

MINUTES
UNIVERSITY ADVISORY COUNCIL ON
STRATEGIC BUDGETING AND PLANNING
April 23, 2015

PRESENT: Virginia Buechner-Maxwell, Martin Daniel, Tim Hodge, Samantha Mahdu (for Steve Kleiber), Herve Marand, Leslie O'Brien, Richard Rodrigues, Ken Smith, John Tedesco, Sue Teel, Susanna Rinehart (for Sarah Karpanty), William Knocke, Dwight Shelton

ABSENT: Carolyn Copenheaver, Kelsey Jo Starr, Joseph Guthrie, Andrew McCoy, Mark McNamee, Quinton Nottingham, Jason Soileau

GUESTS:

1. CALL TO ORDER

Mr. Dwight Shelton, Vice President for Finance and CFO, called the meeting to order at 3:05 p.m.

2. APPROVAL OF THE FEBRUARY 25, 2015 MINUTES

Mr. Shelton announced that the minutes of the February 26, 2015 meeting have been approved and sent to University Council for posting on the web.

3. UPDATE ON 2015-16 COMPENSATION PROGRAMS AND FUNDING

Tim Hodge, Assistant Vice President for Budget and Financial Planning reviewed the details of the University's compensation programs for 2015-16 as planned for under the authority specified by the 2015 General Assembly, noting that all compensation programs are contingent on a certification of state revenues in July, 2015. Mr. Hodge reviewed the 1% senior management reallocation as part of the compensation program funding plan, which is consistently applied across the university. (See Attachment 1) The 1% reallocation applies to all areas: 208 E&G, 229 E&G and the Auxiliary Enterprises.

4. JLARC RECOMMENDATIONS

Dwight Shelton gave an overview of the Joint Legislative Audit and Review Commission (JLARC) study which was directed by the 2012 General Assembly. The resolution identified 14 areas to consider which included both academic and non-academic factors. The study was broken up into five separate reports, with the last of these reports being issued on November 10, 2014. Mr. Shelton discussed the highlights of the final report which contained 16 recommendations and 7 options to address the cost of higher education in Virginia. The General Assembly included language in their approved budget addressing a subset of 17 recommendations after receiving input from the Council of Presidents and finance officers. In addition, Mr. Shelton shared the General Assembly included language in their approved budget establishing the Joint Subcommittee on the Future Competitiveness of Higher Education in Virginia to complete an additional two year study on higher education in Virginia. (See Attachment 2)

5. COST CONTAINMENT

Tim Hodge provided information that was shared with the Board of Visitors Finance and Audit Committee regarding the university's current and future cost management strategies in response to their request. Mr. Hodge highlighted the current strategies that have helped promote a careful, planned, and sustainable growth of the institution, despite a state budget reduction of \$80.7 million during the past decade. The report also included several measures of efficiency. The Finance and Audit Committee has asked for additional information at future meetings. (See attachment 3) Council members suggested that an explanation of terminology may help with understanding the efficiency analysis. Council members also asked that future efficiency strategies, that could negatively impact faculty productivity, be avoided.

6. OTHER BUSINESS

No further business was discussed, and the meeting adjourned at 4:10 p.m.

Attachments (3)

Virginia Tech Compensation Programs

Contingent upon the state meeting 2014-15 revenue projections.

Effective Date: 8/10/2015

	Program	Funding	
		University Allocation	Sr Mgmt Reallocation
T&R Faculty	3.5% merit	2.5%	1%
A/P Faculty	2% merit	1%	1%
Staff			
▪ Classified	2% across-the-board, \$65/ year of svc, 5-30 years	1% + \$65/yr.	1%
▪ University	2% across-the-board	1%	1%

JLARC Study: Overview

The 2012 General Assembly directed the **Joint Legislative Audit and Review Commission (JLARC)** to:

- conduct a study on **cost efficiency** of the Virginia public higher education institutions
- identify opportunities to **reduce the cost of public higher education in Virginia**

JLARC Study: Overview

The resolution identified 14 areas to consider including:

