

Board of Visitors Finance Committee Meeting September 11, 2020







REVISED 2020-2021 OPERATING BUDGET

## **COVID Economic and Higher Education Outlook**

#### The Economy

Unemployment and cloudy macro-economic forecast through FY22
Unpredictable markets
Potential for increased financial need and rent/food insecurity
A workforce with unresolved childcare, K-12 education and eldercare issues

#### **Higher Education**

How are other universities responding to COVID?

How might the University of Virginia best position itself to sustain competitive advantage?



## FY2020-21 Operating Budget Development Process - Reminder

#### Typical Annual Budget Development Process Began

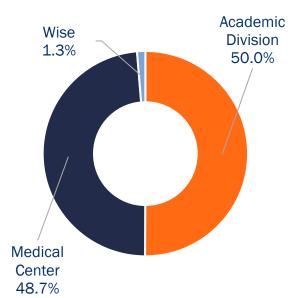
- September 2019: Determined Key Planning Assumptions
- October 2019: Initiated Operating Budget Development
- Mid-March 2020: Completed Schools and Auxiliaries, Service Units, Medical Center Operating Budget Proposals

#### March 13, 2020: Federal State of Emergency Declared

- April 2020: Consolidated FY21 Base Budget
- June 2020: BOV Approved FY21 PRE-COVID Base Budget
- June 2020: Revisit Key Budget Assumptions Based Hybrid Instruction for Fall
- June-August 2020: Complete FY21 Operating Budget Revision
- September 2020: Present Revised FY2020-21 Budget to the BOV



## University of Virginia Proposed FY2020-21 Revised Operating Budget (in Millions)



	2019-20 Approved	2020-21 Pre-COVID	2020-21 Revised	Change from Revi	
Academic Division	\$1,909.2	\$1,943.8	\$1,879.5	(\$64.3)	(3.3%)
Medical Center	1,760.2	1,851.0	1,827.2	(23.8)	(1.3%)
UVa-Wise	<u>50.5</u>	<u>50.3</u>	<u>48.9</u>	(1.4)	(2.8%)
Total	\$3,719.9	\$3,845.2	\$3,755.4	(\$89.8)	(2.3%)







REVISED 2020-2021 OPERATING BUDGET ACADEMIC DIVISION

## **Budget Redevelopment Process**

- We considered upstream and downstream, long-term and short-term impact
- We affirmed that spreading or redistributing costs internally does yield a real cost reduction
- We utilized re-budgeting as an opportunity to strategically re-balance resources
- We applied our UFM principles of transparency, consistency, delegated authority and accountability
- Our process was simple, straightforward, efficient, and focused



## **Revenue Assumptions Revisited**

Planning Assumptions						
Auxiliary Revenues	Housing: \$7.5M Dining: \$1.0M Athletics TBD Other: \$2.0M					
Net Tuition	\$10M increase in undergraduate financial aid					
Enrollment Projections	International impact on graduate programs					
State General Funds Appropriation	15% or \$20M decrease					
Sponsored Research Volume	Slight decline					
Philanthropy/Endowment	No adjustment					



## **Expense Assumptions Revisited**

	Planning Assumptions
Instructional Delivery	Hybrid
Faculty and Staff Merit Increases	3% merit removed
Faculty and Staff Hiring	Freeze
Supplies, Professional Development, Travel, Other	Reduced
Central Services	8% across-the-board reduction
Schools and Revenue Centers	8% reduction in provost support allocation
Other revenue generating activities	Manage to revenues, reliance on cost-cutting, reserves, and reducing services



### **Outcomes and Observations**

#### **Process Outcomes**

- Reduced spending establishes a contingency to address some one-time costs
- Created additional AccessUVA capacity, anticipating increased need
- COVID unknowns persist, additional shifts may be required to address/mitigate financial risk

#### **Process Observations**

- To maintain financial stability, we must preserve ongoing resources (e.g. tuition and endowment)
- Schools are impacted differently based on enrollment models, research reliance, private resources, and facilities
- Some Central Services are stretched thin as a result of reductions
- Auxiliaries will be directly impacted by the volume of on-Grounds activity, reserves capacity to mitigate varies significantly



