



**Board of Visitors Finance Committee Meeting  
September 14, 2017**



## **Agenda**

### **ACTION ITEMS**

1. Signatory Authority Related to Change in Group Purchasing Organization
2. Signatory Authority for Contracts Related to Security Recommendations
3. Revision to the 2017 Capital Plan: Baseball Stadium Expansion, Revised Scope
4. Disposition of Real Property – Davis Estate
5. 2018-2024 Six-Year Institutional Plan
  - Academic Division
  - College at Wise
6. 2018-2020 State Biennial Budget Operating Requests
7. Issuance of General Revenue Pledge Bonds

### **REPORTS**

1. Academic Division Multi-Year Financial Plan Assumptions
2. Organizational Excellence Annual Report
3. Human Resources Strategic Redesign
4. UVIMCO 2016-2017 Annual Report



# SIGNATORY AUTHORITY RELATED TO CHANGE IN GROUP PURCHASING ORGANIZATION



# Signatory Authority Related to Change in Group Purchasing Organization

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- Board of Visitors is required to approve execution of any contract where annual spend exceeds \$5 million
- Medical Center changed its group purchasing organization affiliation from Vizient to Premier Healthcare Alliance, LP
- Four Premier contracts exceed annual spend of \$5 million, and thus, exceed signatory authority of the Executive Vice President for Health Affairs
  - Cardinal Health 110, Inc. for pharmaceutical supplies
  - Owens & Minor, Inc. for medical/surgical supplies
  - AMN Healthcare, Inc. for interim clinical staffing (nurse travelers)
  - Medtronic for Cardiac Rhythm Management products



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## **SIGNATORY AUTHORITY FOR CONTRACTS RELATED TO SECURITY RECOMMENDATIONS**

# Signatory Authority for Contracts Related to Security Recommendations

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- University expects to enter into contracts to address identified institutional security recommendations so that they are promptly implemented
- To the extent these contracts' estimated annual value exceeds \$5 million, the Board of Visitors would need to approve the execution of the contracts
- Board of Visitors is asked to consider delegating authority to the Executive Vice President and Chief Operating Office to execute such contracts, informing both the Rector and Chair of the Finance Committee as contracts are executed
- Board of Visitors will receive a report of all contracts at its December 2017 meeting



## REVISION TO CAPITAL PLAN: BASEBALL STADIUM EXPANSION REVISED SCOPE

# Baseball Stadium Expansion, Revised Scope

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- Originally approved as 40,000 GSF expansion with projected cost of \$16.16 million
- Additional scope (originally included as part of next phase of development):
  - 3,450 GSF for administrative office area for coaching & operations staff
  - 5,370 GSF for pitching development center
- Additional project cost: \$2 million to be funded with private gifts

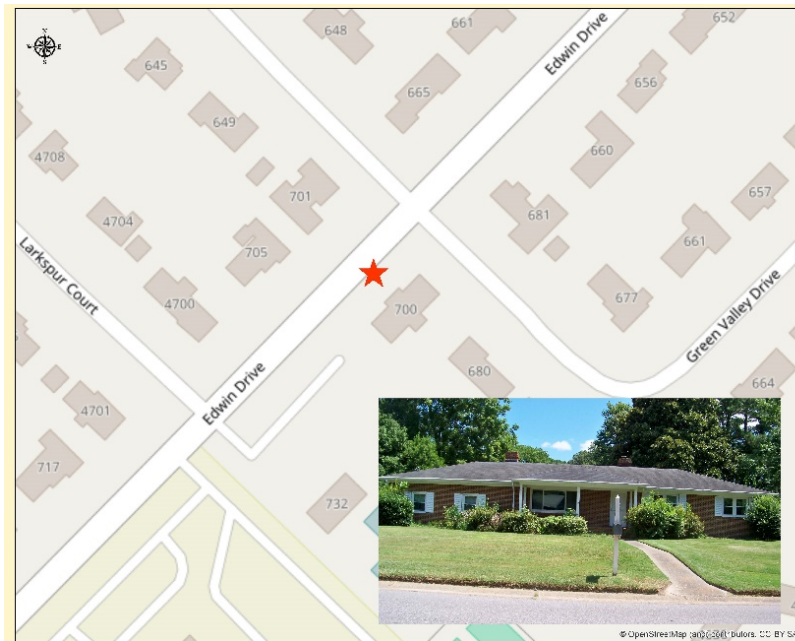






## **DISPOSITION OF REAL PROPERTY – DAVIS ESTATE**

# Disposition of Davis Estate Property



- Bequest from Lawrence Davis, Jr.
- Single parcel of land located in Virginia Beach, VA (.39 acres with 2,000 SF single-family dwelling)
- Proceeds from sale of property will fund the Lawrence Davis, Jr. and Geraldine M. Davis Scholarship Fund
- Assessed value: \$256,000



