RESOLUTIONS ADOPTED BY THE BOARD OF VISITORS
JULY 10-11, 2009

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The Board of Visitors of the University of Virginia met, in Retreat and in Open Session, at the Boars Head Inn Friday, July 10, 2009, and Saturday, July 11, 2009; John O. Wynne, Rector, presided.


Also present were John T. Casteen III, Leonard W. Sandridge, Paul J. Forch, Arthur Garson Jr., M.D., Ms. Colette Sheehy, Ms. Yoke San Reynolds, Thomas C. Skalak, Ms. Carol Wood, Ms. Nancy Rivers, Ms. Susan G. Harris, and Ms. Jeanne Flippo Bailes.

Present as well for the session on July 10th were R. Edward Howell and George Stovall.

Friday, July 10 – Legislative Proposals

The session on Friday, July 10th, began at 1:00 p.m., and was led by the Rector.

The Rector introduced Mr. Sandridge, who gave a brief overview of the three legislative proposals for the 2010 General Assembly session.

The Board considered and approved three resolutions on the proposed legislation.
RESOLVED, the Board of Visitors approves and endorses the proposed legislation to amend and clarify subsection A. 5 of § 2.2-3110 of the Code of Virginia, in the State and Local Government Conflict of Interests Act, to cover an officer or employee of a public institution whose interest may include ownership of a contracting firm exceeding 3% of total equity and/or annual income from the contracting firm exceeding $10,000.

The proposed legislation is in italics and underlined below:

§ 2.2-3110. Further exceptions.

A. The provisions of Article 3 (§ 2.2-3106 et seq.) of this chapter shall not apply to:

5. When the governmental agency is a public institution of higher education, an officer or employee whose personal interest in a contract with the institution is by reason of an ownership in the contracting firm in excess of 3% of the contracting firm's equity and/or income from the contracting firm in excess of $10,000 per year, provided that (i) the officer or employee's ownership or other equity or income interest and that of any immediate family member in the contracting firm is disclosed in writing to the president of the institution, which writing certifies that the officer or employee has not and will not participate in the contract negotiations on behalf of the contracting firm or the institution, (ii) the president of the institution makes a written finding as a matter of public record that the contract is in the best interests of the institution, (iii) the officer or employee either does not have authority to participate in the procurement or letting of the contract on behalf of the institution or disqualifies himself as a matter of public record, and (iv) does not participate on behalf of the institution in negotiating the contract or approving the contract;
RESOLVED, the Board of Visitors approves and endorses the proposed legislation to amend the Code of Virginia as it pertains to threat assessment teams.

The proposed legislation, which follows in italics and underlined, would amend §§ 2.2-3705.4, 19.2-389, and 32.1-127.1:03 of the Code of Virginia:

PROPOSAL 1

§ 2.2-3705.4. Exclusions to application of chapter; educational records and certain records of educational institutions.

The following records are excluded from the provisions of this chapter but may be disclosed by the custodian in his discretion, except where such disclosure is prohibited by law:

8. All records and electronic communications of a threat assessment team established by a public institution of higher education pursuant to section 23-9.2:10 relating to the assessment or intervention of specific individuals.

PROPOSAL 2


A. Criminal history record information shall be disseminated, whether directly or through an intermediary, only to:

25. Members of threat assessment teams established by a public institution of higher education pursuant to § 23-9.2:10 relating to the assessment or intervention of individuals whose behavior may present a threat to safety;

PROPOSAL 3

§ 32.1-127.1:03. Health records privacy.

D. Health care entities may, and, when required by other provisions of state law, shall, disclose health records:
34. To a threat assessment team established by a public institution of higher education pursuant to section 23-9.2:10 when such records concern a student at the public institution of higher education (including students who are minors).

Notwithstanding the provisions of subdivisions 1 through 33 of this subsection, a health care entity shall obtain an individual's written authorization for any disclosure of psychotherapy notes, except when disclosure by the health care entity is (i) for its own training programs in which students, trainees, or practitioners in mental health are being taught under supervision to practice or to improve their skills in group, joint, family, or individual counseling; (ii) to defend itself or its employees or staff against any accusation of wrongful conduct; (iii) in the discharge of the duty, in accordance with subsection B of § 54.1-2400.1, to take precautions to protect third parties from violent behavior or other serious harm; (iv) required in the course of an investigation, audit, review, or proceeding regarding a health care entity's conduct by a duly authorized law-enforcement, licensure, accreditation, or professional review entity; or (v) otherwise required by law.

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APPROVAL OF LEGISLATIVE PROPOSAL

RESOLVED, the Board of Visitors approves and endorses the proposed legislation to amend the Code of Virginia as it pertains to the debt collection authority of the University of Virginia Medical Center.

The proposed legislation, which follows, would amend § 23-77.4 of the Code of Virginia:

§ 23-77.4. Medical center management.

B. Capital projects; leases of property; procurement of goods, services and construction; debt collection.

4. Debt collection. Notwithstanding any provision of the Code of Virginia to the contrary, but subject to policies and procedures adopted by the Board of Visitors, the University of Virginia shall have the authority on behalf of its Medical Center to collect its accounts receivable by engaging private collection
agents and attorneys to pursue collection actions, and to independently compromise, settle, and discharge Medical Center accounts receivable claims. Nothing in this section is intended to limit the ability of the University of Virginia Medical Center from voluntarily contracting with the Office of the Attorney General's Division of Debt Collection in cases where the Medical Center would benefit from the expertise of legal counsel and collection services offered by the Office of the Attorney General.

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Comments by the Rector

The Rector announced that three Board members had been reappointed by the Governor to serve a second term: Mr. Diamonstein, Mr. Mastracco, and Mr. Caputo. Randal J. Kirk was appointed to replace Thomas F. Farrell II, who completed two terms on June 30. The Rector said Mr. Kirk has served on the Board at Radford University, and so he is not new to the issues in higher education. He mentioned that Mr. Kirk has not yet received an orientation to the University.

Performance Measures

The Rector provided some background information on the Performance Measure materials, which were provided to the Board in advance of the meeting. He stated that this is the fourth year the Board has reviewed the Performance Measures. He said the Performance Measures were developed to assess institutional progress and achievement in improving the University's national rankings, focusing academic priorities on areas of excellence, strength, and potential, and positioning the University strategically with respect to institutional peers.

The Rector said one hour would be devoted to examining new measures developed to assess overall institutional financial health and the factors considered by the rating agencies in determining the University's bond rating.

The Rector introduced Ms. Colette Sheehy, who, along with Ms. Yoke San Reynolds, reviewed the measures on overall institutional financial health and the bond rating factors. Ms. Reynolds created two measures on overall institutional financial health: Equity Ratio, which is total net assets divided by
total assets, and free cash flow margin, which is cash generated through operations that remains after the bills are paid. The University’s free cash flow margin is 2% for 2008. The more free cash flow in the institution, the better it is able to invest in new ventures. If the margin is negative, this shows that the institution is using debt for operations.

Financial Model of the Future

The Rector asked Mr. Sandridge to introduce the Financial Model of the Future topics. Mr. Sandridge said four topics would be discussed at the Retreat: State General Fund Revenues, Tuition, Sponsored Research, and Cost Containment. More topics would be covered as part of the regular Board meetings in the Fall and Spring.

A white paper was sent to Board members on each topic in advance of the Retreat, which provide context and metrics. The four white papers for the Retreat are attached to these Minutes.

State General Fund Revenue

Mr. Sandridge said for most public universities state revenues are one of the major budget drivers. For instance, the University of North Carolina receives almost three times as much in general fund revenues as the University. For the University, there is an $80 million gap between the amount appropriated in 1989-90, inflated by the CPI, and current appropriations. State funding accounts for 6.9% of the University’s budget including the Hospital. If the Hospital is excluded, the funding percentage is 11.5%.

Mr. Sandridge said that the future of state funding is uncertain because it is not on the Secretary of Finance list of necessities. Higher education funding is considered discretionary.

