FINANCE COMMITTEE

Friday, November 13, 2015
11:15 a.m. - 12:15 p.m.
Auditorium of the Albert & Shirley Small
Special Collections Library, Harrison Institute

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

AGENDA

I. ACTION ITEMS
A. Property Disposition: Mary Emily Keetch Vincent Estate
B. Financing Plan: Renovations to the Inn at Darden
C. Liquidity Policy (Mr. James S. Matteo to present University-wide liquidity policy)

II. COMMITTEE DISCUSSION
• Organizational Excellence Vision and Progress
  (Ms. Sarah L. Collie to provide an update on Organizational Excellence and how the JLARC recommendations are being addressed)

III. WRITTEN REPORT
• Finance Committee Work Plan

IV. APPENDIX
• Liquidity Policy
UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: November 13, 2015

COMMITTEE: Finance

AGENDA ITEM: I.A. Property Disposition: Mary Emily Keetch Vincent Estate

BACKGROUND: The Last Will and Testament of Mary Emily Keetch Vincent named The Rector and Visitors of the University of Virginia as one of the residuary beneficiaries of her estate. The University’s 7.5% interest in two improved parcels of land, one located in North Carolina and one in Mississippi, vested immediately in the University of Virginia, subject to payment of the costs and expenses of the estate.

The executor of the estate, Charles Linwood Vincent, acting through his attorneys, has requested that the University approve and confirm the sale of its interest in the real estate and the actions taken and costs, fees, and expenses incurred in maintaining and selling the property and distributing the proceeds.

DISCUSSION: The executor sold the parcel of real estate located at 4319 Camelot Drive, Vicksburg, Warren County, Mississippi on June 16, 2014 for the gross price of $200,000 after obtaining court approval to do so. The net proceeds totaling $65,864.31 were deposited in the estate account in North Carolina where Ms. Vincent resided at the time of her death. The executor sold the parcel of real estate located at 38 Craftsman View Drive, Asheville, Buncombe County, North Carolina on August 8, 2014 for the gross sales price of $330,000 and the net proceeds will be distributed upon completion of the special proceeding now pending before the General Court of Justice, Superior Court Division, Buncombe County, North Carolina.

The executor, with the approval of the respective courts, deemed these sales prices to be fair and reasonable considering the market in that locality and the condition of the property. It is estimated that the costs and expenses pertaining to the maintenance and sale of the parcels, in addition to the estate’s court costs, attorneys’ fees, and other fees and expenses incurred in the settlement and distribution of the Estate’s assets will be $112,041.22 and will be deducted from the proceeds.
of the sales prior to each beneficiary’s prorata share being distributed.

ACTION REQUIRED: Approval by the Finance Committee and by the Board of Visitors

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.
UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: November 13, 2015

COMMITTEE: Finance

AGENDA ITEM: I.B. Financing Plan: Renovations to the Inn at Darden

BACKGROUND: When a capital project is recommended by the administration, there are two major considerations to be evaluated by the Board of Visitors. First, the Buildings and Grounds Committee determines whether the project is a high enough priority to be added to the Major Capital Projects Program. Second, the Finance Committee evaluates whether there is a sound financing plan to pay for the capital costs associated with the project and any additional operating costs that might result once the project is complete. For projects to be financed with debt, the board must approve a declaration of intent to issue tax-exempt debt, as required by federal tax laws. In February 2014, the board delegated this approval authority to the Executive Vice President & Chief Operating Officer.

DISCUSSION: The Darden School has developed a pro forma for the Inn at Darden that provides for debt financing the $13.8 million cost of a proposed renovation project over 20 years. The Inn has 177 rooms with a current occupancy rate of 48%. The average daily rate in fiscal year 2015 was $134. The pro forma anticipates increasing the occupancy rate to 57% with an initial bump to the average daily rate to $150 upon completion of the project. Annual increases to the average daily rate are anticipated to equal about 3%.

The pro forma anticipates an increase in the gross operating margin from 15.3% to 19.5% for the duration of the 20-year financing. Positive cash flow after all expenses, principal and interest, and provision for a reserve for major maintenance and repairs is expected to increase from 3.3% of total revenue in year one to 10% by year 20.

