

FINANCE COMMITTEE

2005-2006 GOALS/WORKPLAN STATUS REPORT

- 1. Provide relevant financial data and support to the Special Committee on Planning to facilitate the necessary policy decisions regarding fundamental University operations and priorities in order to complete a detailed ten-year financial plan.**
 - The Full Board approved the management agreement, six-year plan, and policies.
 - Special Committee on Planning reviewed a preliminary ten-year financial plan, preliminary situation analysis, gap analysis, performance measures and external analysis.
 - The Full Board discussed the issue of funding central Development.
 - The Full Board approved the 2006-2007 operating budget which reflects the changes and resources necessary to comply with the management agreement.
 - Management Agreement effective July 1, 2006.
 - Goal ongoing.

- 2. Fulfill Restructuring requirements at the maximum level to enable the University to take full advantage of the enabling legislation.**
 - The Full Board approved the management agreement, six-year plan, and policies.
 - The Full Board approved tuition and fees for 2006-2007.
 - Management agreement effective July 1, 2006.
 - Goal completed.

- 3. Establish a debt policy that preserves the University's Aaa bond rating, with special attention to accelerating the development of research facilities.**
 - The Finance Committee thoroughly evaluated existing debt policy, and approved revisions to both the debt policy and the interest rate risk management policy.
 - Goal completed.

- 4. Ensure the University's benefits plan is cost-effective and competitive with best-in-class institutions of higher education.**
 - The Finance Committee received its annual report on the UVa Health Plan, including an external assessment of the University's benefits plan which benchmarked it against other plans. The UVa plan compared very favorably.
 - Goal completed.

- 5. Develop appropriate policies to establish operating, maintenance, replacement, and renewal reserves.**
 - The Finance Committee thoroughly evaluated different categories of reserves at the University and approved revisions to the capital and operating reserve policies based on that review.
 - The Executive Vice President will work in 2006-2007 to ensure appropriate procedures are in place such that reserves are established and maintained consistent with the Finance Committee's evaluation.
 - Goal completed.

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2006-2007 GOALS

- 1. Explore viable financing alternatives to identify funds to support key initiatives that may serve as strategic advantages for the University consistent with the ten-year plan. Finalize ten-year financial plan as ten-year academic plan is refined.**

In the coming months, the Board of Visitors will review the preliminary academic plan, which will contain initiatives that may serve as strategic advantages for the University in the future. These initiatives, which will continue to emerge over the next several months, will most likely require resources beyond those identified in the preliminary ten-year financial plan or in the current Capital Campaign goal. Accordingly, the Special Committee on Planning and the administration have begun a preliminary analysis to identify alternative financial strategies to support these initiatives. The Special Committee on Planning is seeking the advice of the Finance Committee to assess alternative financial options that may be available to fund these initiatives.

- 2. Implement processes to comply with responsibilities in the Management Agreement in the six core functional areas (Capital Projects, Leases, Information Technology, Procurement, Human Resources, and Financial Administration). Continue efforts to educate the University community about Restructuring.**

Our long-term success depends on our ability to a) manage our operations under policies established by the Board of Visitors, b) rely on tuition and private support as stable revenue streams, and c) position ourselves to act quickly, efficiently, and effectively as an organization, free of unnecessary limitations imposed by the state. Over almost two decades, we have seen our status evolve from a traditional governmental agency to a major research university with substantial responsibilities and authority to manage our affairs. We have gained many operational benefits since 1995-1996, when “codified autonomy” was established for the Medical Center. On April 6, 2005, the Restructuring legislation was passed, advancing our position as we aspire to become a top-ranked institution of higher education.

We have focused our efforts this past year to implement the restructuring initiative by meeting the specific requirements of the Act, which provides a broad framework to enable us to redefine our relationship with the Commonwealth in a manner befitting our established credibility and integrity. The Full Board has approved the management agreement, six-year plan, and policies, as well as tuition and fees for 2006-2007. The management agreement became effective July 1, 2006.

In 2006-2007, in order to continue with the effective implementation of the restructuring initiative, the University must facilitate processes to assist the six core functional areas (Capital Projects, Leases, Information Technology, Procurement, Human Resources, and Financial Administration) in complying with responsibilities in the management agreement in their respective areas. Of particular importance will be the responsibility of the Finance Committee to monitor the development of the new Human Resources system to accommodate University staff.

The Finance Committee will provide oversight to a) an ongoing program of education for faculty and staff related to the functioning and purposes of restructuring; b) the development of management reports that will demonstrate compliance with and achievement of the expectations associated with restructuring; and c) strategies for keeping legislative staff and legislators informed about the results of restructuring for the purpose of building trust and confidence in the work done at UVa.

3. Explore funding options for development activities to free up Rector and Visitors' unrestricted endowment funds. Ensure the foundations' compliance with the policy on University-related foundations.

The assessment of the funding of development operations is a key element of, and closely related to, the charge given to the External Affairs Committee by the Rector to examine the relationship between the University and its related foundations. The Finance Committee could assist the External Affairs Committee in the assessment of the need and identification of resources to fund adequately development activities for the next several years. Resource requirements have reached a level such that unrestricted endowment income can no longer solely support development activities. The Finance Committee will continue to discuss and share with the Full Board the available options to address the funding requirements through alternative sources.

