

## Committee Minutes

### FINANCE AND RESOURCE MANAGEMENT COMMITTEE

Solitude Room, The Inn at Virginia Tech

March 25, 2018

#### Open Session

**Board Members Present:** Ms. Greta Harris, Mr. C. T. Hill, Ms. Anna James, Mr. Mehmood Kazmi, Ms. Tish Long, Mr. Robert Mills, Mr. Brett Netto – graduate student representative, Mr. Seyi Olusina – undergraduate student representative, Ms. Debbie Petrine, Mr. Mike Quillen, Dr. Hans Robinson – faculty representative, Mr. Dennis Treacy, Mr. Horacio Valeiras

**VPI & SU Staff:** Mr. Tommy Amal, Ms. Beth Armstrong, Ms. Nikeshia Arthur, Mr. Whit Babcock, Mr. Omar Banks, Ms. Patty Becksted, Dr. Rosemary Blieszner, Mr. Bob Broyden, Ms. Lori Buchanan, Dr. Cyril Clarke, Ms. Michelle Collins, Ms. Shelia Collins, Mr. Al Cooper, Mr. John Cusimano, Mr. Brian Daniels, Dr. Karen DePauw, Dr. John Dooley, Dr. Michael Friedlander, Dr. David Guerin, Ms. Kay Heidbreder, Ms. Mary Helmick, Mr. Tim Hodge, Ms. Elizabeth Hooper, Ms. Sharon Kurek, Dr. Theresa Mayer, Ms. Erin McCann, Ms. Heidi McCoy, Ms. Nancy Meacham, Dr. Scott Midkiff, Mr. Ken Miller, Dr. Sally Morton, Ms. April Myers, Ms. Kim O'Rourke, Mr. Mark Owczarski, Dr. Patty Perillo, Mr. Charlie Phlegar, Dr. Ellen Plummer, Dr. Menah Pratt-Clarke, Dr. Tim Sands, Ms. Savita Sharma, Mr. M. Dwight Shelton Jr., Ms. Kayla Smith, Dr. Ken Smith, Mr. Brad Sumpter, Mr. Jon Clark Teglas, Ms. Tracy Vosburgh, Dr. Lisa Wilkes, Dr. Sherwood Wilson, Mr. Chris Yianilos

#### 1. **Opening Remarks**

2. **Consent Agenda:** The Committee considered for approval and acceptance the items listed on the Consent Agenda.

a. Approval of Minutes of the November 6, 2017 Meeting

\* b. Resolution on Staff Career Achievement Award: Resolution to delegate authority to manage the Staff Career Achievement Award nomination and selection process to the Vice President for Human Resources with no changes to the nomination criteria.

c. Update on Advancement: Advancement provided a quarterly update to the Committee on their division and fundraising efforts.

The Committee approved the items on the Consent Agenda and recommended the Resolution on Staff Career Achievement Award to the full Board for approval.

3. **Report on 2018 Legislative Session:** The Committee received a report on the current status of the 2018 legislative session at the Information Session. The report presented the major elements of the Executive Budget and key items impacting the university in both the House and Senate budget proposals. The General Assembly session adjourned on March 10, 2018 without agreement between the House and Senate on the biennial budget. Governor Northam has called for an April 11<sup>th</sup> Special Session for the General Assembly to complete the work on the state budget. The agenda item provided an opportunity for the university to address any further question from the Committee members regarding the legislative session.
4. **University's Annual Financial Statements:** The Committee received an overview of the university's annual financial statements for the fiscal year ending June 30, 2017. The financial statements were prepared in accordance with generally accepted accounting principles, and the Auditor of Public Accounts issued an unmodified (or clean) opinion.

At June 30, 2017, the university had total net position of \$1.4 billion, an increase of \$64 million or 4.8 percent since fiscal year 2016. Total unrestricted net assets increased by \$11.8 million or 33.4 percent to negative \$23.5 million. The negative balance in the unrestricted net assets is due to the implementation of GASB 68 Accounting and Financial Reporting for Pensions in fiscal year 2015. GASB 68 required state and local government employers that participate in a state's defined benefit retirement plan to recognize their allocable portion of the state's net pension liability. In prior years, the net pension liability was reported in total for all state agencies on the Commonwealth's Comprehensive Annual Financial Report.

Total revenues for fiscal year 2017 were \$1.43 billion, a decrease of \$8.3 million or 0.6 percent over fiscal year 2016. This was due to the net impact of increases in operating revenues from student tuition and fees and growth in auxiliary enterprises, which were offset by decreases in capital grants and gifts and capital appropriations received last fiscal year. Total operating expenses for fiscal year 2017 were \$1.37 billion, an increase of \$49.3 million or 3.7 percent. The increase was primarily due to increase in salaries, wages, and fringe benefits related to salary merit programs for faculty and staff.

5. **Intercollegiate Athletics Program Report for Year Ended June 30, 2017:** The Committee received a report on the Auditor of Public Accounts (APA) Intercollegiate Athletics Program review for fiscal year 2017. The APA performed certain agreed-

upon procedures to evaluate whether the Schedule of Revenues and Expenses of the Intercollegiate Athletics Program for fiscal year ended June 30, 2017, is in compliance with the National Collegiate Athletic Association (NCAA) bylaws. During the review, no matters were brought to the APA's attention that required an adjustment to the amounts on the Schedule of Revenues and Expenses. This review does not constitute an audit and therefore no opinion is issued.

- \* 6. **Resolution for Approval of Tuition and Fee Rates for 2018-19:** The Committee reviewed for approval the proposed tuition and fee rates for 2018-19. For 2018-19, the university proposed a \$332 or 2.9 percent increase in tuition and fees for in-state undergraduate students for total tuition and fees of \$11,595 and an \$836 or 2.9 percent increase in tuition and fees for out-of-state undergraduate students for total tuition and fees of \$29,883. An average 2.8 percent increase in room and board is recommended.

For on-campus graduate programs, a \$380 or 2.9 percent increase is recommended for in-state students for total tuition and fees of \$13,485, while the university recommended a \$761 or 2.8 percent increase for out-of-state students for total tuition and fees of \$27,604. For off-campus graduate programs, a \$420 or 2.9 percent increase is recommended for a total of \$14,909 for in-state students and \$814 or 2.8 percent increase for a total of \$29,494 is recommended for out-of-state students.

In Veterinary Medicine, a \$575 or 2.4 percent increase is recommended for Virginia/Maryland students for total tuition and fees of \$24,772 and a \$1,309 or 2.5 percent increase for a total of \$53,305 is recommended for out-of-state students.

In February 2018, the independent Board of Directors of the Virginia Tech Carilion School of Medicine (VTCSOM) voted to retain their 2017-18 tuition and fee rate of \$52,745 for the 2018-19 academic year. The university concurs with that decision and asked the Board of Visitors to ratify the VTCSOM tuition rates for the 2018-19 academic year as part of the integration.

The Committee recommended the resolution for Tuition and Fees for 2018-19, effective Fall Semester 2018 including ratification of the 2018-19 Tuition and Fee rates for the Virginia Tech Carilion School of Medicine to the full board for approval. This approval is based on the assumption that the final outcome of the General Assembly will materially align with the university's planning assumptions for revenues and expenses; therefore, the Board reserves the right to reconsider the 2018-19 tuition and fee rates based on the budget decisions of the Special Session of the General Assembly.

- \* 7. **Approval of Year-to-Date Financial Performance Report (July 1, 2017 – December 31, 2017):** The Committee reviewed for approval the Year-to-Date Financial Performance Report for July 1, 2017 – December 31, 2017. For the second quarter, routine budget adjustments were made to reflect revisions to projected revenues and expenditures.

The annual Intercollegiate Athletics budget was increased by \$2.1 million for additional revenue of \$1 million for participation in the Camping World Bowl, additional self-generated revenue, and private fundraising. Residential and Dining revenues were higher than projected primarily due to higher than budgeted occupancy rates and meal plan sales due to the larger freshmen class.

For year-to-date ending December 31, 2017, \$15.6 million was expended for Educational and General capital projects, and \$34.8 million was expended for Auxiliary Enterprises capital projects. Capital outlay expenditures for year-to-date ending December 31, 2017 totaled \$50.4 million.

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

- \* 8. **Approval of 2018-19 Compensation for Graduate Assistants:** The Committee reviewed for approval the proposed 2018-19 schedule of stipends and support for the health insurance program for graduate students. The key components of the graduate student compensation package include competitive stipends, tuition assistance, and health insurance. The university proposes advancing the stipend scale for 2018-19 by providing a 2.0 percent increase, effective November 25, 2018, and continue the university share of graduate assistant health insurance coverage of 88 percent.

The Committee recommended the 2018-19 Compensation for Graduate Assistants to the full Board for approval.

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

There being no further business, the meeting adjourned at 5:37 p.m.

**Joint Closed Session with Academic, Research and Student Affairs**  
**March 26, 2018**

The Finance and Resource Management Committee and the Academic, Research, and Student Affairs Committee met in a joint closed session to ratify the Faculty Personnel Changes Report for the quarter ending December 31, 2017, and to consider:

- 15 appointments to Emeritus/Emerita status
- 14 appointments to Endowed Chair, Professorship, or Fellowship
- 75 faculty research leave requests
- Approval of one academic honor

The Committees recommended these matters to the full Board for approval.

**Joint Open Session with the Buildings and Grounds Committee**  
**March 26, 2018**

**Board Members Present:** Ms. Greta Harris, Ms. Anna James, Mr. C. T. Hill, Mr. Robert Mills, Mr. Mike Quillen, Mr. Robert Sebek – staff representative, Mr. Horacio Valeiras

**VPI & SU Staff:** Ms. Jennifer Altman, Mr. Mac Babb, Mr. Whit Babcock, Mr. Bob Broyden, Mr. Nick Clements, Mr. John Cusimano, Mr. Brian Daniels, Dr. John Dooley, Dr. Lance Franklin, Mr. Tom Gabbard, Mr. Mark Gess, Dr. Robin Jones, Dr. Chris Kiwus, Mr. Bob Massengale, Ms. Robin McCoy, Ms. Sarah McCoy, Ms. Nancy Meacham, Mr. Grant Morris, Mr. Mark Owczarski, Mr. Charlie Phlegar, Dr. Scot Ransbottom, Dr. Tim Sands, Ms. Savita Sharma, Mr. M. Dwight Shelton Jr., Dr. Frank Shushok, Jr., Ms. Kayla Smith, Mr. Jason Soileau, Mr. Dwyn Taylor, Mr. Jack Washington, Dr. Sherwood Wilson

- \* 1. **Approval of Resolution for Student-Athlete Performance Center:** The university's Six-Year Capital Outlay Plan approved by the Board of Visitors included a project for an Athlete Nutrition Center, currently known as the Student-Athlete Performance Center.

The desired program will enhance the student experience of athletes in all 22 intercollegiate sports; approximately 580 students, and can be accommodated with a complete renovation of the fourth floor of the Jamerson Center with the addition of a balcony. The renovation and expansion will provide state-of-the-art spaces for dining, nutrition, recruiting, donor hospitality, and allow for a seamless transition to the Cassell Coliseum concourse. The project schedule anticipates major construction to start in Summer 2019 with occupancy by early 2021.

The Athletics program has received \$16.165 million in private gifts for the designated capital improvements and to create an endowment for the upkeep and maintenance of the Student-Athlete Performance Center. This resolution seeks approval to proceed with planning, constructing, and equipping activities to implement the program at a total project cost not to exceed \$15.165 million. The Athletics program is continuing its efforts to raise additional private funds to enhance the space. This resolution includes authorization to adjust the total project budget up by 10 percent and not more than new private gifts designated to the project beyond the existing \$15.165 million.

The Committees recommended the Resolution for the Student-Athlete Performance Center to the full Board for approval.

- \* 2. **Approval of Resolution for ACC Network Studio:** The university's Six-Year Capital Outlay Plan approved by the Board of Visitors included a project for an ACC Broadcast Studio expansion. As a member of the Atlantic Coast Conference, Virginia Tech will participate in the new ACC Network channel to be launched in 2019. Improved and expanded broadcasting facilities are needed to meet required telecasts of athletic events on the new channel.

The scope of work to establish the necessary broadcasting facilities include interior renovations to an existing control room, constructing two new control rooms, two new studios, and installing other infrastructure and equipment.

To meet the schedule expectations of the ACC network for a Fall 2019 launch, the Athletics program desires to start the renovations in Spring 2018, complete the project by early Spring 2019, and operate the studios for several months prior to network broadcasting. The estimated project cost inclusive of design, construction, infrastructure improvements, and equipment is \$10 million. This request is for authorization to proceed with the design, construction, and infrastructure improvements for a \$10 million ACC Network Studio project.

The Committees recommended the Resolution for the ACC Network Studio to the full Board for approval.

- \* 3. **Approval of Resolution for Commonwealth Ballroom Improvements:** The Commonwealth Ballroom, located on the second floor of the Squires Student Center, is the largest ballroom on campus and was originally built in 1937 with renovations and additions occurring in 1969 and 1991. It hosts approximately 160 events each year including major activities such as orientation, career fairs, Gobbler Nights, and Ring Dance. The ballroom has reached an age and condition with deferred

maintenance that requires repairs and improvements to meet the university's expectations for event hosting.

The proposed scope of work for the Commonwealth Ballroom project includes replacing outdated and nonfunctioning lighting systems, stage systems, ceiling tiles, and air handlers and installation of a Skyfold dividing wall. Construction is anticipated to start in Fall 2018 and be complete in Spring 2019 in time for commencement.

The total project costs for Improvements is \$3.246 million. This request seeks authorization to complete the Squires Commonwealth Ballroom Improvements project.

The Committees recommended the Resolution for Commonwealth Ballroom Improvements to the full Board for approval.

There being no further business, the meeting adjourned at 11:50 a.m.

**\* Requires full Board approval.**

## **University Advancement Update**

### **FINANCE AND RESOURCE MANAGEMENT COMMITTEE**

February 9, 2018

The Advancement program continues to pursue new levels of excellence on many fronts. Our efforts within the fiscal year to date have resulted in extraordinary fundraising success, revised engagement strategies and programming throughout alumni relations, and enhanced communications university-wide and throughout the division. This report summarizes the fundraising results for the second quarter of fiscal year 2018 (through January 2018) and provides an overview of projects that highlight the realized synergies of the Advancement model.

#### **FUNDRAISING UPDATE**

- New Gifts and Commitments (NG&C) for the first portion of fiscal year 2018 (through January 2018) is just over \$80 million. This total includes receipt of an anonymous gift that is both the largest outright gift to the university and the largest ever contribution in support of athletics.
- The private gift income (Cash) total is nearly \$91 million for the first seven months of fiscal year 2018.

These positive results and upward momentum have us on track to reach our established, annual fundraising goals for the fiscal year.

#### **ALUMNI REUNION PROGRAMMING**

The Alumni Association has aggressively launched and promoted the new all-alumni Spring reunion program, scheduled for June 7 - 10, 2018. This new format will bring together thousands of Hokies from several reunion classes for an exciting weekend of activities including behind-the-scenes tours, exciting speakers, interactions with athletic coaches and world-renowned researchers, great food, and entertainment. The events will cater to young alumni, members of the Old Guard-Society of Golden Alumni, and anyone in between. This event is gearing up to be one of Virginia Tech's largest endeavors for alumni engagement for the year.

For more information, visit: <https://www.alumni.vt.edu/events/2018/06/reunion2018.html>.

#### **UNIVERSITY RELATIONS UPDATE**

The University Relations team continues to create and support exposure for the various moments that define Virginia Tech, such as President Sands' State of the University Address, the Virginia Tech Carilion Biomedical Research Expansion groundbreaking in Roanoke, and the recent ribbon cutting of the new route 460 overpass. These efforts create awareness of the institution's imprint throughout the region, the nation, and the world. We are telling our story across our many media platforms.

*Presentation Date: March 25, 2018*



## **ADVANCEMENT MODEL IMPACT**

The crosscutting integration of the advancement model is more evident than ever across our development operation, university relations, and alumni relations areas. As a division, we launched our crowdfunding site, Jump, and the coordinated implementation of Spring Forward, our first giving day to be held on March 20, 2018, is well underway. Our Fall Annual Giving campaign, Hokies Give Back, had multiple units collaborating on a highly segmented, multichannel, multi-touch campaign that has raised \$600,000 and counting.

## **VIRGINIA TECH FOUNDATION REINVESTMENT FEE UPDATE**

Reinvestment Fee is an assessment on gifts and contributions to support the costs of fundraising and related operations of the university and the Foundation. The Virginia Tech Foundation (VTF) created an internal task force last year to review existing practices related to the reinvestment fee. The task force was charged to explore the philosophy surrounding the current implementation of the reinvestment fee, review benchmarking data of peer institutions administering similar programs, and to consider options to adjust the fee structure to meet strategic goals. The task force recommended a modification of the reinvestment fee structure as described below, and the recommendation was adopted.

### **Current Reinvestment Fee:**

Since December 2002, all gifts to the Virginia Tech Foundation were charged a 7 percent reinvestment fee to provide unrestricted revenue to help support fundraising costs.

### **Rationale for Revisiting the Reinvestment Fee**

After nearly 15 years, it was important to revisit the fee to ensure that it aligned with key goals:

- Encourage principal gifts
- Support growing alumni participation
- Support endowment growth
- Maintain inflation-adjusted endowment value
- Support future growth of VTF budget

### **Changes Effective July 1, 2018**

- Apply the fee consistently across all areas of the university
- Gifts to current operations and realized bequests: 5 percent Reinvestment Fee
- Endowed gifts and capital gifts: 0% Reinvestment Fee
- The payout on all new endowments on or after July 1, 2018, will be held for 4 quarters, or 12 months, and repurposed as VTF unrestricted revenue to support fundraising costs.
- The endowment administration fee will remain at 0.95 percent with the option to increase it to 1.00 percent, if deemed necessary to support costs.

*Presentation Date: March 25, 2018*

- The revenue generation model will be re-examined on a regular basis.

### **Anticipated Outcomes**

- Encourage endowed gifts
- Maintain principal of endowed gifts
- Reduce amount of debt required for capital projects
- Increase gift revenue for strategic university needs
- Maintain fee structure to be competitive with peer higher education institutions

**2018-20 Appropriation Request  
Review of Executive Budget Amendments and 2018 General Assembly Session**

**FINANCE AND RESOURCE MANAGEMENT COMMITTEE**

**March 12, 2018**

**Overview of the Appropriations Process**

***2018-20 Biennial Budget***

On September 27, 2017, the university submitted budget requests, based on its approved Six-Year plan, to the Department of Planning and Budget. The requests were considered by the Executive Branch and used to inform the development of the Governor's proposed 2018-20 Executive Budget amendments. Governor McAuliffe presented the Executive Budget amendments on Monday, December 18, 2017. The General Assembly session opened on January 10, 2018 and adjourned on March 10, 2018 without agreement between the House and Senate on the biennial budget. The Governor will now call the legislature back into Special Session to continue work on the state budget.

Traditionally, each chamber of the General Assembly will review the Executive Budget proposal, introduce amendments as necessary, and pass an amended biennial budget proposal to be reviewed by the opposite chamber. As the two chambers' budgets often differ from each other, the budget proposals are taken up by a Conference Committee. The Committee, which is composed of members of each chamber, then produces a compromise budget for final approval in both the House and Senate. Once approved, the Governor has 30 days to review the General Assembly's budget and propose any vetoes for consideration at the reconvened session in April. After final General Assembly approval, the budget becomes a chapter within the current year's Acts of Assembly, and is thereafter referred to as the Appropriation Act.

This report presents the major elements of the Executive Budget proposal and General Assembly actions for the upcoming biennium.

***Decision Package Summary***

In September 2017, the Office of the Governor instructed agencies to work with their respective Cabinet Secretary to limit submissions of decision packages (budget requests) to those that supported the Governor's policies, primarily advancing the long-term health of the commonwealth's economy.

The university shared the institution's budget priorities with the Office of the Secretary of Education and submitted targeted budget requests to the Department of Planning and Budget in October. The university's budget requests included the following items for 2018-20:

<u>University Division</u>	<b>\$s in Millions</b>	
	<b>FY19</b>	<b>FY20</b>
1) Advance Faculty Salary Competitiveness to the 60 <sup>th</sup> Percentile	\$3.1	\$8.9
2) Increase Access for Virginia Undergraduates and STEM-H	2.5	4.9
3) Advance Strategic Research Opportunities	5.0	10.0
4) Establish Learning Systems Innovations & Effectiveness	0.2	0.4
5) Expand K-12 Pathways	0.4	0.4
6) Develop Destination Areas	1.4	3.9
7) Support Unique Military Activities	0.3	0.3
<i>Subtotal</i>	<i>12.9</i>	<i>28.8</i>
<u>CE/AES Division</u>		
1) Advance Faculty Salary Competitiveness	0.8	2.3
2) Advance Agricultural and Natural Resources Initiative with Public-Private Partnerships	2.5	5.0
<i>Subtotal</i>	<i>3.3</i>	<i>7.3</i>
<b>Total Request</b>	<b>\$16.2</b>	<b>\$36.1</b>

A summary of actions included in the Executive Budget that impact Virginia Tech and the higher education operating environment is found in Attachment 1 under the “Executive Budget” column.

### **2018 General Assembly Session**

The General Assembly session opened on January 10, 2018. The 2018-20 Executive Budget is one of the major legislative proposals being considered by the General Assembly. House and Senate members submitted amendments to the proposed Executive Budget Bill by January 12, 2018 for consideration by the respective body’s financial committee. Through that process, the university submitted targeted requests for additional funding in support of:

<u>University Division (\$ in millions)</u>	<b>\$s in Millions</b>	
	<b>FY19</b>	<b>FY20</b>
1) Increase Access for Virginia Undergraduates and STEM-H	\$2.5	\$4.9
2) Advance Health & Life Sciences Research Impact	2.5	5.0
3) Advance Research in Cybersecurity	0.75	1.5
4) Advance Research in Data Analytics & Data Sciences	0.75	1.5
5) Advance Research in Autonomous Systems Research	1.0	2.0
6) Support Unique Military Activities	0.3	0.3
<i>Subtotal</i>	<i>7.8</i>	<i>15.2</i>

**CE/AES Division**

1) Enhance Virginia’s Agriculture & Natural Resources Industry	2.5	5.0
<b>Total Request</b>	<b>\$10.3</b>	<b>\$20.2</b>

**Capital Requests**

1 Virginia Tech Carilion Biosciences Addition - Equipment	\$6.1
2 Planning Data Analytics and Decision Sciences Building	4.5
3 Planning Randolph Hall Replacement	11.0
<b>Total Capital Request</b>	<b>\$21.6</b>

**General Assembly**

The House Appropriations and Senate Finance Committees published their proposed changes to the 2018-20 Executive Budget amendments on February 18, 2018. Because the Conference Committee was unable to reach a compromise on the biennial budget prior to the scheduled adjournment of the General Assembly, the major items impacting the university in both the House and Senate budget proposals are summarized in Attachment 2.

**Legislation with Potential Impact**

During the 2018 General Assembly session, 3,720 pieces of legislation were considered by lawmakers. The university has followed this legislation, particularly that which may impact the university, and advocated or influenced legislation impacting higher education, when appropriate.