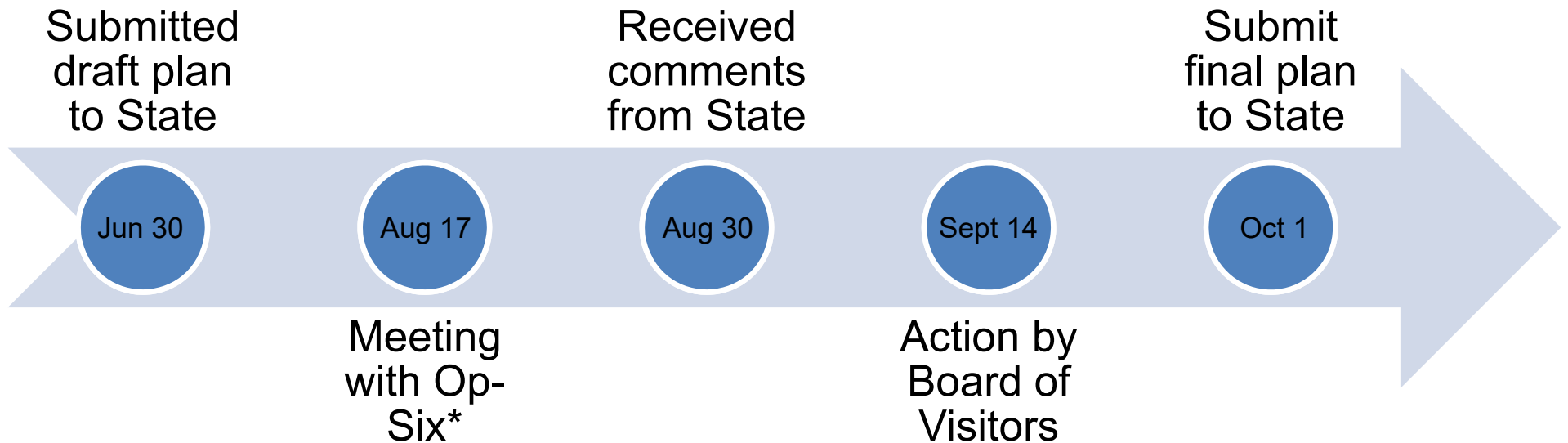
# 2018-2024 SIX-YEAR INSTITUTIONAL PLAN

## State-Required Six-Year Plan

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- Required by Virginia Higher Education Opportunity Act of 2011 (§ 23.1-306 of the *Code of Virginia*)
- Developed in odd-numbered years and amended in even-numbered years
- Addresses institutional academic, financial, and enrollment plans

# Timeline



\* Op-Six includes Secretary of Finance, Secretary of Education, Director of the Department of Planning and Budget, Executive Director of SCHEV, Staff Directors of the House Appropriations Committee and the Senate Finance Committee

# University of Virginia Six-Year Plan

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## *Academic Plan Strategies/Priorities*

- Making a World-Class Education Affordable
- Assemble a Distinguishing, Diverse Faculty
- Implement the Quality Enhancement Plan
- Research
- Enhance the Student Educational Experience
- Organizational Excellence: Resource Alignment & Optimization
- Economic Development

# University of Virginia Six-Year Plan

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## *Financial Plan Assumptions (2018-2020)*

- Undergraduate tuition increase: 3.5% annually for in-state and out-of-state students
- Mandatory fee increase: 2.5% annually
- Salary increases:
  - Faculty: 3.0% in 2018-19 and 3.0% in 2019-20
  - University staff: 3.0% in 2018-19 and 3.0% in 2019-20
- No additional state general fund (GF) support

# **The University of Virginia's College at Wise**

## **Three major priorities: 2018-2024**

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1. Enrollment and Student Success
  - a. Recruitment
  - b. Marketing
  - c. Experiential Learning
  - d. Graduate Programs
  
2. Increase Production of STEM-H Degrees
  - a. STEM Turbo Classes
  - b. Cybersecurity Programs
  - c. Early College Academy
  
3. Outreach and Economic Development
  - a. Innovation and Entrepreneurship programming



# The University of Virginia's College at Wise

## Financial Assumptions

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1. Priorities are currently funded with tuition revenue and private funds, including a grant from the Strategic Investment Fund to support entrepreneurship, innovation programming and curricula
2. General Fund support is requested
  - a. Two territory based recruiters in Northern Virginia and Tidewater
  - b. Early College Academy – Provides STEM college preparatory coursework onsite at UVA-Wise for qualified high school seniors



# **2018-2020 STATE BIENNIAL BUDGET OPERATING REQUESTS**

# University of Virginia

## 2018-2020 Biennial Budget Requests

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- ❖ Requests are for general fund support from the State, as part of the Governor's 2018-2020 budget development process
- ❖ Align with the State Six-Year Plan
- ❖ Grants authority to resubmit requests to the General Assembly in January, after the Governor's budget is presented in December

# 2018-2020 Biennial Budget General Fund Requests

## Academic Division

Operating Request (in millions)	FY18-19	FY19-20
Undergraduate Enrollment Growth	\$1.8M	\$4.4M
Research Initiative	\$5.3M	\$22.2M
Operations and Maintenance for New Facilities	\$1.3M	\$2.2M
Graduate Financial Aid	\$1.1M	\$2.3M
Undergraduate Financial Aid	\$2.6M	\$6.7M
Competitive Faculty and Staff Compensation	\$3.9M	\$7.9M
Virginia Foundation for the Humanities	\$.2M	\$.2M
<b>Total</b>	<b>\$16.2M</b>	<b>\$45.9M</b>

# 2018-20 Biennial Budget General Fund Requests

## College at Wise

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Operating Request (in millions)	FY18-19	FY19-20
Regional Demographic and Economic Decline	\$3.5M	\$1.8M
Growth and Retention Technology Enhancements	\$4.4M	-
<b>Total</b>	<b>\$7.9M</b>	<b>\$1.8M</b>