Based on the pro forma provided by the Darden School and the endorsement of the Darden School Foundation Board, the University recommends approval of the financing plan for renovations to the Inn at Darden. A separate action to approve the issuance of University debt for the project will come before the Board of Visitors in the future.
ACTION REQUIRED: Approval by the Finance Committee and by the Board of Visitors

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.
BACKGROUND: The University maintains a strong liquidity position and meets its liquidity needs through a combination of cash, cash equivalents, and highly-liquid, long-term investments. At its discretion, the University may utilize externally-provided sources of liquidity, such as its commercial paper program. The University's liquidity is used to support its operations and its outstanding, re-marketable debt.

The University manages its liquidity to ensure it can fund its operations during both normal and stressed operating periods and to meet the following objectives:

- Provide sufficient cash flow to support the annual operating cycle
- Satisfy remarketing risk for the University’s putable debt
- Support the University’s credit ratings

Liquidity risk is defined as an inability to meet payment obligations in a timely manner when they become due and the risk that assets may not be convertible into cash when needed.

The University categorizes liquidity risk into three types:

- Operating liquidity risk occurs when the University cannot fund its operating expenses due to insufficient liquid cash holdings.
- Financing liquidity risk occurs as a result of external financing activities and the potential for those financings to come due before maturity (e.g., commercial paper, putable debt, credit lines)
- Market liquidity risk occurs when the University is unable to convert assets into cash without significant losses.

DISCUSSION: The University desires to establish a liquidity management policy that documents its liquidity management practices. The objectives of this policy are to:
• Outline the University’s philosophy on liquidity management
• Establish a control framework for managing liquidity
• Establish liquidity management guidelines

The policy would serve an important governance function by (1) providing a framework to define liquidity, (2) establishing and assigning responsibilities for managing the institution’s liquidity, (3) evaluating the appropriate level of liquidity for the institution, and (4) outlining sources of liquidity and procedures to access liquidity when needed.

Additionally, in order to further diversify its credit sources and strengthen its liquidity position, the University wishes to enter into one or more operating lines of credit. The operating lines of credit would be an additional source of external credit for the University and would serve as back-up funding in a period of stressed liquidity.

ACTION REQUIRED: Approval by the Finance Committee and by the Board of Visitors

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.
BACKGROUND: Organizational Excellence (OE) was established in the summer of 2013 as a pan-institutional quality and improvement program to enable the achievement of institutional goals and priorities across the education, research, scholarship, and service missions. OE seeks to enhance organizational capacity through resource alignment and optimization and the cultivation of a culture of quality. The multi-faceted program is comprised of 1) a portfolio of pan-institutional projects; 2) community engagement to develop individual skills and knowledge, promote sharing of best practices across the institution, and facilitate organizational change readiness; and 3) consultative services to support improvement efforts. Program activities are guided by the principles of: academic and administrative collaboration; data-driven and results-oriented decision making; stewardship of resources; and strategic, long-term impact. Measurable benefits include increased performance quality, enhanced stakeholder satisfaction and value, and strategic reinvestment of time and savings to support core mission activities.

DISCUSSION: Foundational work included the completion of a comprehensive benchmarking study in partnership with The Hackett Group that provided detailed data and analysis of the cost, structure, and performance of key administrative functions across the entire institution: Information Technology, Finance, Human Resources, Procurement, Research Administration, and Student Services. Based on these findings, OE initiated projects related to strategic sourcing, redesign of research administration, travel and expense management redesign, internal communications assessment, human resource service delivery model design, and other unit-led service improvements. Joint Legislative Audit Review Committee recommendations related to Human Resources and Procurement will be covered in the context of the overall Organizational Excellence initiative.
UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: November 13, 2015

COMMITTEE: Finance

AGENDA ITEM: III. Finance Committee Work Plan

ACTION REQUIRED: None

BACKGROUND: At the request of the Rector, the Chair of the Finance Committee and the Executive Vice President and Chief Operating Officer have developed goals and a work plan to guide the Finance Committee's deliberations in the 2015-2016 fiscal year.

DISCUSSION: The Finance Committee's 2015-2016 goals are to:

1. Develop and obtain approval for University-wide "Liquidity Policy" that addresses targeted amount of day-to-day operating cash need balanced with goal of optimizing investment of surplus cash in UVIMCO pool. This work will include establishing protocols, including approvals, for the use of earnings generated by operating investments.

