

Proposed 2017-18 Operating and Capital Budgets

FINANCE AND AUDIT COMMITTEE

May 2, 2017

Each June, the university provides the Board of Visitors with an overview of the operating and capital budgets for the upcoming fiscal year.

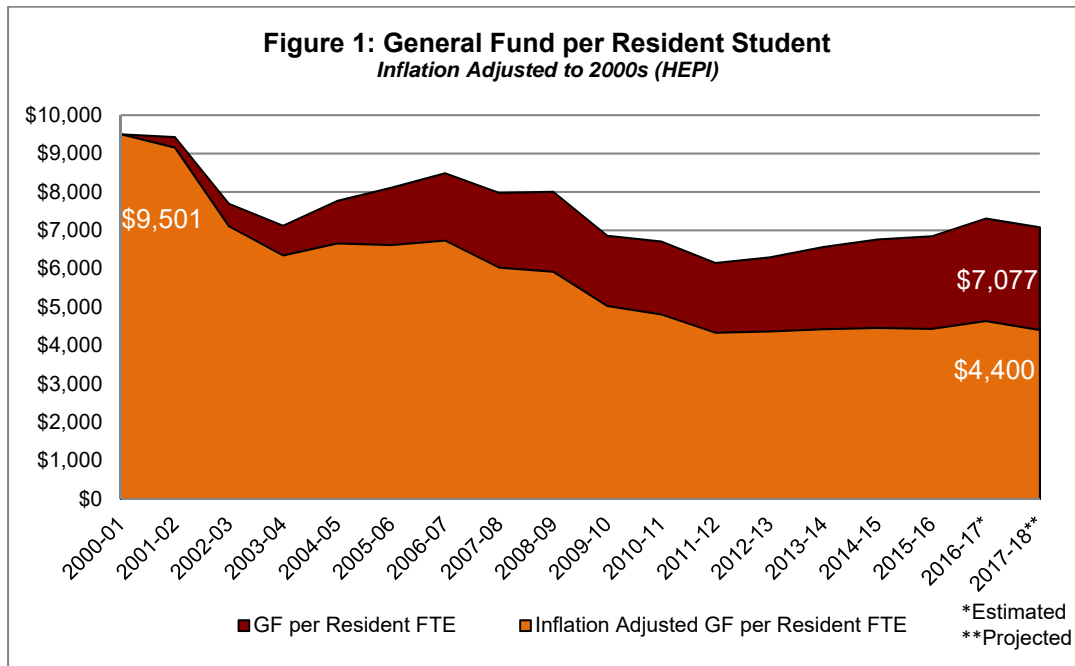
State Appropriations

With the close of the General Assembly session, the university is able to develop its internal budgets for the upcoming fiscal year. Virginia Tech anticipates an initial state authorization of \$1.4 billion for fiscal year 2017-18 to carry out all of its programs, based on the forecast of direct appropriations to the university. However, the annual internal budget varies from this external expenditure authorization for several reasons, some of which increase the annual expenditure authority while others reduce the expenditure plans. For example, the university's expenditure authorization will be adjusted during 2017-18 when the state allocates the Central Appropriation funding. Additionally, under the sum sufficient authority granted as part of restructuring, nongeneral fund appropriations may be established as needed by the institution.

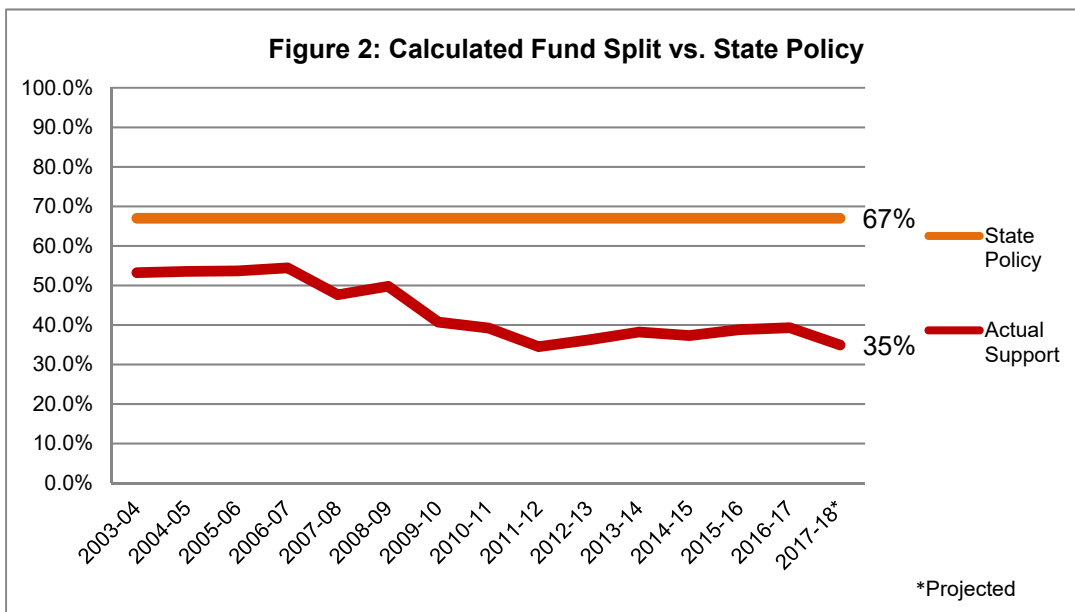
Impact of State Budget Revenue Changes

For 2017-18, the state decreased the university's General Fund appropriation by a net (\$0.2) million from the adjusted 2016-17 budget. This is comprised of a General Fund decrease of (\$1.7) million for Educational and General programs in the University Division (Agency 208) and an increase of \$1.5 million for the land-grant programs in the Cooperative Extension and Agricultural Experiment Station (Agency 229). As shown in Table 2 on page 4, the General Fund decrease for the University Division includes a reduction of (\$8.6) million in General Fund support for the E&G programs offset by changes in direct appropriations, and the university estimate of Central Appropriation fund transfers during the fiscal year. State support includes funding for access, affordability, quality and increased degrees, and the state's share of faculty and staff salary and benefit increases. The details of the state support are described further in each budget section.

With these state resources, the state support per Virginia student will decrease in 2017-18. Unfortunately, total state support per Virginia student for 2017-18 is projected to remain 26 percent below the funding provided in 2001. The university enrolls over 3,400 additional Virginia undergraduates as compared to 2005. Inflation adjusted, the university will receive 54 percent less General Fund support per student than in fiscal year 2001, as seen in Figure 1. It is important to note that this analysis presents the state support in the most favorable light since it includes all General Fund resources allocated to E&G, including support for activities beyond instruction such as research and public service. Figure 1 below is presented in this manner because it is a commonly utilized perspective by external groups.

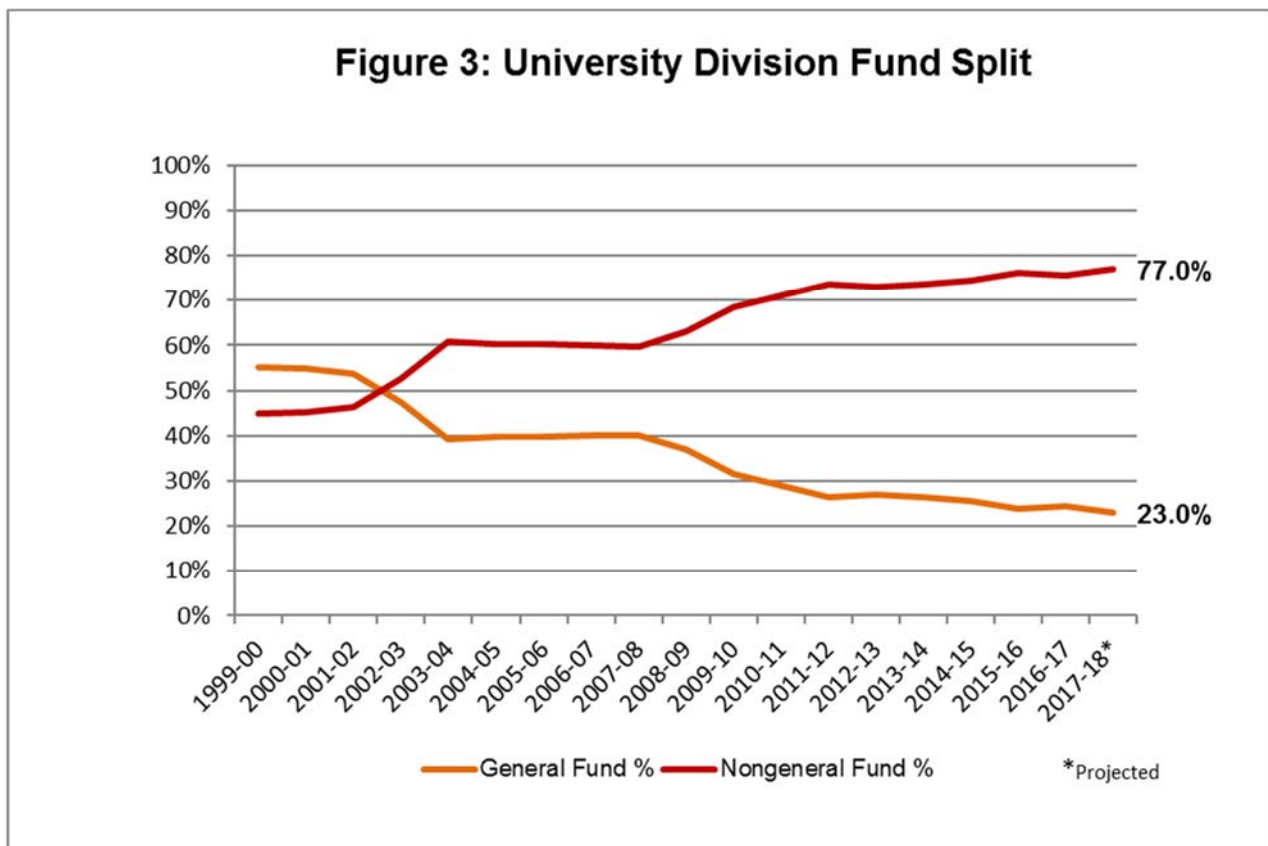


The state policy for funding higher education is to fund 67 percent of the cost of education of each Virginia resident at the institution. Figure 2 below displays the status of actual funding for instruction in relation to this policy over time. In 2017-18, the state will provide an estimated 35 percent of this cost. In response, the university has worked to reduce costs and streamline operations, but the shortfall in General Fund support has also created pressure to grow nongeneral fund resources.



Proposed Budgets for 2017-18

For 2017-18, the recommended internal budget for all operations is \$1.5 billion. This is an increase of \$33.6 million, approximately 2.3 percent, over the adjusted 2016-17 budget. This increase reflects changes in nongeneral fund revenues for 2017-18 and actions of the 2017 General Assembly sessions that will impact the 2017-18 General Fund appropriation. The overall change includes an increase of \$20.3 million attributable to the Educational and General program and \$8.3 million of projected growth in auxiliary enterprises. The total General Fund allocation is estimated to be approximately \$261.6 million, a decrease of (\$0.2) million from the 2016-17 adjusted budget. General Fund revenues will provide \$238.0 million in support for the instructional, research, and extension programs, \$21.3 million for student financial assistance, and \$2.3 million for the Unique Military Activities program. As shown in Figure 3 below, the General Fund appropriation represents 23.0 percent of the University Division's Educational and General budget (as compared to 53.6 percent in the 2001-02 budget) and 17.4 percent of the total budget. (See Schedule 1)



Schedule 1 displays the proposed operating budgets for 2017-18, by major program and revenue and expense category. Schedule 2 is an expansion of the projected auxiliary operations budgets, categorized by major activity. These schedules also display the 2016-17 budget, as approved in June 2016, and the current adjusted 2016-17 budget for comparison purposes. This report provides a brief discussion of the changes in the operating budget for each of the major programs.

Educational and General

The university's Educational and General budget will be \$790.5 million in 2017-18. The Educational and General budgets for the University Division (Agency 208) and the Cooperative Extension/Agricultural Experiment Station Division (Agency 229) are presented below by source of funding.

	(Dollars in Thousands)		
	University Division	CE/AES Division	Total
Educational and General Budget			
General Fund	\$161,675	\$70,961	\$232,636
Tuition and Fees	501,950	0	501,950
Federal Funds	0	15,640	15,640
Other	39,349	880	40,229
Total Educational and General	\$702,974	\$87,481	\$790,455
Percent of Total			
General Fund	23.0%	81.1%	29.4%
Tuition and Fees	71.4%	0.0%	63.5%
Federal Funds	0.0%	17.9%	2.0%
Other	5.6%	1.0%	5.1%
Total Percentage	100.0%	100.0%	100.0%

The year-to-year comparison of the budget in Schedule 1 shows an overall revenue increase in the Educational and General program of \$20.3 million, or 2.6 percent, over the adjusted 2016-17 budget.

