FINANCE COMMITTEE

Friday, September 16, 2016
4:15 p.m. – 5:15 p.m.
Board Room, The Rotunda

Committee Members:
James B. Murray Jr., Chair
L. D. Britt, M.D.
Elizabeth M. Cranwell
Thomas A. DePasquale
Kevin J. Fay
John G. Macfarlane III

William H. Goodwin Jr., Ex-officio
Nina J. Solenski, M.D., Faculty Member
Phoebe A. Willis, Student Member
Daniel Maxwell Meyers, Consulting Member

AGENDA

I. CONSENT AGENDA
   A. School of Medicine Quasi-Endowment Investments 1
   B. Amended 2016-2022 Six-Year Institutional Plan for the Academic Division and the College at Wise
   C. Correction to 2016-2017 University of Virginia Graduate and Undergraduate Arts & Sciences Activity Fee

II. ACTION ITEMS
   A. 2016-2018 Biennial Budget Operating Amendment for the College at Wise (Ms. Sheehy) 5
   B. Capital Project Financing Plans (Ms. Sheehy)
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I.A. SCHOOL OF MEDICINE QUASI-ENDOWMENT INVESTMENTS: Approves establishment of two quasi-endowment funds to support School of Medicine Distinguished Professorships in Emergency Medicine.

In June 1996, the Board of Visitors authorized the Executive Vice President and Chief Operating Officer to approve individual quasi-endowment transactions, including establishments and divestments, which are less than $2 million. Individual quasi-endowment transactions of $2 million or more require the approval of the Board of Visitors.

The School of Medicine has $4,000,000 of departmental clinical reserve funding to be transferred from the UVA Physicians Group for the creation of two new named endowed professorships: the Distinguished Professorship in Emergency Medicine Quasi-Endowment Fund in the amount of $2,000,000, and the Distinguished Professorship in Emergency Medicine Quasi-Endowment Fund #2 in the amount of $2,000,000. The creation of these two endowed professorship quasi-endowment funds is in accordance with the long-term plans of the Department of Emergency Medicine. Income generated from these funds will be used to support the salary and fringe benefits of the chair holders, and, with the Dean's permission, may be used to support scholarly activity expenses of the chair holders.

ACTION REQUIRED: Approval by the Finance Committee and by the Board of Visitors

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**CREATION OF THE SCHOOL OF MEDICINE DISTINGUISHED PROFESSORSHIP IN EMERGENCY MEDICINE QUASI-ENDOWMENT FUND AND THE SCHOOL OF MEDICINE DISTINGUISHED PROFESSORSHIP IN EMERGENCY MEDICINE QUASI-ENDOWMENT FUND #2**

WHEREAS, the School of Medicine has $4,000,000 of departmental clinical reserve funding to be transferred from the UVA Physicians Group and wishes to create two quasi-endowments entitled the Distinguished Professorship in Emergency Medicine Quasi-Endowment Fund and the Distinguished Professorship in Emergency Medicine Quasi-Endowment Fund #2; and

WHEREAS, the School of Medicine shall invest these funds in perpetuity, and, thereafter, will use, as needed, the income generated from these funds to support the salary and fringe
benefits of the chair holders once the chairs are established by
the Board of Visitors, and with the Dean’s permission the income
may be used to support scholarly activity expenses of the chair
holders appointed to the Distinguished Professorship of
Emergency Medicine chairs;

RESOLVED, the Board of Visitors authorizes the creation by
the School of Medicine of the Distinguished Professorship in
Emergency Medicine Quasi-Endowment Fund and the Distinguished
Professorship in Emergency Medicine Quasi-Endowment Fund #2.

I.B. AMENDED 2016-2022 SIX-YEAR INSTITUTIONAL PLANS FOR THE
ACADEMIC DIVISION AND THE COLLEGE AT WISE: Approves amended
2016-2022 six-year institutional plans for the Academic Division
and the College at Wise.

