

THE UNIVERSITY OF TENNESSEE
BOARD OF TRUSTEES

MINUTES OF THE FINANCE AND ADMINISTRATION COMMITTEE

March 31, 2016
Martin, Tennessee

The Finance and Administration Committee of The University of Tennessee Board of Trustees met at 3:15 p.m. CDT on Thursday, March 31, 2016 in the Boling University Center Ballroom on the campus of the UT Martin campus in Martin, Tennessee.

I. CALL TO ORDER

By designation of the Vice Chair of the Board, Trustee James L. Murphy, III, senior member of the Committee and the Board, served as Chair *pro tempore* in the absence of Chair Anderson and called the meeting to order.

II. ROLL CALL

James R. Maples, Interim Treasurer and Chief Financial Officer, called the roll, and the following members of the Finance and Administration Committee were present:

Shannon Brown
Joseph A. DiPietro
John N. Foy
Raja Jubran, Vice Chair
James L. Murphy
John D. Tickle

Mr. Maples announced the presence of a quorum of the Committee. Chair Charles Anderson was unable to attend the meeting. Other Trustees, administrative staff, members of the public, and representatives of the media were also present.

III. CONSENT AGENDA

Trustee Murphy directed the Committee's attention to the Consent Agenda and called for requests to remove any items. Hearing none, Trustee Murphy called for a motion to approve the Consent Agenda, consisting of the following items:

- A. Minutes of the Last Meeting (Committee Action Only)
- B. Easement from Tennessee Baptist Convention (UTC) (Exhibit 1)
- C. Vine Street Right-of-Way (UTC) (Exhibit 2)
- D. Easements to City of Memphis (UTHSC) (Exhibit 3)
- E. Easement to Knoxville Utilities Board (UTK) (Exhibit 4)
- F. Transfer of Jurisdiction to Tennessee Military Department (UTK) (Exhibit 5)
- G. Corporate Authorization to Transfer Securities (Exhibit 6)
- H. Disclosure of Additional Revenue/Institutionally Funded Capital Projects, FY 2015-16 (Exhibit 7)

Trustee Brown moved that the Consent Agenda be approved and that items requiring full Board approval be moved to the Consent Agenda of the Board. The motion was seconded by Vice Chair Jubran and carried unanimously.

IV. TREASURER'S REPORT ON ENDOWMENT INVESTMENT PERFORMANCE

Rip Mecherle, Executive Director of Investments, provided a report on endowment investment performance (Exhibit 8). The report covered investment pool returns, including all investment assets and liquidity for the period ended December 31, 2015. He provided FY 2015 annual returns for UT compared to NACUBO Cohorts (National Association of College & University Business Officers) and private capital returns as of September 30, 2015.

Trustee Wharton noted that he had previously asked for definitions of acronyms and Mr. Mecherle said he would add a legend in the report in the future.

V. FY 2016 REVISED OPERATING BUDGET

Chair Murphy called on Mr. Maples to present the FY 2016 Revised Operating Budget (Exhibit 9).

Mr. Maples reported that there was very little change between the proposed and the revised budgets. Historically, University budget officers are very conservative when budgeting. Revenues are budgeted less than expected to receive and expenses are budgeted higher than expected to spend. He then presented a look at the total current funds that included; unrestricted, restricted funds, plus auxiliaries. A ten-year representation of all revenues and sources was shared. Mr. Maples pointed out that FY 2006 to FY 2015 are actuals and FY 2016 is budget. State appropriations have decreased while tuition and fees have increased. A ten-year representation of all revenues and sources for unrestricted funds was presented it showed a more dramatic view of the decreased state

appropriations and the increased tuition and fees. It was noted that there were little changes in fees caused by fewer new students at UT Chattanooga and Martin.

Information provided by the Tennessee Higher Education Commission showed change in fall enrollments between the years 2014 and 2015 at all four-year public universities in Tennessee.

Only UT Knoxville and Austin Peay increased and the decreases were contrasted by dramatic jumps in community college enrollment. Tennessee Promise clearly shifted enrollments from UT Chattanooga and UT Martin to community colleges.

