MEMORANDUM

TO: The Finance Subcommittee:

John A. Griffin, Chair
Frank B. Atkinson
Kevin J. Fay
Victoria D. Harker
Linwood H. Rose
George Keith Martin, Ex Officio

and

The Remaining Members of the Board and Senior Advisor:

Hunter E. Craig       Bobbie G. Kilberg
Allison Cryor DiNardo  Stephen P Long, M.D.
Helen E. Dragas       Edward D. Miller, M.D.
Frank E. Genovese     John L. Nau III
Marvin W. Gilliam Jr.  Timothy B. Robertson
William H. Goodwin Jr. Margaret N. Gould
                      Leonard W. Sandridge Jr.

FROM: Susan G. Harris

SUBJECT: Minutes of the Finance Subcommittee Meeting on June 27, 2014

The Finance Subcommittee of the Board of Visitors of the University of Virginia met, in Open Session, at 11:09 a.m. on Friday, June 27, 2014, in the Private Dining Room of the Hyatt Dulles Airport in Herndon, Virginia; John A. Griffin, Chair, presided.

Present were Frank B. Atkinson, Kevin J. Fay, Victoria D. Harker, and John G. Macfarlane III. Mr. William H. Goodwin Jr. called in to listen to the meeting.

Present as well were Patrick D. Hogan, Melody S. Bianchetto, Megan K. Lowe, David W. Martel, James S. Matteo, Maurie D. McInnis, Nancy A. Rivers, Colette Sheehy, and W. Thomas Leback.

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Mr. Griffin reviewed the agenda and noted that committee members have begun outreach efforts to the Board, University administrators, State Council of Higher Education (SCHEV), and individuals outside the University. Mr. Griffin has started a dialog with individuals at SCHEV, and he said he hopes to speak with Mr. Mitchell E. Daniels Jr., the former governor of Indiana and current president of Purdue University. He said there have been two meetings in New York with members of the University’s project team to discuss communications and finance.

Mr. Griffin reviewed the Committee’s charge, which is to develop a long term financial/pricing model that promotes the following goals:

1. Affordability for low-income and middle income students
2. Predictability of tuition and fees and associated financial aid
3. A sustainable student financial aid program
4. Sustainable funding for academic excellence
5. Diversity and inclusiveness
6. Efficiencies and savings through the Organizational Excellence initiative

Mr. Griffin emphasized the importance of the second goal, and noted that progress has been made on the sixth. During the ensuing discussion it was noted: 1) while tuition is important, the amount of additional funding resulting from tuition increases do not justify lengthy tuition discussions; 2) given the unpredictability of state funding, the University must become as self-sufficient as possible to achieve predictability; 3) the University must pursue new revenue sources and cost savings; 4) there should be a discussion about the right tuition pricing and the distribution of that cost burden; and 5) tuition increases and salary freezes have been used as the safety valve to offset reductions in state funding.

Mr. Griffin asked Mr. Hogan to provide overviews of current tuition pricing, the cost of educating a student, AccessUVA, and the University’s endowment.

Mr. Hogan said the University’s tuition/financial aid pricing model is a hybrid of different models used by public and private universities. For in-state students, the University provides low tuition/high aid for students with demonstrated financial need and low tuition/low aid for students who do not demonstrate financial need. For out-of-state students, the University provides high tuition/high aid for students with a demonstrated financial need, and high tuition/low aid for students who do not demonstrate financial need. The University’s model does a number of things well. It recognizes
taxpayer contributions through a general subsidy for all Virginia students, sets out-of-state tuition at close to market rates, recognizes the higher cost of certain programs through differential tuition, offers a flat rate to a majority of students in the College, and increases affordability and economic diversity.

Discussion topics include understanding if costs are a reason why applicants who have been offered admission decide not to attend; recognizing that in-state middle class families who do not qualify for financial aid may be financially squeezed; and suggesting ways to increase understanding of AccessUVA. It was noted that applicants do not understand that while the University's in-state list price is one of the highest in the state, the net price is not, and we may be missing the middle class applicants by failing to communicate the University's value and affordability.

Further discussion focused on consideration of a differential tuition model where in-state families who can afford a higher cost would pay more so that lower and middle income families would pay less. Under such a model, higher income families would still benefit from the state subsidy but not to the same extent. There was also discussion of William and Mary's program for in-state students that raises tuition costs to increase funding for financial aid in order to lower the net cost for middle income families. (Given the current out-of-state pricing, this option is not available for out-of-state students). At a future meeting, the Committee would like to see the data expanded to include the expected family contribution, and the cost data for benchmarked schools.

Mr. Hogan explained that the cost of education per student is $41,000. This is for all students, both undergraduate and graduate, but not for students at the College at Wise. It does not include room and board. Funding comes from students ($21,000), the State ($5,800), donors ($10,600), and other ($3,600). At this point, the University does not segregate the cost on a per-student basis or on a degree basis among instruction, need-based financial aid, libraries, academic technology, student services, operations and maintenance, and administration. He said we are in the process of identifying the cost of providing an undergraduate degree, and this information will be presented at the September meeting. Committee discussion focused on the importance and urgency of this data, and the need to separate graduate and undergraduate costs.

The AccessUVA overview outlined the program's goals, funding, and how demonstrated financial need is met. Mr. Hogan noted that the University would need a $1 billion dedicated endowment to fully fund the $46 million annually that currently comes from University unrestricted sources.

