BUDGET ADVISORY COMMITTEE

January 13, 2010

[ ]Robert Parker	[ ] Lawrence Smith	
[ ] Mark Addesa	[ ] Booker, Mildred	[ ] Paula Beasley
[ ] Brunetta Dillard	[ ] Shafer, Patricia	
[ ] Robert Huston	[ ] Islam, Mahmoodal	[ ] Judd, Phil
[ ] Tom Guetzloff	[ ] Michael Lewis	[ ] Magan, Jack
[ ] Jamie McKay	[ ] Parrish, Carmen	[ ] Porterfield, William
[ ] Brett Mannon	[ ] Ulises Toledo	[ ] Tersina Neely
[ ] Brittany Jackson	[ ] Greg Epps	[ ]

Agenda

1. Call to Order

2. Approval of Agenda

3. Minutes of December 16, 2009 Meeting

4. Information:

   a. Executive Order 17-09 Governor Manchin

   b. Newspaper article regarding Report on Colleges

   c. Discussion regarding short term budget cutting strategies and long term strategies

4. New Business

5. Meeting Schedule (Third Thursday) January 21, 2010

6. Adjournment

BUDGET ADVISORY COMMITTEE
December 16, 2009

The meeting was called to order by Vice Chair, Mr. Robert Parker. Those in attendance were Brunetta Dillard, Mildred Booker, Robert Huston, Tom Guetzloff, Lawrence Smith, Patricia Shafer, Carmen Parrish and William Porterfield. The meeting was held in the Library Conference Room on December 16, 2009.

Mr. Parker shared with the group a memo from Chancellor Brian Noland stating that we would not be getting a salary increase this year. Salary increases will be closely scrutinized in the future and approved only in exceptional circumstances.

Mr. Smith and Mr. Parker attended a Finance Summit on November 20 in Morgantown and gave the group a sheet containing quotes from some of the attendees regarding the financial status of higher education in West Virginia. The Chancellor talked about the economic condition of the United States and predicts that our cuts are coming in about 16 months and he is referring to when there won't be any stimulus money to help fill any budget cuts that we have in the state. He says it cannot be avoided but must be planned for and expected. Mr. Parker distributed a handout of "West Virginia State Government Budget Forecast" which was presented by Mike McKown, Director of the State Budget Office. He states that our budget cuts will not be restored.

The next meeting will be held on Thursday, January 21, 2010.

With there being no further business, the meeting was adjourned.

Respectfully submitted,

Mary Flores

JOE MANCHIN III
GOVERNOR

DEPARTMENT OF REVENUE

STATE BUDGET OFFICE
BUILDING 1, ROOM W310
1900 KANAWHA BOULEVARD, EAST
CHARLESTON, WEST VIRGINIA 25305

VIRGIL T. HELTON
CABINET SECRETARY

MEMORANDUM

To: Constitutional Officers
Cabinet Secretaries
Bureau Commissioners

From: Virgil T. Helton, Cabinet Secretary
Department of Revenue

Virgil T. Helton

Date: December 28, 2009

Subject: Reduction of General Revenue Expenditures

As directed by the enclosed copy of Governor Manchin's Executive Order No. 17-09, effective December 28, 2009, I am directing each Constitutional Office, Department and Bureau with FY 2010 General Revenue Fund appropriations to prepare a revision to their FY 2010 expenditure schedule reflecting a spending reduction of three and four tenths percent (3.4%) of their TOTAL FY 2010 General Revenue appropriation.

A spending reduction equal to 3.4% of the TOTAL General Revenue appropriation for FY 2010 only is required for all Constitutional Offices, Departments, and Bureaus with the exceptions as noted in the Executive Order.

As you decide which items of appropriation to reduce, please be aware of the following:

1. Reductions to filled FTEs is not an option.

2. Federal and special revenue expenditures will not be affected.

3. Department Secretaries have the option to choose which fund(s) and activities within the Office/Department/Bureau to reduce.

4. Your Office/Department/Bureau will continue to be responsible for all payments for employee benefits including Workers' Compensation, PEIA, BRIM, etc., and the 1% Public Employees Reserve Fund transfer.

5. Prior year reappropriated accounts may NOT be used to implement the spending reduction.

6. The total spending reduction for all General Revenue funds within your Office/Department/Bureau must equal 3.4% of the TOTAL FY 2010 General Revenue appropriation.