Pursuant to the Higher Education Opportunity Act of 2011
(HEOA), in odd-numbered years each public institution of higher
education must develop, adopt, and submit a six-year plan
addressing the institution’s academic, financial, and enrollment
plans. In even-numbered years, institutions are required to
affirm or amend the plan. In accordance with the HEOA and
subsequent communications from SCHEV, the University submitted
the preliminary amended 2016-2022 Six-Year Institutional Plans
for the Academic Division and the College at Wise on July 1.

The plan for the Academic Division reflects programs and
general strategies that will advance the objectives outlined in
the Statewide Strategic Plan and the HEOA, as well as
initiatives that will enhance the quality of education,
research, and service consistent with the strategies of the
Cornerstone Plan. The preliminary amended six-year plan made
the following key changes: 1) conforming FY 2016-2017 to be
consistent with the Board-approved annual operating budget; and
2) reducing the originally projected 3.5% increase in tuition
and E&G fees for in-state undergraduate students for both 2016-
2017 and 2017-2018 to 1.5%.

The plan for the College at Wise addresses the Statewide
Strategic Plan; the HEOA; and the College’s Strategic Plan,
Envision 2020. In its preliminary amended plan, UVA-Wise has
maintained and reaffirmed the major initiatives and goals as
previously submitted: 1) enrollment growth; 2) retention and
graduation; 3) production of STEM-H degrees; 4) federal mandate
compliance; 5) community outreach; and 6) undergraduate
initiatives. The preliminary amended plan reallocates tuition
and fee revenue or private funds to support initiatives that may not have received state funds support in the 2016-2018 biennial budget.

The University is awaiting comments from the state and will incorporate those for review with the Board of Visitors Finance Committee at its September meeting. The University will submit the final 2016-2022 Plan by October 1. The HEOA requires Board of Visitors’ adoption of the plans which will be provided to the Board prior to the meeting, but after comments are received from the State.

ACTION REQUIRED: Approval by the Finance Committee and by the Board of Visitors

AMENDED 2016-2022 SIX-YEAR INSTITUTIONAL PLANS FOR THE ACADEMIC DIVISION AND THE COLLEGE AT WISE

WHEREAS, § 23-38.87:17 of the Virginia Higher Education Opportunity Act of 2011 requires the governing boards of all public institutions of higher education to develop and adopt biennially (each odd-numbered year) and amend or affirm annually (each even-numbered year) an institutional six-year plan and submit that plan to the State Council of Higher Education for Virginia (SCHEV), the Governor, and the Chairs of the House Appropriations and Senate Finance Committees; and

WHEREAS, the University submitted its preliminary amended plans for the Academic Division and the College at Wise as required on July 1, 2016, to advance the objectives of the Act and to enhance teaching, research, and service; and

WHEREAS, final amended institutional plans must be approved by the Board of Visitors and submitted to SCHEV, the Governor, and the Chairs of the House Appropriations and Senate Finance Committees no later than October 1;

RESOLVED, the Board of Visitors approves the amended 2016-2022 six-year institutional plans for the Academic Division and the College at Wise; and

RESOLVED FURTHER, the President is authorized to transmit the amended six-year plans to SCHEV, the Governor, and the Chairs of the House Appropriations and Senate Finance Committees.

At the February 2016 meeting, the Board of Visitors approved the 2016-2017 tuition and required fees for all University of Virginia undergraduate, graduate, professional, and special programs. The rates for activity fees for all students in the College of Arts & Sciences were recorded incorrectly in the resolution approved by the Board. (The activity fees for graduate students and undergraduate students were transposed in the original resolution.) The resolution below corrects this error and reflects the accurate 2016-2017 activity fee rates for all Arts & Sciences students.

