

Budgeting at the University of Virginia

There are four primary approaches to budgeting at UVA.

- I. Targeted budgeting
- II. Sales and services budgeting
- III. High-level summary budgeting
- IV. Sponsored program budgeting

In addition, the University's Policy on the Oversight of University Operating and Capital Budgets and Long-term Financial Plans can be viewed at: <https://policy.itc.virginia.edu/policy/policydisplay?id=FIN-022>.

I. TARGETED BUDGETING

This methodology applies to several centrally managed funds and is overseen by the University Budget Office (UBO):

- *State General (SG)* – revenue sources include undergraduate, general graduate, and medical school tuition (excludes tuition managed by revenue sharing agreements); state general fund appropriations; \$16.6 million from Facilities & Administrative (F&A) Cost Recoveries; indirect cost recoveries from auxiliaries, the Medical Center, and the Health Services Foundation; taxes from Law, Darden, and McIntire; and other sales, service, and fee revenues.
- *State Restricted (SR)* – revenue sources include tuition designated for financial aid and state general fund and appropriations restricted for financial aid, research, and the Eminent Scholar's match.
- *Local General (LG)* – revenue sources include distribution from the University's Unrestricted Endowment; the 0.50% endowment administrative fee assessed to centrally controlled endowments; one half of the administrative fee or 0.25% assessed to all other endowments; current fund investment earnings; licensing revenues; and other sales, service, and fee revenues.
- *F&A – Institutional (FI)* – revenue sources include distribution from F&A (currently 27.8%, with the first \$16.6 million allocated to the SG fund) and F&A investment earnings.
- *Endowment – Institutional (EI)* – separately managed, centrally controlled endowments, including Residential Improvement Fund, Taylor Fund, Commonwealth Endowment, Kenan Endowment, Davenport Endowment, DuPont Endowment, Bookstore Endowment, and Class Affiliation Fund.
- *Gifts – Institutional (DI)* – separately managed, centrally controlled gifts, including President's Contingency Fund, President's Sundry Gifts, VP Entertainment Fund, and Harrison Charitable Trust.

Annual Process

The overall methodology is a modified incremental approach. The budget development cycle begins each January with the establishment of a base target budget for the subsequent year. The target is set as the July 1 budget of the current year plus or minus any permanent adjustments. In recent history, these permanent adjustments have included prior year addenda allocations, salary increase support (across-the board for classified staff and merit-based for faculty), adjustments due to increases or decreases in the University's pooled fringe benefit rate; and budget reductions. Targets are based on a set of preliminary assumptions as reported to the Board of Visitors each winter.

Targets are distributed by each Major Budget Unit (MBU) to the senior administration (Executive Vice President and Chief Operating Officer (EVP/COO), Executive Vice President and Provost (EVP/Pro), Senior Vice President

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for Development and Public Affairs (SVP/DPA), and President's Areas), then to the vice presidential (VP) area, then to the MBU level. Each successive level has the authority to redistribute the target among units, but this is generally not done until the MBU level, which includes the schools and major administrative units.

Between January and March, with guidance from the UBO (<http://www.virginia.edu/budget/forms.html>), the MBU will build a budget that agrees to the allocated target and consider any additional funding needs. MBUs are responsible for fully budgeting out activities to budget line level and have the full authority to re-allocate their SG target budgets between departments, programs, and expenditure lines (i.e., faculty vs. staff vs. Other Than Personal Services (OTPS)) either at budget development or during the fiscal year. Target budgets from other sources other than SG are frequently allocated for specific purposes and cannot be re-allocated.

