Approval of 2020-21 Operating Budget Adjustment for Impact of COVID-19

FINANCE AND RESOURCE MANAGEMENT COMMITTEE

September 30, 2020

In June 2020, the Board of Visitors approved a preliminary operating budget in anticipation of subsequent adjustments after the financial impact of COVID-19 could be better understood and quantified. During the first quarter, the university gathered information so that the budget could be updated for the current understanding of the financial impacts of the pandemic. Further impacts and subsequent adjustments are expected as the university continues to learn how the pandemic impacts university operations.

In light of the dynamic environment resulting from the pandemic, the university established a preliminary operating budget for fiscal year 2020-21 to avoid premature assumptions while proactively addressing the likelihood of a resource constrained fiscal year. The preliminary budget approved by the BOV in June reflected revenue uncertainty around Fall 2020 enrollment, state General Fund support, self-generated revenues, and the Fall 2020 campus operating model.

In addition to many unknown revenue factors, there were also unknown expense impacts related to the university's pandemic response. These included the cost of physical distancing measures and health and safety efforts.

Given these uncertainties, the university envisioned the 2020-21 budget development occurring in phases. The preliminary budget was approved by the BOV in June 2020. With the outcome of the special legislative session, the confirmation of Fall 2020 enrollment levels, and a refined understanding of the university's current operational model more clear, the university is now able to adjust revenue and expenditure budgets. The legislative special session did not result in reductions to the levels of state support for the university in 2020-21. While the university undergraduate enrollments showed strength in freshman resident enrollments and continuing student enrollments, nonresident freshman enrollment and graduate enrollments were lower than projected.

The operating budget adjustments for COVID-19 span the Educational and General program (E&G) and auxiliary enterprise activities. In E&G, the revenue and expenditure budgets are being increased $29 million to remove University Division (208 E&G) and Cooperative Extension/Agriculture Experiment Station Division (229 E&G) revenue contingencies. The restoration of the revenue contingencies provides capacity for the university to restore preliminary expenditure budget reductions by 2% in 208 E&G and 5% in 229 E&G. This results in lowering of budget reductions from an average of 5% to 3% for colleges and from an average of 7% to 5% for other areas in 208 E&G. A 3% reduction remains in both college and non-college areas to manage: cost escalations, unfunded mandates, the fall enrollment shortfall, and impacts of COVID-19. An additional 2% reduction also remains in non-college areas for critical needs. In Agency 229,the 5% budget reductions are completely eliminated.

In the auxiliary enterprises, the university recommends decreasing revenue ($77.4) million and decreasing expenses $16.8 million, resulting in a net impact of ($60.6) million. The decrease in revenue and expenses is due to the reduction of business activities as a result of COVID-19. A portfolio of strategies is being considered for managing the impact of the pandemic on the university's finances including:

- cost savings
- state allocation of Federal CARES Act support ($120 million pool statewide, but the use of these funds is restricted)
- a second federal stimulus program
- state General Fund support from the Special Session
- restructuring of existing debt
- institutional support (requires approval by the Board of Visitors and notification to the leadership of the General Assembly)
- other one-time resources/savings (e.g. health insurance holiday)

Depending on the extent of the impact, temporary reductions of reserve balances to be repaid in future years or internal loans may also need to be considered.

Moving forward, the university will continue to monitor and manage the financial impacts created by COVID-19 on university operations and bring updates back to the board as needed.

RESOLUTION OPERATING BUDGET ADJUSTMENT FOR FINANCIAL IMPACT OF COVID-19

WHEREAS, the COVID-19 pandemic created financial uncertainty; and,

WHEREAS, in response to this uncertainty, the Board of Visitors approved a preliminary budget in June 2020; and,

WHEREAS, the university has worked to quantify the current understanding of the financial impact of the pandemic on university operations; and,

WHEREAS, the university is now able to recommend a budget adjustment based upon activities as currently understood; and,

WHEREAS, the business activity is significantly reduced in auxiliary enterprises; and,

WHEREAS, a portfolio of strategies is being considered for managing the impact including cost savings, state allocation of Federal CARES Act support ($120 million pool statewide), a second federal stimulus program, state General Fund support from the Special Session, restructuring of existing debt, institutional support, and other one-time resources/savings; and,

WHEREAS, the university will continue to monitor and manage the financial impacts created by COVID-19 going forward and bring updated back to the Board as needed,

NOW THEREFORE BE IT RESOLVED, that the university be authorized to increase the E&G revenue and expense budget $29 million and decrease the auxiliary enterprises revenue budget ($77.4) million and expense budget ($16.8) million to reflect the financial impact of COVID-19.

RECOMMENDATION:

That the resolution authorizing Virginia Tech to adjust the operating budget to reflect the financial impact of COVID-19 be approved.

November 16, 2020