- **academic factors:** teaching load and faculty productivity, impact of faculty research on tuition, incentives created by existing faculty compensation models, etc.
- **non-academic factors:** administrative staffing and costs, operation of enterprise activities, etc.
- Study completed in November 2014

JLARC Study: Reports

	Report	Issue Date
1.	Trends in Higher Education Funding, Enrollment, and Student Costs	June 10, 2013 (Issued)
2.	Review of Non-Academic Services and Costs	September 9, 2013 (Issued)
3.	Review of Academic Costs and Efficiency	December 9, 2013 (Issued)
4.	Review of Support Costs and Staffing	October 14, 2014 (Issued)
5.	Addressing the Cost of Public Higher Education in Virginia	November 10, 2014 (Issued)

JLARC Reports Highlights

- Virginia Tech has fared well in multiple arenas in the JLARC reports. Some noted items include:
 - VT is among the lowest spenders on support functions when compared to its public Carnegie group
 - Tenure and tenure-track faculty are teaching an average of 10% more student credit hours
 - VT cited for transparency in providing detailed listing of mandatory fees, including athletic fees, through our website and on student invoices
 - VT Dining Centers have the highest % of student voluntarily purchasing dining plans compared to other Virginia institutions; average per-meal cost is below statewide average
- JLARC identified certain areas for improvement such as organizational structure including narrow spans of control; further standardization of procurement

Final Report Summary

- Report combines the work conducted in the previous four reports with new research and makes a comprehensive set of recommendations.
- Final report has 16 recommendations and 7 options to address the cost of higher education in Virginia:
 - Recommendations made to the General Assembly as potential action items to address the cost of higher education in Virginia.
 - Options are potential policy changes with broad range of implications.

Basis of Recommendations

Staff Recommendations and Options Based on Four Key Assumptions

- Public higher education should be more affordable, particularly for low- and middle-income students.
- Little or no additional state higher education funding will be available.
- Academics—the core mission of higher education—should be prioritized.
- Decentralized system of higher education governance should generally be preserved.

Key Recommendations

Some of the key recommendations made to the General Assembly in the final report include:

- Require annual training by SCHEV for the BOV members who serve on finance and facilities subcommittees.
- Impose a limit on athletic fees charged to students as a proportion of total tuition and mandatory fees that can be collected for intercollegiate athletics.
- Establish caps or limitations on the growth of non-E&G fees other than intercollegiate athletics.
- Direct SCHEV to modify its capital prioritization process.
- Direct SCHEV to identify metrics on capital spending, debt, and other data of value to the capital review process.
- Revise formula for State's maintenance reserve funds allocation.

JLARC Recommendations Passed by General Assembly

- The approved budget passed by the General Assembly includes language addressing a subset of the 17 recommendations supported by the Council of Presidents and finance officers.
- This language requires actions by several groups or entities, including:
 - The Boards of Visitors,
 - State Council of Higher Education of Virginia,
 - Department of Planning and Budget, and
 - The Auditor of Public Accounts.

Actions Directed to the Boards of Visitors

For items directed to the Boards of Visitors, the language indicates that the Boards shall, to the extent practicable, take actions regarding seven items:

- List athletic fees on the university's website and consider including major components of all mandatory fees.
 - Virginia Tech lists all mandatory fees, including athletic fees on the university website and on the student tuition bill.
- Assess the feasibility of raising revenue through public use of campus recreation and fitness enterprises to reduce reliance on mandatory fees.

JLARC Recommendations passed by General Assembly

- Perform comprehensive review of institution's organization structure including spans of control and a review of staff activities and workload
 - Require periodic reports on average and median spans of control
 - Revise human resource policies to set standards on spans of control
- Set and enforce policies to maximize standardization of purchases of commonly purchased goods
 - Consider directing staff to provide an annual report on all institutional purchases that are exceptions to the standardized purchases

Future Reviews

The budget passed by the General Assembly included language establishing the **Joint Subcommittee on the Future Competitiveness of Higher Education in Virginia.**

Goals:

- Review ways to maintain and improve the state's quality of higher education
- Examine impacts of competitive changes to the system
- Identify best practices including shared services and accessible academic pathways
- Evaluate the use of online and distance education
- Review need-based financial aid programs and alternative models of affordability
- Review JLARC recommendations and recommend implementation steps
- Study effectiveness and value of transfer students and dual enrollment
- Study effectiveness of preparing teachers to enter into the K-12 system

Timeline:

- Interim report due on November 1, 2016.
- Final report due on November 1, 2017.

