

Committee Minutes

FINANCE AND RESOURCE MANAGEMENT COMMITTEE

Latham A/B, The Inn at Virginia Tech

November 15-16, 2020

Joint Closed Session with the Buildings and Grounds Committee

November 15, 2020

Board Members Present: Ed Baine, Shelley Barlow, Sharon Brickhouse Martin, Carrie Chenery, Greta Harris, C.T. Hill, Anna James, Eric Kaufman – Faculty Representative, Melissa Nelson, Camellia Pastore – Undergraduate Student Representative, Chris Petersen, Mehul Sanghani, Tamarah Smith – Staff Representative, Sabrina Sturgeon – Graduate Student Representative, Horacio Valeiras, Jeff Veatch (remote)

Virginia Tech Personnel: Mac Babb, Eric Brooks, Bob Broyden, Cyril Clarke, Al Cooper, Corey Earles, Kari Evans, Kevin Faust, Randal Fulhart, Bryan Garey, Mark Gess, Wendy Halsey, Kay Heidbreder, Mary-Ann Ibeziako, Frances Keene, Chris Kiwus, Sharon Kurek, Jamie Lau, Ken Miller, Liza Morris, Heidi Myers, Bob Muse, Justin Noble, Mark Owczarski, Kim O'Rourke, Dwayne Pinkney, Tim Sands, John Tarter, Dwyn Taylor, Jon Clark Teglas, Chris Yianilos, Tracy Vosburgh

- * **1. Approval of Resolution for a Capital Lease for the 3200 Commerce Street Property:** The Committees reviewed for approval a resolution for a capital lease for the 3200 Commerce Street property.

The university vision to expand research and development under the Virginia Tech Transportation Institute (VTTI) is a key strategic initiative for the future. The acquisition of 3.29 acres of property with 10,434 square feet of additional office and garage space at 3200 Commerce Street is an essential asset for growth by housing VTTI's technical support operations and facilitate vehicle repairs and modifications, streamlining access to research vehicles, and promoting the expedient staging of research props and fixtures. This space also provides a conditioned area for sponsors and researchers to interact with vehicle systems and is a critical staging area for modified vehicles and equipment that are not fully weather rated.

The Virginia Tech Foundation (Foundation) acquired the property on behalf of the university for \$1.52 million on May 29, 2020. The funding plan calls for the university to enter a lease with the Foundation at a rate sufficient to retire the acquisition costs, normal operating costs, and property carrying costs. VTTI will fund the lease costs from its returned overhead revenues. The University Controller's Officer has reviewed the lease and determined that the terms and conditions meet the standard for a capital lease. Under the university's management agreement for capital projects

with the commonwealth, capital leases are defined as capital projects that require a capital project authorization, irrespective of their total value. While the asset acquisition costs are below the commonwealth's \$3 million capital project threshold, the lease meets the Generally Accepted Accounting Principles (GAAP) for a capital lease.

The university and VTTI are ready to proceed with entering a lease with the Foundation and have developed an entirely nongeneral fund resource plan sufficient to cover the \$1.52 million property acquisition costs, future property carrying, and maintenance costs.

This request is for authorization to move forward with a capital lease for the 3200 Commerce Street property.

The Committees recommended the Resolution for a Capital Lease for the 3200 Commerce Street Property to the full Board for approval.

* **2. Approval of Resolution to Supplement the New Upper Quad Residence Hall:**

The Committees reviewed for approval a resolution to supplement the New Upper Quad Residence Hall project.

The Board of Visitors approved the New Upper Quad Residence Hall project at its June 3, 2019 meeting. This approved project includes a program of 300 beds and will be located on the corner of Stanger Street and Old Turner Street adjacent to the site for the New Corps Leadership and Military Sciences Building. The program bed count ensures housing capacity to support the enrollment growth plans for the Corps of Cadets to reach 1,400 students. The original project authorization includes a \$33 million budget which is based on a university residential cost model of \$110,000 per bed. The project scope includes razing Femoyer Hall and the design, construction, and furnishings for the new residential facility.

