

THE UNIVERSITY OF TENNESSEE
BOARD OF TRUSTEES

MINUTES OF THE FINANCE AND ADMINISTRATION COMMITTEE

February 25, 2015
Knoxville, Tennessee

The Finance and Administration Committee of The University of Tennessee Board of Trustees met at 1:15 p.m. CDT on Wednesday, February 25 in the O.D. Larry Dining Hall in the Student Alumni Center on the campus of the Health Science Center in Memphis, Tennessee.

I. CALL TO ORDER

Charles C. Anderson, Chair, called the meeting to order.

II. ROLL CALL

Charles M. Peccolo, Treasurer and Chief Financial Officer, called the roll, and the following members of the Finance and Administration Committee were present:

Charles C. Anderson, Chair
Joseph A. DiPietro
William Evans
J. Brian Ferguson
John N. Foy
Raja J. Jubran
Sharon J. Miller Pryse

Mr. Peccolo announced the presence of a quorum of the Committee. Other Trustees, administrative staff, members of the public, and representatives of the media were also present.

III. CONSENT AGENDA

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

A. Minutes of the Last Meeting (committee action only)

- B. Acquisition of 20 Dudley Street, Memphis (UTHSC) (Exhibit 1)
- C. Acquisition of 45 S. Dudley Street, Memphis (UTHSC) (Exhibit 2)
- D. Acquisition of 1302 White Avenue, Knoxville (UTK) (Exhibit 3)
- E. Haslam College of Business Quasi-Endowment Distribution (UTK) (Exhibit 4)

Trustee Pryse moved approval of the Consent Agenda. The motion was seconded and carried unanimously.

IV. AMENDMENT OF RULE ON USE OF UNIVERSTIY PROPERTY

Matthew Scoggins of the General Counsel's Office presented the Amendment of Rule on Use of University Property. Mr. Scoggins began by explaining to the Committee that at the 2014 Annual Meeting, the Board adopted Chapter 1720-01-2 of the Rules of The University, titled "Use of University Property," under the formal rulemaking procedures of the Uniform Administrative Procedures Act (UAPA). This is a system-wide rule that applies to all University property. Overall, implementation of the new rule went smoothly in the fall of 2014, but as with any new policy, certain clarifications and unanticipated issues need to be addressed:

1. The amendment clarifies who may use University property and how the property may be used;
2. The amendment brings standardization and uniformity across the system with what is commonly known on the campuses as No Trespass Notices. The policy behind the Rule is that not everybody has the right to access and use University property, and those that have the privilege of doing so by virtue of this Rule can lose that privilege by their conduct on University property. For example, if a person disrupting an event and refuses to cease the misconduct, after being asked to do so, the person can be asked to leave. If the person refuses to leave, they can be issued a No Trespass Notice that is typically delivered by the Campus Police. This Rule sets out what is included in the written No Trespass Notice; the campus officials who are authorized to issue such a notice; and the consequence of failing to comply with the notice, which is an arrest under the state criminal trespass laws; and
3. The amendment adds restrictions on the use of unmanned aircraft, sometimes known as drones. The FFA has proposed regulations on the use of small unmanned aircraft, but the regulations will not become final until after a public comment period. The issue of drones on campus was

raised on the Knoxville campus in the fall during football games when fans brought drones to campus and flew them as high as the upper deck in Neyland Stadium. UT Police asked the General Counsel's Office to draft a rule to notify the public of certain restrictions on flying drones on University property. Drones are not banned completely because the state of the law does not indicate that a total ban would be permissible. This amendment addresses the immediate concerns raised by UT Police, and other issues may be addressed at a later date.

Trustee Murphy asked whether the No Trespass Rule was a rule previously or just a policy used by the campuses. Mr. Scoggins responded that it was more of a practice and, to his knowledge, no campus has a written policy. The absence of a written policy could present a legal issue about notice and due process.

Trustee Murphy asked how the drone policy will be communicated to the non-university population attending football games. Mr. Scoggins anticipates that the information will be included in materials the UT Police and the Athletics Department post to the public before each game. Trustee Murphy added that the Athletics Department needs to be briefed and suggested notices could be sent out with ticket renewal information.