The university has developed its 2017-18 operating and capital budget utilizing the approved state funding support for the university in 2017-18. The 2017 General Assembly session included the following changes:

	(Dollars in Millions)		
	University Division	CE/AES Division	Total
Change in General Fund Support:			
General Fund Reduction	\$ (8.6)		\$ (8.6)
State support for Access and Affordability	2.4		2.4
CE/AES Support for facility operation		0.1	0.1
State Share of 2.0 percent faculty salary increase	1.9	0.5	2.4
State Share of 3.0 percent staff salary increase	1.1	0.3	1.4 *
Prospective Fringe Benefit Rate Changes	1.5	0.6	2.1 *
Total General Fund Change	\$ (1.7)	\$ 1.5	\$ (0.2)

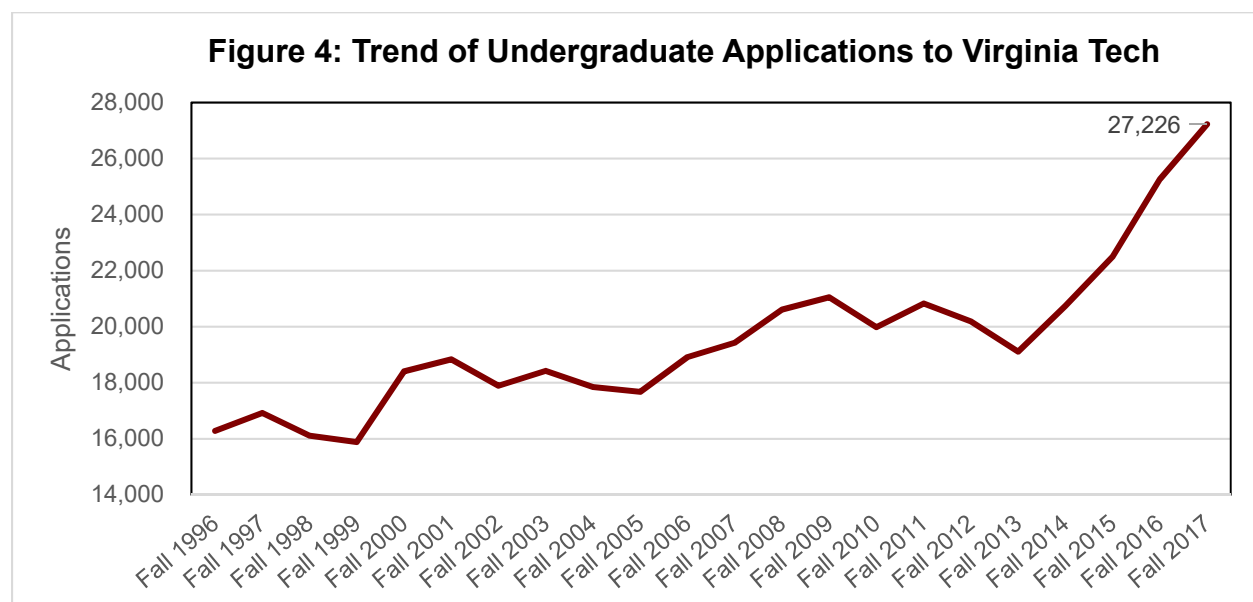
*Estimate. These items are funded centrally by the state at a later date.

The percentage of the Educational and General budget for the University Division provided by the General Fund decreased from 23.9 percent in the 2016-17 adjusted budget to 23.0 percent in 2017-18.

The 2017-18 tuition and fee budget increased by \$23.5 million, or 4.9 percent, over the adjusted 2016-17 budget. The difference in the tuition and fee budget reflects strategic undergraduate enrollment growth, increase in the tuition rates (approved by the Board of Visitors in April) including Veterinary Medicine, specialized program fees and the library fee. The increase also includes unfunded and tuition funded scholarships to student aid programs, and adjustments to the other E&G fee budgets. Unfunded scholarships support both undergraduate need based aid and a portion of the graduate tuition remission program. Tuition and Fee funded scholarships are targeted to support the institution's strategic priorities, including enrollment growth. Additionally, the revenue from the Facility and Equipment fee will be transferred to the Commonwealth for debt service on new facilities and equipment; thus, it is not reflected in the net revenue total.

Enrollment Growth

The university is experiencing a significant increase in student demand. Applications have reached a new high for fall 2017, increasing 7.8 percent from the previous year. Demand is broad-based and includes several areas where Virginia Tech is in a strong or unique position to provide additional access to qualified students. To meet demand for undergraduate enrollment, particularly in the STEM-H disciplines, the university is planning the strategic addition of undergraduates for 2017-18. Figure 4 below illustrates the historical trend in undergraduate applications.



Auxiliary Enterprises

The total 2017-18 auxiliary revenue budget is \$333.3 million, a growth of \$8.3 million or 2.6 percent over the adjusted 2016-17 budget, with a significant portion of the increase attributable to growth in Residential and Dining Programs, Student Health Services, Recreational Sports, and Electric Service. This increase includes resources to cover legislated changes in compensation and benefits, enhanced contribution to the university's student financial aid program, enrollment growth, enhancements to student health and counseling services, student programming, wireless network equipment refreshment, enhanced transit services, increased energy costs, maintenance of existing facilities, and the cost of new facilities.

Financial Assistance for Educational and General Programs

The projected annual budget for Financial Assistance for Educational and General Programs is \$344.2 million, a growth of \$2.2 million or 0.6 percent over the adjusted 2016-17 budget. This budget is comprised primarily of sponsored program activities, the Eminent Scholars program, the Enterprise Fund for distance and distributed learning, and the Commonwealth's General Fund support for research. The most significant activity in this category is externally sponsored research. The General Fund support of \$5.4 million for research is forecasted to remain unchanged in 2017-18. Although Sponsored Programs activity is anticipated to grow over 2016-17 actuals, the 2017-18 budget accommodates much of the growth within existing budget capacity.

Appropriated Student Financial Assistance

The projected annual 2017-18 budget for the Student Financial Assistance Program is \$25.5 million, a growth of \$2.3 million over the adjusted 2016-17 budget. This budget includes state General Fund support for Undergraduate Scholarships, Graduate Fellowships, Soil Scientist Scholarships, and the Multicultural Academic Opportunity Program in 2017-18. The projected annual nongeneral fund student financial assistance budget reflects an increase of \$2.3 million to a total projected budget of \$4.3 million in 2017-18. The university plans to utilize the nongeneral fund student financial assistance to advance strategic initiatives such as access, study abroad, and enrollment growth.

All Other Programs

The All Other Programs component is comprised of the Unique Military Activities appropriation, surplus property, federal work study program, and local funds. The annual budget for these funds is based on historic trends and projections of activity levels by program managers. These programs are funded by resources that are designated for specific purposes. The current General Fund support for Unique Military Activities remains constant in 2017-18 at \$2.3 million. For All Other Programs, the recommended budget is \$7.4 million, and reflects an increase of \$0.6 million over the adjusted budget for 2016-17.

Planned Change in Reserves

Existing state requirements, along with the university's budgeting and financial management strategies, generally result in the establishment of breakeven budgets for the major budget components, with the exception of auxiliary enterprises. That is the case for 2017-18, where only the auxiliary budgets project an addition to the reserves as of June 30, 2018. The projected addition of \$6.7 million is the result of the intentional rebuilding of reserves in specific auxiliaries where expenditures in prior years created the need for restoring the reserves so that it may operate as a revolving fund. In other cases, the projected addition to reserves reflects the temporary positive impact of planning activities for new capital projects. The 2017-18 budget for auxiliary enterprises is also designed to ensure that the reserve levels remain in compliance with the tenets of bond covenants as well as SCHEV reserve targets.

Compensation Plan

The 2017 General Assembly authorized institutions to implement a 2.0 percent statewide compensation program for faculty and a 3.0 percent statewide compensation program for staff for fiscal year 2017-18. The attached operating budget includes funding for the 2.0 percent faculty compensation program and 3.0 percent staff compensation program effective July 10, 2017.

National Distinction Pool

As reviewed at the April 2017 Board of Visitors meeting, a National Distinction pool is planned for 2017-18 to allow the university to proactively address salary amounts, as a retention strategy, for faculty members that have achieved national distinction and excellence in their field and provide valuable contributions to the university. Limited resources (0.75 percent of 208 E&G Faculty salary budgets) are planned and can be supplemented by operating units through reallocations or self-generated funding. It is expected that the adjustments will be limited in number of faculty yet meaningful in size.

Adjustment of Institutional Priorities

At the April 2017 Board of Visitors meeting, the university summarized 2017-18 E&G cost drivers, institutional priorities, and a tuition recommendation to align resources with envisioned uses. The approved tuition rates reduced projected revenues by (\$1.9) million, and the university was asked to develop a plan to address the reduced revenue level. As a follow up to the April meeting, the university can now provide a summary of the actions planned. The university will bridge the gap by reducing the Faculty National Distinction Pool from 1.00 percent to 0.75 percent, resulting in savings of \$0.8 million, or 25 percent of the \$3.1 million program. In addition, the investment into Destinations Areas (new faculty positions) will be delayed to subsequent periods, contracting the \$4.4 million plan to \$3.3 million and generating savings of \$1.1 million. These two actions close the (\$1.9) million gap.

Budget Reductions

The 2017 General Assembly assigned a General Fund reduction of (\$8.6) million. The university plans to address these reductions through a series of actions. This plan has evolved and the university's current plan is summarized below:

General Fund Reduction (208 E&G): \$ in Millions	\$ (8.6)
Plan to Address Reduction:	
Increase nongeneral fund resources	1.7
Auxiliary Enterprise support for Student Financial Aid	1.0
Central reallocation strategies (payoff of loans, energy savings)	1.9
University Budget Reductions (Academic and Administrative Units)	4.0
	Total 8.6
	Net: \$ -

The \$4.0 million budget reduction targeted the lowest priorities in the University Division. The academic and administrative leaders were asked to submit plans for a 1.0 percent reduction. The Library and Police Department were exempt. Budget reduction plans are being developed and due to be submitted just prior to the June BOV meeting.

Efficiency and Cost Containment Efforts

While internal and external studies indicate that the university operates efficiently, continual efforts are made to increase the efficient functioning of university operations. The following list provides some highlights of the efficiency efforts implemented in 2016-17:

- Cost Reduction: energy reduction programs (Facilities & Finance), inbound freight program (Procurement)
- Co-location: to increase service and decrease costs (occupational health testing service)
- Staffing: replacing salaried position with wage employee (Mail Services)
- Technology: leveraging an online portal for additional usage (Emergency Management), new student registration system (VPIT & Registrar), expand catalogs in Hokiemark (Procurement), expand online services (Bursar), online ordering in dining halls (expands capacity of existing facilities and enhances experience)
- Communications: deploy iPods to custodial staff (Facilities)
- Outsource into a regional strategy: consolidation of emergency dispatch services into a regional authority
- Process redesign: work induction process (Facilities)
- Shared Services: business operations, technology, communications, and human resources (Advancement)
- Scale: expanding electronic door access significantly decreased operational cost per door
- In source: shift certain litigation from outside council (Legal Counsel)

Budget Allocations

The process of finalizing the 2017-18 operating budget allocations for the colleges and major operating units is currently underway. This process will be completed during June 2017 and issued to the university community by the Vice President for Finance and Chief Financial Officer. The Office of Budget and Financial Planning will allocate these budgets to the colleges and vice presidential areas in time for the departments to open the new fiscal year with the allocations in place in the university accounting system. The university develops the annual budget as a one year quantification of the university's strategic plan. The strategic plan is the framework for enacting the university's mission.

Capital Outlay Projects

Virginia Tech's capital outlay program includes projects for the University Division and the Cooperative Extension/Agricultural Experiment Station Division. Initiation of a capital project requires authorization of a budget and funding sources from the state and/or the Board of Visitors. The state authorizes projects supported entirely or partially with General Fund revenues. Under the Restructuring legislation and the 2006 Management Agreement between the Commonwealth and the university, the Board of Visitors has the authority to approve capital projects funded entirely with nongeneral fund resources. New state authorized projects are requested as part of the state budget cycle, with authorizations approved in the Appropriation Act or through special action by the Governor. These projects normally become effective and are added to the program at the beginning of a fiscal year. New projects approved by the Board of Visitors become effective upon approval of a university resolution and are reflected on the subsequent Financial Performance Report. Existing capital projects carry forward to the next fiscal year until the projects are closed. Completed projects are closed and removed from the program at the end of a fiscal year. Schedule 3 shows the total capital authorization by fund source and an estimated annual budget for each capital outlay project that will be active in fiscal year 2017-18. The program includes only projects appropriated by the state or authorized by the Board of Visitors. Each project for fiscal year 2017-18 is listed with expected amounts for the total authorization by revenue source, available balance for the fiscal year, estimated budget, and estimated balance at the close of the fiscal year.

