

MINUTES
UNIVERSITY ADVISORY COUNCIL ON
STRATEGIC BUDGETING AND PLANNING

February 4, 2010

PRESENT: Gilles Divoux, Erik Ervin, Bruce Obenhaus (for Kyrille Goldbeck, Bill Huckle, Scott Hurst, Ben Johnson, Lonnie Johnson, Patricia Lavender, Gary Long, Thomas Olson (for Steve McMullin), Dwight Shelton, Ken Smith, Linda Tegarden, Tom Tucker

ABSENT: Martin Daniel, Muhammad Hajj, Mark McNamee, Don Rimstidt, Joey Zakutney

GUEST: Tim Hodge

1. CALL TO ORDER

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

2. APPROVAL OF THE DECEMBER 3, 2009 MINUTES

Mr. Shelton announced that the minutes of the December 3, 2009 meeting have been approved and sent to University Council for posting on the web.

3. REVIEW OF THE GOVERNOR'S 2010-12 EXECUTIVE BUDGET PROPOSED IN DECEMBER

Mr. Shelton provided an overview of the Executive Budget bill for the 2010-12 biennium which Governor Kaine presented to the General Assembly Money Committees on December 18, 2009. A copy of Mr. Shelton's memo sent on December 23, 2009 to university senior administrators and members of the University Advisory Council on Strategic Budgeting and Planning which provided a thorough analysis of the Executive Budget was shared with Council members for review. In addition to addressing the upcoming 2010-12 biennium, Governor Kaine also proposed amendments to the existing 2009-10 budget. A copy of the memo is attached to these minutes. In addition to the budget elements discussed in the analysis, the Governor's Executive Budget bill also proposed taking a portion of mandatory student fees paid to universities and depositing that money in the state's bank account. This is seen by higher education officials and advocates as a tax on students and families which, if upheld, would set a precedent of taking private student money that was never intended to go to the state. This provision is being carefully monitored.

4. STATUS REPORT ON LEGISLATIVE ACTIVITIES

The House and Senate are reviewing the revenue shortfall and have differing opinions on how to address it. The House voted 97-0 against a tax increase, which means that the \$950 million shortfall for each year of the biennium is currently unresolved in the budget. The House and Senate money committees are scheduled to report out by February 21st. Mr. Shelton will provide a status report on the initial money committee reports at the next meeting of the Council scheduled on February 25.

There being no further business, the meeting adjourned at 4:00 p.m.

Attachment

December 23, 2009

MEMORANDUM

To: Deans
Vice Presidents

FROM: M. Dwight Shelton, Jr.

SUBJECT: Analysis of Executive Budget Bill for the 2010-12 Biennium.

On Friday, December 18, 2009, Governor Kaine presented his Executive Budget bill for the 2010-12 biennium to the General Assembly Money Committees. We have now completed our review of the proposed budget, and it contains several elements that significantly impact the level of support provided for the instruction, research, and outreach missions of higher education. In addition to the upcoming 2010-12 biennium, Governor Kaine also made amendments to the existing 2009-10 budget.

With regard to the operating budget adjustments, the Executive Budget contains a complicated set of adjustments in which the previously announced September 2009 adjustments are modified and new adjustments are proposed as of December 2009. To help the campus understand the changes, we have developed a summary table that displays the net impact of these adjustments, by fiscal year, on the amount of General Fund and federal stimulus funds support available to the University in the proposed Executive Budget. This summary table is displayed as Attachment A to this memorandum.

While it is important to understand the operating budget proposals included within the Executive Budget, we must also remember that these actions are subject to change during the General Assembly which will convene in January. A related key element of the Executive Budget is the elimination of the car tax and the substitution of a new revenue source through an increase in the state income tax. It is not apparent through the budget documents how those revenue proposals impact the decisions in the Executive Budget regarding higher education funding.

Attachment B to this memorandum displays the capital outlay proposals in the Executive Budget that impact Virginia Tech. It is very important to understand that, with regard to capital outlay, the actual funding in the proposals for state taxpayer support is dependent upon a determination that debt capacity exists at the state level to issue any additional debt.

