

January 23, 1998

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 January 23, 1998

The Finance Committee of the Board of Visitors of the University of Virginia met, in Open Session, at 8:55 a.m., Friday, January 23, 1998, 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 John P. Ackerly, III, Charles M. Caravati, Jr., Champ Clark, William G. Crutchfield, Jr., T. Keister Greer, 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, Robert W. Cantrell, Peter W. Low, Ms. Colette Capone, Ms. Polley A. McClure, William W. Harmon, Don E. Detmer, L. Jay Lemons, Ms. Alice W. Handy, and Ms. Jeanne F. Bailes.

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

Mr. Sandridge first proposed the Items on the Consent Agenda. The first of these was a resolution approving the 1998 Summer Session rates, in which a rise of \$20, or 22.2%, in the Summer Session comprehensive fee is proposed, along with a 4% increase - \$19 - in tuition for out-of-state students. There is to be no increase in tuition for Virginians. The increases are the same percentage increases approved by the Board of Visitors previously for the 1997-98 academic session fees.

The proposed resolution also includes rises in the boarding and housing rates at Mountain Lake for the 1998 Summer Session.

The second proposed resolution on the Consent Agenda would approve the amendment to the 1997-98 Medical Center Operating Budget approved earlier by the Health Affairs Committee (see Minutes of the Health Affairs Committee meeting of January 23, 1998).

The third resolution on the Consent Agenda proposed by Mr. Sandridge would approve the Clinical Faculty Remuneration Plan, also approved earlier by the Health Affairs Committee (see Minutes of the meeting of the Health Affairs Committee of January 23, 1998).

On motion, the Committee adopted resolutions approving the three items on the Consent Agenda - 1998 Summer Session Rates, Amendment to the 1997-98 Medical Center Operating Budget, and Clinical Faculty Remuneration Plan - and recommended them to the full Board for approval (see Minutes of the meeting of the Board of Visitors, January 24, 1998).

Turning to the Action Agenda, Mr. Sandridge discussed the proposed 1998-99 student housing rates for the Academic Division and for Clinch Valley College. A rise of 3.8% is

proposed for the Academic Division, and 3% for Clinch Valley College. The increase for the Academic Division covers rising operating costs, including increased reserve transfers associated with three new capital projects - the renovation of the Gildersleeve Apartments and the Rugby Road Apartments, and the construction of the new first-year dormitory.

Mr. Sandridge pointed out that the average double room rate at public colleges in Virginia is \$2,474, which should be compared with \$1,929 for a typical double room at the University and \$2,386 at Clinch Valley College.

On motion, the Committee adopted a resolution approving the 1998-99 student housing rates at the University and at Clinch Valley College, and recommended the resolution to the full Board for approval (see Minutes of the meeting of the Board of Visitors, January 24, 1998).

Mr. Sandridge then asked Ms. Capone, Vice President for Management and Budget, to report on the Governor's Budget for the Commonwealth, as well as the amendments to the Budget supported by the University.

Ms. Capone reviewed the main points of the Governor's Budget: there is money for an average increase of 5.67% in each year of the biennium for instructional faculty salaries, 3.42% for administrative faculty and 2.25% for classified employees. There will be money available for technology equipment and to meet some of the costs of the Year 2000 adjustments and enough money for student financial aid to meet 35% of the needs of undergraduate Virginians, which has been the historic recent average.

The Governor's Budget recommended for capital outlay appropriations for the University the following: \$8.2m for Maintenance Reserve; \$18.9m for the renovations and addition to Clark Hall; \$800,000 for Phase II of the Steam Tunnel Repair project; \$1.3m for the East Precinct Chiller Plant; \$10m toward the Special Collections Library (which will be paired with private funds for the \$26m project); and \$550,000 for the repair of the six Pavilion galleries on the Lawn.

