requires the governing boards of all public institutions of higher education to develop and adopt biennially (each odd-numbered year) and amend or affirm annually (each even-numbered year) an institutional six-year plan and submit that plan to SCHEV, the Governor, and the Chairs of the House Committee on Appropriations and the Senate Committee on Finance; and

WHEREAS, the University submitted its preliminary amended plans for the Academic Division and the College at Wise as required on August 3, 2011, refining the general strategies it outlined in 2012-14 to advance the objectives of the Act and to enhance teaching, research, and service; and

WHEREAS, final amended institutional plans must be approved by the Board of Visitors and submitted to SCHEV, the Governor, and the Chairs of the House Committee on Appropriations and the Senate Committee on Finance no later than October 1;

RESOLVED, the Board of Visitors approves the amended 2012-18 six-year institutional plans of the University’s Academic Division and the College at Wise; and

RESOLVED FURTHER, the President is authorized to transmit the amended six-year plans to the State Council, the Governor, and the Chairs of the House Committee on Appropriations and the Senate Committee on Finance.

Action Item:

2013 Operating and Capital Amendments to the 2012-2014 Biennial Budget
Operating Budget Amendments:

Ms. Sheehy presented a summary of the operating and capital amendments to be transmitted to the Governor for his consideration as he develops amendments to the 2012-14 budget. She reminded the Board that items such as faculty and staff salary increases, base budget adequacy, and undergraduate financial aid are issues that cut across all institutions, and so they will be addressed by the state for all institutions.

The items presented are those the University considers to be priorities:

**Fund Enrollment Growth** – ($1,103,000 GF in year two). The University requests general fund support, at $8,423 per student, from the October 2011 calculation of the base budget adequacy formula, to educate 131 additional Virginia undergraduates in Fall 2013.

**Fund Start-up Packages for New Faculty** ($5,654,000 GF in year two). The University requests the establishment of a multi-year fund for start-up packages necessary to recruit new faculty, particularly in the science, technology, engineering and math (STEM) disciplines, to support expected enrollment growth and anticipated retirements over the next several years. The fund will provide critical resources for laboratory renovations, equipment, summer wages for nine-month faculty, and other support for 18 new faculty in these fields in year two. The start-up packages will average $637,000 per faculty member to be paid out over three years as new faculty establish their research programs at the University. The start-up packages will not include base salary support or signing bonuses for new faculty.

**Fund Operations and Maintenance Costs for New Facilities** ($67,500 GF in year two). The University also requests ongoing support for operations and maintenance costs for capital projects completed in 2013-14: New Cabell Hall Renovation (new systems) and the East Chiller Plant (building shell).

**Fund Medical Translational Research** ($2.25 million GF in year two). Continue the Commonwealth’s efforts to expand medical translational research so that laboratory discoveries are converted into new methods to diagnose and treat illness and augment cancer outreach and prevention activities.

**Fund Economic Development Accelerator** ($5.0 million GF in year two). The last item is a research-related item related to a public-private type partnership related to an incubator-type facility. Requesting a state matching contribution.

Capital Budget Amendments:
The commitment for renovating the Rotunda would be $24 million from the state, which would be matched by funds raised by the University.

The University is asking for planning money for Gilmer Hall and the Chemistry Building. These are two huge undergraduate science buildings: cornerstones of U.Va.'s undergraduate and graduate science programs, Gilmer Hall (237,500 gsf) and the Chemistry Building (261,000 gsf) were built in 1963 and 1968, respectively. The University requests $1.8 million to proceed with the programming and concept design stage of renovating Gilmer Hall and the Chemistry Building. Proposed reinvestments in the facilities will maximize space utilization through efficient and flexible teaching and research laboratory design; replace antiquated and inefficient mechanical, electrical, and plumbing systems with a modern, efficient, and adaptable infrastructure; install new high performance exterior glazing and masonry systems for Gilmer Hall, provide a new watertight and energy efficient exterior envelope; and renovate the space under the Chemistry terrace to create up to four new general assignment classrooms. The total cost is projected to be $134 million.

College at Wise

These are all operating budget amendments:

**STEM Recruiting** - the College requests funding for marketing materials and admissions and enrollment management recruiters to target students who have expressed interest in the STEM-H degree programs at UVA-Wise.

**Online Learning Initiative ($150,000 GF in year two) -** the College offers an effective and successful online and alternative educational program, particularly through the Summer College course offerings. Funding for this amendment will be used to enhance the current on-line curriculum through additional course offerings.

**Fulfill the Remaining Retention and Graduation Request ($600,000 GF and 7 FTEs in year two) -** the first phase of this amendment request was funded by the Governor and General Assembly beginning in the current fiscal year. Per the Six-Year Plan, existing first-year programs have been enhanced with positive results. Fully funding will allow the College to continue existing programs and offer additional resources to create a successful first-year experience which, in turn, will also increase graduation rates, targeting “at risk” students.