Report on the Development of Cost Containment Opportunities

FINANCE AND AUDIT COMMITTEE

March, 2015

The Finance and Audit Committee has expressed interest in understanding the university's current and future cost management strategies to continue Virginia Tech's effective management within an environment of increasingly constrained resources. In November 2014, the Committee requested that the university review the institution's cost structure and consider opportunities for further improvement. This first report, in response to the Committee's interest, is an introduction to the cost structure of the university, current status of cost management strategies and related outcomes, and future action plans for reporting. This report is the first in a series of reports that plans to provide information on cost analysis and cost containment strategies to the Committee. The university has a history of monitoring and controlling costs in order to utilize well the monies assigned to its operating units. However, our university reporting efforts have focused on university-wide results, with less reporting efforts on units within the university. The end result of this should be the identification of long-term trends in managing the university's costs, and it could reveal opportunities for further cost containments.

Background

The past decade has presented a challenging environment for higher education. Student expectations have increased as has the competition to recruit and retain best faculty. Reduction in state appropriations, recession in the national economy, rapid escalation in fixed costs such as health care, energy, retirement, and unfunded mandates, etc. have placed tremendous financial pressures on institutions of higher education including Virginia Tech. The university, similar to other higher education institutions, had to balance the reduction in state appropriations with corresponding increases in tuition and fee revenues, adoption of alternate revenue enhancing strategies, and absorption of budget reductions. In conjunction with revenue enhancement and budget reductions, the university has also adopted cost containment and reallocation strategies to minimize the impact of reductions on the academic enterprise while seeking to advance strategic objectives and to position the institution for the future. A disciplined financial management strategy has enabled Virginia Tech to make progress on the university's strategic plan – enrollments grew by 3,245 or 12 percent in the past decade; university's research rankings increased from 56th in the nation in 2005 to 38th in 2015; and the university maintained graduation rates of 83 percent. In addition, several of university's academic programs are ranked in top 20 in the nation.

University Cost Structure

Virginia Tech records the costs in the university systems based on standards established by Governmental Accounting Standards Board (GASB), industry standards as promulgated by the National Associate of College and University Business Officers (NACUBO), the SCHEV chart of accounts, and the Code of Virginia. The system is designed for effective institutional management and organizational accountability. At a high level, the university budgets and records costs in two separate state agencies – University Division and Cooperative Extension and Agricultural Experiment Station. Within each division, the costs are recorded by organization, and by program (education and general, student financial assistance, auxiliary enterprises, sponsored programs, etc.). The use of fund accounting ensures that each fund is set up with a distinct purpose. Multiple attributes in the accounting system along with the budgetary controls can restrict the type and amount of expenditures that can be posted to a fund. It also facilitates the review and analysis of university’s operational costs from multiple perspectives:

- Costs by functional groups such as instruction, research, public service, academic support, institutional support, etc.
- Costs by natural classification such as personnel expenses, fringe benefits, supplies, travel expenses, utility costs, etc.
- Costs by operating units such as cost by college, administrative units, etc.
- Costs by project – the university’s fund accounting system allows costs to be tracked and budgeted by project (ideal for sponsored research projects and capital outlay projects) or by cost objective within a university operating unit (such as by dining hall for the Dining Services auxiliary).

Current Status of Cost Management Strategies

The university has adopted certain core principles that guide resource allocation and budget management practices. These principles include a strategic focus on deployment of resources to align with Virginia Tech’s mission and goals; cost conscious culture resulting in a history of lean administration; and maximization of benefits to students at the minimal cost. These core principles have contributed to the successful management of the university promoting a careful, planned, and sustainable growth of the institution. These accomplishments were achieved despite a state budget reduction of \$80.7 million during the past decade.

