



THE UNIVERSITY OF TENNESSEE
BOARD OF TRUSTEES

MINUTES OF THE FINANCE AND ADMINISTRATION COMMITTEE

February 25, 2021
Knoxville, Tennessee

The Finance and Administration Committee of The University of Tennessee Board of Trustees met at 1:30 p.m. (EST) on Thursday, February 25, 2021. 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; Donnie Smith; and Alan D. Wilson.

Others present included: President Randy Boyd; David Miller, Senior Vice President and Chief Financial Officer; Ron Loewen, Assistant Vice President for Budget and Planning; Mark Paganelli, Treasurer; Ramon Padilla, Jr., Chief Information Officer; Chancellors Angle, Carver, 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 and introduced Jennifer “Jae” Resendes, a lecturer of Spanish, in the Department of Modern Foreign Languages and Literatures, College of Arts and Sciences, UT Knoxville campus.

III. Requests to Address the Board

Ms. Resendes expressed her gratitude for having the opportunity to address the Board. She indicated that she registered to speak on the topic of higher pay for lecturers. Ms. Resendes noted that lecturers comprise almost a third of the instructional faculty at the institution, but teach approximately twice as many classes as their tenure-track colleagues.



She remarked that though lecturers have faced unimaginable challenges during the past year due to the pandemic, lecturers have risen to the occasion and surpassed expectations. Provost Zomchick has spoken of UT Knoxville's record enrollment and retention numbers. During this uncertain time, stress levels and workloads have increased, but lecturers' salaries have not. Ms. Resendes shared observations regarding the base salary for lecturers in her department, along with the changes in the cost of tuition. In addition, she provided information regarding the base salary for high school teachers in the Knox County School system and explained that many lecturers earn less than \$50,000, which is the income threshold for the UT Promise scholarship established to identify and assist students whose families are struggling to make ends meet. She closed her remarks by calling for lecturers' contributions to be met with professional pay. A copy of Ms. Resendes' full prepared remarks are filed with these minutes.

Committee Chair Rhodes thanked Ms. Resendes for her thoughtful comments, as well as her commitment and passion for her students. Board Chair John Compton remarked that the subject of lecturer pay has been raised with the Board on multiple occasions. As such, he asked that the Chancellor and Provost for UT Knoxville provide a formal report to the Board at either the annual or fall meeting in light of the feedback that has been provided to the Board on this issue of concern. Committee Chair Rhodes agreed that such a report should be shared with the Board, the lecturers, and the public. Ms. Resendes expressed her appreciation and support for the planned report.

IV. Annual Financial Report FY 2020

Mark Paganelli, Treasurer, reviewed the comparative financial statement summaries for fiscal years ended June 30, 2020 and June 30, 2019. Mr. Paganelli reported that the University's total revenues for FY 2020 were approximately \$2.6 billion, reflecting an increase of approximately \$74 million. This increase was driven primarily by construction activities and funding made available under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). Total expenses for FY 2020 increased by approximately \$37 million, including an increase in scholarships of \$17.4 million (\$16 million was associated with the CARES Act and distributed directly to students). Mr. Paganelli noted that the University was fortunate in that its state funding support and enrollment levels remained steady or improved during the pandemic. Mr. Paganelli also informed the Committee that the Tennessee State School Bond Authority (TSSBA) had issued its largest bond offering in its history, which will result in net savings to the University of more than \$112 million over the next 24 years. The largest portion of this savings, approximately \$29 million, will reduce interest expense for UT Knoxville's athletics program (a reduction of more than \$1 million/per year over the period). Mr. Paganelli concluded his remarks by highlighting that the University's net position at the end of FY 2020 increased by \$205 million (total assets increased by \$117 million, and total liabilities decreased by \$88 million). Committee Chair Rhodes thanked Mr. Paganelli for the report and congratulated the entire University team for the remarkable results during such a challenging time.



V. CFO's Report on Financial Performance

David Miller, Senior Vice President and Chief Financial Officer, reviewed the second quarter results (July 1 through December 31) for FY 2020-21 as compared to the prior period. He highlighted that the largest percentage changes related to auxiliary (i.e., housing, dining, parking and special events) revenues and expenditures, which were a direct result of the COVID-19 pandemic. With respect to unrestricted educational and general (E&G) funds, most of the units' figures are fairly consistent with the prior year period, except for the UT System Administration (UTSA). Revenues for UTSA have decreased by approximately 35%, which is attributable to decreased interest earnings. Mr. Miller indicated that this reduction in revenues has been covered by UTSA reserves. The decrease in interest earnings is expected to continue for the next several years, which may impact the funding available for the Enterprise Resource Planning (ERP) project.

