MEMORANDUM

TO:        Erv Blythe, John Dooley, Larry Hincker, Dwight Shelton, Ed Spencer, Tyler Walters, Jim Weaver, Sherwood Wilson

FROM:      Travis W. Hundley

SUBJECT:   2012-13 Budget Call for Self-Supporting Units

DATE:      September 16, 2011

I am writing to provide instructions for the preparation of the 2012-13 budget requests for self-supporting units (including all auxiliary enterprises and internal service units). The schedule for development of resource plans follows a timetable similar to prior years. The format required for the proposed initiatives will facilitate consistent submissions for the budget hearings and enable the budget review and hearing process to focus on clearly defined critical program needs.

Economic Outlook

Given the state of the national economy and weakness in personal income, there is a heightened concern at the national, state, and board levels regarding the rising cost of education. As a result, the university is under a tremendous amount of pressure to hold down tuition and fee rates. Please keep this in the forefront as we work together to advance the university’s strategic goals.

Budget Process

The attached schedules have been designed to collect resource information for the next fiscal year. These include the line item budget schedule (Attachment 1), the resource adjustment narrative justification form (Attachment 2), and the strategic planning worksheet (Attachment 3). Please complete them in accordance with the following instructions.

Line Item Budget Schedule (Attachment 1)

The 2012-13 expenditure requests will be developed in two parts: the Preliminary Base Budget and Resource Adjustment Requests. The 2012-13 Preliminary Base Budget has been calculated for you as shown on Attachment 1 and detailed below:
1. **Salary Increases** - The 2012-13 budgets have been annualized. Since the Auxiliary budget process begins development before the state budget is proposed, planning assumptions are included so that the university is prepared in the event that the state budget process plans for salary actions. The placeholders plan for salary increases on November 25, 2012 (affecting the last thirteen pay dates) of 4.5% for Faculty and 3.0% for Staff. At this time salary changes for staff and faculty have not been proposed by the Governor or General Assembly, however, these amounts are placeholders in hopes of what might occur. If the assumptions change, the Budget Office will update budgets accordingly.

2. **Fringe Benefits** - Estimated fringe benefit rates are unchanged from 2011-12 with the exception of VRS. VRS costs are projected to increase from 6.58% to 7.0%. Assumed fringe rates for 2012-13 are summarized as follows:

- FICA - 7.65% of faculty and staff salaries
- Retirement – 7.00% for VRS and 10.4% for Optional Retirement Plan
- Retiree Medical – 0.99% of faculty and staff salaries
- Group Life Insurance – 1.02 % of faculty and staff salaries
- Long-term Disability Insurance – 0.66% of faculty and staff salaries
- Medical Insurance - $8,940 per FTE

3. **Wages** - No adjustments have been made in the wage category based on previous policy that the wage budget is not automatically increased. Adjustments to the wage budget should be handled as a part of the resource adjustment request. To the extent possible, increases in the wage budget should be accommodated within the existing budget; otherwise, in the resource adjustment requests please provide an explanation of why it is necessary to increase the wage budget.

4. **Fixed Expenses (for Auxiliary Enterprises only)**

- **Computer Charges** - The expense budget for computer charges is based on a University cost study conducted every two years that analyzes the centralized computing costs incurred by the Educational and General programs on behalf of the Auxiliary Enterprises. Charges for 2012-13 will be based on the cost study to be completed in 2011.

- **Debt Service** - The expense budget for debt service has been adjusted to reflect the expected cost of debt service in 2012-13, if applicable.

- **Steam, Utilities, Insurance, and Other Irreducible Costs** - The expense budget for steam, utilities, insurance, and other irreducible costs has been adjusted based on historical trends, projected cost increases, and known changes, such as future capital projects that will increase steam charges. If additional information is identified, these mandatory costs will be overlaid.
• **Maintenance Reserve (Auxiliary Organizations with MR funds only)** –  The maintenance reserve expense budgets in Attachment 1 have been adjusted where appropriate to advance toward an adequately funded Maintenance Reserve program.

