

## Committee Minutes

### FINANCE AND RESOURCE MANAGEMENT COMMITTEE Solitude Room, The Inn at Virginia Tech

March 31 – April 1, 2019

#### Open Session

**Board Members Present:** Zo Amani – Graduate Student Representative, Ed Baine, John Ferris – Faculty Representative, Greta Harris, C.T. Hill, Rachel Iwicki – Undergraduate Student Representative, Anna James, Mehmood Kazmi, Tish Long, Robert Mills, Chris Petersen, Debbie Petrine, Mehul Sanghani, Robert Sebek – Staff Representative, Dennis Treacy, Horacio Valeiras, Jeff Veatch, Preston White

**Virginia Tech Staff:** Callan Bartel, Bob Broyden, Lori Buchanan, Caroline Buscaglia, Ralph Byers, Cyril Clarke, Al Cooper, John Cusimano, Brian Daniels, Karen DePauw, John Dooley, Ron Fricker, Bryan Garey, Mark Gess, Dee Harris, Angela Hayes, Kay Heidbreder, Mary Helmick, Jim Hillman, Tim Hodge, Elizabeth Hooper, Sharon Kurek, Erin McCann, Robin McCoy, Theresa Mayer, Nancy Meacham, Scott Midkiff, Ken Miller, Terri Mitchell, Liza Morris, Sally Morton, April Myers, Kim O'Rourke, Mark Owczarski, Patty Perillo, Charlie Phlegar, Dwayne Pinkney, Ellen Plummer, Menah Pratt-Clarke, Charlie Ruble, Tim Sands, Savita Sharma, Dwight Shelton, Tammie Smith, Tracy Vosburgh, Lisa Wilkes, Sherwood Wilson, Chris Yianilos

**Guest:** Robby Korth, reporter, students (two)

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 5, 2018 Meeting.

The Committee approved the item on the Consent Agenda.

3. **Update on Advancement:** The Committee received a presentation from University Advancement on the upcoming Capital campaign including the campaign life cycle, philanthropic goals, engagement metrics, and members of the Campaign Steering Committee.
4. **Report on 2019 Legislative Session:** The Board received a report on the results of the 2019 Legislative Session. This report presented the major elements of the Executive Budget Amendments and General Assembly actions for the 2018-2020 biennium. The budget approved by the General Assembly includes \$6.3 million in one-time funds for in-state undergraduate tuition moderation, \$1 million for student financial aid, and \$0.2 million for Unique Military activities. An additional \$1.2 million was allocated for support of extension agents and research specialists for Virginia Cooperative Extension and Agricultural Experiment Station. The General Assembly also enhanced the salary increase by 1 percent for faculty and .75 percent to 1 percent for staff.

The Board commended the legislative team on their excellent work in Richmond resulting in strong state appropriation for the university.

5. **Discussion on Resource Development – Partnership Agreement:** The Committee had a discussion on resource development which included the State's process of creating an Institutional Partnership Performance Agreement (IPPA) and the university's current work in progress related to the IPPA.
6. **University's Annual Financial Statements:** The Committee received an overview of the university's annual financial statements for the fiscal year ending June 30, 2018. The financial statements were prepared in accordance with generally accepted accounting principles, and the Auditor of Public Accounts (APA) issued an unmodified (or clean) opinion. The APA reported one written audit comment related to federal financial aid reporting. This is the first written audit comment since 2010. The university is in the process of implementing a corrective action plan to address the audit comment.

At June 30, 2018, the university had total net position of approximately \$1.3 billion, a decrease of \$143.0 million or 10.2 percent since fiscal year 2017. The large decrease in the unrestricted net position is mainly due to a \$241.2 million adjustment for implementation of GASB 75, *Accounting & Financial Reporting for Postemployment Benefits other than Pensions* (OPEB). This decrease was offset by a \$71.9 million increase in net investment in capital assets.

Total revenues were \$1.5 billion, an increase of \$86.5 million or 6.1 percent over fiscal year 2017 and total operating expenses were \$1.4 billion, an increase of \$58.7 million or 4.3 percent. The increase in revenue was due to growth in student tuition and fees, auxiliary enterprise revenue, and sponsored grants and contracts. The increase in expenses was primarily due to increase in salaries, wages, and fringe benefits by \$39.8 million.

The Committee asked for an update upon the successful completion of the corrective action plan to address the APA audit comment.

7. **Intercollegiate Athletics Programs Report for Year Ended June 30, 2018:** The Committee received a report on the Auditor of Public Accounts (APA) Intercollegiate Athletics Program review for fiscal year 2018. 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, 2018, is in compliance with the National Collegiate Athletic Association (NCAA) bylaws. During the APA 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. Revenues exceeded expenses resulting in net operating income of \$4.9 million for fiscal year 2018.

\* 8. **Resolution for Approval of Tuition and Fee Rates for 2019-20:** The Committee reviewed the proposed tuition and fee rates for 2019-20 for approval.

The 2019 General Assembly approved optional funding to support "In-State Undergraduate Affordability" for fiscal year 2019-20. Allocations from this pool are to be granted to public institutions in Virginia that maintain tuition and mandatory educational & general (E&G) fees for in-state undergraduate students at the same levels as in 2018-19. This tuition and fee package reflects the university's recommendation to accept the General Assembly's funding proposal.

Accordingly, the package proposes to hold 2019-20 resident undergraduate tuition and mandatory E&G fees at the 2018-19 level of \$11,595. The university proposes an \$856, or 2.9 percent, increase in tuition and fees for nonresident undergraduate students, bringing total tuition and fees to \$30,739. The university recommends an increase of \$71, or 3.5 percent, to the comprehensive fee, resulting in a comprehensive fee of \$2,096 for both resident and nonresident undergraduate and graduate students. An average 4.6 percent increase in room and board is also recommended.

For on-campus resident graduate students, a \$391, or 2.9 percent, increase is recommended, bringing their total tuition and fees to \$13,876. For on-campus nonresident graduate students, the university recommends a \$789, or 2.9 percent, increase, bringing their total tuition and fees to \$28,393. For off-campus resident graduate students, a \$433, or 2.9 percent, increase is recommended, bringing their total tuition and fees to \$15,342. Off-campus nonresidents student tuition and fees are recommended to increase by \$844, or 2.9 percent, bringing their new total to \$30,338. The tuition and fee package also includes an array of specialized masters and PhD programs with varying pricing and delivery strategies.

In Veterinary Medicine, a \$534 or 2.5 percent increase is recommended for Virginia/Maryland students, bringing total tuition and fees to \$22,081. An increase of \$1,134, or 2.3 percent, is recommended for nonresident students, bringing their total tuition and fees to \$51,214.

For the Virginia Tech Carilion School of Medicine, a \$1,295 or 2.5 percent increase is recommended for all students for total tuition and fee of \$53,288. The Committee requested benchmarking information of the medical school tuition for the tuition and fee discussion for next fiscal year.

The Committee recommended the Resolution for Tuition and Fee Rates for 2019-20 to the full Board for approval.

- \* 9. **Approval of 2019-20 Compensation for Graduate Assistants:** The Committee reviewed for approval the proposed 2019-20 schedule of stipends and support for the health insurance program for graduate students. To be competitive in the recruitment and retention of high-quality graduate students, it is important for the university to provide compensation packages that are comparable with those offered by peer institutions. 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 2019-20 by 3.0 percent effective August 10, 2019, and continue the university share of graduate assistant health insurance coverage of 88 percent. The university was successful in negotiating a flat rate (no increase) for the graduate students' health insurance cost for 2019-20.

The Committee recommended the 2019-20 Compensation for Graduate Assistants to the full board for approval.

- \* 10. **Approval of Year-to-Date Financial Performance Report (July 1, 2018 – December 31, 2018):** The Committee reviewed for approval the Year-to-Date Financial Performance Report for July 1, 2018 – December 31, 2018. For the second quarter, all programs of the university were on target and routine budget adjustments were made to reflect changes in revenues and expenditure budgets in academic and administrative areas. Dining revenues were lower than projected primarily due to lower meal plan and catering sales. Projected budgets for Athletics were increased to accommodate revenue of \$1 million and expense of \$0.7 million for the football team's participation in the Military Bowl.

For year-to-date ending December 31, 2018, Educational and General capital projects expenditures total \$29.9 and Auxiliary Enterprises capital projects total \$22.8 million for total Capital outlay expenditures of \$52.7 million. The report also provided listings of the major capital projects in design, construction, and closeout stages.

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

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

There being no further business, the meeting adjourned at 5:04 p.m.

### **Closed/Open Session**

**April 1, 2019**

**Board Members Present:** Greta Harris, Tish Long, Horacio Valeiras

**Virginia Tech Staff:** Savita Sharma, Dwight Shelton

1. **Motion for Closed Session:** Motion to begin closed session.
- \* 2. **Ratification of Personnel Changes Report:** The Committee met in closed session to review and ratify the quarterly Personnel Changes Report. The report includes new faculty appointments and adjustments in salaries for select faculty through the quarter ending December 31, 2018.

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

There being no further business, the closed session adjourned at 8:34 a.m.

3. **Motion for Open Session:** Motion to begin in open session.
4. **Approval of Items Discussed in Closed Session:** The Committee reviewed for approval the items discussed in closed session.

There being no further business, the open session adjourned at 8:36 a.m.

### **Joint Open Session with the Building and Grounds Committee**

**April 1, 2019**

**Board Members Present:** Greta Harris, C.T. Hill, Mehmood Kazmi, Tish Long, Robert Mills, Horacio Valeiras, Preston White

**Virginia Tech Staff:** Bill Abplanalp, Mac Babb, Callan Bartel, Richard Blythe, Bob Broyden, Caroline Buscaglia, Van Coble, Joe Crane, Ali Cross, Brian Daniels, Jeff Earley, Kevin Foust, Elaine Gall, Bryan Garey, Michael Geary, Mark Gess, Lee Hawthorne, Patrick Hilt, Chris Kiwus, Sharon Kurek, Jake Martin, Sarah McCoy, Nancy Meacham, Liza Morris, Mike Mulhare, Dwayne Pinkney, Charlie Phlegar, Charlie Ruble, Savita Sharma, Dwight Shelton, Frank Shushok, Kayla Smith, Tammie Smith, Dwyn Taylor, Sue Teel, Jon Clark Teglas, Luke Watson, Sherwood Wilson, Chris Wise

- \* 1. **Approval of the 2020-2026 Capital Outlay Plan:** The Committees reviewed for approval the 2020-2026 Capital Outlay Plan. The university prepares an updated Six-Year Capital Outlay Plan every two years as part of its normal planning and budgeting cycle. The Plan is a critical component of positioning the university for state support of major Educational and General projects and for advancing high priority projects that may be funded entirely with nongeneral fund resources. The next state capital outlay plan will be for 2020-2026 and will be established in the 2020 budget development process. Traditionally, the state requires each institution to submit a capital plan in June of the year before a new biennium begins. Based on that timetable, a plan from the university for 2020-2026 will be due to the state in June of 2019.

Preliminary work has been done to identify potential projects for inclusion in the 2020-2026 Capital Outlay Plan in anticipation of future guidance and instructions from the state. These projects are consistent with programmatic needs and with the strategic plan of the university, and position the university with options to respond to guidance from the state.

Since the submission date for the Plan may occur before the June 2019 Board of Visitors meeting, the university is requesting the review and approval of the list of potential projects for inclusion in the 2020-2026 Capital Outlay Plan. The university will provide an update to the status of the 2020-2026 Plan at a future Board of Visitors meeting.

The Committees recommended the 2020-2026 Capital Outlay Plan to the full Board for approval.

- \* 2. **Approval of Resolution for Acquisition of Falls Church Property:** The Committees reviewed for approval a resolution for the acquisition of Falls Church Property.

Virginia Tech and the University of Virginia (UVA) acquired ownership of 2.19 acres on Haycock Road in 1994 and a shared interest in a ground lease of an adjoining 5.33 acres in 1995, which leased real property owned by the City of Falls Church. The universities subsequently constructed an approximate 101,154 square foot academic building on the leased 5.33 acres. This combined area containing 7.52 acres and all improvements is known as the VT/UVA Northern Virginia Center, in which Virginia Tech holds a sixty percent interest and UVA holds a forty percent interest.

UVA desires to convey, and Virginia Tech desires to acquire, all of UVA's right, title, and interest in the universities' shared fee simple title ownership and shared leasehold interest in the Center. The universities have agreed that Virginia Tech will pay \$8.23 million to acquire all of UVA's interest in the Center without substantial risk of liability. Virginia Tech has ensured the transaction amount is no more than market value for the property.

Once the transaction with UVA is concluded, Virginia Tech desires to acquire the fee simple title to the 5.33 acres currently leased from and owned by the City of Falls Church, Virginia. The land lease includes a purchase option price of \$3.35 million with a net balance due of \$2.85 million after consideration of a \$500,000 deposit made in 1996, with an exercise date of 2021.

The sum of the actions described above will result in Virginia Tech owning both parcels of land and the building. Virginia Tech is ready to proceed with the acquisitions and has developed a resource plan sufficient to cover the \$11.08 million of costs. This request is for authorization to move forward with the acquisition of UVA's interest in the Center and the acquisition of the 5.33 acres leased from and owned by the City of Falls Church, Virginia.

The Committees recommended the Resolution for Acquisition of Falls Church property to the full Board for approval.

There being no further business, the meeting adjourned at 12:04 p.m.

**\* Requires full Board approval.**



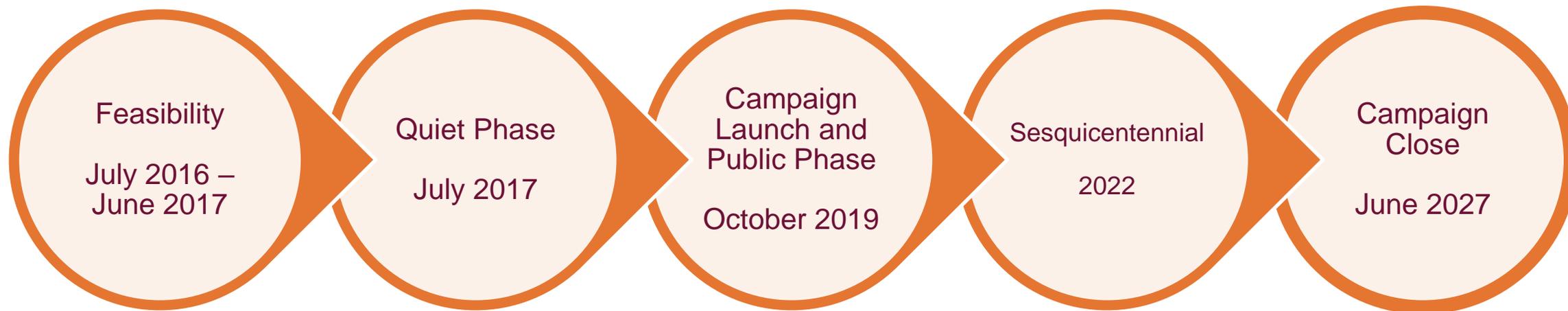
*Comprehensive Campaign*

*Board of Visitors*

*Finance and Resource Management Committee*

*March 31, 2019*

# Campaign Life Cycle



# Philanthropic Goals

## \$2B Growth Model

Growth Model (Growth rate necessary to reach \$2B in Commitments over a 10-year campaign)	Projected Growth Table										10 Year Campaign Total
	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27	
Gift Commitments	\$135M	\$150M	\$163M	\$177M	\$188M	\$212M	\$228M	\$237M	\$248M	\$262M	\$2.00B
Cash	\$108M	\$120M	\$130.4M	\$141.6M	\$150.4M	\$169.6M	\$182.4M	\$189.6M	\$198.4M	\$209.6M	\$1.60B

## \$1.872B Growth Model

Growth Model (Growth rate necessary to reach \$1.872B in Commitments over a 10-year campaign)	Projected Growth Table										10 Year Campaign Total
	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27	
Gift Commitments	\$127M	\$140M	\$150M	\$165M	\$175M	\$200M	\$215M	\$225M	\$230M	\$245M	\$1.872B
Cash	\$94.4M	\$104.8M	\$113.6M	\$124M	\$131.2M	\$148M	\$160M	\$168M	\$172M	\$184M	\$1.40B

## \$1.5B Growth Model

Growth Model (Growth rate necessary to reach \$1.5B in Commitments over a 10-year campaign)	Projected Growth Table										10 Year Campaign Total
	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27	
Gift Commitments	\$100M	\$110M	\$120M	\$125M	\$135M	\$175M	\$175M	\$180M	\$180M	\$200M	\$1.50B
Cash	\$80M	\$91.2M	\$97.6M	\$106.4M	\$112.8M	\$128M	\$132M	\$144M	\$148M	\$160M	\$1.20B

# Philanthropic Goals

GIFT AMOUNT	NUMBER OF		NUMBER OF GIFTS	
	GIFTS	TOTAL	REALIZED TO DATE	TOTAL TO DATE
\$50M+	3	\$150M	1	\$ 50M
\$25M - \$49.9M	4	\$100M	0	\$ -
\$10M - \$24.9M	15	150M	5	\$ 75.1M
\$5M - \$9.9M	20	\$100M	5	\$ 25.5M
\$3M - \$4.9M	30	\$90M	12	\$ 47.1M
\$2M - \$2.9M	50	\$100M	10	\$ 20.8M
\$1M - \$1.9M	160	\$160M	11	\$ 13.25M
\$500k - \$999.9k	350	\$175M	35	\$ 22.5M
\$250k - \$499.9k	525	\$131.25M	87	\$ 31.64M
\$100k - \$249.9k	1,000	\$100M	300	\$ 40.4M
\$50k - \$99.9k	1,500	\$75M	251	\$ 15.7M
\$25k - \$49.9k	2,500	\$62.5M	289	\$ 8.9M
\$10k - \$24.9k	6,000	\$60M	907	\$ 12.2M
\$5k - \$9.9k	7,600	\$38M	2,090	\$ 12M
Below \$5,000	Many	\$380.25M		\$ 30.8M
	<b>TOTAL:</b>	<b>\$ 1.872M</b>		<b>\$ 405.65M</b>

# College and Unit Philanthropic Goals

Athletics	\$ 440M	23%	Corps of Cadets	\$ 50M	3%
Engineering	\$ 310M	17%	WVTF	\$ 30M	1.5%
Fralin Biomedical Research Institute	\$ 200M	10%	Student Affairs	\$ 30M	1.5%
University Priorities	\$ 170M	9%	School of Medicine	\$ 20M	1%
Business	\$ 105M	6%	Natural Resources	\$ 20M	1%
Science	\$ 90M	5%	Moss Arts Center	\$ 10M	0.5
Agriculture & Life Sciences	\$ 90M	5%	Skelton 4H Center	\$ 10M	0.5%
Liberal Arts & Human Sciences	\$ 85M	5%	Libraries	\$ 7M	0.4%
Honors	\$ 75M	4%	Graduate School	\$ 5.5M	0.3%
Architecture & Urban Studies	\$ 60M	3%	Inclusion and Diversity	\$ 5.5M	0.3%
Veterinary Medicine	\$ 59M	3%	Innovation Campus	\$ TBD	

# Engagement Metrics

- Volunteer Engagement
- Experiential Engagement
- Philanthropic Engagement

# Campaign Steering Committee

## Tri-Chairs

- **Lynne Doughtie**

- **Horacio Valeiras**

- **Morgan Blackwood Patel**

## Members

- Pat Caldwell
- Dave Calhoun
- Kevin Crofton
- André Davis
- Sandy Davis (VTF – Chair)
- Justin Graves
- Greg Herrema
- Steve Johnson
- Lisa Karlisch
- Ted King
- Mark Lawrence (VTAA)

- John Lawson
- Liz Lazor
- Floyd Merryman
- Robby Moser
- Quinton Nottingham
- J. Pearson
- Brandon Perry (VTF-Adv CoM)
- Mike Quillen
- John Rocovich
- Fay Street
- Dennis Treacy (BOV)

# End Result

- ENGAGED
- INFORMED
- GIVING

# ┌ Campaign Kick-Off Weekend

October 10 - 12, 2019

Questions?

**2019-20 Appropriation Request  
Review of Executive Budget Amendments and 2019 General Assembly Session**

**FINANCE AND RESOURCE MANAGEMENT COMMITTEE**

**February 27, 2019**

**Overview of the Appropriations Process**

***2019-20 Biennial Budget***

On October 9, 2018, 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 amendments to the 2018-20 Executive Budget. Governor Northam presented the Executive Budget amendments on Tuesday, December 18, 2018. The General Assembly session opened on January 9, 2019 and adjourned on February 24, 2019.

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 remainder of the biennium.

***Decision Package Summary***

In September 2018, 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 goals, emergency or life/safety concerns, and unavoidable cost increases.

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 requests included the following items for 2019-20:

<b><u>University Division (\$ in millions)</u></b>		<b><u>FY20</u></b>
1)	Increase Access for Virginia Undergraduates and STEM-H	\$5.2
2)	Advance Strategic Research Opportunities (Health Sciences)	5.0
3)	Provide One-Time Startup Support for Health Sciences Research	5.0
4)	Increase Support for Student Financial Aid	1.0
5)	Expand K-12 Pathways	0.2
6)	Support Unique Military Activities	0.2
7)	Operations and Maintenance	0.4
8)	Technical Item – VRS Surcharge Clarification	N/A
	<i>Subtotal</i>	17.0
<b><u>Cooperative Extension/Ag Experiment Station (CE/AES) Division</u></b>		
1)	Advance Agricultural and Natural Resources (ANR) Initiative	3.8
2)	Provide One-Time Support for ANR Infrastructure	9.0
3)	Technical Item – General Fund cost share	N/A
	<i>Subtotal</i>	12.8
	<b>Total Request</b>	<b>\$29.8</b>

A summary of actions included in the Executive Budget that impact Virginia is found in Attachment 1 under the “Executive Budget” column.

### ***2019 General Assembly Session***

The General Assembly session opened on January 9, 2019. Members of the House and Senate submitted amendments to the proposed Executive Budget Bill by January 11, 2019 for consideration by the respective body’s financial committee. Through that process, the university submitted the following targeted requests for additional funding:

<b><u>University Division (\$ in millions)</u></b>		<b><u>FY20</u></b>
1)	Advance Strategic Research Opportunities (Health Sciences)	\$2.0
2)	Unique Military Activities	0.2
	<i>Subtotal</i>	2.2
<b><u>CE/AES Division</u></b>		
1)	Enhance Virginia’s Agriculture and Natural Resources Industry	3.8
	<b>Total Operating Request</b>	<b>\$6.0</b>
<b><u>Capital Requests</u></b>		
1	Planning Randolph Hall Replacement	\$3.5
2	Construct Undergraduate Lab Building	75.0
	<b>Total Capital Request</b>	<b>\$78.5</b>

## **General Assembly**

The House Appropriations and Senate Finance Committees published their proposed changes to the 2018-20 Executive Budget amendments on February 3, 2019. Budget conferees appointed by both chambers produced a conference report on the budget on February 23, 2019 and both chambers adopted the conference report on February 24, 2019. The major items impacting the university in the conference report are summarized in Attachment 2.

## **Legislation with Potential Impact**

During the 2019 General Assembly session, 3,128 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:***

- **HB2173/SB1118**: Requires the Board of Visitors to establish policies for the public to comment at a meeting of the Board directly in a live, real-time setting to any proposed increase in undergraduate tuition or mandatory fees within the 30-day period prior to any vote on the increase.
- **HB2336**: Requires the Board of Visitors to report by September 1 to the Chairmen of several legislative committees the salary by position of any executive officer that exceeds for the previous year the salary limit for the chief executive officer set forth in the general appropriation act.
- **HB2337**: Requires the Board of Visitors to provide an explanation of any deviation from the range of an increase in undergraduate tuition and mandatory fees projected in the institutional six-year plan; SCHEV will provide a report on any such deviations to the Governor and the chairmen of several legislative committees.
- **SB1068**: Prohibits a baccalaureate institution of higher education from employing an individual appointed by the Governor to the board of visitors of such institutions within two years of the expirations of such member's term but exempts the employment of the institution president or superintendent from such prohibition.
- **HB2653/SB1628**: Permits public institutions of higher education to propose, in conjunction with the Six-Year Plan process, a performance pilot designed to advance the objectives of the Virginia Higher Education Opportunity Act of 2011; a performance pilot may include or constitute an institutional partnership

agreement that includes mutually dependent commitments by the institution, the Commonwealth, and identified partners.

