MEMORANDUM

TO: The Finance Committee:

James B. Murray Jr., Chair
Robert M. Blue
Thomas A. DePasquale
Maurice A. Jones
John G. Macfarlane III
Jeffrey C. Walker
Frank M. Conner III, Ex Officio
Daniel M. Meyers, Consulting Member

and

The Remaining Members of the Board:

Mark T. Bowles
L.D. Britt, M.D.
Whittington W. Clement
Elizabeth M. Cranwell
Barbara J. Fried
John A. Griffin
Robert D. Hardie
Babur B. Lateef, M.D.
Tammy S. Murphy
James V. Reyes
Margaret F. Riley, Faculty Member
Bryanna F. Miller, Student Member

FROM: Susan G. Harris

SUBJECT: Minutes of the Meeting of the Finance Committee on September 14, 2017

The Finance Committee of the Board of Visitors of the University of Virginia met, in Open Session, at 2:30 p.m. on Thursday, September 14, 2017, in the Board Room of the Rotunda. James B. Murray Jr., Chair, presided.


Mark T. Bowles, Whittington W. Clement, Elizabeth M. Cranwell, Barbara J. Fried, John A. Griffin, Robert D. Hardie, Babur B. Lateef, M.D., Tammy S. Murphy, James V. Reyes, Margaret F. Riley, and Bryanna F. Miller also attended.
Present as well were Teresa A. Sullivan, Patrick D. Hogan, Thomas C. Katsouleas, Richard P. Shannon, M.D., Melody S. Bianchetto, Susan G. Harris, W. Thomas Leback, Mark M. Luellen, David W. Martel, Debra D. Rinker, Nancy A. Rivers, Pamela H. Sellers, Colette Sheehy, and Kelley D. Stuck. Sarah L. Collie, James S. Matteo, and Lawrence E. Kochard were the presenters.

Mr. Murray informed the committee of the recent reaffirmation of the University’s AAA bond rating by the three rating agencies. After reviewing the agenda, he gave the floor to Mr. Hogan.

**Action Item: Signatory Authority Related to Change in Group Purchasing Organization**

Mr. Hogan said the Medical Center has changed its group purchasing organization. Four associated contracts will have annual spending rates in excess of $5 million, which is the limit of Dr. Shannon’s authority. This action delegates authority to Dr. Shannon to execute these contracts.

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

**SIGNATORY AUTHORITY RELATED TO CHANGE IN GROUP PURCHASING ORGANIZATION**

RESOLVED, the Board of Visitors authorizes the Executive Vice President for Health Affairs to execute all contracts as necessary for the Medical Center to transfer contracts in effect under the Vizient group purchasing arrangement to the Premier group purchasing arrangement.

**Action Item: Signatory Authority for Contracts Related to Security Recommendations**

Mr. Hogan said the University expects to enter into contracts related to security recommendations that will exceed his $5 million signatory authority. This action delegates to him the authority to execute these contracts. He will inform the Rector and Chair of the Finance Committee as the contracts are executed.

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

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

WHEREAS, the University will negotiate contracts as needed to address identified institutional security recommendations;

RESOLVED, the Board of Visitors authorizes the Executive Vice President and Chief Operating Officer to execute these contracts as needed to address identified institutional security recommendations; and

RESOLVED FURTHER, the Executive Vice President and Chief Operating Officer will inform the Board of Visitors of any such contracts at its December 2017 meeting.

**Action Item: Revision to the 2017 Capital Plan: Baseball Stadium Expansion, Revised Scope**
On motion, the committee approved the following resolution and recommended it for full Board approval:

**REVISION TO THE 2017 CAPITAL PLAN – BASEBALL STADIUM EXPANSION, REVISED SCOPE**

WHEREAS, the University recommends a revision in the originally approved scope for the Baseball Stadium Expansion to include an administrative office area and pitching development center, planned as part of phase 2, located on the ground floor below the new grandstand at a projected cost of $2 million;

RESOLVED, the Board of Visitors approves expanding the scope of the Baseball Stadium Expansion by adding 8,820 GSF to the project bringing the total project cost to $18.16 million.

**Action Item: Disposition of Real Property – Davis Estate**

The University received a gift of property from Lawrence Davis Jr. The University would like to sell the property and use the proceeds to fund the Lawrence Davis, Jr. and Geraldine M. Davis Scholarship Fund.

