



THE UNIVERSITY OF TENNESSEE
BOARD OF TRUSTEES

MINUTES OF THE FINANCE AND ADMINISTRATION COMMITTEE

October 21, 2021
Knoxville, Tennessee

The Finance and Administration Committee of The University of Tennessee Board of Trustees met at 9:00 a.m. (EDT) on Thursday, October 21, 2021, in the Student Union Ballroom, at The University of Tennessee, Knoxville, Tennessee.

I. Call to Order and Roll Call

Committee Chair Bill Rhodes called the meeting to order. Board Secretary, Cynthia C. 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; Amy E. Miles; Christopher L. Patterson; and Kim H. White. Ms. Moore announced the presence of a quorum.

In addition, the following trustees were in attendance: Charles Hatcher, Commissioner of the Tennessee Department of Agriculture; Decosta E. Jenkins; Donald J. Smith; and Jamie R. Woodson. Others present included: President Randy Boyd; David Miller, Senior Vice President and Chief Financial Officer; Mark Paganelli, Treasurer; Chancellor Keith Carver (UT Martin); Chancellor Mark La Branche (UT Southern); Chancellor Donde Plowman (UT Knoxville); Chancellor Steve Schwab (UTHSC); John Zomchick, Provost and Senior Vice Chancellor (UT Knoxville); Austin Oakes, Assistant Vice President, Capital Projects; Brian Dickens, Chief Human Resources Officer; Ron Loewen, Assistant Vice President for Budget and Planning; 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.

II. Opening Remarks of the Committee Chair

Committee Chair Rhodes welcomed everyone to the meeting, addressed a few administrative matters, and indicated that there were three individuals who registered to speak who have been assigned to address the Finance and Administration Committee.



III. Requests to Address the Board

The following three individuals, who are in the Department of Modern Foreign Languages and Literatures, in the College of Arts and Sciences, at UT Knoxville addressed the Committee.

- *Ms. Andrea Stedman (Academic Advisor)*. Ms. Stedman shared with the Committee some of the challenges that have arisen due to the COVID-19 pandemic, including the loss of employees in various roles (faculty, staff, and advisors) and resulting impact and increased workloads for many within the department. She indicated that as there is no vaccine or mask mandate that remote work options should be available, especially for those who have certain health conditions that place them at higher risk for contracting the virus. Ms. Stedman also shared salary concerns as it relates to the average pay for academic advisors, which is below the reported national average.
- *Ms. Wanessa Velloso (Distinguished Lecturer)*. Ms. Velloso, who serves as a non-tenure track faculty (NTTF) member acknowledged recent efforts to address the starting salaries for NTTF. She shared concerns pertaining to salary compression and salary equity as it relates to the level of education and years of experience. She also highlighted what appears to be salary disparities within the job classification based on discipline. Ms. Velloso called for more transparency and fairness with respect to merit and other annual salary adjustments. She shared her commitment to the University and hope that the University leadership would do more in terms of addressing compensation concerns in order to both attract and retain its employees.
- *Dr. Sarah Eldridge (Associate Professor)*. Dr. Eldridge provided some background information relating to changes in annual starting salaries over time and how these differences have led to a compounding effect over time. She indicated that salary compression is a pressing problem across all job classifications. Dr. Eldridge voiced concerns over how salary adjustments are handled, noting that there are different interpretations by department. She recommended that consideration be given to conducting a compensation study, developing more specific and clear guidance on the administration of salary pools in keeping with the state requirements, and establishing a time line for addressing the salary compression issue for all employees.

Committee Chair Rhodes thanked the speakers for their service to the University and for their comments. He advised that Chancellor Plowman would be speaking on compensation matters later in the meeting. President Boyd also expressed his gratitude and stated that the University wants to be known as a great place to work not only in Tennessee, but in higher education nationally. He advised that the leadership teams are focused on addressing compensation related concerns. He announced that starting January 1, 2022, UT Knoxville will be increasing the minimum wage for workers to \$15/hour and that it will be making certain adjustments for wage compression. Board Chair Compton inquired as to whether the speakers had raised their concerns



with the Provost and/or Chancellor directly. In response, the faculty presenters indicated that the concerns were shared with the faculty senate.

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

David Miller, Senior Vice President and Chief Financial Officer, explained that the annual audited financial statements are still in process, but that he was presenting a high-level overview of the University's financial performance for the period from July 1, 2020 through June 30, 2021, as compared against: (i) the FY 2020-21 Budget, and (ii) for the prior fiscal year.