The portfolio of the capital outlay program for fiscal year 2017-18 (Schedule 3) is comprised of 16 Educational and General projects and 11 Auxiliary Enterprise projects for a total of 27 projects. The projects are in various phases of design and construction with a life span normally lasting two to four years, depending on the size and complexity of the facility. The total capital outlay budget for fiscal year 2017-18 includes approximately \$576.4 million of authorizations with an estimated available balance of about \$392.9 million. Of the available balance, the university plans to spend about \$125.1 million in fiscal year 2017-18.

The revenues to support capital outlay expenses are a mix of state support, university supported debt, and self-generated resources. When projects have multiple sources of funding, the university generally utilizes the resources in the following order: state

support, bond proceeds, and then nongeneral funds. This order allows the most effective use of the university's limited nongeneral fund resources.

RECOMMENDATION:

That the proposed 2017-18 operating and capital budgets, as displayed on Schedules 1, 2, and 3, be approved.

June 5, 2017

TOTAL OPERATING BUDGET FOR VIRGINIA TECH
Fiscal Year 2017-18
(Dollars in Thousands)

	2016-17 Original Budget	2016-17 Adjusted Budget	2017-18 Recommended Budget
Revenues			
Educational and General			
University Division			
General Fund	\$166,480	163,376	\$161,675
Tuition and Fees	480,035	478,450	501,950
All Other Income	41,544	42,277	39,349
Subtotal	<u>688,059</u>	<u>684,103</u>	<u>702,974</u>
CE/AES Division			
General Fund	70,301	69,405	70,961
Federal Funds	15,640	15,640	15,640
All Other Income	933	1,063	880
Subtotal	<u>86,874</u>	<u>86,108</u>	<u>87,481</u>
Total Educational and General	<u>774,933</u>	<u>770,211</u>	<u>790,455</u>
Auxiliary Enterprises	320,174	325,024	333,313
Financial Assistance for E&G Programs (a)			
General Fund	5,389	5,389	5,389
Nongeneral Fund	336,563	336,563	338,785
Total	<u>341,952</u>	<u>341,952</u>	<u>344,174</u>
Student Financial Assistance			
General Fund	20,801	21,293	21,273
Nongeneral Fund	911	1,971	4,267
Total	<u>21,712</u>	<u>23,264</u>	<u>25,540</u>
All Other Programs (b)			
General Fund (UMA)	2,284	2,284	2,284
Nongeneral Fund	6,969	4,523	5,115
Total	<u>9,253</u>	<u>6,807</u>	<u>7,399</u>
Total	<u>\$1,468,024</u>	<u>\$1,467,258</u>	<u>\$1,500,881</u>
Expense			
Educational and General			
University Division	\$688,059	\$684,103	\$702,974
CE/AES Division	86,874	86,108	87,481
Subtotal	<u>774,933</u>	<u>770,211</u>	<u>790,455</u>
Auxiliary Enterprises	311,277	341,602	326,617
Financial Assistance for E&G Programs (a)	341,952	341,952	344,174
Student Financial Assistance	21,712	23,264	25,540
All Other Programs (b)	9,253	7,316	7,399
Total	<u>\$1,459,127</u>	<u>\$1,484,345</u>	<u>\$1,494,185</u>
Planned Change in Reserve			
Reserve Drawdown/(Deposit) (c)	(8,897)	17,087	(6,696)
Net	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

(a) Financial Assistance for E&G Programs includes Sponsored Programs, the Eminent Scholars Program, and General Fund Research Initiative.

(b) All Other Programs include Unique Military Activities, Surplus Property, Local Funds, Federal Work Study, and Alumni Affairs.

(c) Reserve contributions are based on the budget plans of Auxiliary Enterprise units.

TOTAL OPERATING BUDGETS FOR AUXILIARY ENTERPRISES
Fiscal Year 2017-18
(Dollars in Thousands)

	2016-17 Original Budget	2016-17 Adjusted Budget	2017-18 Recommended Budget
Residence and Dining Hall System*			
Revenues	\$116,762	\$115,983	\$120,157
Expenses	-111,989	-118,076	-117,364
Reserve Drawdown (Addition)	-4,773	2,093	-2,793
Net	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Parking and Transportation			
Revenues	\$13,858	\$13,654	\$13,704
Expenses	-13,585	-13,770	-13,266
Reserve Drawdown (Addition)	-273	116	-438
Net	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Telecommunications Services			
Revenues	\$19,498	\$20,795	\$22,087
Expenses	-18,494	-21,963	-23,161
Reserve Drawdown (Addition)	-1,004	1,168	1,074
Net	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
University Services System*			
Revenues	\$46,680	\$46,695	\$48,521
Expenses	-45,875	-47,812	-47,655
Reserve Drawdown (Addition)	-805	1,117	-866
Net	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Intercollegiate Athletics*			
Revenues	\$66,146	\$71,089	\$69,283
Expenses	-65,848	-80,205	-68,903
Reserve Drawdown (Addition)	-298	9,116	-380
Net	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Electric Service System*			
Revenues	\$34,627	\$34,274	\$36,061
Expenses	-34,067	-34,333	-35,531
Reserve Drawdown (Addition)	-560	59	-530
Net	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Inn at Virginia Tech and Skelton Conference Center			
Revenues	\$11,728	\$11,728	\$11,855
Expenses	-11,638	-11,933	-11,799
Reserve Drawdown (Addition)	-90	205	-56
Net	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Other Enterprise Functions			
Revenues	\$10,876	\$10,806	\$11,645
Expenses	-9,782	-13,510	-8,938
Reserve Drawdown (Addition)	-1,094	2,704	-2,707
Net	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
TOTAL			
Revenues	\$320,175	\$325,024	\$333,313
Expenses	-311,278	-341,602	-326,617
Reserve Drawdown (Addition)	-8,897	16,578	-6,696
Net	<u><u>\$0</u></u>	<u><u>\$0</u></u>	<u><u>\$0</u></u>

* University Systems include Dormitory and Dining Hall System, University Service System, Intercollegiate Athletics System, and Electric Service System. The University Service System includes Health Services, Career Services, Student Engagement & Campus Life, Recreational Sports, Center for the Arts, Student Organizations and VT Rescue Squad.

Presentation Date: June 5, 2017

EDUCATIONAL AND GENERAL CAPITAL PROJECT AUTHORIZATIONS FOR FISCAL YEAR 2018

**(Dollars in Thousands)
as of April 30, 2017**

	TOTAL PROJECT AUTHORIZATION				ESTIMATED TOTAL EXPENSES June 30, 2017	ESTIMATED BALANCE AVAILABLE FOR FY2018	ESTIMATED ANNUAL BUDGET FY2018	ESTIMATED BALANCE AT CLOSE OF FY2018
	STATE SUPPORT	NONGENERAL FUND	AGENCY DEBT	TOTAL				
<u>Educational and General Projects</u>								
<u>Educational and General Maintenance Reserve</u>								
Maintenance Reserve	\$20,424	\$0	\$0	\$20,424	\$7,500	\$12,924	\$11,250	\$1,674
<u>Design Phase</u>								
Improve Kentland Facilities	8,618	0	0	8,618	1,182	7,436	6,000	1,436
Planning: Renovate Undergraduate Science Laboratories	0	600	0	600	600	0	0	0
Agriculture Production Facilities	22,136	0	0	22,136	200	21,936	1,080	20,856
Chiller Plant Phase II	31,024	9,797	0	40,821	200	40,621	4,040	36,581
Holden Hall Renovation	44,386	17,500	0	61,886	2,000	59,886	3,840	56,046
Health Sciences & Technology	48,307	23,793	0	72,100	200	71,900	10,200	61,700
Planning: Intelligent Infrastructure Destination Area	0	6,000	0	6,000	50	5,950	2,880	3,070
Planning: Undergraduate Science Laboratory Building	4,500	0	0	4,500	0	4,500	2,500	2,000
<u>Construction Phase</u>								
Academic Buildings Renewal	27,389	4,466	0	31,855	7,430	24,425	18,600	5,825
Address Fire Alarms and Access	4,891	0	0	4,891	3,626	1,265	1,265	0
Biocomplexity Data Center	0	5,900	0	5,900	5,125	775	575	200
Eastern Shore AREC Storage Building	0	535	0	535	425	110	110	0
Gas-Fired Boiler at the Central Steam Plant	0	6,800	0	6,800	50	6,750	3,375	3,375
<u>Close-Out</u>								
Classroom Building	42,652	0	0	42,652	41,910	742	742	0
Corps Leadership & Military Science Building	0	2,100	0	2,100	1,431	669	0	669
<u>On Hold and Not Funded</u>								
Total Educational and General Projects	\$254,327	\$77,491	\$0	\$331,818	\$71,929	\$259,889	\$66,457	\$193,432

AUXILIARY ENTERPRISE CAPITAL PROJECT AUTHORIZATIONS FOR FISCAL YEAR 2018

**(Dollars in Thousands)
as of April 30, 2017**

	TOTAL PROJECT AUTHORIZATION				ESTIMATED TOTAL EXPENSES June 30, 2017	ESTIMATED BALANCE AVAILABLE FOR FY2018	ESTIMATED ANNUAL BUDGET FY2018	ESTIMATED BALANCE AT CLOSE OF FY2018
	STATE SUPPORT	NONGENERAL FUND	AGENCY DEBT	TOTAL				
<u>Auxiliary Enterprises Projects</u>								
<u>Auxiliary Maintenance Reserve</u>								
Maintenance Reserve	\$0	\$7,000	\$0	\$7,000	\$0	\$7,000	\$7,000	\$0
<u>Design Phase</u>								
Planning: Student Wellness Services	0	0	2,785	2,785	324	2,461	2,461	0
Planning: Creativity & Innovation District Residence Hall	0	0	26,818	26,818	304	26,514	3,200	23,314
<u>Construction Phase</u>								
Unified Communications and Network Renewal	0	9,564	6,944	16,508	15,253	1,255	1,255	0
Upper Quad Residential Facilities	0	35,671	53,729	89,400	84,232	5,168	4,668	500
Lane Substation Expansion	0	2,000	4,500	6,500	937	5,563	4,000	1,563
O' Shaughnessy Renovation	0	8,867	12,633	21,500	3,002	18,498	16,000	2,498
Athletic Improvements	0	37,500	0	37,500	5,723	31,777	20,000	11,777
<u>Close-Out Phase</u>								
Airport Hangar Replacement	0	2,520	0	2,520	1,843	677	100	577
<u>On Hold and Not Funded</u>								
Parking Blanket Authorizations Balance	0	0	16,547	16,547	0	16,547	0	16,547
Phase IV Oak Lane Community	0	0	17,518	17,518	0	17,518	0	17,518
Total Auxiliary Enterprise Projects	\$0	\$103,122	\$141,474	\$244,596	\$111,618	\$132,978	\$58,684	\$74,294
GRAND TOTAL ALL CAPITAL PROJECTS	<u>\$254,327</u>	<u>\$180,613</u>	<u>\$141,474</u>	<u>\$576,414</u>	<u>\$183,547</u>	<u>\$392,867</u>	<u>\$125,140</u>	<u>\$267,726</u>