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

**DISPOSITION OF REAL PROPERTY – DAVIS ESTATE LOCATED AT 700 EDWIN DRIVE, VIRGINIA BEACH, VIRGINIA**

WHEREAS, by Last Will and Testament dated, December 3, 2004, and as amended, Lawrence Davis, Jr. devised to The Rector and Visitors of the University of Virginia real property located at 700 Edwin Drive, Virginia Beach, Virginia (the “Property”); and

WHEREAS, Lawrence Davis, Jr. is now deceased such that title to the Property is vested free and clear in the name of The Rector and Visitors of the University of Virginia; and

WHEREAS, the Board of Visitors finds it to be in the best interest of the University of Virginia to sell the Property, and use the proceeds as agreed in the Lawrence Davis, Jr. and Geraldine M. Davis Scholarship Fund (the “Fund”) gift agreement, and to create and administer the Fund;

RESOLVED, the Board of Visitors approves the conveyance of the Property subject to (i) such terms as are approved by the Executive Vice President and Chief Operating Officer and the Chair of the Finance Committee, and (ii) the net proceeds shall be administered in accordance with the instructions contained in the Lawrence Davis, Jr. and Geraldine M. Davis Scholarship Fund agreement; and

RESOLVED FURTHER, the Executive Vice President and Chief Operating Officer is authorized, on behalf of the University, to approve and execute agreements and related documents, to incur reasonable and customary expenses, and to take such other actions as deemed necessary and appropriate to consummate such property conveyance and to facilitate the maintenance, sale, and marketing activities associated with the Property; 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 property conveyance, are in all respects approved, ratified and confirmed.

**Action Item: 2018-2024 Six-Year Institutional Plan for the Academic Division and the College at Wise**

Ms. Sheehy said the institutional plans address academics, finances, and enrollment. Draft plans were submitted to the state at the end of June. Feedback was received at the end of August after a meeting with state representatives. The University was commended for its faculty hiring efforts particularly the cluster hires. The College was asked to investigate ways to attract transfers from Tennessee community colleges. The final plans, which will be submitted on October 1, require Board approval. Ms. Sheehy said the plans are consistent with previous submittals and align with the Cornerstone plan and the Virginia Plan for Higher Education. Financial plan assumptions are similar to past submissions and anticipate modest tuition and fee increases. A quality enhancement plan focusing on student writing is a new element in the University’s plan.

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

**2018-2024 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 boards of all public institutions 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

WHEREAS, the University submitted its preliminary plans for the Academic Division and the College at Wise as required on June 30, 2017, outlining general strategies to advance the priorities of the Commonwealth and to enhance teaching, research, and service consistent with the strategies of the Cornerstone Plan and the College at Wise’s Strategic Plan, Envisioning 2020; 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 no later than October 1;

RESOLVED, the Board of Visitors approves the 2018-2024 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: 2018-2020 State Biennial Budget Operating Requests**

Ms. Bianchetto reviewed the proposed amendments, which are due to the state on October 2. The University's requests align with the Six-Year Plan, the Cornerstone Plan, and the Virginia
State Plan. The general fund requests will not exceed $14.2 million for FY 2019 and $27.9 million for FY 2020. The College’s requests are $7.9 million for FY 2019 and $5.3 million for FY 2020.

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

**STATE OPERATING BUDGET REQUESTS FOR THE 2018-20 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 Cornerstone Plan and the Six Year Institutional Plan submitted to the Commonwealth on July 1, 2017;

RESOLVED, the Board of Visitors of the University of Virginia approves the 2018-2020 biennial budget General Fund operating requests; and

RESOLVED FURTHER, the Board of Visitors understands that to the extent these initiatives are not included in the Governor’s 2018-2020 biennial budget, the University may want to pursue similar requests to the General Assembly; and

RESOLVED FURTHER, the President or her 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 already endorsed by the Board of Visitors.

**Action Item: Issuance of General Revenue Pledge Bonds**

Mr. Matteo said the University plans to issue $300 million in long-dated, taxable bonds to fund capital projects at the Academic Division and Medical Center. The University’s outstanding debt is approximately $1.5 billion. Debt capacity through FY 2020 is $1.5 billion. As requested by the committee, the University will present a risk mitigation strategy for long-term bonds.

