



THE RECTOR AND VISITORS OF THE
UNIVERSITY OF VIRGINIA

September 23, 2021

MEMORANDUM

TO: The Finance Committee:

Robert M. Blue, Chair
C. Evans Poston Jr., Vice Chair
Carlos M. Brown
Frank M. Conner III
Thomas A. DePasquale
Louis S. Haddad

Robert D. Hardie
James B. Murray Jr.
James V. Reyes
Whittington W. Clement, Ex Officio
Joel W. Hockensmith, Faculty Member

and

The Remaining Members of the Board:

Mark T. Bowles
L.D. Britt, M.D.
Elizabeth M. Cranwell
Barbara J. Fried

Babur B. Lateef, M.D.
Angela Hucles Mangano
L.F. Payne
Sarita Mehta, Student Member

FROM: Susan G. Harris

SUBJECT: Minutes of the Meeting of the Finance Committee on September 23, 2021

The Finance Committee of the Board of Visitors of the University of Virginia met, in open session, at 3:32 p.m. on Thursday, September 23, 2021. Robert M. Blue, Chair, presided.

Committee Members present: Whittington W. Clement, Robert D. Hardie, Carlos M. Brown, Frank M. Conner III, Thomas A. DePasquale, Louis S. Haddad, James B. Murray Jr., C. Evans Poston Jr., James V. Reyes, and Joel W. Hockensmith

Mark T. Bowles, Elizabeth M. Cranwell, Barbara J. Fried, Dr. Babur B. Lateef, L.F. Payne, and Sarita Mehta also attended.

Present as well were James E. Ryan, Jennifer Wagner Davis, K. Craig Kent, M.D., M. Elizabeth Magill, Melody S. Bianchetto, Margaret S. Grundy, Susan G. Harris, Donna P. Henry, Penny Cabaniss, Michael J. Citro, Adam Daniel, Megan K. Lowe, Mark Luellen, David W. Martel, Clark L. Murray, Debra D. Rinker, Margot M. Rogers, Colette Sheehy, Anda S. Webb, and Jasmine H. Yoon.

Presenters: Ms. Davis and Mr. Robert Durden.

Mr. Blue asked Ms. Davis to proceed with the agenda. Ms. Davis spoke about the process for review of the six-year institutional plan.

Action Item: 2021 State Six-Year Institutional Plans

The six-year plans for UVA and the College at Wise is a state requirement mandated via the Restructuring Act and the Higher Education Opportunity Act in which the University documents institutional strategies and goals that align with the state's higher education goals of being equitable, affordable, and transformative. New plans are developed in each odd-numbered year and in even years the plans are amended. The draft plans were submitted to the state on July 1. University officials met with state officials to discuss the plans in August and received comments on September 1. The final plans will be submitted to the state on October 1. The UVA six-year plan aligns with the 2030 Strategic Plan and includes seven of the key initiatives of the 2030 Plan.

In addition to the questions posed to all institutions by state officials, there were some UVA specific questions, the first was why the request for the public service loan forgiveness program is only one-time. This is one-time because it will be a pilot program for which \$5.5M from the state would be matched by institutional resources to establish an endowment, the earnings of which would be used to fund the program.

The second question related to \$40M in one-time funding to higher education approved by the General Assembly earlier this year. UVA's portion is \$3.5M. UVA will request that these funds be made permanent to cover salary increases and other unavoidable expenses, but since they are currently only allocated in FY2022 UVA has not included them in projections for the 2022-24 biennium.

The final comment was a request to provide details for any new programs for which UVA plans to seek approval over the next two years. The Provost and COO teams will coordinate on this response.