**Complete Funding for Science Consortium ($700,000 GF and 6 FTEs in year two) -** The first phase of this program was included by the Governor and General Assembly in the current budget. This request provides for the second phase for science and math interaction in the region’s middle and high schools. Funding would be used to develop a systemic public school/UVa-Wise collaboration to create greater community interest in the broad range of opportunities in science-
related careers and to better prepare students for success in STEM fields. Outcomes to date are showing signs of potential through programs such as the LEGO robotics, which demonstrate the utilization of math and science in ways that the students find as an enjoyable learning experience.

Medical Center

**Properly Address Indirect Medical Education and Inflation Costs in Medical Center Reimbursements** ($5.861 million GF in year two) - the correction of an erroneous calculation in the introduced 2012-14 budget that failed to appropriately consider indirect medical education and inflation. This error resulted in a 2013-14 decrease in the amounts to be reimbursed to the Medical Center for the care of Medicaid enrollees and Virginia residents who fall within the state of Virginia indigent criteria. The University has discussed the calculation with the Secretary of Health and Human Resources who has confirmed the calculation error. The 2012 General Assembly adjusted the 2012-13 budget for the correction, but did not make the correction for 2013-14.

**Restore Medicaid Reimbursement to 100%** ($15.853 million GF in year two) - increase Medicaid prospective payment rates in order to meet the needs of an increasing number of Medicaid enrollees and Virginia residents who fall within the state indigent care criteria. The Medical Center requests that state funding be restored from the current approximately 95 percent of costs, to the original 100 percent of the costs to care for Medicaid and state defined indigent patients, as previously received in fiscal years 2007 and 2008 and as established by policy in 2004.

**Eliminate Appropriation Act Language for Duplication of Health Services with Augusta Health** (Language Only) - elimination of the language requiring the University of Virginia Hospital to engage in substantive dialogue with Augusta Health to avoid or resolve issues surrounding possible duplication of health services and report progress to the Chairmen of the House Appropriations and Senate Finance Committees by November 1, 2012.

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

**APPROVAL OF 2013 OPERATING AND CAPITAL AMENDMENTS TO THE 2012-2014 BIENNIAL BUDGET**

WHEREAS, the University, the Medical Center, and the College at Wise have an opportunity to propose budget amendments for consideration by the Governor in his amended 2012-2014 budget; and

WHEREAS, the six-year plans previously approved by the Board of Visitors and submitted to the state by the Academic Division and the College at Wise provide the basis for the proposed amendments;
RESOLVED, the Board of Visitors of the University of Virginia approves the amendments to the 2012-2014 biennial budget; and

RESOLVED FURTHER, the Board of Visitors understands that to the extent these initiatives are not included in the Governor’s 2012-2014 amended budget, the University may want to pursue similar requests to the Legislature; and

RESOLVED FURTHER, the President or her designee 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:

Albemarle Arthritis Associates, LLP Acquisition by the Medical Center

Mr. Howell spoke about the acquisition of this practice, which was originally approved by MCOB, Finance Committee, and the Board of Visitors at the May 2012 meeting. Since then, certain aspects of the purchase have changed and the costs have increased from $1.2 million to $2.5 million. At the time of the original request, the University thought it would be able to share some space for an infusion center but has found that would not be possible. A different site has been identified in the same area that will meet current and projected needs. The projected returns on a very conservative basis are slightly less than originally predicted.

Mr. George Keith Martin and Mr. Frank Atkinson cited potential conflicts of interest because their firm may be providing counsel on this acquisition. They recused themselves from the discussion and the vote.

On motion, the committee approved the following resolutions and recommended them for full Board approval. Mr. Atkinson and Mr. Martin abstained:

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 at a total investment not to exceed $2,500,000; and

RESOLVED FURTHER, the President of the University or her designee 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 President of the University or her designee deems appropriate, and to take such other action as the President of the University or her designee deems necessary and appropriate to consummate the foregoing.

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Written and Miscellaneous Financial Reports

The written reports include a report on the endowment spending rate, which according to policy has been increased by 3.8% and will be equivalent to 4.83% of the June 30, 2012 market value of the endowment. Since the resulting percentage falls within the Board-approved 4-6% range, no action is required.

The annual report on the University’s Health Care Plan indicates that claims are increasing principally because of an increase in the number and amount of high dollar claims. Prescription drug costs are down following engagement of a new Pharmacy benefit manager, and plan reserves are healthy. The University/employer contributions for both low premium and high premium plans will increase 3.25% for 2013. Employees in the high premium plan will also pay 3.25% more in 2013; those in the low premium plan will not see an increase.

The customary miscellaneous financial reports are included at the end of the Finance Committee material, including the faculty salary report, which reflects the University’s rank at the 26th position among AAU institutions, a $4,200 gap from the 20th position. The Sponsored Programs report shows that federal research funding is down 3.5%, excluding ARRA, from $317 million in FY 2011 to $306 million in FY 2012.

The Chair adjourned the Finance Committee meeting at 11:45 a.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