## **Preliminary FY21 One-Time COVID Financial Impact**

	ESTIMATED
COVID Preparedness, Testing and Containment	\$ 21,920,000
Instruction Costs and Student, Faculty, and Staff COVID Needs and Support	9,270,000
PPE and Facilities Needs (tents, plexiglass, hand sanitizer stands, disinfecting, etc.)	5,730,000
Symptom-checking App, Call Center, Social Norms Campaign	1,125,000
Sub-Total Projected One-Time Expenses	\$ 38,045,000
Additional lost housing and dining revenue due to delay and melt (beyond projected loss)	\$ 14,000,000
Forgone J-Term and Summer Session tuition (doesn't include additional instructional cost)	3,000,000
Sub-Total Projected Lost Revenue	\$ 17,000,000
TOTAL PROJECTED ONE-TIME COVID FINANCIAL IMPACT	\$ 55,045,000



## University of Virginia – Academic Division FY 2020-21 Revised Operating Budget (in Millions)

Sources/Uses	2019-20	2020-21	2020-21	FY21 Original vs Revised		
	Approved	Pre-COVID	Revised	\$	%	
<u>Sources</u>						
Net Tuition and Fees	\$ 672.2	\$ 694.0	\$ 673.6	\$ (20.4)	-2.9%	
State Appropriations	167.0	165.7	142.2	(23.5)	-14.2%	
Externally Sponsored Research	425.0	431.0	425.1	(5.9)	-1.4%	
Endowment Distribution/Admin Fee	226.2	244.5	238.2	(6.3)	-2.6%	
Expendable Gifts	155.1	168.0	165.4	(2.6)	-1.5%	
Sales, Services, Interest, Other	267.4	253.4	278.1	24.7	9.7%	
Total Operating Sources	1,912.9	1,956.6	1,922.6	(34.0)	-1.7%	
<u>Uses</u>						
Faculty and Staff Salaries	1,186.0	1,277.4	1,231.6	(45.8)	-3.6%	
Internal Recoveries	(808.0)	(825.3)	(798.0)	27.3	-3.3%	
Non-personal Services Expenses	1,271.8	1,299.4	1,236.4	(63.0)	-4.8%	
Financial Aid	192.0	205.5	208.5	3.0	1.4%	
Internal Debt Service, Transfers, and Other	67.4	(13.2)	1.0	14.2	-107.6%	
Total Uses	1,909.2	1,943.8	1,879.5	(64.3)	-3.3%	
Total Sources and Uses	\$ 3.7	\$ 12.8	\$ 43.1	\$ 30.3		

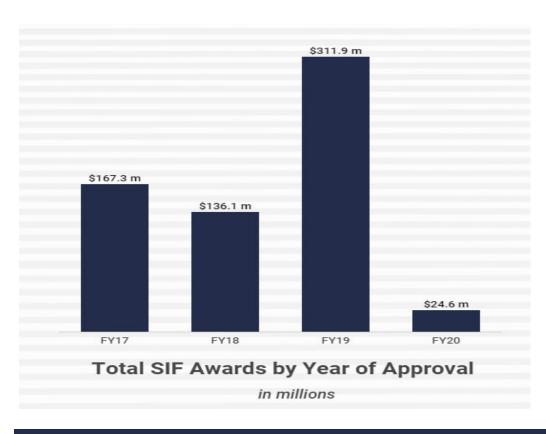


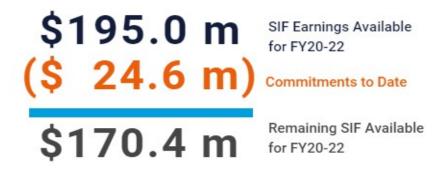




STRATEGIC INVESTMENT FUND

## **SIF Financial Overview**





Total SIF Awards Projected Spending by Year										in millions	
FY17 Actual	FY18 Actual	FY19 Actual	FY20 Actual	FY21	FY22	FY23	FY24	FY25	FY26	FY27	TOTAL
\$7.7	\$54.3	\$109.8	\$116.6	\$119.4	\$95.9	\$68.7	\$33.7	\$23.4	\$7.1	\$3.3	\$639.9

