

MINUTES
UNIVERSITY ADVISORY COUNCIL ON
STRATEGIC BUDGETING AND PLANNING
February 27, 2014

PRESENT: Amy Brunner, Tim Hodge, Andrew McCoy, Mark McNamee, Leslie O'Brien, Ken Smith, Jason Soileau, Sue Teel, Zhaomin Yang (for John Phillips)

ABSENT: Renee Boyer, Martin Daniel, Elizabeth Fine, Balachandar Guiduri, William Knocke, Joe Merola, Quinton Nottingham, Theresa Pancotto, Timothy Scott, Dwight Shelton, Connie Stovall

1. CALL TO ORDER

Dr. Mark McNamee, Senior Vice President and Provost, called the meeting to order at 3:00 p.m.

2. APPROVAL OF THE JANUARY 23, 2014 MINUTES

Dr. McNamee announced that the minutes of the January 23, 2014 meeting have been electronically approved and sent to University Council for posting on the web.

3. UPDATE ON GENERAL ASSEMBLY SESSION

Mr. Tim Hodge, Assistant Vice President for Budget and Financial Planning, provided an overview of the state's process of developing the 2014-16 biennial budget. Currently, each chamber of the General Assembly has proposed amendments to the 2014-16 Executive Budget presented by the Governor on December 16, 2013. Each house of the General Assembly presented their respective budget as of February 18, 2014 and are preparing to crossover their budget to the other chamber (House to Senate and vice versa).

Mr. Hodge stated that since the opening of the legislative session, the state reported slower economic growth than expected, which lowered the revenue forecast for the year. Yet higher education is finding support within an environment of constrained resources. Funding the Virginia Retirement System is a major cost driver with a 40% employer rate increase envisioned in the first year of the biennium with the House recommending a strategy to further increase this rate in the second year to fully fund the retirement system. The two chambers are approaching compensation differently in terms of bonus vs raise, timing, and amount. Funding for differences between the House and Senate proposals are to be resolved by a Conference Committee.

Mr. Hodge stated that little was done in the area of capital outlay for higher education likely due to constrained state debt capacity.

While the General Assembly would normally complete its work by Saturday March 8, significant differences on Medicaid are likely to extend the timeline for completing their work.

Mr. Hodge also reviewed a few pieces of legislation that Virginia Tech was following.

4. IMPACT OF GENERAL ASSEMBLY SESSION TO VIRGINIA TECH

Mr. Tim Hodge provided a handout (Schedules 1 & 2) summarizing the proposed amendments to the 2014-16 Executive Budget from each chamber of the General Assembly as of February 18, 2014 (Crossover). He reviewed the key points impacting Virginia Tech.

Both chambers reshaped the Degree Incentive and Enrollment Support provided in the Executive Budget. The House focused on O&M of new facilities, the number of faculty, seats for instate undergraduate students, and additional support for research and equipment. The Senate targeted a 1% salary program, student financial aid, and additional support for research equipment. Both bodies continued the support for Agency 229 that was planned in the Executive Budget. Both the House and Senate envision advancing Academic Building Renovations/Renewal and Improvements to Kentland Research Facilities forward for detailed planning.

Mr. Hodge reviewed a side-by-side analysis of the budget to cover key policy items. He noted the variations of the three bodies in terms of bonus and compensation programs. The House has a plan for additional support into the VRS, recommends a review of SCHEV's salary peer process for institutions of higher education, and asks SCHEV to review instructional technology. Both bodies support renewal of the Management Agreements with Level III institutions.

5. OTHER BUSINESS

There being no further business, the meeting adjourned at 3:50 p.m.

