



THE UNIVERSITY OF TENNESSEE
BOARD OF TRUSTEES

MINUTES OF THE FINANCE AND ADMINISTRATION COMMITTEE

March 1, 2019

Martin, Tennessee

The Finance and Administration Committee of the Board of Trustees met at 10:15 a.m. CST on Friday, March 1, 2019, on the campus of The University of Tennessee at Martin.

I. Call to Order

Committee Chair Bill Rhodes called the meeting to order.

II. Roll Call

Mr. David Miller, Chief Financial Officer, called the roll, and the following members were present:

Bill Rhodes, Chair
Randy Boyd
John Compton
Amy Miles
Kim White

Mr. Miller announced the presence of a quorum. Other Trustees, administrative staff, faculty members, students, and representatives of the media were also present. The meeting was webcast.

III. Requests to Address the Board (none appropriate for this Committee)

IV. Consent Agenda

The Chair called the Committee's attention to the Consent Agenda and noted that three agenda items (Items L-N) were being deferred to a later meeting. Concerning the Revised Board Policy on Related Foundations (Item L), the Chair asked that consideration be given to eliminating the requirement of Trustee membership on related foundation boards, given the significantly reduced size of the Board of Trustees. Mr. Miller responded that the issue could be addressed with state auditors during the upcoming Sunset Review. The Chair asked if there were any requests to remove an item from the consent agenda. There being none, a member moved that:

1. Minutes of the November 2, 2018 meeting of the Committee be approved as presented in the meeting materials, provided that the Secretary be authorized to make any necessary edits to correct spelling errors, grammatical errors, format errors, or other technical errors subsequently identified; and



2. Resolutions presented in the meeting materials for the action items on the Consent Agenda of the Committee be recommended for adoption by the Board of Trustees.

The motion was seconded and passed unanimously by voice vote.

V. Revised FY 2018-19 Operating Budget

Mr. Miller presented the revised operating budget for the current fiscal year, pointing out that the Board would be approve the following:

- Recurring revenue budget up \$9.8 M (.07%)
- Recurring expenditure budgets up \$16.8 M (1.1%)
- \$108.5 M added to non-recurring expenditure budgets

He explained that past practice has been to increase non-recurring expenditure budgets with departmental monies carried over from the prior year (\$108.5 M). At the end of the fiscal year, departmental fund balances are transferred into a renewal and replacement account for planned expenses. During the fiscal year, the funds are transferred back to the department, but most are planned to be lapsed again and are not actually budgeted expenditures. Going forward this practice will be changed; only amounts for expenditures in the current fiscal year will be transferred. A member moved that the Committee recommend adoption of the Resolution to approve the FY 2018-19 Revised Operating Budget as presented in the meeting materials. The motion was seconded, and the Chair called for any further discussion. Hearing none, the Chair called for a voice vote, and the motion passed unanimously.

VI. Process for the Campus Advisory Board to Submit a Recommendation to the President on the Proposed Annual Operating Budget, Including Tuition and Fees, as Related to the Campus

Mr. Miller called attention to the process in the meeting materials for campus advisory boards to submit a recommendation to the President on the proposed annual operating budget for the campus, including tuition and fees. If the advisory board's recommendation differs from the Chancellor's, both proposals would go to the President for review and final recommendation to the Board of Trustees. A member moved that the Committee recommend adoption of the Resolution to approve the process as presented in the meeting materials. The motion was seconded, and the Chair called for any questions or discussion. Hearing none, the Chair called for a voice vote, and the motion passed unanimously.

VII. FY 2019-20 Tuition and Fees for the Health Science Center

The Chair explained that the UTHSC FY 2019-20 tuition and fee proposal is presented at this meeting because the UTHSC academic year begins on July 1, presenting a challenge for students to have financial plans in place if tuition and fees are not approved until the Board meets in June. Mr. Miller



summarized the proposal as follows: \$200 increase in the maintenance fee for graduate and professional programs, which is paid by both in-state and out-of-state students; no increase in undergraduate tuition; reductions in out-of-state tuition for three programs for market reasons; and adjustment to the online tuition for the Doctor of Nursing Program. The total revenue from the net adjustments is expected to be \$451,000, which will be allocated to library acquisitions. A member moved that the Committee recommend adoption of the Resolution to approve FY 2019-20 tuition and fees for the Health Science Center as presented in the meeting materials. The motion was seconded, and the Chair called for any questions or discussion. Hearing none, the Chair called for a voice vote, and the motion passed unanimously.

VIII. Use of UHS Proceeds as Supplemental Funding for Renovation of the UT Conference Center in Knoxville for the UTHSC Department of Audiology and Speech Pathology

Mr. Miller presented the proposal to withdraw \$3,000,000 from the University Health System proceeds account for the Health Science Center to contribute to renovate facilities for relocation of Audiology and Speech Pathology. UT Knoxville will contribute \$3,000,000 and has requested \$9,000,000 from the state to complete the project. A member moved that the Committee recommend adoption of the Resolution to authorize use of \$3,000,000 in UHS proceeds as presented in the meeting materials, and the motion was seconded. Hearing no questions or requests for discussion, the Chair called for a voice vote, and the motion passed unanimously.