The university carefully monitors the operational costs of the institution and has implemented several cost containment strategies over the years to manage the escalation in costs. Some of the significant initiatives include:

- energy conservation investments and energy saving contracts to reduce future energy costs,

- automation of administrative processes (purchasing, leave and time keeping, research administration, etc.),
- process re-engineering,
- outsourcing of select services (such as renovation operations),
- strategic procurement to leverage the institution's purchasing power,
- consolidation of leased space into owned facilities,
- deployment of shared services,
- increased use of instructors,
- expanded class sizes, and
- online courses etc.

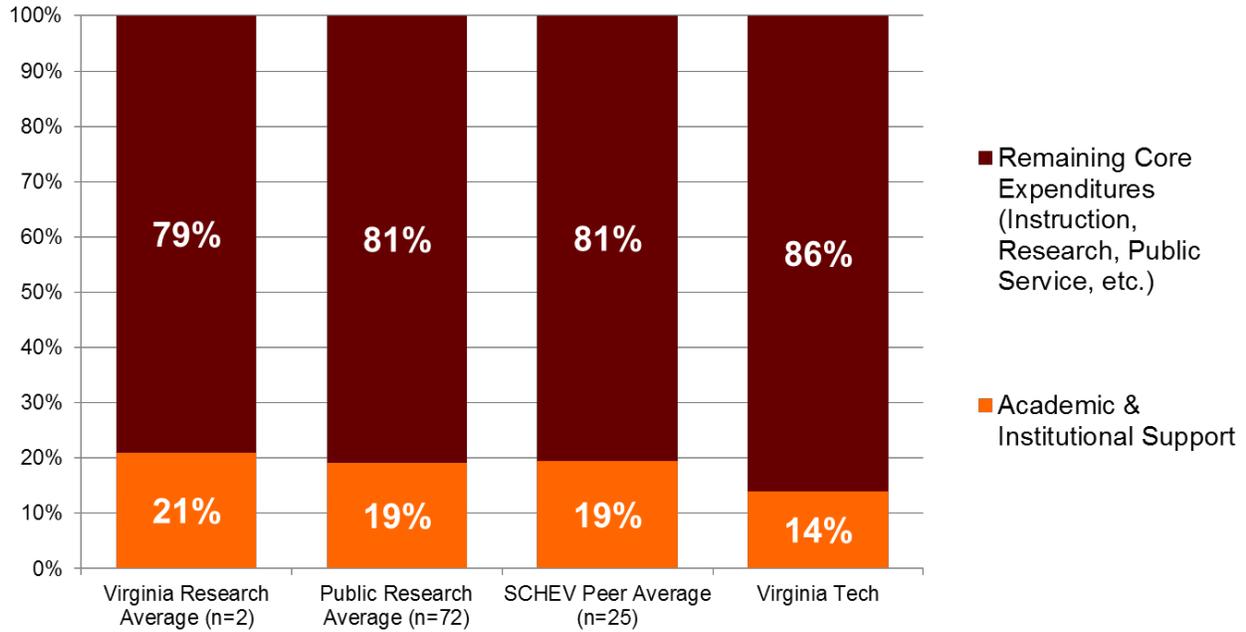
Expenditures are controlled by the budget allocation process and system controls built into the accounting system prohibit incurring expenditures in excess of the available budget balances.

The effectiveness of Virginia Tech's current cost management strategies can be examined through the outcomes of the annual administrative costs benchmarking study and through various metrics reported in the recently concluded comprehensive cost efficiency study conducted by the Joint Legislative Audit and Review Commission (JLARC).