Legislation was proposed on a wide range of higher education-related topics. The following represent a sample of finance-related items that may have an impact on the university, and their final status:

***Legislation that passed:***

- **HB3**: Requires the State Board for Community Colleges and Virginia Community College System coordinate with SCHEV, the Department of Education, and the Virginia Association of School Superintendents to develop and implement (i) a plan to achieve and maintain the same standards in dual enrollment courses regarding quality, consistency, and level of evaluation and review as courses offered by associate-degree-granting public institution of higher education; ii) a uniform certificate of general studies program or passport program credit course credit; and iii) a course credit meeting other academic requirements of a public institution of higher education.
- **SB568**: Requires institutions to provide estimated loan repayment amounts to every student at least once during each academic year.

### ***Legislation that did not pass:***

- HB643: Proposed that first responders receive a tuition reduction of 5 percent regardless of the domicile of the individual.
- HB658: Proposed that no student, outside of those participating in a Reserve Officers' Training Corps program, shall be required to live in a campus housing facility.
- HB982: Proposed to eliminate the targeted financial incentives to public institutions of higher education and rebased all General Fund appropriations to public institutions of higher education based on a new set of metrics.
- HJ80: Directed the Joint Legislative Audit and Review Commission to perform compliance reviews of the management agreements between the Commonwealth and the College of William & Mary, UVA, VCU, and Virginia Tech.
- SB570: Proposed that any member of the Virginia National Guard, regardless of active status or domicile, be eligible for in-state tuition.
- SB824: Requires that institutions provide students and the public an opportunity for public comment during a board of visitors meeting at least 30 days prior to any vote on an increase in undergraduate tuition or mandatory fees.
- Tuition Cap Legislation; Multiple bills were introduced that would have limited institutional authority to set tuition rates. This legislation will be studied by the Joint Subcommittee on the Future Competitiveness of Virginia Higher Education prior to the 2019 session.
  - Implementation of a four-year "class cap" on tuition increases for each incoming cohort, and
  - Capping tuition increases at various external indices including the Consumer Price Index (CPI), the National Average Wage Index (NAWI), the state's median income increase, or the percentage of any state required compensation program.
  - Capping increases for room and board at the CPI.

### **Future Actions**

The Governor will now call the legislature into a Special Session to continue work on the budget.

PROPOSED APPROPRIATIONS FROM THE EXECUTIVE BUDGET AND EACH HOUSE OF THE GENERAL ASSEMBLY

as of February 20, 2018

\$s in Thousands

**Operating Budget**

**General Fund**

**University Division E&G**

Degrees in Data Science & Technology, Science & Engineering, Healthcare, & Education

2% Faculty & Staff Raise, Effective December 1, 2019 (Executive)

2% Faculty & Staff Raise, Effective June 10, 2019 (House)

2% Contingent Faculty & Staff Raise, Effective June 10, 2019 (Senate)

1% Staff Employee Merit Increase, Effective June 10, 2019 (House)

Up to 2% Contingent Staff Bonus (House)

Restoration of Interest Earnings and Credit Card Rebate

**Subtotal of Proposed New Funding for 2018-20**

Technical Adjustments to True-Up State Budget for July 1, 2018

(Not new funding. Reflects state actions funded in 17-18 for compensation and benefit changes)

**Subtotal University Division Operating**

**Student Financial Aid**

Virginia Undergraduate Financial Aid

**Unique Military Activities**

**Higher Education Research Initiative**

CyberX - Leasing and Establishment of Hub facility

CyberX - Research Faculty, Entrepreneurship Programs, Internships, & Operations of Hub

CyberX - Virginia Research Investment Fund to Scale Initiative at Hub and Spoke Sites

CyberX - Renovations & Equipment at Hub and Spoke Sites (Capital)

**Subtotal Higher Education Research Initiative (CyberX)**

**Higher Education Equipment Trust Fund**

Traditional Allocation

Research Allocation

**Subtotal Equipment Trust Fund**

**SUBTOTAL - UNIVERSITY DIVISION**

**Cooperative Extension/AES Division (CE/AES)**

Soil Scientist Assistance Program

Operation & Maintenance of New Facilities

2% Faculty & Staff Raise, Effective December 1, 2019 (Executive)

2% Faculty & Staff Raise, Effective June 10, 2019 (House)

2% Contingent Faculty & Staff Raise, Effective June 10, 2019 (Senate)

1% Staff Employee Merit Increase, Effective June 10, 2019 (House)

Up to 2% Contingent Staff Bonus (House)

**Subtotal of Proposed New Funding for 2018-20**

Technical Adjustments to True-Up State Budget for July 1, 2018

(Not new funding. Reflects state actions funded in 17-18 for compensation and benefit changes)

**SUBTOTAL - CE/AES DIVISION**

**TOTAL OPERATING BUDGET - STATE SUPPORT**

	Executive Budget		House Budget		Senate Budget	
	2018-19	2019-20	2018-19	2019-20	2018-19	2019-20
Degrees in Data Science & Technology, Science & Engineering, Healthcare, & Education	-	-	\$ 2,608	\$ 5,216	-	-
2% Faculty & Staff Raise, Effective December 1, 2019 (Executive)	-	\$ 2,056	-	-	-	-
2% Faculty & Staff Raise, Effective June 10, 2019 (House)	-	-	-	3,625	-	-
2% Contingent Faculty & Staff Raise, Effective June 10, 2019 (Senate)	-	-	-	-	-	\$ 3,625
1% Staff Employee Merit Increase, Effective June 10, 2019 (House)	-	-	-	388	-	-
Up to 2% Contingent Staff Bonus (House)	-	-	673	-	-	-
Restoration of Interest Earnings and Credit Card Rebate	\$ 700	700	700	700	\$ 700	700
<b>Subtotal of Proposed New Funding for 2018-20</b>	<b>700</b>	<b>2,756</b>	<b>3,981</b>	<b>9,929</b>	<b>700</b>	<b>4,325</b>
Technical Adjustments to True-Up State Budget for July 1, 2018 (Not new funding. Reflects state actions funded in 17-18 for compensation and benefit changes)	6,748	6,748	6,748	6,748	6,748	6,748
<b>Subtotal University Division Operating</b>	<b>7,448</b>	<b>9,504</b>	<b>10,729</b>	<b>16,677</b>	<b>7,448</b>	<b>11,073</b>
Virginia Undergraduate Financial Aid	474	1,572	474	1,572	237	786
Unique Military Activities	-	-	300	300	-	-
CyberX - Leasing and Establishment of Hub facility	-	-	-	10,000	-	-
CyberX - Research Faculty, Entrepreneurship Programs, Internships, & Operations of Hub	-	-	-	15,000	-	-
CyberX - Virginia Research Investment Fund to Scale Initiative at Hub and Spoke Sites	-	-	-	15,000	-	-
CyberX - Renovations & Equipment at Hub and Spoke Sites (Capital)	-	-	3,000	7,000	-	-
<b>Subtotal Higher Education Research Initiative (CyberX)</b>	<b>-</b>	<b>-</b>	<b>3,000</b>	<b>47,000</b>	<b>-</b>	<b>-</b>
Traditional Allocation	10,332	10,332	10,332	10,332	10,332	10,332
Research Allocation	5,240	5,240	5,240	5,240	5,240	5,240
<b>Subtotal Equipment Trust Fund</b>	<b>15,572</b>	<b>15,572</b>	<b>15,572</b>	<b>15,572</b>	<b>15,572</b>	<b>15,572</b>
<b>SUBTOTAL - UNIVERSITY DIVISION</b>	<b>23,494</b>	<b>26,648</b>	<b>30,075</b>	<b>81,121</b>	<b>23,257</b>	<b>27,431</b>
Soil Scientist Assistance Program	-	-	200	200	-	-
Operation & Maintenance of New Facilities	-	-	500	500	-	-
2% Faculty & Staff Raise, Effective December 1, 2019 (Executive)	-	666	-	-	-	-
2% Faculty & Staff Raise, Effective June 10, 2019 (House)	-	-	-	1,142	-	-
2% Contingent Faculty & Staff Raise, Effective June 10, 2019 (Senate)	-	-	-	-	-	1,142
1% Staff Employee Merit Increase, Effective June 10, 2019 (House)	-	-	-	162	-	-
Up to 2% Contingent Staff Bonus (House)	-	-	281	-	-	-
<b>Subtotal of Proposed New Funding for 2018-20</b>	<b>-</b>	<b>666</b>	<b>981</b>	<b>2,003</b>	<b>-</b>	<b>1,142</b>
Technical Adjustments to True-Up State Budget for July 1, 2018 (Not new funding. Reflects state actions funded in 17-18 for compensation and benefit changes)	2,123	2,123	2,123	2,123	2,123	2,123
<b>SUBTOTAL - CE/AES DIVISION</b>	<b>2,123</b>	<b>2,789</b>	<b>3,104</b>	<b>4,126</b>	<b>2,123</b>	<b>3,265</b>
<b>TOTAL OPERATING BUDGET - STATE SUPPORT</b>	<b>\$ 25,617</b>	<b>\$ 29,437</b>	<b>\$ 33,179</b>	<b>\$ 85,247</b>	<b>\$ 25,380</b>	<b>\$ 30,695</b>

**PROPOSED APPROPRIATIONS FROM THE EXECUTIVE BUDGET AND EACH HOUSE OF THE GENERAL ASSEMBLY**

as of February 20, 2018

*\$ in thousands*

	<b>Executive Budget</b>	<b>House Budget</b>	<b>Senate Budget</b>
	State Support	State Support	State Support
<b><u>Capital Budget</u></b>			
<b>Maintenance Reserve FY2019</b>	\$ 13,574	\$ 13,574	\$ 13,574
<b>Maintenance Reserve FY2020</b>	13,574	13,574	13,574
<b>University Division</b>			
<b><i>Equipment</i></b>			
VTCRI Biosciences Addition	-	6,100	6,100
<b>Virginia Cooperative Extension/AES Division (VCE/VAES)</b>			
<b><i>Construction</i></b>			
Hampton Roads Agricultural Research and Extension Center (AREC)	-	Full Project	-



**2018 GENERAL ASSEMBLY BUDGET PROPOSALS  
As of Tuesday, February 20, 2018**

The Executive column reflects incremental adjustments to the 2018-20 biennial budget proposed by the Governor.  
House and Senate columns reflect incremental changes proposed by each body to the Executive Budget at the end of the Regular Session.

**UNIVERSITY OPERATING BUDGET**

	<b>Executive</b>	<b>House</b>	<b>Senate</b>
<b>Commonwealth Cyber Initiative - CyberX</b>	N/A	Provides \$50 million over the biennium to create a Commonwealth Cyber Initiative, with Virginia Tech serving as the anchoring institution. Support includes operating and capital funding for the Hub and Spoke institutions/partners.	No change to the Executive Budget.
<b>Enrollment Growth Support</b>	N/A	Proposes funding across the system to grow degrees in four key areas (Data Science & Technology, Science & Engineering, Healthcare, and Education).  \$2.6 million GF in the first year and \$5.2 million GF in the second year is proposed for Virginia Tech to achieve the following degree growth goals (16-17 is baseline): <ul style="list-style-type: none"> <li><u>Data Science &amp; Technology</u>: 30 more awards in the first year and 60 more awards in the second year.</li> <li><u>Science and Engineering</u>: 50 more awards in the first year and 100 more awards in the second year.</li> </ul>	No change to the Executive Budget.
<b>Unique Military Activities</b>	N/A	Additional \$300k GF is proposed in each year of the biennium.	No change to the Executive Budget.
<b>Undergraduate Student Financial Aid</b>	Proposes increased undergraduate student financial aid of \$474,238 (GF) in the first year and \$1,571,790 (GF) in the second year.	No change to amounts in Executive Budget. Language proposed to allow up to 15% of GF received for the Virginia Guaranteed Assistance Program be directed towards students enrolled in Data Science & Technology, Science & Engineering, Healthcare, and Education programs.	Reduces the Executive Budget's proposed increases to Student Financial Aid by 50 percent.

	<b>Executive</b>	<b>House</b>	<b>Senate</b>
<b>E&amp;G Interest Earnings and Credit Card Rebate</b>	Restores financial incentives related to Higher Education Restructuring that had been eliminated; Results in approximately \$700,000 in each year of the biennium.	No change to Executive Budget.	No change to the Executive Budget.
<b>Agency 229 Operating Budget Support</b>	No change	<ul style="list-style-type: none"> <li>Proposes \$500k GF in each year to support Operation and Maintenance needs of new facilities.</li> <li>Proposes \$200k GF in each year “to restore the Soil Scientist Assistance Program.”</li> </ul>	No change to the Executive Budget.

#### COMPENSATION & BENEFITS

<b>Faculty and Staff Salary Increase</b>	Proposes a two percent salary increase in the second year of the biennium for all state employees, effective December 1, 2019.	<p>Accelerates proposal of 2 percent across-the-board increase to June 10, 2019.</p> <p>An additional 1 percent merit component is proposed for staff employees on June 10, 2019.</p>	<p>Executive proposal is eliminated.</p> <p>Creates a revenue reserve to be used to offset any downward revision to FY19 and FY20 revenues. If this reserve is not needed to offset downward revenue revisions, the resources shall be used to fund a 2% statewide salary increase effective June 10, 2019.</p>
<b>Staff Employee Contingent Bonus</b>	N/A	Contingent upon FY18 revenues exceeding target by at least \$32.8 million, a one-time bonus of up to 2 percent for staff employees is proposed for December 1, 2018.	No change to the Executive Budget.
<b>Health Insurance</b>	Provides support to cover the Employee share of the projected 6% increase in FY19 and 8.5% increase in FY20.	Eliminates proposed support for Employee share of cost increase, instead opting to supplement the compensation program described above.	No change to the Executive Budget.
<b>Optional Retirement Plan</b>	N/A	Language calls on the Virginia Retirement System, the Department of Accounts, and the universities of higher education to work to develop a methodology to identify and report separately personnel services	Language calls on the Virginia Retirement System, the Department of Accounts, and the universities of higher education to work to develop a methodology to identify and report separately personnel services

	<b>Executive</b>	<b>House</b>	<b>Senate</b>
		<p>expenditures for university personnel in positions that use to be classified positions but have been transitioned to university staff positions.</p> <p>Language also proposes surcharge on institutions offering their own optional retirement plan to positions that would have previously been required to participate in the Virginia Retirement System.</p>	<p>expenditures for university personnel in positions that use to be classified positions but have been transitioned to university staff positions.</p>

**STATEWIDE INITIATIVES**

<b>Internship Program</b>	N/A	Language is proposed to allow flexibility in the use of state scholarship funding to support students participating in a private sector partner internship program.	Provides \$200k General Fund per year to support internship program. The state grant shall be matched equally by the partner with non-state funding. Goal of program is to support identified workforce needs, research and research commercialization, regional economic growth, job readiness of students, and reduce educational loan debt.
<b>Higher Education Joint Subcommittee/Restructuring</b>	N/A	House directs Joint Subcommittee on the Future Competitiveness of Higher Education in Virginia to “identify and evaluate policies and processes that facilitate alignment of institutional programs and activities with the strategic economic objectives of the Commonwealth of Virginia and its communities and regions; and (k) identify practices by which institutions can develop public-private partnerships and recruit business organizations and other public-and private-sector partners to assist in accomplishing the foregoing objectives.”	<p>Language directs the Joint Subcommittee on the Future Competitive of Higher Education in Virginia to “identify and evaluate policies and processes that facilitate alignment of institutional programs and activities with the strategic objectives of the Commonwealth of Virginia. “</p> <p>This initiative would encourage institutions to enter into “outcome agreements” with the Commonwealth that support state economic and workforce needs while potentially providing institutions with enhanced autonomy to achieve those goals.</p>
<b>Statewide Higher Education Finance Plan</b>	N/A	N/A	“The staff of the House Appropriations and Senate Finance Committees will work with the State Council of Higher Education for Virginia staff, the Virginia Economic Development Partnership, and higher education stakeholders to develop a

	<b>Executive</b>	<b>House</b>	<b>Senate</b>
			statewide higher education finance plan that incorporates the priorities of the Joint Subcommittee. This plan will be a component of the Joint Subcommittee's final report."
<b>Procurement</b>	N/A	Aligns the small purchase threshold for Level III Institutions with the levels set for other state agencies.	No change to the Executive Budget.
<b>Tuition Increase Public Comment</b>	N/A	Proposes requiring at least 30 days notice to students, any parent who has co-signed a student loan, and the public of 1) the projected range of increase in undergraduate tuition or mandatory fees, 2) an explanation of the need for the increase, and 3) the date and location of the board meeting at which those individuals will be permitted to provide public comment in advance of any vote.	No change to Executive Budget.
<b>Equipment Trust Fund</b>	Proposes continuation of current year funding of \$10,331,639 for traditional equipment and \$5,240,458 for research equipment.	No change to Executive Budget.	No change to Executive Budget.
<b>GO Virginia</b>	Proposes additional General Fund support of \$637,000 to increase program administration.	Proposes to increase support by \$5 million GF in the first year and \$10 million in the second year of the biennium. Language also proposes adjustments to award limits, etc.	Eliminates the new funding proposed in the Executive Budget. Authorizes a like amount of funding to be reallocated from existing resources in the Growth and Opportunity Fund.
<b>Virginia Management Fellows Program</b>	Proposes funding for an additional cohort of this two-year program for the upcoming biennium.	No change to Executive Budget.	Retains Executive Budget funding, yet allows the Secretary of Finance to contract with any university for the continuation of the program. Also requires a report to the HAC and SFC on the efficacy of the program.

	<b>Executive</b>	<b>House</b>	<b>Senate</b>
<b>Mandatory Fee Limit</b>	Proposes lowering the current five percent annual limit on increases of non-E&G mandatory to three percent. (As a Level III institution, VA Tech is exempt from this language)	No change to Executive Budget.	No change to Executive Budget.
<b>Student Loan Ombudsperson</b>	Proposes \$115,333 (GF) in the first year and \$124,000 (GF) in the second year to the State Council for Higher Education in Virginia (SCHEV) for a new student loan ombudsperson to assist borrowers.	No change to Executive Budget.	No change to Executive Budget.

#### **CAPITAL BUDGET**

<b>Capital Projects</b>	No new state support for higher education capital projects.	<ul style="list-style-type: none"> <li>Proposes support for Furniture, Fixtures &amp; Equipment for the VT-Carilion Research Institute Biosciences addition.</li> <li>Proposes replacement of the Virginia Tech <b>Agricultural Experiment Station in Hampton Roads</b> in the FY19 statewide capital funding pool.</li> </ul>	Proposes \$6.1 million for Furniture, Fixtures & Equipment for the VT-Carilion Research Institute Biosciences addition.
<b>Maintenance Reserve</b>	Proposes funding of \$27,148,422 for the biennium, an increase of \$3.9 million per year over the 2017-18 allocation to the university.	No change to Executive Budget.	No change to Executive Budget.

# Review of 2018 Legislative Session

March 25, 2018

**CHRIS YIANILOS**

**EXECUTIVE DIRECTOR OF GOVERNMENT RELATIONS**

**ELIZABETH HOOPER**

**DIRECTOR OF STATE GOVERNMENT RELATIONS**

**DWIGHT SHELTON**

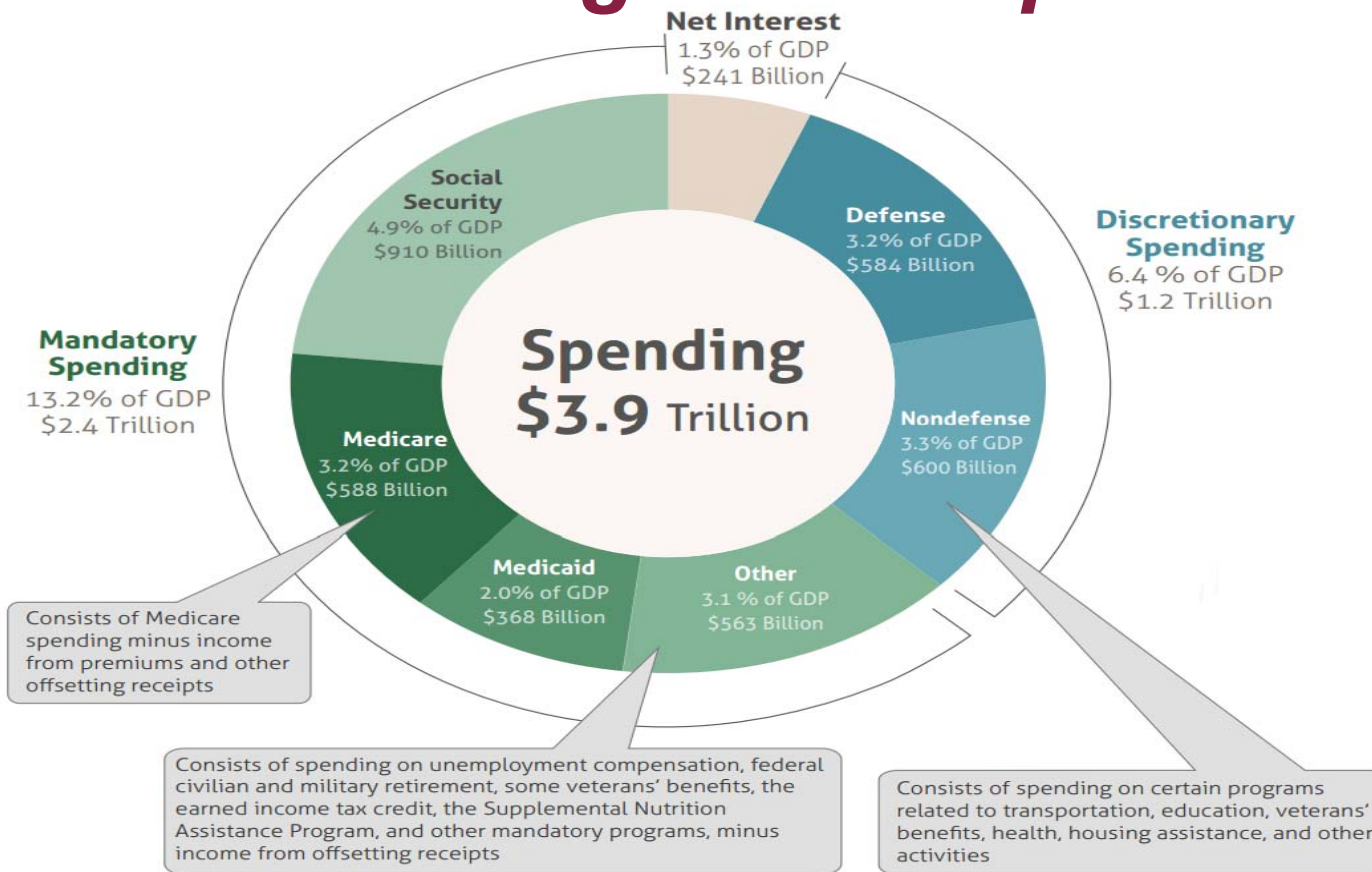
**INTERIM SENIOR VICE PRESIDENT FOR OPERATIONS AND ADMINISTRATION, VICE PRESIDENT FOR FINANCE AND CFO**



# Overview

- Federal Legislative Update
- General Assembly Legislative Update
- 2018-20 State Budget Update
  - Background and Current Events
  - Budget Actions
  - Timeline

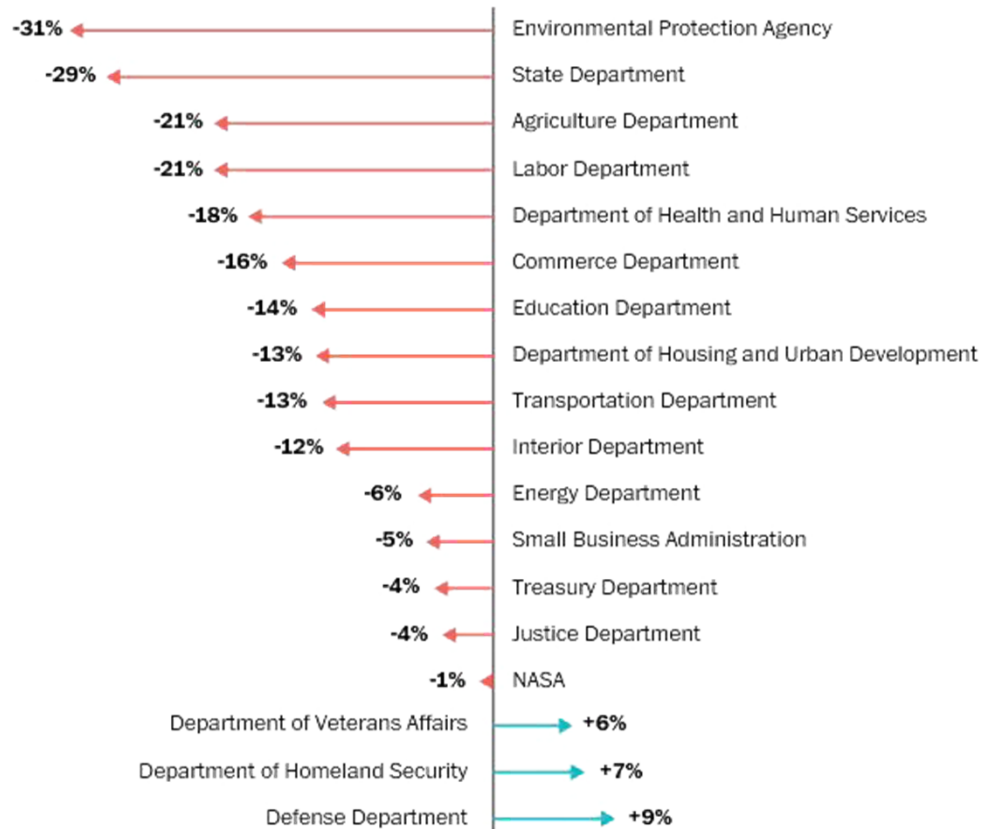
# Federal Legislative Update





# Federal Legislative Update

## Federal Agencies Affected by the Administration's Proposed Budget



# *General Assembly Legislative Update*

## **Legislation that FAILED TO PASS included:**

- Student Housing (HB658) – prohibited requiring students, outside of ROTC, to live on-campus
- Higher Education Funding (HB982) – re-based state funding around a new (yet undefined) set of performance metrics.
- Restructuring Review (HJ80) – called for a JLARC review of Level III management agreements
- Public Comment (HB1473/SB824) – required opportunity for public comment prior to any governing board vote on tuition and fee increases.
- Tuition Cap Legislation – several bills would have limited institutional authority to set tuition rates:
  - Four-year ‘class cap’ on tuition increases for each incoming cohort
  - Capping increases at various indices like the CPI or National Average Wage Index.
  - Required discounts for first responders, in-state tuition for National Guard
  - Legislation impacting pricing will be studied by the Joint Subcommittee on the Future Competitiveness of Higher Education prior to the 2019 session.

