

## Committee Minutes

### FINANCE AND RESOURCE MANAGEMENT COMMITTEE 110B, 130A and B, Classroom Building June 4, 2018

#### Closed Session

**Board Members Present:** Greta Harris, Anna James, Dennis Treacy, Horacio Valeiras

**VPI & SU Staff:** Kay Heidbreder, Tim Sands, 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 take action on the quarterly Personnel Changes Report.

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

- \* 3. **2018-19 Promotion, Tenure, and Continued Appointment Program:** The Committee met in closed session to review and take action on the 2018-19 Promotion, Tenure, and Continued Appointment Program.

The Committee recommended the 2018-19 Promotion, Tenure, and Continued Appointment Program to the Full Board for approval.

#### Open Session

**Board Members Present:** Greta Harris, Anna James, Hans Robinson – faculty representative, Dennis Treacy, Horacio Valeiras

**VPI & SU Staff:** Bob Broyden, Mark Cartwright, David Crotts, John Cusimano, John Dooley, Michael Friedlander, Mary Helmick, Jim Hillman, Tim Hodge, Elizabeth Hooper, Robin Jones, Theresa Mayer, Erin McCann, Steven McKnight, Nancy Meacham, Scott Midkiff, Ken Miller, Kim O'Rourke, Mark Owczarski, Charlie Phlegar, Scot Ransbottom, Lisa Royal, Tim Sands, Savita Sharma, Dwight Shelton, Ken Smith, Brad Sumpter, Tracy Vosburgh

1. **Motion to Reconvene in Open Session:** Motion to begin open session.
2. **Opening Remarks**
3. **Consent Agenda:** The Committee considered for approval and acceptance the items listed on the Consent Agenda.
  - a. Approval of Items Discussed in Closed Session.
  - b. Approval of Minutes of the March 25, 2018 Meeting.
  - \* c. Approval of 2018-19 Pratt Fund Budgets: 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 2018-19, the College of Engineering proposes expenditures of \$999,333 and the Department of Animal Nutrition proposes expenditures of \$969,833.
  - \* d. Approval of 2018-19 Hotel Roanoke Conference Center Commission 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 2018-19 and will come from the Fralin endowment which was established to assist with the project.
  - \* e. Approval of 2018-19 Virginia Tech-Wake Forest University School of Biomedical Engineering and Sciences 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 2018-19 is \$5.75 million.
  - \* f. Approval of Resolution to Reappoint University Commissioner to the Hotel Roanoke Conference Center Commission: The resolution seeks approval to reappoint the Vice President for Outreach and International Affairs as a representative of the university on the Hotel Roanoke Conference Center Commission.

The Committee approved the items on the Consent Agenda and recommended the 2018-19 Pratt Fund Budgets, the 2018-19 Hotel Roanoke Conference Center Commission Budget, the 2018-19 Virginia Tech-Wake Forest University School of Biomedical Engineering and Sciences Budget, and the resolution to reappoint University Commissioner to the Hotel Roanoke Conference Center Commission to the full Board for approval.

4. **Report on Procurement Opportunities:** The Committee received a comprehensive report on the procurement initiatives implemented by the university to achieve cost savings, operational efficiencies, and value-added procurement. The report also provided information on the Small, Women-owned, and Minority business initiative, future procurement opportunities under consideration, and related challenges. The report showed that the university achieved \$2.9 million in cost savings through participation in the Virginia Higher Education Procurement Consortium and \$10.6 million in trackable savings from internal procurement negotiations.
5. **Discussion on Resource Development:** The Committee received a presentation describing various alternate tuition models utilized by other universities in Virginia and displaying the impact of these models on tuition rates over time. The Committee requested for a further discussion on prioritization of university initiatives and needs to meet the university's long-term goals
- \* 6. **Report on and Recommendation Regarding Quasi-Endowments:** The Committee received a report on and reviewed for approval a recommendation regarding quasi-endowments. Quasi-endowments represent university funds designated by the Board of Visitors rather than by a donor. They carry the intent to provide ongoing income from a long-term investment; however, the governing board retains the authority to repurpose such funds and to remove funds from the quasi-endowment asset category at any time. The university's Chief Financial Officer plans for the deployment of the quasi-endowment payouts in the university's budget process to achieve the intended objectives of each quasi-endowment.

The university has completed a comprehensive review of its long-term investments and strategic plans. As a result of this review, the university proposes that certain investments totaling \$69.5 million be designated and/or reaffirmed by the Board of Visitors as quasi-endowments.

The Committee recommended that the listed investments be reaffirmed and/or designated as quasi-endowments.

- \* 7. **Resolution on University Lines of Credit:** The Committee reviewed for approval a resolution on university lines of credit. Consistent with the trend at many major research institutions, the university has developed, and is in the process of implementing, an updated cash management strategy to leverage limited financial resources. This is accomplished through the investing of additional university operating reserves in the Virginia Tech Foundation's (Foundation) endowment program. While this should result in achieving enhanced investment returns over time, it will also result in maintaining a reduced amount of operating reserves.

A university workgroup comprised of personnel from the Budget Office, Controller's Office, and Investment and Debt Management identified the appropriate level of cash reserves to invest and concluded that a back-up operating line of credit would be needed to completely implement the new investment strategy. The workgroup examined the current and projected cash flows and determined that \$185 million of external liquidity would be needed, based on the university's FY 2018 annual budget. The plan results in the generation of enhanced investment income that will help advance university strategic needs while reducing the need for tuition and fee increases.

This resolution seeks approval to establish and access the lines of credit up to an aggregate amount of \$200 million and the corresponding credit agreement, and promissory note. The resolution will provide authorization to the university to draw upon the lines of credit as needed.

The Committee recommended the Resolution on University Lines of Credit to the full Board for approval.

- \* 8. **Approval of 2018-19 Faculty Compensation Plan:** The Committee reviewed for approval the 2018-19 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 2018-19 plan are consistent with the current plan.

For Fall 2016, Virginia Tech's Actual Salary Average was \$100,552. This placed Virginia Tech at the 35<sup>th</sup> 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 33<sup>rd</sup> percentile of peer institutions for Fall 2017.

Recognizing the critical nature of faculty compensation, the university's standing relative to the 60<sup>th</sup> 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 proposes continuing the traditional annual merit-based faculty salary increase program in 2018-19. This plan authorizes management to plan and budget for the resource allocations necessary to support a merit-based faculty salary increase averaging two percent for faculty for 2018-19. The university may also elect to create a supplemental pool to achieve certain targeted salary compensation or retention needs, such as national distinction.

The Committee recommended the 2018-19 Faculty Compensation plan to the full Board for approval.

9. **Update on the Special Session of the General Assembly:** The Board received an update on the special session of the General Assembly at the information session on Sunday which included the highlights of the final 2018 General Assembly compromise budget. The Committee had the opportunity for follow up discussion.
- \* 10. **Approval of 2018-19 University Budgets:** The Committee reviewed for approval the 2018-19 University Budgets. The University Budgets are comprised of the Operating and Capital Budgets.
  - a. **Update on University Tuition and Fees:** The 2018 General Assembly adjourned on March 9, 2018 without agreement on a final 2018-20 biennial budget. The Committee received an update on the Tuition and Fee activities in the state and discussed the Virginia Tech Tuition and Fee rates relative to its budgets.
  - b. **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 Athletics 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. Once approved by the Board of Visitors, the annual budget will be the basis for making payments from the revenue fund to meet the operating costs of the auxiliary systems. The 2018-19 budget for auxiliary systems, including debt service for the period July 1, 2018 to June 30, 2019 are:
    - i. Dormitory and Dining Hall System Budget - \$127.1 million
    - ii. Electric Service System Budget - \$36.9 million
    - iii. University Services System Budget - \$51.6 million

iv. Athletics Facilities System Budget - \$74.5 million

The Committee recommended each of the four Auxiliary Systems Budgets for 2018-19 to the full Board for approval.