Invent the Future

In addition to these attachments, the following is a brief summary of the items of particular interest to Virginia Tech:

Operating Budgets

- **Base Reductions and Changes in One-time State and Stimulus Support:** The Executive Budget continues the base General Fund (GF) reductions previously assigned in September 2009 of (\$21,846,706) for Agency 208 and (\$4,528,956) for Agency 229. No additional reductions were proposed. To comply with federal American Recovery and Reinvestment Act Maintenance of Effort requirements, the budget bill adjusts GF and stimulus support:
 - Agency 208: \$16,661,472 of one-time GF support in FY10 offset by a reduction in stimulus funding of (\$16,006,396). The one-time GF support is continued in FY11 only and supplemented with \$20,892,536 of stimulus funding.
 - Agency 229: \$3,454,025 of one-time GF support in FY10 offset by a reduction in stimulus funding of (\$2,107,009). The one-time GF support is continued in FY11 only and supplemented with \$4,756,374 of stimulus funding.No additional GF or stimulus funding is proposed for FY12.
- **Furlough:** The previously communicated one day furlough was continued.
- **Retirement programs:** A proposal was introduced for employees to fund one percent of the employer share of the Virginia Retirement System (VRS) program in 2010-11 and an additional one percent was added in 2011-12 (for a total of two percent). The same employee contributions are proposed for participants in the Optional Retirement Program (ORP).
- **Deferred Compensation Program:** The Executive Budget suspends the \$20 per pay period deferred compensation cash match program for the last five pay periods of 2009-10 and for the next biennium.
- **Faculty and Staff Salaries:** The Governor's budget did not include a pay increase for staff or faculty in either year of the 2010-12 biennium.
- **Interest:** The Executive Budget proposes that the State Comptroller stop the allocation of interest on auxiliary enterprise balances for FY10 and the next biennium. It is also important to note that the E&G interest and credit card rebates to be held by the Commonwealth until restructuring performance measures are achieved are not budgeted in the second year of the biennium.
- **Reversion of Auxiliary Reserves FY11:** The Executive Budget proposes to revert a portion of auxiliary enterprise balances.

- **Capture of Rate Savings:** The Executive Budget proposes to temporarily suspend and/or adjust state rates for eVA, retirement, group life insurance, VSDP, and retirement health and to revert both the GF and nongeneral fund (NGF) share.
- **Defer Motor Pool Purchases:** Savings from the delay of motor pool purchases are recaptured. It is not clear how this may impact institutions of higher education that operate a motor pool.
- **Equipment Trust Fund:** Only \$50 million of spending authority has been provided through the Virginia College Building Authority to fund equipment purchases for institutions of higher education. Virginia Tech is proposed to receive \$7,510,149 in each year of the biennium, a decrease of \$1,314,120 from 2009-10. The debt issuance that underwrites this program is also subject to the State's debt capacity. As a result, in order for the funding of the ETF program to occur in 2010-12, the General Assembly will have to find a strategy to overcome concerns regarding the limitations of the debt capacity.
- **Operation and Maintenance of New Facilities:** The Executive Budget includes no new General Fund support either year of the biennium for operation and maintenance costs for new facilities coming online.

Operating Summary: As described in this memorandum, Attachment A provides a summary of the net changes to the operating budgets, with regard to direct proposals to increase or decrease funding through the General Fund or the federal stimulus funding. The schedule is not comprehensive in that several other proposed actions, as described in the points above, also impact the University's operating budgets. We will prepare a separate analysis that will provide a comprehensive analysis of the impacts on the operating budgets.

Other areas of interest

- **Rolls Royce:** Federal stimulus funding has been replaced by GF support for the Rolls Royce collaborative research project to comply with the agreement.
- **Eminent Scholars Program:** Reflecting actions taken in the September 2009, the Executive Budget continues the 15 percent GF reduction for the Eminent Scholars program. This will result in a loss of \$57,778 for Virginia Tech in each year of the biennium.
- **Charges by Central Agencies:** Treasury is authorized to charge 10 basis points for 9(c) debt issuance and to double the fee for the State Non-arbitrage program (SNAPS). The Virginia Department of Accounts is authorized to retain a portion of NGF interest and credit card rebate savings for administrative tasks associated with Level III institutions.

