FINANCE AND RESOURCE MANAGEMENT COMMITTEE MINUTES

BOARD OF VISITORS

May 7, 2020

The Finance and Resource Management Committee of the Board of Visitors of Virginia Polytechnic Institute and State University met on Thursday, May 7, 2020, at 4:00 p.m. On this date, the Commonwealth of Virginia was operating under a state of emergency as declared by Governor Northam due to the COVID-19 pandemic. This was an entirely electronic meeting held via Zoom videoconference to conduct regular business as permitted by legislation passed by the General Assembly on April 22, 2020, and signed into law by Governor Northam. A quorum of the Finance and Resource Management Committee was present on the videoconference.

Finance & Resource Management Committee

Members Present
Horacio Valeiras (Rector)
Ed Baine
Anna James
Letitia Long (Committee Chair and Vice Rector)
Melissa Nelson

Absent

Other Board members present:
Shelley Butler Barlow
Greta Harris
C. T. Hill
L. Chris Petersen
Dennis Treacy
Jeff Veatch
Preston White

Constituent Representatives present:
John Ferris (Faculty Representative)
Ryan King (Graduate Student Representative)
Tamarah Smith (Staff Representative)
Madelynn Todd (Undergraduate Student Representative)

Also present on the Zoom videoconference were the following: President Timothy Sands, Kim O'Rourke (Secretary to the Board), Callan Bartel, Bob Broyden, Cyril Clarke, Al Cooper, John Cusimano, John Dooley, Corey Earles, Kari Evans, Tim Hodge, Kay Heidbreder, Elizabeth Hooper, Nancy Meacham, Ken Miller, Kim O'Rourke, Charlie Phlegar, Dwayne Pinkney, Tim Sands, Ken Smith, Anthony Trujillo (captioner), Chris Yianilos

In addition, 77 members of the university community and public viewed a live stream of the videoconference on YouTube Live.
1. **Welcome and 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 18, 2019 Meeting
   b. Adjustment to VTT, LLC Loan: The Committee reviewed the adjustment to the VTT, LLC Loan. The Board of Visitors passed a resolution on September 10, 2012 authorizing the university to underwrite a $4 million loan, from nongeneral fund sources, to VTT, LLC to finance the acquisition of the equipment and leasehold improvements and to support the initial startup and operations of a new National Tire Research Center. This report provided the Finance and Resource Management Committee with an update on the university’s restructuring of the loan under the authority granted by the existing resolution.

   The Committee approved the items on the Consent Agenda.

3. **Report on the 2020 Legislative Session:** The Committee received a report on the results of the 2020 Legislative Session. The General Assembly opened on January 8, 2020, adjourned on March 7, 2020, and reconvened on April 22, 2020. This report presents the major elements of the Conference Budget Amendments and General Assembly actions for the 2020-2022 biennium. However, the impact of COVID-19 on the budget for the 2020-2022 biennium remains unclear. The Committee also received a Federal Funding Update including the $19 million provided to Virginia Tech from the Education Stabilization Fund of which at least half will be used for emergency financial aid for students.

4. **Update on 2020-21 Tuition and Fee Rate Development:** The Committee received an update on the development of tuition and fee rates for 2020-21. This update included comments from the Undergraduate and Graduate Student Representatives to the Board of Visitors, an update on budget development under the uncertainty due to COVID-19, and discussions of potential tuition and fee rates and the associated compensation for Graduate Assistants.

5. **University’s Annual Financial Statements:** The Committee received an overview of the university’s annual financial statements for the fiscal year ending June 30, 2019.
The financial statements have been 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 for improperly identifying employees required to complete a statement of economic interest and conflict of interest training. The university is in the process of implementing a corrective action plan to address the audit comment.

At June 30, 2019, the university had total net position of approximately $1.4 billion, an increase of $131.0 million or 10.4 percent since fiscal year 2018. Total unrestricted net assets increased by $75.7 million or 33.4 percent to negative $150.7 million. The increase in the unrestricted net position is due to growth in returned overhead balances, increases in the unrestricted portion of the auxiliary system funds, and an overall decrease in the actuarially determined pension and Other Post-Employment Benefits expenses.