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

**ISSUANCE OF GENERAL REVENUE PLEDGE BONDS**

WHEREAS, Chapter 22, Title 23.1 of the Code of Virginia of 1950, as amended (the "Virginia Code"), establishes a public corporation under the name and style of The Rector and Visitors of the University of Virginia (the "University") which is governed by a Board of Visitors (the "Board"); and

WHEREAS, Title 23.1 of the Virginia Code classifies the University as an educational institution of the Commonwealth of Virginia; and

WHEREAS, by Chapter 10, Title 23.1 of the Virginia Code (the "Act"), the University entered into a management agreement with the Commonwealth of Virginia which was enacted as Chapter 3 of Chapter 933 of the 2006 Virginia Acts of Assembly, pursuant to which the University is empowered with the authority to undertake and implement the acquisition of any interest in land, including improvements on the acquired land at the time of acquisition, new construction, improvements or renovations and to borrow money and make, issue and sell bonds of the University for such purposes, including the refinancing of any such facilities; and
WHEREAS, in order for the University to more efficiently access the capital markets, the Board desires to authorize a multi-year capital project financing program (the "Program") that may be used by the University from time to time to finance or refinance the costs of capital and other projects, including capitalized interest, financing costs, working capital, general corporate purposes and the refunding of prior obligations of the University (collectively, the "Projects"), subject to the limitations and parameters set forth in this resolution; and

WHEREAS, the Board anticipates that the Program will be secured by a general revenue pledge of the University and not be in any way a debt of the Commonwealth of Virginia (the "Commonwealth") and shall not create or constitute any indebtedness or obligation of the Commonwealth, either legal, moral, or otherwise; and

WHEREAS, on June 9, 2017, the Board provided its initial approval of the Program; and

WHEREAS, the Board desires to authorize the establishment of the Program of up to $500,000,000 of taxable or tax-exempt bonds (the "Bonds") that may be issued by the University from time to time to finance one or more Projects, all subject to the limitations and parameters described below; and

WHEREAS, the Board desires, that with any taxable proceeds of the Bonds, the University create two new investment accounts, one account to fund the maturity of the taxable Bonds’ principal and a second to fund current and future capital expenditures of the University.

RESOLVED, that the Board hereby implements the plan of finance described in the recitals hereto by authorizing the establishment of the Program, by adopting a master program resolution in substantially the form attached as Exhibit A with such amendments, revisions and final terms as provided herein and in Section 11.7 thereof (the "Program Resolution"); and

RESOLVED FURTHER, that as described in Section 11.7 of the Program Resolution, the President of the University or the Executive Vice President and Chief Operating Officer of the University, in consultation with the Chair of the Board’s Finance Committee, is authorized to approve the final terms of the Program Resolution; and

RESOLVED FURTHER, the President of the University or the Executive Vice President and Chief Operating Officer of the University are each hereby authorized to negotiate, execute and deliver certain documents related to the Program Resolution as described therein; and

RESOLVED FURTHER, under the Program, the Board hereby authorizes the issuance of the Bonds in one or more series, and for the purpose of providing for the terms thereof, by adopting one or more series resolutions in substantially the form attached as Exhibit B with such amendments, revisions and final terms as provided herein and in Section 7.5 thereof (each a "Series Resolution"); and

RESOLVED FURTHER, that the President of the University or the Executive Vice President and Chief Operating Officer of the University, in consultation with the Chair of the Board’s Finance Committee, is authorized to approve the final terms of each series of the Bonds, including, without limitation, their original principal amounts and the specific Projects to be financed or refinanced, their maturity dates and amounts, redemption provisions and prices and interest rates, and tax status of interest on each series of the Bonds, provided that (i) the maximum aggregate principal
amount of the Bonds to be issued hereunder shall not exceed $500,000,000; (ii) the Bonds shall be
issued at fixed or variable rates with a maximum yield on any fixed rate series, and the maximum
initial yield on any variable rate series, not to exceed five and one-half percent (5.50%) per annum;
(iii) the final maturity of each series of Bonds shall not exceed 101 years beyond their respective
issuance dates; and (iv) the Bonds shall be issued within one year from the date of this Resolution;
and

RESOLVED FURTHER, that with any taxable proceeds of the Bonds, the President of the
University or the Executive Vice President and Chief Operating Officer of the University are each
hereby authorized to create two new investment accounts, one account to be funded and invested
in a manner that provides sufficient funds to pay the principal of the taxable Bonds’ upon their
maturity, and a second account to fund current and future capital expenditures; and