The University of Virginia’s College at Wise is more dependent on state funding; they receive 50% of their budget from the state. Budget cuts will affect them more severely than the University.
The Board discussed how to encourage the state to fund higher education, and how to protect the University from suffering in the event state funding is not forthcoming.

**Tuition**

Mr. Sandridge and Ms. Sheehy presented information on tuition.

The tuition increase for 2009-2010 will be 5.1%, which is artificially low due to federal stimulus money, which is temporary and not a permanent revenue stream.

The major cost drivers in the University operating budget are faculty and staff salaries, Access VA, and the operating and maintenance costs of new buildings. Mr. Sandridge and Ms. Sheehy asked the Board to provide advice on whether the University should assess a tuition surcharge to entering undergraduate students to better align price with quality. They proposed $1,000 a year for out of state students. This question instigated a lively discussion on the benefits versus the disadvantages of raising tuition.

Following the Tuition discussion, the Rector recessed the meeting until 8:30 a.m. Saturday morning.

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The Rector called the Retreat to order at 8:30 a.m. on Saturday, July 11, 2009, and he asked Dr. Garson to begin the Sponsored Research presentation and discussion.

**Sponsored Research**

Dr. Garson began the discussion by pointing out the benefits of research to the University, which are many including the value of discovery; the education of students; the attraction of faculty to do research as well as to teach; the production and dissemination of knowledge; innovation that attracts corporate partnerships; and technology transfer and commercialization. Research is essential to being a top university in the 21st Century.

Dr. Garson said that faculty who are excellent at both teaching and research are the most valuable because they are
able to translate their research to students. Not all faculty are able to do this.

Dr. Garson introduced Mr. Skalak, Vice President for Research, who continued the presentation.

Mr. Skalak pointed out that sponsored research benefits society by pushing new disruptive innovations into the marketplace. The students benefit also because in many cases the University researcher pushes down the discovery to application process to their students, including even first year undergraduates.

The Board and administrators engaged in a discussion about the position of the University among top research universities. Although the University is among the top 50 research universities in the country, Mr. Skalak pointed out that the University ranks in the 35th percentile among AAU institutions for federal research expenditures, which is the lowest among its peers. One of the challenges is the size of the University, including the relatively small number of science faculty. Dr. Garson said that research is costly to the institution and these costs, particularly the full indirect costs, are not covered fully by the research sponsors.

Mr. Skalak explained the “V-RISE” research strategic planning initiative, which stands for “Virginia Research, Innovation, Science and Engineering”. V-RISE seeks to explore all areas of scholarship and research, and particularly how the University might strengthen and link areas in science, engineering, and the arts with strengths in the social sciences and humanities to produce outstanding student experiences and ways to create new knowledge at interfaces of disciplines.

V-RISE has 220 participants, which represent a cross-section of the University, providing review and input from a breadth of talent including faculty, students, Board members, and others. The deans of the schools identified priorities for research in which 7 themes arose: sustainability and the environment; energy; public health; bioengineering; nanotechnology; cyber security and information assurance; and innovation and entrepreneurship. Intended outcomes of this planning process include methods for connecting program champions with development (fund-raising) processes, and systems
for adapting and modifying the plan via continuous discussion. The development plan will be refined over a six month period.

Mr. Skalak also mentioned the National Research Council review of research programs. More information will be forthcoming to the Board on this review.

Cost Containment

Mr. Sandridge reviewed a number of measures already underway to contain costs including reducing the total number of employees through attrition and eliminating non-essential services. Details of these initiatives are contained in the attached white paper. The Board engaged in a discussion of various cost containment strategies.

Executive Session

Upon the following motion, the Board went into Executive Session at 10:30 a.m.:

That the Board of Visitors go into Closed Session to discuss and evaluate the performance of specific employees, to discuss the awarding of a consultancy contract for executive recruiting services where discussion in open session would adversely affect the bargaining position and negotiating strategy of the University, and to confer with legal counsel on specific legal matters relating to the process for conducting a personnel search, as permitted by Sections 2.2-3711 (A)(1), (7), and (29) of the Code of Virginia.

The Board resumed its meeting in Open Session at 12:25 p.m. and adopted the following resolution certifying that its discussions in Executive Session had been conducted in accordance with the exemptions permitted by the Virginia Freedom of Information Act:

That we vote on and record our certification that, to the best of each Board member's knowledge, only public business matters lawfully exempted from open meeting requirements and which were identified in the motion(s) authorizing the closed session, were heard, discussed or considered in closed session.
On motion, the Board adjourned at 12:30 p.m.

Respectfully Submitted,

Susan G. Harris  
Secretary  

SGH:lah  
These minutes have been posted to the University of Virginia’s  
Board of Visitors website.  
http://www.virginia.edu/bov/publicminutes.html
Background

The general fund (GF) or state tax appropriation will comprise 6.9% of the 2009-10 University of Virginia operating budget, prior to any further budget reductions. [The University received instructions on June 30, 2009 to begin planning for budget reductions of up to $19.3 million in 2009-10.] Excluding the Medical Center, which receives no direct tax support, and the College at Wise the state’s share of the Academic Division operating budget will be 11.5% or $141.0 million. The state provides funding to support the cost of education for in-state students. Out-of-state students are expected to pay at least 100% of the cost of their education. The state’s policy is to fund 67% of the cost of an in-state student’s education and in recent years it has attempted to achieve this ratio on new dollars appropriated. However, that ratio does not exist in the base operating budget. The fund split in the base budget is 27% general fund and 73% non-general fund (tuition and other revenue).

State support for the University has declined over the last 20 years or more because of absolute reductions imposed by the Governor and General Assembly during downturns in the economy; because the state has not kept pace with cost increases in higher education generally; and because other revenue sources that make up the budget have grown at a faster rate than the state appropriation. Without regard to inflation or enrollment growth, the University will receive $24.2 million less from the state in 2009-10 for the educational and general budget than in 2000-01, before further budget reductions anticipated for 2009-10.

Historical Trend

It is perhaps helpful to look at the general fund appropriation over a longer time horizon than the last five years. The chart below takes the general fund appropriation in 1989-90, inflates it at the consumer price index, and compares it to the actual general fund appropriation. The result is an $80.1 million gap between what a simple inflationary increase in our general fund appropriation would produce and what the University currently receives from the state. Converting this to a per in-state student basis and accounting for enrollment growth over that time period results in a gap of $7,855 per in-state student compared to what would be expected had the state been able to increase its support at the rate of inflation.
Comparison to Peer Institutions

We often compare ourselves to peer institutions in the tuition and fees we charge, but for a public institution one cannot look at tuition and fees without also considering the support received by that institution from its state. For example, the table below reflects the 2008-09 general fund appropriation per in-state student at a select number of public peer institutions. The comparison is dramatic. UNC-Chapel Hill receives more than 2.5 times the amount of support from the state of North Carolina than the University receives from the Commonwealth of Virginia. The gap between our state appropriation per in-state student and the lowest among this set of peers is $6,597. We expect this number to drop to $8,923 per in-state student in 2009-10, before further budget reductions anticipated for 2009-10.
The following graph adds the remaining public institutions in our SCHEV peer group to the comparison which puts the University at fourth from the bottom with only Texas, Pittsburgh and Colorado receiving less state support per in-state student than the University.

