

MINUTES
UNIVERSITY ADVISORY COUNCIL ON
STRATEGIC BUDGETING AND PLANNING
February 26, 2015

PRESENT: Phil Sponenberg (for Virginia Buechner-Maxwell), Carolyn Copenheaver, Martin Daniel, Kelsey Jo Starr (for Kylie Gilbert), Tim Hodge, Steve Kleiber, William Knocke, Herve Marand, Richard Rodrigues, Dwight Shelton, Ken Smith,

ABSENT: Susanna Rinehart (for Sarah Karpanty), Joseph Guthrie, Andrew McCoy, Mark McNamee, Quinton Nottingham, Leslie O'Brien, Jason Soileau, John Tedesco, Sue Teel

1. CALL TO ORDER

Mr. Dwight Shelton, Vice President for Finance and CFO, called the meeting to order at 3:00 p.m.

2. APPROVAL OF THE JANUARY 22, 2015 MINUTES

Mr. Shelton announced that the minutes of the January 22, 2015 meeting have been electronically approved and sent to University Council for posting on the web.

3. 2015 GENERAL ASSEMBLY SESSION UPDATE

- a) Dwight Shelton, Vice President for Finance and CFO, and Tim Hodge, Assistant Vice President for Budget and Financial Planning, discussed the recent General Assembly session. Because the Governor's budget reflected an environment of lower revenue forecasts, there was little expectation for funding for compensation or capital projects. However, revised revenue estimates allowed for some gains for Virginia Tech in the budget process, including compensation, capital projects, base support, and research. Mr. Hodge reviewed the specifics of the Conference Committee budget that was passed today (see Attachment 1 and 2 for further detail).
- b) Mr. Hodge reviewed the details of compensation programs included in the Conference Committee budget, noting that all compensation programs were contingent on a certification of state revenues. Details of each plan are described further in Attachment 2. In addition to compensation, Mr. Hodge noted an increase in the employer contribution to VRS, as well as in the employer share of health insurance (Attachment 2).
- c) Mr. Hodge then reviewed other legislation impacting the finances of higher education and Virginia Tech, including pending legislation on athletic fee caps, and on the type of financial information provided on university websites (Attachment 2).

5. OTHER BUSINESS

There being no further business, the meeting adjourned at 4:05 p.m.

PROPOSED APPROPRIATIONS FROM THE EXECUTIVE BUDGET, EACH CHAMBER, AND CONFERENCE COMMITTEE
as of February 24, 2015
(\$ in thousands)

| | Executive Budget | | House Budget | | Senate Budget | | Conference Budget | |
|---|-------------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|--------------------------|---------------------|
| | 2014-15 | 2015-16 | 2014-15 | 2015-16 | 2014-15 | 2015-16 | 2014-15 | 2015-16 |
| Operating Budget | | | | | | | | |
| General Fund | | | | | | | | |
| University Division | | | | | | | | |
| Incorporate Reduction Strategies | \$ (6,133,525) | \$ (6,133,525) | \$ (6,133,525) | \$ (6,133,525) | \$ (6,133,525) | \$ (6,133,525) | \$ (6,133,525) | \$ (6,133,525) |
| Faculty salary - 2% | | | | | | | - | 1,648,534 |
| House Operating / VT Initiatives (enrollment, research) | - | - | - | 1,964,939 | - | - | - | 1,964,939 |
| Health Insurance Correction | \$ (108,531) | \$ (108,531) | (108,531) | (108,531) | (108,531) | (108,531) | (108,531) | (108,531) |
| <i>Subtotal University Division Operating</i> | (6,242,056) | (6,242,056) | (6,242,056) | (4,277,117) | (6,242,056) | (6,242,056) | (6,242,056) | (2,628,583) |
| Research | | | | | | | | |
| Brain Research | - | - | - | 1,250,000 | - | - | - | 1,250,000 |
| Financial Aid | | | | | | | | |
| Undergraduate Financial Aid | - | 100,000 | - | - | - | 100,000 | - | 100,000 |
| Equipment Trust Fund (Incremental) | | | | | | | | |
| Equipment | | 1,522,291 | - | - | - | 1,522,291 | - | 1,522,291 |
| Subtotal - University Division | (6,242,056) | (4,619,765) | (6,242,056) | (3,027,117) | (6,242,056) | (4,619,765) | (6,242,056) | 243,708 |
| Cooperative Extension/AES Division (CE/AES) | | | | | | | | |
| Faculty salary - 2% | | | | 755,136 | | | - | 470,979 |
| Health Insurance Correction | 108,531 | 108,531 | 108,531 | 108,531 | 108,531 | 108,531 | 108,531 | 108,531 |
| Correct Central Fund Shortfall for Health Insurance | | | 622,241 | 622,241 | 296,243 | 296,243 | 296,243 | 296,243 |
| Subtotal CE/AES | 108,531 | 108,531 | 730,772 | 1,485,908 | 404,774 | 404,774 | 404,774 | 875,753 |
| Total Operating Budget State Support | \$ (6,133,525) | \$ (4,511,234) | \$ (5,511,284) | \$ (1,541,209) | \$ (5,837,282) | \$ (4,214,991) | \$ (5,837,282) | \$ 1,119,461 |