ACTION REQUIRED: Approval by the Finance Committee and by the Board of Visitors

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<th>Activity Fees</th>
<th>2015-16 Approved</th>
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<th>Percent of Increase</th>
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BACKGROUND: In even-numbered years, the University submits requested amendments to the biennial budget to the Department of Planning and Budget for review by the Governor for inclusion in the amended budget proposal which is presented to the General Assembly in December. The Academic Division and the Medical Center do not have any proposed budget amendments.

DISCUSSION: The College at Wise recently opened its new library, a 67,000 GSF facility with a total project cost of $37.2 million funded by the state.

The new facility will account for an increase of 17% in the College’s E&G gross square footage. The new facility brings with it incremental operating costs of $1.1 million annually including utilities (natural gas, water, sewer, electricity, insurance, and internet); maintenance, custodial and grounds care; security; and library staffing. Despite a request for operating support in the 2016 General Assembly Session, the College did not receive state funds to help cover these new costs.

The state has an expectation that E&G costs of this nature will be split funded between the general fund and tuition. The College will seek $683,190 in general funds and $406,428 in tuition authorization to fund the appropriate operating budget for the new facility. Authorization for an additional 8 FTE positions to properly staff the facility will also be requested.

This budget amendment request was approved by the College at Wise Board on August 23, 2016.

ACTION REQUIRED: Approval by the Finance Committee and by the Board of Visitors
WHEREAS, the College at Wise has identified a $1,089,618 budget amendment to propose for consideration by the Governor in the amended 2016-2018 budget to cover the incremental costs associated with the new library;

RESOLVED, the Board of Visitors of the University of Virginia approves the proposed amendment to the 2016-2018 biennial budget for the College at Wise; and

RESOLVED FURTHER, the Board of Visitors understands that to the extent this request is not included in the Governor’s 2016-2018 amended budget, the College may want to pursue a similar request to the General Assembly; and

RESOLVED FURTHER, the Chancellor or her designee is authorized to transmit to the General Assembly this request if not funded by the Governor as long as there are no material differences from the item endorsed by the Board of Visitors.
UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: September 16, 2016

COMMITTEE: Finance

AGENDA ITEM: II.B.1. Capital Project Financing Plan: Old Ivy Road Office Building

BACKGROUND: When a capital project is recommended by the administration, there are two major considerations to be evaluated by the Board of Visitors. First, the Buildings and Grounds Committee determines whether the project should be added to the Major Capital Projects Program. Second, the Finance Committee evaluates whether there is a sound financing plan to pay for the capital costs associated with the project, as well as any additional operating costs that might result once the project is complete. For projects to be financed with debt, the Board must declare its intent to issue tax-exempt debt. As allowed by federal tax regulations, the Board has delegated this authority to the Executive Vice President and Chief Operating Officer and the Chair of the Finance Committee.

The University, working with the University of Virginia Foundation, plans to construct an office building on Old Ivy Road to house various administrative functions currently at the Fontaine Research Park, including University Advancement and University Communications, as well as the University of Virginia Investment Management Company. Relocating these units from the research park will free up necessary space for expanded medical clinics and research-related activities. It will also allow University Advancement to consolidate from three locations to one location as it begins planning for the upcoming capital campaign. Construction will begin in the first quarter of 2017 and is expected to be completed in 12 months.

DISCUSSION: The University and the University of Virginia Foundation have developed a pro forma for a 100,000 square foot office building on Old Ivy Road with a project cost estimated at $24-$27 million. Debt service on the building will be covered through the lease payments of $16-19 per square foot depending on final project cost. Annual operating costs are estimated at $11.75 per square foot. Consequently, a full-service lease will result in a cost per square foot of $28-$31. Occupants at Fontaine Research Park currently pay between $25 and $33 per
square foot. Incremental lease costs will be built into the fiscal 2018 operating budget.

The University recommends approval of the financing plan for the construction of the Old Ivy Road Office Building. A separate action to approve the issuance of University debt for the project will come before the Board of Visitors in the future.