IX. Long-term Ground Lease for a Private Housing Development on the Campus of the Health Science Center

Dr. Kennard Brown, Executive Vice Chancellor of the UT Health Science Center, presented the proposal for a long-term ground lease for a private housing development on the Health Science Center campus. A request for proposals was issued for a public-private partnership, mixed-use development, and the Henry Turley Company was the successful proposer. Chair Rhodes noted that Henry Turley is the most prolific developer of housing in Memphis. In response to the Chair's question about the quality of building materials, Dr. Brown said the ground lease contains provisions related to construction quality and maintenance. Chair Compton asked if the University tracks and set goals for minority business participation in capital projects, and Mr. Miller said it does. A member moved that the Committee recommend adoption of the Resolution to approve the proposed ground lease in principle and to delegate authority for final approval to the Chief Financial Officer, in consultation with the Chair of the Finance and Administration Committee. The motion was seconded, and the Chair called for any further questions or discussion. Hearing none, the Chair called for a voice vote, and the motion passed unanimously.

X. Acquisition of Real Properties on Lindsay Place in Knoxville for UTIA Use and Revision of the UTK/UTIA Main Campus Master Plan to Include the Properties

Dr. Tim Cross, Chancellor of the Institute of Agriculture, presented the proposed acquisition, at fair market value, of properties located on Lindsay Place in Knoxville to support UT Extension's by



providing space for education, training, events, and regional meetings with students, faculty, staff and stakeholders. Mr. Miller said the owner has a year-old appraisal at \$1.6M, but the University would obtain another appraisal and would negotiate the best price possible, not to exceed the appraised value. A member moved that the Committee recommend adoption of the Resolution to approve acquisition of the properties at a purchase price equal to or less than the appraised value and to approve revision of the UTK/UTIA Main Campus Master Plan to include the properties. The motion was seconded, and the Chair called for any questions or discussion. Hearing none, the Chair called for a voice vote, and the motion passed unanimously.

XI. Report on the Composite Financial Index for FY 2017-18

Mr. Miller presented the FY 2017-18 Composite Financial Index report and said work is being done to provide additional metrics for the Committee on a recurring basis. The UT System as a whole, UTC, and UTHSC have an adequate CFI; UTK strong; and UTM weak for the second year. Of the 20 ratios calculated, the number in the watch zone increased from two to six. Two of the ratios are each weighted at 35% and comprise 70% of the CFI (primary reserve and viability). Both depend heavily on unrestricted net assets. The strong CFI of UTK is largely due to above-benchmark reserves. Although UTK is at or above the benchmark in three of the four ratios, it is below the benchmark in the viability (debt service coverage) ratio. UTM has adequate reserves for a public university, but current fund expenses exceeded revenue by \$719,570. Although it is critical to monitor each institution separately, Mr. Miller said the Board of Trustees has authority to manage all resources system-wide, and the UT System as a whole has solid financial strength to meet its obligations with a healthy CFI of 2.29 compared to the acceptable zone of 1 to 3.

Chair Rhodes said a significant loss like the one at UT Martin is concerning, and he requested that Mr. Miller and Chancellor Carver create a strategic financial plan for the campus. He added that it is important for all to understand that these are longer term issues and not something that developed in the last year.

XII. Treasurer's Financial Report, FY 2017-18

Mr. Miller presented the FY 2017-18 Treasurer's Financial Report on behalf of Treasurer Ron Maples. The report compares FY 2017 to FY 2018 with the change of net position and liabilities. Capital assets grew by \$146,000,000, which is a large part of the gain in net assets. In the composition of liabilities, bonds payable increased by \$95,000,000. Mr. Miller explained that retiree healthcare (other post-employment benefits (OPEB)) is shown as an accrual, but the state funds this liability. The net change in revenue from FY 2017 to FY 2018 shows state appropriations increased by \$45,700,000, and student fees increased by \$15,500,000.

XIII. Update on the Task Force on Effective Administration and Management

Mr. Miller presented an update on the Task Force on Effective Administration and Management. In phase one, the working groups are conducting assessments of current staffing levels, policies and



procedures, costs of operations and workflow. The University has contracted with Deloitte Consulting to work with the working groups to review the assessments, best practices, and ways to become more efficient. Deloitte and the working groups will make recommendations to the Task Force, which will review the recommendations and consultant's report and present them to President Boyd.

XIV. Committee Discussion of Agenda Items for Future Meetings

In addition to requesting that meeting materials include an executive summary of the committee agenda, the Committee identified the following agenda items for future meetings:

- Key Performance Indicators (KPIs)
- Translation between business financials and Governmental Accounting Standards Board (GASB) metrics
- Net tuition metrics
- Sensitivity analysis on major drivers
- Scenario planning five to ten years outlook (long-range plan)
- UT Martin financial sustainability plan

Mr. Miller said he and Vice President Linda Martin have begun meeting with the chief business officers and provosts to discuss some of these items. President Boyd said reporting can be simpler and more transparent, but there are different accounting rules for the University that he and the Board will need to learn.

XV. Other Business (none brought to the Chair's attention prior to the meeting)

XVI. Adjournment

There being no other business to come before the Committee, the Chair adjourned the meeting.

Respectfully Submitted,



David L. Miller, Chief Financial Officer