2017-18 Operating and Capital Budgets

M. Dwight Shelton, Jr.

June 4, 2017

2017-18 Operating & Capital Budgets

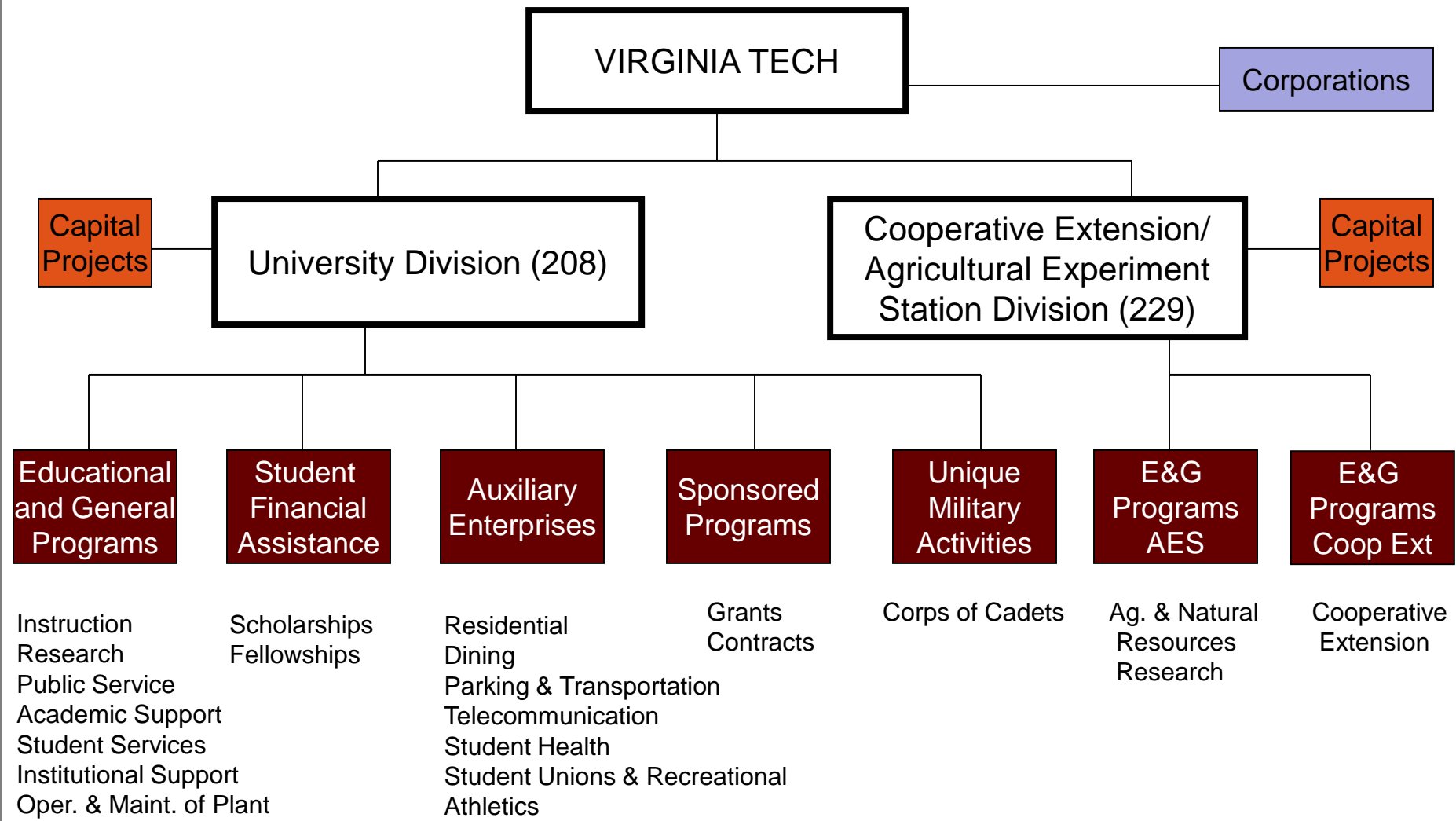
- Budget Development Overview
- Summary of Budget Components
- Revenue Trends
- Capital Budget Development
- Next Steps

Budget Development Overview

Budget Development Overview

- **Fall/Spring** – state budget process determines General Fund support, nongeneral fund assessments & cost assignments, guidance, and costs
- **Spring** – BOV establishes tuition & fee rates
- **May-June** – finalize budget to advance strategic plan and address critical needs
- **July 1** – start of new fiscal year

Program Structure



Capital Projects

University Division (208)

Cooperative Extension/
Agricultural Experiment
Station Division (229)

Corporations

Capital Projects

Educational
and General
Programs

Student
Financial
Assistance

Auxiliary
Enterprises

Sponsored
Programs

Unique
Military
Activities

E&G
Programs
AES

E&G
Programs
Coop Ext

Instruction
Research
Public Service
Academic Support
Student Services
Institutional Support
Oper. & Maint. of Plant

Scholarships
Fellowships

Residential
Dining
Parking & Transportation
Telecommunication
Student Health
Student Unions & Recreational
Athletics

Grants
Contracts

Corps of Cadets

Ag. & Natural
Resources
Research

Cooperative
Extension

Summary of Budget Components

2017-18 Operating Budget

(\$ in Millions)

	2016-17	2017-18	Change	
	Adjusted Budget	Proposed Budget	\$	%
University - E&G	\$684.1	\$703.0	\$18.9	2.8%
CE/AES - E&G	86.1	87.5	1.4	1.6%
Auxiliary	325.0	333.3	8.3	2.6%
Sponsored	342.0	344.2	2.2	0.6%
SFA	23.3	25.5	2.2	9.5%
UMA* and Other Activities	6.8	7.4	0.6	8.6%
Total	\$1,467.3	\$1,500.9	\$33.6	2.3%

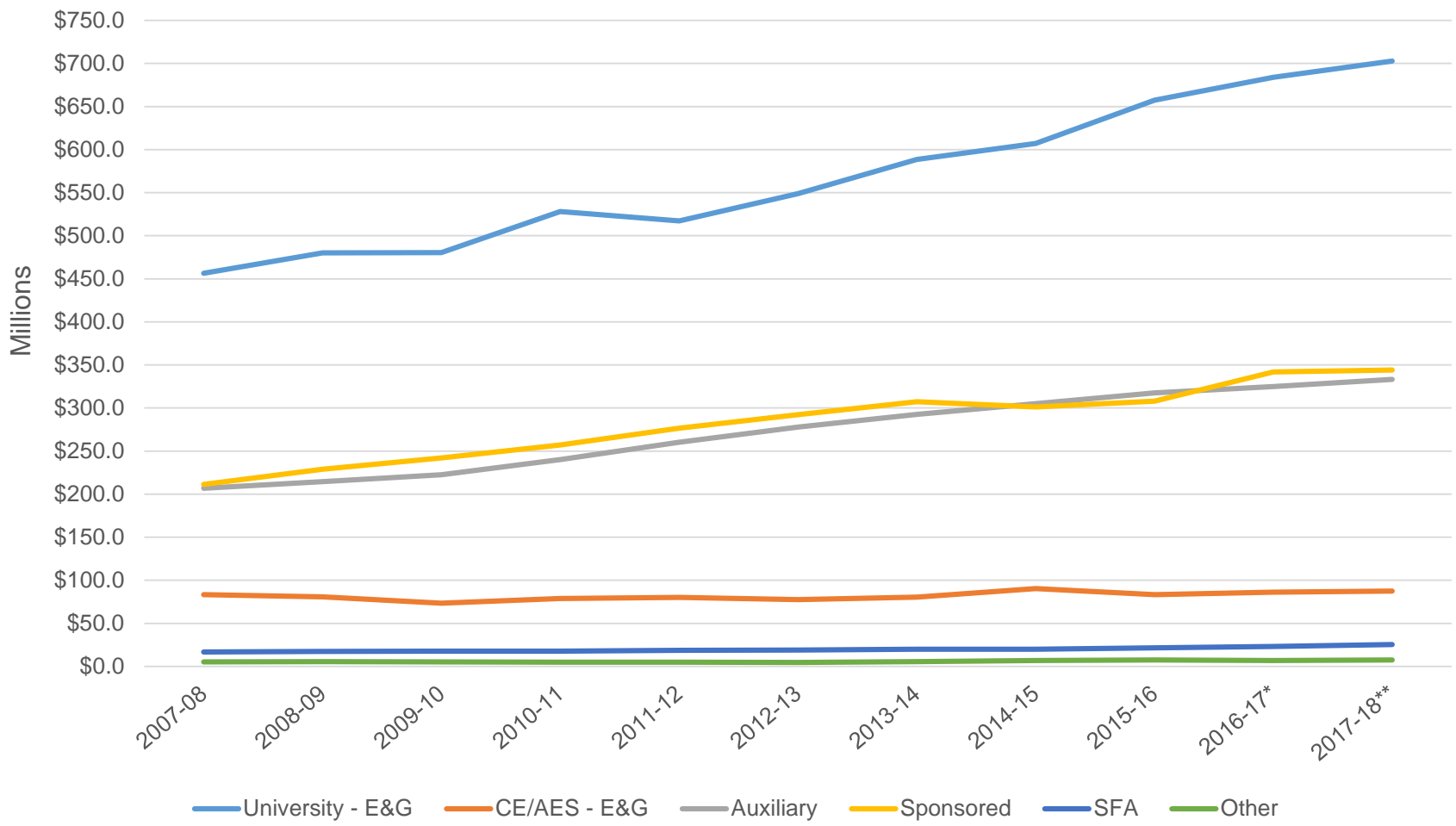
* Unique Military Activities

2017-18 Operating Budget

Trend by Component

(\$ in Millions)

Attachment K



* Based on adjusted budget
 ** Based on proposed budget

2017-18

General Fund Support %

(\$ in Millions)

	GF	Total	% GF
University - E&G	\$161.7	\$703.0	23.0%
CE/AES * - E&G	70.9	87.5	81.0%
Auxiliary	-	333.3	0.0%
Sponsored	5.4	344.2	1.6%
SFA #	21.3	25.5	83.4%
Other	2.3	7.4	31.0%
Total	\$261.6	\$1,500.9	17.4%

* Cooperative Extension/Agricultural Experiment Station

Student Financial Aid

Summary of Budget Components

E&G Budget

2017-18 E&G Budget

(\$ in Millions)

	2016-17	2017-18	Change	
	Adjusted Budget	Proposed Budget	\$	%
University Division (208)	\$ 684.1	\$ 703.0	\$ 18.9	2.8%
CE/AES Division (229)	86.1	87.5	1.4	1.6%
Total	\$ 770.2	\$ 790.5	\$ 20.3	2.6%

Attachment X

Incremental General Fund

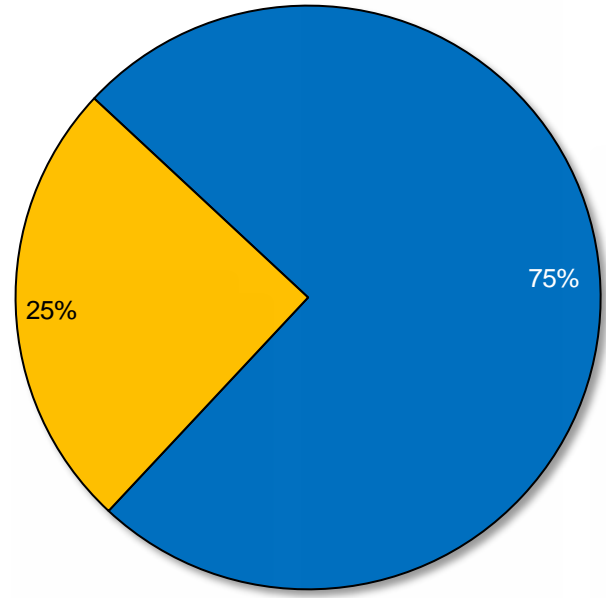
(\$ in Millions)

	2017-18
<u>University Division E&G (Agency 208)</u>	
General Fund Reduction	(\$8.6)
Access, Affordability, Quality and Increase Degrees	2.4
2017-18 Compensation Program	3.0 *
Fringe Rate Changes	1.5 *
<i>Subtotal University Division E&G</i>	<i>(1.7)</i>
 <u>CE/AES Division (Agency 229)</u>	
2017-18 Compensation Program	0.9 *
Fringe Rate Changes	0.5 *
Annualize O&M of New Facilities	0.1
<i>Subtotal CE/AES Division</i>	<i>1.5</i>
University Total	(0.2)

*Estimate. These items are funded centrally by the state at a later date.

