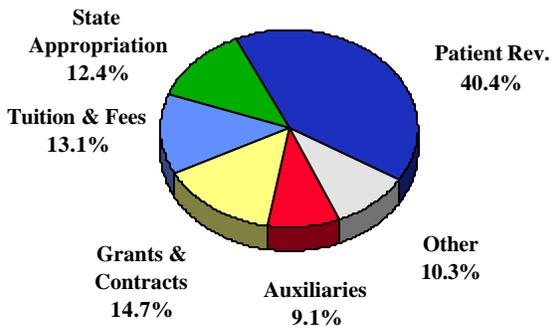


**UNIVERSITY OF VIRGINIA
2002-2003 OPERATING BUDGET SUMMARY**

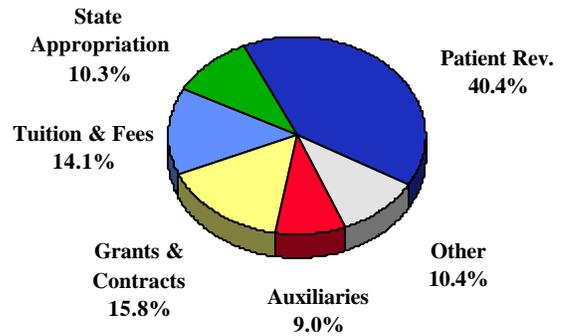
Operating Revenue – All Divisions

The projected revenues for the period July 1, 2002 – June 30, 2003, for all divisions of the University of Virginia total \$1.47 billion. This amount represents an increase of \$38.6 million or 2.7 percent as compared with the revised revenue projection for 2001-02 of \$1.44 billion. Of the total revenue budget \$835.9 million relates to the Academic Division, \$619 million to the Medical Center, and \$19.7 million to University of Virginia’s College at Wise (Wise).

2001-02 Operating Revenues - \$1.44 billion



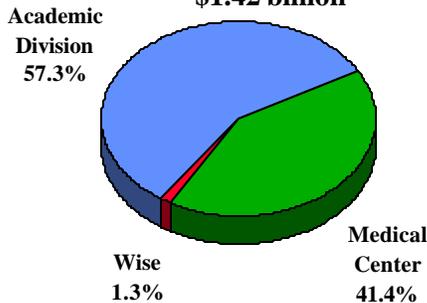
2002-03 Operating Revenues - \$1.47 billion



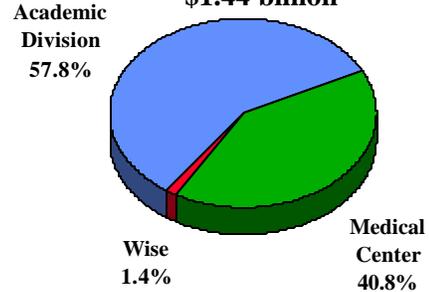
Operating Expenditures – All Divisions

The operating expenditure budgets for the period July 1, 2002 - June 30, 2003, for all divisions of the University of Virginia total \$1.44 billion. This amount represents an increase of \$27.5 million or 1.9 percent compared with the revised budgets for 2001-02. Of the total budget, \$835.8 million relates to the Academic Division, \$587.6 million to the Medical Center, and \$19.7 million to Wise.

**2001-02 Operating Expenditures
\$1.42 billion**



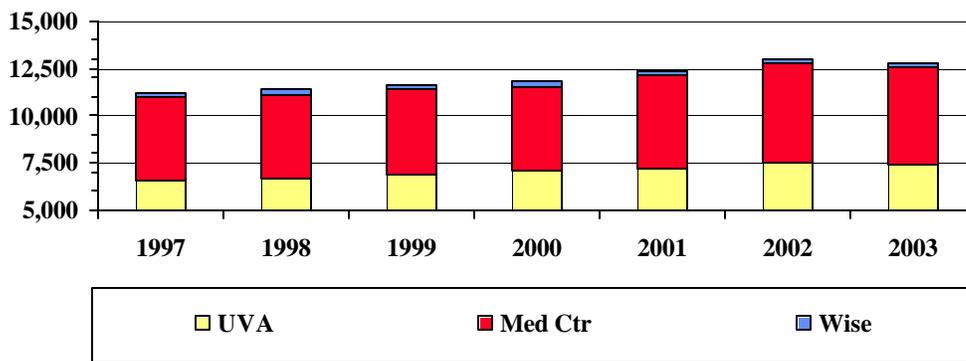
**2002-03 Operating Expenditures
\$1.44 billion**



Employment Levels – All Divisions

The 2002-03 budgeted employment levels reflect a decrease of 1.7 percent or 225 full-time equivalents (FTE) from the 2001-02 revised budget levels. The Academic Division is experiencing a decrease of 58 FTEs, the Medical Center is projecting a decrease of 172 over current staffing levels, and the College at Wise employment will increase by 5 FTE.

History of Employment Levels



Key Issues

For the Academic Division and the College at Wise, the most critical issue is the general fund budget reduction in 2002-03 - \$25.4 million for the Academic Division and \$440,000 for Wise. Faculty and staff compensation and retention are another concern. There is no 2002-03 base salary adjustment included in the 2002-04 Appropriation Act. For classified employees at the Academic Division and Wise, the General Assembly has made provision for the choice of a 2.5 percent bonus to be paid on August 30, 2002 or 80 hours of additional leave to be used by June 30, 2003. For faculty employees, the General Assembly has established a bonus pool equivalent to 2.5 percent to develop retention incentives for faculty. The University has determined that, unless a faculty member has shown non-meritorious performance, each salaried faculty member will receive a 2.5 percent bonus to be paid in the August 30 or September 30 paycheck depending upon appointment term. The language in the Appropriations Act concerning a 2.5 percent bonus payment applies also to the Medical Center. In the Medical Center section, there will be a further discussion about how this will be distributed.

While defining and funding appropriate levels of graduate financial aid through remission, fellowships, and stipends has been a concern of the University's for several years, the significant undergraduate tuition increases cause us to also focus on undergraduate financial aid in 2002-03. Finally, the continuing impact of the July 2, 2001 implementation of the Oracle financial systems is outlined, as is the 2002-03 project budget for the next steps – the stabilization of the Human Resource system which goes live on June 26, 2002 and the upgrade to the next version of the Oracle system.

For the Medical Center, providing quality patient care while continuing to manage an appropriate operating margin is the top priority. The Corporate Integrity Agreement, the new Health Insurance Portability and Accountability Act legislation, and revisions to Medicare payments due to the Balanced Budget Act are external pressures that will result in additional expenses for the Medical Center. The cost associated with providing quality patient care will continue to have upward pressure due to labor shortages and increases in pharmaceutical and medical supply expenses. Staff retention and compensation continues to be a concern as the Medical Center was forced to forego a planned annual salary increase for 2001-02.

Academic Division Budget Development

The first step in the budget development process was the projection of revenues available for expenditure in 2002-03. Actions by the Board of Visitors - approval of housing, dining, mandatory fee, and tuition rates – and the General Assembly – approval of the 2002-03 Appropriation Act – were integral to this effort.

The second step of budget development was the determination of expenditure targets for each vice president. The targets were based on preliminary budget assumptions approved by the President and reported to the Board of Visitors in October 2001, as well as the impact of the general fund reductions assessed by the General Assembly. The University had to plan for a \$25.4 million budget reduction in 2002-03, as well as other mandatory cost increases, such as E-911 service and utilities. Incremental tuition resulting from the rates approved by the Board of Visitors in April will cover only about \$12.1 million of the budget reductions, so across-the-board expenditure reductions were assessed to each unit. A reduction of 4.35 percent was assessed to each school, while a reduction of 4.6 percent was assessed to every other unit. This budget reduction generated approximately \$15.1 million to cover the remaining portion of the budget reduction and to re-establish a central reserve to meet emergency needs that will arise during the year. The target development process is designed to give maximum flexibility to vice presidents in the allocation of resources among their activities, although that is obviously limited during a period of budget reductions.

As mentioned earlier, the General Assembly has made provision for the choice of a 2.5 percent bonus to be paid on August 30, 2002 or 80 hours of additional leave to be used by June 30, 2003 for classified employees. For faculty, deans and department heads will allocate from a 2.5 percent bonus pool based on merit to be paid in the August 30 or September 30 paycheck, depending on appointment term. The bonus pool for both faculty and classified employees is being held in a central reserve at the state, and is not reflected in the 2002-03 budget of the Academic Division or Wise. As is consistent with the past few years, no incremental funding for increases in "other than personal services" budget categories has been included in the budgets or targets except as specifically identified in subsequent sections of this summary.

In the final step of budget development, vice presidents were given an opportunity to present prioritized lists of resource needs that cannot be addressed within the target budgets provided. Instructions for the 2002-03 addenda process stipulated that requests should be mandatory and unavoidable in nature. All available funds, including those specifically earmarked by the General Assembly, are then allocated in an addenda process. Incremental tuition and fee revenue, indirect cost recoveries from grants and contracts, general and administrative recoveries from auxiliaries, state general funds allocated for the maintenance and operation of new facilities and for the UVa Health Plan, and private funds provided in excess of \$21.1 million for the addenda process. The University was able to meet all mandatory commitments, re-establish a \$1 million reserve for emergency needs, and to re-allocate \$800,000 to the vice presidents to use to meet their most pressing needs related to the budget reductions. More information concerning the 2002-03 addenda allocation is included in the expenditure budget analysis later in this document.

Planning Priorities

Schools and departments have been encouraged to use resources from all available sources to meet the priorities that have been identified in the University's strategic planning efforts, including

Virginia 2020 recommendations presented to the Board in April and the Envision sessions held with each school this winter and spring. Obviously, the general fund budget reduction has most units determining how to maintain current programs, rather than program expansion. But the strategic plan priorities provided a guideline for making budget reductions, as well as programmatic expansion. Within the financial and staffing limitations established by the budget, vice presidents, deans, and directors of major units of the University have the flexibility to allocate available resources to their highest priority program requirements.

Financial Self-Sufficiency for Law and Darden

University administrators signed financial self-sufficiency understandings with the Darden School, in June 2001, and the Law School, in April 2002. The agreements will put in place the concept endorsed in November 1995 by the Board of Visitors. The financial relationship between the University and the Darden and Law Schools has been restructured to be based on a phased, tuition-driven model of Financial Self-Sufficiency designed to provide these professional schools with the financial capability to sustain long-term academic excellence. It is expected that the Darden School will be self-sufficient in 2003-04, while the Law School will reach self-sufficiency in 2004-05.

Integrated Systems Project

The Oracle Financial System went live on July 1, 2001, with about 3 months of stabilization efforts included in the 2001-02 \$12.2 million budget. The second phase – Fixed Assets and Human Resources – kicked off in July 2001. The Human Resource module will go live on June 26, 2002, while the Fixed Assets module will go live on July 1, 2002.

For 2002-03, there will be three months of stabilization efforts related to the implementation of the Human Resource System, followed by the upgrade to Version 11i of the Oracle software. The 2002-03 project budget will be \$6.5 million. Through the addenda process, ongoing costs related to the support of the new system – known as the Application Support Center – will be increased by \$1.2 million in 2002-03 due to the ongoing software maintenance costs and Human Resource implementation. Additionally, \$457,000 will be added to the Department of Training that assumes the ongoing responsibility for training and help desk support of Oracle Human Resources and Fixed Assets after implementation.