# General Assembly Legislative Update

## Legislation that PASSED included:

- Student Directory Information (HB1/SB512) – Places requirements around the release of student directory information.
- Dual Enrollment (HB3) – requires SCHEV and each public institution to establish:
  - Quality standards for dual enrollment courses.
  - Process to certify these courses as universal transfer courses that satisfy requirements at any public institution.
- Campus Free Speech (HB344) – Requires the institution to develop policies and materials related to campus free speech, annually report on such policies, and make the Commonwealth aware of free speech complaints filed in court.
- Open Educational Resources (HB454) – Directs the Board of Visitors to develop guidelines for the adoption and use of low-cost and no-cost Open Educational Resources.
- Substance Abuse Advisory Committee (HB852/SB120) – Creates statewide Advisory Committee to develop strategic plan for substance use education, prevention, and intervention at Virginia's institutions of higher education.
- 911 Regional Authority (HB1500/SB821) –Virginia Tech and three participating localities may develop funding formula based on usage data.
- Cat and Dog Category E Research (SB28) – Prevents the Commonwealth from funding any medically unnecessary category E research using cats or dogs.
- Student Loan Information (SB568) – Requires institutions to provide estimated loan repayment amounts to students each year

# 2018-20 State Budget Update

## September 2017

- Governor provided opportunity for limited agency operating budget requests
- University submitted the 2018-24 Six-year Capital Plan
- University submitted nine requests for consideration in Governor's Executive Budget

## December 2017

Executive Budget Results: *dollars in millions*

	<u>2018-19</u>	<u>2019-20</u>
▪ Restoration of Restructuring-related Financial Benefits <i>(E&amp;G Interest Earnings and Credit Card Purchase Rebate)</i>	\$ 0.7	\$ 0.7
▪ Undergraduate Student Financial Aid Increase	0.5	1.6
▪ Maintenance Reserve funding Increase	3.9	3.9

# 2018-20 State Budget Update

- Environment:
  - The economic climate in the state has steadily improved. There was cautious optimism that the state would outperform revenue estimates.
  - Continued uncertainty due to federal budget and impact of federal tax reform on state revenue.
  - S&P gave Virginia a “negative outlook” due to lack of reserve and structural imbalance
- University Budget Amendments to House and Senate:
  - Enrollment Growth
  - Research – Health/Life Sciences, Cybersecurity, Decision Sciences and Data Analytics, Autonomous Systems
  - Unique Military Activities Support
  - Agriculture & Natural Resources Industry Initiative (Agency 229)
  - VTCRI Biosciences Addition – Equipment and Furnishings
  - Planning for the Data Analytics and Decision Sciences Building
  - Planning for the Randolph Hall Renovation/Replacement

# 2018-20 State Budget Update

## Executive and Money Committees' Budgets

*Incremental General Fund - dollars in millions*

	Executive		House		Senate	
	2018-19	2019-20	2018-19	2019-20	2018-19	2019-20
<b><u>University Division E&amp;G (Agency 208)</u></b>						
Enrollment Growth	\$ -	\$ -	\$ 2.6	\$ 5.2	\$ -	\$ -
Restoration of Interest Earnings/CC Rebate	0.7	0.7	0.7	0.7	0.7	0.7
<i>Subtotal University Division E&amp;G</i>	<i>0.7</i>	<i>0.7</i>	<i>3.3</i>	<i>5.9</i>	<i>0.7</i>	<i>0.7</i>
Undergraduate Student Financial Aid	0.5	1.6	0.5	1.6	0.2	0.8
Unique Military Activities	-	-	0.3	0.3	-	-
Maintenance Reserve Support	3.9	3.9	3.9	3.9	3.9	3.9
<b><i>Total University Division</i></b>	<b>\$ 5.1</b>	<b>\$ 6.2</b>	<b>\$ 8.0</b>	<b>\$ 11.7</b>	<b>\$ 4.8</b>	<b>\$ 5.4</b>

***Totals exclude technical adjustments for current year costs totaling \$6.7 million, which are required to bring the university budget into alignment with the state as of July 1, 2018, and are not new resources. Totals also exclude state funding for proposed compensation and benefit adjustments in the new biennium.***

# 2018-20 State Budget Update

## Executive and Money Committees' Budgets

*Incremental General Fund – dollars in millions*

	Executive		House		Senate	
	2018-19	2019-20	2018-19	2019-20	2018-19	2019-20
<b><u>VCE/VAES Division E&amp;G (Agency 229)</u></b>						
Operation & Maintenance of New Facilities	\$ -	\$ -	\$ 0.5	\$ 0.5	\$ -	\$ -
Soil Scientist Assistance Program	-	-	0.2	0.2	-	-
<b>Total VCE/VAES Division</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 0.7</b>	<b>\$ 0.7</b>	<b>\$ -</b>	<b>\$ -</b>

*Totals exclude technical adjustments for current year costs totaling \$2.1 million, which are required to bring the university budget into alignment with the state as of July 1, 2018, and are not new resources. Totals also exclude state funding for proposed compensation and benefit adjustments in the new biennium.*

# 2018-20 State Budget Update

## Compensation & Benefits Summary

	<b>Executive</b>	<b>House</b>	<b>Senate</b>
<b>Faculty Salaries</b>	2% increase, December 1, 2019	2% increase, June 10, 2019	2% increase, June 10, 2019 <i>Contingent upon FY19 state revenues</i>
<b>Staff Salaries</b>	2% increase, December 1, 2019	3% increase, June 10, 2019  Up to 2% bonus, December 1, 2018, <i>Contingent upon FY18 state revenues</i>	2% increase, June 10, 2019 <i>Contingent upon FY19 state revenues</i>
<b>Health Insurance</b>	Employee share of increase funded by state/university	No change to traditional employee/employer share of increase.	Employee share of increase funded by state/university

**NGF Resource Requirement:**

- *University Division (Agency 208) is expected to share approximately 60% of the cost in E&G programs, and 100% of the cost in Auxiliary and Sponsored Programs.*
- *CE/AES (Agency 229) is expected to share approximately 5% of the cost in E&G programs.*



# 2018-20 State Budget Update

## Capital Projects Funding Summary

*Proposed General Fund Support – dollars in millions*

	<b>Executive</b>	<b>House</b>	<b>Senate</b>
Replace Hampton Roads AREC	-	Funded*	-
VTCRI Biosciences Addition – Equipment and Furnishings	-	\$ 6.1	\$ 6.1

*\*Project included in construction pool in House Budget. Funding amount is not yet known.*

# 2018-20 State Budget Update

## Commonwealth Cyber Initiative (CyberX)

- **House Budget** – provides \$50 million to develop an engine for research, innovation, and commercialization of cybersecurity technologies.
  - Virginia Tech would serve as the anchoring institution, or “Hub”, in Northern Virginia.
  - Institutions throughout the Commonwealth would participate as “Spokes”.
  - Goal to attract investment and grow talent pipeline in cyber workforce.
  - Proximity is crucial for developing knowledge clusters and innovation ecosystems
    - Facilitates collaboration between students, researchers, and firms to translate ideas into new products and services.

# ***New Partnership Proposal and VBHEC\* Outcomes Agreement Proposal***

- **House Budget** – would direct the Joint Subcommittee on the Future Competitiveness of Higher Education in Virginia to identify policies and processes to align institutional programs and activities with strategic economic goals of the Commonwealth.
  - Focus on retaining human capital through internships, work-study, and other experiential learning opportunities
  - Language also directs the Joint Subcommittee to evaluate policies and practices related to affordability
- **Senate Budget** – would direct the Joint Subcommittee to develop individual outcome agreements with Level III institutions on goals, initiatives, and mutual expectations to advance strategic objectives of the Commonwealth.
  - Provides authority to Op-Six group to expedite development of pilot outcome agreements in 2018
  - Implementation of pilot agreement would need majority approval from members of the Joint Subcommittee
  - *Could include enhanced enrollment autonomy in exchange for state goal achievement*

\*Virginia Business Higher Education Council

# 2018-20 State Budget Update

## Statewide Internship Pilot Program

- **House Budget** – allows use of existing General Fund scholarship allocation for internships.
  - Prioritizes use for students in Data Science & Technology, Science & Engineering, Health Care, and Education
  - Grant must be matched equally with non-state funding (private partner) and/or by institution with private funds
- **Senate Budget** – provides \$400,000 General Fund over biennium for pilot program.
  - Grants awarded on a competitive basis with criteria determined by SCHEV
  - Grant must involve a private sector partner and be matched equally by non-state funding
  - Designed to meet strategic workforce needs of the Commonwealth, support regional economic growth and diversification plans (GO Virginia), stimulate research and commercialization, and enhance job readiness

# *Timeline*

## **General Assembly Calendar**

- Adjourned on March 10<sup>th</sup>
  - No final budget was passed
- Governor Northam has called for an April 11<sup>th</sup> Special Session for General Assembly to complete work on the state budget
- Reconvened (Veto) Session scheduled to begin on April 18<sup>th</sup>
  - Review Governor vetoes and amendments to legislation

# *Discussion*

# Presentation of the University's Annual Financial Report

## FINANCE AND RESOURCE MANAGEMENT COMMITTEE

February 9, 2018

Fiscal year 2017 represented another successful year in the continued advancement of Virginia Tech's strategic plan, and proactive resource management has enabled the university to maintain a strong financial position. The university received an additional \$11.0 million in General Fund Appropriations and experienced improved returns on investments during fiscal year 2017. The strategic allocation of new and continuing resources and the leveraging of enrollment growth enabled the university to successfully manage the impact of increasing expenditures, while continuing the trend of moderating increases in tuition rates.

### Summary of Audit Results

- Unmodified audit opinion (*Previously called an Unqualified audit opinion*)
- No material weakness in internal controls
- No instances of noncompliance or other matters required to be reported under Government Auditing Standards
- No written audit recommendations involving internal control

## Assets, Liabilities and Net Position at June 30, 2017 & 2016

(all dollars in millions)

	2017	2016	Change	
			Amount	Percent
Current assets	\$ 220.6	\$ 324.7	\$ (104.1)	(32.1%)
Capital assets, net	1,680.5	1,666.9	13.6	0.8%
Other assets	627.4	511.7	115.6	22.6%
<b>Total assets</b>	<b>2,528.5</b>	<b>2,503.3</b>	<b>25.1</b>	<b>1.0%</b>
Deferred outflows of resources	84.6	58.1	26.5	45.6%
Current liabilities	261.6	262.3	(0.6)	(0.2%)
Noncurrent liabilities	936.1	930.6	5.4	0.6%
<b>Total liabilities</b>	<b>1,197.7</b>	<b>1,192.9</b>	<b>4.8</b>	<b>0.4%</b>
Deferred inflows of resources	13.0	30.2	(17.2)	(57.0%)
Invested in capital assets, net	1,201.3	1,163.8	37.5	3.2%
Restricted	224.5	209.8	14.7	7.0%
Unrestricted	(23.5)	(35.3)	11.8	33.4%
<b>Total net position</b>	<b>1,402.3</b>	<b>1,338.3</b>	<b>64.0</b>	<b>4.8%</b>

The balance sheet shows positive results for fiscal year 2017 with the key indicators as follows:

- Assets increased by \$25.1 million or 1.0% with the growth occurring in the major components of noncurrent assets. The increase in capital assets, net (\$13.6 million) reflects the ongoing construction and renovation of university research and instructional facilities. The increase in other assets (\$115.6 million) and corresponding decrease in current assets (\$104.1 million) was primarily due to the implementation of the university's strategy to invest more funds in long-term investments.
- Total liabilities increased by \$4.8 million or 0.4%. The current liabilities category decreased by \$0.6 million and the noncurrent liabilities category increased by \$5.4 million. The growth in noncurrent liabilities is primarily due to an increase in the pension liability (\$34.9 million) offset by a reduction in long term debt payable (\$31.1 million).
- The growth in total assets exceeded the growth in total liabilities resulting in a year-over-year increase of the university's net position of \$64.0 million (4.8%), reflecting the university's continued investment in new facilities and equipment supporting the university's missions as well as prudent management of university's fiscal resources.

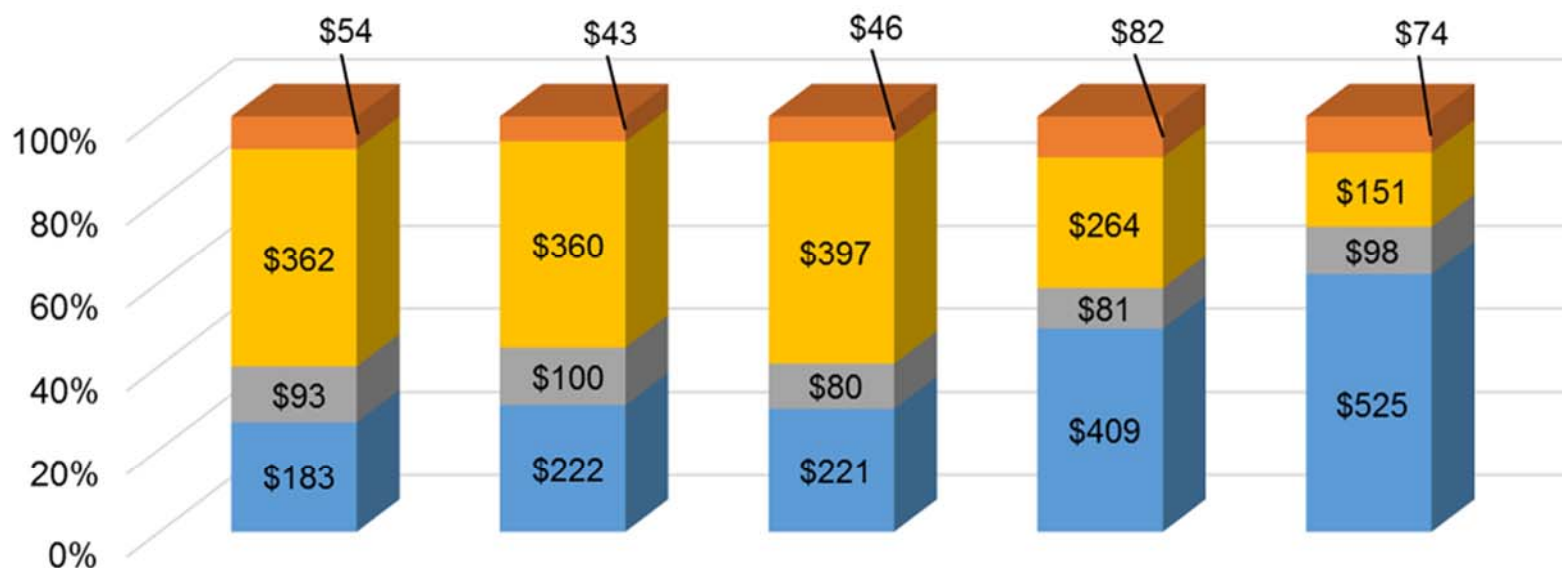


## Composition of Current & Non-Current Assets

Showing the Strategy to Move Cash & Cash Equivalent to Long-Term Investments and Consistent Growth in Assets Over the Past Five Years

(all dollars in millions)

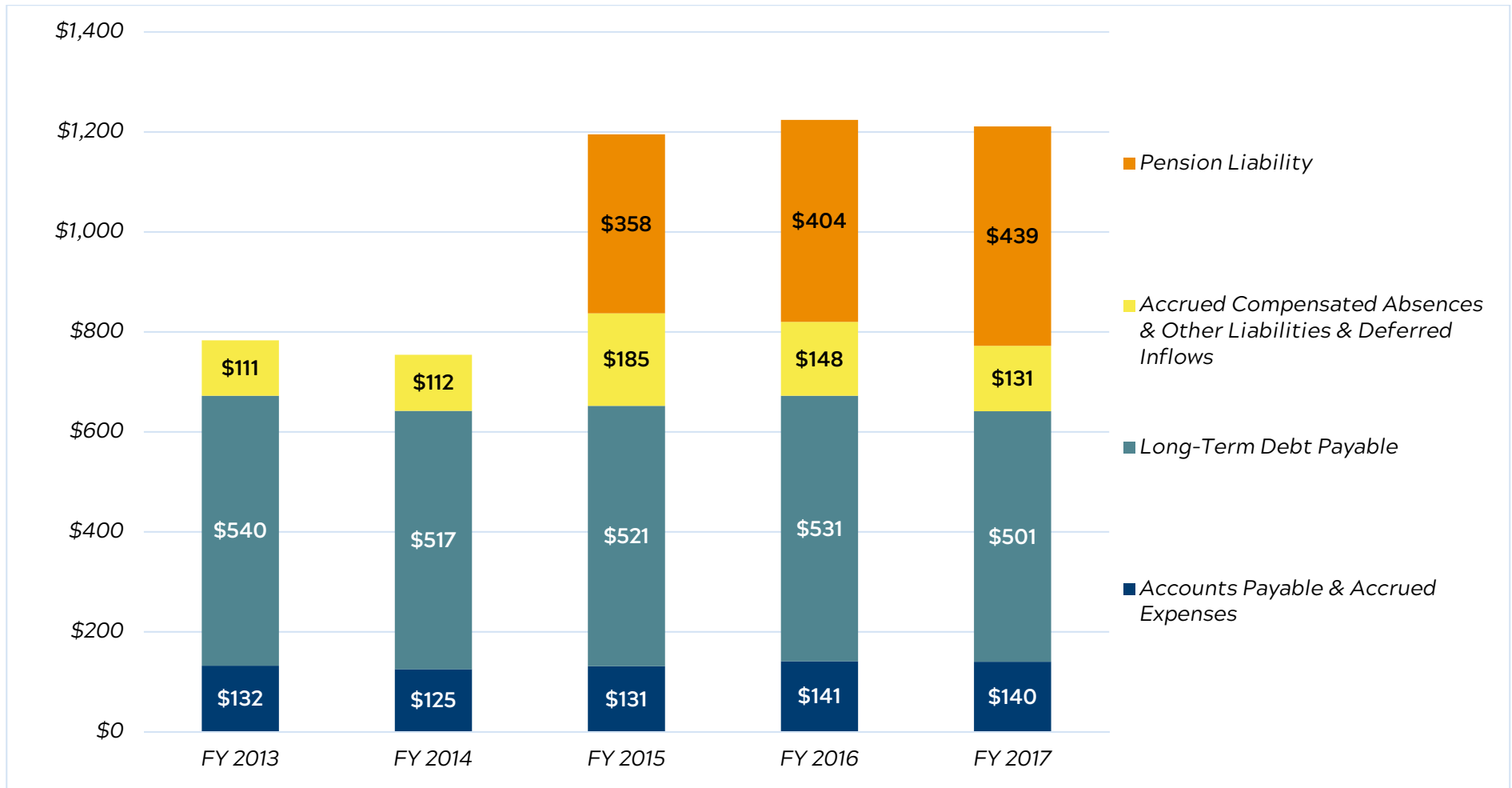
■ Long-term Investments ■ Accounts & Notes Receivable ■ Cash & Cash Equivalents ■ Other Assets



	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Current & Non-Current Assets	\$ 692	\$ 725	\$ 744	\$ 836	\$ 848
Capital Assets, Net	\$ 1,517	\$ 1,559	\$ 1,625	\$ 1,667	\$ 1,681
<b>Total Assets</b>	<b>\$ 2,209</b>	<b>\$ 2,284</b>	<b>\$ 2,369</b>	<b>\$ 2,503</b>	<b>\$ 2,529</b>

# Composition of Current & Non-Current Liabilities

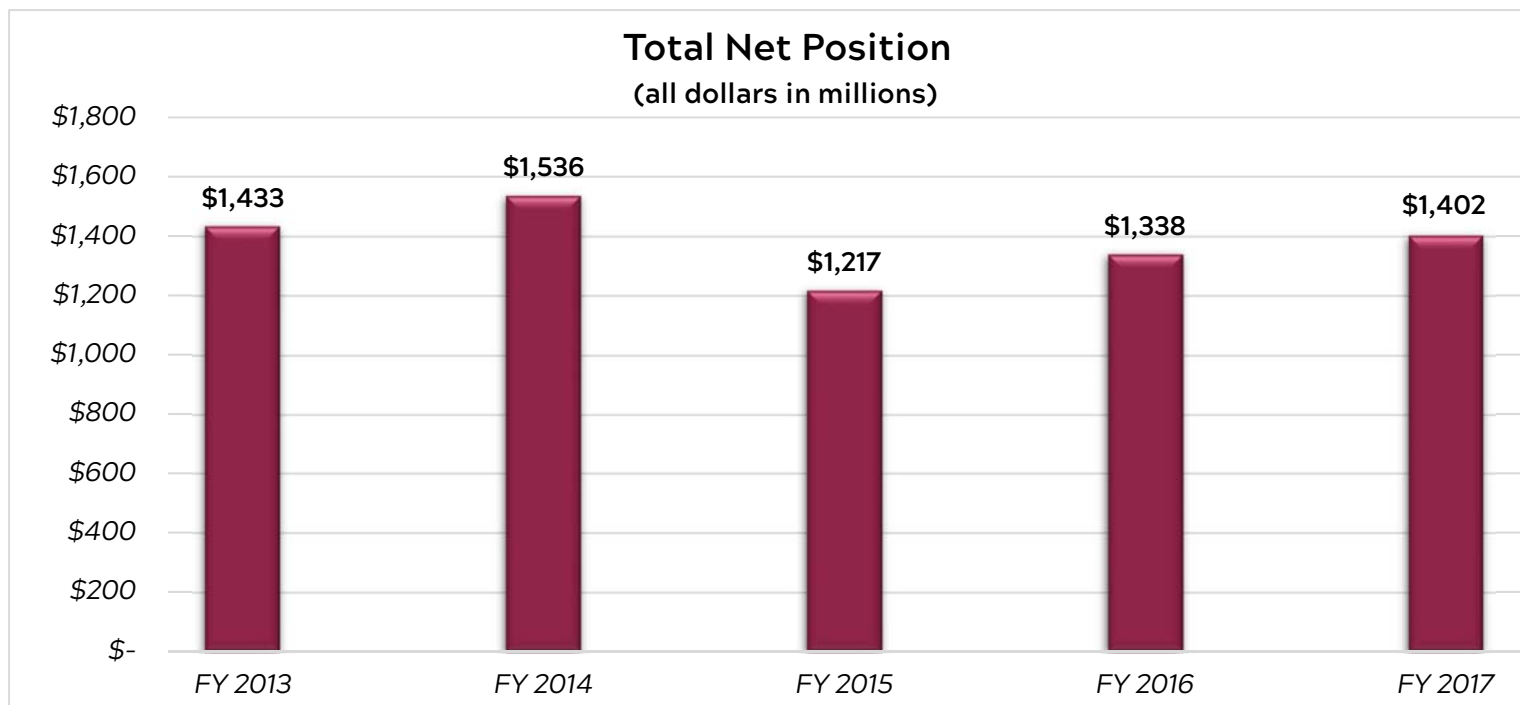
Showing the Impact of GASB\* 68 Accounting & Financial Reporting for Pensions  
(all dollars in millions)



\* GASB: Governmental Accounting Standards Board. Beginning in FY 2015, the university had to record pension liability due to the implementation of GASB Statement 68. Prior to FY 2015, this liability was recorded only on the Commonwealth's Comprehensive Annual Financial Report (CAFR).

