

June 25, 2014

Dear Members of the Board of Visitors:

The General Assembly approved a budget for 2014-16 on June 12 and transmitted it to the Governor for his action. The Governor vetoed certain aspects of the budget, as discussed below. The “approved” budget reflects a projected revenue shortfall that results in a budget for higher education that is roughly equivalent to the current fiscal year’s budget. The results are summarized in the section titled “Bottom line,” followed by a more detailed explanation.

Bottom line:

- UVa will lose \$8.2M and the College at Wise will lose \$1.06M from the Board of Visitors’ approved budgets.
- We will postpone the planned merit increases for faculty and University staff until October 1 to mitigate the effect of the state’s action. Because the state does not fully fund the cost of salary increases, we had already set aside money in the budget for this purpose. Legally we cannot award salary increases to classified staff without the state’s authorization, and this authorization has been withheld in the budget. The Board, however, has authority to grant salary increases to faculty and University staff.
- The Medical Center will lose \$5.6M in planned inflation adjustments for the cost of indigent care services.
- As previously shared with you, the employer contribution rates for the Virginia Retirement System will rise from 8.76% to 12.3%. The effect of this increase will be an unavoidable additional cost of \$9.4M (all fund sources) in Charlottesville and \$343,400 (all fund sources) at Wise. The state will provide its share of the cost increase only for those employees paid from state funds, approximately \$1.5M. The balance of this cost was included in the budgets you approved.

A comparison of sources of funds in the Academic Division and College at Wise budgets as approved by the Board of Visitors and adjusted given the final actions by the General Assembly follows:

	BOV Approved FY15 Budget	State Budget Actions	Revised FY15 Budget
ACADEMIC DIVISION			
Tuition and Fees	\$536.4		\$536.4
State Appropriations	\$152.4	(\$8.2)	\$144.2
Sponsored Programs	\$284.5		\$284.5
Endowment Distribution	\$157.1		\$157.1
Expendable Gifts	\$127.7		\$127.7
Operating Cash Balances	\$30.5		\$30.5
Sales, Service, and Other	\$185.5		\$185.5
TOTAL	\$1,474.1	(\$8.2)	\$1,465.9
COLLEGE AT WISE			
Tuition and Fees	\$10.8		\$10.8
State Appropriations	\$16.0	(\$1.1)	\$14.9
Sponsored Programs	\$ 0.8		\$ 0.8
Endowment Distribution	\$ 3.4		\$ 3.4
Expendable Gifts	\$ 0.7		\$ 0.7
Sales, Service, and Other	\$ 9.8		\$ 9.8
TOTAL	\$41.5	(\$1.1)	\$40.4

The state budget actions represent a 0.56% reduction in the Academic Division budget and a 2.66% reduction in the College at Wise budget from that approved by the Board of Visitors.

What follows is the detail outlining the actions taken by the General Assembly and the resulting impact.

Academic Division

- Eliminated proposed increases in restricted appropriations for research (cancer and the focused ultrasound, \$2M), undergraduate and graduate financial aid (\$0.49M), the higher education procurement cooperative (\$0.11M), and the veterans consortium (\$0.05M). Absence of additional state support for cancer and focused ultrasound research will limit the new research. While small, the additional financial aid for both undergraduate and graduate students would have helped mitigate increases required from other fund sources. Our proposed initiatives in cooperative procurement and improved services provided to veterans, both of which were intended to be collaborative efficiency efforts across higher education institutions, will be reevaluated.
- Removed unrestricted appropriations for salary adjustments and performance funding (\$5.31M). This means that the 4.75% merit salary increase pool for teaching and research faculty and the 3% merit pool for administrative and professional faculty and University staff must be funded from a combination of tuition already included in our

approved tuition rate structure and reallocation of existing resources. We plan to mitigate the 2015 budget shortfall by deferring the effective date until October 1st. The classified staff will not receive a salary adjustment because any increase must be authorized by the state.

- Retained enrollment growth funding of \$0.86M. These funds are allocated to the schools experiencing the enrollment growth so that additional faculty and support services can be provided. An additional \$0.33M is provided for employer health insurance premium increases.
- Removed the financial incentives (e.g. interest on tuition cash balances and certain procurement rebates) that represent the state's commitment when institutions meet their performance standards. This represents a loss to the University of about \$0.25M. These funds are not paid to the University until after the end of the fiscal year so there is no immediate impact on the FY15 budget.

College at Wise

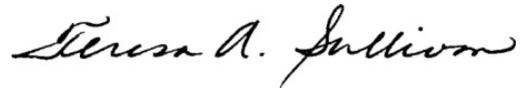
- All new money for the College (\$1.06M) has been eliminated from the final budget, which includes performance funding (\$0.25M), salary adjustments (\$0.31M), funds for enrollment growth (\$0.07M), financial aid (\$0.35M), and high-need degrees (\$0.08M). Without the state funding, the College will only be able to fund the STEM Education Academy as a Pilot Program beginning this fall to strengthen STEM education for area high school seniors. However, the residential program as envisioned as a regional program in the six year plan has been scaled back to a local non-residential program. Any additional new investments in the College will be severely limited.
- \$150,000 had already been set aside in the College's budget to address faculty salary issues, particularly at the associate professor level. This will help offset some of the negative impact of the state's "approved" budget.

Medical Center

- The "approved" budget extends the reduction in payment for indigent care services that was assessed to the Medical Center in the current 2012-14 biennium (a \$5.6M negative impact). The Medical Center will still be paid the full federal share of its indigent care costs.
- The General Assembly approved the UVa requested budget amendment to allow Culpeper Regional Hospital to receive the state share for Medicaid supplemental payments.
- The General Assembly added language to its approved budget that prohibits expansion of Medicaid without an appropriation by the General Assembly. The Governor vetoed that language. The House ruled the Governor's action out of order so the language will remain.

In summary, the final state budget represents a reduction of approximately \$8.2M in the Academic Division sources of funds in the 2014-15 budget approved by the Board of Visitors. As mentioned above, we plan to defer the effective date of faculty and University staff merit pay increases to October 1st and to reallocate resources or defer planned expenditures as necessary to balance the 2014-15 budget. The reduction for the College at Wise is \$1.06M.

Very truly yours,

A handwritten signature in cursive script that reads "Teresa A. Sullivan".

Teresa A. Sullivan