

**UNIVERSITY OF VIRGINIA
BOARD OF VISITORS
MEETING OF THE
FINANCE SUBCOMMITTEE
SEPTEMBER 10, 2014**

FINANCE SUBCOMMITTEE

Wednesday, September 10, 2014

5:00 - 8:00 p.m.

Auditorium of the Albert & Shirley Small Special
Collections Library, Harrison Institute

Committee Members:

John A. Griffin, Chair

Frank B. Atkinson

Kevin J. Fay

Victoria D. Harker

John G. Macfarlane III

George Keith Martin, Ex-officio

AGENDA

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UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: September 10, 2014

COMMITTEE: Finance Subcommittee

AGENDA ITEM: I. Introduction and Comments from the Chair

ACTION REQUIRED: None

BACKGROUND: The Chair, John A. Griffin, will share the results of the continued outreach to the members of the Board of Visitors and leaders across higher education.

UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: September 10, 2014

COMMITTEE: Finance Subcommittee

AGENDA ITEM: II.A. Research

ACTION REQUIRED: None

BACKGROUND: At its July 25, 2014 meeting, the Finance Subcommittee discussed a need to understand the research enterprise at the University.

DISCUSSION: Finance Subcommittee member Frank Atkinson and Vice President for Research Thomas Skalak will review the research enterprise with a particular focus on recent strategy, developments, and the role of research in advancing the Cornerstone Plan initiatives.

Research defines the type of institution one has and aspires to, with the consequence being that it attracts a type of student and faculty. The University of Virginia made the choice a long time ago to be an R-1 university (Research 1 - the highest level of research) and it now attracts students and faculty who are attracted to the experiences and intellectual environment that goes with a robust research enterprise. Federal agencies provide some but not all of the costs associated with research infrastructure and support, and expect that the institution and state must co-invest. Tuition is not used to subsidize research and because of the above federal expectation, research growth cannot be used to subsidize the cost of education or alleviate the current dependence on state appropriation and tuition. Research does expand the educational opportunities that students attending U.Va. can experience, and this is a major part of what differentiates the U.Va. intellectual experiences from the next tier of universities. Research is performed in all areas of scholarship, well beyond STEM (science, technology, engineering and math), including arts, humanities, and law, and this research is supported in various ways - via foundations, philanthropy, and endowment.

Research is an important component of academic excellence, and directly links to several pillars and strategies outlined in the University's Cornerstone Plan. It distinguishes U.Va. from other institutions, attracts great faculty and graduate students, and provides experiences for undergraduate students.

By attracting faculty who conduct research at the cutting-edge of science, technology, social sciences, humanities, arts, and professional activities from business and law to medicine, we live up to the U.Va. promise that cutting-edge teaching, advising, and leadership experiences are available to all students. This offers real value to the collegiate research experience. There are costs of providing this value, as outlined below.

- Tuition and fee charges do not appear to be one of the strong determining factors of research size at either private or public institutions, based on peer university comparisons. Sponsored research funding must pay directly for the specific contracted research. Therefore, tuition and fees have some limited role in supporting graduate students and research facilities, but is not the main driver of sponsored research size, nor do research programs drive tuition increases.
- Research is a necessary investment in the U.Va. mission: The research enterprise helps to deliver the U.Va. vision of being the global ideal in experience-based education for all students. At present, it costs U.Va. about \$0.28 for each \$1.67 of research performed at U.Va., or 17 cents on each dollar. The research enterprise thus provides a very deep discount of 83% on our delivery of the U.Va. vision to students - of a research-based, experiential, inquiry-based learning experience. This 83% cost savings to U.Va. has a total annual value of about \$275 M (that is, our annual research expenditures) or about two times the total state funding to U.Va. It's an investment we need to make for all students. This current scale of positive research impact on the U.Va. mission is the equivalent of an additional \$5 billion endowment (assuming standard 5% payout). If we were to seek a larger total research footprint at U.Va., this would require additional institutional investment.
- Indirect costs (or F&A) are those U.Va. costs (built into all grants and contracts, and charged to the grants) which cannot be identified readily and specifically with a particular sponsored project or activity. Shared resources such as a library or the heating, electricity, and maintenance of buildings housing multiple projects are common examples. The University's current F&A rate is 58% for on-Grounds sponsored federal research, and is carefully negotiated by the U.Va. Budget Office with the federal

government and is audited for accuracy and compliance. So, a federal grant to U.Va. of \$158,000 pays for approximately \$100,000 of research supplies, materials, equipment, faculty effort, graduate student effort, and other research project costs and \$58,000 of U.Va.'s indirect costs to maintain research support infrastructure. However, the federal government caps the rate provided and, therefore, does not fully support the University's expenses associated with research projects. This subsidy F&A support (currently about 28%) must come from other University sources.

- We must certify the effort for those working on sponsored and non-sponsored activities. Time and Effort Certification is a federal requirement that requires the University to audit and account for the time/effort associated with every sponsored research project. This required certification ensures that the committed effort on sponsored activities is documented, whether the financial support for the effort is provided by the sponsor or other university funding sources and verifies that payroll costs charged to specific sponsored activities is commensurate with the certified effort expended toward those activities. A dollar of research revenue must translate into at least one dollar of research expenditure.

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COMMITTEE: Finance Subcommittee

AGENDA ITEM: II.B. Philanthropy

ACTION REQUIRED: None

BACKGROUND: At its July 25, 2014 meeting, the Finance Subcommittee discussed a need to understand fundraising at the University.

DISCUSSION: Senior Vice President for Advancement Robert Sweeney will review the details of Advancement's restructuring and campaign planning, with a particular focus on the alignment of the current bridge campaign with the Cornerstone Plan, including the Affordable Excellence initiative.

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AGENDA ITEM: II.C. Observations from Completion of Recent Admission Cycle

ACTION REQUIRED: None

BACKGROUND: At its July 25, 2014 meeting, the Finance Subcommittee discussed a desire to hear from the Director of Admission Greg Roberts about his observations from the completion of the recent undergraduate admission cycle.

DISCUSSION: Mr. Roberts will review recent admission data, recruiting outreach efforts, and general observations. Chief Communications Officer David Martel will join him to provide an overview of the role communications can play in recruiting and in elevating awareness for supporting need-based scholarships.

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BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: September 10, 2014

COMMITTEE: Finance Subcommittee

AGENDA ITEM: II.D. Report on Strategies to Leverage the University's AAA Balance Sheet

ACTION REQUIRED: None

BACKGROUND: At its July 25, 2014 meeting, the Finance Subcommittee reviewed Treasury Management activities and management of the University's balance sheet. The discussion focused on cash, liquidity, debt, and short-term investment management. They also reviewed several opportunities to leverage the balance sheet and AAA bond ratings, including management of the University's operating funds, the effective use of debt capacity, and the financial flexibility afforded by the University's AAA ratings.

DISCUSSION: Finance Subcommittee member John Macfarlane and Executive Vice President and Chief Operating Officer Patrick Hogan will provide an update.