- c. Operating Budget and Capital Budget: The university anticipates an initial state authorization of \$1.5 billion during 2018-19 to carry out all of its programs, based on the forecast of direct appropriations to the university. However, the annual internal budget varies from this external expenditure authorization for several reasons, some of which increase the annual expenditure authority while others reduce the expenditure plans. For 2018-19, the recommended internal budget for all operations is \$1.6 billion. This is an increase of \$34.5 million, approximately 2.3 percent, over the adjusted 2017-18 budget. For 2018-19, the university's total General Fund allocation is estimated to be approximately \$265.4 million, an increase of \$3.3 million from the 2017-18 adjusted budget. The overall change includes an increase of \$45.7 million attributable to the Educational and General program and \$10.2 million of projected growth in auxiliary enterprises. General Fund revenues will provide \$241.4 million in support for the instructional, research, and extension programs, \$21.7 million for student financial assistance, and \$2.3 million for the Unique Military Activities program.

The university's Educational and General budget will be \$849.2 million in 2018-19. The total 2018-19 auxiliary revenue budget is \$351.5 million, a growth of \$10.2 million or 3.0 percent over the adjusted 2017-18 budget. The projected annual budget for Financial Assistance for Educational and General Programs is \$322.1 million, a decrease of \$22.8 million or 6.6 percent less than the adjusted 2017-18 budget. The most significant activity in this category is externally sponsored research.

The capital outlay program for 2018-19 is comprised of 11 Educational and General projects and 11 Auxiliary Enterprise projects for a total of 22 projects. The total capital outlay budget for fiscal year 2018-19 includes total project authorization of approximately \$593 million; the annual expenditure budget for those projects is approximately \$125 million.

The Committee recommended the 2018-19 University Budget to the full Board for approval.

11. **Approval of Year-to-Date Financial Performance Report (July 1, 2017 – March 31, 2018):** The Committee reviewed for approval the Year-to-Date Financial Performance Report for July 1, 2017 – March 31, 2018. For the third quarter, all

programs of the university are on target and routine budget adjustments were made to reflect changes in General Fund revenues and expenditure budgets in academic and administrative areas. The tuition and fee budget increased by \$3.5 million in the third quarter for stronger than projected spring retention and winter session revenues.

For year-to-date ending March 31, 2018, \$28.4 million has been expended for Educational and General capital projects, and \$50.2 million has been expended for Auxiliary Enterprises capital projects. Capital outlay expenditures for year-to-date ending March 31, 2018 totaled \$78.5 million.

The Committee recommended the Year-to-Date Financial Performance Report to the full board for Approval.

12. **Other Business:** The Committee discussed other topics as needed and explored topics for future committee meeting agendas. The Committee recognized Mr. Shelton and his team for presenting the materials in a comprehensive and understandable format.

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

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

**VPI & SU Staff:** Mac Babb, Bob Broyden, Van Coble, John Cusimano, John Dooley, Ted Faulkner, Lance Franklin, Mary Helmick, Jim Hillman, Tim Hodge, Robin Jones, Chris Kiwus, Nancy Meacham, Ken Miller, Grant Morris, Mike Mulhare, Mark Owczarski, Charlie Phlegar, Scot Ransbottom, Lisa Royal, Savita Sharma, Dwight Shelton, Kayla Smith, Ken Smith, Jason Soileau, Brad Sumpter, Tracy Vosburgh, Sherwood Wilson

- \* 1. **Approval of Resolution for Planning the Slusher Residence Hall Replacement:** The Committees reviewed for approval a resolution for planning the capital project for Slusher Residence Hall Replacement.

Slusher Residence Hall was built in 1972 and is approximately 125,860 gross square feet with housing capacity for about 630 students. The facility has received few improvements since its original construction, does not meet student expectations, carries a significant deferred maintenance backlog, and requires frequent repairs that interrupt services.

The university has determined, because of Slusher Hall's condition, that the facility should be replaced rather than renovated. The university will first build and occupy a

new residential facility neighboring the existing Slusher Hall, then demolish and remove Slusher Hall, and, then build a second building on the site. The total bed count of the new facilities will equal or exceed the existing 630 beds with the intention to maximize the number of beds to the extent practical. This request is for a \$3.5 million planning authorization to complete preliminary design documents for the Slusher Hall Replacement project.

The Committees recommended the Resolution for Planning the Slusher Residence Hall Replacement to the full Board for approval.

- \* 2. **Approval of Resolution for Dietrick First Floor and Plaza Renovation Supplement:** The Committees reviewed for approval a resolution for Dietrick First Floor and Plaza Renovation Supplement.

The Board of Visitors approved the Dietrick First Floor and Plaza renovation project with a \$7 million total project cost at its September 11, 2017 meeting. The scope and budget for the project resolution were based on a feasibility study from a consultant and internal reviews. Planning work is underway, and schematic design cost reviews reveal the actual total project costs exceed \$7 million for the authorized scope.

The university has reviewed and analyzed each construction cost component of the project at the conclusion of schematic design and determined the total construction costs are \$6.8 million. The soft costs for design, project management, inspections, equipment, furnishings, etc. are \$1.5 million. Thus, the total project costs inclusive of design, construction, and equipment are \$8.3 million. The university has reviewed and analyzed opportunities for cost controls and determined a major scope reduction, either elimination of the plaza improvements or elimination of the enclosure for the seat expansion, would be necessary to remain within the current \$7 million project budget. The full project scope is necessary to meet the needs of the dining program and student expectations. The university has developed a financing plan to support the additional \$1.3 million of costs necessary to complete the entire scope of work. This request is for a \$1.3 million supplement to adjust the total authorization for the Dietrick First Floor and Plaza Renovation project to \$8.3 million.

The Committees recommended the Resolution for Dietrick First Floor and Plaza Renovation Supplement to the full Board for approval.

There being no further business, the meeting adjourned at 11:32 a.m.

\* **Requires full Board approval.**



**Procurement Opportunities**  
**FINANCE AND RESOURCE MANAGEMENT COMMITTEE**

**May 11, 2018**

**Background**

The mission of the university's procurement department is to provide efficient and responsive procurement, and to purchase high quality goods and services at reasonable costs in support of university's instructional, research, and public service programs. The department aims to conduct these activities in an effective manner that results in cost savings, value added opportunities, and/or operational efficiencies.

The procurement department oversees and performs all procurement activity of the university except for three delegated areas: (1) direct purchasing authority by departments for goods/services costing less than \$2,000 (2) decentralized Information Technology hardware and software acquisitions handled directly by Information Technology and (3) decentralized capital construction procurement handled by Virginia Tech Facilities.