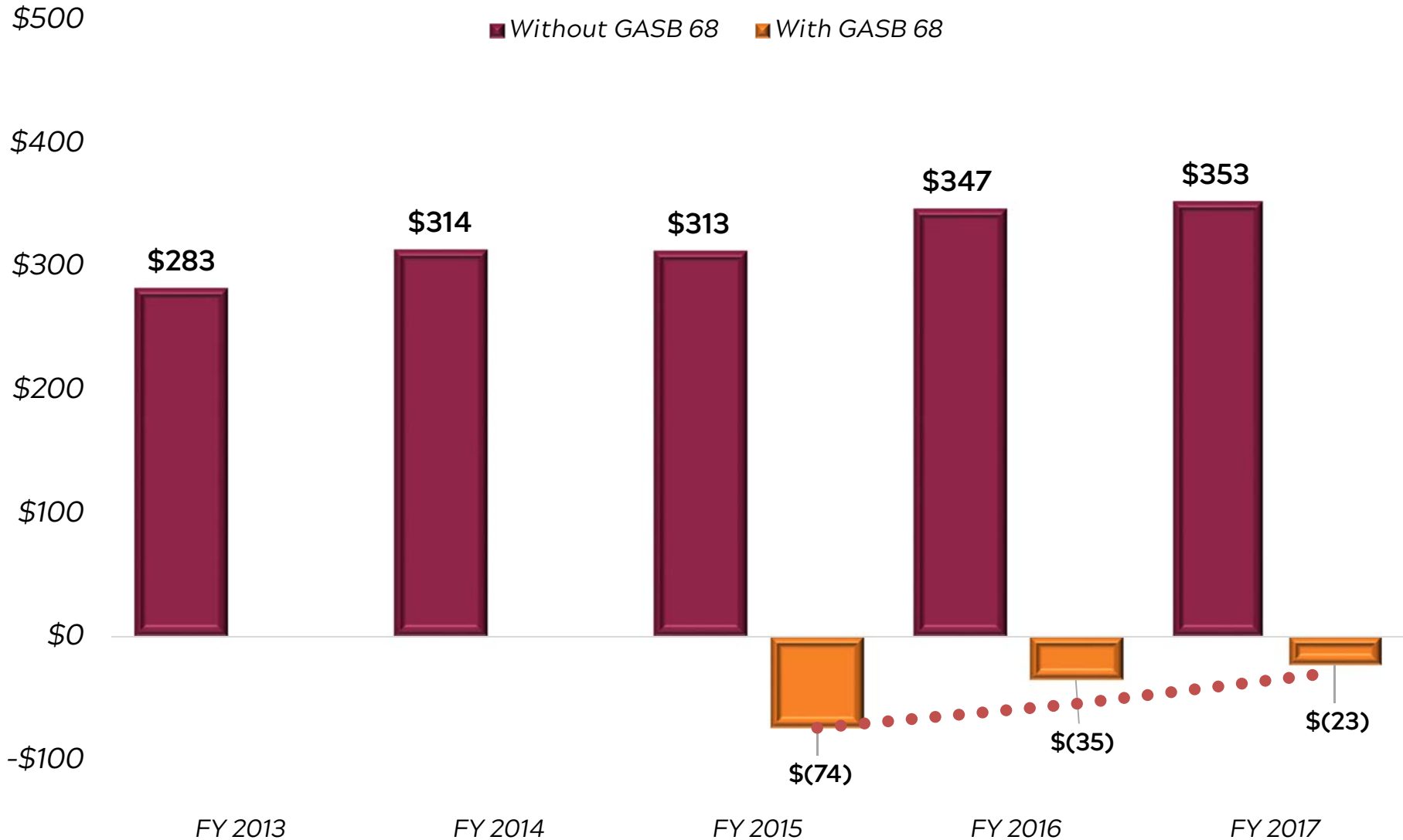
**Trends in Net Position**  
**For the years ended June 30, 2013-2017**  
*(all dollars in millions)*

	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
Capital assets, net of related debt	\$ 992	\$ 1,057	\$ 1,112	\$ 1,164	\$ 1,201
Restricted, nonexpendable	0	0	0	0	0
Restricted, expendable:					
Capital projects	11	3	6	36	40
Other	147	162	172	173	184
Unrestricted	283	314	(74)	(35)	(24)
<b>Total Net Position</b>	<u><b>1,433</b></u>	<u><b>1,536</b></u>	<u><b>1,217</b></u>	<u><b>1,338</b></u>	<u><b>1,402</b></u>



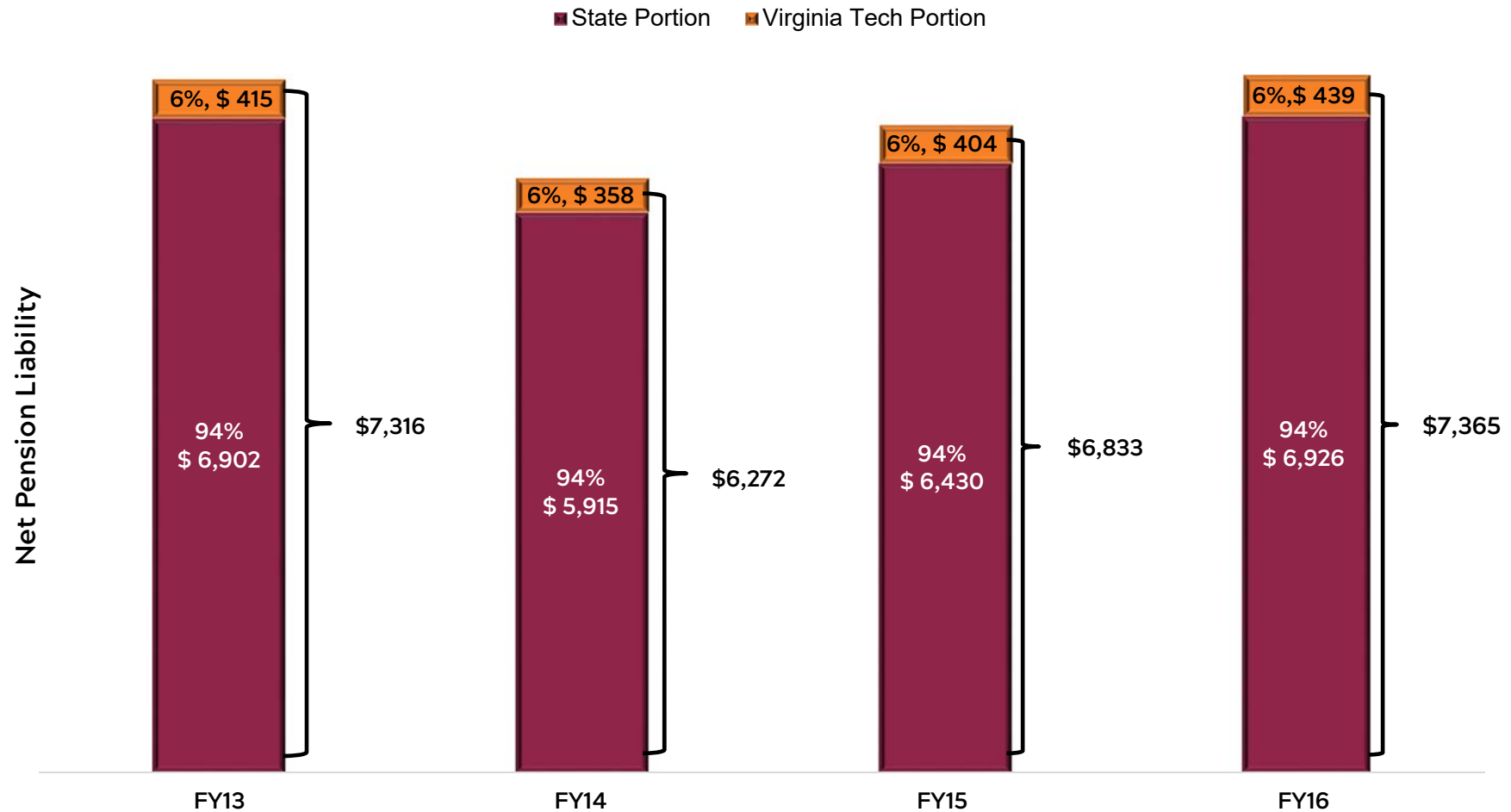
# Unrestricted Net Position

(all dollars in millions)



The cumulative effect of the implementation of GASB 68 reduced unrestricted net position by \$387 million in FY 2015, \$382 million in FY 2016 and by \$376 million in FY 2017.

## Impact of the Implementation of GASB 68 on Defined Benefit Pension Plans *(all dollars in millions)*



- Measurement dates for pension amounts will always be one year in arrears from the financial statement dates.
- Therefore, for the university's fiscal year 2017 financial statement, the fiscal year 2016 pension information was used. For this period, the total net pension liability for these plans increased by \$531.6 million for the Commonwealth, and correspondingly by \$34.9 million for the university. However, most of the impact on pension expense and net position is deferred to future periods.

## Summary of Composition of Investments at June 30, 2017

*(all dollars in millions)*

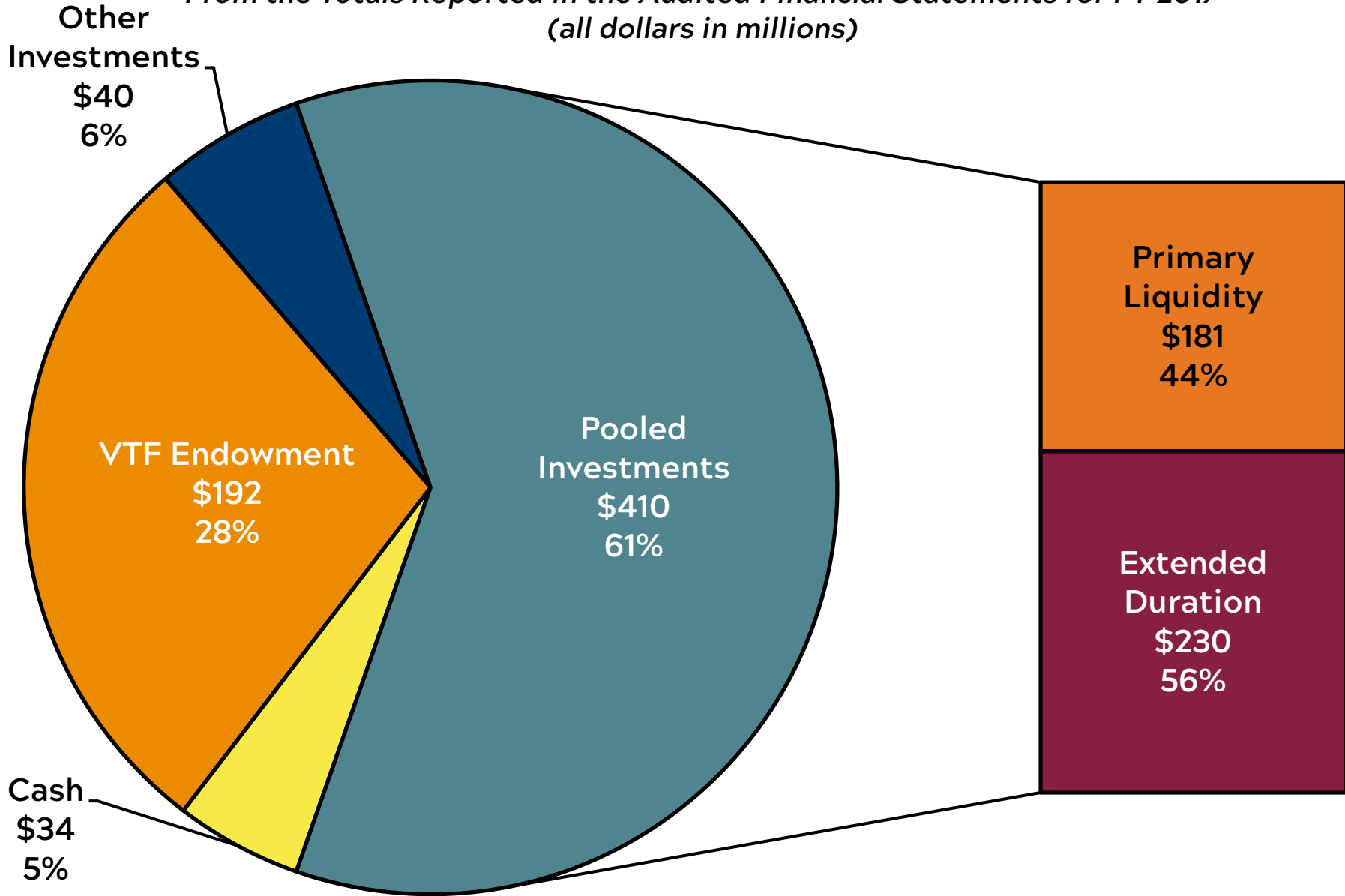
Description and Credit Rating	Cash Equivalents	Short-Term Investments	Long-Term Investments	Total
		<i>90 days to</i>		
	<i>&lt;90 days</i>	<i>1 year</i>	<i>&gt;1 year</i>	
U.S. Treasury Securities (N/A)	\$ -	\$ -	\$ 35.2	\$ 35.2
Debt Securities (Aaa to A3)	-	-	84.0	84.0
Repurchase Agreements	12.7	-	-	12.7
Federal Agency Securities		-		
Unsecured bonds and notes (Aaa)	53.0	-	101.5	154.5
Mortgage backed securities (AAA to Aaa)			58.8	58.8
SNAP	10.6	-	-	10.6
Investments with VTF	1.7		191.5	193.2
Other Investments (Aaa to P-1)	39.3		54.0	93.3
<b>June 30, 2017 Balance</b>	<b>\$ 117.3</b>	<b>\$ -</b>	<b>\$ 525.0</b>	<b>\$ 642.3</b>
June 30, 2016 Balance	202.8	-	408.7	611.5
<b>Change in Investment Balances</b>	<b>\$ (85.5)</b>	<b>\$ -</b>	<b>\$ 116.3</b>	<b>\$ 30.8</b>

\* SNAP funds are non-arbitrage safe harbor investments for unspent tax exempt bond proceeds.

**Virginia Tech**  
**Summary Schedule of Cash and Investment Totals**  
**From the Totals Reported in the Audited Financial Statements - June 30, 2017 and June 30, 2016**  
*(dollars in millions)*

<b>Financial Statement Totals</b>	<b>Totals at 6/30/2017</b>			<b>Totals at 6/30/2016</b>
	<b>Current Assets</b>	<b>Noncurrent Assets</b>	<b>Total Cash &amp; Investments</b>	<b>Total Cash &amp; Investments</b>
Cash	8.4	25.8	34.1	61.4
Cash equivalents (< 90 days)	93.1	24.2	117.3	202.8
<b>Total Cash &amp; Cash equivalents</b>	<b>101.5</b>	<b>50.0</b>	<b>151.4</b>	<b>264.1</b>
Short-term Investments (>90 days < 1 year)	-	-	-	-
<b>Long-term Investments (&gt; 1 year)</b>				
Invested in the VTF Endowment Pool		191.5	191.5	129.9
Invested with other investment managers		333.5	333.5	278.8
<b>Total Long-term Investments</b>	<b>-</b>	<b>525.0</b>	<b>525.0</b>	<b>408.7</b>
<b>Grand totals Cash &amp; Investments</b>	<b>101.5</b>	<b>574.9</b>	<b>676.4</b>	<b>672.8</b>

**Schedule of Cash & Investments by Investment Pool**  
 From the Totals Reported in the Audited Financial Statements for FY 2017  
 (all dollars in millions)



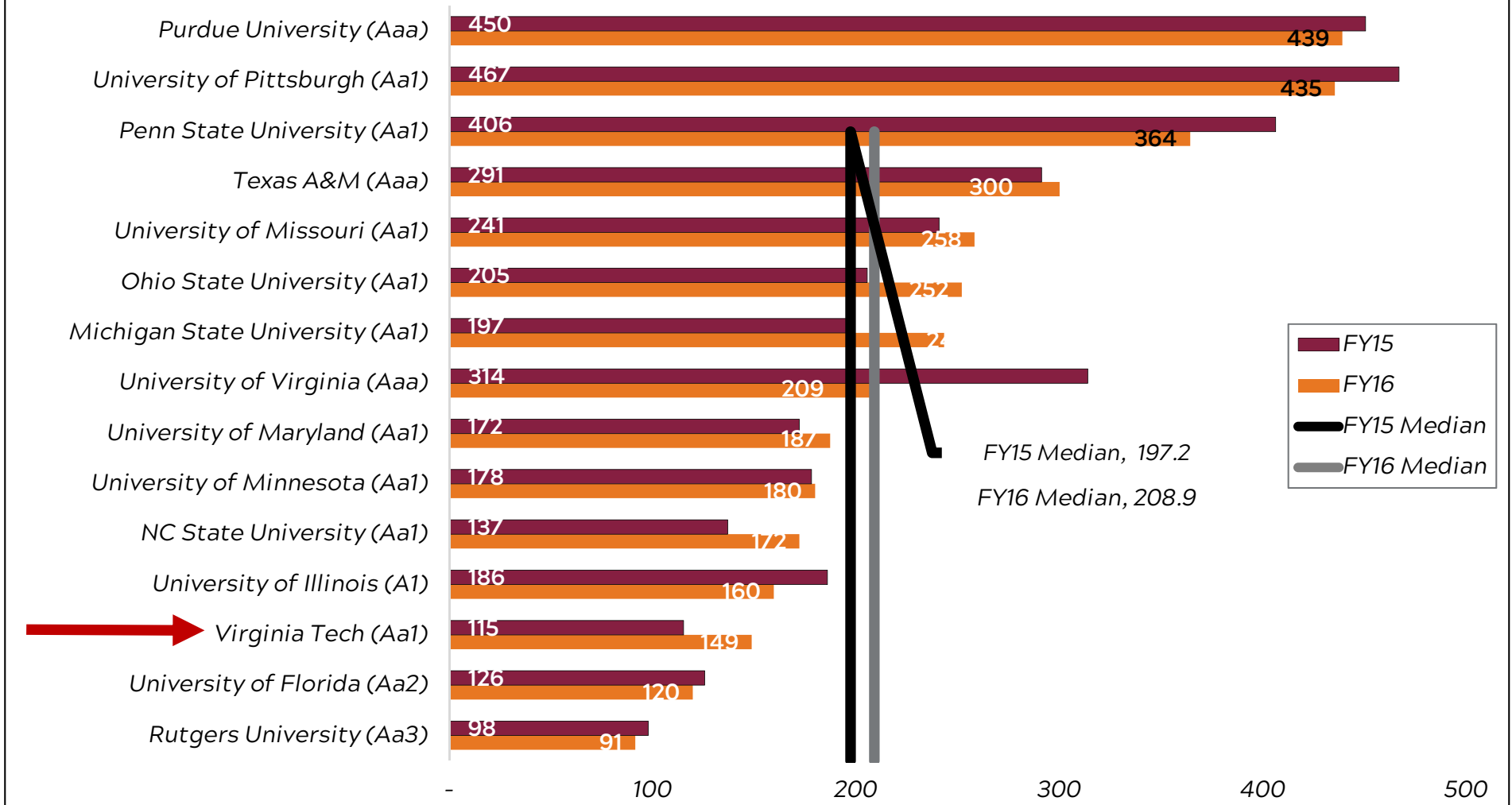


**Ongoing Investments in Capital Assets**  
**Summary Changes in Capital Assets for the year ending June 30, 2017**  
*(all dollars in millions)*

	Beginning Balance	Additions	Retirement s	Ending Balance
<b>Depreciable capital assets</b>				
Buildings (includes capital leases)	\$1,737.3	\$52.8	\$2.2	\$1,787.9
Moveable equipment	518.4	46.8	22.8	542.4
Software and intangible assets	22.3	4.4	0.1	26.6
Fixed equipment	132.5	2.5	3.5	131.5
Infrastructure	124.5	1.6	0.6	125.6
Library books	77.5	0.6	0.8	77.4
<b>Total depreciable capital assets, at cost</b>	<b>2,612.5</b>	<b>108.8</b>	<b>29.9</b>	<b>2,691.3</b>
<b>Less accumulated depreciation</b>				
Total accumulated depreciation	1,145.0	101.3	26.4	1,219.9
<b>Total depreciable capital assets,</b>	<b>1,467.5</b>	<b>7.5</b>	<b>3.5</b>	<b>1,471.4</b>
<b>Nondepreciable capital assets</b>				
Land	46.5	0.4	0.0	46.8
Livestock	0.6	0.0	-	0.6
<b>Construction in progress</b>	<b>148.4</b>	<b>62.3</b>	<b>53.2</b>	<b>157.5</b>
Equipment in process	3.1	3.3	2.7	3.7
Software in development	0.9	0.0	0.5	0.4
<b>Total nondepreciable capital assets</b>	<b>199.4</b>	<b>66.1</b>	<b>56.3</b>	<b>209.1</b>
<b>Total capital assets, net</b>	<b>\$1,666.9</b>	<b>\$73.5</b>	<b>\$59.9</b>	<b>\$1,680.5</b>

Major projects comprising “Construction in Progress”: Upper Quad residential facilities (\$80.1 million), athletic facility improvements (\$8.4 million), renovation of Sandy Hall, the Liberal Arts Building, and the front section of Davidson Hall (\$6.8 million), improvement of door access in residence halls (\$6.7 million), the Biocomplexity Institute’s data center expansion in Steger Hall (\$5.2 million), and on-going capital renovations throughout the university (\$50.3 million).

