



UNIVERSITY
of VIRGINIA

**Board of Visitors Finance Committee Meeting
June 9, 2017**



Finance Committee Agenda

Action Items:

1. 2017-2018 Operating Budget
2. Authorization of 2017 Shelf Capital Project Financing Program
3. Academic Affiliation with Inova Health System Foundation
4. Quasi-Endowment Actions
5. Strategic Investment Fund Grant Allocations



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2017-2018 OPERATING BUDGET

Total University of Virginia 2017-2018 Operating Budget

(in millions)

	2016-17 Forecast	2017-18 Annual Budget	Increase vs. Forecast	
			\$	%
Academic Division	\$ 1,668.3	\$ 1,713.4	\$ 45.1	2.7%
Medical Center	1,552.5	1,671.7	119.2	7.7%
UVa-Wise	43.7	42.2	(1.5)	(3.3%)
Total	\$ 3,264.5	\$ 3,427.3	\$ 162.8	5.0%

Academic Division Operating Budget

Key Highlights

- FY 2016-17 results compare favorably to budget
- Key drivers in the FY 2017-18 operating budget:
 - ❖ Reduction in state general funds
 - ❖ BOV approved limited tuition increase
 - ❖ Ongoing emphasis on affordability
 - ❖ Research and philanthropy growing
 - ❖ Planned compensation increases
 - ❖ Organizational excellence savings

Key Budget Elements

Budget Element	Reviewed with BOV	General Assembly Action
State general funds appropriated (lower than MYFP)	✓	✓
Classified staff salary increases of 3% (higher than MYFP)	✓	✓
University staff salary increases of 3% *	✓	✓
Faculty salary increases of 3.0% - 3.75% (lower than MYFP)	✓	✓
Tuition, fees, housing, and dining rates (tuition lower than MYFP)	✓	
Endowment distribution rate *	✓	
Enrollment *	✓	
Organizational Excellence savings target *	✓	
Sponsored research growth (growing faster than MYFP)	✓	
Philanthropy assumptions (growing faster than MYFP)	✓	
Inflationary increase in other than personal services *	✓	

*Consistent with Multi-Year Financial Plan (MYFP)

FY 2016-17 Organizational Excellence (OE) Results

- FY 2016-17 Preliminary Results
 - Major institutional initiatives: Strategic Sourcing, ResearchUVA, Managerial Reporting, Expense Management, HR Transformation
 - University Financial Model promotes a cost-knowledgeable environment
 - Service delivery and process redesigns, restructure of roles, consolidate spend, enabling technology
 - Over \$21.6 million in school, unit, and central improvements (savings target was \$20.1 million)

FY 2017-18 Organizational Excellence (OE)

Planned Initiatives

- Savings Target: \$21.25 million in FY 2017-18
 - Major institutional initiatives: HR Transformation, ResearchUVA, Managerial Reporting, TravelUVA/ExpenseUVA, Budget Tool
 - University Financial Model promotes a cost-knowledgeable environment
- Of total savings:
 - \$7 million will offset state-imposed budget reduction
 - Remainder (\$14.25 million) of planned savings will be reinvested to strategic priorities

FY 2017-18 Operating Sources

(in thousands)

	2016-17 Forecast	2017-18 Annual Budget	Increase vs. Forecast	
			\$	%
Sources				
Tuition & Fees	\$ 543,941	\$ 568,649	\$ 24,708	4.5%
State Appropriations	152,750	145,194	(7,556)	(4.9%)
Externally Sponsored Research	326,471	351,883	25,412	7.8%
Endowment Distribution	190,016	191,906	1,890	1.0%
Expendable Gifts	140,142	151,529	11,387	8.1%
Sales, Services & Other	318,386	307,644	(10,742)	(3.4%)
Total	\$ 1,671,706	\$ 1,716,805	\$ 45,099	2.7%

FY 2017-18 Operating Uses

(in thousands)

