# Exceptional Times

*Report of the Executive Vice President and Chief Operating Officer, Leonard W. Sandridge*

THE 2002—2003 FISCAL YEAR WAS A TESTAMENT TO THE fundamental strength and resilience of the University of Virginia. We began the year in a difficult environment, facing sharp cuts in state funding. By the end of the year, we emerged as one of only two public institutions with the top rating from all three major bond-rating agencies, we achieved a return on our endowment second only to Harvard's, and we recaptured our position as the nation's top public institution as ranked by *U.S. News & World Report.* These exceptional results speak to the hard work of our staff and faculty, the effectiveness of the Board of Visitors and the management team, and the underlying fiscal stability and soundness of the institution.

## Decisive Action, a Solid Foundation

SUFFERING FROM A dramatic reduction in tax receipts, the state cut its operating support for the University by 25 percent in 2002–2003, trimming our general fund appropriation to $138 million, or just 9.4 percent of our revenues. We took early and decisive measures to hold down costs while protecting the quality of our academic programs. We instituted a hiring and discretionary spending freeze, consolidated administrative departments, established financial self-sufficiency models for Law and Darden, and temporarily deferred maintenance. The Board of Visitors established a budget defense fund for the president's use, drawing on resources generated by the endowment and our auxiliary enterprises, such as the bookstore, athletics, housing, and the parking system. This fund enabled us not only to address serious deficiencies but to launch new initiatives.

The strength of our endowment helped us weather these tough times. By June 30, 2003, our pooled endowment had reached $1.8 billion. In a year in which many institutions suffered declines, we achieved a 9.2 percent return on our pooled endowment, the second best performance in the nation and well above the average of 2.9 percent reported by peer institutions. More important, our returns have been consistent, averaging 3.6 percent annually over the last three years. Over the same time, the S&P 500 posted an average annual decline of 11.2 percent. These results reflect the superb vision and leadership of the board of the University of Virginia Investment Management Company (UVIMCO) and the extraordinary work of Alice Handy, who has overseen

the management of the endowment for twenty-nine years. As Ms. Handy leaves her post this year as president of UVIMCO to pursue personal business interests, she can look back at an incomparable legacy of careful stewardship of this vital resource.

The generous support from alumni and friends who contributed nearly $262 million in gifts in 2002–2003 served to protect the University during this tough period. The total represents a 2.7 percent increase from 2001–2002 and the third time in four years we have set a record in our fund raising.

## A Strong Endorsement

The performance of our endowment and the effectiveness of our development efforts were key factors in Standard & Poor's decision to award the University its coveted AAA debt rating in 2003. Along with the University of Texas, we are one of only two public institutions to hold the top rating from Standard & Poor's, Fitch Ratings, and Moody's Investors Service. In upgrading the University's credit rating, Standard & Poor's also cited demand for our academic programs, our national reputation for excellence in teaching and research, our solid financial management, and the improved financial performance of our Medical Center.

S&P's top rating covers the University's existing debt as well as the recent $200 million in variable- and fixed-rate debt we issued this past year. The bond issue allowed us to refund previously issued bonds and to finance seven new projects. Refunding old bonds will save us $750,000 each year in interest expenses, and we expect that our new debt-portfolio management approach will save an additional $15 million over the life of the new bonds.

## A Superb Management Team

Another reason for our success this year was the stellar work of a resourceful and experienced management team. During the year, we added persons with new ideas to a team of seasoned professionals. The partnership between Arthur "Tim" Garson, Jr., vice president and dean of the School of Medicine, and R. Edward Howell, vice president and chief executive officer of the University Medical Center, has reinvigorated the University Health System. Under their leadership, we have completed a Decade Plan, strengthened our research infrastructure, and achieved a 5 percent operating margin in the Medical Center.

This year we named Patricia Lampkin as our new vice president for student affairs. Her experience as a member of our student-life administration over the past twenty-five years proved instrumental as the University moved to create a more welcoming environment for an increasingly diverse student population and placed emphasis on our programs of education outside the classroom. R. Ariel Gomez, a leading advocate of the University's initiative to attain leadership in morphogenesis and regenerative medicine, was confirmed as vice president for research and graduate studies. These and other members of our management team, working closely with our faculty and the Board of Visitors, made the hard choices this year that enabled us to decrease our expenditures and strengthen our revenue base while maintaining the integrity of our programs.

## Creating a New Model

The current economic climate provides a unique opportunity for the University to forge a new relationship with the Commonwealth of Virginia, creating the new model of a public institution financed largely with non-state resources. In the past ten years, the state's share of our total revenues has dropped from some 27 percent to 8.1 percent for fiscal year 2003–2004. This year we reached a significant milestone: for the first time, we received more of our operating support from private sources, such as gifts and endowment income, than from our state appropriation. Our effort toward a new working relationship with the Commonwealth reflects our changed funding levels and represents a natural progression in our institution's growth.

We are working with the state to gain the flexibility we need to sustain this new model for financing a public institution. In 2003, the General Assembly approved eleven of twelve decentralization initiatives we proposed. These measures will, for example, give us greater flexibility to set our staffing levels, to move forward with maintenance and capital projects, and to complete lease transactions. The General Assembly also gave us the opportunity to raise in-state tuition, helping us to offset budget cuts while maintaining our commitment to meeting 100 percent of undergraduate students' demonstrated need through financial aid.

Adding to the complexity of these discussions is the prospect of enrollment growth. Virginia faces a substantial increase in its college-age population, and although we have yet to determine how much of this new student demand we will take on, we know that growth will require careful planning and preparation for our academic programs and our self-supporting activities such as student housing, transportation, and recreation. Sound planning in these areas is absolutely essential.

## Determining Our Future

We are proud of our accomplishments and excited about our prospects. Even in hard times, we protected critical areas and made significant strides to improve our operations. We intend to build on these achievements. We are eager to demonstrate that we can be more self-sufficient and can assume more responsibility toward securing our destiny among the nation's finest institutions of higher learning.

Sincerely,

Leonard W. Sandridge
*Executive Vice President*
*and Chief Operating Officer*