**ACTION REQUIRED:** Approval by the Finance Committee and by the Board of Visitors

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**FINANCING PLAN FOR CONSTRUCTION OF THE OLD IVY ROAD OFFICE BUILDING**

WHEREAS, the pro forma for constructing the Old Ivy Road Office Building estimates a total project cost of $24 to $27 million; and

WHEREAS, the financing plan for constructing the Old Ivy Road Office Building plans for the use of debt to fund the project and demonstrates the ability of the University to service debt based on competitive leasing rates and maximizing occupancy of the building; and

WHEREAS, by resolution adopted by the Board of Visitors of the University on February 20, 2014, the University designated its Executive Vice President and Chief Operating Officer and the Chair of its Finance Committee as persons authorized to declare official intent to issue debt on behalf of the University pursuant to Treasury Regulations Section 1.1As 50.2 of the United States Department of the Treasury.

RESOLVED, the Board of Visitors approves the financing plan for construction of the Old Ivy Road Office Building.
BACKGROUND: When a capital project is recommended by the administration, there are two major considerations to be evaluated by the Board of Visitors. First, the Buildings and Grounds Committee determines whether the project should be added to the Major Capital Projects Program. Second, the Finance Committee evaluates whether there is a sound financing plan to pay for the capital costs associated with the project, as well as any additional operating costs that might result once the project is complete. For projects to be financed with debt, the Board must declare its intent to issue tax-exempt debt. As allowed by federal tax regulations, the Board has delegated this authority to the Executive Vice President and Chief Operating Officer and the Chair of the Finance Committee.

The International Residential College (IRC) consists of 87,350 gross square feet in four buildings housing 323 residents and resident staff in traditional hall style accommodations in double and single rooms. The renovation project will provide fire protection systems, replace mechanical systems and site utilities, fully renovate bathrooms, refresh interior spaces, and repair the exterior building envelope of all four buildings; install air conditioning in Munford and Gwathmey; and replace outdated equipment in Lewis and Hoxton. In partnership with a construction manager, the University will develop a plan to get as much work done in the summer of 2017 as possible giving consideration to the fact that beds cannot be taken offline during the academic year. Procuring the project in its entirety allows for better planning and more efficient execution.

DISCUSSION: The University has developed a pro forma for renovating the IRC that provides for debt financing $15.9 million of the projected $16 million cost of the project over 20 years at 4.56% with the remaining $0.1 million paid from auxiliary cash. Based on the housing pro forma, estimated annual debt service of $1.3 million and operating costs of $0.6 million will be covered by projected housing revenues.
The University recommends approval of the financing plan for the renovation of the IRC. A separate action to approve the issuance of University debt for the project will come before the Board of Visitors in the future.

ACTION REQUIRED: Approval by the Finance Committee and by the Board of Visitors

FINANCING PLAN FOR THE RENOVATION OF THE INTERNATIONAL RESIDENTIAL COLLEGE

WHEREAS, the pro forma for renovating the International Residential College estimates a total project cost of $16.0 million; and

WHEREAS, the financing plan for renovating the International Residential College plans for the use of debt in the amount of $15.9 million and auxiliary cash of $0.1 million to fund the project and demonstrates the ability of the housing system to service debt based on the pro forma; and

WHEREAS, by resolution adopted by the Board of Visitors of the University on February 20, 2014, the University designated its Executive Vice President and Chief Operating Officer and the Chair of its Finance Committee as persons authorized to declare official intent to issue debt on behalf of the University pursuant to Treasury Regulations Section 1.1As 50.2 of the United States Department of the Treasury;

RESOLVED, the Board of Visitors approves the financing plan for the renovation of the International Residential College.
BOARD MEETING: September 16, 2016

COMMITTEE: Finance

AGENDA ITEM: II.C. Signatory Authority for Ufirst Human Resources Functional Implementation

BACKGROUND: The Board of Visitors is required to approve the execution of any contract where the amount per year is in excess of $5 million.

