MINUTES
UNIVERSITY ADVISORY COUNCIL ON
STRATEGIC BUDGETING AND PLANNING
December 5, 2013

PRESENT: Amy Brunner, Martin Daniel, Wendy Herdman, Tim Hodge, William Knocke, Mark McNamee, Joe Merola, Quinton Nottingham, Leslie O'Brien, John Phillips, Dwight Shelton, Ken Smith, Sue Teel

ABSENT: Renee Boyer, Elizabeth Fine, Balachandar Guiduri, Andrew McCoy, Theresa Pancotto, Timothy Scott, Jason Soileau, 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 OCTOBER 24, 2013 MINUTES

Dr. McNamee announced that the minutes of the October 24, 2013 meeting have been electronically approved and sent to University Council for posting on the web.

3.   UPDATE ON ADMINISTRATIVE EFFICIENCY ASSESSMENT AND INITITATIVES

Mr. Dwight Shelton, Vice President for Finance and Chief Financial Officer, reviewed that the Council had expressed interest in several topics. In response, the university had developed materials to present to respond to two of those requests today: update on administrative efficiency assessment and initiatives and faculty compensation.

Mr. Shelton introduced Mr. Tim Hodge, Assistant Vice President for Budget and Financial Planning to update the council on the university's assessment of administrative efficiency and share initiatives to further enhance administrative efficiency.

Mr. Hodge reviewed four assessment methodologies used by external groups to consider administrative efficiency at institutions of higher education: 1) Administrative costs as a percentage of core expenditures (IPEDS), 2) Administrative costs per student FTE (SHEEO), 3) Administrative staffing level per student FTE (Delta Cost Study), and 4) allocation of resources between primary and support programs (Virginia Auditor of Public Accounts). Virginia Tech was benchmarked against peer institutions, public research institutions, and Virginia public research institutions. Findings of these studies showed that with respect to the comparable institutions: a smaller portion of Virginia Tech's core expenditures is spent on administrative costs, Virginia Tech spends less on administrative costs per student FTE, Virginia Tech employs fewer full-time administrative employees per student FTE, and VT allocates a greater proportion of tuition and fees to core programs than other Virginia institutions. The slides from this presentation are attached to the minutes.

Mr. Hodge reviewed two perspectives on the State Council of Higher Education's (SCHEV) assessment of institutional funding adequacy. Overall Virginia Tech continues to have a funding shortfall which stretches resources across campus.

To respond to the question about efforts undertaken to enhance administrative efficiency, Mr. Hodge shared examples of university efforts to enhance and leverage efficiency initiatives, new efforts underway, and planned initiatives that will help leverage technology, enhance efficiency, and reduce energy consumption which will result in increased resources for core programs. Administrative efficiency is a top priority for Virginia Tech. To maintain this focus moving forward, administrative efficiency has been added to the Board of Visitor's Scorecard with a goal to remain within the top 5 of peer institutions. VT is currently ranked 2nd, up from 3rd last year.

4.   FACULTY COMPENSATION UPDATE

In response to the question about faculty compensation, Mr. Hodge provided an overview of the faculty compensation policy environment, the benchmarking process with SCHEV approved peer institutions, and the importance of faculty compensation to the overall institutional funding model. Reductions in state support have prevented traditional merit process during the recession. The Commonwealth has a cost-sharing formula for faculty compensation and other costs which has the institution funding a significant portion of the cost. The overall result of the July 25, 2013 faculty merit process was reviewed which resulted in a 4.8% overall increase. Achieving the 60th percentile will take an estimated 4.1% annual increase for the next six years based on the state's traditional methodology and SCHEV's assumptions. Restoration of the annual merit process remains a top institutional priority to ensure sustained progress towards salary competitiveness. If the Commonwealth cannot contribute to a faculty salary increase annually, the university has a contingency plan for more modest faculty salary increases based upon the institutional share of the annual process. PowerPoint slides for this presentation are attached to the minutes.

5.   OTHER BUSINESS

There being no further business, the meeting adjourned at 4:10 p.m.

Update on Administrative Efficiency Assessment & Initiatives

University Advisory Council on Strategic Budgeting and Planning

December 5, 2013

Overview

- Assessment of administrative efficiency

- Funding adequacy

- Administrative efficiency efforts & initiatives

Assessment Methodologies

- Three industry standard perspectives and a state method:

   1. Administrative costs as a percentage of core expenditures

      - Traditional methodology of examining costs by program (IPEDS)

   2. Administrative costs per student FTE

      - 2011 report by State Higher Education Executive Officers (SHEEO) - *Staffing Trends in Public Colleges and Universities*

   3. Administrative staffing level per student FTE

      - *Delta Cost Study* on Postsecondary Education Costs

   4. Also examined allocation of resources between primary and support programs

      - Virginia Auditor of Public Accounts (APA) methodology

Assessment Methodology

- Benchmarked against:
    - Peer institutions
    - Public research institutions
    - Virginia research institutions

- Data from the Integrated Postsecondary Education Data System (IPEDS)

Functional Expense Classification

Core Expenditures *	Other Expenditures
Instruction	Auxiliary Enterprises
Research	Hospitals
Public Service	Independent Operations
Academic Support	
Student Services	
Institutional Support	
Operation and Maintenance of Plant	
Depreciation	
Scholarships and Fellowships	