With respect to revenues, actual results exceeded the budgeted figures due, in large part, to the conservative approach that was employed in constructing the budget early in the pandemic. Mr. Miller commented that the University has been very fortunate to have had great financial support from the Governor and the General Assembly. Unlike other universities across the country which have faced state funding reductions, the University has had the benefit of strong state support and stable funding. Revenue increases were reflective of the growth in enrollment at UT Knoxville, along with amount of federal/state COVID-19 relief funding received to support operations or were awarded to students. Total expenses for the year were 7.8% less than budget and a slight increase of 2.1% over the prior year due primarily to the amount of federal/state relief funding received and paid out. Committee Chair Rhodes requested that when these figures are next presented that the annual comparison include more than one year's data so that there is more insight as to how the current operations compare against pre-COVID results given the anomalies associated with the pandemic.

Mr. Miller also provided some early projections regarding the University's financial performance for the first quarter of FY 2021-22 (July 1 through September 30).

In response to questions from members of the Committee, Mr. Miller confirmed that the expense reductions have been the result of reduced travel (savings of approximately \$40 million) and deferred maintenance that would have otherwise been paid from operations. He believes that there will be a permanent reduction in travel expenditures, although the extent of the reduction is difficult to predict. As to maintenance, he expects no long-term significant reductions.

Enterprise Resource Planning (ERP) System

Mr. Miller provided an update on the ERP project noting that it has been and continues to be on schedule. Phase I (Planning and Preparation) is over 50% complete. He highlighted the actions taken since the last update and provided an overview of next steps and the associated timeline. Mr. Miller stated that the product implementation is scheduled to start in July 2022. The Committee members expressed their appreciation to the team for the progress made on this project.



V. FY 2022-23 Operating Budget Appropriations Request for Specialized Units

Mr. Miller explained that the Tennessee Higher Education Commission (THEC) coordinates appropriation requests for specialized units, which includes the UT Health Science Center (UTHSC); UT Institute for Agriculture (UTIA); UT Space Institute; Institute for Public Service (IPS); and UT System Administration. Mr. Miller reviewed the five priorities identified, totaling approximately \$10.8 million (recurring) and \$3.3 million (non-recurring) funding requests. In response to questions raised, Mr. Miller explained that the University was successful in receiving some recurring funds this past year for all the specialized units and that the current request of approximately \$7 million will help to further close the funding gap that developed and grew over time for various reasons (e.g., inflation). Board Chair Compton inquired as to the University's historical success rate in having these requests funded. In this regard, Mr. Miller stated that the University has been more successful recently than in prior years, as it is now submitting more targeted requests for consideration.

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 2022-23 Operating Budget Appropriations Request for Specialized Units (as set forth in Tab 2 of the meeting materials).

VI. Amendment to Capital Outlay Funding Request, FY 2022-23 through FY 2026-27

Austin Oakes, Assistant Vice President, Capital Projects, explained that at the Annual Meeting held in June 2021, the Committee recommended and the Board of Trustees approved a five-year schedule of capital outlay projects for FY 2022-23 through FY 2026-27, reflecting \$578 million in requested state funding. Following the June meeting, THEC amended its capital outlay instructions. Under the new instructions the University may submit three capital outlay projects with a renovation and/or demolition focus and three capital outlay projects including new construction. The administration is presenting an amendment in order to make the UT Knoxville College of Business project (originally listed in FY 2024-25), a part of the current FY 2022-23 request for state funding. He closed his remarks by reviewing the three capital outlay priorities under each category. In aggregate, the total outlay costs for the six project requests total approximately \$262 million (\$236.6 million in requested state funding). In responses to questions raised, Mr. Oakes advised that, historically over the last 10 years, the University has averaged funding of approximately \$60-80 million/year for capital outlay projects. He also clarified that with respect to the UT Knoxville College of Business project that the new building will total approximately 150,000 square feet (sf).

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 Amendment to the Capital Outlay Funding Request, FY 2022-23 through FY 2026-27 (as set forth in Tab 3 of the meeting materials).



