



THE UNIVERSITY OF TENNESSEE BOARD OF TRUSTEES

MINUTES OF THE FINANCE AND ADMINISTRATION COMMITTEE June 23, 2022

The Finance and Administration Committee of The University of Tennessee Board of Trustees met at 1:00 p.m. (EDT) on Thursday, June 23, 2022. The meeting was held in the Student Union Ballroom located at the University of Tennessee, Knoxville.

Committee Members Present: William (Bill) C. Rhodes III, Committee Chair; John C. Compton, Board Chair; Amy E. Miles; Christopher L. Patterson; and David N. Watson.

Others in Attendance:

Trustees: Bradford D. Box; Lane Gutridge (Student Trustee); Decosta E. Jenkins; and Shanea A. McKinney.

University Administration: President Randy Boyd; David Miller, Senior Vice President and Chief Financial Officer; Cynthia Moore, Board Secretary and Special Counsel; Chancellor Steve Angle (UT Chattanooga); Chancellor Keith Carver (UT Martin); Chancellor Mark LaBranche (UT Southern); and Chancellor Donde Plowman (UT Knoxville).

Ms. Moore addressed the requirements of the Open Meetings Act and announced the presence of a quorum. The meeting was webcast for the convenience of the University community, the general public, and the media.

Opening Remarks of the Committee Chair and Requests to Address the Board

Committee Chair Rhodes opened the meeting by announcing that no requests to address the Board were assigned to be heard by the Committee.

Annual Financial Report

Committee Chair Rhodes introduced Luke Lybrand, who recently joined the University of Tennessee to serve as Treasurer. Mr. Lybrand presented highlights from the Annual Financial Report for Fiscal Year 2021 ("FY 2021"). A copy of the presentation is available under Tab 1, and the full report is available on the Treasurer's website.

Mr. Lybrand began his presentation by reviewing the FY 2021 Income Statement. He noted that, in FY 2021, UT increased its net position by \$396 million. There were three significant drivers contributing to UT's financial performance during FY 2021: (i) prudent financial management; (ii) investment income; and (ii) the Higher Education Emergency Relief Fund passed in response to the COVID-19 pandemic. During FY 2021, the University's investment income rose over the prior year by \$198 million, driven by the performance of the

consolidated investment pool (an annual investment return of approximately 35%). Mr. Lybrand cautioned, however, that it would be unusual to see those types of investment returns continue year after year. Mr. Lybrand advised the Committee members that the UT System saw grants and contracts rise by \$61 million during FY 2021, with approximately \$48 million of that total coming from stimulus funding. Mr. Lybrand stated that the University saw total revenues increase by 6.4%, while, at the same time, expenses decreased by 1.1%.

Turning to the balance sheet, Mr. Lybrand noted that investments rose by approximately 33%, reflective of the performance returns of the consolidated investment pool. The University's cash position increased in line with the operating surplus. Additionally, capital assets increased due to the completion of eight projects during FY 2021. Mr. Lybrand stated that certain liabilities increased, primarily driven by a tax deferral allowed under the Coronavirus Aid, Relief, and Economic Security Act. All other liabilities increased \$104.5 million (18.7%). This increase was due to the growth and investment performance of the endowment assets held by the University on behalf of the UT Foundation.

Responding to questions about the University's cash reserves (approximately \$1.5 billion), Mr. Lybrand and David Miller, Senior Vice President and Chief Financial Officer, provided the following information:

- Cash reserves provide strategic ability for the UT System and are held in several different accounts, with the majority of those funds awaiting expenditure on capital projects or distribution in other areas.
- The National Association of College and University Business Officers recommends that institutions hold cash reserves of 40% of annual expenditures outside of the amount being held for spending on plant and equipment.
- Funds are also set aside in the event of an economic downturn, particularly to ensure that services to students are not diminished.

Report on Financial Performance

Mr. Miller reviewed the University's financial performance for the period from July 1, 2021 through April 30, 2022 compared against: (i) the same period for the prior fiscal year; and (ii) the FY 2021-22 Operating Budget (as presented under Tab 2). He stated that his presentation would also include information tracking revenue and expenses from FY 2016 through FY 2022. Mr. Miller advised that with 80% of the year complete, total revenue is slightly above (2.6%) budgeted revenue, with expenses slightly below (6.5%) projected amounts. Turning to the multi-year comparison of the past six fiscal years, Mr. Miller pointed out the UT System's expenses consistently tracked slightly below revenue, which contributed to the accrual of a fund balance reflected in the University's net cash position or unrestricted revenue on the balance sheet. That same trend can be found when looking at the University's auxiliary enterprises, demonstrating the return to normal operations following the pandemic.

