

May 12, 1998

MEMORANDUM

TO: The Finance Committee:

William H. Goodwin, Jr., Chair  
Timothy B. Robertson  
Elizabeth A. Twohy  
Henry L. Valentine, II  
Walter F. Walker  
James C. Wheat, III  
John P. Ackerly, III, Ex Officio

and

The Remaining Members of the Board:

J. Michael Allen	Elsie Goodwyn Holland
Charles M. Caravati Jr., M.D.	Terence P. Ross
Champ Clark	Albert H. Small
William G. Crutchfield, Jr.	Benjamin P.A. Warthen
T. Keister Greer	Joseph E. Wolfe

FROM: Alexander G. Gilliam, Jr.

SUBJECT: Minutes of the Meeting of the Finance Committee  
on May 12, 1998

The Finance Committee of the Board of Visitors of the University of Virginia met, in Open Session, in the Lower East Oval Room of the Rotunda at 10:45 a.m., Tuesday, May 12, 1998; William H. Goodwin, Jr., Chair, presided. Henry L. Valentine, II, James C. Wheat, III, and John P. Ackerly, III, Rector, were present. Timothy B. Robertson and Walter F. Walker, members of the Committee, listened in by telephone but according to the terms of the Virginia Freedom of Information Act presently in effect, did not participate. Champ Clark and William G. Crutchfield, Jr. were also present; as were Leonard W. Sandridge, Jr., Alexander G. Gilliam, Jr., Paul J. Forch, Ms. Colette Capone, Ms. Alice W. Handy, Robert W. Cantrell, L. Jay Lemons, Michael Halseth, Ms. Mary Bednar, Timothy McLaughlin, James H. Scott, III, and Ms. Jeanne F. Bailes.

The Chair asked Mr. Sandridge, Executive Vice President and Chief Financial Officer, to present the Agenda. Mr. Sandridge explained to the Committee that the meeting was to be considered a work session on the University's Budget, that no action was required nor would votes be taken.

Continuing with a brief "overview" of the Budget, Mr. Sandridge said there should be no surprises as projected revenues and expenses, as well as the University's needs, have been discussed from time to time. The proposed Budget calls for \$1.1b in expenses and \$1.16b in revenues. The proportional Medical Center share of the Budget remains about the same. Patient revenues, he noted, account for the largest single source of revenue at the University. There has been a modest growth in employment - in the contractual arrangements in Sponsored Programs, in auxiliary enterprises and at the Hospital. On the other hand, there have been declines in the Academic Division. Salaries and benefits, he observed, are driving the increases in the Budget. He identified as "key issues" salary and fringe benefit cost increases, Year 2000 preparations, continued support of the Central Development Office, and providing an operating margin for the Medical Center.

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

For the benefit of new Members, Ms. Capone described the Budget making process. Turning to the Academic Division, she said expenditures will be \$635m, an increase of 3.5% over last year. Instruction is the largest single item, at about 30%. Sponsored Programs account for 20%, academic support 12.3%, auxiliary enterprises 12.6% and a miscellaneous Other at 25.2% (this includes such categories as institutional support, operation and maintenance of physical plant, student aid, etc.). Revenues amount to \$535.5m, of which tuition and fees account for 23.4%, sponsored programs 23.4%, State appropriations 22.6% (or \$143.5m), auxiliary enterprises 12.7%, and Other (including Endowment income and gifts) 17.9%. Of the State appropriation, \$3,571,266 is in designated appropriations. Some \$12,686,305 is down for compensation as a mandatory allocation from all new revenues, not just money appropriated by the General Assembly. Total Year 2000 costs are estimated at \$10,041m; \$4,434m is budgeted for 1998-99. Ms. Capone and Mr. Sandridge said substantial progress has been made and that work on the necessary conversions will be done on schedule.

There are 6,766 FTE positions budgeted for the Academic Division; 3,182 of these are faculty, 3,292 are classified employees and 292 are graduate instructors or the equivalent.

The Chair asked for a sense of the Committee as to whether the Academic Division budget would be approved (formal action on the Budget will not be taken until the meeting of the Board on May 29-30). The Committee voiced no objections.

The Clinch Valley College budget is set at \$15.9m, both for revenues and for expenditures. State appropriations account for 52.2% - or \$8.3m - of revenues, educational and general costs amount to 69.2% - or \$11m - of expenditures.

The Chair asked how the faculty at Clinch Valley fares in the proposed budget. Mr. Lemons, the Chancellor of Clinch Valley College, replied that there will be a 12.5% rise in faculty salaries, which for the first time puts the College faculty ahead of the Community College system in faculty compensation. Increases, which Mr. Lemons hopes the General Assembly will provide in the next Session, should make faculty salaries at the College competitive with faculty salaries at some of the four year colleges.

The Chair asked for a consensus approval of the Clinch Valley College budget; approval was given, though a formal vote will not be taken until the meeting of the Board of Visitors on May 29-30.

Mr. Sandridge asked Mr. Halseth, Executive Director of the Medical Center, to present the Medical Center budget. Mr. Halseth introduced Ms. Bednar, Chief Financial Officer at the Medical Center, and said she would join him in the presentation.

Mr. Halseth told the Committee there has been a very slight decline in patient days (the time a patient spends in hospital) at the Medical Center, a continuing increase in outpatient visits, stability in the number of Emergency Room visits, and a dramatic increase in the number of severely ill patients seen. In fact, the number of severely ill patients seen last year was the highest of any hospital in the state.

Revenues for the forthcoming fiscal year are budgeted at \$464.8m, an increase of 2.6%; expenditures are projected at \$441.7m, an increase of 3.6%.

Mr. Halseth next discussed sources of funds. "Governmental," which is to say reimbursements from Medicare and Medicaid will decline from 50.6% of the total in the current fiscal year to 49.1%. "Non-Governmental," which means reimbursements from commercial insurance and from HMO's, will rise from 41.1% of the total to 43.1%. Reimbursements from the care of the indigent will decline from 8% to 7.8%, even though the costs of indigent care will rise significantly.

The decline in Medicare and Medicaid payments is of concern to teaching hospitals in general: Mr. Halseth showed figures for teaching hospitals in the Southeast which show a projected decline in operating margins from 4.5% to around 3% over the next four or five years. The decline is attributable directly to the decline in Medicare and Medicaid payments. The decline in reimbursements by the State for indigent care is of very serious concern.

Mr. Halseth said the number of budgeted increases in FTE positions will amount to 1%, from 4,481 to 4,526; he described the increases as increases in "front-line care giving positions."

In sum, a 5% operating margin is projected - down from the current 5.9% - and a total margin of 5.9%, up from the current 4.7%.

Members asked questions about the role of QualChoice in Medical Center revenues. The Chair then suggested that the Committee go into Executive Session. On motion, the Committee did so at 11:50 a.m.

The following motion was adopted:

That the Finance Committee of the Board of Visitors go into Executive Session for the purpose of discussing proprietary, business related information of the Medical Center where competition or bargaining is involved, when if made public initially the financial interests of the University would be adversely affected, as provided for in Section 2.1-344 (A) (6) and (24) of the Code of Virginia.

The Committee resumed in Open Session at 12:20 p.m.

The Committee suggested that changes be made to the Medical Center budget, and that the revised budget be brought back to the Committee at the Board meeting of May 29-30.

On motion, the Committee went into Executive Session at 12:25 p.m., resumed in Open Session at 12:55 p.m., and, on motion, adjourned.

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 discussion of investment strategies relating to University Endowment funds as provided for in Section 2.1-344 A.(6) of the Code of Virginia.

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On motion, the meeting was adjourned at 12:55 p.m.

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