Procurement manages the university's e-procurement system (branded HokieMart); a procure-to-pay web hosted platform by Jaggaer (formerly SciQuest). Procurement is also responsible for administering the university's purchasing card (pcard) program which includes over 700 distributed pcards.

For fiscal year 2017, the procurement department managed the procurements of goods and services of \$702 million. Procurement of \$687 million was processed electronically through HokieMart (e-Procurement). Of the \$687 million, \$512 million was processed directly by departments utilizing self-service feature within Hokiemarket and \$175 million was awarded through competitive negotiations by the buyers within in the central procurement office. The remaining \$14.5 million was processed on university issued pcards.

**HokieMart**

The Hokiemarket is a single marketplace serving the decentralized campus where electronic orders can be formulated and issued to external vendors as well as internal suppliers. Implemented in 2008, this system provides single-source data entry, on-line approvals and workflow, and electronic delivery of completed orders to suppliers. For high volume vendors, the processes are fully automated from electronic requisition to electronic payment. The system also provides a platform for better utilization of centrally negotiated contracts resulting in cost savings delivered to the departments.

The university expanded the Jaggaer platform to also manage internal (department to department) business transactions on campus in addition to external transactions with outside vendors. Examples of internal business transactions that use HokieMart include facilities management, printing services, travel authorizations, and travel expense reimbursements. The internal electronic procurement system has eliminated approximately 24,500 paper-based transactions per year.

## **Procurement Operations**

Virginia Tech Procurement operations enable the sourcing and acquisition of goods and services to support university operations and further university growth. While utilizing best practices in the acquisition of goods and services to serve the university community, the Procurement department has cost savings as the primary goal. The department employs multiple procurement strategies, ranging from strategic partnerships to traditional Request for Proposal or Invitation for Bid publicly-posted solicitations based on unique situations.

### **Virginia Higher Education Procurement Consortium (VHEPC)**

In 2012 - 2013, Virginia Tech and the University of Virginia partnered with the Secretary of Education to explore the benefits of both regional and state-wide purchasing collaborations. Based upon regional collaborations in other regions of the country and supported by the Lumina Foundation, this work eventually resulted in the creation of the Virginia Higher Education Procurement Collaborative (VHEPC). The VHEPC was organized and financially supported by 13 Virginia higher education institutions in 2015 without any state financial support. By utilizing the collective buying power of these institutions, the VHEPC is positioned for procurement best practices by identifying strategic sourcing opportunities, leveraging vendors, and negotiating strategic contracts to maximize savings and cost containment for all participating institutions.

Virginia Tech Procurement is a major contributor to the Virginia Higher Education Procurement Consortium (VHEPC) with the university's Procurement director serving as the chairperson of the consortium's functional steering committee. The consortium has been successful in negotiating substantial cost savings for public higher education institutions in the Commonwealth.

As of March 2018, cost savings from VHEPC procurement activities reached \$2.9 million for Virginia Tech and a total of \$13.9 million for the 13 member institutions. Virginia Tech has made a financial commitment to the collaboration of \$120,866 since 2015 and has realized a 121 percent annualized return on investment over the last four years. Overall, Virginia Tech has experienced cost savings of 21 percent by utilizing VHEPC negotiated contracts compared to spend on previous institutionally issued contracts or "piggybacking" off cooperative contracts from another institution or national group purchasing organizations.

Please see *Attachment A* for additional information on VHEPC and specific examples of cost savings resulting from the VHEPC collaborative contracts.

### **Virginia Association of State College and University Purchasing Professionals (VASCUPP)**

The Virginia Association of State College and University Purchasing Professionals (VASCUPP) was established in 1992 with the objective of identifying opportunities for cooperative procurements and cost savings for higher education institutions in Virginia. The member institutions of VASCUPP share contracts through cooperative contracting language in each contract. Cooperative procurements through VASCUPP provide access to a larger number of contracts which reduces the need for duplicate procurements between institutions, offers greater savings through leveraged spend, and reduces administrative effort. As opposed to VHEPC, VASCUPP cooperative contracting is negotiated and managed by a lead institution with the resulting awards being made available to other schools to piggy-back or “ride” a cooperative contract.

VASCUPP member institutions have all received delegated purchasing authority from the state's central purchasing agency and include: Virginia Tech, University of Virginia, George Mason University, James Madison University, Virginia Military Institute, Radford University, University of Mary Washington, Virginia Commonwealth University, Old Dominion University, Longwood and College of William and Mary.

### **Procurements Managed By Virginia Tech Procurement**

In addition to the strategic partnerships stated above, the Virginia Tech Procurement department negotiates and manages a large number of contracts to support university operations. These procurement activities are public and transparent as required of all public agencies, including the higher education institutions in the Commonwealth of Virginia. Utilization of publicly advertised Request for Proposal and Invitation for Bid solicitations results in negotiations of contracts or direct awards resulting in the highest level of costs savings.

Internally, Virginia Tech Procurement has 475 negotiated term contracts in place for the purchase of recurring material and service commodities. Trackable cost savings from the negotiations of these contracts total \$10.6 million.

Recently awarded procurements resulting in cost savings to the university include a gasoline and diesel fuel contract, athletic travel management services, and short term and long term disability insurance (Employee Benefit). For more details on the cost savings achieved through these recent procurement awards, see *Attachment B*.

### ***Value-Added/Operational Efficiency Procurements***

While cost savings or cost avoidance is a primary focus of procurement activities, the procurement department also supports acquisition of goods and services that add value or enhance efficiency to the operations of the university. These projects typically arise as a result of strategic changes implemented at the university, new programs brought on board, or enhancements to university operations. Many of these types of contracts result in revenue generating opportunities.

The recent deployment of an Amazon Business e-Catalog within HokieMart is an illustration of such value-added procurement. Through a new partnership between Virginia Tech and Amazon Business, the university is now one of the first large research higher education institutions in the country to implement an e-catalog powered by Amazon Business within its own e-procurement system. The Amazon e-catalog provides a platform for the university to transition over \$1.4 million of spend previously purchased individually by departments on Amazon.com through university purchasing cards to the e-procurement system, HokieMart. This transition brings the multiple, disparate Amazon accounts under one university account, thereby enhancing the internal controls over large volume of purchases. It enables greater oversight through standard approvals before the purchase is made and better reporting on the items the university buys from Amazon. The greatest benefit gained with this project is a reduction in potential fraud exposure by eliminating high volume, low spend pcard purchases at point of purchase.

Additional examples of efficiencies and value-added procurements include Intelligent Postal Lockers, Study Abroad Insurance, Turnkey Tailgating Services, and VT Magazine Print and Digital Ad Sales.

For more details on efficiencies and added value achieved through these procurement awards, see *Attachment C*.

### ***Small, Women-owned, and Minority-owned Businesses (SWaM) Initiative***

The Procurement department leads the supplier diversity initiative known as the SWaM initiative. As a vigorous initiative to find opportunities for small, woman-owned and minority-owned vendors, Procurement department engages with SWaM companies within Virginia Tech's local economy, specifically, to locate and foster opportunities for these companies to do business with the university.

Over the last 18 months, Procurement has initiated a re-brand of its SWaM initiative to energize campus-wide efforts in support of a diverse supplier opportunity program. Emphasizing the identification and communication of opportunities for small, woman-owned and minority-owned vendors, the university's SWaM initiative has been renamed the Virginia Tech Supplier Opportunity Program. The program is led by Mark Cartwright, Assistant

Director of Supplier Diversity, who returned to the university following service to Governor McDonnell as Special Assistant to the Governor for Supplier Diversity.

