



THE UNIVERSITY OF TENNESSEE
BOARD OF TRUSTEES

MINUTES OF THE FINANCE AND ADMINISTRATION COMMITTEE

October 22, 2020

Knoxville, Tennessee

The Finance and Administration Committee of The University of Tennessee Board of Trustees met at 8:00 a.m. (EDT) on Thursday, October 22, 2020. Following continuing guidance from the U.S. Centers for Disease Control and Prevention (CDC) regarding COVID-19 and in compliance with the Tennessee Pledge and other state and local guidelines, the meeting was held virtually with Committee members participating electronically or by telephone. The meeting was hosted from the University of Tennessee, Knoxville campus.

I. Call to Order and Roll Call

Committee Chair Bill Rhodes called the meeting to order. Board Secretary Cynthia Moore called the roll, and the following members of the Committee were present: William (Bill) C. Rhodes III, Committee Chair; John C. Compton, Board Chair; and Amy E. Miles. In addition, the following trustees were in attendance: Bradford D. Box; Leighton Chappell, Student Trustee; Decosta E. Jenkins; and Donnie Smith.

Others present included: President Randy Boyd; David Miller, Senior Vice President and Chief Financial Officer; Brian Dickens, Chief Human Resources Officer; Ron Loewen, Assistant Vice President for Budget and Planning; Austin Oakes, Executive Director for Capital Projects; Chancellors Angle, Carver, Plowman, and Schwab; and other members of the UT senior leadership and administrative staff. The meeting was webcast for the convenience of the University community, the general public, and the media.

Ms. Moore addressed the Open Meetings Act requirements for meetings conducted with members participating electronically and announced the presence of a quorum.

II. Opening Remarks of the Committee Chair

Committee Chair Rhodes welcomed everyone to the meeting. Before moving into the agenda, he expressed his gratitude to President Randy Boyd, the senior leadership team, and the Chancellors for their incredible work on behalf of faculty, students and all constituency groups during the pandemic. He acknowledged the remarkable efforts of the entire University community in response to this extraordinary event.

III. Requests to Address the Board

None.



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

David Miller, Senior Vice President and Chief Financial Officer, began his remarks by providing an update on the operating budget, which focused on the financial impacts of the COVID-19 pandemic.

Operating Budget Update

Mr. Miller reviewed the financial information shared with the Board previously in connection with the Executive Committee meeting held on September 11, 2020. He then presented the current projections, along with the estimates for UT Knoxville athletics and other auxiliaries. Mr. Miller discussed the strategies employed for mitigating and managing the financial impact of the pandemic. Chancellor Plowman discussed the actions taken and under consideration with respect to UT Knoxville athletics, which actions assume that the full, in-conference schedule for football proceeds. Mr. Miller highlighted the significant impacts by campus from both a revenue and expense standpoint. Lastly, he shared the five largest areas of expense reduction, noting that certain areas are actual savings (e.g., reduction in travel) while others are deferrals of expenses (e.g., maintenance and repairs).

Quarterly Financial Update

Mr. Miller discussed first quarter FY 2020-21 (July 1 through September 30) performance against the same period for the prior fiscal year. He indicated that Unrestricted Educational and General (E&G) Funds were 1.8% higher than the prior year, but that Unrestricted Auxiliary Funds were 28.7% lower than the prior year due primarily to the decrease in housing revenues. From an expenditure standpoint, the largest change was associated with Unrestricted Auxiliary Funds. Overall, for the comparison period, total revenues declined approximately .9%, and total expenditures declined by approximately 2.2%. The state appropriation was essentially flat, as the prior year included a one-time grant of \$10 million for safety and security upgrades, and scholarship expenditures increased by approximately \$6.8 million. Mr. Miller also reviewed net revenues/expenses by campus/institute for the first quarter of FY 2020-21, as compared to the same period for the prior fiscal year.

The members of the Committee reflected on the positive impact of enrollment growth on tuition revenues. Mr. Miller confirmed that the enrollment growth was the contributing factor, as tuition rates were not increased for FY 2020-21, and, in certain instances, tuition rates were reduced.