# ISSUANCE OF GENERAL REVENUE PLEDGE BONDS

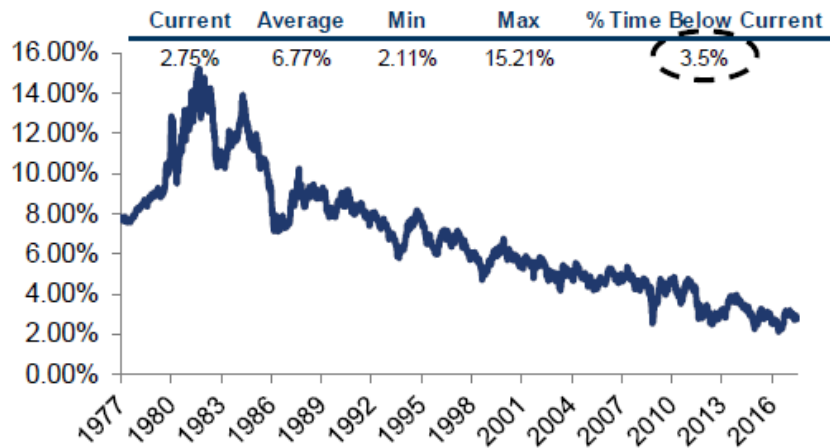
# Multi-Year Capital Financing Program

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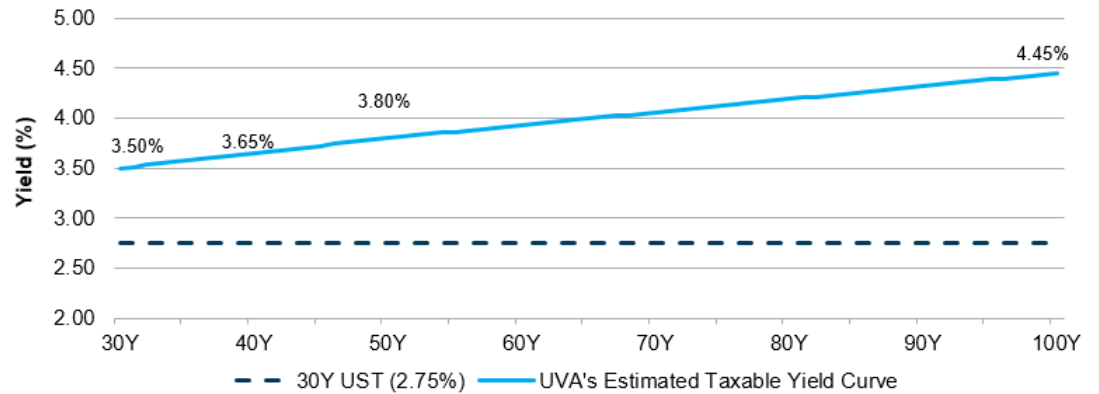
- At its June 2017 meeting, the BOV approved the creation of a multi-year capital financing program, or “shelf registration”
- Under the shelf registration, the University plans to issue up to \$500 million over the next 12 months
- The first issue of debt (“Series 2017C Bonds”) under the program is expected to occur in September 2017. Series 2017A Bonds and Series 2017B Bonds were issued in January 2017 and February 2017, respectively.
- The anticipated principal amount of the Series 2017C Bonds is \$300 million
- Current market rates support issuing long-dated, taxable, fixed-rate debt

# Indicative Long-Term Interest Rates

30-Year UST (Since 1977)



University of Virginia's Estimated Taxable Yield Curve vs. 30Y U.S. Treasury



1. Assumes index-eligible sized maturity of \$300 million or greater. Includes a make-whole optional redemption feature.



# Current Debt Portfolio

## University of Virginia Debt Portfolio as of 8/31/2017

Short-term Debt			
Issuer			Principal
BOA - Taxable			12,745,000
BOA - Tax Exempt			37,900,000
Goldman Sachs - Tax Exempt			35,650,000
<b>Total ST Debt</b>			<b>86,295,000</b>
Long-Term Debt			
Series	Call Date	Maturity Date	Principal
2007 - Va. College Bldg Auth	N/A	9/1/2019	10,525,000
2010 - Va. College Bldg Auth	N/A	9/1/2020	3,435,000
Commonwealth of Virginia	N/A	5/1/2021	1,939,000
2015B	Non-Callable	8/1/2021	106,910,000
2011	9/1/2021	9/1/2032	63,985,000
2013B	12/1/2022	6/1/2037	61,595,000
* 2009 - Build America Bonds	Make Whole + 40 Bps	9/1/2039	250,000,000
* 2010 - Build America Bonds	Make Whole + 20 Bps	9/1/2040	190,000,000
2013A	6/1/2023	6/1/2043	161,670,000
2015A-1	4/1/2025	4/1/2045	86,995,000
2015A-2	4/1/2025	4/1/2045	97,735,000
2017A	4/1/2027	4/1/2047	231,780,000
2017B	4/1/2027	4/1/2046	123,440,000
			<b>1,390,009,000</b>
<b>Total Debt Outstanding</b>			<b>1,476,304,000</b>

\* Taxable

- UVA has debt capacity of about \$1.5 billion through FY 2020
- Accessing this debt capacity would require continuation of current credit strengths and a well-planned capital program

## Series 2017C Bonds Timing

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- Prior to BOV meeting: Received ratings
- September 14th: Authorizing resolution passed
- Week of September 18th : Pricing of Series 2017C Bonds
- Week of September 25th: Closing

# Resolution

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- The Board of Visitors authorizes the EVP-COO and the Chair of the Finance Committee to approve the structure of both the 2017 Multi-year Shelf Registration and the pricing of the Series 2017C Bonds
- The 2017 Multi-Year Shelf Registration will be established within the parameters listed below:
  - Maximum aggregate principal (par) amount shall not exceed \$500 million
  - Issued in one or more tranches
  - Taxable or Tax-Exempt
  - Average true interest cost will not exceed 5.50% per annum
  - Final maturity of the bonds shall be at least 30 and no more than 101 years from the date of issuance
- The Series 2017C Bonds will be established within these parameters:
  - Maximum aggregate principal (par) amount shall not exceed \$300 million
  - Average true interest cost will not exceed 5.50% per annum
  - Final maturity of the bonds shall be at least 30 and no more than 101 years from the date of issuance



