

**Proposed 2020-21 Operating and Capital Budgets**  
**FINANCE AND RESOURCE MANAGEMENT COMMITTEE**

**May 10, 2020**

Each June, the university provides the Board of Visitors with an overview of the operating and capital budgets for the upcoming fiscal year. These budgets are traditionally based on a combination of an understanding of state support, tuition and fee projections, enrollments, and other income assumptions. Many of these budget factors are based on long-range modeling and detailed planning which is not possible at this time due to uncertainties surrounding COVID-19.

A full understanding of the fiscal impact of the COVID-19 pandemic on university revenues is limited by several variables. Specifically, there is uncertainty around Fall 2020 enrollment, state General Fund support, and the Fall 2020 campus operating model which are likely to impact most aspects of university operations. Given the uncertain fiscal environment, the Governor of Virginia chose to “unallot”, or suspend, incremental funding for many of the new legislative priorities previously approved by the 2020 General Assembly. Further, the state plans to reforecast its revenue. This results in temporarily continuing the current year state appropriations until more information is known by the commonwealth. State revenue reports indicate a decline in state revenue.

In addition to many unknown revenue factors that impact the university, there are also yet-to-be-determined factors which impact campus operations. These include the timeline of Executive Orders regarding physical distancing measures (i.e. state’s “stay-at-home” order), the campus operating model, and the cost of that operating model. In light of the dynamic environment resulting from the pandemic, it is prudent for the university to establish a preliminary operating budget for fiscal year 2020-21 that avoids premature assumptions and addresses the fiscal reality that the university will be required to operate with fewer resources in 2020-21.

Given the uncertainty, the university envisions the 2020-21 budget development occurring in phases. The preliminary budget, to open the fiscal year with, would be 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. This would include a better understanding of state support, enrollment, if impacts are one-time or ongoing, and unit specific impacts. This would inform a process to update the campus allocations.

The basis of the recommended preliminary budget for 2020-21 will be the current 2019-20 recurring operating budget with adjustments for known factors and a revenue contingency. The known factors include changes in state support for fringe benefit rate increases, changes in revenues as expired program fees rolled off and are replaced by previously approved fees, and known adjustments to the state’s approved funding levels for the Tech Talent Investment Program and the Commonwealth Cyber Initiative.

The recommendation to approve a preliminary budget allows the university to move forward with an understanding that additional budget adjustments will be necessary during the fiscal year as more information becomes available. The recommended operating budgets are attached in Schedule 1 and Schedule 2.

### **Budget Allocations for 2020-21 and Financial Planning**

Normally, the university would be in the process of finalizing the 2020-21 operating budget allocations for the colleges and major operating units. Given the ambiguity around the budget planning assumptions for 2020-21, the process for determining new allocations to colleges and major operating units will be delayed until the various factors affecting university revenues become clearer.

Because the university will open the fiscal year with constrained resources and unavoidable costs, the expenditure budgets that will be allocated to campus will be premised on operating budgets as of April 30, 2020 but will include operating budget reductions of 5%. This strategy enables campus to continue operations while providing the university additional time to better understand the major revenue categories of enrollment, state General Fund support, campus operating model, and to understand which revenue impacts are ongoing in nature necessitating budget reductions versus those that are temporary in nature which require temporary bridging strategies.

As reviewed with the Finance and Resource Management Committee on May 7<sup>th</sup>, the university requested campus budget responsibility centers to submit 5 percent and 10 percent base budget reduction planning scenarios. These scenarios will help prepare the university for reductions once the broader resource plan for the institution is better understood.

Once the university finalizes the 2020-21 budget planning allocations, the Senior Vice President and Chief Business Officer will communicate the budget allocations to the campus community. The university will bring an update back to the Board of Visitors at the next meeting.

### **Capital Outlay Projects**

Capital outlay projects have multi-year financial commitment horizons for planning and construction activities that provide greater certainty for forecasting budgets for the upcoming fiscal year than the operating budget. Virginia Tech's capital outlay program includes projects for the University Division and the Cooperative Extension/Agricultural Experiment Station Division. Initiation of a capital project requires authorization of a budget and funding sources from the state or the Board of Visitors.

The state appropriates projects supported entirely or partially with General Fund revenues. The university requests General Fund appropriations for new projects as part of the state capital budget cycle. If appropriated, these projects normally become effective and are added to the program at the beginning of a fiscal year.

Under the restructuring legislation and the 2006 Management Agreement between the commonwealth and the university, the Board of Visitors has the authority to authorize capital projects funded entirely with nongeneral fund resources. New projects approved by the Board of Visitors become effective upon approval of a university resolution and are reflected on the subsequent Financial Performance Report.

The university develops a financing plan to support the entire budget of each capital project prior to its initiation. Upon initiation, the whole project budget is entered in the accounting system. The revenues to support capital expenditure budgets are a mix of state support, university supported debt, and self-generated cash resources including private gifts. When projects have multiple sources of funding, the university generally utilizes the resources in the following order: state support, bond proceeds, and then cash. This order allows the most effective use of the university's nongeneral fund resources.

The typical project lifespan is two to four years, and a refined level of precision is needed to optimize resource management. Cash flow models are used to predict the pace of spending by month for each project for its anticipated life. This analysis is then used to plan the timing to move resources to a project budget on an as needed basis. Under this approach, project resources are held in their most productive location for as long as possible to maximize earnings. This analysis is further used to optimize the timing for external debt issuances to manage exposure to the cost of capital.

