

MINUTES OF THE FINANCE AND ADMINISTRATION COMMITTEE

THE UNIVERSITY OF TENNESSEE BOARD OF TRUSTEES

May 26, 2005
Knoxville, Tennessee

The meeting of the Finance and Administration Committee of the Board of Trustees was held at 8:30 a.m. EST, Thursday, May 26, 2005, in the University of Tennessee Plant Sciences Biotechnology Building, Room 157, in Knoxville Tennessee.

I. CALL TO ORDER

Mr. Bill Stokely, Chair, called the meeting to order.

II. ROLL CALL

Ms. Sylvia Davis, Vice President for Administration and Finance, recorded the following members as present:

Mr. Bill Stokely, Chair
Ms. Johnnie Amonette
Mr. Jim Haslam
Mr. Jerry Jackson
Mr. Lynn Johnson
Dr. John Petersen
Mr. Bucky Wolford

Mr. Don Stanberry was unable to attend.

Other Board of Trustees attending included Mr. Karl Schledwitz, Mr. John Thornton, and Mr. Jim Murphy. The meeting was web cast.

III. WELCOME AND REMARKS

Mr. Bill Stokely welcomed everyone to the budget workshop, which was requested by the Finance Committee at its March 2, 2005 meeting. The focus of today's workshop is learning more about the university's budget process. Mr. Stokely indicated the workshop was being webcast and that DVDs of the session would be provided to members unable to attend. Mr. Stokely introduced Dr. John Petersen to begin the workshop.

IV. BUDGET WORKSHOP PRESENTATION

Dr. Petersen described to committee members the university's annual budget process emphasizing how we weigh major issues to determine what services we deliver and the corresponding cost. The presentation laid out the challenges facing the university and how these challenges affect the forthcoming student fee recommendation. The presentation provided detailed information showing the impact on the university from inflationary cost increases and how revenues were generated to cover these rising costs. Dr. Petersen noted that each of the university's campuses have different missions and financial needs and that his funding recommendation would consider each unit's needs independently of the others.

Mr. Jim Haslam asked if we compare our expenditures with our peer institutions to see if they look reasonable. Dr. Petersen indicated we do compare financial information but said this information is used cautiously as there are reporting differences that may require further analysis to validate the comparison. Dr. Petersen indicated personnel cost dominated the university's total expenditures, accounting for approximately 75% of our cost.

Mr. Karl Schledwitz asked Dr. Petersen about funding allocations for institutional scholarships. Dr. Petersen stated we are sensitive to fees paid by students and are concerned we do not limit student access for financial reasons. Looking for opportunities to direct more resources to need-based scholarships is something currently under discussion.

Dr. Petersen demonstrated how the university's reliance on state appropriations over the past decade had steadily decreased while student fee revenues increased. Mr. Bucky Wolford asked if other states were experiencing the same trend. Dr. Petersen commented that state revenues are becoming a smaller part of available revenues for public universities. Graphs comparing the mix of state and fee revenues for our peer institutions between FY 2000 and FY 2004 showed the change in funding allocations.

Mr. Schledwitz asked about our in-state and out-of-state student mix and if our out-of-state fee increases were rising at a rate proportional to our peers. The state's current funding formula offers no advantages and really operates as a disincentive Dr. Petersen explained. He further noted it is important that campuses have a diverse student population that includes out-of-state students to expose students to different backgrounds and ways of thinking. Mr. Jerry Jackson asked if the Knoxville campus's declining out-of-state enrollment was a conscious decision or one made from increased pressure to admit more in-state

students. Dr. Petersen said the campus looks at the campus quality when making admission decisions. Dr. Anne Mayhew, UT Knoxville's Vice Chancellor for Academic Affairs and Dean of Graduate Enrollment, indicated the qualifications of this year's in-state and out-of-state students were equivalent thus making it harder for out-of-state students to be admitted. Mr. Schledwitz asked if we had an enrollment plan that stated what size we should be. Dr. Petersen said that size was driven in part by facility limitations – do we have enough classrooms and are they the right size, for example. The availability of funds is another driving factor. If we grow our student enrollments, we do receive tuition funds but this only covers part of the cost. State appropriations also need to grow.