## **SIF Awards by Category**











in millions







REVISED 2020-2021 OPERATING BUDGET MEDICAL CENTER

## University of Virginia – Medical Center FY 2020-21 Revised Operating Budget (in Millions)

	2019-			2020-21 Pre-COVID	2020- Revise		(FY	Variand 21 Original	
	Actua	IS*	A	nnual Budget	Annual B	udget		\$	%
Revenue									
Net Patient Service Revenue	\$	1,687.5	\$	1,883.2	\$	1,839.6	\$	(43.65)	-2.3%
Other Revenue		58.4		53.1		52.7		(0.5)	-0.9%
Total Operating Revenue	:	1,745.9		1,936.3	:	1,892.2		(44.1)	-2.3%
Expense									
Labor		785.8		843.4		823.1		(20.3)	-2.4%
Supplies, Utilities, and Other		815.2		878.1		855.7		(22.4)	-2.5%
Interest		18.3		18.7		18.6		(0.1)	-0.4%
Depreciation		115.9		110.8		129.8		18.9	17.1%
Total Operating Expense	:	1,735.1		1,851.0		1,827.2		(23.8)	-1.3%
Operating Income/(Loss) before Transfers		10.8		85.3		65.0		(20.3)	-23.8%
Health System Transfers		(58.7)		(44.7)		(43.9)		0.8	-1.8%
Operating Income/(Loss) after Transfers		(48.0)		40.6		21.1		(19.5)	-48.1%
Operating Cash flow after Transfers	\$	67.9	\$	151.5	\$	150.9	\$	(0.6)	-0.4%

<sup>\*</sup> Unaudited, as of August 10, 2020







REVISED 2020-2021 OPERATING BUDGET COLLEGE AT WISE

## University of Virginia's College at Wise FY 2020-21 Revised Operating Budget (in Millions)

Sources/Uses	2019-20	2020-21	2020-21	FY21 Original vs Revised	
Sources/ Oses	Approved	Pre-COVID	Revised	\$	%
<u>Sources</u>					
Net Tuition and Fees	\$ 9.6	\$ 9.6	\$ 9.5	\$ (0.1)	-1.0%
State Appropriations	22.3	22.3	21.3	(1.0)	-4.5%
Externally Sponsored Research	4.8	5.6	5.6	-	0.0%
Endowment Distribution/Admin Fee	3.8	4.4	4.4	-	0.0%
Expendable Gifts	0.7	0.5	0.5	-	0.0%
Sales, Services, Interest, Other	9.3	7.9	7.6	(0.3)	-3.8%
Total Operating Sources	50.5	50.3	48.9	(1.4)	-2.8%
<u>Uses</u>					
Faculty and Staff Salaries	28.5	26.6	26.5	(0.1)	-0.4%
Internal Recoveries	(1.4)	(0.4)	(0.4)	-	0.0%
Non-personal Services Expenses	17.5	17.7	16.4	(1.3)	-7.3%
Financial Aid	5.9	6.4	6.4	-	0.0%
Total Uses	50.5	50.3	48.9	(1.4)	-2.8%
Total Sources and Uses	\$ -	\$ -	\$ -	\$ -	



## University of Virginia's College at Wise COVID-19 Expenses

FY20 COVID Actual Expenses	\$451,334
FY21 COVID Incurred Expenses as of August	\$78,862
FY21 COVID Planned Expenses	\$1,067,658







UVIMCO 2019-2020 ANNUAL REPORT

## **Outline**

- Overview
- Market Update
- Performance
- Asset Allocation
- Risk Management



### **Board of Directors**



Mitchell Cohen
UVIMCO BOARD
CHAIR
Managing Director, Trilogy
Search Partners, LLC



Jennifer "J.J." Wagner
Davis
Executive VP and COO,
University of Virginia



John Macfarlane III Managing Partner, Arrochar Management LLC



Timothy O' Hara Global Co-Head of Credit, Blackrock Alternative Investors



Thomas Baltimore, Jr. Chairman, President, and CEO, Park Hotels & Resorts



John Harris, Jr.
Retired Senior Banker
and Executive,
Deutsche Bank



Henry McVey
Member and Head of
Global Macro & Asset
Allocation, CIO of
KKR Balance Sheet