# ACADEMIC DIVISION MULTI-YEAR FINANCIAL PLAN ASSUMPTIONS

# Academic Division

## Multi-Year Financial Planning Assumptions

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- ❖ Assumptions reviewed by the BOV every two years
- ❖ Provide consistent framework for development of various analysis, including the long-range financial forecast, annual budget and annual state submissions
- ❖ Reflect the core values of our financial planning: academic excellence, access and affordability, organizational excellence and strong balance sheet management
- ❖ Consider risks including declines in state revenues, federal budgets and unfunded mandates, as well as changes in economic conditions such as market conditions and interest rates

# Academic Division

## Multi-Year Financial Plan Assumptions: Sources

Category	Assumption
Inflation	<ul style="list-style-type: none"> <li>• 2.3% (3 year average HEPI)</li> </ul>
Enrollment	<ul style="list-style-type: none"> <li>• BOV approved</li> </ul>
Undergraduate Tuition	<ul style="list-style-type: none"> <li>• Increase up to inflation + 1%, assuming no extraordinary issues such as reductions in state support</li> </ul>
Graduate, Professional, and Special Program Tuition	<ul style="list-style-type: none"> <li>• Increase up to inflation + 1%, plus adjustments that may be necessary to maintain excellence and address market issues</li> </ul>
State Appropriations	<ul style="list-style-type: none"> <li>• State will continue to fund its share of authorized salary and benefit changes, otherwise no additional state support</li> </ul>
Research Funds	<ul style="list-style-type: none"> <li>• Federal outlook for research funding remains flat; UVA's faculty recruitment should help UVA to increase its share of available funds</li> <li>• F&amp;A rate remains at 61.5% for FY19 and beyond</li> </ul>
Endowment Distribution	<ul style="list-style-type: none"> <li>• Inflationary increases stay within BOV-approved band</li> <li>• Assumes 7.5% rate of return</li> </ul>
Gifts	<ul style="list-style-type: none"> <li>• Expected 2.5% annual growth</li> </ul>
Other	<ul style="list-style-type: none"> <li>• Auxiliary Enterprises Revenue: inflationary increases</li> <li>• Annual SOM/Medical Center gainsharing</li> </ul>

# Academic Division

## Multi-Year Financial Plan Assumptions: Uses

Category	Assumption
T&R Faculty Salary	<ul style="list-style-type: none"> <li>• Annual merit pool established to maintain competitiveness, approximately inflation + 0.5-1%</li> <li>• Anticipate new hiring related to enrollment growth, departures, and cluster/ToPS hires</li> </ul>
Staff/A&P Faculty Salary	<ul style="list-style-type: none"> <li>• Annual merit pool established to maintain competitiveness, approximately inflation + 0.5-1%.</li> <li>• Anticipate new hiring related to departures or project hiring; no net addition to permanent headcount</li> </ul>
Fringe Benefits	<ul style="list-style-type: none"> <li>• Multi-year projection assumes no substantial change in fringe benefits offered to employees</li> </ul>
Other Than Personnel Services	<ul style="list-style-type: none"> <li>• Inflationary increases</li> </ul>
Transfers to Debt, Capital, and Reserves	<ul style="list-style-type: none"> <li>• BOV Capital and Operating Reserves Policy compliance</li> </ul>
Savings from Organizational Excellence	<ul style="list-style-type: none"> <li>• Multi-year projection to be developed and reviewed based on continuing projects to improve organizational excellence</li> </ul>



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# ORGANIZATIONAL EXCELLENCE ANNUAL REPORT



# Organizational Excellence

(established in the Cornerstone Strategic Plan)



Pan-institutional Quality and Improvement Program to enable mission activities and institutional priorities

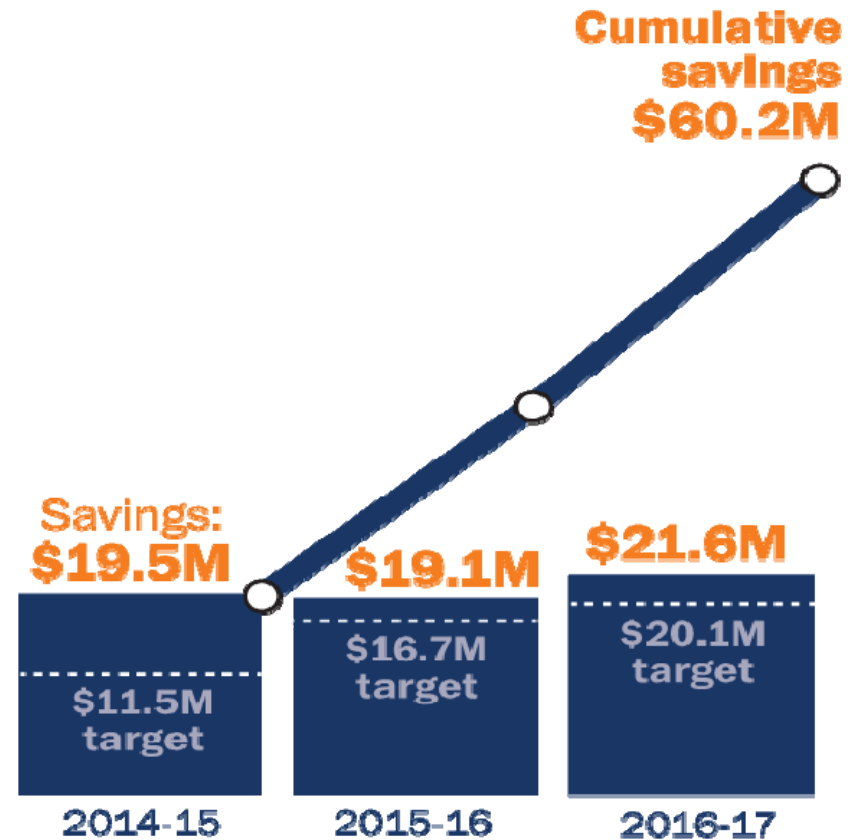
## Outcomes:

- High-performance culture – value, results (people, process, and technology)
- Resource alignment and optimization
- Reinvest effort and savings in higher-value work and strategic priorities
- Enhanced organizational capacity for change

# Organizational Excellence Trending Results

## Organizational Excellence Across Grounds

- Adding Value
- Reinvesting in Priorities
- Saving Time & Money



# Organizational Excellence Across Grounds – 2016-17 Highlights

AREAS	PROGRESS
<p><b>Pan-Institutional</b> (led by functional leaders)</p> <ul style="list-style-type: none"> <li>• Research</li> <li>• Administration</li> <li>• Human Resources</li> <li>• Finance</li> <li>• IT</li> </ul>	<p><b>ResearchUVA</b> – data analytics and visualization, electronic proposal submission  <b>University Business Intelligence (UBI)</b> – 25 finance modules released providing transactional, managerial and executive reports  <b>HR Transformation</b> – activated test-model of cloud technology, redesigned organization  <b>Strategic Sourcing</b> – added research and housekeeping contracts  <b>ExpenseUVA</b> – automated expense management workflow  <b>Identity and Access Management</b> – planned streamline activation to simplify user experience and enhance compliance</p>
<p><b>OE Internal Consulting</b></p>	<p>Custom Engagements for schools/units to enhance effectiveness and efficiency</p> <ul style="list-style-type: none"> <li>- +20</li> <li>- Areas: process redesign, planning and priorities, consolidation of activities</li> </ul>
<p><b>School/Unit-Led Efforts</b></p>	<ul style="list-style-type: none"> <li>- Partnerships/collaborations</li> <li>- Shared resources</li> <li>- Technology enablement</li> </ul>
<p><b>Building Organizational Capacity for Change</b></p>	<ul style="list-style-type: none"> <li>- Education and development of quality skills and knowledge for application</li> <li>- Adopting standard project and change management frameworks</li> <li>- Enhanced coordination among major projects</li> </ul>

# Organizational Excellence - School/Unit Led Example

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## ***Consolidation of Graduate Admissions Administration Led by: Schools, Provost Office, ITS***

### Background

- Graduate admissions administrative processes replicated in each school (Architecture, Arts and Sciences, Education, Engineering, Nursing, SCPS)
- Duplicated admissions tasks include:
  - Responding to inquiries
  - Processing documents
  - Entering admissions decisions

### Results

- Transactional processes executed in one office for efficiencies
- Common technology (one system replaced four)
- Reduction in staff performing this work
- Business processes streamlined and standardized
- Higher quality applicant experience

# Organizational Excellence – Look Ahead

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## *Functional Areas*

- **Research Administration**- automate end-to-end workflow; enhance analytics; system integrations, staff development and career pathways
  - **Human Resources** - service model implementation
  - **Managerial Reporting** – student information and human resources reporting
  - **Finance/Budget** – service and technology Improvements
  - **Payroll** – consolidate 3 payrolls into 1
  - **Information Technology** - data strategy and governance for enhanced business intelligence
  - **Procurement Systems Enhancements** – streamline purchasing, supplier and contract management
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## *University Portfolio Management*

- Enhanced coordination of major projects and related operational work for optimal results
  - Coordinate interdependencies
  - Monitor progress, integrate work and share resources
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## *Internal Consulting*

- Unit-level strategic planning; restructuring departmental administrative work; school-staff change readiness, undergraduate research opportunities assessment

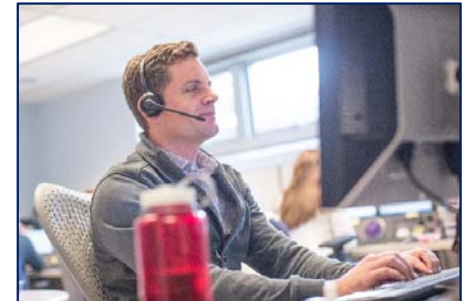


# HUMAN RESOURCES STRATEGIC REDESIGN

# HR Strategic Areas of Focus

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1. Elevate workforce skills with supporting technology and data analytics
2. Realize the value of an increasingly diverse workforce
3. Deliver exceptional HR services to create an enhanced UVA employee experience
4. Rigorously identify, develop, and promote talent



# Ufirst: Why and How We're Transforming HR

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Who we  
**SERVE:** **21,000** Faculty, Staff and Team Members  
across the Academic Division and Health System

## Why Now?

- Inconsistent **service experience**
- **Inefficient and redundant** policies and technology:
  - **70+** disjointed HR systems
  - **6** learning management systems
  - **20+** employee categories governed by **152** HR policies
- Mass **retirement of talent**
- Increasingly **competitive market** for talent

