MEMORANDUM

TO: Advancement & Communications Committee Members:
    John L. Nau III, Chair
    Bobbie G. Kilberg, Vice Chair
    Hunter E. Craig
    Allison Cryor DiNardo
    Helen E. Dragas
    Kevin J. Fay
    Frank E. Genovese
    William H. Goodwin Jr.
    George Keith Martin, Ex-officio
    Christopher P. Holstege, M.D., Faculty Consulting Member
    Jeffrey C. Walker, Consulting Member

    Finance Committee Members:
    Victoria D. Harker, Chair
    John A. Griffin, Vice Chair
    Frank B. Atkinson
    Marvin W. Gilliam Jr.
    Stephen P. Long, M.D.
    Edward D. Miller, M.D.
    Timothy B. Robertson
    Linwood H. Rose
    George Keith Martin, Ex Officio
    Daniel M. Meyers, Consulting Member
    Martin N. Davidson, Faculty Consulting Member

    and

    The Remaining Members of the Board and Senior Advisor:

    Margaret N. Gould
    Leonard W. Sandridge Jr.

FROM: Susan G. Harris

SUBJECT: Minutes of the Joint Meeting of the Advancement and Communications and Finance Committee Meetings on June 6, 2014

The Advancement and Communications and the Finance Committees of the Board of Visitors of the University of Virginia met, in Open Session, at 8:55 a.m. on Friday, June 6, 2014, in the Auditorium of the Albert & Shirley Small Special Collections Library of the Harrison
Institute; John L. Nau, Chair of the Advancement & Communications Committee and Victoria D. Harker, Chair of the Finance Committee, presided.


Also present were Daniel Maxwell Meyers, the Consulting Member from the Council of Foundations, Christopher P. Holstege M.D., the Faculty Consulting Member, and Blake E. Blaze, the former student member of the Board.


Ms. Harker opened the meeting by noting that this will be the first budget discussion since the strategic plan was approved; it is an important milestone because it will establish the cadence for the development of the long term financial plan; and this fall the Finance Subcommittee will present strategies and scenarios for resource options that could be used to support University initiatives.

Status of the 2014-2016 State Budget

Ms. Sheehy reported that the General Assembly (GA) has yet to reach an agreement on the 2014-16 biennial budget, which will become effective on July 1st. Governor McAuliffe convened a special budget session on March 24th. The House of Delegates passed its budget on March 25th; the Senate passed its version on April 8th. Both chambers are in recess. No date has been set to reconvene the full legislature or the money committees.

The state’s estimated revenue shortfall for the current year is approximately $35 million. For the 2014-16 biennium, the shortfall is projected to be $1 billion. The GA often uses the Rainy Day Fund to address revenue shortfalls, but this can only be done when a budget is in place. As a result, there is pressure on the GA to have a budget in place by June 30th. The University is currently assuming that state funding will be aligned with Governor McDonnell’s introduced budget.
Finance Committee         June 6, 2014

Action Item: 2014-2015 Operating and Capital Budgets

President Sullivan began the budget presentation by discussing the University's value proposition. The University is the #2 best public university according to US News & World Report, the #3 best value public college in the Princeton Review, the #2 best college value in Kiplinger's, and according to PayScale.com, has the #1 annualized return on investment. President Sullivan indicated that these rankings need to be preserved.

The University also has to remain committed to affordable excellence. The University's in-state tuition as a percentage of median income is 18.9%, which is among the lowest of all the national flagship universities. The University is one of only two institutions that meet 100% of demonstrated need for all undergraduates and are also need-blind for admissions. The University is in the lowest quartile for student indebtedness with almost two-thirds of its students graduating with no debt and with an average debt load that is well below the national average.

The University's 93.3% six-year graduation rate is the highest among all national public institutions; the 86% African-American six-year graduation rate is also the highest. The University's four-year graduation rate is 87%; only five public flagship universities have six-year graduation rates that are above 70%.

President Sullivan noted that the 2014-2015 budget addresses important priorities. These include: implementing the strategic plans of the Academic Division, College at Wise, and Medical Center; maintaining access and affordability; investing in the next generation of faculty to address faculty retirements and an increased enrollment; and implementing a new activity-based financial model linked to strategic initiatives with incentives for innovation and efficiency. Another key priority is the Medical Center's "Be Safe" patient safety program that benefits both patients and staff.