PROPOSED APPROPRIATIONS FROM THE EXECUTIVE BUDGET AND EACH HOUSE OF THE GENERAL ASSEMBLY
as of Tuesday February 18, 2014 (Crossover)
(\$ in thousands)

	Executive Budget		House Budget		Senate Budget	
	2014-15	2015-16	2014-15	2015-16	2014-15	2015-16
Operating Budget						
General Fund						
University Division						
Degree Incentives	\$ 3,444	\$ 3,444	\$ 1,036	\$	\$ 861	\$ 2,235
Enrollment Growth	589	589				
O&M of New Buildings			1,274	1,604		
Increase # of Faculty			1,863	1,863		
In-state Undergraduate Seats			600	600		
Up to 3% Bonus (Est. Central)	4,190					
2% Faculty Bonus FY16				1,963		
2% Staff Bonus FY16				706		
1% Faculty Bonus						1,022
1% Staff Bonus (Est. Central)						333
1% Faculty Salary					565	1,131
1% Staff Salary (Est. Central)					206	381
Compression Adjustment (Est. Central)	31	35	18	35		
Veteran and Military Education Consortium	46	175			46	175
Technical Adjustments (fringe rate changes, state systems charges, etc.)	657	675	657	675	657	675
<i>Subtotal University Division Operating</i>	8,956	4,918	5,448	7,447	2,336	5,952
Research						
Brain Research	1,650	1,650	2,650	2,650	1,650	1,650
Center for the Arts & Technology Operating			300	300		
Transportation Institute Support			250	250		
<i>Subtotal Research</i>	1,650	1,650	3,200	3,200	1,650	1,650
Financial Aid						
Undergraduate Financial Aid	100	100			280	453
Graduate Financial Aid	271	271	271	271	271	271
<i>Subtotal Financial Aid</i>	371	371	271	271	551	724
Equipment Trust Fund						
Base	8,328	8,328	8,328	8,328	8,328	8,328
Research	4,278	4,278	6,978	4,278	6,673	6,673
<i>Subtotal Equipment Trust Fund</i>	12,606	12,606	15,306	12,606	15,001	15,001
Subtotal - University Division	23,584	19,546	24,225	23,524	19,538	23,327
Cooperative Extension/AES Division (CE/AES)						
Operation and Maintenance of HABBI	1,150	1,173	1,150	1,173	1,150	1,173
Support for Agricultural Specialists	110	110	110	110	110	110
Up to 3% Bonus (Est. Central)	1,425					
2% Faculty and Staff Bonus FY16				989		
1% Faculty Bonus						235
1% Staff Bonus (Est. Central)						131
1% Faculty Salary					132	264
1% Staff Salary (Est. Central)					81	149
Compression Adjustment (Est. Central)	4	4	10	4		
Technical Adjustments (fringe rate changes, state systems charges, etc.)	132	134	132	134	132	134
Subtotal CE/AES Division	2,821	1,421	1,402	2,411	1,605	2,195
Total Operating Budget State Support	\$ 26,406	\$ 20,967	\$ 25,627	\$ 25,935	\$ 21,143	\$ 25,523

PROPOSED APPROPRIATIONS FROM THE EXECUTIVE BUDGET AND EACH HOUSE OF THE GENERAL ASSEMBLY
as of Tuesday February 18, 2014 (Crossover)
(\$ in thousands)

Capital Budget

	Executive Budget		House Budget		Senate Budget	
	State	NGF	State	NGF	State	NGF
Maintenance Reserve FY2015	\$ 6,975		\$ 6,975		\$ 8,506 ⁽³⁾	
Maintenance Reserve FY2016	6,975		6,975		8,506 ⁽³⁾	
Capital Projects:						
Preplanning						
Detail Planning						
Academic Building Renovation/Renewal			<i>Listed in Funding Pool</i>		<i>Listed in Funding Pool</i>	
Improve Kentland Research Facilities (1)			<i>Listed in Funding Pool</i>		<i>Listed in Funding Pool</i>	
Construction						
FF&E Funding						
Classroom Building (2)	3,642		3,642		3,642	
Total	\$ 13,954	\$	\$ 13,954	\$	\$ 17,016	\$

Note:

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.