During this time the UBO projects the impact of unavoidable cost increases. These will include unavoidable increases that are funded nearly entirely from incremental tuition: increased support for graduate students (increases in in-state remission, the out-of-state differential, and health insurance support), increased cost of AccessUVa (due to higher cost of attendance and greater demonstrated need among undergraduates), utility and lease increases, Board of Visitors-authorized faculty salary supplements, new hiring commitments made during the year, and other increases such as support for the City and County's E-911 Center, the increased housing cost for residential advisors in dormitories, and ADA accommodations. There are also some unavoidable increases which are split between state general funds (~37%) and tuition (~63%). At this time, these split-funded cost increases include state authorized salary increases and state authorized changes in benefits. As a guideline, if there had been a 1% state authorized salary increase in 2009-10, that would cost the SG fund approximately \$3 million, with about \$1.1 million coming from the state and the remaining \$1.9 million to be funded from incremental tuition.

Until 2008-09, the operations and maintenance costs of new facilities were split-funded with the state. However, since that time, the state has not provided any direct general funds support for operating and maintaining even the new facilities funded by the state. The UBO also considers the funding priorities established by the Board of Visitors, such as addressing deferred maintenance in a systematic way, implementing a new student information system, and setting aside funds for the Commission on the Future of the University.

At the same time, the UBO is evaluating expected revenues to each of these funds, including actions by the General Assembly and Governor to increase or decrease the University general fund appropriation. After operating without higher education funding guidelines for most of the 1990s (after Appendix M was abandoned in 1989 during the Wilder budget reductions), in 1999 the General Assembly adopted a model, known as Base Budget Adequacy, to address system-wide higher education funding needs. When allocations are provided for base budget adequacy, these funds are reserved for the addenda process primarily to address academic needs. However, since the funding model was established in 1999, there have been 6 years of across-the-board general fund reductions (totaling \$85.5 million) and 4 years of base budget adequacy funding (totaling \$13.9 million)

The UBO begins developing a tuition proposal that will balance the need for sufficient funds to meet required cost increases (and hopefully an addenda process), General Assembly political concerns, and the impact to our competitive standing. Prior to the 2005 Restructuring Act, the Commonwealth frequently put in place caps, freezes, and even one required 20% reduction on in-state undergraduate tuition. As a guideline, in 2009-10 a 1% increase in in-state and out-of-state undergraduate tuition netted (after the AccessUVa impact) approximately \$1.1 million.

After fully analyzing required cost increases and expected incremental revenues, excess revenues over those required to meet the allocated targets and unavoidable cost increases are available for new initiatives via the addenda process (described below).

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Responsibility for Cost Increases

Funds to pay for state or BOV-authorized increases in salaries are distributed to the units from central resources for targeted accounts. Fringe benefit rate changes (assessed on a pooled basis) are distributed to or recovered from (if the rate decreases) the units. Space, operations and maintenance (O&M) of Educational and General (E&G) facilities, and utilities are covered from central resources and managed centrally by Facilities Management and Space & Real Estate Management (SREM), with a few exceptions. If a unit leases space of its own initiative (with the assistance of SREM), they may be responsible for that cost. Schools are expected to contribute to O&M for new research space. Financial aid (undergraduate AccessUVa, graduate remission, adjustment, University Grants, and healthcare funding) is funded from central revenues to the SR fund and cannot be re-allocated to another purpose.

Addenda Funding

Additional funding needs identified by each MBU are documented on an Addenda Request Form, prioritized, and submitted to each respective VP. Each VP considers and prioritizes all Addenda Requests from his/her reporting units and submits the highest priorities to the respective EVP, who then reviews and prioritizes all requests. The EVP/COO, EVP/Pro, SVP/DPA, and President's Office each submit a prioritized addenda request listing to the UBO for consideration.

As a first pass, the UBO will match the highest priority addenda items submitted from the senior administrative team to available incremental revenues. This preliminary allocation is discussed, and final adjustments are determined in a meeting with the EVP/COO, EVP/Pro, Vice President for Management and Budget, President's Chief of Staff, Vice Provost for Administration and Chief of Staff, and Assistant Vice President for Budget and Financial Planning. The allocation of additional resources is reviewed with the President.