Each active capital project is included on the Financial Performance Report for its entire fiscal life and until all its funds in the accounting system are terminated. A Project is removed from the Financial Performance Report at the end of the fiscal year it closes.

The portfolio of 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. As part of the resource management process, each project has an annual budget. Schedule 3 lists the projects by major program and major phase of progress. Each project for fiscal year 2021 is listed with the total project authorization by revenue source, annual budget for fiscal year 2021, and estimated balance at the close fiscal year 2021. The accuracy of annual budgets, and the cash flows models on which they are based, are most sensitive to projected construction start dates. For example, a large project with an extended design period that results in construction starting three months later than expected may underspend its annual budget by several million dollars for the fiscal year. The total capital program for 2020-21 includes approximately \$1,046 million of authorizations with an estimated annual budget of approximately \$194 million.

### **RECOMMENDATION:**

That the proposed fiscal year 2020-21 operating and capital budgets, as displayed on Schedules 1, 2, and 3, be approved.

May 29, 2020

**TOTAL OPERATING BUDGET FOR VIRGINIA TECH**Fiscal Year 2020-21  
(Dollars in Thousands)

	2019-20 Original Budget	2019-20 Adjusted Budget	2020-21 Recommended Budget
<b><u>Revenues</u></b>			
Educational and General			
University Division			
General Fund	\$184,353	\$186,914	\$195,326
Tuition and Fees	577,858	\$588,089	582,415
All Other Income	47,309	\$47,225	46,751
Revenue Contingency			(25,000)
Subtotal	<u>809,520</u>	<u>822,229</u>	<u>799,492</u>
CE/AES Division			
General Fund	74,461	74,146	75,100
Federal Funds	15,640	15,647	15,640
All Other Income	950	1,110	950
Revenue Contingency			(3,000)
Subtotal	<u>91,051</u>	<u>90,902</u>	<u>88,689</u>
Total Educational and General	<u>\$900,571</u>	<u>\$913,131</u>	<u>\$888,181</u>
Auxiliary Enterprises	\$360,813	\$361,658	\$350,059
Financial Assistance for E&G Programs (a)			
General Fund	17,889	17,889	15,389
Nongeneral Fund	336,969	336,969	336,969
Total	<u>\$354,858</u>	<u>\$354,858</u>	<u>\$352,358</u>
Student Financial Assistance			
General Fund	23,458	23,458	23,458
Nongeneral Fund	9,695	8,661	8,220
Total	<u>\$33,153</u>	<u>\$32,119</u>	<u>\$31,678</u>
All Other Programs (b)			
General Fund (UMA)	2,757	2,757	2,757
Nongeneral Fund	6,427	7,976	7,612
Revenue Contingency			(155)
Total	<u>\$9,184</u>	<u>\$10,733</u>	<u>\$10,214</u>
Total	<u>\$1,658,579</u>	<u>\$1,672,499</u>	<u>\$1,632,490</u>
<b><u>Expense</u></b>			
Educational and General			
University Division	\$809,520	\$822,229	\$799,492
CE/AES Division	91,051	90,902	88,689
Subtotal	<u>900,571</u>	<u>913,131</u>	<u>888,181</u>
Auxiliary Enterprises	347,077	371,571	336,392
Financial Assistance for E&G Programs (a)	354,858	354,858	352,358
Student Financial Assistance	33,153	32,119	31,678
All Other Programs (b)	9,184	11,232	10,214
Total	<u>\$1,644,843</u>	<u>\$1,682,911</u>	<u>\$1,618,823</u>
<b><u>Planned Change in Reserve</u></b>			
Reserve Drawdown/(Deposit) (c)	(13,736)	10,412	(13,667)
Net	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

(a) Financial Assistance for E&amp;G Programs includes Sponsored Programs, the Eminent Scholars Program, and General Fund Research Initiative.

(b) All Other Programs include Unique Military Activities, Surplus Property, Local Funds and Federal Work Study.

(c) Reserve contributions are based on the budget plans of Auxiliary Enterprise units.