## FY16 & FY15 Monthly Days Cash on Hand (dollars in millions)



Monthly Days Cash on Hand measures the number of days a university is able to operate (cover its cash operating expenses) from unrestricted cash and investments that can be liquidated within one month.

## Summary of Revenues, Expenses, and Changes in Net Position

For the years ending June 30, 2017 and 2016

*(all dollars in millions)*

	2017	2016	Change	
			Amount	Percent
Operating revenues	\$ 1,031.5	\$ 1,020.6	\$ 10.9	1.1%
Operating expenses	1,364.7	1,315.4	49.3	3.7%
Operating loss	<b>(333.2)</b>	<b>(294.8)</b>	<b>(38.4)</b>	<b>13.0%</b>
State appropriations	261.7	250.7	11.0	4.4%
Other non-operating revenues and expenses	93.5	67.3	26.2	38.9%
Non-operating revenue	<b>355.2</b>	<b>318.0</b>	<b>37.2</b>	<b>11.7%</b>
Income before other revenues & expenses	22.0	23.2	(1.2)	(5.2%)
Other revenues, expenses, gains or losses	42.0	98.4	(56.4)	(57.3%)
Increase in net position	<b>64.0</b>	<b>121.6</b>	<b>(57.6)</b>	<b>(47.4%)</b>
Net position - beginning of year	1,338.3	1,216.7	121.6	10.0%
Net position - end of year	<b>\$ 1,402.3</b>	<b>\$ 1,338.3</b>	<b>\$ 64.0</b>	<b>4.8%</b>

**Operating loss:** Under GASB reporting, public universities will always show an operating loss because state appropriations, gifts and investment income are all considered non-operating revenues.

**Increase (Decrease) in Revenues**  
**For the years ending June 30, 2017 and 2016**

*(all dollars in millions)*

	2017	2016	Change	
			Amount	Percent
<b>Operating revenues</b>				
Student tuition and fees, net	\$ 461.7	\$ 449.2	\$ 12.5	2.8%
Grants and contracts	290.8	301.9	(11.1)	(3.7%)
Auxiliary enterprises	251.9	244.3	7.6	3.1%
Other operating revenue	27.1	25.2	1.9	7.5%
<b>Total operating revenues</b>	<b>1,031.5</b>	<b>1,020.6</b>	<b>10.9</b>	<b>1.1%</b>
<b>Non-operating revenues</b>				
State appropriations	261.7	250.7	11.0	4.4%
Other non-operating revenue	93.5	67.3	26.2	38.9%
<b>Total non-operating revenues</b>	<b>355.2</b>	<b>318.0</b>	<b>37.2</b>	<b>11.7%</b>
<b>Other revenues</b>				
Capital appropriations	-	36.9	(36.9)	(100.0%)
Capital grants and gifts	44.5	65.9	(21.4)	(32.5%)
Loss on disposal of capital asse	(2.5)	(4.4)	1.9	(43.2%)
<b>Total capital revenue, gains</b>	<b>42.0</b>	<b>98.4</b>	<b>(56.4)</b>	<b>(57.3%)</b>
<b>Total revenues</b>	<b>\$1,428.7</b>	<b>\$1,437.0</b>	<b>\$ (8.3)</b>	<b>(0.6%)</b>

**Operating revenues** increased by \$10.9 million or 1.1%. This growth came primarily from two categories: (1) Student tuition & fees (\$12.5 million or 2.8%) was expected given an increasing student population and the rise in both in-state and out-of-state tuition and fees rates. (2) The growth in auxiliary enterprise revenue (\$7.6 million or 3.1%) followed a similar pattern.

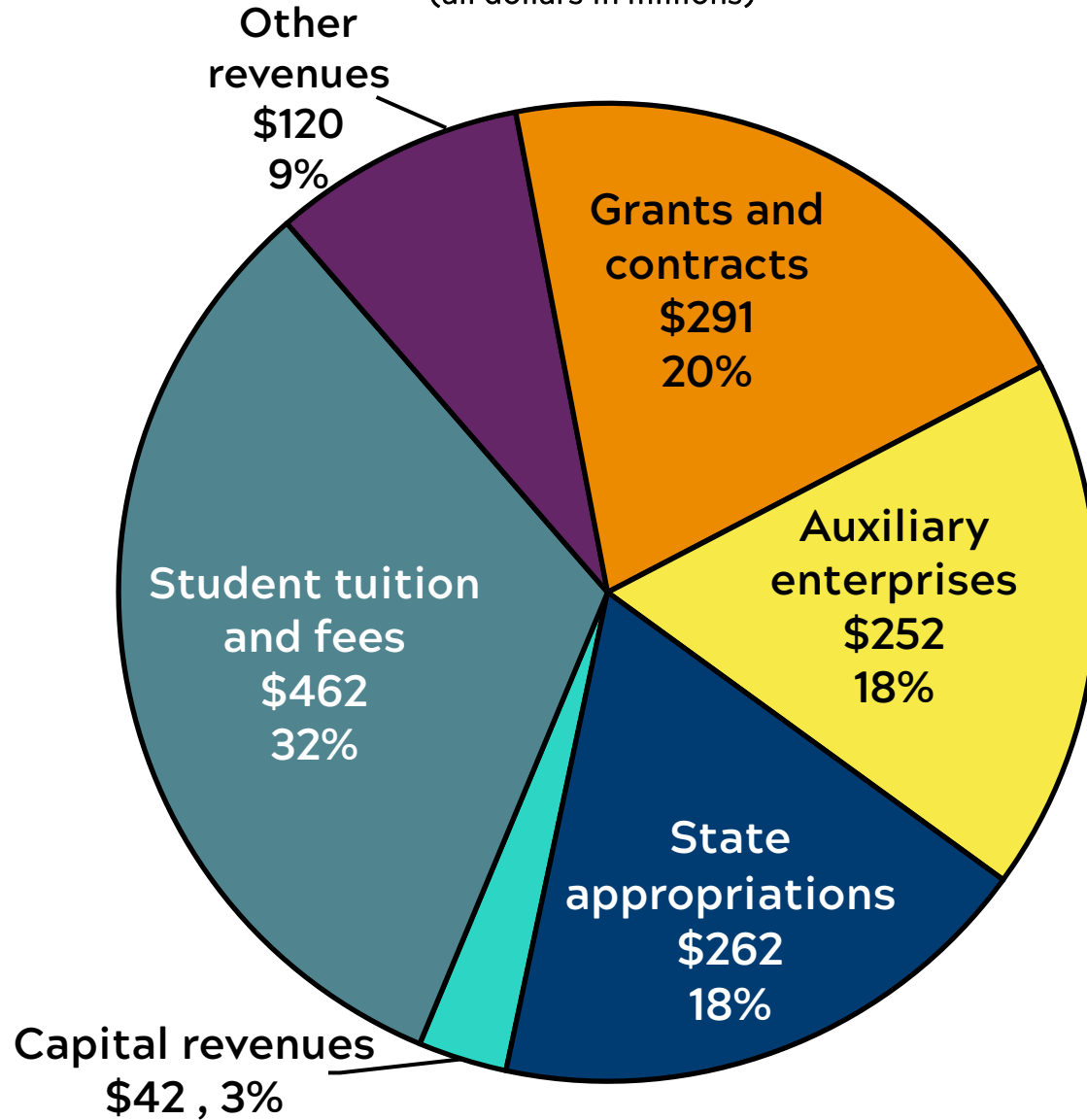
**Non-operating revenues** increased by \$37.2 million primarily from increases in state appropriations (\$11.0 million), and greater returns on investments (\$17.6 million).

**Other Revenues: Capital appropriations** were not received in the current year.

**Capital grants and gifts** decreased by \$21.4 million, largely due to a reduction in revenue from the 21<sup>st</sup> Century bond programs (\$22.7 million) as a result of completing the new classroom building and a small decrease in the private gifts and capital grants and contracts.

Total Revenue by Source- \$1,429 M  
for the year ending June 30, 2017

(all dollars in millions)



## Changes in Operating Expenses by Function

For the years ending June 30, 2017 and 2016

*(all dollars in millions)*

	2017	2016	Change	
			Amount	Percent
Instruction	\$ 358	\$ 336	\$ 22	7%
Research	311	317	(6)	(2%)
Public service	98	100	(3)	(3%)
Auxiliary enterprises	219	203	16	8%
<b>Subtotal</b>	<b>986</b>	<b>956</b>	<b>30</b>	<b>3%</b>
<b><u>Support, maintenance, and other expenses</u></b>				
Academic support	87	82	6	7%
Student services	19	16	2	15%
Institutional support	70	63	7	11%
Operations and maintenance of plant	85	84	1	1%
Student financial assistance*	17	14	2	15%
Depreciation and amortization	101	100	1	1%
<b>Total support, maintenance, and other expense</b>	<b>379</b>	<b>360</b>	<b>20</b>	<b>6%</b>
<b>Total operating expenses</b>	<b>\$ 1,365</b>	<b>\$ 1,315</b>	<b>\$ 49</b>	<b>4%</b>

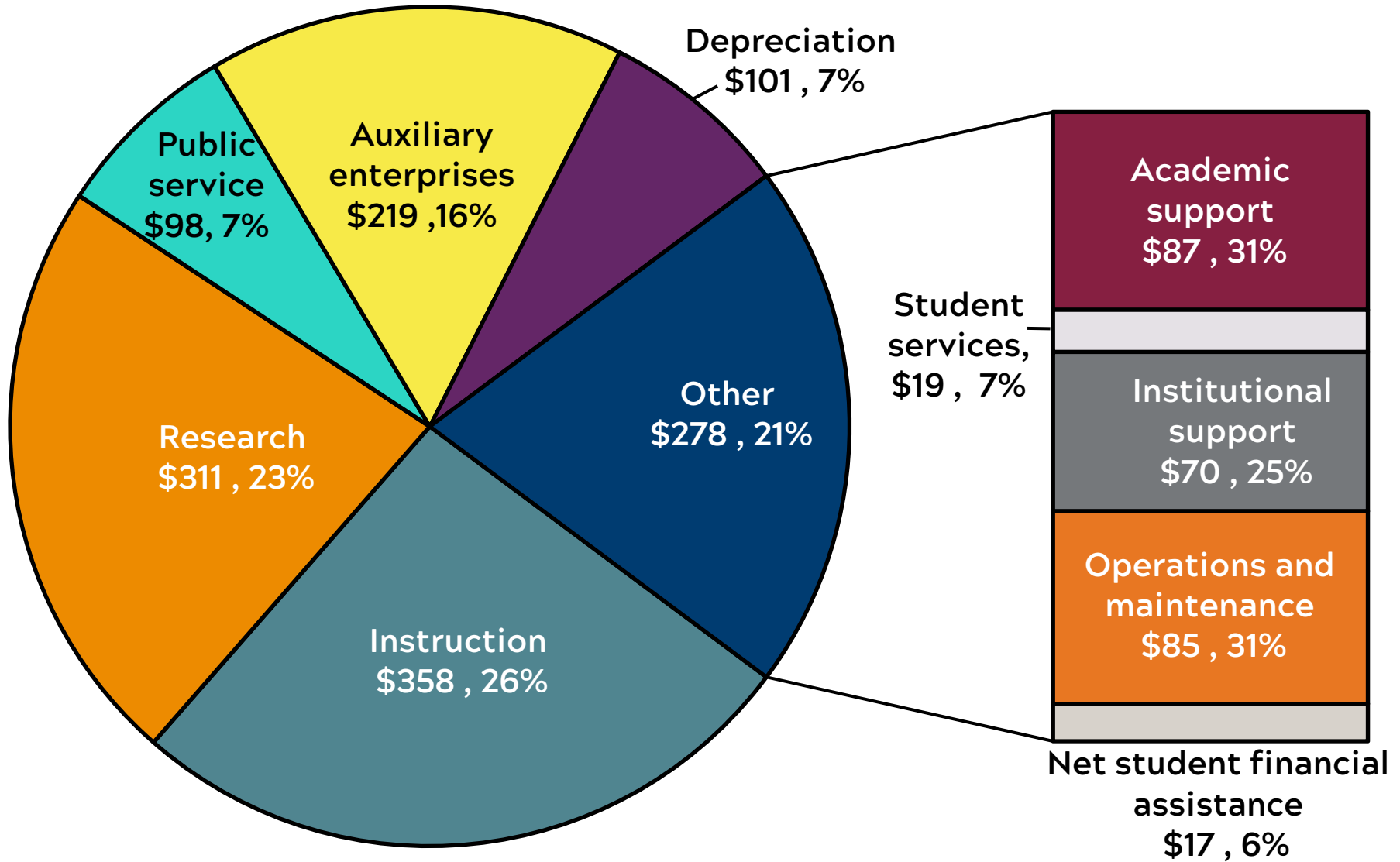
\*Includes loan administrative fees and collection costs.

**Instruction** had the largest increase (\$22 million), of which the majority occurred in the compensation and benefits category, reflecting the university's commitment to maintaining a high quality faculty and staff.

**Auxiliary** also saw a significant growth (\$16 million) spread across several categories including compensation and benefits and contractual services.

**Research** expenditures decreased slightly primarily due to a decrease in Federal grants and contracts expenditures.

**Total Operating Expenses by Function - \$1,365 M**  
 For the year ending June 30, 2017  
 (all dollars in millions)



## Changes in Expenses by Natural Classification

### For the years ending June 30, 2017 and 2016

*(all dollars in millions)*

	2017	2016	Change	
			Amount	Percent
Compensation and benefits	\$ 872	\$ 830	\$ 42	5%
Contractual services	102	87	15	17%
Supplies and materials	109	107	2	2%
Travel	46	44	2	5%
Other operating expenses	79	83	(4)	(5%)
Scholarships and fellowships *	34	32	2	7%
Sponsored program subcontracts	22	33	(11)	(33%)
Depreciation and amortization	101	100	1	1%
<b>Total operating expenses</b>	<b>\$ 1,365</b>	<b>\$ 1,315</b>	<b>\$ 49</b>	<b>4%</b>

**Compensation and benefits** comprised \$871.9 million or 63.9% of the university's total operating expenses. This category increased by \$42.2 million (5.1%). The general salary increase funded by the commonwealth was the major contributor to the increase in this category, along with increased costs of fringe benefits.

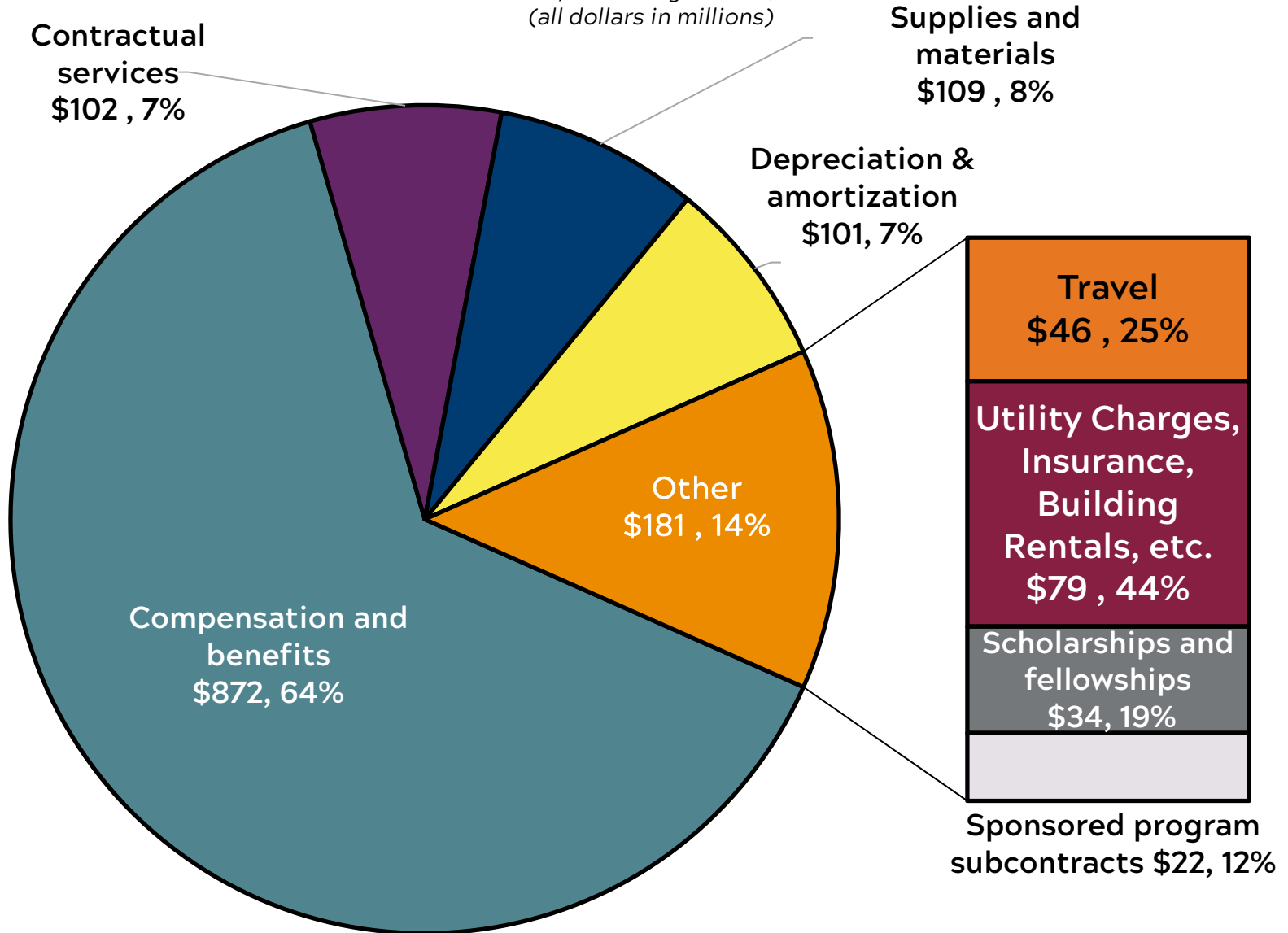
**Contractual services** increased by \$14.5 million with the growth spread across various contractual services accounts with some larger increases in auxiliaries.

\*Includes tuition remission charged to grants and contracts and financial aid included in other programmatic categories.



# Total Operating Expenses by Natural Classification - \$1,365 M

For the year ending June 30, 2017  
(all dollars in millions)



**Long-term Debt Payable Activity**  
**as of June 30, 2017**  
*(all dollars in millions)*

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Bonds payable					
Section 9(c) general obligation revenue bonds	\$ 144.8	\$ 53.1	\$ 63.8	\$ 134.1	\$ 8.0
Section 9(d) revenue bonds	64.6	-	3.0	61.6	2.8
Notes payable	241.4	38.5	52.8	227.1	16.1
Capital lease and installment purchase obligations	74.7	0.2	3.5	71.4	3.7
Total long-term debt payable	<u>\$ 525.5</u>	<u>\$ 91.8</u>	<u>\$ 123.1</u>	<u>\$ 494.2</u>	<u>\$ 30.6</u>
Current year debt defeasance		<u>(91.6)</u>	<u>(87.9)</u>		
Total additions/retirements, net of current year defeasance		<u>\$ 0.2</u>	<u>\$ 35.2</u>		

The Commonwealth, on behalf of the university, refinanced approximately 17% of the outstanding debt during fiscal year 2017.

# Sponsored Programs

For the years ending June 30, 2013 - 2017

*(all dollars in millions)*

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Number of awards received	2,272	2,443	2,189	2,291	2,423
Value of awards received	\$ 271.1	\$ 303.6	\$ 296.6	\$ 278.1	\$ 304.3
Research expenditures reported to NSF	\$ 496.2	\$ 513.1	\$ 504.3	\$ 521.8	\$ 522.4
NSF Rank	38	39	44	43	N/A*

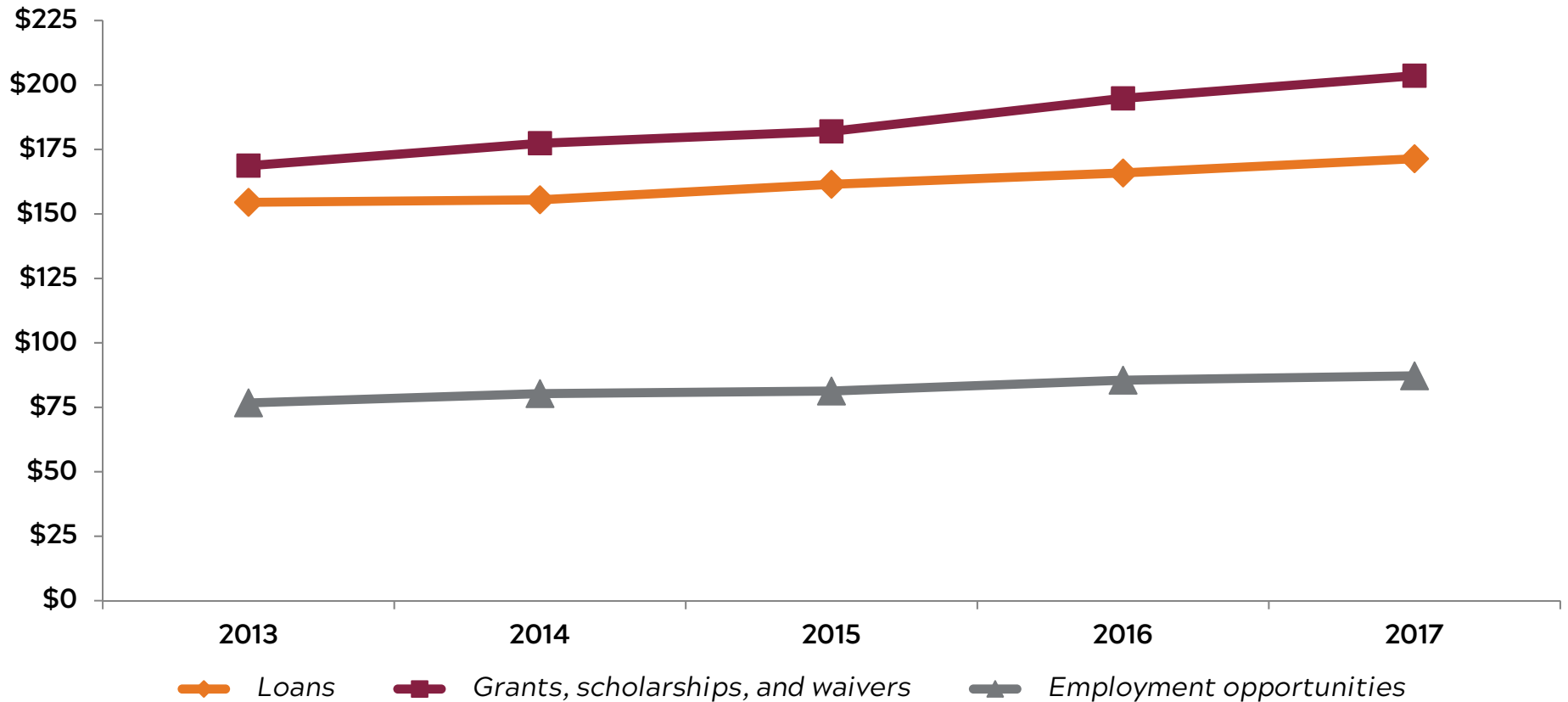
# Student Financial Aid

For the years ending June 30, 2013-2017

	2013	2014	2015	2016	2017
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<u>Number of students receiving selected types of financial</u>					
Loans	12,506	12,279	12,253	12,282	12,430
Grants, scholarships, and waivers *	18,353	18,305	18,242	18,409	18,746
Employment opportunities	9,935	10,329	10,437	10,934	11,201
<u>Total amounts by major category, (all dollars in millions)</u>					
Loans	\$ 154.5	\$ 155.5	\$ 161.5	\$ 165.9	\$ 171.4
Grants, scholarships, and waivers*	168.7	177.4	182.0	194.8	203.6
Employment opportunities	76.7	80.3	81.3	85.5	87.2
<b>Total Financial Aid</b>	<b><u><u>\$399.9</u></u></b>	<b><u><u>\$413.2</u></u></b>	<b><u><u>\$424.8</u></u></b>	<b><u><u>\$446.2</u></u></b>	<b><u><u>\$462.2</u></u></b>

\*Periods prior to 2014-2015 have been restated to remove prepaid awards from the scholarships total.