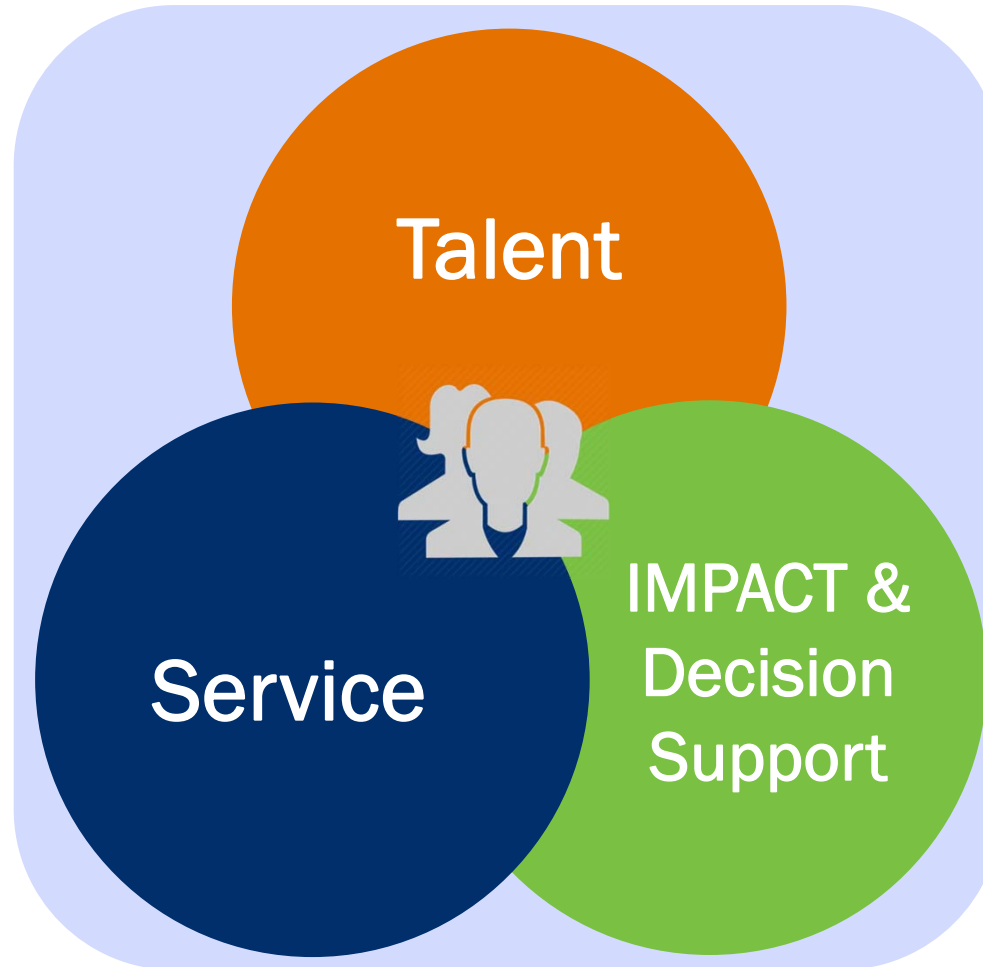
## How?

- The transformation will deliver a future-state HR function that provides a **consistent and exceptional work experience** for every UVA colleague by:
- Providing expanded HR **SERVICE** that is strategically aligned with UVA's goals
  - Reducing the **TIME** it takes to complete basic HR work
  - Enhancing UVA's ability to recruit, hire, retain, and develop **TOP TALENT**