Presentation Date: May 29, 2020

**TOTAL OPERATING BUDGETS FOR AUXILIARY ENTERPRISES**  
**Fiscal Year 2020-21**  
**(Dollars in Thousands)**

	2019-20 Original Budget	2019-20 Adjusted Budget	2020-21 Recommended Budget
<b>Residence and Dining Hall System*</b>			
Revenues	\$133,823	\$138,279	\$130,324
Expenses	-127,577	-139,834	-125,550
Reserve Drawdown/(Addition)	-6,246	1,555	-4,774
Net	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<b>Parking and Transportation</b>			
Revenues	\$15,832	\$15,831	\$15,615
Expenses	-15,357	-15,854	-14,628
Reserve Drawdown/(Addition)	-475	23	-987
Net	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<b>Telecommunications Services</b>			
Revenues	\$20,600	\$21,500	\$19,966
Expenses	-20,861	-22,616	-20,349
Reserve Drawdown/(Addition)	261	1,116	383
Net	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<b>University Services System*</b>			
Revenues	\$54,303	\$54,690	\$52,883
Expenses	-53,258	-58,729	-52,140
Reserve Drawdown/(Addition)	-1,045	4,039	-743
Net	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<b>Intercollegiate Athletics*</b>			
Revenues	\$77,500	\$73,736	\$74,740
Expenses	-74,086	-75,294	-70,480
Reserve Drawdown/(Addition)	-3,414	1,558	-4,260
Net	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<b>Electric Service System*</b>			
Revenues	\$35,217	\$33,870	\$33,653
Expenses	-34,596	-34,562	-33,032
Reserve Drawdown/(Addition)	-621	692	-621
Net	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<b>Inn at Virginia Tech and Skelton Conference Center</b>			
Revenues	\$11,711	\$11,911	\$11,471
Expenses	-12,287	-12,577	-11,597
Reserve Drawdown/(Addition)	576	666	126
Net	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<b>Other Enterprise Functions</b>			
Revenues	\$11,827	\$11,841	\$11,407
Expenses	-9,055	-12,105	-8,616
Reserve Drawdown/(Addition)	-2,772	264	-2,791
Net	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<b>TOTAL</b>			
Revenues	\$360,813	\$361,658	\$350,059
Expenses	-347,077	-371,571	-336,392
Reserve Drawdown/(Addition)	-13,736	9,913	-13,667
Net	<u><u>\$0</u></u>	<u><u>\$0</u></u>	<u><u>\$0</u></u>

\* University Systems include the Dormitory and Dining Hall System, Electric Service Utility System, University Services System, and Athletic Facilities System. The University Services System includes Health Services, Career & Professional Development, Student Engagement & Campus Life, Recreational Sports, Center for the Arts, Student Organizations and VT Rescue Squad.

## EDUCATIONAL AND GENERAL CAPITAL PROJECT AUTHORIZATIONS FOR FISCAL YEAR 2021

(Dollars in Thousands)  
as of April 30, 2020

	PROJECT INITIATED	TOTAL PROJECT AUTHORIZATION				ESTIMATED TOTAL EXPENSES June 30, 2020	ESTIMATED BALANCE AVAILABLE FOR FY2021	ESTIMATED ANNUAL BUDGET FY2021	ESTIMATED BALANCE AT CLOSE OF FY2021
		STATE SUPPORT	NONGENERAL FUND	AGENCY DEBT	TOTAL				
<b><u>Design Phase</u></b>									
Planning: Hitt Hall	Apr 2017	\$ -	\$ 6,000	\$ -	\$ 6,000	\$ 3,880	\$ 2,120	\$ 1,300	\$ 820
Planning: Undergraduate Science Laboratory Building	Jul 2017	-	5,141	-	5,141	5,141	-	-	-
Construct Virginia Seafood AREC	Jul 2018	2,500	-	-	2,500	-	2,500	2,500	-
Commonwealth Cyber Initiative	May 2019	1,500	-	-	1,500	900	600	600	-
Corps Leadership and Military Science Building	Jun 2019	-	20,650	31,350	52,000	1,650	50,350	6,500	43,850
Data and Decision Sciences	Jul 2019	69,000	-	10,000	79,000	2,800	76,200	10,500	65,700
Innovation Campus - Academic Building	Jul 2019	168,000	-	107,000	275,000	2,500	272,500	9,500	263,000
Accessibility & Code Compliance	Jul 2020	3,100	-	-	3,100	-	3,100	180	2,920
Planning: Replace Randolph	Jul 2020	-	11,000	-	11,000	-	11,000	4,000	7,000
<b><u>Construction Phase</u></b>									
Maintenance Reserve	On-going	16,231	-	-	16,231	-	16,231	14,172	2,059
Chiller Plant Phase II	Oct 2016	32,655	10,312	-	42,968	21,042	21,926	14,000	7,926
Holden Hall Renovation	Oct 2016	57,215	212	17,500	74,927	11,000	63,927	30,800	33,127
Agriculture Production Facilities	Oct 2016	25,274	-	-	25,274	1,204	24,070	8,000	16,070
<b><u>Close-Out</u></b>									
Improve Kentland Facilities	Sep 2013	12,463	-	-	12,463	8,700	3,763	3,000	763
Health Sciences & Technology	Oct 2016	51,554	-	40,142	91,696	79,200	12,496	8,500	3,996
Gas-Fired Boiler at the Central Steam Plant	Apr 2017	-	8,200	-	8,200	7,000	1,200	900	300
Acquisition - Falls Church Property UVA Interest	Apr 2019	-	-	8,230	8,230	8,221	9	-	9
Acquisition - Falls Church Property	Apr 2019	-	-	2,850	2,850	-	2,850	2,850	-
Total Educational and General Projects		\$ 439,492	\$ 61,515	\$ 217,072	\$ 718,080	\$ 153,238	\$ 564,842	\$ 117,302	\$ 447,540

