

May 29, 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:

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

FROM: Alexander G. Gilliam, Jr.

SUBJECT: Minutes of the Meeting of the Finance Committee

The Finance Committee of the Board of Visitors of the University of Virginia met, in Open Session, at 9:40 a.m., Friday, May 29, 1998, in the East Oval Room of the Rotunda; William H. Goodwin, Jr., Chair, presided. Timothy B. Robertson, Henry L. Valentine, II, Walter F. Walker, James C. Wheat, III, and John P. Ackerly, III, Rector, were present. Also present were Charles M. Caravati, Jr., Champ Clark, William G. Crutchfield, Jr., T. Keister Greer, Mrs. Elsie Goodwyn Holland, Terence P. Ross, Benjamin P.A. Warthen, Joseph E. Wolfe, and J. Michael Allen; as were John T. Casteen, III, Alexander G. Gilliam, Jr., Paul J. Forch, Leonard W. Sandridge, Jr., Ms. Colette Capone, Ernest H. Ern, William W. Harmon, Ms. Polley Ann McClure, Don E. Detmer, Gene D. Block, L. Jay Lemons, Ms. Alice W. Handy, Michael Halseth, and Ms. Jeanne Flippo Bailes.

NOTE: Because of malfunctions in the recording equipment, portions of these Minutes have been reconstructed.

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

1. Consent Agenda Items

The first items, Mr. Sandridge said, were all Consent items. He presented each; there was little discussion and resolutions approving each were adopted and recommended to the full Board for approval (see Minutes of the meeting of the Board of Visitors, May 30, 1998).

The items were as follows:

- A. Amendment to Criteria for the Creation of the University of Virginia Investment Management Company.
- B. Pratt Fund - 1998-99 Budget
- C. Intent to Issue Bonds for
 - Student Residence Hall
 - Biomedical Engineering and Medical Science Building
 - Parking Deck for 600 Vehicles and Infrastructure Improvements
 - Scott Stadium Expansion
 - Clinch Valley College Student Center
- D. Contract for Blood Products and Services.

2. 1998-99 Budget

Turning to the University's Budget, the principal Action Item on the Agenda, Mr. Sandridge reminded the Committee - and other Members of the Board - that the Budget had been discussed in some detail by the Committee at its meeting on May 12th (see Minutes of the meeting of the Finance Committee, May 12, 1998). Also, the Board approved tuition and fees and housing and dining rates for 1998-99 at its January and March meetings (see Minutes of the meetings of the Board of Visitors, January 24, 1998 and March 28, 1998).

The operating budgets - that is, for the Academic Division, Clinch Valley College, and the Medical Center - for 1998-99 come to approximately \$1.1b, an overall increase of

about 3.4% from the current Budget. The Budget, Mr. Sandridge said, is being driven primarily by salary increases. In general, he noted, the University has become more productive and more efficiently run in recent years.

Mr. Sandridge reminded the Committee that at its May 12th meeting, it had given informal approval to the Academic Division and Clinch Valley College budgets, but had asked the Medical Center administration to rework the Medical Center budget to reach an operating margin of 6%. He then introduced Mr. Halseth, the Executive Director of the Medical Center, and asked him to present the revised Medical Center figures.

Mr. Halseth said the 1998-99 budget envisions an increase of 8.6% in gross patient revenues; deductions, however, will rise by 34.9% (mainly because of a reduction in Medicaid payments), thus giving an increase of only 3.4% in total operating revenue. Expenses will increase by 3.3%. Indigent care costs are expected to increase substantially (again, the reduction in Medicaid is a factor) but State reimbursements will not rise commensurately. Nonetheless, Mr. Halseth told the Committee that a combination of aggressive cost reductions, possible closings of programs and a 4% to 5% increase in prices should improve the operating margin. He reassured the Committee that the proposed price increases are reasonable and that even after the increases, the Medical Center's prices will compare favorably with those at other hospitals.

Thus, Mr. Halseth concluded, a 5.9% operating margin is set for the remainder of 1998, and a 6% operating margin for 1999. This would mean a 4.7% total margin for 1998, and a 6.9% total margin for 1999. It is, he said, a challenging budget.

On motion, the Committee adopted resolutions approving 1998-99 budgets for the Academic Division, Clinch Valley College and the Medical Center, and recommended them to the full Board for approval (see Minutes of the meeting of the Board of Visitors, May 30, 1998).

3. Reports by the Executive Vice
President and Chief Financial Officer

Mr. Sandridge reminded the Committee that the Board at its last several meetings has discussed ways to spread the costs of building new residence halls at Clinch Valley College over a larger base of residents. If the costs were applied to

Clinch Valley students alone, the room rates in the dormitories at the College would be prohibitively expensive. After considering several options, the Board concluded that the University should explore the possibility of providing a one-time subsidy to the Clinch Valley housing program.

Mr. Sandridge suggested that he work up figures and terms for the subsidy over the summer and present them to the Committee in October.

The Chair reported briefly on actions taken by the Committee at its meetings of April 6th and May 12th (see Minutes of the meetings of the Finance Committee, April 6, 1998 and May 12, 1998).

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

Ms. Handy told the Committee that as of April 30th, the Endowment stood at approximately \$1.1b, with an additional \$145m in trustee-held assets.

- - - - -

On motion, the meeting was adjourned at 10:25 a.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, Jr.
Mr. Robert D. Sweeney
Mr. Ernest H. Ern
Mr. William W. Harmon
Ms. Colette Capone
Ms. Polley Ann McClure
Mr. Gene D. Block
Dr. Don E. Detmer
Mr. L. Jay Lemons
Mr. Terry Holland
Ms. Louise Dudley