- HB2490/SB1617: Establishes the Tech Talent Investment Fund to support institutional efforts to increase the number of new eligible degrees in technologically-related fields by at least 25,000 by FY2039 and to improve readiness of graduates to be employed in technology-related fields and those that align with traded-sector growth opportunities identified by the Virginia Economic Development Partnership.

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

- HB2550: Would have created the Commonwealth of Virginia Research Consortium Authority; The Consortium would have been responsible for the development of the Commonwealth Research and Technology Strategic Roadmap and allocating research-related funds to the Virginia Biosciences Health Research Consortium and the Commonwealth Center for Advanced Manufacturing.
- Tuition Cap Legislation; Multiple bills were introduced that would have limited institutional authority to set tuition rates.
  - Capping tuition increases at various external indices including the Consumer Price Index (CPI) and a rolling state average.
  - Requiring institutions to offer a fixed-four year tuition rate
  - Requiring an affirmative vote of 2/3rds of the undergraduate student body before a tuition increase can take effect

**Future Actions**

The General Assembly will reconvene for a one-day session on April 3, 2019 to consider the Governor's amendments and vetoes to legislation.

**PROPOSED APPROPRIATIONS FROM THE EXECUTIVE BUDGET AND CONFERENCE BUDGET**

As of February 24, 2019

Schedule reflects incremental funding already approved and proposed adjustments for 2018-19 and 2019-20.

Dollars in thousands

**Operating Budget****General Fund****University Division E&G**2018 Session Approved Budget (May 2018)

Degrees in Data Science &amp; Technology, Science &amp; Engineering, Health, and Education

- \$ 5,216

- \$ 5,216

2019 Proposed Budget - Incremental Changes

In-State Undergraduate Tuition &amp; E&amp;G Fee Freeze - Optional

- -

- 6,306

*Subtotal University Division Operating*

- 5,216

- 11,522

**Student Financial Aid**2018 Session Approved Budget (May 2018)

Virginia Undergraduate Financial Aid

- 706

- 706

2019 Proposed Budget - Incremental Changes

Virginia Undergraduate Financial Aid

991

- 991

*Subtotal Student Financial Aid*

- 1,698

- 1,698

**Unique Military Activities**2018 Session Approved Budget (May 2018)

- 300

- 300

2019 Proposed Budget - Incremental Changes

- -

- 173

*Subtotal Unique Military Activities*

300

473

**Higher Education Research Initiative**2018 Session Approved Budget (May 2018)

Commonwealth Cyber Initiative - Hub Leasing, Operations, Faculty, &amp; Internships

- 10,000

- 10,000

Commonwealth Cyber Initiative - Scale Initiative at Hub &amp; Spoke Sites

- 10,000

- 10,000

*Subtotal Higher Education Research Initiative*

- 20,000

- 20,000

**Subtotal - University Division****- 27,214****- 33,693****Cooperative Extension/AES Division (CE/AES)**2019 Proposed Budget - Incremental Changes

Technical Correction of Fund Split of State Assigned Costs

130 549

130 549

Extension Agents and Research Specialists

- -

- 625

**Subtotal CE/AES****130 549****130 1,174****Total Operating Budget State Support****\$ 130 \$ 27,763****\$ 130 \$ 34,867****Employee Compensation Programs****University Division E&G**2018 Session Approved Budget (May 2018)

2% Contingent Faculty &amp; Staff Raise, Effective June 10, 2019

- 4,047

- 4,047

2% Contingent Classified Staff Merit Increase, Effective June 10, 2019

- 268

- 268

2019 Proposed Budget - Incremental Changes

1% Employee Bonus

- 1,776

- -

1% Faculty Raise Supplement (3% total)

- -

- 1,501

0.75% Classified and University Staff Raise Supplement (2.75% total)

- -

- 300

0.25% Classified Staff Merit Raise Supplement (2.25% total)

- -

- 34

**Cooperative Extension/AES Division (CE/AES)**2018 Session Approved Budget (May 2018)

2% Contingent Faculty &amp; Staff Raise, Effective June 10, 2019

- 1,368

- 1,368

2% Contingent Classified Staff Merit Increase, Effective June 10, 2019

- 144

- 144

2019 Proposed Budget - Incremental Changes

1% Employee Bonus

- 600

- -

1% Faculty Raise Supplement (3% total)

- -

- 491

0.75% Classified and University Staff Raise Supplement (2.75% total)

- -

- 145

0.25% Classified Staff Merit Raise Supplement (2.25% total)

- -

- 18

**Total State Support for Compensation Actions****\$ 8,203****\$ 8,314**

**PROPOSED APPROPRIATIONS FROM THE EXECUTIVE BUDGET AND CONFERENCE BUDGET**

as of February 24, 2019

*Dollars in thousands*

**CAPITAL BUDGET**

**University Division**

Innovation Campus

Data and Decision Sciences

**Cooperative Extension & Agricultural Experiment Station Division**

Improve Kentland Facilities Supplement

**Total Capital Budget Support**

<b>State Support</b>	
<b>Executive Budget</b>	<b>Conference Budget</b>
\$ 168,000	\$ 168,000
-	69,000
3,100	3,100
<b>\$ 171,100</b>	<b>\$ 240,100</b>

**2018-20 BUDGETS AS OF ADJOURNMENT**  
**As of February 23, 2019**

The Executive column reflects incremental adjustments to the 2018-20 biennial budget proposed by the Governor.  
The Conference column reflects incremental adjustments made by the General Assembly.

	<b>Executive</b>	<b>Conference</b>
<b>Operating Budget</b>		
<b>In-State Undergraduate Tuition Moderation</b>	N/A	Proposes \$52.5 million statewide in additional General Fund (GF) support to offset the need for tuition increases (maintain tuition at 2019 levels), based on institutional six-year plan needs  <b>\$6,306,000</b> is provided to Virginia Tech in the second year to “maintain tuition and mandatory Educational and General (E&G) fee charges for in-state undergraduate students to fiscal year 2019 levels.”  <sup>1</sup> <i>The full amendment is provided at the end of this document.</i>  (Item 253.50 #1c)
<b>Undergraduate Student Financial Aid Funding</b>	Proposes increased Virginia undergraduate need-based student financial aid at Virginia Tech of \$991,397 General Fund (GF) in FY20. (Item 222)	No change to Executive Budget.
<b>Unique Military Activities</b>	N/A	Proposes additional \$173,000 GF in FY20 for Unique Military Activities. (Item 224 #1c)
<b>Agency 229: Correction of State Fund Split</b>	Proposes \$129,557 GF in the first year and \$548,924 GF in the second year to correct the state’s share of state costs in VCE/AES, and language clarifies that the 95% fund split covers entire agency. (Item 226.D)	No change to Executive Budget.
<b>Agency 229: New Extension Agents and Research Specialists</b>	N/A	Proposes \$625,000 GF in the second year for 4 additional Extension Agents and Research Specialists across the Commonwealth. (Item 226 #1c)

	<b>Executive</b>	<b>Conference</b>
<b><i>Employee Compensation and Benefits</i></b>		
<b>Employee Bonus</b>	Proposes a one percent bonus to all state employees effective December 1, 2019. (Item 474.AB1)	Eliminates proposed bonus. (Item 474 #4c)
<b>Employee Salary Increase</b>	Maintains 2018 General Assembly (Chapter 2) budgeted salary increase of 2% for all state employees, with an additional 2% merit-based supplemental increase for Classified staff. Increase effective June 10, 2019.	Proposes enhancing the compensation increases approved in Chapter 2 as follows: <ul style="list-style-type: none"> <li>• <b>University Staff:</b> 2.75% (originally 2%)</li> <li>• <b>Classified Staff:</b> 5.0% (2.75% base plus 2.25% merit), (originally 2% base plus 2% merit)</li> <li>• <b>Faculty:</b> 3% (originally 2%)</li> </ul> (Item 474 #4c)
<b>Health Insurance</b>	Proposes no increase in premium in 2019-20.	No apparent changes to premiums in the Executive Budget. <ul style="list-style-type: none"> <li>• Proposes a premium holiday of two pay periods in November 2019; the health insurance plan will not collect the employee or employer share of the premiums. (Item 474 #3c)</li> </ul>
<b>VRS Optional Retirement Plan for Higher Education Surcharge</b>	Maintains 2018 General Assembly (Chapter 2) surcharge of 5.02% on all employees choosing to participate in the Optional Retirement Plan.	Modifies existing language regarding stranded liabilities in the Virginia Retirement System to apply only to those positions which were converted from VRS to ORP-eligible on or after <b>January 1, 2012</b> , and which are filled by an employee electing to participate in ORP. Surcharge appears to be <b>8.04%</b> . (Item 474 #1s)

	Executive	Conference
<b>State Economic Development – Expansion of Computer Science Education</b>		
<b>Tech Talent Investment Program</b>	<p>Proposes \$8.3 million GF statewide in FY20 to “support an increase in the number of bachelor’s and master’s degrees in computer science and closely related fields and to improve the readiness of graduates to be employed in technology-related occupations through internships. Funds shall be disbursed to institutions on a competitive basis and subject to agreed-upon performance....In consultation with the Secretary of Finance and the Secretary of Commerce and Trade, the Secretary of Education shall develop a process to award these funds in accordance with the provisions of this language, with the Governor providing final approval for distribution of the funds. (Item 475.U)</p>	<p>Proposes \$16.6 million GF statewide to increase the number of computer science and related degrees as part of the Tech Talent Pipeline proposed in House Bill 2490.</p> <p>“Prior to an allocation from the fund, institutions must enter into a Memorandum of Understanding (MOU) through a negotiation process between the institution and the Commonwealth. The MOU shall contain criteria for eligible degrees, eligible expenses, and degree production goals for a period ending in 2039. In addition, each institution shall (i) submit an enrollment plan detailing the number of eligible degrees produced between July 1, 2013, and June 30, 2018; (ii) develop a detailed plan of how the institution proposes to materially increase the enrollment, retention, and graduation of students pursuing eligible degrees, the resources necessary to accomplish such increase in enrollment, retention, and graduation, and plans to track new enrollment; (iii) provide an accounting of the anticipated number of in-state and out-of-state students enrolling in eligible degree programs; (iv) determine the existing capacity of current eligible degree programs; (v) propose plans to partner with other institutions to provide courses or programs that will lead to the completion of an eligible degree including articulation agreements with the Virginia Community College System to provide guaranteed admission for qualified students with an associate degree for transfer into an eligible degree program; (vi) allocate existing funds held by or appropriated to the institution to meet increased enrollment, retention, and graduation goals in eligible degree programs; and (vii) provide any other information deemed relevant. (Item 475.20 #1c)</p>
<b>Innovation Campus</b>	<p>Proposes additional debt authorization of \$168 million for the <b>Virginia Tech Innovation Campus</b> in the second year, to be held until Virginia Tech certifies that “dollars are in hand and available to cover the nongeneral fund portion of the project costs.”</p>	<p>Proposes \$168.0 million of General Fund for the <b>Virginia Tech Innovation Campus</b>. VT will provide \$107 million from philanthropy and institutional funds for a total project budget of \$275 million. The language change on the nongeneral fund allows the University to cash flow the project prior to cash receipts of private gifts. (Item C20.10, #1c)</p>

	Executive	Conference
<b><i>Statewide Research Initiatives</i></b>		
<b>Commonwealth Cyber Initiative</b>	Maintains the approved funding in the 2018 General Assembly budget (Chapter 2) of \$5 million in the first year and \$20 million in the second year.	Proposed language clarifies that <b>“the amounts provided in this paragraph are non-reverting and shall constitute the base budget for subsequent years”</b> for the both the Hub and Spoke funding levels of \$10 million/yr.  Funding level is unchanged. (Item 252 #1c)
<b>Commonwealth Center for Advanced Manufacturing</b>	N/A	Provides \$1.0 million GF in the second year for rent, operations and maintenance of the CCAM. (Item 122 #2c)  Establishes “Commonwealth Center for Advanced Manufacturing Incentive Fund” as follows: <ul style="list-style-type: none"> <li>• \$1.1 million GF for private sector and industry partners</li> <li>• \$600,000 GF for university research partners. (Item 103 #3c)</li> </ul>
<b>Virginia Neuroscience Initiative</b>	N/A	Proposes \$275,000 GF the second year for George Mason University, in collaboration with EVMS, ODU, UVA, VCU, VT, INOVA, and Sentara Health System, to create the Virginia Commonwealth Clinical Research Network to serve as a network of institutions to conduct significant clinical trials in areas that include oncology, mental health and substance abuse. (Item 164 #1c)

	Executive	Conference
<b><i>Statewide Initiatives and Language Impacting Higher Education</i></b>		
<b>Student Financial Aid</b>	N/A	Proposes a study of financial aid funding models, including current and prospective funding models. Review shall also assess use of tuition revenue for financial aid. Review shall include representatives from the House Appropriations and Senate Finance Committees, Department of Planning and Budget, Secretaries of Finance and Education, and representatives of public higher education institutions. (Item 141 #1c)
<b>Six-Year Plan And Institutional Partnership Agreements</b>	Requires institutions to outline the expected cost of tuition and <b>mandatory</b> E&G fees for a period of three years that in-state undergraduates shall be expected to pay. The tuition predictability plan will be submitted to SCHEV as part of the six-year financial plan. Plans shall include a percentage and dollar change of any size the institution determines to be appropriate from one year to the next or for the entire duration covered by the plan. Plans shall indicate a range based upon available state resources, but must contain a scenario that includes the assumption of no new state support. SCHEV shall develop instructions related to the submission of such plans in the six-year financial plans as required by § <u>23.1-306</u> , Code of Virginia. (Item 143.P)	No change to Executive Budget proposal for tuition predictability plan.  In addition, legislature passed HB2653/S1628, creating a "Performance Pilot" opportunity.  <sup>2</sup> <i>Full text of the language in HB2653/SB1628 is included at the end of this document.</i>
<b>Innovative Internship Program</b>	N/A	Provides an additional \$500,000 GF in FY20 for the SCHEV's innovative internship program. The program is designed to expand paid or credit bearing student internship and other work-based learning opportunities with Virginia employers. The amendment brings total funding for the program to \$700,000 GF in the 2nd year. (Item 143 #3c)  <sup>3</sup> <i>Full text of the language in HB2653/SB1628 is included at the end of this document.</i>

	<b>Executive</b>	<b>Conference</b>
<b>One-Time Graduate Survey</b>	N/A	Proposes \$750,000 in FY20 for the administration of a one-time survey of graduates of public institutions of higher education. The survey shall be designed to enable Virginia to answer fundamental questions about the value and impact of undergraduate education and complement existing research on wages of college graduates derived from the Virginia Longitudinal Data System. The survey results shall be used to guide future policy decisions in alignment with the priorities of the Governor and the General Assembly. (Item 143 #1c)
<b>Data Exchange for Wage Outcomes</b>	N/A	Proposes to authorize SCHEV to release data to the U.S Census, U.S. Education Department or other agency of the federal government in order to get wage outcomes for graduates working outside the Commonwealth to improve knowledge on earnings and education-related debt. (Item 143 #4c)
<b>Statewide Higher Education Finance Plan</b>	N/A	Language requires SCHEV to work with the Lumina Foundation to develop a statewide higher education finance plan. (Item 143 #2c)
<b>Procurement</b>	N/A	Sets purchase thresholds equal to those set forth in the Virginia Public Procurement Act. (Item 4-9.03 #1c)

	Executive	Conference
<b>Capital Budget</b>		
<b>Virginia Tech Capital Project Funding</b>	<ul style="list-style-type: none"> <li>• <b>Improve Kentland Facilities Supplement:</b> Proposes an additional \$3,100,000 in state support for this project. (Item C-46.10)</li> <li>• <b>Renovate Dietrick Hall, First Floor and Plaza:</b> Proposes \$3,800,000 for addition 9(d) debt authorization to support the project. (Item C-20)</li> <li>• The majority of the projects within the Capital Planning Pool from Chapter 759 of the 2016 Act <b>were not advanced.</b> This pool includes the <b>Undergraduate Laboratory Building</b> project that is currently in design.</li> </ul>	<p>Executive Budget proposed projects were maintained. In addition the Conference budget includes:</p> <ul style="list-style-type: none"> <li>• <b>Virginia Tech Innovation Campus:</b> \$168 million of state support.</li> <li>• <b>Data and Decision Science Building</b> \$69 million of state support. VT will provide \$10 million from philanthropy and institutional funds for a total project budget of \$79M. (Item C-20.20 #1c)</li> <li>• \$438 million construction bond pool beyond these projects that includes higher education and central government agencies, which includes additional support for six of the projects within the Capital Planning Pool from Chapter 759 of the 2016 Act. The VT Undergraduate Science Laboratory Building was not included in the pool.</li> </ul>

**<sup>1</sup> In-State Undergraduate Tuition Mitigation Funding (Item 253.30 #1c)**

A.1. Out of this appropriation, \$52,459,000 [*Virginia Tech: \$6,306,000*] the second year from the general fund is designated for In-State Undergraduate Affordability with allocations to public colleges and universities as follows:

2. a. Allocations listed in paragraph A.1. of this item shall be granted to public colleges and universities in fiscal year 2020 so long as they maintain tuition and mandatory Educational and General (E & G) fee charges for in-state undergraduate students to fiscal year 2019 levels.

b. In addition to the allocation from this item, the Virginia Community College System also is provided \$5,000,000 from the general fund under Item 210 V. in order to effectuate the goals of this item.

3. The State Council of Higher Education for Virginia (SCHEV) shall certify whether each public college and university has met the tuition freeze requirements of this fund. SCHEV shall report its findings to the Governor, the Chairmen of the House Appropriations and Senate Finance Committees, and the Director of the Department of Planning and Budget by July 1, 2019.

4. Upon certification by SCHEV that the requirements in paragraph A.2. have been met, the Director, Department of Planning and Budget, shall transfer the amounts listed above to each of the certified institutions. The amounts transferred to each institution shall not revert and shall become part of the institution's fiscal year 2020 base for subsequent biennia.

5. If an institution elects to increase tuition and mandatory E & G fees for in-state undergraduate students in fiscal year 2020 above the fiscal year 2019 levels, the institution shall not be eligible for an allocation from the fund.

6. The Rector, Board of Visitors of institutions choosing to forego allocations from this item and electing to increase tuition and mandatory E & G fees for in-state undergraduate students in fiscal year 2020 shall communicate the Board Resolution certifying that decision to the Chairmen of the House Appropriations and Senate Finance Committees by August 1, 2019.

7. All unallocated funds shall be transferred to Item 266, the Revenue Cash Reserve by September 1, 2019.

**<sup>2</sup>Institutional Partnership Performance Agreements (HB2653/SB1628)**

**§ 23.1-306**

F. 1. In conjunction with the plans included in the six-year plan as set forth in subsection D, each public institution of higher education, Richard Bland College, and the Virginia Community College System may submit one innovative proposal with clearly defined performance measures, including any request for necessary authority or support from the Commonwealth, for a performance pilot. If the General Assembly approves the proposed performance pilot, it shall include approval language in the general appropriation act. A performance pilot shall advance the objectives of this chapter by addressing innovative requests related to college access, affordability, cost predictability, enrollment management subject to specified commitments regarding undergraduate in-state student enrollment, alternative tuition and fee structures and affordable pathways to degree attainment, internships and work study, employment pathways for undergraduate Virginia students, strategic talent development, state or regional economic development, pathways to increase timely degree completion, or other priorities set out in the general appropriation act.

2. A performance pilot may include or constitute an institutional partnership performance agreement, which shall be set forth in a memorandum of understanding that includes mutually dependent commitments by the institution, the Commonwealth, and identified partners, if any, related to one or more of the priorities set forth in subdivision 1 or set forth in a general appropriation act. No such institutional partnership performance agreement shall create a legally enforceable obligation of the Commonwealth.

3. No more than six performance pilots shall be approved in a single session of the General Assembly.

4. Development and approval of any performance pilot proposal shall proceed in tandem with consideration of the institution's six-year plan, as follows:

a. An institution that intends to propose a performance pilot shall communicate that intention as early as practicable, but not later than April 1 of the year in which the performance pilot will be proposed, to the reviewers listed in subsection B, the co-chairmen of the Joint Subcommittee on the Future Competitiveness of Virginia Higher Education, and the Governor. In developing a proposed performance pilot, the institution shall consider the Commonwealth's educational and economic policies and priorities, including those reflected in the Virginia Plan for Higher Education issued by the Council, the economic development policy developed pursuant to § 2.2-205, the strategic plan developed pursuant to § 2.2-2237.1, relevant regional economic growth and diversification plans prepared by regional councils pursuant to the Virginia Growth and Opportunity Act (§ 2.2-2484 et seq.), and any additional guidance provided by the Joint Subcommittee on the Future Competitiveness of Virginia Higher Education and the Governor.

b. An institution that submits a performance pilot shall include the one innovative proposal with clearly defined performance measures, and any corresponding authority and support requested from the Commonwealth, with its submission of the preliminary version of its six-year plan pursuant to clause (ii) of subsection A or with its preliminary amendment or affirmation submission pursuant to clause (iii) of subsection A.

c. The reviewers listed in subsection B, or their designees, shall review and comment on any proposed performance pilot in accordance with the six-year plan review and comment process established in subsection B and may expedite such review and comment process to facilitate the executive and legislative budget process or for other reasons. No later than October 15 of the relevant year, the reviewers shall communicate to the Governor and the Chairmen of the House Committee on Appropriations and the Senate Committee on Finance their recommendations regarding each performance pilot proposal. Such recommendations shall include the reviewers' comments regarding how the proposed performance pilots, individually and collectively, support the strategic educational and economic policies of the Commonwealth.

d. Each performance pilot proposal shall include evidence of its approval by the institution's governing board and, if accepted, shall be referenced in the general appropriation act.

**<sup>3</sup> Innovative Internship Fund and Program (HB2653/SB1628)****§ 23.1-903.4**

A. There is hereby created in the state treasury a special nonreverting fund to be known as the Innovative Internship Fund (the Fund). The Fund shall be established on the books of the Comptroller. All funds appropriated for such purpose and any gifts, donations, grants, bequests, and other funds received on its behalf shall be paid into the state treasury and credited to the Fund. Interest earned on moneys in the Fund shall remain in the Fund and be credited to it. Any moneys remaining in the Fund, including interest thereon, at the end of each fiscal year shall not revert to the general fund but shall remain in the Fund. Moneys in the Fund shall be used solely for the purposes of the Innovative Internship Program established pursuant to subsection B. Expenditures and disbursements from the Fund shall be made by the State Treasurer on warrants issued by the Comptroller upon written request signed by the Director of the Council.

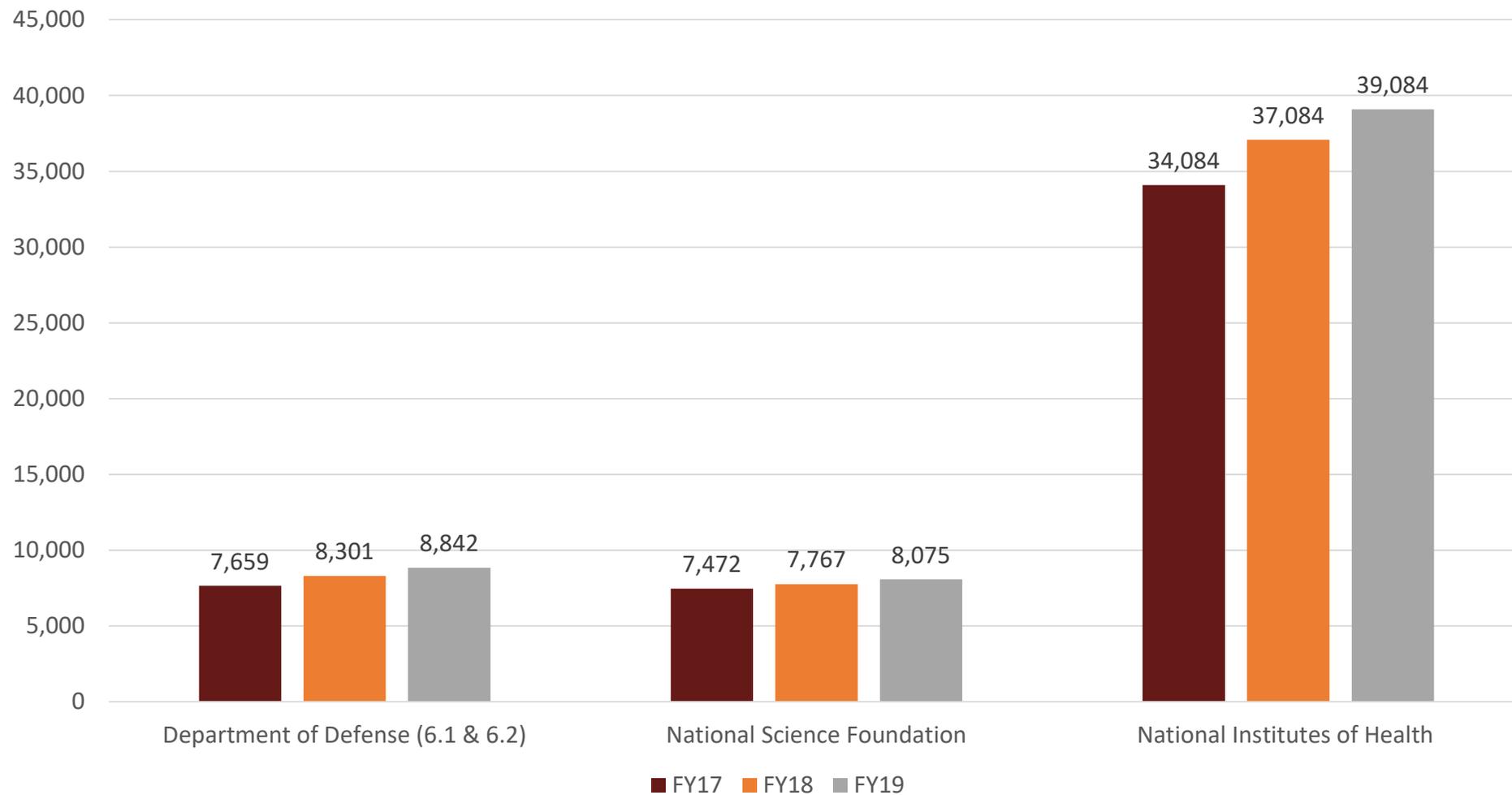
B. There is hereby established the Innovative Internship Program (the Program). The purpose of the Program is to expand paid or credit-bearing student internship and other work-based learning opportunities in collaboration with Virginia employers. The Program comprises institutional grants and a statewide initiative to facilitate the readiness of students, employers, and institutions of higher education to participate in internship and other work-based learning opportunities.