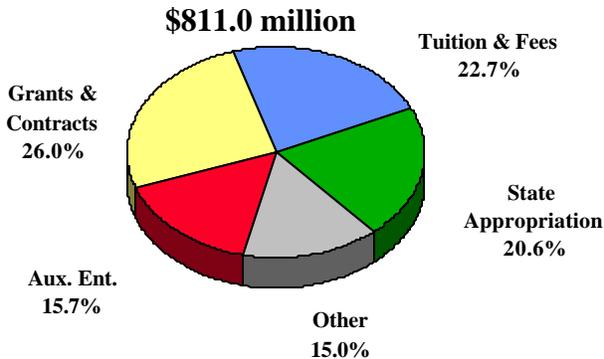
Higher Education Equipment Trust (HEET)

The 1986 General Assembly authorized the establishment of a statewide HEET designed to meet the high priority equipment needs of institutions of higher education. Through June 30, 2002, the University has received \$78.4 million. The next allocation is scheduled for July 2002, at which time the University expects to receive \$5.4 million – a decrease from the \$7.6 million received in July 2001. This decrease will negatively impact the amount of scientific and technological equipment that can be acquired by the schools, as well as the start-up of new faculty laboratories. This funding comes to the University as reimbursement of purchases, so neither the allocation nor the related purchases are included in the University's 2002-03 budget.

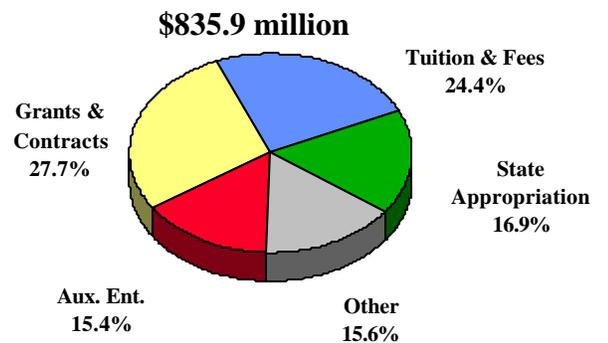
Academic Division Revenues

Academic Division revenues are projected to total \$835.9 million in 2002-03, an increase of 3.1 percent over the revised budget for the current fiscal year. The Revenue Budget Summary appears on the next page, and the Revenue Budget Detail appears on page 17. Academic Division revenues are made up of the following sources:

2001-02 Academic Division Revenues



2002-03 Academic Division Revenues



State General Fund Appropriation

State general funds are tax revenues which are appropriated by the General Assembly for the use of the institution. The state general fund appropriation is made up of an appropriation for educational and general programs, a special appropriation to partially match the earnings on Eminent Scholar endowments, and an appropriation for student financial aid.

The revised 2001-02 general fund appropriations for educational and general programs of \$161.6 million is a \$1.3 million decrease over the original 2001-02 budget of \$162.9 million. This reduction is due to a three percent across-the-board budget reduction of \$4.9 million and \$2.4 million of technical adjustments (primarily in state retirement contributions), with offsetting increases of \$4.6 million due to a re-appropriated June 30, 2001 balance and \$1.4 million from Commonwealth Technology Research Fund (CTRF) awards.

The 2002-03 budget for general fund appropriations has been developed using the approved 2002-04 Appropriations Act. There will be a \$26.9 million decrease from the original 2001-02 budget to \$141.6 million. This decrease is made up \$25.9 million budget reductions, \$5.0 million of technical adjustments (primarily in state retirement contributions), with offsetting increases of \$2.4 million for the operations and maintenance of new facilities, \$1 million for CTRF awards and \$780,000 for the funding of the UVa Health Plan.

A portion of the budget reduction seen in the general fund appropriation is related to projected decreases in Eminent Scholar matching funds for 2001-02 (from \$3.7 million to \$3.6 million) and in 2002-03 (to \$3.4 million). The University will fund the decrease in state funding from private resources, increasing the University's Eminent Scholar match to \$530,000.

**University of Virginia - Academic Division
Revenue Budget Summary**

	2002-03	Original 2001-02	Revised 2001-02	Dollar Change from Revised 2001-02 to 2002-03	Percentage Change from Revised 2001-02 to 02-03
Revenues from Educational and General Activities					
Tuition and Fees	\$ 179,705,357	\$ 160,414,843	\$ 161,977,175	\$ 17,728,182	10.9%
State General Fund Appropriation	136,015,517	162,901,071	161,625,571	(25,610,054)	(15.8%)
Grants, Contracts and Indirect Cost Recoveries	217,123,124	207,895,000	197,647,200	19,475,924	9.9%
Endowment Income	56,119,146	42,699,701	53,778,636	2,340,510	4.4%
Gifts	27,707,599	58,829,000	25,913,394	1,794,205	6.9%
Sales, Services, Investment Income and Other	19,292,935	18,295,345	18,229,350	1,063,585	5.8%
Total Revenues from Educational and General Activities	635,963,678	651,034,960	619,171,326	16,792,352	2.7%
Revenues from Student Financial Assistance					
Transfer from Tuition and Fees	24,503,252	22,405,828	22,453,753	2,049,499	9.1%
State General Fund Appropriation	5,550,128	5,418,047	5,544,065	6,063	0.1%
Grants, Contracts and Indirect Cost Recoveries	14,475,400	14,290,000	13,132,800	1,342,600	10.2%
Endowment Income	12,261,910	12,227,745	11,721,592	540,318	4.6%
Gifts	13,950,347	11,648,870	11,630,000	2,320,347	20.0%
Investment Income and Other	451,940	354,455	430,608	21,332	5.0%
Total Revenues from Student Financial Assistance	71,192,977	66,344,945	64,912,818	6,280,159	9.7%
Revenues from Auxiliary Enterprises					
Athletics	24,879,288	22,971,479	23,710,866	1,168,422	4.9%
University Bookstore and Cavalier Computers	28,225,300	23,209,600	29,619,600	(1,394,300)	(4.7%)
Housing and Conference Services	22,564,000	20,905,600	20,910,600	1,653,400	7.9%
Parking and Transportation	11,217,000	8,328,000	11,077,000	140,000	1.3%
Voice Communications	10,606,711	760,499	11,261,438	(654,727)	(5.8%)
Student Health	6,318,428	6,046,600	6,046,600	271,828	4.5%
Intramural/Recreation Sports	4,685,500	4,021,100	4,021,100	664,400	1.7%
Printing Services	4,616,600	650,600	4,734,700	(118,100)	(2.5%)
Newcomb Hall and University Programming Council	4,140,573	4,094,518	4,099,051	41,522	1.0%
Dining Services	3,087,600	3,863,000	3,863,000	(775,400)	(20.1%)
Other Auxiliary Activities	8,385,070	4,500,333	7,590,596	794,474	10.5%
Total Revenues from Auxiliary Enterprises	128,726,070	99,351,329	126,934,551	1,791,519	1.4%
Total Revenue Budget - Academic Division	\$ 835,882,725	\$ 816,731,234	\$ 811,018,695	\$ 24,864,030	3.1%

The budget reductions can be expected to further diminish the University's standing relative to public peer institutions in the amount of general fund appropriations per in-state student. The following chart shows the University's standing using the 2001-02 original state appropriation for each school:

School	2001-02 GF per In-state Student
University of North Carolina - Chapel Hill	\$24,178
University of California - Berkeley	\$22,309
University of Michigan - Ann Arbor	\$17,082
University of Virginia	\$13,083

It is anticipated that the 2002-03 general fund appropriations per in-state student for the University will decrease to around \$11,000.

The 2001-02 revised general fund appropriation for financial aid includes a one-time adjustment of \$15,000 for the June 30, 2001 remaining cash balance, as well as \$112,000 in special state appropriations for financial aid. The 2002-03 general fund appropriation for financial aid includes an increase of \$134,000 to maintain the current level of state-funded financial aid, given the in-state tuition increases for 2002-03.

Non-general Fund Revenue

Non-general fund revenues are resources which are earned or generated by the University such as tuition, indirect cost recoveries, grants and contracts, auxiliaries, or from private resources. With the exception of gifts and endowment income, non-general funds are also appropriated by the General Assembly. The different sources of non-general fund revenue are described in further detail in subsequent sections of this document.

Tuition and Fees

The revised 2001-02 tuition and fees budget is \$1.6 million more than originally approved last June due primarily to higher than expected graduate enrollments. Graduate enrollments, which had been decreasing over the past several years, showed a strong recovery as the state and nation entered a recession resulting in greater than expected tuition revenues. It is anticipated that this trend will continue, just based upon the number of applications received during 2001-02 for the 2002-03 academic year. 2001-02 application fee revenue is up in many of the graduate schools, as well as in undergraduate admissions, indicating an increase in the number of applications.

Tuition and fee revenues available for educational and general programs are projected to increase \$17.7 million or 11.1 percent in the next fiscal year to \$179.7 million. The 2002-03 tuition and fees budget was developed using the enrollment projections approved by the Board of Visitors in April 2001, as well as recent graduate enrollment trends. The budget assumes that the current in-state versus out-of-state ratios will remain unchanged. For 2001-02, that is 68 percent in-state in the undergraduate schools, 41 percent in-state in the graduate schools (including Darden), and 55 percent in the first professional schools.

The University's approved enrollment growth plan shows that Fall 2002 on-grounds enrollment will total 18,802 students. Of the expected 12,620 undergraduate students, 68 percent will be Virginians. The off-grounds enrollment projection for the fall is 3,800 students, of which 73 percent will be Virginians. It is projected that the first year class will include 2,985 students, an increase of 5 over actual enrollment in the Fall 2001, while 525 students will transfer to

the University.

The 2002-04 Appropriation Act, as approved by the General Assembly and the Governor, removes the freeze on tuition and E&G fees for Virginia resident undergraduate students, but recommended an increase of no more than nine percent in each year of the biennium. Tuition and fee rates for out-of-state undergraduate, graduate, and professional school students are set at the discretion of the Board of Visitors. The 2002-03 budget reflects the expected revenue to be generated by the tuition increases shown in the following chart, consistent with the state's policy and as approved by the Board:

	In-State			Out-of-State		
	2002-03 Tuition and Fees	\$ Increase from Prior Year	% Increase from Prior Year	2002-03 Tuition and Fees	\$ Increase from Prior Year	% Increase from Prior Year
Undergraduate	\$4,569	\$372	8.8%	\$19,779	\$1,550	8.5%
Graduate	\$5,635	\$496	9.7%	\$18,725	\$496	2.7%
Darden, 1 st yr	\$25,750	n/a	n/a	\$30,750	n/a	n/a
Darden Returning 2 nd yr	\$24,250	\$2,061	9.3%	\$29,250	\$2,061	7.6%
Law, 1 st yr	\$20,567	n/a	n/a	\$26,907	n/a	n/a
Law, Returning 2 nd yr	\$19,367	\$1,350	7.5%	\$26,907	\$1,664	6.6%
Law, Returning 3 rd yr	\$18,167	\$1,350	8.0%	\$26,907	\$1,664	6.6%
Medicine, 1 st yr	\$18,153	n/a	n/a	\$30,435	n/a	n/a
Medicine, Returning 2 nd yr	\$16,653	\$1,348	8.8%	\$30,435	\$2,630	9.5%
Medicine, Returning 3 rd yr	\$15,653	\$1,348	9.4%	\$30,435	\$2,630	9.5%
Medicine, Returning 4 th yr	\$15,653	\$1,348	9.4%	\$30,435	\$2,630	9.5%

Approximately \$10 million of the \$17.7 million increase is allocable to changes in undergraduate and graduate enrollment (excluding Darden's planned increase) and tuition increases in undergraduate and graduate tuition (excluding Law, Darden, executive-style programs in McIntire and Medicine), Summer Session and the School of Professional and Continuing Studies (SCPS). Incremental tuition revenue will be used to partially address the state budget reductions.

