

**MINUTES**  
**UNIVERSITY ADVISORY COUNCIL ON**  
**STRATEGIC BUDGETING AND PLANNING**  
**February 25, 2016**

**PRESENT:** Brett Besag, Virginia Buechner-Maxwell, Carolyn Copenheaver, Tim Hodge, Tim Kinoshita, Herve Marand, Channing Mitchell, Leslie O'Brien, Hans Robinson, Jason Soileau, Benjamin Tracy

**ABSENT:** Dwight Shelton, Thanassis Rikakis, Henri de Hahn, Stephen Kleiber, William Knocke, Quinton Nottingham, Ken Smith, John Tedesco, Sue Teel

**1. CALL TO ORDER**

Mr. Tim Hodge, Assistant Vice President for Budget and Financial Planning, called the meeting to order at 4:01 p.m.

**2. APPROVAL OF THE JANUARY 28, 2016 MINUTES**

Mr. Hodge stated that the January 28, 2016 minutes have been approved and forwarded to the University Council for posting on the web.

**3. UPDATE ON 2016 GENERAL ASSEMBLY SESSION AS OF CROSSOVER**

Mr. Hodge reminded the council that the Executive Biennium Budget proposed by Governor McAuliffe on December 17, 2015, is now in the hands of the General Assembly, which convened on January 13, 2016. Both the House of Delegates and Senate reviewed the Governor's budget and each branch has made changes to the original budget. On Sunday, February 21, 2016 the budget Crossover occurred between the two branches. Mr. Hodge highlighted several items in the proposed budgets that have a direct effect on higher education. A few items that he reviewed for the council was the support for operating and equipment, faculty & staff salary increase, health insurance premiums, changes in VRS rate, research initiatives, GO Virginia, and capital projects. Mr. Hodge reminded the council that the two budgets presented by the General Assembly would be reconciled into one budget by the end of this General Assembly session, which is scheduled to adjourn on March 12, 2016. The Governor will then have 30 days to review. A summary on the General Assembly Session as of Crossover is attached to these minutes.

**4. No further business was discussed, and the meeting adjourned at 4:56 p.m.**

**2016-18 BUDGETS AS OF CROSSOVER -- DRAFT BASED ON HALFSHEETS  
AS OF TUESDAY FEBRUARY 23, 2016**

The Executive column reflects incremental adjustments to the 2014-16 biennial budget proposed by the Governor for 2016-18.  
House and Senate columns reflect incremental changes proposed by each body to the Executive Budget.

	<b>Executive</b>	<b>House</b>	<b>Senate</b>
<b>Faculty and Staff Salary Increase</b>	<p><u>2016-17</u>: No action is recommended in the first year of the biennium.</p> <p><u>2017-18</u>: Funding for a 2% increase for all employees in FY2018 if the funds are not needed to offset any downward revisions to the GF revenue estimate prepared for FY17 &amp; FY18.</p> <p>Institutions may use merit as basis of awards for all employee classes, so long as the increases do not exceed 2% on average. (Item 475.Q)</p>	<p><u>2016-17</u>: Contingent upon no need for an FY16 revenue revision, the House provides for a 3% salary program effective November 10, 2016.</p> <p>Clarity question about 1% performance limit.</p> <p><u>2017-18</u>: Contingent upon no need for an FY17 revenue revision, the House provides for a 1% salary program effective December 10, 2017.</p> <p>(Item 475 #5h)</p>	<p><u>2016-17</u>: Contingent upon no need for an FY16 revenue revision, the Senate provides for a 2% salary program effective November 10, 2016.</p> <p>Institutions of higher education may allocate increases according to performance for all employees.</p> <p>Language restricting the increase in the Governor's budget has been removed. No other restrictions on compensation are prescribed.</p> <p><u>2017-18</u>: No action is recommended for the second year at this time.</p> <p>(Item 475 #3s)</p>
<b>Agency 229 (CE/AES) Fund Split Language</b>	N/A	Language requested by the university is proposed to clarify that "It is the intent of the General Assembly that the general fund share of the Educational and General Program for the Cooperative Extension Agricultural Experiment Station Division shall be 95 percent for state funding calculations." (Item 229 #1h)	N/A
<b>Tuition Authority</b>	N/A	Limits tuition increases to 3% per year without formal request and approval by Governor to exceed this amount. The Director of DPB will report to the Chairmen of the HAC and SFC by August 1, 2016 on the receipt of any such requests. (Item 224 #1h)	N/A