2008-2009 General Fund Appropriation per In-State Student
SCHEV Public Peers

<table>
<thead>
<tr>
<th>School</th>
<th>2008-09 GF per In-state Student</th>
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<tbody>
<tr>
<td>University of North Carolina – Chapel Hill</td>
<td>$27,843</td>
</tr>
<tr>
<td>University of California – Los Angeles</td>
<td>$19,031</td>
</tr>
<tr>
<td>University of Maryland</td>
<td>$18,117</td>
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<tr>
<td>University of California – Berkeley</td>
<td>$16,819</td>
</tr>
<tr>
<td>University of Michigan – Ann Arbor</td>
<td>$16,469</td>
</tr>
<tr>
<td>University of Virginia</td>
<td>$9,872</td>
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</tbody>
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**Issues for Consideration**

- State’s base adequacy calculation and the imbalance between the state and family (tuition) contribution

The base adequacy calculation is the state’s current funding formula for higher education that in 2001 replaced the former operating budget guidelines known as Appendix M. Both the former and current sets of guidelines provide a common yardstick for measuring funding for
higher education and a consistent way to evaluate funding requests. At last calculation the University was funded at 94% of the base adequacy guidelines in 2007-08 leaving a shortfall of $30.9 million. It is important to look behind those numbers at the state’s actual contribution to the funding formula versus its target. In fact, the general fund meets only 77% of the calculated general fund need resulting in a $43 million shortfall while tuition is 104% of the guideline. The budget reductions in 2008-10 will only worsen that condition. We estimate the general fund percentage will fall to 72% of the guideline, before considering additional budget reductions anticipated for 2009-10.

The simple statement here is that the state does not pay for its share of the cost of education and part of that funding shortfall is made up from tuition. Higher education has argued that “fixing the base” is important, however, the state has not had adequate resources to address this issue so the imbalance only increases over the years.

- Impact of funds received under the American Recovery and Reinvestment Act of 2009

The American Recovery and Reinvestment Act of 2009 (ARRA) provides states with one-time money to restore funding levels at public institutions of higher education to the higher of 2008 or 2009 levels. The calculation in Virginia resulted in $276 million available for higher education. The General Assembly chose to allocate only 50% of these funds in fiscal year 2009-10, saving the remaining 50% for fiscal year 2010-11. That action provides $10.7 million in operating funds in each of the next two fiscal years for the University, enough to partially offset the planned $23.1 million general fund reduction in 2009-10.

The ARRA money is temporary and goes away in 2011-12. The full general fund reduction will remain. If there is not a significant recovery in the economy and in the state’s revenue picture before then the University will be left with a hole in the budget that will require new revenue to fill or reduced expenditures.

- Virginia’s fiscal outlook and its implications for higher education

The state has experienced a series of revenue reductions in the 2008-10 biennium that total more than $5.6 billion. The projected growth rate in the budget for fiscal year 2008-09 is a negative 7.3%. Through May actual general fund revenue collections have declined 9.3% compared to the projected annual decline of 7.3%. The percentage loss in general fund revenue for fiscal year 2008-09 is almost twice as bad as in the fiscal year 2002 recession. The adopted budget for fiscal year 2009-10 projects a 4.4% growth rate in the general fund assuming a recovery is reached by 2011. Since 1961 there have been only three years in which the state has experienced negative revenue growth – 1991, 2002, and 2009.
In fiscal year 2010 about 90% of the proposed reduction strategies were on-going savings that would continue in the next biennium. Fiscal year 2010 is the budget on which the 2010-12 biennial budget will be built. On June 30, 2009, state agencies were instructed to prepare plans to reduce existing appropriations in fiscal year 2010 by 5%, 10%, and 15% which will carry forward into the next biennial base budget.

Until 2000 there were five major budget drivers in the state’s general fund budget – K-12, mental disabilities, corrections, Medicaid, and higher education. Since then we have added a sixth – car tax relief. In the last 20 years during periods of economic downturn higher education has suffered the most among these major programs. It is only when the economy recovers that we are able to regain some of what we lost.

As for the future, the state’s projection of general fund revenue growth is about 5% annually from 2011 through 2015. Higher education will be competing for that revenue growth with the step function growth in K-12 expenditures resulting from rebasing against the Standards of Quality formula; with medical inflation and the needs of an aging population; with new prisons coming on line; with transportation which is an issue that has yet to be dealt with effectively by the Commonwealth; and with general inflationary needs, compensation, and capital outlay for all state agencies.

**Strategies for the Future**

- Continue to advocate for more state support for higher education generally and the University of Virginia specifically.
- Aggressively support and pursue the strategies being developed in the *Grow By Degrees* strategic positioning program, a non-partisan, privately funded, education based attempt to accomplish a systemic, sustainable transformation in the political-governmental standing of Virginia higher education. The ultimate objective of the program is to secure a reliable, predictable revenue stream and other positive policies that will help make Virginia higher education the national pacesetter over the next decade and beyond.¹
- Pursue additional autonomy in business processes and policies generally as opportunities present themselves which can help facilitate cost reduction.

**Question for Discussion**

1. Should the University build a reserve to protect the budget against future general fund budget cuts?
2. What role can members of the Board of Visitors play in advocating for more state support for higher education?

Tuition Revenue

Board of Visitors Retreat

July 10, 2009

Tuition Revenue

Background

The University of Virginia charges tuition to 20,370 headcount students enrolled in undergraduate, graduate, and first professional schools during the regular academic year with another 4,300 students enrolled in Summer Session\(^2\). Self sufficiency agreements with the Darden School and the Law School allow each to propose their own tuition structure and annual increases to the Board of Visitors. Ninety percent of the revenue generated by the Law and Darden schools is returned to them with ten percent retained by the University to cover services they receive from central administrative units.

For the most part graduate tuition provides little incremental revenue for the institution because of the competitive requirements to provide financial aid to graduate teaching and research assistants. The University pays for the equivalent of in-state graduate tuition, fees, and a healthcare subsidy for all students working as graduate teaching assistants. Grants pay these same costs for graduate research assistants. For out-of-state students the institution pays for the differential between in-state and out-of-state tuition and fees for graduate teaching assistants and graduate research assistants. These funds come from tuition revenue. Additional financial assistance is provided to graduate students from school based endowments and grants.

This leaves the burden of supporting the operating costs of the institution to the tuition collected from regular session undergraduate students. Tuition supports 34% of the educational and general (E&G) operating budget in 2009-10. In comparison, tuition made up 22% of the E&G operating budget 20 years ago.

The University takes several factors into consideration when it sets tuition each year. We look at our tuition and fee rates compared to our national peers (AAU institutions and the SCHEV peer group) and compared to other public institutions in Virginia. We consider the impact on financial aid of any potential tuition increase. Finally, we look at the expected cost increases in the budget and the available funds to address those costs. We are always sensitive to the need to maintain access and affordability.

Historical Trend

The chart below reflects gross tuition revenue and educational and general fees billed to all students. Net tuition and E&G fees represent available revenue after funding for Access U.Va., and graduate financial aid. Both gross and net tuition have increased at substantially the same pace over the five year period.

\(^2\) Fall 2008 and summer 2008 enrollment.
Comparison to Peer Institutions

The University regularly compares the tuition rates it charges to those at peer public and private institutions. In general we tend to be on the high end of the range for public institutions. While our out-of-state rate is quite a bit less than private peer institutions it is difficult to get a true sense of the comparison without also taking into consideration the tuition discounting in which private institutions regularly engage. Tuition discounting is the strategic use of financial aid to lower the sticker price of a college education for designated applicants. In a 2002 report from the National Association of College and University Business Officers the average discount rate for private four-year colleges was 39.4 percent of the published tuition price, with more than 8 out of 10 students receiving some form of discount. At public institutions the average discount rate was 13.9 percent with roughly two of ten students receiving a discount. Tuition discounting is normally used to address financial need of students, but can and is used to shape an incoming class to meet certain institutional goals.

For public institutions there is an inverse relationship between tuition charged to in-state students and the support the institution receives from the state. For example, in the following graph the institutions (Arizona and North Carolina) that have very low tuition also benefit from very high state support relative to other institutions. U.Va., on the other hand, while in the middle of the range on tuition ranks fourth from the bottom in general fund appropriation per in-state student. For reference, University of Pennsylvania, Duke, Vanderbilt and Cornell are private institutions included in the more refined and limited peer group that the Board of Visitors uses to benchmark performance while Michigan, UC-Berkeley, UCLA, and UNC are the private peer institutions in that group.
Issues for Consideration

- **Maintaining the Board of Visitors’ authority to set tuition and fees**

  The major objective behind the Restructuring Act of 2005 was to return to the Boards of Visitors of public higher education institutions in the Commonwealth the authority to set tuition and fee rates at their institutions. Despite the Boards’ statutory authority over tuition and fees, governors and legislatures in the past 15 years have regularly usurped that authority in favor of tuition caps and controls. Even since 2005 the legislature has attempted to influence tuition rates by holding incremental general fund appropriations as incentives to moderate tuition increases.