On motion, the committee approved the following resolution and recommended it for full Board approval:

2021 SIX-YEAR INSTITUTIONAL PLANS FOR THE ACADEMIC DIVISION AND THE COLLEGE AT WISE

WHEREAS, the Virginia Higher Education Opportunity Act of 2011, § 23.1-306 of the Code of Virginia, requires the governing board of each public institution of higher education to develop and adopt biennially an institutional six-year plan and submit that plan to the State Council of Higher Education for Virginia (SCHEV); the General Assembly; the Governor; and the Chairs of the House Committee on Appropriations, House Committee on Education, Senate Committee on Education and Health, and Senate Committee on Finance and Appropriations; and

WHEREAS, the University and the College at Wise submitted their respective preliminary six-year plans as required by July 1, 2021, outlining general strategies to advance the priorities of the Commonwealth in alignment with the respective strategic educational, research, and service goals of the University of Virginia and the College at Wise; and

WHEREAS, final institutional plans must be approved by the Board of Visitors and submitted to SCHEV, the General Assembly; the Governor; and the Chairs of the House Committee on Appropriations, House Committee on Education, Senate Committee on Education and Health, and Senate Committee on Finance and Appropriations no later than October 1, 2021;

RESOLVED, the Board of Visitors approves the 2021 six-year institutional plans for the Academic Division and the College at Wise; and

RESOLVED FURTHER, the President is authorized to transmit the six-year plans as required by § 23.1-306 of the Code of Virginia.

Action Item: 2022-2024 State Biennial Budget Requests

Ms. Davis directed members to the detailed spreadsheet on the 2022-2024 biennial budget requests and provided a brief explanation of each one. On motion, the committee approved the following resolution and recommended it for full Board approval:

OPERATING BUDGET REQUESTS FOR THE 2022-24 BIENNIUM FOR THE ACADEMIC DIVISION AND THE UNIVERSITY OF VIRGINIA'S COLLEGE AT WISE

WHEREAS, the proposed biennial budget requests represent the University's highest priority initiatives and are aligned with the University's 2030 Plan and the Six-Year Institutional Plan due to the Commonwealth in early Fall 2021;

RESOLVED, the Board of Visitors of the University of Virginia approves the 2022-2024 biennial budget General Fund operating requests; and

RESOLVED FURTHER, the Board of Visitors understands that to the extent these requests are not included in the Governor's 2022-2024 biennial budget, the University may want to pursue a similar request to the General Assembly; and

RESOLVED FURTHER, the President or his designee is authorized to transmit to the General Assembly any request not funded by the Governor as long as there are no material differences from the items endorsed by the Board of Visitors; and

RESOLVED FURTHER, the Board of Visitors approves the language amendment request for Telehealth, the Global Genomics and Bioinformatics Research Institute (GGBRI), and the Tech Talent Investment Program (TTIP).

Action Item: Major Capital Projects Financial Plan: Contemplative Sciences Building

Ms. Davis said there is a \$9M increase in project costs because of market escalation due to decreased production, supply chain and other issues. Also, vendors changed pricing for structural

connections, casework, and other architectural details developed between preliminary design and construction documents. This will be covered by gifts, bond proceeds and operating cash.

On motion, the committee approved the following resolution and recommended it for full Board approval:

FINANCING PLAN FOR THE CONTEMPLATIVE SCIENCES CENTER

WHEREAS, the revised financing plan for the Contemplative Sciences Center calls for the use of gifts in the amount of \$49M, bond proceeds in the amount of \$15M, and operating cash in the amount of \$5M;

RESOLVED, the Board of Visitors approves the revised financing plan for the Contemplative Sciences Center.

Action Item: Financial Plan; School of Data Science

This was a walk-on item not contained in the published agenda. Ms. Davis said project costs have increased by \$5.5M due to substantial increases in both material and labor costs, vendor pricing changes, and escalation. The revised project budget is estimate at \$53.5M.

On motion, the committee approved the following resolution and recommended it for full Board approval:

FINANCING PLAN FOR THE SCHOOL OF DATA SCIENCE

WHEREAS, the revised financing plan for the School of Data Science facility calls for the use of gifts in the amount of \$5.5M and debt in the amount of \$48M;

RESOLVED, the Board of Visitors approves the revised financing plan for the School of Data Science facility.

Action Item: Endowment Spending Policy

Ms. Bianchetto explained that the increase in the endowment for fiscal year 2021 provided an opportunity to reduce the spending policy band from 4%- 6% to 3%-5%. This will still allow the necessary standard inflationary increase in the distribution because of the larger base. Another factor is UVIMCO's projection of future returns. This will address concerns that the long-term required spending will exceed UVIMCO's long-term projected return by making the true spending range inclusive of administrative fees (~55-100 bps) equivalent to the current 4% - 6% spending band and reduce the long-term required investment return from just over 8% to approximately 7%, significantly increasing the likelihood of actual future returns being sufficient to provide intergenerational equity on current and future endowment principal.