Total revenues for fiscal year 2019 were $1.6 billion, an increase of $83.2 million or 5.5 percent over fiscal year 2018. This increase was due to student population growth and the rise in tuition and fee rates, growth in auxiliary enterprise revenues, and an increase in sponsored grants and contracts. Total operating expenses for fiscal year 2019 were $1.5 billion, an increase of $44.5 million or 3.1 percent. The increase was primarily in the compensation and benefits category, with an increase of $19.9 million.

6. **Intercollegiate Athletics Programs Report for Year Ended June 30, 2019:**
   The Committee received a report on the Auditor of Public Accounts (APA) Intercollegiate Athletics Program review for fiscal year 2019. 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, 2019, 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 would lead them to believe the amounts on the Schedule of Revenues and Expenses should be adjusted. This review does not constitute an audit and therefore no opinion is issued. Revenues exceeded expenses resulting in a net operating income of $2.8 million for fiscal year 2019.

7. **Closing Remarks**

   There being no further business, the meeting adjourned at 6:08 p.m.

* Requires full Board approval.
♦ Discusses Enterprise Risk Management topic(s).
FINANCE AND RESOURCE MANAGEMENT COMMITTEE MINUTES

BOARD OF VISITORS

May 29, 2020

The Finance and Resource Management Committee of the Board of Visitors of Virginia Polytechnic Institute and State University met on Friday, May 29, 2020, at 1:00 p.m. On this date, the Commonwealth of Virginia was operating under a state of emergency as declared by Governor Northam due to the COVID-19 pandemic. This was an entirely electronic meeting held via Zoom videoconference to conduct regular business as permitted by legislation passed by the General Assembly on April 22, 2020, and signed into law by Governor Northam. A quorum of the Finance and Resource Management Committee was present on the videoconference.

Finance & Resource Management Committee members present
Horacio Valeiras (Rector)
Ed Baine
Anna James
Letitia Long (Committee Chair and Vice Rector)
Melissa Nelson

Other Board members present:
Shelley Butler Barlow
Greta Harris
C. T. Hill
L. Chris Petersen
Preston White

Constituent Representatives present:
John Ferris (Faculty Representative)
Ryan King (Graduate Student Representative)
Tamarah Smith (Staff Representative)
Madelynn Todd (Undergraduate Student Representative)

Also present on the Zoom videoconference were the following: President Timothy Sands, Kim O’Rourke (Secretary to the Board), Callan Bartel, Bob Broyden, Cyril Clarke, Al Cooper, John Cusimano, Kelly DeCamp (captioner), Karen DePauw, John Dooley, Corey Earles, Kari Evans, Michael Friedlander, Bryan Garey, Kay Heidbreder, Tim Hodge, Sharon Kurek, Nancy Meacham, Scott Midkiff, Ken Miller, Erik Olson (captioner), Charlie Phlegar, Dwayne Pinkney, Don Taylor, Tracy Vosburgh, Chris Yianilos

In addition, 234 members of the university community and public viewed a live stream of the videoconference on YouTube Live.
1. Welcome and 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 May 7, 2020 Meeting

   b. Approval of 2020-21 Pratt Fund Budget: The Pratt Fund provides funding for programs in both the College of Engineering and Department of Animal Nutrition in the College of Agriculture and Life Sciences. For 2020-21, the College of Engineering proposes expenditures of $999,333 and the Department of Animal Nutrition proposes expenditures of $969,833.

   c. Approval of 2020-21 Hotel Roanoke Conference Center Budget: The Hotel Roanoke Conference Center Commission was established by resolutions adopted by Virginia Tech and the City of Roanoke, under Commonwealth of Virginia enabling legislation. The enabling legislation provided that the Commission shall annually prepare and submit to both the City of Roanoke and Virginia Tech a proposed operating budget showing its estimated revenues and expenses for the forthcoming fiscal year, and, if the estimated expenses exceed the estimated revenues, the portion of the unfunded balance is to be borne by each participating party for the operation of the conference center. The funds for Virginia Tech total $80,000 for the fiscal year 2020-21 and will come from the Fralin endowment which was established to assist with the project.