Subcontractor pricing at the completion of preliminary designs (September 15, 2020) show the costs for the project are \$133,000 per bed, or \$40 million. The primary drivers that push the cost over \$110,000 per bed are associated with the site, a necessary feature for the Corps of Cadets, including the complexity and extensiveness of utility relocations, volume of contaminated soils remediation and hazardous materials handling for the demolition of Femoyer Hall, extensive grade changes to address ADA compliance, and market pricing. The costs above reflect the acceptance of value engineering alternatives.

The project includes the scope necessary to meet the needs of the Corps of Cadets, residential program, and campus requirements. The university reviewed the project

scope and established that the acceptance of any additional value engineering would be detrimental to the program requirements for the Corps of Cadets.

To ensure the project addresses its programmatic intent, the university is requesting a \$7 million supplement authorization for the New Upper Quad Residence Hall project. The university has developed a financing plan to support the additional \$7 million of costs necessary to complete the entire scope of work. The plan calls for the use of debt serviced from residential program auxiliary revenue. Any cash designated for the project accumulated prior to the issuance of permanent debt may be used directly for project costs and to lower the total debt issuance.

This request is for authorization move forward with a \$7 million supplement to adjust the total project authorization for the New Upper Quad Residence Hall project to \$40 million and to complete the project.

The Committees recommended the Resolution to Supplement the New Upper Quad Residence Hall to the full Board for approval.

There being no further business, the meeting adjourned at 4:43 p.m.

Joint Open Session with the Academic, Research, and Student Affairs Committee **November 16, 2020**

Board Members Present: Ed Baine, Shelley Barlow, Sharon Brickhouse Martin, Carrie Chenery, Greta Harris, C. T. Hill, Anna James, Eric Kaufman – Faculty Representative, Melissa Nelson, Camellia Pastore – Undergraduate Student Representative, Tamarah Smith – Staff Representative, Sabrina Sturgeon – Graduate Student Representative, Horacio Valeiras, Jeff Veatch (remote)

Virginia Tech Personnel: Callan Bartel, Eric Brooks, Cyril Clarke, Al Cooper (remote), Jack Finney, Bryan Garey, Kay Heidbreder, Nancy Meacham, Ken Miller, Kim O'Rourke, Dwayne Pinkney, Tim Sands, Dan Sui, Don Taylor

Guests: Henri Gendreau

- ◆ **1. Annual Report on Research:** The Committees received a comprehensive annual report on research highlighting university research expenditures and related trends and benchmarking information. This report also included an introduction of the new Vice President for Research and Innovation, Dr. Daniel Sui.

2. Critical Hiring and Compensation Exceptions First Quarter FY 2020-21: As a dimension of managing budget constraints, the university established a process for reviewing personnel actions. After review, only critical and essential hires and compensation actions are approved. The Committees reviewed personnel actions and data for the first quarter. While the commonwealth lifted restrictions on personnel actions in October 2020, the university maintains its review and approval processes.

- * **3. Approval of Resolution Delegating Authority for the Personnel Changes Report:** The Committees reviewed for approval the Resolution to Amend Delegation of Authority for Selected Faculty Personnel Actions. This resolution would allow the Board of Visitors to focus on high-level appointments and compensation; appointment and promotion of tenure-track or continued appointment-track faculty members who have permanent status with the institution; salary adjustments with more significant financial impact; deferred compensation; and appointment and compensation packages for athletic personnel.

The Committees recommended the Resolution Delegating Authority for the Personnel Changes Report to the full Board for approval.

