Board of Visitors
Finance Committee

November 13, 2015
PROPERTY DISPOSITION:
MARY EMILY KEETCH
VINCENT ESTATE
University was bequeathed a 7.5% interest in two parcels of land.

These parcels were sold with net proceeds anticipated to be less than $250,000.

University needs to approve and confirm the sale of its interest in the real estate.
FINANCING PLAN: RENOVATIONS TO THE INN AT DARDEN

PAT HOGAN
EXECUTIVE VICE PRESIDENT & CHIEF OPERATING OFFICER
Financing Plan: Renovations to the Inn at Darden

- Capital project approved by Buildings & Grounds Committee
- $13.8 million project cost to be financed over 20 years
- Projected increases in occupancy rates, gross operating margin, and market position
- Will seek future approval of Finance Committee to issue debt for the project served with cash flow from Inn at Darden operations
DISCUSSION OF LIQUIDITY POLICY

JIM MATTEO
ASSOCIATE VICE PRESIDENT & TREASURER
Liquidity Policy

• We are requesting approval of a formalized liquidity policy including authorization to enter into operating lines of credit

  1. Documents existing cash management practices and procedures
  2. Strengthens the University’s liquidity profile allowing us to optimize our use of operating funds
  3. Includes authorization to enter into operating lines of credit as a backstop
  4. Capitalizes on the University’s strong balance sheet
Development and Review of Plan

- Liquidity policy and operating funds plan developed in concert with Finance Committee members and UVIMCO, with input from the Medical Center
- Plan presented to all three rating agencies in October, supported by our financial advisor
- Plan will further strengthen coordination of liquidity among the University, UVIMCO, and the Medical Center
- Upon BOV approval, formalized liquidity policy to be implemented beginning in December 2015
Key Elements of the Liquidity Policy

Objective - Sufficient liquidity to meet:
• cash flow needs of the annual operating cycle
• remarketing risk for the University’s putable debt
• target ratios in support of the University’s credit ratings

Liquidity risks addressed under the policy:
• Operating liquidity risk – inability to fund operating expenses due to insufficient cash holdings
• Financing liquidity risk – the potential for external financing activities to come due before maturity (e.g., commercial paper, credit lines)
• Market liquidity risk – inability to convert assets into cash without significant losses

Stress tested with UVIMCO and reviewed with rating agencies
Operating Lines of Credit

• Up to $300 million of unsecured operating lines of credit with one or more counterparties
  – Committed lines of credit
  – Favorable terms
  – Highly-rated counterparties

• Diversifies the University’s liquidity sources

• Will only be used as an additional source of back-up liquidity to ease requirements on operating funds

• Annual operating cash flow cycle can generally be met with $100 million of operating funds
As a reminder, a formalized liquidity policy is the culmination of several prior steps taken to develop a flexible fortress balance sheet.

**Step 1 – Debt Restructuring**

In March 2015, restructured debt to:

- Reduce liquidity requirements
- Better align short-term assets and short-term liabilities
- Reduce remarking and put risk
- Realize interest expense savings (PV of $15.8 million)

<table>
<thead>
<tr>
<th>Debt Type</th>
<th>Principal</th>
</tr>
</thead>
<tbody>
<tr>
<td>ST Debt</td>
<td>$53,945</td>
</tr>
<tr>
<td>LT Debt</td>
<td>$1,277,348</td>
</tr>
<tr>
<td>Total Debt Outstanding</td>
<td>$1,331,292</td>
</tr>
</tbody>
</table>

UVa Debt Outstanding @ 9/30/15 (000’s)
Step 2 – Strengthening Liquidity and Optimizing Operating Funds

• Liquidity position to be strengthened by:

  – Reduced liquidity needs in debt portfolio
  – Diversifying liquidity sources by adding operating lines of credit
  – Adopting a formal liquidity policy
    • considered a best practice
    • viewed favorably by rating agencies
    • complements existing debt and ST investment policies

• These actions will reduce our reliance on operating funds to provide liquidity
Board Request

• Approval of the Liquidity Policy

• Authorization for the EVP&COO to enter into up to $300 million of operating lines of credit with one or more financial firms, as deemed necessary
ORGANIZATIONAL EXCELLENCE VISION AND PROGRESS

SARAH COLLIE
ASSISTANT VICE PRESIDENT FOR ORGANIZATIONAL EXCELLENCE
Organizational Excellence

Established in the Cornerstone Plan

Purpose: To enable institutional strategic goals and priorities through resource alignment and optimization and create a high-performance culture of quality with career enhancing opportunities.