Mr. Miller announced that the University would not be increasing tuition this year, reflecting the State's continuing commitment to providing an unprecedented level of funding for higher education. Mr. Miller expressed his gratitude to the State for taking this action, which will greatly assist University's students and their families.

Discussion of Tuition, Fees and Affordability

Ronald Loewen, Associate Vice President, Budget, Analysis and Planning, provided the Committee members with an update on tuition, fees, and affordability (as presented under Tab 2.1). Mr. Loewen reminded the Committee members that the University's tuition and fee proposal will be considered as part of the proposed Operating Budget for FY 2022-23. Mr. Loewen described the planning process that goes into setting tuition and fees and explained that there are a large number of state and federal rules and regulations regarding tuition, fees, and financial aid.

Turning to a discussion of affordability, Mr. Loewen noted that the System dispersed \$406 million to students to help them offset the cost of education. While the bulk of that funding represents federal and state aid, 38% comes directly from University's general operating funds. The University provides students with a broad array of financial support including scholarships, grants, waivers, loans, and tuition discounting. Since 2013, the State of Tennessee has significantly increased support for higher education and is among the top three states in terms of providing funding to students attending public institutions of higher education. The State also ranks favourably in terms of the amount of aid provided to students attending public institutions.

Mr. Loewen stated that when financial aid is factored in, the cost of attending the University is less than may first appear. Mr. Loewen advised the Committee members that the University provides prospective students with predictive cost estimates so that students and their families have a general idea of the total cost of obtaining a college degree. He also noted that approximately 45% of the University's graduates leave the University with either no student debt or with manageable levels of debt.

FY 2022-23 Operating Budget (Including Salary Plan, Tuition and Fees, and Room and Board Rates)

Mr. Loewen provided an overview of the proposed operating budget for FY 2022-23, as further detailed in the meeting materials. As announced earlier in the meeting by Mr. Miller, there would be no increase in tuition or mandatory fees for the coming fiscal year.* The proposed budget also included the largest salary pool and the largest State funding increase

* *The proposed Operating Budget includes requests for an increase in differential tuition at UT Knoxville's Tickle College of Engineering, as well as professional and executive program fee adjustments at that campus. In addition, UT Chattanooga, UT Martin and UT Health Science Center recommended increasing certain program and auxiliary fees at those campuses.*

in the University's history. Mr. Loewen also reviewed the unrestricted Education and General budget and revenue trends, and he concluded his presentation by noting that while auxiliary revenues did decrease during the pandemic, the University's is now returning to pre-pandemic trends.

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 (as presented in Tab 3 of the meeting materials).

Capital Projects

Austin Oakes, Assistant Vice President for Capital Projects, began his presentation by noting that the budget for the coming fiscal year, which begins in July, includes \$281 million in capital appropriations.

Capital Outlay Funding Requests (FY 2023-24 through FY 2027-28)

Mr. Oakes highlighted the following three capital outlay priorities, totaling approximately \$262.3 million, identified for FY 2023-24:

- Fletcher Hall Addition and Renovation, UT Chattanooga;
- Construction of a new Chemistry Building, UT Knoxville (which includes the demolition of the existing Chemistry Building (Buehler Hall) and Panhellenic Building); and
- Renovation of the Gross Anatomy Laboratory, UT Health Science Center (UTHSC).

The five-year schedule reflects approximately \$785 million in requested state funding for capital outlay projects.

Capital Maintenance Funding Requests (FY 2022-23 through FY 2027-28)

Mr. Oakes advised that, with respect to the University's capital maintenance requests for FY 2022-23, the University received approximately \$45 million, representing 15 projects. For FY 2023-24, the capital maintenance funding request is for \$88.6 million, representing 27 projects, which request aligns with the THEC goals to support capital maintenance statewide and for which State funding would be requested. The five-year schedule reflects approximately \$383.9 million in requested state funding for capital maintenance projects.

Revenue/Institutionally-Funded Capital Projects (FY 2023-24)

For FY 2023-24, the proposed capital budget includes approximately \$114 million for 20 revenue/institutionally-funded capital projects. The majority of those projects, totaling \$92.4 million, pertain to the UT Institute of Agriculture (UTIA).

Capital Demolition Funding Requests (FY 2023-24)

Mr. Oakes advised the Committee members that this is the second year in which the University could seek State funding for demolition projects. The University will request approximately \$4.6 million in capital demolition funding for four projects in FY 2023-24.

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 four Resolutions pertaining to the: (i) Capital Outlay Funding Requests; (ii) the Capital Maintenance Funding Requests; (iii) the Revenue/Institutionally-Funded Capital Projects; and (iv) the Capital Demolition Funding Requests (as set forth in Tabs 4-7 of the meeting materials).

