

MINUTES
UNIVERSITY ADVISORY COUNCIL ON
STRATEGIC BUDGETING AND PLANNING
January 26, 2012

PRESENT: Stephen Martin (for Greg Boardman), Tom Caceci, Mike Ellerbrock, Wendy Herdman, Tim Hodge, Hugh Latimer, Maxine Lyons, Allante Nelson, Quinton Nottingham, John Phillips, Ken Smith, Connie Stovall

ABSENT: Amy Brunner, Martin Daniel, Erik Ervin, Elizabeth Fine, Andrew McCoy, Mark McNamee, Dwight Shelton

GUEST: Bruce Pencek

1. CALL TO ORDER

Mr. Tim Hodge, Assistant Vice President of Budget and Financial Planning, called the meeting to order at 3:00 p.m.

2. APPROVAL OF THE DECEMBER 1, 2011 MINUTES

Mr. Hodge announced that the minutes of the December 1, 2011 meeting have been approved and sent to University Council for posting on the web.

3. UPDATE ON THE 2012 GENERAL ASSEMBLY SESSION

Mr. Hodge provided a review of the Governor's Executive Budget for the 2012-14 biennium that was presented to the General Assembly on December 19, 2011, and reviewed the amendment requests to the Executive Budget. An update on legislative issues was also provided. A detailed informational handout was provided to council members and is attached to these minutes.

An update on legislative actions will be provided to council members at the next meeting scheduled in February.

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

University Advisory Council on Strategic Budgeting and Planning
Update on the 2012 General Assembly
January 26, 2012

Executive Budget Proposal

Governor McDonnell presented his Executive Budget bill for the 2012-14 biennium to the General Assembly on December 19, 2011. Please remember that these actions are subject to change during the General Assembly:

Operating Budgets:

University Division (208)

- **New General Fund Support:** The Executive Budget provides \$5.1 million in General Fund (GF) to support the objectives of the Higher Education Opportunity Act. This allocation is comprised of \$2.2 million for Base Budget Adequacy, \$2.6 million for degree growth incentives, and \$0.3 million for existing enrollment growth.
- **Reallocation:** In lieu of budget reductions, the Executive Budget asks colleges and universities to reallocate approximately 3 percent in the first year and 5 percent in the second year of their current E&G General Fund budgets to leverage the state's investment in advancing the objectives of the Higher Education Opportunity Act (HEOA). The targets for Virginia Tech of \$4.8 million GF in 2012-13 and \$8.1 million GF in 2013-14, which are currently part of the university's budget, will stay within the university's budget. The expectation is that these funds will be redirected from lower priority items to high priority initiatives that address the goals of the HEOA. A plan will need to be submitted to the Secretary of Education outlining the strategies the university will take to reallocate these funds within the budget.
- **Operation and Maintenance of New Facilities:** No new O&M support is included.
- **Research:** \$1.5 million GF to support brain disorder research.
- **Student Financial Aid:** \$0.3 million GF to support the objectives of the HEOA.
- **Equipment Trust Fund:** Funding for each year of the biennium is continued at the current level of \$10.6 million GF, comprised of \$8.3 million GF of traditional allocation and \$2.3 million GF for research equipment.

VCE/AES Budget (229)

- **General Fund Support:** The Executive Budget included only technical and fringe rate adjustments; no new support for program activities is included.

Compensation

- **Salary Bonus:** A 3 percent contingent bonus for employees is proposed for December 2012 provided that statewide savings of \$160 million are achieved by June 30, 2012. The bonus will be paid out of agency savings. Important criteria for the bonus include:
 - Employees must be employed on April 1, 2012 and remain employed through Nov 24, 2012.
 - Employees must have achieved "Meets Expectations" or equivalent on performance evaluation and have no active written notices for conduct.
 - The Secretary of Education will set agency savings goals. The bonus percentage amount would be prorated individually for each state agency if the overall savings goal is not achieved.

- **VRS:** *Employer* contribution rate is increased from 6.58 percent to 8.76 percent. *Employee* contribution rates are not increased in the budget.
- **Health Care:** Employees will likely see \$10-\$15 increases in premiums per month, with no increases to copay.