Approximately \$3.1 million of the incremental tuition revenue is allocable to Darden, due to the tuition increases and surcharges approved by the Board in April and the addition of a new section of sixty students in Fall 2002. Darden plans to use \$848,000 of the incremental revenue to address its budget reduction, \$1.8 million of the incremental revenue to address program growth and \$365,000 to fund operations and maintenance for its new facilities.

Approximately \$1.9 million of the incremental tuition revenue is allocable to Law, due to the tuition increases and surcharges approved by the Board in April. Law plans to use \$1.5 million of the incremental revenue to address its budget reduction, \$200,000 for additional financial aid, and \$200,000 for salary commitments to new faculty.

Approximately \$1.1 million of the incremental tuition revenue is allocable to Medicine, due to tuition increases and surcharges approved by the Board in April. All of this increase will be used to address budget reductions.

Approximately \$500,000 of the incremental tuition revenue is allocable to SCPS due to program growth and \$500,000 is allocable to the McIntire School due to program growth in their executive-style masters programs, in accordance with the tuition sharing agreement with both schools. Finally, \$400,000 is allocable to the new E&G Facilities fee beginning in the fall of 2002 to be first used towards meeting the debt service on the South Lawn project.

Over \$23.9 million or 13.6 percent of gross regular session tuition revenue is allocated to undergraduate and graduate financial aid. The following programs are supported through this allocation:

- \$7.7 million is allocated to undergraduate aid, an increase of \$335,000 over 2001-02.
- \$7.5 million is allocated to the out-of-state graduate student tuition adjustment program. To qualify for the program, an out-of-state graduate student must be employed in a significant academic capacity and earn a contract rate of at least \$5,000 during the fiscal year. The maximum award is limited to the differential between in-state and out-of-state tuition rates as approved by the Board of Visitors.
- \$4.4 million is allocated to enhance the support of graduate teaching assistants, as the University continues to provide in-state tuition, required fees, and a healthcare voucher to eligible graduate teaching assistants.
- \$4.2 million is allocated to in-state and out-of-state graduate financial aid.

Endowment Income

Approximately \$78.6 million will be distributed from the pooled endowment fund in 2002-03. However, endowment income is recognized as revenue as it is expended not as it is distributed. Based upon historical levels of expenditure and the changes in the per share distribution amounts, an estimated \$68.4 million will be recognized as revenue and expended in 2002-03. The entire amount distributed will not be expended due to donor restrictions on the endowments, unfilled professorships due to limitations on hiring related to state budget reductions, or accumulations of reserves for future commitments (for example, the South Lawn Project and the Groundswalk).

Of the \$68.4 million projected for expenditure in 2002-03, \$56.1 million will be expended for educational and general purposes, while the remaining \$12.3 million will be expended for student financial aid. In addition to the endowed scholarships and fellowships, the 2002-03 student financial assistance budget includes \$618,000 for the President's Fellowships and \$935,850 for continued funding of a merit scholarship program established in 1985-86.

Gift Income

There is a significant change from the original 2001-02 budget for gift revenue of approximately \$70 million to the revised budget of \$37.5 million. This change is due to an Oracle-related accounting change. Previously about \$32 million in clinical salaries for faculty physicians were recognized in the Academic Division budget, with an offsetting contribution from the Health Services Foundation recognized as gift revenue. With the conversion to Oracle in July 2001, the physicians' clinical salaries are now charged directly to the Health Services Foundation, eliminating both the expenditure in the School of Medicine and recognition of the gift revenue.

Like endowment revenue, gift revenue is recognized as it is expended rather than as it is received. Gift revenues

are expected to increase from the 2001-02 revised budget to \$41.7 million or 11.2 percent, as estimated by the departments receiving the gifts. Of the \$41.7 million projected for expenditure in 2002-03, \$27.8 million will be expended for educational and general purposes, while the remaining \$13.9 million will be expended for student financial aid.

Sponsored Programs and Indirect Cost Recoveries

Based upon the expenditure trends and the value of new sponsored program awards received during the period July 2001 - March 2002, revenues and expenditures from Grants, Contracts and Indirect Cost Recoveries are expected to increase by 9.9 percent over the 2001-02 revised budget. Through March 31, 2002, new sponsored program awards are up 22 percent over the same period in 2000-01. It is estimated that about half of that award growth will be realized in revenues and expenditures in 2002-03.

Total sponsored programs and indirect cost recoveries are budgeted at \$231 million in 2002-03. Indirect cost recoveries will comprise \$51.7 million of that total, with 30 percent of that amount or \$15.5 million allocated to educational and general programs. Direct revenues from grants and contracts will be budgeted at \$179.9 million. \$14.5 million of sponsored programs and indirect cost recoveries will support student financial aid.

Other Revenues

Revenues from other sources including current funds investments and sales and services of educational departments will increase \$1.1 million or 5.7 percent in 2002-03. \$452,000 of the \$20.1 million generated from other sources will be allocated to financial aid.

Auxiliary Enterprises

An auxiliary enterprise is an entity that exists to furnish goods or services to students, faculty or staff and charges a fee that is directly related, although not necessarily equal, to the cost of the service. Auxiliary enterprises are expected to be self-supporting, with revenues fully supporting the operating and capital expenditures of the enterprise. Additionally, the Commonwealth requires that auxiliaries be charged an overhead rate to support the general and administrative services provided by the E&G operations. In 2002-03 and 2001-02, the auxiliaries are charged 6.31 percent of their operating expenditures – a total of \$4.1 million will be recovered by E&G operations. In return for payment of general and administrative support, auxiliary enterprises are credited with interest earned on their cash balances.

The auxiliary enterprises include Athletics and Intramural Sports, University Bookstore and Cavalier Computers, Housing and Conference Services, Parking and Transportation, Voice Communications, Student Health, Printing Services, Newcomb Hall and University Programming, Dining Services, Mail Services, Leased Facilities, University Press, and other activities operated to serve students, faculty, and staff. Emphasis is placed on providing safe, effective, and efficient enterprises that are compatible with and facilitate the accomplishment of the University's primary mission.

Revenue projections were developed using the enrollment projections approved by the Board of Visitors in June 2001, the housing rates approved by the Board of Visitors in January 2002, and the dining, and mandatory non-E&G fees approved by the Board of Visitors in April 2002. Increases in student fees support operating cost increases

in University Transit, Escort Services, Recreational Facilities, Athletics, and Student Health. Revenues from all auxiliary enterprises are estimated to total \$128.7 million in 2002-03, an increase of 1.4 percent over the 2001-02 revised budget. \$24 million of the \$27 million change from the original 2001-02 budget to the revised 2001-02 budget is due to another Oracle-related accounting change. Previously sales by auxiliaries to units internal to the University were recorded as recoveries and netted against expenditures of the auxiliary. For example, sales of computer hardware made to academic and administrative departments from Cavalier Computers were previously recorded not as a revenue, but as a recovery of expenditures. A second example is local and long distance telephone service provided by Voice Communications. Beginning in the revised 2001-02 budget, these internal sales are recorded as revenue, hence the significant increase in both revenues and expenditures for the auxiliaries.

The proposed revenue budgets for auxiliary enterprises reflect the rates approved by the Board of Visitors earlier in 2002. The Athletics revenue budget includes \$870,000 related to the \$50 increase in student fees approved by the Board of Visitors for 2002-03. This \$50 increase has not yet been approved by the Department of Planning and Budget. If it is not approved, the revenue budget will have to be reduced by the \$870,000. The Athletics budget has been reconciled to projected revenues from the 5 Year Plan previously presented to the Board of Visitors – the primary difference is that revenues related to Debt Service Fees collected by Athletics for facilities were not included in the 5 Year Plan.

Revenue changes which are **not** based on Board approved rates are explained below:

- Under the dining services contract with ARAMARK Corporation, net revenues received by the University in 2002-03 are expected to total \$3.1 million. Of this amount, approximately \$2,600 represents vending and concessions commissions, \$160,000 represents interest income, and the remaining \$2.9 million is from total board and retail sales. Rates for contract meal plans were approved by the Board of Visitors in April and were increased at an average of 1.8 percent.
- University Bookstore and Cavalier Computer sales are estimated at \$28.2 million in 2002-03, \$1.4 million, or 4.7 percent, below the 2001-2002 revised revenue budget of \$29.6 million. Cavalier Computer expects a decline in sales to departments resulting from budget constraints. It is also projected that sales to students will decrease \$370,000. The Bookstore operations project a net increase in student and departmental sales of \$132,000.
- Revenue from other auxiliary enterprise activities, including leased facilities, the satellite uplink, the child care center, mail services, and the support of the Center for University Programs is projected to increase by 10.5 percent in 2002-03.

University of Virginia - Academic Division
Revenue Budget Detail

	2002-2003	Revised 2001-2002
Revenues For Educational and General		
<i>State Funds for Educational and General</i>		
State Nongeneral Fund Appropriations for Educational and General		
<i>Tuition and Program Fees</i>		
Regular Session Tuition		
Architecture	\$ 3,454,735	3,251,384
Graduate Architecture	1,642,410	1,561,881
College of Arts & Sciences	71,967,082	66,451,125
Graduate Arts & Sciences	12,526,938	11,483,053
Commerce	5,580,026	5,126,050
Graduate Commerce	235,894	632,403
Education	1,014,943	800,731
Graduate Education	4,912,313	4,767,454
Engineering	16,683,935	15,268,129
Graduate Engineering	5,486,908	4,486,826
Darden MBA	15,487,484	11,780,568
Darden DBA	144,532	108,054
Law	23,075,636	21,412,623
Graduate Law	1,048,875	991,915
Medicine	10,250,384	8,859,247
Nursing	1,778,610	1,637,718
Graduate Nursing	546,662	430,839
Subtotal Regular Session Tuition	175,837,367	159,050,000
Transfer to Financial Aid - Undergrad Tuition Remission	(2,476,732)	(2,476,732)
Transfer to Financial Aid - Undergrad Excess Tuition	(5,252,953)	(4,917,953)
Transfer to Financial Aid - Grad Out-of-State Tuition Adjustment	(7,547,181)	(7,330,278)
Transfer to Financial Aid - GTA Remission	(3,638,669)	(3,327,434)
Transfer to Financial Aid - GTA Healthcare	(798,940)	(381,250)
Transfer to Financial Aid - Grad Excess Tuition	(4,202,301)	(3,715,106)
Subtotal Tuition Transferred to Financial Aid	(23,916,776)	(22,148,753)
Percentage of Regular Session Tuition Transferred to Financial Aid	13.6%	13.9%
Net Regular Session Tuition	151,920,591	136,901,247
Other Tuition and Program Fees		
School of Continuing and Professional Studies Tuition and Fees	11,387,016	10,132,343
McIntire Executive and E&Y Degree Program Tuition and Fees	6,031,383	5,014,000
Summer Session	4,320,000	4,000,000
Mandatory E&G Fees	1,986,000	1,840,000
Application Fees	1,776,700	1,734,000
Other Program Fees	1,276,825	1,306,725
Total Other Tuition and Program Fees	26,777,924	24,027,068
<i>Total Tuition and Program Fees</i>	178,698,515	160,928,315

University of Virginia - Academic Division
Revenue Budget Detail (continued)