Redefining the Future of Neyland Stadium (UT Knoxville)

Daniel J. White, Vice Chancellor and Director of UT Knoxville Athletics, began his remarks by congratulating the student athletes, coaches, and staff on their extraordinary performance over the past year, both competitively and academically. He reminded the Committee members that, in 2017, the Board approved a resolution providing \$180 million for significant renovations to Neyland Stadium. The Athletics Department is now seeking approval to adjust the project scope and increase the project budget by \$108 million, for a total project cost of \$288 million. If approved, the renovations will create a first-class experience for fans and enhance the University brand, while preserving one of the state's most iconic buildings and one nation's oldest sports facilities.

Ryan Alpert, Deputy Athletics Director/Chief Operating Officer, described the steps the Athletics Department took to develop the proposed new additions to the previously approved Stadium renovations, including gathering feedback from stakeholders. Mr. Alpert reviewed a few of the projects currently under construction, along with the proposed new projects. Mr. Alpert highlighted the Athletics Department's new business philosophy: (i) prioritizing fan interest, engagement, and experience; (ii) delivering optimal return on investment through capitalizing on incremental revenue streams; and (iii) protecting existing and future non-facility-generated operating revenues. He reviewed the financing assumptions, the anticipated funding sources for the proposed renovations, and the Department's financial projections.

Mr. Alpert responded to various questions from the Committee members. He explained that the annual debt numbers reflect certain interest rate assumptions, as required by the Tennessee State School Board Authority ("TSSBA"); however, it is anticipated that the bonds would be issued at lower interest rates. Mr. Lybrand added that TSSBA issues bonds on an annual basis, and he anticipates that the interest rate on the bonds would be in the 5.5% range based on the credit rating.

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 pertaining to the renovation of Neyland Stadium (as presented in Tab 8 of the meeting materials).

Campus Master Plan (UTM)

Keith S. Carver Jr., UT Martin Chancellor, began his presentation by acknowledging that for the past several years, UT Martin has experienced a decline in enrollment, which accelerated during the pandemic. In response, the campus worked with the UT System and THEC to launch new programs to grow enrollment. It is anticipated that enrollment will grow alongside Ford's new Blue Oval City in West Tennessee, which is estimated to bring 27,000 jobs to the area.

In developing the 10-year Campus Master Plan, UT Martin held town halls, formed task forces, and conducted student surveys to connect to its many constituents, including faculty, staff, administrators, students, and its home community. The Plan is guided by four themes: (i) student success and partnerships; (ii) highest and best use of existing buildings and planned acquisitions; (iii) flexibility and alignment of resources; and (iv) building a vibrant campus community.

Chancellor Carver discussed how the gift of Wildwood Farm,* along with other planned property acquisitions would be used to build on UT Martin's programs in agriculture and natural sciences, as well as creating partnerships with UTHSC and other entities. The Plan addresses space needs for the campus, particularly for its new academic programs and much needed research space. The Plan foresees demolition and replacement of outdated residence halls, which will address not only the current increase in demand for on-campus housing, but also make the campus more attractive to future students. Following the presentation, Chancellor Carver responded to questions regarding the proposed Plan, including the projected enrollment growth estimates for the UT Martin campus.

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 2022 Campus Master Plan for UT Martin (as presented in Tab 9 of the meeting materials).

Acquisition of 888 Third Street, Chattanooga, TN (UT Chattanooga)

Mr. Miller briefly discussed the need to seek eminent domain to acquire a 2,000 square foot parcel of land located at 888 Third Street in Chattanooga, Tennessee, as part of a plan to construct a new Health Sciences Building at UT Chattanooga. 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 pertaining to the acquisition of 888 Third Street in Chattanooga (as presented in Tab 10 of the meeting materials).

* *The largest single gift in UTM's history.*

Consent Agenda

Committee Chair Rhodes asked if there were any requests to remove items from the consent 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 last 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).

With no further business to come before the Committee, the Chair adjourned the meeting.

Respectfully Submitted,

/s/ Cynthia C. Moore

Cynthia C. Moore

Secretary and Special Counsel

Approved Consent Agenda Items

- Minutes of the Last Meeting (February 25, 2022)
- Ratification of Quasi-Endowments Created during FY 2021-22
- Procedures Governing Compensation Increases during FY 2022-223
- Acquisitions of Properties at 417 West Flower Street and 635 West Madison Street (UT Southern)
- Alcoa Highway/UT Lifestar Road Easements (UT Knoxville)
- Sale or Transfer of Gift Property Not Held for Institutional Use (UTIA/UT Martin)

List of Information Items Presented to the Committee

- Annual Report of Naming Interior Spaces and Grounds
- President's Report on Use of Student Programs and Services Fee Funds
- Endowment Investment Report
- Disclosure of Additional Revenue/Institutionally Funded Capital Projects for FY 2021-22
- Disclosure of Additional Revenue/Institutionally Funded Capital Projects for FY 2022-2023