## AUXILIARY ENTERPRISE CAPITAL PROJECT AUTHORIZATIONS FOR FISCAL YEAR 2021

(Dollars in Thousands)  
as of April 30, 2020

	PROJECT INITIATED	TOTAL PROJECT AUTHORIZATION				ESTIMATED TOTAL EXPENSES June 30, 2020	ESTIMATED BALANCE AVAILABLE FOR FY2021	ESTIMATED ANNUAL BUDGET FY2021	ESTIMATED BALANCE AT CLOSE OF FY2021
		STATE SUPPORT	NONGENERAL FUND	AGENCY DEBT	TOTAL				
<b><u>Design Phase</u></b>									
Student Wellness Improvements	Jun 2016	-	13,310	44,690	58,000	5,400	52,600	10,000	42,600
Athletic Facilities Improvements - Tennis	Aug 2016	-	809	-	809	220	589	589	(0)
Planning: Slusher Replacement	Jun 2018	-	3,500	-	3,500	1,186	2,314	-	2,314
Global Business & Analytics Complex Residence Halls	Jun 2019	-	-	84,000	84,000	1,200	82,800	1,200	81,600
New Upper Quad Residence Hall	Jun 2019	-	-	33,000	33,000	590	32,410	5,000	27,410
<b><u>Construction Phase</u></b>									
Maintenance Reserve	On-going	-	9,500	-	9,500	-	9,500	9,500	-
Creativity & Innovation District Residence Hall	Oct 2016	-	15,880	89,620	105,500	46,000	59,500	35,000	24,500
Student-Athlete Performance Center	Mar 2018	-	20,417	-	20,417	11,000	9,417	8,000	1,417
Athletics Weight Room Renovation & Expansion	Aug 2018	-	4,500	-	4,500	2,200	2,300	2,100	200
Dietrick First Floor and Plaza Renovation	Sept 2017	-	5,000	3,300	8,300	1,200	7,100	5,000	2,100
<b><u>Close-Out</u></b>									
None									
Total Auxiliary Enterprise Projects		\$ -	\$ 72,915	\$ 254,610	\$ 327,525	\$ 68,996	\$ 258,529	\$ 76,389	\$ 182,140
GRAND TOTAL ALL CAPITAL PROJECTS		<u>\$ 439,492</u>	<u>\$ 134,431</u>	<u>\$ 471,682</u>	<u>\$ 1,045,605</u>	<u>\$ 222,234</u>	<u>\$ 823,371</u>	<u>\$ 193,691</u>	<u>\$ 629,680</u>

# 2020-21 Operating and Capital Budgets

*May 29, 2020*

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

*BOB BROYDEN, ASSOCIATE VICE PRESIDENT FOR CAPITAL  
ASSETS AND FINANCIAL MANAGEMENT*







*Operating  
Budget*

# Budget Development Uncertainties Resulting from COVID-19

- State operating model
- University operating model
- Fall 2020 Enrollment - expect differential impacts on various segments
- Level of State Support
  - State revenue will be reforecast at a later date
    - Federal funding will temporarily help commonwealth
  - Level of support for higher education
- Level of Self-generated revenues
- In response, the university envisions 2020-21 budget development in phases. The first phase would be a *preliminary* operating budget.

# Operating Budget Assumptions for 2020-21 Preliminary Budget Attachment I

- Development of 2020-21 budget started with current revenue budget
- Updated for known changes
  - State allocation for the Tech Talent Investment Program
  - Commonwealth Cyber Initiative Hub - decrease of \$2.5 million based on outcome of 2020 General Assembly.
  - Expired program fee rates rolling off with graduating class
  - Estimated state support for share of fringe benefit rate increases
- Revenue hedge that lowers the overall revenue budget
  - \$25 million in 208 E&G, \$3 million in 229 E&G
  - Each Auxiliary Enterprises has a similar revenue hedge

# *Phases of Operating Budget Development for 2020-21*

- Open the fiscal year with preliminary budget for 2020-21, units will start with 5% less
  - In anticipation of constrained resources, the campus underwent 5% and 10% budget reduction planning exercises in preparation for 2020-21.
  - It will be made clear that this is a temporary budget until additional information becomes available.
- Update operating assumptions as information becomes available
  - June/July - Fall operating model will be better quantified
  - August - anticipate having a better understanding of the level of state support
  - Fall - actual enrollment is known
- Once these factors and other impacts are understood, the university will adjust the revenue budgets and update operating assumptions
  - Determine if impacts are one-time or ongoing
  - Determine unit specific impacts
  - Update the campus allocations
  - Continue to update the Board

# Revenue Contingency for 2020-21 Preliminary Operating Budget

(Dollars in Millions)

	<u>Continuing Budget</u>	<u>Revenue Contingency</u>	<u>Preliminary Budget</u>
<b><u>Educational and General</u></b>			
University Division	\$824.5	(\$25.0)	\$799.5
CE/AES Division	91.7	(3.0)	88.7
Subtotal E&G	<u>\$916.2</u>	<u>(\$28.0)</u>	<u>\$888.2</u>
Auxiliary Enterprises	\$360.4	(\$10.3)	\$350.1
Sponsored Programs	352.4		352.4
Financial Aid (Appropriated)	31.7		31.7
UMA and Other Activities	10.4	(0.2)	10.2
<b>Total</b>	<u><b>\$1,671.0</b></u>	<u><b>(\$38.5)</b></u>	<u><b>\$1,632.5</b></u>