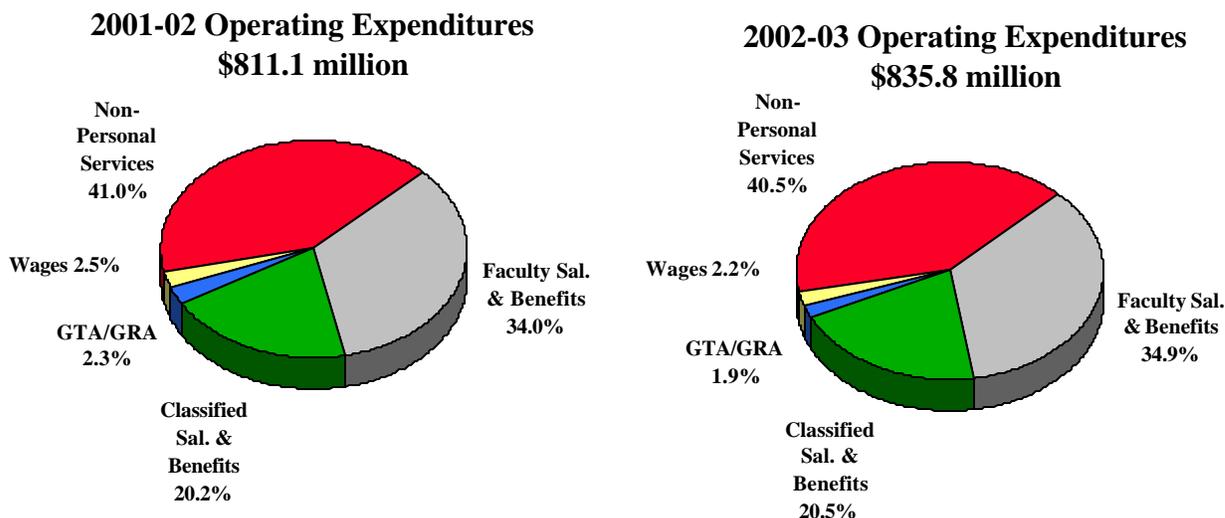
	2002-2003	Revised 2001-2002
<i>Revenue from Fines, Rents, Sales and Services</i>	\$ 1,670,561	\$ 1,423,686
<i>Recovery of Indirect Costs (30%)</i>	15,500,000	14,300,000
<i>Recovery of Indirect Costs (30%) Transferred to Financial Aid - GRA Healthcare</i>	(586,476)	(305,000)
<i>Work Study Revenue</i>	585,000	585,000
Total State Nongeneral Fund Appropriations for Educational and General	195,867,600	176,932,001
State General Fund Appropriations		
Legislative Appropriations	136,436,462	152,048,583
Anticipated State Adjustments	(4,865,136)	-
Reappropriation of 2000-01 Carryforward	-	4,596,363
Total State General Fund Appropriations	131,571,326	156,644,946
Special State General Fund Appropriations		
Eminent Scholars Matching Funds	3,411,392	3,558,118
Commonwealth Technology Research Fund Awards	1,032,799	1,382,525
Other Special General Fund Appropriations	-	39,982
Total Special State General Fund Appropriations	4,444,191	4,980,625
Grants, Contracts & Indirect Cost Recoveries	201,624,600	183,067,200
<i>Total State Funds for Educational and General</i>	533,507,717	521,624,772
<i>University Funds for Educational and General</i>		
Student Activity Fees	1,006,842	1,048,860
Endowment Income	56,119,146	53,778,636
Private Gifts and Grants	27,707,599	25,913,394
Sales, Services, Investment and Other Income	17,622,374	16,805,664
<i>Total University Funds for Educational and General</i>	102,455,961	97,546,554
Total Revenues from Educational and General	635,963,678	619,171,326
Revenues from Student Financial Assistance		
State General Fund Appropriations	5,526,064	5,406,966
Virginia Graduate and Undergraduate Assistance Program	24,064	25,099
Special State General Fund Appropriations	-	112,000
Transfer from Regular Session Tuition	23,916,776	22,148,753
Transfer from E&G Indirect Cost Recoveries	586,476	305,000
Grants, Contracts and Indirect Cost Recoveries	14,475,400	13,132,800
Endowment Income	12,261,910	11,721,592
Private Gifts and Grants	13,950,347	11,630,000
Investment Income	451,940	430,608
Total Revenues from Student Financial Assistance	71,192,977	64,912,818

University of Virginia - Academic Division
Revenue Budget Detail (continued)

	2002-2003	Revised 2001-2002
Revenues from Auxiliary Enterprises		
Athletics		
TV, Radio, Licensing and Sponsorship	\$ 1,771,796	\$ 1,605,185
Conference Revenue	7,625,000	7,275,000
Gate Receipts	7,984,992	8,772,867
Student Fees	5,761,300	4,911,300
Other	1,736,200	1,146,514
Total Athletics	24,879,288	23,710,866
University Bookstore and Cavalier Computers	28,225,300	29,619,600
Housing		
Student Housing Rents	19,395,000	17,790,000
Housing Conference Services	2,458,000	2,468,800
Faculty and Staff Housing	711,000	651,800
Total Housing Services	22,564,000	20,910,600
Parking and Transportation Services		
Student Fees	1,978,000	2,012,000
Parking Fees, Bus Passes, Charter Fees and Other Income	9,239,000	9,065,000
Total Parking and Transportation Services	11,217,000	11,077,000
Voice Communications	10,606,711	11,261,438
Student Health	6,318,428	6,046,600
Intramural/Recreation Sports	4,685,500	4,021,100
Printing Services	4,616,600	4,734,700
Newcomb Hall and University Programming Council	4,140,573	4,099,051
Dining Services	3,087,600	3,863,000
Leased Facilities	2,820,388	2,820,388
University Mail Services	1,955,010	1,590,000
University Press	1,618,210	1,602,900
Other Auxiliary Activities	1,991,462	1,577,308
Total Revenues from Auxiliary Enterprises	128,726,070	126,934,551
Total Revenue Budget – Academic Division	\$ 835,882,725	\$ 811,018,695

Academic Division Expenditures by Functional Classification

Academic Division expenditures are projected to total \$835.8 million in 2002-03, an increase of 3.0 percent over the revised budget for the current fiscal year. Academic Division expenditures are budgeted in the following functional categories, with detail on the next page:



As mentioned earlier, no faculty or classified base salary increases have been approved by the General Assembly. There is a provision for bonuses included in the Appropriation Act, but these have not yet been appropriated to the University and are not reflected in the 2002-03 budget. While the Commonwealth's stated goal continues to be maintenance of the instructional faculty salary average at the 60th percentile of each institution's peer group, the 2001 budget impasse and the 2002-03 budget reductions have depressed the University's faculty salary average in comparison to peers. With no increases in 2001-02, the University's average faculty salary fell to the 36th percentile of the benchmark salary group. It is projected that in 2002-03, assuming peer faculty salary increases average 3 percent, the University's average faculty salary could fall as far as the 28th percentile.

Faculty compensation remains a strong priority for the University, particularly those faculty who were promoted or received tenure in 2001-02 and 2002-03 without corresponding salary increases. Through the addenda process, the University has allocated up to \$480,000 annually for salary increases to faculty who were promoted or received tenure in 2001-02, effective May 1, 2002, and up to \$480,000 annually for salary increases to faculty who will be promoted or will receive tenure in 2002-03, with the increase to be effective November 25, 2002.

While salaries remain unchanged in 2002-03, there is a significant decrease in the fringe benefit rate. The General Assembly approved a decrease in Virginia Retirement System contribution from 9.24 percent of an individual's salary to 5.0 percent. One hundred percent of this cost savings – about \$3.9 million in both general and non-general funds – will be reverted to the state.

University of Virginia – Academic Division
Expenditure Budget Detail - by Functional Classification

	2002-2003		Revised 2001-2002	
	FTE	Amount	FTE	Amount
Expenditures for Educational & General Activities				
<i>State Funds for Educational and General Activities</i>				
Faculty Salaries and Fringe Benefits	3,086.98	\$ 279,744,650	3,044.58	\$ 264,616,619
Classified Salaries and Fringe Benefits	3,276.22	149,961,075	3,276.27	142,364,172
Wages and Fringe Benefits	-	13,045,010	-	14,642,785
GTA/GRA Wages	295.04	16,024,872	387.78	18,982,953
Subtotal Personal Services	6,658.24	458,775,607	6,708.63	440,606,529
Other Than Personal Services		438,078,220		402,489,763
Recoveries		(261,064,210)		(224,198,467)
Transfers		174,061		273,501
Total Expenditures for Educational & General Activities	6,658.24	635,963,678	6,708.63	619,171,326
Total Expenditures for Student Financial Assistance		71,192,977		64,912,818
Expenditures for Auxiliary Enterprises				
Faculty Salaries and Fringe Benefits	147.04	12,281,049	142.18	11,470,205
Classified Salaries and Fringe Benefits	618.41	21,438,476	630.48	21,339,032
Wages and Fringe Benefits	-	5,163,411	-	5,582,096
GTA/GRA Wages	-	10,000	-	10,000
Subtotal Personal Services	765.45	38,892,936	772.66	38,401,333
Other Than Personal Services		81,238,766		76,454,498
Recoveries		(11,785,006)		(10,434,090)
Transfers		20,318,281		22,643,920
Total Expenditures for Auxiliary Enterprises	765.45	128,664,977	772.66	127,065,661
Total Expenditure Budget - Academic Division	7,423.69	\$ 835,821,632	7,481.29	\$ 811,149,805

Staffing

The Academic Division is experiencing a decline in FTE positions of 58. The decrease is made up of a decrease of 39 in local E&G programs, 8 in state E&G programs, 7.5 in auxiliaries and 3.5 in sponsored programs. Sponsored program positions are supported by growth in sponsored program expenditures. If sponsored program awards do not support the projected number of FTEs, the positions will not be created. The state E&G decrease of 8 FTEs is related to the elimination of the office of the VP for the Health System (18 employees now report to the CEO of the Medical Center), offset by an increase of 12 FTEs related to the operation and maintenance of new facilities coming on-line at the University. The budget for state funded positions has not yet been adjusted to account for the elimination of vacant positions under the University's budget reduction plan.

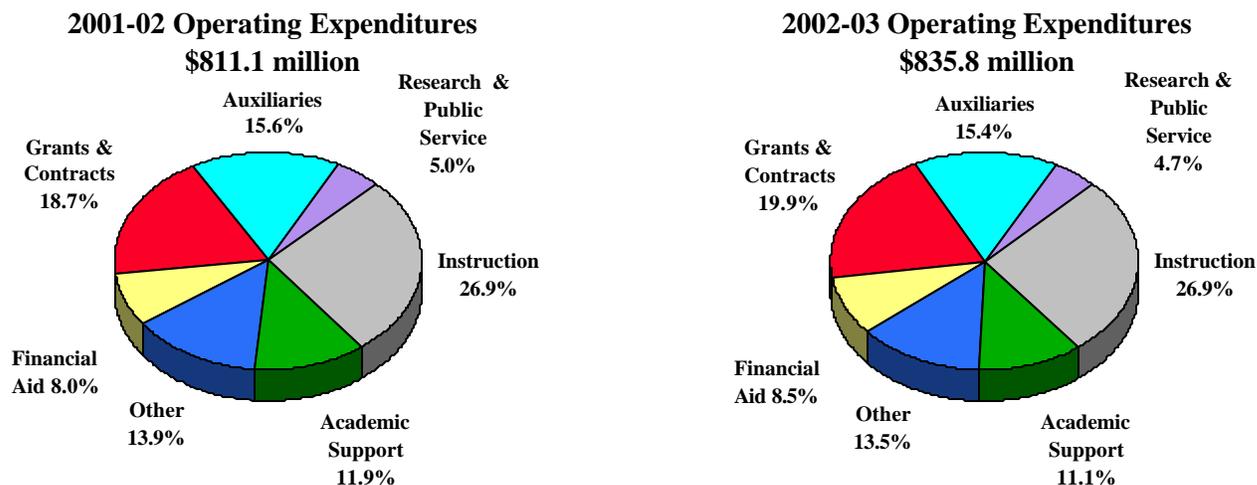
The 2002-03 budget reflects a net decrease of 7.5 FTE positions in auxiliary enterprises over the 2001-02 revised budget. The decrease is made up of 20 positions in Dining Services and 2 in Printing Services, offset by increases in Parking and Transportation (4), Athletics (3), Escort Services (2), Housing (3), and SCPS auxiliaries (2).

