TO: The Finance Committee:

Victoria D. Harker, Chair
William H. Goodwin Jr., Vice Chair
Frank B. Atkinson
A. Macdonald Caputo
The Honorable Alan A. Diamonstein
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
Martin N. Davidson, Faculty Consulting Member

and

The Remaining Members of the Board and Senior Advisor:

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

FROM: Susan G. Harris

SUBJECT: Minutes of the Finance Committee Meeting on April 3, 2013

The Finance Committee of the Board of Visitors of the University of Virginia met, in Open Session, at 1:05 p.m., Wednesday, April 3, 2013, in Room 333 of the Richmond Center of the School of Continuing and Professional Studies; Ms. Victoria D. Harker, Chair, presided.

Present were Frank B. Atkinson, the Honorable Alan A. Diamonstein, William H. Goodwin Jr., and Ms. Helen E. Dragas, Rector.
Vincent J. Mastracco Jr., Edward D. Miller, M.D., and Timothy B. Robertson participated by telephone.

Also present were Hunter E. Craig, Marvin W. Gilliam Jr., Stephen P. Long, M.D., Linwood H. Rose, Ms. Hillary A. Hurd, and Leonard W. Sandridge Jr.

Daniel Maxwell Meyers, the consulting member from the Council of Foundations, and Martin N. Davidson, the faculty consulting member, participated by telephone.

Present as well were Ms. Teresa A. Sullivan, John D. Simon, Patrick D. Hogan, Ms. Susan G. Harris, Paul J. Forch, Ms. Nancy A. Rivers, Ms. Colette Sheehy, Robert D. Sweeney, Anthony P. de Bruyn, Ms. S. Pace Lochte, Ms. Megan K. Lowe, Ms. Melody S. Bianchetto, and Ms. Debra D. Rinker.

Ms. Harker said the meeting is intended to be an informal working session to discuss and ask questions regarding the four year rolling financial forecast for academic excellence. Several white papers have been prepared and an open discussion is expected. The goal is to provide the groundwork for financial decisions in the future. In answer to a question from Mr. Mastracco, Ms. Harker said the goal of this meeting is to provide direction and guidance on tuition for the upcoming meeting on April 18th.

Ms. Harker introduced Patrick D. Hogan, the Executive Vice President and Chief Operating Officer. Mr. Hogan introduced President Teresa Sullivan to provide some initial comments.

Remarks by the President

Ms. Sullivan explained the need for a four year financial plan, while allowing the Board to retain control of the annual budget and annual approval of the endowment payout and tuition and fees. It is a complex plan for a complex institution. There are many levers that are outside the University's control, such as state appropriations, and much of the endowment is restricted, however, the Board can specify the level of payout. The University can also continue to seek support through annual giving and major gifts; there are over 167,000 donors to the current campaign. The University can also control some costs; she said the administration will show the committee the ways they have been able to do that in the past and how they propose to control costs in the future.

Reductions in state financial support over the last two decades have forced the University to become more operationally efficient and more reliant on private support. The University has raised more than $4 billion in philanthropic support over the past two decades, during two capital campaigns. This plan to finance academic excellence will
help steward the gifts of these alumni, parents, and friends prudently. This multi-year plan will give the University predictability, affordability, and accessibility, while assuring the level of excellence that all expect from the University of Virginia. President Sullivan called on Mr. Hogan to present the plan to the committee.

Remarks by the Executive Vice President and Chief Operating Officer

Mr. Hogan thanked the committee members for the foresight to request, review, and give feedback on the development of a four-year plan. This was confirmed by the three rating agencies recently, as Fitch, Moody’s, and S&P all support looking beyond the next state budget cycle.

Mr. Hogan said Financing Academic Excellence is a dynamic financial framework that considers the current sources and uses of funds for all of the University’s operations, and it will be updated annually in keeping with the strategic plan, to maintain a rolling four-year outlook. The plan provides commitment to three values: accountability, access, and affordability.

