

November 7, 1997

MEMORANDUM

TO: The Finance Committee:

William H. Goodwin, Jr., Chair
Franklin K. Birckhead
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.

SUBJECT: Minutes of the Meeting of the Finance Committee
on November 7, 1997

The Finance Committee of the Board of Visitors of the University of Virginia met, in Open Session, at 9:25 a.m., Friday, November 7, 1997, in the East Oval Room of the Rotunda; William H. Goodwin, Jr., Chair, presided. Franklin K. Birckhead, C. Wilson McNeely, III, Ms. Elizabeth A. Twohy, Henry L. Valentine, II, Walter F. Walker, James C. Wheat, III,

and Hovey S. Dabney, Rector, were present. Also present were Charles M. Caravati, Jr., William G. Crutchfield, Jr., Mrs. Elsie Goodwyn Holland, Terence P. Ross, Albert H. Small, and Ms. Kristine L. LaLonde; as well as Leonard W. Sandridge, Jr., Alexander G. Gilliam, Jr., Paul J. Forch, Ms. Colette Capone, Peter W. Low, Ernest H. Ern, William W. Harmon, Ms. Polley Ann McClure, Don E. Detmer, L. Jay Lemons, Ms. Alice Handy, and Ms. Jeanne F. Bailes.

The Chair asked Mr. Sandridge, Executive Vice President and Chief Financial Officer, to present the Agenda.

Mr. Sandridge reviewed briefly for the Committee the five Items on the Consent Agenda, resolutions approving the following: the annual distribution of Endowment income for holders of Class A and Class B shares; the establishment of the Lillian Pratt Quasi-Endowment; the investment, on September 4, 1997, of \$5m in the Blue Ridge Health Alliance, Inc.; the 1998 Gainsharing Plan for the Medical Center; salary adjustments for Health Care Professionals; and the notice of intent to issue bonds for the Scott Stadium Expansion Project.

The first Item, the annual distribution of Endowment income for holders of Class A and Class B shares, did not require the approval of the full Board and was approved by the Committee on motion.

The following resolution was adopted:

RESOLVED that the Executive Vice President and Chief Financial Officer be authorized to increase the income distribution for Class A shares for fiscal year 1997-98 by four percent over the amount distributed for fiscal year 1996-97, for a per-share income distribution of \$53.94;

RESOLVED FURTHER that the Executive Vice President and Chief Financial Officer be authorized to increase the income distribution for Class B shares for fiscal year 1997-98 by four percent over the amount distributed for fiscal year 1996-97, for a per-share income distribution of \$73.99.

On motion, the Committee approved the resolutions establishing the Lillian Pratt Quasi-Endowment and giving notice of intent to issue bonds for the Scott Stadium Expansion Project and the construction of the Football

Facility at Clinch Valley College, and recommended them to the full Board for approval (see Minutes of the meeting of the Board of Visitors, November 8, 1997).

On motion, the Committee also approved two resolutions referred to it by the Health Affairs Committee (see Minutes of the meeting of the Health Affairs Committee, November 7, 1997): the 1998 Gainsharing Plan for the Medical Center, and salary adjustments for Health Care Professionals. Both resolutions were recommended to the full Board for approval (see Minutes of the meeting of the Board of Visitors, November 8, 1997).

The final Action Item was a resolution approving an advance to the Virginia Auxiliary Services Foundation for the Birdwood Golf Course. Mr. Sandridge explained that in 1984, the Virginia Auxiliary Services Foundation (VASF) signed a note to the Rector and Visitors for \$400,067.79. Over the next three years, the amount of the loan was reduced to \$393,069; on January 29, 1987 the Board of Visitors increased the amount of the loan to \$500,000. The loan had no interest and no due date, and there was no expectation that it would be repaid. It was, in short, a form of contribution to VASF to help defray the start-up costs of the Golf Course. The auditors, Mr. Sandridge said, have suggested that there be a Board action to reflect the contribution.

On motion, the Committee adopted a resolution approving the conversion of the original capital advance to a contribution to the Virginia Auxiliary Services Foundation. The resolution was recommended to the full Board for approval (see Minutes of the meeting of the Board of Visitors, November 8, 1997).