   d. Approval of 2020-21 Virginia Tech-Wake Forest University School of Biomedical Engineering and Science Budget: The collaboration agreement, which outlines the relationship and responsibilities of Virginia Tech and Wake Forest University School of Biomedical Sciences, requires the governing boards of each university to approve the annual operating budget for the School of Biomedical Engineering and Sciences. The Virginia Tech financial commitment for fiscal year 2020-21 is $5.5 million.

   e. Approval of Resolution to Rescind the August 31, 2015 Distribution of Nike Contract Revenue Resolution: The resolution seeks to rescind the Distribution of Nike Contract Revenue Resolution, approved by the Board of Visitors on August 31, 2015. The rescission of this resolution is required due to the establishment of Bylaw 11.3.2.2 of the National Collegiate Athletics Association that prohibits an outside source from paying or supplementing the salary of an athletics department staff member.
f. Notification of Provisions of the Appropriation Act Relating to Indebtedness of State Agencies (Unauthorized Deficits): This is the university’s annual notification to the Board of Visitors detailing the provisions of the Appropriation Act relating to indebtedness of state agencies, or unauthorized deficits.

The Committee approved the items on the Consent Agenda.

* 3. **Resolutions Delegating Authority and Reaffirming Human Resources Policy**: The Committee reviewed for approval the proposed resolutions to delegate authority to the president to temporarily reduce pay or implement furloughs for faculty and university staff through June 30, 2021 with the goal of preserving the university’s workforce to the extent possible. The proposal requires the president to consult with the Rector and share with the Board a plan before enacting this authority. The plan will be part of a comprehensive budget reduction strategy to address temporary and permanent budget reductions needed to address the fiscal crisis caused by the COVID-19 pandemic. Additionally, the Committee reviewed for approval the reaffirmation of a human resources policy, University Policy 4240: Layoff Policy for Staff.

The Rector expressed the Board of Visitors’ support for retaining and recruiting exceptional faculty and said the Board would look at all options before reducing compensation. The Committee echoed this statement, adding that these mitigation strategies are essential to provide the university leadership with all options to navigate the current financial situation, emerging from the pandemic financially strong and intact.

The Committee recommended the Resolution Delegating Authority to the President and the Resolution Reaffirming Human Resources Policy for Classified and University Staff to the full Board for approval.

*♦ 4. **Resolution for Approval of Tuition and Fee Rates for 2020-21**: The Committee reviewed for approval the proposed tuition and fee rates for 2020-21.

The 2004 General Assembly authorized “The Board of Visitors . . . of institutions of higher education may set tuition and fee charges at levels they deem to be appropriate for all resident student groups based on, but not limited to, competitive market rates…”
The university proposes to maintain tuition and mandatory educational & general (E&G) fees for in-state undergraduate students at the same levels as 2019-20. This tuition and fee package is recommended in response to the negative financial implications of the COVID-19 pandemic on the students.

Consistent with this, this package proposes to hold 2020-21 in-state and out-of-state undergraduate tuition and mandatory E&G fees at 2019-20 levels of $11,595 for in-state and $30,739 for out-of-state students. For on-campus graduate programs, this package proposes to hold 2020-21 in-state and out-of-state graduate tuition and mandatory E&G fees at 2019-20 levels of $13,876 for in-state and $28,393 for out-of-state students. For off-campus graduate programs, this package proposes to hold 2020-21 in-state and out-of-state tuition and mandatory E&G fees at 2019-20 levels of $15,342 for in-state and $30,338 for out-of-state students.

Additionally, this package proposes to hold 2020-21 Virginia/Maryland and out-of-state, non-Maryland Veterinary Medicine tuition and mandatory E&G fees at 2019-20 levels of $22,081 for Virginia/Maryland students and $51,214 for out-of-state, non-Maryland students.

For Virginia Tech Carilion School of Medicine students, this package proposes to hold 2020-21 tuition and mandatory E&G fees at 2019-20 levels of $53,288.