  To effectively manage the University, the Board must maintain its decision making authority over the Academic Division’s largest revenue source. This will require regular communications with the administration and with legislators, as well as active opposition to any attempts to override this authority. Consideration might be given to a more organized effort to educate legislators on the importance of the Board of Visitors’ decision making authority over tuition, as well as on the in-state/out-of-state mix of enrollment.

- **Impact of full funding for AccessUVa in the absence of private support**

  We are all proud of AccessUVa and fully support its premise that financial resources should not prohibit a qualified student from enrolling in the University. It is, however, not an inexpensive program. The total cost of the program has increased from $39.2 million in 2005 to $73.3 million projected for 2010, an 87% increase over the last five years. We
employ federal financial aid resources, state general fund appropriations designated for undergraduate financial aid, and restricted private resources to the program, but the gap in funding must be covered from institutional unrestricted resources. In 2004-05 our institutional commitment was $11.5 million. That commitment has increased to $29.7 million in the 2009-10 budget, a 158% increase over the period. Of that amount 22% comes from unrestricted endowment income with the balance coming from tuition. Until the recent establishment of the Blackburn Scholarship Fund, with $1.3 million raised to date, there have been virtually no donations specifically for AccessUVa. We have institutionally allocated scholarship fundraising that is either unrestricted or need-based to AccessUVa.

As future tuition options are weighed we must consider the impact of those decisions on the financial requirements of the AccessUVa program. Today, the institutional commitment of unrestricted resources to undergraduate financial aid is 11.5% of undergraduate tuition collections, up from 8.3% just five years ago. In 2009-10 we devoted 36% of new tuition revenue to meeting the requirements of AccessUVa.

- **State’s base adequacy calculation and the imbalance between the state and family (tuition) contribution**

The base adequacy calculation is the state’s current funding formula for higher education that in 2001 replaced the former operating budget guidelines known as Appendix M. Both the former and current sets of guidelines provide a common yardstick for measuring funding for higher education and a consistent way to evaluate funding requests. At last calculation the University was funded at 94% of the base adequacy guidelines in 2007-08 leaving a shortfall of $30.9 million. It is important to look behind those numbers at the imbalance between the state’s contribution to the funding formula compared to tuition. In fact, the general fund meets only 77% of the calculated need resulting in a $43 million shortfall while tuition is 104% of the guideline. The budget reductions in 2008-10 will only worsen that condition. We estimate the general fund percentage will fall to 72% of the guideline.

The simple statement here is that the state does not pay for its share of the cost of education and part of that funding shortfall has been shifted to students and families. Higher education has argued that “fixing the base” is important, however, the state has not had adequate resources to address this issue so the imbalance only increases over the years.

- **Reporting requirements of the Higher Education Opportunity Act of 2008**

The Higher Education Opportunity Act of 2008 was enacted on August 14, 2008, and reauthorizes the Higher Education Act of 1995, as amended. The act includes a number of provisions aimed at rising college costs. Beginning July 1, 2011, the Department of Education will publish a list of the top five institutions in each of nine categories with 1) the highest tuition and fees; 2) the highest “net price”; 3) the largest percentage increase in tuition and fees; and 4) the largest percentage increase in net price. Institutions named to this list will be required to submit a report outlining the reasons for the increase and the steps that will be taken to reduce costs. Names of those institutions will be posted on a web site.
The Board will need to be mindful of these federal requirements as it plans for future tuition and fee increases.

- **Impact of funds received under the American Recovery and Reinvestment Act of 2009**

The American Recovery and Reinvestment Act of 2009 (ARRA) provides states with one-time money to restore funding levels at public institutions of higher education to the higher of 2008 or 2009 levels. The calculation in Virginia resulted in $276 million available for higher education. The General Assembly chose to allocate only 50% of these funds in fiscal year 2009-10, saving the remaining 50% for fiscal year 2010-11. Its action provides $10.7 million in operating funds in each of the next two fiscal years for the University, enough to partially offset the planned $23.1 million general fund reduction in 2009-10.

The ARRA money is to be used to mitigate tuition increases for in-state students. In response to that provision the Board of Visitors approved an in-state undergraduate tuition and E&G fee increase of 5% for 2009-10 compared to an earlier planned increase of 9.9%. It is reasonable to assume that a similar increase will be assessed in 2010-11. To the extent that ARRA funds are used for ongoing operating expenses a hole will be created in the budget in fiscal year 2011-12 when the ARRA funds disappear. One of the primary revenue sources to fill that hole will be tuition. We have projected that it could take as much as a 3% increase in undergraduate in-state tuition in each of the next two years to generate the revenue needed to cover the $6.9 million in on-going costs that are being covered from ARRA funds in 2009-10.

**Strategies for the Future**

This fall the University must update its six-year financial plan, a requirement of the Restructuring Act. Now is an opportune time to incorporate any changes in our tuition policy for the future. There are a number of options the Board can consider.

- **Continue normal tuition increases to keep pace with rising costs**

  This summer the State Council of Higher Education (SCHEV) will recalculate base adequacy requirements using fall 2008 actual enrollments and fiscal year 2010 appropriations in preparation for updates of institutional six-year financial plans. In the past the financial plans have been based on achieving full funding of base adequacy over a six-year period. Each time the plans are updated the time period is extended another two years so what was originally a goal that should be achieved in 2010-11 will have a new target date of 2014-15.

  One strategy is to continue on our present course of increasing tuition at a reasonable pace to keep up with short term funding requirements related to the formula, enrollment growth, and compensation increases. It is unlikely that such a strategy will produce any substantial sums of unobligated revenue to address new programs and initiatives since
most of the annual incremental revenue will be needed to address salary and benefit increases, financial aid, and other unavoidable costs.

- **Consider a significant surcharge assessed to entering students**

An alternative tuition strategy is to assess a substantial surcharge to entering first year undergraduate Virginia students. This strategy protects continuing students who came to the University under one set of expectations relative to future tuition increases while providing adequate notice to those not yet enrolled who can then make a decision based on financial and other factors. For example, the chart below reflects a surcharge of $3,000 implemented in 2011-12, after the temporary stimulus money goes away. The surcharge generates $29 million in new revenue over the four year period it takes to fully implement it. We can easily model an alternative surcharge amount.