2. Develop and obtain approval for IT Security Enhancement Plan that addresses cybersecurity and other risks. Plan will address both one-time and ongoing investment required.

3. Develop and obtain approval for an investment plan that supports the University strategic plan for expanding research that is being developed in FY 2015-2016.

4. Develop and obtain approval for financing plans for Medical Center Emergency Department expansion and Bed Tower and for specific major academic and athletics projects that are approved for development.

5. Develop a standard quarterly University-wide financial reporting package that includes a key operating and financial metric dashboard for both the Medical Center and Academic Division.

To facilitate the accomplishment of these goals, the Finance Committee has discussed or will discuss the following topics at its 2015-2016 meetings:
September 2015:

November 2015:
- **Action Items**: Liquidity Policy and IT Security Enhancement Plan

February 2016:
- **Action Items**: Budget Amendments for General Assembly; 2016-2017 undergraduate tuition and fees, including Guaranteed Tuition Option (reevaluation of objectives, structure, and associated pricing as well as marketing); 2016-2017 graduate tuition and fees; and 2016-2017 dining and housing rates
- **Reports**: Managerial Reporting Update; 12/31/15 UVIMCO Report; and 12/31/15 Quarterly Financial Report (transmitted report)

June 2016:
- **Action Items**: 2016-2017 Operating Budget; research enterprise investment plan; capital priorities and related funding plan for Medical Center Emergency Department expansion and Bed Tower and for specific major academic and athletics projects
APPENDIX
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I. Overview

Overview

This policy documents the University of Virginia’s liquidity management guidelines. Within the context of this document, liquidity is defined as cash and cash equivalents, access to cash, and the convertibility of assets to cash in order to meet operating and financial needs during the operating cycle.

Liquidity risk is defined as an inability to meet payment obligations in a timely manner when they become due and the risk that assets may not be convertible into cash when needed. Liquidity risk is categorized into three risk types:

- **Operating liquidity risk** occurs when the University cannot fund its operating expenses due to insufficient liquid cash holdings.
- **Financing liquidity risk** occurs as a result of external financing activities and the potential for those financings to come due before maturity (e.g., commercial paper, putable debt, credit lines)
- **Market liquidity risk** occurs when the University is unable to convert assets into cash without significant losses.

This policy serves an important governance function by providing a framework to define liquidity, establishing and assigning responsibilities for managing the institution’s liquidity needs, evaluating the appropriate level of liquidity for the institution, and outlining sources of liquidity and procedures to access liquidity when needed. The objectives of this policy are to:

(i) Outline the University’s philosophy on liquidity management  
(ii) Establish a control framework for managing liquidity  
(iii) Establish liquidity management guidelines

The liquidity policy is meant to work in tandem with the University’s Board-approved Debt Policy, Working Capital Investment Policy, and Interest Rate Risk Management Policy.

II. Scope and Objectives

Scope

The policy governs University-wide liquidity management, including the Academic Divisions and the Medical Center. The policy does not govern liquidity management at University-affiliated foundations, including the University of Virginia Investment Management Company (“UVIMCO”).

Objectives

The policy exists to provide a framework under which the University seeks to achieve its liquidity management goals. The goals include providing sufficient liquidity to support the:

(i) cash flow needs of the annual operating cycle  
(ii) remarketing risk for the University’s putable debt  
(iii) University’s credit ratings
III. Oversight

Oversight

The Office of the Executive Vice President and Chief Operating Officer (“EVP & COO”) is responsible for implementing this policy and all liquidity activity for the University. This policy and any subsequent, material changes to the policy will be approved by the University’s Board of Visitors.

The University’s Office of the Treasurer manages liquidity and works in close coordination with the Medical Center and the UVIMCO to manage liquidity and associated risks.

The University meets periodically with UVIMCO to review the policy and ask that they assist in stress testing periodically.