<b>Compensation, Fringes, Other Central Adjustments</b>	<b>Health Insurance</b>	Projects an 8% increase in health insurance premiums in each year of the biennium. However, the proposal includes funding both the employer and employee shares of projected health insurance rate increases in the first year of the biennium. Under this proposal, employees would not see an out-of-pocket increase until FY18. (Item 475)	Projects a 9.6% increase in health insurance premiums FY17 and an 8.7% increase in FY18.  House removes funding for employee share of increase. (Item 475 #4h)	Removes funding for employee share of increase. (Item 475 #2s)
	<b>Virginia Retirement System (VRS)</b>	Employer contributions to retirement are proposed to rise to <b>14.46%</b> to achieve the full actuarial rate. Contributions in the current fiscal year are ninety percent of the actuarial rate. The state's share of this contribution is provided, and the university will be required to fund the remainder. (Item 475.H)	Several changes starting with repayment of deferred contributions:  1.Includes a lump sum payment of \$188.9M GF in FY16 to fully repay VRS for the 2010-12 deferred contributions.  2.Per HB30, recommends funding VRS retirement at 100% beginning in FY17.  3.As rate no longer includes repayment of deferred contributions, the contribution rate for the state employee plan will decrease from 14.22% (FY16 rate) to <b>13.49%</b> .  (Item 475 #3h)	No change from Executive Budget.
	<b>Other Benefit Rates</b>	VaLORS = 22.21 Retiree Health Credit = 1.18 Group Life = 1.31 VSDP = 0.66 (Item 475.K)	VaLORS = 21.05 Retiree Health Credit = 1.18 Group Life = 1.31 VSDP = 0.55	No change from Executive Budget.
	<b>Compensation And Retirement Reform</b>	N/A	Provides 150k GF each year for DHRM to support commission on employee retirement security and pension reform. (Item 84 #2h)	N/A

Language	<b>Review of Mergers, Tuition Structures, and Student Financial Aid</b>	N/A	<p>Recommends that Joint Subcommittee on Higher Education review:</p> <ol style="list-style-type: none"> <li>1. Opportunities for mergers, shared governance or cooperative agreements between and among public 4-year institutions and higher education centers and institutions. (Item 1 #5h)</li> <li>2. Alternative tuition and fee structures, including discounted tuition, flat tuition rates, discounted fees, student services flexibility, to any first time incoming freshmen. (Item 1 #5h)</li> <li>3. Statewide Student Financial Aid model. Second year of incremental GF for SFA is withheld for development of new model. (Item 144 #1h)</li> </ol>	N/A
	<b>VTCSOM and VTCRI</b>	N/A	<p>Provides language to pursue further developments of partnership. (Item 4-5.03 #1h)</p>	N/A
<b>E&amp;G Interest Earnings</b>		N/A	N/A	<p>Language is included to restore Interest Earnings and Credit Card Rebates in fulfillment of the commonwealth's commitment to restructured operations. System-wide, \$4 million is allocated in each year. (Item 472.5 #1s)</p>
<b>Commonwealth Center for Advanced Manufacturing (CCAM)</b>		<p>An appropriation of \$2 million GF in each year of the biennium is proposed to support the center. This proposal is tied to Medicaid expansion. (Item 477.C.1.c)</p>	<p>Funding proposed by the Executive Budget tied to Medicaid Expansion is eliminated. (Item 477 #6h)</p>	<p>Funding proposed by the Executive Budget tied to Medicaid Expansion is eliminated. (Item 477 #1s)</p> <p>Proposes \$2 million GF in each year to support rent and operating support at the Center. (Item 106 #7s)</p>