Please use the attached form for your expenditure schedule reduction. **Your current expenditure schedule forms do not need to be revised.** An example of a completed form is attached for your information. You may also download the form from our website at www.wvbudget.gov/forms.htm. The reduction form is listed under "Expenditure Schedules."

Attach a brief narrative summarizing the effects of your proposed reductions to your expenditure schedule revision form.

Please submit this information to the Department of Revenue, State Budget Office, Building 1, Room W-310, no later than 12:00 p.m., January 20, 2010. Make sure the form is signed in blue ink.

Once the proposed spending reduction is approved, an approved copy will be returned to each spending unit. Also, the reduction for each activity will be entered as a "reserve" in WVFIMS and the amount may NOT be expended.

Should you or your staff have any questions regarding this matter, please contact the State Budget Office at 304-558-0040.

VTH:jr

Attachments (3)

cc: Fiscal Officers

STATE OF WEST VIRGINIA

EXECUTIVE DEPARTMENT

At Charleston

EXECUTIVE ORDER NO. 17-09

By the Governor

WHEREAS, the Secretary of the Department of Revenue has submitted to the Office of the Governor a monthly General Revenue Fund Collections Report for the first five months of the 2009-2010 fiscal year as prepared by the State Budget Office; and

WHEREAS, this report demonstrates that the State of West Virginia has suffered a revenue shortfall of approximately $13.8 million as compared to revenue estimates; and

WHEREAS, this revenue shortfall of approximately $13.8 million through November 2009 is a result of particular revenue source shortfalls including shortfalls in the Consumer Sales and Use Tax ($21.6 million), the Personal Income Tax ($41 million), the Business and Occupation Tax ($7 million), and Interest Income ($4.3 million) despite actual collections exceeding estimated collections in a few other tax categories; and

WHEREAS, current economic and fiscal trends will result in projected year-end revenue deficits, including a projected shortfall in Personal Income Tax collections ($71.8 million), a projected shortfall in Consumer Sales and Use Tax collections ($62.9 million), a projected shortfall in Business and Occupation Tax ($4.2 million), and a projected shortfall in Interest Income ($13 million); and

WHEREAS, projected year-end revenue surpluses in various other General Revenue accounts will offset only a small portion of these deficits; and

WHEREAS, the total projected year-end revenue deficit for the General Revenue Fund will be approximately $120 million; and

WHEREAS, the Constitution of the State of West Virginia requires that there be a balance between the State's revenues and expenditures for each fiscal year; and

WHEREAS, the Secretary of the Department of Revenue has reviewed the expenditures of various State agencies to date during the fiscal year 2009-2010, as compared with the agencies' initial appropriations, and has projected a potentially significant budget deficit for the fiscal year ending June 30, 2010, unless either a $120 million spending reduction occurs or revenues increase beyond projections; and

WHEREAS, certain agencies and programs fulfill a vital state interest and should be exempted from a spending reduction.

NOW, THEREFORE, I, JOE MANCHIN III, by virtue of the authority vested in me as the Governor of West Virginia, do hereby **DECLARE** and **ORDER** that:

1. Except as provided in paragraph two below, all departments, agencies, bureaus, sections, boards, commissions and other organizational units within the Executive Branch of State Government shall take immediate action to effect a spending reduction equal to 3.4% of their total combined General Revenue appropriations for fiscal year 2009-2010, effective December 28, 2009.

2. The Department of Administration - Office of the Secretary - Lease Rental Payments (Activity 516); Department of Administration - Public Defender Services - Appointed Counsel Fees and Public Defender Corporations (Activity 127); Department of Education - State Department of Education - Increased Enrollment (Activity 140) and School Nurse Funding (Activity 921);

Department of Education - Aid for Exceptional Children - Special Education - Counties (Activity 159); Department of Education - State Aid to Schools - School Building Authority (Activity 453); Department of Education - Vocational Division - Vocational Aid (Activity 148) and Adult Basic Education (Activity 149); Department of Military Affairs and Public Safety - Division of Corrections - Correctional Units - Inmate Medical Expenses (Activity 535) and Payments to Federal, County and/or Regional Jails (Activity 555); Department of Military Affairs and Public Safety - West Virginia State Police - Trooper Retirement Fund (Activity 605) and Retirement Systems - Unfunded Liability (Activity 775); Higher Education Policy Commission - Administration - Control Account - Higher Education Grant Program (Activity 164) and PROMISE Scholarship - Transfer (Activity 800) are exempt from this spending reduction.