On motion, the committee approved the following resolution and recommended it for full Board approval:

ADJUSTMENT OF THE UNIVERSITY OF VIRGINIA'S ENDOWMENT SPENDING POLICY

RESOLVED, the endowment spending policy, effective July 1, 2022, shall be as follows:

The spending policy calls for a percentage increase in the annual distribution from the endowment, unless such increase causes the distribution to fall outside a range defined as 3.0% on the low end and 5.0% on the high end of the market value of the Pooled Endowment Fund. If the distribution falls outside of this range, the Finance Committee may recommend either raising or lowering the rate of increase. The first distribution under the new parameters will be made in July 2022.

Action Item: Strategic Investment Fund Guidelines

The Board of Visitors established the Strategic Investment Fund (SIF) in 2016 to serve as a funding source for strategic initiatives. At the time of establishment, the SIF included operating surpluses generated by the health system, set aside for the future strategic initiatives of UVA Health.

In 2019, the Board of Visitors adopted revised spending guidelines for the SIF to support the University's strategic Plan, "A Great and Good University – the 2030 Plan" ("the "2030 Plan"). The guidelines were approved for an initial three-year term, ending June 30, 2022.

The administration asked the Board to extend the guidelines for a second three-year term through June 30, 2025 and recommended that one-time investment returns for the year ending June 30, 2021 supplement the planned \$65M per year distribution, providing UVA's leadership with \$100M for each year of the next period. In addition, as reported to the Board at the August retreat, UVA Health is developing a strategic plan for the future. Administration further recommended that the clinical earnings (and related investment return), set aside at the establishment of the SIF, be allocated to UVA Health with the approval of the Executive Vice President and Chief Operating Officer and the Vice President for Finance to fund its developing strategic plan.

On motion, the committee approved the following resolution and recommended it for full Board approval:

REVISED STRATEGIC INVESTMENT FUND GUIDELINES

WHEREAS, in 2016, the Board of Visitors created the Strategic Investment Fund to maximize investment returns for investment in strategic initiatives; and

WHEREAS, in August 2019, the Board of Visitors approved a new strategic plan: "A Great and Good University – the 2030 Plan" (the "2030 Plan") and Strategic Investment Fund Revised Guidelines 2019-2020 to support the 2030 Plan (the "Revised Guidelines");

RESOLVED, the Board of Visitors approves the extension of the Strategic Investment Fund Revised Guidelines 2019-2020 and the allocation formula outlined above for the term ending June 30, 2025.

Action Item: Quasi-Endowment Action

The College and Graduate School of School of Arts and Sciences (the "College") established the John Lee Pratt Restricted Quasi-Endowment Fund for Arts and Sciences (the "Fund") in 1976

from bequest from the estate of John Lee Pratt. The Fund is intended to benefit the departments of Biology, Chemistry, Mathematics, and Physics through competitive start up packages for new faculty; to enable the acquisition of the most up-to-date equipment in support of instruction and research in these departments; and to support faculty compensation above minimum entry levels.

As of June 30, 2021, the unspent investments of the Fund totaled \$11,103,461.73, \$4,169,656.77 of which were from accumulated unspent Fund distributions and \$6,933,804.96 from unspent allocations to the Pratt Faculty Support account. The College now desires to reinvest these unspent amounts into the Fund in order to maximize returns to the College. In June of 1996, the Board of Visitors authorized the Executive Vice President and Chief Operating Officer to approve individual quasi-endowment transactions, including establishments and divestments that are less than \$2 million. Individual quasi-endowment transactions of \$2 million or more require the approval of the Board of Visitors.