How: Service delivery/process redesign, economies of scale, aggregated spend, organizational design, automation and technology enablement

Outcomes:
- High quality performance and enhanced efficiencies through best-in-class service models and processes
- Service-oriented, collaborative, innovative culture
- $150 million over seven years reinvested in strategic priorities
Organizational Excellence Framework – “The Design”
Opportunities

Identification and Prioritization

• 2014 Benchmarking Study of Key Administrative Functions with external consultant, The Hackett Group
  – Assessment of costs, structure and, performance
  – Examined 90 processes
    • IT, HR, Finance, Procurement, Research Administration, Student Services (immediate areas of focus)

• Surveyed Deans and VPs about priorities

• Alignment with Strategic Plan

Key Cross-Functional Findings

Structure:
1/3 FTES central; 2/3 FTEs distributed
Highly fragmented roles

Costs: Large labor pool, underinvested in technology, little outsourcing

Activity: High transactional activity

Enabling Technology: limited

Service-orientation: gatekeeper/administrator, rather than valued partner

Initial improvement opportunities: human resources, research administration, procurement
## Addressable Spend – Academic Division

<table>
<thead>
<tr>
<th>FY 16 Budget</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Core Mission Expenses</strong></td>
<td>$909.4 million</td>
</tr>
<tr>
<td>(includes instruction, research, student services and student aid)</td>
<td></td>
</tr>
<tr>
<td><strong>Operating Expenditures</strong></td>
<td></td>
</tr>
<tr>
<td>Operations and Maintenance</td>
<td>$110.7 million</td>
</tr>
<tr>
<td>Public Service</td>
<td>$37.9 million</td>
</tr>
<tr>
<td>Academic Support</td>
<td>$149.1 million</td>
</tr>
<tr>
<td>Institutional Support</td>
<td>$95.4 million</td>
</tr>
<tr>
<td>Auxiliary Enterprises</td>
<td>$172.4 million</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>$1,474.9 million</td>
</tr>
</tbody>
</table>

$565 million of total spend across operating areas, including those in benchmarking study.
Organizational Excellence Roadmap

Functional Approach – addresses all functional activity across central administration and schools

Enterprise-wide Administrative Function Transformation
High-quality, effective, efficient service delivery models

2013

HR
- Process Improvements
- Transformation – Service Delivery, Enabling Technology and Org Design

Finance
- Enabling Technology
- Process Improvements
- Transformation – Service Delivery and Org Design

Procurement
- Process Improvements
- Transformation – Service Delivery, Enabling Technology and Org Design

IT
- Process Improvements
- Transformation – Service Delivery and Org Design
- Enabling Technology – other functions

Research Admin.
- Transformation – Process Improvements, Enabling Technology, Service Delivery and Org Design

Identify and implement other key initiatives
Human Resources Function

Create a high-performing, efficient model to advance goals and priorities across the Academic Division and Health System

- Improved quality
- Reduction in costs
- Optimize staffing

- Improved service delivery effectiveness and efficiency

2013             2014             2015             2016             2017             2018

- Benchmarking Study
- Restructure HR in School of Medicine
- Center for Leadership Excellence Manager development, succession planning, individual contributors
- Early Retirement Program
- Expand Recruitment and Dual Career Services
- Launch HR Strategic Design
- Implement Future State Model - technology, service delivery, and governance

Future State Benefits

20
Finance Function

Create a high-performing, analytical, and efficient model to advance goals and priorities