RESOLVED FURTHER, that President of the University or the Executive Vice President and
Chief Operating Officer of the University are each hereby authorized to negotiate, execute and
deliver all documents related to the Series Resolution and the Bonds; and

RESOLVED FURTHER, that, as provided in the Program Resolution, no bonds other than the
Bonds shall be issued under the Program Resolution unless the Board adopts a subsequent
resolution authorizing those subsequent bonds; and

RESOLVED FURTHER, that all officers of the University are authorized and directed to take
all such further actions, including without limitation the designation of underwriters, paying agents,
 remarketing agents, trustees and liquidity providers for the Bonds, and to execute all such
 instruments, agreements, documents, and certificates as they shall deem necessary or desirable to
carry out the terms of the financing plans presented to this meeting, including without limitation
any liquidity facilities, swap or other interest rate management agreements associated with the
Bonds; and

RESOLVED FURTHER, pursuant to the Section 147(f) of the Internal Revenue Code of 1986,
as amended, and applicable regulations thereunder, the University designates the Executive Vice
President and Chief Operating Officer of the University as the public hearing officer to hold any
public hearings required in order to ensure the tax-exempt status of interest on all or a portion of
the Bonds; and

RESOLVED FURTHER, that all acts of all officers of the University which are in conformity
with the purposes and intent of this Resolution and in carrying out the financing plans presented to
this meeting are ratified, approved and affirmed; and

RESOLVED FURTHER, that, upon approval, this action shall take effect immediately.

**Action Item: Formation of a Statewide Pediatric Clinically Integrated Network**

Mr. Hogan introduced this walk-on item for a Statewide Pediatric Clinically Integrated
Network, which the Health System Board approved the day before. The University is asking for
approval pending review of the financial proforma by the Health System Finance Working Group.
Dr. Shannon said the investment would be $6 million over a three- to five-year period. The
Children’s Hospital of Kings Daughters would also invest $6 million. The network would be part of
Virginia Medicaid’s move toward a capitated risk program as a way of addressing the cost of
pediatric health care, which is the fastest growing segment of Medicaid. The State asked the
University and Kings Daughters to participate. An estimated 75,000 children would be in the network. Dr. Shannon said the University would break even after three years.

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

**FORMATION OF A STATEWIDE PEDIATRIC CLINICALLY INTEGRATED NETWORK**

WHEREAS, the University of Virginia Medical Center desires to create a statewide pediatric clinically integrated network (the “Pediatric Network”) in order to coordinate, standardize, and improve care provided to children in the Commonwealth of Virginia; and

WHEREAS, the Medical Center believes that the Pediatric Network will result in, inter alia, less fragmented care for children, increased physician and other provider alignment, a potential reduction in the cost of pediatric care, and positioning the participants in the Network for value-based reimbursement; and

WHEREAS, the Children’s Hospital of Kings Daughters or its affiliate (“CHKD”) has expressed an interest in co-founding and jointly operating the Pediatric Network with the Medical Center, subject to approval by its governing board; and

WHEREAS, the Pediatric Network is expected initially to be a 50-50 partnership between the Medical Center and CHKD, but other health care entities may join as members in the Pediatric Network in the future; and

WHEREAS, the Health System Board finds it to be in the best interest of the University of Virginia and its Medical Center for the Medical Center to form and be a member of the Pediatric Network;

RESOLVED, pending the Health System Financial Working Group’s review of a financial pro forma, the University, on behalf of the Medical Center, is authorized to create and participate in the Pediatric Network with the Children’s Hospital of Kings Daughters or its affiliate and/or any other parties determined to be necessary; and

RESOLVED FURTHER, the Executive Vice President for Health Affairs of the University, with the concurrence of the Chair of the Health System Board, is authorized to negotiate the terms of such Pediatric Network transaction, including but not limited to, the execution of contracts and all other documents necessary for the formation, capitalization, and operation of the Pediatric Network, on such terms as the Executive Vice President for Health Affairs deems appropriate, and to take such other action as the Executive Vice President for Health Affairs deems necessary and appropriate to consummate the foregoing.