	2016-17 Forecast	2017-18 Annual Budget	Increase vs. Forecast	
			\$	%
Uses				
Instruction	\$ 459,611	\$ 483,535	\$ 23,924	5.2%
Research & Public Service	385,277	409,470	24,193	6.3%
Academic Support	158,992	164,671	5,679	3.6%
Student Services	49,447	48,923	(524)	(1.1%)
General Administration	101,016	98,158	(2,858)	(2.8%)
O&M of Physical Plant	113,278	111,065	(2,213)	(2.0%)
Financial Aid	123,344	128,100	4,756	3.9%
Auxiliaries	184,259	181,479	(2,780)	(1.5%)
Internal Debt Service/Transfers	93,062	87,953	(5,109)	(5.5%)
Total	\$ 1,668,286	\$ 1,713,355	\$ 45,069	2.7%

Previously Approved Initiatives Non-Base Budget Investments (in thousands)

	FY16-17 Forecast	FY17-18	FY18-19	FY19-20	FY20-21
Infrastructure ¹	\$ 45,984	\$ 33,382	\$ 18,452	\$ 10,917	\$ 6,822
One-time Clery and Title IX	2,500	2,500	-	-	-
Cornerstone Plan ²	10,629	7,512	7,280	7,048	6,948
Pan-University Center & Research	4,000	6,000	6,000	4,000	2,000
Cluster/ToPS + Start Up Packages (FY17 & FY18)	13,755	19,540	14,046	2,266	1,101
Total	\$ 76,868	\$ 68,934	\$ 45,778	\$ 24,231	\$ 16,871

¹ Includes IT (Cyber) Security and Access, Managerial Reporting System, Human Resources (Function) Transformation

²Sustainable funding sources for over \$20 million of ongoing initiatives has been incorporated into the base operating budget

Faculty Hiring

Key Highlights

- 2014 plan to address expected generational faculty turnover
- Retirements have been slower than expected; hiring has been adjusted
- Expect 52 departures and 75+ new hires in the undergrad schools through FY17
 - 15 are Cluster/ToPS hires in strategic areas of growth
 - Significant strides made to increase diversity of tenure/tenure-track faculty
- FY2018 need:
 - \$19.5 million needed for Cluster/ToPS hires and start-up packages in FY18
- FY18 hiring plans and retirement projections are still in development

Generational Faculty Turnover Plan

(Undergraduate Schools Only)

(in millions)	FY17 Projected (As Of June 2016)		FY17 Actuals (As Of June 2017)		FY18 Projected (As Of June 2017)	
New Faculty Hires	\$11,361	83 FTEs	\$11,655	70 FTEs	\$16,486	75 FTEs*
Resignations/Tenure Denial/Retirements	\$4,884	32 FTEs	\$7,064	45 FTEs	\$8,345	52 FTEs
<i>Net New Faculty: 100% School Commitment</i>	\$6,477	51 FTEs	\$4,591	30 FTEs	\$8,141	23 FTEs
<i>New STEM Start-up: 50% School Commitment</i>	\$11,095	36 FTEs	\$10,272	23 FTEs	\$14,023	24 FTEs
<i>New STEM Start-up: 50% Provost Commitment</i>	\$11,095		\$10,271		\$14,023	
<i>Cluster/ToPS: 100% Provost Commitment</i>	\$4,972		\$4,870		\$5,518	
Total Provost Commitment:						
Cluster/ToPS + 50% STEM Hires Start Up	\$16,067		\$15,141		\$19,541	

* FY18 projected new faculty hires includes 9 pending offers

Faculty Hiring and Turnover Academic Year 2017-2018 (Projected)

	New Hires* as of 5/22	Retirements/ Resignations as of 5/27
Professor	11	30
Associate Professor	16	13
Assistant Professor	48	9
Total	75	52
College of Arts & Sciences	34	*Includes all undergraduate school hires; 66 offers accepted + 9 pending.
SEAS	10	
All other Undergraduate	31	
Total	75	
STEM	24	
Other	51	
Total	75	
Cluster	12	
ToPS	3	
Regular	60	
Total	75	

FY 2017-2018 Pratt Fund Allocation

- In 1976, a bequest from John Lee Pratt was designated for the School of Medicine and the Biology, Chemistry, Physics and Math departments in the College of Arts and Sciences. Current market value: \$131 million.
- Each year the budget includes an allocation from the Pratt Fund for research and scholarships in Medicine and for faculty salaries, scholarships, and equipment in the College of Arts and Sciences departments.
- The FY18 budget includes \$4.1 million for research and \$1.3 million for fellowships in Medicine; and \$1.3 million for fellowships, \$2.2 million for faculty salaries, and \$0.6 million for faculty start ups in the College of Arts and Sciences departments.