<b>JLARC Recommendations/Study</b>	N/A	<ol style="list-style-type: none"> <li>1. Proposes that institutional Boards of Visitors shall “participate in national faculty teaching load assessments by discipline and faculty type.”</li> <li>2. Proposes that SCHEV “include factors such as discipline, faculty rank, cost of living, and regional comparisons in developing faculty salary goals.”</li> <li>3. Proposes that SCHEV “identify instructional technology best practices that directly or indirectly lower student cost while maintaining or enhancing learning.”</li> </ol> <p>(Item 4-9.04 #1h)</p>	N/A
<b>Higher Education Research Initiative (HERI)</b>	<ol style="list-style-type: none"> <li>1. Proposes a pool of \$20 million GF in each year to be administered by the HERI to offer incentive packages to high performing researchers who successfully commercialize their research. (Item 255)</li> <li>2. Also includes \$50 million in each year in VCBA bonds to provide for research equipment and lab renovations. (Item C-47.D)</li> </ol>	<ol style="list-style-type: none"> <li>1. Proposes a pool of \$20 million GF in each year designated as the “Virginia Research, Development and Commercialization Fund”.</li> <li>2. Proposes \$20 million debt financing in the first year to support research lab renovations and/or the acquisition of equipment.</li> </ol> <p>(Item 255 #1h)</p>	<ol style="list-style-type: none"> <li>1. Proposes a pool of \$12 million GF in the first year and \$18.5 million GF in the second year.</li> <li>2. Bonds for equipment and lab renovation reduced to \$25 million in the first year and \$40 million in the second.</li> </ol> <p>(Item 255 #1s)</p>
<b>Biotechnology Spinoff Growth</b>	Proposes the creation of \$30 million GF in each year of the biennium for a funding pool that would be used to incentivize the transfer of research to the private sector and the creation of spin-off companies. Under this proposal, funding would be provided on a competitive grant basis. Requests for funding would be reviewed and evaluated by the Major Employment and Investment (MEI) Project Approval Commission before being funded. (Item 106.O)	Funding proposed by the Executive Budget is eliminated. (Item 106 #2h)	Funding proposed by the Executive Budget is eliminated. (Item 106 #8s)
<b>Bioscience Infrastructure Research (VBHRC)</b>	The Executive Budget includes an additional \$5 million GF in the first year and \$7.5 million GF in the second year for the VBHRC to facilitate research in biosciences	Funding proposed by the Executive Budget is eliminated. (Item 106 #4h)	Funding proposed in Executive Budget appears to have been reduced by \$5 million per year. This results in no

