Committee Minutes

FINANCE AND RESOURCE MANAGEMENT COMMITTEE
Ballston Room, Virginia Tech Research Center
Arlington, Virginia

August 26, 2019

Closed Session

Board Members Present: Ed Baine, Anna James, Tish Long, Melissa Nelson, Horacio Valeiras

Virginia Tech Staff: Kay Heidbreder, Nancy Meacham, Charlie Phlegar, Dwight Shelton

1. **Motion to Reconvene in Open Session:** Motion to begin open session.

* 2. **Ratification of Personnel Changes Report:** The Committee met in closed session to review and ratify the quarterly Personnel Changes Report. The report included new faculty appointments and adjustments in salaries for select faculty through the quarter ending June 30, 2019.

   The Committee recommended the Personnel Changes Report as amended to the full Board for approval.

Open Session

Board Members Present: Ed Baine, John Ferris – Faculty Representative, Anna James, Ryan King – Graduate Student Representative, Tish Long, Melissa Nelson

Virginia Tech Staff: Callan Bartel, Bob Broyden, John Cusimano, John Dooley, Juan Espinoza, Ron Fricker, Luisa Havens Gerardo, Tim Hodge, Nancy Meacham, Charlie Phlegar, Menah Pratt-Clarke, Tim Sands, Dwight Shelton, Ken Smith, Robert Sumichrast

1. **Motion to Reconvene in Open Session:** Motion to begin open session.

2. **Opening Remarks**

3. **Consent Agenda:** The Committee considered for approval the items listed on the Consent Agenda.

   a. Approval of Items Discussed in Closed Session

   b. Approval of Minutes of the June 3, 2019 meeting

* c. Approval of Holden Hall 9(d) Det Financing Resolution: The Committee reviewed for approval a debt financing resolution for Holden Hall improvements through the State's 9(d) Virginia College Building Authority (VCBA) pooled bond program. The Holden Hall Renovation has been authorized by the State to be financed for up to $17.5 million, plus amounts needed to fund the issuance costs, reserve funds, and other financing expenses. The total $72.349 million project cost will be funded with approximately $17.5 million of bond proceeds issued through the VCBA and paid by the university, and $54.849 million of 21st Century bond proceeds paid for by the Commonwealth. Debt service for the university's portion of this project will be paid from self-generated revenues from the research program and private gift receipts.

   The Committee approved the items on the Consent Agenda and recommended the Holden Hall 9(d) Debt Financing Resolution to the full Board for approval.

4. **Discussion on Resource Development:** The Committee had an opportunity for follow-up discussion on information presented at the Board of Visitors Retreat. Questions on resourcing the innovation campus and faculty compensation were addressed.

5. **Comprehensive Annual Report on Advancement:** The Committee received a comprehensive report from University Advancement providing an update on the fiscal year 2019 giving results and giving trends since the launch of the Advancement Model. This report also included an update of the return on investment in university advancement with projections for future investments to support the anticipated growth in fundraising, overview of the campaign plans, and the division's strategic focus for fiscal year 2020.

   Campaign kickoff will be Oct. 10 – 12 with an expected campaign goal of 1.5 billion. Advancement anticipates that this campaign goal may increase in 2022, our sesquicentennial. The engagement level goal will be to increase alumni engagement from 40,000 to 100,000 through the course of the campaign.

6. **Related Corporations Performance – VT Services:** The Committee received a report on the performance of Virginia Tech Services, Inc. (VTSI), a Virginia Tech

Related Corporation. This report provided an overview of the corporation's historical role in retail and contract management. It also described the changing business environment that has led to the restructuring of operating strategies and organization and the transition to a new operating agreement with Follett Higher Education Group, Inc. (Follett). This new business model resulted in a significantly increased revenue stream for the university which is used to fund undergraduate scholarships, facility improvements, or other student focused investments.

***** 7. **Approval of Policy on Management of Graduate Assistantships and Tuition Remission:** The Committee reviewed for approval the new Policy on Management of Graduate Assistantships and Tuition Remission. This policy encompasses various existing policies and procedures regulating the management of graduate assistantships into one comprehensive, transparent policy. The Graduate School is responsible for administering this policy and future changes to the policy must be approved by the Finance and Resource Management Committee.

The Committee recommended the Policy on Management of Graduate Assistantships and Tuition Remission to the full Board for approval.

***** 8. **Approval of Year-to-Date Financial Performance Report (July 1, 2018 – June 30, 2019):** The Committee reviewed for approval the Year-to-Date Financial Performance Report for July 1, 2018 – June 30, 2019. The university successfully closed its fiscal year in accordance with guidance and requirements of the Commonwealth. The Education and General budgets were balanced at year-end, with no operating deficit incurred. The Auxiliary Enterprises revenues were higher than projected due to interest savings and higher Sponsored Programs and Residential and Dining Hall System revenues. Auxiliary Enterprises expenditures were lower than projected due to the timing of operating expenditures, debt savings, and personnel savings.

For year-ended June 30, 2019, $67.95 million has been expended for Educational and General capital projects, and $40.2 million has been expended for Auxiliary Enterprises capital projects. Total capital outlay expenditures for year-ended June 30, 2019 was $108 million against an annual budget of $124 million. The Committee also discussed the status and financial impact of the large number of capital projects approaching the construction stage.

The Committee recommended the Year-to-Date Financial Performance Report to the full Board for approval.

9. **Other Business:** The Committee discussed other topics as needed.

Joint Open Session with the Building and Grounds Committee

Board Members Present: Ed Baine, Shelley Barlow, Greta Harris, C.T. Hill, Anna James, Ryan King – Graduate Student Representative, Tish Long, Sharon Martin, Melissa Nelson, Mehul Sanghani, Dennis Treacy, Horacio Valeiras, Jeff Veatch, Preston White

Virginia Tech Staff: Mac Babb, Callan Bartel, Bob Broyden, John Cusimano, John Dooley, Juan Espinoza, Ron Fricker, Elaine Gall, Tim Hodge, Chris Kiwus, Nancy Meacham, Heidi Myers, Kim O'Rourke, Charlie Phlegar, Menah Pratt-Clarke, Tim Sands, Dwight Shelton, Ken Smith, Robert Sumichrast, Dwyn Taylor, Jon Clark Teglas, Sherwood Wilson

1. **Consent Agenda:**

    a. Update on the 2020-2026 Capital Outlay Plan: At the April 2019 meeting, the Committees approved the university's list of potential projects for inclusion in the 2020-2026 Capital Outlay Plan and authorized the university to develop and submit a final plan to the State in accordance with future guidance from the State and based on the projects in the approved list. The university proceeded accordingly and met the State's July 2019 deadline for submission of the plan. Based on the instructions received from the State, and consistent with the Board approved Six-Year Capital Outlay Plan, the university submitted a list of projects requesting some portion of General Fund resources in their budget. This report provided the list of projects ranked in priority order submitted to the state, state capital budget review and approval process, and the list of Nongeneral Fund Projects included in the Six-Year Capital Outlay Plan for 2020-2026.

