

May 14, 1997

MEMORANDUM

TO: The Finance Committee:

William H. Goodwin, Jr., Chair  
Franklin K. Bircckhead  
C. Wilson McNeely, III  
Elizabeth A. Twohy  
Henry L. Valentine, II  
Walter F. Walker  
James C. Wheat, III  
Hovey S. Dabney, Ex Officio

and

The Remaining Members of the Board:

John P. Ackerly, III	T. Keister Greer
Charles M. Caravati, Jr., M.D.	Elsie Goodwyn Holland
Champ Clark	Kristine L. LaLonde
William G. Crutchfield, Jr.	Terence P. Ross
Albert H. Small	

FROM: Alexander G. Gilliam, Jr.

RE: Minutes of the Meeting of the Finance Committee  
on May 14, 1997

The Finance Committee of the Board of Visitors of the University of Virginia met, in Open Session, at 9:40 a.m., Wednesday, May 14, 1997, in the East Oval Room of the Rotunda; William H. Goodwin, Jr., Chair, presided. Franklin K. Bircckhead, C. Wilson McNeely, III, Ms. Elizabeth A. Twohy, Henry L. Valentine, II, James C. Wheat, III, and Hovey S. Dabney, Rector, were present. John P. Ackerly, III and Terence P. Ross also were present; as were Leonard W. Sandridge, Jr., Alexander G. Gilliam, Jr., Paul J. Forch, Ms. Colette Capone, Peter W. Low, Ms. Polley Ann McClure, Ms. Alice W. Handy, Jay Scott, Rob Walker Freer, Ms. Elizabeth Snyder, Peter Munger, Michael Halseth, and Ms. Jeanne Flippo Bailes.

This meeting of the Finance Committee also encompassed a meeting of the Investment Subcommittee of the Finance Committee.

The Chair asked Mr. Sandridge, Executive Vice President and Chief Financial Officer, to present the Agenda, a discussion of the University's Budget.

Mr. Sandridge said the presentation on the Budget would be a discussion only and that formal action on the Budget would not be taken until the June meeting of the Board of Visitors. He then gave a general overview of the characteristics of the Budget: the Budget, for the first time, will exceed \$1 billion, thus representing an increase of about 5.3% over the previous Budget. There is a greater use of private funds, an increased number of patients at the Hospital, and growth in sponsored research funds. On the other hand, there is a decrease in indirect cost recoveries.

Mr. Sandridge suggested that the Committee focus particularly on three aspects of the Budget: faculty salary rises, the cost of "fixing" University computers for the year 2000, and matters having to do with the Hospital. With that, he asked Ms. Capone, Vice President for Management and Budget, to lead the discussion.

Ms. Capone described, briefly, the budget making process, emphasizing that the Budget above all is based on the General Fund appropriations of the Legislature. She then discussed the Budget in its three divisions: Academic Division, Medical Center, and Clinch Valley College.

Projected expenditures in the Academic Division come to \$608.4m, an increase of 5.5% over last year. The largest element is Instruction, which is 30.2% of the total, Sponsored Programs at 20.2%, Auxiliary Enterprises at 12.5%, and Academic Support at 11.9%. Revenues come to \$608.9m. Sponsored Programs account for 23.6% of this total, Tuition and Fees 23.2%, State Appropriations 21.6%, and Gifts and Endowments 16.3%.

Several assumptions underlie the University's operating budgets: that the number of full-time equivalent students enrolled in both the regular session and the summer session in 1997-98 will be 19,045; that the University will receive its expected allocation from the Commonwealth's Higher Education Equipment Trust and that the number of full-time equivalent employees in the Academic Division for 1997-98 will be 6,454.

Ms. Capone and Mr. Sandridge then went through the Academic Division budget, category by category, and discussed each part of it, answering questions raised by members of the Committee.