### In-State Undergrad Tuition

**$3,000 Surcharge**

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Entered Fall 2006</td>
<td>$7,873</td>
<td>$7,873</td>
<td>$7,873</td>
<td>$7,873</td>
<td>$7,873</td>
<td>$7,873</td>
</tr>
<tr>
<td>Entered Fall 2007</td>
<td>$7,873</td>
<td>5.4%</td>
<td>$8,300</td>
<td>$8,300</td>
<td>$8,700</td>
<td>$8,100</td>
</tr>
<tr>
<td>Entered Fall 2008</td>
<td>$7,873</td>
<td>5.4%</td>
<td>$8,300</td>
<td>4.8%</td>
<td>$8,700</td>
<td>4.6%</td>
</tr>
<tr>
<td>Entered Fall 2009</td>
<td>$7,873</td>
<td>5.4%</td>
<td>$8,300</td>
<td>4.8%</td>
<td>$8,700</td>
<td>4.6%</td>
</tr>
<tr>
<td>Entered Fall 2010</td>
<td>n/a</td>
<td>$8,300</td>
<td>4.8%</td>
<td>$8,700</td>
<td>4.6%</td>
<td>$9,100</td>
</tr>
<tr>
<td>Entered Fall 2011</td>
<td>n/a</td>
<td>$11,700</td>
<td>3.4%</td>
<td>$12,100</td>
<td>3.3%</td>
<td>$12,500</td>
</tr>
<tr>
<td>Entering Fall 2012</td>
<td>n/a</td>
<td>$12,100</td>
<td>3.3%</td>
<td>$12,500</td>
<td>4.0%</td>
<td>$13,000</td>
</tr>
<tr>
<td>Entering Fall 2013</td>
<td>n/a</td>
<td>$12,500</td>
<td>4.0%</td>
<td>$13,000</td>
<td>n/a</td>
<td>$13,000</td>
</tr>
<tr>
<td>Entering Fall 2014</td>
<td>n/a</td>
<td>$13,000</td>
<td>n/a</td>
<td>$13,000</td>
<td>n/a</td>
<td>$13,000</td>
</tr>
</tbody>
</table>

[update with final SCHEV 2009 enrollment projections]

With a tuition increase as significant as $3,000 there would no doubt be an increase in students eligible for financial aid, not to mention the higher level of financial assistance required for those who already qualify. Additional resources would have to be provided for AccessUVa.

The major advantages to a tuition surcharge include 1) significant incremental revenue (depending on the level of the surcharge) that flows to the institution over a four-year period during implementation, 2) current students who came to the University under one set of financial expectations are not disadvantaged by a sudden jump in cost, and 3) allows the institution to reset its price in a single year. Arguments against such a strategy include 1) students sitting in the same classroom, taught by the same faculty are paying different prices, 2) potential negative political consequence, and 3) impact on applicant pool.
Alter the provisions of AccessUVA to reduce its cost and allow more incremental revenue to be used for educational expenditures

In fiscal year 2008-09, incremental undergraduate tuition revenue totaled $19 million. Of this amount $5.2 million or 27% was needed to fully fund AccessUVA. In 2009-10 we devoted 36% of incremental tuition revenue to AccessUVA. The Board could choose to modify the terms of AccessUVA to help curtail its increasing cost. For instance,

1. The loan cap could be altered for out-of-state students to be equivalent to one year’s out-of-state cost rather than the current in-state cost used.
2. The loan cap could be increased or eliminated for all students. Savings would approximate $1.2 million if the loan cap was eliminated.
3. The University could agree to meet less than 100% of demonstrated financial need.
4. The University could lower the poverty level cap used to determine grant funding. For example, if we provided grants only to those students at 150% of the poverty level as compared to the current provision of 200% of poverty it would save approximately $1 million annually.

Aggressively seek private funds to support the costs of AccessUVA in order to relieve the demand to fund this program from tuition

We have often talked about the strategy of raising private funds for current programs in order to substitute for unrestricted resources currently used to support them. It would take an endowment of $458 million to provide the annual income ($22.9 million) necessary to cover the funds currently allocated to AccessUVA from unrestricted resources. If we are able to raise endowment in any amount for this purpose it will free up unrestricted resources that can be redeployed for other priorities.

Question for Discussion

1. Should the University take a bold step and reset its price for an undergraduate in-state education by assessing a significant surcharge to entering students in the fall of 2011 to more appropriately align price with quality of the education provided? If so, how large should the surcharge be?
2. What would the political ramifications be for such an action and are there ways to mitigate those consequences?
3. Will a substantial price increase negatively impact yield and quality of the student applicant pool?
Research universities, and the means by which they perform their missions, are fundamentally different from institutions which focus primarily on undergraduate teaching, as illustrated by the following defining characteristics:

- research university faculty members are expected to teach and conduct research at a high level relative to peers in their respective disciplines;
- the infrastructure (e.g. libraries, laboratories, information technology) of research universities allows for the conduct of basic and applied research; and
- undergraduate and graduate students are educated by multiple, diverse means (e.g., general instruction, research, and extension of research into communities).

Learning and scholarship are inseparable at universities, especially those which engage in cutting-edge research. The value to and attraction of future students to U.Va. depends on the currency and quality of research. Investments in research are investments in quality education.

Benefits of research programs include attraction of the best faculty and staff, transfer of technology to commercialization and societal impact (a form of disseminating knowledge), aid to public service programs with domain expertise, and corporate partnerships.

By the nature of their missions, research universities are complex. Academic leaders who would advance the missions of research universities must give careful consideration to aligning resources and creating conditions such that levels of teaching, research and service may be optimized. The optimization of sponsored research is the topic of this brief.¹

**Background**

Sponsored research is performed by the University under grants, contracts, and other agreements with external sponsors. These awards, called sponsored program funds, are received from a variety of public and private sources. Private funding sources are non-governmental sources of funding such as corporations or philanthropic organizations. Of the various sources of sponsored program funding at the University, the federal government is by far the largest, both in terms of the number of grants and in terms of total revenues (see Figure 1). In FY 2008, the total number of revenue producing awards for the year was 1909 (97 renewal awards for a total of $27.12M, 473 continuation awards for $134.64M, 476 supplement awards for $36.95M, 859 new awards for $113.32M, and 4 awards uncategorized for $2.19M).
<table>
<thead>
<tr>
<th>Source of Awards/Grants</th>
<th>Number of Awards</th>
<th>Total Revenues (2008)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal Government</td>
<td>851</td>
<td>$223.65 million</td>
</tr>
<tr>
<td>Foundations</td>
<td>282</td>
<td>$32.3 million</td>
</tr>
<tr>
<td>Industry</td>
<td>499</td>
<td>$24.98 million</td>
</tr>
<tr>
<td>Other universities</td>
<td>178</td>
<td>$14.77 million</td>
</tr>
<tr>
<td>State Government</td>
<td>99</td>
<td>$18.52 million</td>
</tr>
<tr>
<td>Total</td>
<td>1909</td>
<td>$314.22 million</td>
</tr>
</tbody>
</table>

Figure 1

The budget for sponsored agreements is divided into two categories, direct costs and indirect costs (often referred to as facilities and administrative costs). As part of its pledge to sponsor a project, the government provides funds which grant recipients use to cover the **direct** costs of their sponsored work. Direct costs can be identified specifically with a particular sponsored project or activity and can be directly assigned to that project or activity with a high degree of accuracy. Compensation of employees for performance of work and the costs of materials consumed in the performance of a specific project are typical examples of direct costs. These funds are held by the University in individual accounts which grant recipients can access as needed.

Besides the direct costs of sponsored work there are **indirect costs** associated with shared resources and administration (e.g., facilities, heating, lighting, libraries, general administration, etc.) that are indispensable to the completion of sponsored work. Therefore, in sponsoring projects, the government also agrees to reimburse the University for the indirect costs associated with these projects. Recovered indirect funds are centrally received and allocated by the University.

The indirect costs of a particular sponsored project are difficult to determine since they involve resources used in common with other projects. Because of the difficulty involved in determining the indirect costs of each individual sponsored project, federal sponsors agree to reimburse the University for indirect costs according to a fixed percentage rate of the direct costs of sponsored work. This rate is the product of negotiations between the University and the particular federal agency responsible for arbitrating and approving indirect funding rates at the University. The University currently negotiates with Department of Health and Human Services (DHHS). The objective of these negotiations is to determine a fair repayment via indirect for costs related to work which the sponsoring agency has agreed to support. The negotiated rate of indirect funding applies to funds received from all federal agencies for a stipulated time period.
Negotiations take place in the final year of the University’s agreement with the government. Federal policy dictates that University accounting records from the last completed fiscal year serve as the primary documents in negotiations. The University initiates the process by sending a financial disclosure report and supporting materials to DHHS. The University’s report and supporting materials are reviewed by a federal negotiation team that spends months investigating these documents for logic of accounting, reasonableness, thoroughness and consistency.