* 2. **Approval of Resolution for a Capital Lease for the Kmart and Ardmore Properties:** The Committees reviewed for approval a Resolution for a Capital Lease for the Kmart and Ardmore Properties to secure space for university functions and for surplus storage and printing services. This capital lease includes a 20-year lease renewal for the 55,552 square foot warehouse space located at 1425 South Main Street (Kmart), contingent upon the execution of a new 20-year term lease of a 9,460 square foot property adjacent to the Kmart space, at 131 Ardmore Street (Ardmore). A provision of the Ardmore lease is that the landlord will gift the Ardmore property to the university at the expiration of the lease.

    The cost of the Kmart space is $7.04 per square foot, which is significantly below local market rates of $14.00 to $18.00 per square foot. An alternate space with comparable size, price, and convenience is unavailable, and the university cannot build a replacement space at a lower cost. Additionally, the rate for the Ardmore space is $7.50 per square foot, which is also significantly below the market rate.

The university has an amended lease agreement for an additional 20 years at the rates described above with discounted cash flows at a present value of $6.9 million. This capital lease will provide lower cost storage options and will accrue savings in operation budgets while ensuring convenient, expanded space and uninterrupted operations. The university is prepared to proceed with the Kmart and Ardmore capital lease and has developed a resource plan to support the annual lease.

The Committees encouraged the university to negotiate the inclusion of language in the lease that would allow the university the opportunity to acquire the Ardmore property lease at any time during the lease or at specific points during the twenty-year lease through a negotiated lease payoff.

This request is for authorization to move forward with a $6.9 million capital lease for the Kmart and Ardmore properties.

The Committees recommended the Resolution for a Capital Lease for the Kmart and Ardmore Properties to the full Board for approval.

3. **Discussion of the Resolution for Funding Supplement to the Student-Athlete Performance Center Capital Project Approved by the Executive Committee on July 18, 2019:** The Committees had an opportunity to discuss the Resolution for Funding Supplement to the Student-Athlete Performance Center Capital Project, which was approved by the Executive Committee during the July 18, 2019 meeting. This resolution was ratified at the full Board meeting on August 26, 2019.

There being no further business, the meeting adjourned at 10:13 a.m.

*** Requires full Board approval.**

University Advancement Update

Finance & Resource Management Committee
August 26, 2019

CHARLES D. (CHARLIE) PHLEGAR
VICE PRESIDENT FOR ADVANCEMENT

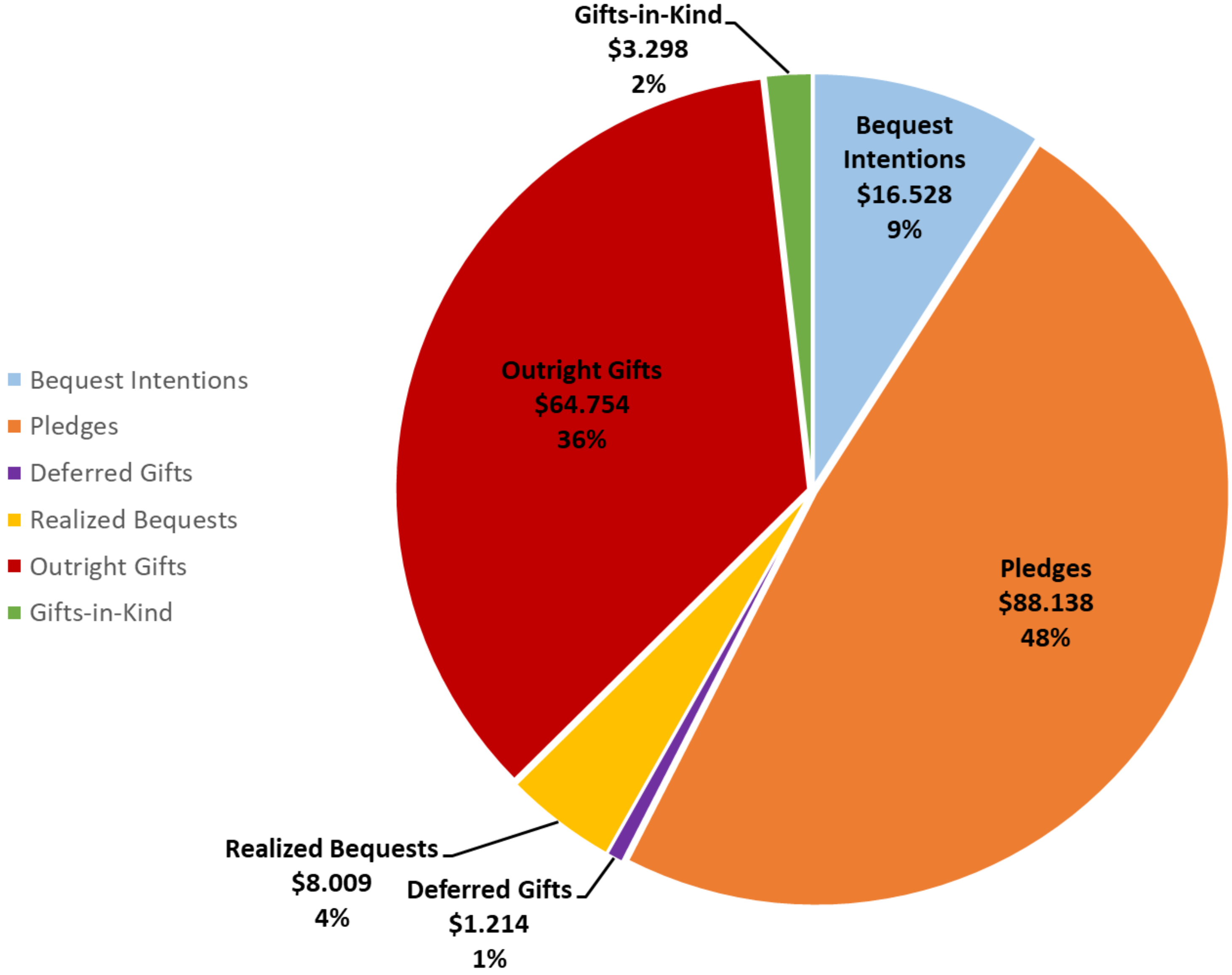
VIRGINIA TECH™

Overview

- *FY19 Giving Results*
- *Giving Data Trends at Virginia Tech*
- *Return on Investment*
- *Campaign Priorities*
- *Campaign Goal*
- *Advancement's Role In University Initiatives*
- *Future Plans*
- *Discussion*

FY19 NEW GIFTS & COMMITMENTS

(all dollars in millions)