# 2020-21 Preliminary Operating Budget

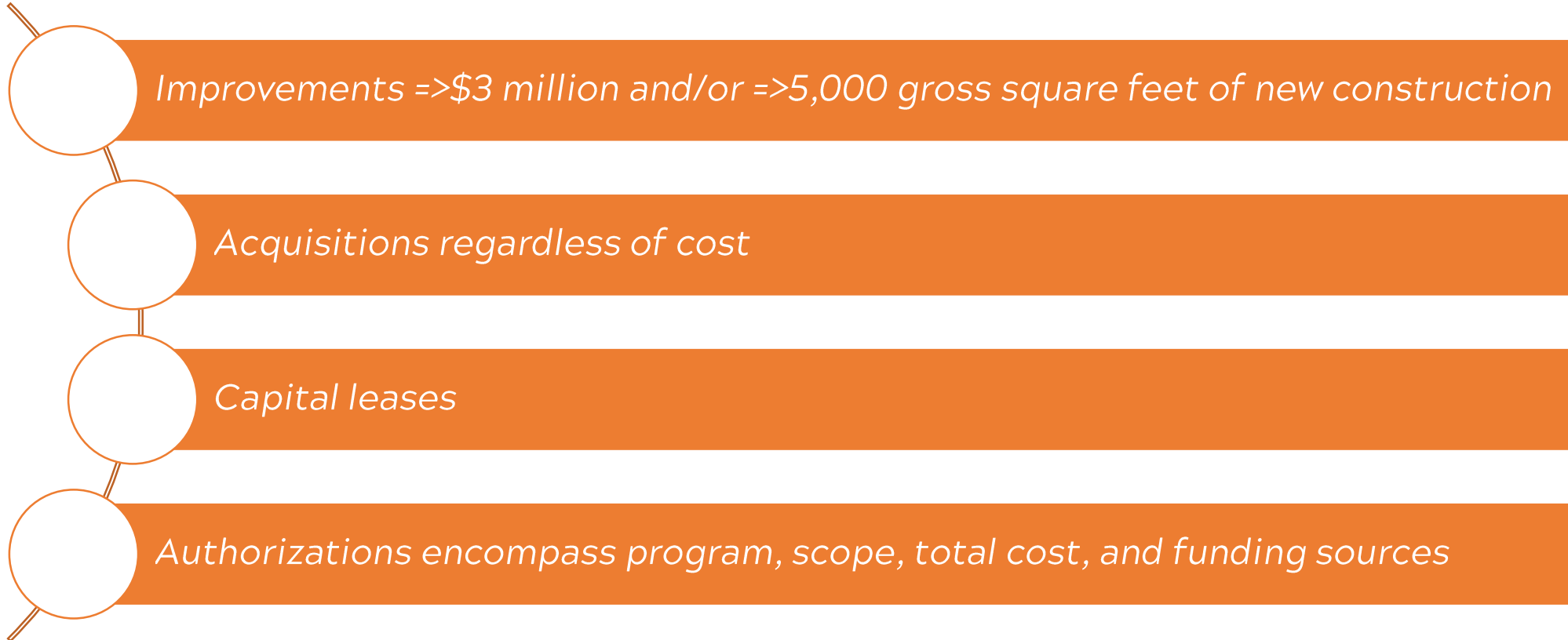
(Dollars in Millions)

	2019-20 Adjusted Budget	2020-21 Proposed Budget	Change	
			\$	%
<b><u>Educational and General</u></b>				
University Division	\$822.2	\$799.5	(\$22.7)	-2.8%
CE/AES Division	90.9	88.7	(2.2)	-2.4%
Subtotal	\$913.1	\$888.2	(\$24.9)	-2.7%
Auxiliary Enterprises	\$361.7	\$350.1	(\$11.6)	-3.2%
Sponsored Programs	354.9	352.3	(3)	-0.7%
Financial Aid (Appropriated)	32.1	31.7	(0.4)	-1.2%
UMA and Other Activities	10.7	10.2	(0.5)	-4.7%
Total	\$1,672.5	\$1,632.5	(\$40.0)	-2.4%