Next was a ten-year representation of all expenditures by function. Instruction is constant and scholarships and fellowships have increased.

Trustee Pryse stated that she was surprised by such a drop in enrollment and that there weren't larger budget adjustments at the end of the year. Mr. Maples responded that the University budgets for more revenue than expected. Ron Loewen, System Budget Director, added that in the original budget a decrease in enrollment was expected due to Tennessee Promise. Dr. Richard Brown, Vice Chancellor at UTC, explained that they fully anticipated a decline in enrollment in the beginning of the budget process. Jimmy Cheek, Chancellor of UT Knoxville, noted that the decline was in freshman and not total enrollment, and they had planned accordingly. Steve Angle, Chancellor at UTC, added that an increase in transfer students offset the decrease in freshman enrollment.

Trustee Foy moved that the Finance and Administration Committee recommend the Resolution on the Revised FY 2016 Operating Budget presented in the meeting materials for adoption by the Board of Trustees. The motion was seconded by Trustee Tickle and carried unanimously.

VI. REVISED UT KNOXVILLE/UTIA CAMPUS MASTER PLAN

Mr. Maples introduced Curtis Catron from Bullock Smith & Partners and asked him to present the UT Knoxville/UTIA Campus Master Plan as presented in the meeting materials (Exhibit 10).

Following presentation of the master plan, Trustee Wharton expressed his concern that presentations to the Board needs to define acronyms, present readable numbers and defined colors to facilitate Trustee review and understanding. Mr. Catron responded that notes would be provided in the future and thanked Mr. Wharton for bringing it to his attention. Mr. Wharton then

asked the meaning of the term NASF, and Mr. Catron responded that it stands for Net Assignable Square Feet, which only includes classroom and lab spaces and not restrooms or hallways.

Mr. Catron, in presenting the capital outlay priorities of the campus, spoke about the next Engineering Building and its location in the proximity to Estabrook Hall, a brick masonry building that was built by students and is sitting on hardened earth with no foundation. He explained it may be difficult to retain and meet all the code and seismic requirements but will be reviewed by the design team assigned to the project. Trustee Wharton asked when the building is scheduled, and Chris Cimino replied that the campus will be moving forward with the planning and design phase of the project pending State Building Commission approval in the coming months. He explained the state has only approved the project for planning and no state funds for the building have been appropriated. In response to Trustee Tickle's question, Mr. Cimino confirmed that funding is in place for the planning and design work.

Trustee Tickle moved that the Finance and Administration recommend adoption of the following Resolution by the Board of Trustees:

RESOLVED: The revised long range Campus Master Plan for The University of Tennessee, Knoxville and the Institute of Agriculture, Knoxville campuses is approved as presented in the meeting materials.

The motion was seconded and carried unanimously.

VII. REVISED UT MARTIN CAMPUS MASTER PLAN

Chair Murphy asked Marion Fowlkes from Centric Architecture, Nashville to present the UT Martin Campus Master Plan (Exhibit 11). Mr. Fowlkes began by saying that he has worked with the University on the last three plan updates and was honored to participate. He then presented the plan and noted it was a refinement from 2010.

Trustee Brown moved that the Finance and Administration Committee recommend adoption of the following Resolution by the Board of Trustees:

RESOLVED: The revised long range Campus Master Plan for The University of Tennessee at Martin is approved as presented in the meeting materials.

The motion was seconded by Trustee Foy and carried unanimously.

VIII. UT MARTIN UNDERGRADUATE OUT-OF-STATE TUITION FOR 2016-2017

Interim UT Martin Chancellor, Robert Smith began by publicly thanking Marion Fowlkes, Consultant, Centric Architecture, for his vision on the UT Martin Master Plan. He helped UT Martin find where they needed to go and it was not part of the original plan. Dr. Smith also thanked Robbi Stivers and Tony Hopson both for their help in developing the right plans for UT Martin.