The pillars of the university’s supplier opportunity program are awareness, inclusion, and development with emphasis on increasing awareness within the university regarding the SWaM vendors, improving vendor relationships, enhancing language in Request for Proposals (RFPs) to make them more inclusive for SWaM vendors, and development of programs to further support SWaM efforts such as mentor/protégé programs and educational tools.

By direction of Governor Executive Orders and SCHEV management standards relating to SWaM utilization, the university establishes annual goals for its SWaM initiatives that align with the Commonwealth’s goals. Achievement of these goals are reported bi-annually as part of the university’s overall management standards scorecard. Virginia Tech has met all management standards relating to SWaM utilization since they were implemented.

**Utilization of Small, Woman-owned and Minority-owned Businesses**

**FY15 – FY18 Total SWaM Spend (Dollars In Millions)**

Fiscal Year	Small Business	Woman-Owned Business	Minority Owned Business	Total SWaM Spend	Total Discretionary Spend**	Percentage of SWaM Spend to Discretionary Spend**
2015	\$50	\$14	\$7	\$70	\$243	29.2%
2016	\$57	\$ 9	\$8	\$74	\$265	27.7%
2017	\$57	\$ 4	\$ 4	\$65	\$249	26.0%
2018*	\$47	\$ 5	\$ 5	\$57	\$202	28.3%

\*thru 3<sup>rd</sup> quarter

\*\*totals and percentages shown reflect rounding of dollars

**Current Initiatives and Future Opportunities**

Virginia Tech Procurement has engaged in a continuous improvement and best practices review utilizing the expertise in procurement through consulting services provided by Stonebridge Ventures, Inc. Since the first engagement with Stonebridge in 2016, a study of university spend targeted commodities that offered the greatest opportunity for standardization. These efforts have led to implementation of the following initiatives:

- Establishment of an inbound freight program with FedEx as the standardized carrier for inbound shipments of goods to campus. This program has resulted in over \$130,000 in freight cost savings in the first 18 months.
- Additional standardization programs are underway including standardizing vendors that provide promotional products and catering services. These programs should be completed within the next year. Promotional items are defined as those items typically used to market the university and include the brand recognition of Virginia Tech's marks and logos. Reducing the number of vendors providing promotional items further protects the brand of the university and allows for greater oversight of adherence to university brand requirements. Additionally, large volume purchases to a smaller number of promotional companies should lower pricing as well. Likewise, standardizing catering services will give greater oversight on the safety of catered products and services as well as cost savings.
- Two additional initiatives identified by Stonebridge which offer opportunities for improved efficiencies include:
  - Increasing the threshold for departmental direct purchase delegation to reduce the volume of small dollar requisitions processed through central procurement. Currently the department delegated amounts are purchases under \$2,000. Raising the threshold for delegation of purchases to departments will allow the procurement staff to concentrate on more strategic purchasing activities.
  - Conducting an optimization review of the current HokieMart implementation to determine additional functionality or changes in the procure to pay technology that would offer Virginia Tech even more efficiencies. This review with Jaggaer is scheduled for fall of 2018.

These initiatives are currently under consideration for implementation.

## **Challenges**

As a decentralized and restructured higher education institution within the Commonwealth of Virginia, Virginia Tech has embraced the ability to implement procurement processes and procedures for the benefit of the university. However, each year the university must actively respond to legislation that serves to revert the delegated authority and decrease the autonomy previously granted. This is not targeted specifically towards Virginia Tech; however, it is a challenge to the decentralized procurement environment in higher education at the state level.

As new initiatives are introduced that offer opportunities for overall cost savings or efficiencies, the university has to adapt to a new culture of strategic and standardized procurement. The standardization of vendors competes with the opportunity for open selection or free choice of vendors in certain commodities and support for the SWaM initiative and results in resistance to change. This is an inherent challenge of a growing higher education institution.

**VIRGINIA HIGHER EDUCATION PROCUREMENT COLLABORATIVE (VHEPC)**

In 2015, 13 Virginia higher education institutions, including Virginia Tech, formalized a commitment to create a statewide purchasing collaborative for the establishment of negotiated contracts mutually benefitting all Commonwealth of Virginia (COVA) public higher education institutions. This collaborative concept was born from an idea originally proposed to COVA legislators by the Vice President for Finance and CFO at Virginia Tech and the Senior Vice President for Operations at the University of Virginia, to expand collaborative procurement activities for commonly procured goods and services needed by higher education institutions in the Commonwealth of Virginia. This procurement consortium would be successful in negotiating larger cost savings for public and even potentially private educational institutions in the Commonwealth, leveraging the total spend of all institutions versus each university's individual negotiating power. The concept garnered support of several legislators and the Secretary of Education, however, the state's legislative process would ultimately not approve to fund the consortium.

***Current Status***

The 13 higher education institutions came together to establish the collaborative for the mutual benefit of the institutions. The core mission of the consortium was to transition from traditional cooperative procurement methods to a true collaborative approach utilizing the total spending power of the 13 public institutions combined to negotiate the best opportunities for savings, discounts and incentives. With the added resource of an exclusive general manager and one data analyst hired to represent the collaborative, the VHEPC initiated their work in early 2015 first by analyzing overlapping existing vendor contracts of its member institutions. With a focus on re-negotiating existing agreements into a single master agreement recognizing the commitment of the 13 institutions and their collective spend, immediate results were achieved. True savings and a return on investment began to be realized by the end of fiscal year 2016. In fiscal year 2017, the consortium was ready for its first issued Request for Proposal (RFP) advertised as a VHEPC collaborative contracting opportunity by all 13 higher education institutions. Virginia Tech served as the lead procurement institution for the solicitation of a strategic contract for laboratory and research supplies. The procurement process succeeded resulting in an award and contract with Fisher Scientific. All member institutions are now utilizing this contract as well as several other higher education institutions and government entities across the country.

As of March 2018, cost savings from VHEPC procurement activities reached \$2.9 million for Virginia Tech and a total of \$13.9 million for the 13 member institutions. Virginia Tech has made a financial commitment to the collaboration of \$120,866 since 2015 and has realized a 121 percent annualized return on investment over the last four years. Overall, Virginia Tech has experienced cost savings of 21 percent by utilizing VHEPC negotiated contracts



compared to spend on previous institutionally issued contracts or “piggybacking” off cooperative contracts from another institution or national group purchasing organizations.

Member institutions of the VHEPC are: Virginia Tech, University of Virginia, George Mason University, James Madison University, Virginia Military Institute, Radford University, Longwood University, Virginia Commonwealth University, Old Dominion University, The College of William and Mary, University of Mary Washington, Christopher Newport University and the Virginia Community College System.

**Identified Virginia Tech Cost Savings by Contract from VHEPC efforts**

VHEPC has identified cost savings by comparing established collaborative VHEPC negotiated contracts to pricing offered in previous standalone institutional contracts with the same companies. The Fisher Scientific contract was the first VHEPC advertised and negotiated contract on behalf of all institutions, with Virginia Tech serving as the lead institution through negotiations and award of the contract that is now providing savings to all member institutions.