## Student Financial Aid For years ending June 30, 2013 - 2017 (all dollars in millions)



Virginia Tech students have lower debt than the national average. Fifty-one percent of the undergraduate Virginia Tech Class of 2016 borrowed an average of \$28,884. While comparative national data is not yet available, the average debt of graduates at national public and nonprofit four-year institutions has been three to five percent higher than Virginia Tech graduates for the last several years.

## Conclusion:

Despite a challenging financial landscape, the university continues to make progress on several fronts including the following:

- Continued investment in facilities supporting the university's strategic plan with the prudent use of debt financing.
- Strong student demand - the university continues to have growth in applications and the successive improvements of overall quality of each entering class.
- Moderation in tuition rate increases has enabled the university to maintain its competitive advantage over peer institutions. With a total cost (including room and board) of \$21,276 per year for Virginia undergraduates. Virginia Tech ranked 9<sup>th</sup> among Virginia four-year public institutions, and 17<sup>th</sup> out of a group of 24 SCHEV public peer institutions in 2016-17.
- Virginia Tech's NSF research ranking was 43<sup>rd</sup> in 2016.
- Continued growth in unrestricted net position despite the impact of GASB 68 for pension liabilities. However, in fiscal year 2018 GASB 75 (Accounting & Financial Reporting for Postemployment Benefits other than Pensions) will become effective and will require the university to recognize an additional liability for Other Post-Employment Benefits (OPEB).

# Annual Financial Report

March 25, 2018

**KEN MILLER,**  
**ASSISTANT VICE PRESIDENT FOR FINANCE &  
UNIVERSITY CONTROLLER**



## Successful Audit & Strong Financial Position

Unmodified audit opinion



No material weakness or audit recommendation involving internal controls



No instances of noncompliance



No written audit recommendations involving internal control



Aa1 and AA Credit Rating



Target AA- or Better

3.67% Debt Ratio



Target 5% or Below



## Composition of Current & Non-Current Assets

### Showing the Strategy to Move Cash & Cash Equivalent to Long-Term Investments and Consistent Growth in Assets Over the Past Five Years

(all dollars in millions)

■ Long-term Investments  
 ■ Accounts & Notes Receivable  
 ■ Cash & Cash Equivalents  
 ■ Other Assets

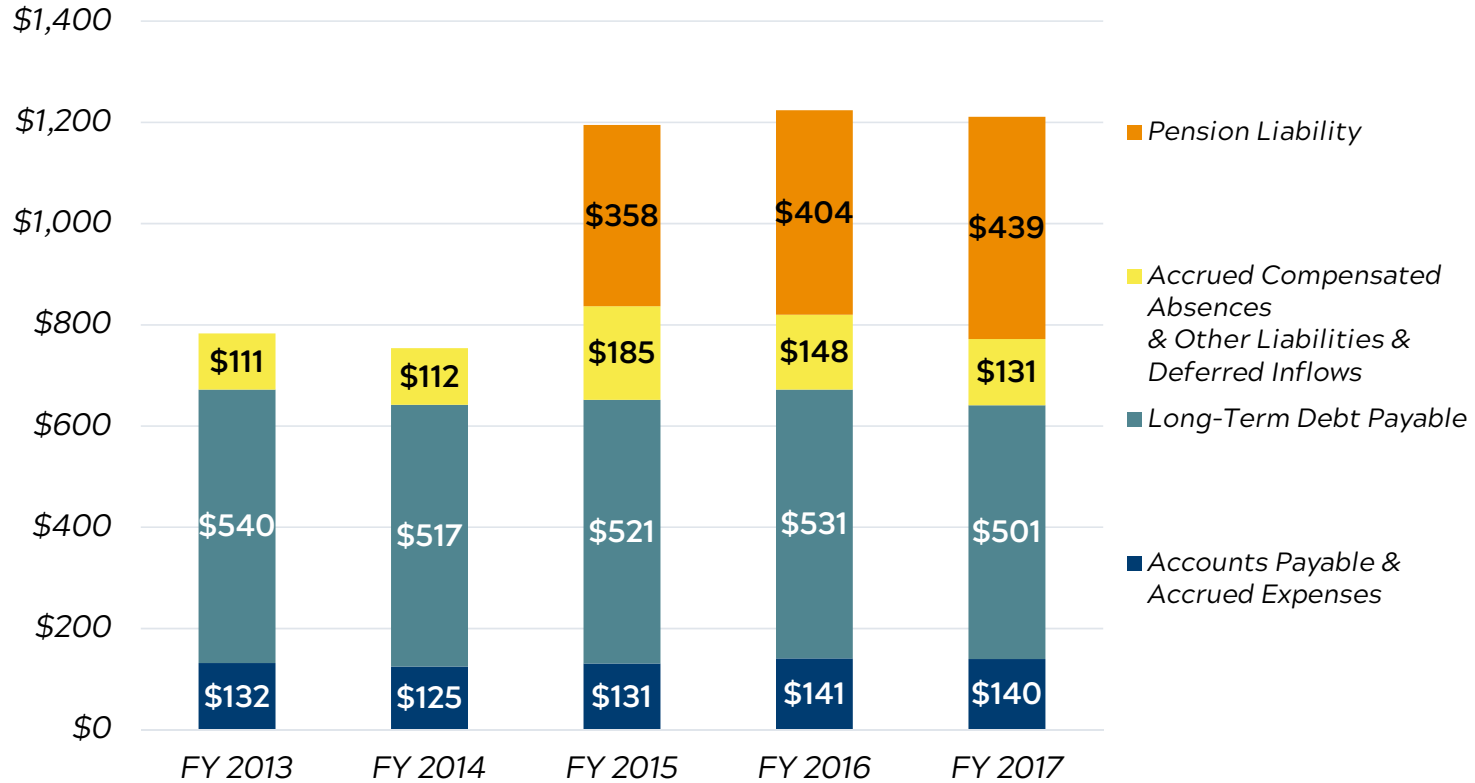


	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Current & Non-Current Assets	\$ 692	\$ 725	\$ 744	\$ 836	\$ 848
Capital Assets, Net	\$ 1,517	\$ 1,559	\$ 1,625	\$ 1,667	\$ 1,681
<b>Total Assets</b>	<b>\$ 2,209</b>	<b>\$ 2,284</b>	<b>\$ 2,369</b>	<b>\$ 2,503</b>	<b>\$ 2,529</b>

## Composition of Current & Non-Current Liabilities

### Showing the Impact of GASB 68 Accounting & Financial Reporting for Pensions

(all dollars in millions)



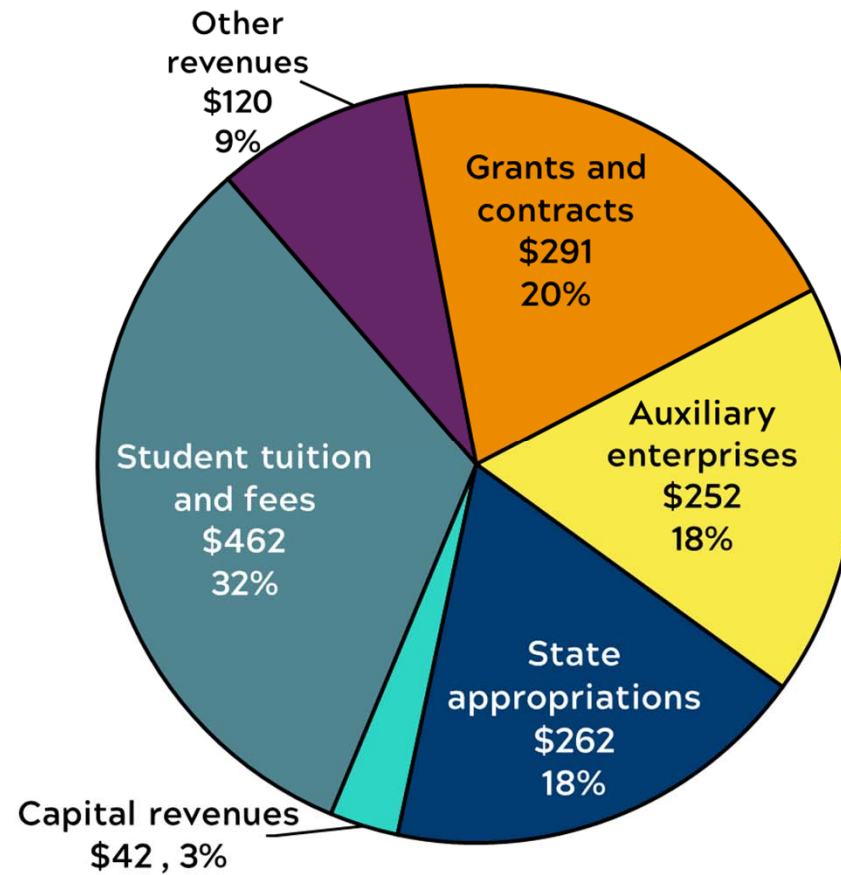
**Summary of Revenues, Expenses, and Changes in Net Position**  
For the years ending June 30, 2017 and 2016  
*(all dollars in millions)*

	2017	2016	Change	
			Amount	Percent
Operating revenues	\$ 1,031.5	\$ 1,020.6	\$ 10.9	1.1%
Operating expenses	1,364.7	1,315.4	49.3	3.7%
<b>Operating loss</b>	<b>(333.2)</b>	<b>(294.8)</b>	<b>(38.4)</b>	<b>13.0%</b>
State appropriations	261.7	250.7	11.0	4.4%
Other non-operating revenues and expenses	93.5	67.3	26.2	38.9%
<b>Non-operating revenue</b>	<b>355.2</b>	<b>318.0</b>	<b>37.2</b>	<b>11.7%</b>
<b>Income before other revenues &amp; expenses</b>	<b>22.0</b>	<b>23.2</b>	<b>(1.2)</b>	<b>(5.2%)</b>
Other revenues, expenses, gains or losses	42.0	98.4	(56.4)	(57.3%)
<b>Increase in net position</b>	<b>64.0</b>	<b>121.6</b>	<b>(57.6)</b>	<b>(47.4%)</b>
Net position - beginning of year	1,338.3	1,216.7	121.6	10.0%
<b>Net position - end of year</b>	<b>\$ 1,402.3</b>	<b>\$ 1,338.3</b>	<b>\$ 64.0</b>	<b>4.8%</b>

**Operating loss:** Under GASB reporting, public universities will always show an operating loss because state appropriations, gifts and investment income are all considered non-operating revenues.

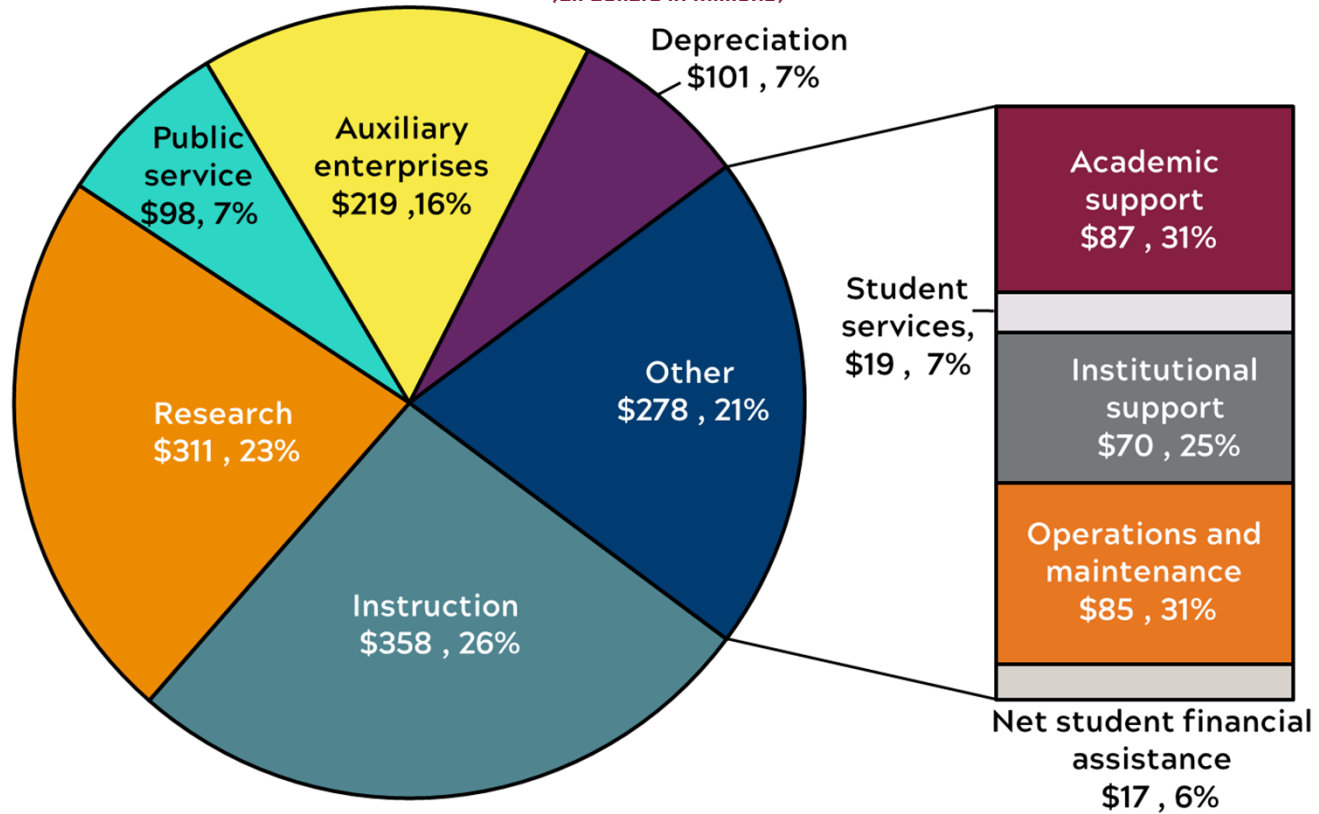
# Total Revenue by Source - \$1,429 M for the year ending June 30, 2017

(all dollars in millions)



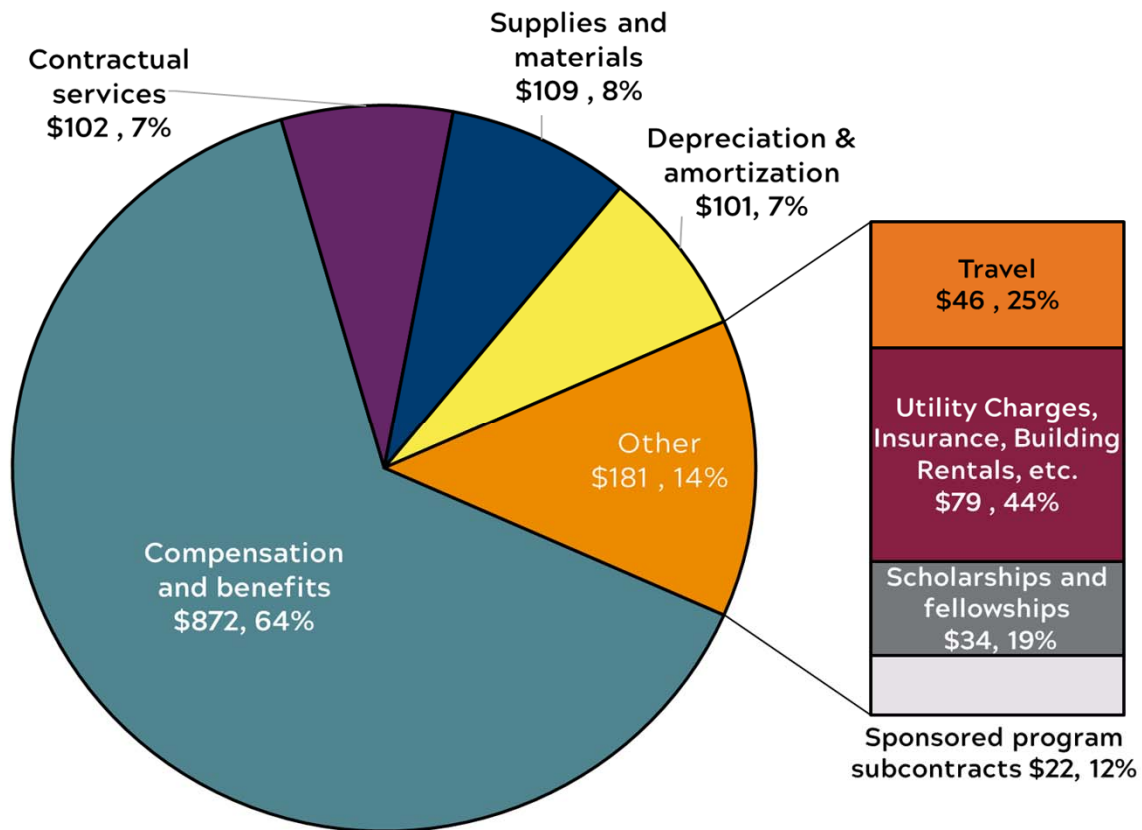
# Total Operating Expenses by Function - \$1,365 M for the year ending June 30, 2017

(all dollars in millions)






## Total Operating Expenses by Classification - \$1,365 M for the year ending June 30, 2017

(all dollars in millions)



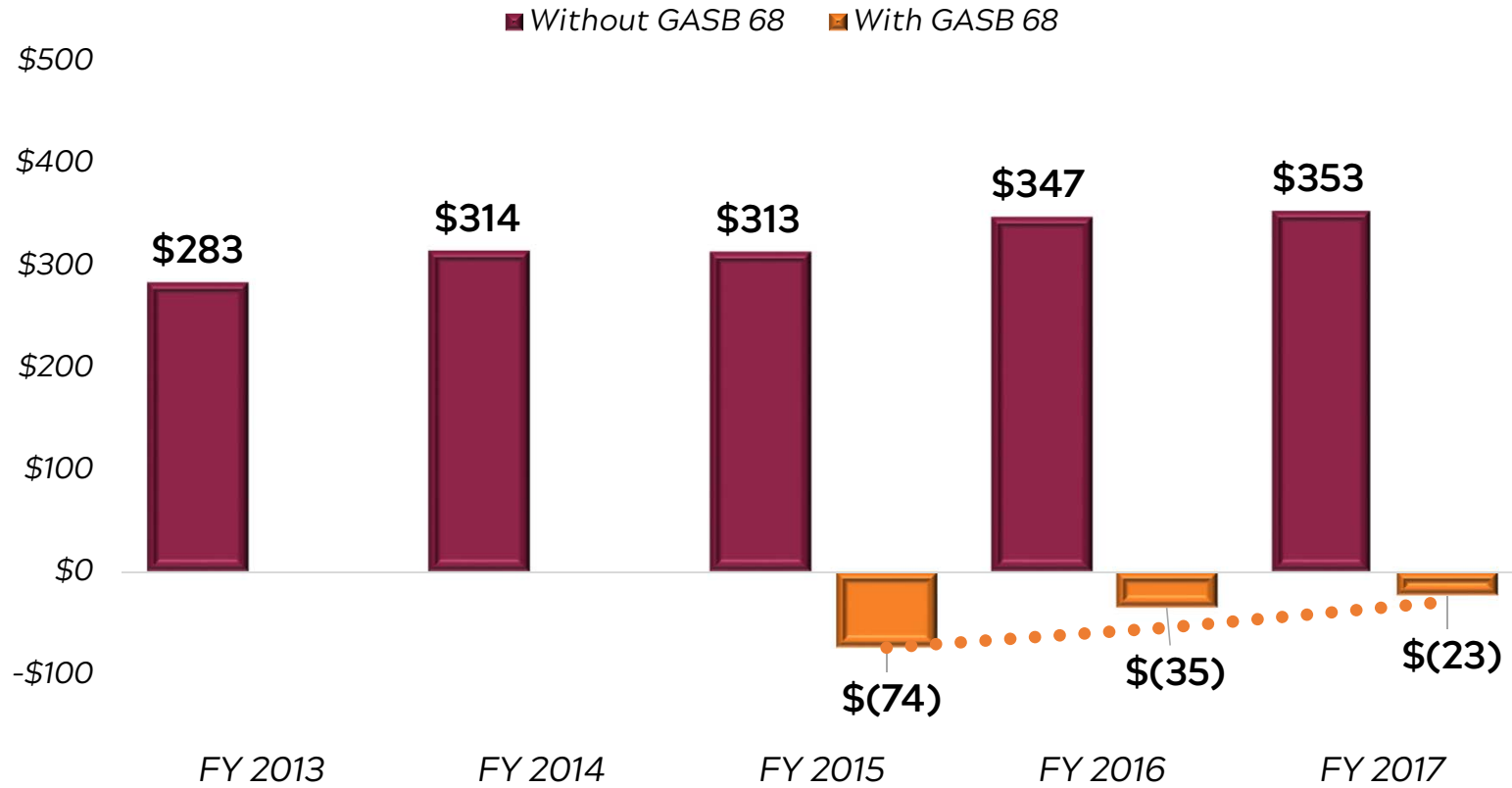
## *Snapshot of Financial Position*

-  Total university assets increased by \$25.1 million, 1% growth
-  Total university liabilities increased by \$4.8 million, 0.4% growth
-  Total net position grew by 4.8% or \$64.0 million

Capital assets	\$37.5 million
Restricted	\$14.7 million
Unrestricted	<u>\$11.8 million</u>
	\$64.0 million

# Unrestricted Net Position

(all dollars in millions)





# Conclusion

Continued Investment in Facilities



Strong Student Demand



Moderate Tuition Increases



Ranked 43<sup>rd</sup> in 2016 NSF Research Ranking



Continued Growth in Net Position



GASB 75 Will Require Additional FY 2018 Liability Adjustments (OPEB)



**Presentation of Auditor of Public Accounts Intercollegiate Athletics Programs  
Report for Year Ended June 30, 2017**

**FINANCE AND RESOURCE MANAGEMENT COMMITTEE  
AND  
COMPLIANCE, AUDIT, AND RISK COMMITTEE**

**February 9, 2018**

The Auditor of Public Accounts (APA) performed certain agreed-upon procedures to evaluate whether the Schedule of Revenues and Expenses of Intercollegiate Athletics Program of the university is in compliance with National Collegiate Athletic Association (NCAA) Constitution 3.2.4.15.1, for the year ended June 30, 2017. The APA did not perform an audit of the financial statements of the Intercollegiate Athletics Programs, so no opinion was issued. The APA performed procedures that addressed internal controls, affiliated and outside organizations, Schedule of Revenues and Expenses of Intercollegiate Athletics Programs (Schedule), and separate procedures for specific revenues and expenses. During the APA review, no matters were brought to the APA's attention that would lead them to believe the amounts on the Schedule of Revenues and Expenses should be adjusted.