1. In administering the statewide initiative, the Council shall (i) engage stakeholders from business and industry, secondary and higher education, economic development, and state agencies and entities that are successfully engaging employers or successfully operating internship programs; (ii) explore strategies in Virginia and elsewhere on successful institutional, regional, statewide or sector-based internship programs; (iii) gather data on current institutional internship practices, scale, and outcomes; (iv) develop internship readiness educational resources, delivery methods, certification procedures, and outreach and awareness activities for employer partners, students, and institutional career development personnel; (v) pursue shared services or other efficiency initiatives, including technological solutions; and (vi) create a process to track key measures of performance.

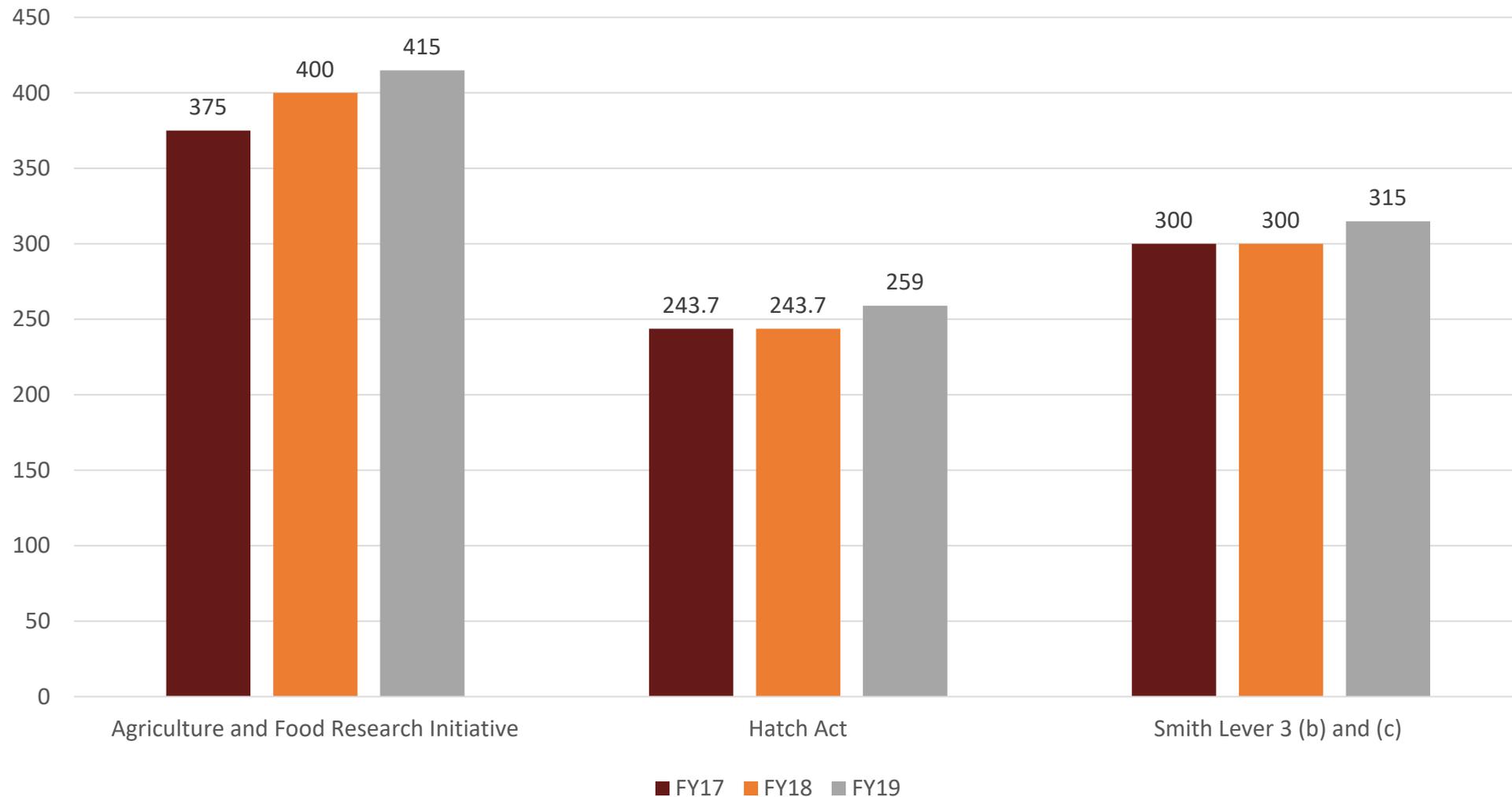
2. The Council shall establish eligibility criteria, including requirements for matching funds, for institutional grants. Such grants shall be used to accomplish one or more of the following goals: (i) support state or regional workforce needs; (ii) support initiatives to attract and retain talent in the Commonwealth; (iii) support research and research commercialization in sectors and clusters targeted for development; (iv) support regional economic growth and diversification plans; (v) enhance the job readiness of students; (vi) enhance higher education affordability and timely completion for Virginia students; or (vii) further the objectives of increasing the tech talent pipeline.



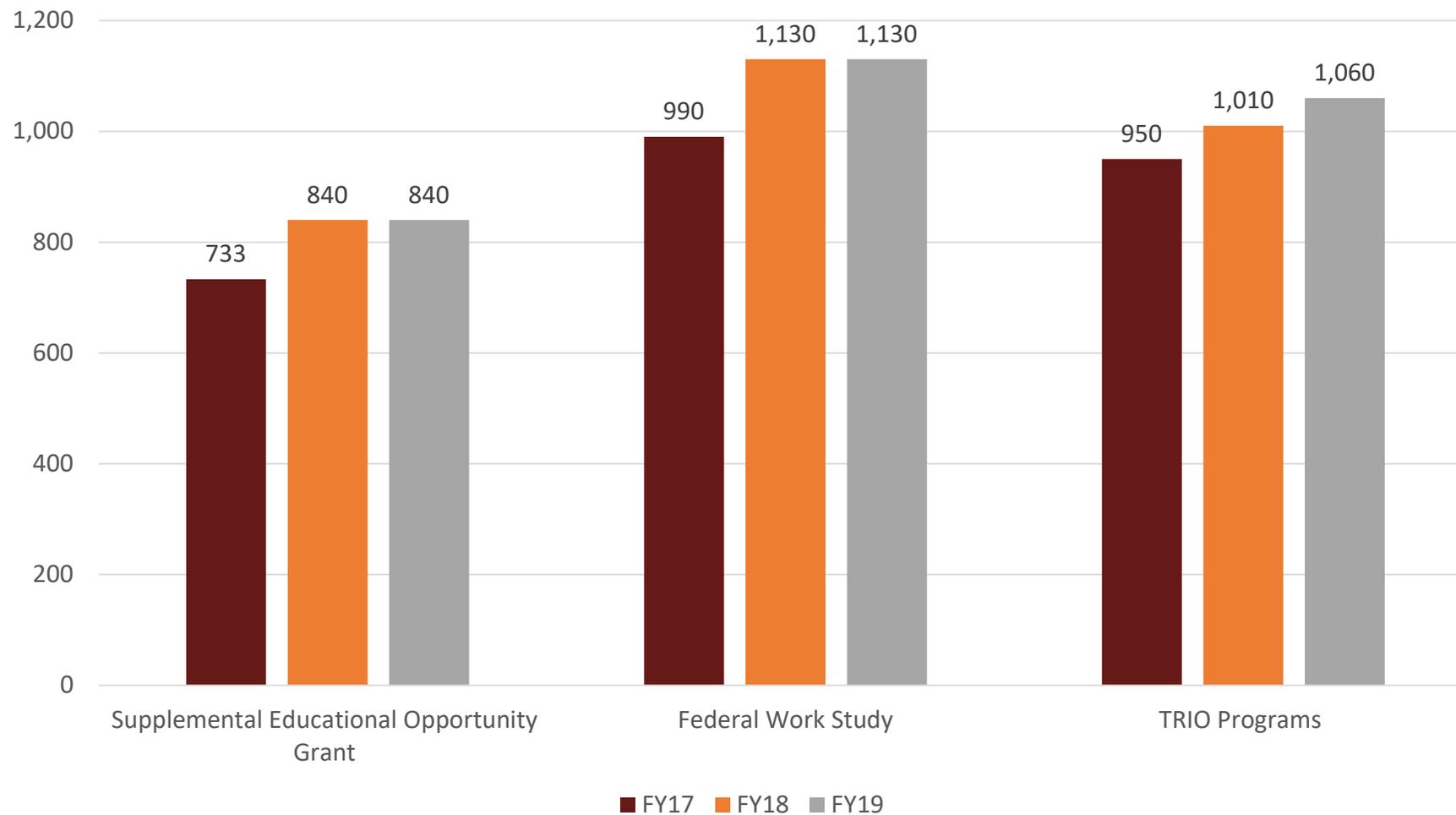
# FEDERAL RESEARCH FUNDING (in millions)



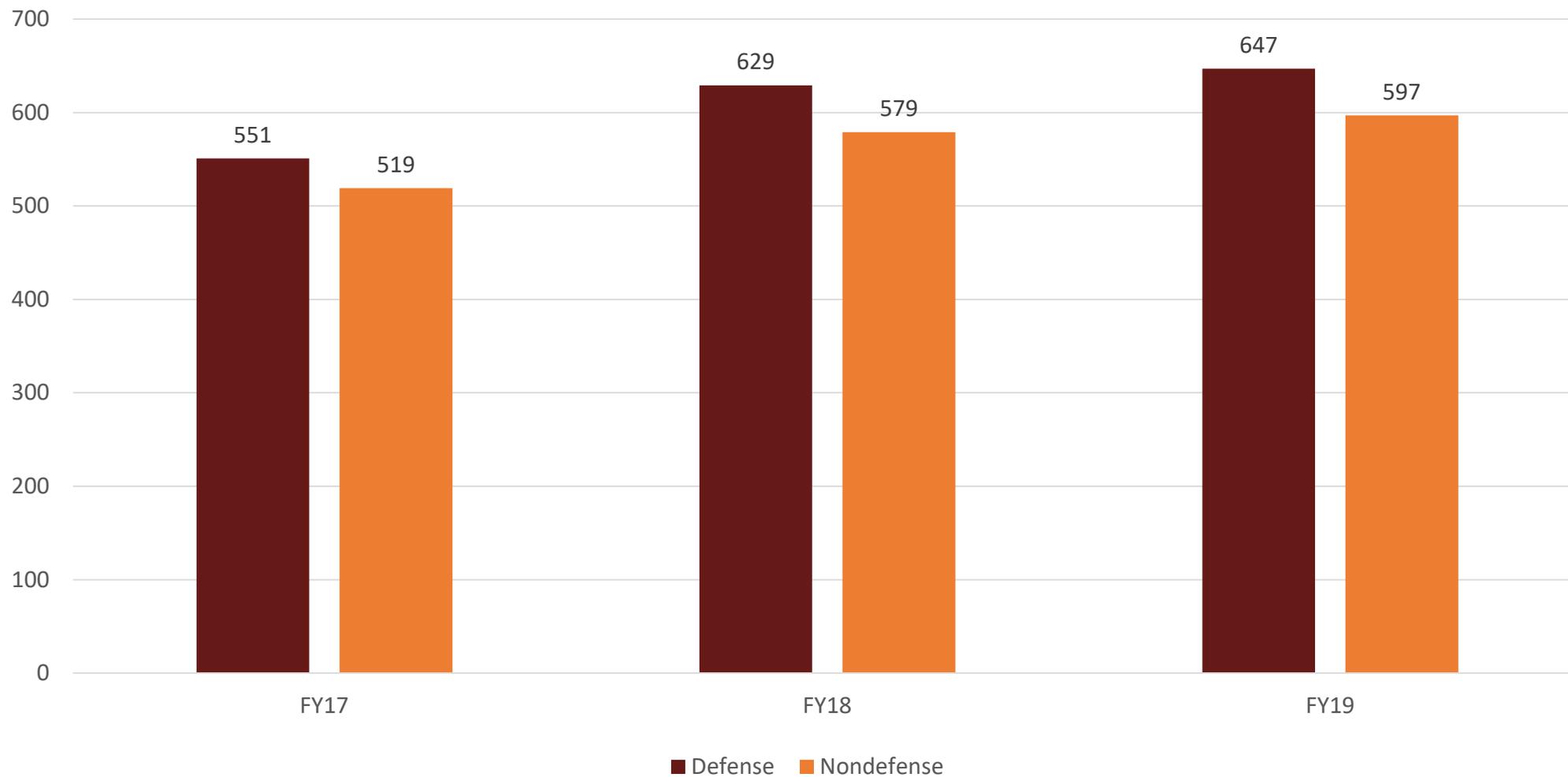
# AGRICULTURE (in millions)



## STUDENT FINANCIAL AID AND OUTREACH (in millions)



## DISCRETIONARY BUDGET (in billions)



# General Assembly Legislative Update

## Legislation that **PASSED** included:

<u>HB2173/SB1118</u>	Public comment on tuition and fee increases
<u>HB2336</u>	Annual report on “executive” salaries
<u>HB2337</u>	Annual report on tuition and fees increases
<u>SB1068</u>	Prohibition on hiring member of the Board of Visitors
<u>HB2702</u>	Career and Tech Education Bachelor’s Degree Program Plan
<u>HB2620</u>	Board of Visitors Training Requirements
<u>HB2653/SB1628</u>	Institutional Partnership Performance Agreements
<u>HB2490/SB1617</u>	Tech Talent Investment Fund
<u>CCAM Language</u>	Commonwealth Center for Advanced Manufacturing support

# General Assembly Legislative Update

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

<u>HB1667/SB1369</u>	Statute of Limitations for Construction Contracts
<u>HB2471</u>	Admissions Application Questions Related to Criminal History
<u>SB1688</u>	Disclosure of Gifts from Construction Companies
<u>HB2550/SB1651</u>	Virginia Research Consortium
<u>SB1204</u>	Tuition Approval by the Student Body
<u>HB2590</u>	Animal Adoption Policies
<u>SB1239</u>	Duty of the Board of Visitors

# *General Assembly Legislative Update*

## Major Finance-related Legislation that **PASSED**:

<u>HB2653/SB1628</u>	Institutional Partnership Performance Agreements
<u>HB2490/SB1617</u>	Tech Talent Investment Fund
<u>HB2337</u>	Annual report on tuition and fees increases that exceed Six-Year Plan

# *Institutional Performance Partnership Agreement*

- HB2653 allows institutions to propose innovative performance pilots to address:
  - Access
  - Affordability
  - Cost predictability
  - Enrollment management
  - Alternative tuition and fee structures and affordable degree pathways
  - Internships and work-study opportunities
  - Talent development
  - State or regional economic development
  - Pathways for timely degree completion
- Requires notification of interest to participate by April 1 of each year
- To be included in institutional Six-Year Plan submission, with BOV support
- “OP-6” will make recommendations to Governor and legislature
  - Only six performance pilots will be accepted in any given year
- Final agreements enumerated in Appropriation Act

# *Tech Talent Investment Program*

- \$16.6 million GF statewide to increase the number of computer science and related degrees. (Enabling legislation HB2490/SB1617)
- Goal to create 25,000 new degrees by 2039; key part of Virginia's HQ2 proposal
- Requires a Memorandum of Understanding (MOU) between the university and the Commonwealth that sets criteria for:
  - Eligible degrees
  - Eligible expenses
  - Degree production goals for a period ending in 2039
- A qualified institution with an MOU is eligible to apply for a grant each fiscal year beginning July 1, 2019 through July 1, 2038

# *2018-20 State Budget Update*

- Environment for 2019 Session
  - Improving economy and increased federal spending led state revenues to outperform FY18 forecast
  - Prioritization on increase in state reserve funds
  - S&P upgraded Virginia's financial outlook to stable
  - Uncertainty continued over conformity to federal tax reform and changes to state tax policy

# 2018-20 VT State Support

2019 Session adjustments are on top of 2018 Session budget actions, resulting in the following incremental support:

## University Division E&G (Agency 208)

2018 Session Degree Support*	
2019 Session In-State Undergraduate Tuition Moderation	
<b>Subtotal Operating</b>	
2018 Session Student Financial Aid	
2019 Session Student Financial Aid	
<b>Subtotal Student Financial Aid</b>	
2018 Session Unique Military Activities	
2019 Session Unique Military Activities	
<b>Subtotal Unique Military Activities</b>	
<b><i>Total University Division</i></b>	

General Fund in millions			
Executive		Conference	
2018-19	2019-20	2018-19	2019-20
\$ -	\$5.2	\$ -	\$5.2
-	-	-	6.3
-	<b>5.2</b>	-	<b>11.5</b>
-	0.7	-	0.7
-	1.0	-	1.0
	<b>1.7</b>		<b>1.7</b>
-	0.3	-	0.3
-	-	-	0.2
-	<b>0.3</b>	-	<b>0.5</b>
-	<b>\$7.2</b>	-	<b>\$13.7</b>

\* Degrees in Data Science & Technology, Science & Engineering, Healthcare, and Education

Note: The General Assembly clarified that funding levels for the Commonwealth Cyber Initiative are non-reverting and shall constitute the base budget for subsequent years.

# 2018-20 VT State Support

Incremental General Fund – dollars in millions

## VCE/VAES Division E&G (Agency 229)

Implementation of Corrected State Fund Split\*

New Extension Agents and Research Specialists

*Total VCE/VAES Division*

General Fund in millions			
Executive		Conference	
2018-19	2019-20	2018-19	2019-20
\$0.1	\$0.5	\$0.1	\$0.5
-	-		0.6
\$0.1	\$0.5	\$0.1	\$1.1

\*Funds the traditional 95% state share of mandated cost assignments such as salary increases and fringe benefit rate adjustments.

*VCE/VAES: Virginia Cooperative Extension/Virginia Agricultural Experiment Station*

# 2018-20 VT State Support

## Capital Projects Funding Summary

(State Support in millions)

	Executive	Conference
Virginia Tech Innovation Campus	\$168	\$168
Data and Decision Science Building	-	69
Improve Kentland Facilities Supplement	3.1	3.1
<i>Total Capital Projects Funding</i>	\$171.1	\$240.1

# 2018-20 State Budget Update

## Compensation & Benefits Summary

	Executive	Conference
Faculty Salaries	<ul style="list-style-type: none"> <li>Maintained increase of 2% effective June 10, 2019</li> <li>Proposed 1% Bonus effective December 1, 2019</li> </ul>	<ul style="list-style-type: none"> <li>Enhances increase by 1% (3% total)</li> <li>Eliminates Proposed 1% Bonus</li> </ul>
Staff Salaries	<ul style="list-style-type: none"> <li>Maintained increase of 2% effective June 10, 2019</li> <li>Maintained Classified Staff merit supplement of 2%</li> <li>Proposed 1% Bonus effective December 1, 2019</li> </ul>	<ul style="list-style-type: none"> <li>Enhances Staff increase by 0.75% (2.75% total)</li> <li>Enhances Classified Staff merit supplement by 0.25% (2.25%, plus 2.75% base = 5% total)</li> <li>Eliminates Proposed 1% Bonus</li> </ul>
Health Insurance	<ul style="list-style-type: none"> <li>No increase in premium in 2019-20</li> </ul>	<ul style="list-style-type: none"> <li>No change to premiums in the Executive Budget</li> <li>Proposes a premium holiday of two pay periods in November 2019; the health insurance premium will not collect the employee or employer share</li> </ul>

### 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.
- VCE/AES (Agency 229) is expected to share approximately 5% of the cost in E&G programs.

## *Other Significant Budget Actions*

- In-state Undergraduate Affordability: optional funding allocated to institutions who voluntarily hold in-state undergraduate tuition and E&G fees to 18-19 levels
  - Virginia Tech allocation is \$6.3 million if university chooses to accept funding
- New language clarifies funding for the Commonwealth Cyber Initiative is “*non-reverting and shall constitute the base budget for subsequent years*”
  - This solidifies the ongoing nature of the current \$20 million support for Hub and Spoke sites in FY20
- \$500,000 in FY20 for SCHEV’s Innovative Internship program that is designed to expand internships and other work-based opportunities with Virginia employers

# Discussion



**Read Ahead**  
**Discussion on Resource Development – Partnership Agreement**

**FINANCE AND RESOURCE MANAGEMENT COMMITTEE**

**March 15, 2019**

The Committee will have a discussion on resource development to include the State's process of creating an Institutional Partnership Performance Agreement (IPPA). The 2019 General Assembly passed the following IPPA legislation that invites public higher education institutions to submit one innovative proposal with clearly defined performance measures for a performance pilot.

**Institutional Partnership Performance Agreements (HB2653/SB1628)**

§ 23.1-306

- F. 1. In conjunction with the plans included in the six-year plan as set forth in subsection D, each public institution of higher education, Richard Bland College, and the Virginia Community College System may submit one innovative proposal with clearly defined performance measures, including any request for necessary authority or support from the Commonwealth, for a performance pilot. If the General Assembly approves the proposed performance pilot, it shall include approval language in the general appropriation act. A performance pilot shall advance the objectives of this chapter by addressing innovative requests related to college access, affordability, cost predictability, enrollment management subject to specified commitments regarding undergraduate in-state student enrollment, alternative tuition and fee structures and affordable pathways to degree attainment, internships and work study, employment pathways for undergraduate Virginia students, strategic talent development, state or regional economic development, pathways to increase timely degree completion, or other priorities set out in the general appropriation act.
2. A performance pilot may include or constitute an institutional partnership performance agreement, which shall be set forth in a memorandum of understanding that includes mutually dependent commitments by the institution, the Commonwealth, and identified partners, if any, related to one or more of the priorities set forth in subdivision 1 or set forth in a general appropriation act. No such institutional partnership performance agreement shall create a legally enforceable obligation of the Commonwealth.
3. No more than six performance pilots shall be approved in a single session of the General Assembly.