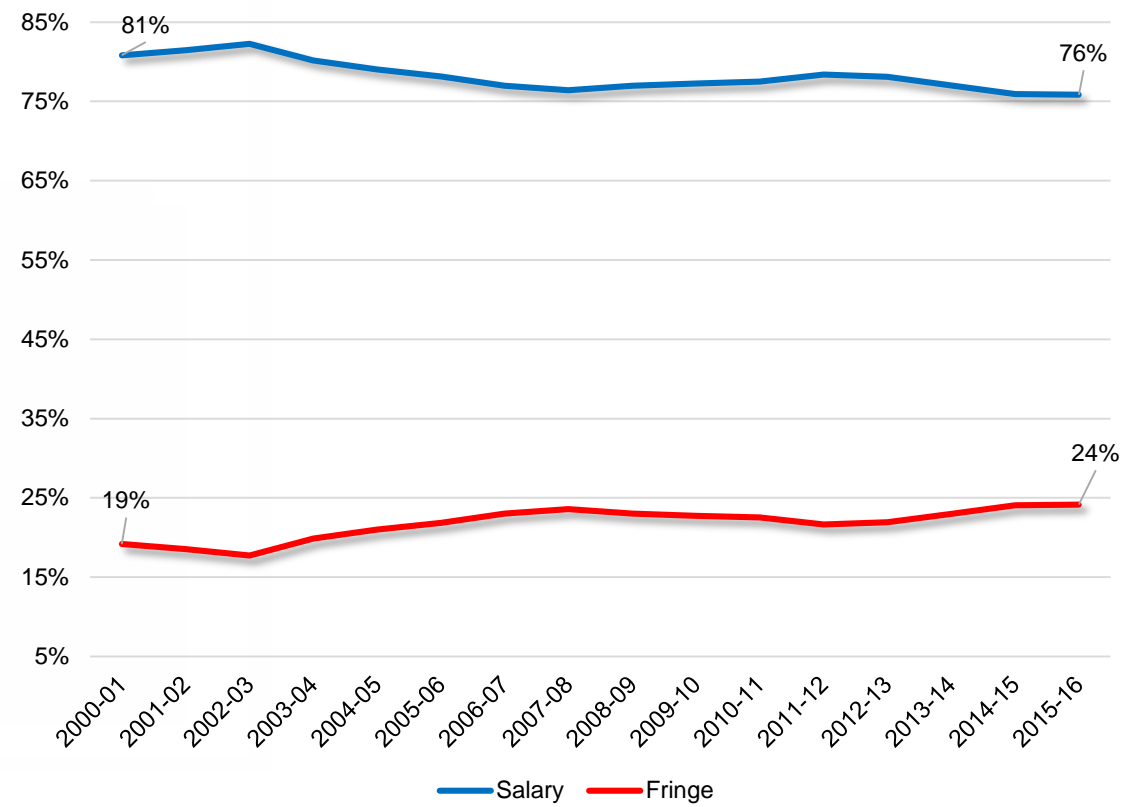
University Division E&G Expense Category Proportion

2015-16
208 E&G Expense Categories



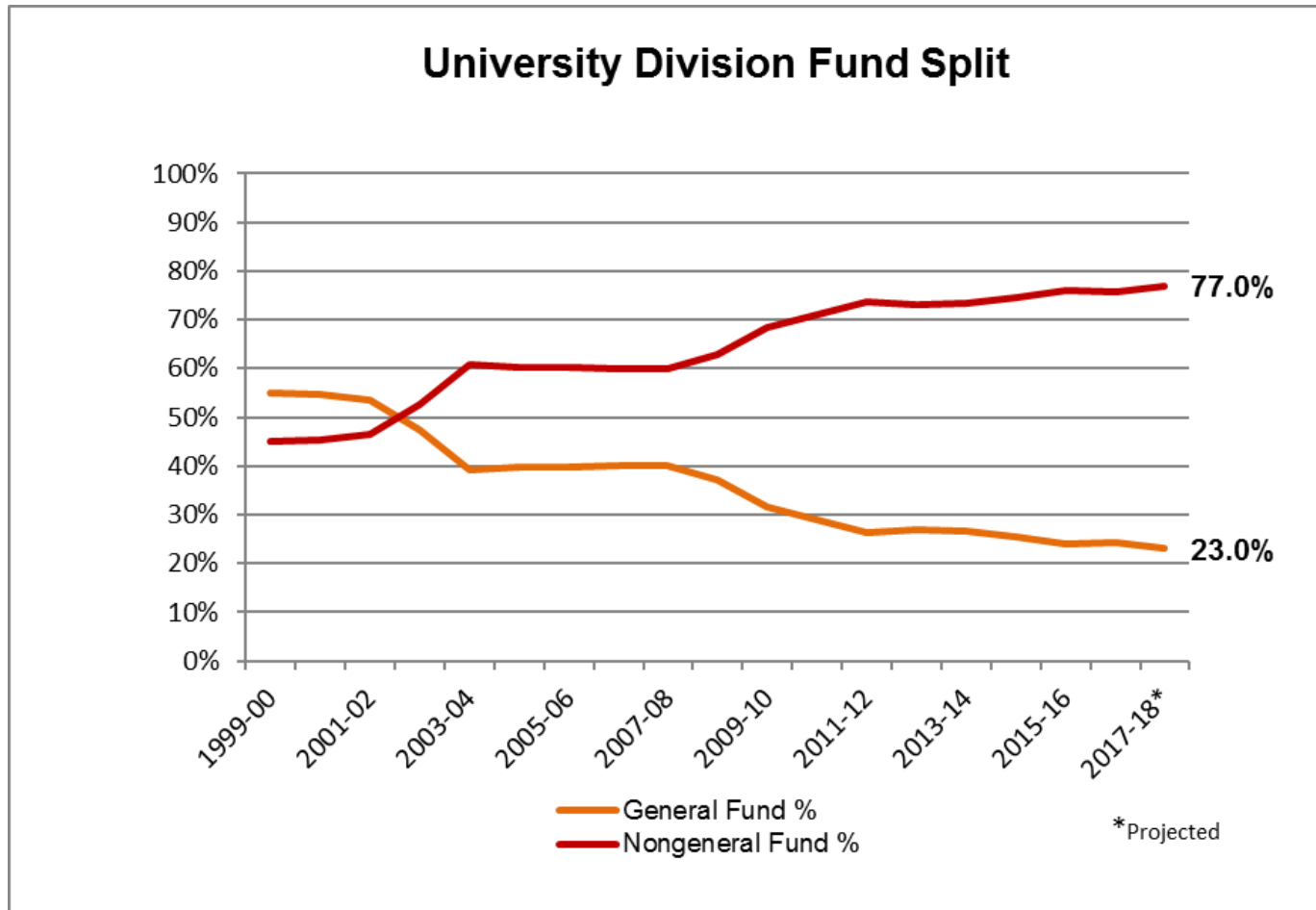
■ Personnel Expenses
 ■ Operating

Personnel Expenses: Salary and Fringe Split



While Personnel Expenses (Salary and Fringe) hold a relatively stable share of the overall E&G budget (75-80%), Fringe costs consume a larger portion of Personnel Expenses over time.

E&G Program Fund Split



Reduction/Reallocation Strategy Attachment X

General Fund shortfall of \$8.6M assigned by state. To manage, the university is planning:

- \$1.7M through new nongeneral fund resources
- \$1.0M Auxiliary Enterprise support for student financial aid
- \$1.9M in central reallocation strategies (payoff of loans, energy savings)
- This leaves \$4.0M to be managed through campus-wide reductions

Reduction/Reallocation Strategy Attachment X

- \$4.0M portion of state General Fund reduction will need to be managed through campus actions
- 1% reduction target for 208 E&G
 - Exempt Library, Internal Audit, and Police
 - Fringe benefits savings count towards target
- Academic and Administrative units have received reduction planning instructions
- The campus was asked to submit plans for strategic and targeted actions
- Academic Units are to target low priority items and protect strategic priorities in their plans
- Administrative Areas are developing plans for review

Developments Since April Meeting

- University is in the process of developing the 2017-18 budget

- As compared to initial revenue budget development, the final tuition rate decisions require a downward adjustment of \$1.9M in expenditures

- Recommendations to address this are to scale back:
 - National Distinction pool from 1.0% to 0.75% (\$0.8M)
 - Destination Area investment from \$4.4M to \$3.3M (\$1.1M)

- Remainder of budget/investment plan remain intact
 - Compensation increases for Faculty and Staff
 - **Significant** support for new **academic initiatives**
 - **Enrollment Growth**
 - **Destination Areas**
 - \$3.7M of new investments into institutional **student financial aid**

- Consistent with the Commonwealth's 2017-18 compensation program, the university is planning the following compensation actions to be effective on July 10, 2017:
 - A 2.0% compensation program for T&R and A/P Faculty
 - A 3.0% compensation program for Classified and University Staff
- Recognition of National Distinction
 - 208 E&G allocation of 0.75% of faculty salaries
 - Effective November 25, 2017

Summary of Budget Components

Auxiliary Budget

2017-18

Auxiliary Revenue Sources

(\$ in Millions)

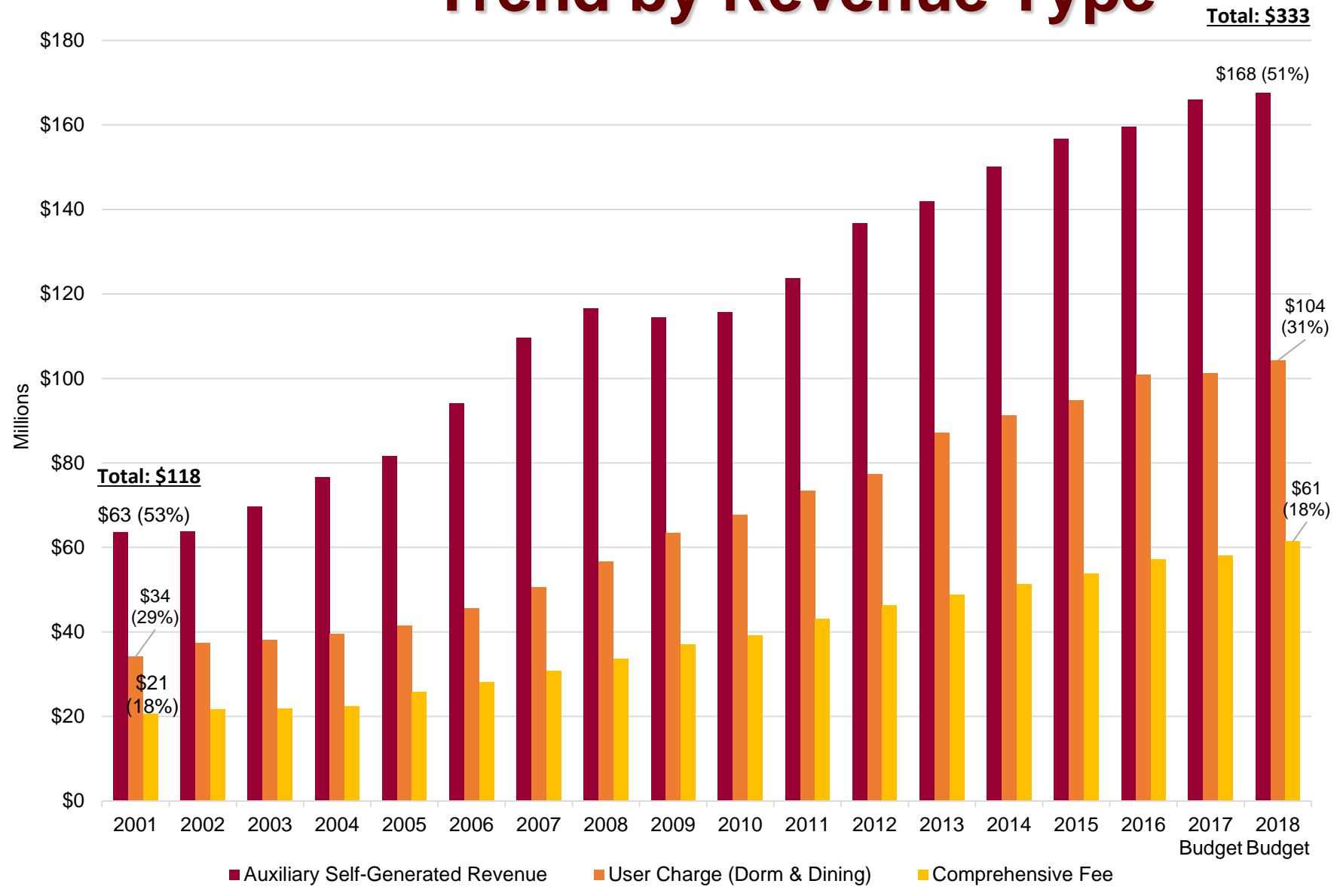
	<u>Amount</u>	<u>Proportion</u>
Room Charges	\$50.1	15.0%
Board Charges	54.2	16.3%
Comprehensive Fee*	61.4	18.4%
Self-generated	167.6	50.3%
Total	<u>\$333.3</u>	<u>100.0%</u>

*Comprehensive Fee supports Student Activities, Health Services, Intercollegiate Athletics, Transportation Services, Recreational Sports, Student Services, and Student Cultural Activities.

