



THE RECTOR AND VISITORS OF THE
UNIVERSITY OF VIRGINIA

March 4, 2022

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	Babur B. Lateef, M.D.
L.D. Britt, M.D.	Angela Hucles Mangano
Elizabeth M. Cranwell	L.F. Payne
Barbara J. Fried	Sarita Mehta, Student Member

FROM: Susan G. Harris

SUBJECT: Minutes of the Meeting of the Finance Committee on March 4, 2022

The Finance Committee of the Board of Visitors of the University of Virginia met, in open session, at 8:30 p.m. on Friday, March 4, 2022. 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., and James V. Reyes.

Committee Members absent: Joel W. Hockensmith.

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

Present as well were James E. Ryan, Ian B. Baucom, Jennifer Wagner Davis, K. Craig Kent, M.D., Susan G. Harris, Donna P. Henry, Michael J. Citro, John C. Jeffries Jr., Megan K. Lowe, David W. Martel, Clark L. Murray, Debra D. Rinker, Margot M. Rogers, Colette Sheehy, Anda S. Webb, and Jasmine H. Yoon.

Presenters were Melody S. Bianchetto, Adam Daniel, Robert Durden, and John Kosky.

Chair Robert M. Blue began the meeting by reviewing the agenda. He then turned to Ms. Davis to go over the action items.

Action Item: Disposition of Real Property: Shirley McIvor Trust

Ms. Davis said the University was the recipient of a 1.83-acre vacant commercial lot located at 3806-3810 Old Forest Road in Lynchburg, Virginia from Shirley McIvor. Its assessed value is \$363,500; the appraised value as of August 21, 2019, was \$755,000. She asked for approval to authorize the transfer of this property to the University of Virginia Foundation (UVAF) so they can manage, maintain, market, and lease or sell this property for the benefit of the University. She said if this transfer is not feasible, they would like authorization for the University to sell the property.

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

DISPOSITION OF REAL PROPERTY: SHIRLEY MCIVOR TRUST

WHEREAS, The Rector and Visitors of the University of Virginia (the "University") is the beneficiary of the Amended and Restated Shirley McIvor Revocable Trust dated December 22, 2009 (and as subsequently amended the "Trust") and under the terms of the Trust is entitled to receive certain commercial property owned by Ms. McIvor or held in the Trust at the time of her death (the "Property"). The Trustee of the Trust (the "Trustee") has identified the Property as being located at 3806-3810 Old Forest Road, Lynchburg, Virginia. The University was entitled to receive the Property as of the date of Ms. McIvor's death, which occurred on November 15, 2021, and title to the Property has not yet passed to the University; and

WHEREAS, the Board of Visitors finds it to be in the best interest of the University for such Property to be transferred from the Trust directly to the University of Virginia Foundation ("UVAF") so that UVAF may manage, maintain, market, and sell the Property on behalf of the University; and

WHEREAS, the Board of Visitors also desires to authorize the University to alternatively accept title to the Property from the Trust and sell the Property in the event the transfer of the Property from the Trust to UVAF for the foregoing purposes is not feasible;

RESOLVED, the Board of Visitors hereby approves and authorizes the transfer of the Property from the Trust to UVAF, so that UVAF may manage, maintain, market, and lease or sell the Property for the benefit of the University; and

RESOLVED FURTHER, in the event that, in the determination of the Executive Vice President and Chief Operating Officer, the transfer of the Property from the Trust directly to UVAF for such purposes is not feasible, then the University is authorized to accept title to and sell the Property; and

RESOLVED FURTHER, the Executive Vice President and Chief Operating Officer is authorized, on behalf of the University, to perform any or all of the following: to approve the transfer of the Property from the Trust to UVAF; to approve the sale of the Property by UVAF pursuant to applicable UVAF policies and procedures and agreements with the University; to approve the sale of the Property by the University for such price and in such manner as she may deem reasonable; to execute all deeds, documents, and agreements as deemed necessary and appropriate to approve and consummate any of the foregoing; to approve such reasonable and customary expenses, if any, as may have been or may be incurred by any of the Trustee, the University, or UVAF in connection with the maintenance, evaluation, and sale of the Property; and to take such other actions as deemed necessary and appropriate in connection with the foregoing; and

RESOLVED FURTHER, all prior acts performed by the Executive Vice President and Chief Operating Officer and other officers and agents of the University, in connection with such maintenance, evaluation, and sale of the property and the administration and distribution of the University's interest in same, are in all respects approved, ratified, and confirmed.