VII. UT System Workforce Update

Brian Dickens, Chief Human Resources Officer, provided an annual update on the University's workforce. The presentation included, among other things: (i) an overview of the composition of employees (faculty, non-exempt staff, and exempt staff) across the UT System; demographic information on the UT workforce; changes in employment levels (including new hires and separations by category); and an update on the compensation project, including restructuring of job families/roles and salary comparisons by category. Dr. Dickens highlighted the overall additional cost (broken down by campus, institute and system administration) that was incurred in order to bring all employees into alignment with the new compensation structure (to meet the minimum salary figure for each pay range), which was effective on July 1, 2021. Dr. Dickens also reviewed 2020 payroll and benefit figures for 2020 as compared to the prior year, along with a number of new initiatives and new benefits for UT employees. He closed his remarks by reviewing the number and types of employee surveys conducted during the past year. The Committee members expressed their gratitude for the comprehensive report.

VIII. UT Knoxville Lecturer Pay

Chancellor Donde Plowman provided some general background context for her presentation pertaining to non-tenure track faculty (NTTF) compensation. She presented the minimum salary (beginning in 2019) for NTTF in English, Math, and Modern Foreign Languages and Literature (MFLL), which collectively account for approximately one-third of NTTF. Chancellor Plowman then identified a series of subsequent salary increases for NTTF (for individuals with and without terminal degrees), including one-time investments that were made in connection with the COVID-19 pandemic. In total, the campus has made an investment of more than \$600,000 in recurring funds and almost \$430,000 in non-recurring funds from August 2019 through February 2021, benefiting a total of 264 NTTF.

Chancellor Plowman also presented salary comparison data for full-time NTTF against Board-approved peers and for schools identified as part of the Southeast region based on the latest edition of Oklahoma State's "Faculty Salary Survey by Discipline" (data for the period October 2020-January 2021). For the three largest departments (English, Math, and MFLL), the average salaries in each of these departments exceed the average salaries for the Board-approved peers. Additionally, the average salaries for English and Math also exceeded the Southeast region, with MFLL being slightly below the average of this group (less than \$400). Chancellor Plowman also shared data on departments with more than 5 NTTF, highlighting those colleges/departments where the UT Knoxville average salary is below the Board-approved peers and/or Southeast region.



Chancellor Plowman reported that there was a 25% increase for full-time NTTF over 2 years. She also noted that salary compression is anticipated to be addressed through regular compensation processes (e.g., 4% salary pool that went into effect August 1, 2021).

In addition to the prepared presentation, Chancellor Plowman provided additional information regarding the length of the contracts for lecturers, and she expressed a desire to move from 1-year to 2-year contracts for those individuals who should be moving through the ranks of NTTF (lecturer, senior lecturer, and distinguished lecturer), as opposed to those being hired for a 1-year term to fill a short-term vacancy. With respect to tenure-track/tenured faculty, Chancellor Plowman indicated that there are three colleges whose faculty (at every rank – assistant, associate, and professor) exceed the average salary of peer and aspirational peer institutions. The other colleges exceed the average salary of the peer institutions, but some schools/departments lag the aspirational peers. Lastly, as to hourly employees, she advised that salary compression is the biggest compensation concern for this group.

Chancellor Plowman acknowledged that there is still more work to be done but that she is committed to addressing the average salaries where UT Knoxville is below its peers. Committee Chair Rhodes remarked that the Board has heard from speakers on this issue of compensation at multiple meetings. He inquired as to whether the faculty should be raising these concerns with the faculty senate or if they should be addressed through some other process. In this regard, Chancellor Plowman indicated that the most appropriate channel would be for these types of items to be raised with the department chair, college dean, provost, and then to her as chancellor.

In response to questions as to how the change in minimum wage and other efforts to address compression are reflected in the annual operating budget, Mr. Miller explained that the Board of Trustees approves aggregate compensation/benefits expense by institution. Currently, it is anticipated that the costs identified should not exceed the budgeted figure due to vacancies, etc. In the event that the total cost exceeds the budgeted amount, such adjustment would be reflected as part of the revised operating budget presented to the Committee and, upon recommendation, would be presented to Board of Trustees for approval at its Winter Meeting in February.

IX. UT Knoxville Voluntary Retirement Incentive Plan (Faculty Only)

John Zomchick, Provost and Senior Vice Chancellor, reviewed the details of the proposed Voluntary Retirement Incentive Program (VRIP) for UT Knoxville faculty that includes faculty members associated with both the UT Institute for Agriculture and the UT Space Institute. He indicated that the total number of faculty who would be eligible under the VRIP, and the potential salary dollars impact (approximately \$50 million). The estimated maximum cost is projected to be \$12 million (estimate of 30% participation based on historical experience). Dr. Zomchick reviewed the breakdown of potential faculty VRIP participants by college, including the associated salary figures. He explained that NTTF will temporarily be hired to cover teaching assignments as



necessary and that reserves would be used, if required, to cash flow the cost of VRIP. The key dates for implementing the plan are as follows:

- October – November 2020 - Inform eligible faculty the VRIP details and application process;
- February 15, 2022 – Participant commitment deadline; and
- June 30, 2022 – Participant retirement date.