A total of 7,431 FTE positions are budgeted in the Academic Division for 2002-03. Of this number, 2,502 positions are involved directly in the primary programs of instruction, research, and public service. Another 1,529 positions are involved in sponsored programs and related indirect cost recoveries. A summary of all budgeted positions (both state and local) in the Academic Division is presented below:

	2002-03 Budgeted
	<u>Positions</u>
Educational & General	5,129
Sponsored Programs	1,529
Auxiliary Enterprises	<u>765</u>
	7,423

Academic Division Expenditures by Programmatic Category

The Expenditure Budget Summary appears on the next page, and the Expenditure Budget Detail can be found on page 30. Academic Division expenditures are budgeted in the following programmatic categories.



Educational and General

Educational and general (E&G) is a term used to describe operations that are related directly to the University's educational objectives. E&G expenditures include primary and support programs of instruction, research, public service, academic support, student services, institutional support, and maintenance and operation of physical plant. Excluded are the programs of student financial assistance, auxiliary enterprises, and hospitals.

Instruction

The program of instruction includes the teaching faculty, support staff, instructional equipment, and operating costs directly related to instruction, as well as departmental research. The increase in the 2002-03 instructional budget is \$6.6 million or 3.0 percent. Approximately \$6.2 million of the increase is the result of additional private resources allocated to instruction. The remaining increase of \$443,000 is related to state funds.

Budget reductions will impact the instructional budget by \$6.4 million. Offsetting this are increases of \$6.3 million from tuition that will be generated and retained by Law, Darden, Medicine, McIntire, and the School of Continuing and Professional Studies (SCPS) through excess tuition and tuition surcharge agreements. Through the addenda process, the University has been able to meet the highest priority instructional need, by allocating \$730,000 towards base compensation increases for faculty who were promoted in 2001-02 and who will be promoted in 2002-03. Additionally, \$81,000 will be reserved to support the Bachelor of Interdisciplinary Studies program. Through the addenda process, \$582,000 has been allocated to the Provost's Office to help meet critical needs related to the

academic budget reductions.

**University of Virginia - Academic Division
Expenditure Budget Summary**

	2002-2003	Original 2001-2002	Revised 2001-2002	Dollar Change from Revised 2001-02 to 2002-03	Percentage Change from Revised 2001-02 to 02-03
Expenditures for Educational & General Activities					
Instruction	\$ 224,643,538	\$ 226,021,136	\$ 218,022,606	\$ 6,620,932	3.0%
Research	27,341,626	23,478,948	27,646,404	(304,778)	(1.1%)
Public Service	11,285,592	23,458,386	12,933,150	(1,647,558)	(12.7%)
Academic Support	92,724,591	95,764,703	96,372,433	(3,647,842)	(3.8%)
Student Services	15,968,923	18,759,921	17,181,892	(1,212,969)	(7.1%)
Institutional Support	45,999,867	51,510,851	44,806,018	1,193,849	2.7%
Operation and Maintenance of Physical Plant	50,692,541	46,501,015	50,804,823	(112,282)	(0.2%)
Grants and Contracts	167,307,000	165,540,000	151,404,000	15,903,000	10.5%
Total Expenditures for Educational & General Activities	635,963,678	651,034,960	619,171,326	16,792,352	2.7%
Total Expenditures for Student Financial Assistance	71,192,977	66,344,945	64,912,818	6,280,159	9.7%
Expenditures for Auxiliary Enterprises					
Athletics	24,825,573	22,971,479	23,611,342	1,214,231	5.1%
University Bookstore and Cavalier Computers	28,123,000	22,959,800	29,369,800	(1,246,800)	(4.2%)
Housing and Conference Services	22,422,440	20,817,100	20,823,499	1,598,941	7.7%
Parking and Transportation Services	11,182,000	8,328,000	11,077,000	105,000	0.9%
Voice Communications	10,606,711	760,449	11,261,438	(654,727)	(5.8%)
Student Health	6,318,428	6,012,700	6,012,700	305,728	5.1%
Intramural/Recreation Sports	4,685,500	4,021,100	4,021,100	664,400	1.7%
Printing Services	4,616,600	650,600	4,734,700	(118,100)	(2.5%)
Newcomb Hall and University Programming Council	4,349,099	4,040,051	4,099,051	250,048	6.1%
Dining Services	3,073,900	3,855,000	3,855,000	(781,100)	(20.3%)
Other Auxiliary Enterprises	8,461,726	4,519,475	8,200,031	261,695	3.2%
Total Expenditures for Auxiliary Enterprises	128,664,977	98,935,754	127,065,661	1,599,316	1.3%
Total Expenditure Budget - Academic Division	\$ 835,821,632	\$ 816,315,659	\$ 811,149,805	\$ 24,671,827	3.0%

2002-03 will be the final year of a three-year commitment to provide \$1 million annually to establish the Funding Excellence in Science and Technology (FEST) awards. A portion of the funds are awarded in the form of small exploratory grants of \$10,000 or less, while the majority of the funds are awarded in the form of excellence grants for amounts from \$50,000 to \$500,000. A recent FEST seed grant was instrumental in helping biomedical engineering (BME) researchers leverage a \$3.6 million National Institutes of Health award. The goal of the BME gene circuitry research is to advance the knowledge needed to harness the body's natural ability to prevent disease, and eventually to grow replacement tissue for human transplantation. Exploratory FEST awards have supported a national conference on the strategic responses to risks of terrorism and a University symposium on undergraduate research. The Development Office and the Vice President for Research are working to replace these institutional funds with private donations when the commitment expires in 2003-04.

Research

The 2002-2003 educational and general research program includes the Center for Public Service, Center for Advanced Studies, Center for Politics, Fishery Resource grants, the State Climatologist, the Institute of Nuclear and Particle Physics, and the Diabetes Research and Training Center. In addition to these specific activities, the program includes support for research faculty but does not include sponsored research or departmental research. In 2002-03 funding from state, indirect cost recovery and private sources for educational and general research activities is projected to decrease by \$305,000 to \$27.3 million. The decreases from the revised 2001-02 budget to 2002-03 were partially offset by additional support from indirect cost recoveries. The 2002-04 Appropriations Act includes \$400,000 in specific reductions to research and public service centers. The revised 2001-02 and the 2002-03 research budgets include awards from the Commonwealth Technology Research Fund. Four awards of \$1.4 million were made in 2001-02. Three of the four awards (approximately \$1 million) will continue in 2003-04. The awards were made to:

- S. Ray Taylor, Associate Professor in the Materials Science Department in the School of Engineering, was awarded a three-year grant to research the development of an environmentally compliant, multi-functional coating for aerospace application using molecular and nano-engineering methods. \$212,523 is included in the 2001-02 revised budget and \$237,647 in the 2002-03 budget.
- James R. Brookeman, Professor of Radiology and Bio-Engineering in the School of Medicine and John P. Mugler, Professor of Radiology in the School of Engineering were awarded a three-year grant to research in-vivo hyperpolarized gas magnetic resonance imaging. \$595,152 is included in both the revised 2001-02 and 2002-03 budgets.
- William A. Petri, Jr., Professor of Internal Medicine in the School of Medicine was awarded a three-year grant to study mucosal therapy for infectious and autoimmune diseases. \$200,000 is included in both the revised 2001-02 and 2002-03 budgets.
- Jeffrey Plank, Assistant Vice President for Research was awarded a one-year grant of \$374,850 in 2001-02 to support the Virginia Bioinformatics Consortium.

Public Service

The major activities in the public service category include the Institute of Government, the Women's Center, the Virginia Film Festival, and non-credit course offerings. The 2002-2003 public service budget reflects a \$1.6 million decrease or 12.7 percent decrease over the revised budget for 2001-2002. A reduction in private support of \$1.1 million accounts for the majority of the decrease.

Academic Support

The academic support program encompasses the libraries, the portion of Information Technology and Communications that supports academic computing, and the activities of the deans of the schools. The budget for 2002-03 is projected to decrease by \$3.6 million or 3.8 percent to \$92.7 million. Budget reductions will negatively impact the academic support budget by \$3.2 million. Through the addenda process, the University was able to respond to one recommendation of the Virginia 2020 Commission on International Activities to increase operational support of the International Studies Office by \$175,000.

Student Services

The student services program includes those activities whose primary purpose is to contribute to the students' emotional and physical well-being and to their intellectual, cultural, and social development outside of the classroom. The student services budget for 2002-03 is projected to decrease by \$1.2 million to \$16.0 million, due to budget reductions which will negatively impact the student services budget by \$700,000. Through the addenda process, the University added \$35,000 for the support of the new Monroe Lane Language House and \$22,000 for increased housing costs for Residence Life.

Institutional Support

Included in the institutional support program are the financial, administrative, logistical, and development activities of the University. The institutional support budget is projected to increase by \$2.2 million or 5 percent in 2002-03. Budget reductions will negatively impact the institutional support budget by \$4.1 million. Offsetting increases include additional funding of \$1.9 million for the Integrated Systems Project (explained further in the next paragraph), \$1.2 million for the Oracle Applications Support Center which will provide administrative and technological support for the human resource systems which will "go live" on June 26, 2002 and \$457,000 for the Department of Training to support on-going Oracle training requirements. \$150,000 from incremental recoveries from grants and contracts and auxiliaries will be provided to support financial and human resources areas. Additionally \$200,000 has been allocated to the Executive Vice President and Chief Operating Officer to address the most severe needs in the administrative units, resulting from budget reductions.

The continuation of the Integrated Systems Project to replace all of the University's core administrative systems with an integrated suite of systems will cost approximately \$6.8 million in 2002-03 for the stabilization of Phase II and the planned system upgrade. With the 2001-02 budget last June, the Board approved an internal loan of up to \$20 million to be paid back by 2009-10. For the 2001-02 total revised project budget of \$12.9 million, \$700,000 will be paid from state resources, \$5.4

million will be funded from unrestricted endowment income and \$6.9 million will be financed through the internal loan program – the first draw down on the approved loan. For the 2002-03 project budget of \$6.8 million, \$2.6 million will be funded from state funds, \$3.1 million will be funded from private resources, and \$1.2 million will be funded from the approved internal loan.