*Core expenditures as defined by the Integrated Postsecondary Education Data System (IPEDS), GASB
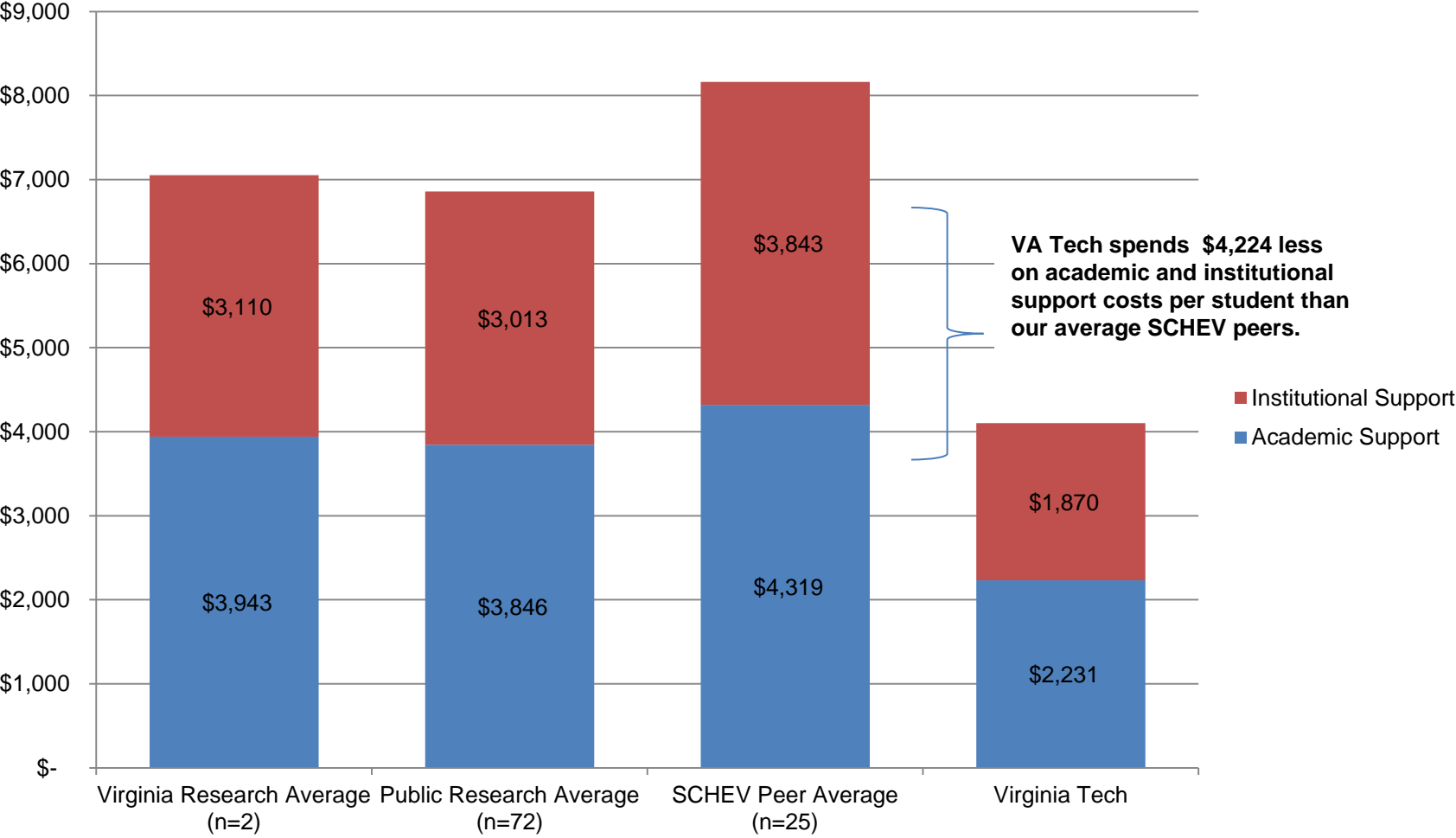
Administrative Expenses