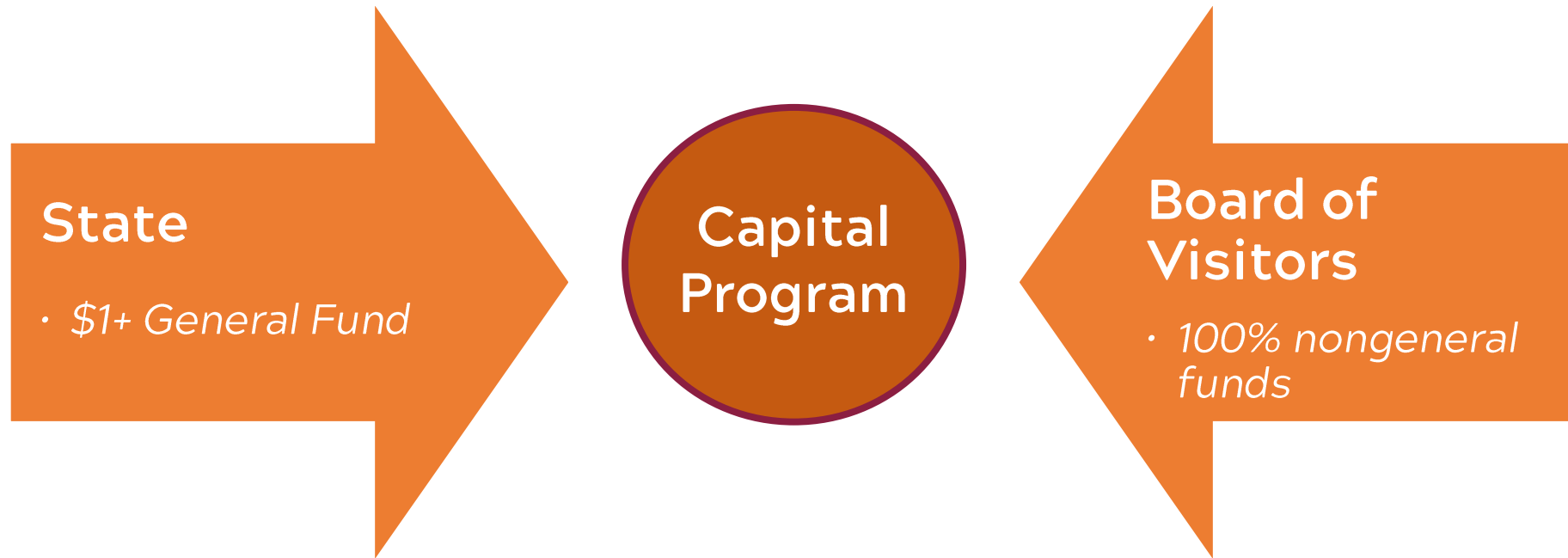
*Capital Budget*

# Capital Project Authorization Levels

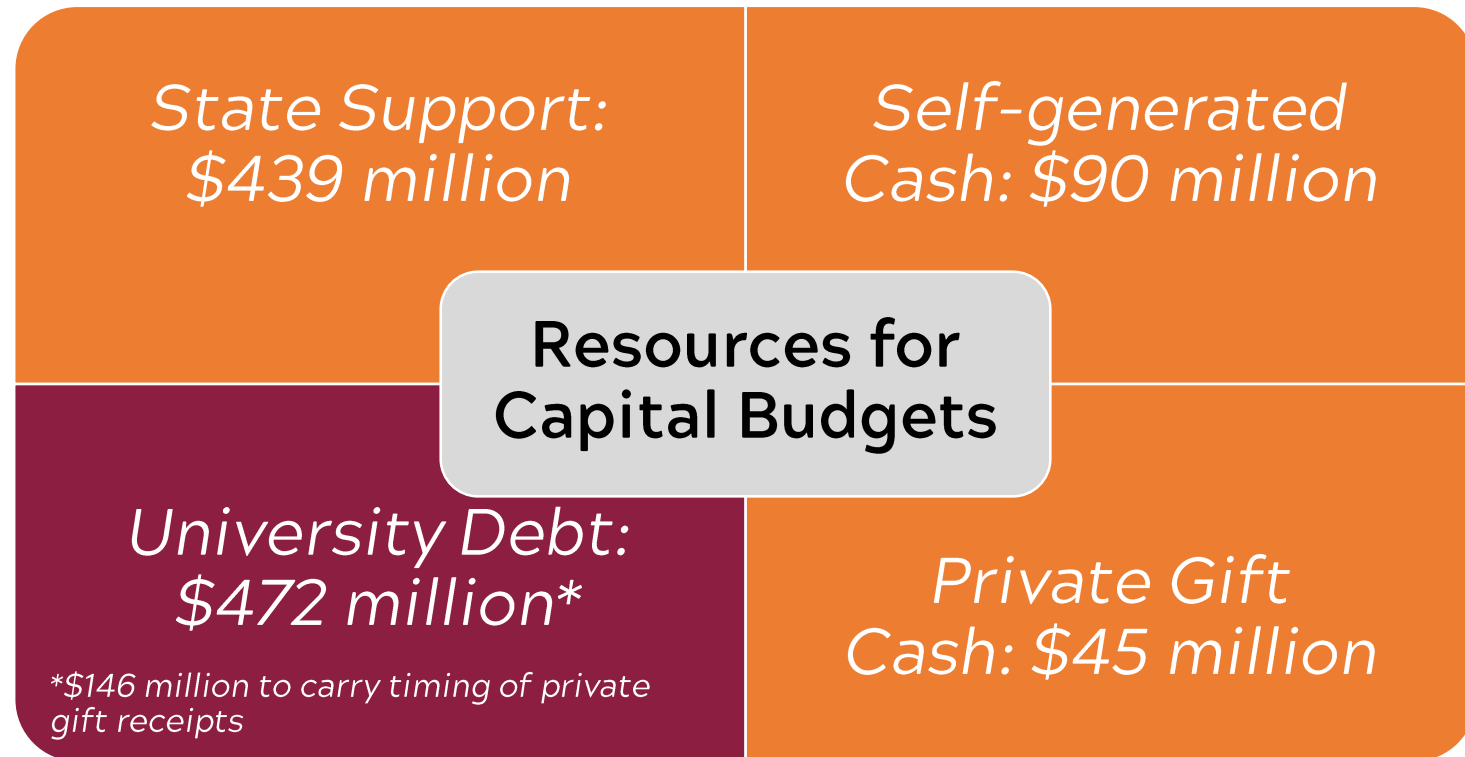




# Capital Project Authorization Providers



# Capital Authorization Fund Sources



# Fiscal Year 2021 Capital Projects

<i>End FY20</i>	<i>33</i>
<i>Projects closed June 30<sup>th</sup></i>	<i>- 7</i>
<i>New projects effective July 1<sup>st</sup></i>	<i><u>2</u></i>
<b>Start FY21</b>	<b>28</b>

- *14 in design*
- *9 in construction*
- *5 in close-out*

# Estimating Capital Project Spend Rate



Most sensitive to construction start dates

# Fiscal Year 2021 Capital Budget

(Dollars in millions)