Meryl Witmer General Partner, Eagle Capital Partners



John Connaughton Co-Managing Partner, Bain Capital



Meredith Jenkins
Chief Investment
Officer,
Trinity Wall Street



Andrew Mulderry Co-CIO, Willett Advisors LLC



## **Strategy - Investment Objectives**

## Primary objective: Maximize long-term real returns commensurate with the risk tolerance of the University

- Preserve the purchasing power of long-term investment assets by earning an annualized rate of return of at least spending + inflation + fees
- Evaluate Pool performance relative to that of the Policy Portfolio, which represents a
  passive and liquid expression of the University's long-term investment risk tolerance
- Policy Portfolio was 65/10/25 equity, real estate, and fixed income in FY20, and is 75/25 equity and fixed income in FY21



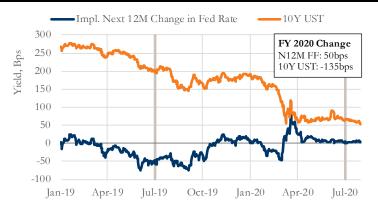
## **Market Update**

#### **Equities**



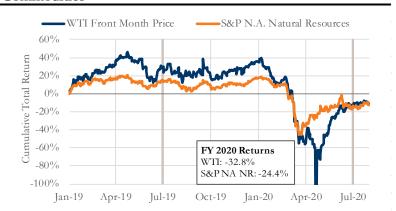
Data as of 7/31/2020. Performance indexed to 0% as of 12/31/2018.

#### **Interest Rates**



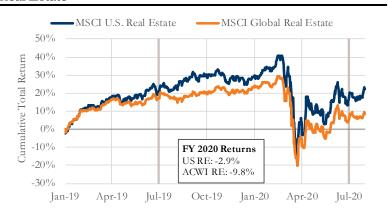
Data as of 7/31/2020. Implied Next 12M Change in Fed Rate calculated by stripping the

#### Commodities



Data as of 7/31/2020. Performance indexed to 0% as of 12/31/2018. WTI return is excess of collateral and roll. WTI performance concatenated at -100%.

#### Real Estate



Data as of 7/31/2020. Performance indexed to 0% as of 12/31/2018.



## **Performance**

Long Term Pool and Policy Portfolio Performance Detail

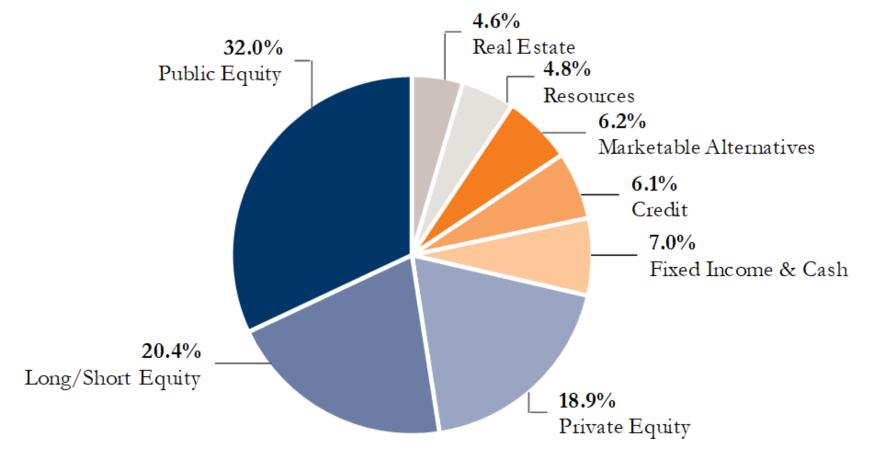
As of June 30, 2020	Marke	t Value	TWRR, Annualized				
	\$mms	% LTP	1 Year	3 Years	5 Years	10 Years	20 Year
Long Term Pool	9,899	100.0	5.3	7.5	6.6	10.1	8.6
Policy Portfolio		100.0	3.3	6.2	6.3	8.2	5.6
Equity							
Public	3,169	32.0	6.0	8.6	8.5	14.1	11.0
Long / Short	2,024	20.4	9.9	7.0	5.0	8.2	8.7
Buyout	307	3.1	1.0	5.5	5.5	9.7	7.9
Growth Equity	936	9.5	19.4	21.7	10.4	22.2	
Venture Capital	630	6.4	16.0	30.1	17.6	26.8	6.8
Total Equity	7,066	71.4	9.4	11.0	8.3	12.8	9.8
MSCI All Country World Equity		65.0	2.6	6.7	7.0	9.7	4.9
Real Assets							
Real Estate	453	4.6	(4.2)	1.9	5.3	8.7	1.9
Resources	475	4.8	(27.6)	(10.5)	(0.6)	5.6	13.3
Total Real Assets	928	9.4	(17.2)	(4.8)	2.7	8.3	8.4
MSCI Real Estate		10.0	(6.3)	4.1	6.0	9.4	8.2
Fixed Income, Cash & MAC							
Marketable Alternatives	616	6.2	1.4	1.9	2.3	4.6	4.5
Credit	603	6.1	(5.6)	2.2	3.9	6.6	7.6
Fixed Income	496	5.0	15.4	7.2	4.5	2.4	5.4
Cash	171	1.7	1.3	1.6	1.1	0.6	
Total Fixed Income, Cash & MAC	1,886	19.1	4.7	3.8	3.5	3.7	4.2
Bloomberg Barclays Aggregate Bond		25.0	7.4	5.2	4.4	4.0	5.0
Portfolio Management and Overlays <sup>(1)</sup>	19	0.2	(0.3)	(0.2)	(0.1)		