Furthermore, the university recommends an increase of $58 or 2.8 percent to total comprehensive fees for a total of $2,154 for both instate and out-of-state undergraduate and graduate students. An average 2.3 percent increase in room and board is recommended.

The Committee expressed appreciation for the university listening to the needs of the students and the Board and adjusting the tuition and fee rate proposal accordingly.

The Committee recommended the Resolution for Tuition and Fee Rates for 2020-21 to the full Board for approval.
5. **Approval of 2020-21 Compensation for Graduate Assistants:** The Committee reviewed for approval the proposed 2020-21 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 report also includes a revised listing of the proposed stipend compensation pay ranges with the addition of $58 to the academic year Stipend Supplement of $400, resulting in a total academic year Stipend Supplement of $458 to help mitigate university assigned costs.

The Committee requested that the Commission of Graduate and Professional Studies present their recommendations on compensation for graduate assistants at future Finance and Resource Management Committee and Academic, Research, and Student Affairs Committee meetings.

The Committee recommended the 2020-21 Compensation for Graduate Assistants to the full Board for approval.

6. **Approval of 2020-21 Faculty Compensation Plan:** The Committee reviewed for approval the 2020-21 Faculty Compensation Plan. The report defines the qualification criteria for teaching and research faculty and administrative and professional faculty, provides guidance on the authorized salary average for full-time teaching and research faculty positions, and requires board approval. The key elements of the 2020-21 plan are consistent with the current plan.

For Fall 2018, Virginia Tech’s Actual Salary Average was $104,132. This placed Virginia Tech at the 29th percentile of its peer group, based on the most recent peer salary data available from the Integrated Postsecondary Education Data System (IPEDS). Based on SCHEV’s forecast of salary escalation at peer institutions, the university estimates that the Actual Salary Average will rank in the 25th percentile of peer institutions for Fall 2019.

Recognizing the critical nature of faculty compensation, the university’s standing relative to the 60th percentile of the university’s peer group average salary, the higher levels of competing offers being received by key faculty, and to minimize the high cost of turnover, the university will continue to explore opportunities to improve the competitiveness of Virginia Tech faculty compensation. However, due to the lack of a statewide salary program in 2020-21 and budget uncertainty resulting from the COVID-19 pandemic, no university merit process is currently planned for the 2020-21 fiscal year.
However, the plan does include the proposed increases for faculty members approved for promotion and tenure.

The Committee requested that the university share a comparison of compensation in similar departments at peer institutions in order to illustrate where the gaps in faculty pay are the largest at a future meeting.

The Committee recommended the 2020-21 Faculty Compensation Plan to the full Board for approval.

* 7. Approval of 2020-21 University Budgets: The Committee reviewed for approval the 2020-21 University Budgets. The University Budgets are comprised of the Operating and Capital Budgets.

Due to the dynamic and uncertain environment resulting from the COVID-19 pandemic, it is prudent for the university to establish preliminary budgets for fiscal year 2020-21 that address the strong possibility that the university will be required to operate with fewer resources in 2020-21. Because of these unknown impacts, the university proposes that the 2020-21 preliminary budgets be a continuation of the 2019-20 budgets with adjustments for the uncertainty including a 5 percent reduction in discretionary spending for the Auxiliary Systems Budgets and the Operating Budget. The university is undergoing contingency planning by conducting a university-wide 5 and 10 percent budget reduction exercise and will commence a process to update budgets once the COVID-19 pandemic’s financial impact on state funding, enrollment and various university operations is better understood.

a. Auxiliary System Budgets: The auxiliary systems are a component of the overall operating budget. In accordance with the resolutions authorizing and securing the Dormitory and Dining Hall System, Electric Service Utility System, University Services System, and Athletic Facilities System revenue bonds, the Board of Visitors is required to separately adopt an annual budget for each system. All budgets are balanced and designed in accordance with bond covenants including maintenance and reserve requirements. The annual budgets, including debt service, for the period July 1, 2020 to June 30, 2021 for the four systems are:

i. Dormitory and Dining Hall System Budget: $130.3 million
ii. Electric Service System Budget: $33.7 million
iii. University Services System Budget: $52.9 million
iv. Athletics Facilities System Budget: $74.7 million
The Committee recommended each of the four Auxiliary Systems Budgets for 2020-21 to the full Board for approval.

b. Operating Budget and Capital Budget: The university envisions the 2020-21 budget development occurring in phases, proposing that the fiscal year opens with a preliminary budget constructed in anticipation of constrained resources with a hedge for initial revenue estimates. As additional information becomes known, the university will adjust the revenue budgets and update operating assumptions.