	and promote the development of bioscience infrastructure tools that can be used to facilitate additional research. (Item 106.J.1)		additional funding in the first year, and \$2.5m GF additional funding in the second year. (Item 106 #6s)
<b>Global Genomics and Bioinformation Research Institute (INOVA)</b>	Four public institutions in the commonwealth (expected to include Virginia Tech) would receive \$4 million GF per year to further research and collaboration with the Global Genomics and Bioinformation Research Institute. This is tied to a proposal to expand Medicaid. (Item 477.C.1.d)	Funding proposed by the Executive Budget is eliminated. (Item 477 #6h)  In lieu of the Executive Budget proposal, House proposes \$30 million debt funding in the first year. (Item 478.10 #1h)	Funding proposed by the Executive Budget is eliminated. (Item 477 #1s)  Language indicates that \$6 million per year can be expended from the Higher Education Research Initiative. (Item 255 #1s)
<b>GO Virginia</b>	A pool of at least \$38M GF is proposed to support initiatives, targeted at competitive collaborations of higher education, private industry, and local and regional governments to support economic development initiatives. A portion of this is funded through savings related to Medicaid expansion.	After eliminating the portion tied to Medicaid expansion, the House added \$7 million GF in the second year. This results in \$5.5 million GF in the first and \$27 million GF in the second year. (Item 109 #3h)	After eliminating the portion tied to Medicaid expansion, the Senate added \$12.9 million GF in the second year. This results in \$5.5 million in the first year and \$32.9 million GF in the second year. (Item 109 #2s)
<b>Virginia Research Alliance Fund</b>	N/A	N/A	Tied to the Higher Education Research Initiative, this language establishes a special nonreverting fund to be known as the Virginia Research Alliance Fund. Resources in the fund shall be used to promote research and development excellence and foster public-private cooperation and collaboration. Grants or loans from the fund shall be administered by the Virginia Research Advisory Committee (V-RAC). No more than \$4 million per year shall be expended from the fund.  (Item 4-10.00 #1s)

<b>Commonwealth Research Commercialization Fund</b>		N/A	N/A	Transfers the CRCF to the Innovation and Entrepreneurship Investment Authority (IEIA). (Item 428 #2s)
<b>Capital Projects</b>	<b>Holden Hall Renovation</b>	Included in a \$1 billion Capital Construction Pool for higher education.	The Undergraduate Science Laboratory is added to the state capital program along with the original four, for five total projects placed in a Capital Planning Pool within HB 1344.  We expect HB1344 is open to modification in the capital negotiations and may change.  The complete details are not yet available to determine total impact on capital initiatives.	The Undergraduate Science Laboratory Renovation, Holden Hall Renovation, Chiller Plant II, and Livestock & Poultry Research Facilities projects have all been included within a Capital Construction Pool; and the VT-CRI Expansion project has been placed in a Capital Planning Pool within SB 731.  We expect SB731 is open to modification in the capital negotiations and may change.  The complete details are not yet available to determine total impact on capital initiatives.
	<b>Central Chiller Plant, Phase II</b>			
	<b>VTCRI Research Expansion (Roanoke)</b>			
	<b>Agency 229: Livestock and Poultry Research Facilities, Phase I</b>			
	<b>Undergraduate Science Laboratory</b>	N/A		
<b>9d Debt Authority – Student Health Center Renovation project</b>		The university received authorization to issue debt through the state's nongeneral fund pooled bond program which will reduce the cost of capital compared to stand-alone debt. The pool includes a debt authorization for the Student Health Center Renovation project. (Item C-54)	No change from Executive Budget.	No change from Executive Budget.
<b>Language - Debt Authority for any 501(c)(3) [e.g. Virginia Tech Foundation] to finance projects through the VCBA</b>		N/A	N/A	Allows agencies to issue debt through the state's NGF pooled bond program; however, the VCBA would not be issuing on behalf of the entity.  (SB 313)

<b>Capital Procurement Language</b>	N/A	Language has been added that provides a more 'deliberative process' related to the procurement and delivery for capital outlay projects. This would require the university to develop procedures to document processes for delivery other than traditional design-bid-build. Further, the university would be required to work with the state on its implementation and provide monitoring reports. (HB 887 and Item 4.4.01 #1h)	Language has been added that requires the university to report to the state on its procurement methods for capital construction. The Senate version does not require preapproval or review by the state prior to procurement activity.  (Item C-0 #1s)
<b>Maintenance Reserve Funding</b>	<p>Funding of \$18.7 million is proposed for the university's MR allocation for the biennium. A \$506,000 increase in the first year and \$1.2 million in the second year. (Item C-44.B)</p> <p>The system-wide maintenance reserve program is slated to increase by \$29.7 million, with all of higher education increasing by 16.2%.</p>	No change to amount proposed in Executive Budget. Fund source changed from cash to debt.	No change from Executive Budget.
<b>Free Digital Textbooks</b>	N/A	Proposes that SCHEV develop policies for the inclusion of information to students on access to free digital textbooks at Virginia's institutions on the course syllabus before a course commences. (Item 146 #3h)	N/A