The plan sets forth a multi-year plan for tuition and fees, providing accountability to parents, students, and the state. Knowing the cost of a four-year education gives transparency and could become a recruiting tool. The University is committed to ensuring that students and families have access to and can afford the University, keeping student debt in mind, and partners with the Commonwealth to share in the funding of the costs of public higher education. Only 27% of the University’s in-state students graduated with any need-based debt in 2011-12, which averaged $10,636, among the lowest in the U.S. where the average student loan debt is almost $27,000.

Mr. Hogan said AccessUVa is one of the top two financial aid programs in the country among all public universities. A third of our undergraduates, or approximately 4,900 students, have their full financial need covered. Over 1,200 entering students were offered financial aid packages. Including sources from federal, state, and private aid, the total cost approaches $95 million. AccessUVa will be a topic for discussion during the May meeting of the Board, with the goal of continuing to maintain the program as one of the best in the country balanced with the financial reality and constraints of today.

In addressing affordability, Mr. Hogan showed in-state tuition increases from 2010-11 of 9.7%, 2011-12 of 8.8%, and 2012-13 of 3.6%. An increase of 2.9% in base tuition for in-state students is proposed, with an increase of no more than 2.9% in each of the subsequent three years. The administration proposes a similar level of affordability for out-of-state students, an increase of 3.9%. The proposed 2.9% in-state increase ($292) for the academic year 2013-14 equals the state mandated increases in costs that were not funded by the General
Mr. Hogan said the Commonwealth of Virginia funds less than 50% of the cost of education for an in-state student. While the state approves budget actions such as salary increases, approximately 2/3rds of the costs are passed from the state to the University. There were $7.9 million of state mandated increases not funded by the General Assembly in 2012-2013, and there will be $7.2 million in 2013-14. No other inflationary cost increases are being passed on to in-state families in the proposed tuition increases.

Ms. Dragas asked for clarification of whether the state is funding 50% or 33%. Ms. Bianchetto answered that the state funds about 50% of the base costs of education for in-state students, based on a state formula, but the state only funds approximately 1/3rd of the state mandated budget actions each year, so tuition increases must cover the other 2/3rds of those mandated costs.

Mr. Hogan addressed the differential tuition and fee strategy, where base tuition stays low, but special program costs are aligned with targeted pricing. This integrated price model avoids lower level students subsidizing upper level students, or students in one school subsidizing costs of degrees in another school. This is already being done in the McIntire School of Commerce and the School of Engineering. The administration proposes the final phase of the 3-step implementation of differential tuition at the McIntire School this fall, for all levels of students to pay an additional fee of $5,000. They propose for the Engineering School to charge a differential tuition of $2,000 beginning with 1st-year students this fall, which replaces the $750 annual lab fee. Second, third, and fourth-years will still be charged the $750 lab fee until they graduate.

It is also proposed that beginning in academic year 2013-14, third and fourth year students in the College of Arts and Sciences, Nursing, Architecture, Batten, and Curry pay a new Academic Excellence fee of $500 that would escalate by $500 per year until the upper level fee reaches $2,000 in academic year 2016-17. Lab and course fees already in place will be reduced proportionally as the academic excellence fee is implemented.

The administration is asking the Board to consider the phase-in of this new tuition model that commits to modest base tuition increases and implements targeted differential tuition and upper level fees where related costs of education are higher.

Mr. Goodwin said he was afraid the different schools may start competing for why their fee should be higher than another school's fee. It is still a cash cost to the parents. Adding these fees really increases the costs by 5.1%, not 2.9%, which is significantly more than the stated 1.8% rate of inflation. Mr. Hogan put aside the question for a moment and showed the costs for an engineering student
over a four year period, comparing costs currently in place with those proposed, which indicated an increase for 2013-14 of 2.9% ($292), plus the $2,000 differential fee, but eliminated the $750 lab fee, for a 14.3% increase.

Ms. Dragas asked how the new fees would impact a student in the College. Mr. Hogan walked through an entering first year this fall with an increase to base tuition of 2.9% for their first two years. As a third and fourth year, tuition would increase by 2.9%, plus an academic excellence fee of $1,500 and $2,000, respectively. The average is 4.1% per year over the four years.