4. Development and approval of any performance pilot proposal shall proceed in tandem with consideration of the institution's six-year plan, as follows:
  - a. An institution that intends to propose a performance pilot shall communicate that intention as early as practicable, but not later than April 1 of the year in which the performance pilot will be proposed, to the reviewers listed in subsection B, the co-chairmen of the Joint Subcommittee on the Future Competitiveness of Virginia Higher Education, and the Governor. In developing a proposed performance pilot, the institution shall consider the Commonwealth's educational and economic policies and priorities, including those reflected in the Virginia Plan for Higher Education issued by the Council, the economic development policy developed pursuant to § 2.2-205, the strategic plan developed pursuant to § 2.2-2237.1, relevant regional economic growth and diversification plans prepared by regional councils pursuant to the Virginia Growth and Opportunity Act (§ 2.2-2484 et seq.), and any additional guidance provided by the Joint Subcommittee on the Future Competitiveness of Virginia Higher Education and the Governor.
  - b. An institution that submits a performance pilot shall include the one innovative proposal with clearly defined performance measures, and any corresponding authority and support requested from the Commonwealth, with its submission of the preliminary version of its six-year plan pursuant to clause (ii) of subsection A or with its preliminary amendment or affirmation submission pursuant to clause (iii) of subsection A.
  - c. The reviewers listed in subsection B, or their designees, shall review and comment on any proposed performance pilot in accordance with the six-year plan review and comment process established in subsection B and may expedite such review and comment process to facilitate the executive and legislative budget process or for other reasons. No later than October 15 of the relevant year, the reviewers shall communicate to the Governor and the Chairmen of the House Committee on Appropriations and the Senate Committee on Finance their recommendations regarding each performance pilot proposal. Such recommendations shall include the reviewers' comments regarding how the proposed performance pilots, individually and collectively, support the strategic educational and economic policies of the Commonwealth.
  - d. Each performance pilot proposal shall include evidence of its approval by the institution's governing board and, if accepted, shall be referenced in the general appropriation act.

# Summary of the University's Annual Financial Report

## FINANCE AND RESOURCE MANAGEMENT COMMITTEE

February 8, 2019

Fiscal year 2018 represented another successful year in the continued advancement of Virginia Tech's strategic plan. The university continues to maintain a strong financial position as a result of prudent fiscal management strategies. The strategic deployment of new and continuing resources and the leveraging of enrollment growth has enabled the university to successfully manage the impact of increasing expenditures, while continuing the trend of moderate increases in tuition rates.

### Summary of Audit Results

- Unmodified audit opinion (*Previously called an unqualified audit opinion*)
- No material weakness in internal controls
- One written audit comment related to federal financial aid reporting. This is also an instance of noncompliance regarding the accuracy and timeliness of reporting enrollment data to the National Student Loan Data System and will be included in the statewide single audit report. This is the first written audit comment since 2010.
- Successful implementation of GASB 75, *Accounting & Financial Reporting for Postemployment Benefits other than Pensions* (OPEB).

## Assets, Liabilities and Net Position at June 30, 2018 & 2017

(all dollars in millions)

	2018	2017	Change	
			Amount	Percent
Current assets	\$ 298.1	\$ 220.6	\$ 77.5	35.1 %
Capital assets, net	1,731.9	1,680.5	51.4	3.1 %
Other assets	602.9	627.3	(24.5)	(3.9)%
Total assets	2,632.9	2,528.4	104.4	4.1 %
Deferred outflows of resources	70.0	84.6	(14.6)	(17.3)%
Current liabilities	279.3	261.6	17.7	6.7 %
Noncurrent liabilities	1,099.1	936.1	163.0	17.4 %
Total liabilities	1,378.4	1,197.7	180.7	15.1 %
Deferred inflows of resources	65.2	13.0	52.2	401.5 %
Invested in capital assets, net	1,273.2	1,201.3	71.9	6.0 %
Restricted	212.5	224.5	(12.0)	(5.4)%
Unrestricted	(226.4)	(23.5)	(202.9)	(863.4)%
Total net position	\$ 1,259.3	\$ 1,402.3	\$ (143.0)	(10.2)%

The balance sheet shows positive results for fiscal year 2018 with the key indicators as follows:

**Total assets** increased by \$104.4 million or 4.1 percent. Cash and cash equivalents grew (\$79.4 million) partially due to resources generated from the increase in undergraduate student population (tuition, fees and auxiliary services); the strategic move to invest more funds in the Virginia Tech Foundation (VTF) endowment pool; and to terminate the Dana investment account, one of the previous long-term investment pools.

**Total liabilities** increased by \$180.7 million or 15.1 percent. This increase is primarily due to the recognition of the university's proportionate share of the OPEB liability (\$223.9 million) which was offset by a decrease in the pension liability \$52.4 million. The OPEB liability was previously reported only on the Commonwealth's Comprehensive Annual Financial Report.

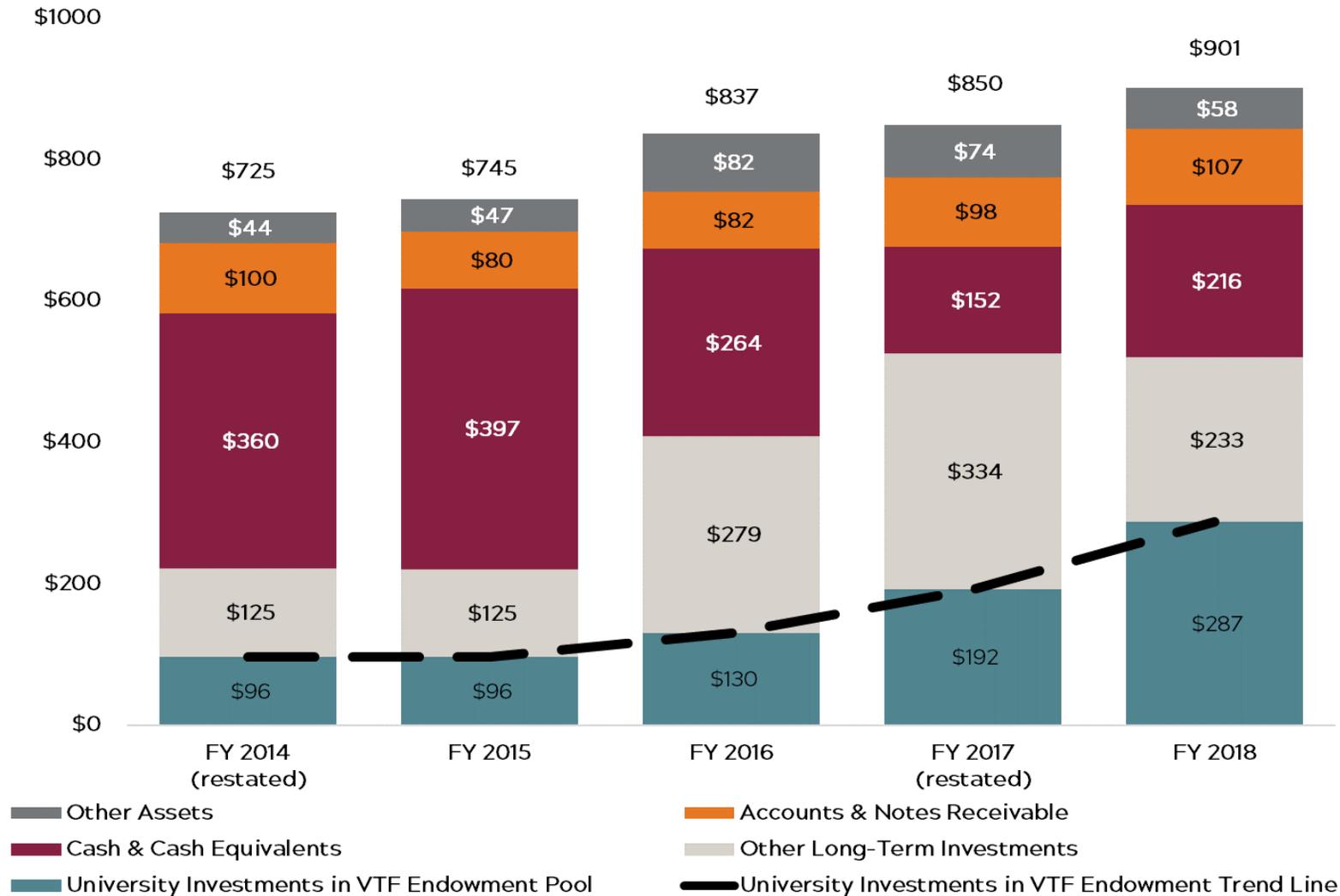
**Total net position** decreased by \$143.0 million or by (10.2) percent. Net position in the category of net investment in capital assets increased \$71.9 million, reflecting the university's continued investment in new facilities and equipment. The large decrease in unrestricted net position is due to a beginning balance adjustment totaling \$241.2 million for the GASB 75 OPEB obligation.

# Composition of Current & Noncurrent Assets, Excluding Capital Assets

Showing the Strategy to Move Cash & Cash Equivalents to Long-Term Investments at VTF

For the years ended June 30, 2014 - 2018

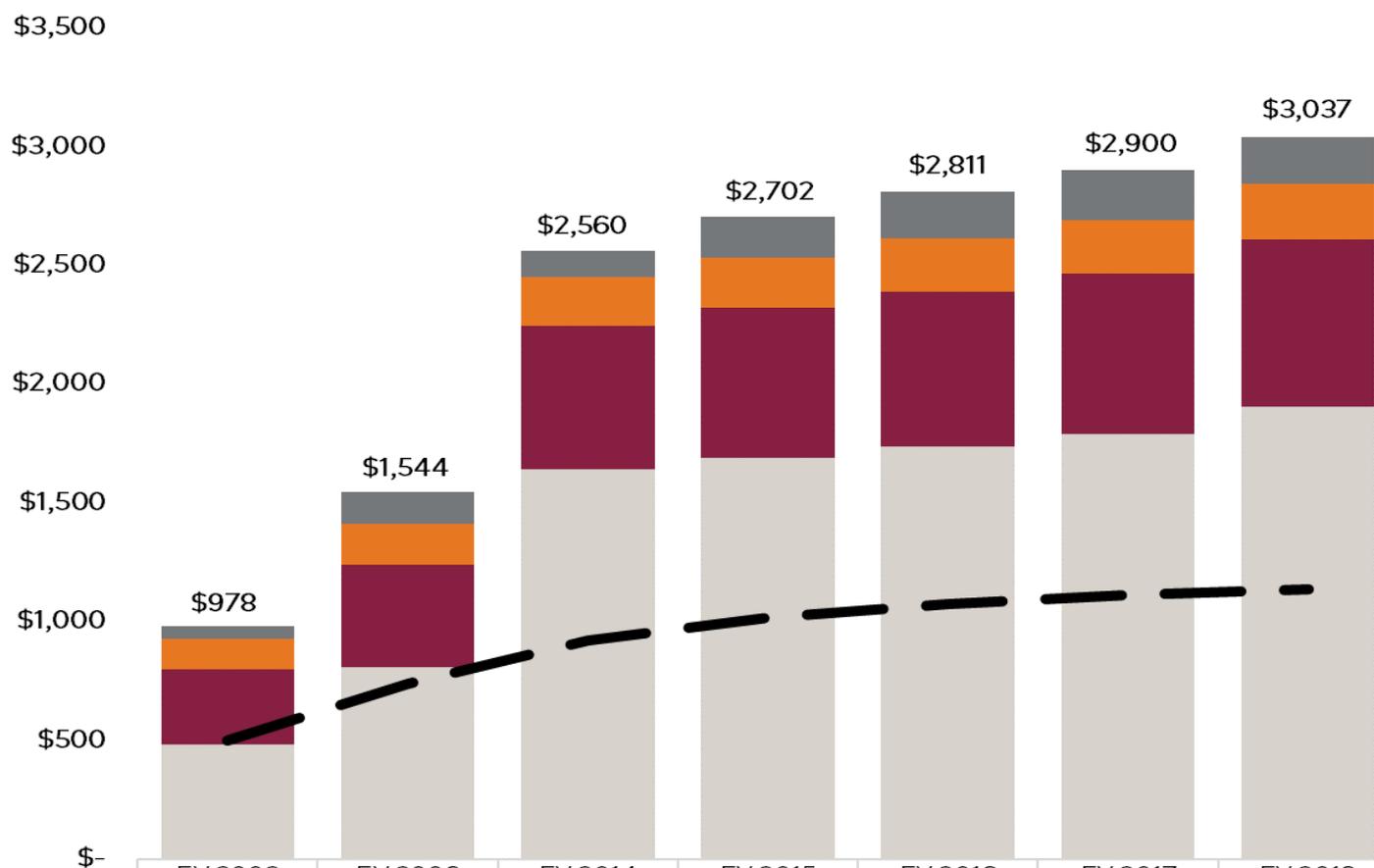
(all dollars in millions)



## Ongoing Investments in Capital Assets

Growth in Capital Assets from FY 2002 to FY 2018

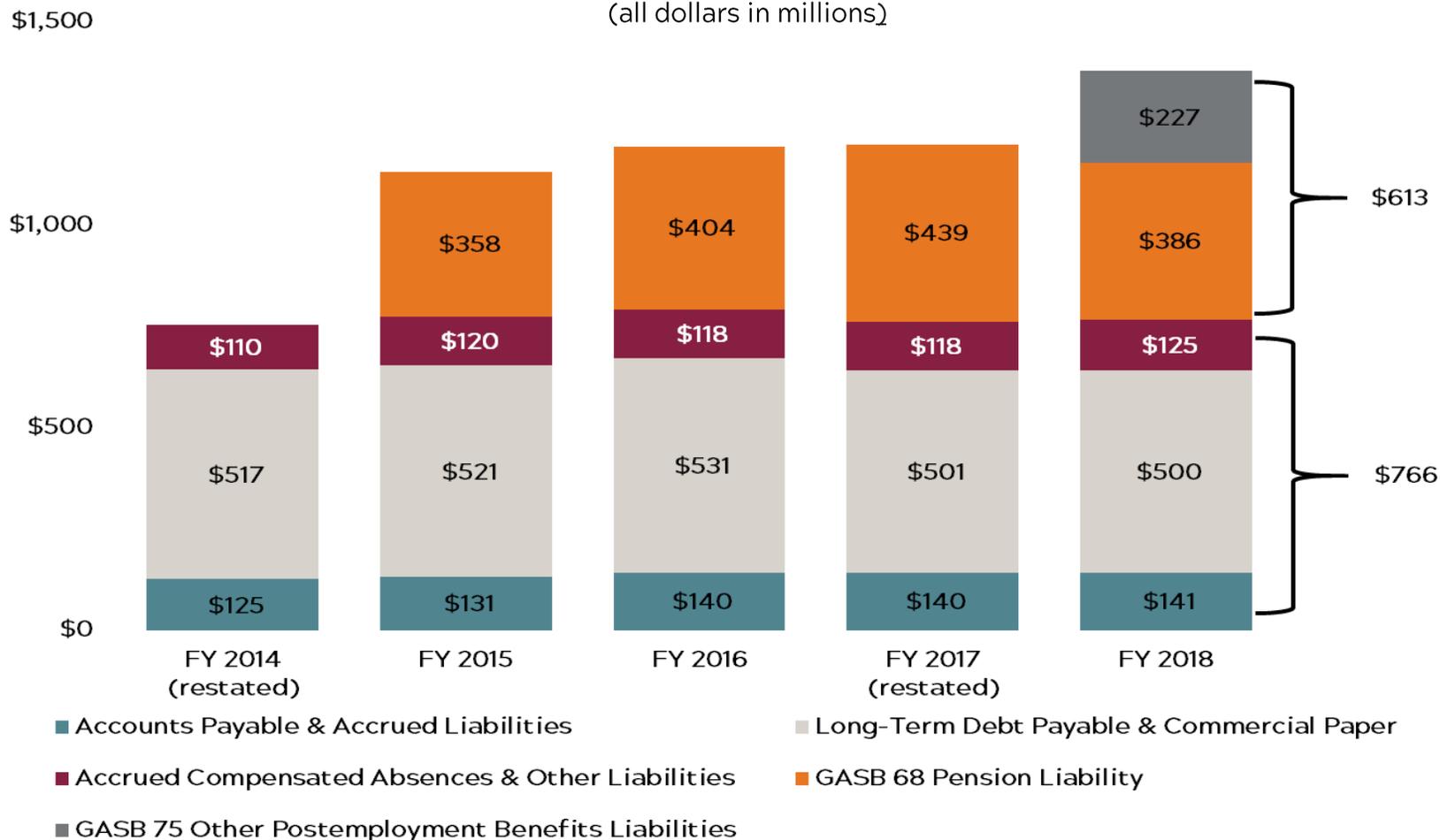
(all dollars in millions)



	FY 2002	FY 2008	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Land & Construction in Progress	50	134	108	171	199	209	196
Infrastructure, etc. - Gross	132	173	207	209	224	229	235
Equipment - Gross	317	430	603	634	651	674	703
Buildings- Gross	479	807	1,642	1,688	1,737	1,788	1,903
Total Capital Assets - Gross	978	1,544	2,560	2,702	2,811	2,900	3,037
Total Accumulated Depreciation	499	737	918	1,014	1,074	1,112	1,134

## Composition of Current & Noncurrent Liabilities

Showing the Impact of Accounting Pronouncements GASB 68 and 75  
For the years ended June 30, 2014 - 2018  
(all dollars in millions)



GASB Statement 68 - Beginning in FY 2015, this accounting pronouncement required the university to record a pension liability, which was previously recorded only on the Commonwealth’s Comprehensive Annual Financial Report (CAFR). The liability recorded is university’s proportionate share of the total defined benefit pension plan liability for the state.

GASB Statement 75 - During FY 2018, the university recognized its proportionate share of the net liability (and asset) for each of the five postemployment benefits offered to employees. These include programs for Pre-Medicare Retiree Healthcare, Virginia Sickness and Disability, Group Life Insurance, Retiree Health Insurance Credit, and Line of Duty Act.

## Trends in Net Position

For the years ended June 30, 2014 - 2018

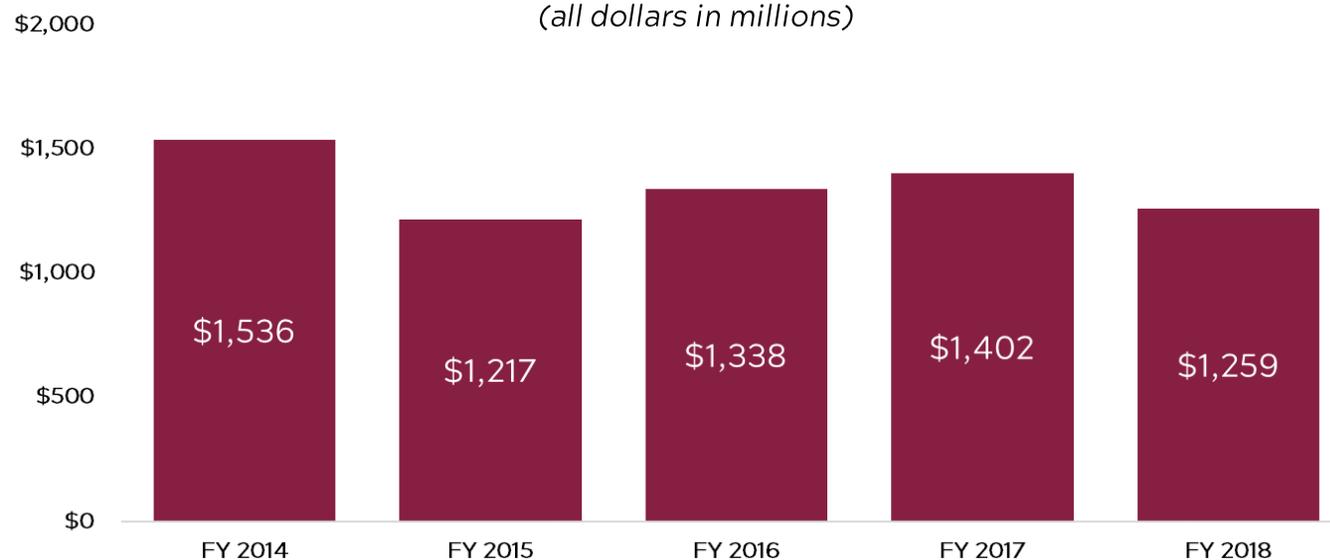
(all dollars in millions)

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Capital assets, net of related debt	\$ 1,056.9	\$ 1,112.1	\$ 1,163.8	\$ 1,201.3	\$ 1,273.2
Restricted, nonexpendable	0.4	0.4	0.4	11.9	14.4
Restricted, expendable					
Capital projects	2.9	6.0	36.4	39.7	11.5
Other	161.7	172.5	173.1	173.0	186.5
Unrestricted	314.3	(74.3)	(35.3)	(23.5)	(226.4)
<b>Total Net Position</b>	<b>\$ 1,536.2</b>	<b>\$ 1,216.7</b>	<b>\$ 1,338.3</b>	<b>\$ 1,402.3</b>	<b>\$ 1,259.3</b>

## Total Net Position

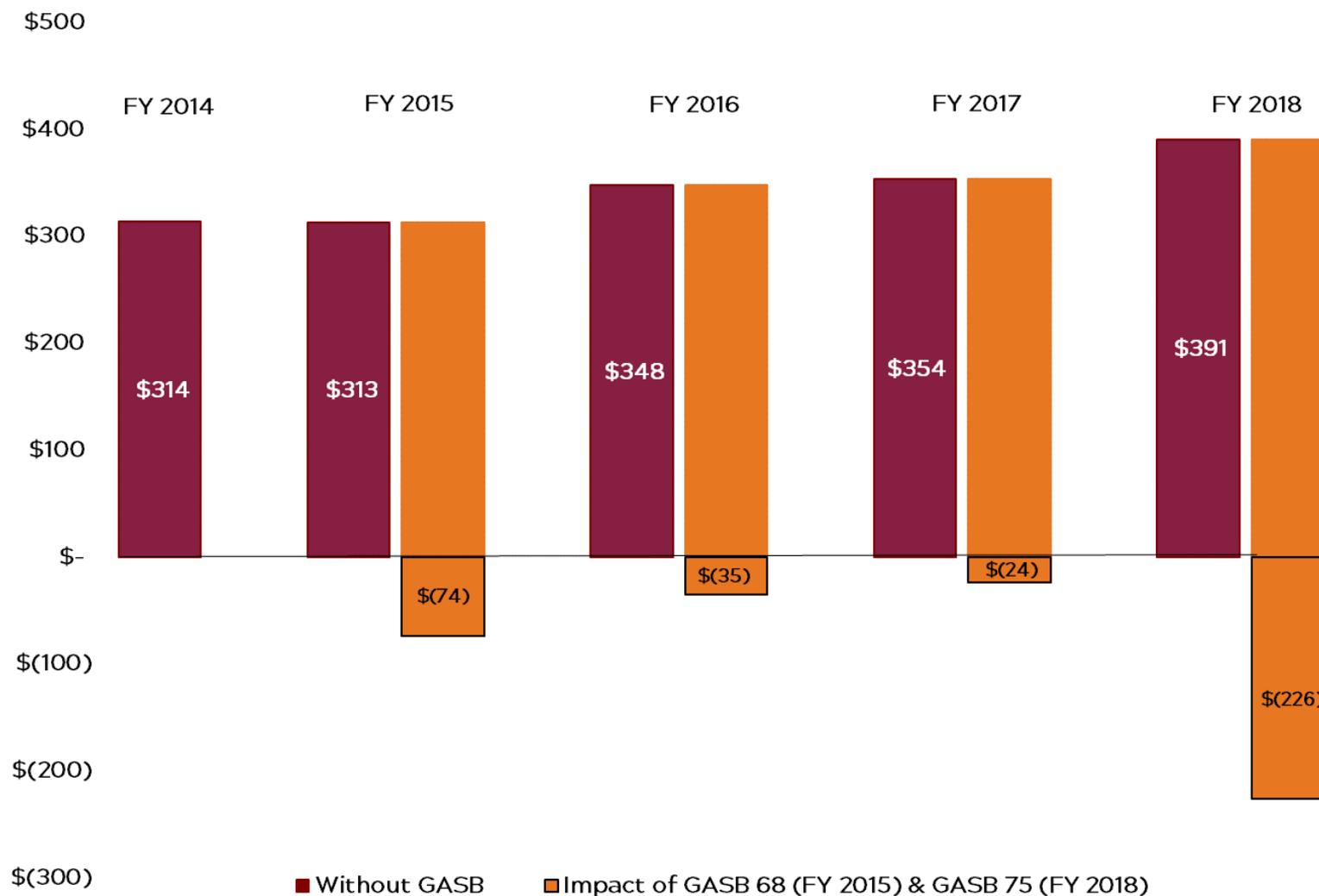
For the years ended June 30, 2014 - 2018

(all dollars in millions)



## Unrestricted Net Position

For the Totals Reported in the Audited Financial Statements  
June 30, 2014 - June 30, 2018  
(all dollars in millions)



## Impact of the Implementation of GASB 68 for Defined Benefit Pension Plans & GASB 75 for OPEB

For the years ended June 30, 2014 - 2018  
(all dollars in millions)



\* Percentage varies for each defined benefit plan and postemployment benefit plan. The Pre-Medicare Retiree Healthcare program amount is an imputed total.