Action Item: Budget Amendments Transmitted to the General Assembly

At the September 2021 Board of Visitors meeting, the Board approved budget amendment requests to the Governor, permitting resubmission to the General Assembly for those requests not addressed by the Budget Bill. The committee approved an amendment to support the establishment of the UVA Institute for Biotechnology, which in total will require a \$500M one-time investment for construction of a state-of-the-art facility (estimated at \$350M) and the initial recruitment of new faculty researchers (\$150M).

They also approved a \$75M request for incentive packages to attract high-performing researchers with a history of producing translational research.

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

2022-2024 BUDGET AMENDMENT FOR THE UNIVERSITY OF VIRGINIA

WHEREAS, the new budget amendment recommendation to support the prospective UVA Institute for Biotechnology represents a priority for the University;

RESOLVED, the Board of Visitors of the University of Virginia endorses and supports the UVA Institute for Biotechnology budget amendment to the 2022-2024 budget for incentive packages to attract high-performing researchers not previously considered; and

RESOLVED FURTHER, the Executive Vice President and Chief Operating Officer is authorized to transmit to the General Assembly the new proposed budget amendment.

Report on Finance Strategic Transformation

Ms. Davis introduced Vice President for Finance Melody Bianchetto and Vice Provost for Planning Adam Daniel who reported on the implementation phase of the Finance Strategic Transformation project (FST).

FST will transform the University's financial management capabilities, replacing aging Oracle systems with Workday Financials and Planning. FST 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 work. The ultimate goal is to make UVA a stronger university — more preeminent in research and teaching, more deeply engaged in service, more accessible and affordable. With an original go-live date of July 1, 2021, the University elected to extend the project a year at the start of COVID. Ms. Bianchetto said they are on-time, on-budget, and all running on fumes as they approach the finish line.

Mr. Daniel highlighted many of the key reasons behind the project: inadequate analytics, ineffective and inconsistent business processes, manual processes and reconciliation, unmet financial reporting and planning needs, and an aging Oracle financial system. The new system will have more accurate and more timely information; improved and automated processes; robust reporting, analytics, and planning; eliminate at least 15 shadow systems; and implement a modern, cloud-based system.

A consultant has assessed the project and the last assessment determined that the project is on track despite a high degree of complexity, albeit at an overall level of "yellow" due to high risks. This is a very complex project. They have over 2000 stakeholders who have been engaged in the project in some capacity. While the Medical Center and the University Physicians Group elected not to move forward with the Workday implementation, they do remain critical players due to the way that financial transactions process through UVA Health.

Mr. Daniel said with organizational readiness a key risk, they have adopted a robust change management effort that focuses on involvement, communications, preparedness, and training.

Report: 2022 General Assembly

With a week left in the 2022 Session of the General Assembly, State budget conferees were officially appointed yesterday and will work over the remaining days to reconcile the differences between the House and Senate budgets. Leadership and the State Governmental Relations team are monitoring activity and working closely with members and staff on items of interest to UVA, UVA Health, and the College at Wise.

Ms. Davis showed several slides that compared Governor Northam's proposed budget to the budgets as passed by the House and Senate. They each provide considerable incremental operating funds to UVA to maintain affordable access, provide financial aid, and cover various additional expenses, but in differing amounts. Governor Northam, the House, and the Senate all included an additional \$13M in each year for cancer research, bringing the total annual allocation to \$20M. Each also provides additional funding for focused ultrasound - \$2M in the Senate and \$1M in the House. The House and Senate also provide funding to Virginia Humanities to allow it to expand programming on Virginia Indian history and culture. Finally, the Senate provides additional funding to the Weldon Cooper Center to increase demography projection capacity. The House and Senate budgets include funding for a new Biotechnology Institute, but the approaches are quite different. The House provides \$25.5M in each year for faculty start-up packages and directs them to work with the Administration and several state agencies to develop an MOU for funding in future years beyond FY2024, while the Senate provides up to \$25M: \$5M for start-up packages and business attraction and \$20M for the capital project through the Virginia Innovation Partnership Authority, contingent on the University matching the funds ten to one. In terms of other capital, both the House and Senate provide additional funding for Alderman Library, as well as authority to begin planning the new Center for the Arts.