Mr. Miller then addressed the fiscal impact of COVID-19 since the beginning of the pandemic. He reported that as of January 1, 2021, the reduction in revenues and the increase in COVID-Response expenses is estimated to be approximately \$150 million. Federal and state grant funding for COVID-19 relief is approximately \$21 million. For the period, the net impact (approximately \$130 million) has been managed, in large part, through expense savings of approximately \$81 million. Trustee Miles reflected on the importance of having the right level of reserves to weather extraordinary circumstances such as the pandemic. In response to questions, Mr. Miller confirmed that there were no widespread reductions in workforce. He explained that the reduction in expenditures was largely associated with reduced travel (\$26 million), deferral of maintenance and repairs (\$11 million), and reduction in costs associated with group events (\$9 million). Mr. Miller noted that some of these reductions in expenditures (e.g., library acquisitions) are acceptable on a short-term basis, but are not something that would be an ongoing savings post-pandemic.

VI. Revised FY 2020-21 Operating Budget

Ron Loewen, Assistant Vice President for Budget and Planning, presented the revised FY 2020-21 Operating Budget. Mr. Loewen indicated that the University is required to provide a mid-year revision of the Operating Budget to the Tennessee Higher Education Commission (THEC). He highlighted that, in most years, the mid-year revision has typically included minor revisions. However, this year's revision has more significant changes. Mr. Loewen explained the revised Unrestricted E&G Operating Budget shows a modest 1.1% increase over the original budget. The most significant revision is reflected in the revised Unrestricted Auxiliary Operating Budget, which has a \$54 million decrease (20.6%) from the original budget. Mr. Loewen stated that the pandemic's impact has had a disproportionate impact on auxiliary operations, which encompasses the areas of housing, dining, bookstores, parking and athletics.

Trustees inquired as to the longer-range fiscal impacts on auxiliary operations post-pandemic – specifically, whether the Administration expects these areas to: (i) bounce back to pre-pandemic levels, (ii) suffer lingering impacts, or (iii) transform as part of a “new” normal. Additionally, it was noted that these shortfalls have been covered, in part, by reserves. The trustees requested



more information on how the gaps were being managed, including UT Knoxville athletics, and a future report on the overall impact of COVID-19 on the University's reserves.

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 Revised FY 2020-21 Operating Budget (as set forth in Tab 3 of the meeting materials).

VII. Annual Report on Finances of the Intercollegiate Athletics Programs

Mr. Miller noted that the annual report on finances of the intercollegiate athletics programs, set forth in Tab 4 of the meeting materials, was circulated to the members of the Committee in advance of the meeting. As required by the Board policy, the annual reports were provided for UT Chattanooga, UT Knoxville, and UT Martin. He highlighted a chart in the meeting materials that summarized key financial information (operating budget, fund balances, student fees, outstanding debt, and annual debt service) for each of the athletics programs for the prior fiscal year. Mr. Miller also explained that there was additional information provided regarding the anticipated reduction in outstanding debt associated with the UT Knoxville athletic program.

In response to questions raised by the members of the Committee, Chancellor Plowman provided more information on a three-pronged approach for managing the anticipated budget shortfall (approximately \$28 million) for UT Knoxville athletics. She advised that the shortfall was anticipated to be covered through a combination of institutional reserves (non-tuition), reduction in expenses, and financial support made available through the Southeastern Conference (SEC). It was noted that the anticipated reduction in interest expense and the projected net savings from the recent TSSBA bond issue would be helpful in future years. The trustees inquired as to whether COVID-19 will have long-term considerations for the athletic programs and their facilities. Board Chair Compton believes that athletics may be facing a fork in the road. While there were sufficient resources to address the immediate issue, there was a \$45 million decline in revenues. It may be very difficult to predict where things may stand next year. He requested that the athletics programs report back to the Board on their strategic plans (next 5-10 years) and provide an overview of their financial projections.

VIII. FY 2021-22 Tuition and Fees for UT Health Science Center

Committee Chair Rhodes indicated that the UT Health Science Center is presenting its proposed FY 2021-22 student tuition and fee schedules at this meeting as its academic year begins earlier than the other UT Campuses. Mr. Miller advised that the UTHSC proposes reducing out-of-state tuition and fees for three programs and both in state and out-of-state tuition and fees of one program. Chancellor Schwab advised that the proposed change in out-of-state is being recommended in order to be competitive in the market. The intention is to adjust the out-of-state tuition figures to the median of SEC institutions. In response to questions from the members of the Committee, Chancellor Schwab provided statistical information on the likelihood of out-of-state students remaining in Tennessee upon conclusion of their terminal training.



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 Tuition and Fees for the UT Health Science Center (as set forth in Tab 5 of the meeting materials).