FY19 GOAL:
$140,000,000

FY19 RESULT:
$181,940,926

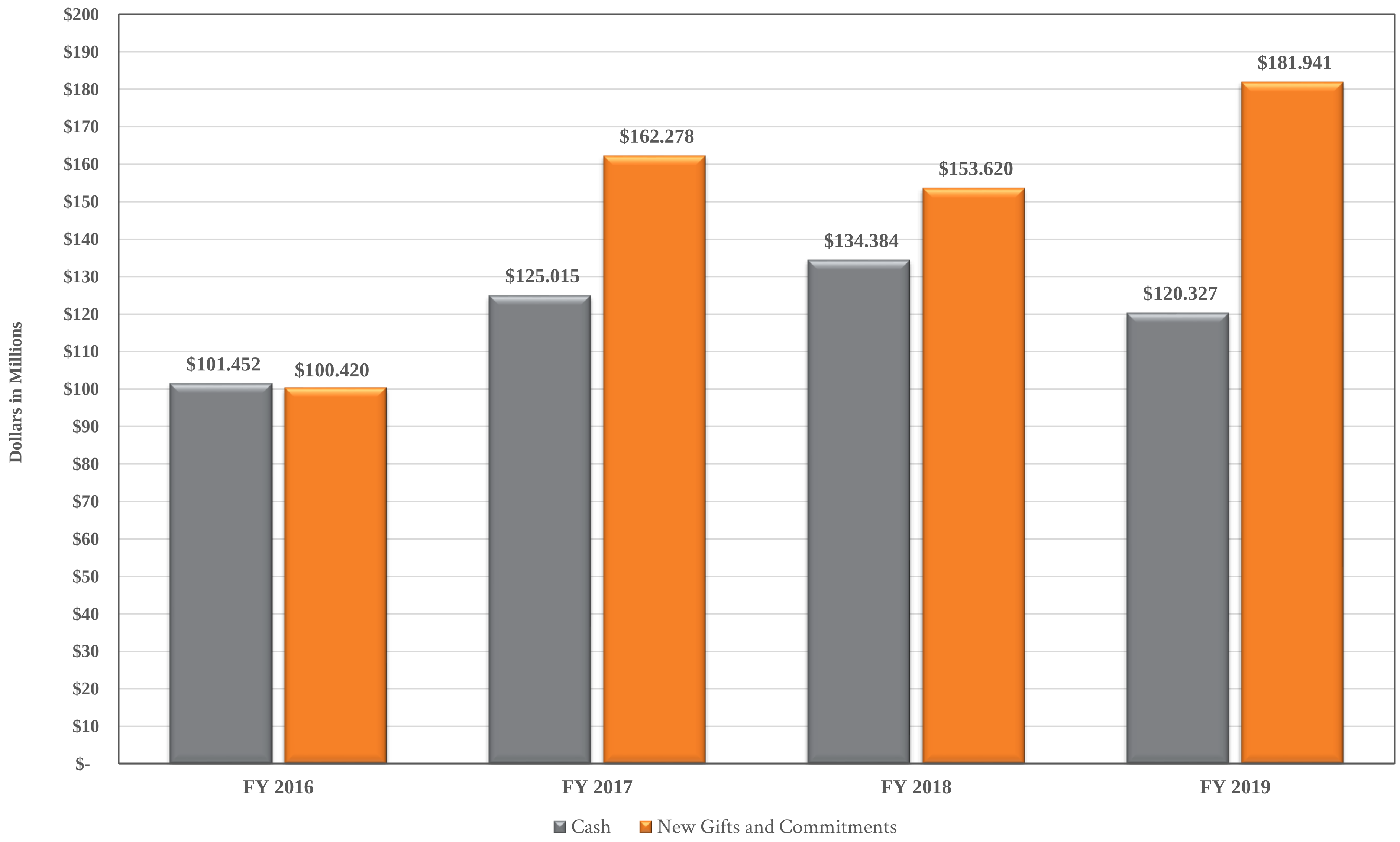
COMPARISON:

$42M/30% over goal

$29M/18% over FY18

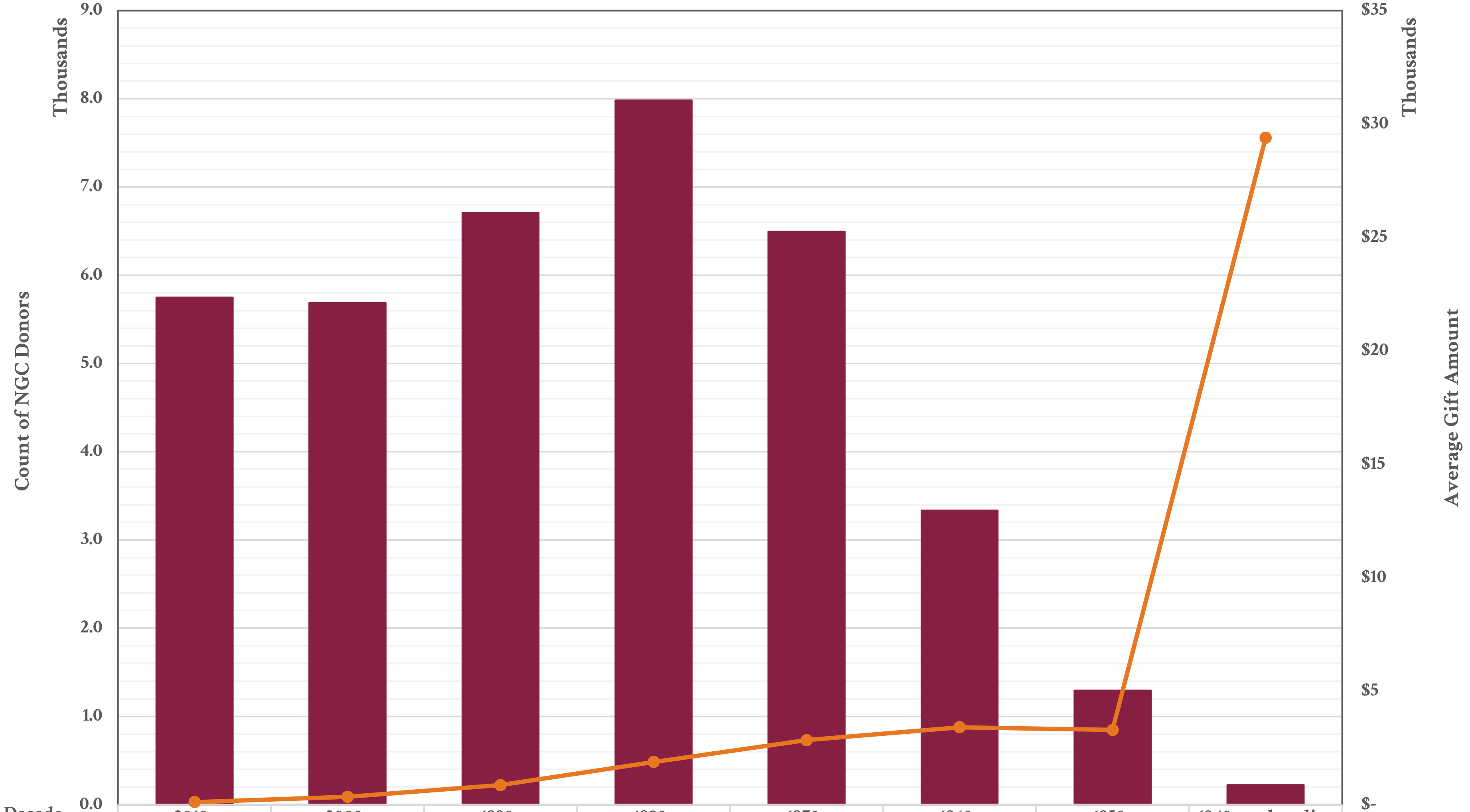
VIRGINIA TECH

VIRGINIA TECH TOTAL GIFT INCOME
Four Year Comparison of Cash and New Gifts & Commitments