2017-2018 OPERATING BUDGET MEDICAL CENTER

Medical Center FY2018 Budget Dashboard

ADMISSIONS:	FY18 Budget	FY17 Proj	% Var.	FY16 Actual	% Var.
Medical Center	28,676	28,585	0.3%	27,800	2.8%
TCH	413	405	2.0%	389	4.1%
Hospital Admissions	29,089	28,990	0.3%	28,189	2.8%
Observation	4,329	4,309	0.5%	4,377	(1.6%)
Total Admissions	33,418	33,299	0.4%	32,566	2.3%
Adjusted Admissions	62,145	62,191	(0.1%)	59,278	4.9%
ACUTE INPATIENTS:					
Inpatient Days	183,721	182,732	0.5%	180,692	1.1%
All Payor CMI Adj. ALOS	2.86	2.85	0.3%	2.87	(0.9%)
All Payor CMI	2.10	2.11	(0.5%)	2.10	0.5%
Average Daily Census - MC	503	501	0.4%	493	1.6%
OUTPATIENTS:					
Clinic Visits	882,483	876,928	0.6%	855,276	2.5%
Emergency Room Visits	63,831	63,831	0.0%	62,998	1.3%
SURGICAL CASES:					
UVA Main Hospital	17,390	17,396	(0.0%)	17,328	0.4%
Outpat. Surgery Ctr	12,623	12,324	2.4%	12,114	1.7%
Total Surgeries	30,013	29,720	1.0%	29,442	0.9%
OPERATING MARGIN:					
	\$63.6M	\$87.5M	-27.0%	\$78.5M	-18.9%

Medical Center

FY2018 Benchmarks

	FY 18 Budget	Benchmark Median (1)
All Payor Case Mix Index (CMI)	2.10	2.00
Medicare CMI adjusted average length of stay (ALOS)	2.69	2.87
Net Revenue per CMI Weighted Adjusted Discharge	\$12,695	\$12,562
FTE per CMI Weighted Adjusted Discharge	23.62	23.66
Total Labor Expense as a % of Net Operating Revenue	45.6%	48.5%
Total Supply Expense as a % of Net Operating Revenue	23.0%	22.8%
Total Expense per CMI Weighted Adjusted Discharge	\$12,211	\$11,522
Operating Margin	3.81%	5.12%

(1) Benchmark is 50th percentile for a select group of Academic Health Centers that have a Level I Trauma Center, Neonatal Intensive Care unit and a Transplant program.

Health System

Major Strategic Initiatives

- EPIC Phase 2 Go Live 7/1/17
- Human resources & payroll re-design / Ufirst
- Opening new endoscopy procedure center
- Strategic hiring initiative of physician scientists
- Clinical Translational Science Project
- Advancing strategic partnerships
- Retention and recruitment
- Capital investments

Health System

Consolidated Long Range Financial Plan

- The 2018-2024 Long Range Financial Plan (LRFP), inclusive of the Medical Center and the School of Medicine, including professional clinical activity and the library, will be presented in September 2017
- The possible repeal of the Affordable Care Act and other changes that may come from the new federal administration will impact many parts of reimbursement and the LRFP
- The FY2018 Budget (year one of the LRFP) includes major investments in programs, capital and technologies

Health System FY2018 Budget

(in millions)

