

## MEMORANDUM

**TO:** VSCS Finance & Facilities Committee  
David Silverman, Chair  
Adam Grinold, Vice-Chair  
Lynn Dickinson  
Bill Lippert  
Jim Masland  
Shawn Tester  
Sue Zeller

**FROM:** Sharron R. Scott, Chief Financial and Operating Officer

**DATE:** March 4, 2022

**SUBJECT:** Finance and Facilities Committee Meeting scheduled for March 7, 2022

The Finance and Facilities Committee of the VSC Board of Trustees is scheduled to meet at 2:00 p.m. on Monday, March 7, 2022. This meeting will be held via Zoom.

The Finance and Facilities Committee reviewed the 1<sup>st</sup> Pass of the FY2023 budget at its February 7, 2022 meeting. At that meeting the Committee requested a check-in on the FY2023 budget in March. Therefore, the sole agenda item for this meeting will be a progress update on the FY2023 budget.

I am pleased to report that since the last meeting the presidents and their teams have identified areas of structural savings. Their progress is documented in the attached materials and will be reviewed with the Committee during the meeting.

Compared to the 1<sup>st</sup> Pass Budget, this pass of the budget reduces expenses by \$3.98M in the areas of salaries, benefits, supplies, services, and travel. Additionally, revenue is \$478K better than the 1<sup>st</sup> Pass budget, reflecting the 3% increase in room and board approved by the Board of Trustees. Combined, the reductions in expenses and modest improvement in revenue equate to a \$4.46M improvement in the net deficit.

Should you have any questions regarding these materials please contact me at [Sharron.Scott@vsc.edu](mailto:Sharron.Scott@vsc.edu) or 802.224.3022.

**CC:** VSCS Board of Trustees, Council of Presidents, Business Affairs Council

# **Finance and Facilities Committee**

**March 7, 2022  
2:00 p.m. via Zoom**

## **AGENDA**

1. Call to Order
2. **Review and Discuss:** FY2023 Pass 1.5 Budget
3. Other Business
4. Public Comment
5. Adjourn

# Meeting Materials

**ITEM 1:** FY2023 Pass 1.5 Budget Review

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**ITEM 1: Pass 1.5 FY23 Budget**

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**BACKGROUND**

Normally, the board approved system-wide budgeting process includes three reviews of the Vermont State Colleges operating budget. The reviews typically occur during the first three Finance and Facilities committee meetings of each calendar year. The Committee is tasked with reviewing and approving the system-wide budget in advance of forwarding the budget to the full board for approval at the last meeting of the fiscal year. This year, at the request of the Finance and Facilities Committee, a fourth pass of the budget has been added to the schedule, along with an additional check-in meeting. For lack of a better term, we are calling this additional version of the budget Pass 1.5, and it should be considered a progress marker.

In addition to the strategic goals of the Vermont State Colleges: affordability, accessibility, quality, and relevance, the VSC must also achieve the expectations of the State of Vermont in regard to transformation. As outlined in Act 74 of 2021, the “VSC shall reduce its structural deficit by \$5,000,000 per year for five years through a combination of annual operating expense reductions and increased enrollment revenues, for a total of \$25,000,000.” Decades in the making and exacerbated by the ongoing pandemic, the system’s structural deficit is large. While the state has provided one-time support to the VSC to backfill the structural deficit and allow transformation to continue strategically and meaningfully, the VSC must take significant steps to address the issue. Achieving this requirement is vital to the success of the Vermont State Colleges financial sustainability.

**MULTI-YEAR BUDGET PLANNING AS OF FY2022 BUDGET APPROVAL**

With approval of the FY2022 budget, a multi-year pro forma budget was shared with the Finance and Facilities Committee in May 2021. This multi-year forecast offered a path forward for eliminating the Vermont State Colleges Structural deficit within five years.

	<b>Multi-Year Estimate Using FY2022 Budget</b>				
	<b>FY2023E</b>	<b>FY2024E</b>	<b>FY2025E</b>	<b>FY2026E</b>	<b>FY2027E</b>
	<b>Original</b>	<b>Original</b>	<b>Original</b>	<b>Original</b>	<b>Original</b>
<b>TOTAL REVENUES</b>	156,457	161,457	163,957	163,957	163,957
<b>TOTAL EXPENSES</b>	178,908	174,460	171,098	166,265	161,723
<b>NET REVENUES/(DEFICIT)</b>	(22,451)	(13,002)	(7,141)	(2,307)	2,234

We made several assumptions when developing this multi-year estimate:

1. The FY2022 budget is the foundation for all calculations
2. Tuition, fees, room, and board would not increase and student enrollment would remain constant
3. State Appropriation would increase to \$48M by FY2025
4. Increases to wages, benefits, supplies and services would be reduced by a total of \$5M per year
5. Scholarships would increase at a rate of 1.5% per year
6. Utilities would increase at a rate of 4.85% per year
7. Debt service would adhere to the current schedule

As described with the model above, the deficit would decrease from \$22.5M in FY2023 to a modest surplus by FY2027. Bridge funding, in the amounts of \$14.9M, \$16.5M, \$10M, and \$5M for the years FY2023 to FY2026, plus an additional \$10M from Higher Education Emergency Relief (HEERF) or carryover funds for FY2023, would be needed to close the deficit gap for these years.