For the endowment overview, Mr. Hogan noted that the goal of the endowment spending policy is to provide a reliable, predictable distribution while preserving the endowment's purchasing power. The
annual payouts are based on the prior year's payout increased by a five year rolling average of the Higher Education Price Index. According to Board policy, the payout must stay within the 4% to 6% band of the endowment's prior year market value. A payout outside the band requires Board action. Committee discussion focused on the benefits of increasing the payout rate or taking a onetime distribution to address special needs, such as startup packages for new faculty. Even though only 20% of the endowment payout goes to unrestricted sources, an increased payout rate or special distribution could free operating funds that supplement programs and positions funded by restricted funds.

Ms. Harker began the discussion of the outreach efforts made to date. She has contacted four members of the Board. The common themes were a desire to see long term pricing options in support of the strategic plan, an emphasis on knowing the cost of education on a school-by-school basis, a desire to understand the full gamut of funding opportunities and to know the long term costs for the next three to five years. Questions were raised about philanthropy, particularly the reliability of the bridge campaign. She said there was also discussion of the importance of need blind admissions, and whether we should assume that the current state funding levels are the new normal. She said concerns were raised about taking on added debt without a clear understanding of how it will be serviced, the viability of new revenue sources such as online or international, and understanding the budget components that are paid by tuition. Members want to understand if there are opportunities for expansion of corporate sponsorships.

Mr. Fay received similar comments; his contacts stressed the need to find creative ways to deal with AccessUVA.

Committee discussion focused on state funding and understanding how reliable this revenue source will be in the future. For planning purposes, the University should assume that state funding will remain flat in real terms. Mr. Hogan noted that increased inflation rates are a risk since they would have a negative impact on the budget.

Mr. Griffin began a discussion of the opportunities by noting that if we achieve multi-year tuition predictability, we will need to look at other "levers" in which to help meet our financial goals. The levers under consideration are:

**Endowment**: Ms. Harker and Mr. Macfarlane will look at spending rate options with help from Mr. Hogan, and will report at the next meeting.
Advancement: The focus of this effort is on funding options for AccessUVA. Mr. Griffin noted that funding might benefit from calling AccessUVA a scholarship rather than financial aid. Mr. Griffin and Mr. Fay will work with Mr. Nau, Mr. Hogan, Mr. Sweeney, and Mr. Martel.

Efficiency: Mr. Griffin and Mr. Hogan reviewed the operational efficiencies and the new revenue model. Mr. Hogan explained that the goal of the Organizational Excellence program is to align spending with the strategic plan. Mr. Griffin noted that with the implementation of the new financial model, units will receive their tuition revenues and will be responsible for their costs. Mr. Hogan said the model has measures to promote efficiencies and to reduce redundancies. Discussion of the realignment of funds to a particular initiative must also be accompanied by a discussion of the cost savings that made the realignment possible.

University’s Triple A Bond Rating: The focus of this lever is to see if there are additional creative borrowing opportunities for leveraging funds, including a better use of excess operating cash. Ms. Harker will work with Mr. Hogan and Mr. Matteo.

New Revenues: Corporate partnerships, investments, and relations are a possible revenue resource. Mr. Macfarlane noted that this is an evolving opportunity because corporations are hiring students earlier and earlier in their talent searches; the University should also work closely with the State because this could lead to increased employment opportunities. Mr. Atkinson suggested that projecting some of the University’s instructional programs internationally might be a source of new reviews, although he does not believe that they are a near term solution, or certain. Mr. Macfarlane will work with Mr. Hogan and Ms. Lochte.

Research: Are there ways that research funding can financially benefit the academic mission? There are indications at the state level that research will become an initiative in a few years. Mr. Atkinson will work with Mr. Simon and Mr. Skalak.

The Committee asked Mr. Hogan to recommend an appropriate inflation index and to report at a future meeting on: 1) the success of other tuition models, such as the William and Mary Promise; and 2) if it can be determined that predictability has a value to families.

Committee discussion continued on use of facilities, cost and timing of the strategic plan, and upcoming AccessUVA needs.

Use of Facilities: Has the University maxed out the residential experience? For example, are the on-Grounds spaces backfilled for students who participate in study abroad programs? Are there other
programs that could provide on-Grounds experiences? Are University facilities used 100 percent? Has the potential for sale/lease back options been explored? Mr. Hogan noted that he and Ms. Sheehy are studying the capacity of current facilities to see if they can accommodate added enrollment; as a part of the effort they will also respond to the Committee’s questions.

Cost and timing of the strategic plan: This information is important because it will impact the levers; it would be good to separate ongoing costs from onetime costs. Mr. Hogan stated that the strategic plan will be re-priced for the September meeting.

AccessUVA: Does the University know the AccessUVA needs for the incoming class? Mr. Hogan noted that this data will be available at the September meeting.

Mr. Griffin outlined the committee’s schedule:

July: Finish BOV outreach calls
     Initiate calls to higher education thought leaders
     July 25th meeting from 9:00 to 1:30 at the Hyatt Dulles

August: Continuation of the outreach calls

September: Committee meeting in conjunction with Board Meeting. Since a long meeting is needed, the meeting will take place the Wednesday night before the Board Meeting.

October: Last committee meeting

November: Recommendations finalized for the Board meeting.

The Chair adjourned the Finance Subcommittee meeting at 2:49 p.m.

SGH: wt1
These minutes have been posted to the University of Virginia’s Board of Visitors website: http://www.virginia.edu/bov/financeminutes.html