BOARD OF VISITORS
FINANCE, BUDGET AND INVESTMENT COMMITTEE
9:20 A.M.
DECEMBER 13, 2019
JAMES CABELL LIBRARY
901 PARK AVENUE, ROOM 311, RICHMOND, VIRGINIA

MINUTES

COMMITTEE MEMBERS PRESENT

Mr. Stuart Siegel, chair
Ms. Pamela El
Mr. Todd Haymore
Dr. Gopinath Jadhav
Mr. John Luke, Jr.
Mr. Richard Wagoner

COMMITTEE MEMBERS ABSENT

Ms. Alexis Swann

OTHERS PRESENT

Ms. Karol Kain Gray, Senior Vice President and CFO
Dr. Meredith Weiss, Vice President of Administration

Staff and students from VCU and VCUHS

CALL TO ORDER

Mr. Stuart Siegel, Chair of the Finance, Budget and Investment Committee, called the meeting to order at 9:21 a.m.

APPROVAL OF Agenda

Mr. Siegel asked for a motion to approve the agenda for the December 13, 2019 meeting of the Finance, Budget and Investment Committee, as published. After motion duly made and seconded, the agenda for the Finance, Budget and Investment Committee meeting was approved.

APPROVAL OF MINUTES

Mr. Siegel asked for a motion to approve the minutes of the September 13, 2019 meeting of the Finance, Budget and Investment Committee, as published. After motion duly made and...
seconded, the Minutes of the September 13, 2019 were approved. A copy of the minutes can be found on the VCU website at the following webpage https://president.vcu.edu/board/minutes/

OPEN SESSION ACTION ITEMS:

Mr. Siegel asked Dr. Weiss to present the following items for committee action:

a. Approval to Issue a Request for Proposals for Professional Architectural/Engineering Term Contracts - VCU seeks to advertise a RFP for architectural/engineering firms to provide professional services for construction and renovation projects, feasibility studies and planning initiatives. VCU routinely retains these services on a five-year term contract. The last RFP was in 2014. Firms will start the new contract year in April 2020

b. Approval of Project Plans for Sanger 9 Surgery Innovation Suite – VCU seeks approval of project plans to modernize 8,100 GSF in Sanger Hall to accommodate VCU School of Medicine’s Surgery Innovation Suite. This project was approved by the Board of Visitors in May 2017 as part of the 2018-2024 Six Year Capital Plan and funded 100% from School of Medicine private donor funds.

c. Approval of Public-Private Education and Infrastructure Act (PPEA) Guidelines and Resolution - Virginia’s Public-Private Education and Infrastructure Act of 2002 (PPEA) enables public bodies to partner with private entities on construction and renovation projects. VCU wishes to explore potential public-private partnerships (P3) under PPEA. VCU guidelines for PPEA provide a flexible framework for soliciting proposals whereby VCU would be permitted to lease large sections of completed P3 projects that may provide additional cost benefits for VCU.

d. Approval of Postdoctoral Scholars IRS Section 125 Plan and Resolution - VCU seeks approval for an IRS Section 125 plan (cafeteria plan) to allow postdocs to pay for certain health benefits on a pre-tax basis. VCU does not currently have a IRS Section 125 plan for postdocs, resulting in these trainees having to pay health insurance premiums with after-tax income.

Mr. Siegel asked for a motion to recommend to the Board approval of the four action items as presented by Dr. Weiss. After motion duly made and seconded the Committee approved the motion to recommend to the Board approval of the Request for Proposals for Professional Architectural/Engineering Term Contracts, Project Plans for Sanger 9 Surgery Innovation Suite, Public-Private Education and Infrastructure Act Guidelines, and Postdoctoral Scholars IRS Section 125 Plan.

REPORT FROM SENIOR VICE PRESIDENT AND CFO

Ms. Gray gave an update on the following:

1. University’s Cash Position – Ms. Gray reviewed a three-year trend showing VCU Cash and Investments at $518 in FY19.
2. Related Entity Financial Statements – Ms. Gray review the summary of six VCU related entities with total assets just over $1 billion.

3. Enrollment and Budget Update – Ms. Gray discussed the impact of the decline in the Fall 2019 enrollment on the University’s budget. The University is facing a $20 million deficit, which will be made up by implementation of a 2% permanent budget cut for FY20 and schools experiencing a shortfall will mitigate approximately $10 million with budget cuts or revenue enhancements. The balance remaining will be addressed via the budget model through contingency reserves.