Facility condition assessment studies were performed on many Auxiliary facilities as they are an integral component of the Maintenance Reserve plan. On September 15, 2011 Capital Assets and Financial Management (CAFM) issued a Maintenance Reserve Plan Update request to each auxiliary unit. These plans will allow CAFM and the Budget Office to understand your planned maintenance reserve project needs for 2012-13. These plans will be discussed during the budget hearings and should be used to justify maintenance reserve resource adjustment requests.

5. **Administrative Charge** - The administrative charge is projected to be 8.06% in 2012-13. Only extraordinary one-time expenses will be exempted from this charge.

6. One-time initiatives approved in the 2011-12 budgets have been removed from the 2012-13 Preliminary Base Budget.

**Budget Resource Adjustment Requests**

Each resource adjustment request should cost out and justify one action or strategy to address a critical issue. Each proposal should be a discrete unit that can be evaluated on its own merit, independently of any other proposal. **All requests to increase expenditure budgets should identify why the cost increase is unavoidable (mandates, emergency issues, etc.).**

Changes expected in the revenue and recovery budgets in 2012-13 should be reported. If you expect income growth or decline, please indicate the dollar amount of the change as a resource adjustment on Attachment 1 and the reason for the change on Attachment 2. The impact of changes in rates versus changes in volume should be separately identified.

Where revenue/recovery and expenditure adjustments are related, they should be included together as a priority in a separate column on Attachment 1 and the corresponding resource adjustment request on Attachment 2. **Otherwise, all realignments and adjustments to the revenue or recovery budgets (where there is no expenditure budget impact) should be detailed in Priority 1.**

Attachments 1 and 2 have been designed to ensure a consistent and effective format for the budget hearing process. Each resource adjustment should detail dollar requests by revenue or expenditure type on Attachment 1 in a separate column. Attachment 2 provides the format for a narrative describing and justifying the resource adjustment request, the proposed source of funding, whether this is a base or one-time item, and the position request. The total dollar impact of each request should be summarized to the right of each priority; these amounts should balance to the totals for
each request on Attachment 1. The common link between Attachments 1 and 2 will be the priority number.

**Strategic Planning Worksheet (Attachment 3)**

Long-term planning is critical for effective management; the strategic planning worksheet provides auxiliary managers the opportunity to identify future strategic issues and related strategies. Auxiliary enterprises and other self-supporting units exist to support the mission of the University and, accordingly, their strategic plans should nest within the overall University strategic plan. Operating and capital budget proposals for each self-supporting unit should then help to advance the unit's strategic plan and its various strategies.

If you have completed a strategic plan for your unit, we are requesting a copy of the current plan. Even if you do not yet have a strategic plan, we are asking that you give some forward thought to those strategic issues that your unit must address in the 5 years succeeding this next fiscal year. What strategies might you employ to address those issues, and what resources might be needed for implementation. Such outlook is intended to help sustain a strategic approach for the budget planning process to ensure the strategic objectives spanning more than the current year are appropriately advanced.

**Calendar and Submission**

Budget consultation meetings are scheduled during October. During these meetings, we will be discussing strategic challenges facing the unit in the coming year(s) and any new budgetary strategies under consideration for 2012-13, with the ultimate goal being the development of consensus-based budget recommendations. Draft budgets are due by 5:00 p.m. October 10, 2011 in order to facilitate the budget consultations.

Final budget proposals are due by 5:00 p.m., October 28, 2011. Budget document should be sent electronically to your budget office representative; etgenk@vt.edu, or jhillman@vt.edu. Budget hearings to review the final requests are scheduled and will begin December 5, 2011. These meetings will include the Vice President and the manager responsible for the operation of the self-supporting unit.

Our objective is to complete the 2012-13 expense budgets so that student fee projections can be prepared for presentation to the Board of Visitors at their Spring 2012 meeting. We plan to finalize the 2012-13 revenue and expense budgets and issue the 2012-13 allotment letters in June.

For your convenience, electronic versions of Attachments 2 and 3 are available on the Budget Office website, http://www.obpo.vt.edu. Click on the “Forms” link. An electronic spreadsheet of the preliminary base budget spreadsheet (Attachment 1) will be e-mailed to unit managers. Please contact Karen Hill at 1-9613, or Jim Hillman at 1-3187 if you have questions related to the development of your budget.

Attachments