- **Academic support – Academic Administration**
  - Support for instruction, research, public service
  - Academic computing
  - Deans' offices
  - Library & ancillary (data limitation)
- **Institutional support – Central Administration**
  - General administrative services
  - Executive management
  - Legal and fiscal operations
  - Public relations
  - Other centralized services
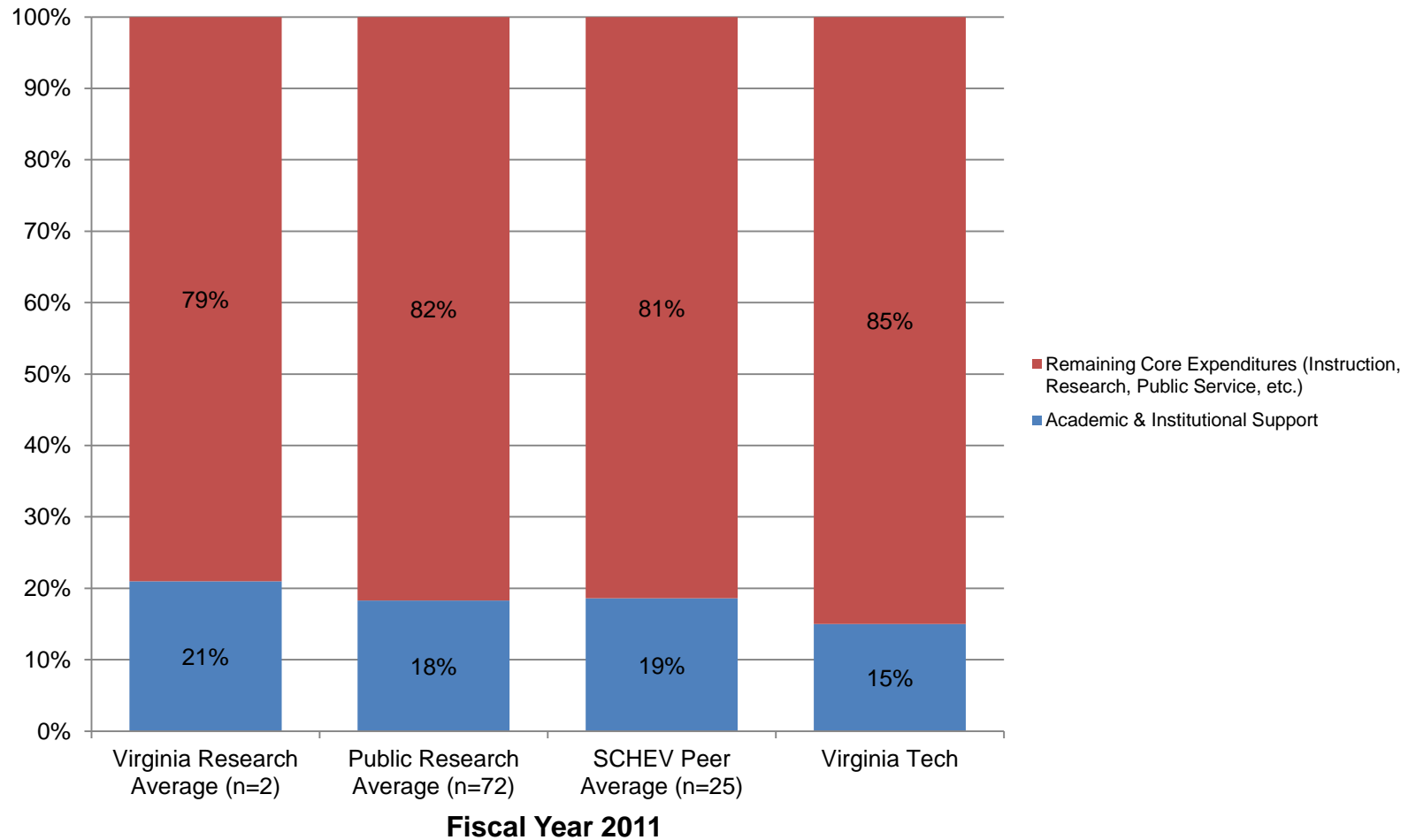
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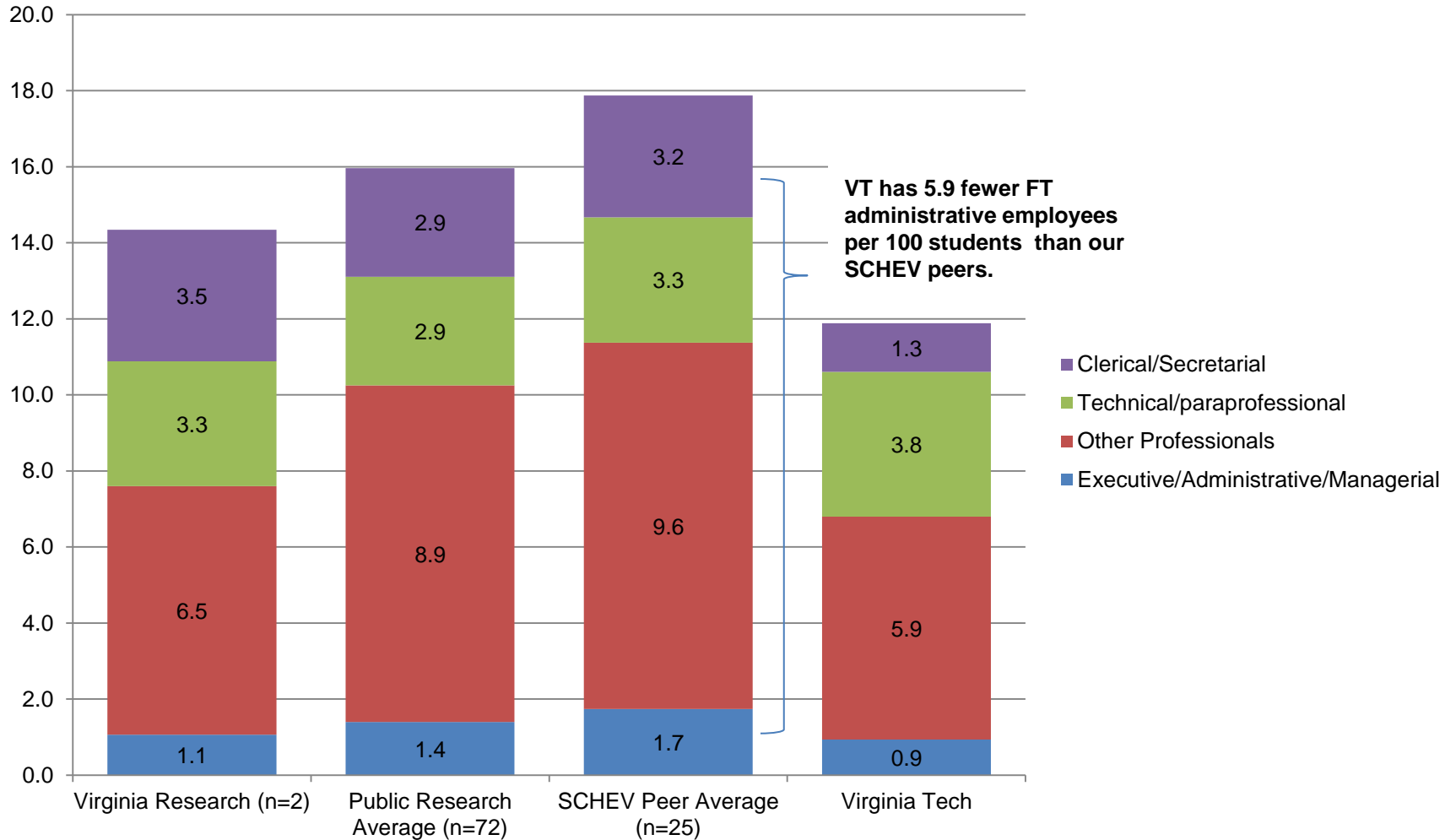Administrative Costs as a Percentage of Core Expenditures

Fiscal Year 2011

Another Perspective on Efficiency

Mandatory Non-E&G Fees as a Percentage of Mandatory Costs
Virginia Public Institutions, 2013-14