4. University’s Credit Ratings – VCU’s bonds are current rated AA- by Standard & Poor’s and Aa2 by Moody’s. Moody’s opined that VCU has a negative outlook which means that one or more of the metrics associated with the Aa2 rating needs improvement within the new year. If the metrics are not improved, VCU is likely to receive a ratings downgrade.

5. SWAM update – Ms. Gray reviewed Procurement’s efforts to improve small, women-owned and minority-owned businesses.

The presentation that was made to the Committee is attached hereto as Attachment A and is made a part hereof.

**REPORT FROM VICE PRESIDENT FOR ADMINISTRATION**

Dr. Weiss provided her update on Sustainability/Energy Conservation focusing on the four areas the University is monitoring in an effort to increase savings and reduce waste. The presentation that was made to the Committee is attached hereto as Attachment A and is made a part hereof.

**REPORTS FOR INFORMATIONAL PURPOSES**

Mr. Dendy noted that there were several reports provided to the committee for informational purposes, specifically, the Sources and Uses funding for FY20, the Revenue and Expense Quarterly Summary, the VCU Health System and Financial Operations; Capital Projects Update, Finance, Budget & Investment Committee Dashboards and the Treasurer’s Report.

**ADJOURNMENT**

There being no further business Mr. Siegel, Chair, adjourned the meeting at 10:29 a.m.
VCU Board of Visitors

Finance, Budget and Investment Committee

December 13, 2019
Open Session – For Action

1. Call to Order – Mr. Siegel
2. Approval of Agenda – Mr. Siegel
3. Approval of Minutes from Sept 13, 2019 meeting – Mr. Siegel
Open Session – For Action

4a. Approval to Issue a Request for Proposals for Professional Architectural/Engineering Term Contracts – Dr. Weiss
Approval to Issue a Request for Proposals
Professional Architectural/Engineering Term Contracts

Purpose:
- VCU seeks to advertise a RFP for architectural/engineering firms to provide professional services for construction and renovation projects, feasibility studies and planning initiatives.
- VCU routinely retains these services on a five-year term contract. The last RFP was in 2014.
- Firms will start the new contract year in April 2020.

Considerations:
VCU limits spending with each firm to $1M per year. Each firm has a one-year contract with four renewal options. Currently, 15 firms are included in the university’s term contract.

Recommendation:
Approve the competitive solicitation to establish a professional architectural/engineering services term contract with multiple firms.
Open Session – For Action

4b. Approval of Project Plans for Sanger 9 Surgery Innovation Suite – Dr. Weiss
Approval of Project Plans
Sanger Hall 9 Surgery Innovation Suite

Purpose:
• VCU seeks approval of project plans to modernize 8,100 GSF in Sanger Hall to accommodate VCU School of Medicine’s Surgery Innovation Suite.
• This project was originally approved by the Board of Visitors in May 2017 as part of the 2018-2024 Six Year Capital Plan.

Cost:
$6,187,800 – 100% funded from School of Medicine private donor funds.

Recommendation:
Approve project plans for Sanger Hall 9 Surgery Innovation Suite.
Open Session – For Action

4c. Approval of Public-Private Education and Infrastructure Act (PPEA) Guidelines – Dr. Weiss
Approval of Public-Private Education and Infrastructure Act (PPEA) Guidelines

Purpose:
• Virginia’s Public-Private Education and Infrastructure Act of 2002 (PPEA) enables public bodies to partner with private entities on construction and renovation projects.
• VCU wishes to explore potential public-private partnerships (P3) under PPEA.
• VCU guidelines for PPEA provide a flexible framework for soliciting proposals whereby VCU would be permitted to lease large sections of completed P3 projects that may provide additional cost benefits for VCU.

Recommendation:
Approve VCU’s Public-Private Education and Infrastructure Act (PPEA) Guidelines.
• VCU develops Public-Private Education Facilities and Infrastructure Act (PPEA) guidelines for BOV for approval

• VCU identifies qualified developers and requests proposals (to include plans for federal and state historic tax credits)

• BOV approves the final developer

• BOV approves project plans and development agreement

• BOV approves ground lease and remaining legal documents

• Closing and renovations

Potential Public Private Partnership
Approximate Timeline for Board of Visitors

FY19 | FY20 | FY21 | FY22 | FY23 | FY24 | FY25

Go/no go decision point
Open Session – For Action

4c. Approval of Postdoctoral Scholars IRS Section 125 Plan – Dr. Weiss
Approval of Postdoctoral Scholars IRS Section 125 Plan

Purpose:
• VCU seeks approval for an IRS Section 125 plan (cafeteria plan) to allow postdocs to pay for certain health benefits on a pre-tax basis.
• VCU does not currently have a IRS Section 125 plan for postdocs, resulting in these trainees having to pay health insurance premiums with after-tax income.

