AGENDA

I. ACTION ITEM
   • URADCO Joint Venture (Mr. Sweeney to introduce Ms. Yoke San Reynolds; Ms. Reynolds to report)
   • Fiscal Impact Statement

II. REPORTS BY THE SENIOR VICE PRESIDENT FOR DEVELOPMENT AND PUBLIC AFFAIRS (Mr. Sweeney)
   A. Vice President’s Remarks
   B. Philanthropic Cash Flow
   C. Emerging Principal Gifts Strategies (Gifts Of $1 Million or More)
      1. Analysis of Current Principal Gift Donors
      2. Securing Future Transformational Gifts
      3. Stewardship Initiatives
      4. Impact of Gift Planning on Principal Gifts
BACKGROUND: University Radiology Development Corporation (URADCO) is a for-profit corporation wholly owned by the University of Virginia Health Services Foundation (HSF) on behalf of the HSF Department of Radiology. The goal of developing URADCO was to enable HSF to partner with for-profit corporations in attractive ventures. URADCO has not actively been involved in any business ventures for the last several years.

DISCUSSION: Pursuant to the University of Virginia Policy on Related Foundations, HSF must secure the approval of the Board of Visitors prior to engaging in a new business venture. URADCO now wishes to partner with Insight Imaging, LLC, to develop a new business entity that would open computed tomography (CT) screening centers in Virginia (except in the University Medical Center's primary and secondary service areas), the District of Columbia and/or Maryland. CT screening is a relatively new procedure that has applications for the early identification of such diseases as lung cancer, coronary artery disease, and colon cancer, with the goal of improving the likelihood of cure. The new entity would contract with the HSF, acting on behalf of the Department of Radiology, to interpret the screening studies performed at its centers and would also pay HSF for medical direction by members of the Department of Radiology. URADCO would pay for its 10% equity (valued at $250,000) in the new entity as revenues are earned over a period of two years. URADCO will maintain a 10% equity interest in the joint venture until the total investment equals $2 million.

ACTION REQUIRED: Approval by the External Affairs Committee and by the Board of Visitors.

APPROVAL OF URADCO JOINT VENTURE WITH INSIGHT IMAGING, LLC

WHEREAS, the University Radiology Development Corporation (URADCO) was established by the University of Virginia Health Services Foundation (HSF) to engage in business arrangements and joint ventures to advance the interests of HSF radiologists; and
WHEREAS, Insight Imaging, LLC, is a for-profit Delaware corporation; and

WHEREAS, Insight Imaging, LLC, and URADCO wish to enter into a joint venture that will use the services of HSF radiologists for interpretation, medical direction and consultative services at computed tomography screening centers in Virginia (except for the University Medical Center’s specified primary and secondary service areas), the District of Columbia, and/or Maryland; and

WHEREAS, HSF and URADCO have agreed that the clinical needs of the University of Virginia Health System shall receive priority in the allocation of Department of Radiology resources;

RESOLVED, that the joint venture between URADCO and Insight Imaging, LLC, is hereby approved, subject to the understanding that the clinical needs of the University of Virginia Health System shall receive priority in allocating resources of the Department of Radiology, and the joint venture will not operate clinics in the University’s primary and secondary service areas. URADCO shall receive from the University a document identifying the primary and secondary service areas of the University Medical Center, and shall incorporate the document into the term sheet and final contract with Insight Imaging, LLC.
UNIVERSITY OF VIRGINIA
FISCAL IMPACT STATEMENT

PROJECT/PROPOSED BOARD OF VISITORS ACTION: Approve a joint venture proposal between the University Radiology Development Corporation (URADCO), a wholly owned subsidiary of the Health Services Foundation (HSF), and Insight Imaging to develop satellite screening centers.

DESCRIPTION: URADCO is a for-profit subsidiary of HSF that would open computed tomography screening centers in Virginia, the District of Columbia, and/or Maryland, exclusive of the Medical Center's primary and secondary service areas. The business plan envisions two such centers initially, with the possible addition of a third, during the first six years of operation. The new entity would contract with the Department of Radiology to interpret the screening studies performed at the centers and it would also pay the Department for medical direction and consultative services. The Department of Radiology has voiced strong support of this proposal because it represents a new source of income in order to offer competitive salaries, address cost increases, and respond to market pressures. It should be noted that Insight Imaging is itself a new entity; however, the principals involved have the confidence of URADCO's management who performed the prerequisite due diligence.

FISCAL IMPACT: The proposed agreement allows URADCO to secure a ten percent equity interest in exchange for $250,000. URADCO will not have to commit these funds up front; rather, as service fee revenues are generated, the investment amount will be credited dollar for dollar during the first two years. Revenue to the Department of Radiology physicians will equal 15 percent of the gross service fees, charged as an expense to the joint venture. URADCO will enjoy its equity position in the joint venture until total contributed capital exceeds $2 million. The company, at its election, may then invest additional funds to maintain its position or allow its equity interest to dilute proportionally. The differential between URADCO's equity investment of $250,000 in exchange for its ten percent ownership position of a $2 million venture was a negotiated agreement between the parties to recognize the up-front time, effort, and resources devoted by Insight Imaging to organize the new business.
The pro forma suggests that this new venture can generate healthy operating profit margins in excess of 38 percent, at stabilization (approximately Year 3), on an EBITDA (earnings before interest, taxes, depreciation and amortization) basis.