<sup>(1)</sup> Represents the returns added/substracted to the total LTP return by overlay, financing, and other portfolio management positions. Returns are displayed as a percentage of the LTP.



## **Asset Allocation**

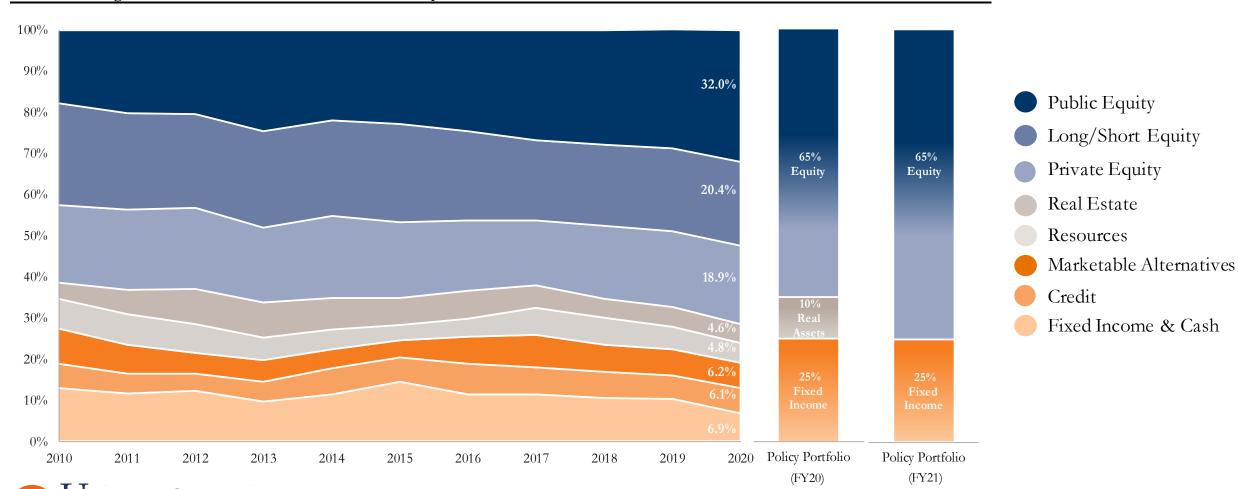
#### Long Term Pool Asset Allocation, as of June 30, 2020





### **Asset Allocation**

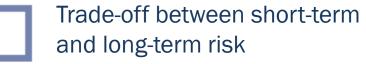
#### UVIMCO Long Term Pool Historical Asset Allocation, as of June 30, 2020



## **Risk Management**

#### Risk is the impact that a portfolio loss has on shareholders

- Short-term: Volatility or drawdown risk
- Long-term: Declined in the real value of the endowment
- Measure and control for three primary risks:
  - Market risk: consider short-term (drawdown or volatility in distribution/NAV) and long-term (purchasing power impairment) risks
  - Liquidity risk: risk of insufficient liquidity to cover shareholder withdrawals, capital calls and rebalancing transactions
  - Manager risk: risk that managers underperform expectations, as well as operational or business risks.
     Manage and mitigate through due diligence and diversification