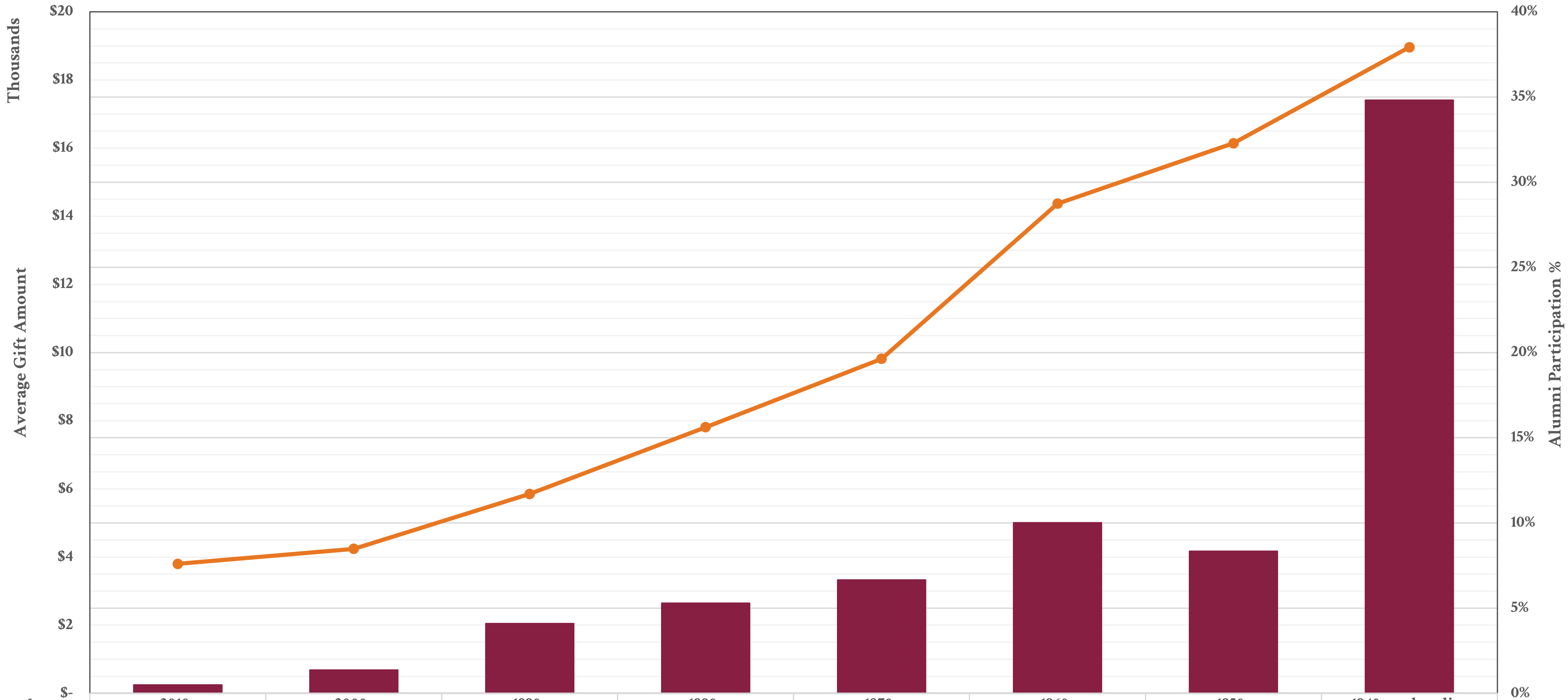
VIRGINIA TECH

New Gifts and Commitments Donors for FY16 through FY19 with Average Gift Size by Class Decade



Class Year Decade Years from Graduation	2010s (0-9 yrs)	2000s (10-19 yrs)	1990s (20-29 yrs)	1980s (30-39 yrs)	1970s (40-49 yrs)	1960s (50-59 yrs)	1950s (60-69 yrs)	1940s and earlier (70+ yrs)
Donor Count	5,748	5,689	6,710	7,985	6,497	3,335	1,294	222
Average Gift	$110	$342	$862	$1,879	$2,841	$3,410	$3,290	$29,396
Living Alumni	29,011	39,216	35,816	34,275	23,589	8,320	2,710	318

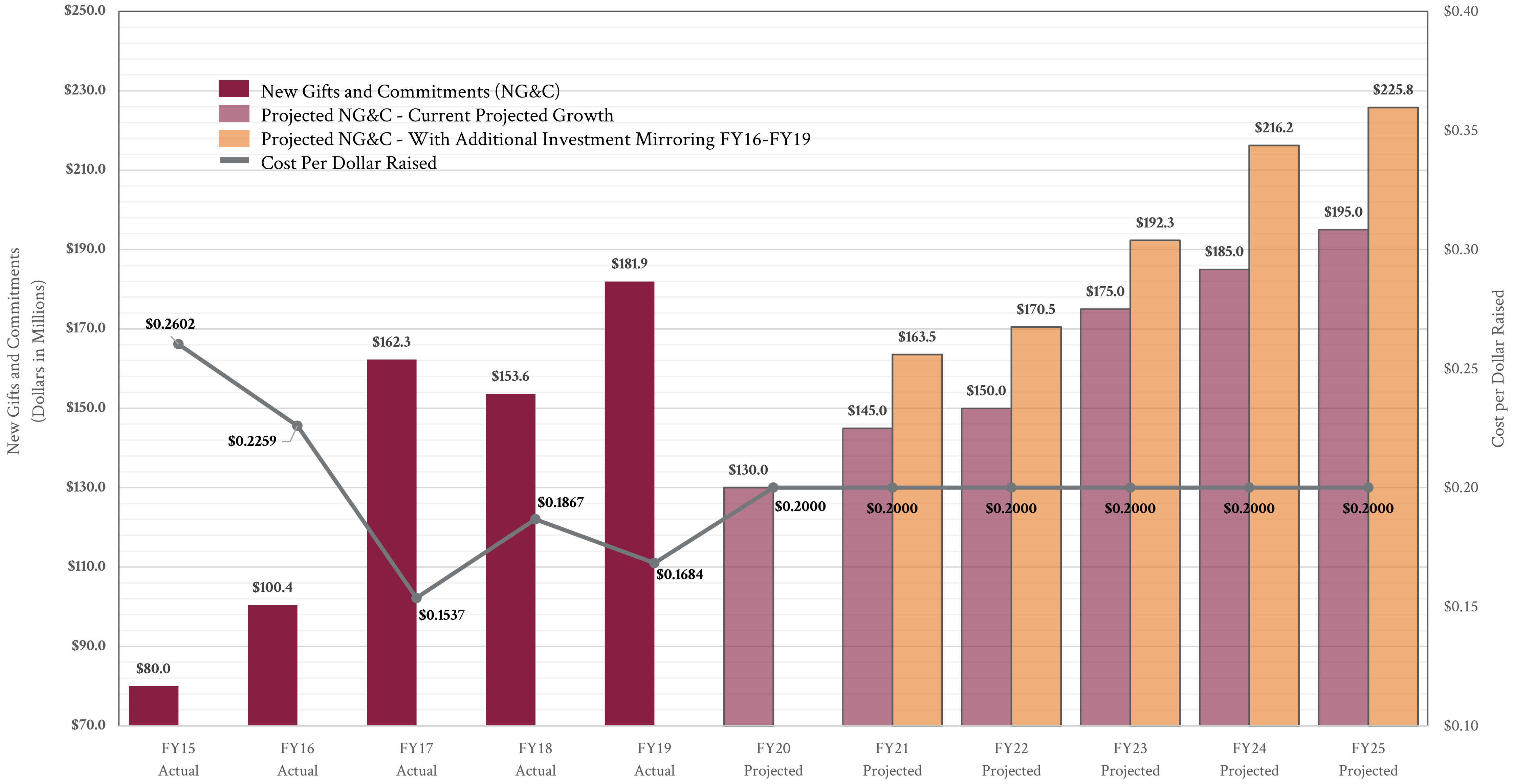
FY19 Participation and Average Gift Size by Class Decade