Legend: ■ E&G ■ Non-E&G

Institution	E&G	Non-E&G
VT	85%	15%
Uva	84%	16%
VCU	83%	17%
GMU	73%	27%
UMW	70%	30%
W&M	68%	32%
RU	68%	32%
VSU	63%	37%
ODU	62%	38%
CNU	59%	41%
LU	57%	43%
UVa-Wise	56%	44%
JMU	56%	44%
NSU	53%	47%
VMI	49%	51%
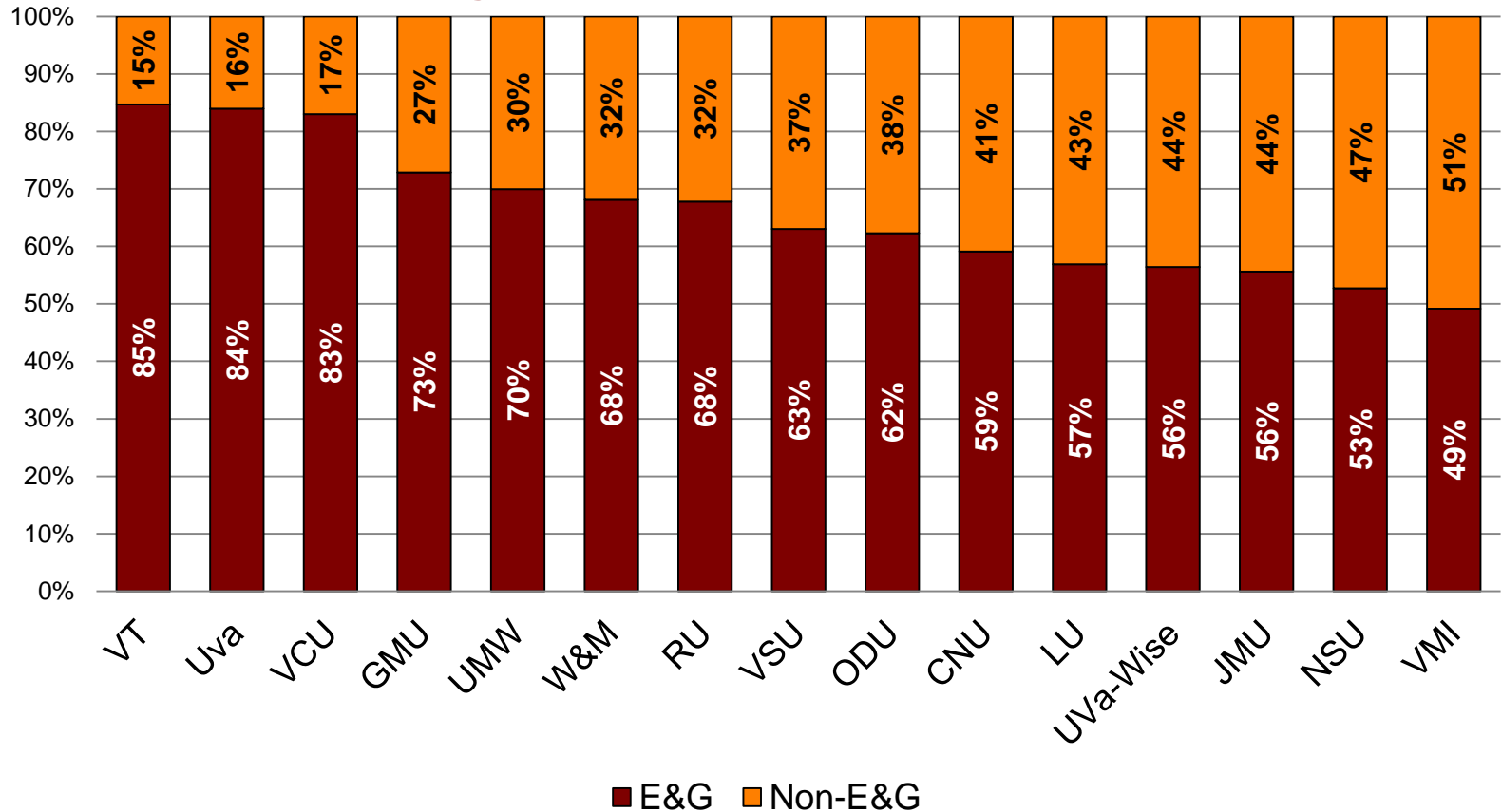
Findings of Administrative Cost Studies

- With respect to the comparable institutions:

  - A smaller portion of Virginia Tech's core expenditures is spent on administrative costs.

  - Virginia Tech spends less on administrative costs per student FTE

  - Virginia Tech employs fewer full-time administrative employees per student FTE

  - VT allocates a greater proportion of tuition and fees to core programs than other Virginia institutions

