

**MINUTES**  
**UNIVERSITY ADVISORY COUNCIL ON**  
**STRATEGIC BUDGETING AND PLANNING**  
**September 25, 2014**

**PRESENT:** Carolyn Copenheaver, Martin Daniel, Kylie Gilbert, Tim Hodge, Susanna Rinehart (for Sarah Karpanty), Steve Kleiber, Herve Marand, Quinton Nottingham, Robert Rodrigues, Jason Soileau, Dwight Shelton, Sue Teel

**ABSENT:** Joseph Guthrie, William Knocke, Andrew McCoy, Mark McNamee, Leslie O'Brien, Theresa Pancotto, Ken Smith, John Tedesco

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 August 28, 2014 MINUTES

3. Mr. Tim Hodge, Assistant Vice President for Budget and Financial Planning stated that the revised minutes were ready for a vote. Council members reviewed the revised minutes then voted to approve them. The minutes will be sent to the University Council for posting on the web.

3. UPDATE ON THE STATE BUDGET AND ITS IMPACT ON VIRGINIA TECH

Mr. Hodge gave a brief review of the state budget that had changed since the last Council meeting. In September the General Assembly reduced the General Fund reductions assigned in August. He then went over the chronology of General Fund appropriations from the proposed House budget (spring) through September reductions. Handouts are attached.

Key items from the proposed House budget and special session (noted in Mr. Hodge's first handout) include a \$0.6 million increase for 50 in-state undergraduate seats, O&M for HABB1 in Agency 229, and a loss of \$11 million in potential new funding. The state had agreed to fund the in-state undergraduate initiative from 2010-2014; so this is the last year that we will receive incremental base funding for this agreement.

Mr. Hodge went over the state budget changes which occurred in August and September (budget overview handout) and noted that the state did not achieve its projected revenue growth in 2013-14. It anticipated a 1.6% increase, but only achieved a 0.9% increase. Projected revenue growth for FY 2014-15 and 2015-16 has been revised downward from 5.2% and 4.1% respectively, to 2.7% for each year. The statewide reduction targets for higher education for the biennium have been reduced to \$45 million in each year. Virginia Tech's General Fund reduction target for 2014-15 and 2015-16 is 3.93% each year for 208 E&G. Agency 229 and Student Financial Aid are exempt from cuts.

Mr. Hodge gave key points from his General Fund reduction assignment comparison schedule. He noted that as of August 2014, the Governor had assigned a 5% General Fund reduction for Agency 208 and 229 discretionary funds for 2014-15 and a 7% reduction for these funds in 2015-16. However, as of September 2014, those percentages had been revised to a 3.93% reduction for both years for Agency 208. Fifty percent of 229 funds were sheltered in August. In September, 229 was exempted from reductions.

The state has asked that Higher Education try to bridge the shortfall by productivity gains and avoid mid-year tuition increases.

Looking forward to the state budget in FY 2015-2017, Mr. Hodge stated that the priority for FY 15 is to protect university initiatives such as the faculty and university staff merit program and identify one-time strategies for cost savings to provide time to allow thoughtful planning. He noted that we should watch the FY16 state budget carefully since it is currently \$272 million short. For FY 17, the state will need to manage the \$235 million draw from the Rainy Day fund.

Council members discussed some areas in which one-time savings could be found. Energy efficiency, especially in areas where the campus community could help reduce utility usage, was one suggestion. It was noted that the annual "power down" which measures the university's energy demand generates a lot of savings. Council members indicated that departments haven't been asked for input on one-time savings. Dwight Shelton noted that the University had been looking at ways to save centrally. He asked Council members to bring other ideas for one-time savings to future meetings.

#### 4. OTHER BUSINESS

No further business was discussed, and the meeting adjourned at 4:00 p.m.

APPROPRIATIONS FROM THE PROPOSED HOUSE BUDGET AND SPECIAL SESSION

June 12, 2014

(\$ in thousands)