3. The Secretary of the Department of Revenue shall supply instructions on the implementation of this spending reduction.

IN WITNESS WHEREOF, I have hereunto set my hand and caused the Great Seal of the State of West Virginia to be affixed.

DONE at the Capitol, in the City of Charleston, State of West Virginia, this twenty-eighth day of December, in the year of our Lord, two thousand nine, and in the one hundred forty-seventh year of the State.

GOVERNOR

By the Governor

SECRETARY OF STATE

FY 2010 Expenditure Schedule Revision
(Expenditure Reduction)
(Executive Order 17-09)

Department of Revenue Tax Division	0470/0702
Spending Unit	WVFIMS Fund/Org

(1) Appropriation Name	(2) Activity	(3) General Revenue Appropriation	(4) Reduction	(5) Revised Amount
Personal Services	001	$13,270,094	$283,000	$12,987,094
Annual Increment	004	322,206	4,500	317,706
Employee Benefits	010	4,968,482	107,000	4,861,482
Unclassified	099	10,214,281	592,093	9,622,188
BRIM Premium	913	14,420	0	14,420
Other: (List Each Item)				
GIS Development Project	562	150,000	0	150,000
Multi State Tax Commission	653	77,958	0	77,958
TOTAL		$29,017,441	$986,593	$28,030,848

Division Administrator Date

Department of Revenue Date
Virgil T. Helton, Cabinet Secretary

Approved Secretary/Commissioner (Governing Body) Date

FY 2010 Expenditure Schedule Revision
(Expenditure Reduction)
(Executive Order 17-09)

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Spending Unit | WVFIMS Fund/Org

(1) Appropriation Name	(2) Activity	(3) General Revenue Appropriation	(4) Reduction	(5) Revised Amount
Personal Services	001			
Annual Increment	004			
Employee Benefits	010			
Unclassified	099			
BRIM Premium	913			
Other: (List Each Item)				
TOTAL				

______________________________ ______________________________

Division Administrator Date

Department of Revenue
Virgil T. Helton, Cabinet Secretary Date

____

Approved Secretary/Commissioner (Governing Body) Date

FY 2010 Expenditure Schedule Revision
(Expenditure Reduction)
(Executive Order 17-09)

Spending Unit			WVFIMS Fund/Org	
(1) Appropriation Name	(2) Activity	(3) General Fund Appropriation	(4) Reduction	(5) Revised Amount
Personal Services	001			$0
Annual Increment	004			0
Employee Benefits	010			0
Unclassified	099			0
BRIM Premium	913			0
Other: (List each activity)				
TOTAL		$0	$0	$0

Division Administrator　　Date

Department of Revenue　　Date
Virgil T. Helton, Cabinet Secretary

Approved Secretary/Commissioner　　Date

VI. Changes in 2009-2010 Total Education Revenue

Despite the fact that almost all institutions increased tuition and required fees for incoming freshmen, 50 percent of institutions reported a decrease in total education revenues (the combination of net tuition receipts plus state appropriations, excluding capital appropriation and federal stimulus funds). Only 43 percent reported an increase in education revenues and most institutions reported an increase of less than 5 percent.

Of the 72 institutions that estimated the amount and direction of the change in total education revenue, the average percent increase was 5.6 percent and the median was 3.8 percent. The median increase is more typical across institutions as 23 estimated an increase of less than 5 percent. The average decrease was 5.7 percent and the median was 4.9 percent.

Table 9: Distribution of Changes in Total Education Revenue[1]

	Number of institutions	Percent
Decrease: 10% to 19%	4	5.6%
Decrease: 5% to 9%	12	16.7%
Decrease: Less than 5%	20	27.8%
No change	*5*	*6.9%*
Increase: Less than 5%	23	31.9%
Increase: 5% to 9%	4	5.6%
Increase: 10% to 19%	4	5.6%

Number of respondents = 72

[1] *"Education Revenue" is defined as the sum of net tuition receipts plus state appropriations, excluding capital appropriations and federal stimulus funds.*

VII. Short-Term Budget Cutting and Revenue Enhancing Strategies

Federal stimulus funds were used by more than 70 percent of responding institutions as a short-term measure to close budget gaps or manage costs.