Measurement dates for pension amounts will always be one year in arrears from the financial statement dates. Therefore, for the university's fiscal year 2018 financial statement, the fiscal year 2017 pension and OPEB information was used. As shown above, there are large annual fluctuations in these obligations. However, most of the impact on pension and OPEB expenses and net position is deferred to future periods.

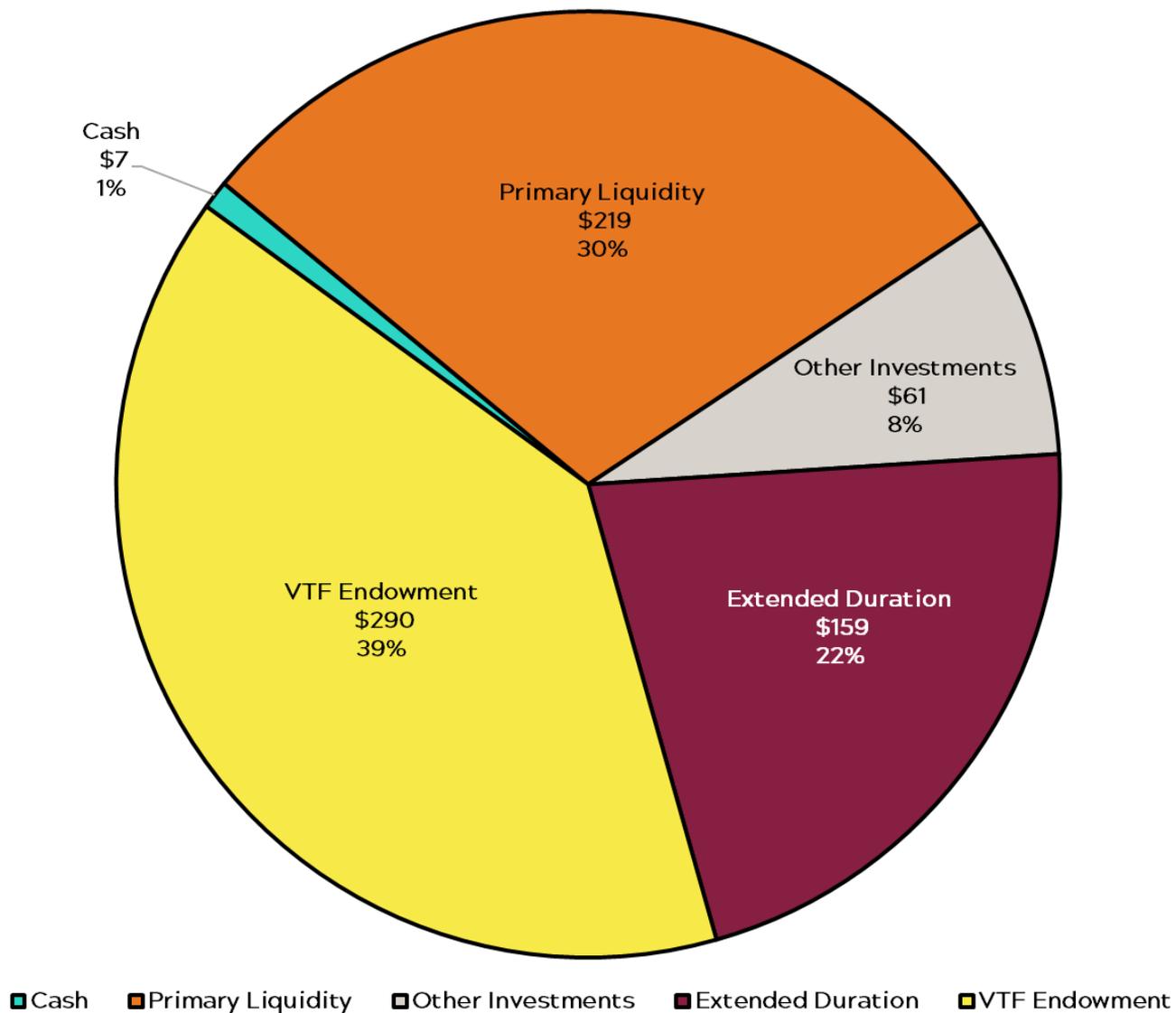
## Summary Schedule of Cash and Investment Totals

From the Totals Reported in the Audited Financial Statements - June 30, 2018 and June 30, 2017  
(all dollars in millions)

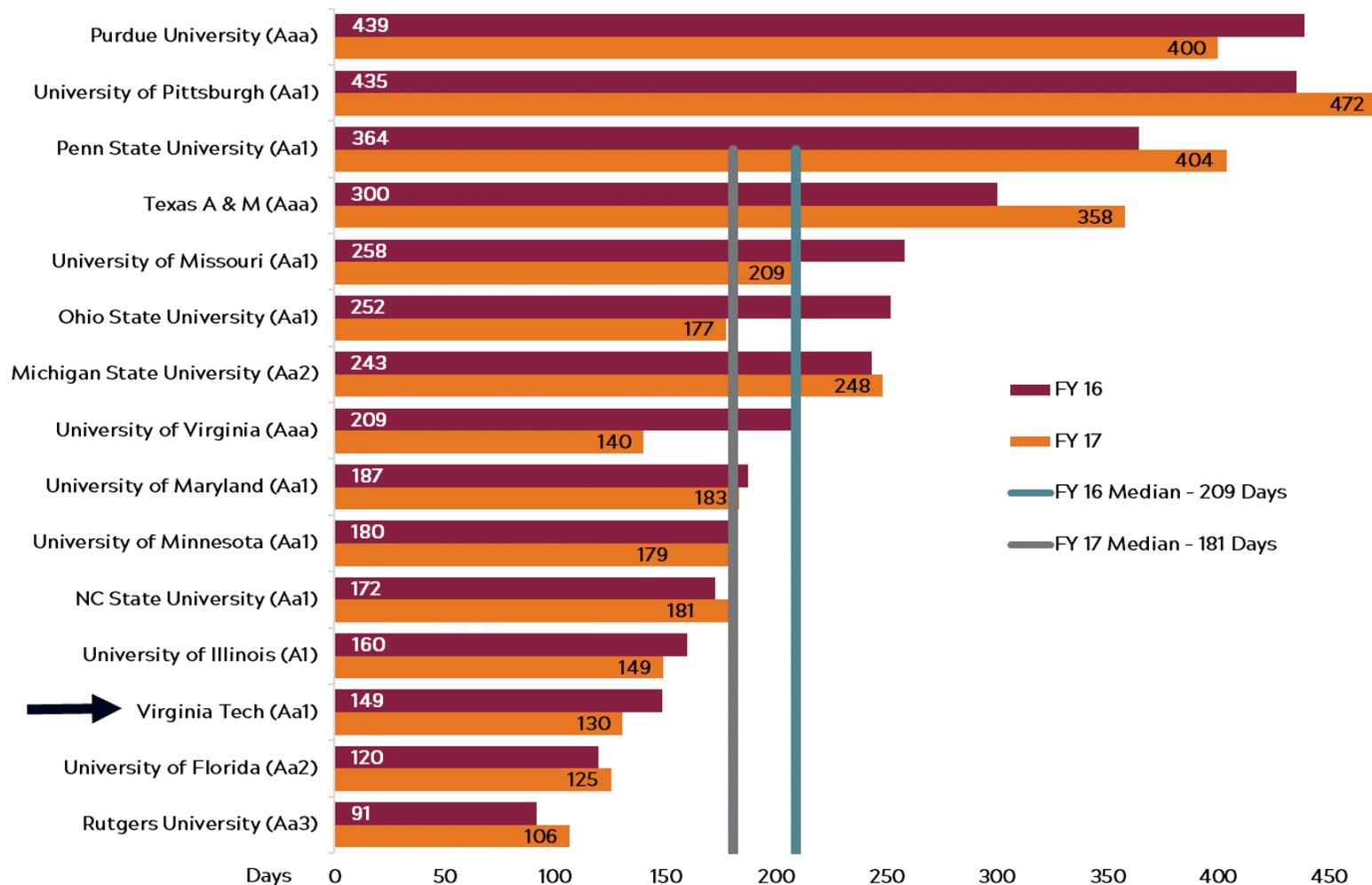
	Totals at June 30, 2018			Totals at June 30, 2017	Change in Totals
	Current Assets	Noncurrent Assets	Total Cash & Investments	Total Cash & Investments	
<b>Financial Statement Totals</b>					
Cash	\$ (4.4)	\$ 11.6	\$ 7.2	\$ 34.1	\$ (26.9)
Cash equivalents (< 90 days)	185.2	23.2	208.4	117.3	91.1
Total cash & cash equivalents	<u>180.8</u>	<u>34.8</u>	<u>215.6</u>	<u>151.4</u>	<u>64.2</u>
Short-term investments (>90 days < 1 year)	\$ -	\$ 0.5	\$ 0.5	\$ -	\$ 0.5
Long-term investments (> 1 year)					
Invested in the VTF endowment pool		286.7	286.7	191.5	95.2
Invested with other investment managers		232.8	232.8	333.5	(100.7)
Total long-term investments	<u>\$ -</u>	<u>\$ 519.5</u>	<u>\$ 519.5</u>	<u>\$ 525.0</u>	<u>\$ (5.5)</u>
Grand totals cash & investments	<u>\$ 180.8</u>	<u>\$ 554.8</u>	<u>\$ 735.6</u>	<u>\$ 676.4</u>	<u>\$ 59.2</u>

# Schedule of Cash & Investments by Investment Pool - \$736 Million

From the Totals Reported in the Audited Financial Statements for FY 2018  
(all dollars in millions)



## FY 2016 and FY 2017 Monthly Days Cash on Hand



Monthly Days Cash on Hand measures the number of days a university can operate (cover its cash operating expenses) from unrestricted cash and investments that can be liquidated within one month. The university has established lines of credit with three financial institutions as authorized by the Board of Visitors at the June 4, 2018 to provide up to \$185 million of liquidity should rapid significant unexpected demands on cash occur. The decrease between cash on hand between fiscal years 2016 and 2017 is due to the strategic move to invest more funds in the Virginia Tech Foundation endowment pool, which is less liquid than previous investments.

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

For the years ended June 30, 2018 and 2017

(all dollars in millions)

	2018	2017	Change	
			Amount	Percent
Operating revenues	\$ 1,099.9	\$ 1,031.5	\$ 68.4	6.6 %
Operating expenses	1,423.4	1,364.7	58.7	4.3 %
<b>Operating loss</b>	<b>(323.5)</b>	<b>(333.2)</b>	9.7	(2.9)%
State appropriations	263.1	261.7	1.4	0.5 %
Other nonoperating revenues and expenses	100.4	93.5	6.9	7.4 %
<b>Nonoperating revenue and expenses</b>	<b>363.5</b>	<b>355.2</b>	<b>8.3</b>	<b>2.3 %</b>
<b>Income before other revenues and expenses</b>	<b>40.0</b>	<b>22.0</b>	<b>18.0</b>	<b>81.8 %</b>
Other revenues, expenses, gains or losses	51.8	42.0	9.8	23.3 %
<b>Increase in net position</b>	<b>91.8</b>	<b>64.0</b>	<b>27.8</b>	<b>43.4 %</b>
Net position - beginning of year adjusted for GASB 75	1,167.5	1,338.3	(170.8)	(12.8)%
<b>Net position - end of year</b>	<b>\$ 1,259.3</b>	<b>\$ 1,402.3</b>	<b>\$ (143.0)</b>	<b>(10.2)%</b>

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

The university's beginning net position as of July 1, 2018 has been adjusted due to the implementation of GASB Statement 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions. Prior years balances were not restated for GASB 75; only the beginning balances for fiscal year 2018 were adjusted.

## Increase (Decrease) in Revenue

For the years ended June 30, 2018 and 2017

(all dollars in millions)

	2018	2017	Change	
			Amount	Percent
<b>Operating revenue</b>				
Student tuition and fees, net	\$ 500.0	\$ 461.7	\$ 38.3	8.3 %
Grants and contracts	306.7	290.8	15.9	5.5 %
Auxiliary enterprises	267.4	251.9	15.5	6.2 %
Other operating revenue	25.8	27.1	(1.3)	(4.8)%
<b>Total operating revenue</b>	<b>1,099.9</b>	<b>1,031.5</b>	<b>68.4</b>	<b>6.6 %</b>
<b>Nonoperating revenue</b>				
State appropriations	263.1	261.7	1.4	0.5 %
Other nonoperating revenue	100.4	93.5	6.9	7.4 %
<b>Total nonoperating revenue</b>	<b>363.5</b>	<b>355.2</b>	<b>8.3</b>	<b>2.3 %</b>
<b>Other revenue</b>				
Capital appropriations	(32.9)	-	(32.9)	
Capital grants and gifts	85.1	44.5	40.6	91.2 %
Loss on disposal of capital assets	(0.4)	(2.5)	2.1	84.0 %
<b>Total other revenue, gains</b>	<b>51.8</b>	<b>42.0</b>	<b>9.8</b>	<b>23.3 %</b>
<b>Total revenue</b>	<b>\$ 1,515.2</b>	<b>\$ 1,428.7</b>	<b>\$ 86.5</b>	<b>6.1 %</b>

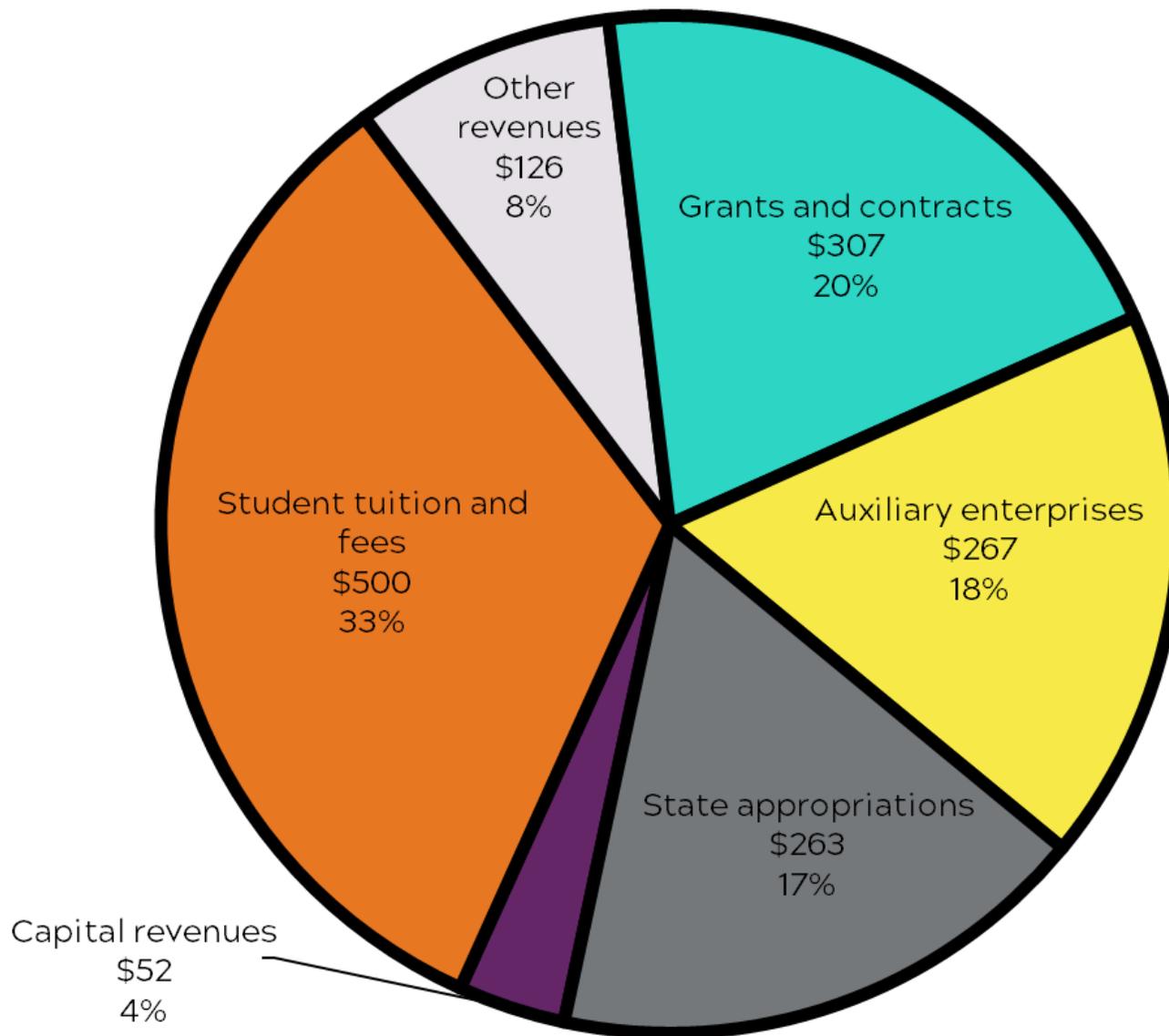
Operating revenue increased by \$68.4 million. This growth came primarily from three categories: (1) Student tuition and fees (\$38.3 million or 8.3 percent) due to an increasing student population and the rise in both in-state and out-of-state tuition and fee rates. (2) The growth in auxiliary enterprise revenue (\$15.5 million or 6.2 percent) follows a similar pattern. (3) Sponsored grants and contracts increased by \$15.9 million or 5.5 percent.

Nonoperating revenue increased by \$8.3 million primarily from growth in gift funding transferred from the Virginia Tech Foundation (\$9.9 million), with small increases in federal student financial aid (\$2.2 million) and state appropriation (\$1.4 million) offset by marginal decreases in other areas.

Total other revenue and gains grew by \$9.8 million. Capital appropriations decreased by \$32.9 million while capital grants and gifts increased \$40.6 million. This change in funding was due to the commonwealth supplanting the capital appropriations that had been accounted for in prior years with VCBA 21<sup>st</sup> century funding that is accounted for as a capital grant and gift. Additionally, there was a decline in the loss on disposal of capital assets.

### Total Revenues by Source- \$1,515 Million

For the year ended June 30, 2018  
(all dollars in millions)



## Changes in Operating Expenses by Function

For the years ended June 30, 2018 and 2017  
(all dollars in millions)

	2018	2017	Change	
			Amount	Percent
Instruction	\$ 377.5	\$ 357.9	\$ 19.6	5.5 %
Research	323.0	311.3	11.7	3.7 %
Public service	98.0	97.7	0.3	0.3 %
Auxiliary enterprises	227.8	218.7	9.1	4.2 %
Depreciation and amortization	106.1	101.3	4.8	4.7 %
Subtotal	1,132.4	1,086.9	45.5	4.2 %
<u>Support, maintenance, and other expenses</u>				
Academic support	91.2	87.4	3.8	4.4 %
Student services	20.8	18.6	2.2	12.0 %
Institutional support	75.9	70.3	5.6	8.0 %
Operations and maintenance of plant	84.8	85.0	(0.2)	(0.2)%
Student financial assistance*	18.3	16.5	1.8	10.9 %
Subtotal	291.0	277.8	13.2	4.8 %
Total operating expenses	\$ 1,423.4	\$ 1,364.7	\$ 58.7	4.3 %

\*Includes loan administrative fees and collection costs.

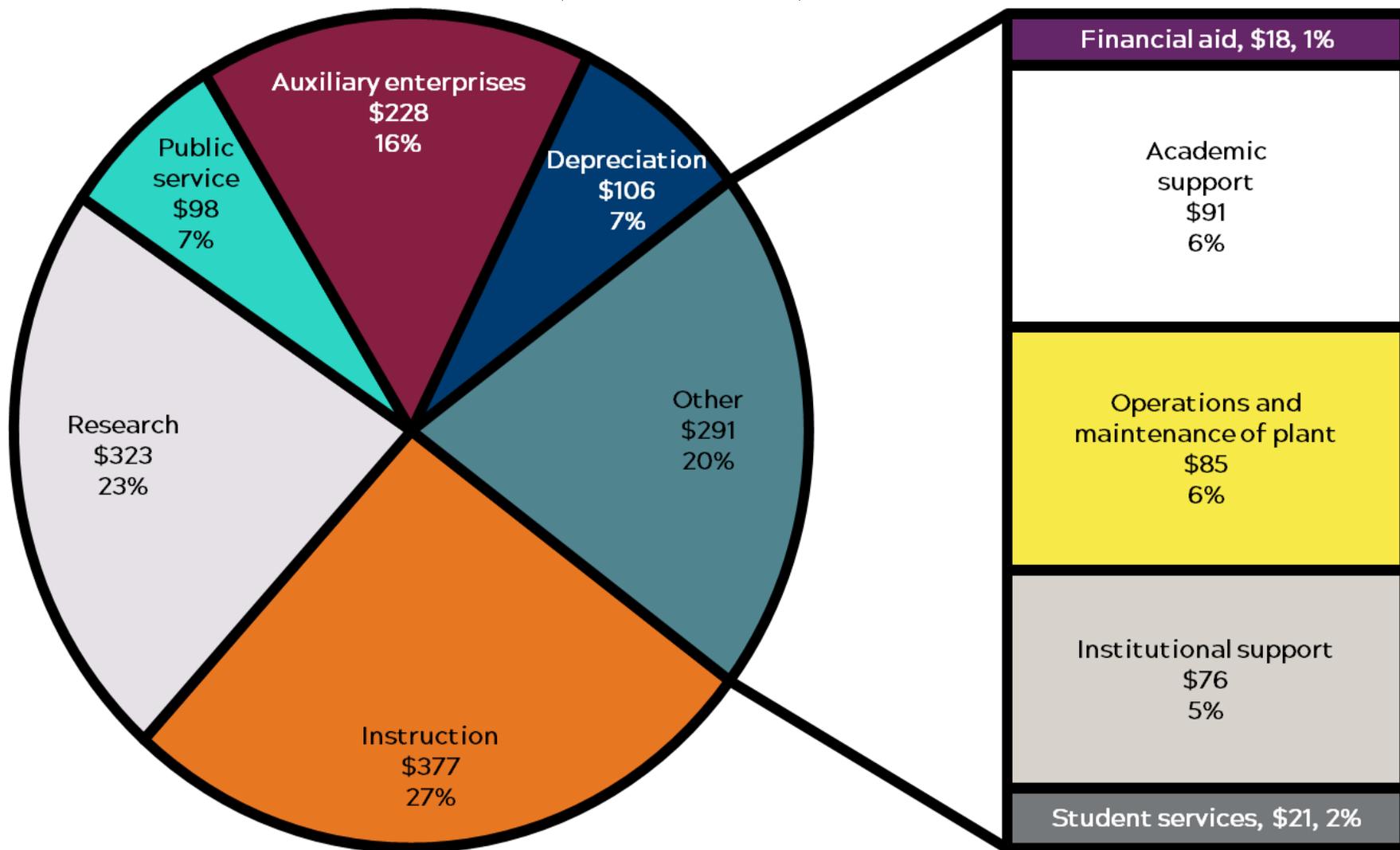
Instruction had the largest increase (\$19.6 million), of which the majority occurred in the compensation and benefits category, reflecting the university's commitment to maintaining a high quality faculty and staff.

Research expenditures increased by \$11.7 million, reflecting the rise in grants and contracts received by the university.

Auxiliary enterprises also saw an increase (\$9.1 million) spread across several categories including compensation and benefits along with an increase in other operating expenses.

## Summary of Expenses by Function - \$1,423 Million

For the year ended June 30, 2018  
(all dollars in millions)



## Changes in Expenses by Natural Classification

For the years ended June 30, 2018 and 2017

(all dollars in millions)

	2018	2017	Change	
			Amount	Percent
Compensation and benefits	\$ 911.7	\$ 871.9	\$ 39.8	4.6 %
Contractual services	115.2	101.6	13.6	13.4 %
Supplies and materials	100.7	108.7	(8.0)	(7.4)%
Travel	43.6	46.2	(2.6)	(5.6)%
Other operating expenses	82.3	78.9	3.4	4.3 %
Scholarships and fellowships *	37.1	34.3	2.8	8.2 %
Sponsored program subcontracts	26.7	21.8	4.9	22.5 %
Depreciation and amortization	106.1	101.3	4.8	4.7 %
<b>Total operating expenses</b>	<b>\$ 1,423.4</b>	<b>\$ 1,364.7</b>	<b>\$ 58.7</b>	<b>4.3 %</b>

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

Compensation and benefits comprised of \$911.7 million or 64.1 percent of the university's total operating expenses. This category increased by \$39.8 million, with compensation growing by \$30.4 million and benefits increasing by \$9.4 million.