Closed Session

Board Members Present: Ed Baine, Shelley Barlow, Sharon Brickhouse Martin, Anna James, Horacio Valeiras

Virginia Tech Personnel: Callan Bartel, Kay Heidbreder, Nancy Meacham, Ken Miller, Charles Phlegar, Dwayne Pinkney, Tim Sands

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

Open Session

Board Members Present: Ed Baine, Shelley Barlow, Sharon Brickhouse Martin, C.T. Hill, Anna James, Horacio Valeiras

Virginia Tech Personnel: Beth Armstrong, Callan Bartel, Eric Brooks, Bob Broyden, Al Cooper (remote), John Cusimano, Kay Heidbreder, Tim Hodge, Chris Kiwus, Nancy Meacham, Ken Miller, Charles Phlegar, Dwayne Pinkney, Tim Sands, Dwyn Taylor, Chris Yianilos

Guests: Henri Gendreau

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 August 25, 2020 Meeting**
 - c. **Annual Write-off of Delinquent Accounts:** As of June 30, 2020, the amount of write-offs of delinquent accounts totaled \$385,065 which represents 0.03 percent of the 2019 annual operating revenues of \$1.16 billion. The current year write-off is consistent with the total write-off amounts in recent years.
 - * d. **Approval of Pratt Fund Program and Expenditure Report:** 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 fiscal year 2019-20, the College of Engineering had total expenditures of \$940,029 and the Animal Nutrition had total expenditures of \$1,157,032.

The Committee approved the items on the Consent Agenda and recommended the Pratt Fund Program and Expenditures Report to the full Board for approval.

4. **Update on Advancement:** University Advancement provided a quarterly report on their fundraising efforts including an update on the first months of fundraising in fiscal year 2021, a campaign update, an overview of the strategies for meeting the 22 percent participation rate by 2022 goal, and the outlook for fundraising.
5. **Annual Report on Investments and Quasi-Endowments:** The Committee received a report on university investments, investment performance and related benchmarks, estimated payouts for fiscal year 2021, and planned use of such funds. The university has two investment pools: a short to intermediate-term pool managed within the university and a long-term pool managed by the Virginia Tech Foundation, Inc. The report shows the purposeful growth of funds invested in the

endowment pool managed by the foundation, which consists of true endowments, quasi-endowments and nongeneral fund reserves and balances, and local funds owned by the university.

As of June 30, 2020, the market value of university funds invested in the short to intermediate-term pool was \$376.5 million and in the foundation was \$401.8 million. The short-term university investment income for fiscal year 2021 is estimated to be approximately \$6 million and the long-term university investment income for fiscal year 2021 is estimated to be approximately \$18.8 million. The university's investment income is budgeted for restricted and unrestricted purposes to support scholarships, professorships, graduate student assistantships, auxiliary enterprises, and the Virginia Tech Carilion School of Medicine, one-time or limited recurring commitments for strategic institutional goals and initiatives, and building adequate operating reserves (including the strategic plan milestone of growing net assets by \$20 million per year).

- 6. Annual Report on the University's Financial Aid Resources:** The Committee received a comprehensive report on the university's scholarship and financial aid program. In its Management Agreement with the commonwealth, the university affirmed its commitment to increase the support for student financial aid. The university continues to work proactively to ensure access and affordability. The amount of total student financial aid awarded increased from \$511.9 million in fiscal year 2019 to \$538.4 million in fiscal year 2020.
- 7. Update on the Special Session of the General Assembly:** The Committee received an update on the Special Session of the General Assembly including a summary of major budget actions from the Reconvened Session and the Special Session and the next steps for finalizing the budget revisions.
- *♦ **8. Financial Update on COVID-19 and Approval of the 2020-21 Operating Budget Adjustment:** The Committee received an update on the financial impacts of the COVID-19 pandemic and reviewed for approval the 2020-21 Operating Budget Adjustment.

The preliminary 2020-21 Operating Budget was approved by the full Board at the June 2, 2020 meeting; however, adjustments are needed due to the impact of the outcome of the special legislative session and the confirmation of Fall 2020 enrollment levels on the current operational model. These adjustments include a \$29 million increase in revenue and expenditure budgets for the Educational and General program, and a \$77.4 million decrease in revenue and a \$16.8 million decrease in expenses for a net decrease adjustment of \$60.6 million for Auxiliary Enterprises.