Enterprise Resource Planning (ERP) System

Mr. Miller provided an update on the ERP project. His presentation addressed a number of topics, including: program objectives; composition of the Steering Committee; project phases; project approach; vendor selection criteria; community engagement; progress to date; and future timelines and decisions. Mr. Miller highlighted the Guiding Principles developed for the ERP Program.



Committee Chair Rhodes remarked on the critical importance of setting expectations with respect to the project. He expressed his strong support for the following two statements contained in the Guiding Principles –

- ***Simplification and Standardization*** – *Processes will be redesigned based on higher education best practices and ERP functionality; and*
- ***Integrating Technology*** – *Rather than configuring software to current operations, the way we work will change as we adopt new functionality.*

Board Chair Compton inquired as to a cost/benefit analysis for the ERP project. In this regard, Mr. Miller indicated that the request for proposals will include this as an element of the proposal submission. Based on preliminary information, it appears that the pay-back period for these types of projects is approximately 7-8 years, depending on the scope of the project. In response to additional questions from members of the Committee, Mr. Miller reported that the cost estimate for the ERP project is \$40 million, which reflects cash outlay to the vendor for the application and the cost of the system integration consultant. This figure does not encompass University employee time. Ms. Miles reinforced the need to avoid customizations and/or additional systems. She stressed the importance of soliciting feedback from the user group on the front-end of the project.

V. FY 2021-22 Operating Budget Appropriations Request for Specialized Units

Mr. Miller explained that each year the University has the opportunity to present a state appropriations budget request for improvement funding for the University's specialized units – UT Health Science Center (UTHSC); Institute for Agriculture (UTIA); Institute for Public Service (IPS); and UT System Administration. He highlighted the five-year history of funding requests (chart provided in Tab 2 of the meeting materials). The University's FY 2021-22 appropriations request was derived from THEC's recommendation for FY 2020-21 (approximately \$20.1 million).

The leadership team addressed questions raised by the Committee members as to funding for equipment replacement (UTHSC), the size of the University's funding requests, and the limited number and size of actual appropriations. It was noted that, due to the new funding formula, the specialized units have received no additional, recurring funding. As such, their operating budgets have borne inflationary impacts. In addition, revenues associated with the specialized units are largely fixed, with little price elasticity. President Boyd remains optimistic for future recurring funding for the specialized units for two reasons – (1) increased advocacy and understanding as to the unique roles these institutions serve (education versus government agency function), and (2) anticipated strong financial position of the State of Tennessee.

Upon motion duly made and seconded, a roll call vote was taken, and the Committee approved a recommendation that the Board of Trustees adopt the Resolution approving the FY 2021-22 Operating Budget Appropriations Request for Specialized Units (as set forth in Tab 2 of the meeting materials).



VI. Use of UHS Proceeds

Mr. Miller advised that, under an existing Lease and Transfer Agreement with University Health System, Inc. (UHS), the University receives annual payments that can be used at the discretion of the Board. The Administration is recommending that up to \$1,550,000 of the outstanding balance of \$4,239,000 in UHS proceeds be used to support the acquisition of a vivarium facility and adjacent land, which acquisition is contemplated in the UTHSC Campus Master Plan.

In response to questions raised, Mr. Miller explained how projects are identified and how funds have been used historically. Upon motion duly made and seconded, a roll call vote was taken, and the Committee approved a recommendation that the Board of Trustees adopt the Resolution approving the allocation of the UHS proceeds (as set forth in Tab 3 of the meeting materials).

VII. Revisions to Board Policy on Travel

Board Secretary, Cynthia Moore, indicated that existing Board policies are reviewed on a periodic basis as a best governance practice. Currently, there are two outstanding Board policies pertaining to travel (BT0003 – Policy Statement on Travel; and BT0019 – Policy on University Aircraft). Given the overlap in these policies, Ms. Moore has worked with Mr. Miller and Ryan Stinnett, General Counsel, to streamline and combine the policies into a single travel policy (revised BT0003). Additionally, the proposed policy reflects the intended use of an aircraft donated to the University, designated for use by UT Knoxville athletics, and removes administrative items from the policy that are more suitable for inclusion in University procedures. Ms. Moore concluded her remarks by highlighting certain provisions of the proposed policy intended to safeguard the proper use of University-owned aircraft. Committee Chair Rhodes remarked that it is important for the University's internal auditing team to verify the use of University-owned aircraft for compliance with the travel policy.