<i>FY21 starting total capital budget</i>	<i>\$1,045.6</i>
<i>Less project to-date expenditures as of June 30th</i>	<i>- <u>222.2</u></i>
<i>Budget available for FY21</i>	<i>\$823.4</i>
<i>Estimated capital expenditures for FY21</i>	<i><u>\$193.7</u></i>

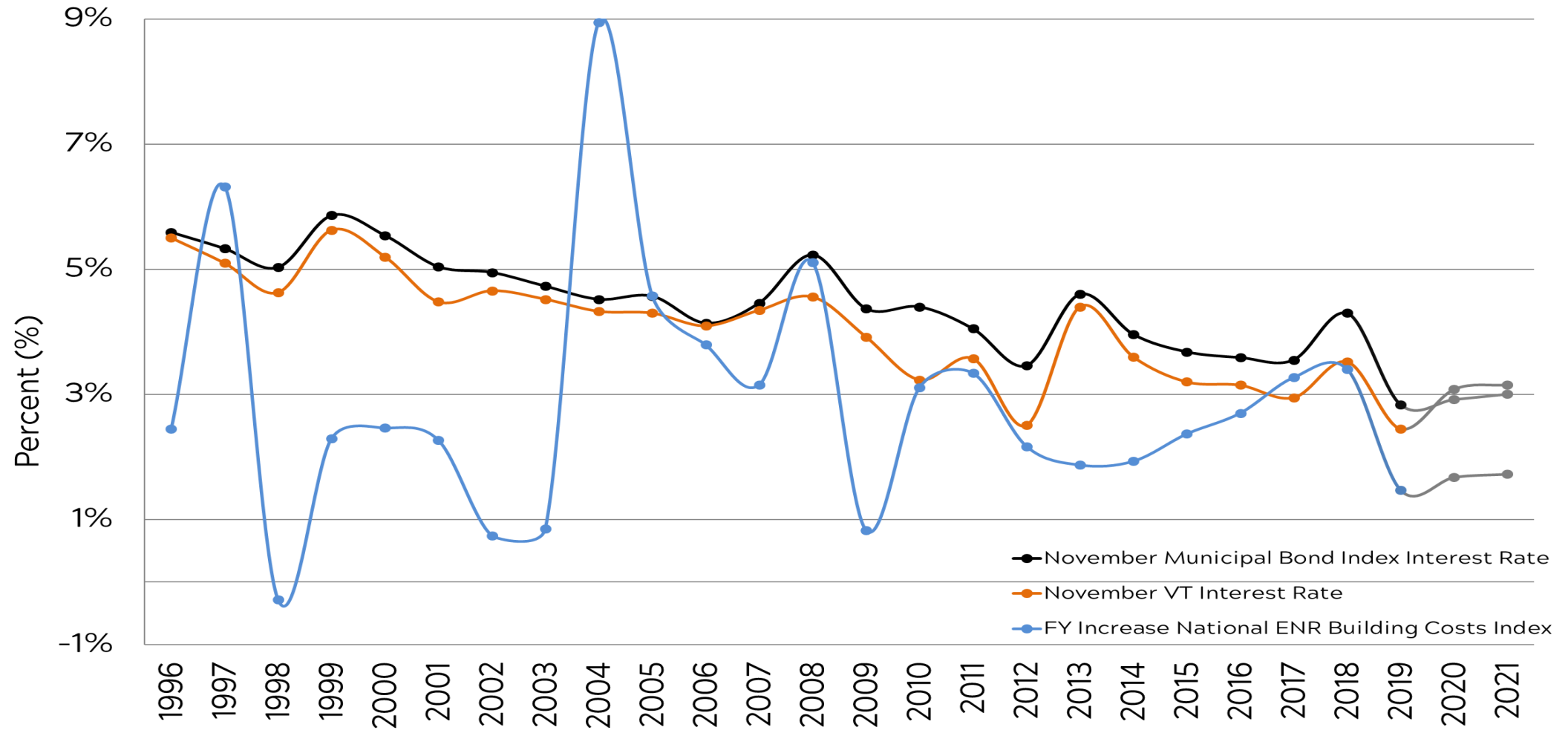


# Major Construction Pricing for Fiscal Year 2021

- *Student Wellness* July 2020
- *Dietrick First Floor and Plaza Renovation* October 2020
- *Data and Decision Science* October 2020
- *Corps Leadership & Military Science Building* December 2020
- *New Upper Quad Residence Hall* December 2020
- *Innovation Campus-Academic Building* May 2021

