

# Moving Forward with Confidence

*Report of the Executive Vice President and Chief Operating Officer*

**T**HIS HAS BEEN A PRODUCTIVE YEAR. Every member of this community—students and parents, faculty and staff, alumni and friends—can take pride in all the University of Virginia has achieved. The Board of Visitors and the management team worked effectively to launch groundbreaking initiatives that will provide for immediate needs and reap long-term benefits for the institution. Together we designed bold and innovative plans to meet the University's objectives in major areas, including financial aid, compensation, and research support. The institution, under the leadership and strong encouragement of its board, has moved decisively to focus its resources in ways that bode well for the future of the University.

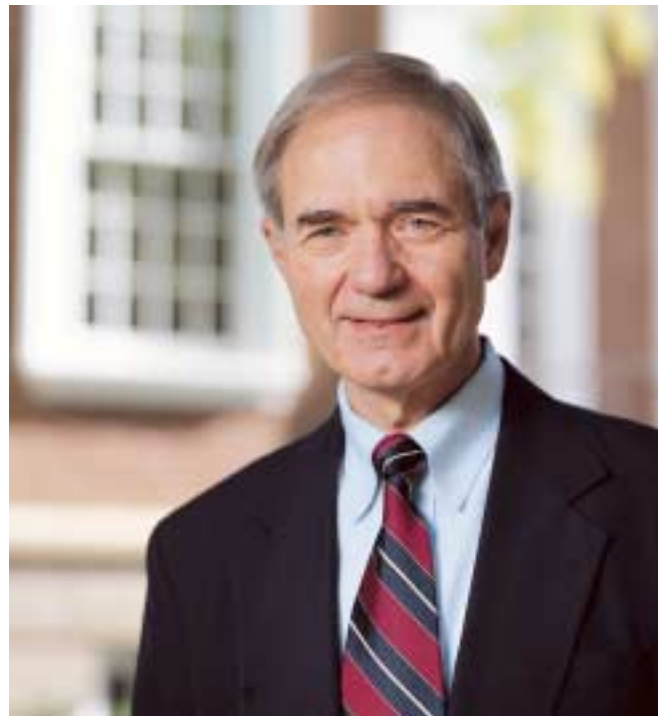
## RESTORING COMPENSATION LEVELS

RECOGNIZING THAT the University's faculty and staff compensation has fallen relative to peers over the last decade, the board approved a resolution designed to restore faculty compensation to nationally competitive levels by the end of fiscal year 2007. The University's goal is to achieve a ranking of between fifteenth and nineteenth in compensation among members of the Association of American Universities by 2006–2007. This is approximately the same position the University held in 1989–1990, before the recent era of reduced state support.

In November 2003, the board supplemented the state's 2.25 percent salary increases, the first in three years, with an additional 1.75 percent in targeted, merit-based raises for teaching faculty. As a result, the University jumped from thirtieth to twenty-fourth in the AAU rankings. For 2004–2005, the board authorized a 2 percent, merit-based salary increase for teaching and administrative faculty on top of a 3 percent raise approved by the Commonwealth. In addition, the board created a pool of funds for adjusting salaries of classified staff identified as under-compensated. These measures have significantly enhanced the University's ability to recruit and retain talented faculty and staff. At the same time, steps have been taken to adjust compensation for Medical Center employees.

## BOLSTERING SCIENTIFIC RESEARCH

ALTHOUGH GRANT FUNDING for our sponsored research continues to grow from year to year, approaching \$296 million in 2003–2004, the University remains forty-fifth in federal fund-



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ing among its peers for federal research and development expenditures. At the board's request, Gene Block, the University's vice president and provost, outlined an aggressive strategy to raise the stature of the University's research programs in select areas of science, engineering, and medicine. In response, the board funded \$60 million of a five-year, \$126 million program to recruit world-class investigators in key areas of research, to fund salaries for their research teams, and to build new research space. Two laboratory buildings are now in the planning stages, and we have begun our targeted hiring of internationally renowned faculty.

## RESULTS OF SOUND MANAGEMENT

IN A TIME OF SCARCE RESOURCES, sustaining the University's progress requires careful budgeting and management. In recent years, as we dealt with cutbacks in state support, we have taken the opportunity to streamline our operations. Now that a portion of these funds has been restored, we are reallocating dollars to

areas of highest priority where they will achieve the best results.