Language

Graduate Financial Aid: Language that previously limited state graduate financial aid to no more than 50 percent nonresident students is revised, allowing the University to consider graduate students who are employed as teaching assistants, research assistants, or graduate assistants as resident students. New language: *Section 4-5.01 b.3d) Not more than 50 percent of the funds designated by an institution as graduate grants from the appropriation, and approved as such by the Council, shall be awarded to persons not eligible to be classified as Virginia domiciliary resident students except in cases where the persons meet the criteria outlined in § 4-2.01b.6.* This change is supportive of the graduate assistantship program at Virginia Tech and will help provide administrative efficiency to the operation of the graduate tuition remission program.

Capital Outlay

- **Envisions advancing \$1 billion in projects with previously authorized planning from Chapter 1 (2008).** The Executive Budget provides construction funding for the four General Fund supported Virginia Tech projects for which we currently have planning authorizations: Davidson Hall, Chiller Plant, Engineering Signature Building, and Human and Agricultural Biosciences Building (Agency 229). The University captured the lead share of the program's \$147.6 million, or 13.6 percent of the funding pool, which is the largest share of the program by a \$33 million margin. It is important to note that the proposed construction funding is anticipated for the 2011-12 fiscal year, and would be based on a determination by the Secretary of Finance that debt capacity is available to provide construction funding and that the construction phase of these projects should commence. As a result, the Executive Budget anticipates that the Secretary of Finance will propose a phased-in plan in the 2011 session to implement projects over time, consistent with the debt capacity determination.
- **Maintenance Reserve:** The Executive Budget reduces higher education program funding by 31 percent from the previous biennium. The University's allocation dropped by 25 percent to \$12.7 million from \$16.9 million, a \$4.2 million reduction. While the University faces a reduction of resources, it significantly gained on the system by capturing 18 percent of the Maintenance Reserve funding pool for higher education. The Executive Budget continues the practice initiated in 2008 of using bond proceeds to finance the Maintenance Reserve program. As a result, the funding for the Maintenance Reserve program in 2010-12 is subject to the same criteria as described earlier for the Equipment Trust Fund for the upcoming biennium. While we expect that the funding for maintenance reserve will be a priority for the General Assembly, it is uncertain how they may identify a strategy to issue debt for maintenance reserve in the face of constrained debt capacity.

- **Advancing Nongeneral Fund projects:**
 - **Academic Student Affairs Building (Agency 208):** The Executive Budget provides authorization for the University to issue debt (\$35 million of 9c debt and \$10 million of 9d debt) through the state's Virginia College Building Authority for the \$45 million Academic Student Affairs Building project. This authorization will provide the most favorable cost of capital for financing the project, which will be ready for construction pricing later this spring.
 - **Improve Kentland Facilities (Agency 229):** The Executive Budget includes \$5 million of nongeneral fund authorization for this project. The original request was for \$15 million of General Fund and \$5 million of nongeneral fund. The source of revenue for the \$5 million is proceeds from the anticipated future acquisition of property by the FAA for the runway extension project. This funding authorization is designed to support the strategic vision for the improvements to the Kentland Facilities and the related relocation of components of the Agriculture and Life Sciences programs to these facilities.
- **Replace Prior Stimulus Support with General Fund:** The Executive Budget restores GF support in place of stimulus funding that had been allocated in the 2009 budget for the Engineering Signature Building and Human and Agricultural Biosciences Building. These allocations are not new funding.

If you have any questions about the Executive Budget Bill, please feel free to contact me.