Recommendation:
Approve Postdoctoral Scholars Section 125 Plan.
Open Session – For Information

5. Report from Senior Vice President and CFO:
   a. University’s Cash Position
   b. Related Entity Financial Statements
   c. Enrollment and Budget Update
   d. University’s Credit Ratings
   e. SWAM Update
VCU Cash and Investments – Three Year Trend

(in Millions)

FY17
FY18
FY19
# Financial Statement Summary

**VCU Related Entities**  
**as of June 30, 2019**  
**(In Millions)**

<table>
<thead>
<tr>
<th>Category</th>
<th>MCV Foundation</th>
<th>VCU Foundation</th>
<th>VCU Real Estate Foundation</th>
<th>VCU School of Business Foundation</th>
<th>VCU College of Engineering Foundation</th>
<th>Dentistry @ VCU</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>$17.1</td>
<td>$25.7</td>
<td>$6.8</td>
<td>$12.5</td>
<td>$3.5</td>
<td>$6.5</td>
<td>$72.1</td>
</tr>
<tr>
<td>Investments and Endowments</td>
<td>577.9</td>
<td>83.5</td>
<td>-</td>
<td>43.4</td>
<td>73.6</td>
<td>7.6</td>
<td>786.0</td>
</tr>
<tr>
<td>PPE</td>
<td>2.1</td>
<td>-</td>
<td>78.3</td>
<td>24.8</td>
<td>39.2</td>
<td>-</td>
<td>144.4</td>
</tr>
<tr>
<td>Receivables and Other</td>
<td>25.1</td>
<td>9.7</td>
<td>8.2</td>
<td>5.9</td>
<td>1.6</td>
<td>3.3</td>
<td>53.8</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>622.2</td>
<td>118.9</td>
<td>93.3</td>
<td>86.6</td>
<td>117.9</td>
<td>17.4</td>
<td>1,056.3</td>
</tr>
<tr>
<td>Liabilities</td>
<td>10.4</td>
<td>37.7</td>
<td>54.8</td>
<td>40.4</td>
<td>66.0</td>
<td>8.2</td>
<td>217.5</td>
</tr>
<tr>
<td>Net Position</td>
<td>611.8</td>
<td>81.2</td>
<td>38.5</td>
<td>46.2</td>
<td>51.9</td>
<td>9.2</td>
<td>838.8</td>
</tr>
</tbody>
</table>
| **Total Liabilities and Net Position** | $622.2 $118.9 | $93.3          $86.6          $117.9 $17.4 | $1,056.3 $778.3
| Beginning Net Position        | $556.8         | $80.6          | $35.9                       | $39.9                             | $56.7                                 | $8.4            | $778.3 |
| Revenues                      | 83.2           | 14.3           | 9.3                         | 13.5                              | 7.2                                   | 18.0            | 145.5  |
| Expenses                      | 28.2           | 13.7           | 6.7                         | 7.2                               | 12.0                                  | 17.2            | 85.0   |
| **Change in Net Position**    | $55.0          | $0.6           | $2.6                        | $6.3                              | $(4.8)                                 | $.8             | $60.5  |

*Intellectual Properties and Alumni Associations are omitted due to immateriality.*
General Comments

• Dentistry@VCU is a new discretely presented component unit for FY19
• All entities received unmodified opinions
• No material adjustments to financial statements
• No management letter comments
A New Higher Education Landscape
Drivers of the Enrollment Challenge

- Some colleges will have to make difficult choices about their enrollment practices, academic offerings, and makeup of their student body.
  - The most-selective private colleges and public flagships are expected to fare the best.

- Colleges cannot control demographics but can improve retention and graduation rates.

The pool of likely students is expected to become much smaller and more racially diverse.
National and State Overall Enrollment Trends

- High school graduation rates and Virginia 4 YR public enrollment has trended more positively than national trends for the sector.

- Future enrollment projections suggest that Virginia enrollment trend is not sustainable.