Trustee Pryse moved that the Board of Trustees adopt the amendment of Chapter 1720-01-2 of the Rules of The University of Tennessee as presented in the meeting materials (Exhibit 5). The motion was seconded and carried unanimously.

V. AMENDMENT OF RULE ON RESIDENCY CLASSIFICATION

Mr. Scoggins presented the proposed Amendment of Rule on Residency Classification, noting first that the amendment would change the title of the Rule to be consistent with the Tennessee Board of Regents Rule on In-State and Out-of-State Classification. He explained that other amendments are required to comply with recent state and federal legislation.

In response to a new state law, Public Chapter 745 (2014), Section .03(4) of the amended Rule would add language allowing a student to be classified as in-state if the student:

- is a U.S. citizen;
- resided in Tennessee for at least one year immediately prior to admission; and

- graduated from a public or private high school in Tennessee or earned a high school equivalency diploma in Tennessee.

Section .04(7) of the amended Rule would add language to comply with the Tennessee VETS Act, Public Chapter 612 (2014), which exempts a veteran from paying out-of-state tuition or any out-of-state fee if the veteran:

- has not been dishonorably discharged from a branch of the United States armed forces or the national guard;
- is eligible for Post 9/11 or Montgomery GI Bill Benefits;
- enrolls in a public institution of higher education within 24 months after the date of discharge and maintains continuous enrollment; and
- within one year of enrolling, either registers to vote in Tennessee or demonstrates intent to be a resident of Tennessee (through at least two of the statutorily-prescribed objective evidences of intent).

The amended Rule would also:

- clarify the definition of an emancipated person;
- include a statement that undocumented aliens cannot establish domicile in Tennessee;
- ensure that classifications are performed in accordance with the Eligibility Verification for Entitlements Act, Tennessee Code Annotated § 4-58-101 et seq.;
- delete language in Section .04 that relates only to the Tennessee Board of Regents; and
- harmonize certain language with the language of the Tennessee Board of Regents' Rule on classifying students.

Mr. Scoggins explained that changes in residency rules must be promulgated under the rulemaking procedures of the Tennessee Uniform Administrative Procedures Act (TUAPA), including a roll call vote in the full Board meeting.

Trustee Jubran moved that the Board of Trustees adopt the amendment of Chapter 1720-1-1 of the Rules of The University of Tennessee as presented in the meeting materials (Exhibit 6). Trustee Pryse seconded the motion, and it carried unanimously.

VI. FY 2015 REVISED OPERATING BUDGET

Charles Peccolo, Treasurer and CFO, made a presentation (Exhibit 7) of the FY 2015 Revised Operating Budget (Exhibit 8). Mr. Peccolo informed the Committee that the University's operating budget requires revision each year to update revenue and expenditure projections. The FY 2015 revised budget takes into consideration final fall enrollments (which were estimated at the time the original budget was prepared), the effect of any prior year's activities carried forward into the current year, and adjustments in state appropriations occurring since the FY 2015 budget was prepared and approved in June 2014.

Mr. Peccolo noted that the University's revenues for the operating budget increased \$43.7 million and recurring budget expenditures increased \$44.4 million, so there is a \$700,000 increase in budget expenditures over revenue, which comes out of the reserve balance. The Unrestricted E & G current fund revenue budget for this year is revised and increases \$4.8 million. Mr. Peccolo explained that when the budget is created, the enrollment numbers and other variables are unknown. Once the academic term starts, those revenues can be projected more accurately. Similarly, the Restricted E & G is up \$2.0 million and Auxiliary is up \$200,000. The total revenue increase is \$6.9 million, which is about .3%.

Mr. Peccolo then presented a chart of revenue trends over the past ten years, noting especially the decrease in state appropriations and increase in student tuition and fees. State appropriations have decreased from 33% to 24%, and this is total current funds, including Restricted and Unrestricted University funds. Student tuition and fees have increased from 19% to 30% of the total revenue. Those are big shifts over the past decade.

With respect to expenditure trends, Mr. Peccolo noted the significant increase in scholarships and fellowships over the last ten years. As student fees have increased over the last decade, the University has made a major commitment to providing scholarships and fellowships for students to offset some of the higher fees.