Mr. Sandridge asked Ms. Handy, Treasurer and University Investment Officer, to report on the Endowment.

Using slides and material distributed previously, Ms. Handy commented briefly. She reminded the Committee that the Endowment for the first time exceeded \$1billion in value in July, dropped below \$1billion in August, rose again in September and has continued to stay above \$1billion.

Ms. Handy then led a discussion of the various components of the University's investment portfolio.

The Chair commended Ms. Handy and her staff.

The Chair then reported on actions taken by the Investment Subcommittee and the Executive Committee in several meetings since the last meeting of the full Board in June: on July 9th, (see Minutes of the meeting of the Investment Subcommittee, July 9, 1997 for details) voted to commit up to \$30m in the GMO Forestry Fund I, L.P.; up to \$20m in Everest Capital Frontier, Ltd; and up to \$15m each - with contingencies - in OCM Real Estate Opportunities Fund, L.P., and OCM Opportunities Fund II. In addition, the Subcommittee approved the investment guidelines governing the University's general faculty retirement plan and the health care provider's retirement plan. On October 2, the Executive Committee approved a \$20m investment in the Rothschild Recovery Fund. (See Minutes of the meeting of the Executive Committee, October 2, 1997.)

Mr. Sandridge then began a presentation which constituted an overview of the University's 1998-2000 Budget submission. He told the Committee that the Budget had been devised with the help and advice of a number of entities, including state agencies in Richmond. He said the Committee would note the absence of several very important items in the Budget, viz. faculty and staff salary increases and student financial aid. These omissions are intentional and were made at the request of the Governor's Office who intend to make a state-wide calculation on these items.

Mr. Sandridge asked Ms. Capone, Vice President for Management and Budget, to lead the discussion.

In summary, Ms. Capone told the Committee that the Academic Division budget is at some \$50m in general funds for the biennium, and \$20m in non-general funds. For the Medical Center, the figures are some \$26m in general funds and some \$125m in non-general funds. For Clinch Valley College, some \$3.2m in general funds are being requested. She said the first indication of what of our requests will be in the Governor's budget will come on December 19th when the Governor will present the budget at a joint meeting of the two money committees of the General Assembly.

Going into a bit more detail, she said the University's highest priority after salaries and financial aid is for

undergraduate Medical education - a bit over \$7.3m is being requested over the Biennium for this. After undergraduate Medical education, in order of priority, are several requests aimed at improving technology - about \$25m in all. Of this, around \$5m is required to make the necessary computer adjustments for the Year 2000. For the Medical Center, there is a crucial request for \$26.3m for indigent care in the Biennium.

With regard to Clinch Valley College, the Chair said his overriding concern is to raise faculty salaries and he wondered why the situation could not simply be fixed by the Board. He called on Mr. Lemons, the Chancellor of Clinch Valley College, for his comments. Mr. Lemons referred the Committee to material prepared for the meeting of the Special Committee on Clinch Valley College, to be held later in the morning (see Minutes of the meeting of the Special Committee on Clinch Valley College, November 7, 1997). For the first time, he said, faculty salaries at the College are no longer the lowest in the state, Clinch Valley having exchanged places with the Community College System in that regard. Secondly, he said, the College's new benchmark peer grouping places it in a much more favorable position for an improvement in salaries. He went on to say that providing decent salaries for the College faculty is an essential obligation of the Commonwealth and one that should not be shirked. Finally, he said there is every indication of significant support for the College's goal of a 12% rise in faculty salaries by the General Assembly at the forthcoming Session.

Mr. Sandridge commented that he shared Mr. Lemons' optimism.

The Chair said he would rely on the President's and Mr. Sandridge's judgement in this matter.

Mr. Sandridge noted that there is every indication the University will receive a good report on the annual Audit performed by the Auditor of Public Accounts of the Commonwealth. He reminded the Committee that the Auditor customarily reports to the Board at its winter meeting.

Finally, Mr. Sandridge echoed some of the encomia paid Mr. Peter Munger at the meeting of the Health Affairs Committee earlier in the day (see Minutes of the meeting of

the Health Affairs Committee, November 7, 1997). He referred to their long collaboration at the University and to the contributions he has made.

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On motion, the meeting was adjourned at 10:15 a.m.

AGG:lh

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