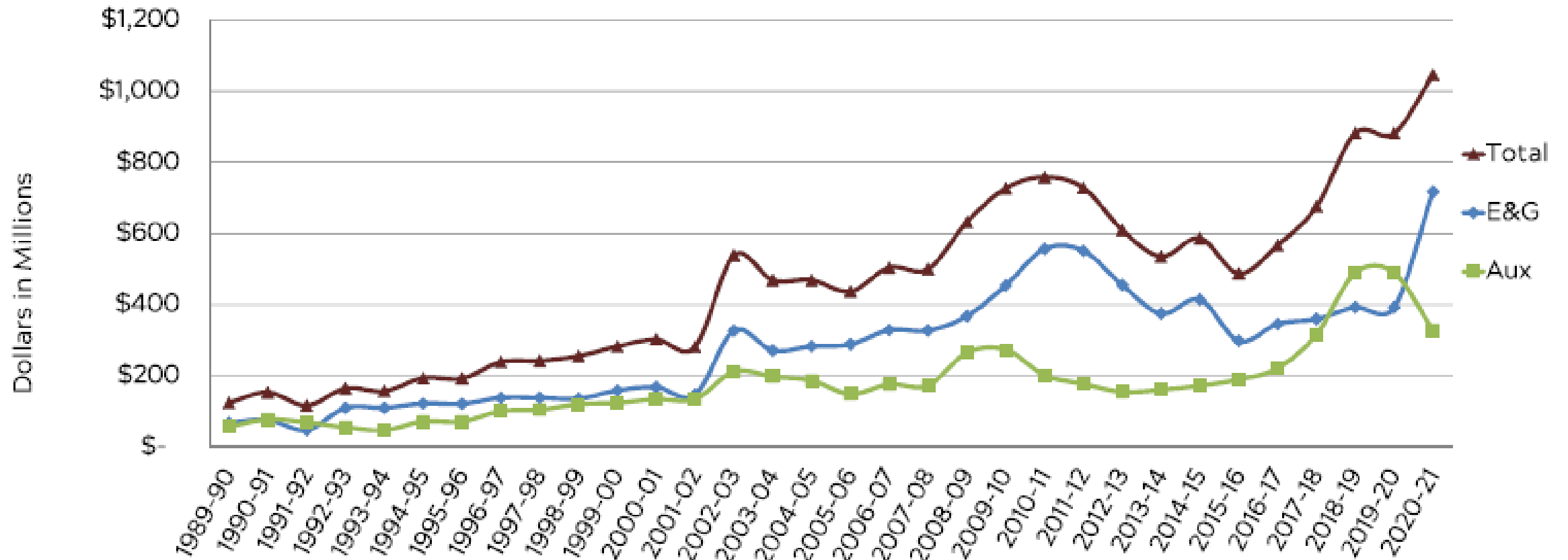
# Escalation and Interest Rates

- Each project budget escalated to the mid-point of construction during development



# Trend of Total Capital Program Budget

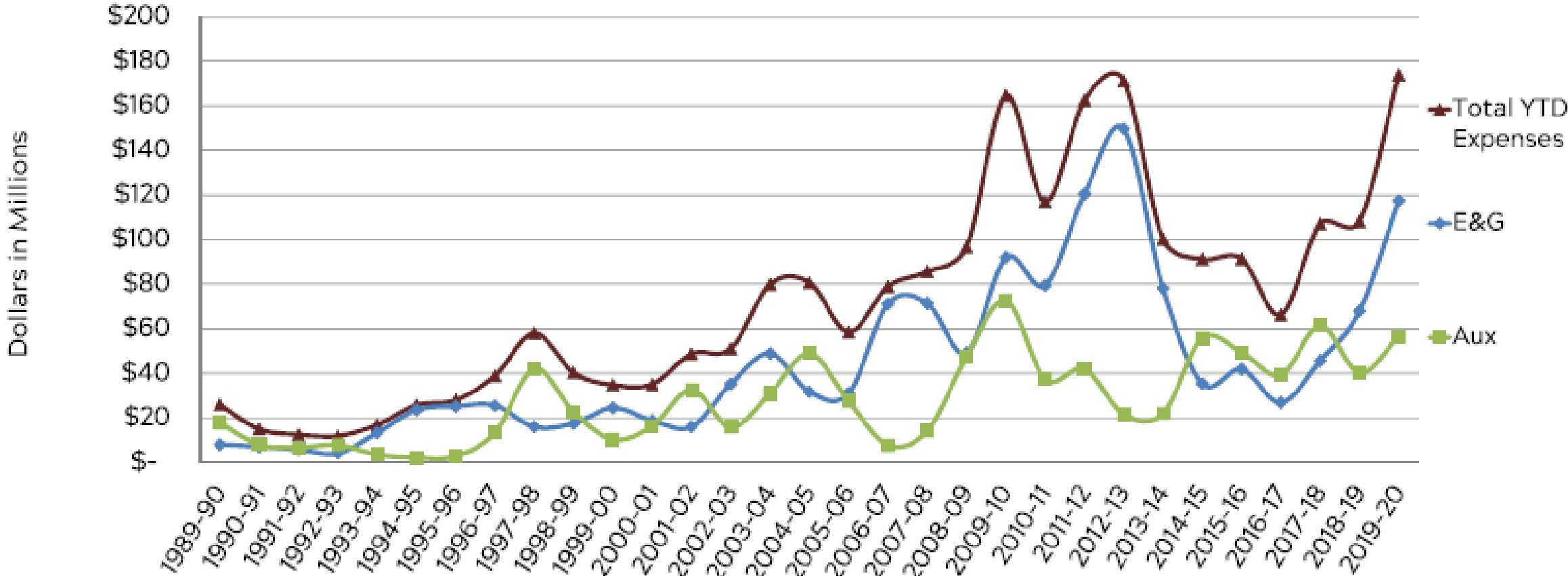
Fiscal Year 1990 - Fiscal Year 2021





# Trend of Capital Program Expenses

Fiscal Year 1990 - Fiscal Year 2020



# Recommendation

## RECOMMENDATION:

*That the proposed 2020-21 Operating and Capital Budgets, as displayed on Schedules 1, 2, and 3 be approved.*

*May 29, 2020*