Sensitivity analysis indicates that URADCO's investment would be worthwhile at a 20 percent hurdle rate even if revenues fall to 80 percent of the projected figures. URADCO's main risk exposure concerns a repayment obligation on a $1 million loan for CT equipment. Should this venture fail, it is assumed that URADCO will have to pay ten percent of the outstanding principal balance plus other associated interest costs and fees to satisfy this loan in full.

CONCLUSION: The Board of Visitors should approve the proposed joint venture arrangement between URADCO and Insight Imaging.

RECOMMEND APPROVAL OF BOARD ACTION:

Leonard W. Sandridge
April 5, 2002
UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: April 6, 2002

COMMITTEE: External Affairs

AGENDA ITEM: II.A. Vice President’s Remarks

DISCUSSION: The Senior Vice President for Development and Public Affairs will report on items of interest to the Committee.

ACTION REQUIRED: None
BACKGROUND: Cash gifts received to date for Fiscal Year 2002 will be reviewed. Emphasis will be placed on measuring performance for the period ending December 31, 2001, the first six months of the Fiscal Year.

DISCUSSION: Cash flow as of December 31, 2001, exceeds comparable year-to-date cash flow total receipts for any year in the University's history. Discussion will focus on presenting the most recent figures available; comparing progress against the cash flow goals for Fiscal Year 2002 of $190 million (10% over the three-year average of philanthropic cash flow, or $172.4 million); and analyzing philanthropic trends during the first six months of the Fiscal Year.

ACTION REQUIRED: None
UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: April 6, 2002

COMMITTEE: External Affairs

AGENDA ITEM: II.C.1. Analysis of Current Principal Gift Donors

BACKGROUND: During the Campaign for the University, the impact of major gifts was dramatic. In that seven-and-a-half-year period, 209 individuals and other entities made commitments of $1 million or more to the Campaign. The total contributed by these 209 donors was $852 million, or 60% of the Campaign, although they represented less than .2% of the Campaign donors.

DISCUSSION: While every successful fundraising venture strives to involve every member of its constituency and to capture every gift, it is obvious that to be successful, to operate efficiently and effectively, and to effect dramatic institutional change, fundraising efforts must target leadership philanthropy. A comparison of leadership gift targets at the beginning of the Campaign, with actual realization, and examination of the demography of these current major donors, indicate strategies for seeking leadership gifts.

ACTION REQUIRED: None
UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: April 6, 2002

COMMITTEE: External Affairs

AGENDA ITEM: II.C.2 Securing Future Transformational Gifts

BACKGROUND: Current fundraising strategy will focus on securing gifts that target aspirational needs of the University at levels that can effect transformational change.

DISCUSSION: Based on the success in securing $1 million gifts to the Campaign, the University development community is seeking to identify 1,000 donors capable of giving in this range. To be successful, this strategy will require aggressively finding new prospects and attracting major donors through initiatives that define the University’s core elements.

Prospect research and the Thomson financial screening provide vehicles for identifying potential leadership donors. New avenues of philanthropy, such as those related to the Virginia 2020 themes, invite pan-University collaboration and offer donors opportunities to refine the University’s message.

ACTION REQUIRED: None
BOARD MEETING: April 6, 2002

COMMITTEE: External Affairs

AGENDA ITEM: II.C.3. Stewardship Initiatives

BACKGROUND: Major gifts to the University come through both cultivation and solicitation of donors, and increasingly through stewardship of benefactors over the long term. By building individual relationships that acknowledge their investment in the future of the University, donors come to feel more connected and appreciated.

DISCUSSION: New efforts to steward major donors across the Grounds include a centralized communication and report system through Advance Reports. Techniques that customize stewardship plans for donors, promote the sharing of strategies and information, and coordinate the overall administration of stewardship activities, will enable the University to reach the next level of service to its most generous and committed friends.

ACTION REQUIRED: None
UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: April 6, 2002

COMMITTEE: External Affairs

AGENDA ITEM: II.C.4. Impact of Gift Planning on Principal Gifts

BACKGROUND: Changes in tax laws often directly affect charitable giving, particularly in the area of principal gifts.

DISCUSSION: Recent tax law changes have raised the ceiling on estate tax relief, allowing some donors, for at least a limited period of time, to pass more of their estates on to their heirs. While this tax change may lessen the motivation for some wealthy benefactors to commit portions of their estates to charitable giving, other proposed tax laws would offer positive incentives for charitable rollovers of established retirement accounts. The tax laws are subject to change every year and, in general, have created more uncertainty in decision-making than an actual decline in charitable donations.

While the University of Virginia has not suffered from a major setback in planned gifts because of tax law changes, the strategy for principal gifts and gift planning moving forward is to encourage benefactors to focus more on the aspirations of their philanthropy in the context of both positive and negative tax law changes.

ACTION REQUIRED: None