TO: The Finance Committee:

Victoria D. Harker, Chair
Frank B. Atkinson
Helen E. Dragas
Kevin J. Fay
John A. Griffin
John G. Macfarlane III
Jeffrey C. Walker
William H. Goodwin Jr., Ex Officio
Daniel T. Judge, Student Member
Daniel M. Meyers, Consulting Member

and

The Remaining Members of the Board:

Mark T. Bowles             Frank E. Genovese
L.D. Britt, M.D.           Bobbie G. Kilberg
Whittington W. Clement     Tammy S. Murphy
Frank M. Conner III        James V. Reyes
Barbara J. Fried           Joe Garofalo, Faculty Member

FROM: Susan G. Harris

SUBJECT: Minutes of the Finance Committee Meeting on November 13, 2015

The Finance Committee of the Board of Visitors of the University of Virginia met, in Open Session, at 11:00 a.m. on Friday, November 13, 2015, in the Auditorium of the Albert & Shirley Small Special Collections Library of the Harrison Institute. Victoria D. Harker, Chair, presided.

Present were William H. Goodwin Jr., Frank B. Atkinson, Kevin J. Fay, John A Griffin, John G. Macfarlane III, Jeffrey C. Walker, Daniel T. Judge, and Daniel M. Meyers.

Frank M. Conner III, Mark T. Bowles, Barbara J. Fried, Frank E. Genovese, Bobbie G. Kilberg, James V. Reyes, and Joe Garofalo also attended.

Presenters included Sarah L. Collie and James S. Matteo.

Ms. Harker opened the meeting. She reported that in September she, Pat Hogan, Jim Matteo, and Kristina Alimard met with Standard & Poor’s, Moody’s, and Fitch Ratings to present a financial perspective of the University that included the long term financial plan developed for the strategic plan. Their feedback was positive. Comments included: 1) the University is financially well run and is among the best and the strongest they review; 2) kudos for developing a creative operational financing approach and for finding solutions that did not rest solely on tuition and debt; and 3) the financial teams at the University and at the University of Virginia Investment Management Company (UVIMCO) are among the best – transparent, responsive, and thoughtful in their approaches to financial risk management. After reviewing the agenda, she turned the meeting over to Mr. Hogan.

Finance Committee Work Plan

Mr. Hogan reviewed the work plan’s schedule and goals, which are:

1. Develop University-wide "Liquidity Policy"
2. Develop IT Security Enhancement Plan
3. Develop investment plan that supports the strategic plan for expanding research
4. Develop financial plan for major capital outlay projects
5. Develop quarterly University-wide financial reporting package

Ms. Harker asked that the fifth goal include an assessment by the deans of what is working and what is not working relative to the strategic plan. It was requested that a sample of the quarterly reports be provided prior to the February meeting.

Action Item: Property Disposition: Mary Emily Keetch Vincent Estate

On motion, the committee approved the following resolution and recommended it for full Board approval:
CONFIRMATION OF THE SALES OF A PARCEL OF LAND IN VICKSBURG, MISSISSIPPI AND A PARCEL OF LAND IN ASHEVILLE, NORTH CAROLINA AND RATIFICATION OF DOCUMENTS EXECUTED IN THE CONDUCT OF SUCH SALES

WHEREAS, The Rector and Visitors of the University of Virginia is a residuary beneficiary of the Estate of Mary Emily Keetch Vincent and owns a 7.5% share of two parcels of improved real estate located in Vicksburg, Mississippi and Asheville, North Carolina (together the “Property”); and

WHEREAS, the executor of Ms. Vincent’s estate has sold the parcels for a cumulative gross sales price of $535,000.00; and

WHEREAS, the Board of Visitors finds it to be in the best interest of the University for such sales to have occurred;

RESOLVED, the Board of Visitors hereby approves and confirms the sale of the Property as set forth; and

RESOLVED FURTHER, the Executive Vice President and Chief Operating Officer is authorized, on behalf of the University, to approve and execute agreements, deeds, affidavits, and other documents related to the sale of the subject real estate, to incur reasonable and customary expenses and approve such reasonable and customary expenses as have been incurred by the Executor of the Estate in connection with the maintenance and sale of the Property, and to take such other actions as deemed necessary and appropriate to consummate the sale of the Property and distribution of the University’s interest in the Estate; 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 sale of the Property and administration and distribution of the University’s interest in the Estate are in all respects approved, ratified, and confirmed.