The purpose of the Schedule is to present a summary of revenues and expenses of the intercollegiate athletics programs of the university for the year ended June 30, 2017. Total revenues of the Intercollegiate Athletics Programs for the year ended June 30, 2017 were \$87.4 million with the majority of the revenues coming from the football and basketball programs. Expenses for the year were \$90.7 million, resulting in an operating deficit of \$3.3 million. The following attachments provide additional information regarding athletic finances:

- *Attachment A* displays the five-year trend analysis of athletic revenues and expenses. The analysis indicates an upward slope in both revenues and expenses with a deficit in fiscal years 2016 and 2017.
- *Attachment B* shows the five-year trend for the net income/deficit. The current year deficit occurred primarily due to the decision to use funds other than gifts to fund scholarships as explained below.
- *Attachment C* offers a breakout of fiscal year 2017 net operating income by athletic program, showing how the proceeds from football and men's basketball support other athletic programs.
- *Attachment D* is the report issued by the APA on Intercollegiate Athletics Programs for the year ended June 30, 2017.

As with all auxiliaries, the university requires the Athletic Department to maintain adequate fund balances or reserves necessary to protect operations from volatility of changes in athletic program revenues and to serve as a contingency fund. Any proposed use of reserve funds must be approved in advance through the budget process. In fiscal year 2017 a use of reserves was approved, in part, to cover an expected scholarship fundraising shortfall anticipated at the beginning of the fiscal year. Athletic scholarships are primarily funded by

gifts, and less than 20 percent of those gifts are from endowment income, which tend to have predictable annual distributions. Therefore, the majority of scholarships are funded by revenues generated from annual fundraising campaigns, which tend to be less predictable. In addition, such gifts tend to be received mainly in the latter part of each fiscal year (between December and March). If the fundraising campaign falls short of budgeted targets, the athletic department must use a combination of current year operating revenues or athletic department reserves to make up the shortfall.

For fiscal year 2017, athletics department approved budget authorized the use of \$4 million from other operating funds to cover scholarship expenses, since on July 1, 2016, only \$1.7 million of cash from gifts was available for scholarships. The gift resources at that time were insufficient to cover the athletic scholarship expenses for the Fall 2017 semester. However, as the year progressed, the fund raising campaign for fiscal year 2017 exceeded the budgeted target and the cash balance held by the Virginia Tech Foundation, Inc. at June 30, 2017 to fund athletic scholarships was approximately \$7.3 million. The contribution revenue for these funds will be recognized in fiscal year 2018 when the Athletic department will transfer these resources from the Foundation to fund scholarships.

See page 8 of Attachment D for the Schedule of Revenues and Expense of Intercollegiate Athletics Programs for the year ended June 30, 2017.

### **Additional Activities related to NCAA Reporting**

House Bill 1897 passed by the 2015 General Assembly prohibits the total of school funds and student fees used to support intercollegiate athletics programs from exceeding a certain percentage of athletics revenues. The bill requires any school that violates this prohibition to submit to the General Assembly a five-year plan for coming into compliance. Virginia Tech participated in a statewide “athletic task force” as required by Section 23-1.2 Code of Virginia, to develop and implement a standardized reporting format for each higher education institution in Virginia to annually report its intercollegiate athletics revenue and expenses to the APA. This new standardized report will be utilized to assess compliance with the requirements of HB1897. These percentages are larger for smaller institutions which do not have significant ticket sales or conference distributions. The first measurement period for evaluating HB 1897 is fiscal year 2017. The university has received no further communication from the APA regarding reporting of Athletic revenues and expenses.

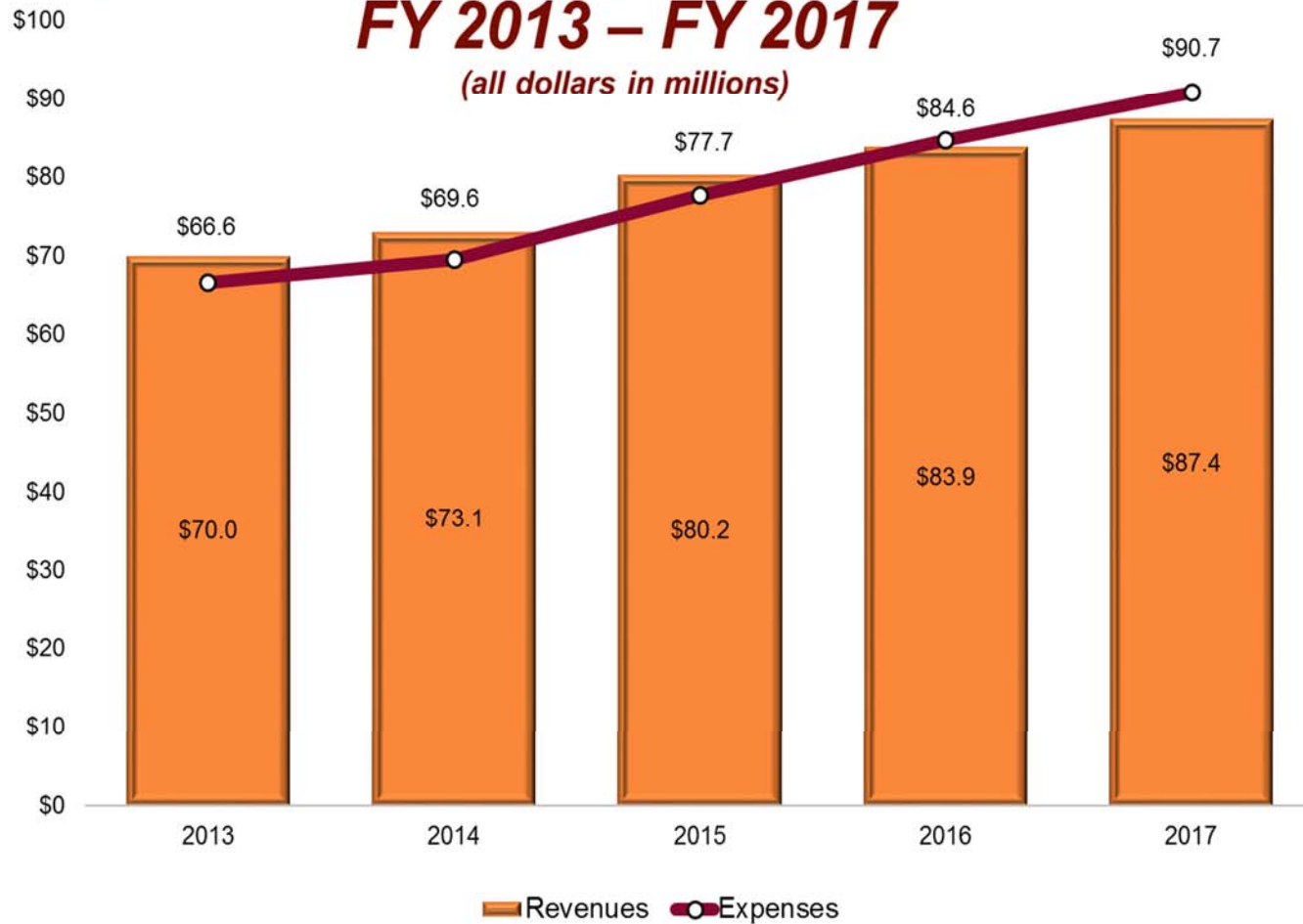
Virginia Tech does not anticipate having to make any significant changes to comply with the task force guidance. Additionally, since the university’s athletic fees are the lowest in the Commonwealth, the university should not be effected by the fixed percentage of fees ceiling required by the legislation. For Virginia Tech, essentially the requirement states that student fees must remain below 20 percent of total athletic revenues. For fiscal year 2017, student fees were 10.1 percent of total revenues.

The second requirement in the legislation states that any percentage increase in student fees must be matched by a similar increase in all other revenues, as calculated on a five year rolling average. Traditionally, the university has kept athletic fee increases very low, but this new requirement must be kept in mind for future increases.

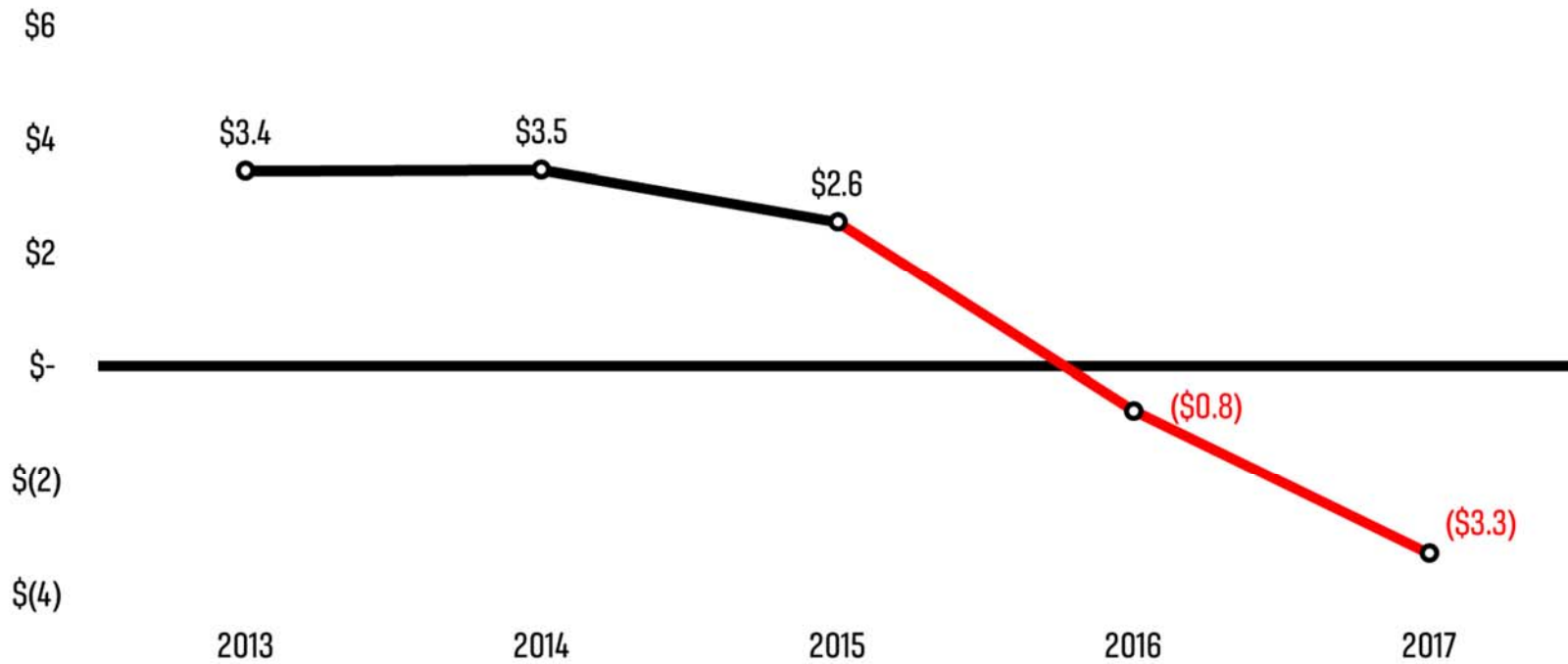
# Intercollegiate Athletic Programs Revenue & Expenses

## FY 2013 – FY 2017

(all dollars in millions)



**Intercollegiate Athletic Programs  
Net Operating Income (Deficit)  
FY 2013 – FY 2017**  
*(all dollars in millions)*



**Intercollegiate Athletic Programs  
Net Operating Income (Deficit)  
FY 2017**

	<b>Revenue</b>	<b>Expenses</b>	<b>Net Income/Deficit</b>
<b>Football</b>	\$ 54,251,228	\$ 30,878,285	\$ 23,372,943
<b>Men's Basketball</b>	9,964,883	9,754,587	210,296
<b>Women's Basketball</b>	1,443,287	4,810,669	(3,367,382)
<b>Other Sports</b>	21,768,122	45,272,880	(23,504,758)
	<b>\$ 87,427,520</b>	<b>\$ 90,716,421</b>	<b>\$ (3,288,901)</b>

*Other Sports is the total of Men's Other Sports, Woman's Other Sports, and Non-Program Specific activities as displayed on the "Schedule of Revenues and Expenses of Intercollegiate Athletics Programs" on the NCAA report. There are 16 other sports programs such as baseball, softball, golf, tennis, track & field, etc.*



VIRGINIA POLYTECHNIC INSTITUTE  
AND STATE UNIVERSITY

INTERCOLLEGIATE ATHLETICS PROGRAMS  
FOR THE YEAR ENDED  
JUNE 30, 2017

Auditor of Public Accounts  
Martha S. Mavredes, CPA  
[www.apa.virginia.gov](http://www.apa.virginia.gov)  
(804) 225-3350



**– TABLE OF CONTENTS –**

	<u>Pages</u>
INDEPENDENT ACCOUNTANT’S REPORT ON APPLYING AGREED-UPON PROCEDURES	1-7
SCHEDULE	
Schedule of Revenues and Expenses of Intercollegiate Athletics Programs	8
Notes to the Schedule of Revenues and Expenses of Intercollegiate Athletics Programs	9-12
UNIVERSITY OFFICIALS	13





Martha S. Mavredes, CPA  
Auditor of Public Accounts

# Commonwealth of Virginia

*Auditor of Public Accounts*

P.O. Box 1295  
Richmond, Virginia 23218

January 16, 2018

The Honorable Ralph S. Northam  
Governor of Virginia

The Honorable Robert D. Orrock, Sr.  
Chairman, Joint Legislative Audit  
And Review Commission

Timothy D. Sands  
President, Virginia Polytechnic Institute  
And State University

## **INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES**

We have performed the procedures enumerated below, which were agreed to by the President of Virginia Polytechnic Institute and State University, solely to assist the University in evaluating whether the accompanying Schedule of Revenues and Expenses of Intercollegiate Athletics Programs of the University is in compliance with National Collegiate Athletic Association (NCAA) Constitution 3.2.4.15.1, for the year ended June 30, 2017. University management is responsible for the Schedule of Revenues and Expenses of Intercollegiate Athletics Programs (Schedule) and the Schedule's compliance with NCAA requirements. The sufficiency of the procedures is solely the responsibility of the University. Consequently, we make no representation regarding sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

### Agreed-Upon Procedures Related to the Schedule of Revenues and Expenses of Intercollegiate Athletics Programs

Procedures described below were limited to material items. For the purpose of this report, and as defined in the agreed-upon procedures, items are considered material if they exceed four percent of total revenues or total expenses, as applicable. The procedures that we performed and our findings are as follows:

## **Internal Controls**

1. We reviewed the relationship of internal control over Intercollegiate Athletics Programs to internal control reviewed in connection with our audit of the University's financial statements. In addition, we identified and reviewed those controls unique to Intercollegiate Athletics Programs, which were not reviewed in connection with our audit of the University's financial statements.
2. Intercollegiate Athletics Department management provided a current organizational chart. We also made certain inquiries of management regarding control consciousness, the use of internal audit in the department, competence of personnel, protection of records and equipment, and controls regarding information systems with the information technology department.
3. Intercollegiate Athletics Department management provided us with their process for gathering information on the nature and extent of affiliated and outside organizational activity for or on behalf of the University's Intercollegiate Athletics Programs. We tested these procedures as noted below.

## **Affiliated and Outside Organizations**

4. Intercollegiate Athletics Department management identified all intercollegiate athletics-related affiliated and outside organizations and provided us with copies of audited financial statements for each such organization for the reporting period.
5. Intercollegiate Athletics Department management prepared and provided to us a summary of revenues and expenses for or on behalf of the intercollegiate athletics programs by affiliated and outside organizations included in the Schedule.
6. Intercollegiate Athletics Department management provided to us any additional reports regarding internal control matters identified during the audits of affiliated and outside organizations performed by independent public accountants. We were not made aware of any internal control findings.

## **Schedule of Revenues and Expenses of Intercollegiate Athletics Programs**

7. Intercollegiate Athletics Department management provided to us the Schedule of Revenues and Expenses of Intercollegiate Athletics Programs for the year ended June 30, 2017, as prepared by the University and shown in this report. We recalculated the addition of the amounts in the Schedule, traced the amounts on the Schedule to management's trial balance worksheets, and agreed the amounts in management's trial balance worksheets to the Intercollegiate Athletics Department's accounts in the accounting records. We noted no differences between the amounts in the Intercollegiate

Athletics Department’s accounting records and the amounts on the trial balance. We discussed the nature of adjusting journal entries with management and are satisfied that the adjustments are appropriate.

8. We compared each major revenue and expense account over ten percent of total revenues or total expenses, respectively, to prior period amounts and budget estimates. Variances exceeding ten percent of prior period amounts or budget estimates are explained below:

<u>Line Item</u>	<u>Explanation</u>
Contributions	This line item decreased by \$3.57 million, or 18.6 percent, in the current year due to Athletics not fully utilizing its contributions raised for scholarship funding but rather using the operating budget for a portion of the scholarship expense. Contributions are recognized when used to support operations and unused contributions are deferred to subsequent fiscal years.

**Revenues**

9. We reviewed a sample of ticket sales reconciliations performed for accuracy and proper review and approval. We determined the reconciliations reviewed to be accurate and substantially in agreement with the amounts reported in the Schedule.
10. We obtained an understanding of the institution’s methodology for allocating student fees to intercollegiate athletics programs. We compared student fees reported in the Schedule to amounts reported in the accounting records and an expected amount based on fee rates and enrollment. We found these amounts to be substantially in agreement with minor differences attributed to the methodology used for projecting student fee revenue.
11. We obtained the amount reported in the Schedule for direct institutional support. This amount was deemed to be immaterial for detailed testing.
12. Intercollegiate Athletics Department management provided us with a listing of settlement reports and game guarantee agreements for away games during the reporting period. We reviewed these settlement reports and guarantee agreements for selected games and agreed selected amounts to proper posting in the accounting records and supporting documentation.
13. Intercollegiate Athletics Department management provided us with a listing of all contributions of moneys, goods or services received directly by the Intercollegiate Athletics Programs from any affiliated or outside organization, agency or group of

individuals that constitutes ten percent or more of all contributions received during the reporting period. Except for contributions received from the Virginia Tech Foundation, an affiliated organization, we noted no individual contribution that constituted more than ten percent of total contributions received for Intercollegiate Athletics Programs. We reviewed contributions from the Virginia Tech Foundation, which exceeded ten percent of all contributions, and agreed them to supporting documentation.

14. We obtained the amount reported in the Schedule for in-kind contributions. This amount was deemed to be immaterial for detailed testing.
15. Intercollegiate Athletics Department management provided us with a listing and copies of all agreements related to participation in revenues from broadcast, television, radio, internet, and e-commerce rights. We gained an understanding of the relevant terms of the agreements and agreed selected amounts to proper posting in the accounting records and supporting documentation.
16. Intercollegiate Athletics Department management provided us with a listing and copies of all agreements related to participation in revenues from tournaments, conference distributions, and NCAA distributions. We gained an understanding of the terms of the agreements and agreed selected amounts to proper posting in the accounting records and supporting documentation.
17. We obtained the amount reported in the Schedule for program sales, concessions, novelty sales, and parking. This amount was deemed to be immaterial for detailed testing.
18. We obtained the amount reported in the Schedule for royalties, licensing, advertisements, and sponsorships. This amount was deemed to be immaterial for detailed testing.
19. The Virginia Tech Foundation manages athletics-related endowment funds on behalf of the University. The University has access to request endowment income from the Foundation in accordance with certain budgetary restrictions. This amount was deemed to be immaterial for detailed testing.
20. We obtained the amount reported in the Schedule for the University's participation in a post-season bowl. This amount was deemed to be immaterial for detailed testing.
21. We obtained the amount reported in the Schedule for other revenue. This amount was deemed to be immaterial for detailed testing.

## Expenses

22. Intercollegiate Athletics Department management provided us a listing of institutional student aid recipients during the reporting period. Since the University used the NCAA Compliance Assistant software to prepare athletic aid detail, we selected 40 individual student-athletes across all sports and obtained the students' account detail from the institution's student information system. We agreed each student's information to the information reported in the NCAA Membership Financial Reporting System. We also ensured that the total aid amount for each sport agreed to amounts reported as Financial Aid in the student accounting system with minor differences attributed to how book charges post to the accounting system.
23. We obtained the amount reported in the Schedule for game guarantee agreements for home games. This amount was deemed to be immaterial for detailed testing.
24. Intercollegiate Athletics Department management provided us with a listing of coaches, support staff, and administrative personnel employed and paid by the University during the reporting period. We selected and tested individuals, including football and men's and women's basketball coaches, and compared amounts paid during the fiscal year from the payroll accounting system to their contract or other employment agreement document. We found that recorded expenses equaled amounts paid as salary and bonuses and were in agreement with approved contracts or other documentation.
25. Intercollegiate Athletics Department management provided us with a listing of severance payments made during the reporting period. This amount was deemed to be immaterial for detailed testing.
26. We discussed the Intercollegiate Athletics Department's recruiting expense and team travel policies with Intercollegiate Athletics Department management and documented an understanding of those policies. We compared these policies to existing University and NCAA policies and noted substantial agreement of those policies.
27. We selected a sample of disbursements for team travel, game expenses, direct overhead and administrative expenses, and other operating expenses. We compared and agreed the selected operating expenses to adequate supporting documentation. We found all reviewed amounts to be properly approved, reasonable to intercollegiate athletics, and properly recorded in the accounting records.
28. We obtained a listing of debt service payments, lease payments, and rental fees for athletics facilities for the reporting year. We agreed all significant facility payments

included in the Schedule, including the two highest payments, to supporting documentation.

29. We obtained an understanding of the University's methodology for charging indirect cost to the athletic department. We evaluated indirect cost charges for reasonableness and noted proper reporting of these charges in the Schedule.

### **Other Reporting Items**

30. We obtained repayment schedules for all outstanding intercollegiate athletics debt during the reporting period. We recalculated annual maturities reporting in the notes to the Schedule and agreed total annual maturities and total outstanding athletic related debt to supporting documentation.
31. We agreed total outstanding institutional debt to the University's audited financial statements.
32. We agreed the fair value of athletics dedicated endowments to supporting documentation provided by the University.
33. We agreed the fair value of institutional endowments to supporting documentation, including the audited financial statements of the University's Foundation.
34. We obtained a schedule of athletics related capital expenditures made during the period. We selected a sample of transactions to validate existence and accuracy of recording and recalculated totals.