(1) Both the House and Senate propose allowing projects authorized for preplanning in the 2013 Session to continue to detail planning using NGF resources. Thus, the project may continue to the next design phase as all projects in item C-39.05.H.2 would now be authorized to proceed to detail planning.

(2) The amount is from the Department of General Services Funding Report that was sent to Virginia Tech as of 11/8/2013 that recommends \$3.642 million for FF&E funding and \$40.851 million for the total project.

(3) The Senate increased the statewide Maintenance Reserve program by 22%, noting that agency and institutional amounts would be adjusted proportionately upon enrollment of the bill. This amount assumes a 22% increase for Virginia Tech over the introduced amount.

**2014-16 BUDGETS AS OF CROSSOVER -- BASED ON COMMITTEE HALFSHEETS
AS OF TUESDAY FEBRUARY 18, 2014**

Each column reflects incremental adjustments to the 2012-14 biennial budget, as proposed by each body.

		Executive	House	Senate
Compensation	Statewide Bonus	<p>Up to 2% bonus on Dec. 1, 2014, if state reaches savings target for FY14.</p> <p>Additional 1% if savings/revenue targets generate twice the amount needed for the 1% action.</p> <p>GF share of bonus will be funded centrally.</p>	<p>Bonus of 2% for faculty and staff payable on July 1, 2015. Direct funding in 2015-16 supports the GF share for faculty and classified staff:</p> <p>If the revenue triggers are not met for the statewide bonus, higher education institutions are not authorized to provide a bonus. However, the funding shall remain within institutional appropriations and be used to support the institutions' operations.</p> <p>The governing authorities of institutions may provide the faculty bonus based on performance and other employment-related factors, as long as the bonuses do not exceed the average based on the general methodology utilized for other state employees.</p>	<p>Bonus of 1% for faculty and staff payable on December 1, 2015. Direct funding in 2015-16 supports the GF share for faculty. The GF share for classified employees will be funded centrally.</p>
	Base Salary Increase	N/A	N/A	<p>Direct funding supports the GF share of a 1% faculty salary increase in the first year, effective December 10th, 2014. The GF share for classified employees will be funded centrally.</p>
	Compression Adjustment	<p>Targeted 2% salary increase for specific high turnover jobs identified in the budget, effective July 25, 2014.</p>	<p>Delays salary action on targeted positions until December 10, 2014.</p>	<p>Reduces targeted high-turnover compensation adjustments proposed in Executive Budget to only Deputy Clerk of Court positions, eliminating impact on IHEs.</p>

Veteran and Military Member Education Consortium		Establishes a higher ed consortium (VT, JMU, ODU, UVA, VCCS, SCHEV) to help military personnel and veterans achieve higher education goals.	Executive Budget direct appropriation eliminated. Instead, institutions “may” use incremental operating support to implement the veteran education consortium activities.	No change to Executive Budget.
Tuition Authority		No change.	No change.	No change.
Fringe Benefit Rate Changes and Other Central Adjustments	Retirement	VRS rate increased from 8.76% to 12.33% for the 2014-16 biennium.	FY15: No change to Executive Budget FY16: If Revenue Reserve is not needed to address revenue reductions, VRS rate will be increased to the full VRS Board certified rate of 15.80%.	No change to Executive Budget.
	Fringe Rates	Increases to VaLORS, Group Life, VSDP, and Retiree Health.	Changes assessment of VSDP funding from a rate of 0.73 percent applied against covered payroll to 0.62 percent applied against total payroll.	Changes assessment of VSDP funding from a rate of 0.73 percent applied against covered payroll to 0.62 percent applied against total payroll.
	Health Care – Employer Share	Increase of approximately 5.25% to employer share in the first year, and by approximately 7% in the second year of the biennium.	No change to Executive Budget.	No change to Executive Budget.
	Health Care – Employee Share	Premium increase of between \$3 and \$13 per month, depending upon coverage plan	Copay for mail-order prescriptions increased to \$15 to reflect parity with increases to retail co-pay rates for tier 2, 3, and 4 pharmacy services.	No change to Executive Budget.
	Insurance Premiums	Increases to automobile insurance and workers’ compensation insurance programs. (Central)	No change to Executive Budget.	No change to Executive Budget.