Dr. Smith went on to speak about the future in terms of the action item to change the Undergraduate Out-of-State Tuition for 2016-17 (Exhibit 12). This proposal was discussed in October at the Board of Trustees Workshop and it remains the same as originally presented. There are many universities addressing out-of-state enrollment. Due to the economic state of Northwest Tennessee, it is understandable that the future has to be broadened. The perspective is to take a more regional and multi-state approach. There is not high risk but there is gain not only for the University of Tennessee but a great gain for the State of Tennessee. The evidence is if you can bring a student to your campus, in the process of educating them for their baccalaureate degree they are likely to stay in the region.

UT Martin requests approval to set the amount charged to out-of-state undergraduate students for the 2016-17 academic year at \$13,440 (\$6,720 per semester), which includes both the maintenance fee and the additional out-of-state tuition. The exact amount of each component will be determined at the June 2016 Board meeting. The proposed amount would not apply to online or international students.

The proposed amount is consistent with UT Martin's plan for a new undergraduate out-of-state tuition model setting out-of-state tuition at 75% above the maintenance fee. The total out-of-state tuition at UT Martin, including the maintenance fee, is currently 302% of the maintenance fee. This level is well beyond the market price to be competitive and has hurt the institution's ability to recruit other than through substantial discounts from institutional funds. Further, the existing plans for recruiting these students have not proven effective nor do they provide flexibility to strategically attract better qualified students.

Given the demographics of West Tennessee, the University's future depends on broadening its appeal to a larger region and being competitive with in-state educational costs of other states. This plan is based on an algorithm for a competitive price-point for resetting the out-of-state tuition differential from the in-state and then links those two for adjustment in future years.

Dr. Smith closed his presentation by noting that on February 16, 2016, the UT Martin Faculty Senate approved a resolution fully supporting the proposal.

Trustee Tickle asked for the rationale supporting the very high current out-of-state rate. Dr. Smith said the campus had simply applied an incremental increase in the in-state and out-of-state tuition amount on a percentage basis each year, which escalated the out-of-state fees at a higher and faster rate. There was no apparent understanding of the market implications. It is more than likely a decade of sticking to the same plan and hoping for better results.

Dr. DiPietro asked what the academic profile would be of the typical scholarship student as compared to the program that has been instituted previously where out-of-state students were brought in on a discounted tuition based on state policy of in-state rates at that time. Dr. Smith answered that they would be higher profile students because the other program didn't have an academic component to it at all. As a consequence we were not taking charge of how to leverage it to improve the overall quality. There are also some impeding rules that will be addressed during the next eight months because there are honor scholarships and scholars programs that provide basically the equivalent of the out-of-state waiver. They have not been adjusted over a period of time either but it was decided in budget discussions with the honors program that the Council will come back with adjustments of where the program ought to be and how this program fits in. Finally, we will bring both into an alignment. The question was raised whether or not the profile would be the same for both sets of students. Dr. Smith replied no and that the profile will increase for the scholars and the honor students. It will allow for greater space to grow this program as well.

Trustee Gallimore asked how much student excess capacity is there from an academic standpoint and housing. Dr. Smith noted that currently the housing is 75% occupied. Trustee Gallimore then asked about the academic space and Dr. Smith replied less than that but there is capacity to take this enrollment because enrollment has dropped by 1,600 students in the last few years. UT Martin has not adjusted space on the basis of that at all. Trustee Gallimore went on to say that he wanted to be sure that everyone understands that this plan in no way will restrict the availability of space for in-state students. Dr. Smith noted that all that he had presented is interlocked in some way. The program is in relationship to the master plan and how it plays out to create the same kinds of units. In the master plan the intention is to knock down old housing and replace on a bed by bed basis to upgrade the overall quality of it. It will then be grown based upon what resources allow us to do.

Trustee Lampley asked if there were any numbers in terms of projections we expect to bring in from what you are proposing. Dr. Smith stated that the finances of this were framed based on the replacement needed for the money itself. We have not been able to fully test that market. We do know that this is a wonderful time to be talking to anyone in Illinois, Kentucky, Missouri, Louisiana and we need to be aggressive in those markets. He then noted that Austin Peay is doing this and it needs to be expedited. We have held off being aggressive but are working 1,137 active files now of out-of-state students that we want to approach on Monday.