Comparison to Peer Universities

Only 96 of the 4300\textsuperscript{ii} institutions of higher education conduct very high research activity\textsuperscript{iii}. The most recent peer data available from National Science Foundation (FY 2007) reveal that federal research and development obligations to the top 100 research universities totaled $21.0 billion, or 82.6\%, of total federal research obligations. The University of Virginia is among the top 50 research universities in the United States, according to National Science Foundation (NSF)\textsuperscript{iv} and according to a ranking conducted and published by The Center for Measuring University Performance.\textsuperscript{v}

TABLE 1. Federal obligations for science and engineering research and development to the 100 universities and colleges (12 shown here) receiving the largest amounts, ranked by total amount received, by agency: FY 2007

<table>
<thead>
<tr>
<th>Rank</th>
<th>Institution</th>
<th>All agencies</th>
<th>DOD</th>
<th>DOE</th>
<th>HHS</th>
<th>NASA</th>
<th>NSF</th>
<th>USDA</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>All institutions</td>
<td>25,419,370</td>
<td>3,065,971</td>
<td>812,131</td>
<td>16,259,892</td>
<td>552,963</td>
<td>3,286,003</td>
<td>732,196</td>
<td>710,214</td>
</tr>
<tr>
<td>1</td>
<td>Johns Hopkins U</td>
<td>1,186,768</td>
<td>511,254</td>
<td>3,086</td>
<td>589,278</td>
<td>37,750</td>
<td>30,247</td>
<td>705</td>
<td>14,448</td>
</tr>
<tr>
<td>5</td>
<td>UCLA</td>
<td>460,679</td>
<td>26,661</td>
<td>16,810</td>
<td>368,130</td>
<td>10,220</td>
<td>57,576</td>
<td>1</td>
<td>1,281</td>
</tr>
<tr>
<td>10</td>
<td>U. Pittsburgh all campuses</td>
<td>426,764</td>
<td>22,773</td>
<td>3,069</td>
<td>383,325</td>
<td>184</td>
<td>16,294</td>
<td>27</td>
<td>1,092</td>
</tr>
<tr>
<td>15</td>
<td>MIT</td>
<td>381,753</td>
<td>53,044</td>
<td>57,069</td>
<td>200,070</td>
<td>11,662</td>
<td>54,765</td>
<td>0</td>
<td>5,143</td>
</tr>
<tr>
<td>19</td>
<td>UNC Chapel Hill</td>
<td>353,478</td>
<td>6,871</td>
<td>2,759</td>
<td>310,186</td>
<td>307</td>
<td>21,277</td>
<td>810</td>
<td>11,268</td>
</tr>
<tr>
<td>20</td>
<td>Vanderbilt U.</td>
<td>331,244</td>
<td>18,686</td>
<td>2,837</td>
<td>288,566</td>
<td>1,603</td>
<td>11,480</td>
<td>0</td>
<td>8,072</td>
</tr>
<tr>
<td>25</td>
<td>U. Rochester</td>
<td>255,201</td>
<td>14,830</td>
<td>51,081</td>
<td>172,392</td>
<td>389</td>
<td>8,449</td>
<td>0</td>
<td>8,060</td>
</tr>
<tr>
<td>30</td>
<td>U. AL Birmingham</td>
<td>235,077</td>
<td>19,455</td>
<td>510</td>
<td>209,697</td>
<td>1,176</td>
<td>2,008</td>
<td>0</td>
<td>1,631</td>
</tr>
<tr>
<td>34</td>
<td>UC-Berkeley</td>
<td>214,549</td>
<td>17,510</td>
<td>8,364</td>
<td>94,646</td>
<td>10,751</td>
<td>75,275</td>
<td>2,185</td>
<td>5,818</td>
</tr>
<tr>
<td>40</td>
<td>U. Va.</td>
<td>198,978</td>
<td>14,672</td>
<td>4,022</td>
<td>147,402</td>
<td>2,666</td>
<td>21,595</td>
<td>0</td>
<td>8,599</td>
</tr>
<tr>
<td>46</td>
<td>Georgia Tech</td>
<td>174,486</td>
<td>98,538</td>
<td>5,510</td>
<td>18,747</td>
<td>3,978</td>
<td>42,706</td>
<td>946</td>
<td>4,061</td>
</tr>
<tr>
<td>80</td>
<td>Virginia Tech</td>
<td>91,626</td>
<td>18,605</td>
<td>5,167</td>
<td>15,379</td>
<td>1,806</td>
<td>25,629</td>
<td>13,831</td>
<td>11,209</td>
</tr>
</tbody>
</table>

DOD = Department of Defense; DOE = Department of Energy; HHS = Department of Health and Human Services; NASA = National Aeronautics and Space Administration; NSF = National Science Foundation; USDA = U.S. Department of Agriculture.

Federal Research Expenditures

The following measures provide an evaluation of research activity as measured by federal research expenditures reported to NSF in an annual survey. The first graph presents total federal research expenditures for the University and peers; the second graph presents the amount of federal research expenditures per faculty member (IPEDS full-time tenured and tenure-track faculty).
Analysis

In 2007 UVa received $198 million in federal research expenditures. Over the eight-year period represented above, UVa’s rate of growth in federal research expenditures was slightly less than that of the peer mean. It is important to note that the number of faculty in the University’s science departments is smaller compared to our peers. Proportionately, we have more humanities faculty, who traditionally do not receive sponsored research funding.

UVa receives the majority of its federal funding from NIH. As NIH budget increases leveled off over the past several years, the University’s federal research expenditures have followed suit, as have those of our peers. Future overall UVa research spending will largely depend on the ongoing federal agency R&D budgets.

Sensitivity/Cost-Benefit

As highlighted in the University’s Commission on the Future strategic plan, UVa is planning to selectively increase faculty in sciences and engineering and construct new laboratory space. Also, the University’s restructuring agreement with the state calls for UVa to grow its sponsored research expenditures by approximately 2%-4% a year over the next several years if federal resources permit. To achieve this target, UVa will need to implement the recruiting and research facility building plans outlined by the Commission, which include targeted hiring for new outstanding science and engineering faculty and purchasing equipment for their work.
Currently, the University is constructing 400,000 gross square feet of new research space (Carter-Harrison, College science building, and Rice Hall) with additional GSF available in the Ivy Building and Life Sciences Annex, pending funding.

With the new state-of-the-art research space being developed, with improvement in efficiency of existing faculty, and with the planned targeted recruitment of outstanding new faculty, the University should be able to positively impact the federal research dollars spent per faculty member. However, this performance measure will take time to change as the strategic recruitment and research plans and priorities evolve.

Issues for Consideration

Studies of universities and medical centers reveal that research investigations, even those which attract considerable support from federal sources, in the majority of instances, require significant financial subsidies from their respective institutions. Research, therefore, does not “make money.” In the case of technology transfer, certain research products may be sold, but this is not the norm. Research is a vital process and outcome for the top universities, and they cannot exist without it. However, making judicious investments in research requires careful consideration as it should be placed among the other missions of education and public service, which also require support.

Equally important to research success, is effective establishment of an environment which allows and encourages innovation and discovery. Tom Skalak, Vice President for Research, as a continuation of the work of the Commission on the Future of the University, has initiated a pan-university discussion about the future of research, innovation, science, and engineering. After reviewing approximately 100 school priorities, planners have arrived at a set of nine targeted programs; the top three are energy, sustainability, and public health. This summer, Mr. Skalak will convene a number of smaller groups to discuss these topics and consider how the programs and emphases may be formed into a strategy for the University’s science aspirations. Some of the criteria which the group might use when evaluating programs will include existence of strong leadership, availability of sustained follow-on funding, gap analyses versus peers, and ability to distinguish UVa.

Questions for discussion:
1. To what extent can/should the University invest in research?
2. What areas of research are most compelling?