Discussing the Unrestricted Education & General (E&G) Revenues of the revised budget, Mr. Peccolo noted that tuition and fees went up \$2.2 million due to enrollment figures. There was a very minor change in state appropriations due to insurance and a funded grant in the College of Business. Other revenue increases were from sales and services, interest income, etc. In total, the revised budget reflects approximately a .4% increase in current fund revenue. Finally, he noted that over the last decade, state

appropriations have decreased from 51% of the total current fund budget to 38% while tuition and fees have risen to 49% of the current fund budget.

Turning to Unrestricted E&G Expenditures, Mr. Peccolo noted a total increase in budgeted expenditures of \$88.4 million, or 7.2%. This amount includes an additional \$44 million of non-recurring expenditures coming out of non-current fund reserves (plant, retirement reserves). These items are budgeted for one-time costs such as extraordinary maintenance, replacement of equipment, faculty startup packages, lab improvements, energy conservation measures and IT infrastructure. The increase is spread over more than 1,400 accounts. The \$44 million budgeted to come out of reserves and is considered a spending authority, but the departments might not spend it all. If not spent, the funds will revert back to those reserves. In mid-year of next year, the initiatives will be reviewed across the campuses and be re-budgeted.

He then presented expenditure trends over the last decade, noting that scholarships and fellowships have increased as a percentage of the total but not nearly as much because it is only Unrestricted E&G Funds, and most of scholarships and fellowships are restricted. There has been a slight decrease in instruction as a percentage of the total budgeted expenditures for that period of time with marginal increases in research and institutional and academic support.

Mr. Peccolo concluded his presentation by stating that the net net is approximately a \$700,000 difference from the original to the revised budget. Vice Chair Ferguson noted that the ten-year expenditures went from \$800,000 to approximately \$1.3 million, which is roughly a 3.5% compounded growth over a ten-year period. He then asked what could be expected for expenditure growth in the future without intervention. Mr. Peccolo replied that what has been used for a proxy for inflation in the past is approximately 3% in expenditure growth.

Trustee Pryse asked about the net reserve balances. Mr. Peccolo responded that the \$700,000 current fund budget expenditures is coming out of reserves that are approximately \$100 million in current funds. Considering the entire University balance sheet, including those, the unrestricted reserves balance is about \$428 million. Trustee Pryse how reserves would be replenished after the \$40 million is withdrawn. Mr. Peccolo noted that this year the University's net asset position went up approximately \$100 million. The reserves are built from excess operating funds. The \$40 million is budgeted as a spending authority but most likely not all will be spent. At the end of

the fiscal year, the unspent funds are transferred back to the noncurrent reserve accounts.

Trustee Evans asked whether the change in the research function of \$30 million was largely a carryover of unexpended funds or whether it represents new research. Mr. Peccolo explained that the biggest part of that is faculty startup and new research initiatives that are being put in place and mostly carry-over.

Trustee Murphy then followed up on Trustee Pryse's question regarding the reserves, asking for the percentage being taken out of total reserves and how the withdrawal will change the percentage. Mr. Peccolo explained that \$428 million in unrestricted funds is total net funds. Trustee Murphy asked for clarification that the University has approximately 9% total reserves, and Mr. Peccolo responded that is correct. He added that government accounting usually looks at 4-5%. Trustee Murphy then asked what would a bond agency expect as a total reserve amount. Dr. DiPietro added that it is a reserve with commitments but with the flexibility to go in a different direction. Trustee Murphy noted that dire circumstances are generally unexpected, and if the funds have been committed and used them, then there is not a real reserve. He said the question is what are we maintaining as a true reserve. A true rainy day fund is for catastrophic events and is used for that purpose. Dr. DiPietro asked what the state's requirement is for the reserve account. Mr. Peccolo explained that 3% in E&G current funds and 5% for auxiliary current funds is the target. Beyond that, there are other reserves set aside and when I say committed, I mean they have designs on them but nothing is obligated legally. Trustee Murphy reiterated that the funds are earmarked but the funds aren't spent and wanted clarification that the University meets the state's standard. Mr. Peccolo went on to say that the University discloses reserve amounts to the legislative leadership annually as part of the budget hearings. Chair Anderson asked if the reserve fund is going to be reduced by \$40 million this year or net net what is going to happen to the \$440 million reserve. Mr. Peccolo explained that the budget spending authority is authorizing \$40 million be transferred from reserves. At the end of the year based on net operations, the reserves could actually end up increasing. President DiPietro reiterated that most years that does happen. Trustee Murphy added that if you save money through the year that was budgeted but not expended it goes into a reserve at the end of the year for accounting purposes. As a result, any savings that are accumulated would first neutralize the \$40 million drain from the reserve and would then increase the reserve. Mr. Peccolo said that is correct, and added that the \$40 million is a spending authority that might not be spent.