	FY18					Total HS	FY17	Fav/(Unfav)
	MC	UPG	SOM	LIB	ELIM		Total HS	Var.
Net Patient Service Revenue	1,625.5	379.1	-	-	-	2,004.6	1,904.2	100.4
Other Revenue	54.2	73.2	444.1	5.6	(152.0)	425.1	416.3	8.8
Total Operating Revenue	1,679.7	452.3	444.1	5.6	(152.0)	2,429.7	2,320.5	109.2
Labor	767.1	360.9	246.4	2.5	-	1,376.9	1,257.9	(119.0)
Clinical & Lab Supplies	384.4	7.6	48.3	-	-	440.3	423.7	(16.6)
Purchased Services	346.1	96.0	167.8	2.8	(152.0)	460.7	448.5	(12.2)
Interest	21.0	0.1	4.8	-	-	25.9	23.2	(2.7)
Depreciation	97.5	3.5	22.8	0.3	-	124.1	122.0	(2.1)
Total Operating Expense	1,616.1	468.1	490.1	5.6	(152.0)	2,427.9	2,275.3	(152.6)
Operating Income/(Loss) before Transfers	63.6	(15.8)	(46.0)	-	-	1.8	45.2	(43.4)
	3.8%	-3.5%	-10.4%	0.0%	0.0%	0.1%	1.9%	-1.9%
Health System Support/Transfers	(55.6)	5.2	50.4	-	-	-	-	-
Operating Income/(Loss) after Transfers	8.0	(10.6)	4.4	-	-	1.8	45.2	(43.4)
	0.5%	-2.3%	1.0%	0.0%	0.0%	0.1%	1.9%	-1.9%
Operating Cash - EBITDA	182.1	(12.2)	(18.4)	0.3	-	151.8	190.4	(38.6)



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2017-2018 OPERATING BUDGET COLLEGE AT WISE

College at Wise Operating Budget

Key Highlights

- FY 2016-2017 results compare favorably to budget
- Consistent with Six Year Plan
- Drivers:
 - New state general funds
 - Planned compensation increases
 - Economic & demographic challenges

College at Wise Strategic Priorities

- Enrollment
- Retention and Graduation
- Outreach
- High Need Degrees: STEM-H
- Summer Programs
- Undergraduate Research

College at Wise FY 2017-18 Operating Budget

	2016-17	2017-18	Increase vs. Budget	
	Annual Budget	Annual Budget	\$	%
Sources				
Tuition & Fees	10,714	10,038	(676)	-6.31%
State Appropriations	18,091	18,491	399	2.21%
Externally Sponsored Research	1,903	1,302	(601)	-31.59%
Endowment Distribution	3,149	3,209	60	1.91%
Expendable Gifts	797	691	(106)	-13.31%
Sales, Services & Other	9,000	8,510	(490)	-5.45%
Total	\$ 43,653	\$ 42,239	\$ (1,414)	-3.24%
Uses				
Instruction	12,637	12,481	(156)	-1.24%
Research & Public Service	2,367	1,901	(466)	-19.70%
Academic Support	4,410	4,400	(10)	-0.22%
Student Services	1,697	1,640	(56)	-3.32%
General Administration	4,486	4,399	(87)	-1.94%
O&M of Physical Plant	1,764	1,798	35	1.96%
Financial Aid	4,960	4,882	(78)	-1.57%
Auxiliaries	11,332	10,737	(595)	-5.25%
Total	\$ 43,653	\$ 42,239	\$ (1,414)	-3.24%
Net Sources in Excess of Uses	\$ -	\$ -	\$ -	



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AUTHORIZATION OF 2017 SHELF CAPITAL FINANCING PROGRAM

Debt Shelf Registration

- To enhance our debt management program, the University plans to implement a “shelf” registration program for certain future debt issues
- Popular with corporations for some time, a “shelf” program allows issuers to sell one or more tranches of debt under one prospectus, rather than having a single prospectus for each offering
- In the past, the University has issued unique offering documents for each series of long-term debt

Debt Shelf Registration

Advantages of Shelf Registrations

Timing and frequency flexibility

Quicker to market (approx. one month)

Allows for structuring options under one registration

Once program is rated, issuance only requires notice to rating agencies

Considerations

Generally positive reception by the rating agencies

Possible quarterly reporting requirements

About four months to complete the shelf registration, similar to regular bond issuance

Board will approve each debt issue and its structure prior to the issuance of any debt

Shelf Registration Timeline

About four months to finalize shelf registration

Date	Activity
June 2017	Request approval from the Board of Visitors
June – July 2017	Finalize program documents
July – August 2017	Present program to rating agencies
September 2017 (estimated)	Request approval from Board of Visitors of planned debt issuance and delegated authority for pricing (to EVP-COO and Chair of Finance Committee)
September 2017 or thereafter	Price and close on initial tranche