On motion, the committee approved the following resolution and recommended it for full Board approval:

REINVESTMENT OF UNSPENT ENDOWMENT DISTRIBUTIONS INTO THE JOHN LEE PRATT RESTRICTED QUASI-ENDOWMENT FUND FOR ARTS AND SCIENCES

WHEREAS, the College and Graduate School of Arts and Sciences wishes to reinvest certain unspent endowment distributions into the John Lee Pratt Restricted Quasi-Endowment Fund for Arts and Sciences;

RESOLVED, the Board of Visitors authorizes the requested reinvestment into the John Lee Pratt Restricted Quasi-Endowment Fund for Arts and Sciences.

Recommendations of the Finance Subcommittee on Tuition

Mr. Blue addressed the committee. He said the Finance Subcommittee on Tuition executed an ambitious timeline this summer, to bring recommendations to the Board in September. He briefly explained the Subcommittee's agendas for their meetings over the summer, and said the charge was to study UVA undergraduate tuition policy and policy considerations, including the tuition-setting process, the timing of when to set tuition and for how long (term), and the related information the Board should have when considering a tuition proposal. The Subcommittee was asked to make recommendations to the Board on actions to take to improve the transparency and predictability of tuition setting.

The Subcommittee's recommendations are new improvements focused around transparency, predictability, contextual information, the guaranteed tuition plan, and how changes in tuition and fees are communicated to students and their families.

The Subcommittee's recommendations on the tuition setting process include 1) setting tuition in December; and 2) setting tuition on a two-year basis. The rationale for December includes aligning with admissions decisions dates; providing timely and accurate information to students and families around net tuition, cost of attendance and financial aid; streamlining Student Financial Services internal processes and reducing the number of times a financial aid application has to be reviewed; improving planning processes for schools and units; and allowing for earlier and more frequent engagement with diverse stakeholders and leadership.

The rationale for setting tuition in each odd-numbered year on a two-year basis is for predictability, with the out-year tuition rate caveat that it may change based on economic conditions, state funding, endowment performance, philanthropic cashflow, or other conditions impacting revenue streams.

The second recommendation focuses on a new practice of providing information to the Board prior to tuition setting to set the appropriate context. The information should be provided to the Board at the meeting immediately prior to tuition setting in the same year tuition is set and should include 1) an enrollment update – to understand the incoming class and where we are relative to enrollment targets; 2) an economic update – to understand the larger macroeconomic conditions and operating budget realities that will help determine how tuition impacts the overall revenue budget; and 3) periodically, a study of price and relative position with peers/competitors to understand market position.

Third, the Subcommittee discussed the currently available guaranteed tuition plan briefly, which is for undergraduate, in-state students. While this plan provides significant predictability, in recent years where we have kept tuition rates low, it has not been widely subscribed. They recommended an evaluative review of the plan to determine what modifications should be made to ensure it is a useful tool for students and families, and that it is marketed appropriately.

Finally, the Subcommittee members thought UVA could make strides in transparency based on how changes in tuition are communicated to students and their families by focusing on timely, accurate information about net price and total cost of attendance and the overall picture of the operating budget realities of what tuition increases will fund. He ended by stating that the value proposition of a UVA education is that it is one of the best quality educations available for the lowest cost, yielding a high rate of return on investment.

UVIMCO 2020-2021 Annual Report

University of Virginia Investment Company CEO Robert Durden discussed the 2020-2021 UVIMCO Annual Report. He outlined his agenda and discussed briefly the makeup of the UVIMCO Board of Directors and the senior staff. He said assets under management include \$14.5B in the long term pool and \$161M in the short term pool. Both pools are comprised of UVA funds as well as the funds of associated organizations.

UVIMCO's primary investment objective is to maximize long-term real returns commensurate with the risk tolerance of the University. This year, the long-term pool significantly outperformed the policy benchmark through active management, equity orientation, growth, innovation, and a long time horizon. He said FY 2021 was highly unusual and partially reflects pulled forward future returns, and he predicted long-term returns will average 6.5% going forward rather than 7.0%. The total return for the fiscal year was 49.0% with equities leading the way. The long-term pool asset allocation includes 30% public equity, 26% private equity, 17% long/short equity, 10% real assets, 5% marketable alternatives, 5% credit, and 7% fixed income.