System-wide Funding Adequacy
As Calculated by SCHEV, Fall 2013

UVA: $83,358,501
GMU: $35,978,807
CWM: $26,250,510
JMU: $8,518,431
RU: $504,259
UMW: $478,549
LU: $(131,266)
VMI: $(355,300)
UVA-W: $(1,012,162)
VSU: $(1,448,011)
CNU: $(2,086,724)
NSU: $(8,045,497)
VT: $(18,731,168)
VCU: $(20,908,481)
ODU: $(46,303,045)
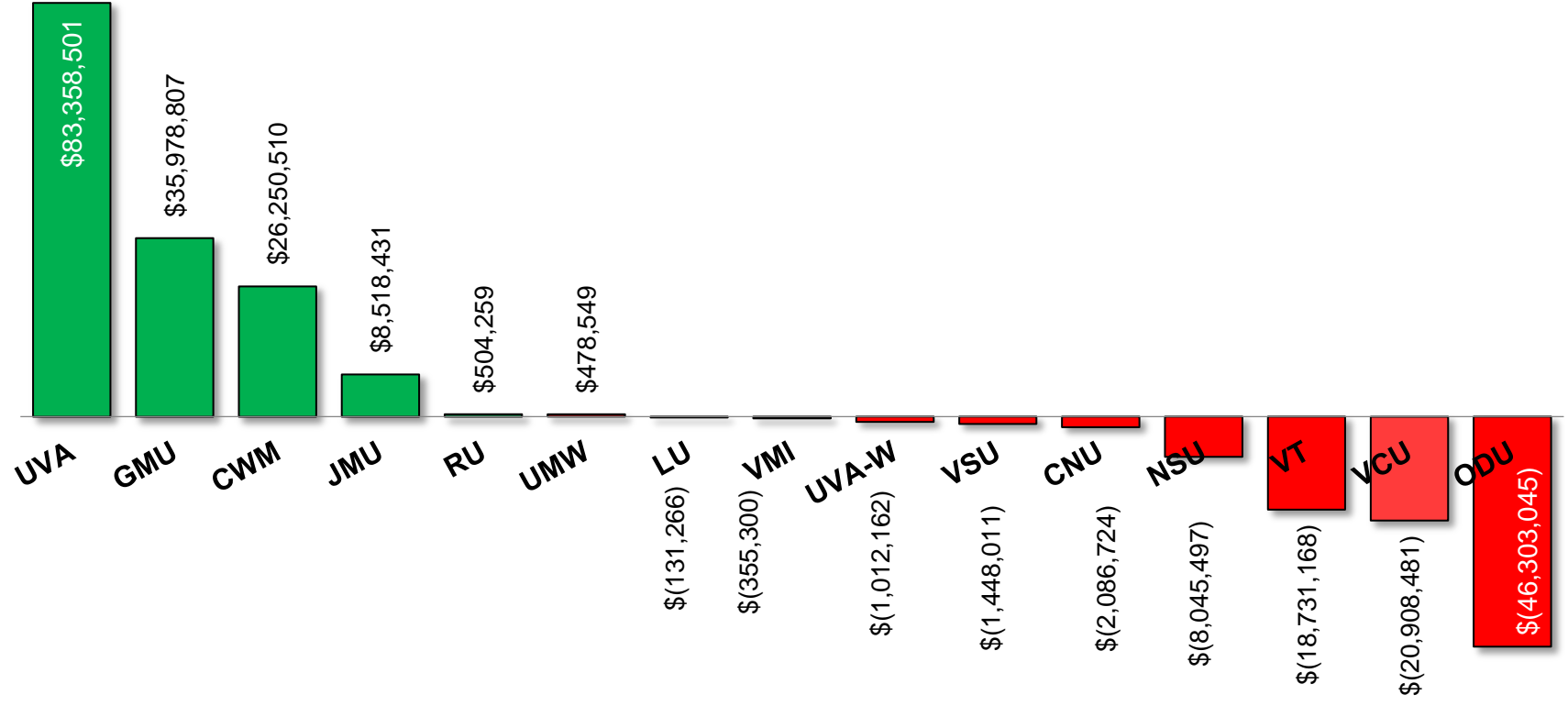
This is the Commonwealth's recognized shortage of faculty, staff, and resources for operation at Virginia Tech.

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VT Total Shortfall

- Faculty salaries are a major driver of the BBA model.

- To achieve the 60th percentile and 100% BBA would require $78.6 million.

Maximization of Existing Resources
Efficiency and Effectiveness

- Virginia Tech maintains a cost conscious culture that is sensitive to administrative costs.

- VT strives to maintain its competitive advantage in this area into the future by automating and streamlining processes.

- VT has invested, and continues to invest in initiatives to become more efficient while maintaining our effectiveness.

- Examples of efficient initiatives to provide a sense of the range and scope of activities

Examples of Past Efficiency Initiatives

- Implementation of web-based processes to send student accounts monthly billing statements electronically and to allow students and parents to pay electronically.

- Generated cost savings by not printing and mailing forms such as paper checks to vendors and employees, tax forms such as W2's, 1098T's, and 1042S's, and payroll earnings and deduction statements

- Using WellsOne payment card process to pay invoices via one-time use credit card funds transfer. Produces a new revenue stream.

UPDATE: migrate & grow

Examples of Past Efficiency Initiatives

- **HokieMart**
  A single marketplace where electronic orders can be formulated and issued to commercial as well as internal suppliers.

  Provides for single-source data entry, on-line approvals and workflow, and electronic delivery of completed orders to suppliers.

  For high volume vendors the processes are fully automated from electronic requisition to electronic payment including the automated three-way matching of purchase order, invoice and receiving reports.

  UPDATE: expand & leverage

Examples of Past Efficiency Initiatives

- **Cooperative Procurement Contracting**
  Collaborative procurement process with involving other Virginia universities resulted in negotiation of substantially improved cost pricing than had been provided in the previous higher education contract and in comparison to the existing state contract.

Examples of Current Efficiency Initiatives

- **Energy Savings**

  - Energy Service Company (ESCO) Implementation of green and sustainability initiatives to create efficiencies**, control costs, and reduce the university's impact on the environment.** Initiatives included strategic investments in infrastructure, retrofitting existing facilities, regional power management systems, energy efficiency lighting and management of peak electric power consumption.

  - Optimize usage of central powerhouse with preferential loading of boilers combined with campus steam reductions have resulted in **increased BTU utilization**.

Examples of Current Efficiency Initiatives

- **Renovation Services Outsourcing**
  Resulted in improved renovation services to campus community as well as annual savings. Once the university reaches a certain volume threshold, additional savings are expected to be realized through reduced fees.

- **Improvements in Accounts Payable Processing**
  Imaging, electronic matching, e-invoicing, etc. resulted in increased efficiencies and elimination of the need for multiple positions.

Examples of Current Efficiency Initiatives

- **In-house Surplus Auctions**
  The university transitioned the surplus auction management from the State to the University resulting in cost savings to the university.

- **Video Conferencing**
  The university has implemented video conferencing units on campus and throughout the state at strategic locations. This has significantly reduced the need for travel for face to face interactions.

Examples of Current Efficiency Initiatives

- **Electronic Timekeeping System**
  The current leave and timekeeping processes are decentralized, paper-driven, labor intensive, and present control challenges. New electronic system resulted in uniform timekeeping and leave policies and procedures, electronically managing leave and timekeeping processes, and is creating more effective and efficient central management reporting for leave and timekeeping.