**ACADEMIC AFFILIATION WITH
INOVA HEALTH SYSTEM FOUNDATION**

Academic Affiliation with Inova Health System Foundation

- Considered and approved by Medical Center Operating Board
- Partnership with Inova to create UVA School of Medicine - Inova Campus, a regional campus to be located on Inova Fairfax campus
- Conduct of genomics and bioinformatics research, including formation of Global Genomics and Bioinformatics Research Institute
- Collaboration with George Mason University and potentially others
- General Assembly has appropriated funds to support the Institute to be administered by the Virginia Research Investment Committee



Quasi-Endowment Actions

- Establishment of three new quasi-endowments in the School of Medicine:
 - Distinguished Professorship in Anesthesiology Quasi-Endowment \$ 2.0 million
 - Ivy Foundation Biomedical Innovation Fund Quasi-Endowment \$ 5.0 million
 - Ivy Foundation Translational Research Quasi-Endowment \$38.6 million
- Investment into an existing quasi-endowment
 - Fund for the Future Quasi-Endowment \$18.0 million



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STRATEGIC INVESTMENT FUND GRANT ALLOCATIONS

Aggregate SIF Awards to Date

BOV Meeting Date	Proposals Approved	Amount
September 2016	13	\$26,044,624
December 2016	6	128,914,375
January 2017	2	15,000,000
March 2017	<u>1</u>	<u>\$10,000,000</u>
Total Approved	22	\$179,958,999
June 2017 (proposed)	<u>5</u>	<u>36,440,006</u>
Total (proposed)	27	\$216,399,004

Proposals Approved to Date

	Amount		Amount
SEAS LinkLab for Cyber Physical Systems	\$4,810,000	Bicentennial Scholars	\$100,000,000
A&S Doctoral Student Support	\$4,800,000	SOM Precision Individualized Medicine for Diabetes	\$16,992,531
ResearchNET Research Development	\$4,461,000	SEAS Graduate Engineering Program	\$6,400,000
Research UVA Next Gen Technology	\$2,952,724	SEAS & SOM Center for Advanced Biomanufacturing	\$3,000,000
Curry Research Faculty	\$2,406,400	A&S Research & Learning in Social Sciences & Humanities	\$2,000,000
A&S Catalytic Conversion of Natural Gas	\$1,955,000	A&S Neuroscience and Energy Strategic Research Initiative	<u>\$521,844</u>
Darden Merit-based Scholarships	\$1,000,000	Total December 2016	\$128,914,375
Law Public Service Program	\$1,000,000	Cornerstone Grant	\$13,500,000
Research Cluster Computing Support	\$750,000	Increased Enrollment for VA students	<u>\$1,500,000</u>
SCPS Public Safety Program	\$600,000	Total January 2017	\$15,000,000
USOAR Federal Work Study/Research	\$559,500	SEAS Multifunctional Materials Integration Initiative	<u>\$10,000,000</u>
McIntire Global Commerce Program	\$500,000	Total March 2017	<u>\$10,000,000</u>
Reimagining Librarianship Strategic Plan	<u>\$250,000</u>	Total committed to date	\$179,958,999
Total September 2016	\$ 26,044,624		

Recommended SIF Proposals

- ❖ Bold Research Advancement in Neuroscience
- ❖ Democracy Initiative
- ❖ Engineering in Medicine
- ❖ UVA-Wise Innovation Ecosystem
- ❖ Transforming Clinical Scholarship in Nursing

Research: Bold Research Advancement in Neuroscience

National Pre-eminence in Brain Research



- Leverages investment in pan-University **Brain Institute**
- **Improved diagnostics**, treatment, and cures
- Vertically **integrated research**

This proposal builds on research strengths in neuromodulation, neurodegeneration, and epilepsy. Significant advances will be achieved using brain mapping, focused ultrasound development, bioinformatics, imaging, and data mining. Strategic partnerships throughout the Commonwealth will help bring discoveries to patient care more rapidly.

Request: \$15,710,000 over 3 years

Research: A&S Democracy Initiative

Integrated Research, Teaching, and Public Engagement on Democracy at a Global Scale



- Establish UVA as the **leading center** for the study of democracy
- **Build on strengths** in humanities disciplines
- Flexible, team- and project-based labs

The University's historical grounding in democracy uniquely positions UVA to be the global center for the study of democracy's success and failures, opportunities and threats, and to influence policies that strengthen democracies worldwide. The Democracy Initiative is an ambitious, interdisciplinary research and teaching enterprise that recognizes the world's urgent need for such a center, and the University's determination to lead the way.