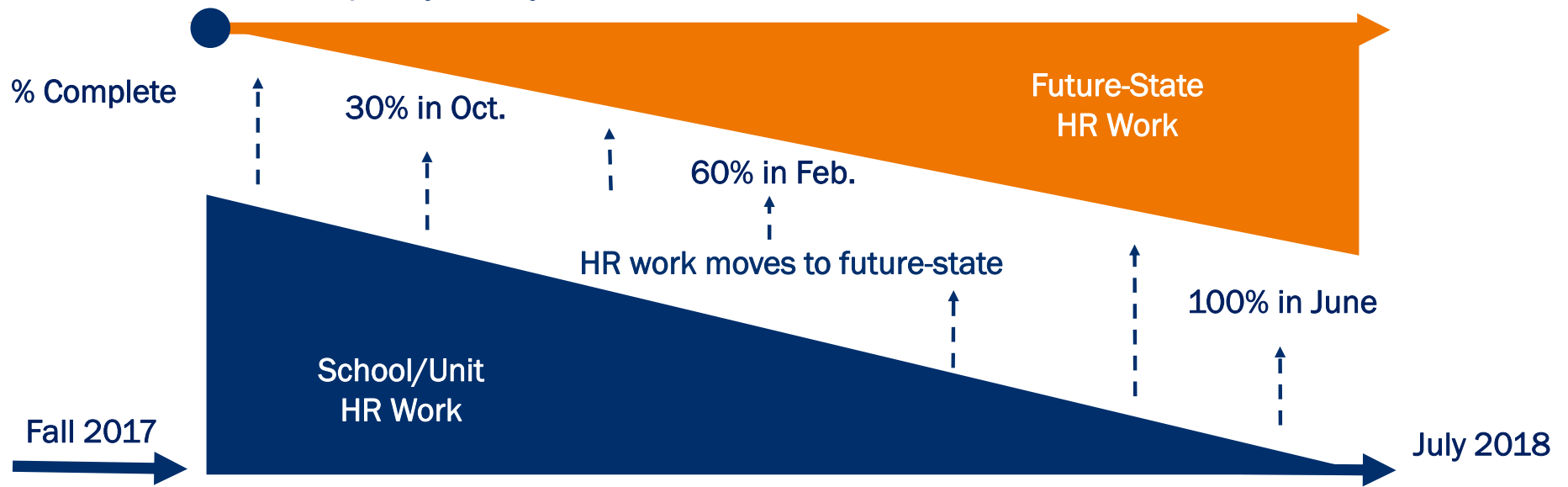
# The Future State HR Model

*Communities  
of Expertise*



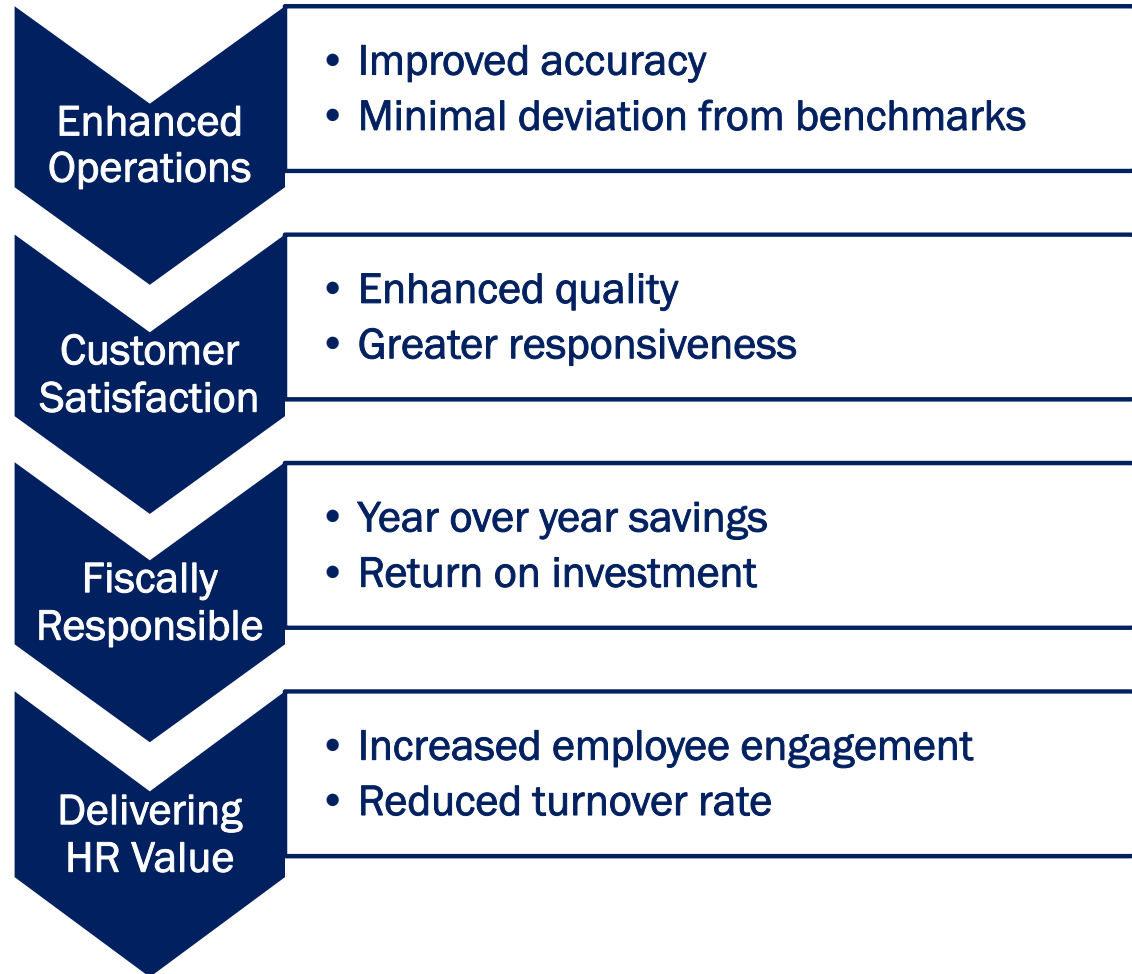
# Transition: The Next 9 Months

Incremental service improvements begin fall 2017, building to full future-state capacity in July 2018



Existing work in schools/units migrates to the future-state HR organization over time, through July 2018

# Measuring Service Delivery





## **UVIMCO 2016-2017 ANNUAL REPORT**

# Outline

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- ❖ Governance and Staffing
- ❖ Performance Review
- ❖ Asset Allocation
- ❖ Risk Management
- ❖ Current Environment
- ❖ Going Forward

# Governance and Staffing

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## **Board of Directors**

- 11 members led by David MacFarlane as Chair, three appointed by the BOV, and one by the President
- BOV representatives are John Harris, John Macfarlane and Timothy O'Hara
- Meets four times a year