PROPOSED APPROPRIATIONS FROM THE EXECUTIVE BUDGET, EACH CHAMBER, AND CONFERENCE COMMITTEE
as of February 24, 2015
(\$ in thousands)

Capital Budget

| | Executive Budget | | House Budget | | Senate Budget | | Conference Committee | |
|--|------------------|-------------------|------------------|-------------------|------------------|-------------------|----------------------|-------------------|
| | State | NGF | State | NGF | State | NGF | State | NGF |
| Maintenance Reserve FY2015 | \$ 8,021 | | \$ 8,021 | | \$ 8,021 | | \$ 8,021 | |
| Maintenance Reserve FY2016 | 8,553 | | 8,021 | | 9,096 | | 8,533 | |
| Capital Projects: | | | | | | | | |
| Construction - Renovation Funding Pool (1) | | | | | | | | |
| Renovate/Renew Academic Buildings | | | 30,563 (2) | | 30,563 (2) | | 30,563 (2) | |
| Improve Kentland Research Facilities | | | 7,600 | | 7,600 | | 7,600 | |
| NGF/Debt Authorization for projects in Construction | | | | | | | | |
| Unified Communication System & Network (9d) | | 16,508 | | 16,508 | | 16,508 | | 16,508 |
| Upper Quad Residential Facilities (9c) | | 92,000 | | 92,000 | | 92,000 | | 92,000 |
| Total | \$ 16,575 | \$ 108,508 | \$ 54,206 | \$ 108,508 | \$ 55,280 | \$ 108,508 | \$ 54,717 | \$ 108,508 |

Notes:

(1) The designation "Listed in Funding Pool" reflects inclusion in an appropriation for a pool of funds. A specific amount is provided for each project after a cost review is completed by the State's Department of General Services.

(2) The project budget for the Renovate/Renew Academic Buildings is derived from the Revised Funding Report issued by BCOM on 1/8/2015.

**2014-16 BUDGETS AS OF CONFERENCE COMMITTEE
As of Tuesday February 24, 2015**

Each column reflects incremental adjustments to the 2014-16 biennial budget, as proposed by each body.