Our commitment to careful management can be seen clearly in the Medical Center. Achieving an operating margin of 5.4 percent in 2003–2004, it surpassed the 5 percent goal set by the Board of Visitors. This is the second year in a row that we have exceeded the board's expectations; our results place us in the top 10 percent of academic medical centers. All income from the Medical Center is reinvested into our clinical operations, providing resources for new equipment, new medical technologies, or the renovation and expansion of our facilities.



The endowment continues to be a tremendous source of strength. By June 30, 2004, our pooled endowment, the portion held directly by the Board of Visitors, had reached \$1.95 billion. Adding funds held by University-related foundations brings the total endowment to \$2.79 billion. Under the able stewardship of the University of Virginia Investment Management Company (UVIMCO), the pooled endowment achieved a 12.7 percent return this past year, which is consistent with the returns we have experienced over the past decade. During this period, UVIMCO has been restructured to devote its full attention to asset management, and Christopher J. Brightman has been selected as chief executive officer of the management company.

Our sound management, our strong endowment, our much-in-demand programs and services, and our generous support from alumni and friends, which reached nearly \$175 million this past year, are all indicators of a thriving institution. They are among the key factors cited by Standard & Poor's, Fitch Ratings, and Moody's Investors Service in awarding us their top debt ratings. We remain one of only two public institutions to hold AAA ratings from all three credit-rating agencies.

### SUSTAINING EXCELLENCE IN EDUCATION

FOR MUCH OF THE PAST DECADE AND A HALF, the Commonwealth of Virginia has struggled to provide adequate financial resources for its colleges and universities. In 1985, funding for higher education represented approximately 17 percent of the state's general fund budget; by 2004, state appropriations for higher education fell to just 10 percent. This funding level ignores a nearly 17 percent increase in in-state students educated in the state's system of higher education over the past fifteen years. Competing demands for state tax dollars will make it extremely difficult for the state to fund its colleges and universities at the level necessary to sustain their ranking as among the very best public institutions in the country.

In an effort to support the high standards that Virginians have come to expect, the University has joined two other leading institutions—Virginia Tech and the College of William and Mary—to ask the General Assembly to create a mechanism for giving public universities and colleges more control over their operations. The initiative is open to all public institutions. The concept holds great promise in sustaining the premier system of higher education in Virginia and in supporting the important initiatives set forth by Governor Warner to enhance excellence in education throughout the state.

Under the new model, U.Va. would forgo some potential for future growth of tax appropriations. In exchange, we would be given more administrative autonomy, including the ability to set tuition levels, and would be free to achieve operational efficiencies that will reduce costs and speed operations. If such a proposal is approved, there should be no doubt that the University will remain a strong public institution, living up to its historic commitment to educate Virginians and serve the people of the Commonwealth and the world.

### KEEPING COLLEGE AFFORDABLE

ALTHOUGH WE ARE PROUD of our reputation as an outstanding value in higher education, achieving greater self-reliance under a new relationship with the Commonwealth is likely to require increased costs for our students, both in-state and out-of-state. At the same time, we recognize that paying for college represents a significant burden for students from low- and middle-income families. Some must work long hours, devoting time that would otherwise be spent studying, taking part in independent research, or participating in student-life activities. Others leave the University with levels of debt that preclude entering careers in public service or attending graduate school. Furthermore, rising tuition costs deter highly qualified but financially disadvantaged students from seeking or accepting admission here.

To address these issues, the Board of Visitors unveiled AccessUVA, an ambitious financial-aid program designed to keep the University experience within reach of all students who qualify for admission, regardless of economic circumstance. The board committed \$17.9 million annually to this program, which will be rolled out over the next four years. Combining loan-free packages for low-income students, caps on loans for all other students qualifying for aid, and our commitment to meet 100 percent of need, AccessUVA stands as the most comprehensive program of its type at any public university.

### REMAINING TRUE TO OUR MISSION

WE HAVE SEEN A TIME when our emphasis is on making this University the best it can possibly be. We have been unrelenting in our willingness to assess our performance and focus our resources in ways that distinguish this institution from most others. The predictably sound work that faculty and staff are doing on a day-to-day basis has given us the confidence to go forward. We stand at a crossroads with high expectations of future success that few places can enjoy.

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*Executive Vice President  
and Chief Operating Officer*