Action Item: Financing Plan: Renovations to the Inn at Darden

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

FINANCING PLAN FOR RENOVATIONS TO THE INN AT DARDEN

WHEREAS, the Darden School has developed a pro forma for renovating the Inn at Darden that estimates a total project cost of $13.8 million; and

WHEREAS, the financing plan provided by the Darden School for renovating the Inn at Darden plans for the use of debt of up to $13.8 million to fund the project and demonstrates the ability of the Darden School to service debt based on assumptions of higher occupancy and an
increased average daily room rate after completion of the renovation project; and

WHEREAS, by resolution adopted by the Board of Visitors of the University on February 20, 2014, the University designated its Executive Vice President and Chief Operating Officer and the Chair of its Finance Committee as persons authorized to declare official intent on behalf of the University pursuant to Treasury Regulations Section 1.1As 50.2 of the United States Department of the Treasury.

RESOLVED, the Board of Visitors approves the financing plan for renovations to the Inn at Darden.

Action Item: Liquidity Policy

Mr. Hogan explained that liquidity policies are considered to be best practice, that most private institutions have them, and that a number of public institutions are beginning to adopt them. He asked Mr. James S. Matteo, Associate Vice President and Treasurer, to present this item.

The approval request includes authorization to enter into operating lines of credit. The policy is part of a plan to strengthen and diversify the University’s liquidity. The plan was developed in concert with members of the Finance Committee and UVIMCO, and includes Medical Center input. It has been presented to the three rating agencies. If approved, the policy will be implemented beginning in December 2015.

The plan’s objectives are to have sufficient liquidity to meet: 1) cash flow needs of the annual operating cycle; 2) remarketing risk for the University’s debt; and 3) target ratios for the University’s credit ratings. Three risks were identified.

1. Operating risk – inability to fund operating expenses
2. Financing risk – debt coming due before its maturity
3. Market liquidity risk – inability to convert assets into cash without significant losses

The University, UVIMCO, and the financial advisor stress tested these risks. It was determined that the sources of the University’s liquidity would be sufficient to meet the stress scenarios.

The operating lines of credit will be a new source of liquidity and are being considered only as back-up liquidity. The University is obtaining quotes for up to $300 million of credit. The goal is to have three providers and to structure the lines so that they have committed lines of credit, favorable terms, and highly-rated counterparties.
On motion, the committee approved the following resolution and recommended it for full Board approval:

LIQUIDITY MANAGEMENT POLICY AND AUTHORIZATION TO ENTER INTO OPERATING LINES OF CREDIT

WHEREAS, the University manages its liquidity to provide for sufficient cash flow to support operations, satisfy the remarketing risk for its putable debt, and support its credit ratings; and

WHEREAS, the University wishes to formalize its liquidity management approach and establish parameters under which it manages its liquidity; and

WHEREAS, Chapter 9, Title 23 of the Code of Virginia of 1950, as amended (the "Virginia Code"), establishes a public corporation under the name and style of The Rector and Visitors of the University of Virginia (the "University") which is governed by a Board of Visitors (the "Board"); and

WHEREAS, Title 23 of the Virginia Code classifies the University as an educational institution of the Commonwealth of Virginia; and