Operating Budget State Support	House Budget		House Changes (to Special Session)		Special Session	
	2014-15	2015-16	2014-15	2015-16	2014-15	2015-16
<b>University Division Operating</b>						
<b>Programmatic</b>						
Degree Incentives	\$ 358,157	\$ 1,339,592	\$ (358,157)	\$ (1,339,592)	\$ -	\$ -
Enrollment Growth	-	-	-	-	-	-
O&M of New Buildings	1,274,020	1,604,141	(1,274,020)	(1,604,141)	-	-
Increase # of Faculty	1,863,239	1,863,239	(1,863,239)	(1,863,239)	-	-
In-state Undergraduate Seats	600,000	600,000	-	-	600,000	600,000
Compensation Programs	1,332,368	1,554,434	(1,332,368)	(1,554,434)	-	-
Veteran and Military Education Consortium	-	-	-	-	-	-
Elimination of E&G Interest Earnings	-	-	(270,000)	(270,000)	(270,000)	(270,000)
<b>Technical</b>						
Automobile Insurance Liability Program Premium Changes	170,948	170,948	-	-	170,948	170,948
Workers' Compensation	74,817	90,395	-	-	74,817	90,395
New State System: Performance Budgeting System	16,468	16,468	-	-	16,468	16,468
New State System: Cardinal Accounting System	-	2,313	-	-	-	2,313
Line of Duty Act Costs	3,170	3,170	-	-	3,170	3,170
Information Technology and Telecommunication Charges	(1,751)	(1,750)	-	-	(1,751)	(1,750)
Annualization of FY14 Faculty Salary Increase	393,418	393,418	-	-	393,418	393,418
<i>Subtotal University Division Operating</i>	6,084,854	7,636,368	(5,097,784)	(6,631,406)	987,070	1,004,962
<b>Research</b>						
Brain Research	2,650,000	2,650,000	(2,650,000)	(2,650,000)	-	-
Center for the Arts & Technology Operating	300,000	300,000	(300,000)	(300,000)	-	-
Transportation Institute Support	250,000	250,000	(250,000)	(250,000)	-	-
<i>Subtotal Research</i>	3,200,000	3,200,000	(3,200,000)	(3,200,000)	-	-
<b>Financial Aid</b>						
Undergraduate Financial Aid	-	-	-	-	-	-
Graduate Financial Aid	271,420	271,420	(271,420)	(271,420)	-	-
<i>Subtotal Financial Aid</i>	271,420	271,420	(271,420)	(271,420)	-	-
<b>Equipment Trust Fund</b>						
Base	8,328,077	8,328,077	-	-	8,328,077	8,328,077
Research	6,978,311	4,278,311	(2,700,000)	-	4,278,311	4,278,311
<i>Subtotal Equipment Trust Fund</i>	15,306,388	12,606,388	(2,700,000)	-	12,606,388	12,606,388
<b>Subtotal - University Division</b>	<b>24,862,662</b>	<b>23,714,176</b>	<b>(11,269,204)</b>	<b>(10,102,826)</b>	<b>13,593,458</b>	<b>13,611,350</b>
<b>Cooperative Extension/AES Division (CE/AES)</b>						
<b>Programmatic</b>						
Operation and Maintenance of HABB1	1,149,966	1,173,129	-	-	1,149,966	1,173,129
Support for Agricultural Specialists	110,000	110,000	(110,000)	(110,000)	-	-
Compensation Programs	532,790	546,444	(532,790)	(546,444)	-	-
<b>Technical</b>						
New State System: Performance Budgeting System	6,124	6,124	-	-	6,124	6,124
New State System: Cardinal Accounting System	-	1,770	-	-	-	1,770
Information Technology and Telecommunications Changes	(448)	(448)	-	-	(448)	(448)
Insurance Premium Increase (Workers Comp, Auto)	(16,155)	(16,155)	-	-	(16,155)	(16,155)
Annualization of 2014 Faculty Salary Increase	142,746	142,746	-	-	142,746	142,746
<i>Subtotal CE/AES</i>	1,925,023	1,963,610	(642,790)	(656,444)	1,282,233	1,307,166
<b>Total Operating Budget State Support</b>	<b>\$ 26,787,685</b>	<b>\$ 25,677,786</b>	<b>\$ (11,911,994)</b>	<b>\$ (10,759,270)</b>	<b>\$ 14,875,691</b>	<b>\$ 14,918,516</b>

**BUDGET OVERVIEW**  
As of September 15, 2014  
(\$ in Millions)

**STATE BUDGET****Total State Budget for 2014-15**

General Fund	\$ 18,964
Nongeneral Fund	33,114
	<u>\$ 52,078</u>

**Change**

2013-14: State anticipated 1.6% revenue growth; actual shrinkage of 0.9%.  
2014-15: State anticipated 5.2% revenue growth; revised forecast is 2.7%.  
2015-16: State anticipated 4.1% revenue growth, revised forecast is 2.7%.