Attachments

cc: Charles W. Steger, President
Mark G. McNamee, University Provost
Brandon Carroll, President of the SGA
Laura Freeman, President of the GSA
Gary Long, President of the Faculty Senate
Tom Tucker, President of the Staff Senate
University Advisory Council on Strategic Budgeting and Planning

IMPACT OF EXECUTIVE BUDGET BILLS
VIRGINIA TECH
December 18, 2009
(Amounts in Millions)

<u>208 E&G</u>		<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>Changes in Funding 7/1/09 - 7/1/11</u>
General Fund as of July 1		\$152.5	\$147.3	\$144.8	
<i>Adjustment to GF</i>	(a), (c)	-5.2	-	-16.7	-21.8
<i>Adjustment to Central Fund</i>	(c)	-	-2.5	-	-2.5
Subtotal		<u>147.3</u>	<u>144.8</u>	<u>128.1</u>	
Stimulus funding as of July 1		17.3	11.5	20.9	
<i>Adjustment</i>	(a), (c)	-5.8	9.4 (b)	-20.9	-17.3
Subtotal		<u>11.5</u>	<u>20.9</u>	<u>-</u>	
<i>Beginning GF and Stimulus Funding</i>		169.8	158.8	165.7	
<i>Adjustment</i>	(c)	-11.0	6.9	-37.6	
Adjusted GF and Stimulus Funding		<u>\$158.8</u>	<u>\$165.7</u>	<u>\$128.1</u>	<u>-\$41.7</u>
<u>229 E&G</u>		<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>Changes in Funding 7/1/09 - 7/1/11</u>
General Fund as of July 1		\$64.6	\$63.5	\$62.5	
<i>Adjustment to GF</i>	(a), (c)	-1.1	-	-3.5	-4.5
<i>Adjustment to Central Fund</i>	(c)	-	-1.1	-	-1.1
Subtotal		<u>63.5</u>	<u>62.5</u>	<u>59.0</u>	
Stimulus funding as of July 1		-	-	4.8	
<i>Adjustment</i>	(a), (c)	-	4.8 (b)	-4.8	-
Subtotal		<u>-</u>	<u>4.8</u>	<u>-</u>	
<i>Beginning GF and Stimulus Funding</i>		64.6	63.5	67.3	
<i>Adjustment</i>	(c)	-1.1	3.7	-8.2	
Adjusted GF and Stimulus Funding		<u>\$63.5</u>	<u>\$67.3</u>	<u>\$59.0</u>	<u>-\$5.6</u>

(a) Adjustments include restatement of September 2009 reductions.

(b) Language, "The institution is authorized to spend this <stimulus> funding in either the first year or the first quarter of the second year."

(c) These adjustments reflect the net impact of changes included in the December 18, 2009 Executive Budget.

IMPACT OF EXECUTIVE BUDGET BILLS
VIRGINIA TECH
December 18, 2009
(Amounts in Millions)

CAPITAL BUDGET

	Fiscal Years 2010-2012		
	General Fund	Nongeneral Fund	Total
<u>New Funding</u>			
Maintenance Reserve	\$12.8		\$12.8
Academic and Student Programs Building		45.2	45.2
Agency 229: Improve Kentland Facilities, Phase I		5.0 (a)	5.0
2011 Bond Program (b)			
Renovate Davidson Hall, Phase I	29.9		29.9
Construct Engineering Signature Building	48.6		48.6
Construct Chiller Plant, Phase I	11.6		11.6
Agency 229: Construct Human and Agricultural Biosciences Building	52.2		52.2
Total New Funding	<u>\$155.1</u>	<u>\$50.2</u>	<u>\$205.2</u>
<u>Replacement of Stimulus Funding</u>			
Engineering Signature Building	\$1.1		\$1.1
Agency 229: Human and Agricultural Biosciences Building	1.0		1.0
Total Replacement Funding	<u>\$2.1</u>	<u>\$0.0</u>	<u>\$2.1</u>

Notes:

- (a) The source of revenue is proceeds from the anticipated future acquisition of property by the FAA for the runway extension project. This authorization and funding are envisioned to support the relocation of components of the Dairy Science program.
- (b) The program is limited to projects with previously authorized planning funds from Chapter 1 (2008). Projects will be phased-in over time depending on state debt capacity. The amounts do not include planning funds previously authorized or nongeneral fund components.