Statewide Issues

- **Auxiliary Interest Earnings:** The allocation of interest earnings to the institutions is not addressed; thus, these earnings are still being retained by the state.
- **Higher Education Reversion:** An existing \$10 million reversion pool (yet-to-be-allocated system-wide reduction pool) for higher education was removed in 2011-12 and each year of the coming biennium. This resolves a longstanding concern, and averts a likely budget reduction for each institution of higher education.
- **Eminent Scholars Program:** Funding for the Eminent Scholars program funding is eliminated. This is a reduction of \$3.4 million system-wide and a loss of approximately \$164K for Virginia Tech.

Language

- **Tuition Authority:** No formal restrictions were included in the Executive Budget. However, statements made by the Executive Branch clearly indicate that the support of the HEOA initiatives is, in part, *“meant to slow the rising costs of tuition and fees in order to keep higher education more affordable.”*
- **Financial Aid:** New language in the Executive Budget limits the use of tuition for financial aid purposes. *“The amount of tuition and fee revenue generated from in-state students that is used to support financial aid shall remain at the levels appropriated for this purpose in the 2012-14 biennium. The Higher Education Advisory Council shall evaluate the appropriate use of tuition and fee revenue generated from in-state students that is used to support financial aid with the goal of enhancing affordability for low-income and middle-income in-state students and their families”.*
- **Higher Education Funding:** Language delineating the funding elements for implementing the Virginia Higher Education Opportunity Act of 2011 is provided for current and future years. Based on this language, the allocations are to a large extent formula-based; the new General Fund support for 2012-14 would be allotted as follows:
 - a) Enrollment Growth: per-student amount based on TAG award amount for enrollment growth over two most recent years
 - b) Base and Incentive Funding
 - 40 percent for base operations support
 - 10 percent for financial aid
 - 32 percent for incentive funding
 - 10 percent for research activities
 - 8 percent for other activities and initiatives

Other areas of interest

- **Virtual Library:** \$2.8 million in each year for the Virtual Library of Virginia to benefit students and faculty of higher education institutions, including expanded use of e-books.
- **Virginia Career View:** Eliminated \$0.3 million annual funding through DOE for web-based career exploration program administered through Virginia Tech.

- **Adult Literacy:** An annual Department of Education transfer of \$40 thousand in each year to Virginia Tech to support a fiscal agent for the Virginia Educational Technology Alliance is redirected to serve “PluggedIn VA”.
- **Forestry Hydrologist:** An annual transfer of \$20 thousand from the Department of Forestry to Virginia Tech to support a staff hydrologist has been removed from the budget.
- **Life Sciences Research Consortium:** A \$5.0 million matching pool for VCU, VT, GMU, and EVMS to contract with private entities, foundations, and other governmental sources to perform research in the biosciences has been established in the Executive Budget.
- **Modeling and Simulation Activities:** A \$1.3 million incentive pool for the formation of companies utilizing modeling and simulation, and enhancing collaboration among the higher education institutions and the private sector is included in the budget.
- **Commonwealth Center for Advanced Manufacturing:** \$2 million in the second year of the biennium is included to support workforce development through the Commonwealth Center for Advanced Manufacturing.
- **Institute for Advanced Learning and Research:** \$1.2 million over the biennium to expand the institute’s research and development capacity in the areas of polymer and chemical manufacturing.
- **Cyber Security:** \$1 million over the biennium is included to support and expand the Commonwealth’s initiatives in cyber security through the Innovation and Entrepreneurship Investment Authority.
- **Public Broadcasting:** The Executive Budget has eliminated funding for public broadcasting in the biennium.

Capital Outlay

- **Pre-planning for new capital projects.** As part of the state’s new capital program, the Executive Budget includes for higher education \$7.75 million to start planning for 31 new capital projects. The pre-planning funds are \$250 thousand per project, and of this new funding Virginia Tech received \$0.5 million for the **Classroom Building** and the **Chiller Plant, Phase II**.
- **Maintenance Reserve:** The budget includes \$108 million for the higher education Maintenance Reserve program, which reflects a 46 percent increase over the prior biennium. Virginia Tech received a total of \$17.3 million, or 16 percent of the total, a significant increase from the prior biennium.
- **College of Veterinary Medicine Instruction Addition:** The Executive Budget provides \$14 million of nongeneral fund authorization for the university to issue \$11 million debt through the state’s Virginia College Building Authority and to self-fund \$3 million of nongeneral fund resources. The project is already underway with a Board of Visitors restructuring authorization. This authorization will provide access to the most favorable cost of capital for financing the project.

