MEMORANDUM

TO: The Finance Committee:

Thomas A. Saunders, III, Chair
Thomas F. Farrell, II
W. Heywood Fralin
Mark J. Kington
Warren M. Thompson
Georgia M. Willis
John O. Wynne
Gordon F. Rainey, Jr., Ex Officio

and

The Remaining Members of the Board:

William G. Crutchfield, Jr. Lewis F. Payne
Susan Y. Dorsey Don R. Pippin
G. Slaughter Fitz-Hugh, Jr. Terence P. Ross
Glynn D. Key E. Darracott Vaughan, Jr., M.D.
John R.M. Rodney

FROM: Alexander G. Gilliam, Jr.

SUBJECT: Minutes of the Finance Committee Meeting on April 15, 2004

The Finance Committee of the Board of Visitors of the University of Virginia met, in Open Session, at 12:05 p.m., Thursday, April 15, 2004, in Room 407 of the Clemons Library at the University; Thomas A. Saunders, III, Chair, presided. W. Heywood Fralin, Mark J. Kington, Warren M. Thompson, Ms. Georgia M. Willis, John O. Wynne, and Gordon F. Rainey, Jr., Rector, were present. Also present were William G. Crutchfield, Jr., G. Slaughter Fitz-Hugh, Jr., Ms. Glynn D. Key, and Lewis F. Payne

James W. Head, the Student Member-elect, was present.

In his introductory remarks, the Chair said he plans to hold meetings of the Committee as just that, meetings of the Committee, and not as meetings of the Committee as a committee of the whole. He said, too, that he wants to develop ways to consider "critical topics" in more depth. He invited proposals of critical topics from Committee members. He also spoke to the importance of crossovers with other committees of the Board and of the possibility of joint meetings. He mentioned as well that he wanted the Committee to study the University-related foundations with an eye to assuring the uniformity of accounting procedures. He talked, too, of having discussions of debt policy and said he wanted the Committee to proactively set debt policy.

The Chair said he would set a meeting schedule shortly and that he might move Committee meetings around to different locations.

Mr. Wynne wondered how the Committee would set its priorities. The Chair said the Committee will consider this with help from Mr. Sandridge. Mr. Wynne went on to say that it is important that the Committee keep in mind the line between oversight and management, to which the Chair agreed.

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

The first three items were Consent Agenda items: approval of faculty and staff housing rates for 2004-2005, a land transfer on the Ivy Road from the BB&T Corporation to the University, and disposition of University owned property at the Kluge Children's Rehabilitation Center.

The proposed faculty and staff housing rates were for property at the University and at the Blandy Farm in Clarke County. Because, according to state policy, rents must reflect market rates, an average increase of 6.38% from the 2003-2004 rates was proposed.

On motion, the Committee approved the necessary resolution and recommended it to the full Board for approval (see Minutes of the meeting of the Board of Visitors of April 17, 2004).

The land transfer involved property owned by the BB&T Bank at the corner of Copeley Road and the Ivy Road. The land, which totals approximately 737 square feet at the northeast corner of the intersection, would greatly improve the turning of buses and other large vehicles at the intersection. BB&T has offered to give the land to the University on condition that the University pay the legal costs associated with the land transfer; these amount to about $4,000.
On motion, the Committee adopted the necessary resolution and recommended it to the full Board for approval (see Minutes of the meeting of the Board of Visitors of April 17, 2004).

The final Consent item involved the sale of the so-called Spring House property, which is behind the Kluge Children's Rehabilitation Center on the flank of Lewis Mountain. The property, which is approximately 42 feet wide and 163 feet deep, would be sold to Weather Hill Homes, who propose to build 22 townhouses in the vicinity. The sale would also involve the granting of an easement to facilitate the widening and upgrading of Boulder Road. The quid pro quo is that Weather Hill Homes will pay fair market value for the land, maintain a buffer between its land and University property, and improve and extend utility service to Cochran House, a University property which houses the Infant and Toddler Connection of the Blue Ridge.

On motion, the Committee adopted the necessary resolution and recommended it to the full Board for approval (see Minutes of the meeting of the Board of Visitors of April 17, 2004).

Continuing to the regular Action Agenda, Mr. Sandridge asked Ms. Yoke San L. Reynolds, the Vice President for Finance, to present the first item – the setting of the contract rates for dining services, 2004-2005, for the University and for The University of Virginia's College at Wise. Ms. Reynolds told the Committee that University meal plans would increase from 2.5% to 4.5%, with an average increase of 3.4%. The figure for Wise would be a 4% increase. On motion, the Committee approved the necessary resolution and recommended it to the full Board for approval (see the Minutes of the meeting of the Board of Visitors of April 17, 2004).

The next item was the setting of tuition and required fees, 2004-2005, for the University and for The University of Virginia's College at Wise. Mr. Sandridge and Ms. Colette Sheehy, Vice President for Management and Budget, led the discussion.

Mr. Sandridge said that because there is as yet no agreement in Richmond on the state Budget, the proposed increases would be compatible with the Budgets proposed: the Senate and House versions, as well as the Governor's Budget.

Ms. Sheehy described the process of arriving at a figure for tuition and required fees. In 2003-2004, the University ranked in the 60th percentile for undergraduate in-state students among the public institutions in the SCHEV peer group. Among Virginia institutions, the University charged the highest tuition
but among the lowest in required fees. Combining tuition and fees, the University ranked third, behind VMI and the College of William and Mary. For out-of-state undergraduates, the University’s combined tuition and fees were the highest in the state, although the amount charged for required fees was the third lowest in Virginia. Another statistic cited by Ms. Sheehy was financial need and the concomitant financial aid offered by the University: in the current academic year, the University was able to supply 92% of the financial needs expressed by undergraduates.