For 2020-21, the recommended internal budget for all operations is $1.63 billion. This is a decrease of $40 million, approximately 2.5 percent, under the adjusted 2019-20 budget.

The capital outlay program for 2020-21 is comprised of 18 Educational and General projects and 10 Auxiliary Enterprise projects for a total of 28 projects. The total capital outlay budget for fiscal year 2020-21 includes total project authorizations of approximately $1.05 billion and a projected unspent balance for these projects of $823 million. The 2020-21 expenditure budget for those projects is approximately $194 million.

The Committee recommended the 2020-21 Operating Budget and Capital Budget to the full Board for approval.


The terms of these agreements end on June 30, 2020. It is recommended that the agreements be renewed at this time to be extended to a term ending June 30, 2024.
The Committee recommended the Revisions to and Renewal of Related Corporations Affiliation Agreements to the full Board for approval.

* 9. **Approval of Year-to-Date Financial Performance Report (July 1, 2019 – March 31, 2020):** The Committee reviewed for approval the Year-to-Date Financial Performance Report for July 1, 2019 – March 31, 2020. For the third quarter, budget adjustments were made to reflect revisions to projected revenues and expenditures. In the Educational and General Budget, the Tuition and Fee revenue budget was increased by $4.4 million because of program fee revenues and graduate enrollments in the greater Washington, D.C., metro area. In the Auxiliary Enterprises Budget, the Residential & Dining expense budget was increased by $1.3 million for Residential Mail Delivery Program and decreased by $3.1 million for one-time relief of the university's scholarship cost assignment; the Athletics revenue budget decreased by $5.1 million for lower than anticipated ACC conference distributions and timing of ACC Network revenues, and the expense budget was increased by $0.4 million for NCAA and capital projects.

Due to COVID-19, self-generated revenues in Veterinary Teaching Hospital and Equine Medical Center are anticipated to be lower during the 4th quarter of 2019-20. Additionally, lower than projected revenues in Residential and Dining are anticipated due to residential rebates and lower dining business volume; higher than projected revenue performance through March at the Inn at Virginia Tech are expected to be offset by 4th quarter COVID-19 impacts. The university continues to manage and monitor these expenses, and a 4th quarter budget adjustment for the financial impacts of COVID-19 is still in development.

Through the quarter ending March 31, 2020, $86 million was expended for Educational and General capital projects, and $47 million was expended on Auxiliary Enterprises capital projects. Capital outlay year-to-date expenditures through March 31, 2020 totaled $133 million.

The COVID-19 pandemic has led to market slowdowns due to the deferment of construction jobs. It is also creating potential for the market to lean toward the buyers.

The Committee discussed the need for future Year-to-Date Financial Performance Reports to provide a detailed explanation of the restrictions on state funds designated for specific capital projects.
The Committee recommended the Year-to-Date Financial Performance Report to the full Board for approval.

10. **Closing Remarks:** President Sands stated that the future of the university remains bright even during these uncertain times. He expressed thanks to the Board of Visitors for providing flexibility to ensure that the university comes out of these uncertain times as a stronger Virginia Tech, and he committed to avoiding lay-offs, furloughs, and short-term salary reductions to the extent possible, pledging not to invoke any of these mitigation strategies in a cavalier way.

The Committee expressed their gratitude for the university’s hard work and dedication developing the strategies and programs shared at this Committee meeting.

There being no further business, the meeting adjourned at 3:34 p.m.

* Requires full Board approval.
◆ Discusses Enterprise Risk Management topic(s).