In addition to the proposed budget adjustments, this update included an overview of the strategies that are being considered to manage the pandemic's impact on the university's finances.

The Committee recommended the 2020-21 operating budget adjustment to the full Board for approval.

- * **9. Approval of 9(d) Debt Restructuring and Refunding Resolutions:** The Committee reviewed for approval the proposed Virginia College Building Authority (VCBA) 9(d) Debt Restructuring Resolution and the Virginia Tech 9(d) Debt Restructuring and Refunding Resolution. As a result of the impact of COVID-19 on the university and its finances, the university is seeking approval to pursue the following restructuring and refunding initiatives.
 - a. VCBA 9(d) Debt Restructuring Resolution: Under the commonwealth's initiative, the VCBA will restructure a portion of the university's pooled VCBA bonds for debt service relief. The restructuring will result in having no principal payments in fiscal years 2022 and 2023. These deferred principal payments will be added to the end of the existing amortization schedules, thereby extending the final maturities by two years. The proposed VCBA resolution authorizes the university to participate in the restructuring program and to pledge the general revenues of the university to secure the debt.
 - b. Virginia Tech 9(d) Debt Restructuring and Refunding Resolution: Under the university's initiative, athletic VCBA bonds will be restructured, and other VCBA, 9(c) general obligation, and university Series 2015 bonds will be reviewed for additional restructuring and refunding opportunities. The 9(d) bonds will be issued directly by the university. The proposed resolution authorizes the issuance of the university's 9(d) bonds and pledges the general revenues of the university to secure the debt.

The Committee recommended the 9(d) Debt Restructuring and Refunding Resolutions to the full Board for approval.

- 10. Review and Acceptance of the Annual Report on University Debt Ratio and Debt Capacity:** The Committee received for acceptance a report on the university's debt ratio and debt capacity. At the conclusion of fiscal year 2019-20, outstanding long-term debt of the university totaled \$452.8 million with a debt ratio of 3.51 percent. The university proposed the continuation of the five percent cap on the debt ratio for future years and the Committee affirmed its support for continuation of the five percent internal debt ratio target.

- * **11. Approval of Year-to-Date Financial Performance Report (July 1, 2020 – September 30, 2020):** The Committee reviewed for approval the Year-to-Date Financial Performance Report for July 1, 2020 – September 30, 2020. For the first quarter, budget adjustments were made to reflect revisions to projected revenues and expenditures. The tuition and fee budget was increased by \$14.0 million for planned Fall 2020 enrollment growth and by \$8.1 million for higher than projected Summer 2020 enrollment. The University Division revenue budget was updated to remove the \$25 million revenue contingency established for potential impacts due to COVID-19. The corresponding expenditure budget increase includes the restoration of two percent of the preliminary expenditure budget reductions. A three percent budget reduction remains to manage cost escalation, unfunded mandates, the fall enrollment shortfall, and impacts of COVID-19. An additional two percent budget remains in non-college areas for critical needs. For the Cooperative Extension/Agriculture Experiment Station the five percent budget reductions were completely eliminated. Additional adjustments are anticipated in the second quarter of fiscal year 2021 to further align the budget for additional financial impacts of the pandemic.

For the quarter ending September 30, 2020, \$22.5 million was expended for Educational and General capital projects, and \$26.3 million was expended on Auxiliary Enterprises capital projects. Capital outlay expenditures for the quarter ending September 30, 2020 totaled \$48.8 million.

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

- 12. Discussion of Future Agenda Topics and Closing Remarks:** The Committee discussed possible topics for future meetings and other topics as needed.

The Committee expressed appreciation for the good work of the finance team with their proactive planning and flexibility in response to these challenging times.

There being no further business, the meeting adjourned at 11:41 a.m.

- * **Requires full Board approval.**