COMPENSATION

| | Executive | House | Senate | Conference Committee |
|---|------------------|--|---|---|
| Classified Salary Increase | N/A | <p>A revenue reserve fund is created that, if revenue targets are achieved, will fund the following increases effective July 25, 2015:</p> <p>1.5% across-the-board adjustment for state classified employees, plus</p> <p>\$80 per year of service from 5-30 years (\$95 for state law enforcement officers).</p> | <p>Subject to meeting or exceeding FY15 revenue estimates, a 3% statewide salary increase, effective August 10, 2015 is proposed.</p> | <p>Subject to meeting or exceeding FY15 revenue estimates, an increase of 2% is provided for classified staff, effective August 10, 2015.</p> <p>In addition, a compression adjustment of \$65 per year of service from 5-30 years is provided to classified staff.</p> |
| University Staff Salary Increase | N/A | <p>A revenue reserve fund is created that, if revenue targets are achieved, will fund the following increases effective July 25, 2015:</p> <p>1.5% across-the-board adjustment for university staff employees</p> <p>A compression adjustment was not authorized</p> | <p>Subject to meeting or exceeding FY15 revenue estimates, a 3% statewide salary increase, effective August 10, 2015 is proposed.</p> | <p>Subject to meeting or exceeding FY15 revenue estimates, an increase of 2% is provided for university staff, effective August 10, 2015. Institutions may implement based on merit.</p> <p>A compression adjustment was not authorized.</p> |

| | Executive | House | Senate | Conference Committee |
|--------------------------------|------------------|--|--|---|
| Faculty Salary Increase | N/A | <p>Effective July 25, 2015, faculty salary increases are proposed as follows:</p> <p><u>Agency 208</u>: Nongeneral Fund authorization of \$1,765,460 is provided to support 2% faculty salary. General Fund was provided for faculty salaries at all institutions except VT, UVA, and W&M.</p> <p><u>Agency 229</u>: \$755,136 GF is proposed to support a 2% faculty salary increase.</p> | <p>Subject to meeting or exceeding FY15 revenue estimates, a 2% increase for faculty is proposed, effective August 10, 2015. Institutions may implement increases on the basis of merit "so as not to exceed an average of two percent at each institution each year."</p> | <p>Agency 208: \$1,648,534 GF Agency 229: \$470,979 GF</p> <p><u>T&R Faculty</u>: Subject to meeting or exceeding FY15 revenue estimates, an increase of 2% is provided for T&R faculty, effective August 10, 2015.</p> <p>Additionally, the institution "may reallocate from educational and general program funds in the second year to provide an additional 2.50 percent average faculty salary increase for teaching and research faculty."</p> <p><u>A/P Faculty</u>: Subject to meeting or exceeding FY15 revenue estimates, an increase of 2% is provided for A/P Faculty, effective August 10, 2015.</p> |

OPERATING

| | Executive | House | Senate | Conference Committee |
|--|---|--|-----------------------------------|---|
| House Operating Support / VT Initiative | N/A | \$1,964,939 GF is provided in the second year "to address restoration of proposed budget cuts, in-state undergraduate enrollment growth and costs associated with (i) research activities in the Virginia Tech Transportation Institute; (ii) expansion of brain disorder research; and, (iii) research activities at the Virginia Tech Cyber Physical Systems Lab." | N/A | Support of \$1,964,939 GF in second year is provided to the university. This encompasses the university's \$1.65 million GF enrollment growth request, budget reduction relief, as well research costs associated with (1) VTTI and (2) Cyber Physical Systems Lab, at the university's discretion. |
| Brain Disorder Research | N/A | An additional \$1.25 million is proposed in the second year. | N/A | An increase of \$1.25 million GF is provided for brain disorder research in 2015-16. |
| Equipment Trust Fund | An increase of \$1,522,291 to the prior appropriation is proposed in the second year. | The House eliminated the proposed increase in the Executive Budget. | No change. \$1,522,291 continued. | No change. The Executive Budget proposal to increase HEETF funding by \$1,522,291 in the second year is maintained. |
| Budget Reductions | Affirmed \$6.1m GF budget reduction communicated in Fall, 2014. | No change to amount. Language clarifies that the institution can adjust "amounts embedded in language under this item (E&G) not to exceed the percentage reduction received." This allows the institution to adjust line item appropriations within the E&G program as a result of the previously approved budget reductions. | No change. | No Change to amount. Language clarifies that the institution may adjust any of the amounts embedded in the E&G budget item not to exceed the percentage of the overall budget reduction. This allows the institution to adjust line item appropriations within the E&G program as a result of the previously approved budget reductions. |