WHEREAS, by Chapter 4.10, Title 23 of the Virginia Code (as amended, the "Act"), the University entered into a management agreement with the Commonwealth of Virginia which was enacted as Chapter 3 of Chapter 933 of the 2006 Virginia Acts of Assembly, which, as amended, classifies the University as a public institution of higher education and empowers the University with the authority to undertake and implement the acquisition of any interest in land, including improvements on the acquired land at the time of acquisition, new construction, improvements or renovations and to borrow money and make, issue, and sell bonds of the University for such purposes, including the refinancing of any such facilities; and

WHEREAS, the Act further authorizes the University to provide for the payment of the principal of and the interest on any bonds from any one or more of the following sources: (i) its revenues generally; (ii) income and revenues derived from the operation, sale, or lease of a particular project or projects, whether or not they are financed or refinanced from the proceeds of such bonds, notes, or other obligations; (iii) funds realized from the enforcement of security interests or other liens or obligations securing such bonds, notes, or other obligations; (iv) proceeds from the sale of bonds, notes, or other obligations; (v) payments under letters of credit, policies of municipal bond insurance, guarantees, or other credit enhancements; (vi) any reserve or sinking funds created to secure such payment; (vii) accounts receivable of the University; or (viii) other available funds of the University; and
WHEREAS, the University intends to utilize operating lines of credit as a source of back-up liquidity to support the general operations of the University; and

WHEREAS, the Board of Visitors anticipates that the operating lines of credit will be secured by a general revenue pledge of the University and not be in any way a debt of the Commonwealth of Virginia (the "Commonwealth") and shall not create or constitute any indebtedness or obligation of the Commonwealth, either legal, moral, or otherwise;

RESOLVED, the Board of Visitors approves the University’s Liquidity Policy, presented as an Appendix; and

RESOLVED FURTHER, the Board of Visitors authorizes the University’s Executive Vice President & Chief Operating Officer to enter into up to $300 million of lines of credit with one or more financial institutions; and

RESOLVED FURTHER, the President of the University or the Executive Vice President and Chief Operating Officer of the University is hereby authorized to negotiate, execute, and deliver certain documents related to the operating lines of credit; and

RESOLVED FURTHER, all acts of all officers of the University which are in conformity with the purposes and intent of this Resolution and in carrying out the plans presented at this meeting are ratified, approved, and affirmed.

Organizational Excellence Vision and Progress

Mr. Hogan explained that the Organizational Excellence program was established in 2013 as a pan-institutional effort focused on administrative processes with a goal of enhancing the University’s resource alignment, promoting optimization of resources, and creating a culture of performance and excellence. He asked Ms. Sarah L Collie, Assistant Vice President for Organizational Excellence, to report.

A benchmarking study of key administrative functions in the Academic Division was conducted in 2014 to identify opportunities for improvement. In all, 90 processes were examined. Input was also obtained from deans and vice presidents.

The current focus is on: 1) Information Technology; 2) Human Resources; 3) Finance; 4) Procurement; and 5) Research Administration. Work is organized around process improvements, enabling technology, and comprehensive service delivery and organizational design. The Medical Center is participating in the Human Resources effort.

While the impact of Organizational Excellence will be measured through numerous functional metrics, a comparison of the University’s
administrative spending to that of its peers can serve as a performance indicator. In Fiscal Year 2012, the University had the 14th lowest administrative spending per full-time equivalent (FTE) student out of the 26 peer institutions designated by the State Council of Higher Education for Virginia. In FY 2013, the University had the 9th lowest spending.

Mr. Hogan concluded the report by explaining that Organizational Excellence is also responding to the Joint Legislative Audit & Review Commission (JLARC) recommendations for 1) procurement and 2) reducing unnecessary supervisory positions and promoting broader spans of control.

Committee discussion focused on the potential for shared back-of-house service centers for the foundations. It was reported that this has been done for gift processing and that the foundations would be open to shared service centers if they cut costs while improving effectiveness and efficiency. It was suggested that the foundations should take the lead, that given the bicentennial campaign action should be taken sooner rather than later, and that achieving such efficiencies is part of the financing plan.

On motion, the committee adjourned at 11:50 a.m.

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