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1 Contents of this brief are excerpted from University sources, including presentations made by Ms. Reynolds, Mr. Skalak, and briefs prepared for University planning efforts.
2 4300 for-profit and non-profit, two-year and four-year, colleges and universities
3 This widely-used classification is used by the Carnegie Corporation.
5 The Center ranks all research universities on measures of research, private support, faculty, advanced training, and undergraduate standardized test range.
6 Academic Medicine, Vol. 84, No. 1 / January 2009
Cost Containment (REVISED)

Background

The University of Virginia has always been committed to sound fiscal stewardship of private and state funds. Under the current turbulent economic conditions, the importance and awareness of disciplined, prudent allocation and use of funds is heightened. The University seeks to create a “cost consciousness” that permeates all areas of the University – administrative, academic, medical center, and auxiliary enterprises. This paper details the many efforts that are underway, documents some of the challenges, and acknowledges alternative cost containment opportunities that warrant further exploration and consideration.

The global economic crisis affects multiple, significant fund sources at the University. The state appropriation has been reduced by $12.4 million in the 2009-2010 budget, which is in addition to the $10.6 million permanent reduction that was taken in October, 2008. The collective reduction in state funding over the last three years is $32.3 million. Although the University has received $10.7 million in temporary, two-year funding from the American Recovery and Reinvestment Act of 2009 (ARRA) to offset part of the general fund reductions, the expectation is that a portion of these funds will be used to mitigate tuition increases for in-state students. Further, the University’s endowment has declined in value and revenue streams that depend on sales and services (e.g. athletic events, concerts, theatrical performances, auxiliary service providers) have also dropped. The Medical Center has seen a decrease in admissions that appears to be related, at least in part, to patients choosing to defer elective care, an apparent national trend. In spite of these declining resources, the University faces specific unavoidable cost increases that must be addressed, such as operations and maintenance associated with bringing new buildings on-line, utility increases, and student financial need.

Challenging financial conditions are not new to the University. We have successfully persevered through several periods of volatile state funding, along with tuition caps and freezes imposed by the General Assembly. What is different this year, however, is that we cannot rely upon tuition and endowment income as much as we have in the past to augment the declines in state funding. In hindsight, some might say we are a stronger University because of these earlier fiscal challenges, which led to successful capital campaigns; more sophisticated endowment management; and overall efficiency gains through targeted cost-saving initiatives. It is our intent to once again seize the crisis as an opportunity for improving the quality and efficiency of our operations relative to our peers.

Peer Comparisons - Indicators of Efficiency

There is no universal measure or standard to indicate efficiency in higher education, however, the University has consistently been recognized by several external audiences for its
Cost Containment

high value. Recent recognitions include: December 2008 issue of *Kiplinger's Personal Finance* magazine ranked U.Va. No. 3 in its "100 Best Values in Public Colleges; Princeton Review (2009) - #1 best value public institution (#4 in 2007; #7 in 2006); U.S. News & World Report (2009) - #2 public university, #23 overall, #16 in “Great Schools, Great Prices” category; Forbes (May 2008) - #1 among all national public universities by the Center for College Affordability and Productivity. In general, these rankings cite the University’s strengths of high academic quality, comprehensive financial aid program, efficient operations, and unusually significant endowment and fundraising operation, especially for a public institution.

Further, an analysis of the components of the 2009 *U.S. News & World Report’s* college and university rankings demonstrates the University’s efficient use of resources compared to its peers. Generally, institutions that rank high in the *US News and World Report* reputation measure also rank high in the expenditures per student measure. The extent to which an institution with a low expenditure ranking can attain a high reputational ranking could be an indicator of the efficient and effective use of resources. The graph below shows the numerical difference between the Expenditures per Student ranking and Peer Assessment ranking (reputation). During each of the past 11 years, U.Va. has performed well above its peers in this measure. No peer institution has been able to attain such a high peer assessment with such a limited budget.

While the record reflects the fact that U.Va. operates in a relatively efficient manner, there is always opportunity for improvement. New technologies, improved and simplified processes, and a careful assessment of how we use resources can lead to savings and increased allocations of resources to our primary programs of teaching, research, service and health care.
Best practices and the current economic environment require that we leave no stone unturned in our effort to provide the highest quality products at the most reasonable price possible.

Cost Containment Approaches

In response to the most recent budget reductions, we have implemented the more traditional, conventional strategies of holding positions vacant, deferring discretionary expenditures, and asking staff to take on more responsibilities; however, given the magnitude of repeated cuts, we recognize that incremental, one-time cuts and contingency plans are insufficient. This crisis requires us to respond with sustainable reductions. General approaches have included centralization or decentralization of functions or processes in order to achieve greater effectiveness and efficiency; consolidation of efforts to eliminate redundancy; outsourcing; resource sharing; and increased cross-institutional collaboration. As part of the 2009-2010 annual budget development process, each unit was required to submit a spreadsheet describing each reduction action, the associated operational impact of the action, and the explicit dollar amount reduction and FTE reduction if applicable. While traditionally cost control efforts have concentrated on administrative operations in both academic and administrative departments, ultimately all University functions must be scrutinized, even core functions of teaching, research and health care. Beyond containing cost and cutting costs, we are simultaneously exploring new and creative ways to generate additional revenue.

We have not been insular in our approach to cost containment and have benchmarked best practices at other institutions, including Penn State -- University Cost Saving Task Force; the University of North Carolina System – President’s Advisory Committee on Efficiency and Effectiveness; University of Florida – Cost Reduction and Efficiency Task Force; Harvard University – Cost Savings Program; University System of Maryland – Effectiveness and Efficiency Work Group; University of Michigan -- Cost Savings Initiatives; and University of Central Oklahoma – Lean Thinking. In reviewing these approaches, we have concluded that we are engaged in similar efficiency efforts as our peers. In fact, many of the efforts that other institutions are initiating have been long-standing practices at the University. We will continue to monitor the work at other institutions and consider additional innovative cost containment strategies for application at U.Va. as appropriate.

Several peer institutions have responded by establishing formal groups, task forces, or initiatives to facilitate cost containment across the institution. From 2002 – 2004, the University had a cross-functional working group, known as FOCUS, charged to identify opportunities to consolidate or eliminate services and programs and institute greater efficiencies. Over the last three years, we considered re-establishing this workgroup but determined that sufficient structures were already in place to facilitate this work and ultimately, we aspire to have everyone dedicated to this way of thinking, not just a committee or task force. Additionally, Process Simplification in the Office of the Vice President for Management and Budget serves as the University’s formal, systematic approach to continuous improvement. Process Simplification, established in 1994, is a pan-University improvement effort, which seeks to enhance the quality, effectiveness, and efficiency of processes that affect faculty, staff, and students. As such, specific project outcomes include the simplification of steps in a process, the elimination of
Cost Containment

duplicative efforts, and optimization of available resources. This effort has facilitated significant, tangible improvements over the years in administrative areas, student services, and academic administrative support areas.

In times of financial pressure, outsourcing of services often receives increased attention. We continually assess the viability of outsourcing various activities and services. There are numerous factors to consider when evaluating the merits of outsourcing as opposed to self-operation or a hybrid model, only one of which is cost. It is a delicate matter to ensure that the needs of the institution can be met at a lower cost than what it would cost the University to deliver. Examples of services which the University outsources include: dining, mail, some custodial, vehicle rental, transcription, child care, arena management, and pest control. In the Medical Center some 238 services are contracted out to vendors, including the following services that are entirely outsourced: foodservice to Morrison Management Specialists; housekeeping to Crothall Healthcare; and blood and blood products to Virginia Blood Services. We continue to evaluate periodically services that would be appropriate to outsource.

Looking long-term we are developing resource management strategies and practices to control costs in the future. For example, the Commission on the Future of the University initiatives are funded with seed money with the expectation that other revenue sources will be identified to support the activity in the long-term – i.e., after about three years. We are also becoming more objective and disciplined in using performance measures to gauge the level of success and progress of the Commission initiatives as well as other University activities. As such, we realize that we can’t simply keep doing more, growth by addition, but rather in some cases we have to stop doing things in order to support new activities. Growth by substitution and reallocation of resources must become a standard operating reality. Repatriation has been an important strategy over the last two years.