- Stagnant and declining community college enrollments
  - More competitive Virginia landscape
Higher Education Landscape: International Enrollment

1 Year Change of Active Student Visa Holders (March 2018 to March 2019)

TOP TEN PLACES OF ORIGIN OF INTERNATIONAL STUDENTS

- China 31%
- India 14%
- Brazil 17.1%
- Mexico 13.1%
- Canada 6%
- Saudi Arabia 2%
- Japan 2%
- South Korea 2%
- Taiwan 7%
- Vietnam 2%

58% of international students come from China, India, South Korea, and Saudi Arabia.

Fall 2019 Enrollment Update

Enrollment Headcount by Academic Level

-3.8% Undergraduate 1 YR % Change
-.32% Graduate 1 YR % Change
-4.3% First Professional 1 YR % Change
VCU Fall 2019 Challenges

Breakdown of Fall 2019 Enrollment Loss
- Undergraduate: 33% (322)
- UG Non-Degree Seeking: 47% (459)
- First Professional: 7% (70)
- Masters: 13% (122)

Breakdown of Fall 2019 Budget Impact
- Graduate: 9% - $0.7M
- UG Non-Degree Seeking: 2% - $0.2M
- First Professional: 17% - $1.4M
- Undergraduate: 71% - $5.8M
Impact of Enrollment Challenges

National

For the second year in a row, Moody’s Investors Service posted a negative outlook for the U.S. higher-education market in 2019.

- **4%** Expected overall operating expense growth
- **1 to 3.5%** Projected growth in net tuition, most colleges’ main source of revenue
- **>50%** Public colleges will fall short of 3% revenue growth, Moody’s minimum for a stable outlook

VCU

Stagnant or declining enrollment and a commitment to 0% tuition increase has contributed to limited revenue growth for FY 20.

- Enrollment: -2.58%
- Deficit as Percent of Tuition Budget: -4.2%
- $20M

Addressing FY2020 Enrollment Gap

• These are preliminary figures pending actions taken to improve retention and new enrollment for spring/summer

• To address the shortfall:
  • A 2% or approximately $4M permanent budget cut will be implemented for FY20;
  • Schools and colleges experiencing a shortfall are expected to mitigate approximately $10M with budget cuts or revenue enhancements
  • The balance will be addressed under the budget model through contingency reserves
  • This shared-responsibility model results from the new budget model
VCU FY2020 Financial Plan

• 2% Administrative Budget reductions

• Strategic School/College reallocations based on new budget model

• Use of 1X funding required under Tuition Moderation Plan

<table>
<thead>
<tr>
<th>VCU Financial Plan</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>University Revenue</strong></td>
<td></td>
</tr>
<tr>
<td>Tuition &amp; Fees</td>
<td>460,440</td>
</tr>
<tr>
<td>Projected Tuition Shortfall</td>
<td>(20,000)</td>
</tr>
<tr>
<td>Other Funding</td>
<td>25,010</td>
</tr>
<tr>
<td>State Funding</td>
<td>195,407</td>
</tr>
<tr>
<td><strong>Total University Revenue</strong></td>
<td>660,857</td>
</tr>
<tr>
<td><strong>Projected Expenses</strong></td>
<td></td>
</tr>
<tr>
<td>University Budget</td>
<td>(689,701)</td>
</tr>
<tr>
<td>Health Ins Premium Holiday Funds (1X)</td>
<td>2,300</td>
</tr>
<tr>
<td>Use of 1X funds</td>
<td>6,544</td>
</tr>
<tr>
<td><strong>University Net Position</strong></td>
<td>(20,000)</td>
</tr>
<tr>
<td>Central Budget Cut 2%</td>
<td>4,000</td>
</tr>
<tr>
<td>School/College Reallocation</td>
<td>10,000</td>
</tr>
<tr>
<td>Additional Use of 1X funds</td>
<td>6,000</td>
</tr>
<tr>
<td><strong>University Net Position</strong></td>
<td>-</td>
</tr>
</tbody>
</table>
VCU Solution Focus

- Deeper focus on improved national brand perception, academic reputation and VCU value proposition
- Focus on improved new undergraduate student yield rates.
- Expand and identify new undergraduate markets
  - Out of State Undergraduates
  - Adults over age 24
  - Corporate partnerships
- Continued innovation in curriculum and retention efforts
- Expand and identify new academic programs
  - Professional Masters,
  - Interdisciplinary programs
  - Certificates /Credentials
- Expand capacity and infrastructure for direct international recruitment
Bond Ratings

