



THE UNIVERSITY OF TENNESSEE
BOARD OF TRUSTEES

MINUTES OF THE FINANCE AND ADMINISTRATION COMMITTEE
February 19, 2020
Chattanooga, Tennessee

The Finance and Administration Committee of the Board of Trustees met at 10:15 a.m. EST on Friday, February 19, 2020, in Chattanooga, Tennessee.

I. Call to Order and Opening Remarks

Committee Chair Bill Rhodes called the meeting to order. He indicated that the presentation materials were circulated in advance of the meeting and that he would prefer to focus on key items set forth in the financial reports and Committee members' questions associated with the reports in order to reserve sufficient time for review and discussion on more substantive items on the agenda, including the UTHSC Campus Master Plan Update.

II. Roll Call

Board Secretary Cynthia Moore called the roll, and the following members were present: Bill Rhodes, Committee Chair; Randy Boyd, Interim President; John Compton, Board Chair; and Kim White. Ms. Moore 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 that were referred to the Committee.

IV. 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, upon motion duly made and seconded, the Committee approved: (i) the Resolution to adopt the minutes of the November 8, 2019 meeting of the Committee, and (ii) the Resolutions pertaining to the other action items included on the Consent Agenda. (A complete list of the approved items on the Consent Agenda appears at the end of these minutes.)

V. CFO's Report on Financial Performance

David Miller, Senior Vice President and Chief Financial Officer, reviewed Financial Key Performance Indicators (KPIs) for the period from July 1, 2019 through December 31, 2019 compared against: (i) the FY 2019-20 Budget for such period, and (ii) the same period for the prior fiscal year for each of the following funds - Education and General (E&G) Revenue and Expense; Auxiliary Operations; and Debt Service.



Mr. Miller focused his remarks on the variances reflected in the tables presented in the report. He stated that out-of-state tuition (mark-up only) was approximately 25% higher than the budgeted amount for the period, which reflects a conservative approach to forecasting revenue figures. Committee Chair Rhodes highlighted the significant incremental impact of out-of-state tuition as a percentage of tuition and fee revenues. Mr. Miller advised that the remainder of the variations were primarily due to timing issues, pass-through payments, or non-recurring items (e.g., \$10 million received for campus safety projects). Interim President Boyd expressed his gratitude for the support of Mike Krause, Executive Director of the Tennessee Higher Education Commission (THEC), for the funding received for campus safety.

A Debt Service Summary, showing principal and interest payments for the period, was shared with the Committee. Approximately 50% of the funding for debt service is associated with and paid from auxiliary operations. Since 2014, the State of Tennessee has refunded \$412 million of the University's debt, resulting in net present value savings of \$35 million. In response to questions from the Committee members, Mr. Miller explained that the University's debt is packaged in a larger package of debt issued by the State of Tennessee. Interim President Boyd indicated that the State of Tennessee is one of about 5 states that holds the highest rating issued by all three rating agencies and that the University benefits from the strong financial position of the State of Tennessee.

VI. Composite Financial Index Report for FY 2018-19

Mr. Miller advised that the Composite Financial Index (CFI) utilizes four strategic ratios (Primary Reserve Ratio; Net Operating Revenue Ratio; Return on Net Assets Ratio; and Viability Ratio) to provide an overall picture of an institution's financial health. He presented the CFI scores for each of the UT Campuses and for the University as a whole. UTM's CFI score has improved and is now 1.42 and within the benchmark range (1 to 3). Mr. Miller noted that, within the watch category, there was an anomaly for UTHSC associated with the expenditure of noncurrent assets matched against current expenditures. Committee Chair Rhodes requested that the chart be revised for next year to show the prior year's CFI scores for comparison purposes. Mr. Miller reviewed the three-year trends for the UT Campuses and the University for each of the four strategic ratios and the composite. With respect to the Viability Ratio (a measure of expendable net assets to long-term debt), only UTHSC is above the benchmark (1.25x).

VII. Treasurer's Financial Report for FY 2018-19

Mr. Miller stated that a copy of the Report of the Treasurer 2019 (Treasurer's Report) was provided to the Committee, and it includes the University's audited financial statements. Mr. Miller highlighted the following items from the Treasurer's Report, based on comparisons with the prior fiscal year.

Assets/Liabilities

- Total Assets increased by \$102 million;
- Total Liabilities decreased by \$41 million;
- Net Position increased by \$143 million; and
- Total Assets increased to \$5.546 billion.