**Request: \$10,000,000 over 3 years;
1:1 philanthropic match required**

Research: Engineering in Medicine

Developing a New Ecosystem to Spur Innovation in Health Care



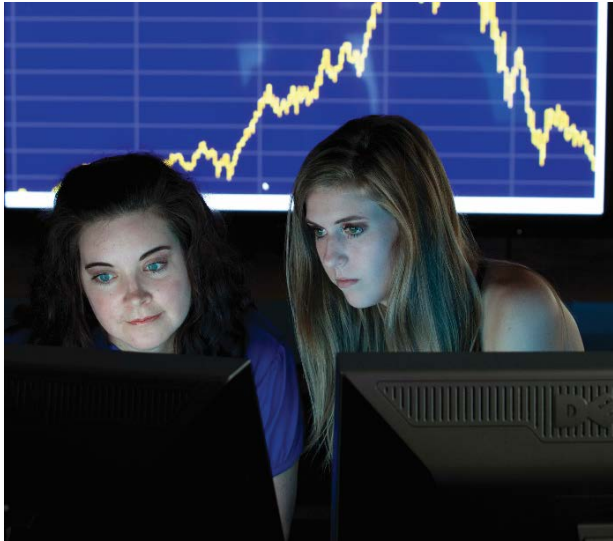
- Provides **seed funding** for collaborative translational research
- **Leverages** successful pilot projects and school-based funding
- **Improve health** prevention, monitoring, diagnosis, and treatment

This initiative will build an ecosystem for generating, developing, and translating innovative ideas at the engineering-medicine interface to improve health outcomes. Additional benefits will include: attracting the best talent, increasing quantity and quality of research, enhancing health-related innovation and technology transfer, and improving patient care.

Request: \$5,000,000 over 5 years

Academic Experience: UVA-Wise Innovation Ecosystem

Software Engineering and Entrepreneurship Programs to Diversify the Economy in Southwest Virginia



- Increase enrollment and retention in software engineering, computer science, and management of information systems
- Spur interest in critical fields through **Entrepreneurship and Cybersecurity Boot Camps**
- Create a **culture of innovation and entrepreneurship**

UVA's College at Wise plays a key role in economic development in far Southwest Virginia and is viewed as a primary source of talent for regional companies. Expanding technical degree programs and increasing entrepreneurial activities are needed to develop and sustain a knowledge-based economy.

Request: \$3,485,460 over 5 years

Academic Experience: SON Transforming Clinical Scholarship

A New Teaching and Research Model for Nursing Graduate Programs



- **Increase research** in specialty programs to create clinical scholars
- Offer **targeted scholarships** for highly competitive students
- Expand **digital learning** opportunities
- **Increase external funding** for research

This investment helps address a crucial health care need for critically ill children in Virginia, while also improving rankings in two new specialty graduate programs: Neonatal Nurse Practitioners and Pediatric Nurse Practitioners-Acute Care.

Request: \$2,244,546 over 3 years

Summary of Recommended Proposals for BOV Action

Project	Total Funding Recommended
Bold Research Advancement in Neuroscience	\$15,710,000
A&S Democracy Initiative	10,000,000
Engineering in Medicine	5,000,000
UVA-Wise Innovation Ecosystem	3,485,460
SON Transforming Clinical Scholarship	2,244,546
Total	\$36,440,006

SIF Action Summary	FY17	FY18	FY19	FY20	FY21	FY22	Total
Approved to Date	\$32,468,664	\$40,903,452	\$46,691,882	\$34,895,000	\$25,000,000	\$0	\$179,958,999
Recommended June 2017	<u>0</u>	<u>9,402,235</u>	<u>9,843,092</u>	<u>10,294,679</u>	<u>5,200,000</u>	<u>1,700,000</u>	<u>36,440,006</u>
Total Approved + Recommended	\$32,468,664	\$50,305,687	\$56,534,974	\$45,189,679	\$30,200,000	\$1,700,000	\$216,399,004