• VCU’s bonds are currently rated AA- by Standard & Poor’s and Aa2 by Moody’s.
• VCU’s bond ratings were reconfirmed over the summer.
• Standard & Poor’s opined that VCU has a “stable outlook”, but Moody’s opined that VCU has a “negative outlook”.
• A “negative outlook” means that Moody’s desires improvement in one or more metrics associated with our Aa2 rating.
• If this does not occur within 1 - 2 years after being placed on negative outlook, we are likely to receive a ratings downgrade.
Operating Cash Flow Margins

• Moody’s desires for VCU’s operating cash flow margins to return to a sustained 8% or greater.
• In FY18, these margins were 4.0%, and estimates for FY19 are ~4.7% margins (each 1% margin is ~$10M).
• Due to the enrollment shortfall and flat tuition in FY20, margins are not expected to improve significantly for the current year.
• Planning for FY21 includes cost reductions and revenue growth to address this issue.
## Certified Small, Women, & Minority (SWaM) Business Spend

<table>
<thead>
<tr>
<th>Small Business and Supplier Diversity Class</th>
<th>FY18</th>
<th>FY19</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-SWaM</td>
<td>$129,486,380 56.6%</td>
<td>$109,766,820 57.0%</td>
</tr>
<tr>
<td>Certified Minority Owned Business</td>
<td>11,305,714 4.9%</td>
<td>10,932,107 5.7%</td>
</tr>
<tr>
<td>Certified Women Owned Business</td>
<td>13,943,884 6.1%</td>
<td>11,051,563 5.7%</td>
</tr>
<tr>
<td>Certified Small Business</td>
<td>74,260,524 32.4%</td>
<td>60,904,273 31.6%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$228,996,502 100.0%</strong></td>
<td><strong>$192,654,763 100.0%</strong></td>
</tr>
</tbody>
</table>
Actions/Events Focused on SWaM Improvement

• VCU did business with 81 certified minority-owned businesses and 127 women-owned businesses in FY19; 23 and 40, respectively, were new to VCU.

• On July 24th, VCU had its augural SWaM Connect Series. VCU invited 18 Small Business and Supplier Diversity (SBSD) certified businesses who specialize in marketing and print material, as well as the Metropolitan Business League, to campus.
Open Session

6. Report From Vice President for Administration
   a. Sustainability/energy conservation
Sustainability at VCU

Dr. Meredith Weiss, Vice President for Administration
FOUR FOCUS AREAS

Renovations
Performance contracts (P3)
Retro-commissioning
Preventative maintenance
LED lights, low-flow faucets

Design and construction
LEED Silver Certification
Green space
Carbon sequestration
Stormwater

Energy projects
Climate Commitment
Fault detection
Smart meters
Virtual power purchasing agreement

Behavioral change
Energy conservation
Recycling
Alternative transportation
Engagement
Messages from leadership

Sustainability Goals 2025
Reduce GHG by 17%
Energy savings of $5.5M

FY19 Savings: $800,000
Behavioral Change

**CONSERVE TO PRESERVE**

**Lights out**
Turn off the lights when you leave the room. Use natural light when you can.

**Set it and forget it**
Set your thermostat to a reasonable temperature.

**Take the stairs**
Going up in an elevator uses almost 40 times as much power as going down. Consider the stairs if you are able.

**Save water**
Turn off the faucet when you brush your teeth, take a shorter shower and report water leaks.

sustainability.vcu.edu
RECYCLING

PAPER
NEWSPAPERS, NOTES, MAGAZINES, POSTERS
NO SOILED PAPER

PLASTIC
PLASTICS #1-7, CUPS, JUGS, BOTTLES, TUBS
PLEASE RINSE

GLASS
JARS, JUGS, CUPS, BOTTLES, VASES
PLEASE RINSE

METAL
SODA/SOUP CANS, ALUMINUM FOIL
PLEASE RINSE

CARDBOARD
PIZZA BOXES, CEREAL BOXES, CARTONS, PAPER TOWEL ROLLS
NO FOOD OR SOILED CARDBOARD

PLASTIC BAGS CANNOT BE RECYCLED HERE.
Open Session – For Information

7. Miscellaneous Reports: Mr. Siegel

For informational purposes only:

a. Sources and Uses Funding FY20
b. Revenue and Expense Summary
c. VCU Health System and Financial Operations
d. Capital Projects Update
e. Dashboards
f. Treasurer’s Report