Auxiliary Enterprise Revenue

Trend by Revenue Type

Attachment X

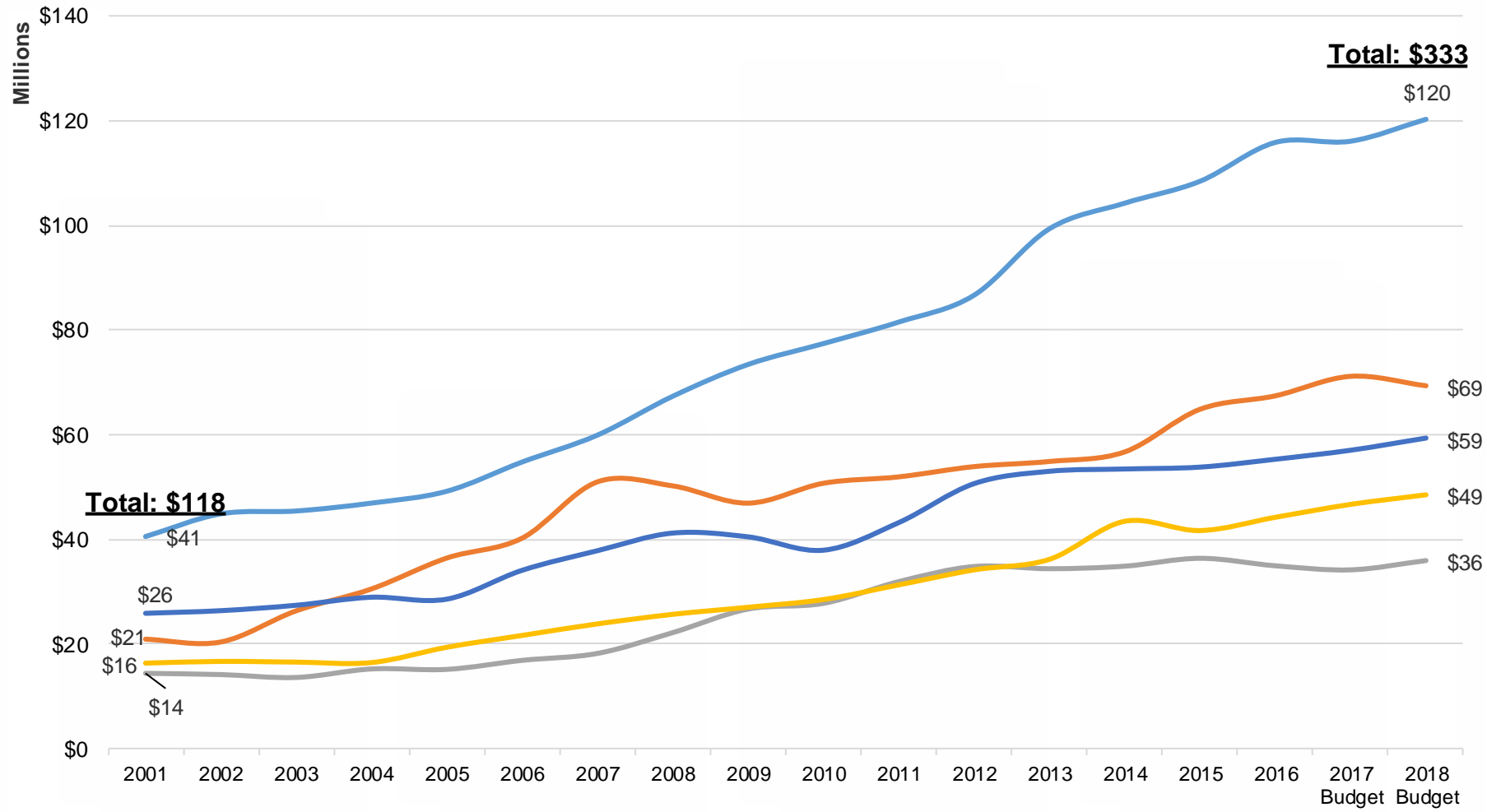


2017-18 Auxiliary Budget

(\$ in Millions)

	2016-17	2017-18	Change	
	Adjusted Budget	Proposed Budget	\$	%
Dorm & Dining System	\$116.0	\$120.2	\$4.2	3.6%
Univ. Services System	46.7	48.5	1.8	3.9%
Athletics System	71.1	69.3	(1.8)	-2.5%
Electric Service System	34.3	36.1	1.8	5.2%
Parking & Transportation	13.6	13.7	0.1	0.7%
Telecommunications	20.8	22.0	1.2	5.8%
Inn at Virginia Tech	11.7	11.9	0.2	1.7%
Other	10.8	11.6	0.8	7.4%
Total	\$325.0	\$333.3	\$8.3	2.6%

Auxiliary Enterprise Revenue Trend by Unit



Other includes: Hotel & Conference Center, Software Sales, Parking, Photocopy, Printing, Tailor Shop, Licensing, Pouring Rights, Telecommunications, Hokie Passport Office, Fleet Services.

Summary of Budget Components

Sponsored Programs Budget

2017-18 Sponsored Programs Budget

(\$ in Millions)

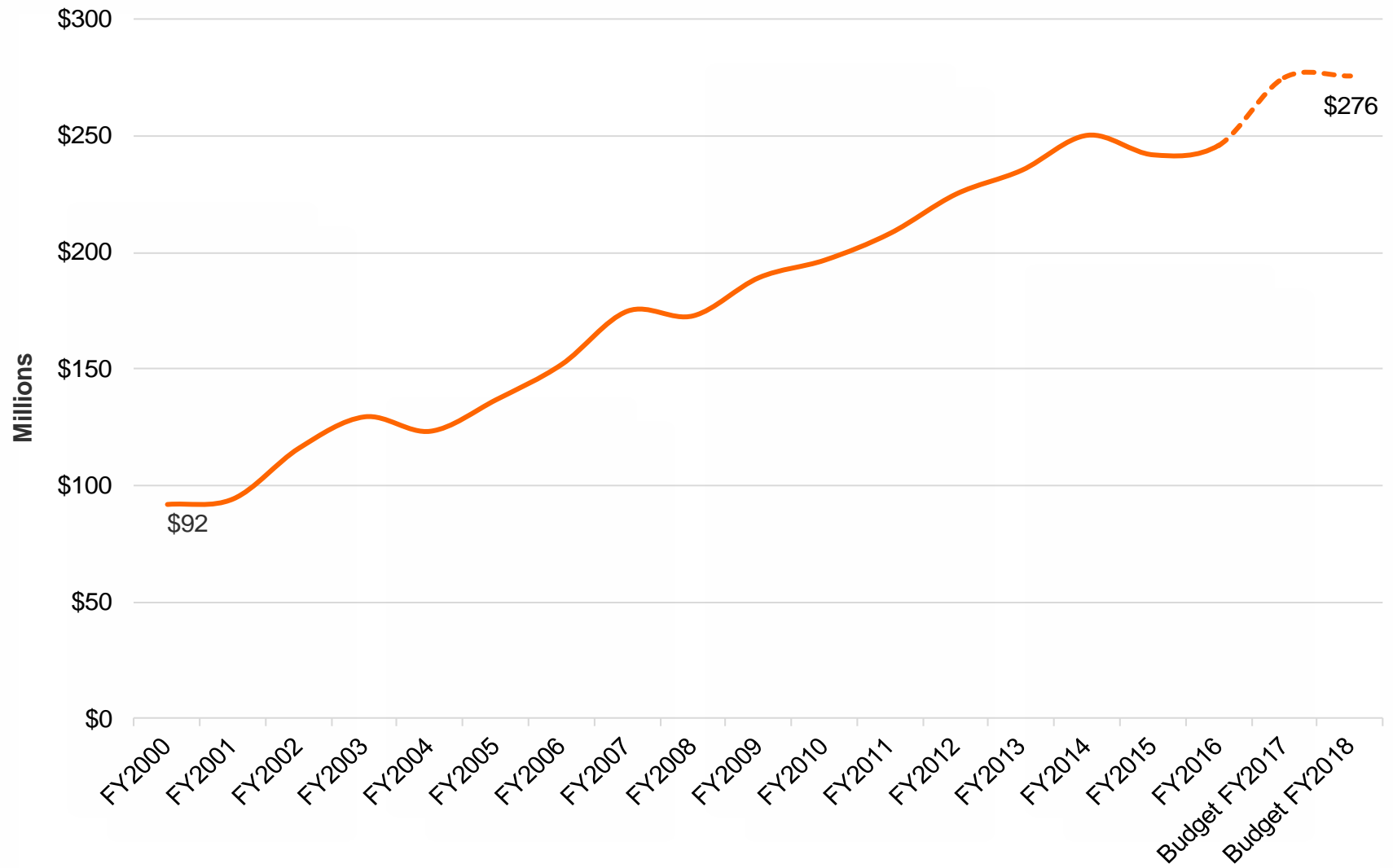
	2016-17	2017-18	Change	
	Adjusted Budget	Proposed Budget	\$	%
Grants & Contracts	\$ 275.1	\$ 275.8	\$ 0.7	0.3%
Indirect Cost	56.6	57.2	0.6	1.1%
Other*	10.2	11.2	1.0	9.5%
Total	\$ 341.9	\$ 344.2	\$ 2.3	0.7%

*Other includes Eminent Scholars, Institute for Distance and Distributed Learning (IDDL), Royalty Funds, and Research Ancillaries

Research Revenue Trends

Direct Expenditures

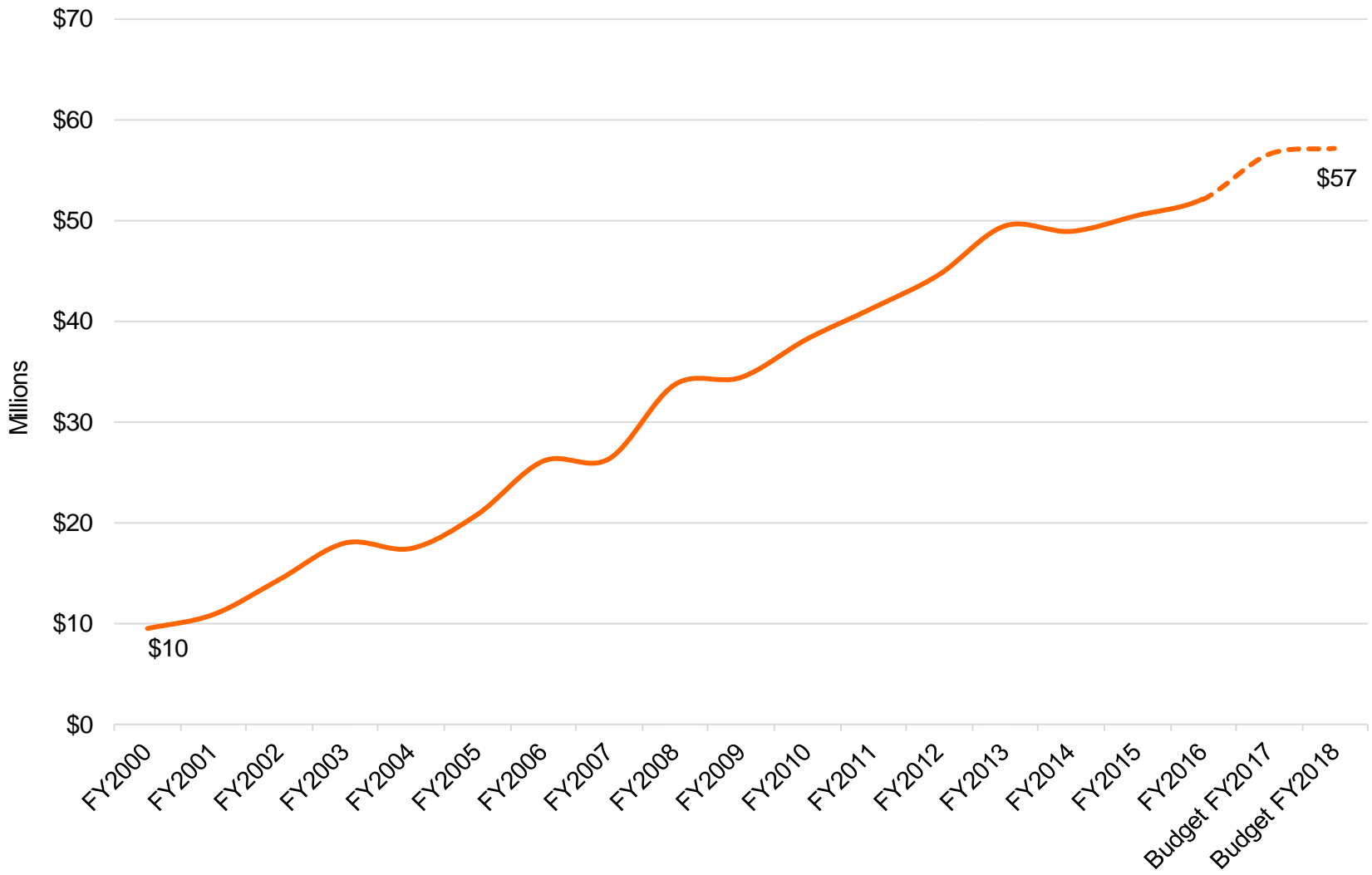
Attachment K



Research Revenue Trends

Indirect Cost (Overhead)