The trend in recent years is for gifts, including endowment gifts, to be deposited with university-affiliated foundations instead of with the Rector and Visitors. The proliferation of foundations has created inefficiencies in the form of excessive overhead expenses. In the longer run, there is also the potential for different foundations to manage endowments to different policies (including investment and spending policies) but more critically, to develop their own funding priorities, instead of supporting university-wide strategic directions.

In support of work being conducted by the External Affairs Committee, the Finance Committee, the External Affairs Committee, and indeed the Full Board will continue to discuss these topics in more depth in order to free up Rector and Visitors' unrestricted endowment funds, examine compliance with the University's policy on University-related foundations and identify ways to ensure consistent and supportive practices among University-related foundations. Also in conjunction with the External Affairs Committee, we are prepared to include a review of the current system of financial oversight of foundations and to propose revisions necessary to achieve the level of oversight of University-related foundations that the Board of Visitors expects.

4. Create a funding model for research, paying particular attention to unique research needs related to animal care and restricted research.

The Finance Committee will examine options for funding research – in the humanities and social sciences, as well as the hard sciences – at the University. The work will encompass what is required to provide flexible space on a cost-effective basis for research, addressing graduate student funding needs and providing an appropriate research infrastructure, including compliance. In assessing these issues, the Committee will focus on providing the right incentives to further the institution's overall research goals in fields which provide special opportunities for sponsored funding and growth. This effort is justified in part to

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meet the Governor's goals for research accomplishments and economic development in the management agreements.

Special emphasis will be placed on understanding the unique funding issues associated with the need for animal care facilities. The University has barely kept up with the needs for this kind of space and has seldom had any capacity beyond immediate needs. If it is possible to provide space for research and animals ahead of immediate demands, the University will create a market advantage that will improve its competitiveness in this area of academic work.

Recently it has become clear that the University must examine whether it will conduct restricted research – an area that is growing as the emphasis on homeland security grows. What is even more noteworthy is the fact that some research is migrating to the “restricted” category, when it would not have been previously considered as such, especially in Engineering. The conduct of restricted research comes with unique facility needs and requirements. The Finance Committee will examine the fiscal implications of providing this type of space.

5. Develop a financial plan to support the emphasis of the Educational Policy and the Student Affairs and Athletics Committees on improving the undergraduate experience, in particular the quality of undergraduate advising.

Several Board of Visitors' committees have emphasized the important role of student advising, especially at the undergraduate level. The Finance Committee intends to understand the financial implications of improved advising in order to be ready to respond to the fiscal impact assessments in this area. To a large extent this may be a function of the resources routinely provided to a school or department for teaching and research. However, there may be ways the University can truly distinguish itself among its peers with appropriate collaborative planning. This goal will require those staffing the Finance Committee to be fully cognizant and involved in the work of other committees.

2006-2007 WORKPLAN

- 1. Explore viable financing alternatives to identify funds to support key initiatives that may serve as strategic advantages for the University consistent with the ten-year plan. Finalize the ten-year financial plan as ten-year academic plan is refined.**
 - **July 2006:** Full Board to discuss preliminary academic plan and strategic advantages.
 - **Fall 2006:** Full Board to discuss academic plan and strategic advantages, after review with faculty and key constituents.
 - **Fall and Winter 2006:** Finance Committee to continue identification of financing alternatives.
 - **January 2007:** Finance Committee to decide on recommended financing alternatives.
 - **February 2007:** Provost and Executive Vice President to present final academic plan and strategic advantages, along with ten-year financial plan and financing alternatives proposal to the Full Board.

- 2. Implement processes to comply with responsibilities in the Management Agreement in the six core functional areas (Capital Projects, Leases, Information Technology, Procurement, Human Resources, and Financial Administration). Continue efforts to educate the University community about Restructuring.**
 - **Fall 2006:** Develop quarterly reporting templates for internal and external purposes.
 - **January 2007:** Report to the full Board on the specific performance measures the Board is required to monitor associated with the Governor's twelve goals.
 - **June 2007:** Report on restructuring implementation progress in each of the six areas and unit-specific and institution-wide restructuring education efforts.

- 3. Explore funding options for development activities to free up Rector and Visitors' unrestricted endowment funds. Ensure the foundations' compliance with the policy on University-related foundations.**
 - **July 2006:** Full Board to discuss issue at Board of Visitors' Retreat.
 - **January 2007:** Present an assessment of foundation compliance monitoring.
 - **April 2007:** Provide plan for consideration in University budget for 2007-2008.

- 4. Create a funding model for research, paying particular attention to unique research needs related to animal care and restricted research.**
 - **January 2007:** Present a preliminary report on funding alternatives and strategies.
 - **June 2007:** Prepare a final report for inclusion in 2007-2008 budget.

- 5. Develop a financial plan to support the emphasis of the Educational Policy and the Student Affairs and Athletics Committees on improving the undergraduate experience, in particular the quality of undergraduate advising.**
 - **April 2007:** Present financial plan (or as needed).

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