President Sullivan noted that while the implementation of the strategic plan doesn't officially begin until July 1st, there were elements that the University was able to fund and accomplish during 2013-2014 through operational savings. These were:

- Launched Total Advising
- Founded the Data Science Institute
- Expanded Undergraduate Research
- Expanded Globalization Strategy
- Launched Organizational Excellence
- Initiated Strategic Philanthropy

The 2014-2015 budget priorities include 1) expansion of total advising; 2) expansion of global experiences; 3) faculty hiring; 4) affordable excellence, and 5) organizational excellence. The
following priorities are not in the budget because it is anticipated that they will not require significant expenditures:

- Adding a leadership assessment component to the Admissions Criteria
- Enhancing alumni engagement
- Planning for the next university institute
- Expanding library services to support the Data Science Institute and other scholarly activities
- Enhancing entrepreneurship activities for students and faculty
- Focusing on the Department Chair Leadership Program
- Focusing on strategic philanthropy by planning the Bicentennial Campaign

In response to questions about University plans to grow research, President Sullivan noted that 1) the University is anticipating a slight increase in research funding next year, 2) the hiring of new young faculty will be key to maintaining competitiveness, 3) the University needs to aggressively recruit research stars, 4) a robust research infrastructure is needed, and 5) the University is making a determined effort to diversify its research funding. Committee members indicated they would like to see a research benchmarking study comparing the University to other institutions, a multi-year projection of research funding goals, and a projection of translational research aspirations. Mr. Hogan said the University will provide the requested information.

Mr. Hogan reported on the organizational excellence (OE) initiative, noting that it is critical to the University’s success because the savings it generates can be realigned to support university priorities. The principles guiding the initiative are:

- Reallocate and align resources
- Streamline, standardize, automate processes
- Strategic workforce development
- Redirect savings to strategic priorities
- Seek high levels of quality and efficiency

The progress made on OE initiatives during 2013-2014 include:

- Initiation of the program
- Completion of planning for the University Financial Model
- Initiation of managerial reporting
- Design of the Center for Leadership Excellence
- Initiation of process mapping of research administration
- Design of an electronic grant proposal workflow and repository
- Analysis of strategic sourcing opportunities for volume discount pricing on supplies
- Benchmarking of 6 administrative areas
The 2014-2015 areas of focus, which are projected to save the Academic Division $11.5 million, are:

- Complete transition to University Financial Model
- Implement strategic sourcing
- Renegotiate major procurement contracts
- Use technology to gain efficiencies
- Reduce unnecessary intra-unit business transactions
- Continue strategic workforce development
- Reduce reliance on leased space
- Benchmark additional administrative services

Mr. Hogan noted that in 2014-2015 the University will face a $114 million increase in operating costs due primarily to salary and fringe benefit increases. Of this amount, $47 million is attributable to the Academic Division, $65 million to the Medical Center and $2 million to the College at Wise. The fringe benefit increases are due primarily to increased contributions to the Virginia Retirement System and to the Affordable Care Act.

Mr. Hogan concluded the budget presentation by noting that the budget details were in the meeting materials and asking if there were any questions.

On motion, the Finance Committee approved the following resolutions:

**2014-2015 OPERATING BUDGET AND ANNUAL RENOVATION AND INFRASTRUCTURE PLAN FOR THE ACADEMIC DIVISION**

RESOLVED, the 2014-2015 Operating Budget and Annual Renovation and Infrastructure Plan for the Academic Division is approved as recommended by the President and the Chief Operating Officer subject to any necessary revisions when a final state budget is approved by the General Assembly and the Governor.

**PRATT FUND DISTRIBUTION FOR 2014-2015**

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 $8,633,000 for 2014-2015, 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.
2014-2015 OPERATING BUDGET FOR THE UNIVERSITY OF VIRGINIA’S COLLEGE AT WISE

RESOLVED, the 2014-2015 Operating Budget for The University of Virginia’s College at Wise is approved as recommended by the President and the Chief Operating Officer subject to any necessary revisions when a final state budget is approved by the General Assembly and the Governor.

2014-2015 OPERATING AND CAPITAL BUDGETS AND ANNUAL RENOVATION AND INFRASTRUCTURE PLAN FOR THE UNIVERSITY OF VIRGINIA MEDICAL CENTER

RESOLVED, the 2014-2015 Operating and Capital Budgets and the Annual Renovation and Infrastructure Plan for the University of Virginia Medical Center is approved as recommended by the President, the Chief Operating Officer, and the Medical Center Operating Board.

2014-2015 OPERATING AND CAPITAL BUDGETS FOR THE UNIVERSITY OF VIRGINIA TRANSITIONAL CARE HOSPITAL

RESOLVED, the 2014-2015 Operating and Capital Budgets for the University of Virginia Transitional Care Hospital, presented as a component of the Medical Center Operating Budget, is approved as recommended by the President, Chief Operating Officer, and the Medical Center Operating Board.

The Chair adjourned the Joint Advancement and Communications and Finance Committee meeting at 10:45 a.m.

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

2014-2015 PRATT FUND ALLOCATIONS

ARTS AND SCIENCES - $3,580,000 allocation for 2014-2015, plus $51,617 anticipated carryforward of remaining 2013-2014 funds

The March 31, 2014 market value of the Pratt Bequest for the College of Arts and Sciences is $78.5 million. The $3,580,000 request from Arts and Sciences detailed below represents the regular endowment distribution on this amount.