- Payroll Certification/Effort reporting
- Redesign of Financial Reconciliation
- Gift Processing Redesign processing for accuracy, efficiency and timeliness
- Managerial Reporting Provide access to accurate, consistent, accessible and reliable data and reporting
- Service Model Transformation Design and Implementation

Improved service delivery effectiveness and efficiency

2013 2014 2015 2016 2017 2018
Improved service delivery effectiveness and efficiency

2013  2014  2015  2016  2017  2018

Procurement Function
Create a Procurement Center of Excellence

- Strategic Sourcing Plan
  10 commodities represent $70 million spend; Established statewide procurement cooperative

- Redesign of Travel and Expense Management
  Automate, integrate and simplify

- Administrative Unit Review
  Self study and external committee

- Service Model Transformation Design and Implementation

Benchmarking Study
Improved service delivery effectiveness and efficiency

**Information Technology Function**

Create a high-performing, integrated, efficient model aligned with core mission and institutional priorities

- **2013**
  - Benchmarking Study

- **2014**
  - Technology Refreshes
    - Core Network, VoIP, Wireless
  - Email and Server Consolidation/Virtualization

- **2015**
  - Supporting Enhanced Enabling Technology across functions (HR, Procurement, Finance)
  - Improved Security Environment

- **2016**

- **2017**
  - Service Model Transformation Design and Implementation

- **2018**
Research Administration Function

Create a high-performing, efficient model to facilitate research priorities

- Benchmarking Study
- Holistic Review of Pre-and Post Processes
- Research UVa Faculty Portal
- Clinical Research Improvements
- Research UVa Electronic Proposal
- Payroll Certification/Effort Reporting
- Organizational Design
- Future State Model - technology, service delivery, and governance
SCHEV Peers Administrative Spending per FTE Student, FY13

UVa ranks 9th lowest of 26 institutions

Note: FY13 is the most current data available.
Building a Culture of Quality and Performance Excellence

• Visionary leadership
• Systems perspective
• Customer-focused
• Execution for value and results
• Continuous improvement and innovation
JLARC Recommendations

Beyond significant internal strides made, the work of Organizational Excellence also addresses the recent JLARC recommendations:

- Review organizational structure and identify opportunities to streamline.
- Reduce unnecessary supervisory positions and promote broader spans of control.
- By focusing on service delivery, management layers and span of control will be enhanced.
- Maximize standardization of purchases and use of institution-wide contracts.
Discussion Questions

• How often and at what level of detail would the Board of Visitors want to see milestone updates?

• Are there other near-term opportunities we should assess?
FINANCE COMMITTEE
WORK PLAN
Major Goals for Finance Committee FY15-16

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 15-16.

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

5. Develop standard quarterly University-wide financial reporting package that includes a key operating and financial metric dashboard for both Medical Center and Academic Division.
<table>
<thead>
<tr>
<th>Meeting</th>
<th>Action Items</th>
<th>Reports</th>
</tr>
</thead>
</table>
| September 2015| • 2016-18 Biennial Budget Operating Amendments and Revisions to the 2016-18 Capital Program  
• 2016-2022 State Six-Year Plan | • 6/30/15 University Financial Report  
• 6/30/15 UVIMCO Report |
| November 2015 | • Liquidity Policy  
• IT Security Enhancement Plan                                                  | • Organizational Excellence Progress Report, including update on Early Retirement Incentive Program Results  
• 9/30/15 Quarterly Financial Report |
| February 2016 | • Budget Amendments for General Assembly  
• Undergraduate tuition and fees, 2016-17  
  o Guaranteed Tuition Option, re-evaluate objectives, structure, and associated pricing as well as marketing  
• Graduate tuition and fees, 2016-17  
• Dining and housing rates, 2016-17 | • Managerial Reporting Update  
• 12/31/15 UVIMCO Report  
• 12/31/15 Quarterly Financial Report |
| June 2016     | • Operating Budget, 2016-17  
• 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 | • Organizational Excellence Progress Report  
  o Update on Human Resources Process Redesign  
• 3/31/16 Quarterly Financial Report |