Operation and Maintenance of Plant

The operation and maintenance (O&M) program category includes all expenditures for operating and maintaining facilities, leasing space, and police and security, net of amounts charged to auxiliary enterprises and the Medical Center. The O&M budget is projected to decrease \$112,000 or 0.2 percent in 2002-03 compared to the 2001-02 revised budget. Budget reductions will negatively impact the O&M budget by \$900,000. Three areas exempted from across the board budget cuts are in this program: E&G utilities, E&G lease, and Police and Security. Increases include operations and maintenance of new facilities (\$1.9 million for Clark Hall, Miller Center addition, Law School addition, Darden School addition, Medical Research Center at Fontaine), and increased utility costs (\$374,000). Private support for O&M is projected to decrease by about \$1 million.

Sponsored Programs

The proposed expenditure plan for 2002-03 anticipates a 10.5 percent increase in expenditures from sponsored programs and indirect cost recoveries. As stated in the revenue comments, historical trends and new sponsored program awards for the period July 2001-March 2002 were used to estimate 2002-03 expenditures. Award data are good predictors of expenditures in subsequent periods for federally sponsored programs. Sponsored program expenditures are related primarily to research projects, but also may be restricted to institutional and service programs.

Student Financial Aid

Student financial aid includes student scholarships, fellowships and other forms of student assistance **exclusive** of student loans, student employment, and service scholarships where service is required of the students receiving the scholarships. The student financial assistance budget also does not include aid provided directly to students or their families by third parties. The student financial assistance budget promotes student accessibility to the University through scholarships and fellowships.

Financial aid awards to undergraduate students are based on standard calculations of the student's financial need. In 2001-02, 23 percent of the student body demonstrated need. For the same year, the University has met an estimated 89 percent of the demonstrated need of undergraduate students when Direct Student Loans are included and 72 percent of demonstrated need without including Direct Student Loans.

As mentioned in the revenue sections earlier, student financial assistance programs are supported from state general funds, tuition, endowment income, gifts, and federal sources. Growth is expected from all sources, particularly given the significant increases in tuition approved for 2002-03. In addition to normal growth in financial aid from private and federal resources, the state has allocated an additional \$134,000 and the institution has allocated an additional \$435,000 in financial aid.

\$335,000 of the growth in institutional resources is from tuition, while \$100,000 is from an additional draw upon the existing cash balances in the DuPont quasi-endowment. The 2002-03 budget for student financial assistance is \$68.9 million, an increase of approximately 5.3 percent over the 2001-02 revised budget of \$65.4 million.

Auxiliary Enterprise Expenditures

Auxiliary enterprise expenditures are projected to increase by 1.3 percent in 2002-03 from \$127.1 million to approximately \$128.7 million. In the development of the auxiliary enterprise budgets for 2002-03, the University has continued to place emphasis on the maintenance of prudent reserves for the rational and systematic renewal and replacement of equipment and facilities. The budget includes proposed expenditures for 2002-03 from each auxiliary enterprise reserve beginning on page 33.

As mentioned earlier in the revenue section, the significant increases from the original 2001-02 to the revised 2001-02 budget are primarily the result of an Oracle-related accounting change in how internal sales are recorded. The Voice Communications budget continues to show the result of increased cellular phone and phone card usage, competing with traditional long distance services. The Student Health budget will increase \$306,000 or 5.1 percent due to increasing contractual costs.

The 2002-03 Athletics budget is \$24.8 million, exclusive of student athlete scholarships. This is an increase of \$1.2 million or 5.1 percent over the 2001-02 revised budget. The planned uses include program improvements for Men's and Women's Basketball (\$305,000); Academic Advising, Women's Olympic Sports and Sports Medicine (\$181,000); Football (\$35,000); and a Director's reserve (\$700,000). These program improvements are contingent upon the state's approval of the \$50 athletic fee increase, which generates \$870,000. The Athletics operating budget has been reconciled to the 5 Year Plan – the primary difference is that expenditures related to Debt Service Fees collected by Athletics for facilities were not included in the 5 Year Plan.

University of Virginia - Academic Division
Expenditure Budget Detail

	2002-2003	Revised 2001-2002
Expenditures for Educational & General Activities		
<i>State Funds for Educational & General Activities</i>		
Instruction	\$ 176,150,292	\$ 175,707,373
Research	8,102,272	9,263,928
Public Service	1,508,787	2,028,803
Academic Support	62,471,072	67,210,163
Student Services	13,494,928	14,722,678
Institutional Support	26,683,359	26,732,879
Operation and Maintenance of Physical Plant	43,472,407	42,891,748
<i>Total State Funds for Educational & General Activities</i>	331,883,117	338,557,572
<i>Grants, Contracts and Indirect Cost Recoveries for Educational & General Activities</i>		
Instruction	-	-
Research	12,778,600	11,790,200
Public Service	12,758	-
Academic Support	17,942,442	16,566,400
Student Services	144,800	133,600
Institutional Support	1,013,600	935,200
Operation and Maintenance of Physical Plant	2,425,400	2,237,800
Direct Cost of Grants and Contracts	167,307,000	151,404,000
<i>Total Grants, Contracts and Indirect Cost Recoveries for Educational & General Activities</i>	201,624,600	183,067,200
<i>University Funds for Educational & General Activities</i>		
Instruction	48,493,246	42,315,233
Research	6,460,754	6,592,276
Public Service	9,764,047	10,904,347
Academic Support	12,311,077	12,595,870
Student Services	2,329,195	2,325,614
Institutional Support	18,302,908	17,137,939
Operation and Maintenance of Physical Plant	4,794,734	5,675,275
<i>Total University Funds for Educational & General Activities</i>	102,455,961	97,546,554
Total Expenditures for Educational & General Activities	635,963,678	619,171,326
Expenditures for Student Financial Assistance		
State Scholarships and Fellowships	\$ 30,053,380	\$ 27,997,818
Sponsored Program Scholarships and Fellowships	14,475,400	13,132,800
University Scholarship and Fellowships	26,664,197	23,782,200
Total Expenditures for Student Financial Assistance	71,192,977	64,912,818

University of Virginia - Academic Division
Expenditure Budget Detail (continued)

	2002-2003	Revised 2001-2002
Expenditures for Auxiliary Enterprises		
Athletics	24,825,573	23,611,342
University Bookstore and Cavalier Computers	28,123,000	29,369,800
Housing and Conference Services	22,422,440	20,823,499
Parking and Transportation Services	11,182,000	11,077,000
Voice Communications	10,606,711	11,261,438
Student Health	6,318,428	6,012,700
Intramural/Recreation Sports	4,685,500	4,021,100
Printing Services	4,616,600	4,734,700
Newcomb Hall and University Programming Council	4,349,099	4,099,051
Dining Services	3,073,900	3,855,000
Leased Facilities	2,820,388	2,820,388
Mail Services	1,909,210	1,587,155
University Press	1,618,210	2,020,240
Other Auxiliary Activities	2,113,918	1,772,248
Total Expenditures for Auxiliary Enterprises	128,664,977	127,065,661
Total Expenditure Budget - Academic Division	\$ 835,821,632	\$ 811,149,805

**University of Virginia - Academic Division
Auxiliary Enterprises
2002-03 Projected Reserve Expenditures**

Athletics

Track Replacement	\$	155,455
McCue Chiller Project		87,150
Total Athletics	\$	242,605

Intramurals

Equipment and Systems Purchases	\$	106,160
AFC Pool Facility Repairs & Maintenance		36,300
AFC HVAC Compressor		15,000
Scoreboards for The Park		50,000
Slaughter/North Grounds Ceiling Tile Replacements		8,000
Total Intramurals	\$	215,460

Telephone System

Wireless Services	\$	1,150,000
Dorm Network		220,000
Telemanagement System		150,000
Outside Plant Cable		300,000
Infrastructure 800 MHz System		1,500,000
Network Infrastructure		2,325,114
Switch Expansion		200,000
Switchroom Generators & Air Conditioning		50,000
Phone Mail		100,000
Total Telephone System	\$	5,995,114

Dining Services

Observatory Hill Dining Hall Renovation	\$	600,000
Facility Repairs and Improvements		675,000
Total Dining Services	\$	1,275,000

Printing Services

Equipment and Systems Purchases	\$	350,500
Miscellaneous Facility Repairs & Maintenance		30,000
Total Printing Services	\$	380,500

Newcomb Hall

Miscellaneous Facility Repairs	\$	110,000
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Student Health

Facility Maintenance	\$	25,000
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University of Virginia - Academic Division
Auxiliary Enterprises
2002-03 Projected Reserve Expenditures (continued)

Bookstores & Cavalier Computers

Bookstore Capital Equipment	\$	150,000
Miscellaneous Facility Repairs & Maintenance		50,000
Contingency		30,000
<i>Total Bookstore & Cavalier Computers</i>	\$	230,000

Parking & Transportation

Bus Purchase	\$	750,000
Lot Repair		450,000
Emmet/Ivy Garage		250,000
Facility Renovation and Maintenance		93,000
Lighting Upgrade		25,000
Capital Equipment Purchases		43,000
Replacement Signage		20,000
<i>Total Parking and Transportation</i>	\$	1,631,000

Child Development Center

Equipment Replacement	\$	2,000
Painting		4,800
<i>Total Child Development Center</i>	\$	6,800

Faculty/Staff Housing

115/117 Piedmont Properties Renovations	\$	60,000
2504 Townhouses - Replace Roofs, Windows and Sliding Doors		122,000
Piedmont Houses - Exterior Painting		50,000
Piedmont Houses - Replace Outside Water Lines		37,500
Miscellaneous Projects		15,800
<i>Total Faculty/Staff Housing</i>	\$	285,300

JAG School

Replace Air Conditioner and Air Compressor	\$	191,500
Replace Entrance Doors and Firestoppings		10,300
Carpet Replacement-Remaining Office		11,200
Relace Window Blinds in Lobby		2,150
<i>Total JAG School</i>	\$	215,150

Satellite Uplink

Satellite Maintenance	\$	75,000
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University of Virginia - Academic Division
Auxiliary Enterprises
2002-03 Projected Reserve Expenditures (continued)

Student Housing

Lambeth Field Renovation	\$	1,757,000
Bice House Refurbishment		450,000
Furnishings: Copeley, Lawn and Range		335,000
Gooch/Dillard Roof Repairs and Exterior Maintenance		270,000
Alderman Road Repairs		250,000
McCormick Road Roof Repairs		150,000
Shower Refurbishments: Alderman and French House		195,000
University Garden Data Lines		123,000
Networking Upgrades		100,000
New Work Order System		50,000
Exterior Doors and Locks		45,000
Brown/Gildersleeve Transformer Replacement		35,000
Vehicle Replacement		47,000
Grounds Improvement & Miscellaneous Repairs		100,000
<i>Total Student Housing</i>	\$	3,907,000

**The University of Virginia's College at Wise
2002-2003 Budget Summary**

The 2002-03 operating budget for the University of Virginia's College at Wise will total \$19.7 million, an increase of \$719,000 or 3.8 percent as compared with the 2001-02 revised budget.

The operating budget is based on the Appropriations Act approved during the 2002 General Assembly session. Institution-specific general fund reductions to the College at Wise will total nearly \$440,000 in 2002-03, but are offset by base budget increases (including operation and maintenance funding for the soon-to-be-completed Science building addition) for a net increase of \$73,000 or 0.7 percent in general fund appropriations over the 2001-02 revised budget. Tuition and educational and general fee increases authorized by the General Assembly and approved by the Board of Visitors will generate an additional \$128,000. The Commonwealth eliminated \$30,000 in general fund support for the Virginia Writing Program, and Wise has replaced the funding with non-general funds. Additionally, the Higher Education Equipment Trust Fund (HEET) reimbursement – which is not reflected in the operating budget - will be reduced by \$38,000 or 23.2% from the current fiscal year.