**General Fund Shortfall**

	2013-14	2014-15	2015-16	Total
<b>May 2014</b>	\$ (350.0)	\$ (500.0)	\$ (500.0)	\$ (1,350.0)
Change	(87.8)	(359.5)	(600.0)	(1,047.3)
<b>August 2014</b>	\$ (437.8)	\$ (859.5)	\$ (1,100.0)	\$ (2,397.3)
		} \$ (1,297)		

**Impacts****STATE - Potential Strategies**

	2014-15	2015-16	Total 2014-16
2014-16 Shortfall	\$ (1,297.3)	\$ (1,100.0)	\$ (2,397.3)
Appropriated Reserve Fund	481.8	344.3	826.1
Revenue Stabilization Fund (VT Estimate)	469.5	219.7 *	689.2
Other State Strategies or Actions (+/-)	TBD	TBD	TBD
Remaining Shortfall (Potential Exposure)	\$ (346.0)	\$ (536.0) **	\$ (882.0)

\*\* \$272M in additional strategies for FY16 to be identified by Governor in December 2014.

\* \$219M reserve draw likely an ongoing structural budget issue in 2016-17.

**HIGHER EDUCATION - Systemwide Reductions**

	2014-15	2015-16
General Fund Reduction Target	\$ (45.0)	\$ (45.0)
Higher Education Share of Statewide Reduction	13%	TBD

\*Student Financial Aid exempted from reductions

\*VT-EXT, VSU-EXT, and VIMS sheltered from 100% of reduction.

**VIRGINIA TECH - Assigned Reductions**

	3.93% 2014-15	3.93% 2015-16	
General Fund Reduction Target	\$ (6.1)	\$ (6.1)	(229, SFA Exempt)
VT Share of Higher Ed System Reduction	14%	14%	

Virginia Tech  
**General Fund Reduction Assignment**  
 As of September 15, 2014

**2014-15**

	<b>General Fund</b>			<b>GF Reduction as of</b>	<b>Revised General</b>
	<b>(less)</b>			<b>August 2014</b>	<b>Fund Reduction as</b>
	<b>Appropriation</b>	<b>Mandatory</b>	<b>Discretionary</b>	<b>5%</b>	<b>of September 2014</b>
				<b>5%</b>	<b>3.93%</b>
				<b>\$</b>	<b>\$</b>
<b>Agency 208</b>					
E&G	\$ 151,525,781	\$ -	\$ 151,525,781	\$ 7,576,289	\$ 6,051,625
Research	2,488,544	-	2,488,544	124,427	-
UMA	2,084,350	-	2,084,350	104,218	81,900
SFA	19,705,847	(19,705,847)	-	-	-
	<u>175,804,522</u>	<u>(19,705,847)</u>	<u>156,098,675</u>	<u>7,804,934</u>	<u>6,133,525</u>
<b>Agency 229</b>					
E&G	64,840,171	(32,420,085)	32,420,086	1,621,004	-
<b>Total</b>	<u>\$ 240,644,693</u>	<u>\$ (52,125,932)</u>	<u>\$ 188,518,761</u>	<u>\$ 9,425,938</u>	<u>\$ 6,133,525</u>

**2015-16**

	<b>General Fund</b>			<b>Required GF</b>	<b>Revised General</b>
	<b>(less)</b>			<b>Reduction</b>	<b>Fund Reduction</b>
	<b>Appropriation</b>	<b>Mandatory</b>	<b>Discretionary</b>	<b>7%</b>	<b>3.93%</b>
				<b>\$</b>	<b>\$</b>
				<b>\$</b>	<b>\$</b>
<b>Agency 208</b>					
E&G	\$ 151,543,673	\$ -	\$ 151,543,673	\$ 10,608,057	\$ 6,051,635
Research	2,488,544	-	2,488,544	174,198	-
UMA	2,084,350	-	2,084,350	145,905	81,890
SFA	19,705,847	(19,705,847)	-	-	-
	<u>175,822,414</u>	<u>(19,705,847)</u>	<u>156,116,567</u>	<u>10,928,160</u>	<u>6,133,525</u>
<b>Agency 229</b>					
E&G	64,841,941	(32,420,085)	32,421,856	2,269,530	-
<b>Total</b>	<u>\$ 240,664,355</u>	<u>\$ (52,125,932)</u>	<u>\$ 188,538,423</u>	<u>\$ 13,197,690</u>	<u>\$ 6,133,525</u>

## FY 15

- Priority to protect faculty & university staff merit program
- Identify one-time strategies for 2014-15 to provide time for thoughtful planning.

## FY 16

- Watch state carefully:
  - State's budget for FY16 not balanced, currently \$272M short
  - Governor will present strategies in December, may be changed by General Assembly in January

## FY 17

- Continue to watch state carefully
  - State budget structurally imbalanced, \$235M short (from Rainy Day Fund)