Risk Management Framework

#### Market Risk

- •Policy Portfolio
- •Exposure Ranges
- •Beta, Volatility, Drawdown

#### Manager Risk

- •Concentration Limits
- Target Sizing

#### Liquidity Risk

- •Shareholders
- •Private Investments
- •Rebalancing



## **Risk Management**

Туре	Risk Metrics	Policy	Actual As of June 30, 2020
Market Risk	Global Equity Beta	75%	76%
	Drawdown Risk (1.0% Value at Risk)	-21%	-22%
Liquidity Risk	Minimum 3-Month Liquidity	20%	33%
	Minimum 12-Month Liquidity	35%	51%
	Target to Private Investments	40%	33%
	Target Unfunded Commitments	20%	16%
Manager Risk	Maximum Concentration to a Single Manager	7.5%	5.9%







LONG-TERM DEBT ISSUANCE: SERIES 2020

## **Series 2020 Long-Term Debt Issuance**

#### Goldman Sachs - Barclays - JP Morgan

- \$600 million issuance
- Taxable debt
- 30-year bullet





### **Series 2020**

- \$2.6 billion orders
- 4.4x oversubscribed
- Tightened spread from 110 to 97









Series	Size (M)	Maturity	Base Rate	Spread	Yield
2019A	\$350	2119	2.06%	1.17%	3.23%
2019C	\$288	2049	2.17%	0.80%	2.97%
2020	\$600	2050	1.28%	0.97%	2.25%



## **Recent Taxable 30-Year Transactions**

Date	University	Rating (M/S/F)	Size (\$M)	Maturity	IOI	Guidance	Launch	Rate
7/14/2020	University of Virginia	Aaa/AAA	600.0	9/1/2050	+110a	-	+97	2.256%
7/7/2020	University of Pennsylvania	Aa1/AA+	300.0	10/1/2050	+115a	-	+100	2.396%
6/9/2020	University of Michigan	Aaa/AAA/	300.0	4/1/2050	+110	-	+100	2.562%
6/8/2020	Princeton University	Aaa/AAA/	500.0	7/1/2050	+100a	+90 +/-3	+87	2.516%
6/2/2020	Yale University	Aaa/AAA/	500.0	4/15/2050	+105	-	+93	2.402%
5/28/2020	Stanford University	Aaa/AAA/AAA	450.0	6/1/2050	+112.5	-	+95	2.413%
5/21/2020	University of Texas System	Aaa/AAA/AAA	300.8	8/15/2050	+125a	+110 +/-5	+105	2.439%
5/20/2020	Northwestern University	Aa1/AA+/AA+	300.0	12/1/2050	+140a	-	+125	2.640%
5/19/2020	Brown University	Aa1/AA+/	200.0	9/1/2050	+150a	+150	+150	2.924%
5/12/2020	Duke University	Aa1/AA+/	300.0	10/1/2050	+137.5a	+137.5 +/- 2.5	+137.5	2.757%
5/5/2020	Penn State University	Aa1/AA/	328.0	9/1/2050	+160a	-	+150	2.840%
4/30/2020	Mass Institute of Technology	Aaa/AAA	350.0	7/1/2051	+120	+105 +/-3	+102	2.294%
4/28/2020	University of Missouri	Aa1/AA+/	100.0	11/1/2050	+162.5	+160 +/-5	+155	2.748%
4/14/2020	Harvard University	Aaa/AAA/	500.0	10/15/2050	+137.5	-	+110	2.517%
5/5/2020 4/30/2020 4/28/2020 4/14/2020	Penn State University  Mass Institute of Technology  University of Missouri	Aa1/AA/ Aaa/AAA Aa1/AA+/ Aaa/AAA/	328.0 350.0 100.0 500.0	9/1/2050 7/1/2051 11/1/2050 10/15/2050	+160a +120 +162.5	+105 +/-3	+150 +102 +155	2.2

Note: Highlighting indicates public university. Subscriptions are approximate and based on advertised books at time of IOI.





# EXECUTIVE VICE PRESIDENT & CHIEF OPERATING OFFICER'S REMARKS