University Studies

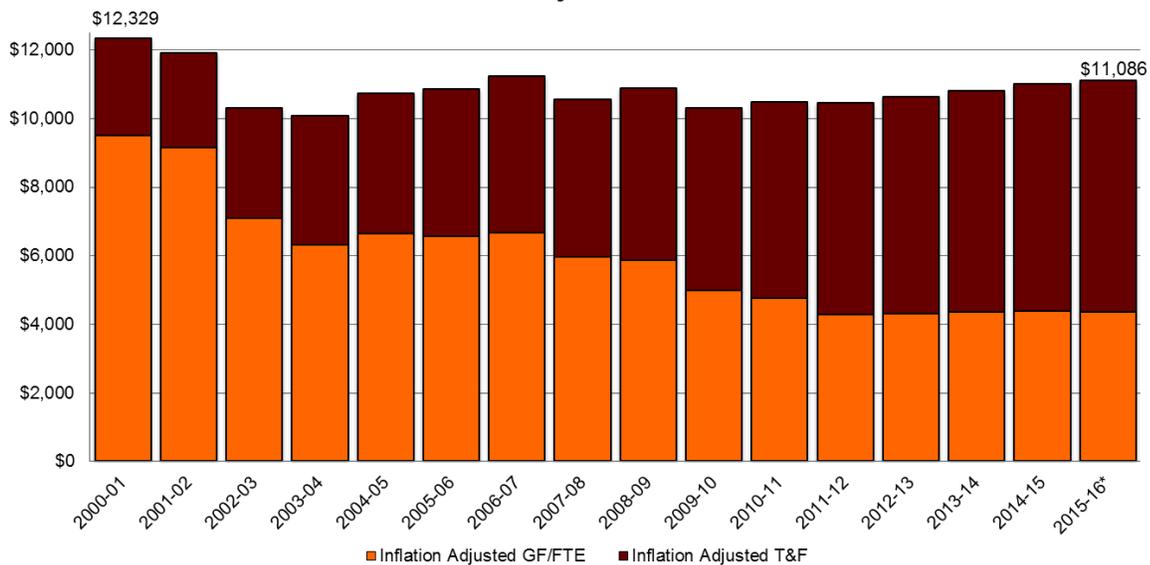
Administrative Cost Study: The university undertakes an annual administrative cost benchmarking study to evaluate administrative expenditures in comparison with total core expenditures of the university. This study replicates a national benchmarking study utilizing standardized data from the Integrated Postsecondary Education Data System (IPEDS). For fiscal year 2013 (the most recent data available from IPEDS), Virginia Tech has expended 14 percent of its total core expenditures to administrative costs compared to 19 percent for SCHEV peers and public research institutions. The results of the study over the years have consistently demonstrated that Virginia Tech maintains one of the lowest percentage allocation of resources to cover administrative costs. The prudent management of administrative costs means that a greater share of the university resources are focused on the primary academic mission of instruction, research, and outreach.

FY 2013



Funding per Resident Student: the university monitors the trend of funding per resident student over time. This trend displays the decline in overall resources per student since 2000-01. It reflects the university's inability to fully replace the decline in General Fund per student, but also infers an improved institutional cost efficiency. From 2001 to 2016, funding per resident student has declined \$1,243 per student, on an inflation-adjusted basis.

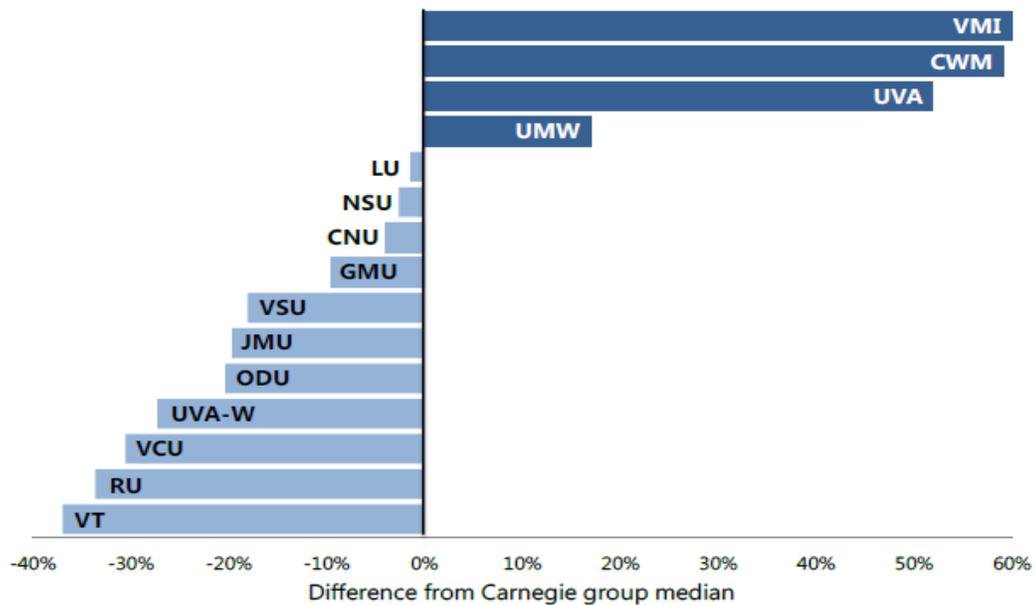
GF and T&F per Resident FTE Inflation Adjusted to 2000s



