



THE UNIVERSITY OF TENNESSEE  
BOARD OF TRUSTEES

MINUTES OF THE FINANCE AND ADMINISTRATION COMMITTEE  
November 8, 2019  
Knoxville, Tennessee

The Finance and Administration Committee of the Board of Trustees met at 10:00 a.m. EST on Friday, November 8, 2019, in Knoxville, Tennessee.

**I. Call to Order and Opening Remarks**

Committee Chair Bill Rhodes called the meeting to order. He highlighted the significance of three particular items listed on the agenda for the meeting: (i) the UT Martin Strategic Financial Plan, (ii) the TEAM Project, and (iii) the Enterprise Resource Planning (ERP) System.

**II. Roll Call**

David Miller, Chief Financial Officer, called the roll, and the following members were present: Bill Rhodes, Committee Chair; Randy Boyd, Interim President; John Compton, Board Chair; Amy Miles, and 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**

There were no requests to address the Board.

**IV. CFO's Report on the Committee's Strategic Priorities**

Mr. Miller provided an overview of UT System Key Performance Indicators (KPIs) for First Quarter of FY 2019-20 (July 1 through September 30), including year to year comparisons (2018 and 2019). The following percentage changes were reported:

- Undergraduate enrollment (FTE): 1.4%
- Scholarships: 5.1%
- Tuition and fee revenue: 3.5%
- State appropriations: 6.8%
- Auxiliary enterprises revenue: 4.0%
- Unrestricted E&G expenditures: 4.1%
- Expenditure per student: 4.5%



Additionally, Mr. Miller reviewed employee data and stated that “terminations” includes all separations from employment, including retirements. He advised that (i) faculty turnover was approximately 8%, slightly lower than national average, and (ii) staff turnover was approximately 14%, on par with national trends. Mr. Miller also provided a breakdown of the age distribution of the University’s employees (Baby Boomers (30%), Millennials (30%), GenX (39%), and GenZ (1%)). He indicated that the age distribution is typical for most higher education institutions, but that, due to the aging workforce, succession planning is a key consideration for the University.

Mr. Miller advised that the 6.8% increase in state appropriations included a one-time \$10 million appropriation for physical security improvements. In this regard, it was explained that, while this increase is very much appreciated, the University will need to continue to identify and improve operational effectiveness in order to identify and reallocate cost savings to strategic priorities while attempting to hold tuition increases to a minimum.

The members of the Committee expressed their appreciation for the efforts of the staff in preparing an initial set of KPIs. Committee Chair Rhodes solicited input from the members on the measures. He advised that the KPIs are a work in progress and that the measures will be refined over time.

## **V. UT Martin Strategic Financial Plan**

Dr. Keith Carver, Chancellor of UT Martin (UTM), presented UTM’s strategic enrollment planning report. He stated that UTM has embarked upon the development of a strategic enrollment plan, with the assistance of Ruffalo Noel Levitz. The nine-month process will chart a plan for enrollment for the next five years. Dr. Carver indicated that the project is approximately 25% complete and that he will be in a position to provide a full update at next year’s meeting. He explained that the project encompasses: financial modeling; a mix of academic programs (undergraduate and graduate); market analysis; demographic and enrollment trends, including consideration of adult learners; and opportunities for maximizing UTM’s five centers (Jackson, Parsons, Ripley, Selmer and Somerville).

Dr. Carver explained that long-term financial stability is dependent upon increasing enrollment, along with improving retention. In order to break-even, the campus will need to implement and execute an aggressive enrollment strategy over the next 5-year period. This strategy contemplates a 4.5% increase in freshman enrollment, a 5% increase in graduate enrollment, and 5% increase in transfer students. Dr. Carver presented three scenarios to the Committee – Best, Modest, and Worst. In addition, he shared a number of new investments critical for the plan’s success, including the costs associated with such investments. The Committee members inquired as to the availability of funding sources for these investments. Dr. Carver responded that UTM’s administration is examining ways to reallocate funds and is



focusing on soliciting support from donors for certain initiatives. Interim President Boyd stated that the System is working with Dr. Carver to provide additional support.

In response to questions from members of the Committee as to UTM's capacity for growth, Dr. Carver indicated that the current campus infrastructure can support an additional 300 students. While UTM had an increase of 125 students living on-campus in residence halls this past year, the current occupancy rate is approximately 85%. Dr. Linda Martin, Vice President for Academic Affairs and Student Success, advised that data shows that students who live in residence halls have much greater success (retention and graduation). Mr. Miller commented that the UT Promise program should also assist with enrollment starting in fall 2020.

## **VI. Plan for Implementation of TEAM Project Recommendations**

Mr. Miller reviewed the structure of and recommendations made by the Task Force on Effective Administration and Management (TEAM). He indicated that Deloitte Consulting was retained to make further recommendations based on industry best practices for efficiency and effectiveness in large multi-institution organizations in the areas of human resources, information technology, and procurement. Mr. Miller introduced Scott Friedman and Kim Dunham from Deloitte Consulting, who presented the firm's key observations and recommendations. A copy of the presentation is filed with these minutes.

The consultants shared that there has been a legacy of failed attempts in centralizing/coordinating certain processes at the University. In response to questions raised by members of the Committee in this regard, Mr. Friedman suggested that employing a pilot approach may assist with building trust and confidence. Defining the business case for the proposed change is also important. The recommendations include opportunities for significant cost savings (e.g., procurement), which could be redeployed to address student success, faculty compensation and other strategic priorities. A discussion ensued regarding the challenges of change management, the importance of changing the culture, the advantages of a more standardized approach to administrative operations, and the need for the One UT Leadership Council to drive the recommendations forward. Interim President Boyd informed the Committee members of his efforts to address the culture. It was noted that the Enterprise Resource Planning (ERP) System should assist in identifying opportunities and driving efficiencies.