Trustee Wharton commented that he really likes the program. He then asked if the quality of housing will be accommodating for out-of-state students. Dr. Smith said the residence halls that are seven years old are first class state of the art. One issue that he has is there are too many single residencies in the housing and has an unintended consequence on retention. Villages one and two are popular but they are not full. Housing rates are going to be dropped as part of the overall package for the fall. Administration is conscious of the whole portfolio of changes as early as this fall that adjust for greater revenue for the University and winds up with lower cost for the student. There are Y dorms and in the long range plan as the resources become available they will be the first to be torn down and replaced.

Vice Chair Jubran asked about the time period of the loss of 1,600 students. Dr. Smith replied the loss has been since 2010. Vice Chair Jubran then asked how many faculty and staff positions were eliminated due to these losses. Dr. Smith said he didn't know the exact number but staff had been reduced. He then asked Dr. Smith to send him the percentages of the faculty and staff positions eliminated during that five-year period. Dr. DiPietro interjected that those numbers will not correlate completely because capacity, disciplines and instructors were still needed where classroom numbers have fallen because the course still had to be taught. Dr. Smith admitted that was true and that the nature of the faculty members have been shifted in terms of who is being hired as opposed to before. Dr. DiPietro added that he would be surprised if you didn't have to have some attrition in numbers in order to make the budget work such as retirements you didn't replace. He then said that he was under the impression that if you look at being a border campus the Tennessee student is able to go to the other institutions at an in-state tuition so this is a corollary in many ways. Since October the other institutions have been able to move into the space.

Chair Murphy admitted that he was critical when first looking at UT Chattanooga reducing tuition for out-of-state students because of the concern of preventing Tennesseans from attending our campuses. The paradigm has shifted with

Tennessee Promise and from the history of the five-year period of reduction makes it a different deal. It is a critical issue for the UT Martin campus to go forward. This is what needs to be done on the campuses in order to adjust to the Tennessee Promise impact in particularly with Martin and Chattanooga more severely than Knoxville. It has worked in Chattanooga and my concern was to be careful and to have them come back each year to prove it and they have. If Chattanooga had come to the Board in the same situation that Martin is in today it would have been a different story. Then, UT Chattanooga was not suffering the enrollment drop and there wasn't a Tennessee Promise taking away a large number of students. I am fully supportive of what Chancellor Smith is proposing. His proposal is to try it and see what happens and if can be tweaked next year if needed. Dr. Smith hopes to have the folks at the academic scholarship level to attend UT Martin because it helps with retention and graduation.

Dr. DiPietro added that his sense of what is happening across the United States is the borders on tuition are falling down except for large public research institutions that have more students than they can handle. We don't have to go far to be at Murray State or Western Kentucky or Southern Illinois where they are offering Tennessee students to attend at an in-state rate. The country is going to see a lot of these regional campuses move to these kinds of models because of funding issues. It would be a \$13 million dollar loss if the 1,600 students lost at \$8,000 per year were all Tennesseans. The budget at UT Martin is approximately \$110 million so it is roughly 10 percent. It is real money. UT Martin's number one priority is in equity and tuition in trying to get students to attend there price wise. Martin has to be able to have programs that are just attractive as and even more so than other places. If there is a student living in Kentucky and they can attend one of their schools versus a Tennessee school for the same price why would they want to go to UT Martin? I believe the next effort is going to have to be is what makes it more special to be at UT Martin and West Tennessee. It is important for UT Martin to be healthy but it is more than just financial.

Vice Chair Jubran expressed his support for the proposal and said Dr. Smith has been asked to do so much and he continues to surprise and reward the institution with excellent future outlooks for UT Martin.

Trustee Brown moved that the Finance and Administration Committee recommend the following Resolution for adoption by the Board of Trustees:

RESOLVED: The amount charged to out-of-state undergraduate students for the combined maintenance fee and out-of-state tuition for the 2016-2017 academic year will be \$13,440 (\$6,720 per semester),

provided that this amount will not apply to online or international students.