Joint Legislative Audit and Review Commission (JLARC) Study of Higher Education Cost Efficiency: JLARC conducted a comprehensive cost efficiency study of the Virginia public higher education institutions in fiscal years 2013 and 2014; these studies included identification of opportunities to reduce the cost of public higher education in the state. The recently concluded study reported several metrics related to cost efficiencies for all state higher education institutions. Following are few relevant metrics:

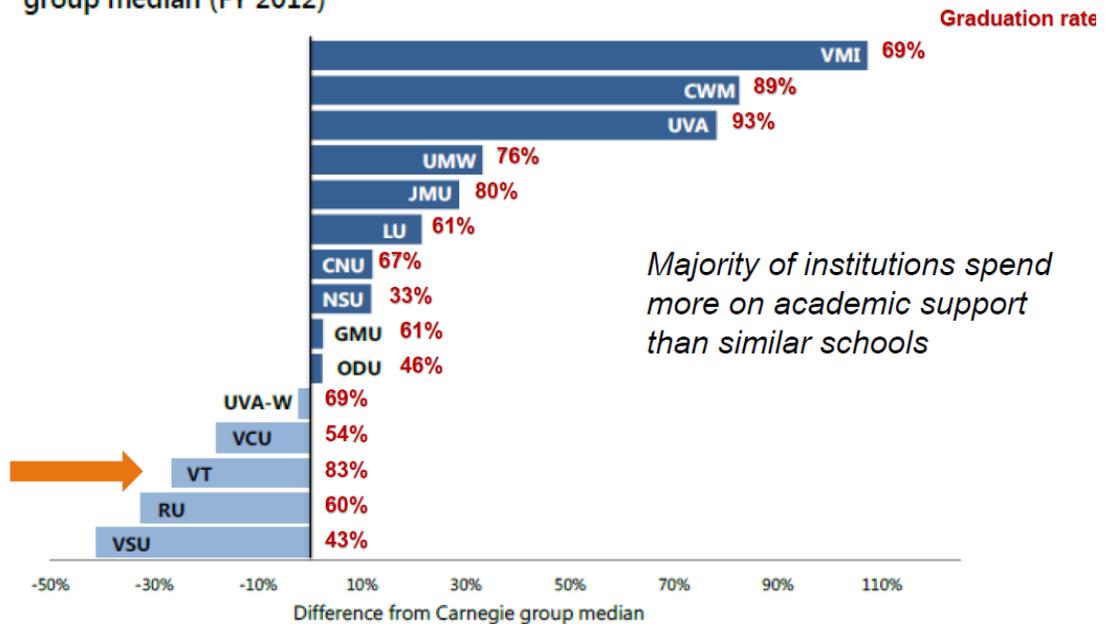
- Spending on Support functions: Virginia Tech is among the lowest spenders on support functions per student full-time equivalent when compared to its public Carnegie group institutions. The university’s spending is less than 75 percent of other public institutions. Support functions include academic support, student services, institutional support, and operation and maintenance.