Ms. Capone then discussed the strategies for introducing legislative amendments to the Budget to meet the University's needs which were not realized. As in recent years past, a

unified amendment has been submitted by the Virginia college presidents. The University's share of the operating funds requested in this amendment have mostly to do with technology needs; the capital outlay portion includes additional money for the the Clark Hall project, as well as funds for utilities infrastructure and the New Cabell Hall infrastructure/building master plan.

Mr. McNeely asked if the University were getting its fair share of state funds for building renovations. He cited the deplorable condition of Fayerweather Hall and the necessity of doing something about it. Mr. Sandridge replied that the University does better than most on maintenance reserve because of the age of our buildings - many of which are older than those at other institutions. But for classroom buildings, the University does not fare as well in Richmond as other schools. The reason for this is that according to the state's formulae for classroom use, our needs are not as great as those at schools which have, for example, substantial night school programs. For that reason, it is necessary for the University to use private funds for a substantial portion of the construction of new classroom buildings - and he cited the Law School and the Darden School as examples. As for Fayerweather Hall, he agreed with Mr. McNeely and said that the building had been high on our list of priorities submitted to Richmond.

Mr. Small asked if State officials had seen Fayerweather Hall in recent years; Mr. Sandridge and Ms. Capone replied that they have. Mr. Small suggested that at a future meeting, the whole Board visit Fayerweather Hall and see its condition. Mr. Sandridge agreed and said he wanted to assure Mr. Small and the Board that repairs and renovations to the building are high on the list of the University's capital outlay priorities, but that the State's estimations of these priorities don't always agree with the University's. One problem, he guessed, is that the University's requests for the building include an addition; perhaps private money needs to be found for that portion of the project.

Ms. Capone said there are other amendments being introduced: a non-general fund authorization to renovate Pavilion VII, which the University hopes to begin in the fall of 1998; a non-general fund authorization for the Medical Center to purchase a dialysis center at Zion Crossroads; and

an authorization to spend additional non-general funds on the Scott Stadium Expansion project.

Mr. Sandridge then began a discussion of possible policies on student housing at Clinch Valley College. Room rents at the College are high because the rates must take into account the debt service on existing housing. The College needs new housing, but building a new dormitory would mean raising the existing rates by more than \$500 a year per student, which would make dormitory living too expensive. One solution to this might be to combine the housing systems at the University and the College and thus spread the costs among students at both schools. Under this plan, the estimate is that building a new dormitory at the College would mean a rise in room rates of \$36 per year per student at both institutions.

There was considerable discussion of this proposal and other possible ways of absorbing these costs. At the end, Mr. Sandridge was asked to study in more detail the possibility of combining the two systems.

The Chair asked Ms. Handy, University Treasurer, for a report on the Endowment.

In her brief report, Ms. Handy reported that at year's end, the Endowment stood at \$1b40m, a slight rise over the September 30th figure. The market, she said, has been extremely volatile and she was pleased that the Endowment remains in excess of \$1b. In the first six months of the current fiscal year, there have been about \$50m in market gains and \$28m in new gifts.

The Chair then reported on actions taken by the Finance Committee in meetings held on November 11, 1997 and on December 23, 1997 (see the Minutes of those meetings of the Committee).

Finally, the Chair reported on the proposal to reorganize the Treasurer's Office, emphasizing that the proposal did not in any way imply unsatisfactory performance by the Treasurer's Office or inadequate oversight by the Board. The Endowment simply has grown in size and complexity to the point where additional attention and oversight is needed.

Cambridge Associates was asked to examine the proposal and they have made several recommendations. The recommendations point to the creation of a body, perhaps to be called the University of Virginia Management Company, although it would not function as a separate corporation. The governing committee would include members of the Board of Visitors as well as a minority of public members with expertise in investment questions.

Creation of this entity would require a change in the Board Manual; the matter is under continuing study and will be reported back to the Committee at a later date.

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On motion, the meeting was adjourned at 10 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
Ms. Alice W. Handy