Other common short-term strategies can be grouped together broadly under "management of personnel expenses." Permanent and temporary staffing were the most common areas affected. At nearly 80 percent of the institutions, respondents reported reductions in both permanent and temporary staff positions and 70 percent reported reductions in lecturer/adjunct faculty positions. At half of the institutions, permanent staff were laid off. Tenured and tenure-track faculty positions were reduced at 44 percent of institutions; however, only 9 percent of institutions reported actual faculty layoffs.

* Out-of-state travel was limited or frozen at 55 percent of institutions. Mandatory faculty and staff furloughs were instituted at more than 20 percent of the institutions. Other common personnel-related strategies frequently mentioned in the comments were salary freezes, a reduction or elimination of merit increases, and salary reductions for certain groups of employees. Employee recognition and professional development programs were also suspended or eliminated.

Institutions also coped by controlling facility and maintenance costs—64 percent of institutions planned to defer maintenance expenditures. A reduction in the amount of purchasing occurred at 69 percent of institutions. Institutions also delayed "non-essential" capital improvement projects.

In the short-term, academic programs and course offerings were affected at fewer institutions than staffing levels. The most prevalent strategy was collapsing courses into fewer, larger sections (58 percent). The number of elective course offerings was reduced at 43 percent of schools, while 31 percent eliminated courses all together. More severe measures such as eliminating programs (21 percent) or departments (15 percent) took place at a smaller number of institutions. Thirty percent reduced funding for student life activities.

Other strategies written in by respondents included the leveraging of revenues from auxiliary enterprises such as bookstores, food services, and student housing. Many of these entities are absorbing most costs or contributing a portion of revenues to cover overhead costs.

The complete listing of short-term strategies is shown in Table 10 with the number and percentage of the 87 institution respondents utilizing each option.

Table 10: Short-Term Strategies Utilized by Universities to Close Budget Gaps or Manage Costs

	Count	Percent
Reduce temporary or part-time staff positions	68	78.2%
Reduce permanent staff positions	67	77.0%
Reduce temporary or part-time lecturer or adjunct faculty positions	61	70.1%
* Utilize federal stimulus funds	61	70.1%
Reduce purchasing	59	67.8%
Defer maintenance expenditures	55	63.2%
Collapse course sections into fewer, larger sections	50	57.5%
Limit or freeze out-of-state travel	48	55.2%
Reduce graduate assistant/student worker positions	45	51.7%
Lay off permanent staff	44	50.6%
Adjust air conditioning or heating levels	41	47.1%
Lay off temporary or part-time staff	40	46.0%
Reduce tenured or tenure-track faculty positions	38	43.7v
Reduce elective course offerings	37	42.7v
Utilize expendable endowment funds	35	40.2v
Increase incidental fees	32	36.8%
Lay off temporary or part-time lecturer or adjunct faculty	29	33.3%

Table 10: Short-Term Strategies Utilized by Universities to Close Budget Gaps or Manage Costs

	Count	Percent
Shift tenured/tenure-track faculty from elective courses to required courses	28	32.2%
Eliminate courses	27	31.0%
Reduce funding of student-life activities	26	29.9%
Eliminate programs	21	24.1%
Mandate staff furloughs	20	22.9%
Increase the proportion of out-of-state students	20	22.9%
Mandate faculty furloughs	19	21.8%
Increase the size of entering freshman class	18	20.7%
Implement or enhance an early or phased retirement program	17	19.5%
Eliminate departments	15	17.2%
Reduce salary for senior administrators	13	14.9%
Decrease staff/faculty benefits	11	12.6%
Reduce required course offerings	11	12.6%
Reduce number of scholarships	9	10.3%
Reduce size of entering freshman class	9	10.3%
Lay off tenured or tenure-track faculty	8	9.2v
Reduce amount of scholarships	8	9.2%
Lay off graduate assistants/student workers	8	9.2%
Reduce or eliminate non-revenue sports teams	6	6.9%
Request that donors allow restricted gifts to be used for other purposes	6	6.9%

VIII. Long-Term Budget Cutting and Revenue Enhancing Strategies

Nearly 80 percent of institutions responding to the survey indicated one of their long-term strategies for managing costs was to invest in a variety of energy saving measures, such as energy efficiency and sustainability measures, equipment upgrades, and more effective use and scheduling of facilities.