Composition of Assets

- Cash, Investments and Receivables collectively increased by \$31.5 million
- Capital Assets increased by \$57 million.

Composition of Liabilities

- Accounts Payable decreased by \$26 million;
- Net Pensions and Deferred inflows decreased by \$16 million;
- Bonds payable decreased by \$7.5 million; and
- Other Post-Employment Benefits (OPEB) increased by \$23.7 million.

Source of Revenues

- Grants and Contracts are the University's largest source of revenues;
- State Appropriations increased by \$44.7 million;
- Student Fees increased by \$14.4 million (associated with increased enrollment); and
- Total Revenues increased by \$130 million.

Major Expense Categories

- Salaries and Benefits comprise approximately 67% of the University's expenses;
- Benefits increased by \$29.7 million (7.8%);
- Salaries increased by \$25.8 million (2.3%); and
- Total Expenses increased by \$95 million.

In connection with the review of the Report, Committee Chair Rhodes inquired as to the underlying reasons for the large increase in OPEB. Mr. Ron Loewen, Assistant Vice President for Budget and Planning, provided an explanation as to how these payments and obligations are handled by the State of Tennessee with the state providing funding to the University through its appropriations and with these funds then being remitted back to the state, which allows the state to track these obligations as they relate to University employees. In response to other inquiries, Mr. Miller confirmed that the information presented includes the athletics departments and provided information on the endowment distribution (approximately \$45 million), which is reflected within the investment income figures.

VIII. Annual Report on Finances of the Intercollegiate Athletics Program

Committee Chair Rhodes advised that this is the first year for the Committee to receive what will be an annual financial report pertaining to each of the University's Intercollegiate Athletics Programs. This report was based on a recommendation made by the ad hoc Special Committee on UT Intercollegiate Athletics Programs. Mr. Miller reported that each campus with an intercollegiate athletics program must provide a written report pursuant to the Board Policy on Oversight of Intercollegiate Athletics adopted in November 2019. He reviewed five key metrics (operating results, student fees, fund balance, outstanding debt, and debt service) for each program. Committee Chair Rhodes commended the quality of the reports, and Board Chair Compton expressed his appreciation for the level of transparency.



IX. Revised FY 2019-20 Operating Budget

Mr. Miller explained that the University is required to prepare a revised operating budget each year to adjust for changes that occur after the original budget is adopted in June. The primary revisions made each year include: (i) updating beginning net asset balances to reflect actual rather than projected beginning balances; (ii) state appropriations adjustments; and (iii) mid-year adjustments for non-recurring funds allocated to colleges and departments. In this regard, recurring unrestricted E&G expenditures increased by \$7.2 million (0.5%), and non-recurring unrestricted E&G expenditures (allocated to colleges/departments) increased by \$88.1 million.

Mr. Miller provided some insights as to the challenges associated with the budget process involving non-recurring expenditures. He advised that UTK will be implementing new budget software, which may be useful for moving forward. In addition, the software will be considered as part of the ERP project. Committee Chair Rhodes indicated that an extensive amount of work is involved in preparing the revised budget, but that it does not provide much additional value. He inquired as to whether this is an item that should be discussed further with the State in order to reduce the burden involved. Mr. Loewen advised that the revised budget is used to build the Governor's budget proposal.

Upon motion duly made and seconded, the Committee approved a recommendation that the Board of Trustees adopt the Resolution to Approve the FY 2019-20 Revised Operating Budget.

X. FY 2020-21 Tuition and Fees for UT Health Science Center

The UT Health Science Center is presenting its proposed FY 2020-21 student tuition and fees schedules. It was explained that UTHSC's academic year begins on July 1. UTHSC is proposing no tuition and fees increases. The proposed schedule includes a reduction for in-state tuition and fees for one of their programs, and a reduction for out-of-state tuition and fees for several programs. The changes are being driven by the market forces and the efforts to reduce tuition and fees will allow UTHSC to be more competitive with other institutions.

Upon motion duly made and seconded, the Committee approved a recommendation that the Board of Trustees adopt the Resolution to approve the FY 2020-21 tuition and fees as presented.