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| Agency 229 (CE/AES) Technical Central Fund Shortfall Correction | N/A | As requested, a correction of central funding shortfall provides \$622,241 GF in each year of the biennium. | An increase of \$296,243 GF in each year is proposed to address the shortfall (appears to be the health insurance share of the shortfall and not the fund split issue). | An increase of \$296,243 GF in each year is supported to address the shortfall in the health insurance share of the shortfall. The shortfall associated with the fund split methodology is not addressed. |
| Undergraduate Student Financial Aid | \$100K GF in the second year. | The Executive Budget proposal of \$100k GF is “deferred”. | System-wide support for need-based financial aid is increased by \$5.4 million GF in FY16. VT share remains \$100K GF. | No change. The Executive Budget proposal of \$100,000 GF for undergraduate student financial aid is maintained. |
| Tuition Authority | Executive Budget eliminated the prohibition of tuition increases to mitigate the prior budget reductions. | N/A | N/A | N/A |
| Out-of-State Capital & Equipment Fee | N/A | Technical adjustment to the OOS capital fee appropriation to reflect the “actual amount of out-of-state capital fee revenue collected.” No individual institutional adjustments are made. | N/A | A technical adjustment to update the OOS capital fee assessment to reflect actual enrollment will increase the university’s assessment by \$211,068 in the second year. |

FRINGE BENEFITS

| | Executive | House | Senate | Conference Committee |
|---|--|--|---------------|---|
| Virginia Retirement System (VRS) | N/A | Contingent upon achieving state revenue targets, \$41 million GF is proposed to “increase the employer retirement contribution rates...up to ninety percent of the board certified rate...” in FY16. | No change. | Contingent upon achieving state revenue targets, an increase of the employer share of retirement benefits up to 90 percent of the actuarial rate is provided in FY16. This represents a 15.33 percent increase. |
| Health Insurance | Downward revision of FY16 cost increase to 2.9% from 6.9%. | No change | No change. | No change. 2.9% increase. Language prohibits DHRM from increasing the out-of-pocket maximums above the limits set on July 1, 2014. |

CAPITAL

| | | | | |
|---|---|--|--|---|
| Land Transfer | <p>New language authorizes the university to exchange 1.5 acres of publicly owned land for 22.9 acres of privately owned land to expand university agricultural programs.</p> | <p>No change.</p> | <p>No change.</p> | <p>No change.</p> |
| Nongeneral Fund and Debt Authorization | <p>Authorizes the university to issue debt through state's pooled bond program.</p> <p>-Upper Quad Residential Facilities</p> <p>-Unified Communications System and Network</p> | <p>No change.</p> | <p>No change.</p> | <p>No change.</p> |
| Maintenance Reserve Funding | <p>Proposed increase of \$532K GF in the second year.</p> | <p>Eliminated increase proposed in the Executive Budget.</p> | <p>An increase of \$1,074,582 is recommended in FY16.</p> | <p>An increase of \$510,426 GF is provided in the second year.</p> |
| Capital Projects | <p>N/A</p> | <p>A \$95.1 million GF state-wide renovation pool includes support for the following projects at Virginia Tech:</p> <ul style="list-style-type: none"> • Renovate/Renew Academic Buildings - \$30.563M • Agency 229 Improve Kentland Facilities - \$7.6M <p>A Higher Education capital project planning pool was established for 12 new projects to begin preplanning with NGF resources to be reimbursed upon receiving construction funding. The university did not have any projects in this planning pool.</p> | <p>A \$99.1 million GF State-wide pool includes support for the following projects at Virginia Tech:</p> <ul style="list-style-type: none"> • Renovate/Renew Academic Buildings - \$30.563M • Agency 229 Improve Kentland Facilities - \$7.6M <p>A Higher Education capital project planning pool was established for 9 new projects to begin preplanning with NGF resources to be reimbursed upon receiving construction funding. The university did not have any projects in this planning pool.</p> | <p>A \$106.1 million GF State-wide pool includes support for the following projects at Virginia Tech:</p> <ul style="list-style-type: none"> • Renovate/Renew Academic Buildings - \$30.563M • Agency 229 Improve Kentland Facilities - \$7.6M <p>A Higher Education capital project planning pool was established for 14 new projects to begin preplanning with GF and NGF resources to be reimbursed upon receiving construction funding. The university did not have any projects in this planning pool.</p> |