Class Year Decade Years from Graduation	2010s (0-9 yrs)	2000s (10-19 yrs)	1990s (20-29 yrs)	1980s (30-39 yrs)	1970s (40-49 yrs)	1960s (50-59 yrs)	1950s (60-69 yrs)	1940s and earlier (70+ yrs)
Average Gift	$247	$683	$2,048	$2,647	$3,328	$5,006	$4,172	$17,407
Participation %	7.6%	8.5%	11.7%	15.6%	19.6%	28.7%	32.3%	37.9%
Living Alumni	29,011	39,216	35,816	34,275	23,589	8,320	2,710	318

VIRGINIA TECH

New Gifts and Commitments and Cost Per Dollar Raised
FY2015 through FY2025



VIRGINIA TECH

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DISCUSSION AND QUESTIONS

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Report on Related Corporations Performance
Virginia Tech Services, Inc.

FINANCE AND RESOURCE MANAGEMENT COMMITTEE

August 14, 2019

Background

Virginia Tech Services, Inc. (VTSI) was formed in 1968 as a separate nonprofit corporation for the use and benefit of the students, faculty, staff, and alumni of Virginia Tech. Since that time, VTSI evolved to the recent business model with two major components described as follows:

a) Operation of five retail outlets including two bookstores, seven athletic stores, the Computer Service Center, and

b) Establishment and administration of three outsourced service contracts for campus-wide beverage distribution, snack vending concessions, and residential laundry services.

Through a long-standing internal university policy, all of VTSI operating profits are used to support student programs and activities, consistent with the concept that the majority of VTSI revenues and profits came from student-related purchases. As a result, since 1968 VTSI operating profits have supported the academic mission of the university through annual expenditures and the creation of quasi-endowments for undergraduate scholarships, facility improvements, or other student focused investments. Since 1968, the cumulative value of those contributions is approximately $48.5 million. In addition to providing essential goods and services to the campus, VTSI's various retail operations employ approximately 495 student workers and area residents.

Changing Business Environment

Over the past two decades, a proliferation of internet vendors, sales technologies, online platforms, and industry consolidations have disrupted the traditional market for textbook sales and campus retail operations. As a result, universities across the nation have been shifting to outsourcing bookstore operations to stem the impact of declining profits. During much of this period, VTSI outperformed the industry in terms of service and net profits. However, over time, a steady declining trend in retail sales combined with a traditional operating structure eroded VTSI net income, and the advantages of self-operated retail units. By the end of fiscal year 2018, consolidated annual net profits were $500,000, including approximately $1.24 million of revenues from outsourced beverage services, snack vending, and residential laundry services.

Restructuring VTSI Operating Strategies and Organization

During that period of declining net profits, VTSI leadership reviewed its position in the industry and projections of future operating profits. As a result, management explored opportunities to outsource a portion of its operations; this led to the solicitation of proposals from vendors to outsource the operations of the two bookstores. VTSI presented the received responses from companies interested in operating its two bookstores to the VTSI Board of Directors in May of 2018. After reviewing the preliminary proposals from two vendors, the Board agreed to move forward with outsourcing the bookstore portion of the retail operations. However, the projected net profits, estimated at $850,000 annually, were below the Board members' expectations, largely because costs to support VTSI's traditional operating structure remained intact.

As a result, the VTSI Board of Directors asked VTSI management to examine the opportunity to restructure VTSI operations, with full outsourcing of its retail operations while maintaining ownership and management of its existing three outsourced contracting activities. The Board asked VTSI management to continue negotiations with the vendors and to expand the scope of the proposal to include all retail operations. Further, the Board requested the participation of the university in the exploration and recommendations regarding this restructuring opportunity. Subsequently, the Office of Capital Assets and Financial Management (CAFM) was engaged to work with VTSI management to perform a comprehensive assessment of the financial performance of outsourcing all retail operations. The scope of the work included a determination of the most efficient operating structure required to manage all operations through outsourced contracts to ensure this outsourcing opportunity would provide the greatest financial benefits to members of the University community.

Exploring a New Operating Agreement and Potential Partners

During calendar year 2018, VTSI negotiated with vendors for ten-year partnership agreements to manage its retail operations. The other business activities are existing outsourced service contracts managed by VTSI that generate expected levels of net profits (beverage services, snack vending, and residential laundry services); thus, these components were not part of the solicitation.

Utilizing information contained in the vendor proposals, VTSI historical financial data, and details provided by peer institutions with outsourced bookstore operations, the team developed several partnership models and forecasted revenues and expenditures for the duration of the contract period. The Follett Higher Education Group, Inc. (Follett) partnership proposal yielded the highest potential financial value for VTSI and the university, and VTSI proceeded to negotiate terms for an agreement.

A unique component of the Follett proposal is their existing operation of the Tech Bookstore located in Blacksburg on South Main Street, which was previously unaffiliated with VTSI or the university.

As a result of the partnership with Follett, this store will operate as part of the agreement and sales from this store are included in the commission payments to VTSI. This feature enriched the Follett agreement and set their proposal apart from other vendors.

Transition to A New Operating Agreement and a Restructured Organization

Under the new agreement, Follett will operate and manage the retail sites, Computer Service Center, store websites, and online catalogs, inventory of goods, information technology systems, fixed assets, and the human resource infrastructure. VTSI will manage the facilities and maintenance services agreements, the contract with Follett, and will receive a performance-based commission with guaranteed minimum annual payment amounts.