Attachment K



Summary of Budget Components

Student Financial Aid Budget

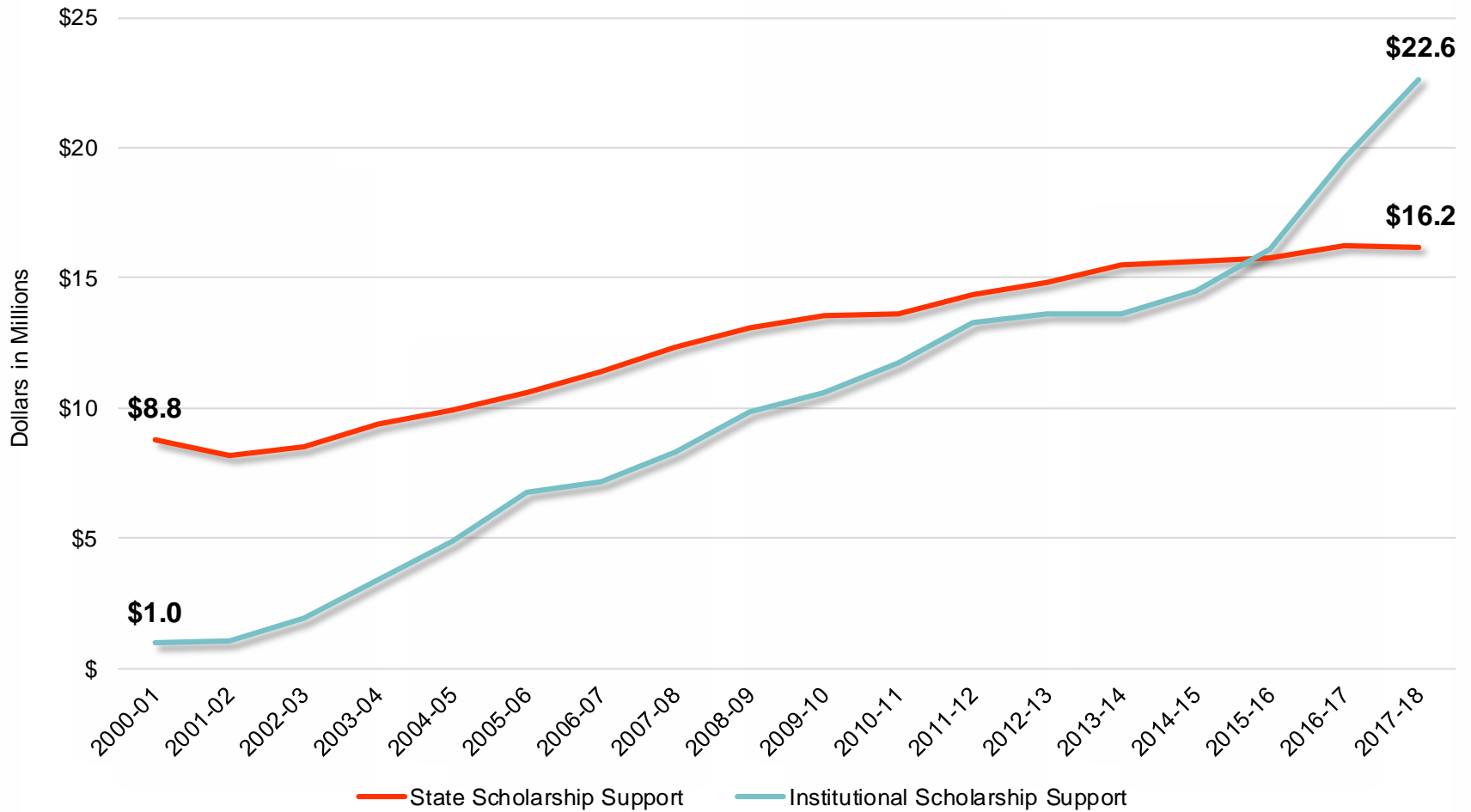
Budget

(\$ in Millions)

	2016-17 Adjusted Budget	2017-18 Proposed Budget	Change	
			\$	%
<u>State Funded</u>				
Undergraduate	\$15.9	\$16.3	\$0.4	2.5%
Graduate	4.9	5.1	0.2	4.1%
Subtotal	20.8	21.4	0.6	2.9%
<u>University Funded</u>				
Undergraduate	19.6	22.6	3.0	15.4%
Graduate	20.5	21.3	0.8	3.9%
Subtotal	40.2	44.0	3.8	9.5%
Total	<u>\$61.0</u>	<u>\$65.4</u>	<u>\$4.4</u>	<u>7.3%</u>

Undergraduate Student Financial Aid

State and Institutional Undergraduate Scholarship Support



Summary of Budget Components

All Other Programs Budget

2017-18 All Other Programs

Budget

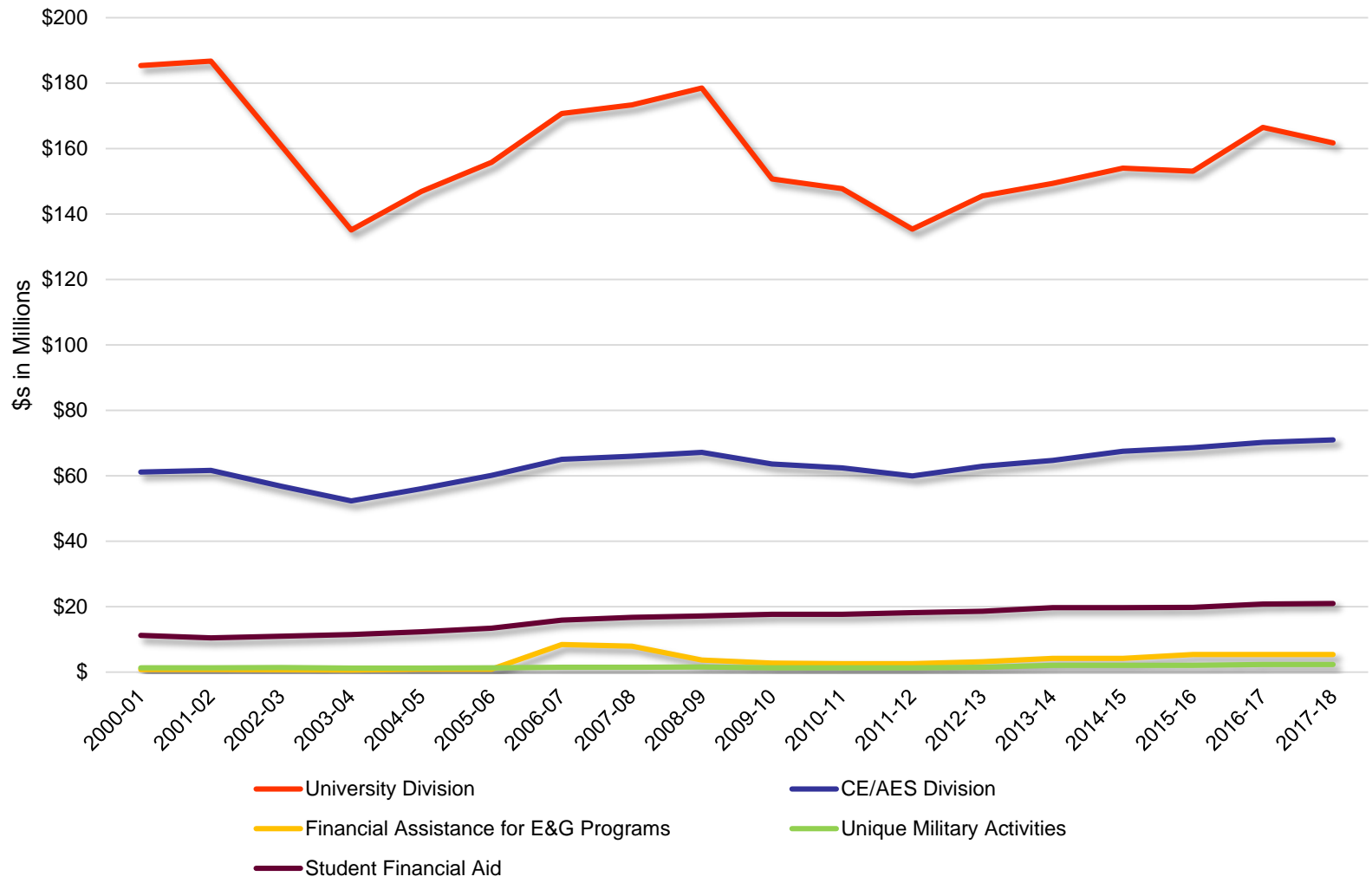
(\$ in Millions)

	2016-17	2017-18	Change	
	Adjusted Budget	Proposed Budget	\$	%
Unique Military Activities	\$ 2.3	\$ 2.3	\$ -	0.0%
Surplus Property	0.8	0.8	-	0.0%
Federal Work Study	0.7	0.8	0.1	14.3%
Student Financial Aid	0.7	0.8	0.1	14.3%
Other	2.3	2.7	0.4	17.4%
Total	\$ 6.8	\$ 7.4	\$ 0.6	8.8%