XI. UTHSC Long-Range Master Plan

Dr. Kennard Brown, Executive Vice Chancellor and Chief Operations Officer for UTHSC, presented the proposed long-range 2020 Campus Master Plan Update (2020 Master Plan) for the UTHSC campus, which plan was last updated in June 2015. Dr. Brown provided an overview of the reach of UTHSC across the State of Tennessee through its clinical sites and provided context as to the square footage, acreage, and number of buildings that it currently occupies within the Medical District of Memphis, Tennessee. There are several drivers, most notably – growing student enrollment and research, that have necessitated the development of the 2020 Master Plan.



Goals

The overarching goal for the 2020 Master Plan is to support UTHSC's vision for a campus that (i) provides a safe and healthy environment for students, faculty, and staff; (ii) elevates the academic, research and clinical care experience; (iii) forges connections across programs and between people; and (iv) enhances campus comfort and wellbeing to promote personal and professional success and innovation.

The Master Plan Update is based on the following programmatic recommendations:

- Academic spaces should be of equal quality across the Colleges and the campus, located to enhance cross-disciplinary interaction, and provide space for collaboration and technology-rich, team-based learning.
- Research spaces should be developed and located to leverage, recruit, and engage corporate, clinical, and academic partners.
- A robust health science innovation district should be promoted and developed over time to house evolving research practices and partnerships as well as provide a successful platform for growth and national distinction.
- Clinical spaces should strengthen adjacencies between patient care functions, research centers, and academic departments. New clinical spaces should be created to expound upon ambulatory services and provide sites for new in-patient clinical partners and programs.

UTHSC Planning Boundary

Dr. Brown outlined the geographic boundary as set forth for the 2020 Master Plan. The 2020 Master Plan provides a 10-year framework for the University to reinvest in its own facilities, redevelop its own land to meet space needs, address long-term needs through partnership opportunities, and identify strategic property acquisitions within the updated Planning Boundary.

He reviewed the ownership of properties within the Planning Boundary, including those properties owned or leased by the University. In addition, Dr. Brown presented an overview of the existing facility conditions, noting facilities that are new or renovated, those that require critical improvements, and others planned for demolition.

In response to questions raised by Committee members, Dr. Brown explained the process that the University must follow to acquire property. There was an in-depth discussion regarding recent acquisitions and on-going discussions pertaining to certain properties within the Planning Boundary. Dr. Brown also discussed the medical district collaborative and certain challenges associated with aligning all the parties' interests.

Further, Dr. Brown acknowledged the significant improvements to the UTHSC campus that have been made possible over the last 8-10 years due to the strong financial support (approximately \$500 million) provided by the state. He concluded his remarks by highlighting the phasing plan, and by showing a rendering of the campus as it presently exists and how it would appear based on the long-term vision.



He confirmed that UTHSC, with the assistance of the University's Government Relations team, is active in its efforts to meet with legislative officials to explain the goals and demonstrate the value of the 2020 Master Plan.

Mr. Miller stated that the 2020 Master Plan, if approved by the Board, would next go to THEC for approval. Approval of the 2020 Master Plan by the Board carries approval to acquire properties within the Planning Boundary, subject to appraisal, necessary due diligence, and the State Building Commission's approval.

Upon motion duly made and seconded, the Committee approved a recommendation that the Board of Trustees adopt the Resolution to approve the long-range 2020 Campus Master Plan Update for UTHSC as presented.

XII. Other Business

Mr. Miller raised one item of new business. The information items included in today's materials include a Report on Endowment Investment Performance. In response to a previous request, the report includes a FY 19 Endowment Distribution Summary. Mr. Miller reported that approximately 94% of the distributions were to support the University's core mission (i.e., scholarships, instruction, academic support, research and public service).

XIII. Adjournment

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

Respectfully Submitted,

A handwritten signature in blue ink that reads "Cynthia C. Moore".

Cynthia C. Moore
Secretary and Special Counsel



Approved Consent Agenda Items

- Minutes of the Last Meeting (November 8, 2019)
- Distribution of Corpus from Robert L. Barksdale Men's Tennis Program Endowment, UTK
- Knoxville Utilities Board Gas Line Easement, UTK

List of Information Items Presented to the Committee

- Report on Endowment Investment Performance
- Disclosure of Additional Revenue/Institutionally-Funded Capital Projects for FY 2019-20

Attachments. Copies of the following documents are filed with the official minutes of this meeting.

- Treasurer's Financial Report for FY 2018-19
- Revised FY 2019-20 Operating Budget
- FY 2020-21 Tuition and Fees for UT Health Science Center
- UTHSC Long-Range Master Plan