Examples of Cost Containment

The following examples are provided to demonstrate the breadth and depth of our cost consciousness across academic and administrative areas.

- Workforce Management
  Seventy-five percent of the University’s E&G budget (62% of the Academic Division budget) is expended on personnel. Our history shows that we have focused on predicting state budget weakness with a fair degree of success before any official notices are issued, taking steps on our own to manage the workforce and creating vacancies and related savings before Governors take action. The University has been able to avoid layoffs through early detection of the problem and several efforts to right-size our workforce. We are reducing staff numbers through attrition, consolidation of units, and job sharing. Human Resources has implemented an internal system to facilitate the transfer and reassignment of employees and mandated posting of positions internally prior to external posting. Each unit has an approved staffing plan that it must adhere to in managing its workforce. For example as a result of these efforts, employment levels in the administrative areas have been reduced by approximately 100 permanent positions, an average net reduction of 4%. The level of reduction percentage varies by unit and spans 3% to 9%. As
new or replacement positions are hired, salaries are to be at established levels equivalent to or below the salary of the person being replaced unless a higher salary has been justified in advance. These potential replacement savings are particularly notable in the academic division when one considers replacing a retiring full professor with an assistant or associate professor. In general, professors are paid more than associate professors and associate professors are paid more than assistant professors. The savings realized when a full professor terminates his employment and a school replaces him with a new assistant professor is approximately $38,500 in Arts and Sciences, $29,000 in Engineering; and $28,700 in Medicine. An analysis of aggregated data from 2005-2008 demonstrates that schools do, in fact, replace full professors with assistant and associate professors.

- **Efficiency of Teaching**
  On the academic side, we are examining the efficiency of teaching through a comprehensive analysis of faculty loads, courses, and class sizes. Conventionally, research and instruction have been considered as a bundled cost. This review is focused on individual faculty teaching productivity. As a result of this analysis, there will be opportunities to eliminate duplication of similar courses in different programs and schools and realize efficiencies where instructional costs are fixed (e.g. additional students with less-than-proportionate cost increases). For example, the School of Arts and Sciences will reduce the number of courses offered in 2009-2010 by approximately 43.

- **Consolidation**
  We are studying the feasibility of consolidating the Housing Division facilities staff of approximately 100 and the small Newcomb facilities staff with the Facilities Management organization of 950 staff. Thus far, we have determined that it is feasible to consolidate and are considering the advantages and disadvantages of doing so. As a result of these consolidations the University will be able to leverage fully the depth of resources, efficiency, and flexibility offered by a large organization, and Housing and Newcomb will realize savings in maintenance costs. It is estimated that these savings will yield approximately $450,000 by the third year.

- **Outsourcing**
  ITC Help Desk - The University has secured a vendor to assume responsibility for a single unified IT help desk. PerceptIS is a Cleveland-based firm with a reputation for excellence in IT customer service for higher education, non-profit, and commercial markets. Currently, the University maintains three separate help desks - ITC help desk, Integrated System help desk, and a Student System help desk. As a result of this outsourced solution, services will be enhanced to include 24/7/365 support to the University community via email, phone, chat, and online self-service. System maintenance will pay for outsourced vendor at an expected cost lower than current and future estimated costs of the current help desk configuration.

- **Medical Center**
  The Medical Center, in consultation with the School of Medicine, has identified nine initiatives which represent opportunities to reduce operating costs or increase operating margin with a potential impact of improving the operating margin by $17-38 million. Each of these items will require significant engagement of clinicians and health care professionals. Consequently, the engagement of the Vice President and Chief Operating Officer of the Medical Center and the
Vice President and Dean of the School of Medicine is essential. Rector Fralin asked that efforts be made to find means of increasing annual payments to the School of Medicine from the current $62 million to a total closer to $100 million, to be used primarily for research – these nine initiatives are in response to that inquiry.

- **Leveraging Market Opportunities - Expedited Construction**
The University has accelerated the construction of Phase III (the next two buildings) of the Alderman Road Housing replacement project as a result of a favorable bid on Phase II ($25.4 million below the authorized budget). The estimated completion date of the project is expected to be a year earlier than planned.

- **Athletics**
Athletics has focused on identifying sustainable changes in its business practices. Changes implemented to produce the needed cost savings include a 4.5 percent operating budget reduction to non-personnel budgets, strict travel guidelines for both team and professional development ($380,000), re-negotiation of the athletic meal plan ($250,000), and venue change for night before home games ($35,000).

- **Specific Examples of Revenue Generation**
Over the years Procurement Services has regularly sought to cost save and cost avoid through daily competition and negotiation and in doing so has saved the University millions of dollars. More recently the department has turned its attention to generating revenue. Several initiatives are underway to leverage the marketplace, the current economic conditions, and an increased reliance on technology.

Procurement has negotiated discounts for cash or early payments. Suppliers that want to receive payment in less than 30 days may offer a discount. There are over 500 suppliers offering discounts, which range from 0.5% to 5% of the total cost. In the next fiscal year, these discounts are estimated to equal about $75,000. Procurement has also contracted with Bank of America, the University’s commercial bank contractor, to implement electronic payment options for suppliers. If a supplier is paid via a credit card the University receives a rebate for that payment. In its first year of implementation, the rebates have totaled $440,000.

Numerous other initiatives are being implemented, such as additional rebates and user fees for our contracts, rebates for enabling suppliers to accept electronic purchase orders, the ability to submit electronic invoices and accept payment electronically. As a result of all of the efforts, it is estimated that in fiscal year 2009-2010 Procurement will generate $1,000,000 in revenue. Ultimately, Procurement Services aspires to generate annual revenues that total or surpass its unit operating budget.

**Strategies for the Future**

It is widely acknowledged that higher education is a labor-intensive enterprise and one in which new investments are typically expensive. In order to position the University to make
strategic new investments unrestricted resources must be created either through revenue generation or cost containment.

- **Implement annual across-the-board budget reductions as part of the budget development process**
  As we seek effective cost containment strategies, it is important to recognize that in a decentralized environment, many of the decisions that affect productivity in the academic division are made at the decentralized school and unit level. Without a catalyst, units may not voluntarily examine cost containment strategies that could be employed in their areas. Some institutions, Penn State, Michigan State, and the University of Michigan to name three, repatriate a certain percentage of the operating budget annually to support University-wide priorities and initiatives. The tax encourages units to look for ways to eliminate redundancy and complexity and provides a pool of resources for reallocation. This activity becomes part of the annual budget development process so that units know they must be constantly looking for ways to improve productivity and efficiency.

- **Focus cost containment efforts in several key areas**
  Rather than repatriating a given percentage of the operating budget from each unit the University could identify several key areas in which the potential for cost reduction is the greatest. Work groups could be established to gather data on each area, evaluate alternatives, and make recommendations with the main objective being cost reduction. Such a strategy has the potential to affect some units at the exclusion of others. In other words, the pain is not spread like peanut butter, but rather strategically focused.

- **Ask units to identify their lowest priority activities with the objective of identifying those that can be eliminated**
  The hardest thing to do in higher education is to decide what not to do. Even when faced with significant budget reductions, schools and departments often elect to reduce services or ask faculty and staff to do more and rarely elect to eliminate entire programs or services. The University could focus its attention on identifying services and programs that could be eliminated freeing up the resources currently invested in them to put toward new priorities.

**Questions for Discussion**
- Should the University consider an across the board “efficiency tax” or “give back” on each unit’s annual budget?
- As an alternative, should the University identify several areas that offer the greatest potential for cost savings; study those areas intensively; and produce an action plan that will produce resources that can be reallocated to higher University priorities?
- Since we are operating at lower cost because of our cost containment efforts, what policies must we have in place when the revenue streams rebound in order to best position the University to address important strategic objectives in the future by focusing the allocation of new resources?
- What strategies are available to generate new revenue for the University?