



# THE UNIVERSITY OF TENNESSEE BOARD OF TRUSTEES

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## MINUTES OF THE FINANCE AND ADMINISTRATION COMMITTEE

October 27, 2022

The Finance and Administration Committee of The University of Tennessee Board of Trustees met at 10:30 a.m. (CDT) on Thursday, October 27, 2022. The meeting was held in the Duncan Ballroom of the Boling University Center located at the University of Tennessee at Martin, in Martin, Tennessee.

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

Others in Attendance:

Trustees: Bradford D. Box; Hayden Galloway (Student Trustee); Charles Hatcher, Commissioner, Tennessee Department of Agriculture; Decosta E. Jenkins; Shanea A. McKinney; Donald J. Smith; and Jamie R. Woodson.

University Administration: President Randy Boyd; David L. Miller, Senior Vice President and Chief Financial Officer; Cynthia C. Moore, Board Secretary and Special Counsel; Chancellor Steve Angle (UT Chattanooga); Chancellor Peter Buckley (UT Health Science Center); Chancellor Keith Carver (UT Martin); Interim Chancellor Linda Martin (UT Southern); Chancellor Donde Plowman (UT Knoxville); and other members of the UT senior leadership and administrative staff.

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

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### **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.

### **Report on Financial Performance**

2022 Fiscal Year-End Financial Summary

Luke Lybrand, Treasurer, presented the 2022 Fiscal Year-End Financial Summary (Tab 1.1). Mr. Lybrand began his remarks by stating that the University's overall financial performance during FY 2022 was very positive. The performance was driven by three primary items: (i) student growth, (ii) an increase in-person activities, and (iii) Higher Education Emergency Relief Fund (HEERF) awards.

In comparing the preliminary results of the FY 2022 Income Statement to the FY 2021 audited results, Mr. Lybrand noted that auxiliary revenues increased by approximately \$62 million (27.5%). Additionally, the UT System's state appropriations increased by \$91 million (13.8%). Although investment income was down for the year with an estimated investment return of -6.55%; however, during that same period, the S&P 500 was down by 12%.

Post-pandemic, operating expenses have risen due to increases in: (i) the number of in-person activities; (ii) utility costs; and (iii) travel expenses. While travel costs are up for FY 2022, if measured against FY 2019 (prior to the pandemic), travel expenses have increased by a modest 1.3%. Mr. Lybrand highlighted a non-cash pension entry, which significantly increased the University's overall benefits expense. Without such adjustment, the total increase in benefits expenses would have been more modest 4.8%.

With respect to the University's Balance Sheet, Mr. Lybrand pointed out that the beginning Net Position increased \$12.1 million with the addition of UT Southern. He also explained the impact of a new lease accounting practice.\* For FY 2022, 32 leases accounted for \$41 million in receivables, with 31 leases resulted in \$34 million in payables. All Other Assets increased due to the non-cash pension entry.

Mr. Lybrand provided an overview of the liquidity analysis conducted for the University and each of its campuses. He explained that the University's cash is held in bank deposits, treasury bonds, agencies, and commercial paper, with some funds set aside for short-term needs. Mr. Lybrand noted that the median for cash on hand (Moody's Aaa) is 236 days. UT Knoxville, at 300 days, is the only campus with cash on hand above the median figure, and the UT Health Science Center, at 97 days, has the lowest level of liquidity. As a whole, the University is at 246 days, just slightly above the median figure.

Mr. Lybrand concluded his presentation by stating that FY 2022 has been a very positive year with an increase in the University's Total Net Position of approximately \$250 million, representing a 6.5% increase, despite the investment performance.

#### FY 2022 Year-End Fund Balances

David L. Miller, Senior Vice President and Chief Financial Officer, provided a review of the FY 2022 Year-End Fund Balances. With respect to annual operating funds, the aggregate year-end cash fund balances totaled approximately \$150 million, with approximately \$70 million in unallocated education and general (E&G) reserves. Additionally, the University has funds that are permitted to carry forward from year-to-year (accrued fund balances), which include: (i) renewal and replacement; (ii) unexpended plant funds (funds intended for future building projects); (iii) debt service; and (iv) quasi-endowment balances. Mr. Miller indicated that because the renewal and replacement fund has the largest year-end balance (\$663 million), the Board was provided additional detail by institution and level of commitment (obligated, planned, reserved, and discretionary).