### **Additional Procedures**

35. We compared the sports sponsored, as reported in the NCAA Membership Financial Reporting System, to the squad lists of the institution. We noted agreement of the sports reported.
36. We obtained the institution's Sports Sponsorship and Demographics Forms Report for the reporting year. We validated that the countable sports identified by the institution met the minimum requirements for number of contests and minimum number of participants as defined in NCAA Bylaw 20.9.6.3. We ensured that countable sports have been properly identified in the NCAA Membership Financial Reporting System for the purpose of revenue distribution calculations.
37. We obtained a listing of student-athletes receiving Pell Grant awards from the institution's student information system and agreed the total value of these Pell Grants

to the amount reported in the NCAA Membership Financial Reporting System. We noted agreement of the amounts reported.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion on the Schedule of Revenues and Expenses of Intercollegiate Athletics Programs or any of the accounts or items referred to above. Accordingly, we do not express such an opinion. Had we performed additional procedures or had we conducted an audit of any financial statements of the Intercollegiate Athletics Department of Virginia Polytechnic Institute and State University in accordance with generally accepted auditing standards, other matters might have come to our attention that would have been reported to the University. This report relates only to the accounts and items specified above and does not extend to the financial statements of Virginia Polytechnic Institute and State University or its Intercollegiate Athletics Department taken as a whole.

This report is intended solely for the information and use of the President and the University and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

AUDITOR OF PUBLIC ACCOUNTS

JRQ/clj

VIRGINIA POLYTECHNIC INSTITUTE AND STATE UNIVERSITY  
SCHEDULE OF REVENUES AND EXPENSES OF  
INTERCOLLEGIATE ATHLETICS PROGRAMS  
For the year ended June 30, 2017

	Football	Men's Basketball	Women's Basketball	Men's Other Sports	Women's Other Sports	Non-Program Specific	Total
<b>Operating revenues:</b>							
Ticket sales	\$ 14,599,726	\$ 2,528,127	\$ 166,414	\$ 17,800	\$ -	\$ -	\$ 17,312,067
Student fees	-	-	-	-	2,304,921	6,580,953	8,885,874
Direct institutional support	-	-	-	-	643	2,020	2,663
Guarantees	4,300,000	7,500	-	1,000	1,000	-	4,309,500
Contributions	7,874,708	744,793	687,339	601,121	2,031,737	3,681,034	15,620,732
In-Kind	40,353	52,068	7,430	4,977	8,280	33,615	146,723
Media rights	17,609,812	4,493,678	300,399	30,000	37,500	-	22,471,389
NCAA distributions	-	1,645,122	9,436	70,663	12,584	2,613,736	4,351,541
Conference distributions (non-media or bowl)	4,972,248	99,024	63,030	160,626	156,511	2,000	5,453,439
Program, novelty, parking, and concession sales	1,617,603	81,782	20,011	20,231	8,375	20,992	1,768,994
Royalties, licensing, advertisement and sponsorships	1,219,449	177,775	79,176	165,125	181,125	749,644	2,572,294
Athletics restricted endowment and investments income	725,601	135,014	110,052	665,105	848,488	137,011	2,621,271
Other operating revenue	108,580	-	-	100,000	-	519,305	727,885
Bowl revenues	<u>1,183,148</u>	-	-	-	-	-	<u>1,183,148</u>
Total operating revenues	<u>54,251,228</u>	<u>9,964,883</u>	<u>1,443,287</u>	<u>1,836,648</u>	<u>5,591,164</u>	<u>14,340,310</u>	<u>87,427,520</u>
<b>Operating expenses:</b>							
Athletic student aid	3,579,878	536,358	683,943	2,789,011	4,375,190	1,463,593	13,427,973
Guarantees	612,949	598,657	146,181	23,533	25,530	-	1,406,850
Coaching salaries, benefits, and bonuses paid by the University and related entities	8,826,626	3,964,395	1,584,861	2,534,261	2,381,430	-	19,291,573
Support staff/administrative compensation, benefits, and bonuses paid by the University and related entities	1,856,546	598,449	460,545	108,292	137,381	10,023,319	13,184,532
Severance payments	53,511	334,161	58,516	42,744	13,158	76,957	579,047
Recruiting	652,455	63,588	189,242	224,442	234,369	42,091	1,406,187
Team travel	940,966	845,903	476,120	1,137,375	932,325	115	4,332,804
Sports equipment, uniforms, and supplies	998,939	375,599	109,102	472,192	434,858	235,543	2,626,233
Game expenses	1,311,179	433,906	244,183	255,041	163,566	1,788,991	4,196,866
Fundraising, marketing and promotion	190,506	159,626	29,928	54,801	63,748	698,762	1,197,371
Spirit groups	451,883	113,343	15,085	-	-	213,397	793,708
Athletic facility leases and rental fees	2,000	910	700	133,718	126,574	30	263,932
Athletic facility debt service	4,088,355	283,629	283,629	-	-	918,823	5,574,436
Direct overhead and administrative expenses	3,232,112	529,513	215,152	505,499	505,785	3,347,967	8,336,028
Indirect cost paid to the institution by athletics	92,280	-	-	-	-	4,999,761	5,092,041
Medical expenses and insurance	184,480	72,906	49,809	242,632	318,520	342,678	1,211,025
Memberships and dues	3,915	1,235	15,090	9,601	12,909	34,027	76,777
Student-Athlete Meals (non-travel)	874,797	146,533	71,299	153,392	176,018	115,132	1,537,171
Other operating expenses	1,312,307	695,876	177,284	372,102	327,471	1,684,226	4,569,266
Bowl expenses	<u>1,612,601</u>	-	-	-	-	-	<u>1,612,601</u>
Total operating expenses	<u>30,878,285</u>	<u>9,754,587</u>	<u>4,810,669</u>	<u>9,058,636</u>	<u>10,228,832</u>	<u>25,985,412</u>	<u>90,716,421</u>
Excess (deficiency) of revenues over (under) expenses	<u>\$ 23,372,943</u>	<u>\$ 210,296</u>	<u>\$ (3,367,382)</u>	<u>\$ (7,221,988)</u>	<u>\$ (4,637,668)</u>	<u>\$ (11,645,102)</u>	<u>\$ (3,288,901)</u>
<b>Other Reporting Items:</b>							
Total athletics-related debt							\$ 74,926,000
Total institutional debt							\$ 456,772,000
Value of athletics-dedicated endowments							\$ 61,694,166
Value of institutional endowments							\$ 946,513,459
Total athletics-related capital expenditures							\$ 7,044,000

The accompanying Notes to the Schedule of Revenues and Expenses of Intercollegiate Athletics Programs are an integral part of this Schedule.



**VIRGINIA POLYTECHNIC INSTITUTE AND STATE UNIVERSITY**  
**NOTES TO SCHEDULE OF REVENUES AND EXPENSES OF**  
**INTERCOLLEGIATE ATHLETICS PROGRAMS**  
**FOR THE YEAR ENDED JUNE 30, 2017**

1. BASIS OF PRESENTATION

The accompanying Schedule of Revenues and Expenses of Intercollegiate Athletic Programs has been prepared on the accrual basis of accounting. The purpose of the Schedule is to present a summary of revenues and expenses of the intercollegiate athletic programs of the University for the year ended June 30, 2017. The Schedule includes those intercollegiate athletics revenues and expenses made on behalf of the University's athletics programs by outside organizations not under the accounting control of the University. Because the Schedule presents only a selected portion of the activities of the University, it is not intended to and does not present either the financial position, changes in fund balances, or cash flows for the year then ended. Revenues and expenses directly identifiable with each category of sport presented are reported accordingly. Revenues and expenses not directly identifiable to a specific sport are reported under the category "Non-Program Specific."

2. AFFILIATED ORGANIZATIONS

The University received \$18,018,489 from the Virginia Tech Foundation, Inc. Approximately \$9,427,973 of these funds were used for grant-in-aid scholarships for student-athletes. These amounts received are included in the accompanying schedule as follows: \$7,030,217 is included in the Contributions line item and \$2,397,756 is included in the Athletics Restricted Endowment and Investment Income line item.

3. LONG-TERM DEBT

In October 2001, a \$26,285,000 note was issued for the Athletic Department. This note was issued for the South End Zone addition to Lane Stadium. Part of the original debt was refinanced in January 2008 with a \$2,860,000 note that will be repaid through 2020 and has an outstanding balance of \$2,775,000. The remaining original debt issuance was refinanced in February 2011 with an \$11,540,000 note that will be repaid through 2027 and has an outstanding balance of \$7,625,000.

In May 2004, a \$52,715,000 revenue bond was issued for the Athletic Department. This bond was issued for the West Side Expansion to Lane Stadium which was completed in 2006. The majority of this debt was refinanced in November 2012 with a \$32,365,000 note. This note has an outstanding balance of \$26,745,000 and will be repaid with private fund raising and operating revenues through 2029. The remaining original debt issuance was repaid with private fund raising and operating revenues during 2014.

In November 2009, an \$8,705,000 note was issued for the Athletic Department. This note was issued for the Hahn Hurst Basketball Practice Center. Part of the original debt was refinanced in November 2016 with a \$5,385,000 note that will be repaid through 2030 and has an outstanding balance of \$5,385,000. The remaining original debt issuance has an outstanding balance of \$1,160,000 which will be repaid with private fund raising and operating revenues through 2020.

In October 2015, a \$510,000 revenue bond was issued for the Athletic Department. This bond was issued for the Indoor Practice Facility. This note has an outstanding balance of \$510,000 and will be repaid with general operating revenues through 2035.

In August 2016, a \$31,509,000 internal loan was issued for the Athletic Department. This loan was issued for improvements to the Baseball Stadium and Rector Field House. This note has an outstanding balance of \$30,726,000 and will be repaid with general operating revenues through 2034.

A summary of future principal and interest commitments for fiscal years subsequent to June 30, 2017 is presented as follows:

<b>Year Ended June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2018	\$ 3,367,326	\$ 2,281,627	\$ 5,648,953
2019	3,468,090	2,175,244	5,643,334
2020	3,905,333	2,017,228	5,922,561
2021	4,111,801	1,843,209	5,955,010
2022	4,293,470	1,655,040	5,948,510
2023 - 2027	23,376,195	5,584,575	28,960,770
2028 - 2032	24,260,675	2,124,405	26,385,080
2033 - 2035	<u>8,143,407</u>	<u>213,246</u>	<u>8,356,653</u>
Total	<u>\$74,926,297</u>	<u>\$17,894,574</u>	<u>\$92,820,871</u>

4. UNIVERSITY ADMINISTRATION FEE

As with all auxiliary enterprises, the University charges the Athletic Department an administrative fee. During the fiscal year, the Department paid \$5,092,041 to the University. This amount is included on the Indirect Cost Paid to the Institution by Athletics line item, and includes \$92,280 in Football, and \$4,999,761 in the Non-Program Specific category.

5. CAPITAL ASSETS

Capital assets consisting of buildings, infrastructure, and equipment are stated at appraised historical cost or actual cost where determinable. Construction in progress (CIP) is capitalized at actual cost as expenses are incurred. All gifts of capital assets are recorded at fair market value as of the donation date.

Equipment is capitalized when the unit acquisition cost is \$2,000 or greater and the estimated useful life is one year or more. Software is capitalized when the acquisition and/or the development costs exceed \$100,000. Renovation costs are capitalized when expenses total more than \$100,000, the asset value significantly increases, or the useful life is significantly extended. Routine repairs and maintenance are charged to operating expense in the year the expense is incurred.

Depreciation is computed using the straight-line method over the useful life of the assets. The useful life is 40 to 60 years for buildings, ten to 50 years for infrastructure and land improvements, and three to 30 years for fixed and movable equipment.

A summary of changes in capital assets follows for the year ending June 30, 2017 (all dollars in thousands):

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Depreciable capital assets:				
Buildings	\$171,582	\$ 794	\$ 140	\$172,236
Moveable equipment	7,340	426	256	7,510
Software	313	-	-	313
Fixed equipment	13,242	83	2,552	10,773
Infrastructure	<u>19,805</u>	<u>202</u>	<u>578</u>	<u>19,429</u>
Total depreciable capital assets, at cost	<u>212,282</u>	<u>1,505</u>	<u>3,526</u>	<u>210,261</u>
Less accumulated depreciation:				
Buildings	46,330	3,865	72	50,123
Moveable equipment	4,929	553	256	5,226
Software	225	20	-	245
Fixed equipment	5,954	515	2,550	3,919
Infrastructure	<u>16,699</u>	<u>653</u>	<u>481</u>	<u>16,871</u>
Total accumulated depreciation	<u>74,137</u>	<u>5,606</u>	<u>3,359</u>	<u>76,384</u>
Total depreciable capital assets, net of accumulated depreciation	<u>138,145</u>	<u>(4,101)</u>	<u>167</u>	<u>133,877</u>
Non-depreciable capital assets:				
Construction in progress	<u>1,907</u>	<u>6,681</u>	<u>1,131</u>	<u>7,457</u>
Total non-depreciable capital assets	<u>1,907</u>	<u>6,681</u>	<u>1,131</u>	<u>7,457</u>
Total capital assets, net of accumulated depreciation	<u>\$140,052</u>	<u>\$2,580</u>	<u>\$1,298</u>	<u>\$141,334</u>

## 6. OPERATING DEFICIT

As with all auxiliaries, the University requires the Athletic Department to maintain adequate fund balances or reserves necessary to protect operations from volatility of changes in athletic program revenues and to serve as a contingency fund. Any proposed use of reserve funds must be approved in advance through the budget process. In fiscal year 2017 a use of reserves was approved, in part, to cover an expected scholarship fundraising shortfall. Athletic scholarships are primarily funded by gifts, and less than 20 percent of those gifts are from endowments, which tend to have predictable annual distributions. Therefore, the majority of scholarships are funded by annual fundraising campaigns and are more volatile and such gifts tend to be received mainly in the latter part of each fiscal year (between December and March). If the fundraising campaign falls short of budgeted targets, the Athletic Department must use a combination of current year operating revenues or Athletic Department reserves to make up the shortfall. For fiscal year 2017, the approved budget authorized the use of \$4 million from other operating funds to cover scholarship expenses, because on July 1, 2016, only \$1.7 million of cash from gifts was available for scholarships. As the year progressed, the fund raising campaign for fiscal year 2017 exceeded the budgeted target and the cash balance held by the Virginia Tech Foundation, Inc. at June 30, 2017 to fund scholarships was approximately \$7.3 million. The contribution revenue for these funds will be recognized in fiscal year 2018 as they are used to fund scholarships. The operating deficit for fiscal year 2017 occurred primarily due to the decision to use funds other than gifts to fund scholarships.

# VIRGINIA POLYTECHNIC INSTITUTE AND STATE UNIVERSITY

As of June 30, 2017

## BOARD OF VISITORS

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Whit Babcock, Director of Intercollegiate Athletics Programs

Auditor of Public Accounts  
Intercollegiate Athletics Programs  
March 25, 2018

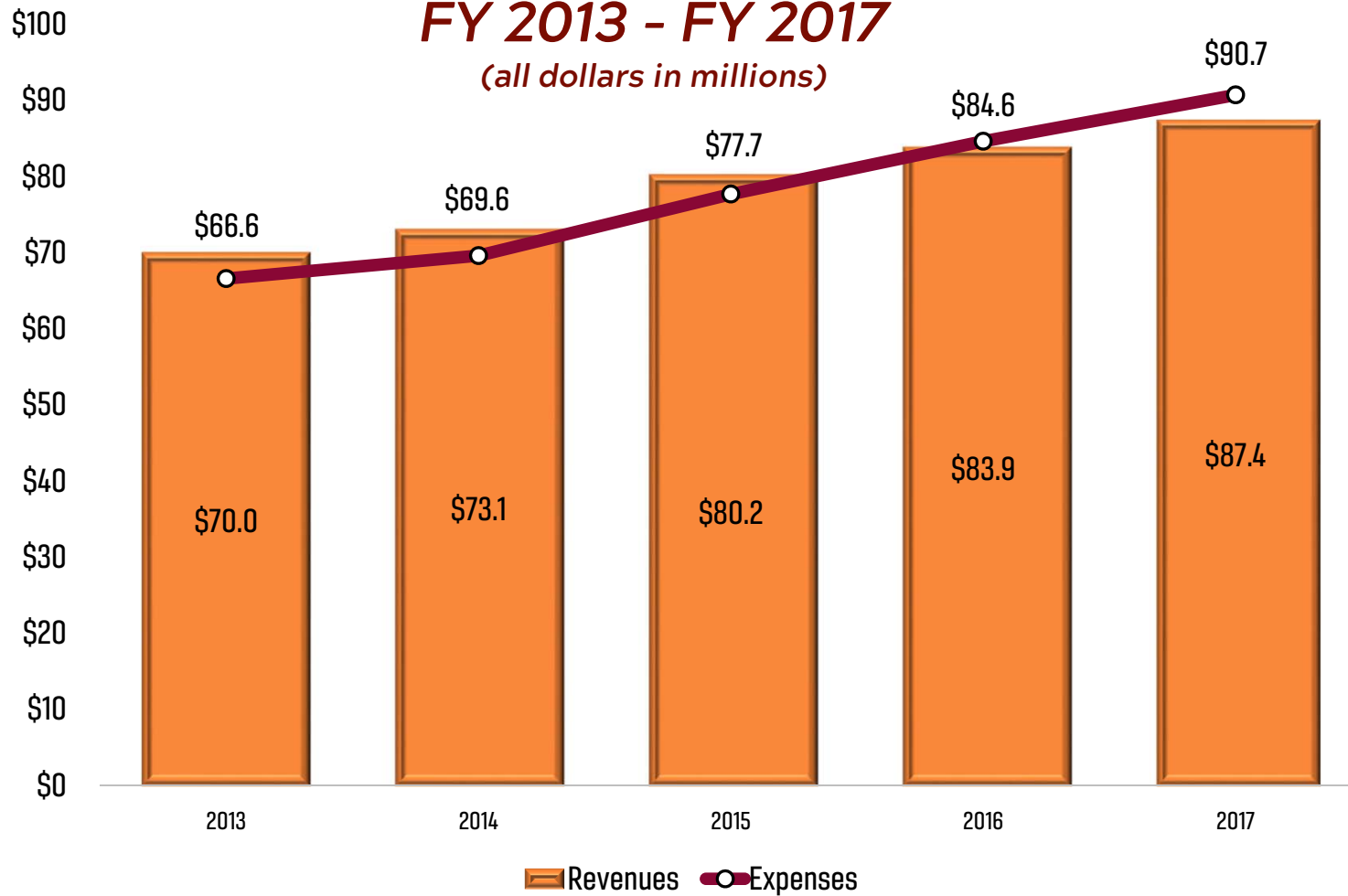
**KEN MILLER,**  
**ASSISTANT VICE PRESIDENT FOR FINANCE &  
UNIVERSITY CONTROLLER**



# Intercollegiate Athletic Programs Revenue & Expenses

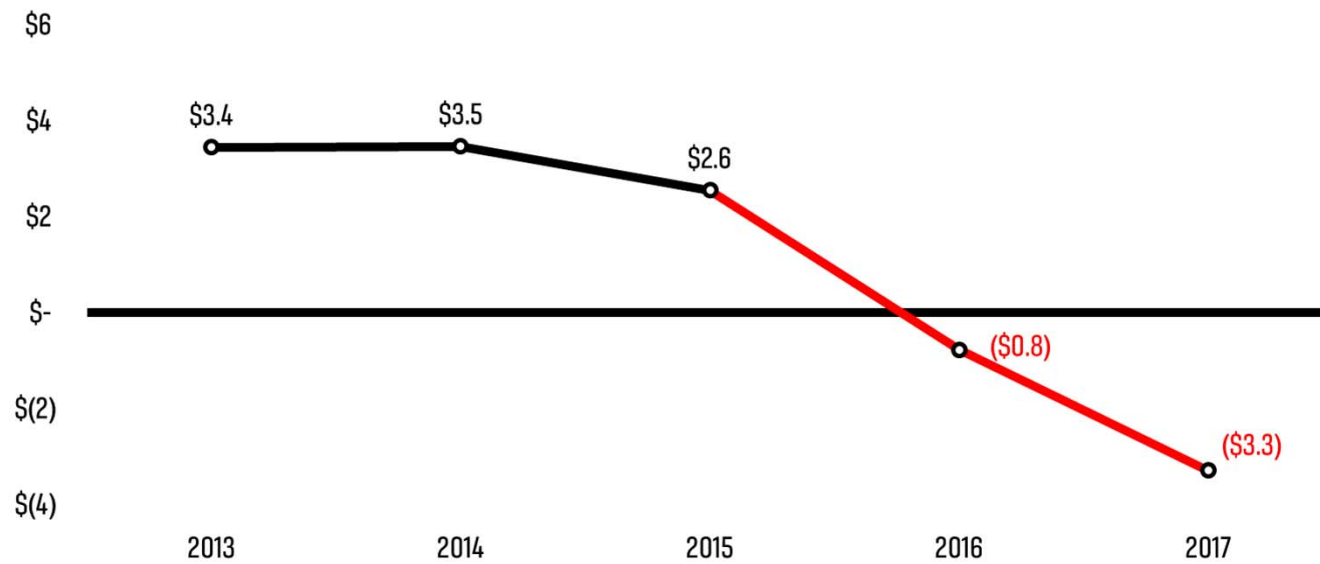
## FY 2013 - FY 2017

(all dollars in millions)



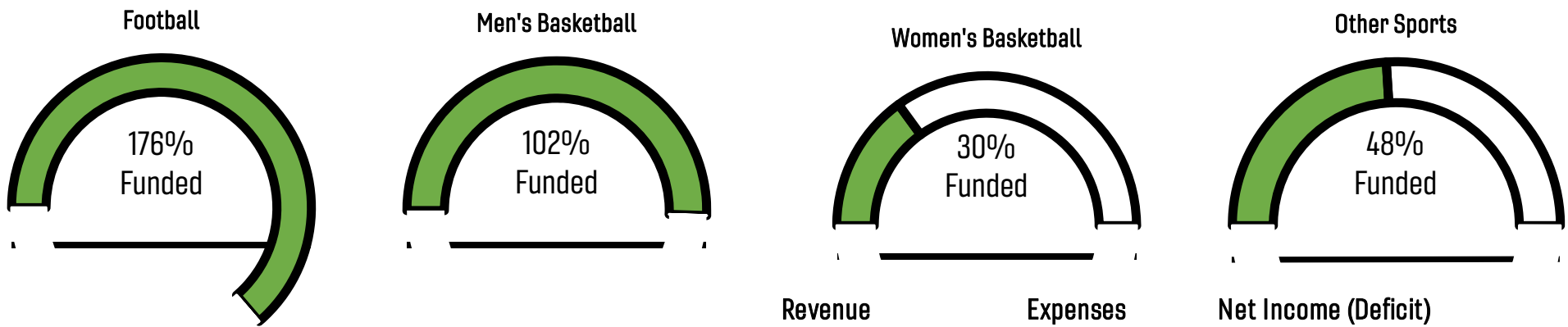
# Intercollegiate Athletic Programs Net Operating Income (Deficit) FY 2013 - FY 2017

(all dollars in millions)





# Intercollegiate Athletic Programs Net Operating Income (Deficit) FY 2017



	Revenue	Expenses	Net Income (Deficit)
Football	\$ 54,251,228	\$ 30,878,285	\$ 23,372,943
Men's Basketball	9,964,883	9,754,587	210,296
Women's Basketball	1,443,287	4,810,669	(3,367,382)
Other Sports	21,768,122	45,272,880	(23,504,758)
	<b>\$ 87,427,520</b>	<b>\$ 90,716,421</b>	<b>\$ (3,288,901)</b>

Other Sports is the total of Men's Other Sports, Woman's Other Sports, and Non-Program Specific activities as displayed on the "Schedule of Revenues and Expenses of Intercollegiate Athletics Programs" on the NCAA report. There are 16 other sports programs baseball, softball, golf, tennis, track & field, etc.