The 2002 General Assembly Session recommended and approved employee compensation for all full-time classified and faculty employees. Classified employees will receive a choice of a 2.5 percent one-time bonus or 10 days leave in 2002-03. One-time funds of 2.5 percent of the faculty salary base compensation will be provided to be used for bonuses or other incentive programs to retain faculty. This compensation funding is currently being held by the state in the central appropriations fund and is not reflected in the 2002-03 proposed budget.

For 2002-03, full-time equivalent (FTE) positions are 233. Educational and general (E&G) programs holds 89 percent of these positions, of which 43 percent are involved directly in the primary program of instruction. Full-time positions in Auxiliary Enterprises and Sponsored Programs total 25. A summary of all positions is presented below:

Education and General	208
Sponsored Programs	4
Auxiliary Enterprises	<u>21</u>
Total	233

The projected full-time equivalent enrollment for 2002-03 is 1,276, an increase of 21 FTE or 1.6 percent. This projection is based on the 2000-01 to 2005-06 Enrollment Projection Summary approved by the State Council of Higher Education in the spring of 2001. Freshmen enrollment for 2002-03 is projected to increase by 4 percent and transfer enrollment is projected to increase 10 percent. It is anticipated that out-of-state enrollment in 2002-03 will remain constant with the current year. The Kentucky Tuition Assistance Grant will continue to support enrollment growth, as well as enhanced recruitment efforts in targeted out-of-state markets.

**University of Virginia's College at Wise
Budget Summary**

	2002-2003	Original 2001-2002	Revised 2001-2002	Dollar Change from Revised 2001-02 to 2002-03	Percentage Change from Revised 2001-02 to 02-03
Revenues from General Funds					
State General Fund Appropriation	\$ 10,586,637	\$ 10,820,540	\$ 10,513,697	\$ 72,940	0.7%
SW Va Public Education Consortium	362,000	362,000	362,000	-	0.0%
Total Revenues from General Funds	10,948,637	11,182,540	10,875,697	72,940	0.7%
Revenues from Nongeneral Funds					
Tuition and Fees - Regular Session	3,327,800	2,807,264	3,137,030	190,770	6.1%
Tuition and Fees - Summer Session	245,250	225,000	225,000	20,250	9.0%
Tuition and Fees - Off Campus	-	15,000	82,818	(82,818)	(100.0%)
Tuition and Fees - Tuition Remission	(250,000)	(250,000)	(250,000)	-	0.0%
Grants and Contracts	800,000	800,000	800,000	-	0.0%
Local Sales, Services and Other	108,789	-	-	108,789	N/A
Auxiliary Enterprises - Student Housing	1,380,533	1,213,631	1,213,631	166,902	13.8%
Auxiliary Enterprises - Parking and Transportation	82,000	100,000	100,000	(18,000)	(18.0%)
Auxiliary Enterprises - Cafeteria	941,848	828,276	828,276	113,572	13.7%
Auxiliary Enterprises - Bookstore	815,000	794,792	794,792	20,208	2.5%
Auxiliary Enterprises - Athletics	862,941	797,153	806,023	56,918	7.1%
Auxiliary Enterprises - Other	457,497	300,000	388,500	68,997	17.8%
Total Revenues from Nongeneral Funds	8,771,658	7,631,116	8,126,070	645,588	7.9%
Total Revenue Budget	\$ 19,720,295	\$ 18,813,656	\$ 19,001,767	\$ 718,528	3.8%
Expenditures for Educational & General Activities					
Instruction	\$ 5,865,784	\$ 5,672,434	\$ 5,525,879	\$ 339,905	6.2%
Public Service	381,500	362,000	392,000	(10,500)	(2.7%)
Academic Support	2,440,303	2,436,022	2,583,139	(142,836)	(5.5%)
Student Services	1,411,087	1,365,176	1,319,985	91,102	6.9%
Institutional Support	2,228,837	1,912,288	2,165,133	63,704	2.9%
Operations and Maintenance of Physical Plant	1,351,437	1,555,683	1,408,209	(56,772)	(4.0%)
Grants and Contracts	800,000	800,000	800,000	-	0.0%
Total Expenditures for Educational & General Activities	14,478,948	14,103,603	14,194,345	284,603	2.0%
Total Expenditures for Student Financial Assistance	701,528	676,200	676,200	25,328	3.7%
Total Expenditures for Auxiliary Enterprises	4,539,819	4,033,853	4,131,222	408,597	9.9%
Total Expenditure Budget	\$ 19,720,295	\$ 18,813,656	\$ 19,001,767	\$ 718,528	3.8%

Educational and General

The 2002-03 operating budget for educational and general programs will total \$14.5 million. In comparison with the revised 2001-02 budget totaling \$14.2 million, this is an increase of \$285,000 or 2.0 percent.

General Fund Revenues

The general fund revenue appropriation for 2002-03 will increase by \$73,000 or 0.7% over the revised 2001-02 budget. This increase includes base budget adjustments, funding for the operation and maintenance of the science building addition (\$130,000) and an increase in student financial aid of \$25,000 in 2002-03. The total general fund appropriation for 2002-03 is \$10.9 million.

Non-General Fund Revenues

Non-general E&G revenue for 2002-03 is projected to total \$4.2 million. This increase of \$285,000 or 2.0 percent results from a Board of Visitors approved tuition increase of 9 percent for in-state residents. Non-resident students are required to pay the full cost of instruction. To be in compliance with this state mandated policy by 2004-05, the non-resident tuition rate will increase by 10 percent in 2002-03. Legislative appropriation also authorizes the College at Wise to charge students a technology service fee. The fee rate will increase from \$45 to \$49 in 2003-04. Projected revenue will increase to \$61,250 in 2002-03.

An increase in the application for admission fee from \$15 to \$25 will generate an additional \$18,500 or 61.7 percent more in revenue. The application for admission fee has not seen an increase within the last 20 years.

Federal sponsored programs continue to be funded at \$800,000.

Instruction Expenditures

This program includes teaching faculty, support staff, instructional equipment and operating costs associated directly with instruction. The 2002-03 instructional budget will increase by \$340,000 or 6.2 percent. This increase will supplement other than personal service costs for instructional departments, over and above their original 2001-02 budgets. Educational and instructional equipment, travel, and special projects within departments will be covered with the increase. Also, additional allocations have been made within instruction to provide the new Provost and Senior Vice Chancellor the opportunity to enhance existing curriculum.

Public Service Expenditures

The public service budget will decrease by \$10,000 or 2.7 percent in 2002-03. The Southwest Virginia Public Service Education Consortium will continue to be funded from general funds in the amount of \$362,000. The College serves as the fiscal agent and site of the Consortium offices. The

objective of the Consortium is to promote and coordinate with institutions of higher education to develop joint educational initiatives within the public school systems throughout the region.

The remaining public service budget includes the Cultural Arts program which provides support to the Pro-Art Association of Wise County and the City of Norton. The Pro-Art Association promotes and sponsors various cultural events during the year within the area. Admission to these programs is free to the College students.

Academic Support Expenditures

The academic support program includes library services, technological and computer services and academic services to both students and instructional faculty. Faculty development and recruitment are also included within this program. The 2002-03 budget for academic support will decrease by \$143,000 or 5.5 percent.

Student Services Expenditures

Social and cultural development, counseling and career guidance and general student affairs are included within the student services program. Recruiting, financial aid and registration services and general college publications are included as well. The student services program provides various support outlets to students with varying needs, promoting and nurturing their overall well-being. The 2002-03 budget will increase by \$91,000 or 6.9 percent.

Institutional Support Expenditures

Included within the institutional support program are the executive management, fiscal operations, logistical services, public relations and development, and staff development areas. The institutional support budget for 2002-03 will increase by \$64,000 or 2.9 percent from the current revised budget. This increase is for general administrative expenditures, institutional memberships, publications, and contingency or emergency expenditures resulting from the budget reductions.

Operations and Maintenance of Plant

This program includes maintenance and housekeeping operations, utility expenditures, facilities management and landscaping. The budget will decrease by \$57,000 or 4.0 percent for 2002-03.

Auxiliary Enterprises

The auxiliary enterprises at The University of Virginia's College at Wise include student housing operations, campus store and cafeteria operations, parking and transportation, student health services, athletics and the student union. Auxiliary enterprises are self-supporting, funded solely by revenue collected for services provided to students, faculty, staff and the general public. The auxiliary budget for 2002-03 will total \$4.5 million, an increase of \$409,000 or 9.9 percent.

Student Fees

The student services fee provides operating revenue for many of the College's student life functions, enhancing the campus environment. Activities receiving revenue from student fees include the student government association, student publications, intramural and outdoor recreation activities, student health services, Cantrell Hall debt and the new student center, athletics and student life positions. The 2002-03 full-time fee rate will total \$1,740 per academic year, an increase of \$200 or 11.5 percent. Of this proposed fee increase, \$119 is designated for the student center construction, with the remaining \$81 allocated for athletic programs and general fee distribution.

Student Housing

The 2001-02 occupancy level in student housing is 101.4 percent. Occupancy for the fall of 2002 is again projected to exceed 100 percent. Revenues will increase due to an average 2.7 percent increase in room rates. In order to meet additional housing demand, four faculty houses have been permanently converted to student housing units and the incremental revenues further explain the total 13.8 percent increase in student housing.

Parking and Transportation

Revenue from parking and transportation will be generated from permit fees and fines. Revenue projections have been reduced by 18 percent, from \$100,000 in 2001-02 to \$80,000 in 2002-2003. This reduction more accurately reflects revenue collections.

Cafeteria

The 2002-2003 revenue projection for the cafeteria will total \$942,000, an increase of \$14,000 or 13.7 percent. Student meal plan rates will increase by 3.8 percent for the 2002-03 academic year. Students residing in student housing are required to participate in the meal plan, so, just as there is an increase in student housing revenues due to increased students living in campus housing, there will be a corresponding increase in the number of students on a meal plan.

Campus Store

The campus store revenue projection will increase 2.5 percent to \$815,000 in 2002-03. Maintaining fair and competitive prices and providing excellent customer service to students justify the modest revenue increase.

Athletics

Athletics revenues will increase by 7.1 percent to \$863,000 in 2002-03. The increase is directly related to the student fee increase, part of which will be used to address gender equity issues by hiring an additional trainer for women's sports.

University of Virginia Medical Center 2002-2003 Budget Summary

The Medical Center's 2002-03 fiscal plan has been developed in response to the challenge of providing patient care, teaching, and research services in an increasingly changing health care industry. Revisions to Medicare payments due to the Balanced Budget Act, in combination with pressures from third party payers, will have a negative impact on revenue on a per-case and per-visit basis. The cost associated with providing quality patient care will continue to have upward pressure due to labor shortages and increases in pharmaceutical and medical supply expenses. In addition, in 2002-03 the Medical Center expects to continue to care for patients with higher acuity illnesses. In 2001-02 the Medical Center's Medicare Case Mix Index (CMI) averaged 1.92. This acuity level is experienced by only a handful of hospitals in the United States.

Success in recruitment and retention of professional staff significantly impacted the FTE levels in 2001-02. At the same time a shift in volume from inpatient to short stay negatively impacted net revenues. The resulting financial pressure caused the Medical Center to forego a planned annual salary increase for 2001-02. This will force the Medical Center to consider alternative compensation strategies for its market sensitive workforce.