Moving on to the Clinch Valley College budget, Ms. Capone told the Committee that totals will be \$15.1m, an increase of 5.6% over the current fiscal year. The General Assembly at the last Session provided funds for faculty salary rises, the operation and maintenance of the Resource Center, and the new Administration of Justice program. The 1997-98 enrollment of full time equivalent students is projected to be 1,277, an increase of 42 over the original projection. Eight new positions - that is, employees - for next year were authorized by the General Assembly; these positions were covered by an appropriation.

Mr. Sandridge asked Mr. Peter Munger, Associate Vice President for Health Sciences, to lead the discussion of the Medical Center budget.

(BECAUSE OF A MALFUNCTION IN THE RECORDING EQUIPMENT, THE MINUTES FROM THIS POINT ON ARE MOSTLY A RECONSTRUCTION)

The Medical Center budget, Mr. Munger said, is based on several assumptions: the demand for outpatient service is expected to grow by 5%; the payer mix is expected to be the same as in the current budget year, but with a slight increase in Medicare payments; managed care will increase; indigent care and bad debts probably will remain at current levels.

The new budget establishes reserves of \$3m for federal budget reductions to the Medicare program, and \$2m for decreases in Medicare payments because of the implementation of the MediChoice program. The Medical Center proposes an average rate increase of 4% for the next fiscal year; over the past five years rates have increased at an average of 2.18%. (The national increase over the same period has been 5.16%.)

Total operating revenue in the new budget is projected at \$438.5m; operating expenses have been budgeted at \$374.8m. An operating margin of \$17.5m, or 4%, has been projected.

The Chair reminded the Committee that votes on the three parts of the Budget would be taken by the Finance Committee and then by the full Board at the June Board of Visitors meeting.

The Chair then asked Ms. Handy, University Treasurer, to continue with the Agenda.

Ms. Handy first proposed a resolution outlining guidelines for University Endowment loans to the University of Virginia Foundation. Both the Foundation and the Investment Subcommittee have discussed the guidelines and recommend them for approval.

On motion, the Committee adopted a resolution approving the guidelines.

APPROVAL OF GUIDELINES FOR UNIVERSITY ENDOWMENT LOANS FOR THE UNIVERSITY OF VIRGINIA FOUNDATION

The following resolution was adopted:

RESOLVED by The Finance Committee of the Board of Visitors of the University of Virginia that the guidelines (see Attachment) be approved: GUIDELINES FOR UNIVERSITY ENDOWMENT LOANS TO THE UNIVERSITY OF VIRGINIA FOUNDATION.

Ms. Handy next reminded the Committee of its discussion of the faculty's 401(a) defined contribution retirement plan (see Minutes of the Finance Committee meeting of November 8, 1996, and the Minutes of the meeting of the Board of Visitors, dated November 9, 1996). The Investment Subcommittee at the time was appointed trustee of the trust responsible for the Plan. After consultation with the special counsel appointed by the Attorney General to advise the University on the structuring and managing of the Plan, it has been decided to engage "corporate trustees" for the Plan and to remove the Investment Subcommittee as the trustee. The Subcommittee instead would be delegated the authority to monitor the administration of the Plan on behalf of the Board of Visitors.

On motion, the Committee approved the proposed resolution and recommended it to the full Board for approval.

FACULTY RETIREMENT PLAN

The following resolution was adopted:

WHEREAS, at the November 9, 1996 meeting, the Board of Visitors and the Finance Committee authorized the Executive Vice President and Chief Financial Officer to amend the faculty defined contribution retirement plan to create a trust to hold funds in the plan to ensure compliance with IRS regulations; and

WHEREAS, at the November 9, 1996 meeting, the Board of Visitors and the Finance Committee appointed the Investment

Subcommittee as the Trustee of the faculty defined contribution retirement plan trust; and

WHEREAS, the University is named Plan Administrator of the faculty defined contribution retirement plan, with responsibility for day-to-day operations delegated to the Chief Human Resources Officer;