Examples of Ongoing/Planned Efficiency Initiatives

- **Research Administration System**
  The university has invested in a coordinated research administration system to effectively manage pre and post-award processes, minimizing manual effort, improving faculty management of resources, and streamlining of Office of Sponsored Programs staffing.

- **Cash Receipt System**

- **Travel and Expense Reimbursement System**
  Automated system which will allow employees to plan their travel and file their expense reimbursement request electronically.

Summary

- **Efficiency is a priority**

  - New BOV scorecard measure instituted with a goal of remaining in the Top 5 efficient schools as compared to our peers.

Measure	Current Target	Results 2012	Results 2013
CAMPUS INFRASTRUCTURE, EFFICIENCY, AND COST CONTAINMENT			
Administrative Cost Efficiency as measured per Delta Cost Project methodology against peer institutions	Top 5 of peers	3rd (FY10)	2nd (FY11)

- **VT must continue to be conscious of administrative costs and seek additional operating efficiencies**

Faculty Compensation Update

University Advisory Council on Strategic Budgeting and Planning

December 5, 2013

Faculty Compensation Policy Environment

- Commonwealth has longstanding goal that institutions of higher education reach the 60th percentile of SCHEV approved Peer institutions.

- Peer group negotiation occurs each 10 years

- Not only are faculty salaries important as a function of recruitment and peer competition, **faculty salaries are a key driver of the higher education funding model in Virginia**.

    - Total calculated need is driven by faculty salary, which in turn drives support needs including staff, graduate assistants, and related operation costs of the Educational & General program.

SCHEV Peers:

University of California, Berkeley

University of California, Davis

University of Colorado, Boulder

Cornell University

University of Florida

University of Illinois, Urbana-Champaign

Iowa State University

University of Maryland, College Park

University of Michigan, Ann Arbor

Michigan State University

University of Minnesota – Twin Cities

University of Missouri – Columbia

North Carolina State University

The Ohio State University

Penn State University

University of Pittsburgh

Purdue University

Rutgers, The State University of New Jersey

SUNY at Buffalo

University of Southern California

Stony Brook University

Texas A&M University

The University of Texas at Austin

The University of Washington - Seattle

University of Wisconsin – Madison

Compensation Cost Sharing

- State cost-sharing formula in Virginia -- *universities are responsible* for a significant portion of compensation programs:

    - University Division (E&G):

        - **59%** of statewide salary action

        - **100%** of institutional salary action

    - Cooperative Extension & Agricultural Experiment Station Division (E&G)

        - **5%** of statewide salary action

        - **100%** of institutional salary action

    - Sponsored Programs & Auxiliary Enterprises

        - **100%** of any action
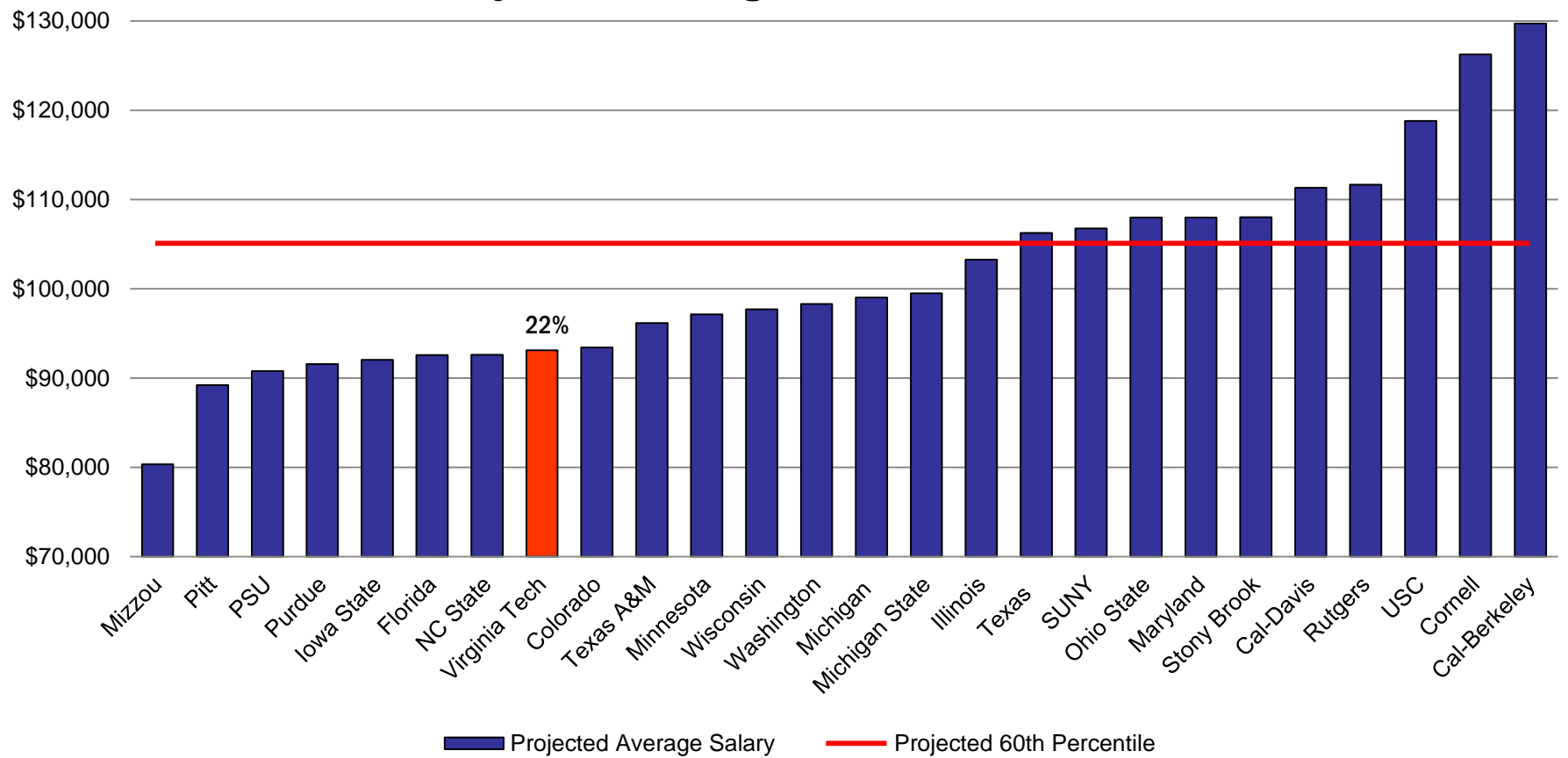
Faculty Salaries