Ms. Dragas asked whether the 2.9% increase also applies to the other fees charged in addition to base tuition. Mr. Hogan said the white paper only deals with base tuition. For a more comprehensive presentation on differential tuition and fees he introduced John D. Simon, Executive Vice President and Provost.

Remarks by the Executive Vice President and Provost

Mr. Simon said the education of the students at the University is what binds us together. He gave three examples of student experiences from the College: 1) Walker McKusick, a fourth-year history and economics double major, who researched the judiciary in the United Kingdom, particularly the decline of parliamentary sovereignty and the rise of judicial review of legislation. His observations of sessions of Parliament and the Supreme Court, interviews, and research are a culmination of his college experience and have inspired him to pursue law; 2) Sarah Kim, a biology major, received a prestigious Goldwater Scholarship, awarded to students who intend to pursue careers in math, the natural sciences, or engineering. Sarah researched the effects of aging on plants, which age despite the presence of tissue that functions like stem cells; 3) George Zaras, (College '12), was an archaeology and religious studies major who wrote his distinguished undergraduate thesis on “Greek Religion at Morgantina: the Altars of Bloodless Sacrifice”. Based on two seasons of field work in central Sicily, George explored the street and domestic altars in the area. His aim is to synthesize the collected data and shed light on private religious experience in this region of the ancient Greek world.

Mr. Simon drew attention to these experiences, happening in state-of-the-art laboratories and in locations around the world, which are costly. He said we share the obligation to provide the academic environment where students can undertake such experiences in their final two years. Our tuition and fee structure should enable these transformative experiences. Differential tuition is one strategy to support such experiences, as well as to provide career services, advising, and small classes. A report from the Cornell Higher Education Research Institute in 2011 found 143 public academic institutions had some form of differential tuition. Of public doctoral institutions, 41% had differential tuition, and well over half of flagship doctoral institutions had the same. Currently,
McIntire is the only school at the University with differential tuition.

The latest data from 2008 shows one third of business and engineering programs at public research universities charge differential tuition, but other programs/majors are increasingly employing it to support costs. He recapped the proposed completion of the third phase for differential tuition at McIntire, the implementation of differential tuition in the Engineering School for incoming first years, and the plan for the Academic Excellence Fee for the other undergraduate schools.

Mr. Simon introduced Carl Zeithaml, Dean of the McIntire School of Commerce, James Aylor, Dean of the School of Engineering, and Ms. Meredith Woo, Dean of the College of Arts and Sciences, to explain the importance and need for these fees.

Remarks by the Dean of the McIntire School of Commerce

Mr. Zeithaml said that when the Board approved their plan two years ago, differential tuition was essential to achieving their vision of becoming a preeminent global business school. Today he is here to say it is working well. He made two points: 1) it has had a significant positive impact on the total student experience, in the quality, quantity of services, and curriculum options. 2) it has not only enabled McIntire to maintain their top rankings and value added services, it has provided an environment for students and faculty that encourages innovation and flexibility.

Mr. Zeithaml said they have introduced three new career-oriented tracks. Last year, Business Analytics and Global Commerce tracks were created. Next year, a Quantitative Finance track will be an option, which is an integration of finance, math, and computer science.

In career services they have been able to expand their programs, advising, and their professional staff. The Class of 2012 had a 98% record of job placement. The school has made an investment in upgrading technology, databases, analytical tools, and tech facilities. Global programs have been expanded and enhanced. Support for faculty instructional innovations has also improved.

Mr. Zeithaml said their budget for differential services shows $411,881 spent on career services, over $1.5 million on technology, $675,737 for student services, and $412,635 on international programs. Net revenue from differential tuition after financial aid was $2,069,632, which covered 2/3rds of the budget. The other 1/3rd was covered by unrestricted philanthropy.

Answering a question from Dr. Long regarding the impact of differential tuition on applications, Mr. Zeithaml said they have had a near record number of applications. The quality and diversity of the applications also went up. Another benefit is the faculty sees
the investments, which allows McIntire to be competitive. It is also good for fundraising; many alumni feel these investments were needed. Philanthropy provides well over half of his budget for undergraduate education, and it helps to be able to say the school has differential tuition and a better funding model.