Biology - The 2014-2015 Pratt fund allocation for Biology is $250,000. The department proposes to allocate $183,458 for graduate fellowships: $124,765 to support outstanding graduate students and $58,693 to satisfy the department’s membership and to support one in-state student in the Biomedical Sciences Graduate Program (BIMS), an important, inter-school collaborative effort. The department proposes to use the remaining $66,542 of its 2014-2015 allocation and $5,687 from previous years’ balance to support the salaries of the Director and Associate Director of the Mountain Lake Biological Station.

Chemistry - The 2014-2015 Pratt fund allocation for Chemistry is $250,000. The department proposes to allocate $190,311 for graduate student support. Pratt funds are a crucial component of the total support package assembled to attract outstanding graduate students. The funds will be used to support two advanced students, one intermediate student, four to six entering students, and to provide summer support. The department proposes to use $59,689 of its allocation to provide summer wages for faculty holding key departmental administrative posts, including the graduate program director and undergraduate program director. Additionally, there is a commitment to fund one summer month of the Director of the Energy Frontiers Research Center if the grant is funded.

Mathematics - The 2014-2015 Pratt fund allocation for the Math Department is $150,000. The Department proposes to allocate $110,930 in partial support of the salaries of four Whyburn Postdoctoral Fellows. Internationally recognized for its excellence, the Whyburn postdoctoral program brings new Ph.D. recipients in mathematics to UVa as faculty instructors for three years of teaching and research. Pratt funds support 40% of the academic year compensation plus one month of summer wages for each fellow. The department proposes to allocate $19,047 of the 2014-2015 allocation, along with a portion of the remaining balance from prior years’ allocations (approximately $15,953) for faculty summer wages for faculty members serving as mentors.
in the summer Research Experiences for Undergraduates program and for the associate chair. The department proposes to spend $20,023 of the 2014-2015 allocation, along with a portion of the remaining balance from prior years’ allocations (approximately $9,977), to provide fellowship support for students engaged in Ph.D. research. This funding allows the department to be competitive with peer institutions in attracting graduate students. The department is requesting to use $20,000 of prior years’ remaining balances to replace aging computers and printers for the faculty in order to facilitate the continuation of their research programs.

**Physics** – The 2014-2015 Pratt fund allocation for Physics is $250,000. The department proposes to allocate $188,214 for fellowship support to outstanding graduate students. Pratt funds are crucial to the department’s ability to provide competitive multi-year packages to attract the most highly qualified physics graduate students. The department also proposes to allocate $61,786 of the 2014-2015 allocation for continued support of the salary of new faculty member, Craig Group, to provide summer wages to the associate chair of the department, and for summer wages for a new faculty hire.

**New Faculty Start-up Fund** – A total of $2,680,000 is requested by the College to use as components of start-up packages associated with new hires, some of which are still being negotiated; for cost sharing on grants and other opportunities that may arise in the coming year; and for other strategic needs in building the programs in these four departments. It is estimated that this funding will be equally split between equipment, faculty salaries, and fellowships. This $2,680,000 is comprised of $400,000 managed by the dean and a $2.28 million Faculty Start-Up Fund, from which all allocations will be authorized by the Executive Vice President and Provost. These funds, which will be carefully allocated in accordance with the terms of Mr. Pratt’s will, are critical in the recruitment of faculty members in biology, chemistry, mathematics, and physics.
The March 31, 2014 market value of the Pratt Bequest for the School of Medicine is $55.8 million. The $5,053,000 million request from the School of Medicine detailed below represents the regular allocation of $1,300,000 and a special distribution of $1,253,000 to support graduate programs and central research efforts in addition to the planned $2,500,000 divestment to support the Decade Plan.

Support and Training of Student Researchers - $1,220,500 - Graduate students and postdoctoral fellows are central to a successful biomedical research program. A modest institutional share from the Pratt bequest supplements funds from federal government training programs and charitable foundations to attract exceptional students. These individuals are critical in enhancing the quality of research in the Ph.D. and M.D./Ph.D. programs at the University, and the success of these programs has a direct impact on the quality of faculty research at the School of Medicine.

Core Facility Support - $1,332,500 - Research core facilities, including, but not limited to: the Small Animal Multimodality Imaging Core, Advanced Microscopy Facility, Biomolecular Research Facility, Gene Targeting & Transgenic Facility, Biorepository, the BioNMR core, and the Exercise Physiology core provide access to large, expensive equipment and techniques that otherwise would not be available or cost-effective to individual investigators. These facilities operate on a fee-for-service basis. After development costs and other expenses, the core facilities average a cost recovery of 80%, with differential funded by Pratt allocations. These resources provide a competitive advantage to acquiring emerging technologies, and they are critical to the School of Medicine’s success in recruitment and retention of faculty and its ability to continue to grow its externally funded research programs.

The Decade Plan - $2,500,000 - The School of Medicine proposes a special distribution to be used towards the recruitment of researchers in Nephrology, Endocrinology, and Neuroscience. This will be the fourth and last year of the special $2.5 million distributions in support of the Decade Plan.

Page 3 of 3