

November 17, 2008

MEMORANDUM

TO: Vice Presidents and Deans

FROM: Tim Hodge

SUBJECT: Instructions for E&G Budget Reduction Planning

As a follow up to the October 21, 2008 email from President Steger regarding the budget reductions facing the University, the purpose of this memorandum is to provide information on compensation decisions and the process, timetable, strategies, and format for the University's planning for these reductions.

Compensation Decisions – As a part of the Commonwealth's actions to address the shortfall in General Fund, the Governor delayed the planned November 25, 2008 salary increase for all state employees until July 1, 2009. Consistent with that decision, the University has deferred merit and special increases for faculty and for staff until July 1. While the increases are postponed, the University recognizes that there may be a limited number of situations where a salary adjustment was justified outside the merit process, but included in the annual merit process. An example would be where a promotional increase was included in the annual salary process for special research faculty. If such an extenuating circumstance exists, the dean or vice president can request consideration of an off-cycle adjustment. Although the merit increases for faculty have been postponed, academic and administrative units should continue to issue reappointment letters for administrative and professional faculty, special research faculty, and other faculty *as appropriate*, if such letters were not already distributed.

Budget Reduction Process – The University is again utilizing a two phase process to minimize the initial impact and to provide maximum time for planning and implementation.

Phase I will be a one-time cash assessment of 1.5% during fiscal year 2008-09; no plan or submission is required for this action. The Office of Budget and Financial Planning will communicate the 1.5% cash assessment targets to each senior management area and collect the assessment during the winter or spring so that resources may be remitted to the state. The assessment to E&G units will be processed as a one-time budget reduction to the senior management

budget pool. This applies to both agencies, 208 and 229. The 1.5% reversion will be in addition to the reversion of the support provided in the 2008-09 Authorized Budget Document for the November 25, 2008 T&R and A/P salary increase that was delayed by the Commonwealth until July 2009 (funding for the staff increase was not yet distributed).

Phase II is to plan for various scenarios of base reductions for fiscal 2009-10. For agency 208, a plan should be developed for a 3% reduction, along with a separate plan for a 5% reduction. For agency 229, a plan should be developed for a 9% reduction, along with a separate plan for a 13% reduction (as you know, agency 229 has a greater dependence on state General Fund support). The Office of Budget and Financial Planning will provide the reduction planning targets to each senior manager and fiscal officer. Plans should be developed to describe how the reduction can be accomplished and the impact of the reduction.

Strategies – The goal is to provide adequate time and maximum flexibility in planning for and managing this reduction. The University is committed to minimizing the impact of the budget reductions on the quality of our programs. As a result, we are looking at available options for administrative efficiencies in all academic and support units, the identification of alternative funding sources, and revenue enhancements to minimize any reduction scenario.

Because of the anticipated size of the state revenue shortfall and adverse impact of impending reduction, the university will consider a variety of measures, including program consolidation, program elimination, as well as selective and differential reductions.

While providing senior management areas with maximum flexibility in developing budget reduction plans, we need to take every step possible to keep faculty in the classroom; therefore, there is no plan to offer any early retirement incentive to address these budget reduction plans.

We anticipate that you may want to propose some or all of the following strategies to reduce the number of positions: eliminate vacant positions, reduce staff, abolish positions through issuing non-reappointment letters, etc. When considering such strategies, it is important to plan for the associated costs. A layoff of an existing employee will result in severance costs under the Workforce Transition Act (WTA), and the Office of Human Resources can assist in estimating those costs for specific cases.

As described in the detailed instructions, specific reduction strategies must be identified. It is very important that the anticipated impact of each strategy be clearly communicated as part of the plan.

The positions reported on the budget reduction plans should represent positions that will be eliminated; these positions could be currently filled or vacant positions that are being proposed for elimination in order to meet the budget reduction targets. If a strategy involves replacing a senior faculty with a junior faculty and using the difference in salary as part of the budget reduction plan, then you would not report that position allocation on this form but would display the resulting savings in personnel costs.

Format and Instructions – The form for the budget reduction planning process and definitions are similar, yet streamlined, to those utilized in prior planning exercises. The detailed instructions for completing the budget reduction form and a blank form are attached. The form will also be accessible on the Budget Office website at *www.obfp.vt.edu*.

Questions about preparing the budget reduction forms can be directed to Cindy Spangler at 1-6419.

Submission and Timeline – Please submit your budget reduction plan by December 12. The materials should be sent to Cortney Hagerman (crclay@vt.edu) in the Office of Budget and Financial Planning.

If you have questions or comments about the process please feel free to contact me at 1-6419.

cc: Charles W. Steger
Mark G. McNamee
M. Dwight Shelton
Fiscal Officers