LANGUAGE

Conference Committee

| | |
|--|---|
| <p>Joint Subcommittee on Higher Education</p> | <p>Language establishes a Joint Subcommittee on the Future Competitiveness of Virginia Higher Education:</p> <p>The Chairmen of the House Appropriations and Senate Finance Committees shall each appoint four members from their respective committees to a Joint Subcommittee on the Future Competitiveness of Virginia Higher Education to (a) review ways to maintain and improve the quality of higher education, while providing for broad access and affordability; (b) examine the impact of financial, demographic, and competitive changes on the sustainability of individual institutions and the system as a whole; (c) identify best practices to make the system more efficient, including shared services, institutional flexibility, and easily accessible academic pathways; (d) evaluate the use of distance education and online instruction across the Commonwealth and appropriate business models for such programs; (e) review current need-based financial aid programs and alternative models to best provide for student affordability and completion; (f) review the recommendations of the Joint Legislative Audit and Review Commission on the study of the cost efficiency of higher education institutions and make recommendations to their respective committees on the implementation of those recommendations; (g) study the effectiveness and value of transfer students; (h) evaluate the effectiveness of dual enrollment in reducing the cost of higher education; and (i) study the effectiveness of preparing teachers to enter the K-12 system.</p> |
| <p>JLARC Recommendations</p> | <p>Language calls for the implementation of several JLARC recommendations as follows:</p> <p>§ 4-9.05 IMPLEMENT JLARC RECOMMENDATIONS</p> <p>a. The Boards of Visitors at each Virginia public four-year higher education institution, to the extent practicable, shall:</p> <ol style="list-style-type: none"> 1. require their institutions to clearly list the amount of the athletic fee on their website's tuition and fees information page. The page should include a link to the State Council of Higher Education for Virginia's tuition and fee information. The boards should consider requiring institutions to list the major components of all mandatory fees, including the portion attributable to athletics, on a separate page attached to student invoices; 2. assess the feasibility and impact of raising additional revenue through campus recreation and fitness enterprises to reduce reliance on mandatory student fees. The assessments should address the feasibility and impact of raising additional revenue through charging for specialized programs and services, expanding membership, and/or charging all users of recreation facilities; 3. direct staff to perform a comprehensive review of the institution's organizational structure, including an analysis of spans of control and a review of staff activities and workload, and identify opportunities to streamline the organizational structure. Boards should further direct staff to implement the recommendations of the review to streamline their organizational structures where possible; 4. require periodic reports on average and median spans of control and the number of supervisors with six or fewer direct reports; 5. direct staff to revise human resource policies to eliminate unnecessary supervisory positions by developing standards that establish and promote broader spans of control. The new policies and standards should (i) set an overall target span of control for the institution, (ii) set a minimum number of direct reports per supervisor, with guidelines for exceptions, (iii) define the circumstances that necessitate the use of a supervisory position, (iv) prohibit the establishment of supervisory positions for the purpose of recruiting or retaining employees, and (v) establish a periodic review of departments where spans of control are unusually narrow; and, 6. direct institution staff to set and enforce policies to maximize standardization of purchases of commonly procured goods, including use of institution-wide contracts; 7. consider directing institution staff to provide an annual report on all institutional purchases, including small purchases, that are exceptions to the institutional policies for standardizing purchases. |