## PROPOSED APPROPRIATIONS FROM THE EXECUTIVE BUDGET AND EACH HOUSE OF THE GENERAL ASSEMBLY

as of February 23, 2016: Based on Halfsheets

**Operating Budget****General Fund****University Division**

	Executive Budget		House Budget		Senate Budget	
	2016-17	2017-18	2016-17	2017-18	2016-17	2017-18
Access and Completion for Virginia Students	\$ 2,761,670	\$ 2,761,670	\$ -	\$ -	\$ 2,761,670	\$ 2,761,670
Cyber Security Test Range	2,000,000	2,000,000	-	-	2,000,000	2,000,000
House Access and Affordability	-	-	6,135,288	8,205,873	-	-
Operations and Maintenance for New Facilities Coming On-line	-	-	-	-	295,280	387,331
Restoration of Interest Earnings and Credit Card Rebate	-	-	-	-	-	-
Technical Adjustments (fringe rate changes, annualization of prior year costs, etc.)	7,332,018	7,342,201	7,332,018	7,342,201	7,332,018	7,342,201
<i>Subtotal University Division Operating</i>	12,093,688	12,103,871	13,467,306	15,548,074	12,388,968	12,491,202

**Research**

Unmanned Aircraft Test Range Equipment (one-time allocation)	950,000	-	-	-	950,000	-
<i>Subtotal Research</i>	950,000	-	-	-	950,000	-

**Student Financial Aid**

Virginia Undergraduate Financial Aid	590,288	590,288	590,288	-	590,288	590,288
Graduate Financial Aid	-	-	-	-	539,686	809,529
Cyber Security Core Curriculum, apprenticeships and internships in collaboration with JMU	750,000	1,700,000	-	-	750,000	1,700,000
<i>Subtotal Student Financial Aid</i>	1,340,288	2,290,288	590,288	-	1,879,974	3,099,817

**Unique Military Activities**

	-	-	200,000	200,000	150,000	150,000
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**Higher Education Equipment Trust Fund**

Traditional Allocation	481,271	481,271	481,271	481,271	481,271	481,271
Research Allocation	962,147	962,147	962,147	962,147	962,147	962,147
Unmanned Aircraft Test Range Equipment (one-time allocation)	-	-	950,000	-	-	-
<i>Subtotal Equipment Trust Fund</i>	1,443,418	1,443,418	2,393,418	1,443,418	1,443,418	1,443,418

**Subtotal - University Division**

	<b>15,827,394</b>	<b>15,837,577</b>	<b>16,651,012</b>	<b>17,191,492</b>	<b>16,812,360</b>	<b>17,184,437</b>
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**Cooperative Extension/AES Division (CE/AES)**

Technical Adjustments (fringe rate changes, annualization of prior year costs, etc.)	2,994,495	2,996,161	2,994,495	2,996,161	2,994,495	2,996,161
Pay Equity for Extension Agents	-	-	-	-	50,000	50,000
Operations and Maintenance for New Facilities Coming On-line	-	-	-	-	73,565	227,262
<b>Subtotal CE/AES</b>	2,994,495	2,996,161	2,994,495	2,996,161	3,118,060	3,273,423

**Total Operating Budget State Support**

	<b>\$ 18,821,889</b>	<b>\$ 18,833,738</b>	<b>\$ 19,645,507</b>	<b>\$ 20,187,653</b>	<b>\$ 19,930,420</b>	<b>\$ 20,457,860</b>
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(a) Amounts represent incremental change to existing 2015-16 Equipment Trust Fund appropriation (new purchasing power). New total amounts are \$10,331,639 in traditional allocation and \$5,240,458 in research allocation.