The table below demonstrates the volume of cost savings realized by Virginia Tech benefiting from the collaborative spend approach:

**Cost Savings Realized by Virginia Tech since FY 2016 via VHEPC Collaborative Contracts (In Thousands)**

<b>VIRGINIA TECH – Contract/Vendor</b>	<b>Commodity Description</b>	<b>FY 2016</b>	<b>FY 2017</b>	<b>Thru Q1 FY18</b>	<b>Sum of Total</b>
Fisher Scientific	Lab Supplies	\$700	\$1,300	\$167	\$2,167
Vantage Point Logistics	Inbound Freight		\$119	\$38	\$157
Grainger	MRO	\$37	\$110	\$102	\$249
Bio-Rad	Lab Supplies		\$ 65	\$52	\$117
Ferguson	MRO		\$35	\$11	\$46
Sigma-Aldrich	Lab Supplies		\$32	\$20	\$52
Enterprise	Vehicle Rental		\$31	\$9	\$40
Specialty Underwriters	Equipment Maintenance Alternative		\$20	\$20	\$40
Amtek	Lab Supplies		\$10		\$10
SHI	IT Peripherals		\$2	\$2	\$4
GovSmart	IT Peripherals		\$1	\$1	\$2
<b>Total Costs Savings - VT</b>					<b>\$ 2,884*</b>
<b>Total Costs Savings-VHEPC</b>					<b>\$13,163*</b>

\*These savings are expected to continue for future years of the contracts

### Cost Savings Contracts

Internally, Virginia Tech Procurement has 475 negotiated term contracts in place for the purchase of recurring material and service commodities. Trackable cost savings from the negotiations of these contracts total \$10.6 million. Highlights of some of those savings are as follows:

<b>Contract</b>	<b>Commodity</b>	<b>Procured By</b>	<b>Projection of Annual Cost Savings</b>	<b>Comments</b>
Gasoline and Diesel Fuel	Fuel	RFP*	10% on regular deliveries, 20% on bulk deliveries	Had historically been procured via IFB**. Negotiations resulted in much lower pricing and higher level of service.
Athletic Travel Management	Travel Services	RFP	\$186,972 in service costs across all travel modes	Historically, Athletics managed its own team travel. Awarded vendor, Anthony Travel, is leader in industry.
Short Term/Long Term Disability	Insurance	RFP	\$318,000 annual savings realized by lower premiums for employees	Very competitive procurement with additional savings received through negotiations with major firms in the industry.

\*Request for Proposal

\*\*Invitation for Bid

## **Procurement Activities Supporting Operational Efficiencies**

### **Amazon Business e-Catalog within the HokieMart e-procurement system Program Launched April 13, 2018**

University departments made on average \$1.4 million in purchases from Amazon.com on university pcards. This resulted in \$1.4 million of spend not being captured within our e-procurement system and therefore not included in the purchasing pre-approval process. In addition, spend data was not captured at a line item detail level, which limits analysis of the commodities departments were purchasing. Instead, Amazon purchases were approved after the purchase through the reconciliation of the pcard monthly billing statements.

Through a new partnership between Virginia Tech and Amazon Business, the university is now one of the first higher education institutions in the country to implement its own Amazon e-catalog within its own e-procurement system. Purchasing rules have been established through functionality within HokieMart to replicate the same levels as discretionary departmental purchasing limits. This was done strategically in an effort to manage the impact to other university strategic vendors who provide a level of customer service and expertise not available from a large online retailer like Amazon. With the transition of Amazon spend from the university's pcard to the university's e-procurement system, routine reports can be used to analyze the type of products departments are purchasing with their discretionary departmental delegation with Amazon. These analyses will assist in negotiations of future contracts.

In the first month of the launch of the HokieMart e-catalog with Amazon, more than 600 departmental users utilized the e-catalog and made over \$250,000 in purchases.

### **Intelligent Lockers to supplement package delivery/mail operations to students Ongoing – future deployment, fall 2018**

Through a public Request for Proposal process, the university awarded a contract to Telegology, Inc. for the installation of intelligent lockers around the university's residence halls to supplement package delivery for the students. This project is expected to be fully installed for the fall of 2018. These intelligent lockers will allow for electronic notification to students when a package is delivered. A personalized PIN and locker number are provided to the student which makes package delivery and pick up a self-service function for the students. The lockers are located conveniently on campus to allow for continuous package delivery to students.

### **Value-Added Procurements**

The following are examples of recent procurement activities that fall in this category:

<b>Contract</b>	<b>Commodity</b>	<b>Value Added</b>	<b>Comments</b>
Study Abroad Insurance	Insurance	Expanded coverage to include most of all international travel situations	Also enhanced communication with faculty and students travel overseas.
VT Magazine Print Ad Sales/Commissions	Advertising	Projected to triple expected commissions. Increased advertisers and aligned with advertisers already in Athletics publications	Awarded to IMG
Turnkey Tailgate Services for VT Football Games	Services	New Program for VT Athletics. Revenue generation. Provides a first class tailgate village experience	Awarded to Tailgate Guys. First university in Virginia to offer this concept.

# Procurement Opportunities

June 4, 2018

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

**MARY HELMICK,**  
DIRECTOR OF PROCUREMENT

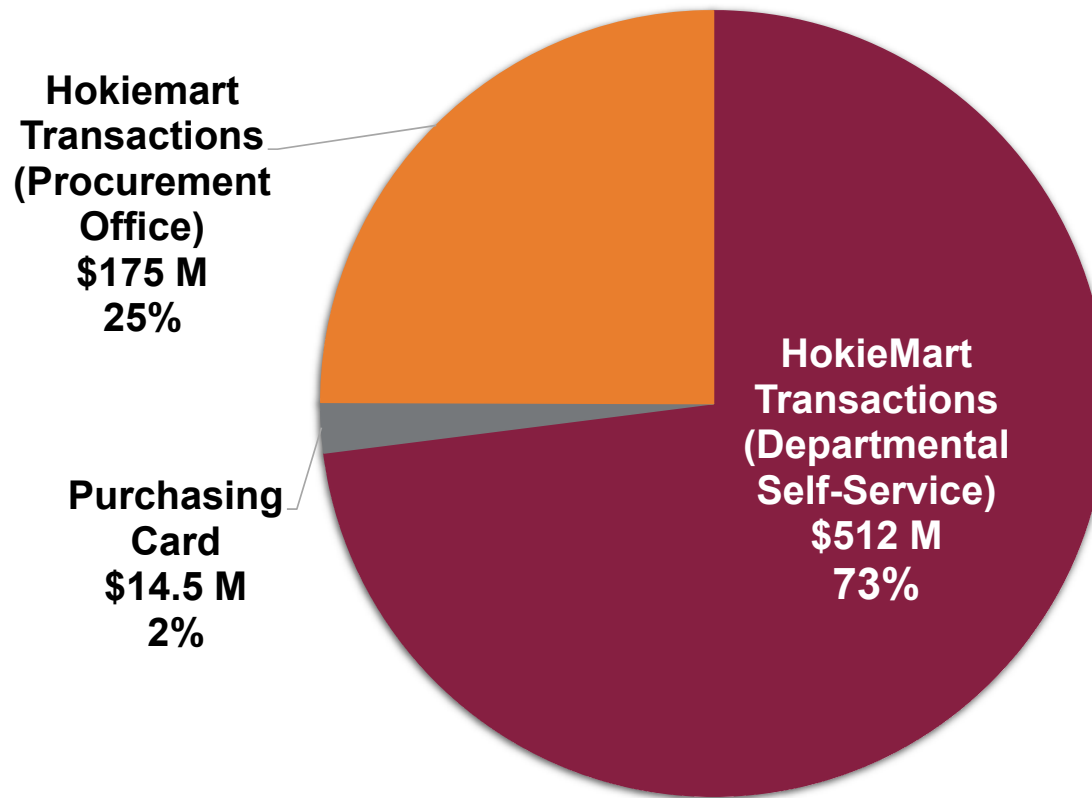


# *Background and Introduction*

- Three strategic objectives:
  - Cost Savings
  - Value-Added Opportunities
  - Operational Efficiencies
- Three delegated areas of procurement:
  - Direct purchasing authority by departments for items under \$2,000
  - Decentralized information technology hardware and software acquisitions
  - Decentralized capital construction procurement