**RECAP OF SECOND QUARTER FORECAST**

As described at the February 7, 2022 Finance and Facilities Committee meeting, the Vermont State Colleges anticipates performance that is better than budget for FY2022. Net revenues for this year are currently forecasted at \$9.7M as compared to a budgeted deficit of \$6.3M. On the revenue side, improvements to tuition and fees, room and board (inclusive of the use of HEERF), sales and services, and gifts, lift the overall revenue picture. The revenue improvement is furthered by a better than budgeted salaries and benefits line and an improved transfers picture. However, the remainder of expense lines show an increase to budget. For more information, refer to the February 7, 2022 Finance and Facilities Committee packet.<sup>1</sup>

	FY2022 Budget	FY2022 Forecast
<b>TOTAL REVENUES</b>	173,393	191,010
<b>TOTAL EXPENSES</b>	179,686	181,333
<b>NET REVENUES/(DEFICIT)</b>	<u>(6,293)</u>	<u>9,677</u>

**PASS 1.5 BUDGET**

Each budget pass is based on a series of assumptions that all VSCS institutions use as the foundation for the budget. The Pass 1.5 Budget includes the following assumptions:

REVENUE ASSUMPTIONS	EXPENSE ASSUMPTIONS
<p><b>Included:</b></p> <ul style="list-style-type: none"> <li>• 3% rate increase on room &amp; board</li> <li>• Student enrollment using current volume, anticipated graduation, and recent persistence rates</li> <li>• Base appropriation increased to \$40.5M</li> <li>• Sales &amp; Services using currently booked spaces</li> </ul> <p><b>Excluded:</b></p> <ul style="list-style-type: none"> <li>• Estimated bridge funding of \$14.9M<sup>2</sup></li> <li>• Additional State Funded Scholarships</li> <li>• Transformation Funding</li> </ul>	<p><b>Included:</b></p> <ul style="list-style-type: none"> <li>• Wage and benefit increases using current estimates</li> <li>• Utilities rates using regional costs for January<sup>3</sup></li> <li>• Supplies and services adjusting for fixed costs</li> <li>• Chancellor’s lease reduced by two-thirds</li> <li>• CRF Funded software moved to general fund</li> </ul> <p><b>Excluded:</b></p> <ul style="list-style-type: none"> <li>• \$2.3M in vacant or unfilled positions</li> <li>• Transformation Expenses<sup>4</sup></li> <li>• Senior leadership for Vermont State University<sup>5</sup></li> <li>• Capital infrastructure improvements</li> </ul>

The 1<sup>st</sup> Pass budget was the Finance and Facility Committee’s first look at the system-wide budget for the Vermont State Colleges for FY2023. This budget estimated a net deficit of \$24.1M and was short of the VSC’s target for FY2023 by \$1.67M. More importantly, this pass also increased overall expenses by nearly \$11M from the established target.

<sup>1</sup> <https://www.vsc.edu/wp-content/uploads/2022/02/F-and-F-2022-02-07-final-v2.pdf> pp. 24-34

<sup>2</sup> The Chancellor has requested a total of \$55.4M in funding from the state through a combination of Base Appropriation and Bridge Funding

<sup>3</sup> The institutions of the Vermont State Colleges are largely heated with #2 and #4 fuel oil, augmented by a small amount of propane, and electric heat. Despite the current situation in Ukraine and its impact on worldwide oil prices, we have elected to retain the 1<sup>st</sup> Pass budget assumption for utilities. This assumption will be revisited in future passes and will likely require revision.

<sup>4</sup> While transformation revenue and expenses flow through the system operating budget they are funded via a separate state appropriation, therefore neither the revenue nor the expenses are charged to the colleges.

<sup>5</sup> NECHE approval is required for the proposed single president model of FY2023. Pending this decision, no leadership changes are noted in the budget shown here.

	FY2022	FY2023E		
	Forecast	1st Pass	Pass 1.5	Original
<b>TOTAL REVENUES</b>	191,010	165,628	166,106	156,457
<b>TOTAL EXPENSES</b>	181,333	189,745	185,761	178,908
<b>NET REVENUES/(DEFICIT)</b>	9,677	(24,117)	(19,655)	(22,451)

The Pass 1.5 budget improves the net deficit position by \$4.46M from the 1<sup>st</sup> Pass Budget, an overall net deficit improvement of 18.5%. Three key adjustments were made by Castleton University, Northern Vermont University, and Vermont Technical College as part of Pass 1.5.

1. **Revenue was increased by \$478K.** This change was directly proportion to the 3% increase in room and board approved by the Board of Trustees in February.
2. **Supplies and services adjustments were made across all three institutions** to reflect coordinated marketing expenditures for the 2022-2023 academic year. Additionally, Northern Vermont University and Vermont Tech made additional changes.
3. **Salaries and benefits lines** were adjusted to capitalize on program optimization and resource sharing across the system by selectively closing vacant and unfilled positions.