- July 25, 2013: University implemented first merit process since 2007

  - State provided GF share of 3% statewide increase (41% of total cost in 208, 95% of total cost in 229)

  - University reallocated additional resources to enhance merit process

  - This resulted in an average faculty increase of 4.8%

Faculty Salary Competitiveness

- To reach the 60th percentile of peer faculty salaries, the university will need to increase the average salary by **4.1%** per year over 6 years.

- Restoration of annual merit process is needed to ensure sustained progress towards salary competitiveness

- If the Commonwealth cannot contribute to a faculty salary increase annually, the university has a plan for more modest faculty salary increases based upon the institutional share of the annual progress needed.

Faculty Salary Benchmark

VirginiaTech — *Invent the Future*

Fall 2013 Projected Average Salaries at Peer Institutions

Virginia Tech: **22%**

Legend: Projected Average Salary — Projected 60th Percentile

Institutions (left to right): Mizzou, Pitt, PSU, Purdue, Iowa State, Florida, NC State, Virginia Tech, Colorado, Texas A&M, Minnesota, Wisconsin, Washington, Michigan, Michigan State, Illinois, Texas, SUNY, Ohio State, Maryland, Stony Brook, Cal-Davis, Rutgers, USC, Cornell, Cal-Berkeley

Office of Budget and Financial Planning

Faculty Salary Status FY14
SCHEV's Assessment of Virginia Publics

% Increase to 60th Percentile Goal

Institution	% Increase
NSU	0.0%
UVAW	0.0%
LU	3.9%
VCU	8.9%
JM	9.0%
VT	9.5%
VSU	10.1%
UVA	11.4%
ODU	11.6%
CWM	11.7%
UMW	11.9%
CNU	12.7%
RU	14.5%
VMI	16.2%
GMU	20.4%
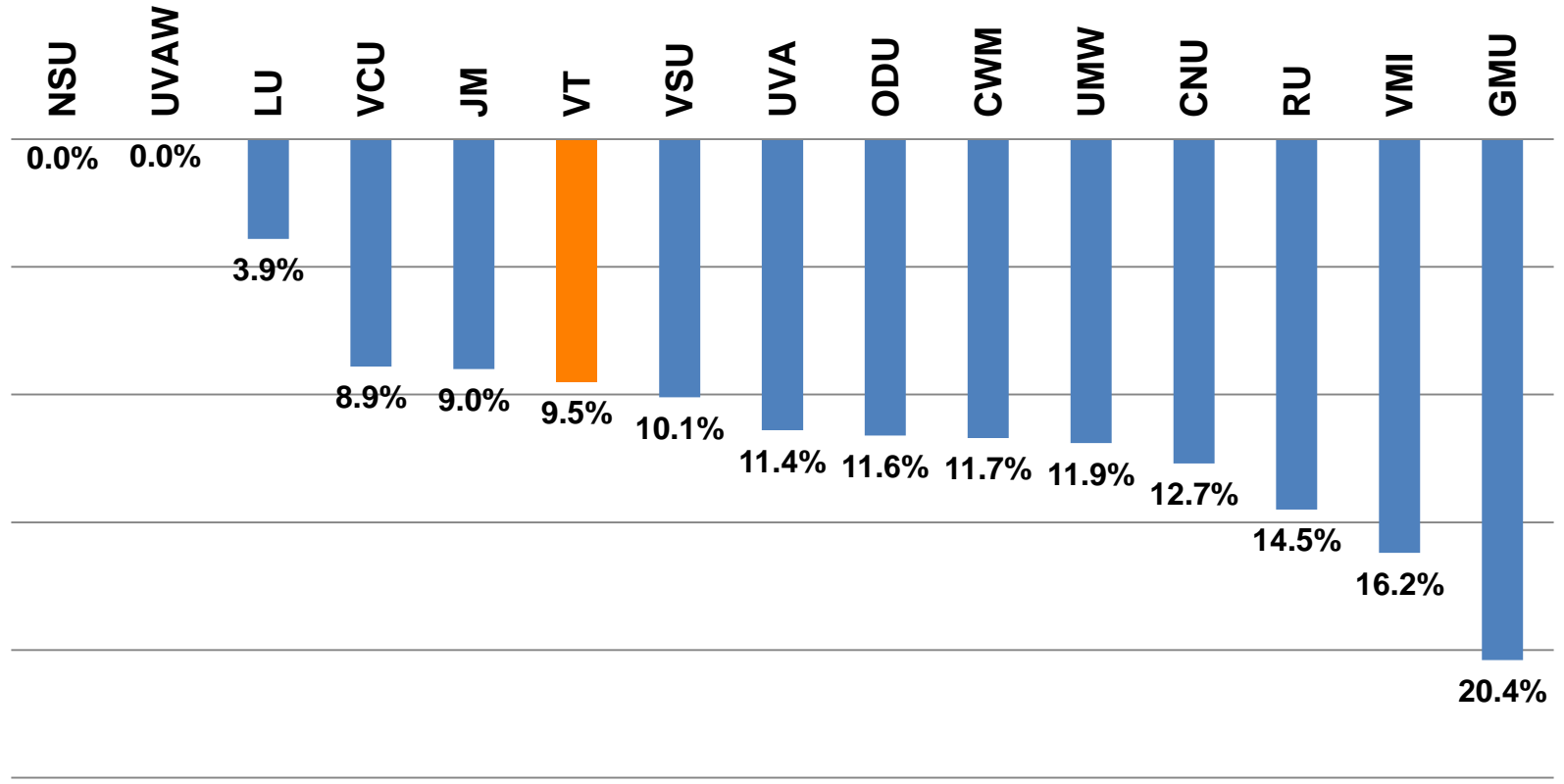
Source: SCHEV, October 28, 2013