# Procurement

*\$702 Million in Spend*



# *Operations*

- Internal Buyers/Solicitations
- HokieMart e-Procurement Platform – campus wide
- Virginia Higher Education Procurement Consortium (VHEPC)
- Virginia Association of State College and University Purchasing Professionals (VASCUPP)
- Small, Women-owned, and Minority-owned Businesses (SWaM) Initiative



# Cost Savings

- **VHEPC Procurement Efforts –**

- Virginia Tech has benefitted from \$2.9M in savings
- All member universities have benefitted from \$13.1M in savings

- **Recently Awarded from Internal Procurement Efforts –**

- Negotiated 475 term contracts for purchase of re-occurring materials and service commodities resulting in total trackable cost savings of \$10.6 million
  - Athletic Travel Management – potential of \$186K annually in travel expenses in Athletics
  - Short Term/Long Term Disability - \$318K annualized savings (lower premiums for employees)
  - Prime Food Vendor - \$300,000 annual savings

# *Efficiencies Gained and Value-Added*

- **Amazon Business e-Catalog within HokieMart**
  - Removal of \$1.4 Million from Pcard Spend
  - Reduction of Fraud Risk from point of purchase
  - Standardized approvals to be consistent with other procurement protocol
  - Provides improved environment for procurement of a highly favored and very active vendor on campus
- **Intelligent Package Delivery Lockers for Students**
  - Improves service and convenience for students and creates an environment desired by students

# *Recent Revenue Generating Procurements*

- **Turnkey Tailgating Services for VT Football Games**
  - Commission Revenue to Athletics based on annual gross revenue
  - Athletics received a \$100,000 signing bonus in FY17
- **VT Magazine Print Ad Sales**
  - Commission Revenue to University Marketing

# *Future Opportunities*

## ■ **Standardization**

- University-Wide Inbound freight Program - *Implemented*
- Promotional Products
- Catering

## ■ **Operational Efficiencies**

- Increasing Department Direct Purchase Delegation
- Optimizing HokieMart for Future Enhancements

# *Future Challenges*

- Protection of the University's purchasing autonomy from Commonwealth of VA
- Resistance to standardization, reduction of choice for departments

# Questions

# Resource Development

June 4, 2018

**DWIGHT SHELTON,  
INTERIM SR. VICE PRESIDENT FOR OPERATIONS AND  
ADMINISTRATION**

**TIM HODGE,  
ASSOCIATE VICE PRESIDENT FOR BUDGET AND  
FINANCIAL PLANNING**



# *Tuition and Fee Approaches in Virginia*

## Overview

- Review three distinct tuition models in use by Virginia public institutions
- Consider the varying impact on students as they progress through four years of undergraduate education
- Consider the varying institutional revenue impact as each model is implemented
- Provide commentary on potential benefits and challenges of each tuition model



## *Tuition and Fee Approaches in Virginia*

- **Traditional Annual Increase**: annual assessment of revenue needs
  - Driven by annual changes in cost and state support
  - Applied in the same amount to common categories of students
- **Cohort-based**: annual assessment of incoming student costs over 4 years
  - 4 years of estimated cost increases, which would normally include factors for:
    - Estimated annual inflationary increases
    - Additional assessment for new initiatives or risk mitigation
  - Price is front-loaded in early years and held constant across 4 years
  - Provides predictability for student and family planning
- **“Tuition Reset”**: one-time repositioning of price for entering students
  - Aligns costs with market-demand
  - Can be implemented in one or multiple entering classes
  - Inflationary increases assessed annually
  - Allows one-time institutional repositioning of programs
    - Example: significant realignment of student financial aid or compensation

# Virginia Public Four-Year Institutions

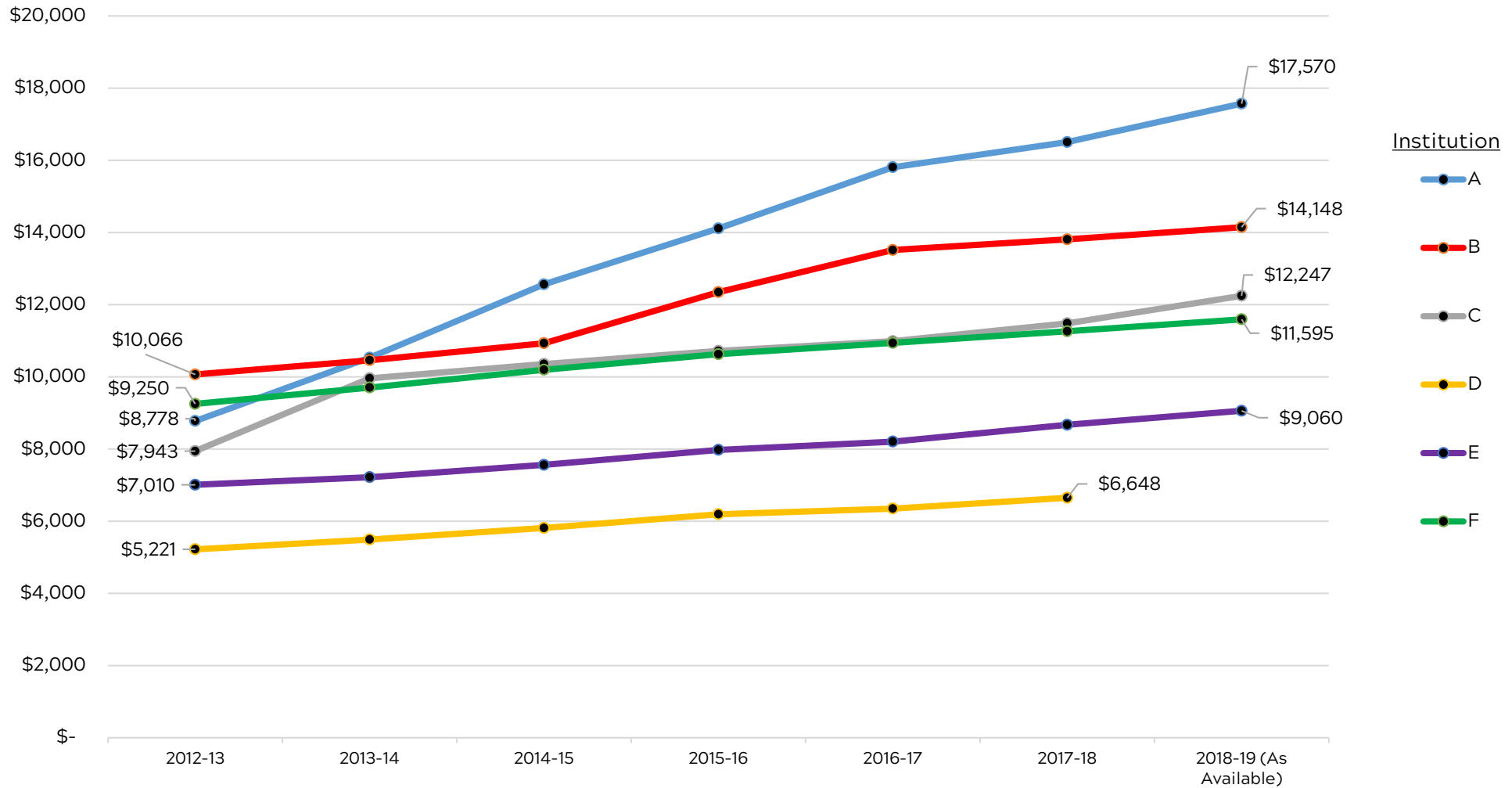
## Resident Undergraduate Tuition and E&G Fees for 2018-19