Peer Process Review	N/A	SCHEV, along with SoE, DPB, HAC, SFC and institutions, shall “evaluate alternatives to the current faculty salary peer process including the impact of factors such as cost of living indices, faculty rank and discipline mix, private institutions and other comparative salary data. SCHEV shall report its findings to the Chairmen of the House Appropriations and Senate Finance Committees by December 1, 2014.”	N/A
Instructional Technology Review	N/A	SCHEV, along with SoE, DPB, HAC, SFC and institutions, shall “evaluate the most effective use of instructional technologies such as Massive Open Online Courses (MOOC) in providing low-cost, quality education leading to degrees and certifications. SCHEV shall report its findings to the Chairmen of the House Appropriations and Senate Finance Committees by December 1, 2014.”	N/A
Higher Education Funding Guidelines	<p>Language added to each institution’s line item expressing anticipation that future funding will be allocated as follows:</p> <ul style="list-style-type: none"> ○ 30% Base operating costs ○ 42% Degree Incentives ○ 14% Enrollment Growth ○ 14% Initiatives/Research 	<p>Executive Budget language replaced with: “a. The following, consistent with the principles of the Higher Education Opportunity Act of 2011, are a guide to providing funding for public colleges and universities:</p> <ol style="list-style-type: none"> 1. Cost drivers should reflect the goals of increasing access especially for in-state undergraduate students, ensuring that college remains affordable especially for in-state undergraduate students, increasing the number of degrees, certificates and credentials, and improving the quality of higher education including research enhancements. 2. Funds were allocated using the cost drivers identified in the first paragraph of this item, prior commitments of the Commonwealth, the institutions six-year academic and financial plans, the incentive funding model circulated by the college presidents to the 2011 Higher Education Advisory Committee, legislative and institutional priorities including the goal of tuition moderation. 3. The allocation of funds, especially for tuition moderation, is intended to enhance affordability for all in-state students and serves as a viable alternative to the current financial aid models. Increased financial aid allocations may become viable under the model proposed in House Bill 573 and will be considered at that time. 	<p>Eliminated funding guidelines in the Executive Budget in order to restore funding flexibility.</p>

Research Matching and Reporting Requirement	Requires match or investment of 2X over 3 years or commercialization of a product. Requires agency-submitted report identifying the institution's research accomplishments & state's ROI.	Eliminated.	Eliminated.
Athletic Revenue/Expenditure Reporting	N/A	Calls for the APA, in collaboration with SCHEV, the State Comptroller, DPB, and IHEs to "develop a standardized reporting format for intercollegiate revenues and expenses to include treatment of student fees and classification of specific sports. Institutions of higher education shall resubmit its fiscal year 2012 report using this new format by December 1, 2014."	N/A
Financial Aid	Language states that financial aid funding is intended to enhance affordability for low and middle income students. Funds to be allocated according to partnership model. Requires institutional reporting on implementation through the 6-year plans.	<p>Page 475, strike lines 5 through 13 and insert: "b) Except as otherwise authorized under § 23-38.53:6, all awards made to undergraduate students from such Items shall be only for domiciled residents of Virginia as defined by § 23-7.4 and such awards shall offset all, or portions of, the costs of tuition and required fees, shall be proportionate to the remaining need of individual students, with students with higher levels of remaining need receiving grants before other students, and no criteria other than the remaining need of the student shall be used to determine the award amount. Because of the low cost of attendance and recognizing that federal grants provide a much higher portion of cost than at other institutions, a modified approach and minimum award amount for the neediest VGAP student should be implemented for community college and Richard Bland College students based on remaining need and the combination of federal and grant state aid. Student financial need shall be determined by a need-analysis system approved by the Council." Page 475, strike lines 35 through 43. Page 475, line 44, strike "3" and insert "c)". Page 475, strike line 47.</p>	<p>SCHEV workgroup recommended language:</p> <ul style="list-style-type: none"> • Requires funding be transferred to E&G programs that supports work study or graduate assistantships. • Language also updates restrictions on the use of NGF for financial aid: <ol style="list-style-type: none"> 1. Funds derived from in-state student tuition will not subsidize out-of-state students, 2. Students receiving these funds must be making satisfactory academic progress, 3. Awards made to students should be based primarily on financial need, and 4. Institutions should make larger grant and scholarship awards to students taking the number of credit hours necessary to complete a degree in a timely manner.