Contractual services increased by \$13.6 million with the growth due to several items including the reclassification of library subscription services from the supply account code to contractual services, the reclassification of the contract with Blacksburg Transit for bus service from the travel category and the addition of the contract to provide bus service to Northern Virginia.

Supplies and materials saw a decrease of \$8.0 million largely due to the reclassification of the library subscription services.

### Total Expenses by Natural Classification - \$1,423 Million

For the Year Ended June 30, 2018  
(all dollars in millions)

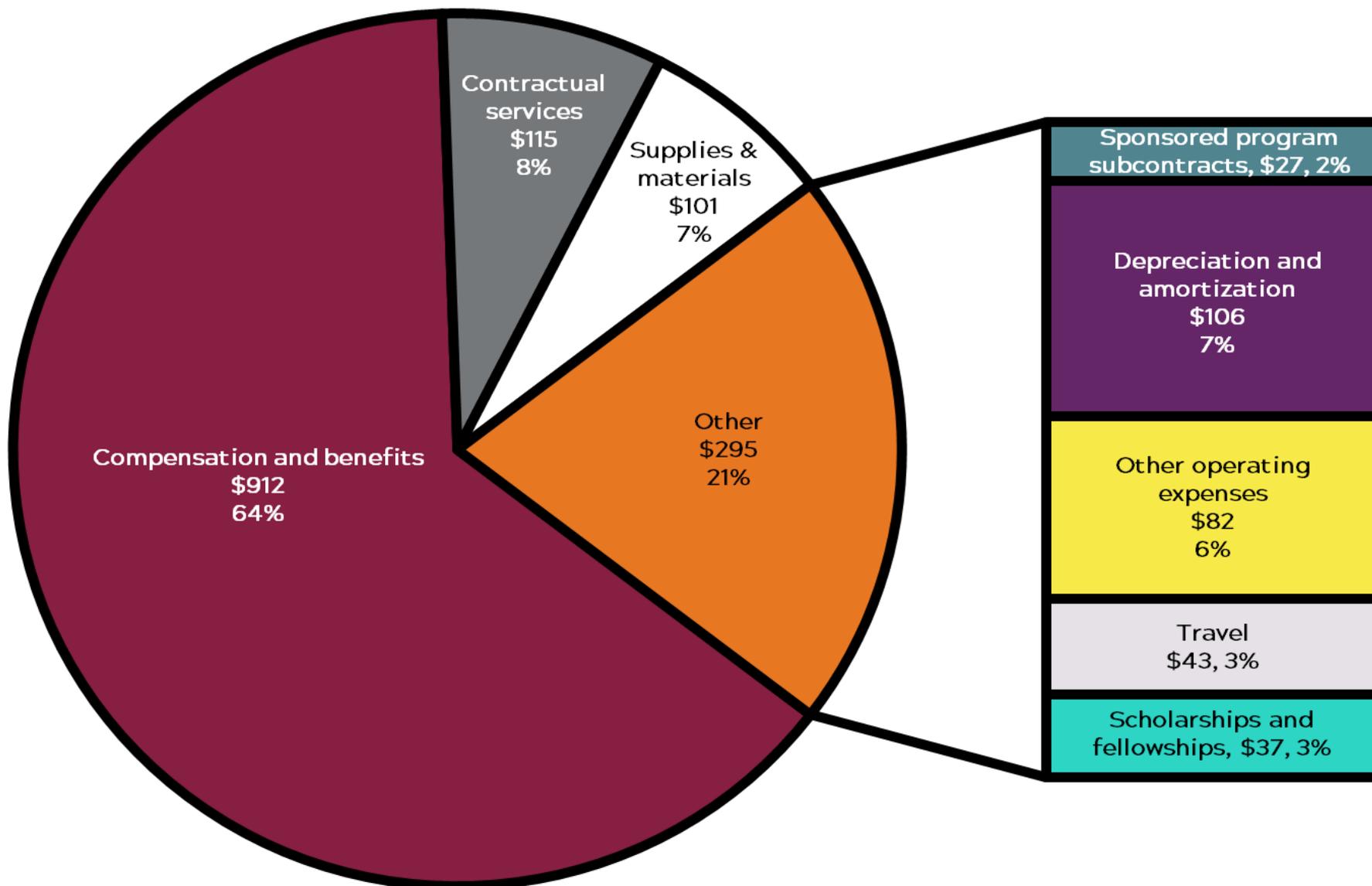


Exhibit 19

## Long-Term Debt Payable Activity

as of June 30, 2018  
(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	\$ 134.2	\$ -	\$ 9.7	\$ 124.5	\$ 8.0
Section 9(d) revenue bonds	61.6	-	3.0	58.6	2.9
Notes payable	227.1	24.8	18.4	233.5	16.9
Capital lease obligations	71.3	2.5	6.1	67.7	3.8
Total long-term debt payable	<u>\$ 494.2</u>	<u>\$ 27.3</u>	<u>\$ 37.2</u>	<u>\$ 484.3</u>	<u>\$ 31.6</u>

Debt ratio for fiscal year 2018 was 3.97 percent with a long-term debt liability of \$484.3 million.

The current portion is the amount that will be payable in FY 2019.

**Sponsored Programs**  
For the years ended June 30, 2014 – 2018  
(all dollars in millions)

	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>
Number of awards received	2,443	2,189	2,291	2,423	2,533
Value of awards received	\$ 303.6	\$ 296.6	\$ 278.1	\$ 304.3	\$ 336.8
Research expenditures reported to NSF	\$ 513.1	\$ 504.3	\$ 521.8	\$ 522.4	\$ 531.6
NSF Rank	39	44	43	46	Unavailable

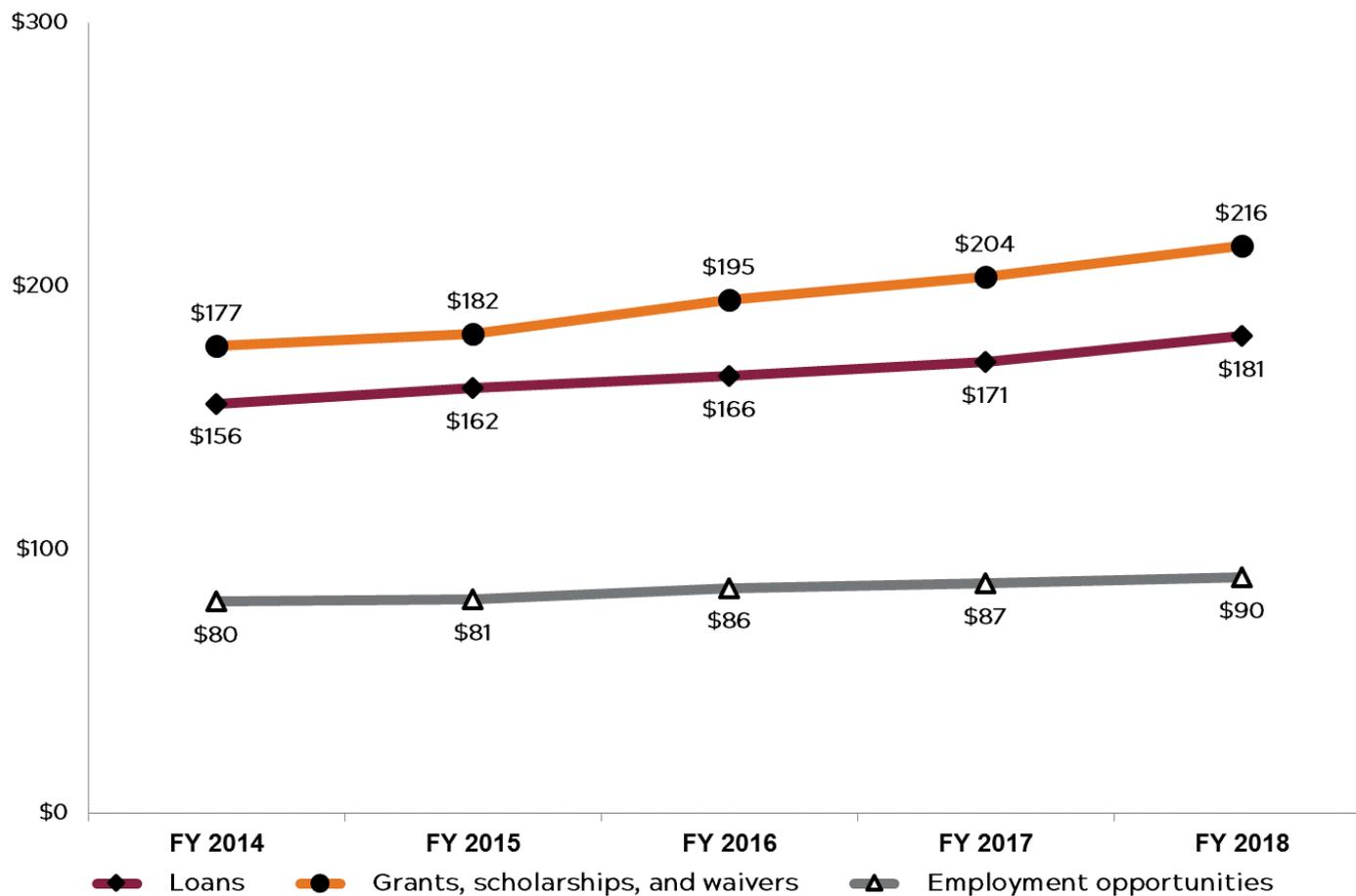
## Student Financial Aid

For the years ended June 30, 2014 - 2018

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
<b><u>Number of students receiving selected types of financial aid</u></b>					
Loans	12,279	12,253	12,282	12,430	12,947
Grants, scholarships, and waivers	18,305	18,242	18,409	18,746	19,467
Employment opportunities	10,329	10,437	10,934	11,201	11,193
<b><u>Total amounts by major category, (all dollars in millions)</u></b>					
Loans	\$ 155.5	\$ 161.5	\$ 165.9	\$ 171.4	\$ 181.3
Grants, scholarships, and waivers	177.4	182.0	194.8	203.6	215.6
Employment opportunities	80.3	81.3	85.5	87.2	89.5
<b>Total financial aid</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>	<b><u><u>\$486.4</u></u></b>

### Student Financial Aid

For years ended June 30, 2014 - 2018  
(all dollars in millions)



49 percent of the undergraduate Virginia Tech Class of 2017 carried an average student loan debt of \$30,221. Nationally, 65 percent of students at public and nonprofit four-year institutions took on student loan debt averaging \$28,650 per student. Over the last several years, the university has consistently had a lower proportion of student borrowers than the national average, and a comparable average debt level.

## **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 and diversity 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 \$21,920 per year for Virginia undergraduates. Virginia Tech ranked 16th out of a state-established peer group of 24 national public peer institutions in 2017-18.
- The university continues to assess the lowest non-instructional mandatory charge of any public four-year institution in Virginia, directing 85 percent of a resident undergraduate's mandatory charges towards the instructional mission.
- Virginia Tech's NSF research ranking was 46th in 2017.
- Continued growth in unrestricted net position from operating and nonoperating activities which partially offset the impact of GASB 68 in 2014-15 and GASB 75 in 2017-18 for pension liabilities and other postemployment benefits.



# *Annual Financial Report*

*March 31, 2019*



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



# Successful Audit & Strong Financial Position

Unmodified audit opinion



No material weakness involving internal controls



One written audit comment related to federal financial aid reporting. First comment since FY 2010



Strong revenue sources



Aa1 and AA Credit Rating



Target AA- or Better

3.97% Debt Ratio



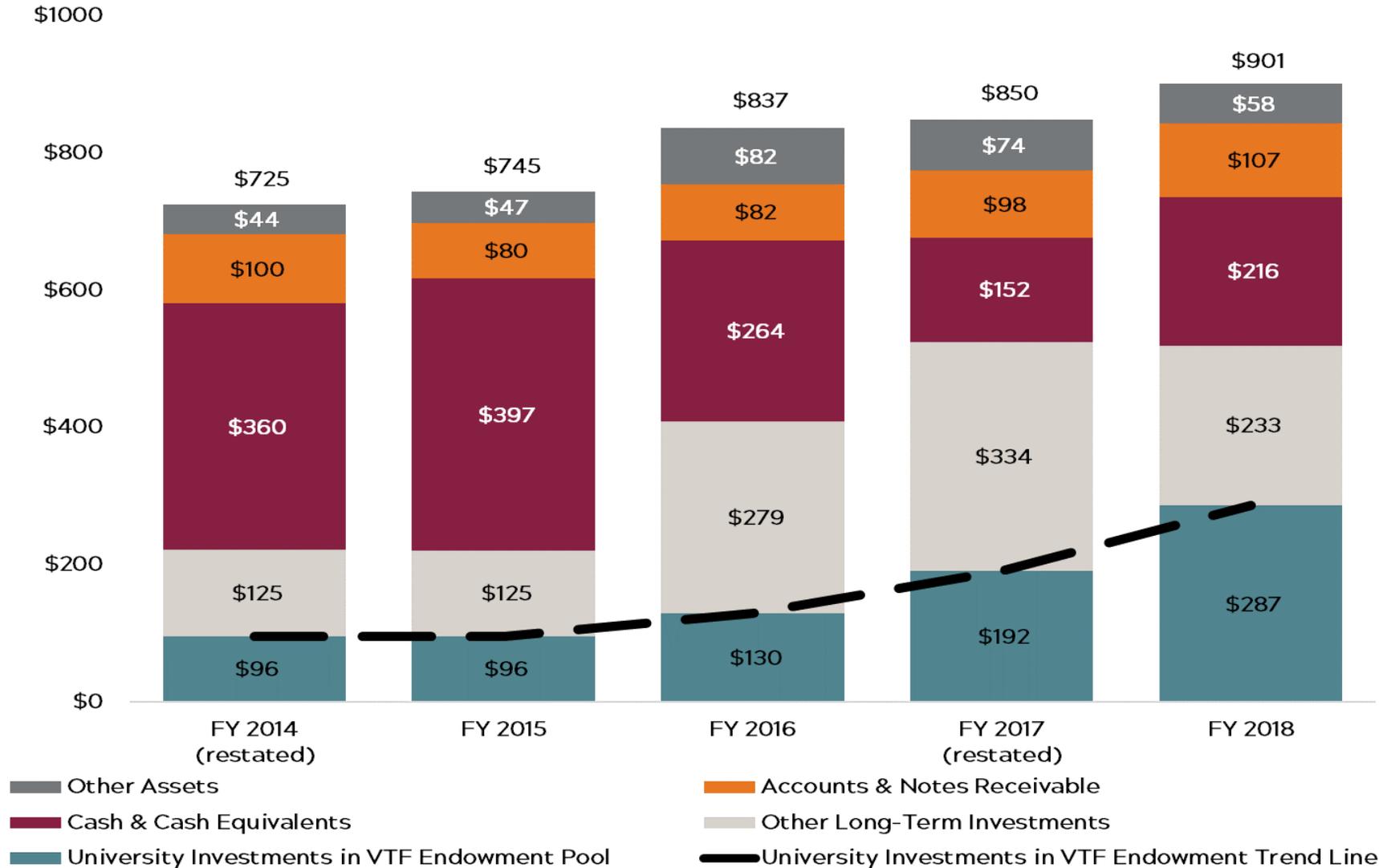
Target 5% or Below



# Composition of Current & Non-Current Assets Excluding Capital Assets

## Showing the Strategy to Move Cash & Cash Equivalents to Long-term Investments at VT Foundation

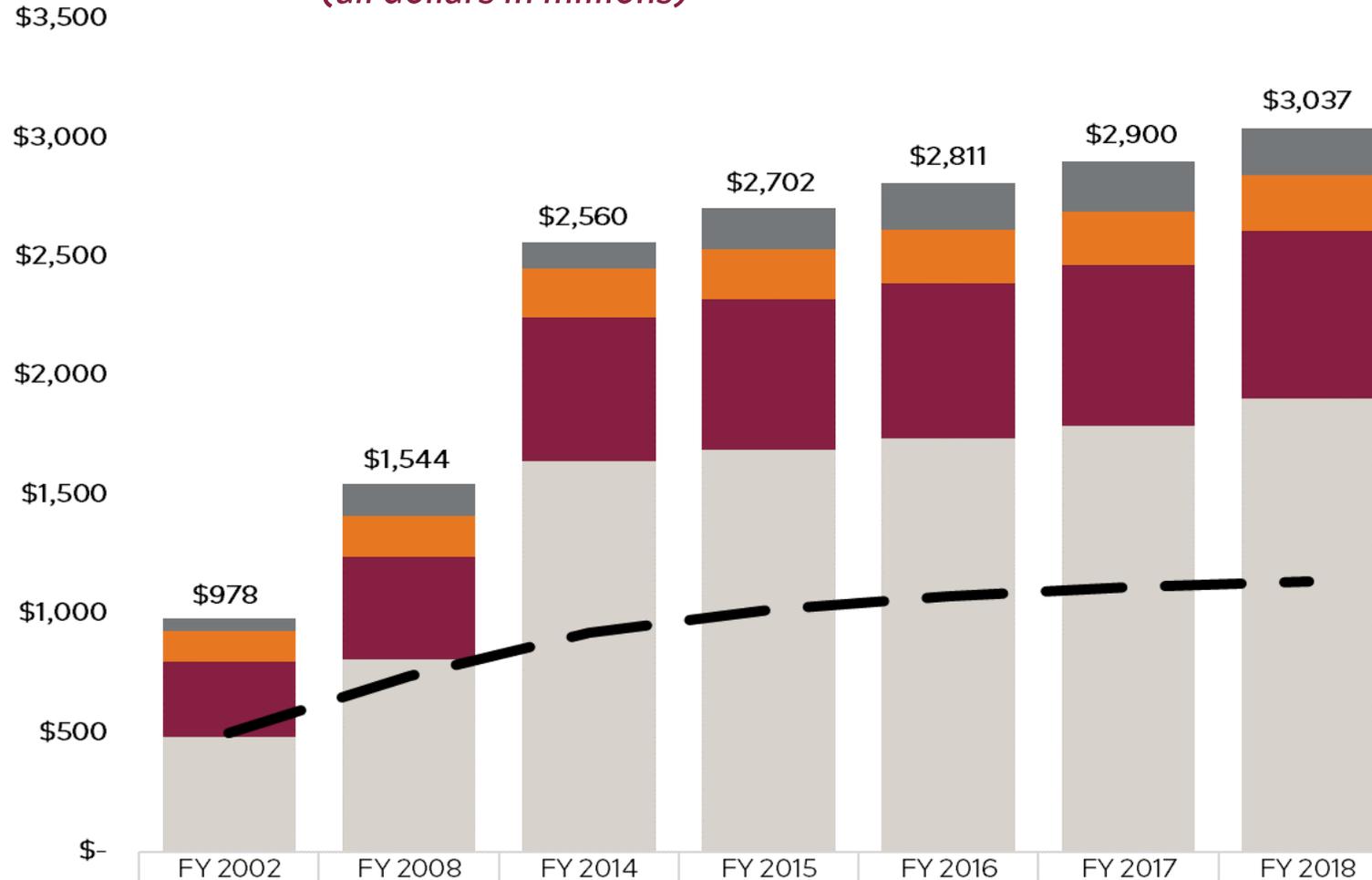
For the years ended June 30, 2014 - 2018  
(all dollars in millions)



# Ongoing Investments in Capital Assets

Growth in Capital Assets from FY 2002 to FY 2018

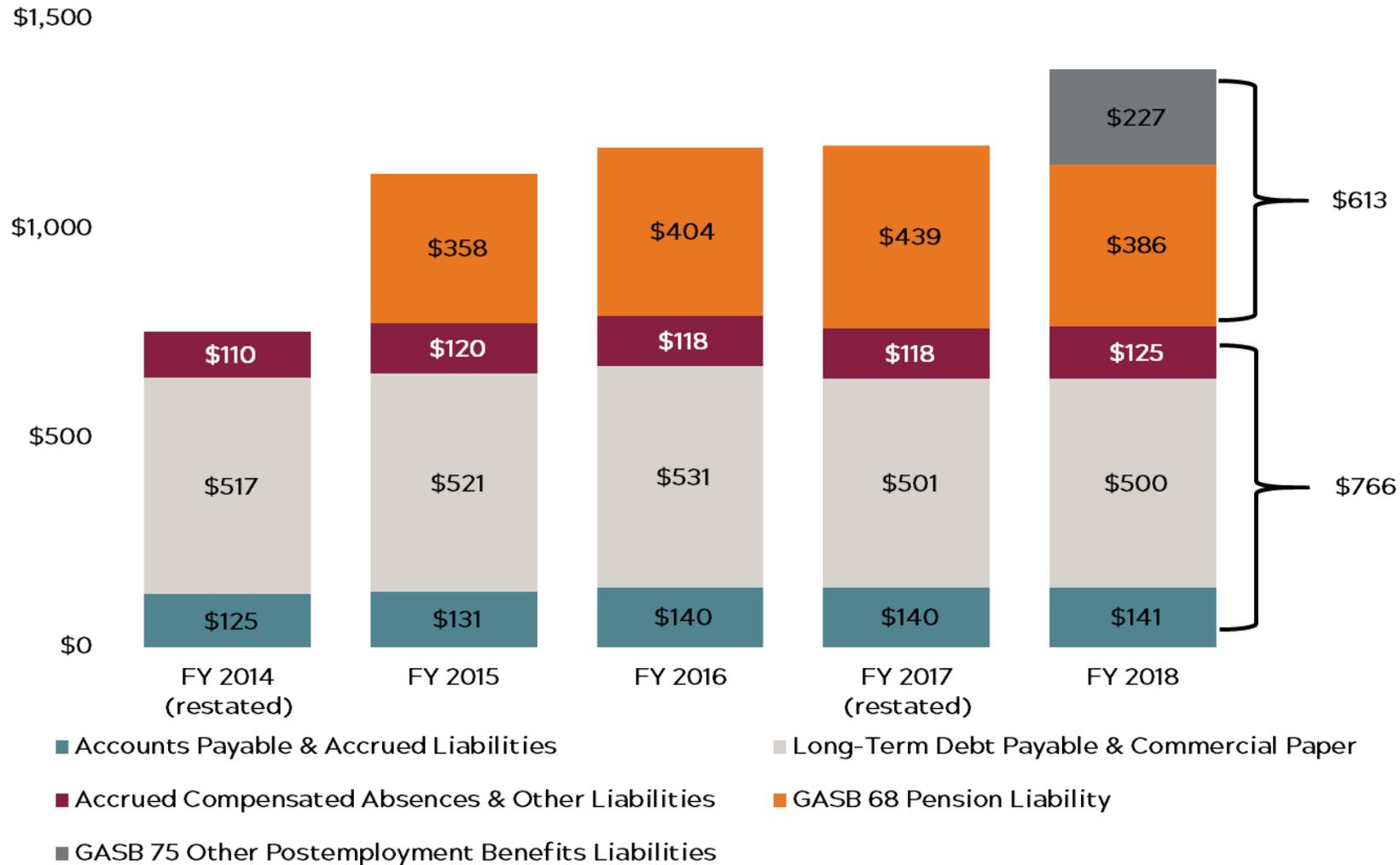
(all dollars in millions)



Land & Construction in Progress	50	134	108	171	199	209	196
Infrastructure, etc. - Gross	132	173	207	209	224	229	235
Equipment - Gross	317	430	603	634	651	674	703
Buildings- Gross	479	807	1,642	1,688	1,737	1,788	1,903
<b>Total Capital Assets - Gross</b>	<b>978</b>	<b>1,544</b>	<b>2,560</b>	<b>2,702</b>	<b>2,811</b>	<b>2,900</b>	<b>3,037</b>
<b>Total Accumulated Depreciation</b>	<b>499</b>	<b>737</b>	<b>918</b>	<b>1,014</b>	<b>1,074</b>	<b>1,112</b>	<b>1,134</b>

# Composition of Current & Non-Current Liabilities

Showing the Impact of Accounting Pronouncements GASB 68 and 75  
 Accounting & Financial Reporting for Pensions and Postemployment Benefits  
 For the Years ended June 30, 2014 - 2018  
 (all dollars in millions)