<u>Institution</u>	2018-19		Increase	
	\$		%	\$
William and Mary	\$ 17,570		6.4%	\$ 1,064 (1)
James Madison University	7,250		16.0%	1,000 (1)
Christopher Newport University	9,100		10.0%	830
Virginia Commonwealth University	12,247		6.7%	764
Radford University	7,980		7.0%	519
Virginia Military Institute	9,284		4.5%	400
George Mason University	9,060		4.5%	388
University of Virginia	14,148		2.4%	338 (2)
<b>Virginia Tech</b>	11,595		2.9%	332
University of Mary Washington	8,554		3.0%	248
Virginia State University	5,769		4.0%	222
Norfolk State University			<i>TBD</i>	
University of Virginia's College at Wise			<i>TBD</i>	
Old Dominion University			<i>TBD</i>	
Longwood University			<i>TBD</i>	

(1) Rate for entering freshmen.

(2) Rate for entering first years.

# Trend of VA Public Research Institutions Resident Undergraduate Tuition & E&G Fees



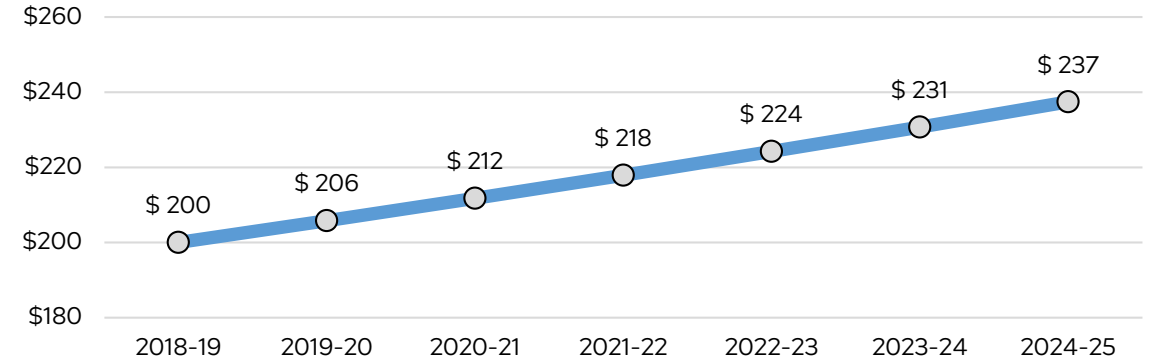
# Traditional Annual Increase Example

Revenue \$s in millions

## Assumptions:

- Total population of 20,000 students
- Starting rate of \$10,000/year
- Annual increase of 2.9%

Total Annual Revenue



Admit Term	2018-19		2019-20		2020-21		2021-22		2022-23		2023-24		2024-25	
	\$ Per Student	Cohort Revenue	\$ Per Student	Cohort Revenue	\$ Per Student	Cohort Revenue	\$ Per Student	Cohort Revenue	\$ Per Student	Cohort Revenue	\$ Per Student	Cohort Revenue	\$ Per Student	Cohort Revenue
Prior to 2019-20	10,000	\$ 200	10,290	\$ 154	10,588	\$ 106	10,895	\$ 54						
2019-20			10,290	51	10,588	53	10,895	54	11,211	\$ 56				
2020-21					10,588	53	10,895	54	11,211	56	11,537	\$ 58		
2021-22							10,895	54	11,211	56	11,537	58	11,871	\$ 59
2022-23									11,211	56	11,537	58	11,871	59
2023-24											11,537	58	11,871	59
2024-25													11,871	59
<b>Total Annual Revenue</b>		<u>\$ 200</u>		<u>\$ 206</u>		<u>\$ 212</u>		<u>\$ 218</u>		<u>\$ 224</u>		<u>\$ 231</u>		<u>\$ 237</u>

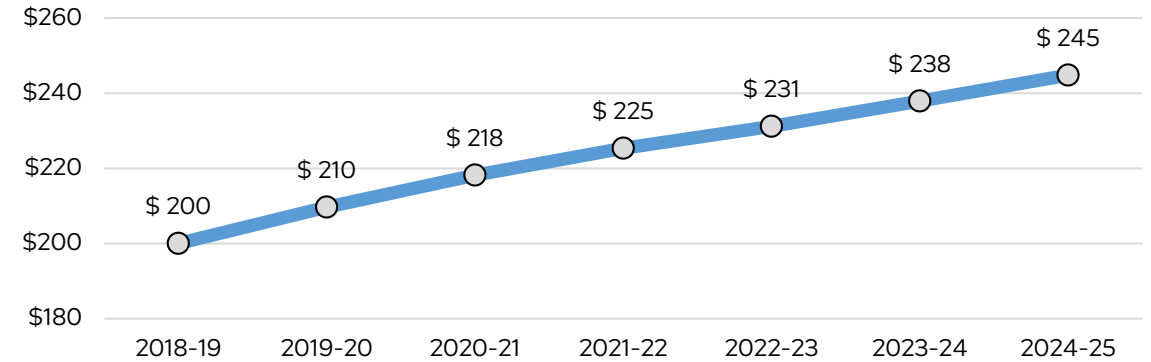
# Cohort-based Example

Revenue \$s in millions

## Assumptions:

- Virginia Tech interpretation of model methodology
- Total population of 20,000 students
- Starting rate of \$10,000/year
- Fixed Rate per Cohort
- Built-in Annual increase of 2.9%
- Risk mitigation factor of 3.0%

Total Annual Revenue



Admit Term	2018-19		2019-20		2020-21		2021-22		2022-23		2023-24		2024-25	
	\$ Per Student	Cohort Revenue	\$ Per Student	Cohort Revenue	\$ Per Student	Cohort Revenue	\$ Per Student	Cohort Revenue	\$ Per Student	Cohort Revenue	\$ Per Student	Cohort Revenue	\$ Per Student	Cohort Revenue
Prior to 2019-20	10,000	\$ 200	10,290	\$ 154	10,588	\$ 106	10,895	\$ 54						
2019-20			11,069	55	11,069	55	11,069	55	11,069	\$ 55				
2020-21					11,390	57	11,390	57	11,390	57	11,390	\$ 57		
2021-22							11,720	59	11,720	59	11,720	59	11,720	\$ 59
2022-23									12,060	60	12,060	60	12,060	60
2023-24											12,410	62	12,410	62
2024-25													12,770	64
<b>Total Annual Revenue</b>		<u>\$ 200</u>		<u>\$ 210</u>		<u>\$ 218</u>		<u>\$ 225</u>		<u>\$ 231</u>		<u>\$ 238</u>		<u>\$ 245</u>