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|--|--|
| | <p>b. The State Council on Higher Education for Virginia, to the extent practicable, shall:</p> <ol style="list-style-type: none"> 1. convene a working group of institution financial officers, with input from the Department of Accounts, the Department of Planning and Budget, and the Auditor of Public Accounts, to create a standard way of calculating and publishing mandatory non-E&G fees, including for intercollegiate athletics; 2. update the state's Chart of Accounts for higher education in order to improve comparability and transparency of mandatory non-E&G fees, with input from the Department of Accounts, the Department of Planning and Budget, the Auditor of Public Accounts, and institutional staff. This process should be coordinated with the standardization of tuition and fee reporting; 3. convene a working group of institutional staff to develop instructional and research space guidelines that adequately measure current use of space and plans for future use of space at Virginia's public higher education institutions; 4. coordinate a committee of institutional representatives, such as the previously authorized Learning Technology Advisory Committee. In addition to the objectives set out in the Appropriation Act for the Learning Technology Advisory Committee, the committee should identify instructional technology initiatives and best practices for directly or indirectly lowering institutions' instructional expenditures per student while maintaining or enhancing student learning. <p>c. Notwithstanding the provisions of § 23-9.14:1, the State Council of Higher Education for Virginia shall annually train boards of visitors members on the types of information members should request from institutions to inform decision making, such as performance measures, benchmarking data, the impact of financial decisions on student costs, and past and projected cost trends. Boards of Visitors members serving on finance and facilities subcommittees should, at a minimum, participate in the training within their first year of membership on the subcommittee. SCHEV should obtain assistance in developing or delivering the training from relevant agencies such as the Department of General Services and past or present finance officers at Virginia's public four-year institutions, as appropriate.</p> <p>d. The Department of Planning and Budget shall revise the formula used to make allocation recommendations for the state's maintenance reserve funding to account for higher maintenance needs resulting from poor facility condition, aging of facilities, and differences in facility use. Beginning with fiscal year 2016, the Department of Planning and Budget shall submit these recommendations to the Governor and General Assembly no later than November 1 of each year.</p> <p>e. The Six-Year Capital Outlay Plan Advisory Committee, the Department of Planning and Budget, and others as appropriate shall use the results of the prioritization process established by the State Council of Higher Education for Virginia in determining which capital projects should receive funding.</p> <p>f. Beginning with fiscal year 2016, the Auditor of Public Accounts shall include in its audit plan for each public institution of higher education a review of progress in implementing the JLARC recommendations contained in paragraph § 4-9.05 a."</p> |
| <p>Statewide Strategic Plan</p> | <p>SCHEV is provided with \$300K GF in the second year to support SCHEV initiatives related to the statewide plan for higher education and to help implement JLARC recommendations.</p> |

LEGISLATION

As of January 29, 2015, 2,295 pieces of legislation had been filed for consideration by the 2015 General Assembly. The university has followed this legislation, particularly that which may impact the university, and advocated or influenced legislation impacting higher education when appropriate.

Legislation was proposed for a wide range of higher education related topics including these items which have financial implications:

- nonresident enrollment ratio limitations
- four-year fixed tuition pricing
- increases and decreases in restructuring authorities
- eliminating in-state tuition eligibility for undocumented students.

Ultimately, these initiatives were not successful.

However, some pieces of legislation that have financial implications are still moving forward including the following items:

- HB1897: Caps athletic fees at institutions of higher education based upon Division level, and also prevents proportional increases in the student support of athletic operations.
- SB1223: Requires four-year public institutions of higher education to post on their homepage and annually update a tab or link that includes retention rates, tuition and mandatory fee increase, the use of student fees, postsecondary education and employment, and financial reports of the institution.