Amendment Requests to the Executive Budget

House and Senate member amendment requests to the Executive Budget were submitted on January 13, 2012, and are being considered by each body's money committee. In recognition of the positive treatment and progress of higher education in the Executive Budget proposal, a system-wide strategy to limit amendment requests to institutional-specific critical needs was proposed. The following amendment requests impact the university:

Virginia Tech Institutional Requests submitted to both the House and Senate:

- Brain and Health Sciences Research: \$3.5m GF in each year.
- Unique Military Activities: \$326k GF in first year and \$653k GF in second year to fund existing cadet enrollment levels.
- VCE/VAES Critical Staffing Initiative: \$750k GF in first year and \$1.5m GF in second year.
- Renovation of Davidson, Sandy, and the Performing Arts halls: \$250k GF and \$2.1m NGF in first year.
- Classroom Building Project: \$3.25 NGF in first year.

Additionally, amendment requests on behalf of other state interests may also impact the university, including:

- Restoration of public radio and TV funding: \$958k in each year, submitted to the House.
- Restoration of VA View program through the Department of Education: \$296k in each year, submitted to the House and Senate.
- Compensation: Proposal to offer 3% salary increase for all state employees in July, 2012, submitted to the Senate.
- Enrollment: In-state enrollment minimum requirement of 75%, with lost revenue from reduced out-of-state enrollment to be recouped through increased out-of-state tuition rate, submitted to the House.
- Tuition: Out-of-state tuition requirement of average of the institution's competitive peer group rate, submitted to the House.
- Procurement: Requirement that institutions require contractors who are foreign corporations to qualify with the SCC, submitted to the House.
- Auxiliary Interest Earnings: to remove restriction on receipt of interest earned on auxiliary balances, submitted to the Senate.

Legislative Issues

As of January 26th, 2012, 2,398 pieces of legislation have been filed for consideration by the 2012 General Assembly. The university is following this legislation, particularly that which may impact the university, including:

- Several pieces of legislation would alter, remove, or create retirement plan opportunities for state employees. The following represent some of the major proposals being considered:
 - HB1129: Modifies VRS provisions, changing the calculation of average final compensation to cover a period of 60 months rather than 36 months, reducing the COLA for most employees, increasing employee contributions by one percent over the biennium (one-half percent in each year), and reducing the multiplier for employees hired after 7/1/13 from 1.7 to 1.6
 - HB1130: Option hybrid retirement plan proposal. Creates a new optional hybrid retirement plan with a defined benefit component and a defined contribution component for all state employees, available beginning 7/1/14.
 - HB486: Optional retirement plan changes for higher ed: Provides employees in the ORP the opportunity to purchase service credit in the defined benefit plan with accrued contributions and earnings, and thereafter be covered under the defined benefit plan.
- HB242: Would require VCE to maintain an office and an employee in each county across the Commonwealth.
- HB764: Removes the option to request that the Governor grant an indemnification agreement for sponsored research contracts.
- HB1004: Requires institutions to charge out-of-state students a competitive market rate determined through a review of a set of like peers.
- HB1083: Requires a minimum of 75% in-state enrollment, with lost revenue from reduced out-of-state students to be recouped through an increased out-of-state tuition rate.
- HB1247: Requires that all institutions ensure that all funds received from in-state undergraduate tuition and all funds received from the Commonwealth are dedicated to the purpose of undergraduate education, and that 65% of such funds are dedicated to instructional expenses.

Important Upcoming Dates

- February 19th: Crossover, at which point each chamber's version of the budget is sent to a conference committee who will work to create a compromised, unified budget bill.
- March 8th: Conference version of budget is presented to each chamber for final passage by March 10th, the final day of the 2012 General Assembly Session.
- April 18th: Reconvened Session, or "Veto" Session, when any gubernatorial amendments or rejections are received by the General Assembly.