# Trends in Net Position

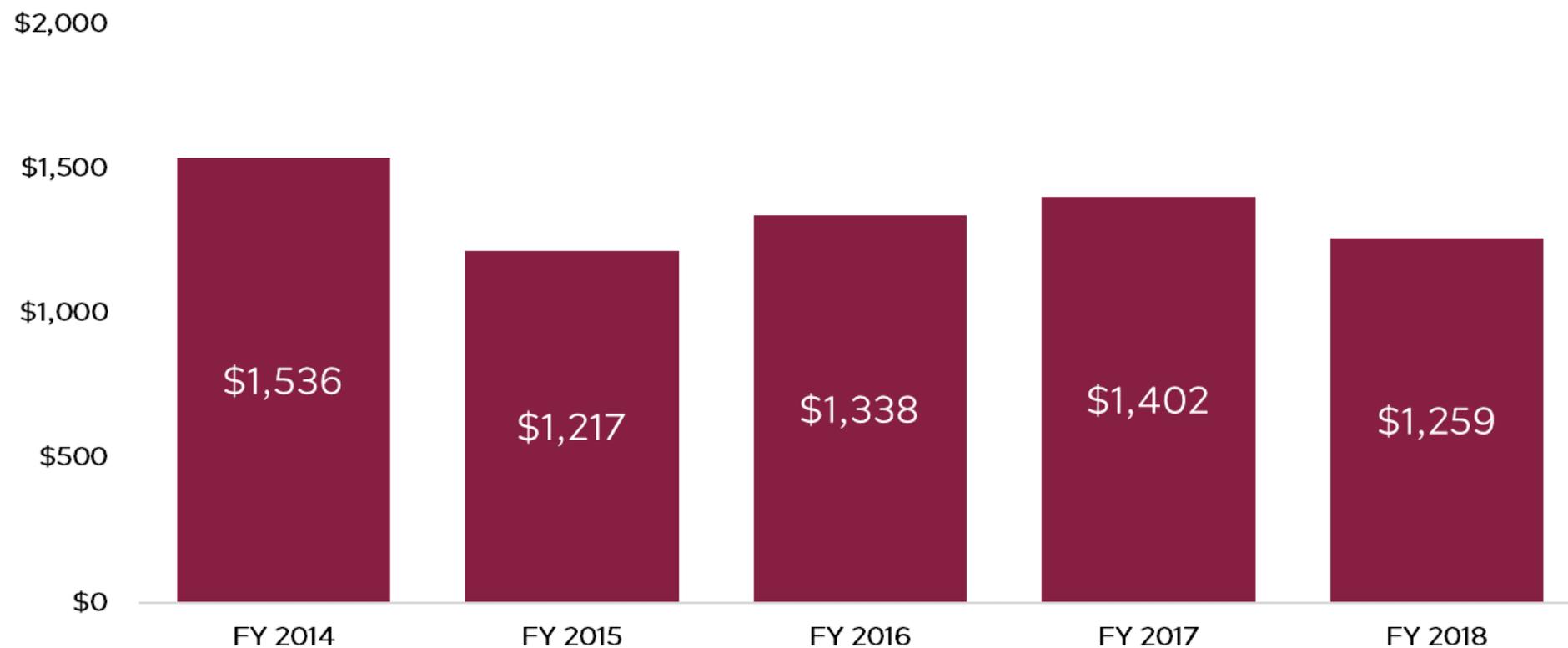
## For the years ended June 30, 2014 - 2018

(all dollars in millions)

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Capital assets, net of related debt	\$ 1,056.9	\$ 1,112.1	\$ 1,163.8	\$ 1,201.3	\$ 1,273.2
Restricted, nonexpendable	0.4	0.4	0.4	11.9	14.4
Restricted, expendable					
Capital projects	2.9	6.0	36.4	39.7	11.5
Other	161.7	172.5	173.1	173.0	186.5
Unrestricted	314.3	(74.3)	(35.3)	(23.5)	(226.4)
Total Net Position	\$ 1,536.2	\$ 1,216.7	\$ 1,338.3	\$ 1,402.3	\$ 1,259.3

# Total Net Position

For the years ended June 30, 2014 - 2018  
(all dollars in millions)



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

## For the years ended June 30, 2018 and 2017

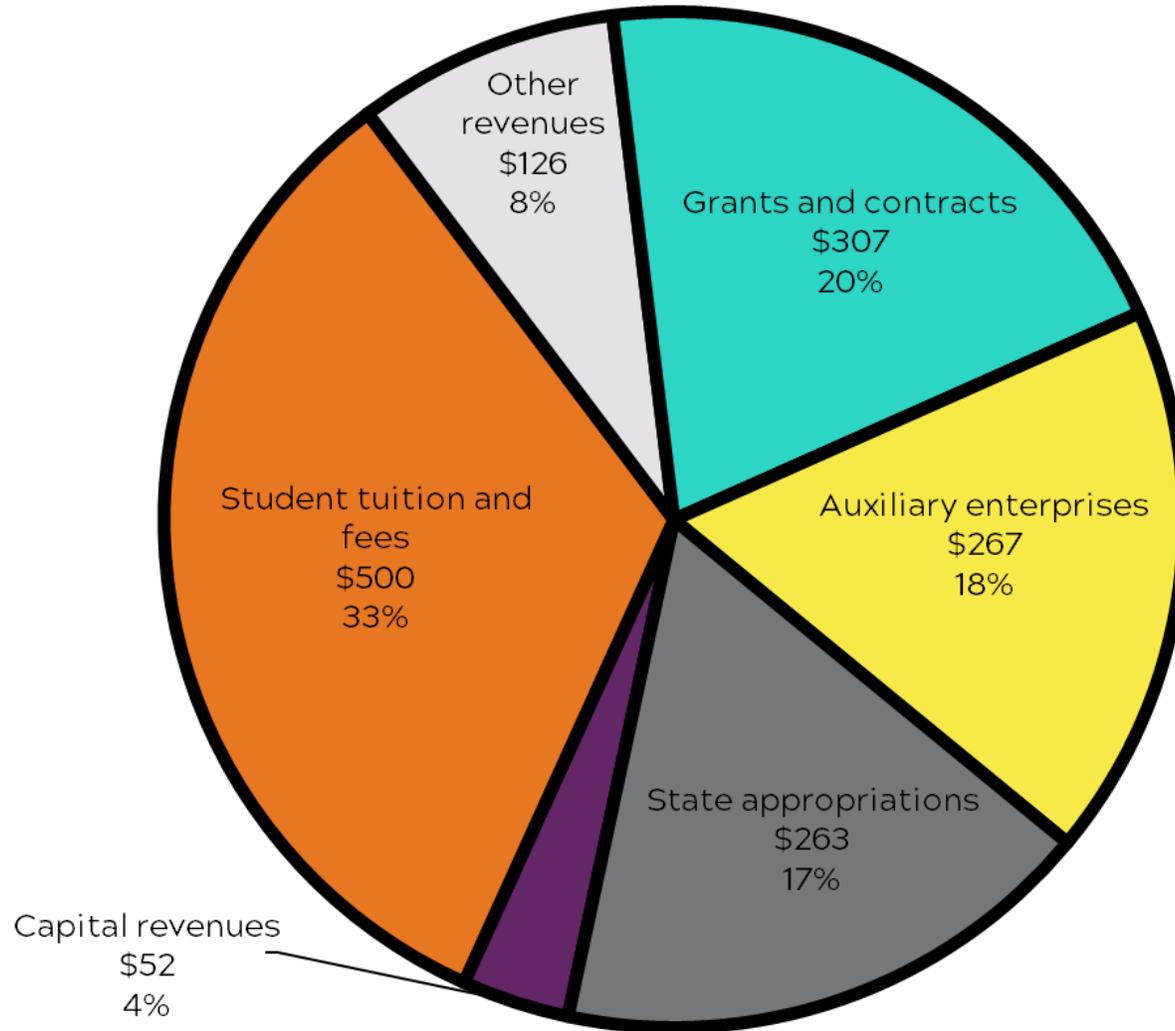
(all dollars in millions)

	2018	2017	Change	
			Amount	Percent
Operating revenues	\$ 1,099.9	\$ 1,031.5	\$ 68.4	6.6 %
Operating expenses	1,423.4	1,364.7	58.7	4.3 %
Operating loss	(323.5)	(333.2)	9.7	(2.9)%
State appropriations	263.1	261.7	1.4	0.5 %
Other nonoperating revenues and expenses	100.4	93.5	6.9	7.4 %
Nonoperating revenue and expenses	363.5	355.2	8.3	2.3 %
Income before other revenues and expenses	40.0	22.0	18.0	81.8 %
Other revenues, expenses, gains or losses	51.8	42.0	9.8	23.3 %
Increase in net position	91.8	64.0	27.8	43.4 %
Net position - beginning of year adjusted for GASB 75	1,167.5	1,338.3	(170.8)	(12.8)%
Net position - end of year	\$ 1,259.3	\$ 1,402.3	\$ (143.0)	(10.2)%

**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 Revenues by Source- \$1,515 Million

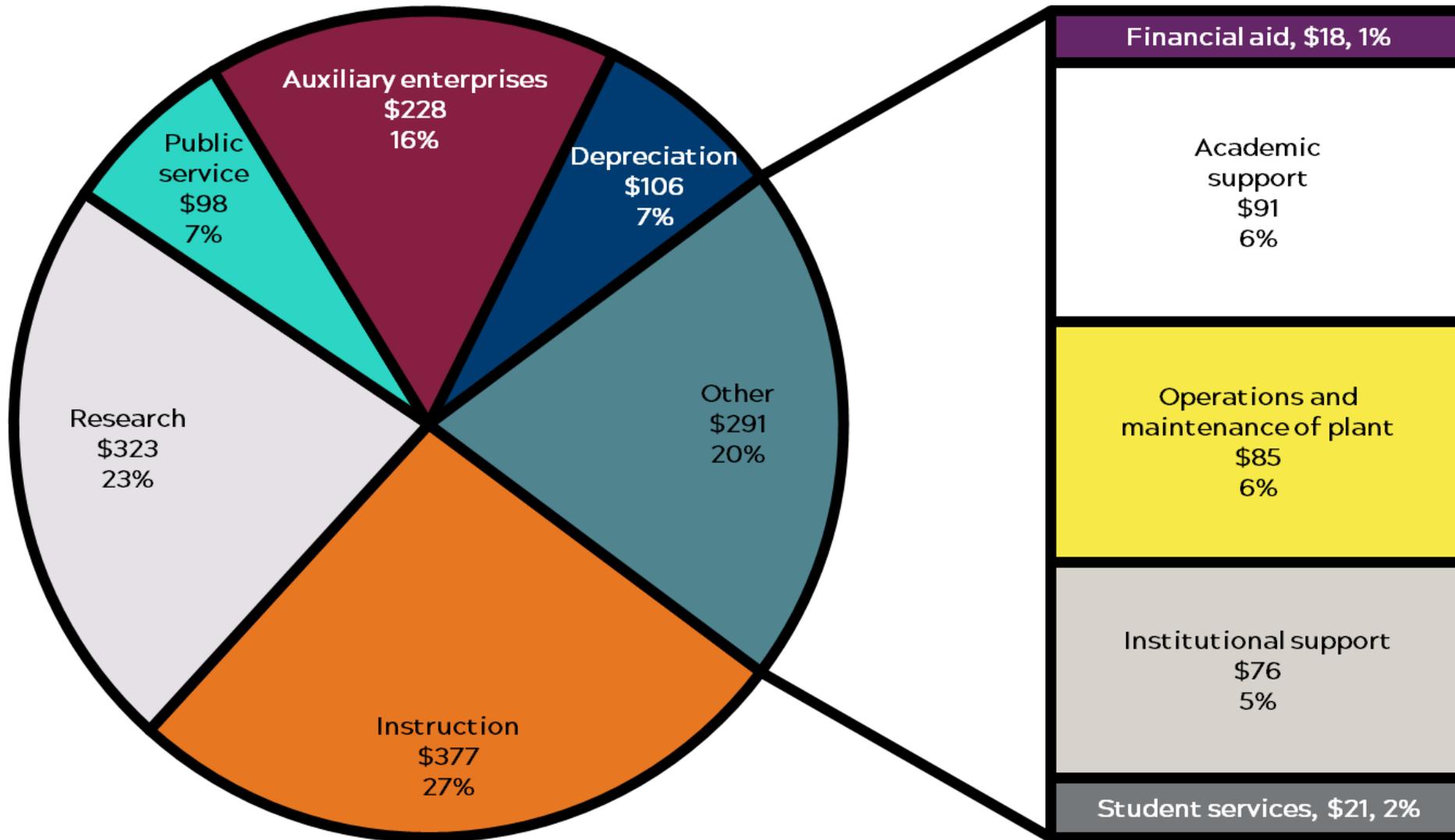
for the year ended June 30, 2018  
(all dollars in millions)



# Summary of Expenses by Function - \$1,423 Million

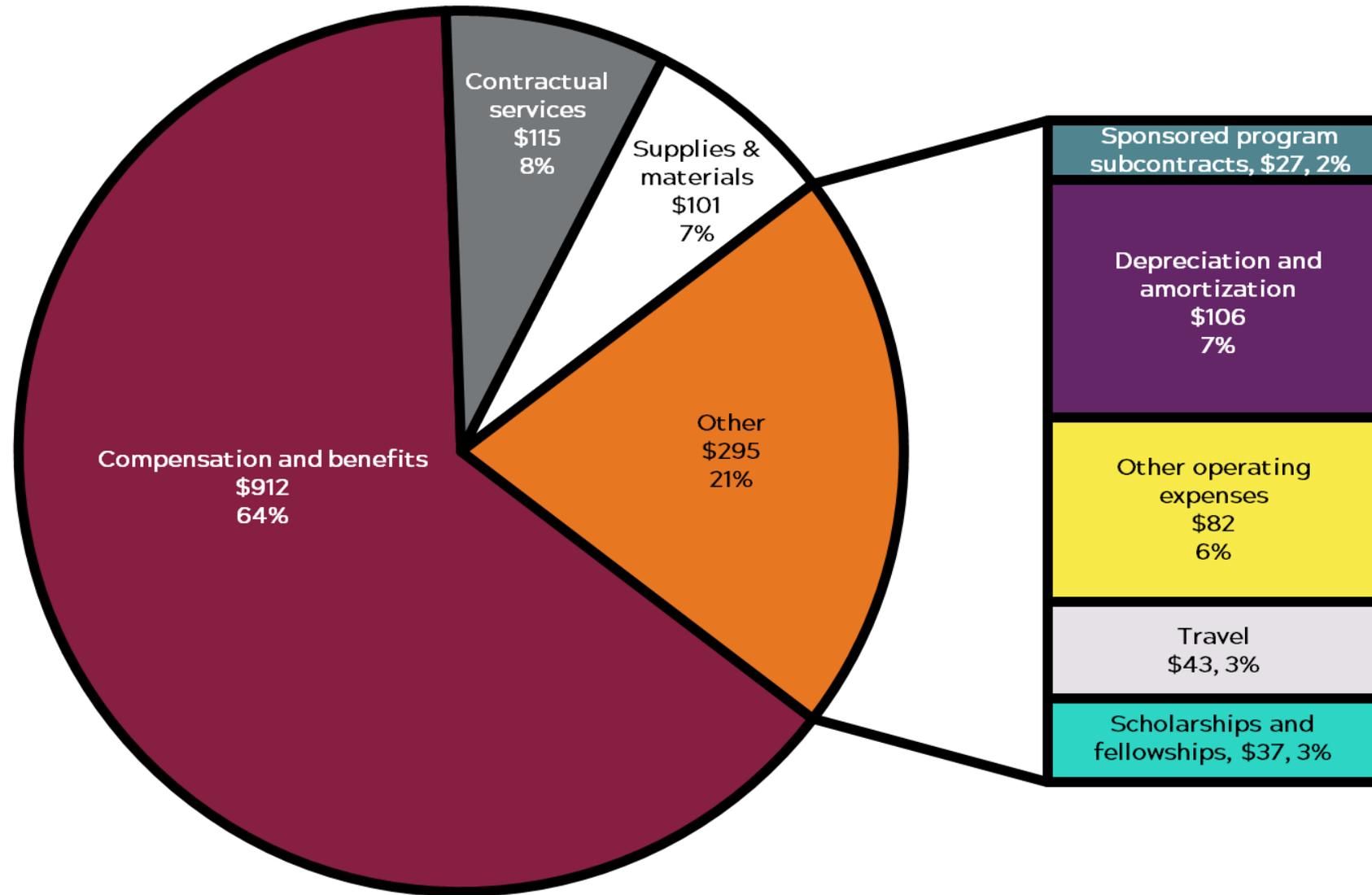
For the year ended June 30, 2018

(all dollars in millions)



# Total Operating Expenses by Classification - \$1,423 Million

for the year ended June 30, 2018  
(all dollars in millions)





# Conclusion

Continued Investment in  
Facilities



Strong Student  
Demand



Moderate Tuition  
Increases



Ranked 46<sup>th</sup> in 2017  
NSF Research  
Ranking



Continued Growth in  
Net Position Offset by  
Implementation of  
GASB 75 for OPEB



Corporate  
Philanthropy



**Presentation of Auditor of Public Accounts Intercollegiate Athletics Programs  
Report for Year Ended June 30, 2018**

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

**February 8, 2019**

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, 2018. 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, 2018. Total revenues of the Intercollegiate Athletics Programs for the year ended June 30, 2018 were \$98.0 million with the majority of the revenues coming from the football and basketball programs. Expenses for the year were \$93.1 million, resulting in an operating surplus of \$4.9 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, but a surplus in the other years.
- *Attachment B* shows the five-year trend for the net income/deficit. The fiscal year 2017 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 2018 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, 2018.

As with all auxiliaries, the university requires the Athletics 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 Athletics Department must use a combination of current year operating revenues or Athletics Department reserves to make up the shortfall.

For fiscal year 2017, the Athletics Department's 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 fundraising 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.

In fiscal year 2018, the fundraising campaign was again successful, and all \$14.3 million of the scholarship expenses were funded with contributions from the Virginia Tech Foundation, Inc. This was the major reason the "Contributions" revenue line item increased by \$6.0 million over the previous years. Additional reasons for the increase included contributions used to fund repair and maintenance expenses, as well as other operating expenses. The Virginia Tech Foundation, Inc. had approximately \$7.1 million cash balance at June 30, 2018 to fund athletic scholarships.

See page 8 of Attachment D for the Schedule of Revenues and Expenses of Intercollegiate Athletics Programs for the year ended June 30, 2018.

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

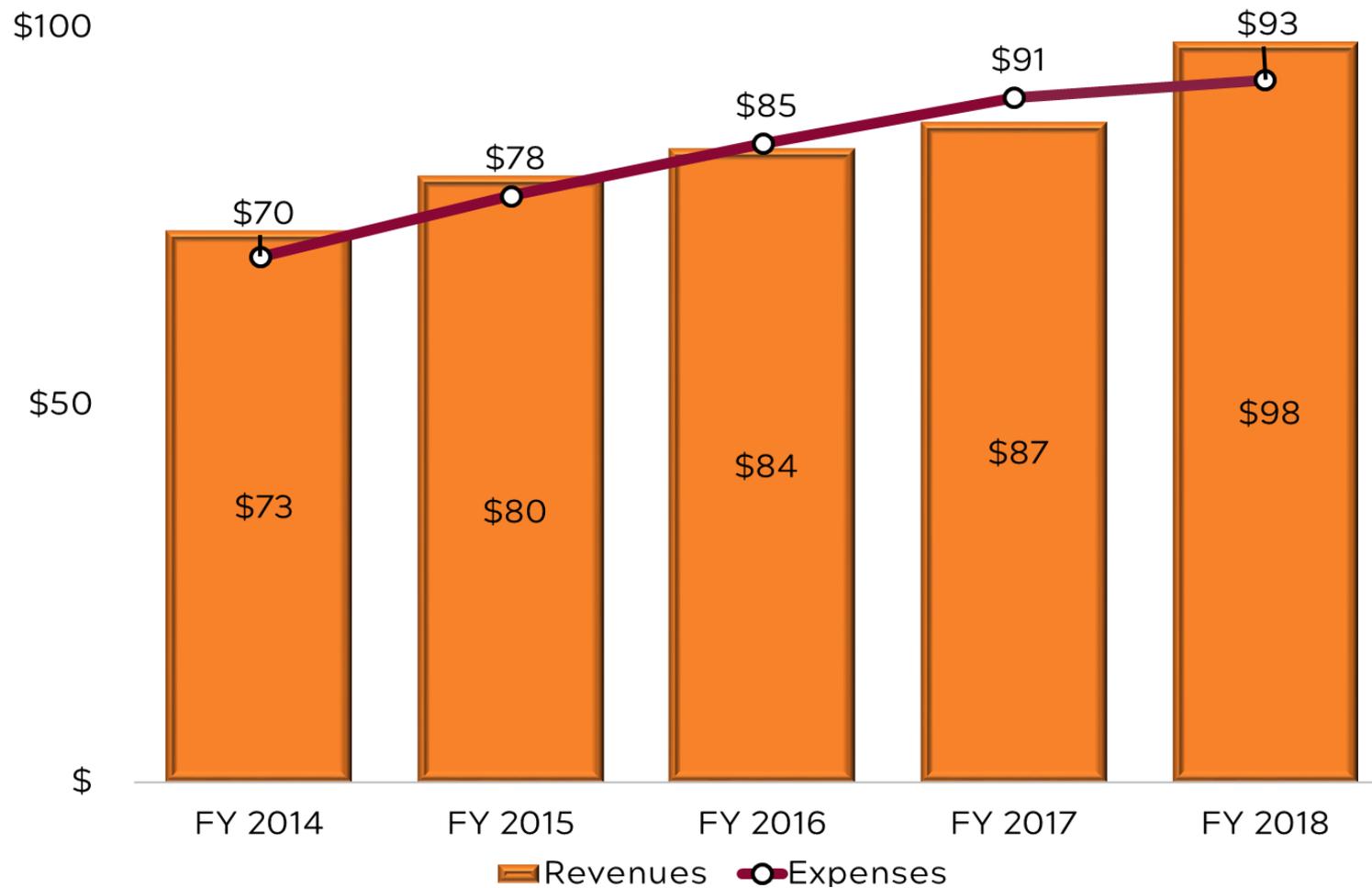
House Bill 1897 (HB1897) passed by the 2015 General Assembly prohibits the total of school funds and student fees used to support intercollegiate athletics programs from exceeding a certain percentage of athletics revenues. This calculation is called the subsidy percentage. For the subsidy percentage calculation, revenues supporting spirit groups, indirect cost charges and debt service are removed from both the total revenue and the student fees. The bill requires any school that violates the subsidy percentage cap to submit to the General Assembly a five-year plan for coming into compliance. The subsidy percentages are larger for smaller institutions which do not have significant ticket sales or conference distributions. 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. The first measurement period for evaluating HB 1897 was fiscal year 2017. In June 2018, the APA issued their audit report for fiscal year 2017 which concluded that Virginia Tech met the subsidy percentage requirement.

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

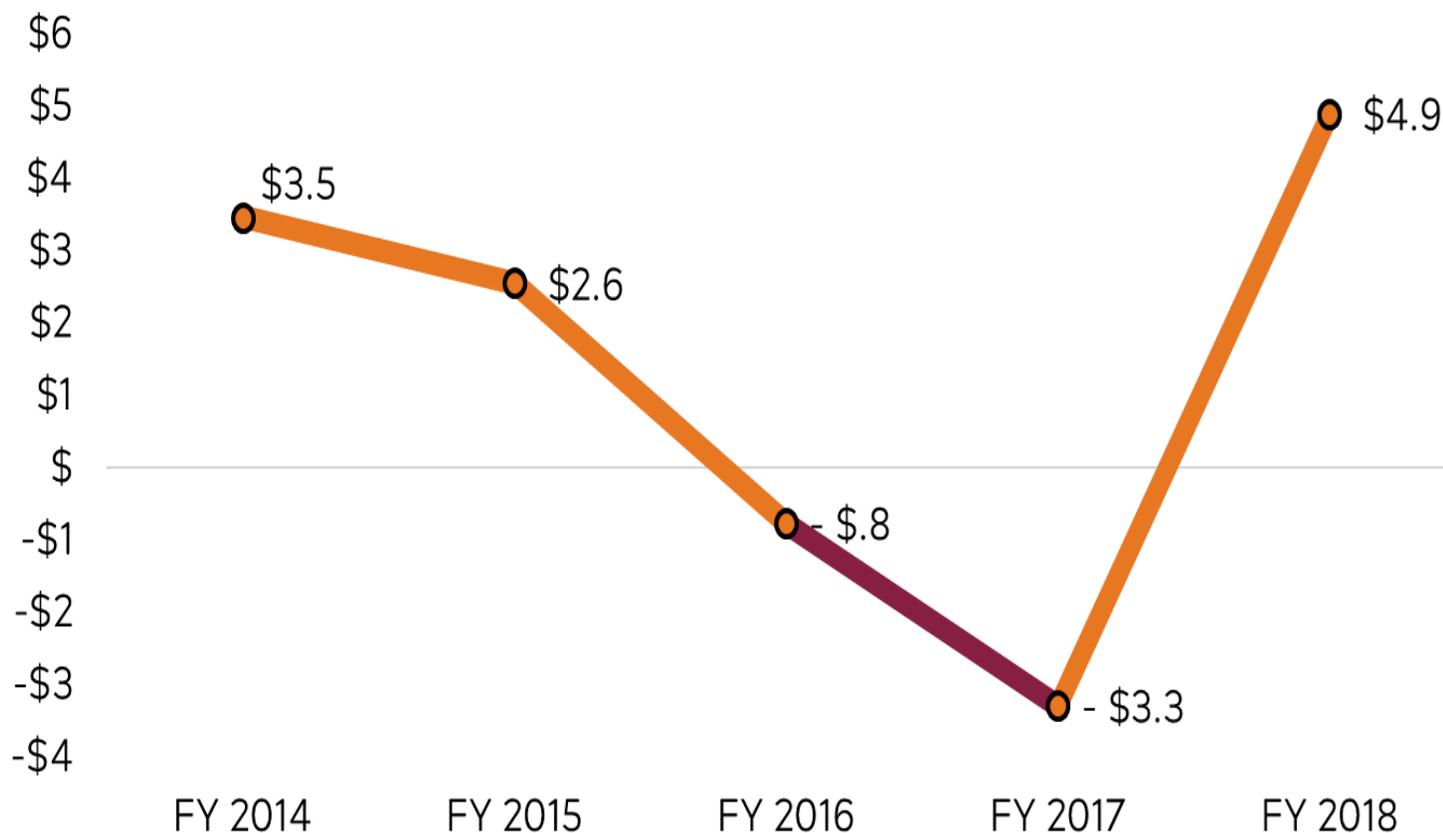
Commonwealth, the university should not be effected by the fixed percentage of fees ceiling required by the legislation. For Virginia Tech, the subsidy percentage must remain below 20 percent. In fiscal year 2018, the subsidy percentage calculation for Virginia Tech was a negative 1.62 percent. This subsidy percentage is negative because revenues generated from ticket sales, conference distributions, media rights, contributions, and other sources cover the majority of the Athletic operating expenses. This enables Virginia Tech to keep the student athletic fees low.