Mr. Lynn Johnson said the presentation focused on revenues and expenditures but did not identify cuts and their associated impact. Dr. Petersen said the university had reduced administrative costs. Unlike businesses, three-fourths of the university's expenditures are driven by personnel cost thus making cuts in operations hard. Mr. Johnson commented if we think we are efficient, we need to talk about the impact on programs if they are cut. The public needs to understand what program changes would have to occur if we didn't change prices. Mr. Haslam said that he doesn't think people want to cut instructional programs but they are concerned about the overhead costs and asked if we had comparative cost per student information. Ms. Sylvia Davis, Vice President for Administration and Finance, responded that we used to gather this information for Knoxville's peers but stopped because contacted universities did not want to spend the time making their numbers comparative to our accounting structure. We now look at internal trends to see if we are reducing overhead costs but will renew our efforts to provide this information.

Mr. Murphy asked what our options are to cut costs. If it's people, does this result in reduced enrollments or reductions in class offerings? People tend to believe it's easy to cut cost but ultimately it is a function of the capacity to teach. An analysis of student faculty ratios was requested to see if we are teaching efficiently. Mr. Murphy also commented that reducing enrollments resulted in decreased tuition revenues that put us in a spiral. He further noted that if we are looking to increase educational attainment then reducing enrollments is counter to what the state is trying to accomplish.

Mr. Murphy asked what is our evaluation process for deciding which programs to keep and what to delete. Dr. Petersen responded that building quality programs requires a critical mass of faculty and students. This is one reason the System is trying to get campuses to work with each other citing New College, which is managed by UT Martin, as the university's most forward looking distance education program. We also

look for internal efficiencies and see have to take advantage of these savings system-wide.

Noting that campus faculty salaries differ in relationship to their peer institutions, Mr. Jackson expressed concern that UT Martin's trailed the other campuses and that the Knoxville campus' salaries were not as bad as he thought they would be. He asked if this was something we are trying to address. Dr. Petersen said this is a priority. He indicated the state is providing a 3% increase this coming year and that the allocation of funds in part based on performance should assist in retaining our quality faculty.

Mr. Wolford asked Dr. Petersen what constituted an average faculty teaching load. Dr. Petersen responded that it depended on the institution and the faculty member's job responsibilities. For example, if you have heavy research responsibilities, then you will have less classroom hours than a faculty member whose primary responsibility is instruction.

Mr. Stokely noted the significant increase in staff benefit costs, a cost that is basically out of the university's control, asking what system are we tied into that creates this situation. Ms. Davis responded that the group insurance program and some of our retirement programs are part of the state's plan. The state generally funds the cost increases in these programs but at the expense of making programmatic improvements. We share with the state our concerns and share ways we believe can help reduce costs

Mr. Stokely expressed concern if we had exhausted all internal cost savings opportunities before we turn to students and their parents for more money. He noted that the reduction in operating funds previously described by Dr. Petersen didn't show how hard we dug down below and that these actions needed more exposure. Mr. Stokely also said we need to show where we stand compared to inflation on salaries and benefits and how are we working to narrow the market gap stating we need a long range plan that focused on this important matter.

Mr. John Thornton said it seemed higher education expenditures had a higher inflationary rate than most industries. He thought the CPI might be a misleading indicator and asked if we had comparative peer data. Dr. Petersen said higher education costs did indeed outpace the CPI as we are in the business of training students which means we have to stay on the leading edge of technology which is costly. We also have higher than average personnel costs.

Mr. Johnson said we have not communicated to the public what we have done to be efficient. There is also not a good understanding of how the

lottery scholarships work. Dr. Petersen agreed citing the scholarships have no financial impact on UT but that they are beneficial because they do serve to keep students in state where they are most likely to stay after they graduate.

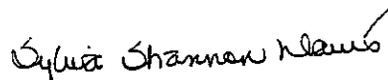
Mr. Haslam said today's presentation looked at how to control expenses but that we also need to try and identify other revenue sources. He suggested this might be a focus of another workshop. We need to do a better job explaining our situation to the legislature and try to get our salary increase costs fully funded.

Mr. Stokely thanked members for their participation at today's meeting.

V. ADJOURNMENT

With no further business to come before the Committee, the meeting adjourned.

Respectfully submitted,



Sylvia Shannon Davis
Vice President for Administration and Finance