As part of the partnership agreement, Follett will pay a guaranteed annual minimum commission of $3.2 million per year for years one and two then $2.75 million per year for years three through ten. In addition to the minimum commission payment, Follett will perform the following:

- transition existing VTSI employees at a matched salary and benefits package
- invest $3,250,000 in retail store renovations
- provide a $1,000,000 one-time signing bonus
- provide a $500,000 mid-term bonus
- provide $20,000 annually in textbook scholarships
- purchase existing service vehicles, new and used textbooks, and general merchandise from VTSI inventory
- invest at least $111,000 annually for marketing donations, retail advertisements, and community relations events
- install a new Point of Sale (POS) system
- provide a state-of-the-art online retail space
- provide a full-time Bookstore Area Director on site in Blacksburg, Virginia

VTSI will remain a related corporation of Virginia Tech. The restructured organization will retain the existing charter and by-laws and will continue to follow the existing Affiliation Agreement with Virginia Tech. The restructured organization will follow the recommendations to eliminate as many administrative and support costs as possible. As the transition to this new structure occurs, VTSI staff will consist of the Executive Director and two employees to manage day-to-day operations of the corporation. These employees will be responsible for servicing the new Follett contract and the other three existing vendor contracts. After sufficient operating time has elapsed to evaluate the staffing requirements for VTSI, the staff may be able to be reduced to two employees. The residual operating assets of VTSI will be the real estate holdings and a minimal amount of fixed assets.

VTSI and Follett executed the ten-year contract effective March 17, 2019. The Executive Director's excellent negotiations protected the interests of existing employees. Follett absorbed all qualifying existing employees that desired continued employment, and their existing compensation and benefits package either remained the same or improved. Follett also took ownership of the infrastructure, inventory, and assumed responsibility for all operations and management as of March 17, 2019. Follett is currently focusing on facility improvements and preparations for the start of the fall semester.

Performance Expectations

The analysis and results of historical operations described below reflect three-year averages of annual performance.

1. **Retail Operations**

   The retail operations, prior to outsourcing, generated $7.12 million of revenue and carried $7.78 million of costs for an annual net loss of $(660,000). Under the new operating agreement and restructured operations, retail commission revenues are a minimum of $2.75 million and costs are $1.57 million for a net profit of $1.18 million, which is projected to grow steadily over the ten years of the contract. These amounts do not include $1.5 million of signing bonuses or $900,000 of enhanced commissions for years one and two.

2. **Existing Outsourced Service Contracts**

   The three existing outsourced service contracts generate $1.28 million of revenue with overhead costs of $166,000 resulting in annual net profits of $1.12 million. Net profits are expected to grow as overhead costs are reduced in the out years of the updated operations structure.

3. **Consolidated VTSI Operations**

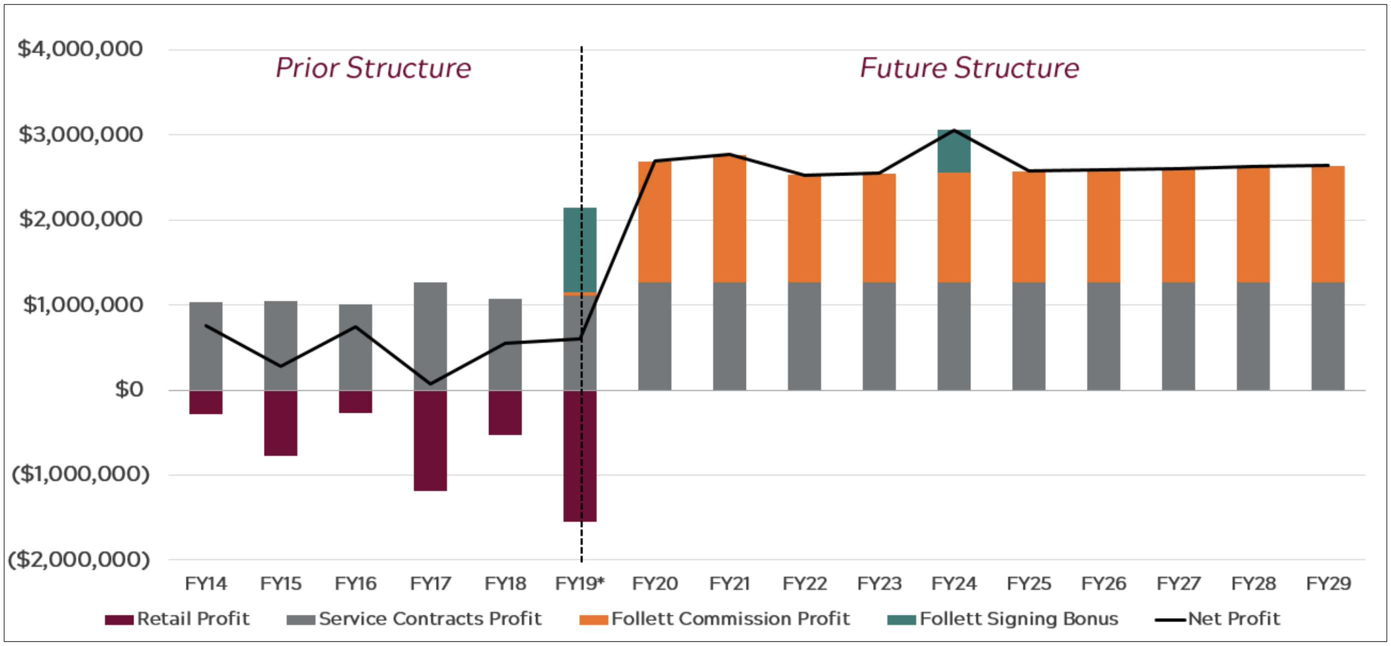
   Prior to outsourcing the retail operations to Follett, VTSI's consolidated annual net profits of the retail operations and the three existing outsourced contracts was $460,000.

   Under the new operating agreement and restructured organization, the projected consolidated annual net profits with all activities outsourced is approximately $25 million of total income over the ten-year period of the partnership, or an average $2.5 million annually.

The VTSI Board of Directors is pleased with the results of this effort and the work university staff and especially the performance of the VTSI Executive Director, Mr. Don Williams, to achieve the restructuring and financial results reflected in this report. If the level of annual profits shown below in Chart A are achieved, the annual revenues will be at levels not sustained by VTSI in at least the past 12 years.

Chart A

The Future – Total Net Profit Projections



***** The fiscal year 2019 data in the chart are placeholder amounts and reflect information from unaudited financial statements.

Related Corporations Performance - Virginia Tech Services, Inc.

DWIGHT SHELTON
Vice President for Finance and Chief Financial Officer

BOB BROYDEN
Associate Vice President for Capital Assets and Financial Management

AUGUST 26, 2019

Virginia Tech Services, Inc.

Virginia Tech Services, Inc. (VTSI) was formed in 1968 for the use and benefit of the students, faculty, staff, and alumni of Virginia Tech.