## **VII. Analysis of the Enterprise Resource Planning (ERP) System**

Mr. Miller presented an overview of the ERP project, including the proposed timeline and anticipated costs. He reviewed the advantages of a cloud-based system compared to the existing system employed by the University. He also explained that, while subscription costs are higher, there are offsetting savings from not having to maintain and upgrade hardware and software inherent with an on-premise system. Mr. Miller advised that the most significant



costs will be associated with the upfront implementation, which will be better defined as the project moves forward.

### **VIII. Acquisition of Office Space by Sub-easement (TVA East Tower)**

Interim President Boyd updated the Committee on an opportunity to sublease office space in the TVA East Tower, located at 400 W. Summit Hill Drive, Knoxville, TN. He advised the Committee of (i) the costs to relocate staff from the UT Conference Center (approximately \$350,000), and (ii) the estimates to renovate Andy Holt Tower (approximately \$50 million/8-year project). He informed the Committee that, currently, the UT System offices are disjointed being separated among four different locations. Interim President Boyd noted that Knox County is in discussion with TVA for use of the 12-story building. If approved, the University would subcontract for use of the top six (6) floors (approximately 100,000 square feet) and would have signage rights. The proposed arrangement would be for fifteen (15) years, with five (5) renewal options for an additional five (5) years each, for a cumulative term of up to forty (40) years. The base rate would be \$1.00 per square foot/per year, escalated at 1% per year. (Additional information regarding the proposed terms, including improvements and operating costs, were included in the meeting materials provided in advance of the meeting.)

The move of the UT System would improve collaboration and is supported by all of the campuses. The Committee members voiced their support of the proposed relocation. Committee Chair Rhodes called for a motion to recommend adoption of the Resolution in the meeting materials approving the arrangement in principle and authorizing the Chief Financial Officer to move forward with negotiation of the necessary agreements, which will be submitted subsequently to the Board or the Executive Committee for final approval. The motion was made and seconded, and the Chair called for any questions or discussion. Hearing none, the Chair called for a voice vote, and the motion passed unanimously.

### **IX. FY 2020-21 Operating Budget Appropriations Request for Specialized Units**

Mr. Miller presented the proposed FY 2020-21 Operating Budget Appropriation Request for Specialized Units (FY 2020-21 Request). He provided information on prior year requests, along with actual funding received. Mr. Miller advised that the Tennessee Higher Education Commission (THEC) had already acted. THEC's recommendation is approximately \$13.8 million, which is less than the \$16.1 million set forth in the proposed FY 2020-21 Request. He indicated that, by the Committee's action and approval by the Board, the items presented would be eligible for future consideration. A member moved that the Committee recommend adoption of the Resolution in the meeting materials to approve the FY 2020-21 Operating Budget Appropriations Request for Specialized Units. 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.



## **X. Annual Report of Tuition and Fee Revenues, Academic Year 2018-19**

Mr. Miller advised the Committee that Tennessee law requires the University to submit annually to the Office of Legislative Budget Analysis a report addressing: (i) expenditures of revenues derived from any increases to in-state undergraduate tuition and mandatory fees in the previous full academic year; (ii) how revenues were used; (iii) effect on student financial aid; and (iv) effect on the average total cost of attendance per student. A member moved that the Committee recommend adoption of the Resolution in the meeting materials to approve the Annual Report of Tuition and Fee Revenues for Academic Year 2018-19. 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. FY 2019 Report on Endowment Investment Performance**

Mr. Miller presented the FY 2019 Report on Endowment Investment Performance. The report included the market value of the consolidated investment pool (CIP) for FY 2010 – FY 2019, performance data, asset allocation, and a portfolio liquidity. He highlighted that the 10-year performance of the CIP lagged the benchmark by approximately 45 basis points. This underperformance led the investment team to initiate a request for proposals (RFP) process for an investment advisor. Eight advisors submitted proposals, three finalists were selected, and Cambridge Associates was selected. Mr. Miller indicated that the asset allocation is being adjusted to increase investment in public equity and decrease investment holdings in real estate and natural resources. He noted that it will take time some time to liquidate investments, reach the new target weights, and realize the impact of these changes.

## **XII. Consent Agenda**

Committee Chair Rhodes called the Committee's attention to the Consent Agenda and asked if there were any requests to remove an item from the agenda. There being none, a member moved that (i) the Resolution pertaining to the minutes of the June 21, 2019 meeting of the Committee be approved, and (ii) the Resolutions presented in the meeting materials for the other action items on the Committee Consent Agenda (listed below) be recommended for adoption by the Board of Trustees. The motion was seconded and passed unanimously.

- Authorization for Check Signatures
- Corporate Authorization to Transfer Securities
- Statement of Treasury Policy
- FY 2019 Annual Flight Operations Report
- Acquisition of Property by Gift for Institutional Use
- Grant of Easement to St. John's Episcopal Church



### **XIII. Agenda Items for Future Meetings**

Committee Chair Rhodes solicited input for topics for future meetings of the Committee. It was suggested that a review of the other campuses, including historical performance, trends and strategies (similar to what was presented by UTM) should be considered.

**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,

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Cynthia C. Moore  
Secretary and Special Counsel

### List of Information Items Presented to the Committee

- Fiscal Year 2019 Report on Year-End Fund Balances
- Report on Use of Differential Tuition Funds at UTC
- Report on Use of Differential Tuition Funds at UTK
- Disclosure of Additional Revenue/Institutionally-Funded Capital Projects for FY 2019-20