The motion was seconded by Trustee Tickle and carried unanimously.

IX. AMENDMENT OF RULE ON CLASSIFYING STUDENTS IN-STATE AND OUT-OF-STATE

Matthew Scoggins, Deputy General Counsel, and explained that under the current system-wide Rule classifying students out-of-state or in-state for tuition and fee purposes, there is an exemption for veterans from out-of-state tuition in accordance with state law. A new state law has expanded that exemption making it easier for veterans and their dependents to qualify. Mr. Scoggins said the proposed amendment to the Rule (Exhibit 13) will conform it to the new state law as follows:

- Remove the language, “has not been dishonorably discharged from the U.S. Armed Forces or the national guard;”
- Add the language, “any individual entitled to the veteran’s educational benefits,” to the types of persons eligible for the waiver of out-of-state tuition and fees;
- Increase the time for a veteran to enroll and qualify for in-state tuition from two (2) years to three (3);
- Change the grace period for a veteran to demonstrate objective evidence of residency to three (3) years from the date of discharge (previously, the veteran had one (1) year from the date of enrollment); and
- Remove voter registration as a single method of demonstrating residency.

Vice Chair Jubran moved that the Finance and Administration Committee recommend the following Resolution for adoption by the Board:

RESOLVED: The Board of Trustees adopts the amendment of Chapter 1720-1-1 of the Rules of The University of Tennessee as presented in the meeting materials to be effective upon completion of the rulemaking procedures under the Uniform Administrative Procedures Act.

The motion was seconded by Trustee Foy and carried unanimously.

X. TREASURER'S FINANCIAL REPORT, 2015 (FINAL)

Mr. Maples presented the final 2015 Treasurer's Report to the Committee (Exhibit 14) as an information item. The Report contains financial statements for the University, as well, as the three component units; the UT Foundation, the UC Foundation and the UT Research Foundation. The State Auditors' Unmodified Opinion, which is the best opinion that can be received, is also included. The University's State Audit Report has been received and Trustee Gallimore, Chair of the Audit and Compliance Committee, will present the report at the next Board meeting.

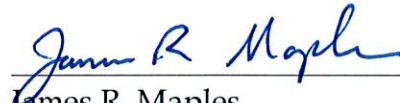
XI. OTHER BUSINESS

Interim CFO and Treasurer James Maples informed the Committee that President DiPietro asked him to give an update on the Governor's Budget. The original Governor's Budget gave the formula units which are Chattanooga, Knoxville and Martin \$14.9 million dollars and are formula productivity gains. The non-formula units didn't fare as well in the original budget with only a 2.5% increase. However, in the amended budget that was released this week those units got an additional monies raising them to a 3.25% increase. Additionally in the amendment the University received \$875,000 for the UT Martin Somerville campus. These are just the Governor's amendments. There are many other amendments that may or may not be passed. Dr. DiPietro reminded the Committee that it is still subject to legislative approval. It is a total of \$120 million dollars, of which \$92 million of it was in Capital Maintenance and Capital Outlay. The two major capital outlay projects are the dental practice facility in Memphis and the renovation of Lupton Library at UT Chattanooga. The University also received \$3 million for benefit costs and one-time money for pediatric medicine program at Memphis. We have agreed to keep our tuition rates low this year and are happy to see increases in state appropriations through the various mechanisms. The amount of money that is new and flexible for these units will barely cover a 3% raise file for the units. We appreciate it but the reality is there are fixed costs increases across the system and promotion money for faculty and staff on career ladders so it necessitates some kind of tuition increase even in the face of an allocation like this.

XII. ADJOURNMENT

There being no further business to come before the Committee, the meeting was adjourned.

Respectfully Submitted,

A handwritten signature in blue ink that reads "James R. Maples". The signature is written in a cursive style and is positioned above a horizontal line.

James R. Maples
Interim Treasurer and
Chief Financial Officer