At its June 2016 meeting, the Finance Committee and Full Board heard a report on Ufirst, a transformative project to improve the Human Resource service experience across the University Academic Division and Health System. This report outlined the benefits, necessary investments, expected annual savings, and payback period of the Ufirst project. With the approval of the 2016-2017 operating budget, the Board approved the annual expenditures for the Ufirst project.

DISCUSSION: In accordance with University procurement policy, the University is finalizing a two-year contract extension with its current vendor for Ufirst Human Resources functional and implementation readiness. The extension will assure continuity to the project by contracting with the vendor during the implementation of the Human Resources integrated technology and the transition to a new Human Resources service delivery model.

The term of the contract extension will be two years. The total estimated annual value of the agreement will exceed $5 million, thus requiring Board of Visitors' approval.

ACTION REQUIRED: Approval by the Finance Committee and by the Board of Visitors

SIGNATORY AUTHORITY FOR UFIRST HUMAN RESOURCES FUNCTIONAL IMPLEMENTATION

RESOLVED, the Board of Visitors authorizes the President to execute a two-year contract extension for Ufirst Human Resources functional implementation, in accordance with University procurement policy.
BOARD MEETING: September 16, 2016

COMMITTEE: Finance

AGENDA ITEM: III.A. Executive Vice President’s Remarks

ACTION REQUIRED: None

DISCUSSION: The Executive Vice President and Chief Operating Officer will inform the Finance Committee of other recent events that do not require formal action, but of which it should be made aware.
ORGANIZATIONAL EXCELLENCE was established in the summer of 2013, as a pan-institutional quality and improvement program, to enable the achievement of institutional goals and priorities across the education, research, scholarship, and service missions. Organizational Excellence seeks to enhance organizational capacity through resource alignment and optimization and the cultivation of a culture of quality. The multi-faceted program is comprised of 1) a portfolio of pan-institutional projects; 2) community engagement to develop individual skills and knowledge, promote sharing of best practices across the institution, and facilitate organizational change readiness; and 3) consulting services for school- and unit-led improvement efforts. Program activities are guided by the principles of: academic and administrative collaboration; data-driven and results-oriented decision making; stewardship of resources; and strategic, long-term impact. Measurable benefits include increased performance quality, enhanced stakeholder satisfaction, and strategic reinvestment of time and savings to support core mission activities.

DISCUSSION: This report will include a brief overview of Fiscal Year 2015-2016 Organizational Excellence accomplishments. A specific focus will be on enterprise-wide improvements in research administration, both system and processes, to support proposal development, submission, and award management. These improvements are providing strategic and transactional value.
BACKGROUND: The University of Virginia Investment Management Company (UVIMCO) provides investment management services to the Rector and Visitors of the University of Virginia and its related foundations. Assets deposited in UVIMCO are held in the custody and control of UVIMCO on behalf of the University and Foundations within a long-term, co-mingled investment pool.

UVIMCO’s primary objective in managing the investment pool is to maximize long-term real return commensurate with the risk tolerance of the University. To achieve this objective, UVIMCO actively manages the investment pool in an attempt to achieve returns that consistently exceed the returns on a passively managed benchmark with similar asset allocation and risk. Recognizing that the University must attract outstanding students, faculty, and staff and provide them appropriate resources, UVIMCO attempts to manage pool assets to provide long-term real returns that compare favorably with the returns of endowments of other outstanding schools. UVIMCO does not set spending rates; UVIMCO communicates the investment pool’s risk and return estimates to the University and foundations for their consideration in setting spending rates.

DISCUSSION: UVIMCO’S Chief Executive Officer, Larry Kochard, will provide an overview of the current market environment and the asset allocation, performance (unaudited), liquidity position of the Long Term Pool as of the year ending June 30, 2016, and address any questions from the committee. The UVIMCO report is included in the unaudited financial report for the year ending June 30, 2016, delivered electronically on August 18, 2016. Larry Kochard will also provide the June 2016 UVIMCO Annual Report.