Mary Washington, William and Mary, UVA, and VMI spend more on support functions than their public Carnegie group median (FY 2012)



- Spending on academic support functions: Virginia Tech spends less than similar institutions on academic support. Academic support includes services such as Library, curriculum development, and college administration. Despite spending less than similar institutions, the university has maintained a graduation rate of 83 percent, demonstrating the effective utilization of the academic support.

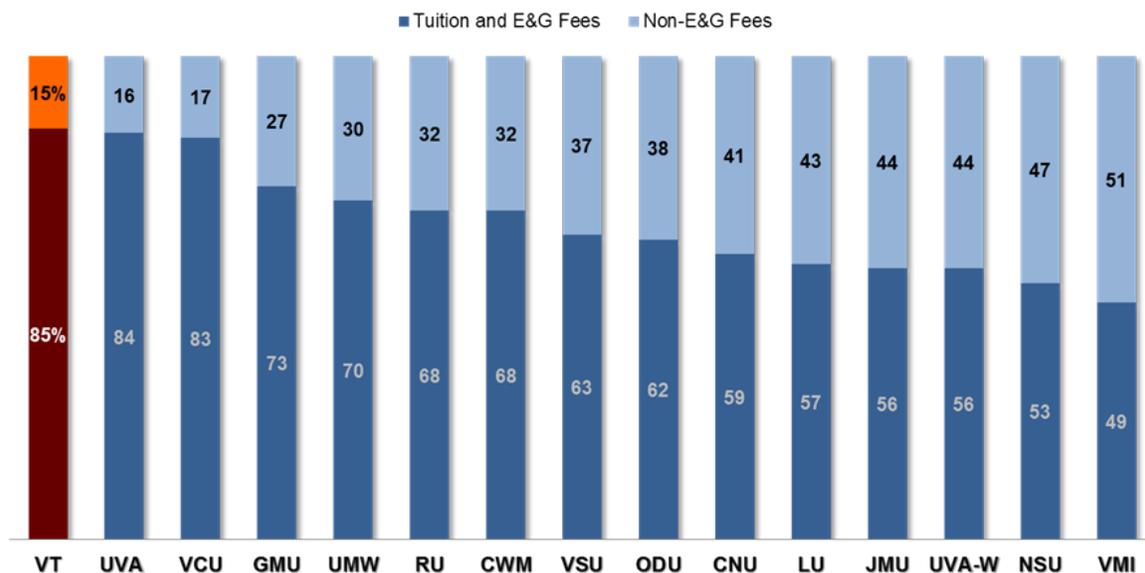
Ten Virginia institutions spend more on academic support than their Carnegie group median (FY 2012)



1 Based on SCHEV data for First Time, Full Time Freshman, Graduating within 6 years, 2006-07 cohort.
 Source: Based on JLARC Support Costs and Staffing report
 This chart reflects the academic support costs only.

- Virginia Tech has the lowest comprehensive fee of all public four-year institutions in Virginia, and allocates the largest portion of student charges to support instruction at the university compared to other 4-year public institutions in Virginia. The smaller comprehensive fee reflects the traditional strong central oversight of the business operations at Virginia Tech, along with a focus on cost containment.

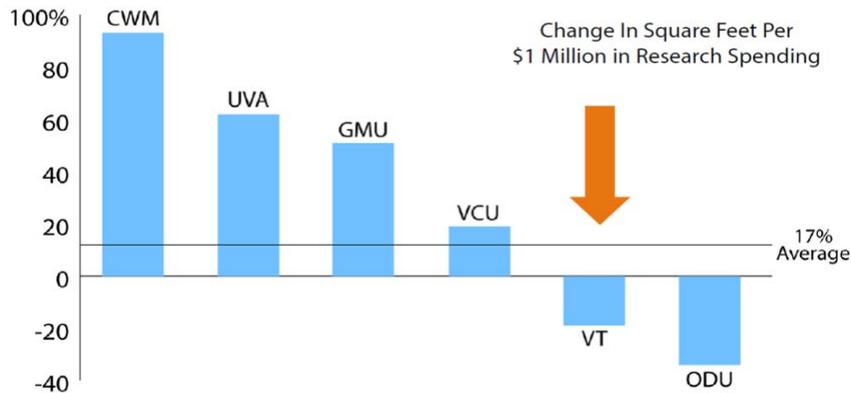
Non-E&G fees as a portion of mandatory charges (FY 2014)



Source: JLARC Addressing the Cost of Public Higher Education in Virginia Report

- Virginia Tech has increased its research space productivity from fiscal year 2005 to 2012. While most schools in Virginia increased their research space at a faster pace than in research activity, Virginia Tech gained research productivity by using research space more effectively.