Revenue Trends

General Fund

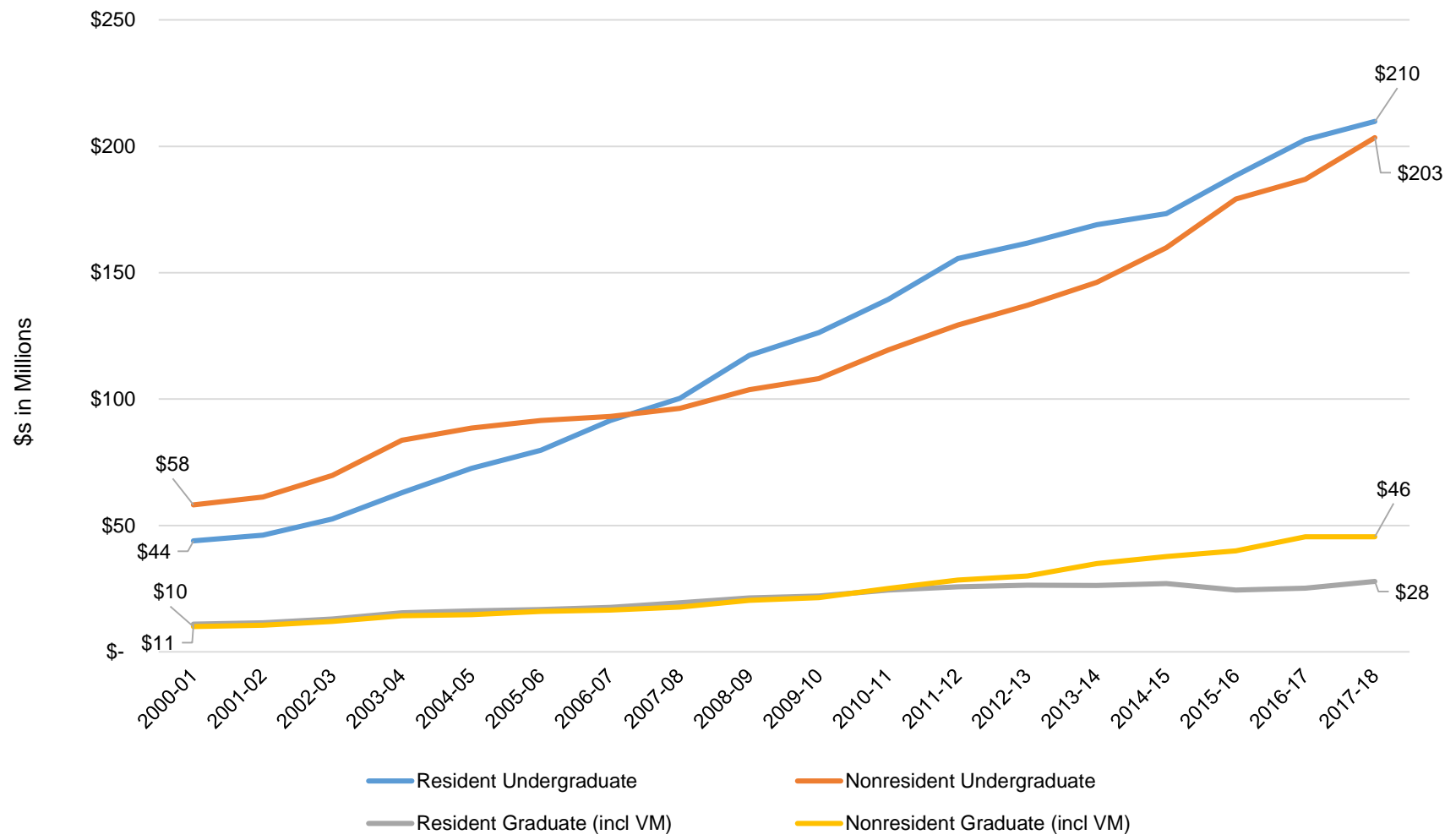
General Fund Support by Program



Revenue Trends

Tuition

Net Tuition and E&G Fee Revenue Trend by Student Group



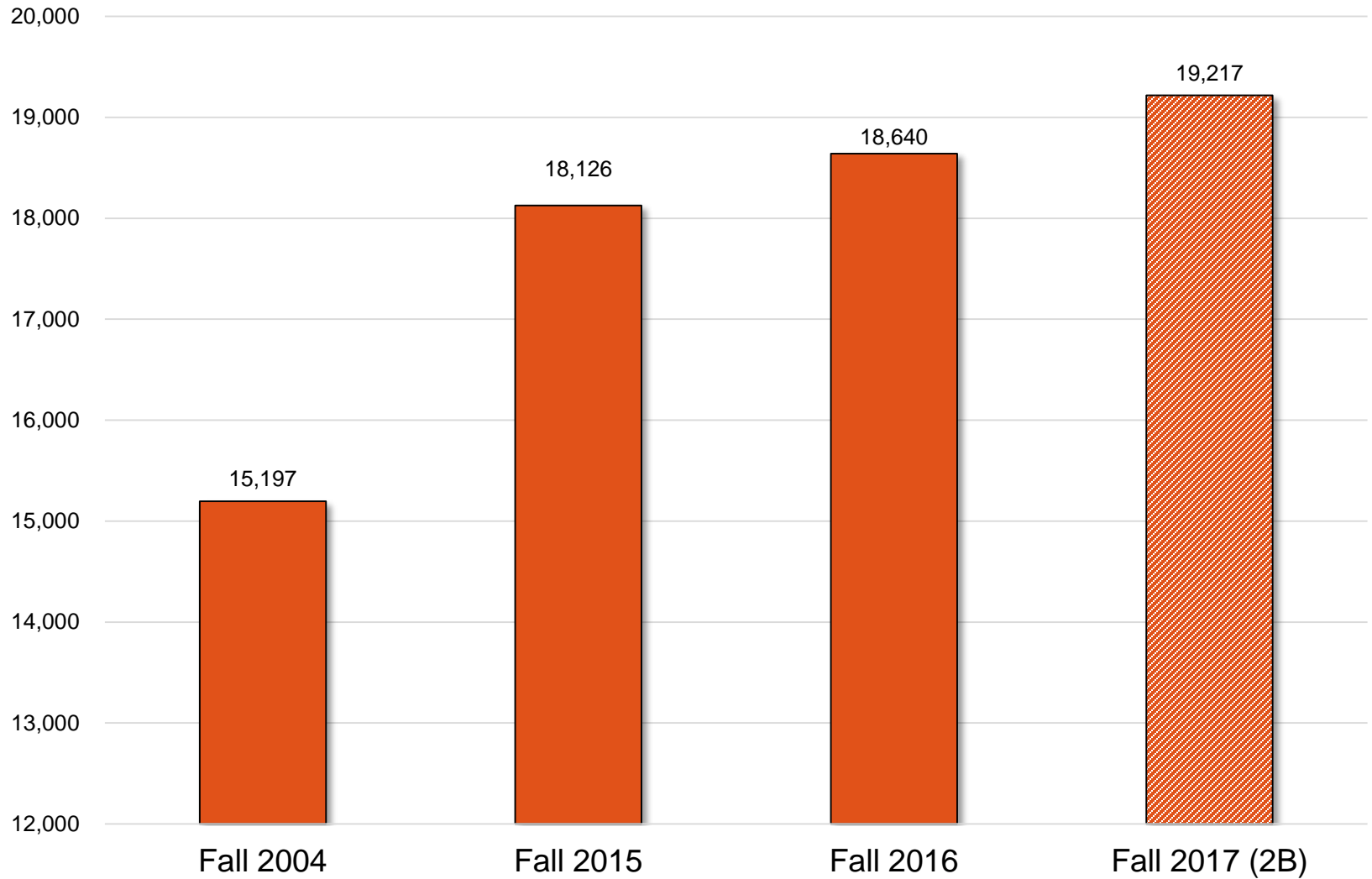
Enrollment

	Fall 2016 Actual	Fall 2017 2B Plan	Change	
			#	%
Undergraduate	25,791	26,739	948	3.7% ⁽¹⁾
Graduate	6,890	7,199	309	4.5%
Vet Med	489	480	(9)	-1.8%
Total	33,170	34,418	1,248	3.8%

(1) Undergraduate growth consists of 393 additional freshmen and 555 additional continuing students.

Enrollment Growth

In-State Undergraduate Students



Capital Budget Development

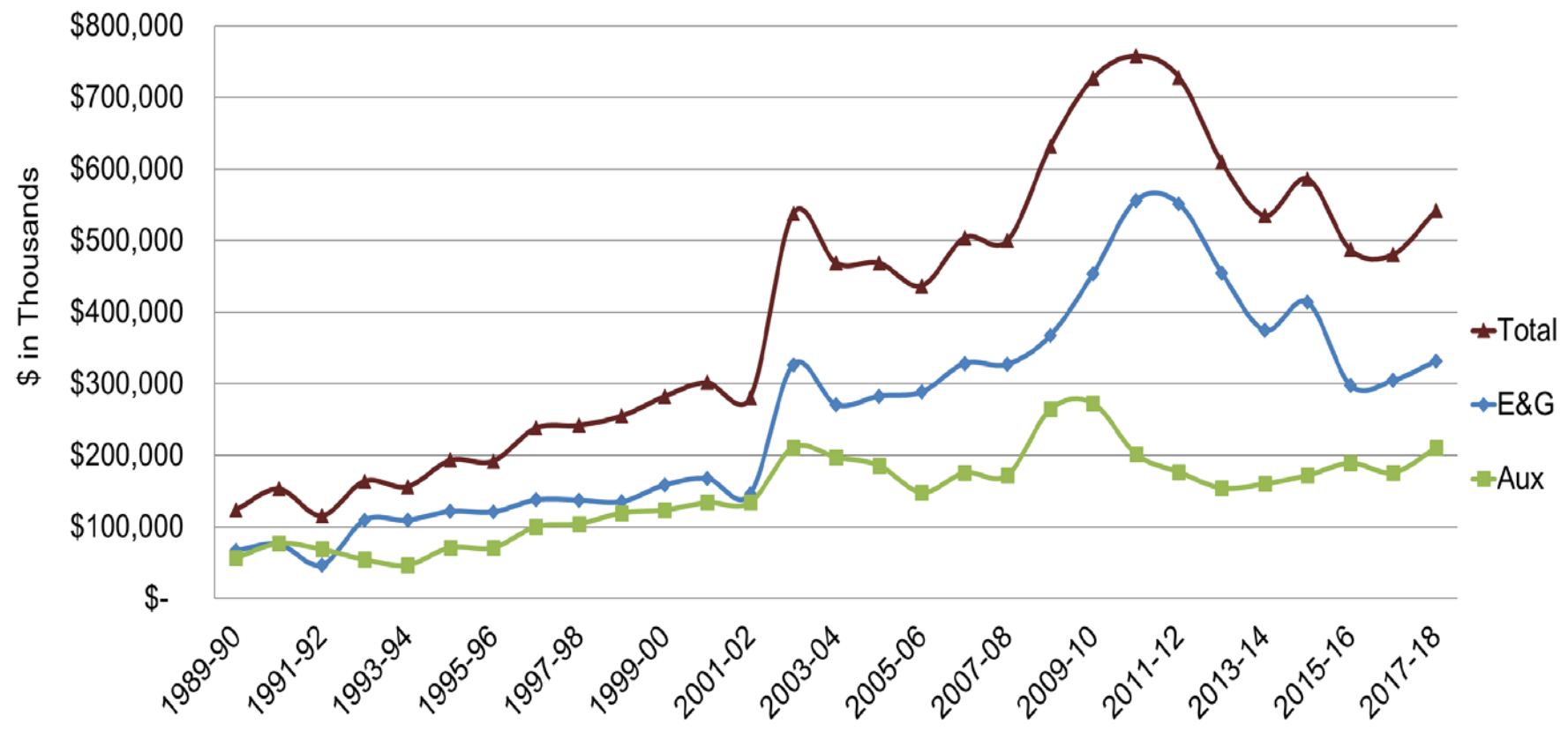
2017-18 Capital Budget

The capital outlay program for fiscal year 2018 includes 27 projects in various phases of design, construction, and close-out (\$ in thousands):

Total Capital Outlay Authorization	\$576,414
Estimated Total Capital Expenses as of 6/30/2017	<u>183,547</u>
Remaining Capital Authorization	392,867
Estimated Capital Expenditures for FY2018	125,140
Projected Remaining Capital Authorization as of 6/30/2018	267,726

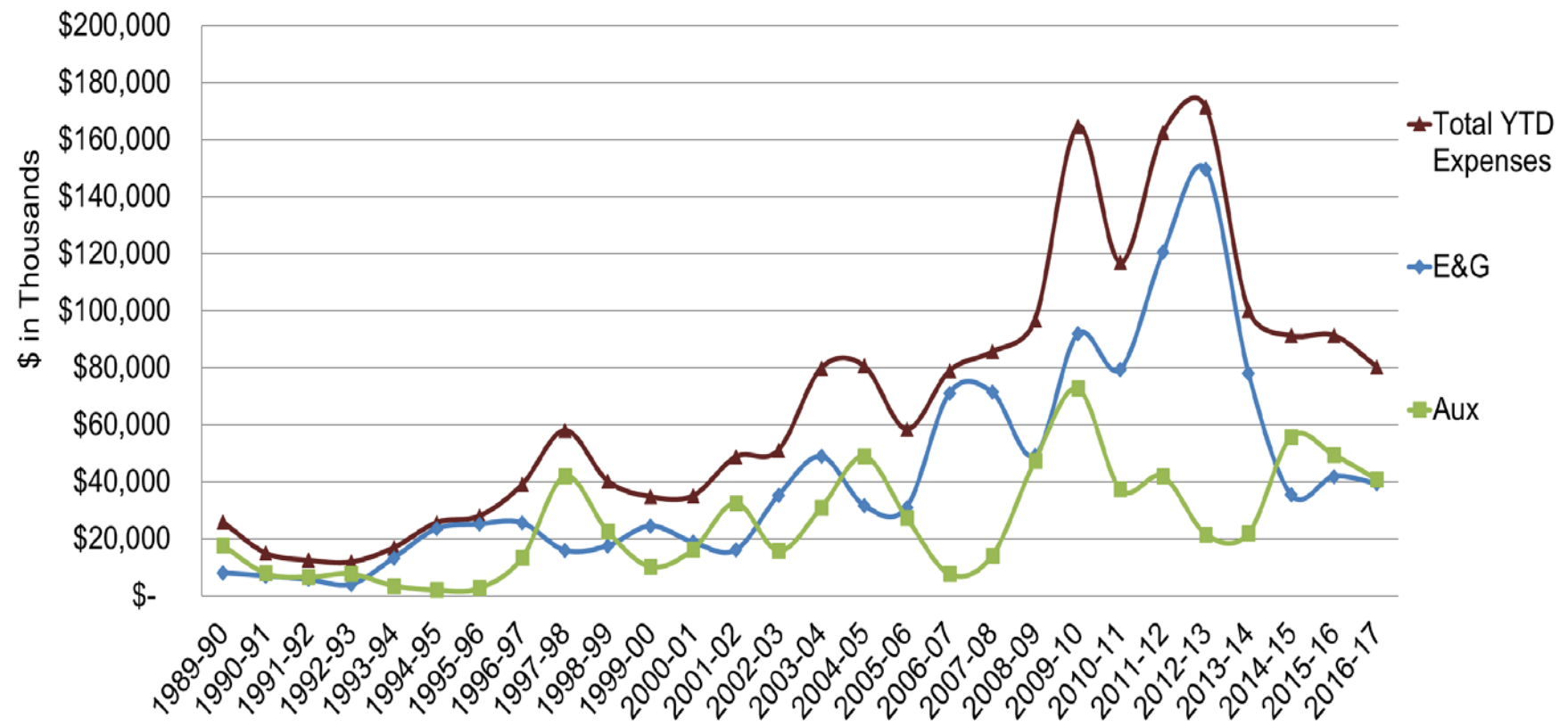
Trend of Total Capital Program Budget

CAPITAL PROGRAM TOTAL BUDGET
Total Budget Level of Active Projects
 Fiscal Year 1990 - Fiscal Year 2018



Trend of Capital Program Expenses

CAPITAL PROGRAM EXPENDITURE TREND
Total Annual Expenditures for Active Capital Projects
 Fiscal Year 1990 - Fiscal Year 2017



Next Steps

- Complete academic and administrative budget development processes
 - Reductions and investments

- Communicate final allocations
 - Authorized Budget Document

- July 1, 2017 begin new fiscal year

Questions?