University of Virginia
High-Level Summary
Governor's 2008-10 Caboose Bill and 2010-12 Budget Bill

Stimulus Funds and General Fund Budget Reduction

- Budget is complicated by requirements to meet the Maintenance of Effort provision of the American Reinvestment and Recovery Act (ARRA) which prohibits states from reducing higher education budgets below 2006 funding levels.
- The Maintenance of Effort provision required that the state reduce the originally planned $19.3 million (15%) general fund (GF) reduction to $4.6 million (3.6%) in FY10, a net increase to the University of $14.7 million. At the same time the state reduced the expected level of ARRA funds from $19.7 million to $5.6 million, a decrease to the University of $14.1 million. The net effect is about $600,000 more support than we had anticipated this fiscal year.
- For FY11, the GF reduction is maintained at $4.6 million. We had expected ARRA funding of $10.7 million which the Governor has increased to $21.9 million, a net increase to the University of $11.2 million. When you add together increases from the lower GF reduction and the additional ARRA funds, the University will receive $25.9 million more than expected next fiscal year and for one year only.
- In FY12 the full 15% GF reduction kicks in at $19.3 million and the ARRA money goes away. The total reduction in funding from FY11 to FY12 is $36.6 million.

Actions Impacting Compensation and Benefits

- There are no salary increases provided in the 2010-12 biennium.
- In 1983 the state picked up the 5% employee contribution to VRS in lieu of a salary increase and has paid that portion of the rate ever since. The Governor has proposed that effective July 1, 2010 the employee pays 1% and the state pays 4% of that 5% contribution rate. On July 1, 2011 the employee would pay 2% while the state would pay 3%. The same employee paid percentages would apply to individuals in the University's optional retirement plan even though it is a defined contribution plan rather than a defined benefit plan as is VRS.

- The Governor proposes that VRS members hired on or after July 1, 2010 be subject to the new age/service requirement of 55/30 rather than the current 50/30. He also proposes a new Cost of Living Adjustment (COLA) formula for such newly hired members that would match the CPI-For All Urban Consumers (CPI-U) for the first 2 percentage points and match the next 8 percentage point increase in the CPI-U at one-half to one. The new COLA would cap at 6% rather than 5%. In most years (except those with very high inflation) the new COLA methodology would result in a reduction of 0.5%.
- The Budget Bill suspends the cash match employer paid contribution on employee deferred compensation accounts for the last five pay periods of FY10 and for all of FY11 and FY12.

Other operating budget items

- While there are no restrictions placed on tuition and fee increases, we are reminded that the ARRA money is intended to moderate the need for tuition and fee increases and increase student access. The University is authorized to spend the ARRA funds in FY11 or during the first quarter of FY12 (coincides with the federal fiscal year). Prior to release of the ARRA funds, the University must provide a plan to the Governor delineating the respective portion of the funding to be used for educational and general programs and financial assistance, and the year it will be spent. In addition, the plan must include anticipated tuition and fee increases for the first and second year of the biennium.
- Financial aid was not reduced, but no new money was provided. ARRA funds may be used for financial aid.
- Higher Education Equipment Trust Fund is reduced by $8.7 million, but the allocation of the money is contingent on adequate debt capacity.
- Financial incentives under restructuring (interest earnings and credit card rebates) are not appropriated in FY12. This is inconsistent with the Restructuring Act passed by the General Assembly in 2005.

Auxiliary Enterprise Budget Actions

- This budget includes a number of significant policy actions directed to self-supporting auxiliary enterprise activities which in essence treat them as if they were general fund activities. This action is highly unusual and results in resources received from students, faculty, staff, and the general public being passed to the general fund of the Commonwealth. Savings noted are across the system.
  - Capture $0.7 million from the furlough savings in FY10.
  - Capture $2.3 million from the VRS/benefit holiday savings in FY10.
  - Reduce auxiliary balances by 5% of the 6/30/09 balance, resulting in a reversion of nongeneral funds of $18.8 million in FY11.
  - Capture interest on auxiliary balances in FY10, FY11, and FY12, an action that is inconsistent with the Restructuring Act. Reversion is anticipated to be $5.4 million in FY10 and $7.2 million in each year of the 2010-12 biennium.

Capital Outlay

- Given the state's limited debt capacity, the budget allows for debt financing of several customary items, but only after a debt study and issuance schedule is developed by the Secretary of Finance based on recommendations from the Debt Capacity Advisory Committee to be released prior to the start of the 2011 General Assembly Session. Priority for debt issuance is:
  1. Maintenance Reserve - $50 million per year (UVa allocation $3.6 million in each year).
  2. Higher Education Equipment Trust Fund - $50 million each year (UVa allocation $8.4 million each year).
  3. Equipment for previously funded projects - $25.8 million (UVa would get $1.7 million for ITE Building).
  4. Energy Conservation Improvements - $35.2 million to finance energy conservation projects that (1) reduce energy consumption in a publicly owned facility by 20%; (2) promote and encourage green building technology throughout state government facilities, (3) promote and encourage the conversion of agricultural waste for

use in the production of fuel; or (4) technologies to reduce peak use of electricity.

5. Construction funds for projects with completed planning (UVa's projects are New Cabell Hall and Ruffner Hall; Wise has the new Library).

Medical Center

- Budget reduces disproportionate share and indigent care payments by $10.8 million in FY11 and $10.9 million in FY12. Further negative impacts associated with inflation and medical education result in FY11 reductions of $4.7 million (about $170,000 of which is attributable to Culpeper Regional Hospital) and FY12 reductions of $6.6 million ($236,000 of which is for Culpeper Regional Hospital).