Answering another question, Dean Zeithaml said the median graduate starting salary is $61,000, not including any bonuses. Ms. Dragas said that part of the Board’s rationale when the first two phases were approved was the higher earning potential of graduates. Mr. Zeithaml said it is all about the program and having a higher quality experience.

Mr. Atkinson said it seemed there are two separate rationales for differential tuition, the greater earning potential and higher costs. Mr. Zeithaml said that it costs around $33,000 per year per undergraduate McIntire student. Looking at their total budget of $22.7 million, $8.6 million comes through the University, with an additional $2 million from differential tuition, so only about half of their costs are covered; the rest comes from philanthropy. He said the rationale should come down to wanting to provide a quality program that will benefit the graduates for a lifetime.

Remarks by the Dean of the School of Engineering

Mr. Aylor agreed with Mr. Zeithaml that the big issue is the quality of education. The Engineering School offers services, equipment, laboratories, and experiential learning software. He said there has been an increased demand for engineering; they have had a 100% increase in applications in the past three years. The SAT scores also have increased.

A high quality engineering education requires:
- State-of-the-art equipment
- Industrial internships and international experiences
- Experiential learning – hands on learning through research projects

The engineering fee has enabled new opportunities for laboratory instruction by providing renovation and new equipment and supplies, more high demand programs, and additional teaching assistants. He gave several examples of new equipment and renovated lab space being put to good use, some even having a collaborative learning effect with other schools.

A chart demonstrated the phase in of the proposed $2,000 per year differential tuition and the phase out of the $750 engineering course fee. When fully implemented, differential tuition would bring in almost $3.5 million in additional funds. A higher tuition for engineering is justified based on the cost of a top quality engineering program, and it is necessary to remain competitive.
Mr. Aylor listed several areas where they would allocate the money from differential tuition:

- Instructional technology & supplies $1,000,000
- Career and Diversity Services expanded 500,000
- Academic advising expanded 250,000
- Experiential, International, Research Programs (undergraduate) 750,000
- Instructional Support (Graduate TA’s) 500,000
- Faculty growth to support student growth 500,000

Total $3,500,000

Mr. Goodwin asked about the School’s total budget. Mr. Aylor said their total budget is about $100 million: $60 million goes toward research and $40 million for teaching, with $24 million from the University. Mr. Goodwin drew the distinction that differential tuition is much less significant for engineering than it is for McIntire.

Remarks by the Dean of the College of Arts and Sciences

Ms. Meredith Woo said the College of Arts and Sciences has 11,000 undergraduate students, plus 1,500 graduate students. The College delivers 75% of all undergraduate instruction at the University. The effects of the economic downturn in 2008 caused the College to lose 15% of their budget; the College eliminated 30 faculty, 13 staff, and also cut other than personal expenses (OTPS). They eliminated 110 low enrollment courses, creating a deteriorating student-faculty ratio. A thorough restructuring of the Graduate Program was undertaken.

Ms. Woo explained that they have four revenue sources: tuition, state appropriations, philanthropy, and external research funding. Because they have no control over tuition or state appropriations, they have focused on the other two sources. Their philanthropy has grown over the last three years from $25 million to $66 million, and is going strong. External research funding has also grown; from 2008 to 2011 it increased 20%.

Ms. Woo said the College is now ready to grow in new directions on the basis of the comprehensive reorganization and reallocation that they have done. Upper level instruction is fundamentally different from the first two years. Third and fourth year courses are mostly taught by tenured and tenure-track faculty in smaller classes. There is a proliferation of independent studies, honors theses, and tutorials. There is also a proliferation of double majors; 500 of these double majors come from other schools. The cost per course seat is about $250 more, or $2,500 per academic year, for these upper level courses.
Ms. Woo said the upper level fee would go towards enhancement of the environment for transformative experiences, more small seminars, integrative technology, more team-taught courses for interdisciplinary courses and majors, more internships, study abroad, self-guided inquiry, service oriented courses, and undergraduate collaborative research.

Answering a question from Ms. Harker, Ms. Woo said that the student/faculty ratio is now 20:1, which is getting very dangerous.