Trustee Jubran asked about the timeline for approving the original operating budget. Mr. Peccolo stated that it was approved at the June Board meeting in 2014. Preliminary budgets are developed during April and May. In the preliminary budget, even though the Governor's appropriations bill is known - assumptions still have to be made about enrollments, etc. The revised budget is a snapshot as of October 31 after the fall term enrollments are known and a new projection is developed for the budget. Trustee Jubran asked about research going up 43% and whether or not it is a wish list being added. Trustee Jubran questioned whether or not they would have known that on the original budget. Dr. DiPietro explained that the changes typically seen in these categories, such as research, happen through the year. Mr. Peccolo added that we could speculate at the beginning of the year but typically wait until midyear revised budget to do one-time nonrecurring. It has been fairly consistent over the years. Trustee Jubran asked whether the revised budget is the most probable budget, and Mr. Peccolo replied that is correct.

Trustee Murphy noted that when he first joined the Board, the June budget would come out and then an adjustment would be done midyear and now the Board is getting preliminary numbers even earlier.

A Committee member moved approval of the Resolution on the Revised FY 2015 Operating Budget (Exhibit 9). The motion was seconded and carried unanimously.

VII. 2015 UTC VOLUNTARY RETIREMENT INCENTIVE PROGRAM

Dr. Steven Angle, Chancellor of UT Chattanooga, presented the 2015 UTC Voluntary Retirement Incentive Program. Chancellor Angle informed the Committee that UTC is currently developing a strategic plan, seeking to align its budget with strategic priorities. In a budget rebalancing process, 4.75% of the overall campus E & G budget, which is roughly \$5.0 million, is being considered for reallocation. After consultation with deans and unit directors, it has been decided that a voluntary retirement incentive program would be a valuable tool to gain the flexibility needed to move resources from one place to another. He said the proposed program had been developed with the System Human Resource Office and the General Counsel's Office. The program is open to faculty and staff, and the campus administration predicts 60-80 employees will take advantage of the program. The overall total cost would be approximately \$4.1 million. The incentive amount would be six months' salary.

Trustee Pryse asked what the headcount or payroll difference will be when the assets are redeployed. Chancellor Angle replied that the overall savings is estimated to be \$5 million but will depend, to some extent, on the specific positions of those who elect to participate, and the net will depend on whether savings are invested in other areas. This program will be used to put some permanent funding behind some programs currently funded on a one-time or year-to-year basis. There are strategic investments that need to be made as well as capacity. Data and healthcare analytics are areas where significant investments could be made to impact Chattanooga and the State of Tennessee and to tie in with the systemwide initiatives in that area.

Trustee Pryse commended the Chancellor for the proposal but wanted the Committee to hear that it will not just be 100 fewer headcount on a going forward basis, but rather the assets are being redeployed and more strategically aligned.

Trustee Jubran moved that the 2015 UTC Voluntary Retirement Incentive Program be approved with authorization for the administration to take all steps necessary to implement the Program (Exhibit 10). The motion was seconded and carried unanimously

VIII. REVISED POLICY ON APPROVAL OF STUDENT FEES

CFO Peccolo stated that the Board of Trustees adopted a formal policy on approval of student fees in March 2007 to promote a consistent administration of student fees throughout the UT System. The policy describes the various categories of student fees and identifies the highest approval level—Board, system administration, or campus administration—for each category.

The administration has identified needed revisions to the policy and presents a revised policy for adoption. Most of the revisions are technical or editorial in nature but are needed to ensure greater clarity and, therefore, more consistent application. The most significant revisions are a new section on Differential Tuition and clarification of the section on Online and Distance Education Course Fees. Upon adoption by the Board, the revised policy will be incorporated into University Fiscal Policies.