IV. Liquidity Management

Liquidity Sources and Uses

The Office of the Treasurer manages liquidity to ensure access to sufficient cash during normal and stressed liquidity conditions. The University meets those needs with a combination of internal and external liquidity. The University categorizes liquidity sources as committed or uncommitted. Committed funding represents funding available to the University (e.g., cash and short term investments) as well as external funding sources where the provider has committed to providing funding, regardless of circumstance (e.g., bank lines of credit). Uncommitted funding are sources of liquidity that where the provider is under no commitment to fund (e.g., commercial paper buyers).

The University’s liquidity sources include the following:

- Operating revenues
- Cash and liquid investment balances
- Commercial Paper
- Operating Credit Lines
- Dedicated Credit Lines supporting putable debt

Liquidity Uses

Liquidity is primarily used to satisfy (1) operating expenses, and (2) non-operating, episodic needs. Non-operating needs may include irregular investment or financing needs. Episodic needs may also include unplanned stresses to operating revenues or expenses. Liquidity uses include both operating and funding needs, such as:

- Operating expenses
- Planned debt service
- Unplanned putable debt maturities

Liquidity Targets

Days Cash on Hand

Liquidity accessible within one month divided by daily operating expenses: Target \( \geq 180 \) days

Day’s cash on hand ("DCH") is a measure of the University’s contingent liquidity. It measures how
many days of operating expense an entity can support with its liquidity. DCH is defined as liquidity accessible within one month divided by daily operating expenses.

DCH is one of the metrics measured by the rating agencies and the University seeks to target a level of DCH that supports operations, in addition to supporting ratings goals.

**Daily Liquidity as a Percent of Variable Rate Debt**

Cash and liquidity divided by outstanding putable debt: Target >= 1.5x

While having putable debt outstanding, the University will maintain sufficient unrestricted liquid investments and/or sources of liquidity satisfactory to the rating agencies for maintaining the highest debt ratings. Unrestricted sources of liquidity may be modified and/or replaced during the life of the putable debt in such ways that are satisfactory to the rating agencies and the University and that are within debt document parameters.

**Spendable Cash and Investments / Operating Expense:**

The sum of spendable cash and investments divided by annual operating expense: Target >= 2.0x

This ratio is a measure of total university spendable assets, without regard for the liquidity of the assets, divided by annual operating expense. This ratio assesses the financial strength of the University and provides a measure of “gross coverage” for operating expenses. It also seeks to eliminate some items that may skew a net assets coverage ratio (such as pension liabilities).

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**V. Risk Management**

**Monitoring and Reporting**

The Office of the Treasurer is responsible for managing the daily cash position of the University, performing cash flow forecasting and variance analyses, and working with University units to monitor aggregate institutional liquidity.

The key liquidity reports to University senior management include:

**Monthly**

*Treasury Report* - On a monthly basis, Treasury prepares a report that highlights, among other things, cash and investment holdings as well as liquidity ratios.

**Quarterly**

*Liquidity Scorecard* - The University produces a quarterly report that lists the following items:

- sources and uses under normal and stressed environments
- stress tests
- liquidity ratios

**Annually**
Cash Flow Forecast - Annually, the Treasury Department develops a monthly cash flow forecast for the coming year. This report is used to project and manage cash flows throughout the year and support operating cash flow decisions.

The reports listed here may be amended from time to time as needed at the discretion of the EVP/COO.

Liquidity Source Diversification

The University attempts to diversify its various sources of liquidity. Diversification is sought by liquidity type (e.g., cash, bank lines, commercial paper) and by counterparty (e.g., operating bank lines with several counterparties, commercial paper issued by more than one dealer).

Diversification of cash and investments is obtained according to the diversification guidelines in the University’s Working Capital Investment Policy and UVIMCO’s Investment Policy Statement.

Liquidity Triggers

Triggers are intended to provide warning signs of events that could adversely impact the University’s liquidity. The occurrence of a trigger will be brought to the attention of the EVP/COO and result in the development of a risk mitigation plan, if necessary. Triggers include, but are not limited to:

- material changes in committed or uncommitted liquidity sources
- significant deviation from target cash balance of $100mm
- credit ratings pressure resulting from liquidity ratios
- difficulty remarketing putable debt
- stress on distributions or available distributions from UVIMCO
- stress on capital and bank markets affecting the ability to draw on operating lines or issue CP
- a drop in a counterparty’s ratings
- material changes in the liquidity profile of UVIMCO’s short-term or long-term pools