Office of Budget and Financial Planning

Faculty Salary Progress
Towards 60th Percentile of Peer Group
(Fall 2013-Fall 2019)

VirginiaTech — *Invent the Future*

Average Salary

$120,000
$110,000
$100,000
$90,000
$80,000
$70,000

Peer 60th %tile

SCHEV Authorized

Fall 2001, Fall 2002, Fall 2003, Fall 2004, Fall 2005, Fall 2006, Fall 2007, Fall 2008, Fall 2009, Fall 2010, Fall 2011, Fall 2012, Fall 2013, Fall 2014, Fall 2015, Fall 2016, Fall 2017, Fall 2018, Fall 2019

Projected – – – –

Estimated ....

Office of Budget and Financial Planning
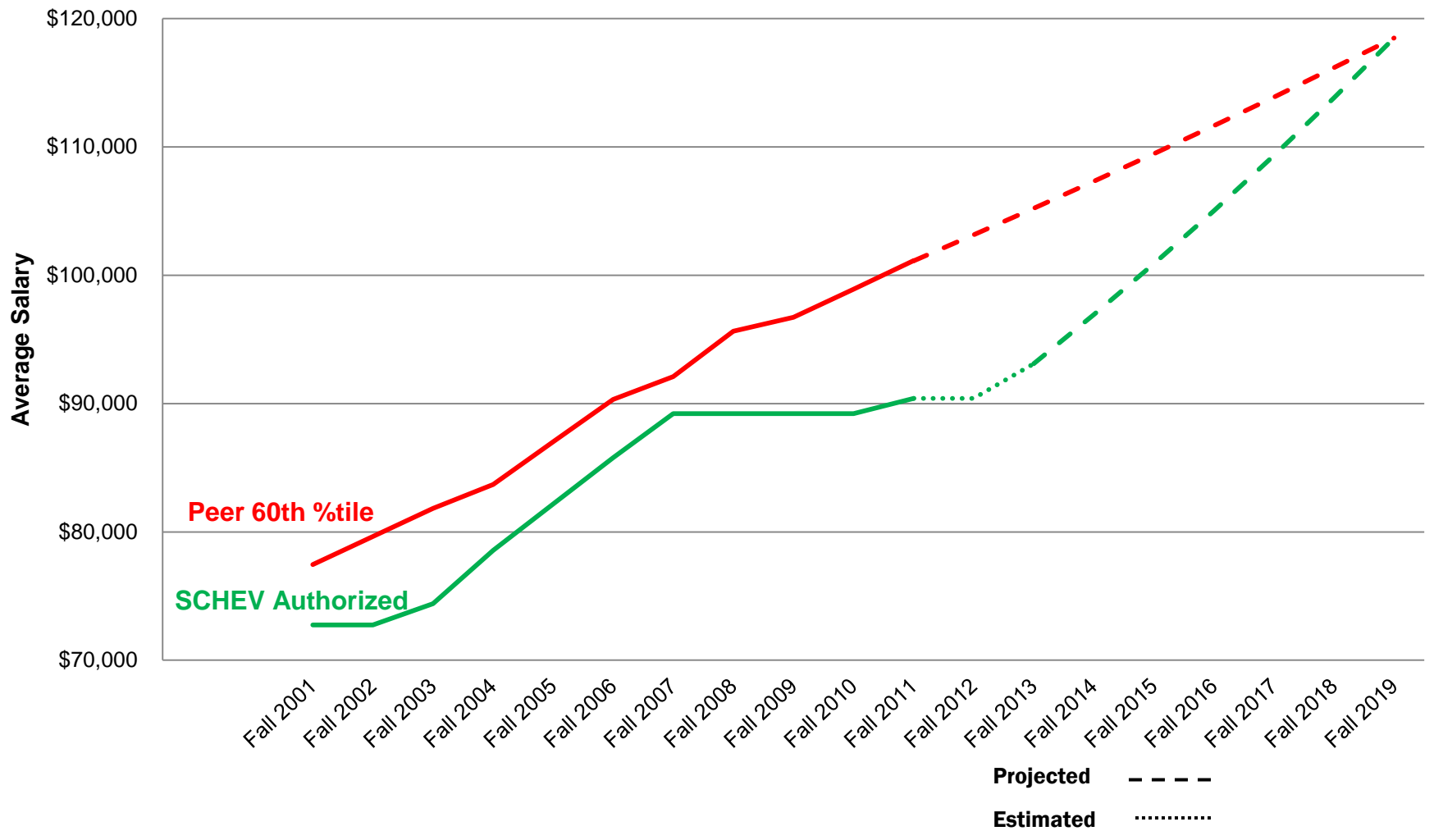
Planning Ahead

Compensation Priorities

- The university is committed to achieving appropriate compensation programs for all university employees

- Faculty Salary competitiveness remains a top priority for the university; the 60th percentile of the salary peer group

- Reductions is state support have prevented traditional merit process during the recession

- Faculty Salary needs are at the top of our priorities in discussions with state and within university's six-year plan

- University will continue to work towards meeting the 60th percentile goal

Compensation Priorities

In the absence of state budget reductions, one reasonable strategy would be to:

- Develop a multi-year plan for faculty salary increases,

- Continue to work for General Fund support each year,

- Increase tuition and fee rates annually at rates that will support the nongeneral fund share of faculty salary increases, and

- Implement the rate supported by nongeneral funds in years when General Fund support is not available

2014-16 Biennial budget development

- Governor

- General Assembly

  - House

  - Senate

Questions?