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 2014 - FY 2018 (all dollars in millions)



# **Intercollegiate Athletic Programs Net Operating Income (Deficit) FY 2014 - FY 2018 (all dollars in millions)**



**Intercollegiate Athletic Programs**  
**Net Operating Income (Deficit)**  
**FY 2018**  
*(all dollars in millions)*

	Revenue		Expenses		Net Income/Deficit	
Football	\$	57.6	\$	33.3	\$	24.3
Men's Basketball		13.7		11.2		2.5
Women's Basketball		1.6		4.7		(3.1)
Other Sports*		11.4		22.2		(10.8)
Non Program Specific**		13.7		21.7		(8.0)
	\$	98.0	\$	93.1	\$	4.9

\*Other Sports is the total of Men's Other Sports, Women's Other Sports. There are 16 other sports programs such as baseball, softball, golf, tennis, track & field, etc.

\*\* Non Program Specific includes revenues and expenses that cannot be attributed to a specific sport and support the overall function of the Athletic program.



# VIRGINIA POLYTECHNIC INSTITUTE AND STATE UNIVERSITY

## INTERCOLLEGIATE ATHLETICS PROGRAMS FOR THE YEAR ENDED JUNE 30, 2018

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



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Martha S. Mavredes, CPA  
Auditor of Public Accounts

# Commonwealth of Virginia

*Auditor of Public Accounts*

P.O. Box 1295  
Richmond, Virginia 23218

January 22, 2019

The Honorable Ralph S. Northam  
Governor of Virginia

The Honorable Thomas K. Norment, Jr.  
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, 2018. 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, 2018, 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. Certain adjustments to the Schedule were necessary to conform to

NCAA reporting guidance. 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:

<b>Line Item</b>	<b>Explanation</b>
Ticket Sales	The University experienced an increase in ticket sales due to the home football game against the defending national champions (Clemson) and a neutral site game against West Virginia University, resulting in an increase of \$2.1 million.
Contributions	In the prior year, Athletics chose to cover \$4 million of scholarship expense with operating funds instead of drawing contributions from the Foundation. In fiscal year 2018, all scholarship expenses were funded with contributions from the Foundation. Additionally, contributions revenue increased due to more Foundation funding being used to cover operating expenses, including repair and maintenance expenses such as the repairs to the basketball locker rooms.
Media Rights	Additional revenue is primarily attributable to participation in post-season competition for men's basketball and football, resulting in an increase of \$2.8 million.
Direct Overhead and Administrative Expenses	The University replaced seating within the Cassell Coliseum and performed repairs of the men's basketball locker rooms, resulting in an increase of approximately \$1.0 million.

**Revenues**

9. We reviewed a sample of ticket sales reconciliations performed for accuracy and proper review and approval. We performed a recalculation of ticket sales revenue for football and men's basketball by comparing the number of tickets sold, attendance, and sale price to total revenue recorded in the Schedule. We determined the reconciliations reviewed to be accurate and the amounts reported in the Schedule to be substantially in agreement with our recalculation.
10. We obtained documentation 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 of direct institutional support revenue reported in the Schedule. 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 which 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. Due to a duplicate contribution entry of \$522,362, an overstatement of both revenues and expenses was corrected for this report as well as the submission to the NCAA.
14. We obtained the amount of in-kind revenue reported in the Schedule. 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 media 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 inspected the terms of the agreements and agreed selected amounts to proper posting in the accounting records and supporting documentation.
17. We obtained the amount of program, novelty, parking, and concession sales revenue reported in the Schedule. This amount was deemed to be immaterial for detailed testing.
18. We obtained the amount of royalties, licensing, advertisement, and sponsorships revenue reported in the Schedule. This amount was deemed to be immaterial for detailed testing.
19. We obtained the amount of Athletics restricted endowment and investments income reported in the Schedule. This amount was deemed to be immaterial for detailed testing.
20. We obtained the amount of other operating revenue reported in the Schedule. This amount was deemed to be immaterial for detailed testing.
21. We obtained the amount of post-season bowl game revenue reported in the Schedule. 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. We performed a check of selected students' information as reported in the NCAA's Compliance Assistant software to ensure proper calculation of revenue distribution equivalencies.
23. We obtained the amount of game guarantee expense reported in the Schedule. 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. We obtained the amount of severance payments expense reported in the Schedule. This amount was deemed to be immaterial for detailed testing.
26. We obtained the Intercollegiate Athletics Department's written recruiting and team travel policies from 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 selected a sample of facility payments included in the Schedule, including the two highest facility payments, and agreed them 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 reported 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, including the audited financial statements of the University's Foundation.
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 Calculation of Revenue Distribution Equivalencies Report (CRDE) from the NCAA's Compliance Assistant software for 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/vks

**VIRGINIA POLYTECHNIC INSTITUTE AND STATE UNIVERSITY**  
**SCHEDULE OF REVENUES AND EXPENSES OF**  
**INTERCOLLEGIATE ATHLETICS PROGRAMS**  
For the year ended June 30, 2018

	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	\$ 16,396,909	\$ 2,852,423	\$ 177,735	\$ 1,360	\$ -	\$ -	\$ 19,428,427
Student fees	-	-	-	-	2,394,629	7,309,447	9,704,076
Direct institutional support	-	-	-	4,125	1,084	1,411	6,620
Guarantees	3,045,052	100,000	-	18,164	2,000	-	3,165,216
Contributions	8,659,290	2,077,931	779,491	2,573,499	3,820,088	3,735,347	21,645,646
In-Kind	30,811	64,557	5,881	886	12,444	31,509	146,088
Media rights	19,239,448	5,642,168	312,011	31,850	36,750	-	25,262,227
NCAA distributions	1,460,574	1,703,772	-	-	-	1,176,521	4,340,867
Conference distributions (non-media or bowl)	4,291,824	975,138	71,635	169,748	174,349	-	5,682,694
Program, novelty, parking, and concession sales	1,605,492	66,313	12,978	7,485	7,507	15,059	1,714,834
Royalties, licensing, advertisement and sponsorships	1,046,786	58,889	48,000	205,351	181,125	689,968	2,230,119
Athletics restricted endowment and investments income	711,786	139,088	139,088	678,345	955,453	406,338	3,030,098
Other operating revenue	126,818	-	-	72,379	54,316	359,100	612,613
Bowl revenues	993,504	-	-	-	-	-	993,504
Total operating revenues	<u>57,608,294</u>	<u>13,680,279</u>	<u>1,546,819</u>	<u>3,763,192</u>	<u>7,639,745</u>	<u>13,724,700</u>	<u>97,963,029</u>
<b>Operating expenses:</b>							
Athletic student aid	3,700,552	737,585	827,752	2,951,434	4,472,141	1,592,508	14,281,972
Guarantees	600,000	595,000	100,531	7,500	500	-	1,303,531
Coaching salaries, benefits, and bonuses paid by the University and related entities	9,259,467	3,788,468	1,310,113	2,954,420	2,645,061	-	19,957,529
Support staff/administrative compensation, benefits, and bonuses paid by the University and related entities	2,576,435	739,394	555,842	146,147	165,836	9,463,759	13,647,413
Severance payments	17,713	8,173	-	285,424	126,676	52,270	490,256
Recruiting	563,744	293,585	152,574	299,850	262,815	16,185	1,588,753
Team travel	918,966	910,841	530,090	1,239,803	1,335,267	-	4,934,967
Sports equipment, uniforms, and supplies	797,898	269,949	105,394	539,101	613,272	146,111	2,471,725
Game expenses	2,570,562	784,223	293,895	367,308	203,155	468,733	4,687,876
Fundraising, marketing and promotion	143,945	240,208	100,883	129,340	102,421	235,291	952,088
Spirit groups	259,515	41,402	51,290	-	-	125,755	477,962
Athletic facility leases and rental fees	-	-	700	128,025	128,275	25,000	282,000
Athletic facility debt service	4,091,162	327,631	327,631	451,792	451,792	-	5,650,008
Direct overhead and administrative expenses	3,207,142	1,888,908	147,418	476,545	261,002	3,363,905	9,344,920
Indirect cost paid to the institution by athletics	233,268	-	-	-	-	4,931,068	5,164,336
Medical expenses and insurance	244,932	49,666	33,417	284,917	214,358	389,235	1,216,525
Memberships and dues	3,259	2,930	3,566	8,805	11,469	30,902	60,931
Student-Athlete Meals (non-travel)	881,521	142,904	63,543	140,827	239,299	119,667	1,587,761
Other operating expenses	1,497,254	364,328	63,927	318,166	190,502	748,984	3,183,161
Bowl expenses	1,782,185	-	-	-	-	-	1,782,185
Total operating expenses	<u>33,349,520</u>	<u>11,185,195</u>	<u>4,668,566</u>	<u>10,729,404</u>	<u>11,423,841</u>	<u>21,709,373</u>	<u>93,065,899</u>
Excess (deficiency) of revenues over (under) expenses	<u>\$ 24,258,774</u>	<u>\$ 2,495,084</u>	<u>\$ (3,121,747)</u>	<u>\$ (6,966,212)</u>	<u>\$ (3,784,096)</u>	<u>\$ (7,984,673)</u>	<u>\$ 4,897,130</u>
<b>Other Reporting Items:</b>							
Total athletics-related debt							\$ 71,559,000
Total institutional debt							\$ 450,787,000
Value of athletics-dedicated endowments							\$ 65,149,751
Value of institutional endowments							\$ 1,088,548,961
Total athletics-related capital expenditures							\$ 30,282,000

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, 2018**

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, 2018. 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 \$24,675,744 from the Virginia Tech Foundation, Inc. Approximately \$14,281,972 of these funds were used for grant-in-aid scholarships for student-athletes. These amounts received are included in the accompanying schedule as follows: \$11,251,874 is included in the Contributions line item and \$3,030,098 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 \$1,890,000. 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 \$25,045,000 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 \$790,000 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 \$30,374,000 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, 2018 is presented as follows:

<u>FY Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 3,468,000	\$ 2,176,000	\$ 5,644,000
2020	3,905,000	2,017,000	5,922,000
2021	4,112,000	1,843,000	5,955,000
2022	4,294,000	1,655,000	5,949,000
2023	4,355,000	1,461,000	5,816,000
2024-2028	23,642,000	4,768,000	28,410,000
2029-2033	24,781,000	1,627,000	26,408,000
2034-2035	3,002,000	66,000	3,068,000
	<u>\$71,559,000</u>	<u>\$15,613,000</u>	<u>\$87,172,000</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 \$5,164,336 to the University. This amount is included on the Indirect Cost Paid to the Institution by Athletics line item, and includes \$233,268 in Football, and \$4,931,068 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, 10 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, 2018 (all dollars in thousands):

	Beginning <u>Balance</u>	<u>Additions</u>	<u>Retirements</u>	Ending <u>Balance</u>
<i>Depreciable capital assets</i>				
Buildings	\$ 172,236	\$ 1,996	\$ -	\$ 174,232
Moveable equipment	7,510	474	487	7,497
Software	313	-	-	313
Fixed equipment	10,773	799	-	11,572
Infrastructure	<u>19,429</u>	<u>1,833</u>	<u>-</u>	<u>21,262</u>
Total depreciable capital assets, at cost	<u>210,261</u>	<u>5,102</u>	<u>487</u>	<u>214,876</u>
<i>Less accumulated depreciation</i>				
Buildings	50,123	3,945	-	54,068
Moveable equipment	5,226	556	487	5,295
Software	245	20	-	265
Fixed equipment	3,919	555	-	4,474
Infrastructure	<u>16,871</u>	<u>755</u>	<u>-</u>	<u>17,626</u>
Total accumulated depreciation	<u>76,384</u>	<u>5,831</u>	<u>487</u>	<u>81,728</u>
Total depreciable capital assets, Net of accumulated depreciation	<u>133,877</u>	<u>(729)</u>	<u>-</u>	<u>133,148</u>
<i>Non-depreciable capital assets</i>				
Construction in progress	<u>7,457</u>	<u>28,871</u>	<u>3,691</u>	<u>32,637</u>
Total non-depreciable capital assets	<u>7,457</u>	<u>28,871</u>	<u>3,691</u>	<u>32,637</u>
Total capital assets, net of accumulated depreciation	<u>\$141,334</u>	<u>\$ 28,142</u>	<u>\$ 3,691</u>	<u>\$ 165,785</u>

**VIRGINIA POLYTECHNIC INSTITUTE AND STATE UNIVERSITY**

As of June 30, 2018

**BOARD OF VISITORS**

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Horacio Valeiras, Vice Rector

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Whit Babcock, Director of Intercollegiate Athletics Programs

*Auditor of Public Accounts Report on  
Intercollegiate Athletics Programs  
March 31, 2019*

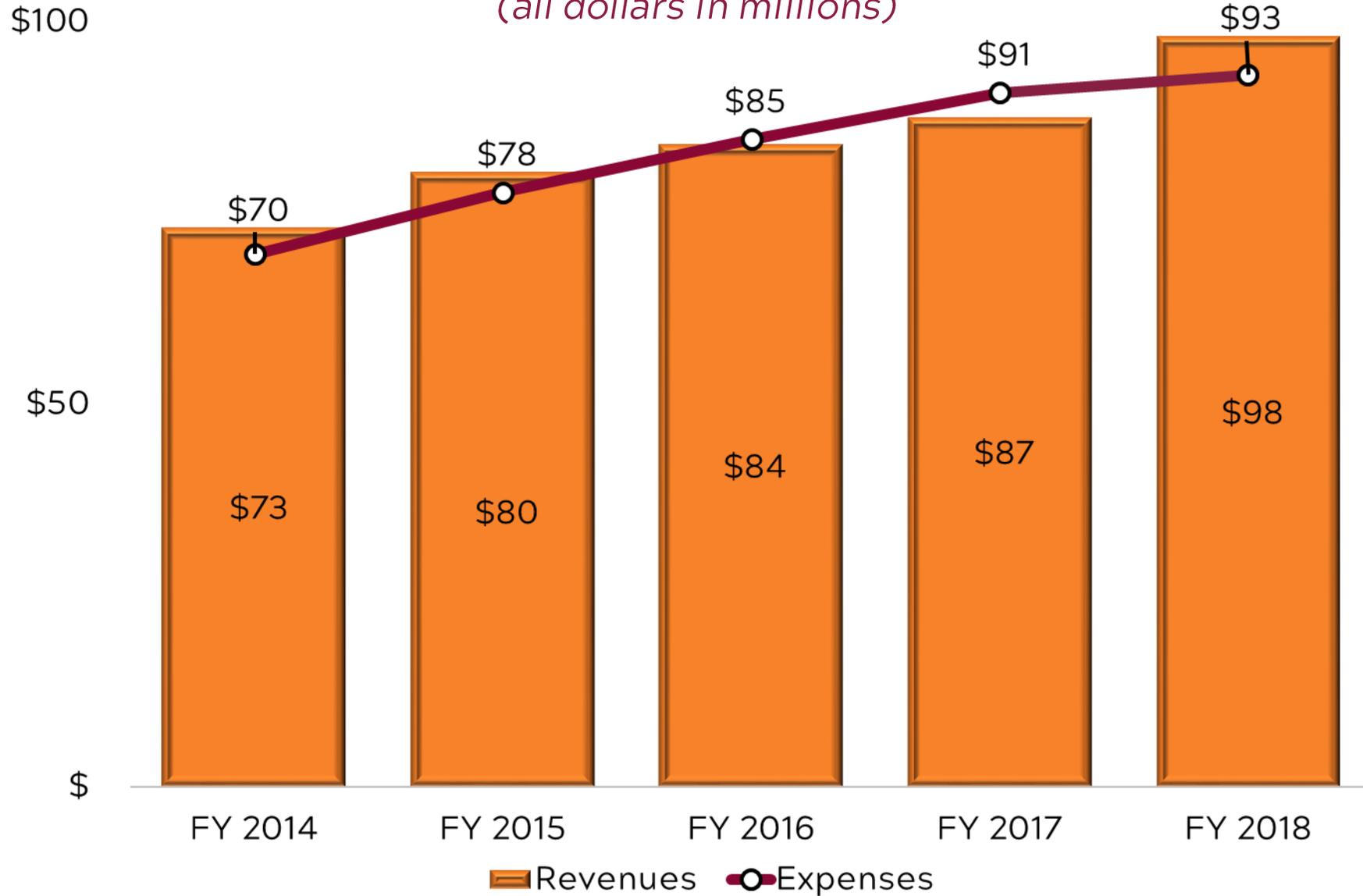
**KEN MILLER,  
ASSISTANT VICE PRESIDENT FOR FINANCE &  
UNIVERSITY CONTROLLER**



# Intercollegiate Athletic Programs Revenue & Expenses

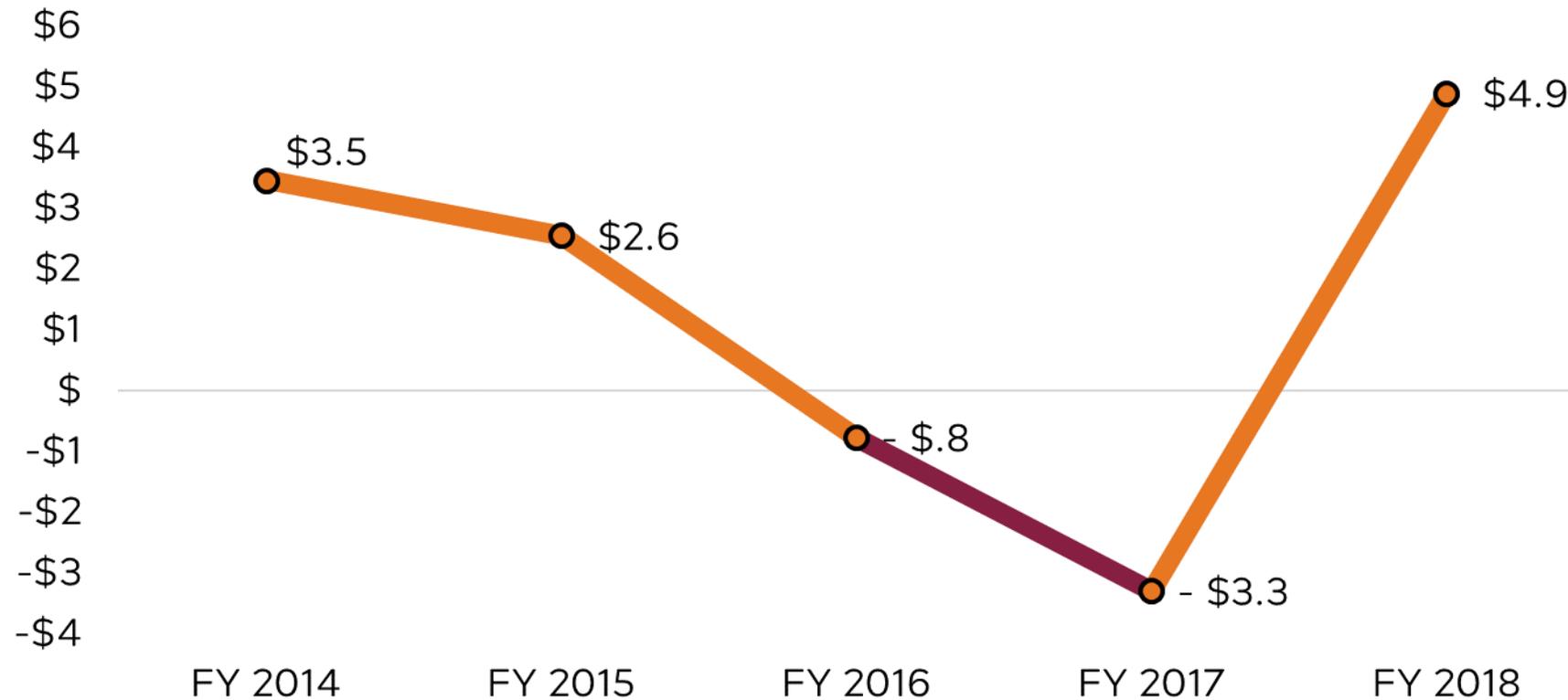
Attachment H

FY 2014 - FY 2018  
(all dollars in millions)



# Intercollegiate Athletic Programs Net Operating Income (Deficit)

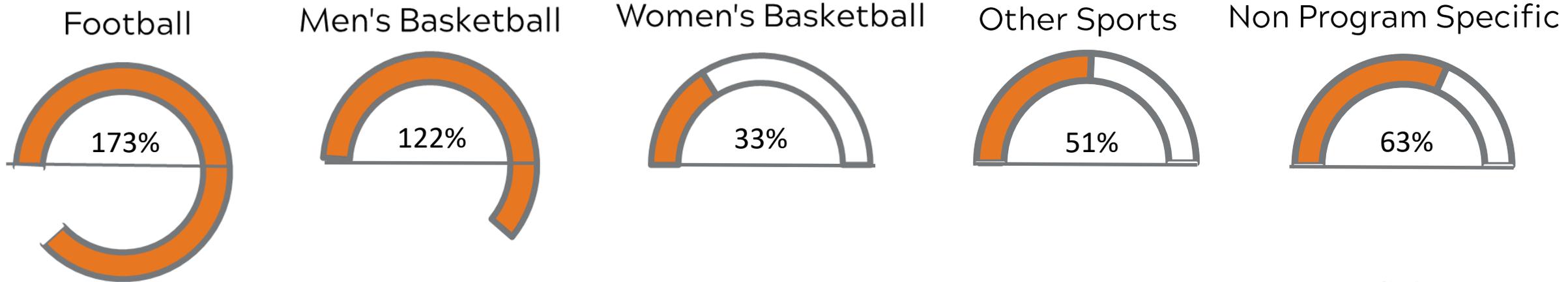
*FY 2014 - FY 2018*  
*(all dollars in millions)*



# Intercollegiate Athletic Programs

## Net Operating Income (Deficit)

### FY 2018



	Revenue	Expenses	Net Income/Deficit
Football	\$ 57.6	\$ 33.3	\$ 24.3
Men's Basketball	13.7	11.2	2.5
Women's Basketball	1.6	4.7	(3.1)
Other Sports*	11.4	22.2	(10.8)
Non Program Specific**	13.7	21.7	(8.0)
	\$ 98.0	\$ 93.1	\$ 4.9

\*Other Sports is the total of Men's Other Sports, Women's Other Sports. There are 16 other sports programs such as baseball, softball, golf, tennis, track & field, etc.

\*\*Non Program Specific includes revenues and expenses that cannot be attributed to a specific sport and support the overall function of the Athletic program.