Budget Approval/Budget Load

Following a review of the submitted budgets and after addenda decisions are made, the UBO finalizes the budget document that is presented to the Finance Committee of the Board of Visitors (BOV) in early June. The Budget Summary is published on the web (<http://www.virginia.edu/budget/summary.html>), and approved budgets at line item detail are loaded into the Integrated System by July 1st.

Carry forward of Balances

Generally, year-end surpluses or deficits in the SG and LG funds are carried forward to the respective VP, who determines whether to retain/cover the carryforward or whether to re-distribute it to the MBU. Allocations from other sources were most likely allocated for specific purposes and are not automatically carried forward.

Vacancy Savings

Savings related to vacant positions generally remain with the MBU. Positions are not returned to a VP or EVP level for redistribution.

Budget Reductions

State general fund budget reductions are fully allocated only to SG-funded awards. The reductions are initially calculated on an across-the-board basis, but each EVP, VP, or MBU head has the authority to re-allocate reductions across his/her reporting units. At times the University has assessed a larger percentage reduction to administrative units than to academic units.

II. SALES AND SERVICES BUDGETING

This methodology applies to several unit managed funds expected to be fully self-supporting, generating sufficient revenues to cover planned spending. The process is overseen by the UBO:

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- *Sales and Services (SS, LS, LO)* – revenue sources include tuition managed by revenue sharing agreements (Law, Darden, McIntire grad programs, some School of Continuing and Professional Studies (SCPS)); Medical Center support to the School of Medicine (SOM); SOM Consulting Services activity; student activity fees; and other sales, service, and fee revenues.
- *Auxiliary (SA, LA)* – revenue sources include mandatory fees assessed to students; user fees assessed to faculty, staff, students, and the general public; licensing and athletic conference revenues; and other sales, service and fee revenues.

Annual Process

The unit head is responsible for proposing tuition, fees, and other charges at a level to generate sufficient funds to meet all expenditure requirements and BOV operating and capital reserve requirements

(<http://www.virginia.edu/bov/meetings/06apr/%2706%20APRIL%20MINUTES.pdf>). The budget development cycle begins each January with guidance from the UBO (<http://www.virginia.edu/budget/forms.html>). Budget items, including tuition and fee proposals, are discussed with the respective EVP prior to submission to the UBO.

Auxiliary units are responsible for fully budgeting out activities to budget line level and have the authority to re-allocate their budgets between expenditure lines either at budget development or during the fiscal year. Individual auxiliaries are expected to be fully self-supporting, stand-alone entities, with only a few (Child Care Center, University Press, Air Services) receiving a subsidy from the central funds.

State sales and services (including Law, Darden, McIntire, SCPS, Medical Center and other smaller activities such as conferences) are responsible for fully budgeting out activities to the budget line level and have the authority to re-allocate their budgets between expenditure lines either at budget development or during the fiscal year.

Local sales and services (primarily smaller activities such as conferences) are not required to fully budget out activities and have the authority to re-allocate their budgets between expenditure lines either at budget development or during the fiscal year.

Responsibility for Cost Increases

All sales and service activities are responsible for direct costs, including salary increases and fringe rate adjustments and financial aid. The level of responsibility for other cost increases varies based upon state rules or revenue sharing agreements.

- All auxiliaries are responsible for all space, utility, and O&M of facilities, and all auxiliaries pay 100% of indirect costs to the SG fund, based on a cost allocation required by the Commonwealth.
- The Law School and the Darden School are responsible for all space, utilities, and O&M of facilities and remit a payment of 10% of all collected revenues to the SG fund in support of indirect costs.
- The McIntire School is not responsible for space, utilities, or O&M of facilities, but does remit a payment of 15% of all collected graduate program revenues to the SG fund in support of indirect costs.
- Other sales and service activities do not pay for space, utilities, O&M, or indirect costs.

Addenda Funding

There is no addenda funding process for these activities; each is self-funded.

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Budget Approval/Budget Load

Following a review of the submitted budgets, the UBO finalizes the budget document, which is presented to the Finance Committee of the Board of Visitors in early June. The approved budgets at line item detail (except for Local Sales and Services) are loaded into the Integrated System by July 1st.