Per university policy, VTSI operating profits are used to support student programs and activities, consistent with the concept that the majority of VTSI revenues and profits came from student-related purchases.

Source: University Relations Photo Library - Hokie Centric

Virginia Tech Services, Inc.

VTSI operating profits have supported the academic mission of the university through expenditures and quasi-endowments for undergraduate scholarships, facility improvements, or other student focused investments.

$48.5 million total campus contributions since 1968.

Source: University Relations Photo Library - Volume II

Virginia Tech Services, Inc.

Retail Operations

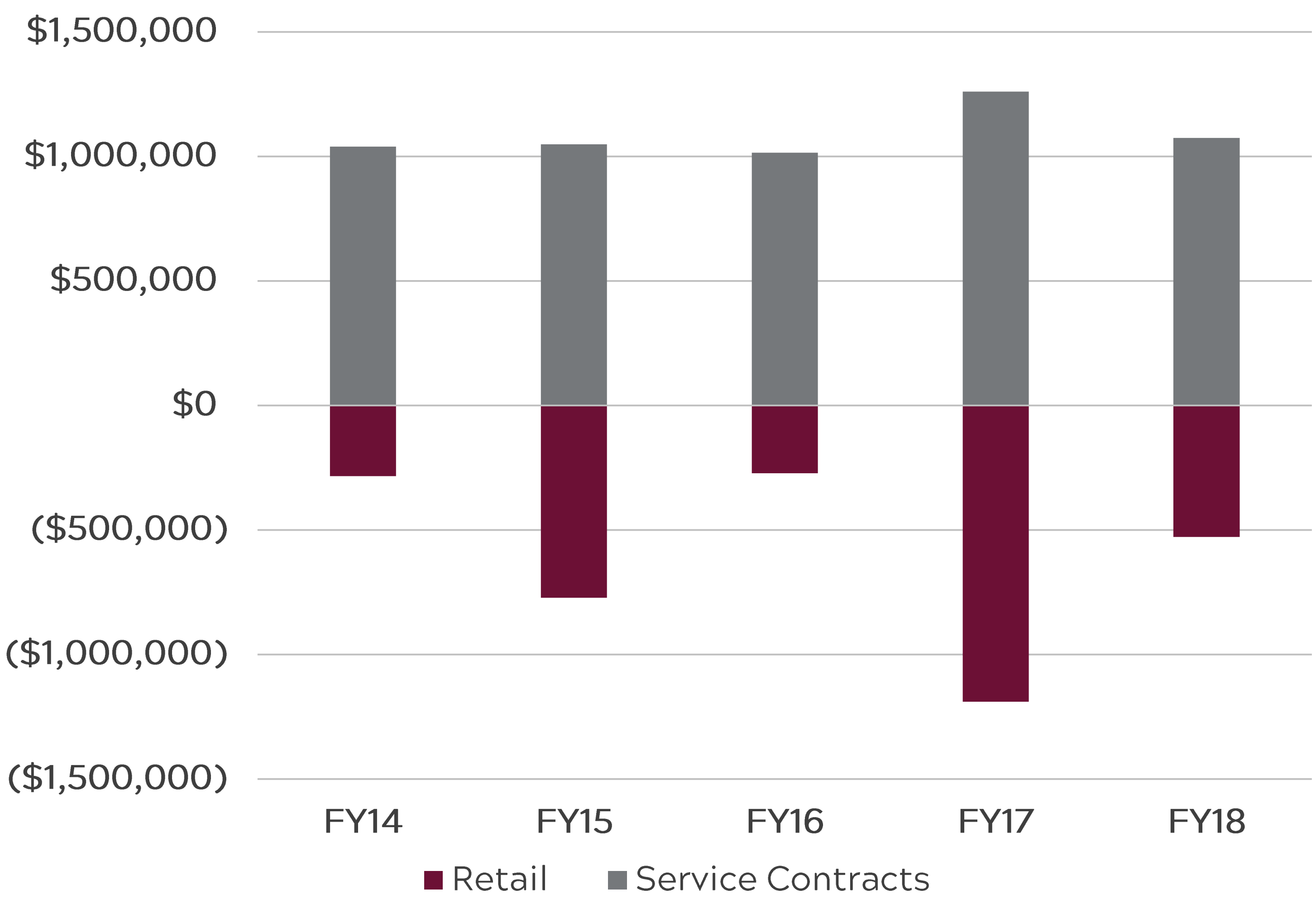
- University Bookstore
- Volume II Bookstore
- Hokie Centric
- Dietrick Convenience Store
- North End Center Starbucks
- Seven Athletics venue stores
- Computer Service Center

Outsourced Service Contracts

- Beverage distribution
- Snack vending
- Residential laundry service

Source: University Relations Photo Library

VTSI Net profit / (Loss) by Activity



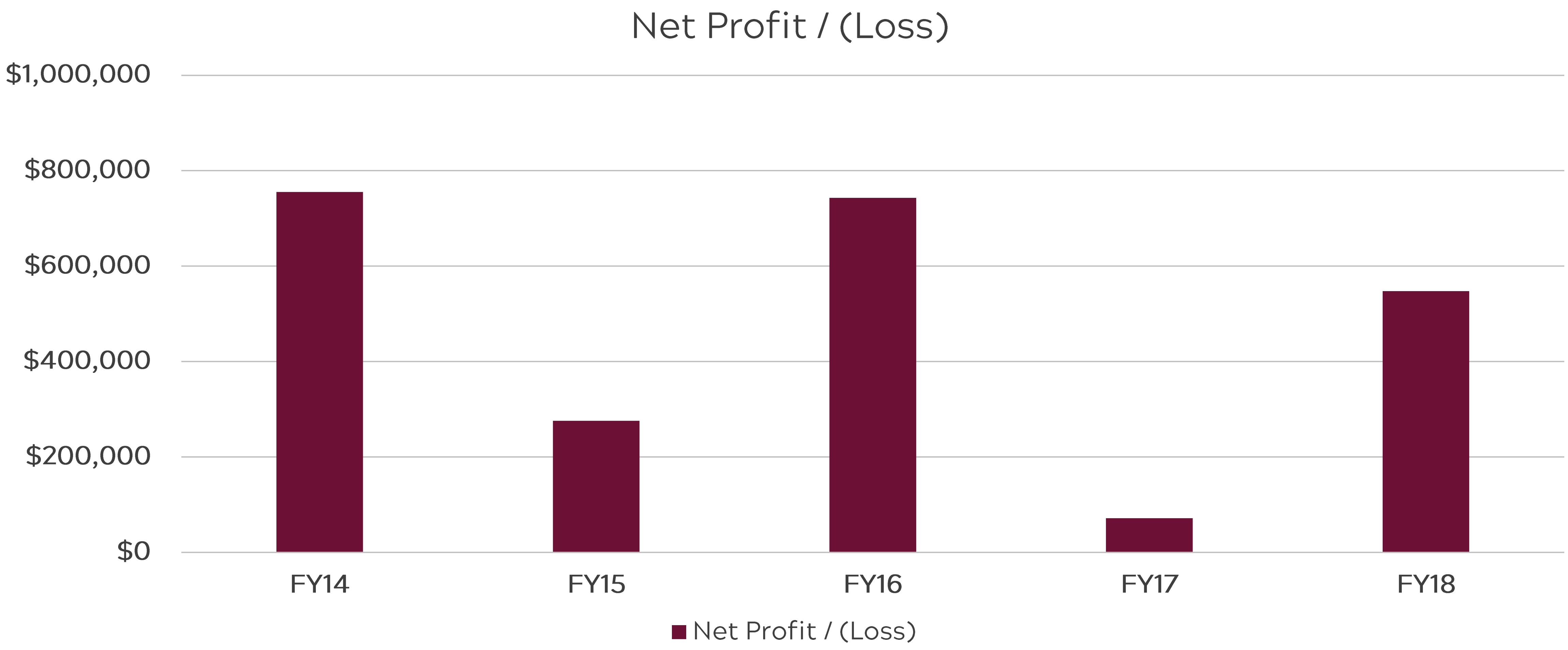
Service Contracts:

- *Beverage distribution*
- *Snack vending*
- *Residential laundry*

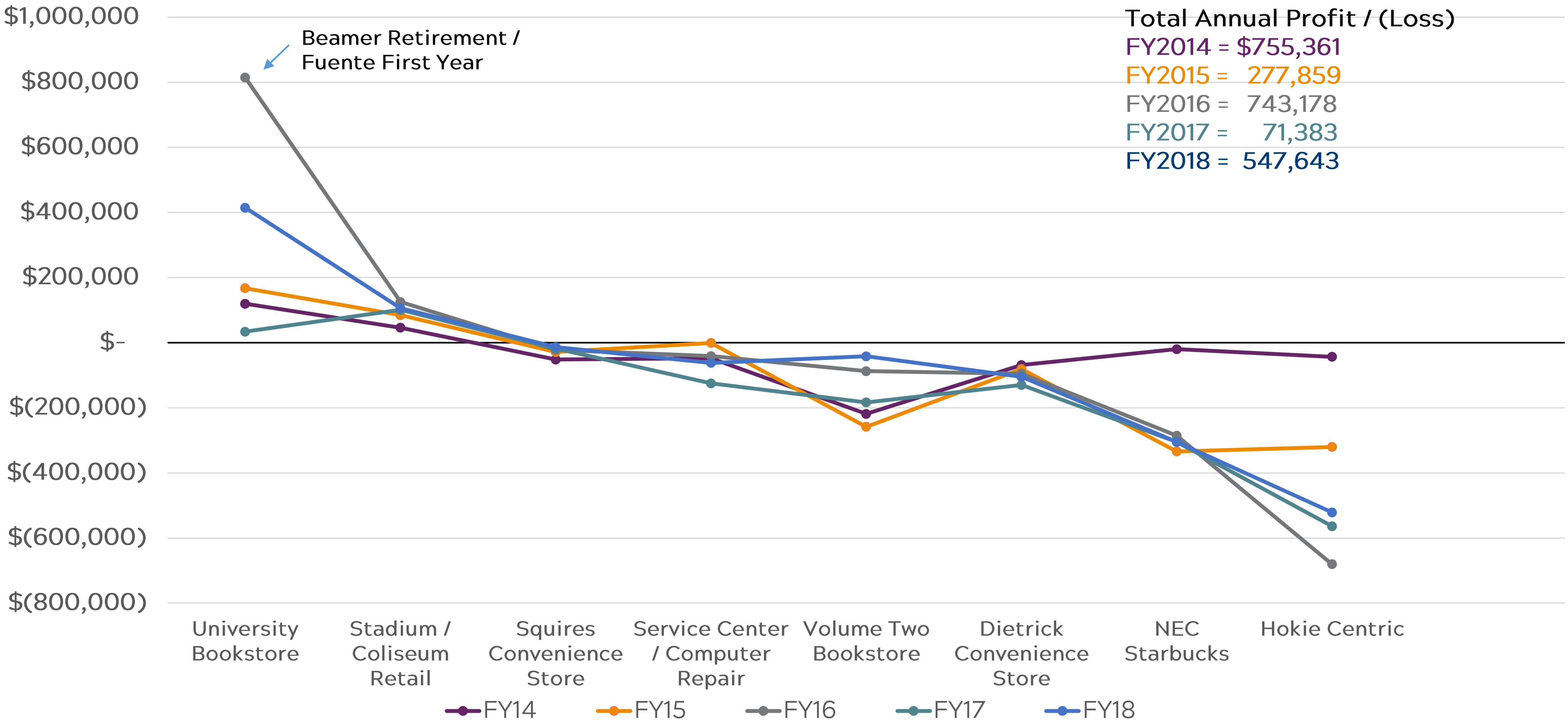
Retail Locations:

- *University Bookstore*
- *Volume II Bookstore*
- *Hokie Centric*
- *Dietrick Convenience Store*
- *North End Center Starbucks*
- *Computer Service Center*
- *Athletics venue retail services*

VTSI Consolidated Net Profit



VTSI Retail Profit / (Loss) by Location



VTSI Restructuring Timeline

WINTER 2017 - SPRING 2018

VTSI solicits requests for proposals and enters negotiations with vendors for bookstore operations

MAY 2018

VTSI Board receives results of vendor proposals and requests additional options for full outsourcing and restructured operations

WINTER 2018

Finalized Follett negotiations to outsource all retail operations

MARCH 17, 2019

Follett ten-year contract effective and restructured operations in place

Follett Retail Partnership Benefits

Financial Considerations	
Guaranteed Commission Revenue	
Years 1-2	*$3,200,000*
Years 3-10	*$2,750,000*
Signing Bonus (Year 1)	*$1,000,000*
Mid-term Bonus (Year 6)	*$500,000*
Payroll Transition (Year 1)	*$50,000*
Marketing and Advertising (annual)	*$90,000*
Marketing Donation (annual)	*$21,000*
Textbook Scholarship (annual)	*$20,000*
Facilities Investment	*$3,250,000*

VTSI Restructured Operations

Description of Responsibilities	VTSI	Follett
Manage contracts for beverage, vending, and laundry services	✓	
Manage Follett contract	✓	
Manage leases and contracts for facilities, maintenance, and utilities	✓	
Operations and management of all retail sites and computer service center		✓
Website and online retail operations		✓
Staffing and payroll for retail operations		✓
Point of Sale system and maintenance		✓
Manage fixed assets, textbooks, and general merchandise inventories		✓
Full-time Bookstore Area Director on site in Blacksburg, VA		✓

VTSI Performance Expectations

	NET PROFIT PRIOR [1]	NET PROFIT FUTURE [2]
Retail Operations	*$(660,000)*	*$1.35M*
Outsourced Service Contracts	*$1.12M*	*$1.16M*
Consolidated Operations	*$460,000*	*$2.51M*

(1) Reflects three-year historical average for years FY16 through FY18.
(2) Reflects 10 year average of projected net profits for the sum of the ten year contract.

The Future - Total Net Profit Projections