Office of the Executive Vice President and Chief Operating Officer
800 Drillfield Drive
Burruss Hall, Suite 210
Blacksburg, Virginia 24061
P: (540) 231-7912
evpcoo@vt.edu

MEMORANDUM

TO: Deans and Vice Presidents

FROM: Amy S. Sebring
Executive Vice President and Chief Operating Officer

Cyril R. Clarke
Executive Vice President and Provost

DATE: December 19, 2023

SUBJECT: FY25 E&G Budget Development Process

As we begin planning for Fiscal Year 2024-25 (FY25), we write to provide a brief description of the current fiscal environment - both at the state and university level - and to share essential information regarding the upcoming university budget development process and timeline.

Virginia's Economic Outlook and Budget Process

On December 20, 2023, the Governor will present the proposed 2024-26 biennial executive budget to the General Assembly money committees. The General Assembly will deliberate on that proposal beginning in January and is scheduled to complete its work later this spring. Recent forecasts suggest that following several years of robust economic growth, the Commonwealth revenue growth may flatten out, creating a more constrained fiscal environment over the next biennium. While the Commonwealth works through its biennial budget cycle, we will run the university's budget development process in parallel. Recognizing that the state budget process informs the university's budget, we will provide updates as we begin to understand the availability of state revenues and the impact of state-mandated programs and costs on the university's budget.

Virginia Tech's Financial Position

Importantly, Virginia Tech's financial position remains strong. Our bond rating was reaffirmed in June and the financial uncertainty that surrounded the COVID-19 pandemic appears to be in the rearview mirror. Operationally, the university continues to experience unprecedented undergraduate student demand and is making significant gains in scholarship and research. We remain ambitiously focused on excellence across all areas

of our mission and recognize that we must make needed investments in our people, processes, and programs to meet our strategic objectives.

As we look ahead, the state's slowing economy, the need to minimize tuition and fee increases, and plans for very modest growth in undergraduate enrollment mean that we need to ensure that all university resources are being used efficiently and effectively. While we will continue to look for opportunities to generate new resources, Virginia Tech has an opportunity to:

- evaluate the use of existing resources across **all fund sources** to ensure they are being used most effectively and aligned with our top strategic priorities and needs; and
- shift resources internally - within units <u>and</u> across units - from lower priority activities to create capacity to expand higher priority activities.

We recognize that, in some cases, this may result in the ability to reallocate resources immediately. In other instances, it may take multiple fiscal years to realign activities in a manner that shifts resources to higher priority items. With that in mind, in early January, we will launch a two-pronged approach to our FY25 budget development process with a focus on both new critical need requests and reinvestment opportunities.

Critical Needs Requests (CNR)

First, as we have in the past, we will be asking all senior management areas to submit CNRs. Those requests will identify for university leadership your unit's needs as you work to advance the university's strategic priorities. Requests for new resources should be compelling and highly focused, targeting mission-related initiatives tied directly to:

- the Virginia Tech Global Distinction;
- the Virginia Tech Advantage; and
- enabling administrative services.

Requests falling more generally under "enabling administrative services" should be limited and focused on critical activities (e.g., campus safety, security, and accessibility; technology enhancements that improve workflow, compliance and the user experience; or necessary but unavoidable cost increases.)

As in prior years, the university will collect budget requests using an online application. System access, a user guide, and additional information about the process will be available on the Office of Budget & Financial Planning's website at https://www.obfp.vt.edu/budgetprocesses.html. Users will be notified when the system opens in early January.

Planning for Institutional Reinvestment

In Spring 2023, we recognized that incremental new revenues alone will not be sufficient to meet our strategic objectives. At that time, we committed to the Board of Visitors that we will reinvest at least $25 million in base operating support over the next five years to support our strategic goals. This amount is slightly more than 1% of our overall operating budget, or approximately 2.5% of the Educational & General budget. As part of this effort, you are asked to identify 1-3 current activities within your unit that could be sunset within three years in order to create more capacity for critical work. Given your unit's current activities, please consider the following to identify reinvestment opportunities:

Which programs or activities:
- are no longer essential to your core mission;
- are not aligned with the university's top priorities;
- provide little return to the university; and/or
- consume extensive faculty/staff capacity that could be directed to other areas of priority?

All units - administrative, academic, and central accounts - will be expected to contribute, although we recognize that units will have varying abilities to contribute, and some may have greater needs for reinvestments.

In contrast to an across-the-board reduction exercise that has a limited timeframe to respond to an external financial challenge, we are asking you to think strategically about your unit's work and how to best sustain that work in a manner that is aligned with the university's strategic direction. We recognize that, in some instances, reinvestment may mean freeing up dollars within your unit to support new or higher priority objectives within your unit. In other instances, it may mean pooling resources across units to meet a university-wide priority or need. Therefore, reinvestment strategies will be identified in two ways:

1) <u>The CNR process</u>: Please demonstrate within your CNRs how you could rebalance your unit's existing budget to support your requests for the coming fiscal year (FY25).

2) <u>Strategic Reinvestment Exercise</u>: We understand that reinvestments may require more than one year to implement, span multiple fund sources, and involve financial, operational, and cultural changes within or across units. Therefore, this process will seek your thoughtful and intentional strategies that may span one or more years and demonstrate your senior management area's commitment and contribution to our shared success. Directions for this exercise will be shared in early January.

Timeline for Deliverables

As we head into the holidays, we want to give you a preview of the upcoming process and time to plan for your submissions. The table below provides key dates for your reference.

Tuesday, December 19	Launch FY25 E&G Budget Development Process
Tuesday, January 2	Additional user information and a link to the CNR system will be posted on the website of the Office of Budget & Financial Planning. https://www.obfp.vt.edu/budgetprocesses.html
	Critical Needs System Opens
Wednesday, January 10	Reinvestment Exercise Instructions Released
Friday, February 9	Critical Needs System Closes
Friday, February 16	Reinvestment Opportunities Submitted
Monday, February 19 thru Friday, March 1	Budget Hearings with Units

As you begin working through these submissions, please contact Debbie Greer (greervt@vt.edu) or Brad Sumpter (bsumpter@vt.edu) with any questions. We look forward to reviewing your submissions.

cc: Fiscal Officers
        Jeff Earley
        Debbie Greer
        Bruce Heath
        Tim Hodge
        Brennan Shepard
        Brad Sumpter