The 2001-02 operating margin is projected to be \$6.5 million and the net operating income after non-recurring adjustments is projected to be \$20.4 million. The reduction to operating income is due to pressures on reimbursement, and increased salary expense for caregivers. The non-recurring contractual adjustment (see detail on chart below) for 2001-02 is composed of \$13.8 million in one-time revenue settlements from Medicaid, Medicare, Trigon, and the Commonwealth of Virginia. For 2002-03 these one-time settlements are projected to be \$2.0 million.

Non-recurring Revenue (in millions)		
	Projected 2002-03	Budgeted 2001-02
Indigent Care Days in Disproportionate Share Settlements	\$0.0	\$8.8
Medicare Cost Report Refilings – FY97-99	0.0	4.3
Pharmacy Rebilling Project	2.0	0.0
Medicare Reserve for Medicare Second Payer Issue	0.0	0.7
Total	\$2.0	\$13.8

The HMO component of the Medical Center's payer mix grew in 2001-02. This was due to two major factors. On September 1, 2001 QualChoice was purchased by Southern Health Services,

Inc. Also, Medicaid's Managed Care Program, Medallion II, entered the Medical Center's market on December 1, 2001. As a result, the Medical Center continues to experience additional requirements and pressures on denial write-offs and increases in labor requirements to administer contracts.

University of Virginia - Medical Center			
Budget Summary			
	2002-03 Budget	2000-2001 Actual	2001-2002 Forecast
Revenues			
Total Gross Charges	\$ 879,878,303	\$ 680,495,510	\$ 796,436,233
Less Deductions:			
Indigent Care Deduction (net of DSH payment)	32,720,231	16,086,242	18,371,113
Contractual Deduction	251,630,810	139,525,773	197,307,320
Total Deductions	284,351,041	155,612,015	215,678,433
Net Patient Revenue	595,527,262	524,883,495	580,757,800
Miscellaneous Revenue	11,139,730	13,548,179	11,349,460
Total Revenue	606,666,992	538,431,674	592,107,260
Expenses			
Expenses from Operations			
Operating Expenses	523,717,783	484,555,107	523,330,377
Depreciation and Amortization	39,180,983	34,313,603	37,247,500
Interest Expense	4,770,309	4,801,814	4,620,891
Bad Debt	19,971,173	14,314,012	20,378,297
Total Expenses from Operations	587,640,248	537,984,536	585,577,065
Operating Income	19,026,744	447,138	6,530,195
Operating Income Percent	3.1%	0.1%	1.1%
Non-recurring Contractual Adjustment	2,000,000	13,208,005	13,837,000
Operating Income After Non-recurring Contractual Adjustments	21,026,744	13,655,143	20,367,195
Operating Income Percent After Non-recurring Contractual Adjustments	3.5%	2.5%	3.4%
Non-operating Gains and Losses			
Investment Income	12,851,751	11,038,455	11,616,751
Net Loss from Affiliates	750,000	3,181,297	(6,668,245)
Loss on Fixed Assets	(1,250,000)	(2,548,403)	-
Other	(2,000,000)	(250,000)	(4,894,851)
Total Non-operating Gains and Losses	10,351,751	11,421,349	53,655
Revenues and Gains in Excess of Expenses	\$ 31,378,495	\$ 25,076,492	\$ 20,420,850

The Corporate Integrity Agreement and the new Health Insurance Portability and Accountability Act legislation are external pressures that will result in additional expenses for the Medical Center. The Medical Center continues to modernize and integrate IT services through the Board approved Integrated Health Information Management System project. These increased capital investments will result in additional depreciation expense of \$1.9 million for 2002-03. The Medical Center’s 2002-03 fiscal plan accounts for these additional expenses while preserving its mission of providing high quality and cost effective health care, education, and research services to patients and their families, students, employers, state and federal governments, referring physicians, referring agencies, and affiliated networks.

The Medical Center budget development process continues to be highly participatory and clinically focused. Patient care service management, support function management, and physicians have significant roles in the budget development cycle. The budget process begins with a budget retreat and ends with each operating unit providing a monthly and cumulative operating and capital budget that contains service demand forecasts, required full-time equivalent personnel, fringe benefits, and a full complement of non-labor expenses.

Assumptions

Market conditions: For 2002-03, total discharges are projected to grow 3.4 percent from 2001-02 expected levels. Patient days are expected to increase overall by 4.3 percent, primarily because of bed openings, new faculty recruited by the School of Medicine and higher admission projections. Outpatient service demand is expected to grow by 5.9 percent. This reflects a continuing trend of outpatient business growing faster than inpatient business. The following table includes historical and projected patient volumes:

	Actual 2000-01	Forecasted 2001-02	Budgeted 2002-03
Discharges	27,676	26,643	27,537
Adjusted Discharges	43,956	43,571	45,703
Average length of stay	5.43	5.61	5.66
Patient days	150,150	149,465	155,874
Clinic & ER visits	519,147	526,234	557,260
Home Health visits	54,067	52,910	51,518

Revenues: The Medical Center’s 2002-03 patient payer mix includes more managed care as a result of Medallion II, Medicaid’s managed care program, which entered the Medical Center’s market on December 1, 2001, resulting in 50 percent of the Medical Center’s Medicaid patients now under managed care. While payments are expected to remain at Medicaid rates, utilization is expected to decrease as patient encounters are constrained by the HMOs. The Medical Center’s largest challenge is the unwillingness of payers, especially government programs, to increase their payments commensurate with the increases in educational and medical delivery costs.

Rate changes: The Medical Center proposes rate increases of 5 percent in hospital room and ancillary services in 2002-03.

Expenses: Expenses from operations are projected to increase by \$2.1 million. Expenses per adjusted discharge decrease 4.3 percent from \$13,197 to \$12,614. It is anticipated that expense per adjusted discharge included in the budget will be close to the academic Medical Center median expense. The cause of decrease is to recognize efficiencies in operations in response to declining revenues from non-recurring sources. The Medical Center 2002-03 budget plans for 4 percent inflation for medical supplies and 15 percent for pharmaceutical expenses. However, increased medical management and adjustments in retail pharmacy activity will offset inflation so that total pharmaceutical costs are expected to increase just 0.9 percent.

Staffing: The Medical Center's 2002-03 budget includes 5,139 FTEs, a reduction of 172 FTEs from staffing at current 2001-02 projections of 5,311 FTEs. The pressure of diminishing revenues from third party payers and the reduction of nonrecurring revenue supplements results in the need for greater operating efficiency for 2002-03 and beyond. This reduction in staff is planned to occur with no layoffs.

Employee Compensation: The Medical Center's 2001-02 budget presumed a compensation adjustment to base salary of 4 percent, payable in January of 2002. This scheduled salary adjustment was deferred because the Medical Center's operating margin was insufficient to accommodate the salary adjustment. The Medical Center last granted a salary adjustment in January of 2001. A salary adjustment to base salary is desirable if we are to retain our exceptional employees and to recruit equally competent replacement staff. However, an adjustment to base salary will exacerbate the financial problems for 2002-03. It is proposed that Medical Center employees be granted a one-time bonus equal to a minimum of 2.5 percent of base pay, to be paid in August of 2002. The bonus would be paid to permanent and flex employees who were rated "commendable" or above on the last performance appraisal rating and who had completed their probationary period, but will exclude house-staff, who will receive a stipend increase of 4 percent effective July 1, 2002.

Operating Plan

The operating plan is presented on page 44 and includes actual results from 2000-01, projected results for 2001-02, and budgeted results for 2002-03. A rapidly changing healthcare environment, however, could prove these assumptions less valid as the year progresses. For this reason, management will continue to monitor budget versus actual performance on a monthly basis and, where appropriate, recommend amendments to the Medical Center Operating Board. Also, management will continue to identify and implement process improvement strategies that will allow for operational streamlining and cost efficiencies.

Medicare's payment methodology, Ambulatory Payment Classifications, put outpatient reimbursement into a prospective payment system in 2000-01. Radical changes to the payment structure are projected for 2002-03 but overall may result in just a slight total payment reduction.

Revenues are impacted by the Balanced Budget Act (BBA), the Balanced Budget Refinement Act, and the Benefits Improvement and Protection Act of 2000. The final reduction to Indirect Medical Education (IME) that was mandated by the BBA will take effect in 2002-03, decreasing net revenue by \$4.5 million.

The major strategic initiatives that impact next year's fiscal plan include:

- Enhanced personnel compensation packages and annual salary and equity adjustments (\$3.1 million resulting from 2001-02 actions and \$6 million of new adjustments for 2002-03). Compensation for contracted services \$400,000.
- Introduction of a new Skull-based Surgery program.
- Continuation of new initiatives.
- Required expenses related to the Joint Commission on Accreditation of Healthcare Organizations survey (\$500,000).
- Radiology imaging joint venture.
- Required improvement to operating margins and psychiatry, kidney transplant and the clinics.

The major risk factors that impact the ability to accomplish the desired results of next year's fiscal plan include:

- The continuation and improvement of existing operating conditions including the management of the nursing shortage and a Medicare Case Mix Index above 1.92.
- Commonwealth of Virginia budget crisis.
- The ability to adapt to a shifting patient population where inpatient days are being replaced with short stays.
- New Center for Medicare and Medicaid Services (formerly known as Health Care Financing Administration) and other regulatory reimbursement changes.
- On December 1, 2002, 50 percent of our current Medicaid business moved from traditional to managed care coverage under Medallion II, Virginia Medicaid's managed care program.
- Qualchoice was purchased by another HMO, Southern Health Services, Inc, on

September 1, 2001.

- IME payments are reduced by \$4.5 million for 2002-03.
- Advancements in medical technology.
- Inflation for pharmaceutical goods could exceed 15 percent.
- Enhanced scrutiny by Federal regulators in areas such as Medical Records, Billing, Coding and contractual agreements.

Capital Plan

Funds available to meet capital requirements are derived from operating cash flows and cash-on-hand. The Medical Center faces many challenges regarding capital funding as continued pressures on the operating margin affect cash flow sources, while demand for capital has increased significantly from space requirements, technological advances and aging of existing equipment. The Medical Center management recommends \$39 million be authorized subject to cash being available for capital requirements in 2002-03 concurrent with the expected depreciation expense for 2002-03. Future plans for expansion of the hospital space will perpetuate this condition of demand for capital significantly exceeding supply from cash flow resources. The \$39 million capital plan excludes investments in joint ventures and the Medical Center expansion, which may be authorized separately by the Board for network development or other purposes. It is intended that the Medical Center will go forward with a bond issue to finance the Medical Center expansion project.

APPROVAL OF THE 2002-2003 OPERATING BUDGET FOR THE ACADEMIC DIVISION

RESOLVED that the 2002-2003 Operating Budget for the Academic Division is approved, as recommended by the President and the Chief Operating Officer.

APPROVAL OF THE 2002-2003 OPERATING BUDGET FOR THE UNIVERSITY OF VIRGINIA'S COLLEGE AT WISE

RESOLVED that the 2002-2003 Operating Budget for the College at Wise is approved, as recommended by the President and the Chief Operating Officer.

APPROVAL OF THE 2002-2003 OPERATING AND CAPITAL BUDGET FOR THE UNIVERSITY OF VIRGINIA MEDICAL CENTER

RESOLVED that the 2002-2003 Operating and Capital Budget for the University of Virginia Medical Center, which includes hospital room and ancillary service rate increases of 5 percent and bonuses equal to a minimum of 2.5 percent of base pay for eligible employees, is approved, as recommended by the President and the Chief Operating Officer.