The majority of institutions also plan to do extensive reviews of university structures, operations, and programs including organizational structures, academic, research, outreach, athletic and student support programs, and facility operations. The most common areas slated for review are administrative structures at 67 percent and academic programs at 59 percent of institutions. As part of their comments, several institutions mentioned the need to carefully examine business processes, existing contracts, and other business practices to "increase efficiencies and eliminate redundancies." The comments reiterated institutions' intentions to particularly focus on administrative support structures and services.

Targeted increases in enrollment were cited by 63 percent of schools as a long-term revenue enhancing strategy; only 10 percent of institutions planned to strategically decrease enrollment in specific areas to manage costs.

Personnel expenditures will continue to be an area of both short- and long-term focus, with about 40 percent of institutions planning to permanently change staffing levels for both professional and support staff. Changing the staffing levels of tenured and tenure-track faculty was less common and was planned at about 20 percent of institutions.

When asked about new revenue streams, the most common responses included an increased emphasis on grant funding to support graduate students and academic programs, and the implementation of differential tuition and/or fee structures—in particular for high-cost and high-demand programs. Other potential sources of revenue being considered on campuses were creating industry partnerships, expanding continuing education, and renewing focus on private fund-raising campaigns.

Table 11 summarizes the list of long-term strategies and the number and percent of the 87 institution respondents implementing each option.

Table 11: Long-Term Strategies Utilized by Universities to Close Budget Gaps or Manage Costs

	Count	Percent
Invest in energy savings (e.g., replace inefficient HVAC systems, insulation, windows, etc.)	68	78.2%
Conduct a strategic review of administrative structures	58	66.7%
Increase enrollment in specific areas (e.g., out-of-state students, online students, etc)	55	63.2%
Conduct a strategic review of academic programs	51	58.6%
Conduct a strategic review of online/distance education	50	57.5%
Conduct a strategic review of facility/plant operations	48	55.2%
Conduct a strategic review of academic support services	43	51.8%
Conduct a strategic review of tuition structures and levels	46	52.9%
Conduct a strategic review of course schedules and calendars to ensure full use of facilities	44	50.6%
Conduct a strategic review of outreach/continuing education/extension programs	43	49.4%
Conduct a strategic review of research programs	41	47.1%
Conduct a strategic review of student support services	40	46.0%
Permanently change support staff levels	36	41.4%
Permanently change professional staff levels	34	39.1%

Table 11: Long-Term Strategies Utilized by Universities to Close Budget Gaps or Manage Costs

	Count	Percent
Conduct a strategic review of athletic programs	29	33.3%
Outsource operations/services (e.g., IT services, bookstores)	25	28.7%
Permanently change staffing levels for non-tenured, adjunct faculty	20	23.0%
Permanently change staffing levels for tenured/tenure-track faculty	19	21.8%
Seek exemptions from state regulations that limit options and increase costs	19	21.8%
Decrease enrollment in specific areas (e.g., high-cost undergraduate/masters/doctoral programs, etc.)	9	10.3%

IX. Budget Cutting and Revenue Enhancing Strategies by Level of Appropriation Decrease

When comparing the short-term strategies utilized by institutions experiencing different levels of decreases in state appropriations, differences in approaches are immediately apparent. Universities with cuts of 10 percent or greater were more likely to report more drastic and permanent measures. For instance, while one-third of institutions with decreases of less than 10 percent reported laying off both permanent and temporary staff, more than three-quarters of universities with decreases of 10 percent or greater reported laying off staff. Similarly institutions with larger decreases were significantly more likely to reduce, eliminate, or collapse courses, defer maintenance expenditures, and mandate furloughs.

Long-term approaches were also different between the two groups of universities. The institutions with the larger decreases were more likely to be implementing permanent changes in staffing levels and outsourcing auxiliary operations. Strategic reviews of administrative and support structures were also more common among the institutions with decreases of greater than 10 percent.

Consistent with their choices of strategies, nearly 85 percent of universities experiencing the largest decreases indicated cuts in state appropriations were harming their ability to maintain academic programs and course offerings for students.

Table 12 outlines differences of greater than 20 percent in coping strategies between the two groups of institutions. The table is sorted in the order of the strategies with the largest difference between the groups in each category.