Trustee Pryse moved that the policy titled “Approval of Student Fees” be adopted as presented in the meeting materials (Exhibit 11). Trustee Jubran seconded the motion, and it carried unanimously.

IX. UTHSC REGIONAL TUITION RATE PROGRAM FOR CERTAIN DEGREE PROGRAMS IN NURSING AND HEALTH PROFESSIONS

Tony Ferrara, Vice Chancellor for Finance and Operations at the Health Science Center, presented the proposed regional tuition rate for certain degree programs in Nursing and Health Professions. Mr. Ferrara began by discussing the regional tuition rate approved in 2014 for the College of Pharmacy. The numbers of new and existing students who qualified totaled eleven, which was much more than anticipated. The number of applications for the School of Pharmacy from the region is almost double. The number of offers will be larger for fall 2015.

Turning to the new proposal, Mr. Ferrara noted that the Academic Common Market covered a lot of the programs in both College of Nursing and Health Professions, and thus, initially, a regional tuition rate program for those colleges did not see necessary. It now appears, however, that is it less expensive for out-of-state students to attend local private colleges. In addition, because Arkansas and Mississippi are now offering programs previously available to their residents only through UTHSC, students from those states are no longer eligible for in-state tuition through the Academic Common Market.

With respect to the Bachelor of Nursing program, noted that there is capacity in the program to expand enrollment without increasing costs. The out-of-state tuition is extremely high; the next highest is the University of Memphis, which has a program that discounts the out-of-state tuition for residents within 250 miles to about the same as our proposed regional tuition rate program. A similar analysis applies to several niche graduate nursing programs. The regional tuition program will make the prices more competitive and bring in higher quality students.

Health Professions is in a slightly different situation. The class sizes are very small and is a newer area especially in clinical lab sciences where the hospitals are looking for more students to work in the hospitals. There is one physical therapy program in the Knoxville area at South College. Arkansas and Mississippi are also looking at starting physical therapy programs. Other programs are being expanded in those states taking away the Academic Common Market student discount for out-of-state students. The College of Health Professions is trying to get ahead of the curve, adapt and bring in more out-of-state students from our region to increase the quality in the Health Professions programs. The numbers are small but there is capacity in

all of these programs. This proposal addresses only occupational and physical therapy and clinical lab sciences.

Mr. Ferrara explained that, as with the previously approved regional tuition rate program for Pharmacy, the out-of-state tuition for the College of Nursing and College of Health Profession programs included in the proposal would be discounted 75%, effective Fall 2015 (FY 2016). The discounted rate would apply to students in the following degree programs:

College of Nursing: Bachelor of Science in Nursing (including RN to BSN); Master of Science in Nursing; and Doctor of Nursing Practice; and

College of Health Professions: Clinical Laboratory Sciences (BS and MS); Master of Science in Occupational Therapy; and Doctor of Physical Therapy.

The proposal is for a three-year trial period to review the impact on enrollment, and if successful, UTHSC will ask the Board to extend the program.

Trustee Evans noted that the data shown for the School of Pharmacy did show a marked increase in the number of applications, but the number of enrolled students increased only from two to three. Vice Chancellor Ferrara explained that the process has not been completed yet, and it is anticipated that Pharmacy will enroll a lot more of those students. Trustee Evans agreed but did not think it was appropriate to use the College of Pharmacy as an example of success. In fact, he said, it is midstream, and whether it will be successful is unknown. He went on to say that he was in favor of the proposal in concept but questioned whether the new proposed tuition for Nursing and Health Professions programs would be below the University of Memphis tuition for the same programs. As trustee of the state's flagship University system, he is concerned about the appearance of offering a discounted program. Students need to be attracted because we have the best program and should be willing to pay at least as much for it at UT as they would pay at the University of Memphis, if not more. He then questioned why would we are considering to go below market on tuition. Mr. Ferrara said Trustee Evans was correct that in the College of Nursing, the University of Memphis tuition is \$12,200, which is slightly higher than the UTHSC proposed regional rate, which was derived by taking a 75% discount from the full out-of-state rate. Trustee Evans stated that he did not want to be philosophically the Costco or Walmart of Nursing education in Tennessee.