	FY2022	FY2023		
	Forecast	1st Pass	Pass 1.5	Original
<b>EXPENSES</b>				
Salaries and Benefits	107,757	114,459	112,105	107,682
Services, Supplies, Travel	38,002	39,099	37,469	37,160
Scholarships	21,812	19,625	19,625	18,357
Utilities	6,573	7,582	7,582	6,488
Other Expenses	4,589	4,585	4,585	4,585
Debt Service	8,002	8,003	8,003	8,002
Chancellor's Office	(2)	(1)	(1)	-
Other Transfers	(5,400)	(3,607)	(3,607)	(3,367)
<b>TOTAL EXPENSES</b>	181,333	189,745	185,761	178,908
	-	-	-	
<b>NET REVENUES/(DEFICIT)</b>	9,677	(24,117)	(19,655)	(22,451)

An important item to note regarding budgeted expenses is that neither the 1<sup>st</sup> Pass Budget; nor, Pass 1.5, address the underlying capital infrastructure and reserve issues facing the Vermont State Colleges. For example, these budgets do not address the replacement of information technology hardware, deferred maintenance, program enhancements, facilities equipment, or the system's fleet of vehicles. Additionally, the budgets, as currently drafted, do not take into consideration the need to consider expanding the financial reserves that each institution should set aside.

## UNCOVERING THE STRUCTURAL DEFICIT

Another way to look at the finances of the Vermont State Colleges is to look solely at joint operations of the future Vermont State University, exclusive of the state appropriation and bridge funding. When doing so, you can more clearly see the underlying operating deficit for the three institutions. This places the structural imbalance between operating revenues and total expenses in sharp relief. As public institutions, a portion of this imbalance can, and should, be addressed by the state appropriation, however, our overall expenditures for these three institutions is larger than the VSC can responsibly maintain into the future.

	FY222E		FY23B		Var to Budget	
	FY22B	Q2 Forecast	1st Pass	Pass 1.5	\$	%
TOTAL REVENUES	96,690	106,297	102,189	102,668	5,978	6%
TOTAL EXPENSES	153,842	151,110	159,896	155,912	2,070	1%
NET REVENUE / (DEFICIT)	(57,152)	(44,813)	(57,707)	(53,244)	3,908	-7%
TOTAL APPROP / HEERF	28,560	32,290	32,435	32,435	3,875	14%
<b>NET DEFICIT</b>	<b>(28,592)</b>	<b>(12,523)</b>	<b>(25,272)</b>	<b>(20,809)</b>	<b>7,783</b>	<b>-27%</b>

<sup>1</sup> Castleton University, Northern Vermont University, Vermont Technical College with (row 5) and without (row 3) State Appropriation / HEERF

Looking just at CU, NVU, and VTC, the 1<sup>st</sup> Pass Budget shared on February 7 estimated a deficit of \$57.7M for FY2023, nearly \$600K higher than the budgeted deficit for FY2022, and nearly \$13M higher than the current year forecast. Pass 1.5 of the Budget estimates a deficit of \$53.2M, \$3.9M better than the budgeted deficit for FY2022.

This is welcome news as we continue the FY2023 budgeting process. However, there is still significant movement that will be made in the coming weeks including capitalizing on the work of transformation and proposing investments in capital infrastructure and reserves to begin addressing the underlying balance sheet for these three institutions. As

## MULTI-YEAR ROLL FORWARD USING THE PASS 1.5 BUDGET

Using the proposed Pass 1.5 Budget for FY2023, and the same assumptions used to build the multi-year budget estimate during FY2022 budgeting, the Vermont State Colleges can forecast a balanced budget by the end of FY2026.

	FY2023E		FY2024E		FY2025E		FY2026E		FY2027E	
	Pass 1.5	Original	Pass 1.5	Original	Pass 1.5	Original	Pass 1.5	Original	Pass 1.5	Original
TOTAL REVENUES	166,106	156,457	170,169	161,457	172,669	163,957	172,669	163,957	172,669	163,957
TOTAL EXPENSES	185,761	178,908	181,047	174,460	177,408	171,098	172,284	166,265	167,439	161,723
NET REVENUES/(DEFICIT)	(19,655)	(22,451)	(10,878)	(13,002)	(4,739)	(7,144)	385	(2,307)	5,230	2,234

However, as noted in the previous section, the Pass 1.5 Budget does not begin to address the capital infrastructure needs of the VSC. Those adjustments, along with further adjustments related to transformation, will be proposed in the next two passes of the budget.



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## STATE REQUIREMENTS AND NEXT STEPS

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As noted, Act 74 of 2021 requires that “*VSC shall reduce its structural deficit by \$5,000,000 per year for five years through a combination of annual operating expense reductions and increased enrollment revenues, for a total of \$25,000,000.*” Achieving this goal is not optional – it is an expectation of the State of Vermont.

As is the case every year, the early passes of the budget include many assumptions that will be clarified in the coming weeks. The system has made good progress on achieving its goal of reducing its structural deficit by \$5M for the coming year. However, we have not yet reached our goal. In the coming weeks we will continue to refine our estimates. Pass 2 of the budget will be reviewed at the April 11 meeting, with Pass 3 to follow on May 23.