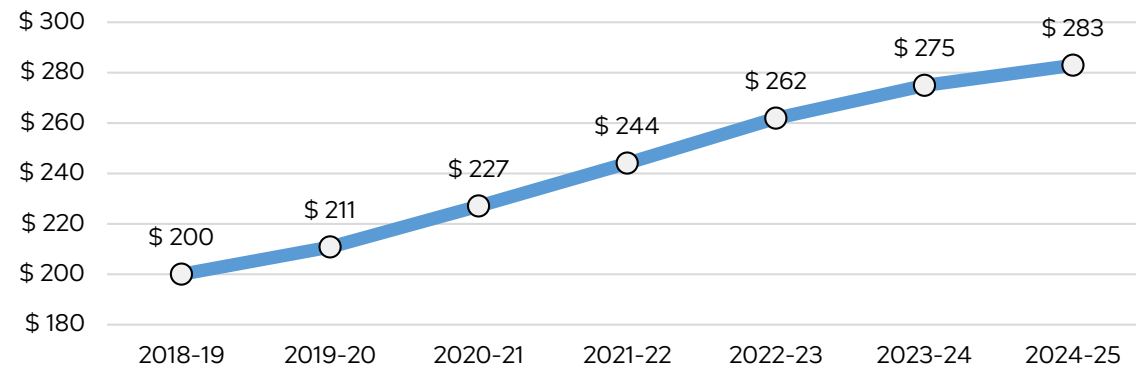
# “Tuition Reset” Example

\$s in millions

## Assumptions:

- Virginia Tech interpretation of model methodology
- Total population of 20,000 students
- Starting rate of \$10,000/year
- Annual increase of 2.9%
- Step increase of \$1,000 in FY20 and FY21

Total Annual Revenue

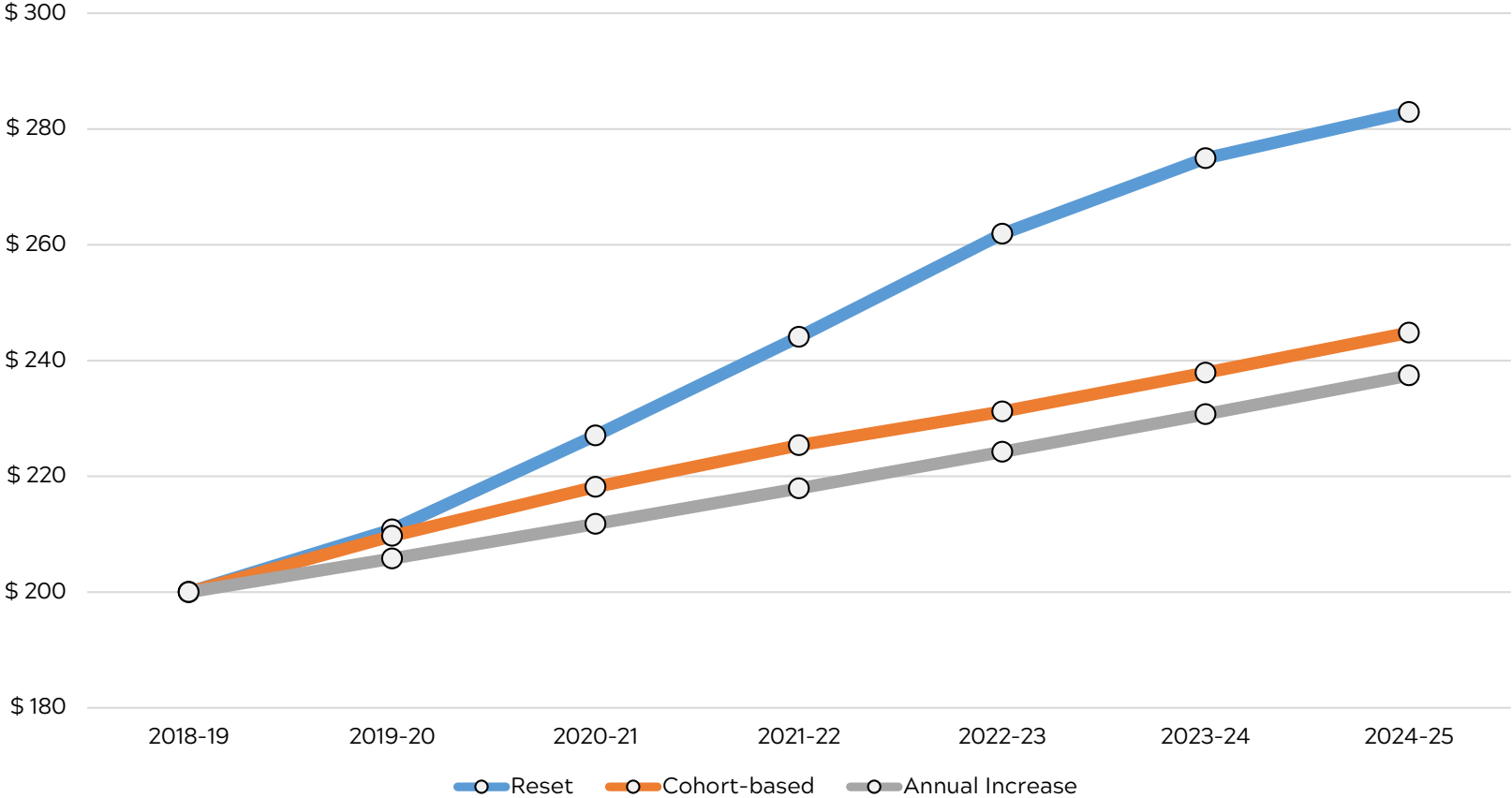


Admit Term	2018-19		2019-20		2020-21		2021-22		2022-23		2023-24		2024-25	
	\$ Per Student	Cohort Revenue	\$ Per Student	Cohort Revenue	\$ Per Student	Cohort Revenue	\$ Per Student	Cohort Revenue	\$ Per Student	Cohort Revenue	\$ Per Student	Cohort Revenue	\$ Per Student	Cohort Revenue
Prior to 2019-20	10,000	\$ 200	10,290	\$ 154	10,588	\$ 106	10,895	\$ 54						
2019-20			11,290	56	11,617	58	11,954	60	12,301	\$ 62				
2020-21					12,617	63	12,983	65	13,360	67	13,747	\$ 69		
2021-22							12,983	65	13,360	67	13,747	69	14,146	\$ 71
2022-23									13,360	67	13,747	69	14,146	71
2023-24											13,747	69	14,146	71
2024-25													14,146	71
<b>Total Annual Revenue</b>		<u>\$ 200</u>		<u>\$ 211</u>		<u>\$ 227</u>		<u>\$ 244</u>		<u>\$ 262</u>		<u>\$ 275</u>		<u>\$ 283</u>

# Comparison of Examples

\$s in millions

### Total Annual Revenue



# *Discussion*