Chair Ferguson said that he concurred with Trustee Evans' comment and asked what the new proposed out-of-state student pays relative to in-state student. Mr. Ferrara answered that an in-state student would pay \$8,000 and the out-of-state student would pay \$12,000 total. We are trying to suggest that many of the regional students do or will live and work in the Memphis area and that is another goal to attract them into Memphis.

Trustee Pryse asked if there are already ten out-of-state students who will qualify for the discount, would UTHSC be giving up \$100,000. Mr. Ferrara responded that in these programs there are barely that many students especially in Health Professions. He went on to say that half of them will qualify. The goal is to expand enrollment and achieve a net increase in tuition. The three-year trial period will allow the campus to determine whether the program accomplishes the goal of a net increase in tuition.

Trustee Jubran expressed his view that it would be better to refer to the program as 150% of what the in-state student pays, rather than refer to it as a discount.

Chair Anderson asked if consideration should be given to increasing the rate \$200 to match the University of Memphis. President DiPietro asked about the academic profiles of out-of-state students UTHSC is hoping to attract, compared to in-state students. Mr. Ferrara said he did not have that data, but UTHSC's goal is to attract the better students who are choosing to enroll at other institutions with lower tuition. President DiPietro noted that it is a very important stipulation that one of the goals of this program is to attract more talented students on average academically, compared to in-state students. Chancellor Schwab told the Committee that the Deans have two prerogatives. The first is that this program will be financially advantageous to these two Colleges, but what primarily drove the Deans to this program is raising the bar of quality students. The Deans believe they are already capturing the better in-state students. Now they want to raise the standards of the class as a whole, and this program allows us to reach out into the region and get the students that would otherwise go to a university in Mississippi or Arkansas by giving the students a more price competitive tuition in order to stay at home and then join the Memphis workforce. UTHSC will make money on the program and raise the bar of the quality of students for these two Colleges.

Trustee Murphy noted that what the Committee wants to hear back after the three-year trial is a report on the finance and academic issues and whether or not the students brought in raised the bar. He went on to say that there are

discounted tuition programs such as this on various campuses. It is always an issue that must be looked at very carefully because if it gets to the point where the capacity is used up but you are still adding students and losing money. The other side of that is if you are trying to increase the caliber of the student population, it needs to be tracked as well. Chancellor Schwab added that it is the Deans' intent in both colleges to raise the bar. Trustee Murphy went on to say that it makes perfect sense but wants to make sure it is followed through.

In response to a question from Vice Chair Ferguson, Chancellor Schwab said that if the program ended after the three-year trial, students who had enrolled under the regional tuition rate program would be grandfathered.

The consensus of the Committee was to accept Chair Anderson's suggestion that the regional tuition rate be set at an amount not less than the out-of-state tuition for these programs at the University of Memphis.

Accordingly, Trustee Pryse moved that, effective Fall 2015, the UT Health Science Center is authorized to implement a three-year program for the College of Nursing and the College of Health Professions in Memphis to provide a 75% discount of the out-of-state tuition charge for students residing in Mississippi or Arkansas within a 50-mile radius of Memphis who are enrolled in the following degree programs: Bachelor of Science in Nursing (including RN to BSN); Master of Science in Nursing; Doctor of Nursing Practice; Clinical Laboratory Sciences (BS and MS); Master of Science in Occupational Therapy and Doctor of Physical Therapy; *provided that the regional tuition rate shall not be less than the out-of-state tuition for these programs at the University of Memphis* (Exhibit 12). The motion was seconded, and it carried unanimously.

X. TREASURER'S REPORT ON ENDOWMENT INVESTMENT PERFORMANCE

Rip Mecherle presented the Treasurer's Report on Endowment Investment Performance (Exhibit 13).

XI. TREASURER'S FINANCIAL REPORT, 2014

Mr. Peccolo called the Committee's attention to the final 2014 Report of the Treasurer (Exhibit 14) containing the University's financial statements as of June 30, 2014, which have been audited by the Division of State Audit.

XII. OTHER BUSINESS

There was no further business to come before the Committee.

XIII. ADJOURNMENT

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

Respectfully Submitted,

A handwritten signature in blue ink, appearing to read "Charles M. Peccolo", written over a horizontal line.

Charles M. Peccolo
Treasurer and Chief Financial Officer