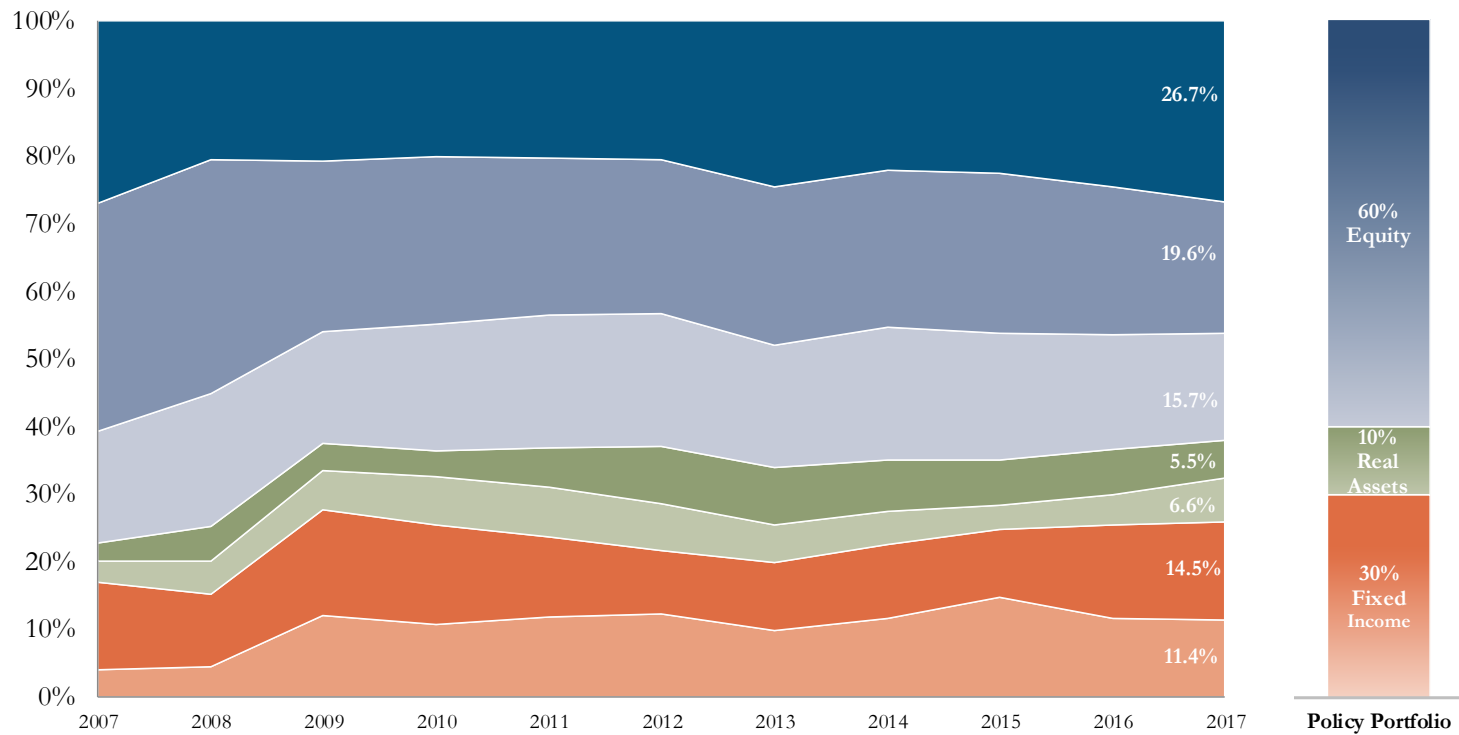
## **Staff**

- 35 UVIMCO team members
- Investment team comprised of CEO/CIO, five Managing Directors, one Director, one Senior Investment Associate, four Investment Associates, and two Investment Analysts
- Average of 20 years of investment experience among senior staff

# Performance Review

<i>As of June 30, 2017</i>	Market Value		Annualized				
	\$ Millions	%	1 YR	3 YR	5 YR	10 YR	20 YR
<b>Long Term Pool</b>	<b>8,621</b>	<b>100.0</b>	<b>12.4</b>	<b>6.0</b>	<b>10.0</b>	<b>7.3</b>	<b>11.0</b>
<i>Policy Benchmark</i>		<i>100.0</i>	<i>11.4</i>	<i>5.0</i>	<i>8.5</i>	<i>4.7</i>	<i>6.2</i>
<b>Equity</b>							
Public	2,305	26.7	24.5	8.0	14.4	8.4	11.0
Long / Short	1,687	19.6	5.5	3.4	7.6	6.1	10.2
Private	1,355	15.7	5.6	8.5	14.0	9.6	18.9
<b>Total Equity</b>	<b>5,348</b>	<b>62.0</b>	<b>13.0</b>	<b>6.8</b>	<b>12.0</b>	<b>8.5</b>	<b>13.0</b>
<i>MSCI All Country World Equity</i>		<i>60.0</i>	<i>19.4</i>	<i>5.4</i>	<i>11.1</i>	<i>4.3</i>	<i>5.9</i>
<b>Real Assets</b>							
Real Estate	478	5.5	11.8	14.2	13.2	(2.8)	3.5
Resources	565	6.6	48.4	2.3	7.3	12.8	16.3
<b>Total Real Assets</b>	<b>1,043</b>	<b>12.1</b>	<b>28.7</b>	<b>10.9</b>	<b>11.7</b>	<b>6.6</b>	<b>11.1</b>
<i>MSCI Real Estate</i>		<i>10.0</i>	<i>1.8</i>	<i>7.0</i>	<i>8.5</i>	<i>3.5</i>	<i>6.6</i>
<b>Fixed Income, Cash &amp; MAC</b>							
Marketable Alternatives and Credit	1,246	14.5	7.5	2.3	7.2	6.3	6.3
Fixed Income	785	9.1	(0.1)	0.6	0.5	3.3	5.5
Cash & Currency	200	2.3	0.5	0.2	0.1	--	--
<b>Total Fixed Income, Cash &amp; MAC</b>	<b>2,231</b>	<b>25.9</b>	<b>4.1</b>	<b>1.7</b>	<b>3.8</b>	<b>4.8</b>	<b>6.0</b>
<i>Barclays Aggregate Bond</i>		<i>30.0</i>	<i>(0.4)</i>	<i>2.9</i>	<i>2.8</i>	<i>4.5</i>	<i>5.2</i>

# Asset Allocation



- Public Equity
- Long/Short Equity
- Private Equity
- Real Estate
- Resources
- Marketable Alternatives & Credit
- Fixed Income & Cash

*As of June 30, 2017*





# Risk Management

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## ***Risk is the impact that a portfolio loss has on the operations of the University***

- Short-term – Market risk: volatility or drawdown risk
- Long-term – Decline in the real value of the endowment
- Trade-off between short-term and long-term risk

### ***Market risk***

- Volatility: Long Term Pool 10.0%, Policy Portfolio 10.9%
- Drawdown risk (1% likelihood of worst one-year returns): Long Term Pool -23.4%, Policy Portfolio -27.0%
- Global equity beta: Long Term Pool 0.66

### ***Liquidity risk***

- Cash plus low risk bonds: 11%
- Percentage of the Long Term Pool that can be converted to cash within three months and one year: 32%, 55%
- Unfunded private investment commitments as a percentage of the Long Term Pool: 15%

### ***Manager risk***

# Current Environment

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## *Valuations*

### *Macroeconomic challenges: wide range of outcomes*

- Inflation/Interest rates
- Central bank policies
- Geopolitical risks
- Fiscal stimulus
- US tax reform

### *Competing pools of capital/opportunities*

## Going Forward

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- ❖ Constantly reassess the current portfolio
- ❖ Manage risk and rebalance
- ❖ Use market weakness as an opportunity to add to high conviction managers
- ❖ Continue to co-invest with our managers
- ❖ Be opportunistic
- ❖ Most importantly, **understand our edge**