Mr. Goodwin said he was under the impression that tuition and fees were increased dramatically during those lean times to offset the state’s decline in support. Mr. Atkinson said that from the perspective of the Governor’s Commission, on a system-wide basis the tuition increases did not offset the decline in state support. The committee would like an analysis of school budgets over the years showing the impact of declining state support, including philanthropy.

Ms. Dragas said the core question and mission as a public university is: “How can we deliver a world class education at a price Virginians can afford?” Virginians’ income has actually declined over the past ten years by 1.5%, yet tuition has almost doubled (has increased seven times faster than inflation). The challenge is to deliver quality but to do it in a way that is affordable to Virginians, not by looking at the demand and knowing people will be willing to pay a higher tuition. Ms. Woo said she feels that we are at a tipping point to providing the education that distinguishes us. The effects on students are they cannot get into a class, are put on a waiting list, and larger class sizes. Ms. Dragas said she would like to hear more about how we make the decisions about what courses to provide, and they need to examine the funding of AccessUVa to the extent of $40 million a year. She is concerned that 9,500 students (66%) are providing the funding for 4,900 students (33%). Ms. Woo said that in addition to efficiencies and the elimination of courses, they have prioritized according to what truly is important to their mission in the College. Ms. Dragas said the challenge is to look for cost savings so we don’t revenue starve the university, diminish quality, or our potential; are there things that could be changed structurally? Should there be a work study requirement for AccessUVa?

Mr. Atkinson confirmed with Mr. Hogan that the cost to cover state mandates amounts to a 2.9% increase plus inflation, currently 1.8%, which requires a 5% increase just to stay even. Mr. Goodwin said he would prefer a more straightforward 1% higher increase in tuition rather than a lower base tuition plus a lot of fees, which about 40% goes back to fund AccessUVa.

Mr. Hogan answered a question from November regarding AccessUVa: the $41 million total breaks down to $23 million for out-of-state students and $18 million for in-state students. Ms. Sullivan added that administrative changes have been made to AccessUVa, designed to try to control the amount of University money in the program.
Financial aid packages have been issued for next year. Ms. Sullivan said she does not see how $15 million could be saved as Ms. Dragas had suggested; some possible savings could be realized from trying to draw in more federal work-study funds. Any major changes would have to come from the Board.

Mr. Goodwin made the comment that total tuition in the year 2016-17 is projected to bring in $300 million, yet the total revenue from all sources is $1.5 billion. Why are we looking at just the tuition piece of incoming revenue? Ms. Sullivan reminded the Board that research grants must be spent on the specific research that brought the money in, room and board money goes toward room and board, philanthropy is often designated for specific purposes. The funds are often not fungible.

Operational Excellence

Mr. Hogan said the University has reallocated or generated almost $20 million since August 2010 through resource optimization, automation/streamlining, reorganization and partnerships, and organizational effectiveness. The plan for Financing Academic Excellence has goals of driving higher levels of quality, achieving greater cost efficiencies, and supporting the funding of academic excellence. A chart comparing academic spending per FTE student among our peers shows the University ranked #11 out of 26, spending $17,790 per student. Many of our peers have larger enrollments and the benefit from greater economies of scale. US News ranked the University as the #2 public university in the country, but ranked the University #53 in expenditures per student, showing we deliver a high quality program in an efficient manner. Administrative spending per FTE student ($3,311) also compares well with the SCHEV peer group.

For the five year period of FY13 to 17, the goal is to have savings of $44 million (1% of expenses) from the operational excellence program. Fiscal year 2013 is on track to save $7.4 million. The $44 million represents 5% of total operating expenses, or 14% when measured against “addressable costs”. Addressable costs include academic administration and support, finance, human resources, development, IT, executive management, and auxiliary services (athletics, parking and transportation, printing, housing, student health, etc.). These costs amount to 30% of the operating budget, or $366 million. The other areas not currently targeted are faculty compensation, student services, research, depreciation, and maintenance of buildings. Initially, the administration would like to focus on the following areas:

- Space and real estate planning
- Shared services (IT, HR, Accounting, Procurement)
- Outsourcing and shared sourcing
- Vendor contracts
Ms. Dragas asked if there was a way to reallocate funds from the Medical Center to the academic side to help relieve pressure on tuition. Mr. Hogan said that is an area where the administration is working with Medical Center, Medical School, and University Physician's Group leadership to help fund the academic mission, and they have identified about $7 million so far.