IX. Proposed Paid Parental Leave Policy

Mr. Miller stated that the University Administration seeks approval to adopt a Policy on Paid Parental Leave. The proposed policy will provide eligible University faculty and regular staff paid time off upon the birth or adoption of a child. Under the proposed policy, eligible faculty and staff would be entitled to six weeks of paid parental leave within the first 12 months following the birth or adoption of a child. This leave would run concurrently with the 12 weeks of unpaid leave provided by the Family and Medical Leave Act (FMLA) and other leave provided by Tennessee law.

Mr. Miller indicated that the Tennessee Commissioner of Finance and Administration has approved the policy. Additionally, two other universities within the state have adopted similar policies. Mr. Miller concluded his remarks by indicating that the full fiscal impact is difficult to assess as some departments may choose to hire a temporary replacement, while others may not need to do so. If approved, the anticipated effective date would be July 1, 2021.

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 Paid Parental Leave Policy (as set forth in Tab 6 of the meeting materials).

X. Enterprise Resource Planning (ERP) Update

Mr. Miller updated the members of the Committee on the status of the ERP project, which included a project overview, an outline of the guiding principles, details on the Huron Consulting Group engagement, and next steps. Ramon Padilla, Chief Information Officer, reviewed the timeline, phases of the project, and key components of Phase 1 (planning and preparation).

Trustee Donnie Smith, who is not a member of the Committee, requested the Committee Chair's permission to raise a question regarding the ERP project. Trustee Smith inquired as to the involvement of Dr. Jorge Pérez in the project, highlighting the need for improving data collection and analytics to enhance the work being performed by the Institutional Effectiveness group. Mr. Miller confirmed that Dr. Pérez has been working with Mr. Padilla and is involved; however, Mr. Miller explained that the first implementation will be related to finance and administration. A future project focused on student information systems is planned, but, to date, the vendors do not have a standardized solution. Mr. Miller indicated that the pandemic has slowed the progress of the vendors. Trustee Smith expressed his concerns over the disparate systems that currently exist across the institutions and the inability to obtain useful information to meaningfully capture and report measures of institutional effectiveness, especially as it relates to the teaching, research and service efforts of faculty.



The members of the Committee indicated that the successful implementation of the ERP system may be one of the biggest cases of whether the One UT philosophy is being actualized. The trustees, once again, stated that there needs to be one instance with common configurations and that the leadership team must ensure that the University does not stray from this approach.

XI. Consent Agenda

Committee Chair Rhodes called the Committee's attention to the Consent Agenda. He asked Chancellor Plowman whether she would like to address the Committee with respect to the proposed naming of facilities included on the consent agenda. Chancellor Plowman provided background on the engagement process associated with the proposed re-namings of Orange and White halls. She explained that, as a part of the review of the existing names of facilities on the UT Knoxville campus, she had requested that a committee consider whether there were any individuals from underrepresented groups that should be considered. She provided additional insights on the honorees, Theotis Robinson and Rita Geier, and noted that upon the recommendation of her cabinet, she approved the proposed re-namings of the residence halls, which re-namings were then presented to President Boyd and to this Committee. Committee Chair Rhodes thanked Chancellor Plowman for proactively considering ways to reflect the diversity of the UT Knoxville campus.

Committee Chair Rhodes 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 October 22, 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.)

XII. Other Business

Committee Chair Rhodes updated the Committee regarding an Investment Advisory Council meeting held earlier in the day. Mr. Miller provided a brief update on the performance of the consolidated investment pool for the 12-month period ended December 31, 2020. For the 12-month period, the endowment had an annual return of approximately 9.2%. Committee Chair Rhodes informed the members of the Committee that the endowment performance resulted in an increase of \$55 million over the last 2 ½ years, under the new investment philosophy undertaken with Cambridge Associates that leans toward growth assets. He noted that, if the University had been fully invested in the new strategy during the time period, returns would have been even higher. While performance results may vary, he is very pleased with the level of professionalism, talent and advice of the new investment advisory firm.



XIII. 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.

XIV. 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

- Naming of JTV Center for Applied Business Analytics, UTK
- Re-Naming of Orange Hall in honor of Rita Sanders Geier, UTK
- Re-Naming of White Hall in honor of Theotis Robinson, Jr., UTK
- Long-term Ground Lease Amendment for a Private Commercial-Retail Development of Campus, UTHSC
- Transfer of Property at Research and Education Center - Blount Unit, UTIA

List of Information Items Presented to the Committee

- Disclosure of Additional Revenue/Institutionally-funded Capital Projects for FY 2020-21 and FY 2021-22
- Report on Endowment Investment Performance
- Composite Financial Index Report for FY 2019-20
- Fiscal Year 2020 Report of Year-End Fund Balances