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\* Governmental Accounting Standards Board (GASB 87)

### FY 2022 Composite Financial Index

Mr. Miller provided an overview of the Composite Financial Index (“CFI”), which is a national standard used in higher education that distills complex data into a single digit score and is required by the Tennessee Higher Education Commission (“THEC”). The CFI is made up of four core ratios: (i) Primary Reserve; (ii) Net Operating Revenues; (iii) Return on Net Assets; and (iv) Viability. The CFI provides benchmarks that an institution can use to measure its overall financial condition. The FY 2022 CFI scores for each institution and the UT System were provided in advance of the meeting (Tab 1.1).

Responding to a question raised in the discussion following the presentation, Ronald Loewen, Associate Vice President for Budget, Analysis and Planning, stated that immediately prior to the Great Recession (December 2007 – June 2009) questions were raised about the level of reserve balances being carried by the UT System. However, the Great Recession later underscored the importance of having funds in reserve to carry an institution through difficult financial times. During that time, higher education institutions across the country imposed drastic tuition increases as states cut funding for public education, including the UT System which saw its appropriations cut by \$125 million. As a result, the UT System had to take several steps to address this shortfall, including using reserve funds and raising tuition. Committee Chair Rhodes expressed his gratitude to the Governor and elected officials for the University’s state appropriations, which has allowed the University to hold tuition rates steady even during the recent pandemic.

### Enterprise Resource Planning Project Update

Ramon Padilla, Chief Information Officer, provided an update on the transition to a cloud-based enterprise resource planning (ERP) system, more commonly referred to as “DASH” (Dynamic Administrative Systems for Higher Ed) (Tab 1.2). DASH will be used to process the University’s financial, human resources, and payroll activities.

Mr. Padilla reviewed the steps involved in moving the project forward, including: (i) using a competitive bidding process to select a vendor (Oracle) and an implementation partner (Accenture); (ii) creating a Chart of Accounts; (iii) project mobilization; and (iv) design/blueprint. Mr. Padilla said that the University is now in the design/blueprint phase and expressed his gratitude to the more than 230 employees who have contributed to the progress of project. He explained that there are a number of steps remaining before DASH can be fully implemented. As part of the change management strategy, transition management teams will be deployed at each campus to assist in the conversion to DASH.

Mr. Miller stated that the DASH project will be transformative. It will (i) improve security; (ii) increase transparency; and (iii) improve the efficiency of generating reports. He expressed his appreciation to the State for providing \$50 million in funding to the University to implement DASH.

Mr. Miller provided an update regarding the implementation of a cloud-based, data and reporting system for students. He indicated that the goal would be to have a single student information system, with common data definitions, processes, and reporting. Mr. Miller advised that a student information system will be much more difficult and expensive to deliver than the DASH system. Currently, no commercial software application is readily available. The University is in the process of developing guiding principles for the student information platform.

In response to a question raised by Committee Chair Rhodes, Mr. Miller said that a few other Tennessee higher education institutions have expressed interest in following the University's lead on a student information system design similar to the coordinated efforts associated with the ERP system. Committee Chair Rhodes emphasized that promoting the use of common reporting systems across all Tennessee institutions of higher education would underscore how the University is working to be a good steward of the resources of the State.

### **FY 2023-24 Operating Budget Appropriations Request for Specialized Units**

Mr. Miller explained that THEC coordinates appropriation requests for specialized units, which includes the UT Health Science Center ("UTHSC"); UT Institute for Agriculture ("UTIA"); UT Space Institute; UT Institute for Public Service ("IPS"); and UT System Administration. Mr. Miller reviewed the three priorities identified, totaling approximately \$19.7 million (recurring) funding requests: (i) \$8 million to support graduate medical education programs at UTHSC; (ii) \$993,500 for IPS to fund and expand the Substance Misuse and Addiction Resource for Tennessee Initiative; and (iii) \$10.7 million to fund operating increases at UTHSC. Mr. Miller explained that the current model for state appropriations funds future growth in operating expenses at UTHSC; however, it is still operating at a deficit due to a four-year lapse of state funding between 2016-2020. The additional funding would assist UTHSC in making up that deficit and ensuring that it can continue to support and maintain medical instructional programs.