Mr. Hogan said the goal of $44 million in savings by FY17 is appropriately aggressive and will not endanger the quality of our programs. Ms. Harker asked what metrics will be shown to measure the progress. He answered that they will develop a formal plan, and report to the Board quarterly.

**Strategic Investment Fund**

Mr. Simon said the worst outcome of the academic strategic plan would be to have great ideas but not take action because you don’t have the funds for implementation. It is important to align our resources to be able to invest in strategic ideas as they come out of the plan. The plan should “evolve, move, and change” in order to seize opportunities that may arise. With the changes in faculty that are coming in the near future, half of the faculty who will be implementing this plan are not at the University yet.

Currently, the President has excellence funds of $3 million to support strategic investments at the University. Everything else comes from partnerships between the schools; there is no institutional seed money for interdisciplinary programs. Contemporary research and educational training required to be competitive results from cooperative ventures across schools. Examples are sustainability and cybersecurity; these should be shaped by central administration with funding, and over time the schools could take over their budgets.

Mr. Simon said the Health System strategic plan has targeted their investment fund to grow by $200 million by June 2017.

Mr. Simon listed several areas of needed strategic investments:
- Faculty hiring – cluster hires across several schools
- New programs – multiple school partnerships – seed money
- Collaborative projects – provide bridge funds
- Engaging industry – provide start-up costs for faculty
- Curriculum – coordinate centrally for control of costs and quality
- Multi-institutional partnerships – a university priority guided by the center

Mr. Goodwin made an observation that the total goal for the strategic investment fund equals the total of net tuition increases over a four year period. Mr. Hogan said he thinks the strategic investment fund is very important for implementing the four year plan; it is not just a matter of eliminating the strategic investment fund
and not raising tuition. The financial plan has several different components and they all fit together.

Mr. Goodwin said he was not comfortable approving a budget with this strategic investment fund without knowing specifically what it would be funding.

Dr. Miller said the funds needed by the University should be raised through cutting costs as well as philanthropy that is more efficient than currently.

Ms. Harker said that in the future she would like to see what a 2% and 3% cut in costs would look like—what are the levers? The University has proposed a 1% cut.

Mr. Atkinson said in order to stay at the current level the University needs about a 5% tuition increase. He said it would be possible to increase or decrease the strategic fund according to the savings that can be realized. He asked what must be decided at this time, and the Rector responded that on April 18 tuition and fees must be decided. In May, the 2013-14 budget must be approved. There is a question about whether the Board must approve the four-year financial plan and exactly the format for approval. She said she would like to approve a spreadsheet.

Mr. Atkinson advocated for gaining consensus around the concepts in the plan rather than the numbers.

Mr. Hogan moved to a brief discussion on endowment. He proposed getting a group together to study what would be the best development model, including cost, structure, and funding. This is an area that needs more study. Cost reduction will not be easy, particularly with all the fundraising foundations.

Discussion ensued about approving the four year financial plan. Mr. Goodwin suggested that approval should not occur before the strategic plan is completed. President Sullivan said tuition must be set in April and the next fiscal year’s budget approved in May. She said she viewed the four year plan as a living document, and she was not sure the Board needed to approve it. She agreed with Mr. Goodwin that we could let it evolve. She thought we could view it as a process rather than a product. The Rector said it should be approved annually; lack of approval would be an institutional mistake. Mr. Atkinson said we need to understand how to dovetail the plan with the six-year plan the state requires. In approving the six-year plan we can revisit the four-year plan.

The Rector said the Board should have a discussion about what the “shell” should be. Pat Hogan said he would like the Board behind his goal on operational efficiencies, because it will be a pan-University effort and he wants to be able to say that the Board supports the effort. He said they would not wait to institute efficiencies.
The Chair adjourned the Finance Committee meeting at 4:15 p.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