RESOLVED that the November 9, 1996 resolution is hereby amended removing the Investment Subcommittee as the trustee of the faculty 401(a) defined contribution retirement plan (the Plan) trust; the Investment Subcommittee is hereby delegated the authority to monitor the administration of the Plan on behalf of the Board of Visitors, including reviewing the fund families and the funds included in the Plan;

RESOLVED FURTHER that the University is Plan Sponsor, Plan Administrator and Named Fiduciary of the Plan;

RESOLVED FURTHER that the Executive Vice President and Chief Financial Officer is hereby authorized and directed to contract for the services of a corporate trustee or trustees in accordance with the provisions of this resolution; the Executive Vice President and Chief Financial Officer is further authorized to (1) form an administrative committee to assist the Investment Subcommittee in carrying out the duties above, and (2) engage outside consultants as needed to assist with the University's responsibilities as Plan Administrator and Named Fiduciary;

RESOLVED FURTHER that the resolution delegating authority to the Chief Human Resources Officer to oversee and administer the Plan is hereby affirmed, with responsibility for the day-to-day operations of the Plan, including recordkeeping.

On motion, the Committee went into Executive Session at 11:55 a.m.

The following motion was adopted:

That the Finance Committee of the Board of Visitors of the University of Virginia go into Executive Session for the purpose of discussing investment strategies relating to the University Endowment Funds, as provided for in Section 2.1-344 A.(6) of the Code of Virginia.

The Committee resumed meeting in Open Session at 2:25 p.m. and, on motion, approved the following resolutions:

APPROVAL OF INVESTMENT IN JEFFERSON CAPITAL PARTNERS

(Messrs. William Goodwin & James Wheat abstained from voting)

The following resolution was adopted:

RESOLVED by the Investment Subcommittee of the Finance Committee of the Board of Visitors of the University of Virginia that the Executive Vice President and Chief Financial Officer is authorized to commit up to \$5 million, or 20% of the Fund, whichever is smaller, of the Endowment for the following limited partnership: Jefferson Capital Partners I.

APPROVAL OF INVESTMENT IN ENCAP ENERGY CAPITAL FUND

The following resolution was adopted:

RESOLVED by the Investment Subcommittee of the Finance Committee of the Board of Visitors of the University of Virginia that the Executive Vice President and Chief Financial Officer is authorized to commit up to \$30 million of the Endowment for the following Limited Partnership: Encap Energy Capital Fund, III, L.P.

APPROVAL OF INVESTMENT IN WELSH, CARSON, ANDERSON, AND STOWE CAPITAL PARTNERS, III, L.P.

The following resolution was adopted:

RESOLVED by the Investment Subcommittee of the Finance Committee of the Board of Visitors of the University of Virginia that the Executive Vice President and Chief Financial Officer is authorized to commit up to \$25 million of the Endowment for the following limited partnership: Welsh, Carson, Anderson, and Stowe Capital Partners, III, L.P.

APPROVAL OF INVESTMENT IN CHURCHILL CAPITAL PARTNERS, III, L.P.

The following resolution was adopted:

RESOLVED by the Investment Subcommittee of the Finance Committee of the Board of Visitors of the University of Virginia that the Executive Vice President and Chief Financial Officer is authorized to commit up to \$30 million of the Endowment for the following limited partnership: Churchill Capital Partners, III, L.P.

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On further motion, the meeting was adjourned at 2:30 p.m.

AGG:jb

Copies to: Mr. John T. Casteen, III  
Mr. Paul J. Forch  
Dr. Robert W. Cantrell  
Mr. Peter W. Low  
Mr. Leonard W. Sandridge  
Mr. Robert D. Sweeney  
Mr. Ernest H. Ern  
Mr. William W. Harmon  
Ms. Colette Capone  
Ms. Polley Ann McClure  
Mr. Terry Holland  
Mr. L. Jay Lemons  
Dr. Don E. Detmer  
Ms. Louise Dudley