Mr. Durden showed a chart of asset allocation changes over time and spoke in detail about risk management for the portfolio. He reviewed market risk factors, manager risk factors, and liquidity risk factors, and said risk is the impact that a portfolio loss has on the shareholders and there is a trade-off between short-term and long-term risk. Finally, he explained the risk metrics for each type of risk.

Debt Issuance: Series 2021

Once again, I am pleased to report that the three major rating agencies – Moody's, S&P, and Fitch – have reaffirmed the University's triple-A bond ratings and Stable Outlook.

Ms. Davis spoke about the recent bond issuances. With the 2021 issuances, the University broke two records: 1) \$100 million of Series 2021A Bonds were issued and achieved the lowest yield-to-maturity (2.180%) for any 30 year tax-exempt bond issuance; and 2) \$300 million of Series 2021B Bonds were issued and achieved the lowest credit spread ever (0.58%) for a 30-year taxable bond issuance. Both Series of Bonds were sold as bullet maturities due in 2051, structured to take advantage of historically low long-term rates.

When reaffirming the University's triple-A ratings, the rating agencies made positive comments about the University's superior market position and reputation; excellent student demand and healthy enrollment trends; sizable endowment and performance; strong treasury management and prudent financial planning; generous donor support; substantial revenue diversity; and a strong Academic Medical Center.

Executive Vice President's Remarks

Ms. Davis spoke very briefly on a number of key priorities including supporting the 2030 Strategic Plan and advancing key initiatives of the Racial Equity Task Force; working with the City on affordable housing; developing UVA's Northern Virginia presence; developing the Ivy-Emmet corridor; and advancing the 2020-30 Sustainability Plan and the portfolio-wide diversity, equity and inclusion plan. She said her team will be working hard to recruit and onboard key new leaders and foster a safe and secure environment on and around Grounds. They are ensuring readiness for the 2021-22 academic year, including managing and building community in a hybrid workforce environment (with both in-person and remote work employees).

Ms. Davis said another priority is to realize the Multi-Year Capital Plan, which includes bringing online the University Hospital Expansion, the Musculoskeletal Center, the Student Health & Wellness Center, and completing major renovations to Pavilion VIII.

The FY23 budget development process is a priority including implementing Finance Strategic Transformation, which is underway. They also will be focused on coordinating and collaborating with the Auditor of Public Accounts on annual Commonwealth and UVA Audit plans.

Important partnerships are internal and external: with UVA units outside the COO portfolio, and with City and County leadership to maintain strong operational alliances.

Ms. Davis gave a brief COVID-19 fiscal impact update, with \$43.1M in direct COVID response related expenses. UVA has applied for federal relief funds to cover one half of those direct expenses. She said the rest will be covered by institutional resources. In addition there were \$44M in auxiliary revenue losses and Athletics incurred a cumulative \$21.1M operating loss through FY 20 and FY21. She projects the fiscal impact for FY22 will be at least \$60M and will be covered by a combination of federal relief funds, reserves, and other institutional funds.

Ms. Davis asked Vice Provost Adam Daniel and Chief Financial Officer Melody Bianchetto to brief the committee on the Finance Strategic Transformation. The vision and goals are the following:

Vision: The Finance Strategic Transformation (FST) at UVA will create a strong foundation of financial expertise, processes, and systems, dedicated to advancing the University's academic mission through its strategic plan. It will deliver exceptional services and systems to help faculty, staff, and students do their best work. Our ultimate goal is to make UVA a stronger university — more preeminent in research and teaching, more deeply engaged in service, more accessible and affordable.

Goals:

- Promote strategic thinking, transparency, entrepreneurship and continuous improvement
- Broadly strengthen our financial acumen
- Align decision-making authority with responsibilities
- Provide meaningful and easy to navigate dashboards and reporting tools
- Improve our data architecture
- Establish a governance model for defining data
- Provide a fully integrated, real-time Workday platform

This is a multi-year initiative focused on improving finance processes, services, and enabling technologies. Ms. Bianchetto reviewed the timeline and processes, and said the go-live date is July 1, 2022.

On motion, the chair adjourned the meeting at 4:46 p.m.

SGH:ddr

These minutes have been posted to the University of Virginia's Board of Visitors website:
<http://bov.virginia.edu/committees/205>