Given changes in leadership and approach to the Inova campus, UVA requested that funding for the Inova campus be repurposed to renovate/fit out instructional space at the Inova campus. The House reallocated the funding as requested, but the Senate did not. It also included additional incremental funding for the College at Wise. As noted, \$1M in affordable access funding in the House budget is designated to support in-state undergraduate students and to provide the ability for institutions to limit tuition increases for in-state undergraduate students to no more than 3% in the 2022-23 academic year. The House also retained significant funding proposed by Governor Northam – over \$11M over the biennium – to expand programs and enhance economic development initiatives.

Governor Northam proposed a 5% base salary increase for all state employees, including faculty and University staff, in each year of the biennium. The House amended Governor Northam's proposal to 4% base salary increase in June of each year (22 and 23) plus a 1% bonus in December of each year. The Senate retained the proposed 5% base salary increase in each year (22 and 23) and added a \$1,000 bonus in June of this year. Consistent with the University's Restructuring authority, both proposals allow for increases to be merit-based for all employees except classified staff. The University will complete a detailed analysis once the budget is final.

Ms. Davis thanked the team of people who coordinate and execute State Governmental Relations: Colette Sheehy, Penny Cabaniss, Alexis Erhardt, Jen Siciliano, Connor Andrews, and Bethany Hurley. She said they are also grateful to many of the Board members who maintain strong relationships and lobby on behalf of the University's best interest.

Report: UVIMCO

Robert Durden, CEO and CIO of the University of Virginia Investment Management Company (UVIMCO) gave the report. He reviewed the Board of Directors and senior staff and said they are managing \$15B in the long-term pool. He reviewed the primary objectives of UVIMCO: to maximize long-term real returns commensurate with the risk tolerance of the University.

Mr. Durden reviewed market conditions which are impacting performance. He noted that inflation is an issue currently. The yield curve is not inverted but it is flat. The long-term pool performance has exceeded the policy portfolio on a one- year, three- year, five- year, 10-year and 20-year basis. Private equity-oriented strategies recorded strong absolute and relative performance while exposure to China pulled down public equity returns.

Mr. Durden said risk is necessary for strong long-term returns. He reviewed strategies for measuring and controlling market, manager, and liquidity risk. He said they are focusing very much on retention of the team and finding new relationships for roughly 7% of the portfolio.

Mr. Murray commented on the Investor Responsibility Framework that was put together by UVIMCO and the Advisory Committee on Investor Responsibility, which includes students, UVIMCO board members, community members, and others. He said they are tough questions, and this is entirely voluntary on the part of UVIMCO as a separate, independent corporation. He spoke about a statement that will be released later that day.

Vice President and Chief Human Resource Officer John Kosky Remarks

Ms. Davis introduced Mr John Kosky, as UVA's new Vice President & Chief Human Resources Officer. Mr. Kosky said since the early days of the pandemic, while serving in an interim capacity, he led the team of HR professionals to support the University's overall COVID response including

running the emergency assistance fund to help employees facing financial emergencies at the onset, making immediate adjustments to benefits and leave policies to support the population, leaning in to assist UVA Health through its financial mitigation, and serving the community by running the COVID Call Center which fielded over 25,000 questions from the community.

He said the restructured HR organization is still relatively new, being formed in full in January 2019 with the launching of Workday HCM across the entire enterprise. Over a period of several years, the HR function at UVA was fundamentally transformed in developing a centralized model. Their collective work culminated with UVA receiving national recognition including the top honor in the profession, the National HR Excellence Award awarded by the College & University Professional Association for Human Resources. He said they continue to serve as a benchmark standard across higher education through this evolving work.