**Action Item: Use of Private Funds to Defray Concert for Charlottesville Expenses**

Mr. Hogan introduced this walk-on item, which directs the University to use private funds for concert expenses that exceed the amount raised from philanthropy.

On motion, the committee approved the following resolution and recommended it for full Board approval:
USE OF PRIVATE FUNDS TO DEFRAY CONCERT FOR CHARLOTTESVILLE EXPENSES

WHEREAS, the Concert for Charlottesville will be held in Scott Stadium on Sunday, September 24th for residents of the City of Charlottesville and Albemarle county, UVA students and staff, and residents of the counties adjacent to Albemarle County to help heal and unify the Charlottesville community after the violence incurred in Charlottesville on August 11 and 12;

RESOLVED, the Board of Visitors directs the University administration to use resources from private funds to help defray the expenses associated with the Concert for Charlottesville event.

Multi-Year Financial Plan Assumptions for the Academic Division

Mr. Hogan said the assumptions will be used to prepare the FY 2018-2019 academic budget and to update the University’s internal six-year financial plans. Ms. Bianchetto reviewed the assumptions. Revenue assumptions include: a 2.3% inflation rate; Board approved enrollment; tuition increases based on inflation plus up to 1%; graduate tuition may also be adjusted to meet market conditions; no increases or decreases in state appropriations except to meet the state’s share of state authorized salary increases; a flat outlook for federal research funding, but an overall increase in research funding due to faculty recruitment; endowment distribution in accordance with Board policy; an endowment return of 7.5%; gifts growing at 2.5% annually; inflationary increases to auxiliary enterprises revenue; and annual School of Medicine and Medical Center gainsharing. Assumptions on the use of funds include a focus on salary increases; no substantial changes in employee benefits; inflationary increases in operating expenses; adhering to the Board’s capital and operating reserve policies; and savings from Organizational Excellence.

Organizational Excellence Annual Report

Ms. Collie said the Organizational Excellence program has achieved actual dollar savings as well as time and effort savings from reductions in administrative burden, which has freed up both faculty and staff time. In FY 2017, time savings equaled $21.6 million. Pan-institutional efforts have focused on research administration, human resources, finance, and information technology. School/unit led initiatives have focused on areas, such as consolidation of graduate admissions administration. There will be a focus on financial systems in the coming year.

Human Resources Strategic Redesign

Ms. Stuck explained how the Ufirst initiative will transform human resource functions. As an example, she said there are currently 70+ redundant systems. After implementation, there will be less than 10. For the next nine months, Ufirst will focus on transitioning work from schools and units to central human resources. Mr. Hogan said the current systems are so decentralized they are inefficient and provide poor service. The new system will provide better service and save money. He emphasized that it will be a shared model with human resource personnel remaining in the schools and units. Ms. Sullivan said that early in her tenure, she held discussions across Grounds, and in these discussions, human resources garnered the most dissatisfaction and frustration.

Committee discussion focused on the value of another benchmarking study because the previous study was completed several years ago. Mr. Hogan expressed concern about such an effort taking resources away from the implementation of Ufirst. He will bring the previous study back to the committee to show its depth of analysis.
University of Virginia Investment Management Company (UVIMCO) 2016-2017 Annual Report

Mr. Hogan introduced Lawrence Kochard by announcing with regret that Mr. Kochard will be leaving UVIMCO by the end of the year. Mr. Kochard began his report by stressing the quality of the UVIMCO team and the importance of keeping it together. He acknowledged the importance of UVIMCO's focus on the long term, on people, on relationships with its managers, and on understanding its edge. For the year, the long-term pool was up 12.4%. This compares favorably with the benchmark, which was up 11.5%. Active public equity did well. Long-short equity and private equity were the most challenged areas. There was an emphasis on emerging markets. Asset allocation was consistent with past years. UVIMCO manages liquidity carefully and focuses on illiquid investments. Private equity was down a bit. Long-short equity remained the same. Real assets, as well as market alternatives and credit, increased slightly. For risk control, UVIMCO strives to maintain its cash and bond holdings at 8% to 12% of the portfolio. Mr. Kochard is most concerned about inflation, interest rates, and U.S. tax reform.

The chair and the committee thanked Mr. Kochard for his service.

The chair adjourned the meeting at 4:15 p.m.

SGH:wtl
These minutes have been posted to the University of Virginia’s Board of Visitors website: http://www.virginia.edu/bov/financeminutes.html