Research Institutions Increased Research Square Footage By 17%

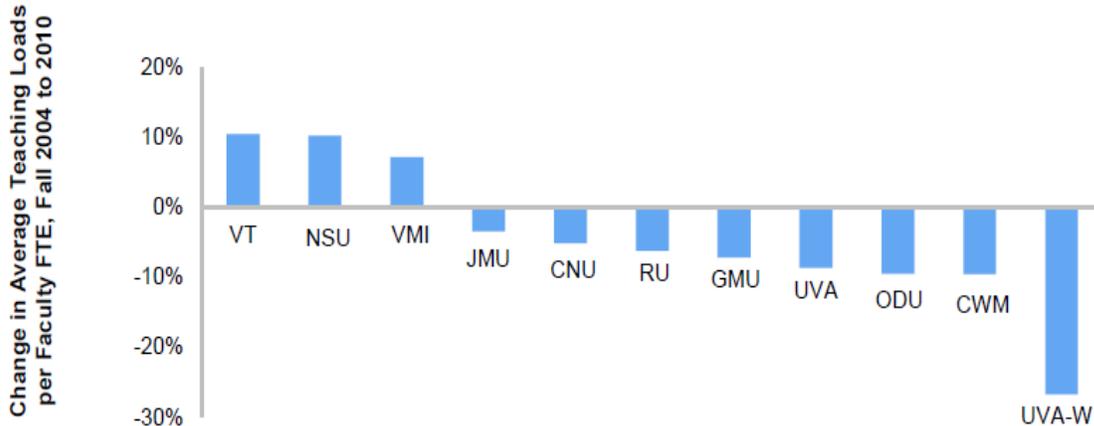


Note: FY 2005 to FY 2012

Source: JLARC Academic Spending and Workload Report

- Virginia Tech's enrollment has grown by over 2,700 students from FY 2001 to FY 2011, while the number of tenured faculty has decreased over the same time period.
- Teaching loads for tenure and tenure-track faculty at Virginia Tech has increased by 10 percent from 2004 to 2010; conversely, the teaching loads decreased at all other Virginia doctoral institutions.

Tenured and Tenure-Track Faculty



Source: JLARC Academic Spending and Workload Report

Virginia Tech recognizes that the financial environment continues to be a challenging one despite the progress made by the university. The university's cost management goals include implementation of nuanced and well-thought strategies that do not adversely impact the academic quality and student support services. Such strategies should aim to achieve long-term efficiencies rather than short-term reductions.

Actions Plan for Upcoming Reports

The university understands and appreciates the Committee's interest in our cost containment activities, and we agree with the need to fully understand, monitor, track, and take appropriate action with regard to the management of our operating costs. Based on our current understanding of the Committee's focus, the university is currently developing an action plan to expand its analysis and reporting on university's operational costs. In addition, we plan to identify potential strategies to continue to improve cost effectiveness. The plan will include but is not limited to:

- Review benchmarking studies, metrics and industry best practices.
- Conduct longitudinal cost analyses from multiple perspectives to determine the productivity of operations. These efforts will look not only at the university-wide performance but will also examine unit costs and cost trends at the level of major operating units within the university.
- Identify potential cost containment strategies based on the activities described above.

We believe this will be an important and also time intensive activity. As a result, we envision working on this as an interactive effort with the Committee. As a result, we will commit to bringing updated and interim reports to the committee as this work proceeds. In this manner, modifications can be incorporated during the process to ensure we are achieving the Committee's goal with regard to monitoring cost containment activities at the university.