For the forthcoming academic year, the University proposes tuition and fees for undergraduate Virginians at $6,600, an increase of 10.7%. For out-of-state undergraduates, the total would be $22,700, a 3.3% increase. Looking at it another way, which is to say an estimate of the total price of an undergraduate education (tuition and fees + room and board), the figure for Virginians would be $12,520 and $28,620 for non-Virginians, increases of 8.7% and 3.9% respectively.

For the non-professional graduate schools, there would be a 17.1% increase for Virginians (to $9,200) and 1.2% for non-Virginians (to $20,200).

As for the Darden and Law Schools, the Darden figure for Virginians would be $30,200, a 7% increase, and $35,200 for non-Virginians, a 6% increase; the tuition and fees for Darden would still put Darden at the low end of the ranking with its peers.

Ms. Sheehy reminded the Committee that the Darden School has attempted to attain self-sufficiency from public appropriations by raising its tuition and fees to something approaching market rates.

The Law School is in the process of doing this: consequently, Virginians who matriculate this fall will be charged $26,100, as will be this year’s entering class; the class which matriculated in the fall of 2002, however, will be charged $24,900 for the academic year 2004-2005. The proposed tuition and fees for non-Virginians is $31,100.

The Medical School has a similarly graduated schedule of fees and tuition: Virginians entering this fall will be charged $26,074; the class which entered this past fall will have to pay $24,174, the class ahead of them will be charged $22,174 and the class which will graduate this year will pay $20,574. The figure for non-Virginians will be $36,633.

The proposed increases at The University of Virginia’s College at Wise were 5.5% ($4,782) for Virginians and 5.8% ($14,252) for non-Virginians. Factoring in room and board for
the total cost of education, the figure for Virginians would be $10,172 and for non-Virginians $19,642, rises of 4.9% and 5.4%, respectively.

Mr. Wynne asked if the financial aid given to non-Virginian undergraduates would be adequate, assuming that Access Virginia would meet the financial needs of Virginians; he suggested that out-of-state tuition and fees be raised. Mr. Kington said that if the University raises out-of-state tuition and fees to the level of the Ivy League schools with whom we compete, he wondered if we could honestly compete: if the University's margin over Harvard is only $5,000, wouldn't we lose students to Harvard?

Mr. Sandridge commented that if the figure for out-of-state undergraduates were to be changed, the limits of the Senate's Budget proposal, the Budget proposal most favorable to the University, probably would be exceeded.

After further discussion, a motion approving the proposed increases was adopted by the Committee and recommended to the full Board for approval (see the Minutes of the meeting of the Board of Visitors, April 17, 2004).

The Chair suggested that the Committee do an in-depth long term consideration of tuition and fees.

Continuing with the Agenda, Mr. Sandridge told the Committee he would defer a presentation on the Compensation Plan until a state Budget has been established. He reported on the progress of the negotiations for an agreement between the University and UVIMCO – the University Investment Management Company: formal negotiations should begin in the next few weeks and he would have a report for the Committee in June.

In the customary report on the Endowment, Mr. Sandridge said that for the first time, the Endowment held by the Rector and Visitors exceeds $2 billion. As for the composition of the Endowment portfolio, the actual holdings – as of March 31st – are close to what has been targeted, with the majority in hedge funds. Mr. Sandridge also reported on the actions taken by the UVIMCO Board at its meeting on March 16th (see the Minutes of the April 17th meeting of the Board of Visitors for a listing of these).

Ms. Sheehy reported briefly on the possibilities of General Assembly actions on the state Budget. The Senate is to meet tomorrow and the House of Delegates will meet next week, and it is hoped that there will be a resolution of their disagreements on the Budget as a result of these sessions.
Ms. Reynolds led a discussion of the University's management of its debt, which currently amounts to $442.31 million, with a projection of $693.17 million by June 30th, 2006. A new debt management program was launched last March and work has begun on a debt policy.

The principal elements of a debt policy, she suggested, should (1) provide a framework for debt portfolio management; (2) preserve the University's AAA ratings, consistent with the University's strategic objectives; (3) establish ratios and targets to monitor debt capacity and accessibility to capital; (4) establish parameters for the allocation of variable rate debt; and (5) provide guidelines for various forms of financial instruments related to debt.

Ms. Reynolds told the Committee that Moody's held a teleconference on March 3rd for investors and issuers of paper for higher education. Moody's reported that there is a record volume of higher education new issuance; that new issuance for public universities is twice that for private universities; that there is increased rating volatility with downgrades exceeding upgrades; but that there is a cautiously stable outlook for both private and public universities.

She proposed that the University issue new external debt - up to $250 million by June 30th, 2006; that the University continue to use Commercial Paper in 2004, up to a limit of $100 million; that for the remainder of 2003, interest rates be monitored and that the University explore both refunding opportunities and swap opportunities; and that in 2005, the use of Commercial Paper be replaced with long term bond issuance. The implications of this are that the University's Variable Rate allocation could be 34% at the end of 2004; she suggested that the Variable Rate component be limited to 40% of the total debt portfolio.

The University has excellent bond ratings from Moody's, Fitch and Standard & Poor's, and it is of the greatest importance that these ratings be preserved.

After discussion, and on motion, the Committee approved a resolution setting the University's variable rate debt, and recommended it to the full Board for approval (see the Minutes of the meeting of the Board of Visitors, April 17, 2004).

On motion, the meeting was adjourned at 2:10 p.m.

These minutes have been posted to the University of Virginia's Board of Visitors website. http://www.virginia.edu/bov/financeminutes.html