Advanced Manufacturing Advisory Council	N/A	<p>Creates Advanced Manufacturing Advisory Council, which would:</p> <ul style="list-style-type: none"> • Be made up of 8 members: 2 industry reps from CCAM, 2 from VA Manufacturers Association, 3 from CoP (1 from senior institution and 2 from 2yr or higher ed centers), and 1 from Dept. of Veteran Services. • Ensure coordination of services, resources, and requests from agencies and IHEs by: <ul style="list-style-type: none"> • Reviewing any budget request of higher education institutions regarding advanced manufacturing workforce training, and • Make recommendations to Gov and GA on how to use veterans in adv manufacturing jobs, • Also extends treasury loan of \$25m to VEDP to develop Advanced Manufacturing Apprentice Academy to be match by federal and local/other grants. 	N/A
Auxiliary Enterprise Interest Earnings	N/A	<p>Modifies language regarding the recovery the full indirect cost of auxiliary enterprise programs as recommended by HEAC:</p> <p>Item 3-4.01.A (page 450) Language strikes “as determined by the State Council of Higher Education” and inserts “as certified by institutions of higher education to the Comptroller subject to annual audit by the Auditor of Public Accounts.”</p>	N/A
Nongeneral Fund Revenue		<p>Removes the requirement of institutions to provide nongeneral fund revenue estimates to SCHEV, and eliminates the requirement that institutions request approval through SCHEV for administrative increases to nongeneral fund appropriations.</p>	
Management Agreements	N/A	<p>Renews indefinitely the Level III Management Agreements entered into in 2009.</p>	<p>Renews indefinitely the Level III Management Agreements entered into in 2009.</p>
Athletic Coach Salaries	N/A	N/A	<p>Caps GF support of any individual athletic coaching salary to \$100k as of July 1, 2013. Phase-down over a 5-year period at 20% per year until reaching</p>

			the cap.
Higher Education Procurement Cooperative	Establishes a cooperative to leverage institutional procurement requirements to obtain financial advantages.	Eliminated.	Eliminated.
Unmanned Aircraft Systems	Provides up to \$1,199,495 in the first year and \$436,998 in the second year for “unmanned aircraft systems research and development. From FACT pool.	No change from Executive Budget.	Proposes \$1m GF in each year to support an Unmanned Vehicle Systems Working Group under the Secretary of Technology. (Item 418 #1s) The Senate also recommends an investment of \$4 million for a dedicated runway within the fence of the Wallops Flight Facility specifically for the testing of these aircraft.
Airport Expansion	Provides authorization to convey land to the VT-Montgomery Regional Airport Authority to grant a restrictive runway protection zone easement for a runway expansion. Further, the university shall retain all net proceeds from the sale to support the costs of relocating agricultural programs impacted by the sale of the land or granted easements.	No change from Executive Budget.	No change from Executive Budget.
Virtual Library of Virginia	Provides \$1.5m in the first year and \$1.6m in the second year for the Virtual Library of Virginia, specifically for STEM e-books.	No change from Executive Budget.	No change from Executive Budget.