Upon motion duly made and seconded, a roll call vote was taken, and the Committee approved a recommendation that the Board of Trustees adopt the Resolution approving the revisions to the Board Policy on Travel (as set forth in Tab 4 of the meeting materials).

VIII. UT System Workforce Update

Brian Dickens, Chief Human Resources Officer, provided an overview of the University's workforce as of September 30, 2020. The presentation included the following items:

- Employees by category (faculty, exempt, non-exempt);
- Number of employees by campus/institute/system administration;
- Overall minority and gender representation of the workforce;
- Educational credentials of the workforce;
- Average years of service, average age of employees, and percentage of employees eligible for retirement; and
- Changes in the workforce in the last year (new hires, separations, transfers, etc.).



Additionally, Dr. Dickens presented an update on the University's compensation study. He reviewed the timeline, the issues identified, actions taken, and the implementation plan. In response to questions from members of the Committee, Dr. Dickens discussed plans for future compensation studies pertaining to faculty compensation at the various campuses. Chancellor Plowman discussed efforts to address concerns raised as to lecturer pay at the UT Knoxville campus. Dr. Dickens addressed the status of the organizational health survey (as to both employees and students).

IX. FY 2020 Report on Endowment Investment Performance

Mr. Miller reviewed the investment performance of the University's endowment as of June 30, 2020, along with performance since the close of the fiscal year. Mr. Miller discussed the recent changes in target allocations and the ongoing rebalancing efforts, as recommended by the University's new investment advisor (Cambridge Associates). It was noted that the consolidated investment pool (CIP) was over-weighted in certain categories (i.e., private natural resources and energy) and under-weighted in others (i.e., public and private equity), as compared to the University's peers. He remarked on the particularly poor performance of oil and certain other commodities during the last fiscal year and the resulting negative impact on the endowment return. Mr. Miller explained that adjustments are being made, but it will be some time before the transition is fully executed.

Committee Chair Rhodes recognized Mr. Jim Haslam, whose term of service as a member of the Investment Advisory Council (Council) has been fulfilled, for his many contributions. Mr. Rhodes, who also serves as chair of the Council, stated that he was pleased with the professionalism of the investment advisor. It was confirmed that the UC Foundation is a separate entity under the oversight of its own board; however, as a related organization an annual report is provided by the UC Foundation to the Board of Trustees.

X. 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, a roll call vote was taken, and the Committee approved: (i) the Resolution to adopt the minutes of the June 25, 2020 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 appears at the end of these minutes.)

XI. Other Business

None.



XII. Closing Remarks

Committee Chair Rhodes thanked the committee members for their participation and contributions to the meeting discussion. He also expressed his appreciation to Mr. Miller and the members of the team for all their efforts in preparing for the meeting, especially during a global pandemic.

XIII. Adjournment

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

Respectfully Submitted,

Cynthia C. Moore
Secretary and Special Counsel

Approved Consent Agenda Items

- Minutes of the Last Meeting (June 25, 2020)
- Real Property Transactions:
 - Knox Blount Greenway Easement Expansion - UTIA
 - Cumberland Forest Property Transfer - UTIA
 - Sale of Gift Property at Hickory Orchard Way in Knoxville, TN - UTK
- Naming of new dental building and grounds of the University of Tennessee College of Dentistry complex - UTHSC (Delta Dental of Tennessee Building and the Delta Dental of Tennessee Oral Health Complex)
- Updated Corporate Authorization - Transfer of Securities

List of Information Items Presented to the Committee

- Report on Use of Differential Tuition Funds at UTC
- Report on Use of Differential Tuition Funds at UTK
- FY 2020 Annual Flight Operations Report
- Disclosure of Additional Revenue/Institutionally-Funded Capital Projects for FY 2020-21
- Updated Committee Work Plan

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

- Presentations:
 - CFO Report on Strategic Priorities & Key Performance Indicators
 - Enterprise Resource Planning (ERP) System
 - UT System Workforce Update