Mr. Kosky said significant work and process improvements lie ahead as the principle of continuous improvement has been hardwired into how they run their operations. For CY2022, the high-level priorities include the following:

1. Maintain UVA as a leader/the best place to work in higher education and embrace the post-pandemic future of work.
2. Closely partner with UVA Health leadership to address short- and long-term needs related to staffing and retention.
3. Continue to build and refine HR programs for career advancement within UVA. This will include introducing a new framework for career paths and resources designed to modernize our approach to building careers at UVA.

Executive Vice President's Remarks

Ms. Davis said January was a peak for COVID activity in our region, and we ramped up testing, event requirements, isolation space, and provision of PPE. Based on the current COVID data trending in the right direction, the University has lifted several of these public health restrictions.

In FY20 and FY21, the University incurred \$43.8M in direct COVID response expense, \$44.3M in lost Auxiliary revenue, \$21.2M in Intercollegiate Athletics impact, and offered \$18.5M in student, employee, contractor, and community support. The cumulative FY20 and FY21 financial impact of the pandemic on the Academic Division was \$127.8M. She said they were able to cover 53% of this impact using Federal and State relief funds and philanthropy. Of the 47% or \$61M that remains, they have absorbed \$39M using Auxiliary reserves and through internal debt repayment deferrals. They are actively working simultaneously on two paths, seeking reimbursement for the remaining \$21.7M in direct expenses. They have a reimbursement request before the General Assembly in Richmond and concurrently are engaged with FEMA in a reimbursement eligibility review for these unreimbursed expenses. The FEMA process is rigorous and being well managed by the internal team that is regularly liaising with the Agency through their review.

Ms. Davis said based on operating results for the first half of FY22 and the current trajectory of the virus, they currently project as much as \$35M in additional financial impact. They anticipate that Federal and State relief funds will cover about 70% of our exposure and they will cover the remaining 30% or \$9.5M. The \$15.7M in student, employee, contractor needs is all student financial aid appeals. Any residual unreimbursed expenses will be covered with local funds/ reserves.

In FY20 and FY21, the College at Wise incurred \$2M in direct COVID response expenses, \$2.1M in lost Auxiliary revenue, and provided \$1M in student, employee, contractor, and community support. The cumulative FY20 and FY21 financial impact to the College at Wise was \$5.2M. Federal and State relief funds and Philanthropy covered the full FY20 and FY21 financial impact. The anticipated impact for FY22 is \$3.7M and existing Federal and State relief will cover 76% of the current year impact. They will cover the remaining 24% or \$365K.

Any residual unreimbursed expenses will be covered with local funds/reserves. The Commonwealth budget, while not yet finalized, is favorable to UVA and higher education in general, given the general fund revenues. The Finance team is focused on several economic forces that are impacting operations:

- Great Resignation – across the country, employers are seeing large numbers of people resigning, referred to as “the Great Resignation” – today, people are rethinking priorities amid changing family and social circumstances experienced throughout the two-year pandemic. The University is working hard to become a best-in-class workplace, where people want to work and have opportunity to advance in their careers.
- Supply Chain Issues – in the capital projects, this is more of an impact to overall cost than it is schedule. Labor supply is also an issue in construction as well as other sectors.
- Inflationary Pressures and Global Uncertainty – the University has spoken with a few of their financial partners. Before the Ukraine turmoil, they were focused on inflation in recent weeks (mainly concerned about higher prices and what actions the Fed may take around interest rates). The current consensus is that global uncertainties will impact inflation but will not create a recession. Concerns are more around inflation, energy costs and slower growth.

Ms. Davis facilitated a conversation with members of the committee about macro financial trends. Inflation, supply chain issues, supporting and retaining the workforce including providing childcare and employee parking, timing of beginning and completing building projects, the Ukraine crisis and its influence on the economy and other collateral consequences, what we are doing for our students who may have difficulties finding jobs, were all discussed.

Mr. Blue adjourned the meeting at 10:02 a.m.

SGH:ddr

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