In responding to questions from the members of the Committee, Dr. Zomchick further explained the rationale behind offering the VRIP at this time. In this regard, the new Strategic Vision, which will be presented to the Board of Trustees for approval, is anticipated to lead the campus in new directions. Like industry, there are changes happening in higher education and UT Knoxville. He explained that there has been high growth in certain colleges/departments and declines in others. The VRIP will provide the campus an opportunity to realign resources to better match teaching needs and to grow research and development in new high demand areas. He also confirmed that the VRIP is available for all those that meet the eligibility requirements, whether tenured faculty or NTTF. Trustee Kim White expressed her support of the VRIP indicating that these types of programs have worked well at UT Chattanooga.

Upon motion duly made and seconded the Committee approved a recommendation that the Board of Trustees adopt the Resolution approving the Voluntary Retirement Incentive Program (as set forth in Tab 6 of the meeting materials). No roll call vote was required as Trustee Miles, who was the only member participating electronically, was no longer in attendance.

X. UT Research Park Innovation South

Mr. Oakes advised the members of the Committee that UT Knoxville wishes to enter into a lease agreement (Lease) for space in a proposed building to be constructed at the University of Tennessee Research Park (UTRP) at Cherokee Farm. The new building would be constructed by Innovation South Partners, LLC (ISP) under a long-term ground lease. ISP will construct an approximately 84,000 (sf) building. Approximately 37,000 (sf) would be leased to UT Knoxville and the remaining portion will be leased to external companies, many of which are interested in co-locating and collaborating with the campus. The space would include high-bay/laboratory space to be used for research, which space is very limited and difficult to find.

In connection with his presentation, Mr. Oakes reviewed the key terms of the Lease. Among these, UT Knoxville would prepay \$18.5 million in rent for the cost of designing and constructing the space, with annual rent of \$7.52/(sf). The lease would be for a term of approximately 50 years, with an option to extend for an additional 40 years. In addition, there would be annual escalations in the rent (2% during years 1-40 and 1% thereafter if extended), along with common area maintenance expenses. Mr. Oakes answered questions from the Committee members regarding the approval process and how it varies from what is required for capital outlay projects. With respect to the initial prepayment of rent, Mr. Chris Cimino, Senior Vice Chancellor for Finance and



Administration (UT Knoxville), indicated that reserve funds set aside for research infrastructure will be used to cover the upfront expense.

Upon motion duly made and seconded, the Committee approved a recommendation that the Board of Trustees adopt the Resolution approving the Lease.

XI. FY 2021 Report on Endowment Investment Performance

Mr. Miller provided a review of the performance of the consolidated investment pool (commonly referred to as the University's endowment fund) for the 12-month period ended June 30, 2021. The University received \$66 million in new gifts, and the endowment made spending distributions totaling \$51 million. After the private equity returns were reported, the endowment had a 34.6% annual return and outperformed the benchmark in all categories. As of June 30, 2021, the market value of the endowment was approximately 1.34 billion. Mr. Miller confirmed that this figure does not include the endowment held by the University of Chattanooga Foundation for the benefit of the UT Chattanooga campus. Committee Chair Rhodes commended the team and the new investment advisor, Cambridge Associates, for their efforts in adjusting the investment strategy for the endowment. He noted that real progress has been made in terms of closing some of the longer-term investment performance gaps (endowment return versus benchmark). Mr. Miller also reported that there has been a slight improvement in the returns for operating cash as well.

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, upon motion duly made and seconded, the Committee approved: (i) the Resolution to adopt the minutes of the June 25, 2021 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.)

XIII. Other Business and Adjournment

There being no other business to come before the Committee, the Committee Chair thanked the members of the team for all their efforts in preparing for the meeting, and he 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 June 25, 2021 Meeting
- Proposed Naming of Nursing Building (UTK)
- Signature Authority of Disbursing University Funds
- Public Chapter 480 Federal Report

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 2021 Annual Flight Operations Report
- Disclosure of Additional Revenue/Institutionally-Funded Capital Projects for FY 2021-22
- Report on FY 2021 Unrestricted Fund Balances