Carry Forward of Balances

Each unit is responsible for managing its overall cash balances, including surpluses or deficits resulting from annual operations. Carryforwards are automatically returned to the unit.

Vacancy Savings

Savings related to vacant positions generally remain with the MBU. Positions are not returned to a VP or EVP level for redistribution.

Budget Reductions

The unit manager must deal with reduced revenues, keeping the organization on a positive bottom line. However, state budget reductions are not allocated to these activities.

III. HIGH-LEVEL SUMMARY BUDGETING

This methodology applies to several unit managed funds:

- *Endowments (ER, EU, EF)* – revenue sources include the endowment distribution on Rector & Visitor held endowments and the 0.25% endowment administrative fee assessed to all endowments and allocated to the endowment owner (vs. the central LG fund).
- *Gifts (DR, DU)* – revenue sources include annual giving from fundraising activities and annual support provided from related foundations.
- *Facilities and Administrative Cost Recoveries (FA)* – revenues generated from the payment of indirect cost recoveries from external sponsors.
- *Intellectual Property (IP)* – revenues generated from patent activities.

Annual Process

Each MBU provides to the Budget Office an estimate of annual expenditures from each source during the annual budget process. There is no requirement for units to fully budget out activities to budget line level.

Responsibility for establishing spending authority and monitoring and controlling expenditures against the authorized award installments is managed by the Comptroller's Office for all funds except the Intellectual Property, which is managed by the Vice President for Research's Office.

Responsibility for Cost Increases

All units are responsible for direct costs, including salary increases and fringe rate adjustments, incurred on these fund sources. With the exception of the endowment fee, which is related to the fundraising and management of the endowment principle, these funds do not pay any share of indirect cost.

Addenda Funding

There is no addenda funding process for these activities.

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Budget Approval/Budget Load

The estimates of spending provided from the MBU are included in the University Budget Summary presented to the Finance Committee of the Board of Visitors in early June. Because spending authority for these funds is based on cash in hand, there is no budget upload into the Integrated System each July 1st. MBUs may choose to manually add budgets at a later date, but there is no requirement for these funds to budget the line item detail.

Carry Forward of Balances

Each MBU is responsible for managing its overall cash balances, including annual surpluses or deficits. These funds are managed on a project-to-date basis in the Integrated System, rather than an annual basis, so there is no carryforward consideration.

Vacancy Savings

Savings related to vacant positions generally remain with the MBU. Positions are not returned to a VP or EVP level for redistribution.

Budget Reductions

Each MBU must deal with reduced distributions or annual giving, keeping the organization on a positive bottom line. However, state budget reductions are not allocated to these activities.

IV. SPONSORED PROGRAM BUDGETING

This methodology applies to funds received for direct expenditures on external grants and contracts and is overseen by the Assistant Vice President for Research Administration.

Annual Process

The Office of Sponsored Programs (OSP) provides close oversight and budget management responsibilities for these fund sources on a project, rather than an annual basis. However for the purposes of the overall annual University Budget only, each MBU provides an estimate of annual expenditures during the annual budget process.

Responsibility for Cost Increases

Federal research guidelines apply to most grants and contracts, with direct costs applied as allowable. Most are assessed an F&A rate.

Addenda Funding

There is no addenda funding process for these activities; however, cost share requirements may be made through addenda requests for SG or other centrally managed funds.

Budget Approval/Budget Load

The estimates of annual spending provided from the MBU are included in the University Budget Summary presented to the Finance Committee of the Board of Visitors in early June. Because the detailed budgets are managed by OSP, the UBO does not upload budgets into the Integrated System.

Carry Forward of Balances

These funds are managed on a project-to-date basis, rather than an annual basis, so there is no carryforward consideration.

Vacancy Savings

Savings related to vacant positions are managed within the terms of the allowable cost schedule and OSP policy.

Budget Reductions

State budget reductions are not allocated to these funds.