Upon motion duly made and seconded, the Committee approved a recommendation that the Board of Trustees adopt the Resolution approving the FY 2023-24 Operating Budget Appropriations Request for Specialized Units (as presented under Tab 2).

### **Campus Master Plan Amendment and Building Project Increase (UTK)**

Chancellor Donde Plowman, UT Knoxville, advised that campus is seeking approval for two actions: (i) amending the Master Plan, which was developed in 2011 and last updated in 2016, to include the construction of a new Haslam College of Business Building, along with the demolition of Greve, Dunford, and Henson Halls; and (ii) increasing the budget for the renovation and construction of the Haslam College of Business Building.

The College of Business capital project was included as a line item in the schedule of Capital Outlay Funding Requests for FY 2022-23, approved by the Board at its Fall Meeting

held on October 22, 2021. Enrollment in the Haslam College of Business has grown significantly over the last three years and is projected to continue to grow by 6% to 8% annually. UT Knoxville seeks to construct a facility that will accommodate the anticipated enrollment growth, increases in funded research, and the additional faculty/staff that will be needed to support the College. This will necessitate a significant increase in the size of the project from 150,000 sq. ft. to 306,800 sq. ft., which will also increase the cost of the project. UT Knoxville seeks approval to adjust the project scope and increase the project budget by \$127.3 million, for a total project cost of \$277.3 million.

Chancellor Plowman advised that, in addition to the generous \$83 million provided by the State, the project budget is anticipated to be financed through \$100 million in gifts and \$44.3 million in institutional funds. The campus will not be requesting additional funding from the State for this project expansion. Chancellor Plowman provided her assurances that plans will be made to accommodate departments that may be displaced during demolition. It is hoped that the buildings will be demolished in phases, with the Stokely Management Center serving as swing space.

Upon motion duly made and seconded, the Committee approved a recommendation that the Board of Trustees adopt the Resolution approving the amendment of the UTK Campus Master Plan and the Resolution pertaining to College of Business Building Project Increase (as presented under Tabs 3 and 4).

### **UT System Workforce Update**

Dr. Brian Dickens, Chief Human Resources Officer, provided an update to the Board on the UT System Workforce (Tab 5). He began his presentation by reviewing the University's staffing levels, retirement eligibility, and minority and gender representation as of September 1, 2022. In response to a question raised by Committee Chair Rhodes, Dr. Dickens reported that following the pandemic, employees are looking for positions that offer flexibility, adaptability, and hybrid work schedules.

Dr. Dickens highlighted the work being done by the UT Office of Inclusion, Diversity and Engagement ("UT IDE"), under the leadership of Delphia Howze. He concluded his presentation by discussing the results of recent engagement surveys. One of the surveys resulted in the University being recognized as a "2022 Great Places to Work." In addition, the University is continuing to utilize the services of McLean & Company to conduct quarterly Employee Experience Monitor ("EXM") surveys. The University has seen participation in the EXM surveys decline due to survey fatigue and may transition to a biannual survey. Despite the falling participation, the EXM survey has found that the majority of respondents are engaged in their work and identified areas where employees believe the University could continue to improve.

## Consent Agenda

Committee Chair Rhodes asked if there were any requests to remove items from the agenda. There being none, upon motion duly made and seconded, 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).

## Other Business and Adjournment

Committee Chair Rhodes briefly discussed the University's endowment performance, reporting that the market value of the consolidated investment pool is down by 6.7% for the 12 months ended June 30, 2022. He noted that there will be periods when the University's endowment will reflect current market conditions; however, it is important to focus on long-term performance of the endowment.

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 (June 23, 2022)
- Acquisition of Property at Milan (UTK)
- Campus Master Plan Boundary (UTS)
- Voluntary Retirement Incentive Plan (UTM)
- Report on Uses of FY 2022 Tuition and Fee Revenue

### List of Information Items Presented to the Committee

- Report on Use of Differential Tuition Funds (UTC)
- Report on Use of Differential Tuition Funds (UTK)
- FY 2022 Annual Flight Operations Report
- Disclosure of Additional Revenue/Institutionally Funded Capital Projects for FY 2022-23
- FY 2022 Report on Endowment Investment Performance
- Report on FY 2022 Unrestricted Fund Balances
- FY 2022 Composite Financial Index